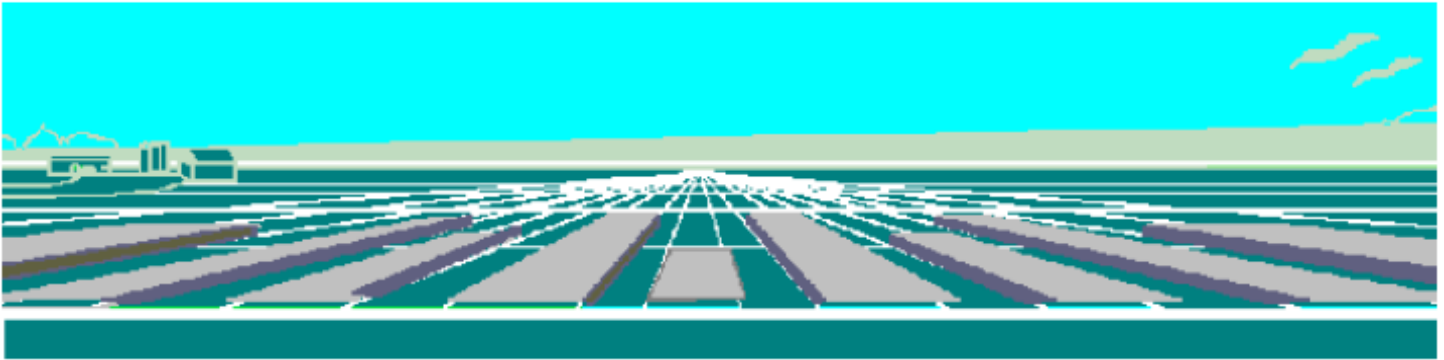


# Iowa Farm Outlook



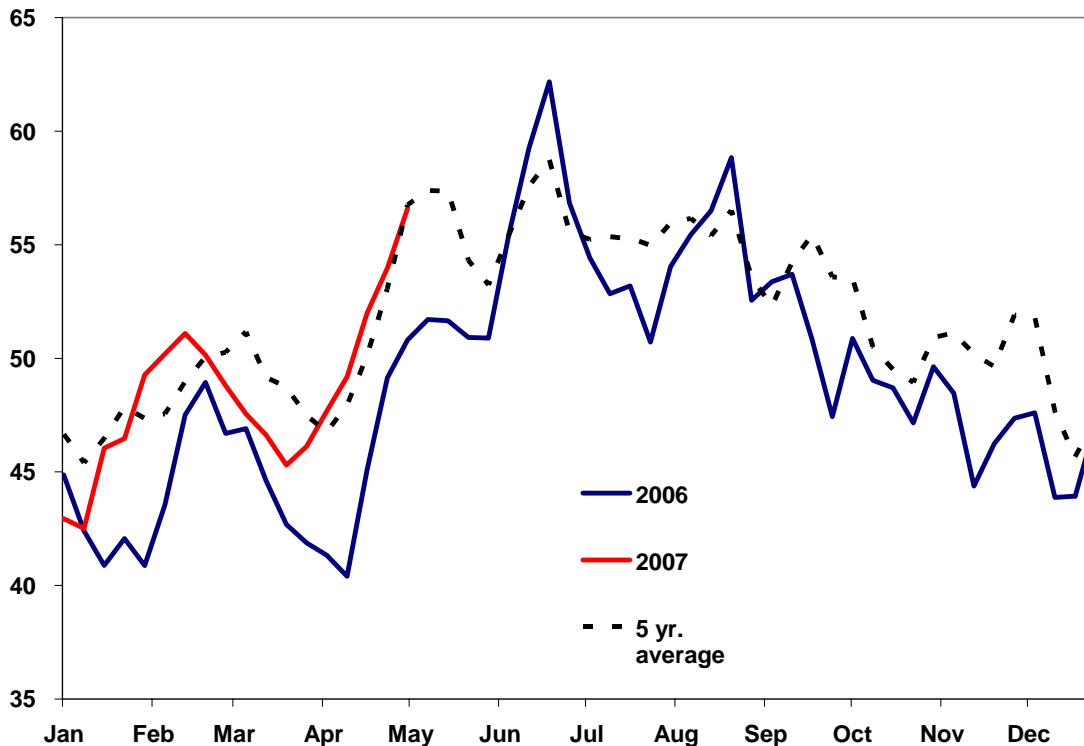
May 15, 2007

Ames, Iowa

Econ. Info. 1958

Iowa hog prices so far this year, have been trending above and ahead of last year. The normal seasonality is apparent, and the usual spring price increase has followed closely with the 5 year average. Figure 1 contains a comparative graph of Iowa's weekly average live hog prices. Hog prices are continuing to increase and will likely peak again in mid-June.

**Figure 1. Iowa-So. Minn Weekly Average Live Hog Price**

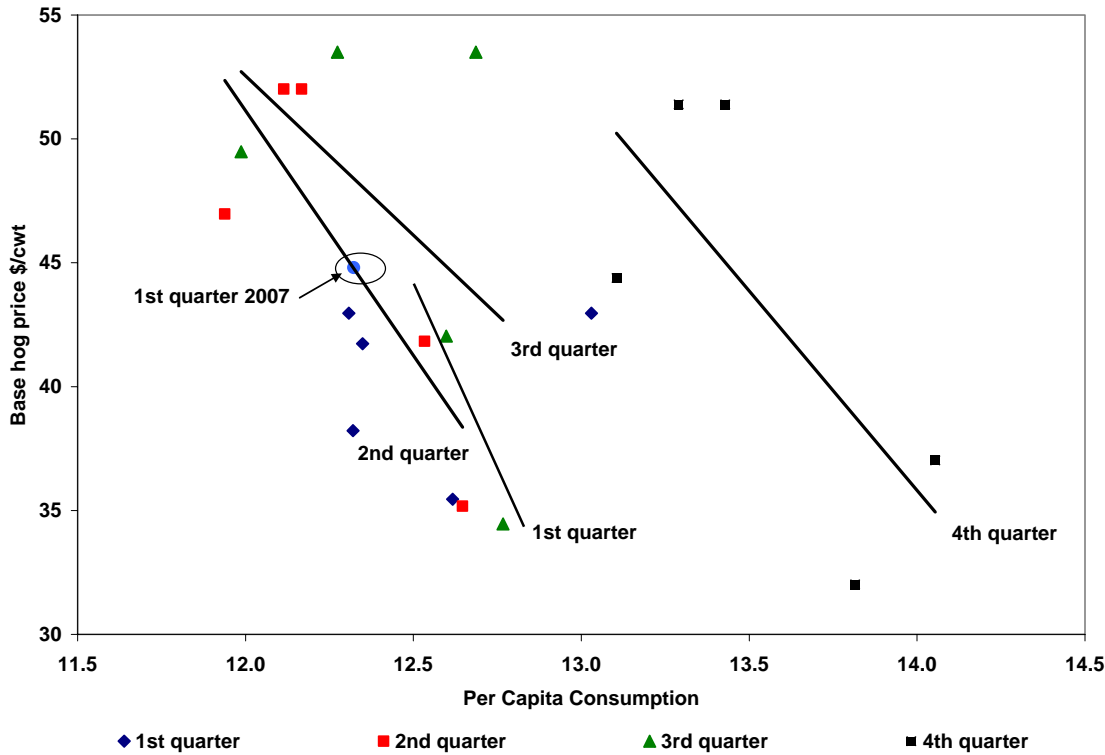


Source: Livestock Marketing Information Center

Demand for pork has been relatively strong in the first quarter of 2007. In four of the past six years per capita consumption during the first quarter has been nearly level, despite higher hog prices. Figure 2 contains the scatter plots and trend lines of quarterly consumption and prices in the past five years. Now to make some sense of what this graph is telling us. First, the grouping of the plotted points, suggests greater variation in demand between quarters. Although there is more pork consumed during the fourth quarter, demand is more consistent in the second and third quarters. Second, the slopes of the trend lines give us some idea of the trend

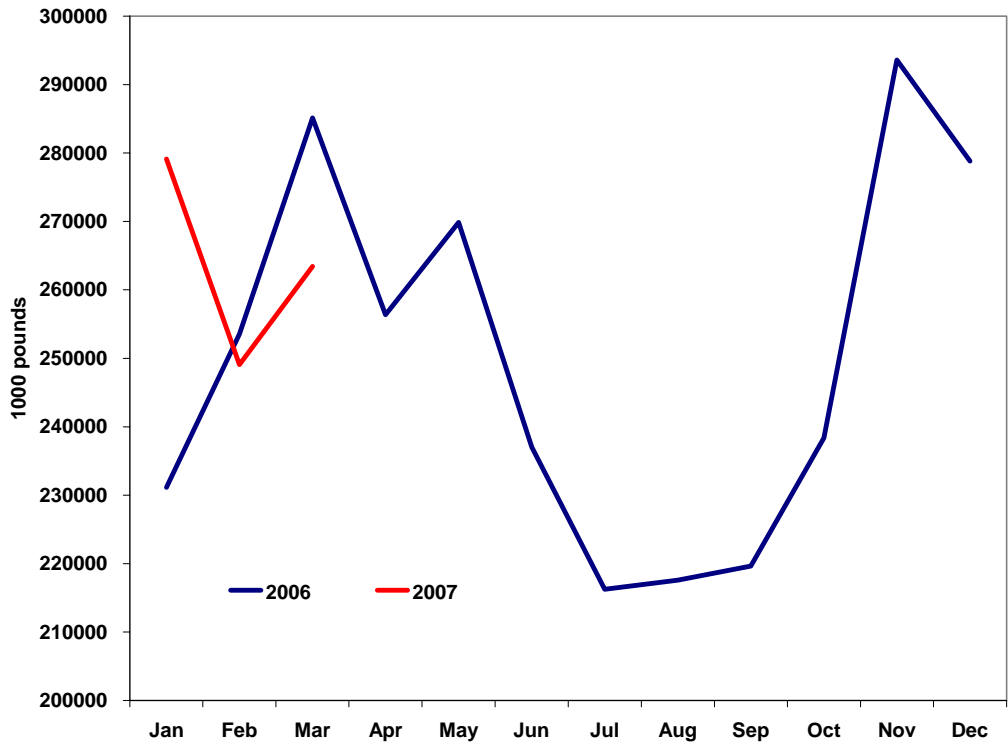
of demand. The demand between quarters does differ. If the trend line is more vertical the less impact that price and consumption has on each other. For example, consumption in the second quarter appears to be less price sensitive than consumption in the third quarter.

**Figure 2. Live Hog Base Price vs. Pork per Capita Consumption**



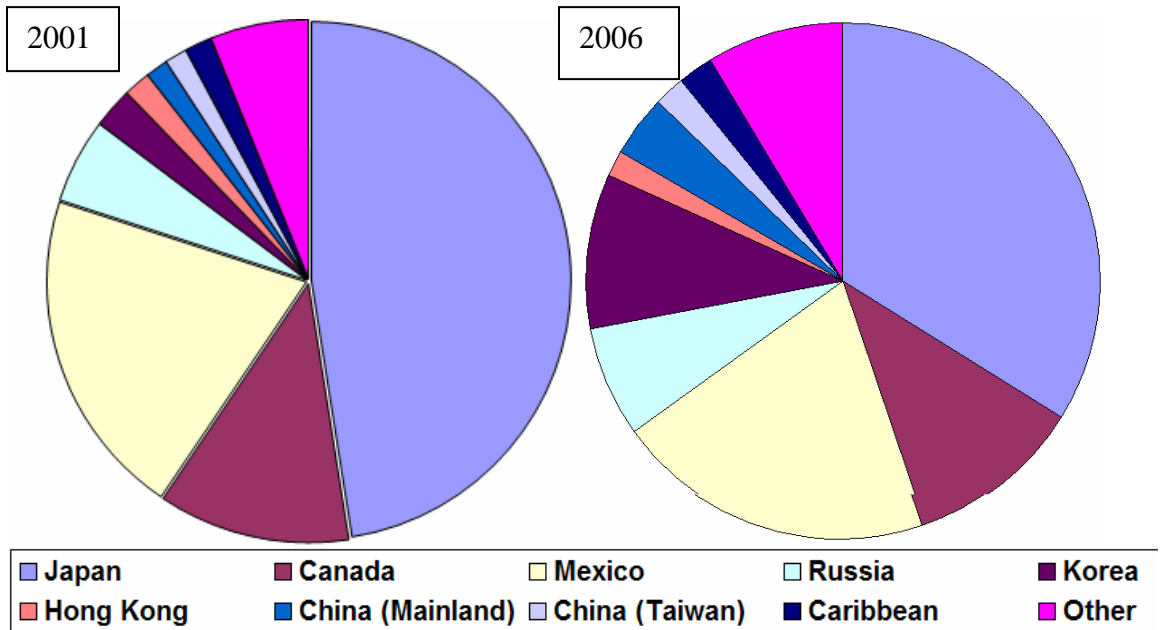
Pork exports in 2007 are greater than a year ago, but most of that was the result of high January exports. Exports in February and March were below those of a year ago. A large portion of the additional January exports were destined for Japan. Between foreign and domestic demand utilizing the increasing US pork supply, hog prices will be supported and above those of a year ago. Feed cost will play the key role in determining if hog production will remain profitable. Figure 3 is a graph of monthly pork exports this year and last.

**Figure 3. Monthly Pork Exports, 2006 & 2007**



On a final note, US pork export destinations have been changing in recent years. Although volume is up in most foreign markets, some countries are developing a larger appetite for the US pork “pie”. Figure 4 contains pie charts of US pork export destinations in 2001 and 2006. Even though Japan exports have been consistently increasing, we should remember our other foreign markets. Korean markets now have nearly five times the presence in our export portfolio.

**Figure 4. US Pork Export Destinations, 2001 & 2006**



## Corn Prices Supported Some by Higher 2007-08 USDA Ethanol & Lower Carryover Stocks than Expected by the Grain Trade

Drier weather allowed farmers to make very rapid planting progress in the eastern Corn Belt, parts of the Dakotas, Minnesota, northern and eastern Iowa in the week ended May 13. By the end of the week, the 18-state total corn percent of intended acreage planted was about the same as the 5-year average for that date but remained behind the average of the last three years. *However, corn plantings still lagged well behind normal in parts of Iowa and other western Corn Belt states, as shown in Table 1 below.* States highlighted in red had lower than normal percentages of the crop planted as of May 13.

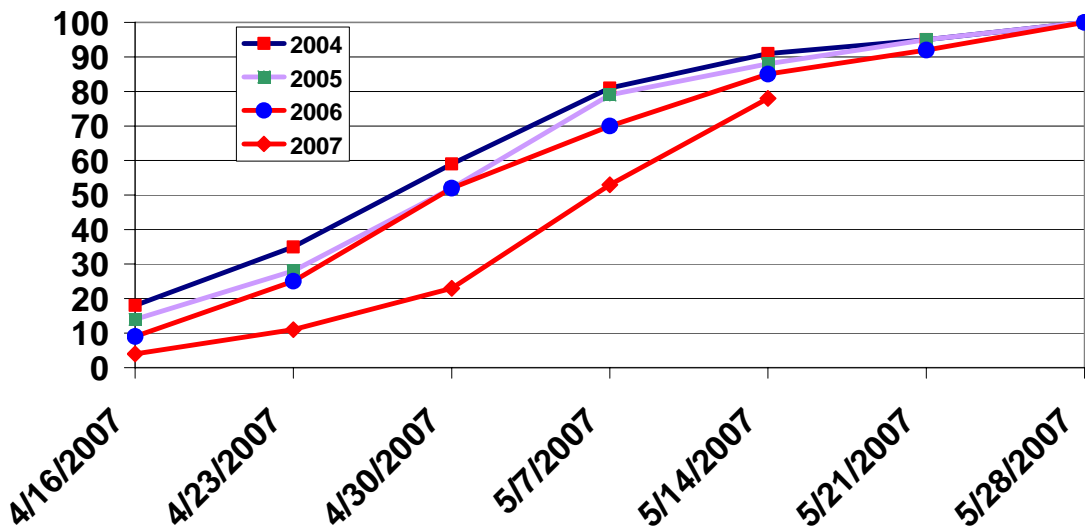
Figure 1 shows comparisons of this year's planting progress with the past three years. Along with uncertainty about yield impacts from the western Corn Belt planting delays, another key question is whether some of the intended corn acreage may

| <b>Table 1. Corn Percent Planted, Week Ending:</b> |                  |                 |                  | <b>5-Year Avg.</b> |
|--|------------------|-----------------|------------------|--------------------|
|  | <b>13-May-07</b> | <b>6-May-07</b> | <b>13-May-06</b> | <b>13-May</b>      |
| CO   | 63               | 38              | 60               | 59                 |
| <b>IL</b>  | <b>93</b>        | <b>72</b>       | <b>94</b>        | <b>83</b>          |
| <b>IN</b>  | <b>78</b>        | <b>42</b>       | <b>71</b>        | <b>63</b>          |
| <b>IA</b>  | <b>77</b>        | <b>53</b>       | <b>90</b>        | <b>87</b>          |
| <b>KS</b>  | <b>76</b>        | <b>49</b>       | <b>88</b>        | <b>88</b>          |
| <b>KY</b>  | <b>92</b>        | <b>80</b>       | <b>88</b>        | <b>78</b>          |
| MI   | 60               | 31              | 77               | 59                 |
| <b>MIN</b>   | <b>88</b>        | <b>70</b>       | <b>73</b>        | <b>84</b>          |
| <b>MO</b>  | <b>65</b>        | <b>58</b>       | <b>96</b>        | <b>87</b>          |
| <b>NE</b>  | <b>73</b>        | <b>40</b>       | <b>86</b>        | <b>79</b>          |
| NC   | 99               | 97              | 99               | 95                 |
| ND   | 62               | 38              | 53               | 61                 |
| <b>OH</b>  | <b>88</b>        | <b>38</b>       | <b>88</b>        | <b>70</b>          |
| PA   | 62               | 32              | 73               | 60                 |
| <b>SD</b>  | <b>48</b>        | <b>30</b>       | <b>61</b>        | <b>66</b>          |
| TN   | 98               | 92              | 93               | 93                 |
| TX   | 92               | 82              | 95               | 94                 |
| <b>WI</b>  | <b>76</b>        | <b>38</b>       | <b>72</b>        | <b>58</b>          |
| <b>18 States</b>                                   | <b>78</b>        | <b>53</b>       | <b>83</b>        | <b>78</b>          |
| * These 18 States planted 93% of 2006 Crop         |                  |                 |                  |                    |

be planted to soybeans. From a western Corn Belt perspective, a small shift of corn acreage into soybeans appears likely. Our supply-demand projections (<http://www.econ.iastate.edu/faculty/wisner/>, upper right hand column under “Longer-term Tentative Balance Sheets with Ethanol Expansion”) show a two million acre reduction in corn plantings vs. the March intentions. Factors contributing to some reduction from the intentions include (1) the considerable increase in the soybean/corn price ratio since the intentions survey was taken in early March, (2) estimates that range as high as one to 1.5 million acres of western Corn Belt land that have been under water recently and will push potential plantings of these acres significantly beyond the optimum date for corn, (3) shortages of the best seed varieties,

and (4) high fertilizer prices. Factors limiting the shift include (1) new-crop corn prices that remain much higher than in recent years and (2) the high insured revenue from crop revenue insurance policies that favors planting of corn if weather permits. In some cases, herbicide applications may also restrict the ability to shift to soybeans. Uncertainty about actual planted corn and soybean acreage as well as yield potential will contribute to market volatility of both crops for the next several weeks. A 1-2 million acre fluctuation in planted acreage and/or a 1-3 bushel per acre change in the potential U.S. average corn yield could significantly alter the supply-demand balance for the coming year.

**Figure 1. Major States Corn Percent Planted, 2004-07**



**USDA’s First 2007-08 Supply-Demand Projections: Tighter Corn Supplies than the Grain Trade Anticipated.**

On May 12, USDA released its first official supply-demand report for the 2007-08 marketing year which begins on September 1, 2007. Two surprises in the report were (1) a 200 million bushel increase in the amount of corn to be processed into ethanol vs.the late February projections used at the annual USDA Outlook Forum and (2) a slightly lower U.S. corn yield than had been anticipated. These developments produced significantly lower August 31, 2008 corn carryover stocks than generally anticipated. Lower projected 2008 stocks helped to temper the negative effect on prices from rapid eastern Corn Belt planting progress in the past 10 days. USDA also reduced its old-crop corn export projections slightly from projections made last month. However, recent export sales and export shipments to date indicate both shipments and sales will need to slow considerably to reach the projections.

Table 2 shows the USDA projections for 2007-08 along with comparisons for 2005-06 and 2006-07. *We have added an alternative column to show how sensitive the corn supply-demand situation would be to slightly lower acreage and yields. We have also added a line that converts ending carryover stocks to weeks supply. Dropping the U.S. average yield to 149 bushels per acre (0.1 bushels below last year) and reducing acreage by 2 million acres would drop the projected ending carryover to a 2 week supply.* However, it is unlikely that the actual carryover would be that low. More likely, the lower acreage and yield would require corn prices to increase enough to ration out 300 to 400 million bushels of demand.

From another perspective, the expansion in the ethanol industry is almost certain to continue for the next few years. That means even more corn acres are almost certain to be needed next year. Grain users and traders will likely take the view that it will be more difficult to expand corn acres sharply again next year, and that a significant additional price incentive will be needed to buy future increases in acres. The amount of additional price incentive needed will depend heavily on soybean prices, but also will be affected some by wheat and cotton prices.

Table 3 below shows USDA's latest soybean supply and demand projections in the same format as corn. In the alternative example, we have increased planted soybean acres by 1.4 million acres from the March 1 intentions and have increased the U.S. average yield by 0.5 bushels per acre from current USDA projections. *At that level, the U.S. yield would still be 0.7 bushels per acre below last year and 1.0 bushels per acre below the 2005 yield.* With this combination, U.S. soybean stocks would tighten considerably vs. this year by August 31, 2008. However, they would still be a fully adequate 7 weeks supply. *For both corn and soybeans, ending carryover stocks of less than a 4 week supply would be quite tight.*

Robert Wisner

| Table 3. USDA Soybean Supply-Demand Projections |              |              |                 | Example     |
|---|--------------|--------------|-----------------|-------------|
|   |              | Est.         | Proj.           | Alternative |
|   | 2005-05      | 2006-07      | 2007-08         | Projections |
|   |              |              | 5/12/2007       |             |
| <b>Million acres</b>                            |              |              |                 |             |
| Area Planted                                    | 72           | 75.5         | 67.1            | 68.5        |
| Harvested                                       | 71.3         | 74.6         | 66.1            | 67.5        |
| Bu./A.  | 43           | 42.7         | 41.5            | 42          |
| <b>Million bushels</b>                          |              |              |                 |             |
| Beginning stocks                                | 256          | 449          | 610             | 610         |
| Production                                      | 3,063        | 3,188        | 2,745           | 2,835       |
| Imports   | 3            | 4            | 4               | 4           |
| <b>Supply, total</b>                            | <b>3,322</b> | <b>3,642</b> | <b>3,359</b>    | <b>3449</b> |
| Crushings                                       | 1,739        | 1,770        | 1,790           | 1790        |
| Exports   | 947          | 1,080        | 1,080           | 1080        |
| Seed  | 93           | 83           | 85              | 85          |
| Residual  | 94           | 99_3/        | 84              | 84          |
| Use, total                                      | 2,873        | 3,032        | 3,039           | 3039        |
| Ending stocks                                   | 449          | 610          | 320             | 410         |
| Avg. farm price (\$/bu)                         | \$5.66       | \$6.30       | \$6.50 - \$7.50 |             |
| <b>End. Stocks, weeks supply</b>                | <b>8.1</b>   | <b>10.5</b>  | <b>5.5</b>      | <b>7.0</b>  |
|   |              |              |                 |             |
| Avg. Soybean meal price (\$/ton), Decatur, IL   | \$174        | \$195        | \$185-\$215     |             |
| Avg. Soybean oil price,(cts/lb.) Decatur, IL    | 23.41        | 29.5         | 29.5-33.5       |             |

| Table 2. USDA Corn Supply-Demand Projections |                 |                     |                     | Example       |
|--|-----------------|---------------------|---------------------|---------------|
|  |                 | Est.                | Proj.               | Alternative   |
|  | 2005-05         | 2006-07             | 2007-08             | Projections   |
|  |                 |                     | 5/12/2007           |               |
|  | Million acres   |                     |                     |               |
| Area Planted                                 | 81.8            | 78.3                | 90.5                | 88.5          |
| Harvested                                    | 75.1            | 70.6                | 82.9                | 80.9          |
| Bu./A.                                       | 148             | 149.1               | 150.3               | 149           |
|  | Million bushels |                     |                     |               |
| Beginning stocks                             | 2,114           | 1,967               | 937                 | 937           |
| Production                                   | 11,114          | 10,535              | 12,460              | 12,054        |
| Imports                                      | 9               | 10                  | 15                  | 15            |
| Supply, total                                | 13,237          | 12,512              | 13,412              | 13,006        |
| Feed and residual                            | 6,141           | 5,850               | 5,700               | 5,700         |
| Food, seed & industrial                      | 2,981           | 3,525               | 4,790               | 4,790         |
| <b>Ethanol for fuel 2/</b>                   | <b>1,603</b>    | <b>2,150</b>        | <b>3,400</b>        | <b>3,400</b>  |
| Domestic, total                              | 9,122           | 9,375               | 10,490              | 10,490        |
| <b>Exports</b>                               | <b>2,147</b>    | <b>2,200</b>        | <b>1,975</b>        | <b>1,975</b>  |
| <b>Use, total</b>                            | <b>11,270</b>   | <b>11,575</b>       | <b>12,465</b>       | <b>12,465</b> |
| Ending stocks, total                         | 1,967           | 937                 | 947                 | 541           |
| CCC inventory                                | 0               | 0                   |                     |               |
| Free stocks                                  | 1,967           | 937                 |                     |               |
| Outstanding loans                            | 171             | 225                 |                     |               |
| <b>Avg. farm price (\$/bu)</b>               | <b>\$2.00</b>   | <b>\$3.00- 3.20</b> | <b>\$3.10- 3.70</b> |               |
| <b>End. Stocks, weeks supply</b>             | <b>9.1</b>      | <b>4.2</b>          | <b>4.0</b>          | <b>2.3</b>    |