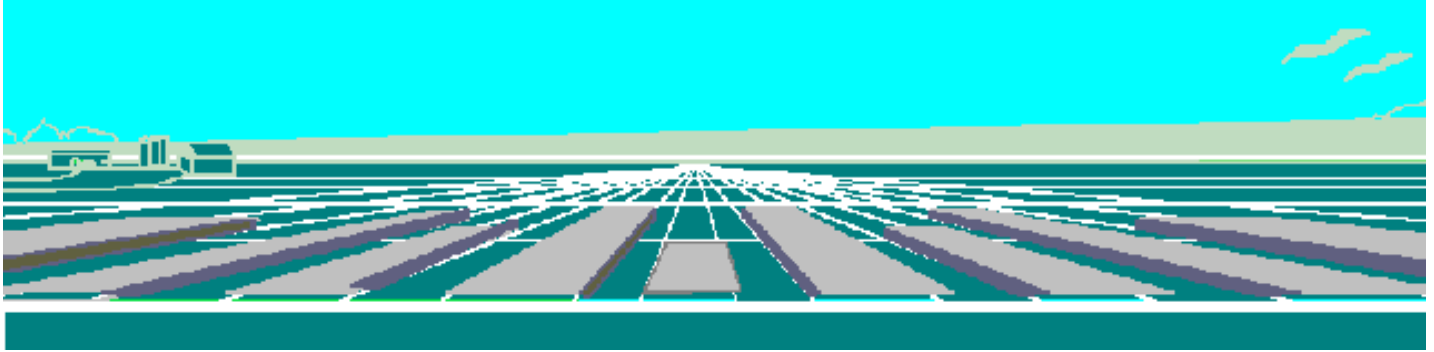


# Iowa Farm Outlook



August 14, 2006

Ames, Iowa

Econ. Info. 1940

## AAEA Annual Outlook Survey 2006

Each year Ron Plain and David Miller\* conduct a survey of commodity forecasts. 2006 makes the 29<sup>th</sup> year this survey has been conducted in conjunction with the Extension outlook session at the annual meeting of the American Agricultural Economics Association. This survey was conducted via mail in July 2006. Mailings were directed toward agricultural economists who are actively engaged in outlook work.

There were 16 individuals who responded to this survey. The majority (13) were university employees. Nine indicated forecasting was a major responsibility. Five said moderate and two responded that forecasting was a minor responsibility. Respondents were not required to complete the entire form. They were instructed to make estimates in areas where they felt they had professional competence.

I have summarized the forecasts for production and prices for beef, pork, milk, corn, and soybeans in the following tables.

Table 1. Forecast Percentage Change in Production from the Previous Year

	Beef		Pork		Milk	
	2006	2007	2006	2007	2006	2007
Number Responding	10	10	11	11	11	11
Average	5.8	2.3	1.4	2.0	2.6	1.1
Minimum	5.0	-0.9	0.8	1.3	1.5	0.0
Maximum	7.1	5.0	2.2	3.1	3.1	2.4
Ave-Experts	5.8	2.3	1.4	2.0	2.8	1.1

Table 2. Choice Slaughter Steer Price, Omaha, \$/cwt

	2006			2007				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	10	10	11	10	10	10	10	11
Average	80.92	84.12	83.20	86.11	83.76	79.44	83.56	81.82
Minimum	78.00	78.00	76.35	76.00	79.00	75.00	80.00	70.45
Maximum	84.30	88.25	86.00	91.00	88.00	89.50	91.25	88.63
Avg-Experts	80.04	83.51	83.61	85.76	82.66	77.84	82.76	81.89

Table 3. Feeder Steer Price, Med Frame #1, Oklahoma City, \$/cwt

	2006			2007				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	9	9	10	9	9	9	9	10
Average	108.17	105.74	106.05	104.61	104.28	102.37	101.83	102.34
Minimum	102.00	100.00	101.80	100.00	101.00	96.30	98.00	93.70
Maximum	112.00	109.00	109.00	113.50	110.50	107.00	104.00	106.50
Avg-Experts	107.71	105.43	106.39	103.00	102.71	102.71	101.43	102.50

Table 4. Barrow and Gilt Price, 51-52%

	2006			2007				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	10	10	11	10	10	10	10	11
Average	47.36	43.36	45.55	43.88	45.48	44.05	40.48	43.30
Minimum	44.00	40.00	44.00	40.00	42.00	40.00	34.00	40.25
Maximum	51.00	49.00	47.70	49.00	50.00	49.00	47.00	48.50
Avg-Experts	46.4	41.85	44.88	41.67	44.58	42.42	38.46	41.58

Table 5. Milk Price, 3.5% Butterfat, Class III, \$/cwt

	2006			2007				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	10	10	11	10	10	10	10	11
Average	11.55	12.06	11.76	11.83	11.64	12.38	12.55	12.24
Minimum	11.00	11.30	11.35	10.75	10.50	11.00	11.00	10.80
Maximum	13.20	14.00	12.60	13.40	13.80	14.50	14.00	13.80
Avg-Experts	11.41	11.71	11.56	11.15	11.46	12.51	12.43	11.89

Table 6. Nearby Futures, Contracts, Settlement Prices

	CBOT Corn on			CBOT Soybeans on		
	12/1/2006	3/1/2007	6/29/2007	12/1/2006	3/1/2007	6/29/2007
Number Responding	8	8	8	8	8	8
Average	2.59	2.76	2.91	5.97	6.07	6.20
Minimum	2.00	2.60	2.60	5.37	5.55	5.70
Maximum	2.90	3.10	3.25	6.50	6.90	7.30

\* Professor, Department of Agricultural Economics, University of Missouri, and Agricultural Economist, Iowa Farm Bureau, respectively.

*John Lawrence*

## USDA Crop Report Shows larger Corn Crop, Fewer Beans than Expected

The USDA August report placed potential U.S. corn production at approximately 200 million bushels more than the average of grain trader expectations, while the soybean forecast was about 100 million bushels lower than expected. This is the USDA's first field-based forecast of 2006 production. On average historically, the August forecasts for both corn and soybeans have been slightly conservative. That and widespread rains across the Corn Belt since August 1 have created expectations that final crop numbers may be higher than currently indicated. ***Despite strong and rapidly growing demand for corn and expectations that Brazil's soybean planted acreage will decline this fall, these expectations point to additional risk down-side risk in harvest-time prices for both crops. Risk of fall price and basis pressure results from limited availability of storage space.*** Our updated corn balance sheets are shown on our web site (eleven items down from upper right-hand column at <http://www.econ.iastate.edu/faculty/wisner/>). The balance sheets show potential harvest-time prices for corn in central Iowa dropping moderately below the CCC loan rate again this fall. If rains push soybean yields up near last year's level, cash soybean prices could also slip moderately below the loan rate at harvest.

### Post-harvest Corn Price Prospects

After harvest, strong domestic demand for corn for ethanol processing and domestic feeding along with stable exports are expected to bring a larger than normal increase in corn prices into spring and summer 2007. That expectation also is reflected in distant futures. Rapidly growing ethanol demand also appears likely to strengthen the corn basis considerably by next spring and summer. However, there is significant risk in storing un-priced grain into mid-2007. Actual prices from early spring onward will be influenced by final U.S. 2006 crop estimates, Southern Hemisphere spring 2007 harvests, intended U.S. corn acreage to be planted next year, Chinese corn exports, and U.S. weather prospects for 2007. Producers with limited risk-bearing ability may want to consider locking in storage returns for spring and summer of next year. The basis is likely to be strongest in areas near ethanol plants, river terminals, and concentrated livestock feeding areas. Most ethanol plants have storage for only a few days' corn supply. It is very expensive to shut the plant down, so processors may bid more aggressively for corn than other markets if their supply runs low.

### Post-harvest Soybean Price Prospects

Major driving forces in the soybean market after harvest will include (1) planned new biodiesel plants, (2) the need for more corn acreage in 2007 to supply a rapidly expanding corn-based ethanol industry, (3) expectations that Brazil's soybean acreage will be down 5 to 7 percent this fall, (3) Chinese demand for soybeans, and (4) U.S. weather prospects for 2007.

Biodiesel plants are expected to use several different feedstocks including animal fats, re-cycled cooking oil, cottonseed, sunflower and rapeseed oils, and possibly imported palm oil. USDA projects a 1.43 billion pound increase in domestic soybean oil use for the 2006-07 marketing year. After adjusting for the normal yearly increase in other domestic use of soybean oil, the projection would produce about 130 million gallons of biodiesel fuel. USDA projections show a 19% decline in U.S. soybean oil stocks from a year earlier by 9/30/06. While that is a positive influence on soybean prices, it would keep next year's soybean oil carryover stocks about 40% larger than two years earlier. Thus, anticipated tightness in soy oil stocks due to biodiesel appears to be a couple years away.

***At USDA's currently forecast U.S. corn production (with the second highest yield on record), the crop would be 700 to 800 million bushels below expected demand.*** With ethanol processing expanding at 34% annually, the potential corn production-use gap likely will widen next year. That, in turn, would require additional corn acres in 2007 to keep pace with growing demand. ***Most of the additional corn acres would be likely to come from soybeans.***

The expected decline in Brazil’s soybean plantings reflects financial pressures from high interest costs on debt, high costs of multiple sprayings to control Asian soybean rust, and an unfavorable exchange rate. Reductions in Brazil’s plantings are likely to be larger in Mato Grosso than in other areas. Much of the expansion in its soybean acreage in the last several years has occurred in that state, and its climate is very favorable for Asian rust.

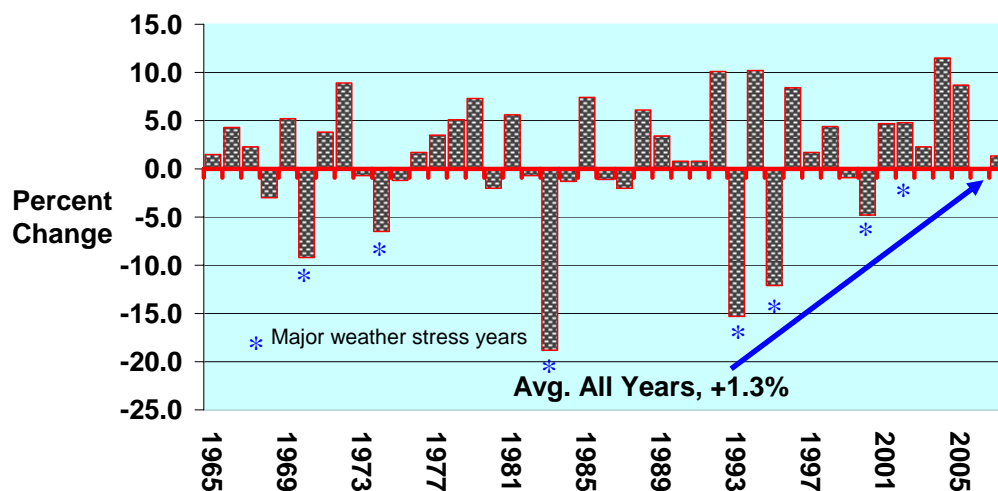
### Forecast Yields by State

Tables 1 and 2 below show forecasts of U.S. corn and soybean yields and production by state, comparisons with last year, and percentage changes in production from last year. For corn, the sharpest indicated percentage decreases in production are in Texas, South Dakota, Kansas, Minnesota, and Nebraska in that order. USDA’s August forecasts typically have not included ear size as a variable. The September 12 and October 12 crop reports will take into account ear size as well as plant populations and ear numbers. Recent rains should encourage good kernel filling, but any negative impacts on ear length and number of kernel rows per ear would be irreversible. For soybeans, the September and October reports will more accurately reflect the number of pods and bean size.

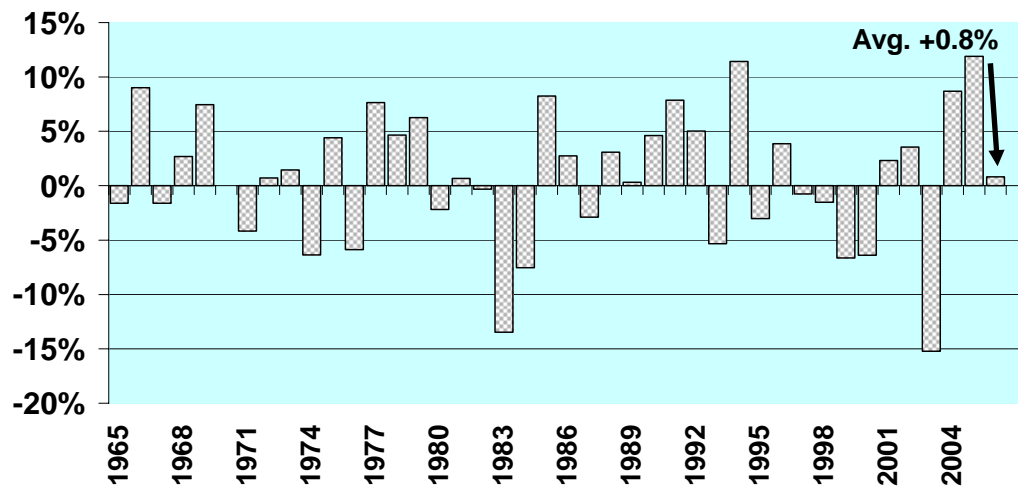
Figures 1 and 2 show the historical track record of the August 1 USDA corn yield forecasts when compared to the season final estimates in January of the next year. For both crops, on average over the last 40 years, the August yield forecasts have tended to be slightly conservative. Averaging all years together over this period, the U.S. average soybean yield has increased by 0.8% from the August forecast to the season final estimate. The same percentage increase this year would increase the U.S. average yield by 0.32 bushels per acre and would add about 24 million bushels to total production. For corn, the average change for all years was an increase of 1.3%. The same percentage change this year would increase the U.S. average yield by about 2 bushels per acre and would push production approximately 144 million bushels above the current estimate.

**Figure 1. USDA Corn Yield Forecasts, Percent Change from August to Season Final Estimate, 1965-2005**

**Avg. Change, All Years except major weather-stress years: +3.3%**



**Figure 2. USDA Soybean Yield Forecasts, Percent Change August to Season Final, 1965-2005**



	Area Harvested		8/1/06		Production		Forecast		Percent
	2005	2006	2005	2006	2004	2005	2006		
	Mil. Acres		Bu. Per Acre		000 Bu.		8/1/06	Chg. Vs. '05	
<b>IL</b> :	<b>11,950</b>	<b>11,450</b>	<b>143</b>	<b>172</b>	<b>2,088,000</b>	<b>1,708,850</b>	<b>1,969,400</b>	<b>15.2%</b>	
<b>IN</b> :	5,770	5,350	<b>154</b>	<b>167</b>	929,040	888,580	893,450	0.5%	
<b>IA</b> :	<b>12,500</b>	<b>12,400</b>	<b>173</b>	<b>173</b>	<b>2,244,400</b>	<b>2,162,500</b>	<b>2,145,200</b>	<b>-0.8%</b>	
<b>KS</b> :	3,450	3,150	135	125	432,000	485,750	393,750	<b>-15.5%</b>	
<b>KY</b> :	1,180	1,110	132	150	173,280	155,780	166,500	6.9%	
<b>MI</b> :	2,020	1,940	143	147	257,280	288,860	285,180	-1.3%	
<b>MN</b> :	<b>6,850</b>	<b>6,800</b>	<b>174</b>	<b>160</b>	<b>1,120,950</b>	<b>1,191,900</b>	<b>1,088,000</b>	<b>-8.7%</b>	
<b>MO</b> :	2,970	2,650	111	136	466,560	329,670	360,400	9.3%	
<b>NE</b> :	<b>8,250</b>	<b>7,950</b>	<b>154</b>	<b>153</b>	<b>1,319,700</b>	<b>1,270,500</b>	<b>1,216,350</b>	<b>-4.3%</b>	
<b>NC</b> :	700	660	120	130	86,580	84,000	85,800	2.1%	
<b>ND</b> :	1,200	1,510	129	102	120,750	154,800	154,020	-0.5%	
<b>OH</b> :	3,250	3,050	<b>143</b>	<b>160</b>	491,380	484,750	488,000	5.0%	
<b>PA</b> :	960	940	122	135	137,200	117,120	126,900	8.4%	
<b>SD</b> :	3,950	3,850	<b>119</b>	<b>100</b>	539,500	470,050	385,000	<b>-18.1%</b>	
<b>TX</b> :	1,850	1,450	114	108	233,520	210,900	156,600	<b>-25.7%</b>	
<b>WI</b> :	2,900	2,800	148	149	353,600	429,200	417,200	-2.8%	
Other states	5,357	5,031	134	128	813,346	718,882	643,990	-10.4%	
<b>US</b> :	<b>75,107</b>	<b>72,091</b>	<b>147.9</b>	<b>152.2</b>	<b>11,807,086</b>	<b>11,112,072</b>	<b>10,975,740</b>	<b>-1.2%</b>	

**Table 2. USDA August 1, 2006 Soybean Yield & Production Forecasts**

	Area Harvested		8/1/06		Production		Forecast	
	2005	2006	2005	2006	2004	2005	2006	Percent
	Mil. Acres		Bu. Per Acre		000 Bu.		8/1/06	Chg. Vs. 05
AL :	0.1	0.2	33	18	6.7	4.8	2.7	-44%
AR :	3.0	3.1	34	35	122.9	102.0	108.5	6%
IL :	9.5	10.1	47	45	495.0	444.2	452.3	2%
IN :	5.4	5.7	49	49	284.3	263.6	278.3	6%
<b>IA :</b>	<b>10.1</b>	<b>10.1</b>	<b>53</b>	<b>45</b>	<b>497.4</b>	<b>532.7</b>	<b>452.3</b>	<b>-15%</b>
<b>KS :</b>	<b>2.9</b>	<b>3.0</b>	<b>37</b>	<b>31</b>	<b>111.1</b>	<b>105.5</b>	<b>93.0</b>	<b>-12%</b>
KY :	1.3	1.4	43	45	57.2	53.8	62.1	16%
LA :	0.9	0.8	34	33	32.7	28.9	25.7	-11%
MI :	2.0	2.0	39	40	75.2	77.6	79.2	2%
<b>MN :</b>	<b>6.8</b>	<b>7.2</b>	<b>45</b>	<b>37</b>	<b>232.7</b>	<b>306.0</b>	<b>266.4</b>	<b>-13%</b>
MS :	1.6	1.8	37	29	61.5	58.8	51.3	-13%
MO :	5.0	5.2	37	37	223.2	183.5	190.6	4%
<b>NE :</b>	<b>4.7</b>	<b>4.8</b>	<b>50.5</b>	<b>45</b>	<b>218.5</b>	<b>235.3</b>	<b>216.0</b>	<b>-8%</b>
NC :	1.5	1.4	27	30	51.0	39.4	41.7	6%
ND :	2.9	3.7	37	27	82.1	107.3	99.9	-7%
OH :	4.5	4.4	45	45	207.7	201.6	197.1	-2%
<b>SD :</b>	<b>3.9</b>	<b>3.8</b>	<b>36</b>	<b>29</b>	<b>140.1</b>	<b>138.6</b>	<b>108.8</b>	<b>-22%</b>
TN :	1.1	1.1	38	36	48.4	41.8	39.2	-6%
VA :	0.5	0.5	30	33	20.7	15.3	16.8	10%
WI :	1.6	1.6	44	41	53.5	69.5	66.4	-4%
<b>US :</b>	<b>71.4</b>	<b>73.9</b>	<b>43.3</b>	<b>39.6</b>	<b>3123.7</b>	<b>3086.4</b>	<b>2927.6</b>	<b>-5%</b>

*Robert Wisner*