

Iowa's Agricultural Situation

Markets React to Prospective Plantings Report and Foot-and-Mouth Disease News

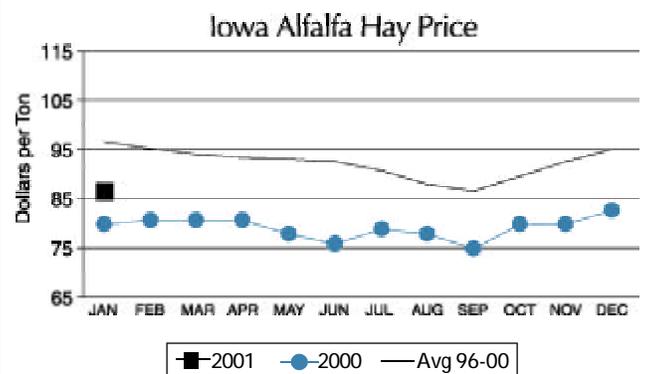
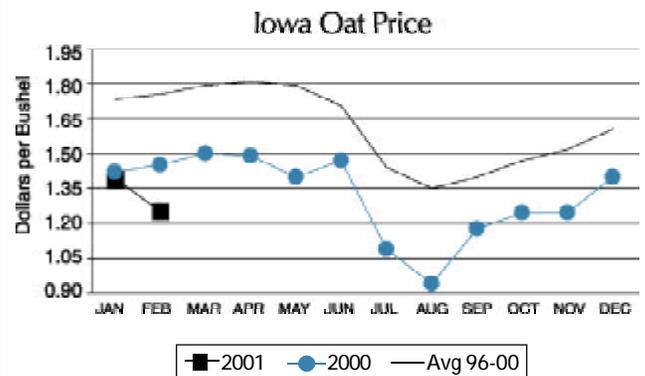
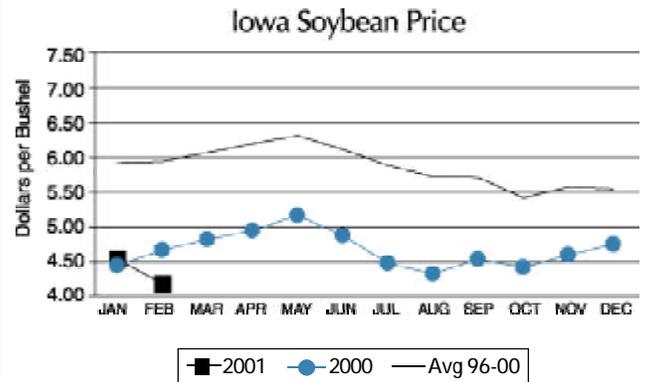
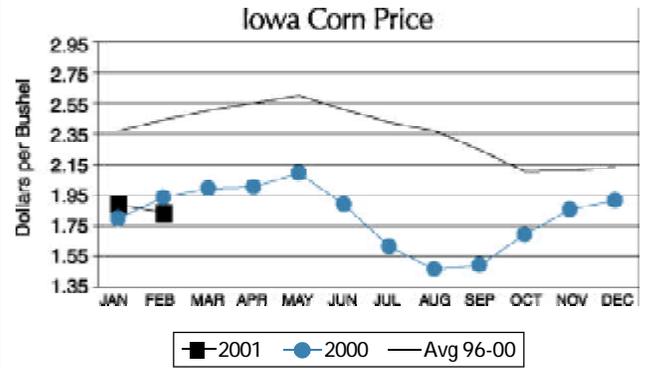
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As planting time approaches here in Iowa, the crop markets are reacting to the prospective plantings figures released by the U.S. Department of Agriculture's National Agricultural Statistics Service at the end of March. For the first time since 1983, intended soybean acreage nationwide is equal to intended corn acreage. Both crops are being estimated at 76.7 million acres for the 2001 growing season. This represents a drop of 4 percent from last year for corn and a rise of 3 percent from last year for soybeans. All regions of the country, except the Northeast, report reduced corn planting intentions. Reasons given include high fertilizer and input costs, low corn prices, wet weather along the Gulf Coast, and lower water reserves in the Southeast. Most of the acres shifted out of corn are intended for soybeans. In over two-thirds of the soybean-producing states, intended soybean acreage is higher than last year. In Iowa, intended corn acreage for 2001 is 11.9 million acres, down 400,000 acres from 2000 levels. Intended soybean acreage is 11 million acres, up 300,000 acres from 2000.

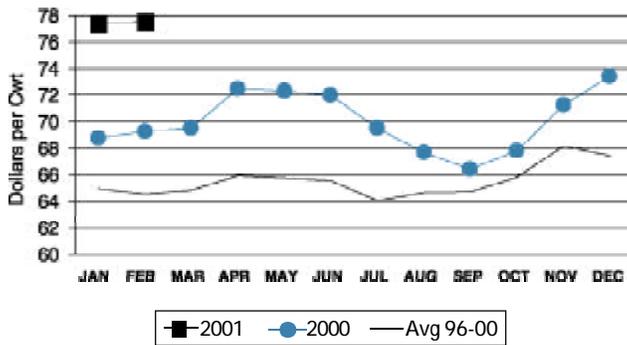
On the day of the *Prospective Plantings* report release, the markets initially reacted with higher corn and lower soybean prices. However, by the end of the day, both corn and soybean futures contracts had set new contract lows. The higher soybean planting intentions, combined with news of testing for foot-and-mouth (FMD) disease in North Carolina, had taken their toll on prices. At the time of this writing, however, the markets had recouped some of these price declines. The FMD tests in North Carolina came back negative, and weekly export inspections were solid.

The report also indicates that producers will continue to plant biotechnology varieties of both corn and soybeans, even after the StarLink confusion. Nationwide, one-quarter of the corn crop in 2000 consisted of biotechnology varieties: 18 percent was *Bacillus thuringiensis* (Bt) insect-resistant corn, 6 percent was herbicide-resistant corn, and 1 percent was a stacked gene variety having both insect and herbicide resistance. Statewide, 30 percent of the 2000 Iowa corn crop was genetically modified: 23 percent was Bt corn, while 5 percent was herbicide resistant and 2 percent was a stacked gene corn variety. The 2001 intentions survey shows nationwide that corn producers intend to cut back slightly on Bt corn, but they intend to increase the percentage of their acres planted to herbicide-resistant varieties. According to the report, 24 percent of the intended crop will be genetically modified. This

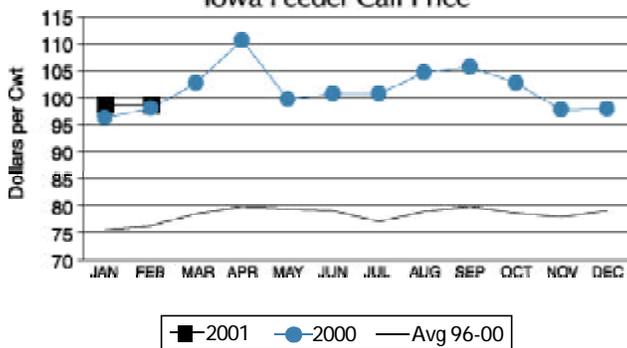
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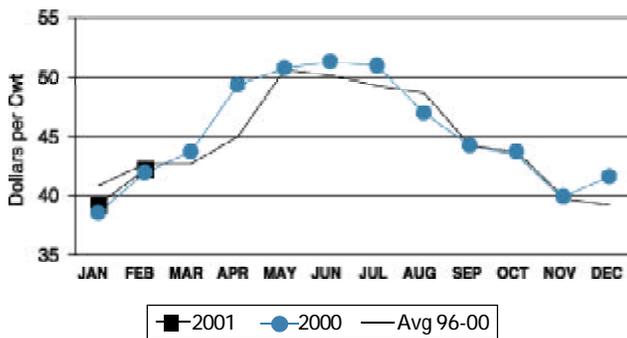
Iowa Steer and Heifer Price



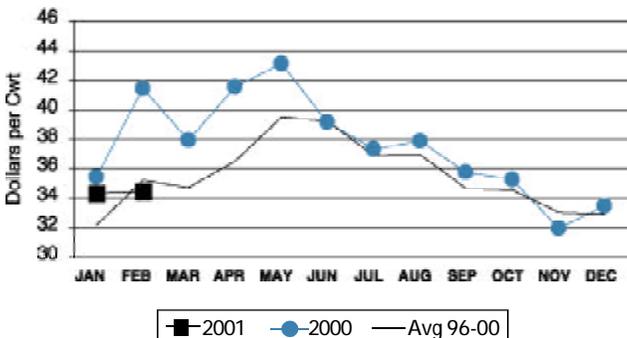
Iowa Feeder Calf Price



Iowa Barrow and Gilt Price



Iowa Sow Price



Iowa Cash Receipts Jan. - Dec.

	2000	1999	1998
	(Million Dollars)		
Crops	4,979	5,004	6,300
Livestock	5,912	4,712	4,753
Total	10,892	9,716	11,053

World Stocks-to-Use Ratios

	Crop Year		
	2000/01 (March Projection)	1999/00 (Estimate)	1998/99 (Actual)
	(Percent)		
Corn	17.58	20.68	21.00
Soybeans	16.52	16.72	16.71
Wheat	18.24	20.99	23.24

Average Farm Prices Received by Iowa Farmers

	Feb.* 2001	Jan. 2001	Feb. 2000
	(\$/Bushel)		
Corn	1.81	1.86	1.91
Soybeans	4.18	4.53	4.67
Oats	1.25	1.39	1.45
	(\$/Ton)		
Alfalfa		86.00	80.00
All Hay		84.00	79.00
	(\$/Cwt.)		
Steers & Heifers	77.50	77.40	69.30
Feeder Calves	99.00	98.90	98.30
Cows	40.30	38.50	39.60
Barrows & Gilts	42.20	39.20	41.90
Sows	34.50	34.40	41.50
Sheep†		45.70	37.40
Lambs†		67.00	68.00
	(\$/Dozen)		
Eggs	0.41	0.37	0.49
	(\$/Cwt.)		
All Milk		12.90	10.90

*Mid-month

†Estimate

trend also follows for Iowa. The percentage of intended Bt corn falls slightly, while acreage to be planted to herbicide resistant corn increases. Overall, 28 percent of the intended 2001 Iowa corn crop will be planted with biotechnology varieties.

In 2000, a majority of the nation's soybean crop was genetically modified. Fifty-four percent of the crop was herbicide resistant. In Iowa, the percentage was even higher, at 59 percent. The intentions for 2001 show continued growth for herbicide resistant soybeans. Nationally, producers indicate that 63 percent of the soybean crop will be of a biotechnology variety. Iowa soybean producers indicate that 62 percent of the new crop will be herbicide resistant.

In the livestock sector, the major concern is the current outbreak of foot-and-mouth disease in Europe. As of this writing, the United Kingdom had reported nearly 1,000 confirmed cases. France reported two cases. The Netherlands had ten cases. Ireland had a single case of FMD. Two other European countries, Germany and Denmark, were investigating suspected cases as well. In addition, Argentina has experienced a resurgence of FMD. In response to these outbreaks, the United States, Russia, and Japan have temporarily banned imports of live animals, frozen and chilled red meats, and other meats not meeting processing standards to remove the threat of the FMD virus spreading from the European Union and Argentina.

The primary domestic impacts will be on U.S. beef and pork imports. European Union beef imports were already restricted due to bovine spongiform encephalopathy (BSE). The import ban on European Union pork locks out one of our major suppliers—Denmark. The uncertainty about Denmark's FMD status, combined with this temporary ban,

has added and will continue to add volatility to both the U.S. hog and pork markets. Average hog prices have moved from \$39.10 per hundredweight (cwt) in February to \$45.10 in March. The uncertainty about European pork supplies will contribute more upward pressure on hog and pork prices.

Tighter beef supplies, FMD concerns, and the severity of the recent winter have helped boost retail beef prices. Average retail prices set a record for January at \$3.21 per pound. In February, average prices rose to \$3.34 per pound. Marketings are expected to rise as the spring progresses, putting downward pressure on prices.

Governor Vilsack has joined a chorus of people calling for additional U.S. safeguards for preventing the spread of foot-and-mouth disease. Concern over the possibility of infection has moved officials to test more domestic animals suspected of having the disease. The U.S. Department of Agriculture state agricultural departments are gearing up with more information about the disease, its transmission, and the economic impact it could have on the livestock sector and the U.S. economy. The Iowa Department of Agriculture and Land Stewardship has produced a pamphlet titled "Foot-and-Mouth Disease: What You Need to Know." It is available at www2.state.ia.us/agriculture/foot&mouth3.pdf.

Statewide cash receipts rose in 2000. Total cash receipts recovered to nearly \$11 billion, approaching 1998 levels and well above the \$9.7 billion in cash receipts for 1999. However, all of this recovery came in

the livestock sector. Crop cash receipts actually fell between 1999 and 2000 by \$35 million.

The reduction in crop cash receipts has not been paralleled by a similar reduction in cropland cash rental rates. In 1996, the U.S. Department of Agriculture reported average rental rates for Iowa of \$105 per acre of cropland. In 2000, the average rate rose to \$115 per acre. If crop cash receipts are not supporting cash rental rates, then what is? The answer may be government payments. The following table shows 1996–2000 values for crop cash receipts, average cropland rental rates, and fiscal year government payments for Iowa. While crop cash receipts have been decreasing over the last few years, government payments (mainly in the form of loan deficiency and market loss assistance payments) have been on the rise.

If these government payments have been incorporated into the cropland rental rates, then the payments are passed on to the landowners through the agricultural producers renting the land. If, however, rental rates are not closely tied to government payments, then cash-renting producers are negatively impacted by a reduction in government payments. The worst-case scenario for cash-renting producers would be if cash rental rates rise with increasing government payments but do not fall when the payments decrease (assuming everything else remains the same). In this case, the benefits from the increased payments accrue to the landowner, but the cash renter absorbs the losses from the subsequent drop in payments. ♦

Year	Crop Cash Receipts (\$ billion)	Average Cropland Rental Rate (\$ per acre)	Fiscal Year Government Payments (\$ billion)
1996	6.695	105	0.508
1997	7.354	110	0.713
1998	6.300	113	1.146
1999	5.004	112	1.876
2000	4.979	115	