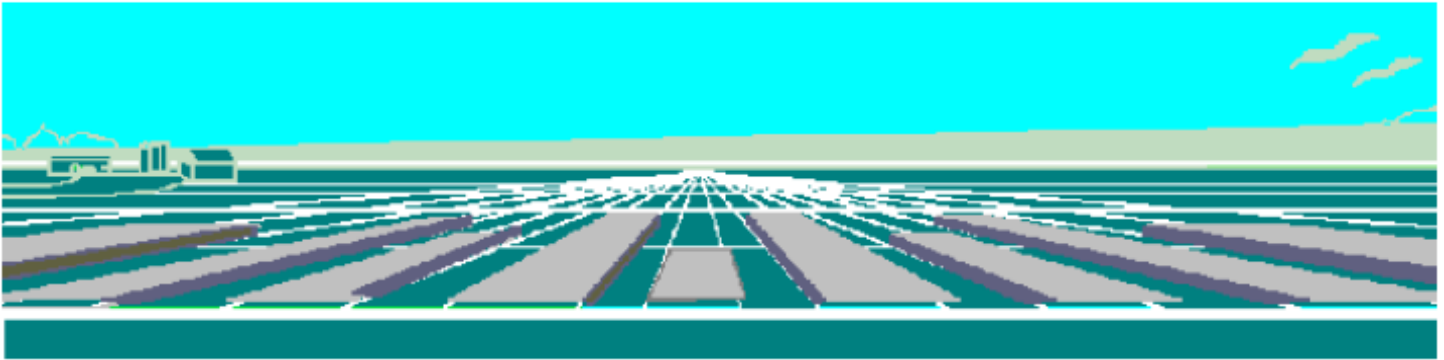


# Iowa Farm Outlook



May 1, 2007

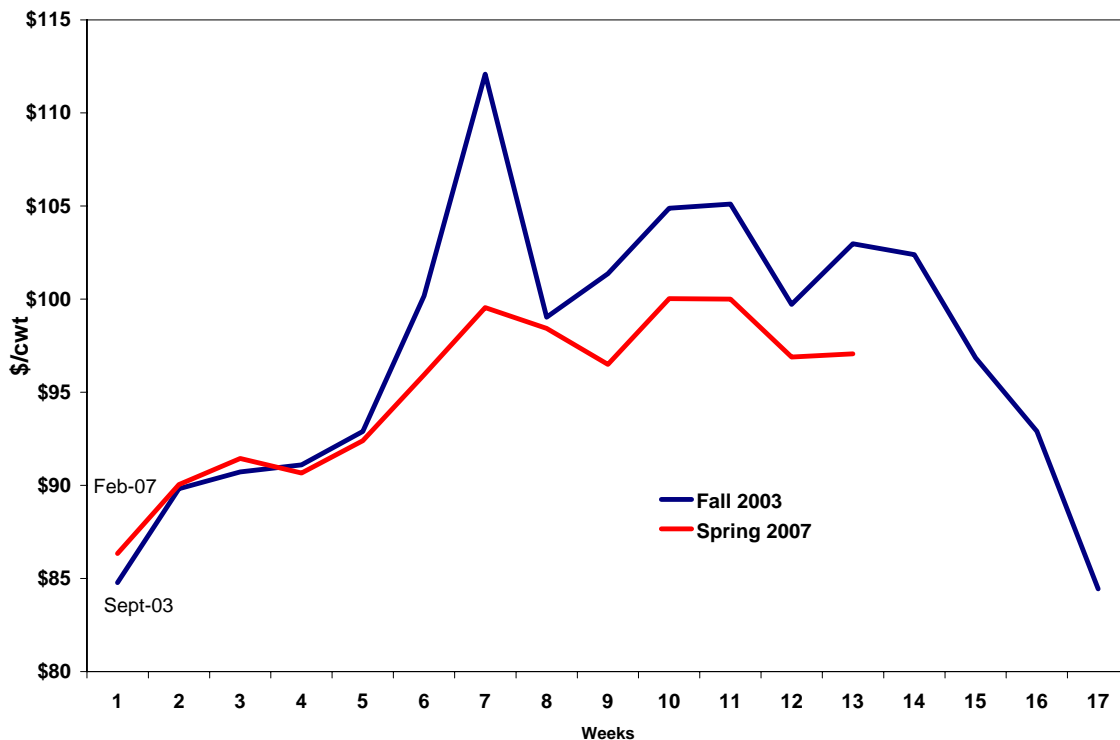
Ames, Iowa

Econ. Info. 1957

## Slaughter Cattle Over a Buck: Past and Present

It doesn't happen very often, but when it does it gets attention in the beef industry. The three digit threshold of \$100/cwt for live fed cattle has only been crossed a few times, and all occurrences have been within the fourth quarter of 2003 and in the second quarter of 2007. Figure 1 is a graph of weekly Iowa fed steer prices during fall 2003 beginning in September and spring 2007 beginning the first week of February. Although this April's price peaks were not as pronounced or variant as those in 2003, the general trend of higher and then lower weekly prices are similar.

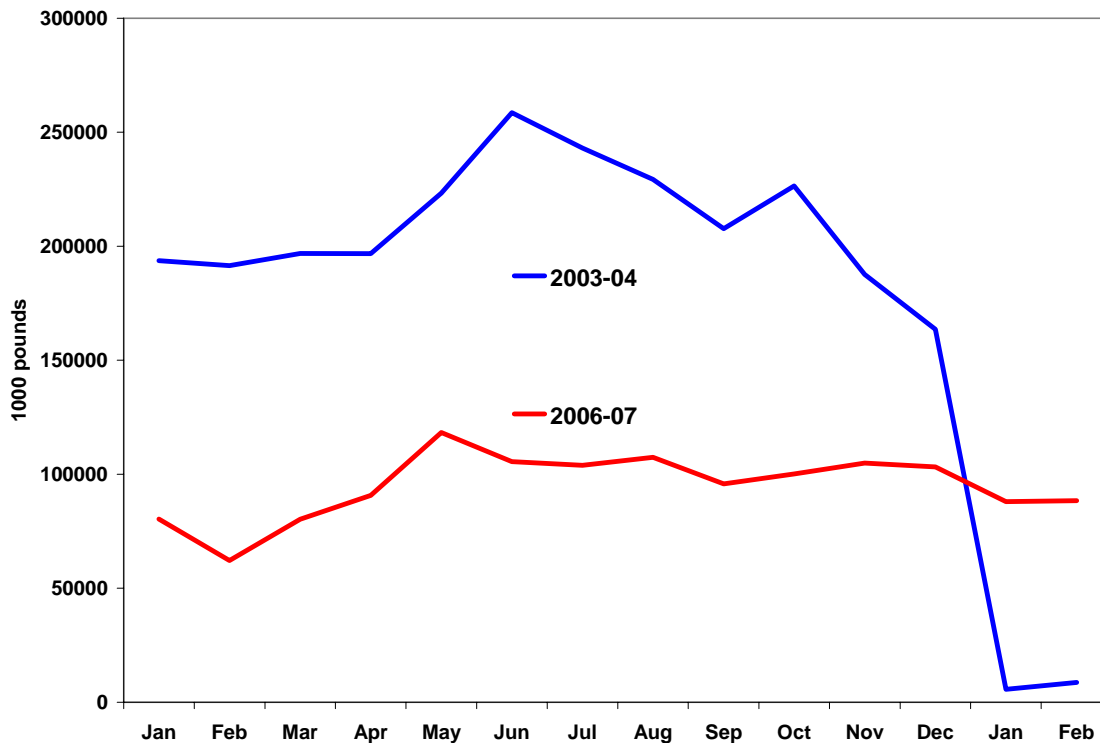
**Figure 1. Average Weekly Iowa Fed Steer Price: Sept-Dec 2003, Feb-Apr 2007**



Whether or not there will be another price rally before the coming of Memorial Day weekend has yet to be seen, but there should be plenty of time for one more, before prices starts their seasonal decline.

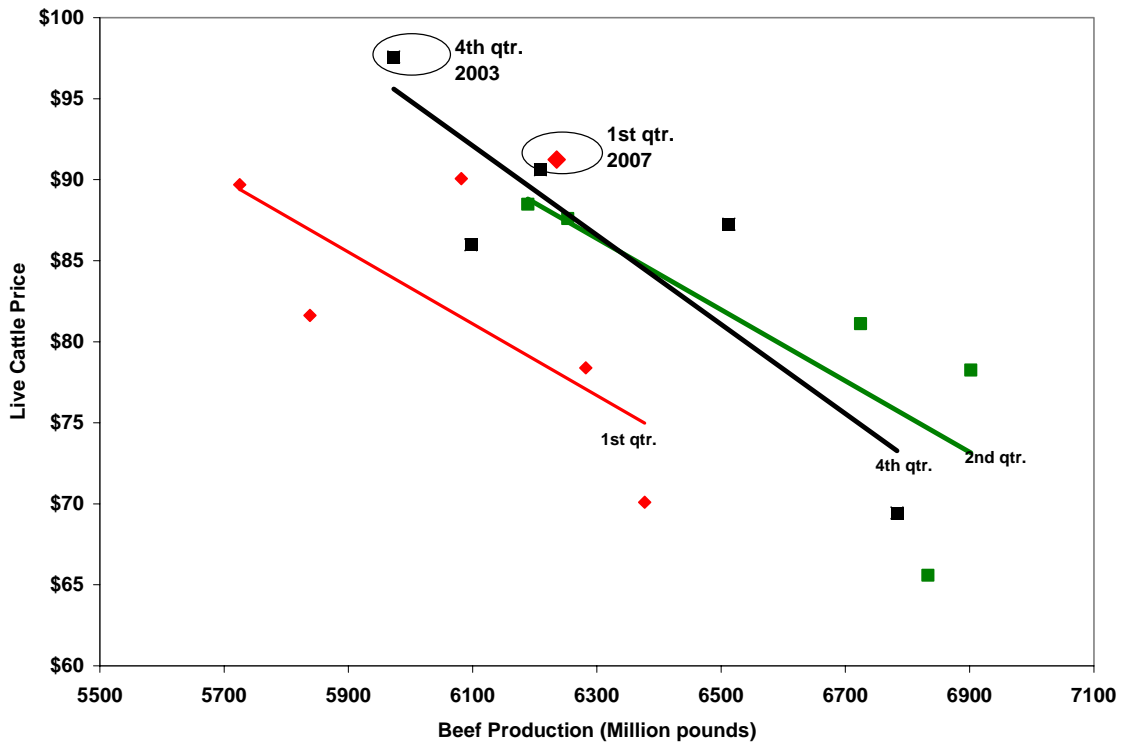
So what are some of the similarities and difference in market condition during this two time periods? We know that export volumes are significantly different between the two periods. Beef exports in 2003 were at record volumes, but the discovery of BSE quickly ended that run. Currently beef exports have increasing significantly from last year, but are still well below the trade volume of 2003. Not for the purpose of bring up bad memories but to consider where we have come, consider Figure 2 which contains the monthly beef exports for a 14 month period beginning in 2003 and 2006. Beef exports peaked in the summer of 2003 and had decline significantly in the fourth quarter even before the discovery of BSE. This should indicate that there were market forces other than exports that were at work to drive up beef prices to record highs. Exports at the start of 2007 were following a seasonal trend of decline. Although exports will be higher than a year ago, a market altering increase will not occur anytime soon.

**Figure 2. Monthly Beef Exports, 2003 and 2006**



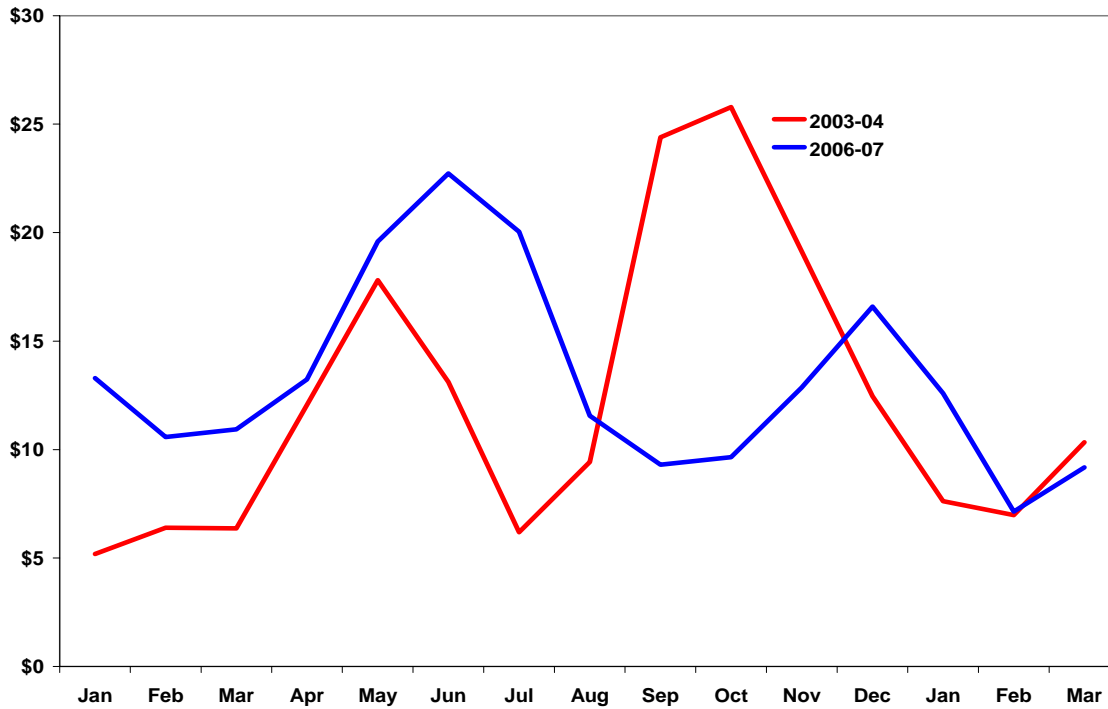
The US beef industry continues to increase beef production while at the same time the nation remains a net beef importer, so let us examine how prices and consumption have interacted. Figure 3 is a scatter plot of quarterly beef production and live cattle prices from the first, second and fourth quarters of the past 5 years. The third quarter was excluded to improve clarity. Trend lines were added to show the general direction of the supply and price relationship. In the first quarter of 2007 cattle prices were well above the normal trend line, indicating a shift away from the normal first quarter demand curve and moving closer to that of second quarter demand. Record high prices of 2003 were fairly close the normal third quarter trend line. Less production during that period resulted in increased prices.

**Figure 3. Cattle Price vs. Beef Production**



Packer buying behavior can also be influenced by the choice-select price spread and the value of animal by-products. Figure 4 is a graph of the choice-select boxed beef price spreads for 2003 and 2006. Prior to and during the record prices in the last part of 2003 the spread was significantly wider, and then narrowed as cattle prices remained high. The recent cattle price run up was preceded by a narrow choice-select spread, so competition for the “well finished” cattle was not a likely contributor to the recent \$100/cwt cattle prices. Meanwhile, the value of animal co-products is up as much as 17 percent from a year ago, for additional value of \$2/cwt of live weight.

**Figure 4. Boxed Beef Choice-Select Price Spread: 2003-04, 2006-07**

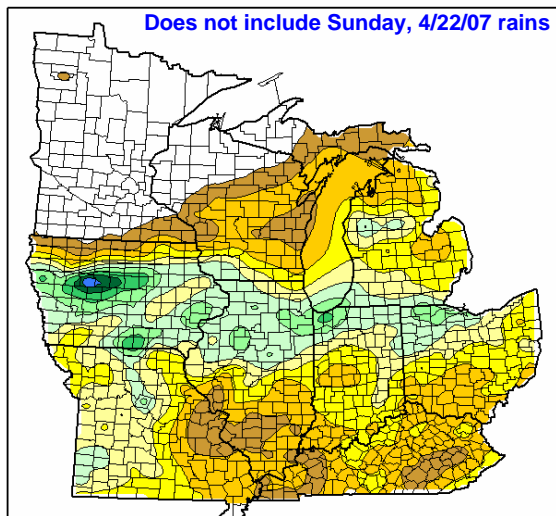


Shane Ellis

### Corn & Soybean Prices Take Direction from Weather, Planting Progress

Since March 30, the December 2007 corn futures have traded in a \$4.00 to \$3.635 range, with a brief rally to \$3.92 last week on concern about heavy rains and planting delays. On April 30, December 2007 dropped briefly below this range to close a chart gap that had been opened on January 10 in response to USDA's season-final 2006 crop estimate. A belt of heavy rain moved from the Platt River valley of Nebraska across central Iowa last week, leaving 2 to 7 inches of rain in many areas and bringing the already late corn planting season to a halt over a sizeable part of the Midwest. The storm moved on east into northern Illinois, Indiana, and Ohio, but left smaller amounts of rain in those areas. Most parts of the Dakotas and Minnesota avoided the rain, thus

7-Day NWS County MPE Precipitation (inches) valid at 06:00 CST on 04/30/2007



allowing further planting progress in those states this past week. By the weekend, some planting also was being done in parts of Iowa. Last week, there was some planting progress in parts of the eastern Corn Belt early in the week and in southern parts of the region, where rains were lighter.

#### Acreage and Yield Impacts

Key questions emerging from a cool and wet spring are (1) *will all of the intended 90.5 million U.S. corn acres be planted*, (2) *what effect will significantly later Midwest plantings than in the last five years have on*

*yields*, (3) how much adverse affect on corn yields may occur in the southern part of the eastern Corn Belt and southern U.S. from the Easter weekend freeze that required some replanting of corn and may have set other fields back 2 to 2.5 weeks, and (4) how much failed winter wheat will be replanted to soybeans vs. corn. The grain trade will attempt to answer these questions over the next several weeks. ***A clearer picture of planted acreage will be available after USDA's June 29 Planted Acreage report is released.*** On June 29, USDA also will release its quarterly grain stocks report. The updated stocks numbers will allow analysts to estimate U.S. corn feeding during the March-May quarter. Earlier projections included sharply increased wheat feeding as a substitute for corn this spring and summer. ***However, since the end of March, Chicago July wheat futures have risen about 60 cents per bushel while July corn futures have declined \$0.45 per bushel.*** These changes may shift corn more heavily into livestock and poultry rations than was anticipated in the last USDA World Agricultural Outlook Board supply-demand projections.

While these developments along with firm ethanol prices and rising crude oil prices look positive from a corn market fundamentals viewpoint, technical developments look somewhat negative. Index fund traders as well as other fund traders have reduced their long positions in corn in response to the sharp increase in intended U.S. corn plantings and projections of reduced domestic corn feeding. With favorable planting conditions in the next two weeks, a negative technical picture would likely bring further downward pressure on corn prices. December 2007 corn futures at this writing appear likely to test the \$3.50 support level on charts. Soybean futures may receive some support from expectations that fewer acres of intended corn plantings will be shifted into soybeans. ***In the international picture, cumulative export shipments and sales of both corn and soybeans (as % of last year) remain well above USDA's projected levels for the marketing year.*** Exports are being supported by harvest delays and uncertainty on the final size of South American crops as a result of heavy late March rains. Also, a large carry in soybean futures from the current May contract to July 2008 and a depressed basis are signals to foreign users to consider building inventories of soybeans for later use.

### Planting Progress vs. Other Years

Figure 1 shows corn planting progress in the 18 major corn producing states so far this year and comparisons with the last three years. Planting is off to a late start, and a key question is whether farmers can catch up with the normal progress in the next 10 days. Agronomists consider May 10 to be the approximate planting date beyond which some loss of yield potential may occur. While this date is approximate and part of the U.S. crop is planted after that date every year, the chart below indicates that by mid-May in the last few years, 85 to 90 percent or more of the U.S. corn crop had been planted.

In Iowa in the last few years, in the best week of the planting season (usually the end of April and the first few days of May) farmers have planted about 0.7 million acres per day.

Figure 1. Major States Corn Planting Progress, 2004-07

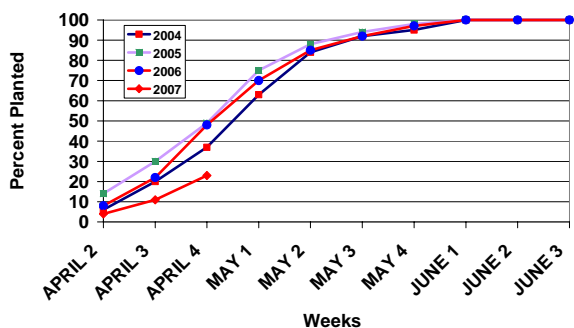
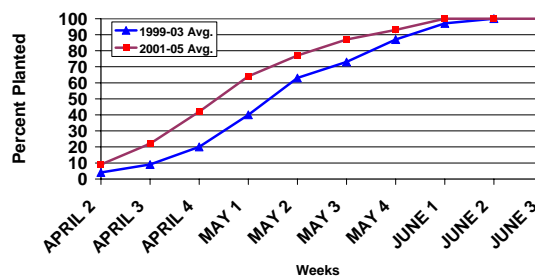


Figure 2. U.S. Corn Planting Progress, 1999-03 and 2001-05 Averages



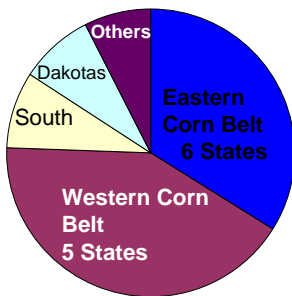
With half this rate of planting for the next five days and then no further weather interruptions, this daily progress level would mean slightly less than half of the state's corn would be

planted a few days after the date at which yield potential starts to decline. Using a 0.004 percent yield decline for each day of planting delay beyond May 10 would project a 0.5% decline from normal in the state's average

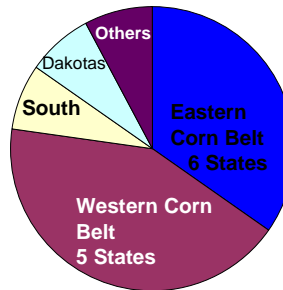
corn yield. While the delay in plantings suggests Iowa yields may be slightly below normal, other factors could, course be, partially or completely offsetting in an ideal growing season. The U.S. average yield potential may be slightly below trend, due to a sharp increase in lower-yielding land being brought into production, as well as shortages of top seed varieties, delayed plantings and other influences.

Figure 2 shows the shift to earlier plantings that has occurred in the last several years. This shift likely has been an important contributor to the uptrend in corn yields, along with other factors. Figures 3 and 4 show the regional shares of U.S. corn acreage in the this year's intended corn plantings and in 2003. The western Corn Belt in the graphs includes Minnesota, Iowa, Missouri, Nebraska, and Kansas. The eastern Corn Belt includes Illinois, Indiana, Ohio, Michigan, Kentucky, and Wisconsin. The Dakotas and the South account for about 17% of this year's intended U.S. corn plantings, up from 15% in 2003.

**Figure 3. Percentage Shares of 2007 U.S. Corn Acreage**



**Figure 4. Percentage Shares of 2003 U.S. Corn Acreage**



**Acreage Shifts?**

It is uncertain whether planting delays will shift a significant amount of the intended corn acres to soybeans. Because of changes in

government programs, history doesn't provide a good guide.

Other years of corn planting delays include 1991, 1993, and 1995. Yields in those years were 8%, 18%, and 10% respectively below the long-run trend. Corn plantings in those same years were down 0.2%, 5.4%, and 4.1% from the March intended plantings. This year is not another 1993, when 200-year floods that impacted parts of the western Corn Belt. In 1995, the reduction from intended plantings was affected some by the 0-92 farm program that allowed farmers to plant less than their full allowable acreage but still collect 92% of the government payments on those acres.

Some reduction in U.S. corn plantings from the March intentions looks likely this year. Factors pointing in that direction include a sharp decline in corn prices since the survey was taken in early March, shortages of the best varieties of seed corn, high fertilizer prices, and less weakness in the soybean market than in corn prices in the last few weeks. Our balance sheets are based on two million fewer U.S. corn acres planted this year than the March intentions, and a one million acre increase from intended soybean plantings.

<http://www.econ.iastate.edu/faculty/wisner/documents/longertermalwithethanol63006.pdf> If our projections materialize, these changes would bring 2.2% fewer corn acres and 1.5% more soybean acres than indicated by the March planting intentions report. At those levels, U.S. corn acreage would be 13% above last year, and soybean plantings would be down 10%. ***Small changes in either the U.S. yield or acreage this year can have substantial impact on 2008 corn carryover stocks and prices for both corn and beans.***

Corn Percent Planted, Major States

State	Week Ending			2002- 2006 Avg.
	Apr 29, 2007	Apr 22, 2007	Apr 29, 2006	
CO	16	8	24	19
IL	36	13	66	59
IN	13	4	30	34
IA	14	8	58	46
KS	31	15	65	54
KY	59	43	72	64
MI	9	3	28	21
MN	28	0	43	38
MO	45	32	88	73
NE	14	9	36	31
NC	88	75	91	80
ND	10	0	11	20
OH	19	4	38	36
PA	7	2	31	20
SD	8	1	10	16
TN	81	71	86	81
TX	70	68	79	77
WI	11	3	27	16
:				
18 Sts:	23	11	48	42

Soybeans: Percent Planted, Major States

State	Week Ending			2002- 2006 Avg.
	Apr 29, 2007	Apr 22, 2007	Apr 29, 2006	
AR	14	8	31	22
IL	1	0	4	4
IN	2	0	4	8
IA	0	0	5	3
KS	0	0	5	3
KY	2	1	6	4
LA	32	14	44	32
MI	2	1	7	5
MN	2	0	3	3
MS	50	39	86	60
MO	3	2	12	7
NE	0	0	3	3
NC	2	0	6	3
ND	1	0	0	1
OH	4	0	15	13
SD	0	0	1	1
TN	5	1	6	4
WI	0	0	3	2
:				
18 Sts:	3	2	9	7

The U.S. winter wheat crop condition rating improved slightly, to 56% from 54% last week. A year ago, the rating was 36%.

*Robert Wisner*

## Dairy Situation and Outlook

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04/30/07

### March Milk Rises Only 1.1%

A weak increase in milk per cow, up only 7 pounds, led to another small monthly milk production increase, +1.1%, during March compared to one year ago. Feb 07 milk production was revised down 31 million pounds or -0.2%. First quarter 2007 US milk production was up 1% compared to the first quarter of 2006. Milk cow numbers averaged 36,000 higher than last year.

Iowa milk production rose by 4.2% due to an increase of 10,000 cows to a total of 211,000 compared to one year ago. Cow numbers were 1000 higher than Feb 07. Total cheese production in Iowa was off 11.2% from Feb 06 and down 2.8% from Jan 07.

Surrounding smaller dairy states also reported first quarter milk production. NE was up 2.5% but cow numbers remained at 60,000. ND had a milk production decline of 2.5% and 2000 fewer cows. SD added 10.2% more milk for the quarter and 3000 more cows.

**Milk Production:** Selected Dairy States, March 2007

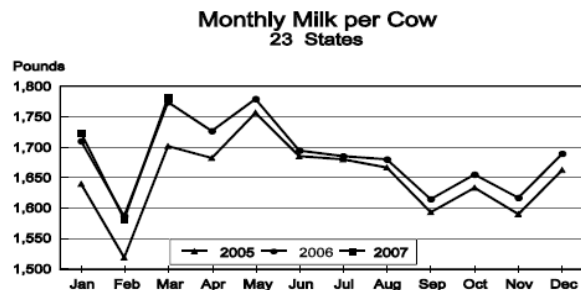
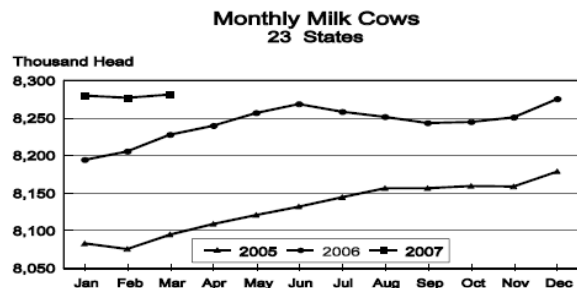
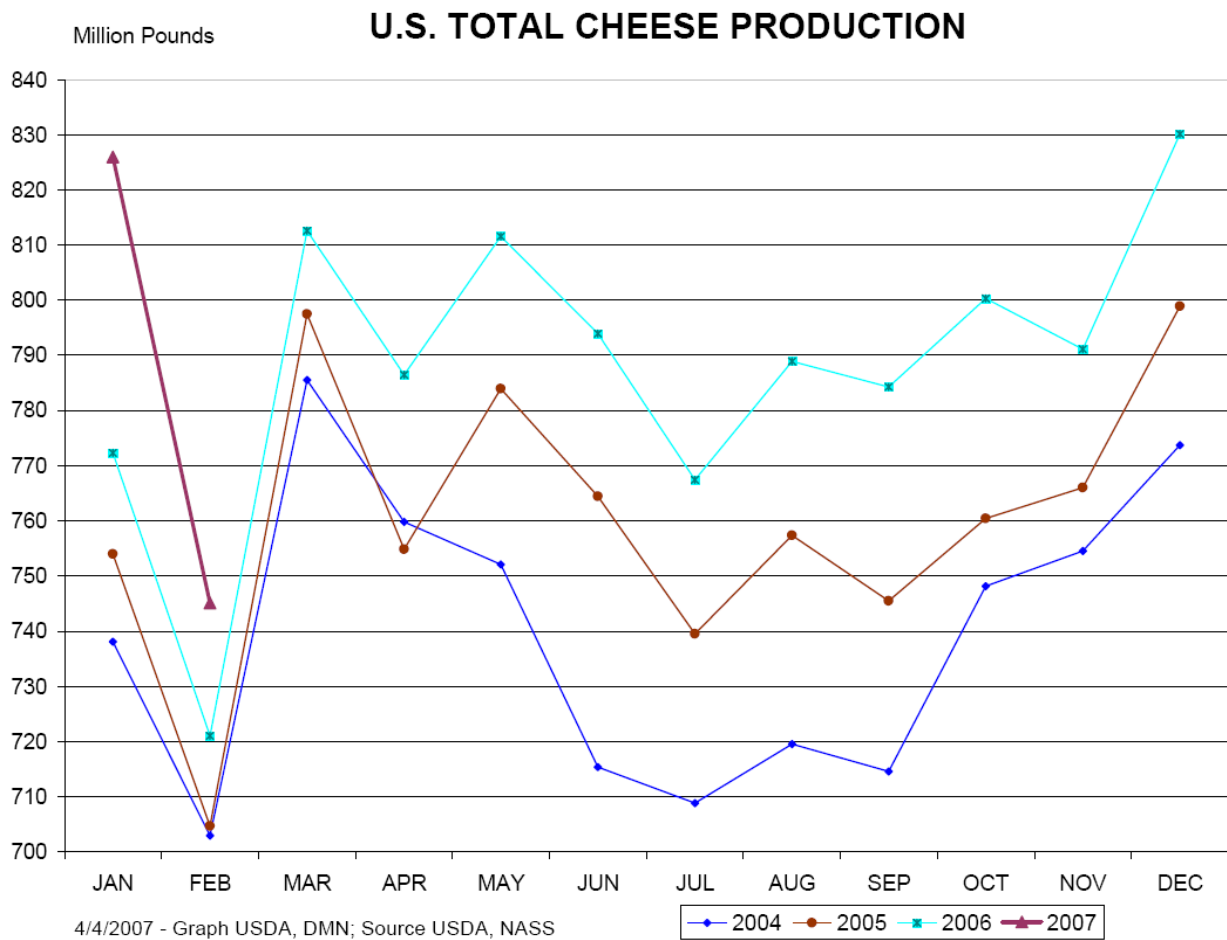
State	thousands			pounds			million pounds		% change
	2006 cow numbers	2007 cow numbers	% change cow numbers	2006 milk per cow	2007 milk per cow	% change milk/cow	2006 total milk production	2007 total milk production	
Iowa	201	211	4.98%	1780	1770	-0.56%	358	373	4.19%
MN	450	455	1.11%	1625	1650	1.54%	731	751	2.74%
WI	1241	1246	0.40%	1620	1640	1.23%	2010	2043	1.64%
IL	104	103	-0.96%	1720	1655	-3.78%	179	170	-5.03%
CA	1781	1796	0.84%	1925	1975	2.60%	3428	3547	3.47%
CO	107	115	7.48%	1980	1890	-4.55%	212	217	2.36%
ID	476	504	5.88%	1880	1890	0.53%	895	953	6.48%
NM	347	349	0.58%	1910	1790	-6.28%	663	625	-5.73%
PA	555	550	-0.90%	1700	1710	0.59%	944	941	-0.32%
NY	645	628	-2.64%	1630	1630	0.00%	1051	1024	-2.57%
TX	332	347	4.52%	1975	1920	-2.78%	656	666	1.52%
23-State	8224	8282	0.71%	1775	1782	0.39%	14599	14760	1.10%

### Dairy Product Demand

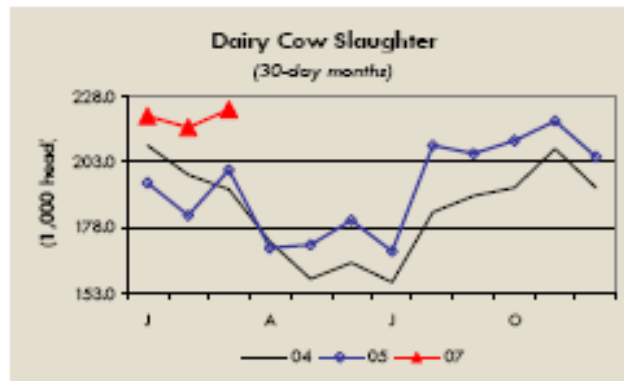
Commercial disappearance of dairy products for Dec06-Feb07 has been very good, +2.8%. The same period for 05-06 was only up 1.1%. Fluid milk products rose 1.3%, butter was up 14.7%, American style cheese up 2% and other cheese up 5%. Calendar year 2006 commercial disappearance was also good +2.2%, the same as the 2005 annual increase.

March dairy products in cold storage were higher too. Butter on March 31 was up 4.1% from the previous month and -1.2% from one year ago. Total cheese stocks were much higher, 7.7% more than one year ago and 1.9% more than the previous month.

Dairy Market News reports cheese demand and prices are firm. Cheese buyers are expressing some concern about cheese availability for late summer and fall. They appear to be building inventory now. They are concerned that milk production may drop due to feed costs leading to less cheese coming to the market.



Source: Dairy Market News



Source: Daily Dairy Report

## Analysis

The dairy market is certainly in a bull cycle due to a number of factors. Many of these are psychological. Demand has been good thanks to a strong economy and a weak dollar. NDM is moving into the export market at high prices but the weak US dollar helps this movement.

Anticipation of lower milk production has initiated some buying that may have been held till later in the year. Reduced Posilac use has been considered and certainly reported in the agricultural news media and into the main stream media. We have seen some California and Texas companies talking about doing what consumers want.

Feed prices have also led to some thinking that milk production will decline. Weaker milk per cow is probably the first indication of high feed costs negatively impacting profitability for farms. But much of the driver for higher corn prices is the ethanol market. Many of the Iowa ethanol plants are still under construction or just now coming into production. The real impact on corn usage won't be felt until later this year and next. Corn price volatility will be great when weather problems appear and all the ethanol plants are fully operating. At today's milk prices dairy farmer will be hard pressed to cash flow and recapture their capital costs in the long run. New dairy facilities in Iowa will have production costs \$3-4 higher than a few years ago. Consolidation and larger herd sizes have just been sped up with higher corn prices and construction costs.