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Recent cattle inventory figures show that we may have entered an upturn in the U.S. cattle cycle, as cattle inventories are running higher than in the previous two years. Quarterly inventories of hogs are holding above 60 million head, and breeding hog inventories are up from last year. The increase in livestock inventories translates into increased demand for feedstocks—corn and soybean meal.

Another segment of demand is the ethanol boom. Ethanol production has more than doubled since 2001. In 2005, over 3.9 billion gallons of ethanol was produced in the United States. The vast majority of this ethanol was derived from corn. In 2001, 681 million bushels of corn were dedicated to ethanol production. By 2005, that amount had grown to 1.43 billion bushels. The ethanol industry is poised to become the second-largest market segment for corn, trailing only livestock feed and surpassing exports.

The Energy Policy Act of 2005 established a renewable fuels standard that grows from 4 billion gallons in 2006 to 7.5 billion gallons in 2012. Ethanol is positioned as the fuel to meet this standard. Current production already exceeds the 2006 target. There are over 100 ethanol plants currently in operation. Several of these plants are expanding and over 30 more plants are in the planning and/or construction stages. Based on these plants alone, the ethanol industry could grow to 7 billion gallons within the next year and a half.

Increased feed demand and increased ethanol demand translate into higher expected futures prices for both corn and soybeans. The market wants more of both commodities, but there is a limited supply of acreage. Current market signals indicate that the market wants corn acres more than soybean acres. If this trend continues, expect Iowa corn acreage to grow, Iowa soybean acreage to decline, and the proportion of Iowa acreage enrolled in the Conservation Reserve Program to shrink.◆

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**Working Papers**


**U.S. Sugar Policy Options and Their Consequences under NAFTA and Doha.** David Abler, John C. Beghin, David Blandford, and Amani Elobeid. June 2006. 06-WP 424.

**MATRIC Working Paper**