

# Livestock, Dairy, and Poultry Outlook

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## Damage Inflicted on U.S. Poultry Sector by Hurricane Katrina Appears Light

**Hurricane Katrina NOTE:** This report includes updated production forecasts issued by the National Agricultural Statistics Service which generally reflect crop conditions as of the first of the month. The supply and demand impacts of transportation and port disruptions caused by the hurricane are presumed to be temporary based on available information as of September 12, 2005.

**Minimal Risk Rule NOTE:** Due to uncertainties as to the length of bans on trade in ruminants and ruminant products because of the discovery of BSE in the United States and Canada, forecasts for 2005 and 2006 assume a continuation of policies currently in place among U.S. trading partners. It is assumed that the current delay in the implementation of the minimal-risk rule is temporary. Subsequent forecasts will reflect any announced changes.

**Poultry:** Hurricane Katrina's overall impact on U.S. broiler production is expected to be relatively small although damage in specific areas has been heavy. The impact on contract growers has been through loss or damage to growout houses and the extended loss of electrical power and initial scarcity of fuels for backup generators. Processors have also been hit with power outages, employees justly concerned with family situations, and transportation problems getting birds to plants and products to buyers. The destruction to key gulf coast ports has also forced the redirection of exports as a large percentage of overseas shipments normally went through these ports.

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Tables will be released on September 27, 2005.

The next newsletter release is October 18, 2005

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Approved by the World Agricultural Outlook Board.

**Eggs:** Wholesale monthly table-egg prices (NY grade A large), fluctuated from a high of 67.8 cents a dozen in February to as low as 54.6 cents in May 2005. Since mid-August prices have steadily increased to 75 cents a dozen at the end of the month. U.S. exports of eggs and egg products through July increased more than 49 percent over the same period last year, due mainly to lower U.S. prices, the lifting of restrictions imposed by many countries on U.S. eggs and egg products following outbreaks of avian influenza (AI) in 2004, and some AI-related trade diversion from Asian exporters.

**Beef/Cattle:** The market continues to move toward equilibrium, but also is demanding a higher quality product. Demand for high quality beef remains strong, and supplies of beef grading Choice or higher continue relatively tight.

**Dairy:** Expansion in milk output is now well-established, and only modest deceleration is expected in 2006. This year, robust domestic and foreign demand absorbed the extra supplies with only about a \$1 per hundredweight (cwt) decline in farm milk prices from the 2004 record. Price declines are expected to be larger in 2006, as demand growth may not be able to handle the second straight large increase in milk output.

**Pork/Hogs:** July exports continued to add strength to wholesale pork demand and hog prices. Weekly slaughters of 2 million head or more, until the end of the calendar year, are incorporated into USDA's fourth-quarter pork production forecast of nearly 5.6 billion pounds. Fourth-quarter hog prices are expected to range between \$40 and \$42 per cwt.

#### **About the analysts**

George Wallace joins the LDP team

As we plan for the retirement of Jim Miller in 2006, we have tapped the expertise of George Wallace to take up the task of dairy outlook. George has been with ERS for 16 years where he has worked on agricultural credit issues, rural development, and cost of production. He lives in semi-rural Virginia on the outskirts of metro-Washington, D.C. with his wife and two sons. He says that the commute is worth it, in order to enjoy the rural/farm experience of raising livestock and vegetables. Before joining ERS, George attended Oklahoma State University where he completed a MS in agricultural finance. George is well qualified for this position--he has done outlook work for farm income, and he grew up on a cattle operation in western Oklahoma where he farmed and ranched with his father. George has worked on a dairy, and he has real world experience as a loan officer in the former Farm Credit System, where many of the borrowers he served were dairy farm operators.

### ***Broiler Production Estimate Decreased***

The U.S. broiler production estimate for third-quarter 2005 has been reduced to 9.1 billion pounds, down 75 million pounds from the previous estimate, but still a 3-percent increase in production compared with a year earlier. The reduction reflects the falling gains in the number of chicks being placed for growout and lower gains in the average weight of birds at slaughter. Broiler production in July was 2.8 billion pounds, down 2.3 percent from a year earlier, mostly due to July 2005 having one less slaughter day than the previous year. The number of birds slaughtered in July was 719 million, down 3.1 percent from July 2004, while the average liveweight at slaughter was up less than 1 percent to 5.27 pounds.

The fourth quarter broiler meat production estimate has also been lowered and is now 8.8 billion pounds. This is a decline from the third quarter, but is 3 percent higher than the same period in 2004. Throughout July and August the number of chicks being placed for growout has shown little or no gain from the previous year. This pattern is expected to change slightly going into the fourth quarter with the growth in chick placements averaging slightly higher, responding to price increases for a number of broiler products.

Over the last few months, prices of a number of broiler products have begun to strengthen. Prices for most broiler parts averaged considerably lower than a year earlier during the first and second quarters of 2005, and prices for whole birds are still slightly lower than the previous year, but prices for leg quarters and thighs are considerably higher. Leg quarter prices in August averaged in the 45 to 46 cents per pound range, up almost 40 percent from the previous year. The increase in leg quarter prices can be attributed chiefly to export market strength.

### ***Broiler Exports Higher in Second Quarter; Third and Fourth Quarter Forecasts Changed***

Second-quarter 2005 broiler exports totaled 1.35 billion pounds, 34 percent higher than in the same period in 2004. The chief reason for the increase is continued growth in shipments to Russia, Mexico, and several Asian markets, primarily China/Hong Kong, Korea, and Japan. Over the first half of 2005, exports to Russia were 14 percent higher than a year earlier and shipments to Mexico have grown at an even faster pace. Exports to Mexico totaled 246 million pounds, 26 percent higher than the previous year. Mexico is the second largest market for broiler exports, and so far in 2005 it has been a larger market than all of the CIS countries combined. The export forecast for the third quarter was reduced by 25 million pounds and the fourth quarter forecast was raised by the same amount, as the damage to gulf coast ports is expected to raise some difficulties in securing cold storage and reworking schedules for shipments.

### ***Turkey Production and Stocks Lower in July, Prices Higher***

Over the first half of 2005, U.S. turkey production totaled 2.7 billion pounds, up 1.4 percent from the same period in 2004. However, the production forecast for the third quarter is 1.35 billion pounds, down 40 million pounds (down 3 percent) from a year earlier. Egg set data points to a smaller number of birds available for

slaughter, but this decline is expected to be partially offset by heavier birds. Although production has been slightly higher in the first half of 2005, higher exports have more than offset the gain, resulting in declining turkey stocks (whole and products). Cold storage estimates at the beginning of August place turkey stocks at 508 million pounds, down 15 percent from a year earlier. The decrease in turkey stocks is almost evenly divided between whole birds (down 14 percent) and turkey products (down 17 percent). This is the second year of declining turkey stocks as stocks at the beginning of August 2004 were 17 percent below those of 2003.

The decline in turkey production and stocks has placed upward pressure on prices. In August, the average price for whole hen turkeys in the Eastern market was 76 cents per pound, up 4 percent from the previous year and 31 percent higher than in 2003. Whole hen prices in the third and fourth quarters are expected to remain higher than in the same period in 2004, as poult placements continue to point towards lower turkey production through the end of 2005.

### ***Turkey Exports Continue Gain in June***

Turkey exports totaled 49.2 million pounds in June, up 39 percent from the previous year. The total exports for the second quarter were 147 million pounds, an increase of 54 million (up 58 percent) from second-quarter 2004. As with broilers, the chief cause of the increase is strong exports to Mexico. In the second quarter, shipments to Mexico totaled 88.1 million pounds, an increase of 67 percent from a year earlier, and they accounted for almost 60 percent of total turkey exports. Shipments of turkey products during the second quarter were also much higher to China/Hong Kong and Canada.

### *Low Egg Prices Boost U.S. Exports*

For the first time, East Asian countries imported the lion's share of U.S. total egg exports, displacing the traditionally largest North American Free Trade Agreement (NAFTA) countries, Mexico and Canada. During the January-June 2005 period, East Asian countries received 40 percent of total U.S. egg shipments, while NAFTA received 30 percent. These shares were 18 and 48 percent, respectively, during the same 6 months of 2004. U.S. egg exports to the European Union (EU-15) increased from 8 to 12.3 million dozen, and those to Latin America and the Caribbean rose from 9.4 to 13.2 million dozen in the first half of 2005.

U.S. exports of shell eggs and egg products rose sharply to 103.2 million dozen during the first 6 months of 2005 compared with 61.6 million dozen during the same period in 2004. Processed egg products exports increased 125 percent, compared with a 37-percent increase for shell-egg exports (hatching and table eggs). The increase is mainly due to lower U.S. prices during the first half of 2005, the lifting of restrictions imposed by many countries on U.S. eggs and egg products following outbreaks of AI in 2004, and some trade diversions following the AI-outbreaks in several Asian countries, including the major exporters Thailand and China.

U.S. exports of processed egg products (in-shell egg equivalent) to Asian countries rose from 6.7 to 25.4 million dozen during this period, accounting for 53 percent of total processed egg exports in the first half of 2005. Japan received nearly 80 percent of these shipments (20 million dozen) followed by Korea, China, Hong Kong, Singapore, Taiwan, and the Philippines. Compared with the first 6 months of last year, U.S. shipments of processed egg products represented a substantial rise of 360 percent for Japan, 357 percent for China, and 117 percent for Korea. More dramatic was the increase of U.S. processed eggs shipped to the Philippines, which rose from 1,700 dozen in the first 6 months of 2004 to 349,000 dozen in 2005.

U.S. exports of shell-egg exports also rose in the first half of 2005, but less substantially than processed egg products. Table egg exports increased 71 percent while hatching egg shipments rose 9 percent. During the first 6 months of 2004, the major share of U.S. table egg exports went to Canada (71 percent). But this share decreased to 40 percent in 2005, while Asian countries' shares rose from 23 to 29 percent. Hong Kong was the largest export market for U.S. table eggs, receiving 11.4 million dozen in 2005, up from 3.9 million in the first 6 months of 2004. U.S. table-egg shipments to Japan also increased to 3.1 million dozen during the first half of 2005, compared with only 37,000 dozen in all of 2003, and none in all of 2004. This U.S. table-egg shipment constitutes the largest export quantity to Japan in a 15-year period for a first-half year. U.S. table-egg exports to China were up to 856,000 dozens in the first half of 2005, compared with 354,000 in the first half of 2004. Likewise, table-egg exports to Latin America and the Caribbean increased nearly fourfold, reaching about 2 million dozen during the same time.

U.S. hatching egg exports were up 8 percent in the first half of 2005 compared with the same period a year earlier. Traditionally, most hatching eggs were exported to NAFTA countries. However, in 2005, shipments to Latin American countries exceeded those to NAFTA countries (41 versus 37 percent of U.S. total hatching

egg exports). The shift was mainly due to exceptionally large shipments to Brazil, of 2.3 million dozen during the period, up from 390,000 dozen the previous year.

For 2006, U.S. egg exports are forecast about the same as 2005, due to competitive U.S. prices, high quality, and several restrictive measures imposed on layer flocks in the European Union-25.

### ***Wholesale and Retail Egg Prices Decline From 2004***

Wholesale monthly table-egg prices (NY grade A large), a representative indicator for all U.S. table-egg prices, fluctuated from a high of 67.8 cents a dozen in February to as low as 54.6 cents in May 2005. However, since mid-August daily prices have steadily increased from as low as 53 to 75 cents a dozen at the end of the month. The rise in egg prices that started in the second half of August was likely due mainly to an expected lower August egg production, as there has been a sharp drop in the number of U.S. egg-type layers, from a high of 289.4 million birds in February to 281.6 million in July 2005.

In the first quarter of 2004, farmers were attracted by economic incentives from rapidly rising egg prices and producers' returns. Egg producers increased the size of layer flocks from 280.1 million birds in January 2004 to 289.4 in February 2005. Consequently, as egg production expanded, wholesale prices declined by more than half, from 114.9 cents a dozen in the first quarter of 2004 to only 55.9 cents in the second quarter of 2005. Likewise, retail egg prices dropped to \$1.16 in the second quarter of 2005 from \$1.21 per dozen in the previous quarter. For all of 2005, retail egg prices are expected to average around \$1.19 to \$1.23 per dozen, which would be about a 10-percent drop from the 2004 record-high egg prices.

In 2005, table and hatching egg production is expected to rise to nearly 7.5 billion dozen, up nearly 1 percent from 2004. Table eggs will account for about 85 percent of total production in 2005. Hatching egg production in 2005 is expected to rise by a little over 1 percent, reflecting higher egg and broiler production.

During the second quarter of 2005, the quantity of eggs going to the breaking market rose nearly 7 percent compared with the first quarter when both wholesale and retail egg prices were higher. Eggs broken in 2005 are expected to increase about 6 percent over a year ago as prices are expected to average relatively lower than in 2004.

### ***Cattle/Beef Prices Decline but Remain Resilient As Supplies Increase***

Demand for high quality beef remains strong, and supplies of beef grading Choice or higher continue relatively tight. The Choice/Select boxed beef price spread was averaging \$11 to \$12 per cwt in mid-September, up from \$4 in September 2004. Third-quarter beef production is expected to increase about 5 percent over third-quarter 2004 and 8 percent above second-quarter 2005 due to increased fed cattle slaughter and heavier slaughter weights. Canadian cattle under 30 months of age began coming into the United States in mid-July and are also adding to production. Steers and heifers for immediate slaughter rose to 12,408 the week ending September 3. In 2004, production increased less than 2 percent from the second to the third quarter. Heavy slaughter weights and larger numbers of cattle on feed over 120 days typically suggest overweight cattle and problems. However, the market increasingly appears to be demanding more consistent, higher quality beef. The number of cattle on feed on August 1, in feedlots with over 1,000 head of capacity, was 2 percent larger than a year earlier, remaining well above a year earlier. In addition, the number of cattle on feed more than 120 days continues large. However, the proportion of cattle grading Choice or better in August was below year-earlier levels, and, given the Choice price premium over Select, is below market demand. However, slaughter weights and beef supplies have been rising since early spring; and fed cattle, boxed beef, and retail beef prices have been declining to buy back market share and move the additional supplies.

Retail prices for Choice beef peaked in April-May at \$4.26 a pound and have declined this summer to move the seasonally larger quantity of beef. Retail prices have declined since May and in July and August averaged \$3.99 a pound, down from \$4.11 a year ago, but up from \$3.74 in August 2003. Per capita consumption this summer is expected to rise to near 18 pounds, up from 16.9 pounds the past 2 years. The market continues to move toward equilibrium, but also is demanding a higher quality product. Although Hurricane Katrina has been very disruptive to petroleum markets, nationally, the major consumer concern is that an already tight petroleum situation worsens and forces prices even higher. One of the major issues is the impact, along with rising interest expenses, on consumer expenditures, particularly with the winter home heating season approaching.

### ***Stocker Cattle Prices Remain Strong***

Prices for stocker/feeder cattle remain strong as supplies tighten cyclically. However, prices for lighter weight stocker cattle have remained unusually strong even as feedlot margins moved into the loss column this summer. Margins were positive this past spring, but turned negative this summer, and prospects remain negative this fall. Feed costs remain favorable, with the latest *Crop Production* report indicating a 289-million-bushel increase in the corn crop from the August estimate, to 10.639 billion bushels. The corn price estimate range for 2005/2006 has been lowered 10 cents to \$1.70 to \$2.10 a bushel, down from \$2.06 last year and \$2.42 2 years ago. Higher stocker/feeder cattle prices and favorable feed costs have encouraged cattle feeders to put more weight on cattle, and the additional premium on Choice cattle makes more days on feed even more attractive.

Lighter-weight stocker cattle prices have remained very strong as moisture conditions have improved in most areas, raising the outlook for cow-calf-yearling winter-grazing options. In addition, recent rains in the High Plains winter wheat grazing regions of Kansas, Oklahoma and Texas improved the prospects for wheat grazing and increased the demand for lighter-weight stocker cattle.

**Did you know...**

Did you know that the data behind the analysis of LDP markets are available on the web in Excel spreadsheets? These easy-to-download files include both the monthly forecast tables, which are part of the newsletter, and the background tables. Each month, the tables can be downloaded individually or all in one workbook. Archive tables for previous months are available in a single workbook for the month.

Tables are formatted so that you should be able to click on "print" to print the tables in a 1-page format. If you are having problems printing, click on File, Page Setup, then under Scaling, select "Fit to: 1 page(s) wide" by however many long pages you wish. Depending on your needs, you also may wish to select the Portrait or Landscape view. You can preview your selection before printing by clicking on File, Print Preview. To make adjustments, select the appropriate operation (such as Setup or Margins). If you are printing from a file that has multiple spreadsheets, you may select the option to print only a selected sheet. To do this, click on File, Print and select an option under Print What: "Selection" (a highlighted section), "Entire workbook" (all the sheets), or "Active sheet" (the sheet that your cursor is in).



### *Good Dairy Demand Soaks Up Production Surge*

Expansion in milk output is now well established, and only modest deceleration is expected in 2006. This year, robust domestic and foreign demand are expected to absorb the extra supplies with only about a \$1 per cwt decline in farm milk prices from the 2004 record. Price declines are expected to be larger in 2006, as demand growth may not be able to handle the second straight large increase in milk output.

This summer saw strong expansion in milk production solidly established. Milk cow numbers continued to creep higher, while growth in milk per cow was near the long-run trend for the first time in over 3 years. Record 2004 returns, only slightly lower 2005 returns, and the resumption of near-normal availability of bovine somatotropin (BST) were the prime boosters of milk output. These forces easily overcame tight heifer supplies, forage problems, and hot summer weather in many key areas.

July milk cow numbers in the 23 major States were up about 0.6 percent from a year earlier, very similar to the spring increases. In both years, cow numbers crept higher as new and expanded operations came into production and found enough heifers to gradually move up to capacity. Meanwhile, the exit rate reportedly has stayed quite low as prices have not decreased enough to encourage weaker producers to give up.

Demand for dairy heifers continues to outstrip supplies. The mid-year inventory data showed about 1 percent more replacement heifers than a year earlier. Even so, dairy replacements were a record \$1,830 per head in July, up more than \$100 from a year earlier. The difference between replacement and slaughter values was only slightly lower than the 2002 records. Replacement heifer prices are likely to stay very high as long as milk prices remain robust. Heifer supplies probably will expand a little because of the recent higher prices, but significant expansion of heifer supplies from current levels is difficult. A few more animals would be available for growing operations when the number of farm exits picks up. But, prospective milk prices indicate that this will not be until well into the future.

Hay supplies are somewhat tight, and summer prices have been relatively quite strong. Production in the Northwest has been hurt by a lack of water for irrigation, with western supplies of dairy-quality hay further affected by strong export demand. Many northern dairy areas had a light second cutting, although the quality is reported to be good. This was the reverse of first-cut conditions when yield was good but quality spotty.

Forage supplies and prices might give some expanding producers slight pause but are not likely to have a substantial effect. The incentives for expansion are too robust for hay conditions to play a significant role. Also, the reportedly heavy early buying may result in relatively modest seasonal rises in hay prices. The more important impact of hay conditions might be on milk per cow. Growth in milk per cow may vary during the feeding season as farmers shift from good to poorer forage. Depending on the size and quality of late cuttings, there may also be a risk of producers running out of even mediocre hay by late spring 2006.

### ***Milk per Cow Bounces Back***

July milk per cow in the 23 States jumped almost 4 percent from a year earlier, following a 5-percent gain in June. Hot summer weather over much of the country had some depressing impact but more available BST, strong incentives for heavy concentrate feeding, and a return to more normal culling easily overrode the weather effects. Compared with the 5-year moving average, expansion in milk per cow was at an annual rate of more than 2 percent in June and July, in line with the long-run trend. Such rates have been fairly rare in recent years.

Growth in milk production is expected to be brisk during the rest of 2005. The effects of strong returns probably will push milk cow numbers slowly higher, although the cooperative cow buyout may provide some interruption. Brisk gains in milk per cow are likely, as relative prices of milk and concentrate feeds are projected to be conducive to heavy concentrate feeding. A projected expansion of almost 4 percent in second-half output would bring the increase for all of 2005 over 3 percent, the largest rise since 1999 and possibly the largest in two decades. Milk cow numbers are projected to average fractionally higher, while milk per cow increases more than 3 percent on a daily average basis.

Somewhat lower returns in 2006 are expected to slow the expansion a little, but relatively brisk growth is projected to persist throughout the year. Cow numbers are projected to post another fractional increase, as expanding producers begin to be partially offset by a few more exiting farmers. The large effect of BST's return on the year-to-year increases will dissipate after early 2006. For the year, milk per cow is expected to gain about 2 percent.

### ***Cheese Output Grows, Commercial Stocks Modest***

Most of the growth in late spring-early summer milk production went into cheese. May-July cheese production rose 5 percent from a year earlier, with American cheese and Italian types posting large increases. Cheese returned significantly higher values than did butter-powder production during most of this period. Surging ice cream production during May-July slashed the earlier jumps in butter production. Butter output was 6 percent higher than a year earlier, only about a third of the March-April increase. Reportedly, ice cream makers had relatively small stocks of milkfat and ice cream going into the warm season, forcing them to compete cream away from the churns.

Production of nonfat dry milk was down considerably during May-July, but this decrease was quite misleading. Manufacturers were using considerable amounts of skim milk to produce export products that did not meet the U.S. standard of identity for nonfat dry milk, even though some did meet the international standard for skim milk powder.

Cheese and butter-powder plants are expected to share the autumn increase in milk output. All three products are projected to have fairly strong demand, keeping milk values fairly close between uses.

Commercial dairy stocks have stayed quite moderate despite the heavy production. On August 1, industry holdings of butter, American cheese, other cheese, and

nonfat dry milk were modestly below a year earlier. Although the decline from 2004 was not dramatic, on either a milkfat or skim solids basis, stocks were far below those of 2003.

The August 1 stocks probably were comfortable, even though they would be considered tight under most market conditions. The expected increases in milk production will provide some buffer against sales variation, lessening the need for inventories. Butter might be the exception to the general stocks pattern. Inventories probably will be adequate but might fall short if holiday demand for butter and other milkfat products is stronger than expected.

### ***Demand Stays Robust***

Demand for dairy products was strong in late spring-early summer, limiting the price impacts of the milk production surge. Commercial use in June-July jumped about 7 percent from a year earlier on a milk equivalent, milkfat basis. The year-to-year comparisons overstate the expansion in dairy demand because these 2 months were relatively weak in 2004, when buyers limited purchases in a falling market. Even so, product movement has been brisk in recent months, supported by continued generally favorable economic conditions.

June-July commercial use of cheese rose strongly, 10 percent from a year earlier for American cheeses and 6 percent for other cheeses. For the first 7 months of 2005, cheese use increased almost 3 percent. The June-July jump in butter disappearance was about 11 percent, although the year-to-date increase was only about 1 percent. Even ice cream and fluid milk, two categories that have been weak in recent years, posted increases during June-July.

Were it not for the uncertainties caused by Hurricane Katrina, domestic dairy demand would be expected to stay solid. Recent economic indicators and projections had been mostly positive, and this year's dairy demand seems to have responded to economic improvement. The direct impact of the storm on dairy markets probably will be modest, and the losses of milk supply and dairy product sales might about offset. However, there probably will be a slowing of economic growth, a boost to the Federal deficit, and increases in energy and other marketing costs related to the storm. Hurricane effects are not projected to substantially alter dairy demand prospects--but considerable uncertainty will remain.

Skim solids demand also was brisk during June-July. Domestic use was boosted by expanded cheese sales while exports of nonfat dry milk and various blends containing dry skim solids remained strong. Commercial use of nonfat dry milk jumped 14 percent from a year earlier. Skim solids demand is expected to stay strong through at least mid-2006, as export markets seem poised to absorb any supplies not used domestically.

For the first time since the start of the dairy price support program in 1949, the current marketing year will end with no surplus of any product. In fact, net removals for the October-September year will be slightly negative on both milkfat and skim solids bases. The only price support purchases were small purchases of nonfat dry milk during the first 2 months of the marketing year, and there were no subsidized exports under the Dairy Export Incentive Program (DEIP). These

purchases were easily outweighed by unrestricted sales of nonfat dry milk and a little cheese back to the industry.

### ***International Dairy Markets Unchanged***

International dairy markets have held strong. Nonfat dry milk prices barely slipped this summer under the influence of seasonally heavy Northern Hemisphere milk production. Asian import demand remained good, while higher oil prices improved prospects for imports by petroleum-producing countries and the states backed by them. Meanwhile, European Union-25 (EU-25) powder markets stayed tight with only minimal amounts sold into intervention. Oceania milk production is projected to rise during the new season but powder will not be available for new sales for several months.

International butter markets are not as tight as powder markets but have shown similar patterns. Prices slipped to about \$1,900 per metric ton in early summer, down about \$200 from last autumn's peak. Only modest amounts were put into EU-25 intervention stocks. Oil prices probably have helped demand, but buyers apparently are waiting to see how the new Southern Hemisphere season develops.

International market prices are projected to stay relatively high through at least mid-2006. Growth in New Zealand output probably will not exceed the rise in demand since less is expected to be available from the EU-25 and the United States. Continued strong conditions seem quite likely for milk and whey powders, and cheese prospects are thought to be good. More uncertainty surrounds butter prices because of the normal lack of predictable Russian demand.

Exports of nonfat dry milk totaled over 400 million pounds during January-July, about double the relatively large year-earlier levels. Although some food aid exports were made, government activities played no role in about four-fifths of this year's exports. In addition, there were thought to be large exports of various blends with substantial skim solids content. On the other hand, cheese exports slipped during January-July. The decline was a little less than the level of subsidized exports in 2004. No contracts have been accepted under the DEIP since January 2004. Commercial cheese exports have been somewhat inhibited by continued tight domestic markets.

Imports fell during the first 7 months of 2005 because of smaller high-tariff imports. Unlike the very high prices of 2004, this year's prices provided little incentive to import amounts in excess of the tariff-rate quotas (TRQ). The drop in butter imports by almost a half and a decline almost as large in American cheese imports were essentially due to smaller over-TRQ imports. Imports of all products decreased almost a fifth from a year earlier on a milkfat basis. Over-TRQ imports have not been a major factor in imports of skim solids products, so the decline was only about 7 percent during January-July. Imports are expected to stay fairly modest during the rest of 2005.

### ***Large Supplies To Weigh on Dairy Prices***

Large increases in milk production are expected to keep the lid on wholesale dairy prices. Although robust demand has done a remarkable job of absorbing supplies

thus far in 2005, any autumn seasonal price increases likely will be quite limited. Wholesale prices of butter and cheese are projected to decline significantly next winter.

Prices of cheese on the Chicago Mercantile Exchange (CME) have been up and down throughout 2005. However, the highs of the price swings have gotten progressively lower, as the lows generally have. Seasonal factors may interrupt this pattern this autumn. Restaurant sales evidently have been robust, and the holiday sales could be good. Even so, expected large supplies and economic uncertainty should forestall much price increase.

Another sizable downward adjustment in cheese prices is expected after holiday needs are met. Seasonal production increases and demand easing will be accompanied by large year-to-year increases in milk production. However, good demand is likely to keep the declines from being dramatic, at least if economic conditions do not deteriorate more than expected.

Price prospects for butter are less settled. Prices on the CME during most of August and early September were the highest of the year except for very briefly just before the Fourth of July. However, average prices were a bit sluggish in adjusting to the CME prices, possibly because September normally sees a modest seasonal easing in the market balance before holiday demand for milkfat becomes dominant. Somewhat tight stocks and stronger-than-earlier-thought demand for total milkfat products might generate some seasonal price strength. But, very large supplies are expected to be key. Butter prices are likely to decrease significantly after the holidays.

Prices of nonfat dry milk are expected to be driven by international market prices and are projected to be fairly steady through at least mid-2006. Some slippage is possible as Southern Hemisphere supplies become more available about yearend. However, only slight erosion of prices is seen.

Farmers are expected to receive moderately less than a year earlier for their milk during the rest of 2005. For the year, the decline is expected to be slightly less than \$1 per cwt, a very modest dip from the record for a year posting a 3-percent jump in milk output. Robust domestic and international demand provided protection against potentially very large decreases.

Values of milk for cheese and for joint production of butter and nonfat dry milk have been much closer than during most recent years. This pattern is expected to persist in 2006. Relatively strong demand for all of the three major products makes the difference.

Large back-to-back increases in milk production are expected to overwhelm demand strength in 2006. Farm milk prices are projected to decline \$1 to \$2 per cwt. Even after the expected substantial decrease, milk prices would remain relatively high and considerably above the low levels of 2002 and much of 2003.

### ***Retail Dairy Prices Steady***

Retail prices of milk and dairy products have been fairly steady since early 2005, unlike a year earlier when prices soared during the spring before tailing off late in the year. Retail dairy prices are expected to remain relatively steady during the rest of 2005. Compared with 2004, May-July retail prices fell 3 percent after posting increases of as much as 6 percent early in the year. For all of 2005, retail prices are projected to average up 1 percent.

The farm-to-retail price spread has grown moderately this year following two straight declines. The spread's widening slightly outweighed the decrease in farm milk prices. The opposite is projected for 2006, when declines in farm milk prices are expected to be very slightly larger than the growth in the spread.

## *Wholesale Demand Strengthens Hog Prices in August*

Wholesale demand for pork products accelerated in early July, adding strength to hog prices. From the first full week of July, through the end of August, the composite pork cutout value increased almost 15 percent, from \$65.65 to \$75.30 per cwt. In the same period, prices for 51-52 percent lean hogs (live equivalent) increased almost 9 percent, from \$48.44 to \$52.71 per cwt.

Most of the increase in the wholesale demand--as measured by the cutout--came from strong demand for bellies and for hams. From July through August, belly primal prices increased 44 percent, and primal ham and shoulder prices increased 23 percent and 6 percent, respectively. Strong belly prices largely reflect seasonal domestic demand for bacon. And while ham and shoulder prices typically begin to increase seasonally by mid-summer--also reflecting domestic demand--there is likely a foreign demand component to strong U.S. ham and shoulder prices.

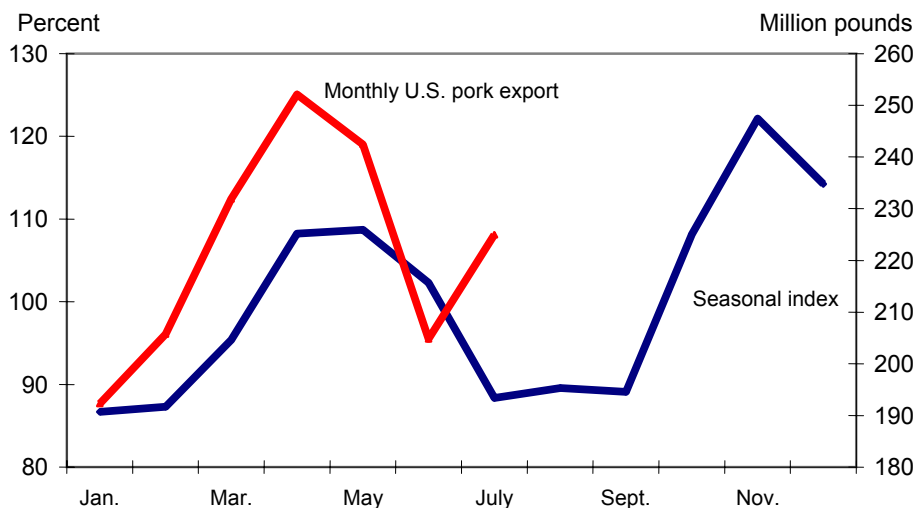
Since 2003, the bone-in ham and shoulder components of U.S. fresh and frozen pork exports--tariff line 0203--have almost doubled. While bone-in hams and shoulder cuts accounted for 13 percent of fresh and frozen pork exports in 2003, the share of exports almost doubled in the same period last year. So far this year, bone-in hams and shoulders--among the few pork cuts for which there is a specific tariff line--account for one quarter of U.S. fresh and frozen pork cuts exports.

### **Bone-in hams as a percent of total U.S. exports of frozen and fresh pork cuts**

	Tariff line	Jan.-July 2003	Jan.-July 2004	Jan.-July 2005
Hams, shoulders, and cuts, bone-in, processed, frozen	0203221	1	0	2
Hams, shoulders, and cuts, bone-in, except processed, frozen	0203229	3	3	6
Hams, shoulders, and cuts, bone-in, processed, fresh	0203121	3	4	6
Hams, shoulders, and cuts, bone-in, except processed, fresh	0203129	7	16	11
Ham and shoulder cuts share of U.S. fresh and frozen pork cuts exports		13	23	25

Source: USDA.

## U.S. pork exports: Seasonal index vs. 2005 monthly exports



Source: USDA.

### *July Pork Exports Surge*

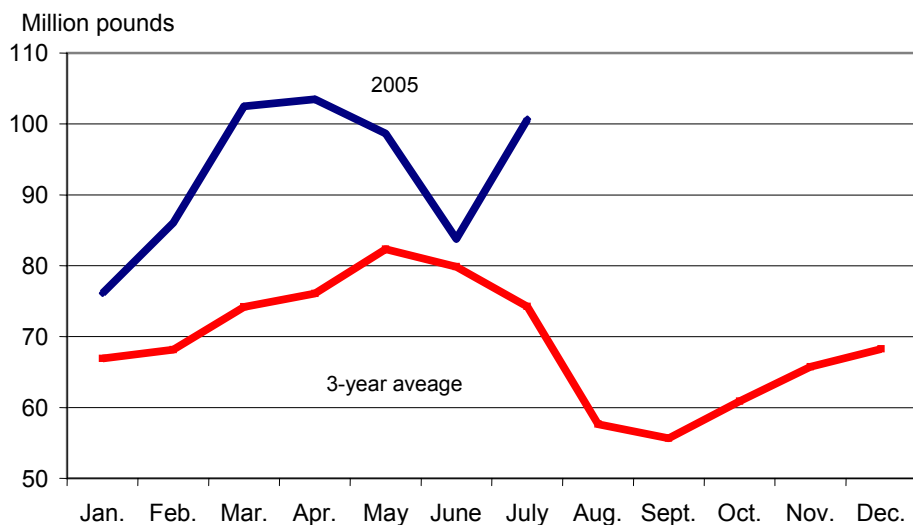
U.S. exporters shipped almost 225 million pounds of U.S. pork products in July, 34 percent more than July 2004. On a cumulated basis through July, U.S. pork exports are running more than 26 percent ahead of the first 7 months of 2004. For a period of the calendar year when U.S. pork exports typically trend lower, July exports were much higher than forecast. The figure above shows the counter-seasonal increase in July exports.

The sharp increase is due largely to Japan's surging demand for U.S. pork products. Japan's July departure from its more-typical demand pattern (see figure below) is likely a result of successful avoidance of the Safeguard mechanism at the end of the first quarter of Japan's April-March fiscal year. Japanese trade data indicate that first-quarter pork imports were 6 percent below the Safeguard activation level, thereby creating opportunities for larger subsequent imports.

The second and third largest importers of U.S. pork--Mexico and Canada--also moved against the seasonal decline in July. Mexico's July imports were 8 percent above June, and about 16 percent larger than July 2004. Mexico's cumulated 2005 imports of U.S. pork are almost 3 percent higher than the same period in 2004. Higher pork imports are likely a function of continued economic growth in Mexico and affordable purchase opportunities in the United States. Canada imported 3 percent more U.S. pork in July compared with June. Canada's July imports of U.S. pork this year were almost 63 percent larger than July 2004. So far in 2005, Canada has imported 37 percent more pork from the United States than in the same period last year. Canada is likely importing more U.S. pork to replace domestically produced products that are being exported. In the first 7 months of 2005, Canadian exports of fresh and frozen pork--tariff line 0203--were 13 percent above the same period last year. Canada's best foreign customers so far this year are similar to those of the



## Monthly U.S. pork exports to Japan



United States: Japan (+25 percent over the same period last year), South Korea (+134 percent), Australia (+13 percent), Romania (+245 percent), and Russia (+163 percent).

### *Hog Slaughter Increasing Seasonally*

The week of September 3 recorded the first 2-million-plus federally inspected hog slaughter since last February, and likely represents the beginning of the period of seasonally heavy hog slaughter. Weekly slaughters of 2 million head or more, until the end of the calendar year, are incorporated into USDA's fourth-quarter pork production forecast of about 5.5 billion pounds. Fourth-quarter hog prices will likely range between \$40 and \$42 per cwt. The third-quarter is expected to end with pork production of nearly 5.1 billion pounds, and an average hog price of between \$49 and \$50 per cwt. USDA will release the *Quarterly Hogs and Pigs* report on September 30, 2005.

August retail pork prices were \$2.82 per pound, down slightly from \$2.84 per pound in July. Retail beef prices were also marginally lower than a month ago, at \$3.992 per pound. The USDA Retail Chicken Composite price increased about a penny to \$1.74. Lower retail pork prices reflect slightly higher third quarter pork supplies, as well as continued adjustment to lower beef retail beef prices.

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### Recent Report

*Market Integration of the North American Animal Products Complex*, <http://www.ers.usda.gov/Publications/ldp/may05/ldpm13101/> The beef, pork, and poultry industries of Mexico, Canada, and the United States have tended to become more economically integrated over the past two decades. Sanitary barriers, which are designed to protect people and animals from diseases, are some of the most significant barriers to fuller integration of meat and animal markets.

*Factors Affecting U.S. Pork Consumption*,

<http://www.ers.usda.gov/Publications/LDP/may05/ldpm13001/> presents the results of an analysis of the most recent data from USDA's Continuing Survey of Food Intakes by Individuals to determine the factors affecting fresh and processed pork product consumption.

### Related Websites

Animal Production and Marketing Issues, <http://www.ers.usda.gov/briefing/AnimalProducts/>  
Cattle, <http://www.ers.usda.gov/briefing/cattle/>  
Dairy, <http://www.ers.usda.gov/briefing/dairy/>  
Hogs, <http://www.ers.usda.gov/briefing/hogs/>  
Poultry and Eggs, <http://www.ers.usda.gov/briefing/poultry/>  
WASDE, <http://www.usda.gov/oce/waob/wasde/wasde.htm>

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**Red meat and poultry forecasts**

	2001	2002	2003	2004				2005				2006				
	Annual	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
<b>Production, million lb</b>																
Beef	26,107	27,090	26,238	5,838	6,253	6,360	6,097	24,548	5,727	6,192	6,700	6,400	25,019	5,950	6,775	25,975
Pork	19,138	19,664	19,945	5,130	4,897	5,047	5,435	20,509	5,136	5,022	5,050	5,575	20,783	5,200	5,075	21,125
Lamb and mutton	223	219	199	53	46	46	50	195	49	46	45	52	192	50	52	201
Broilers	31,266	32,240	32,749	8,195	8,492	8,839	8,537	34,063	8,571	8,941	9,100	8,800	35,412	8,825	9,125	36,525
Turkeys	5,562	5,713	5,650	1,309	1,366	1,390	1,389	5,454	1,320	1,393	1,350	1,400	5,463	1,310	1,390	5,535
Total red meat & poultry	83,006	85,669	85,476	20,687	21,220	21,858	21,676	85,441	20,964	21,770	22,424	22,402	87,560	21,504	22,599	90,081
Table eggs, mil. doz.	6,078	6,190	6,207	1,556	1,574	1,598	1,637	6,365	1,585	1,580	1,600	1,640	6,405	1,600	1,625	6,540
<b>Per capita consumption, retail lb 1/</b>																
Beef	66.2	67.6	64.9	16.0	16.9	16.9	16.3	66.1	15.6	16.8	17.6	16.8	66.8	16	17.8	68.2
Pork	50.2	51.5	51.8	13.0	12.2	12.7	13.4	51.3	12.3	12.1	12.3	13.2	50.0	12.3	12.1	50.1
Lamb and mutton	1.1	1.2	1.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	1.1
Broilers	76.6	80.5	81.6	20.8	21.2	21.9	20.4	84.3	21.3	21.7	22.2	20.9	86.1	21.4	22	87.9
Turkeys	17.5	17.7	17.4	3.6	4.0	4.5	5.0	17.1	3.6	3.8	4.0	4.9	16.3	3.3	3.7	16.1
Total red meat & poultry	213.6	220.5	218.9	54.1	54.8	56.6	55.9	221.4	53.5	55.0	57.8	56.9	223.1	53.6	56.3	225.4
Eggs, number	252.7	255.5	254.7	63.7	63.9	64.1	65.5	257.2	63.3	62.9	63.3	64.9	254.4	63	63.8	256.9
<b>Market prices</b>																
Choice steers, Neb., \$/cwt	72.71	67.04	84.69	82.16	88.15	83.58	85.09	84.75	89.09	87.96	80-81	80-84	84-86	74-80	76-82	76-82
Feeder steers, Ok City, \$/cwt	88.20	80.04	89.85	87.98	104.58	116.27	110.19	104.76	104.05	113.36	111-112	98-102	105-109	89-95	91-97	92-98
Boning utility cows, S. Falls, \$/cwt	44.39	39.23	46.62	47.50	54.86	56.25	50.78	52.35	54.18	59.17	55-56	52-54	55-56	52-56	53-57	52-56
Choice slaughter lambs, San Angelo, \$/cwt	72.04	72.31	91.98	100.62	97.06	93.62	95.44	96.69	106.10	98.60	95-96	96-100	99-101	97-103	94-100	95-101
Barrows & gilts, N. base, i.e. \$/cwt	45.81	34.92	39.45	44.18	54.91	56.58	54.35	52.51	51.92	52.09	49-50	40-42	48-49	44-48	46-50	43-47
Broilers, 12 City, cents/lb	59.10	55.60	62.00	73.20	79.30	75.70	68.30	74.10	71.90	72.6	72-73	71-75	72-73	69-75	70-76	70-76
Turkeys, Eastern, cents/lb	66.30	64.50	62.10	62.10	66.60	73.10	77.10	69.70	65.90	67.70	76-77	77-81	72-73	60-66	63-69	66-72
Eggs, New York, cents/doz.	67.20	67.10	87.90	114.90	79.70	66.20	68.00	82.20	64.50	55.90	64-65	68-72	63-64	62-68	60-64	63-68
<b>U.S. trade, million lb</b>																
Beef & veal exports	2,269	2,447	2,518	36	120	138	167	461	130	189	175	145	639	140	170	640
Beef & veal imports	3,164	3,218	3,006	873	929	940	937	3,679	831	1,065	1,000	920	3,816	910	1,000	3,780
Lamb and mutton imports	146	162	168	62	47	34	38	181	41	52	42	45	180	44	47	175
Pork exports	1,560	1,611	1,717	523	546	486	624	2,179	630	699	610	730	2,669	665	690	2,745
Pork imports	951	1,070	1,185	275	265	291	268	1,099	245	245	250	245	985	240	235	960
Live swine imports	5,338	5,741	7,438	2,210	2,024	2,196	2,075	8,505	1,894	1,951	2,100	2,100	8,045	2,200	2,200	8,800
Broiler exports	5,555	4,807	4,920	1,024	1,008	1,250	1,486	4,768	1,199	1,347	1,330	1,475	5,351	1,275	1,350	5,475
Turkey exports	487	439	484	83	93	134	133	443	126	147	150	160	583	130	150	590

1/ Per capita meat and egg consumption data are revised, incorporating a new population series from the Commerce Department's Bureau of Economic Analysis based on the 2000 Census.

Source: World Agricultural Supply and Demand Estimates and Supporting Materials.

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## Economic Indicator Forecasts

	2004				2005					2006		
	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
<b>GDP, chain wtd (bil. 2000 dol.)</b>	10,704	10,809	10,897	10,756	10,999	11,092	11,207	11,306	11,151	11,397	11,492	11,533
<b>CPI-U, annual rate (pct.)</b>	4.7	1.9	3.4	3.4	2.4	4.2	2.8	2.4	2.9	2.4	2.5	2.4
<b>Unemployment (pct.)</b>	5.6	5.4	5.4	5.5	5.3	5.1	5.0	5.0	5.1	4.9	4.9	4.9
<b>Interest (pct.)</b>												
3-month Treasury bill	1.1	1.5	2.0	1.4	2.5	2.9	3.4	3.9	3.2	4.1	4.3	4.3
10-year Treasury bond yield	4.6	4.3	4.2	4.3	4.3	4.2	4.4	4.6	4.4	4.8	5.0	5.0

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, August 2005.

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## Dairy Forecasts

	2004				2005					2006		
	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
Milk cows (thous.)	9,001	9,027	9,019	9,010	8,996	9,035	9,060	9,080	9,045	9,070	9,080	9,090
Milk per cow (pounds)	4,869	4,679	4,655	18,958	4,807	5,054	4,820	4,815	19,495	4,950	5,130	19,840
<b>Milk production (bil. pounds)</b>	<b>43.8</b>	<b>42.2</b>	<b>42.0</b>	<b>170.8</b>	<b>43.2</b>	<b>45.7</b>	<b>43.7</b>	<b>43.7</b>	<b>176.3</b>	<b>44.9</b>	<b>46.6</b>	<b>180.3</b>
Farm use	0.3	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	1.1
Milk marketings	43.5	42.0	41.7	169.7	43.0	45.4	43.4	43.4	175.2	44.6	46.3	179.2
<b>Milkfat (bil. pounds milk equiv.)</b>												
Milk marketings	43.5	42.0	41.7	169.7	43.0	45.4	43.4	43.4	175.2	44.6	46.3	179.2
Beginning commercial stocks	10.1	11.6	9.9	8.3	7.2	9.4	11.2	10.0	7.2	7.6	10.1	7.6
Imports	1.8	1.0	1.3	5.3	1.3	1.1	1.2	1.3	4.9	1.2	1.2	4.9
Total supply	55.4	54.6	52.9	183.3	51.5	55.9	55.8	54.7	187.2	53.4	57.6	191.7
Ending commercial stocks	11.6	9.9	7.2	7.2	9.4	11.2	10.0	7.6	7.6	10.1	11.7	7.7
Net removals	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	43.8	44.6	45.7	176.2	42.1	44.7	45.8	47.1	179.7	43.3	45.9	184.0
<b>Skim solids (bil. pounds milk equiv.)</b>												
Milk marketings	43.5	42.0	41.7	169.7	43.0	45.4	43.4	43.4	175.2	44.6	46.3	179.2
Beginning commercial stocks	8.5	10.1	9.5	8.5	8.2	8.4	9.6	9.1	8.2	8.0	8.5	8.0
Imports	1.5	1.1	1.3	4.8	1.2	1.0	1.1	1.4	4.7	1.0	1.3	4.8
Total supply	53.5	53.2	52.5	183.0	52.3	54.9	54.1	54.0	188.1	53.6	56.0	192.0
Ending commercial stocks	10.1	9.5	8.2	8.2	8.4	9.6	9.1	8.0	8.0	8.5	9.9	8.0
Net removals	0.1	0.4	0.0	1.3	-0.4	-0.3	-0.2	-0.1	-1.0	-0.1	0.2	0.8
Commercial use	43.2	43.3	44.3	173.5	44.3	45.6	45.2	46.1	181.1	45.2	46.0	183.1
<b>Milk prices (dol./cwt) 1/</b>												
All milk	18.53	15.50	16.07	16.05	15.67	14.83	14.65	15.05	15.05	13.95	12.60	13.10
							-14.85	-15.55	-15.25	-14.75	-13.60	-14.10
Class III	19.31	14.54	15.06	15.39	14.31	14.10	13.80	13.40	13.90	12.30	11.55	11.75
							-14.00	-13.90	-14.10	-13.10	-12.55	-12.75
Class IV	14.26	12.92	13.19	13.20	12.64	12.40	13.20	12.90	12.75	11.80	11.05	11.30
							-13.50	-13.50	-13.05	-12.70	-12.15	-12.40
<b>Product prices (dol./pound) 2/</b>												
Cheddar cheese	2.007	1.558	1.610	1.643	1.531	1.507	1.455	1.420	1.475	1.325	1.255	1.285
							-1.475	-1.470	-1.495	-1.405	-1.355	-1.385
Dry whey	0.283	0.234	0.235	0.232	0.248	0.263	0.275	0.265	0.260	0.245	0.230	0.220
							-0.295	-0.295	-0.280	-0.275	-0.260	-0.250
Butter	2.089	1.722	1.778	1.824	1.570	1.459	1.615	1.565	1.545	1.390	1.280	1.320
							-1.655	-1.645	-1.585	-1.500	-1.410	-1.450
Nonfat dry milk	0.835	0.858	0.862	0.841	0.899	0.923	0.945	0.930	0.920	0.890	0.855	0.865
							-0.965	-0.970	-0.940	-0.950	-0.925	-0.935

1/ Simple averages of monthly prices. May not match reported annual averages.

2/ Simple averages of monthly prices calculated by the Agricultural Marketing Service for use in class price formulas. "Based on weekly "Dairy Product Prices", National Agricultural Statistics Service. Details may be found at [http://www.ams.usda.gov/dyfmoms/mib/fedordprc\\_dscrp.htm](http://www.ams.usda.gov/dyfmoms/mib/fedordprc_dscrp.htm)

Source: World Agricultural Supply and Demand Estimates and supporting materials.  
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