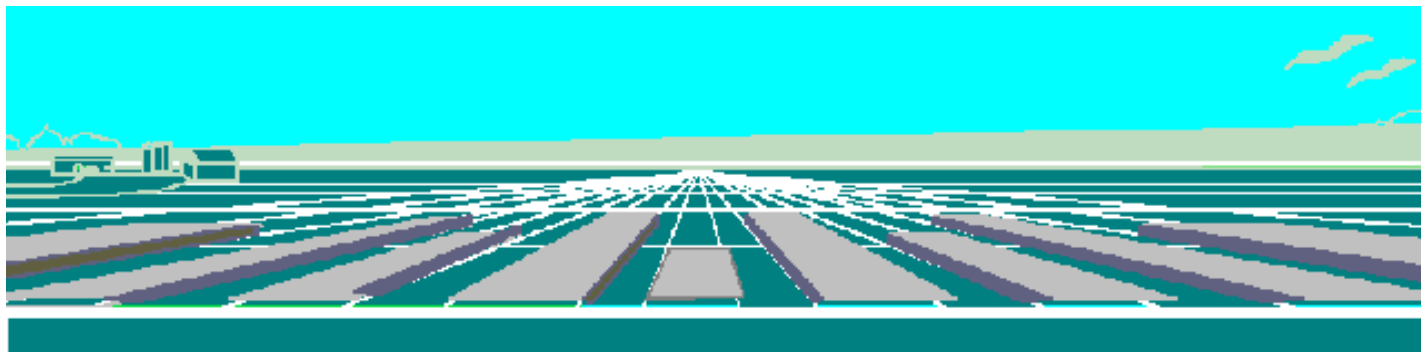


Iowa Farm Outlook



July 5, 2006

Ames, Iowa

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June Hog and Pig Report

The national swine herd continues to increase above inventories of a year ago. Total hog numbers were up a third percent from a year ago at just under 61 million head. Breeding hog numbers also increased 1.4 percent and now number over 6 million head. Among market hog inventories total numbers increased 0.2 percent, while the inventory of hogs less than 180 pounds increased, the number of hogs weighing more than 180 pound inventory decreased by 1.8 percent. Table 1 is a summary of the June Hog and Pig report and how swine inventories have changed in from a year ago.

Table 1. June 1, 2006 Hog and Pig Inventory

	Million Head	Percent Change
All Hogs	60.9	0.3%
Breeding Hogs	6.1	1.4%
Market Hogs	54.9	0.2%
Under 60	20.6	0.9%
60-119	13.4	0.5%
120-179	11.2	0.5%
180+	9.6	-1.8%
Sow Farrowing		
Dec-Feb	2.8	0.2%
Mar-May	2.9	0.5%
Jun-Aug	2.9	0.1%
Sept-Nov	2.9	0.8%
Pig Crop		
Dec-Feb	25.7	1.2%
Mar-May	26.3	1.2%

The number of pigs born in the past two quarters is up 1.2 percent and the average number of pigs per litter was a record high of 9.08 pigs. Farrowing intentions for the rest of the year have also increased. Feeder pig supply will continue to increase through the near future. Although prior to June, hog prices were less glossy than in 2005, the hog market was still profitable enough to encourage farrowing expansion at a deliberate, steady pace.

Pork production has been increasing for the past two years as more feeder pigs become available and slaughter weights have remained heavy with plenty of cheap corn. As the ethanol industry adds demand for corn, corn feed costs could be higher than previous years. Finishing weights for slaughter hogs may decrease if corn becomes more expensive. Commercial pork production in the first quarter of 2006 was

up 3.6 percent, but is expected to level off in the second and third quarter to within a percentage of last year's production.

Pork prices rallied in the month of June and there is plenty of optimism in the market place that prices could stay there. Although supplies are increasing, demand is keeping step. The increases in prices has lead to some finishers selling their hogs without extended feeding times, which may explain some of the reduction in the inventory of pigs weighing over 180 pounds. In table 2 are the forecasted prices for the next four quarters and the CME futures prices. Prices are stronger and are appear to demand driven.

Table 2. ISU price forecast and CME Futures prices.

	% change in supply	ISU Forecasts	July 5 Futures
Jul- Sept	-0.8	50-52	53.59
Oct-Dec	+0.5	42-45	45.08
Jan-Mar	+0.4	40-43	44.22
Apr-Jun	+1.5	45-48	46.66

Producers will benefit from the recent rally in prices, which could further encourage expansion. Corn prices could affect profitability in the coming year, but so far the corn growth has been good. Even with a rise in corn prices, farrow to finish producers should see a profitable second half of the year.

Shane Ellis

Corn Acreage Slightly above March Intentions, Beans Down from March but Above 2005; Soybean Stocks Slightly Lower Than Expected

USDA's end-of-June reports are slightly constructive for both corn and soybean prices for the next few days, but price trends into July and August will be led by weather developments. The projected 34% increase in corn processing for ethanol, strong export demand resulting from Southern Hemisphere corn crop problems, and large livestock numbers in the U.S. will make corn prices quite sensitive to weather developments in the next few weeks. A widening area of dry soils and high temperatures would have the potential to push both corn and soybean prices up sharply. With timely rains and normal or better yield prospects, new-crop prices for both corn and soybeans have moderate down-side risk into late summer and fall as indicated in our latest corn and soybean supply-demand and price projections. These projections are shown on our web site at <http://www.econ.iastate.edu/faculty/wisner/> in the right-hand column.

At this writing, extended forecasts show prospects for temperatures moving briefly into the mid to upper 90s in the extreme western Corn Belt, with some areas approaching 100 degrees for a short time. However, cooler temperatures are forecast for most of the Midwest for the first week of July. The acreage report indicates U.S. trend yields would cut corn carryover stocks sharply in 2007, but would likely keep soybean stocks near the current high level. Acreage and stocks estimates are summarized below:

Table 1. U.S. Acreage of Major Crops and June 1 Grain Stocks

	2005	2006 Intentions	2006 Actual	Avg. Trade Expectations	
	Mil. Acres or Bushels				
Corn Plant A.	81.759	78019	79.366	79.797	
Corn for grain		70.800*			
Soybean Plant A.	72.142	76.895	74.930	75.132	
SB harvest Acres		75.700*			
Other Spring wheat planted A.	14.036	13.899	14.595	14.563	
Sorghum planted A.	6.454	6.483	6.282	N.A.	
Oat planted Acres	4.2164	4.324	4.312	N.A.	
Barley planted Acres	3.875	3.667	3.496	N.A.	
Cotton Planted A.	14.245	14.634	15.276	14.556	
Planted acres, all major crops	317.802		318.607		
Corn Stocks	4,321		4,363	4,362	
SB Stocks	699	N.A.	990	1,012	

*USDA, WAOB pre-report estimate based on March planting intentions.

N.A. = not available

Acreage and Stocks reports

USDA's June 30 planted acreage and grain stocks reports provide an updated perspective on corn and soybean supply-demand prospects for this summer, as well as for the year ahead. Favorable planting weather was widely believed to have encouraged farmers to plant more corn than indicated in the March intentions survey, and the acreage report confirmed that has happened. However, the change in corn acres was very modest. It reflects a shift of only 1.4 million acres from other crops into corn.

USDA estimated this year's U.S. corn plantings at 79.4 million acres, with 72.1 million acres expected to be harvested for grain. *With a U.S. yield of 147 bushels per acre (a fraction of a bushel above the long-*

run trend), the nation's corn crop would be about 10.6 billion bushels. Early projections put potential total utilization of U.S. corn (domestic and export) at approximately 11.6 billion bushels. Thus, the stage is set for a sharp reduction in corn carryover stocks in the year ahead unless U.S. corn yields are exceptionally high. With this combination, carryover stocks a year from now would be about at a comfortable "pipeline" level reflecting normal working stock needs at the end of the marketing year (August 31) before the new crop is available. The excess supply that has been built up by above-trend yields of the last two years would be largely gone.

To hold carryover stocks constant at this year's high level in 2007, it appears that the U.S. corn yield would need to be about 161 bushels per acre, a fraction of a bushel per acre above the record 2005 yield. The 2005 yield was well above the long-run trend and reflected favorable weather over much of the Midwest. A similar yield deviation from the long-run trend occurred in 1994, and that yield was not reached again until 2003.

Ethanol Expansion Expected to Continue

Some very early and highly tentative projections of potential corn supplies and demand for 2007-09 and 2008-09 are shown on our web site in the right hand column. These projections start with an assumed 2006 U.S. trend yield for corn and then look at three alternative yield scenarios. The 2008-09 scenarios start with assumed U.S. trend yields in both 2006 and 2007. These projections are intended to show the general direction of changes in the corn supply-demand situation occurring due to the rapid expansion in corn processing for ethanol.

Profit margins from processing corn into ethanol are exceptionally favorable and likely will encourage a continued rapid expansion in the industry for at least the next two to three years or until conditions change. Wholesale cash prices for ethanol in Iowa at this writing are reported at \$3.84 per gallon. Most estimates place typical production costs at less than \$1.40 per gallon at current corn prices. A substantial amount of ethanol likely is being sold on lower prices that were contracted earlier. Prices for ethanol as well as corn and soybeans on the CBOT and at various cash markets can be found on our web site in the right hand column at this link in the right-hand column: Futures, Price Charts, Cash Prices @ Various Iowa & Midwest Locations(<http://www.econ.iastate.edu/faculty/wisner/grainbidlinks.doc>).

The nation's soybean acreage is indicated to be about 4% larger than last year but 3% or almost 2 million acres lower than the March intentions. Larger spring wheat and cotton plantings than the March intentions caused the larger shift in soybean acres from the March intentions than in corn. As the balance sheets in our web site indicate, a normal yield and the estimated soybean acreage would be expected to hold U.S. soybean carryover stocks on August 31, 2007 near this year's anticipated record high level. Our projections are based on a continued expansion in soybean acreage and production in Argentina next year along with a 5 to 6 percent decline in Brazilian soybean plantings for 2006-07 and normal Brazilian yields. Brazilian soybean plantings are expected to decline modestly because of an unfavorable currency exchange rate and high costs for multiple sprayings to control Asian soybean rust. However, limited opportunities to shift to more profitable alternative crops appear likely to limit the reduction in soybean plantings.

Crop Condition Ratings Above Year Ago

For both corn and soybeans, the latest crop condition reports show crops in better condition than last year at this time. Ratings are updated on Monday afternoons, based on responses from professional agriculturalists' assessment of crop progress and condition. The latest ratings are shown in Tables 2 and 3 below. For the 18 major producing states as a group, 71% of the corn crop was reported to be in good to excellent condition on June 25. A year earlier, the rating showed 65% of the major states crop as good-to-excellent. Sixty seven percent of the major states soybean crop was rated good-to-excellent, up from 59% a year earlier. The least favorable corn and soybean ratings in the Midwest were in Indiana,

Michigan, and Ohio, due to excessive rains. Soybean crop ratings in Arkansas, Louisiana, and Mississippi showed 47%, 29%, and 59% good-to-excellent, respectively.

The good-to-excellent category is considered to have the potential for normal or better yields. At this stage of the growing season, ratings can change substantially in a short time, depending on weather conditions. The ratings become a better indicator of potential corn yields after most of the crop has been pollinated.

Table 2. Corn: Crop Condition by Percent,

Selected States,
Week Ending Jun 25, 2006

State	VP	P	F	G	EX
Percent					
CO	2	5	15	65	13
IL	1	5	22	54	18
IN	2	10	31	47	10
IA	1	3	18	54	24
KS	1	5	24	57	13
KY	0	3	13	51	33
MI	2	8	24	57	9
MN	1	3	14	55	27
MO	1	6	26	54	13
NE	2	3	24	50	21
NC	0	2	18	63	17
ND	0	8	16	60	16
OH	2	7	25	48	18
PA	1	5	31	40	23
SD	2	6	22	49	21
TN	2	7	21	49	21
TX	25	21	30	22	2
WI	2	5	25	46	22
18 Sts	2	5	22	52	19
Prev Wk	2	6	24	52	16
Prev Yr	2	8	25	50	15

Table 3. Soybeans: Crop Condition by Percent,

Selected States,
Week Ending Jun 25, 2006

State	VP	P	F	G	EX
Percent					
AR	4	13	36	40	7
IL	2	4	26	57	11
IN	2	8	31	52	7
IA	1	3	21	57	18
KS	0	4	24	61	11
KY	0	2	27	53	18
LA	10	20	41	29	0
MI	1	7	28	53	11
MN	1	4	16	56	23
MS	2	12	27	48	11
MO	1	7	30	55	7
NE	1	4	29	55	11
NC	0	2	29	60	9
ND	1	5	13	62	19
OH	3	10	29	45	13
SD	1	6	25	51	17
TN	2	5	21	56	16
WI	1	5	27	50	17
18 Sts	2	6	25	54	13
Prev Wk	1	6	26	55	12
Prev Yr	3	8	30	48	11

Robert Wisner