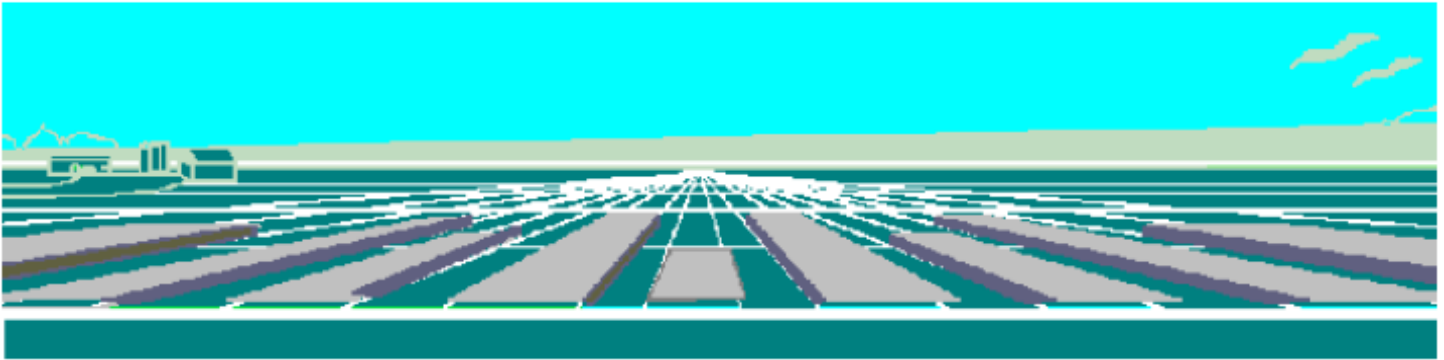


# Iowa Farm Outlook



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Ames, Iowa

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## Beef Industry Tour to Argentina and Uruguay

In late March, a few of us from the Iowa State University joined a study tour to Argentina and Uruguay to look at their beef industry. The Iowa Staters include Daryl Strohbehn, Robert Wisner, Brantley Ivey, Maro Ibarburu, and I. The study group included livestock economists from across the country and USDA.

We visited cattle, breed, and beef organizations, universities and research stations, a cattle market, packing plant, super market, and butcher shop, a grain export terminal, and producers. We saw and learned a lot and we have enough pictures and stories to fill the magazine. I can't speak for the others on the trip, but I learned a great deal about their beef sector and production systems. I'll share a few things that I found interesting.

Argentina has approximately 56 million cattle and slaughter about 13 million annually. Farms have a low calving rate, retain nearly all the heifers and they slaughter steers and cows. The cattle are mostly small frame Hereford and Angus with some Braford and Brangus in the north. Their grain belt region is also their leading cattle region. There is a concern that farmers will shift from pasture to crops due to higher grain prices and either reduce beef production or switch to more grain feeding in feedlots.

There was much more grain feeding than I expected. Argentina has a small feedlot sector, approximately 100 feedlots that market approximately 300,000 of the 13 million cattle slaughtered a year. We visited a 25,000 head feedlot that is a joint venture between Catus, Tyson, and a local company. It is one of the largest feedlots and looked exactly like a Catus lot in Texas. Same design, equipment, and diet including corn gluten feed. However, the most common production system is to supplement cattle 1% of body weight on pasture for the last 120 days before slaughter.

Argentina eats more beef per capita than any other country, about 50% more than the US. As a result, beef represents over 4% of the consumer price index and one way to fight inflation in the country is to keep beef cheap. The Argentine government has taken actions to help consumers (and perhaps re-election). First, they set a minimum slaughter weight on cattle to increase supplies. Second, they restricted exports to increase domestic supplies. Third, they set a maximum price for cattle. Producers were not happy about the restrictions, but were more than happy to talk about it. As you might expect, a black market has developed in which producers get a check for the official maximum price and an envelop with cash for the remainder of the value of the cattle. It makes some of our governmental intrusions seem minor by comparison.

Uruguay is a much smaller country, with 3.3 million people (similar to Iowa) and a stable, non-intrusive government and it exports 80% of the beef produced. They too supplement grass with grain during the last 3-4 months and market most of their steers at 24-30 months of age around 800 pounds. The vast majority of their exports to the US are lean manufacturing beef, but we did visit a packer that was exporting portion controlled steaks to food service in the US. This plant averaged 45% USDA Choice (there was at least some grain feeding) and over half of the plant's production was certified Kosher.

In addition to grinding meat, the Uruguayan Beef Council has a campaign to market into the growing natural and grass fed market in the US. It is currently only a few producers, but they hope to grow. They are building this high end market around a USDA Process Verified Program to prove their marketing claims and they are working with their tourism and wine industries to establish an inviting and "green" image.

Uruguay required mandatory individual animal ID in 2006 using RFID. However, it has had mandatory animal group traceability since 1973 based on a brand and paper system. Cattle are branded on the hip. An animal is branded each time it is sold. Also, paper work is filed with the local police station every time animal are sold or moved to another farm. The documents are on file at the police station in the region the cattle left as well as the station in the region they enter. Compared to the branding iron and paper trail they have been using for over 30 years, an RFID tag will seem like a welcome simplification.

We learned a lot more information about these countries and will have a more detail report at [www.iowabeefcenter.org](http://www.iowabeefcenter.org). If you have questions about cattle production in these countries or what to share stories of your observations of the South American industries we would love to visit with you.

*John Lawrence*

## **Feeder and Stocker cattle supplies**

As the price of feedstuffs, particularly corn, continues to be a hot topic of discussion we often look at its impact on the feeding industry. Historic trends usually suggest that high feed costs lead to lower feeder cattle prices. However, even though the price of corn is over 60 percent above a year ago feeder cattle prices are at and above prices of a year ago. There appear to be two forces supporting the feeder cattle market. First is the cash price of fed cattle prices which have been around a \$100/cwt in the recent weeks. Second is the availability of feeder cattle. The January Cattle report suggests that in the next year there may be a tighter supply of domestically raised beef calves. Beef cow numbers are down from a year ago, decreasing the potential beef calf crop for 2007. The largest monthly cattle on feed inventory on record was reported in February of 2006. Feedlot inventories were nearly 400,000 head lower in February of this year. So what is the buying environment that cattle feeder are facing? Table one contains some figures for comparing our current situation with a year ago.

**Table 1. Feeder Cattle Situation, April 2007**

	2006	2007	% change
January Report			
Beef cows	32994	32894	-0.3%
Calf crop, yr. previous	37575	37567	0.0%
Feeder cattle supply	28072	28308	0.8%
COF January	11804	11974	1.4%
YTD cattle placements	5624	*5080	-10.7%
COF February inventories	12110	11726	-3.3%
COF March inventories	12023	11599	-3.7%

\* includes estimate for March placements

Coming into the year we did have more feeder cattle and calves outside the feedlot than we did the year previous. However, placements have been slower so far this year. Placements in the first quarter are expected to be down 10.7 percent from a year ago. Cattle feeders are always willing to purchase cattle if the price is right. It would appear that those holding feeding feeder cattle are not saturating the market which has helped support the feeder cattle market. It would also appear that in the coming year domestic beef feeder cattle supplies will be in slightly lower, adding additional support to the feeder cattle market. This is good news to cow-calf producers. Many would have never expected to have such a long run of high calf prices. They can thank the influence of a strong fed cattle market.

Shane Ellis

### **Key Factors in the 2007-08 Grain Price Outlook**

While volatility in corn prices in the last several weeks has had a strong downward bias, volatility in both directions appears more likely between now and mid-summer. Weakness in corn prices in the last few weeks has been greater in cash and old-crop futures than in more distant contracts. In fact, from the close on March 2 to the close on April 17, December 2008 corn futures rose \$0.18 per bushel. December 2009 futures rose by \$0.19 during the same period.

***For the next few weeks, planting progress will be a key focus of the market. With this spring's later than normal start in plantings for the entire Corn Belt, progress in the next few weeks will determine whether all of the intended 12.4 million acre increase in intended plantings actually materializes. Timeliness of plantings also is an important influence on yield potential. Corn plantings for the last three years have been well advanced by the third week of April and likely were a factor behind the highest three U.S. yields on record during those years.***

Other important influences on corn prices for the year ahead include:

- The extent of damage to wheat from last week's freezes over a large area of the Midwest, the northern Mid-South, and Central Great Plains
- Actual corn and soybean planted acreage
- Summer weather
- Crude oil, gasoline, and ethanol prices
- The amount of wheat feeding this summer in the U.S. and abroad
- Foreign crop conditions
- Investor attitudes toward construction of new ethanol plants.

Planting progress for April for the last three years, as well as so far in April this year are shown below. With today's equipment, farmers have the capacity for rapid plantings if the weather permits, but the intended increase in acreage will require a slightly longer than normal planting season. *Next week's crop progress report will be especially important for the corn market. For the last three years, respectively, 18-state corn percentages planted for the comparable week were 25%, 30%, and 37% respectively. With wet fields in many areas and minimal spring fieldwork in the Midwest so far this year, it looks unlikely that progress will be close to these levels by next Monday.*

The tables below indicate planting progress in the Corn Belt lags well behind the pace of the last three years. Progress in the South -- where corn plantings are being boosted sharply by a shift away from cotton -- approximately matches the pace of the last three years. A dry spring in much of the region has made that possible. As indicated in Figure 1 below, the current drought index map shows the southeastern U.S. as being in a mild to moderate drought. *Some states in the South, including Tennessee, and sizeable parts of Arkansas, northern Mississippi, and northern Louisiana had freezing temperatures recently that have set corn back somewhat and may have done serious damage to wheat. For wheat that had crop insurance and may have been severely damaged by the freeze, insurance regulations dictate that the fields be replanted to soybeans rather than corn in order to collect on insurance. It will be a few more weeks before an accurate assessment of wheat damage will be possible. Wheat is a hardy crop. About 10 years ago, a freeze occurred at approximately the same stage of growth in Kansas wheat. Even so, the state harvested a record wheat crop that year.* Current talk in the grain trade is that 100 to 200 million bushels of potential wheat production may have been lost in these areas and the southern Great Plains because of the freeze.

<b>Table 1. Corn Percent Planted, 2006-07</b>				
	<b>Apr 15</b>	<b>Apr 8</b>	<b>Apr 15</b>	<b>2002-06</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>Avg.</b>
CO	: 3	1	3	2
IL	: 0	0	7	14
IN	: 0	0	3	5
IA	: 0	0	3	4
KS	: 5	2	21	19
KY	: 29	26	27	28
MI	: 0	0	0	2
MN	: 0	0	0	1
MO	: 18	12	45	41
NE	: 1	0	3	3
NC	: 55	39	57	37
ND	: 0	0	0	0
OH	: 1	1	2	3
PA	: 1	0	4	3
SD	: 0	0	0	0
TN	: 54	47	51	44
TX	: 67	59	67	64
WI	: 0	0	0	0
<b>18 Sts:</b>	<b>4</b>	<b>3</b>	<b>8</b>	<b>9</b>

*These assessments are very tentative and should be viewed with a high degree of caution. World wheat stocks are low, and if correct, crop losses of this size almost certainly would moderately reduce summer U.S. wheat feeding. Some wheat has been fed in the southern plains and Southeast this winter in place of corn. A further increase in wheat feeding had been anticipated this summer. If correct, the damage might also increase soybean plantings by 0.2 to 0.4 million acres from earlier expectations.*

Table 4. Corn Percent Planted					Table 2. Corn Percent Planted				
	4/23/06	4/16/06	4/23/05	2001-05 Avg.		4/24/05	4/17/05	4/24/04	2000-04 Avg.
CO	14	3	14	8	CO	15	5	9	8
IL	33	8	60	39	IL	64	35	61	36
IN	9	3	33	20	IN	36	12	38	19
IA	26	3	15	16	IA	17	6	34	19
KS	50	23	38	35	KS	41	22	44	38
KY	70	29	54	52	KY	60	20	70	52
MI	8	0	23	8	MI	25	9	14	5
MN	12	0	3	9	MN	4	0	21	13
MO	75	50	60	54	MO	62	49	76	60
NE	16	3	8	11	NE	9	5	20	14
NC	83	61	62	61	NC	67	32	72	65
ND	2	0	9	7	ND	11	0	15	7
OH	9	2	48	17	OH	54	9	26	10
PA	15	4	14	7	PA	15	5	7	5
SD	3	0	6	4	SD	7	0	7	5
TN	79	57	58	70	TN	63	31	80	71
TX	72	68	71	66	TX	72	64	69	67
WI	5	0	7	3	WI	8	0	3	4
18 Stat	25	9	28	22	18 Sts.	30	14	35	22

### Will All Intended Corn Acreage be Planted?

In the last decade, corn plantings in a few years have varied by as much as 2.4 percent from the USDA planting intentions survey. This could be a year when that pattern is repeated, due to a late start of plantings and adjustments in the grain markets and fertilizer prices since the planting intentions survey. Since early March, when the survey was taken, December 2007 corn prices have declined by \$0.17 from March 2 to the close on April 16. Old-crop May corn futures during the same time period declined by \$0.57 per bushel. November 2007 soybean futures from early March to May 16 were down \$0.08 per bushel. Old-crop May futures declined by \$0.18 per bushel in the same period. Reports locally indicate prices for nitrogen fertilizer are well above last year. That also may be a factor influencing some slippage from intended corn acres to soybeans. *In our latest longer-term balance sheet projections, we show the supply-demand scenarios assuming farmers plant 2 million fewer corn acres than shown in the March 30 planting intentions report, along with 0.9 million more soybean acres.* These balance sheets are shown on our web site, <http://www.econ.iastate.edu/faculty/wisner/> in the right-hand column.

For the U.S. average corn yield, we've used three-year average yields by state and adjusted the potential production from the increase in corn acres in the Corn Belt by reducing the yield on those acres 10% from the three-year average. That's the process behind the yield shown in column B for 2007-08. This yield adjustment is intended to account for the yield drag shown in agronomic research for corn following corn. The sharp increase in prospective corn plantings in lower yielding areas in the Northern Plains and Cotton Belt also are a factor holding the U.S. average yield at 150.5 in our projections. We have not made adjustments for planting delays, freeze damage in the South, or shortages of the best corn seed varieties. *This yield, if attained, would be the second-highest U.S. corn yield on record.* For soybeans, our Column B U.S. yield is 43.4 bushels per acre. That would be a new record, 0.4 bushels above the 2005 record yield. With reductions in projected 2006-

07 soybean use (see note below on USDA supply-demand projections), soybean carryover stocks under those conditions would appear likely to be fully adequate for the next year. Our early and very tentative projections for 2008-09 show substantial tightening of bean carryover stocks by August 31, 2009. Column A in the 2007-08 projections indicates that a 4bushel below-normal U.S. average soybean yield could bring significantly tighter soybean supplies by 2008.

### **Cautions for Corn Prices**

*Actual planted acreage and yields will be extremely important influences on corn prices this year. The two million acre reduction from March intentions in our balance sheets, if planted and harvested with good yields, could raise our projected 2008 corn carryover stocks by 200 to 250 million bushels or more. That prospect, if it occurs, would add significantly to the down-side price risk for old and new-crop corn, but might add slight upside potential for soybean prices for a few weeks. Excellent weather across the Corn Belt in the next three weeks and rapid planting progress could shift trade expectations toward those prospects.* Official estimates of actual planted corn and soybean acres will not be available until June 29. Thus, the market will have two and one-half months of uncertainty about how much acreage actually has been planted.

### **USDA Adjustments in April 10 Supply-Demand Projections**

The April 10 USDA supply-demand report did not contain 2007-08 projections. Those will be available starting with the May report. *In the April 10 report, USDA reduced domestic corn feeding by 125 million bushels from the previous month.* That boosted August 31, 2007 corn carryover stocks to 877 million bushels – *about a 3.9 weeks supply. Stocks at that level are adequate but only very slightly above the minimum needed for normal exporting, processing, feeding, and merchandising activities.* Projected soybean crushings for 2006-07 were reduced by 15 million bushels, along with a 20 million bushel decline in projected exports for this season. Lower exports reflect better than expected South American soybean crops. *With adjustments in seed and residual use, projected soybean carryover stocks were raised 20 million bushels from last month but the projected season average soybean price was left unchanged.* The mid-point of the 2006-07 USDA price projection is \$6.30 per bushel. For corn, it is \$3.10, down from \$3.20 last month.

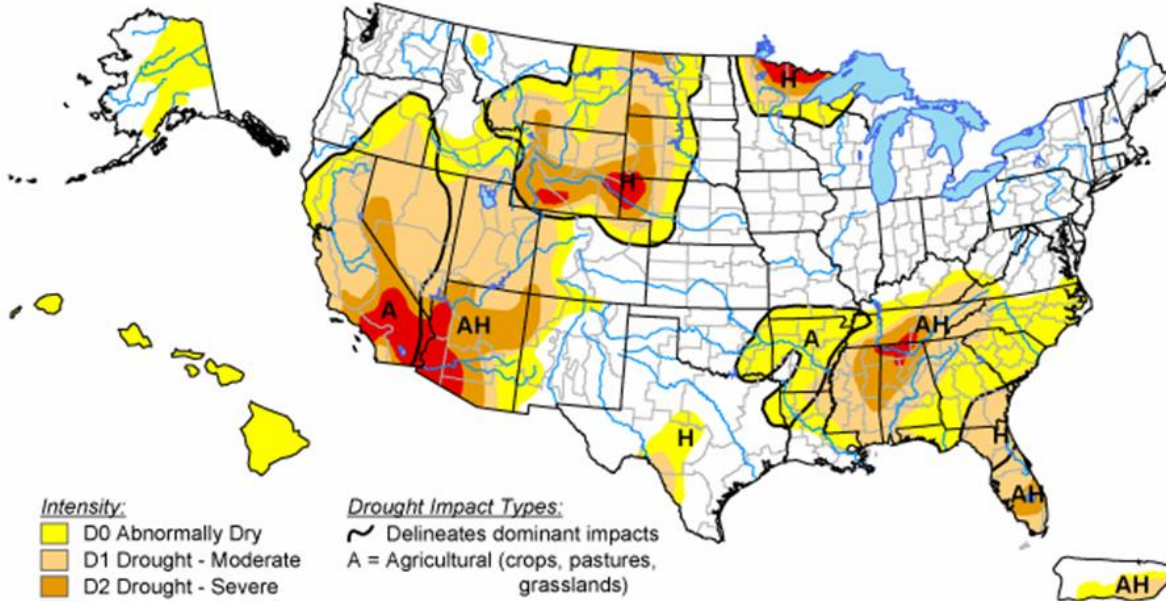
### **South American Crop Estimates Raised**

USDA's world crop supply-demand report showed increases in corn and soybean crops in both Brazil and Argentina. The Argentine numbers reflect early approximations of soybean losses from flooding in parts of the country in late March. Corn crop estimates in Brazil and Argentina were increased 60 million and 20 million bushels respectively from last month. Combined production in the two countries is indicated to be up approximately 550 million bushels from last year. South Africa's corn crop projection declined about 40 million bushel from last month, and is indicated to be down about 37 million bushels from last spring. Exports from the three countries are projected to be up about 260 million bushels from last season's drought-reduced level, with the rest of the increase going into increased stocks and domestic use.

Brazil's spring 2007 soybean crop is estimated to be 66 million bushels above last year's upward revised harvest, along with a 55 million bushel increase from last month in Argentina's crop. Last spring's Brazil soybean crop estimate was raised 79 million bushels from last month, and was a factor behind the reduced projection of U.S. 2006-07 soybean exports, along with larger 2007 harvest estimates for both Brazil and Argentina.

# Figure 1. U.S. Drought Monitor

April 10, 2007  
Valid 8 a.m. EDT



Intensity:

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:

- Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://drought.unl.edu/dm>



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