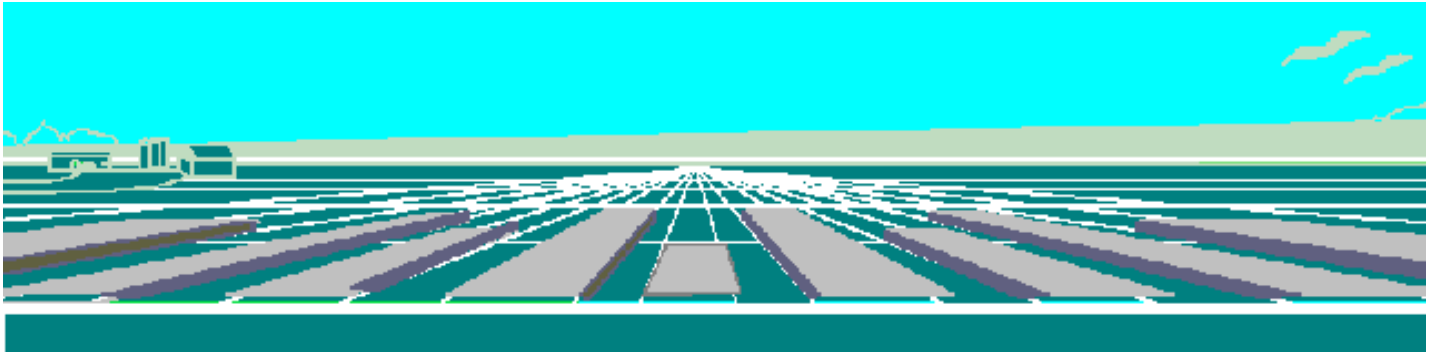


Iowa Farm Outlook



April 14, 2006

Ames, Iowa

Econ. Info. 1932

First Quarter Summary of Meats

First quarter 2006 was a disappointing quarter for cattle and hog producers. Seasonally, we expect cattle prices to be stable to higher during the quarter and hog prices typically are stable as well. The second quarter is when the two prices are expected to diverge with cattle prices moving lower and hog prices moving higher. Hopefully, that trend is likely to continue, but with the large decline in cattle prices during the first quarter it is questionable of how much lower they will fall.

Some analysts are comparing this year to 2002 in the meat markets and there are some similarities. There was a lot of protein on the domestic market and poultry, pork, and beef prices were depressed in 2002. That year, first quarter poultry exports dropped 12% from the year before putting extra broiler meat on the US market. This year broiler exports were off and poultry in cold storage at the end of February was a record high, 20% above the previous year. Per capita pork consumption first quarter 2002 was 12.3 pounds and it is estimated to be 12.5 pounds in 2006. Thus, there were ample supplies of competing meats on 2002 and in 2006.

Beef Market...

First quarter beef production totaled 6.58 billion pounds, 6.4% higher than first quarter 2005. Cattle slaughter was up 3.9% and carcass weights increased 2.4%.

Fed cattle prices have dropped dramatically since a high near \$95 in mid-January. Iowa live prices dropped \$9.50 from the first week of January to the last week of March, and over \$10 from the high the third week of January. Typically we would see the market steady to higher through the first quarter with the spring high coming in either March or April and a low in July or August. But, what does “typical” mean.

Let’s look at the weekly Iowa live price for 18 years, 1988-2005. The high price for the year occurred in the first, second, and four quarter an equal number of times (Table 1). The low occurred more often in the third quarter. The average decline from the high in the first two quarters to the low of the third quarter was \$10.95 or 14% from the high. The smallest decline was \$2.50 (4%) and the largest decline was \$16.37 (20%). A 20% decline from the high this year would be a \$19 decline.

	Qtr 1	Qtr 2	Qtr 3	Qtr 4
High	6	6	0	6
Low	4	3	8	3

The decline we experienced in the first quarter of 2006 is nearly equal to the average decline we have seen over the last 18 years. To match the largest decline for 1988-2005 we have another \$6 or more to go. The June futures at this writing are suggesting that we may surpass the \$16 decline this year. Keep in mind that this price decline is from a high near \$95 in January. If you go back a little further there was a \$24 drop from high to low in 1979 and a \$22 drop in 1973. What makes 1973 interesting was that it occurred from a high in August and a low in September. Dark days for cattle feeders to be sure.

Breakeven selling price on yearling cattle is in the upper \$80s and low \$90s for most of the summer and early fall marketings. Cattle feeders will lose money on most of these cattle and will be tempted to hold them longer in hopes of higher prices. We have already had record carcass weights for the early spring. The added weight will add to cost for the individual and added weight for the market. Such a backlog will postpone the timing of the low for the year and any recovery.

There are some similarities for the cattle market between 2006 and 2002. Cattle on feed inventories and carcass weights were relatively high in both years. Because of the low slaughter rates in early 2006, beef supplies thus far in 2006 are well below the 2002 levels. However, the Iowa fed cattle prices fell \$10 in 6 weeks in early 2002 and nearly \$15 from spring high to summer low. At this writing fed cattle prices have fallen \$10 in 10 weeks and are likely going lower. The low in 2002 came in early July, but the recovery didn't begin until the first of October. Something to keep in mind for this summer.

Hog Market...

First quarter pork production totaled 5.32 billion pounds, 3.5% higher than first quarter 2005. Hog slaughter was up 2.6% and carcass weights increased 0.9%.

The futures market moved lower on the summer months and higher on the fall and winter months following the USDA *Hogs and Pigs* report. Iowa dressed prices rallied \$8/cwt from Thanksgiving to mid-February which is a fairly typical price pattern. First quarter prices peaked the week of February 24 at \$66 and declined to under \$57 by the end of March.

Table 2 shows that over the last 20 years the high most often occurs in the second quarter and the low most often in the fourth quarter. Prices are expected to rally somewhat this year during the second quarter and may well put in the high during the second quarter. Fourth quarter prices are expected to be the annual low again this year.

Table 2. Number of years that the annual Iowa Hog Price High or Low occurred in each quarter of the year, 1986-2005				
	Qtr 1	Qtr 2	Qtr 3	Qtr 4
High	1	12	6	1
Low	6	2	1	11

Hog producers had a tough 2002 as well. Second and third quarter prices fell 30% or more from the same quarter the previous year as poultry exports and the price of domestic poultry at retail counters decreased. Producer losses mounted and per head losses were approximately \$36/head in the late summer.

Based on the estimated livestock returns for farrow to finish operations, producers have been profitable since February 2004. March 2006 marks 26 consecutive months of profitability and the streak is expected to continue through the summer. Rising feed prices and declining hog prices will pressure margins after Labor Day.

Looking ahead...

Beef and pork supplies are growing in the months and years ahead and red meat demand will be pressured by lower price poultry and higher energy cost. Producers should consider a more aggressive risk strategy while prices trend lower. Futures, options, and livestock risk insurance should be considered.

John Lawrence

Will Farmers Plant More Corn than the March Intentions?

A key question in the corn outlook is whether the market and weather will encourage farmers to plant more corn than they intended to in late February and early March. The corn market strengthened during the first week of April in response to indications that U.S. farmers intend to plant nearly 5% fewer corn acres than last year. December 2006 corn futures in the first several days after release of the USDA March 31 planting intentions report rose approximately 20 cents per bushel. ***That pushed prices eight to nine cents above trading levels when the USDA nation-wide survey was taken in late February and the first few days of March.*** At this writing, the market has erased about one-third of the price gain that occurred after release of the report. December futures prices on April 11 were only four cents above levels when the survey was taken. At the same time, weather in much of the Midwest has favored preparation of fields for corn planting. Extended forecasts show chances for light rain in parts of Iowa and the eastern Corn Belt, but probably not enough to seriously delay plantings.

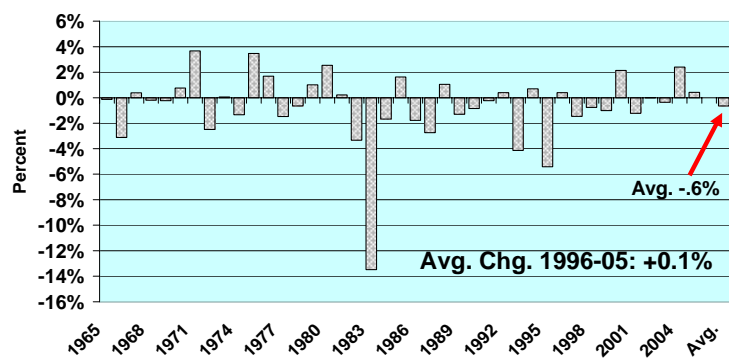
Potential soybean returns will be another influence on actual planted corn acres. In reaction to the planting intentions report, November 2006 soybean futures lost about 27 cents per bushel. ***That took new-crop soybean prices about 27 cents per bushel below bids when the USDA planting intentions survey was being taken.*** The planting intentions report showed a prospective 6% increase in 2006 U.S. soybean acreage. ***The net effect of these changes, through April 11, was to shift potential returns for soybeans from an approximate \$25.50 advantage over corn following beans in central and northern Iowa at the end of February to about a \$13.00 per acre disadvantage.*** These calculations are based on harvest-delivery bids at local central Iowa elevators and estimated variable costs of crop production developed by Drs. Mike Duffy and Darnell Smith, Extension Economists at ISU.

Variable costs are costs that wouldn't be incurred if the crop was not planted. Land is not included as a variable cost. Some grain traders believe the market has over-reacted to the planting intentions report. In the last three days (up to April 14), declining corn prices and a strengthening soybean market have taken about \$10 per acre away from corn's advantage over soybeans. Along with the weather and prices, farmers' planting decisions may be influenced by the amount of new-crop grain already sold, the relatively high returns insured for soybeans through revenue insurance policies, and time pressures when the planting window is shortened by planting more corn.

Changes from Intentions in the Recent Past

Figure 1 below shows changes in U.S. corn planted acres from the March intentions to the season-final acreage estimate in December or January. In years before the 2000 farm bill, government programs sometimes had a big influence on acreage changes. Since 2000, the two years of actual plantings

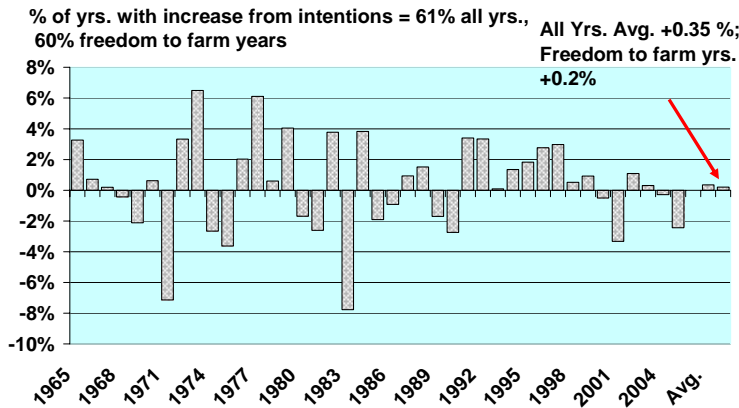
Figure 1. Percent Change in U.S. Corn Plantings from Intentions Survey to Next January, 1965-2005



significantly exceeding intentions were 2000 and 2004. Both had weather conditions favoring early plantings, and one had strong new-crop corn and soybean prices. December corn futures in mid-April 2004 were about \$3.15 per bushel, and November soybeans were around \$8.50, for a soybean-corn ratio of 2.69. A higher ratio favors soybeans. That year, farmers planted 2.4% more corn than indicated in the March intentions. The same percentage increase this year would push actual plantings about 1.9 million acres above the intentions and would erase a little more than half of the intended decline in plantings. That, with normal yields, would produce a corn crop about

575 million bushels *below* potential corn use in the year ahead. The planting intentions, if carried out as reported, and a normal U.S. yield would produce about 900 million bushels less corn than potential use. That, in turn, would sharply reduce end-of-year corn carryover stocks, but would still be expected to leave adequate supplies for normal feeding, merchandising, and processing operations until the new crop was available.

Figure 2. Percent Change in U.S. Soybean Plantings From Intentions to Next January Est.



In 2000, December corn futures in mid-April were around \$2.54 while November soybeans were about \$5.63, for a soybean/corn price ratio of 2.22. That compares with the current November soybeans/December corn ratio of 2.24. Since 2000, costs of planting corn have gone up more sharply than soybeans. In 2000, farmers planted 2.1% more corn than the March intentions. As Figure 2 indicates, soybean plantings in those years declined from the March intentions by less than one percent. Increased double-cropping of soybeans after the wheat harvest could offset some of a shift from beans to corn. Also, planting conditions in the Northern Plains favoring soybeans over wheat could be a factor.

Corn Export Sales Slow

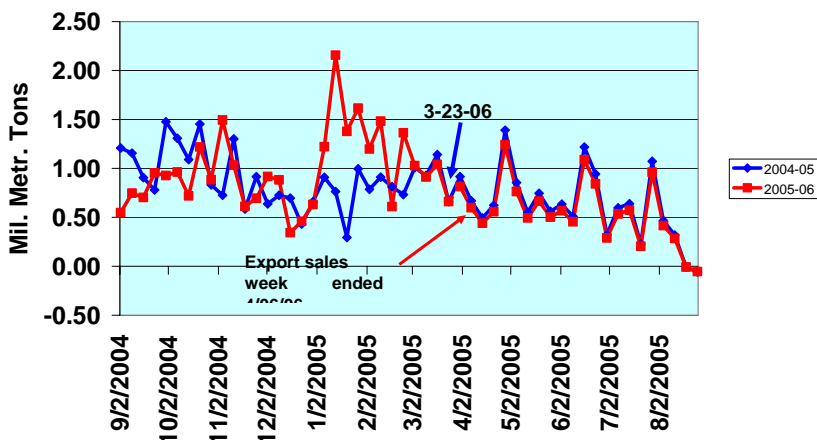
Weekly U.S. corn export sales jumped sharply above a year earlier in January and February as foreign buyers booked future needs aggressively in response to Argentina's sharply reduced corn yield prospects. In the last six weeks, however, as shown in Figure 3, corn export sales have dropped back near or slightly below a year earlier. To meet USDA export projections for the marketing year, sales the rest of the season will need to average 10.6% less than a year earlier. News that China had halted its corn export sales also supported U.S. export sales this winter. Recent trade reports indicate China has resumed sales in response to the higher prices.

U.S. Soybean Export Sales

Cumulative U.S. soybean export sales from last September 1 through April 6 *were down 21% from a year earlier*, in response to bird flu concerns of foreign buyers and strong competition from South American soybeans and soybean products. Cumulative sales by major destinations are shown in the table below.

Sales to the EU and China, traditionally the largest U.S. soybean export markets, are down sharply from a year earlier. Sales are below a year earlier to all of the indicated destinations except the Western Hemisphere.

Figure 3. Weekly U.S. Corn Export Sales Through 4/06/06 & Needed to 8/31 to meet USDA Projection



In early April, coinciding with a visit from a Chinese trade delegation, China purchased 1.72 million tons (63 million bushels) of 2006-crop U.S. soybeans. The sale is a large one, but does not give much indication of how large China's bean purchases may be this coming fall and winter.

Texas Wheat Crop Estimate

The Texas Crop Reporting Service made its first forecast of the state's wheat crop, placing potential production at 41 million bushels. That would be a 55 million bushel or 57% decline from last year. Texas normally produces 4.1 to 4.5 percent of the U.S. wheat crop. Oklahoma normally produces about 7.6% of all U.S. wheat. A similar reduction in its crop would lower Oklahoma production by about 75 million bushels. Wheat in both states has been under severe stress, although trade reports indicate wheat in the northern part of Oklahoma has been in better condition than further south. Wheat crop conditions, if they continue to deteriorate, may strengthen corn prices some.

Balance Sheets

Our updated balance sheets, including 2006-07 projections of supplies, total use, and prices with alternative yields are shown on our web site: <http://www.econ.iastate.edu/faculty/wisner/>
As the projections indicate, corn prices with the intended reduction in planted acres, could be very responsive to any widespread weather problems in the Corn Belt this summer. Price response would be tempered some if farmers plant 1.5 to 2.5 million more acres than indicated in the March intentions.