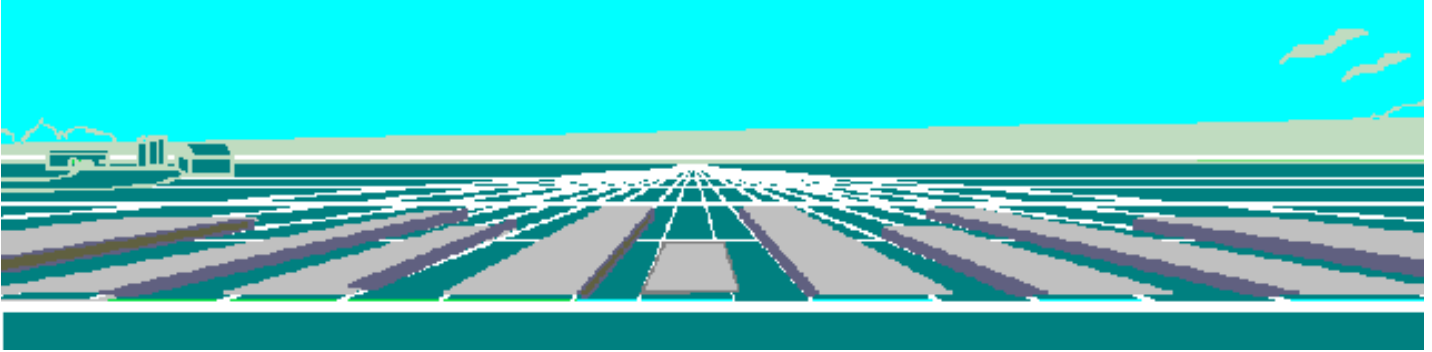


# Iowa Farm Outlook



July 14, 2006

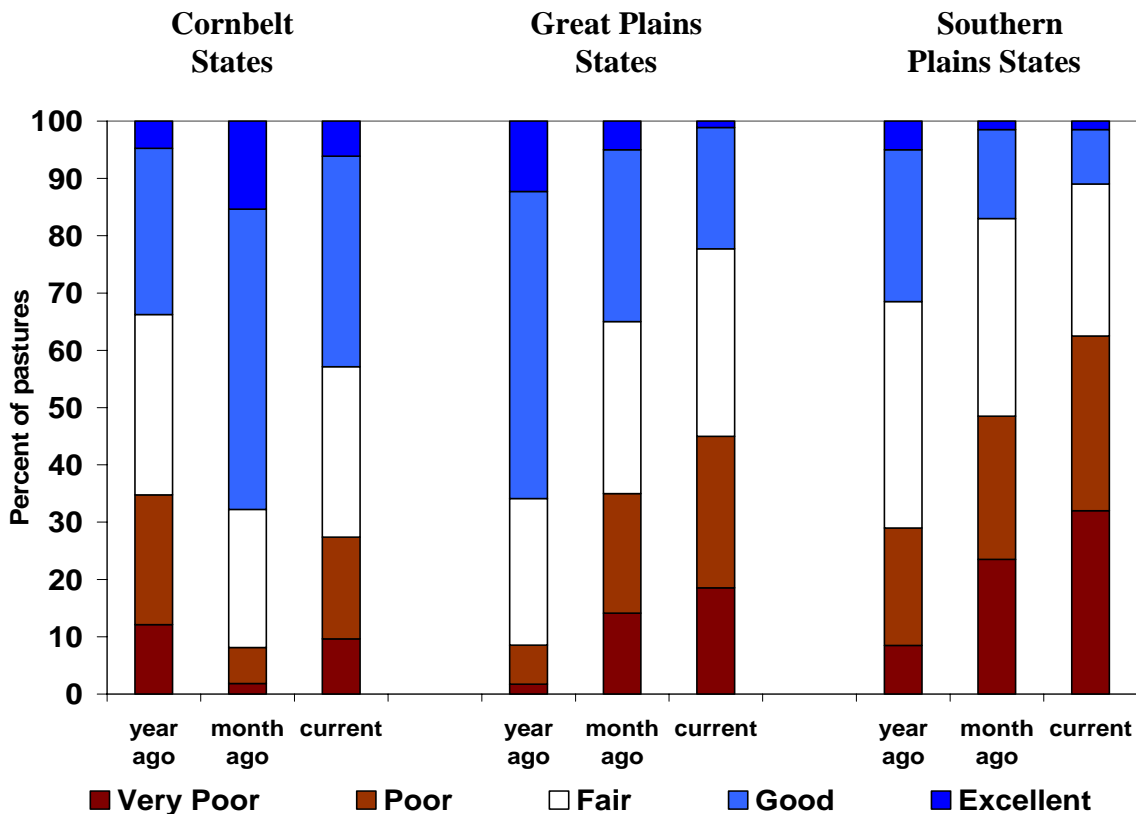
Ames, Iowa

Econ. Info. 1938

## Dry conditions prevalent in cattle producing states

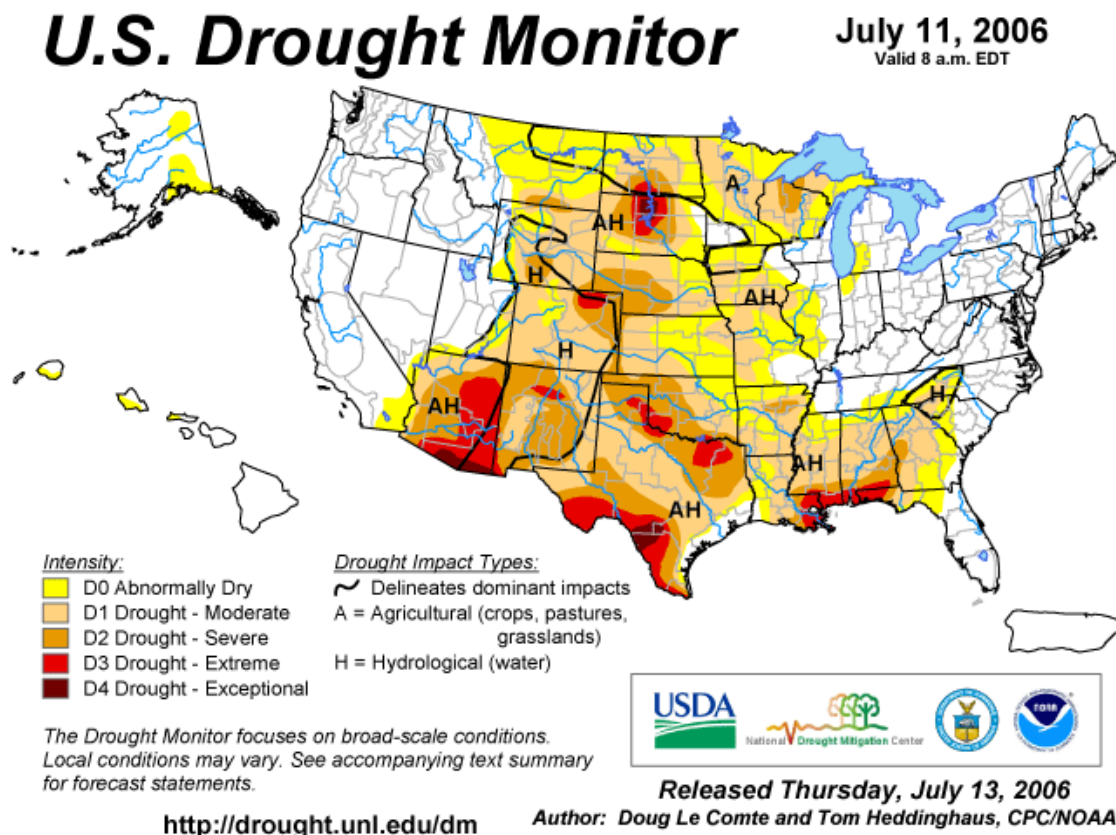
The summer months have turned off dry in the Plains states. Pasture and range conditions have diminished at a faster than usual pace as the Mid United states have experience drier than usual summer weather. Large portions of the Southern Plains States, of Texas and Oklahoma, are feeling the stress of short precipitation, with over 62 percent of pastures classified as poor to very poor. In the Great Plains states, significantly more pastures are in poor condition than a year ago with 42 percent rated as poor to very poor, up 34 percent from a year ago. The Cornbelt states' pasture conditions are slowly worsening as the summer progresses, but are still in better shape than a year ago. Figure 1 is an illustration of the shift in pasture conditions from a year ago and four weeks previous.

Figure 1. July 11, Mid-US Pasture and Range Conditions, USDA



Portions of the Southwest and Gulf Coast regions are also under drought conditions. Western and Northeastern regions of the country appear to be experiencing normal or wet conditions. Figure 2 is a national map of the drought stricken areas of the US. Closer to home, some Iowa pastures, especially in the south and southeast, are showing the stress of short rainfall. Iowa cattle producers that are facing a drought induced feed shortage should plan or implement a drought management strategy for their operation. Drought management information for cattle producers is available on the Iowa Beef Center website.

**Figure 2. USDA Drought Monitor Map**



As range conditions decline the feeder cattle and beef cow markets are the first to be impacted. Cattle producers attempting to stretch their remaining forage will wean calves early or cull their cow herds heavier than usual. Early wean calves are lighter and usually receive the higher price on a per pound basis, and producers will sell if there is a chance that their calves' weight will plateau or start to decline. If producers in the Southern and Great Plains begin to sell their calves early, the fall calf market could see an early saturation and discourage short-term price improvement. Cow-calf producers can minimize the risks that dry conditions bring to the marketplace by forward contracting or buying revenue insurance as current price offerings are still quite profitable. For those planning to sell in the fall cash market, watch corn yield and price projections for this fall as they will be a determinant in the fourth quarter demand for feeder calves.

Cow herds may also be culled a little heavier than usual in the Plains states. Cull cows will arrive on the market early if producers start early weaning. The mature or lean beef markets should absorb any moderate increases in supply without serious impacts on price. Bred and/or young cows that are sold because of feed shortage may be transferred to regions with better grazing conditions. The July US Cattle Report will be released on July 21. Early summer movement of cattle out of drought stricken areas should be apparent in state inventories.

## Weather Market for Grain to Continue into Mid-August

Corn, soybean, and wheat prices have been extremely volatile in recent weeks as grain traders responded to excessively dry conditions in a large area extending from west central Illinois into Nebraska, South Dakota, and North Dakota. Percentage-wise, the price volatility was greatest in corn, due to concerns about heat and lack of moisture during pollination in some areas. In the 16-day period from June 26 to July 12, July corn futures traded in a 38-cent per bushel range, along with a 36-cent range on December contracts. For soybeans, the corresponding ranges were 46 and 48 cents per bushel. Over the same period, July Chicago wheat traded in a 37-cent range. At this writing, sizeable dry areas in Iowa, Minnesota, and Illinois have received moderate rain. Temperatures for the next several days are expected to be in the mid-to-upper 90 degree range over a large part of the central and western Corn Belt, with temperatures moving into the 100 to 105 range from extreme southwestern Iowa to corn growing areas in parts of Kansas, Nebraska, the Dakotas, and extreme western Minnesota. Some of these areas missed the recent rains and are at risk of significant crop deterioration. Temperatures in Indiana, Michigan, and Ohio are forecast to be in the low 90s, and that area has had more adequate soil moisture so that stress should be less there. For western Corn Belt areas that had rain, the high humidity will likely temper the stress on corn plants that are in the pollination stage. Because of the long flowering period, soybeans have greater ability to wait for rain than corn, unless soils are extremely dry. August rains typically are the most important influence on soybean yields.

For the next several weeks, weather patterns, weekly crop condition reports, and export sales will be key market influences. New-crop export sales reports through early July indicate foreign buyers so far have not become overly concerned about U.S. crop prospects. The August 11 crop report will be the first official field-based forecast of this year's corn and soybean yields and production. With rapidly expanding ethanol demand, it will be a very important market indicator. If August crop forecasts are near current USDA projections (149 bushels per acre on corn, up from 147.9 bushels last year, and 40.7 bushels per acre on soybeans), new-crop corn and soybean prices would have significant down-side risk into fall. Last year's U.S. average soybean yield was an estimated 43.3 bushels per acre. If the U.S. average soybean yield would match last year's, the crop would be almost 200 million bushels larger than currently projected and would potentially be quite negative to late summer and fall price prospects.

Figure 2 shows U.S. average corn yields since 1970 and three different trend lines. The 1970-2005 trend has been used by most analysts until last year. USDA analysts now appear to be using a 1980-05 trend. That trend line gives a 2006 yield of 147.9 bushels per acre vs. a yield of 146.8 bushels per acre for the 1970-2005 series. Some trade analysts appear to be using a 1990-2005 trend yield. This shorter trend line has a steeper slope than the two longer series, in part because of weather-reduced yields in the early part of the period. This shorter, more recent period, gives a projected 2006 U.S. average yield of 151.2 bushels per acre. The higher yield with this year's acreage would produce about 150 million bushels more corn than projected by USDA. Past market relationships indicate that would lower the season average U.S. corn price by about \$0.07 per bushel if all other market influences are unchanged.

### Crop Condition Ratings Drop

Percentages of soybean crops rated good-to-excellent fell sharply from the previous week for several western Corn Belt states in USDA's July 10 Weekly Weather and Crop Bulletin, as shown in Table 1 below. The declines reflected widespread hot, dry conditions. Crop condition ratings come from weekly reports of professional agricultural workers who are familiar with crop production patterns for their area. At this time of the year, the ratings can fluctuate significantly from week to week, so the declines should not be interpreted as an indication that normal or higher yields are no longer possible. Historically, they have been a good indicator of corn yield potential once the crop has completed pollination. Figures 4 and 5 below show the weekly percentage of Major-States corn and soybean crops in good-to-excellent condition for the past three years and comparisons with this year.

## Corn Yield Forecasts

For over a decade, we have had good results from a corn yield forecasting model that uses the following variables: (1) percent of the crop planted by the third week of May, (2) a variable that reflects whether rainfall and temperatures through July have reasonably normal or whether widespread weather stresses have occurred across the Corn Belt, (3) a trend variable to reflect yearly improvements in corn yield potential, and (4) percent of the major-states crop rated good-to-excellent in late July. With the July 10 crop condition ratings, the model shows a potential U.S. average corn yield of 144.8 bushels per acre. We will have more confidence in the forecast in late July and early August. Figure 1 below shows the forecast and actual yields for the last several years, as well as the forecast errors. In the last two years, the model significantly underestimated actual yields. The actual 2004 yield was 12.6 bushels above the forecast and in 2005 it was 7.1 bushels higher. The standard deviation indicates that over a period of years, we should expect the actual yield to be within a range 2.99 bushels per acre above or below the forecast yield. If the actual 2006 U.S. corn yield is at the July 10 indicated level, production would be 1.63% smaller than our most-likely (column B) balance sheet projections

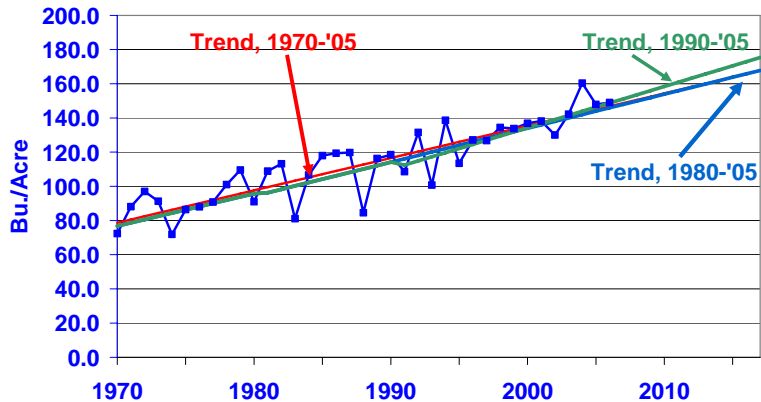
<http://www.econ.iastate.edu/faculty/wisner/> (Go to the right hand column of our web sheet, 11 lines down from the top. In past years, supply-price relationships would have been expected to raise the season average price about 8 cents per bushel with that amount of yield deviation from the long-run trend. However, with the rapidly expanding ethanol demand we would expect a significantly larger reaction this year, especially in the short run.

<b>Table 1. Percentage Corn Crop Ratings, July 9, 2006</b>						<b>Total</b>	<b>G-E Chg.</b>
<b>State</b>	<b>Very Poor</b>	<b>Poor</b>	<b>Fair</b>	<b>Good</b>	<b>Excelent</b>	<b>Good-Ex.</b>	<b>vs. Prev. Wk.</b>
CO	3	6	16	60	15	<b>75</b>	<b>1</b>
IL	2	7	28	51	12	<b>63</b>	<b>-3</b>
IN	3	8	29	48	12	<b>60</b>	<b>-1</b>
IA	2	7	23	46	22	<b>68</b>	<b>-9</b>
KS	3	9	31	49	8	<b>57</b>	<b>-11</b>
KY	0	5	16	41	38	<b>79</b>	<b>-1</b>
MI	2	10	29	52	7	<b>59</b>	<b>-1</b>
MN	3	7	21	50	19	<b>69</b>	<b>-12</b>
MO	2	8	29	53	8	<b>61</b>	<b>0</b>
NE	2	6	31	46	15	<b>61</b>	<b>-7</b>
NC	0	1	12	57	30	<b>87</b>	<b>-1</b>
ND	3	11	25	50	11	<b>61</b>	<b>-5</b>
OH	1	7	24	48	20	<b>68</b>	<b>-4</b>
PA	1	5	15	49	30	<b>79</b>	<b>-12</b>
SD	6	11	28	40	15	<b>55</b>	<b>-14</b>
TN	3	7	22	48	20	<b>68</b>	<b>-1</b>
TX	27	24	33	14	2	<b>16</b>	<b>-2</b>
WI	3	9	27	45	16	<b>61</b>	<b>-7</b>
18 Sts	3	8	26	47	16	<b>63</b>	<b>-5</b>
Prev Wk	3	6	23	51	17	<b>68</b>	<b>-3</b>
Prev Yr	6	11	25	42	16	<b>58</b>	<b>-4</b>

Table 2 shows the percent of the corn crop silking in major states. Silking is ahead of normal in the western Corn Belt as well as Tennessee and North Carolina, but is behind normal in the eastern part of the Belt. The earlier than normal crop development and forecasts for relatively high temperatures suggest that the risk of frost damage to this year's corn crop should be minimal.

Table 2. Corn: Percent Silking				
Week Ending				2001
State:	Jul 9 : 2006	Jul 2 : 2006	Jul 9 : 2005	: 2005
	: 2006	: 2006	: 2005	: Avg.
CO	: 7	3	11	7
IL	: 40	10	49	36
IN	: 13	0	28	24
IA	: 8	1	6	5
KS	: 56	31	49	44
KY	: 71	49	63	63
MI	: 0	0	0	1
MN	: 4	1	1	2
MO	: 72	48	68	59
NE	: 27	3	23	13
NC	: 90	67	79	78
ND	: 7	2	3	2
OH	: 6	0	3	7
PA	: 5	0	8	8
SD	: 0	0	0	0
TN	: 90	77	75	84
TX	: 72	69	71	74
WI	: 1	0	3	1
18 Sts:	23	10	24	20
1/ These 18 States planted 93% of last year's corn acreage.				

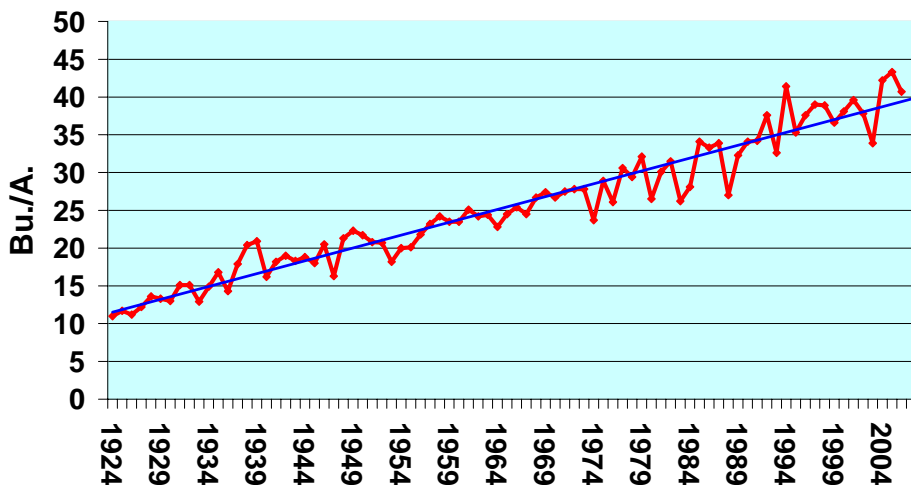
**Figure 2. US CORN YIELD 1970-2005 & Projected to 2012**



### Long-Term Soybean Yield Trend

Figure 3 shows the trend in U.S. soybean yields since 1924. Bean yields have increased at a linear rate for many years. The current USDA projection for 2006 is modestly above the long-run trend line, but 2.6 bushels per acre below last year's record U.S. average yield.

**Figure 3. U.S. Soybean Yields, 1924-2005**



### Forecast & Actual U.S. Average Corn Yields, Late July

R. Wisner, ISU Economics 7/17/06

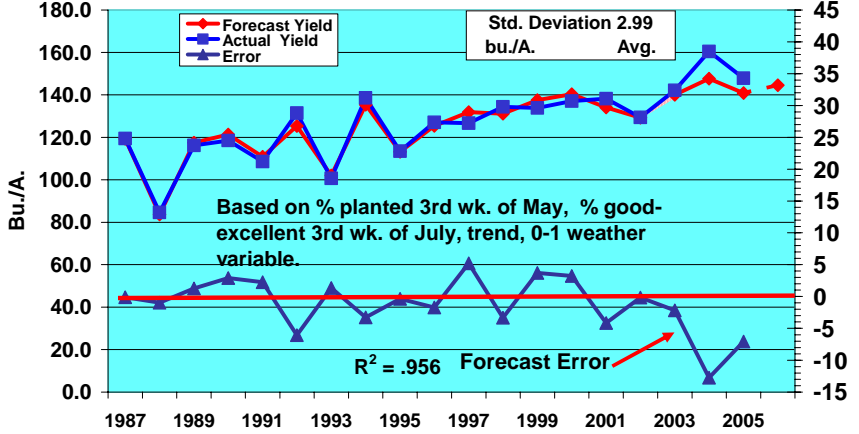


Figure 4. Percent of 18 Major-States Corn in Good-to-Excellent Condition

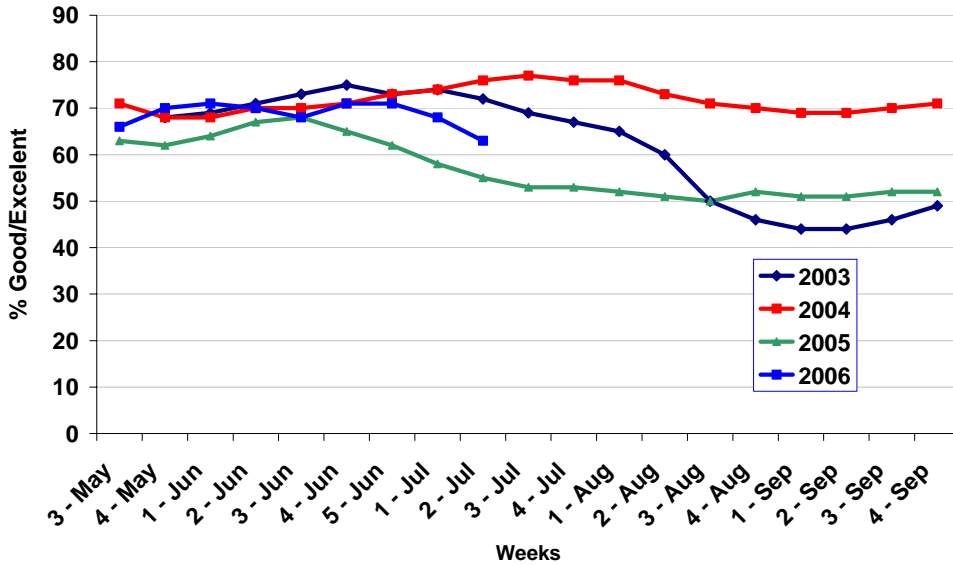


Figure 5. Percent of 18 Major-States Soybeans in Good-to-Excellent Condition

