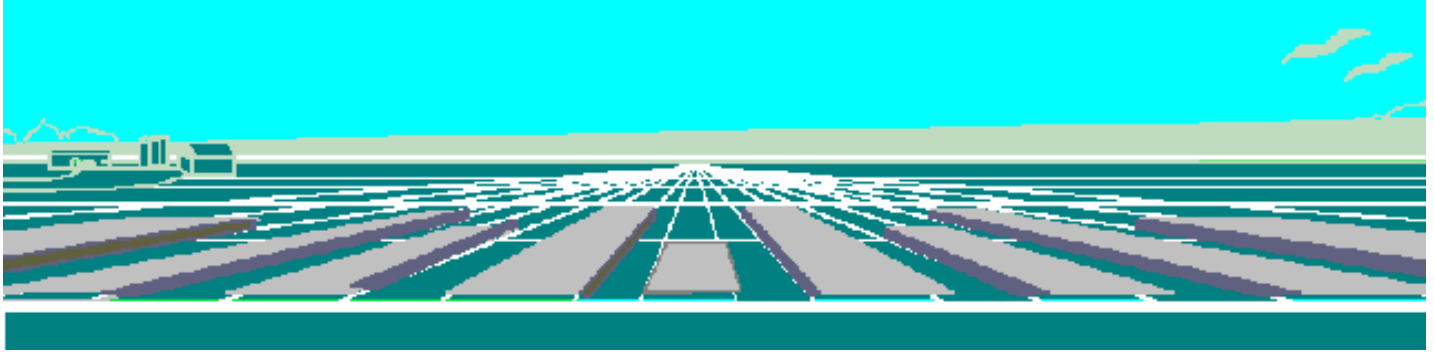


Iowa Farm Outlook



September 15, 2006

Ames, Iowa

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Livestock Market Situation and Outlook: September 2006

Hog and cattle prices have been higher than most analysts expected this summer and early fall. Cattle and hog futures were at or near life of contract highs after Labor Day. Yet, supplies of both beef and pork are larger than the year before, up 6.1% and 1.2%, respectively.

One reason for the stronger red meat prices is the smaller white meat supplies. Poultry represents nearly half (47%) of total red meat and poultry production in the US. Jan-Jun red meat and poultry supplies were 3.9% and 2.6% higher than the year before, respectively. However, for July and August, red meat supply was 3.5% above the 2005 pace while poultry production was down 2.0%. Thus, the recent interest in beef and pork is likely filling a short-term gap in chicken.

This lower supply is likely short-term as egg-set showed a year-over-year increase beginning the last week of July and chick placements increased beginning the last week of August. Supplies of beef, pork, and poultry are expected to be larger in the fourth quarter 2006 than they were the year before.

Quarterly Total Red Meat and Poultry Production,
2005-2007 (Million Pounds)

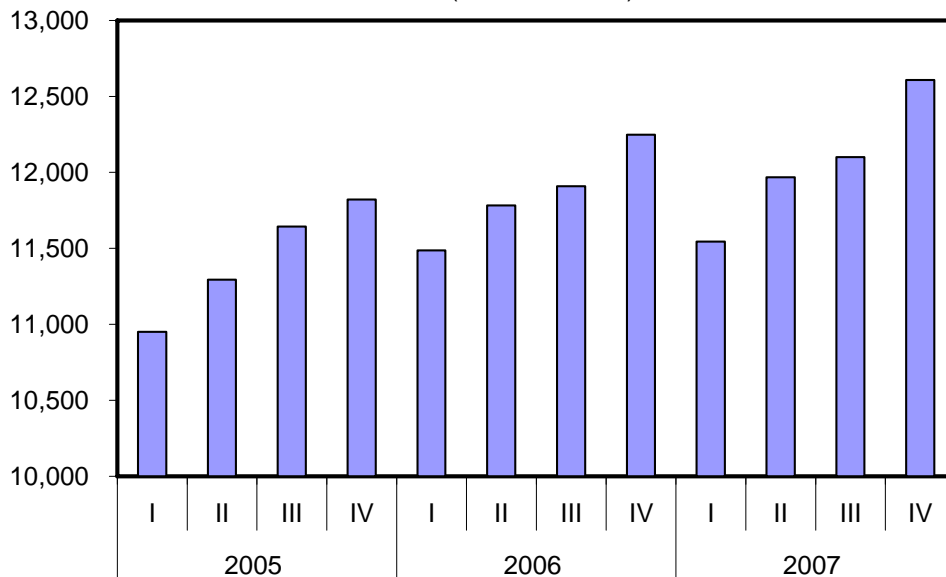
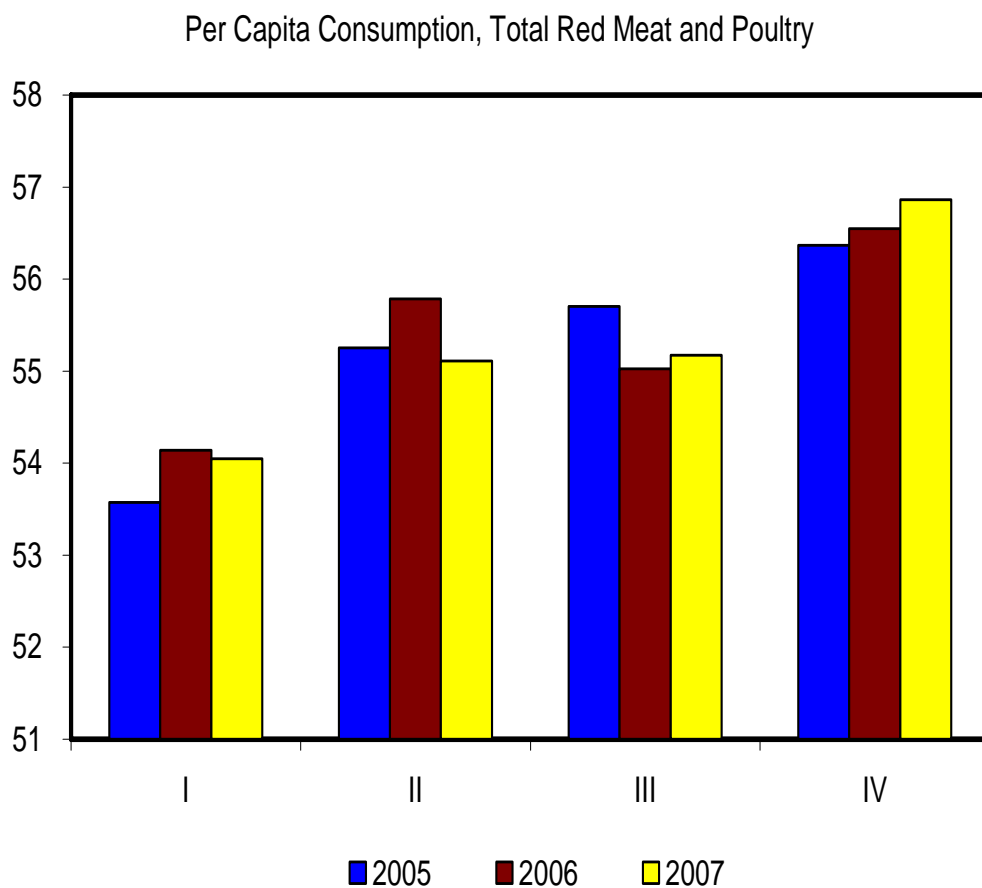


Figure 1 shows the quarterly production of red meat and poultry. It is the final estimates for 2005 and the first half of 2006 and estimates for the remainder of 2006 and 2007. Note the seasonal trend. First quarter is the lowest production and fourth quarter the highest. Also note that 4th quarter is expected to be higher in 2006 than it was 2005, but first quarter 2007 is currently expected to be near 2006 levels.

Figure 1. Source Livestock Market Information Center

Figure 2 is the actual and expected per capita consumption of total red meat and poultry. It is the production values in Figure 1 adjusted for imports and exports and changes in cold storage inventory and then divided by population. Note that third quarter 2006 is down from 2005 and is part of the support for cattle and hog price this summer. However, consumption is expected to pick up in the fourth quarter, but be steady to lower through the first three quarters of 2007.



Hogs

Pork production through the first six months of 2006 was 0.9% higher than the same period of 2005, but has been 1.9% higher in July and August. In addition, three of the largest daily hog slaughter totals in history were posted between August 31 and September 6. The Labor Day holiday may have pushed more hogs into the work days, but these volumes were 416,000, 414,000, and 410,000. When we had slaughter near this level in December 1998 live hog prices were \$10/cwt or less and now prices are over \$50/cwt or more. Packer capacity has increased as has domestic and export demand.

Figure 2. Source Livestock Market Information Center

The US exported 15% of the pork produced in the first half of 2006 and posted a 15% increase compared to the same period in 2005. Put another way, exports increased 202 million pounds, but US pork production increased only 96 million pounds, reducing supply to US consumers. Most of the export growth is coming from Russia and Mexico. Japan remains the largest US pork export market, but its purchases were down 8% from last year.

Domestic demand for pork has weakened from a year ago. The easiest place to see it is that during the first half of 2006 per capita consumption declined 0.8% and retail prices declined 2.4%. When both supply and price decrease there is reason for concern.

The next USDA Hogs and Pigs report will be released September 29 and it will be watched with interest. Producers are in the midst of a streak of 32 consecutive months of selling hogs at profitable prices. However, recent expansion in the US has been modest and sow slaughter has increased compared to 2005, 6% higher since the first of June when the last report was taken. The Canadian breeding herd was also lower in its July report.

John Lawrence

Implications of September USDA Crop Forecasts

Summary

The September 12 crop report showed prospects for 1.3% or 138 million bushels more corn to be produced in the U.S. this year than indicated last month. However, reduced grain production projections for the European Union and increased U.S. livestock feeding have boosted demand prospects for the year ahead by a similar amount. Current USDA projections place total use of U.S. corn in the current marketing year at 11.9 billion bushels. ***The corn crop, with the second highest yield on record, is projected to be 800 million bushels below potential demand. That is not a problem this year because of the large carryover stocks that were built up with the record 2004 crop.*** These stocks can be reduced to meet current demand. However, there is expected to be much less potential to draw on corn carryover stocks again next year if production falls short of potential utilization. Early indicators point to a need for substantially more corn acres next year than were planted in 2006. The exact amount of additional acres needed will depend on the final size of this year's crop, ending 2006-07 carryover stocks, and how quickly ethanol plants now under construction can be completed.

The official forecast for U.S. soybean production was raised 5.6% or 165 million bushels from last month. Soybean yield forecasts were increased from the August crop report in 13 of the 29 states for which USDA issues monthly soybean crop forecasts. The largest increases, as expected, were in the western Corn Belt and reflected response of the crop to good August rains. Even so, soybean yield forecasts for the region are well below last year. Ten minor producing states in the South and along the east coast had lower yield forecasts than indicated last month. These states (which include Mississippi and Louisiana) account for only 4% of this year's U.S. soybean production.

With western Corn Belt yields still indicated to be well below last year, some further increase in the soybean production forecast is possible in the October and/or November crop reports. Production at the currently indicated level would have the potential to hold U.S. August 31, 2007 soybean carryover stocks near this year's anticipated 485 million bushels.

U.S. yields and production forecasts for corn, grain sorghum, and soybeans are shown in Table 1.

Although the grain sorghum production estimate was increased from last month, the U.S. production is forecast to be 23% below last year. The U.S. grain sorghum crop is expected to be equivalent to only 2.7% of the nation's corn crop. U.S. corn production is estimated to account for 95.4% of total U.S. feed grain production. At the world level, corn accounts for about 70% of the production of all feed grains.

Price Implications

These crop prospects continue to point to potential harvest-time cash corn and soybean prices modestly below local loan rates. Pressure on prices reflects potential shortages of storage space again this fall because of large old-crop carryover stocks and this year's production. After harvest pressures subside, cash prices and the basis for both crops appear likely to begin a gradual upward trend into the winter and spring. Returns for un-priced storage of both crops appear likely to be greater than normal. A better indication of potential returns will be available after the October and November crop reports have been released. Unless the corn crop is considerably larger than currently forecast, there is a good chance that western Corn Belt cash prices for corn will be 25 to 30 cents above harvest lows next spring.

Ethanol Plant Growth and Corn Price Prospects

There are two major considerations behind our anticipation of significantly higher corn and soybean prices this winter and next spring. First is that this year's corn crop is projected by USDA to be 800 million bushels below potential utilization. This year (with the second highest U.S. corn yield on record), the production-use gap will be filled from carryover stocks, but stocks are not expected to be large enough to fill a gap of more than 300 to 400 million bushels next year. Second, the Renewable Fuels Association web site (<http://www.ethanol.org/productionlist.htm>) shows plants currently under construction will have the capacity to produce an additional 2,978 million gallons of ethanol. The capacity under construction will be able to process an additional 1.075 billion bushels of corn. Most of these plants should be in operation within 12 to 14 months. Other sources, including recent articles in grainnet.com (<http://www.grainnet.com/>) indicate another 360 million gallons of capacity not listed in the Renewable Fuels web site also are under construction. Those plants would require another 130 million bushels of corn. At a U.S. average yield of 150 bushels per acre, and with a 400 million bushel reduction in 2009 corn carryover stocks, the numbers would imply a need for 10.7 million more corn acres next year to meet this year's production short-fall from demand and

growth in ethanol production capacity. If corn feeding and exports decline modestly, the need for increased corn acreage would be lower but still substantial.

Table 1. September 12 U.S. Crop Forecasts and Comparisons with Last Year's Crops

	2005	August 2006	September 2006	% Chg. Vs. '05
Corn				
Harvested Acres	75.1	72.1	71.8	-4.2
Bushels/Acre	147.9	152.2	154.7	+4.6
Production, Bil. Bu.	11.112	10.976	11.174	+0.6
Soybeans				
Harvested Acres	71.4	73.9	73.9	+3.5
Bushels/Acre	43.3	39.6	41.8	-3.5
Production, Bil. Bu.	3.086	2.928	3.093	+0.2
Grain Sorghum				
Harvested Acres	5.7	5.3	5.3	-7.0
Bushels/Acre	68.7	55.8	57.3	-16.6
Production, Bil. Bu.	0.394	0.296	0.305	-22.6

Crop Yield Forecasts by State

As indicated in Table 2 below, soybean yield forecasts for much of the western Corn Belt states are well below last year. Illinois, Indiana and Ohio yields are indicated to be only one bushel per acre above last year. Table 3 shown corn yield forecasts by state and comparisons with last year.

	Est.		Forecast Bu./A.			2005	2006
	2005	2006	2005	2006	2006		
	000 Harv. A.		Bu./A.	Aug. 1	Sept. 1		
AL :	145	150	33	18	17	4,785	2,550
AR :	3,000	3,100	34	35	36	102,000	111,600
DE :	182	178	26	38	28	4,732	4,984
GA :	175	150	26	25	24	4,550	3,600
IL :	9,450	10,050	47	45	48	444,150	482,400
IN :	5,380	5,680	49	49	50	263,620	284,000
IA :	10,050	10,050	53	45	49	532,650	492,450
KS :	2,850	3,000	37	31	31	105,450	93,000
KY :	1,250	1,380	43	45	46	53,750	63,480
LA :	850	780	34	33	32	28,900	24,960
MD :	470	440	34	41	33	15,980	14,520
MI :	1,990	1,980	39	40	40	77,610	79,200
MN :	6,800	7,200	45	37	40	306,000	288,000
MS :	1,590	1,770	37	29	26	58,830	46,020
MO :	4,960	5,150	37	37	41	183,520	211,150
NE :	4,660	4,800	50.5	45	50	235,330	240,000
NJ :	91	92	28	33	31	2,548	2,852
NY :	188	188	42	42	42	7,896	7,896
NC :	1,460	1,390	27	30	30	39,420	41,700
ND :	2,900	3,700	37	27	29	107,300	107,300
OH :	4,480	4,380	45	45	46	201,600	201,480
OK :	305	250	26	23	18	7,930	4,500
PA :	420	450	41	42	40	17,220	18,000
SC :	420	435	20.5	24	26	8,610	11,310
SD :	3,850	3,750	36	29	34	138,600	127,500
TN :	1,100	1,090	38	36	38	41,800	41,420
TX :	230	200	26	20	20	5,980	4,000
VA :	510	510	30	33	28	15,300	14,280
WI :	1,580	1,620	44	41	42	69,520	68,040
Other Sts ¹	25	22	34	35.4	35.4	851	778
U.S.	71,361	73,935	43.3	39.6	41.8	3,086,432	3,092,970

1/ Other States include FL and WV, which will be in Jan. 07 Report.

U.S. corn acreage for harvest as grain is estimated to be 4.1% below last year, due largely to high costs of fertilizer and fuel last spring. The high input costs and record high 2005 soybean yields encouraged farmers to shift acreage from corn to soybeans. Also, slightly more corn is projected to be harvested for silage this year than in 2005. This year's corn acreage harvested for grain is placed at 90.4% of planted acreage, down from 91.8% last year.

Table 3. September 12 USDA Corn Crop Report								
	Est.		Forecast Bu./A.					
	2005	2006	2005	2006	2006	2005	2006	% Chg. Vs.
	Mil. Harv. A.		Bu./A.	Aug. 1	Sept. 1	Prod'n, Mil. Bu.		2005
AL	0.2	0.2	119	55	60	24	13	-47.1%
AR	0.2	0.2	131	128	134	30	22	-26.6%
CA	0.1	0.1	172	175	175	19	18	-7.5%
CO	1.0	0.8	148	154	152	141	128	-9.2%
DE	0.2	0.2	143	145	145	22	22	2.1%
GA	0.2	0.2	129	102	104	30	25	-15.9%
IL	12.0	11.5	143	172	174	1,709	1,992	16.6%
IN	5.8	5.4	154	167	167	889	893	0.5%
IA	12.5	12.4	173	173	174	2,163	2,158	-0.2%
KS	3.5	3.2	135	125	125	466	394	-15.5%
KY	1.2	1.1	132	150	152	156	169	8.3%
LA	0.3	0.3	136	130	131	45	38	-15.4%
MD	0.4	0.4	135	142	142	54	57	5.2%
MI	2.0	1.9	143	147	151	289	293	1.4%
MN	6.9	6.8	174	180	184	1,192	1,115	-6.4%
MS	0.4	0.3	129	100	100	47	29	-39.5%
MO	3.0	2.7	111	136	142	330	376	14.1%
NE	8.3	8.0	154	153	157	1,271	1,248	-1.8%
NJ	0.1	0.1	122	122	133	8	8	9.0%
NM	0.1	0.1	175	180	180	10	9	-6.5%
NY	0.5	0.5	124	122	120	57	54	-5.3%
NC	0.7	0.7	120	130	135	84	89	6.1%
ND	1.2	1.5	129	102	105	155	159	2.4%
OH	3.3	3.1	143	160	160	465	488	5.0%
OK	0.3	0.3	115	110	105	29	27	-5.0%
PA	1.0	0.9	122	135	135	117	127	8.4%
SC	0.3	0.3	116	99	106	33	29	-13.4%
SD	4.0	3.6	119	100	105	470	378	-19.6%
TN	0.6	0.5	130	120	120	77	65	-16.2%
TX	1.9	1.5	114	108	116	211	168	-20.2%
VA	0.4	0.4	118	130	125	42	46	8.9%
WA	0.1	0.1	205	210	210	16	15	-10.4%
WI	2.9	2.8	148	149	151	429	423	-1.5%
Other States	0.2	0.3	147.3	146.4	147	36	40	13.4%
US	75.1	71.8	147.9	152.2	154.7	11,112	11,114	0.015%

Table 4 shows updated indications of corn and soybean supplies for this fall. These tentative indicators continue to imply that pressure on storage space in Iowa may not be quite as severe as last year, although the situation will vary across the state. At the national level, the storage space situation appears likely to be a little tighter than last fall.

Table 4. Indicated total Iowa & U.S. Corn & Soybean Supplies vs. 2005*

9/12/06	Corn		Soybeans		Total, % Chg
	2005	2006	2005	2006	
<u>Iowa</u>	Mil. Bu.				
June 1					
Stocks	1,001	969	174	229	1.9%
Production	2,163	2,158	533	493	-1.6%
Total	3,164	3,127	707	722	-0.6%
<u>U.S.</u>					
June 1					
Stocks	4,321	4,363	699	990	6.6%
Production	11,112	11,114	3,086	3,093	0.1%
Total	15,433	15,477	3,786	4,083	1.8%

* Based on Sept. 2006 USDA crop forecasts & changes in June USDA stocks, which are the latest available.

Robert Wisner