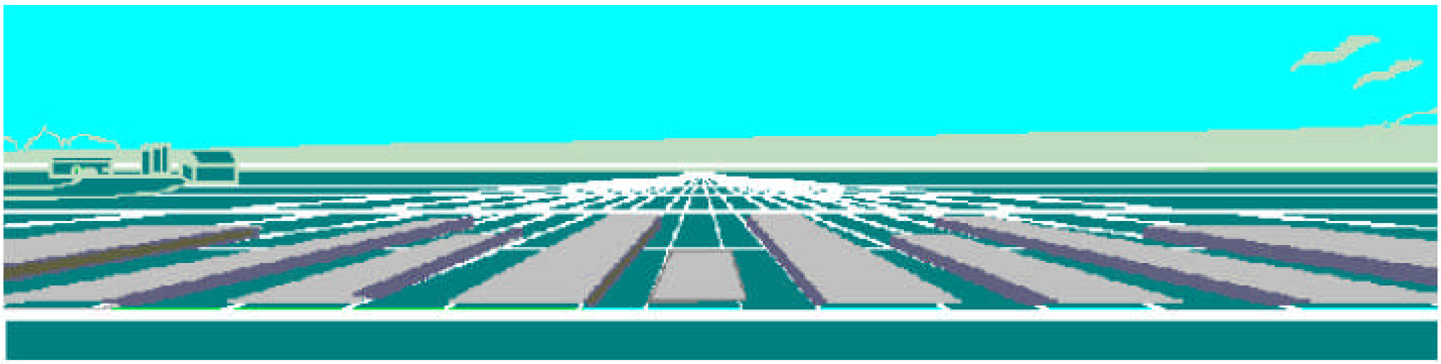
Iowa Farm Outlook



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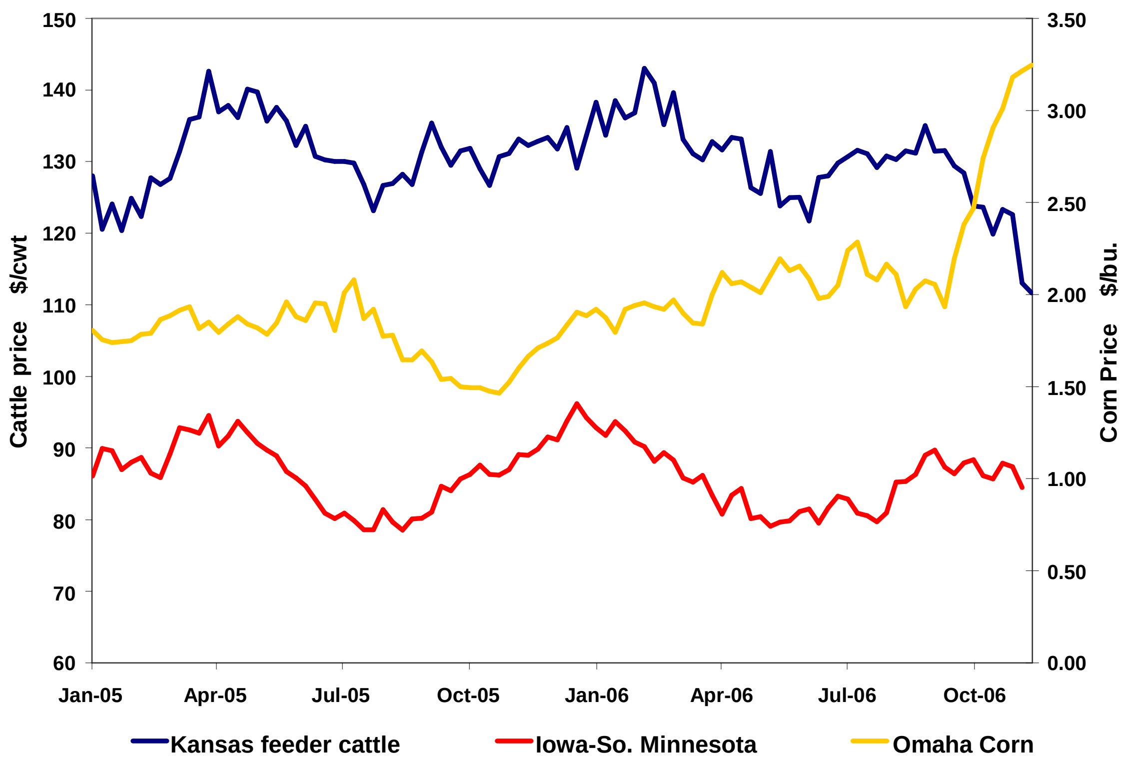
Current Beef Industry Situation

The beef industry is facing a situation that many have been predicting. Additional demand for corn, created by both more livestock production and a growing ethanol fuel industry, has led to a recent jump in the price of corn. The additional cost of purchasing corn for feed has affected not only the profitability of cattle finishers but also dampened the market for feeder cattle. Figure 1 is a graph of the price of 500-600 pound Kansas feeder cattle, Iowa-So. Minnesota fed cattle and Omaha corn. Light feeder cattle prices were following a price trend similar to that of fed cattle until September of this year. Although the market value of fed cattle has dropped by 6 percent between early September and mid-November, Kansas feeder cattle prices have slipped by 15 percent in the same period. The cash corn price has steadily increased during the same period, up 58 percent from early September. The effects of corn price on the feeder cattle market are painfully obvious.

Figure 1. Fed and Light Feeder Cattle Price vs. Corn Price, January 2005-Present



The degree of impact increased corn price will have on producers' short-run profitability will depend upon the quantity of feed stored or under contract and the availability of alternative feedstuffs such as co-products. Cattle feeders are not strangers to tight margins. Feed costs are likely to continue increasing before we see prices taper off. Cattle feeders who are currently purchasing feeder calves for $110/cwt and can lock in corn at $3.25 per bushel are estimated to need $88-90/cwt to break even next summer. If dried distillers grains are used, the breakeven price may be $1-3/cwt dollars lower, depending upon cost and quantity in ration. The feeder cattle market will continue to soften as corn becomes more expensive.

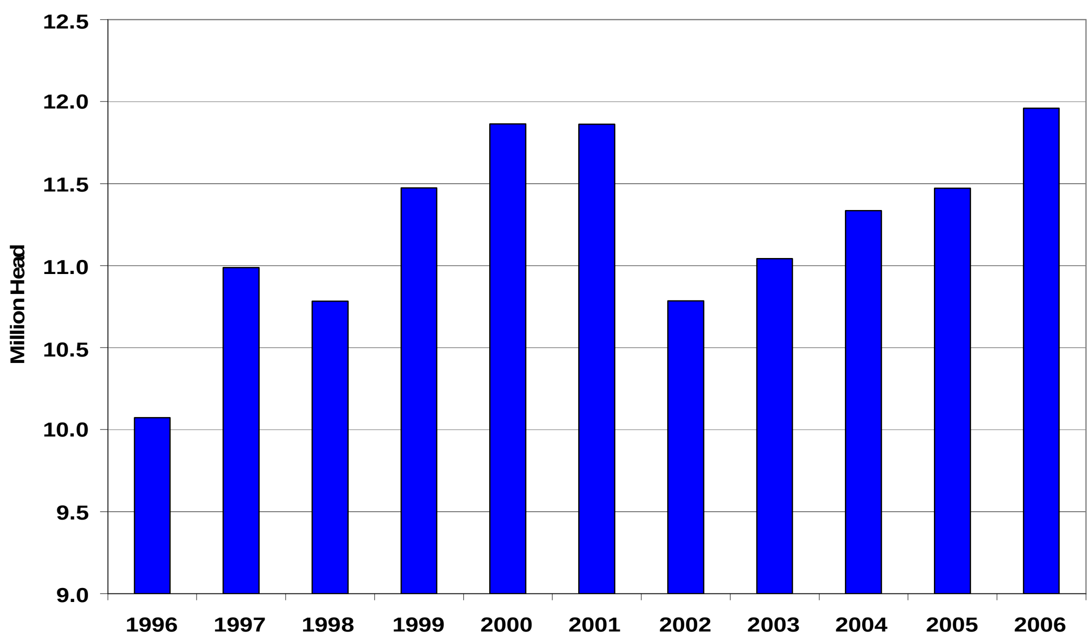
Fed cattle prices have also softened in recent months. The Iowa-Southern Minnesota fed steer price has fallen $5/cwt since early September. Historically, fed cattle prices usually improve going into December. There is not a clear reason for why prices have slipped. Some possible explanations are that competing poultry meat has been considerably cheaper or that year-to-date US beef production is up 5.7 percent from this time last year. However, domestic demand has been fairly supportive, with average per capita consumption at about 16 pounds.

Foreign demand is actually increasing as US exports have increased to all major foreign markets. Total exports are up over 80 percent from this time last year, with most of the additional export volume going to Canada and Mexico. Mexico remains our largest market, while Canadian exports have nearly tripled from last year. Canadian cattle slaughter volume is down 10 percent from last year, as more live feeder and fed cattle are shipped to the US for finishing and/or processing. Beef markets in Asian nations continue to be slow to develop amid consumer distrust and wrangling over trade regulations and violations.

Cattle on feed update

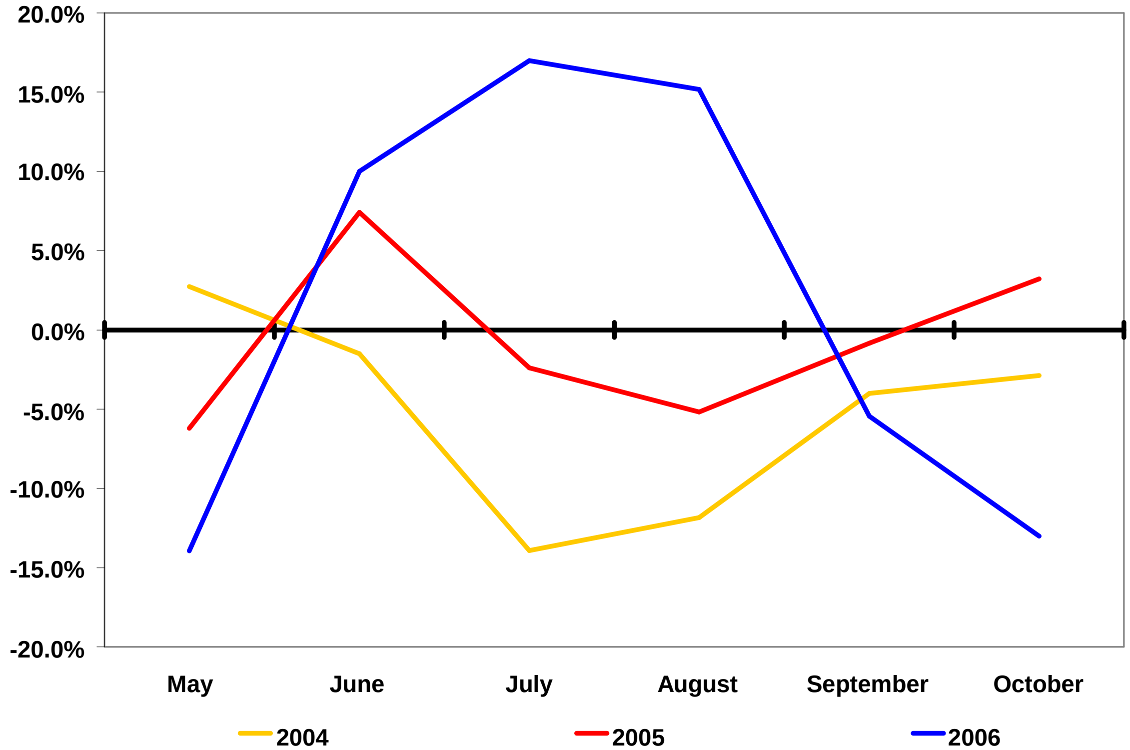
As of November 1, the inventory of cattle on feed was up 4.2 percent from a year ago. With over 11.9 million head of cattle on feed, this is the largest November cattle on feed inventory on record. Figure 2 is a graph of cattle on feed inventories over the past decade since the series began in 1996. Cattle on feed inventories have been on a steady increase since 2003.

Figure 2. November 1, Cattle on Feed, 1996-2006.



However, this increased inventory is not an indicator of aggressive feeder cattle purchasing. October cattle placements were down from 2004 and 2005 by 13 and 10 percent, respectively. Placements of heavier weight feeder cattle were down significantly from last year. Placements of cattle weighing between 700 and 799 pounds decreased 18 percent and placements of cattle 800 pounds or heavier were down 13 percent. Figure 3 is a graph of the percentage change in cattle placements year over year for the months May through October.

Figure 3. Year-to-Year Percentage Change in Feeder Cattle Placements, May-Oct.



Higher corn prices were the main factor for this decline in placements. The current record number of cattle on feed is primarily a result of a large number of placements during the summer months when corn prices were considerably lower. Some of those cattle will be at a finished weight in the coming months and we may see our cattle on feed numbers come down from record levels. The cost per additional pound of gain is significantly higher now than it was a year ago, so feeders are less likely to feed cattle to the record weights they have been in the past two years. Lighter slaughter weights can be expected as corn prices increase.

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