



United States
Department
of Agriculture

LDP-M-160

October 22,
2007



A Report from the Economic Research Service

www.ers.usda.gov

Livestock, Dairy, and Poultry Outlook

Mildred M. Haley, coordinator

Higher Milk Production Will Likely Drop Prices from 2007 Highs

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Tables will be released
on October 30, 2007

The next newsletter
release is November 20,
2007

Approved by the
World Agricultural
Outlook Board.

Dairy: Increased milk production is expected for the balance of this year and into 2008. The increase will pressure prices. Domestic demand, though strong, is unlikely to take up the increased production and exports are falling off, most likely due to high prices.

Special section: Rising Prices Reflect Growing Demands for Whey Products

Traditionally, whey was a byproduct cheese producers wished to dispose of as quickly and cheaply as possible. That is not the case today, as whey products are used as ingredients in many food products and are a significant source of protein for energy foods and drinks.

Beef/cattle: Spotty wheat pasture is developing slowly, setting up the potential for downward pressure on feeder cattle prices this fall. Relatively heavy cow slaughter has characterized the late-summer/early-fall period, ahead of the normal seasonal increase in cow culling in fall and winter.

Lamb/sheep: Third-quarter 2007 commercial production of lamb and mutton is forecast at 42 million pounds, equaling the third quarter of 2006. Improved forage conditions in the Plain States and Southwest, coupled with higher feed costs, have resulted in animals staying longer on pastures. Tight supplies outweighed the softer demand that typically occurs during the third quarter, and as a result slaughter lamb prices increased slightly.

Pork/hogs: *Quarterly Hogs and Pigs*, released September 29th by USDA, reported increases in inventories and farrowing intentions that point to significant production increases in both fourth-quarter 2007 and first-quarter 2008. Fourth-quarter prices for live equivalent 51-52 percent hogs will likely range between \$41 and \$43 per hundredweight (cwt). First-quarter 2008 pork production is expected to be 5.5 billion pounds, 2.4 percent more than the first quarter of this year. First-quarter 2008 hog prices are expected to range between \$41 and \$45 per cwt, about 4.4 percent lower than first-quarter 2007. U.S. pork exports in August totaled 241 million pounds, 11 percent above August 2006, marking the second consecutive month in which exports increased year-over-year.

Poultry/eggs: The relatively slow growth in third-quarter broiler meat production has resulted in price strength for many broiler products. Turkey meat production over the first 8 months of 2007 has totaled 3.9 billion pounds, 4 percent higher than during the same period in 2006. Even with the increase in turkey meat production, fairly low stock levels have placed upward pressure on whole turkey prices for most of 2007. Over the first 8 months of 2007, table egg production has been 51 billion eggs, down 1.5 percent from the same period in 2006. This trend of lower production is expected to continue through the rest of third quarter and on into the fourth quarter.

Higher Milk Production Will Likely Drop Prices from 2007 Highs

A higher number of milk cows and slightly higher output per cow will translate into higher milk production for both 2007 and 2008. Production is projected to total 185.4 billion pounds this year and rise to 190.2 billion in 2008. The higher milk production reported in the October *Milk Production* report is a result of both higher cow numbers and increased production per animal. The number of milk cows has steadily increased from the second quarter of 2006 and is forecast to continue to increase into 2008. The milk-feed price ratio has climbed since the first quarter of 2007 and is expected to average above 3 through early 2008. A ratio above 3 is thought to signal expansion. For most producers, having more cows has been profitable. Dairy herd replacement heifer prices have been high, and a resumption of heifer imports from Canada could add modestly to the national herd by early 2008. Estimated production per cow rose to 1,621 pounds by September 2007, 31 pounds above September 2006. Weather in most of the country has been good for milk production.

Higher retail prices for fluid milk have dampened consumption. Consequently, more milk will be allocated to manufacturing uses. As of August, cheese production is up 2 percent from 2006 and stocks, which had been above 2006 levels for the first 5 months of 2007, have remained below 2006 levels from June through August. Over the next few months, higher milk production could lead to higher cheese production and put downward pressure on cheese prices. Cheese prices are expected to average \$1.705 to \$1.715 per pound in 2007 and decline to an average \$1.590 to \$1.680 per pound in 2008. Butter production and inventories have been above those of 2006 levels throughout 2007. Although domestic demand has been strong and there have been some exports, higher production, both for the balance of this year and into the next, will pressure prices. The average butter price is expected to settle at between \$1.330 and \$1.360 per pound this year. Next year, prices are forecast to average \$1.195 to \$1.315 per pound.

The nonfat dry milk (NDM) and whey markets have also volatile this year. The October *Dairy Products* report placed August NDM inventories 152 percent above year-earlier stocks. Inventories were up 12 percent from July's already-high stocks. Global supplies of NDM remain tight and export demand will likely keep prices relatively firm compared with historical levels. However, NDM prices have declined from recent highs. NDM prices are projected to average between \$1.725 and \$1.745 per pound in 2007 and then trend lower, to average \$1.645 to \$1.715 in 2008. In the same report, stocks of whey for human use were reported 56 percent above August 2006. Whey prices have declined precipitously from their record highs in April. Exports are lagging, probably due to high prices. Production of dry products will likely remain above year-earlier levels and continue to pressure prices for the remainder of 2007 and into 2008. The whey price is projected to average 59.0 to 60.0 cents per pound in 2007, declining to 43.0 to 46.0 cents per pound next year.

The forecast decline in dairy product prices will translate into lower milk prices in 2008. Although higher than in recent years, prices should begin to decline from 2007 highs. The Class IV price is projected to average \$18.50 to \$18.70 per cwt in 2007 and to decline to \$17.35 to \$18.35 in 2008. Likewise, the Class III price is expected to average \$17.65 to \$17.75 per cwt this year and to soften to \$15.60 to \$16.50 per cwt next year. The all milk price will average \$18.95 to \$19.05 per cwt in 2007. A decline to between \$17.70 and \$18.60 per cwt is expected in 2008.

Whey Price Decline Follows a Short Run-Up

Whey products have emerged in recent years as an important source of added returns for the U.S. dairy industry. Historically, butter and nonfat dry milk production have held the spotlight as “joint-products,” the result of a single input-multiple output production process, one of the core concepts of the economic analysis of firms. The emergence of whey products has highlighted another such production process in the U.S. dairy industry—the production of cheese and whey.

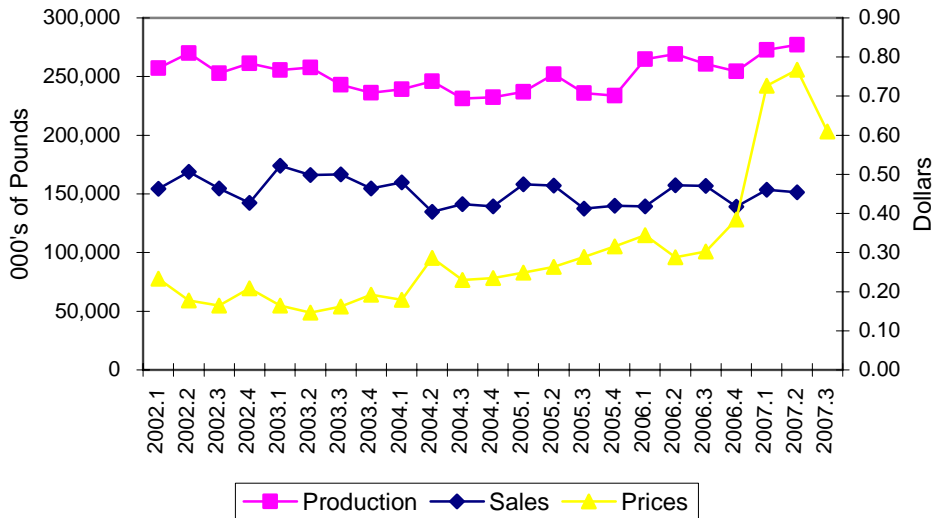
Milk (or a combination of milk and cream) is the main input for cheese production. Milk is composed mainly of water (about 87 percent by weight) and fat (milkfat) and nonfat solids (proteins and other nonfat components). Active bacterial cultures that produce acid and rennet (enzymes) are introduced into the milk. This causes the main protein in milk, casein, to coagulate into curds. The curds trap most of the milkfat and many of the minerals that were in the milk. Removal of the curd leaves whey, a watery substance that contains lactose (milk sugar) and traces of the other fat and nonfat solids that were in the milk.

The “take-home” point at this stage is two products, curds and whey, which emerge from the cheese production process. Here we note the distinction between joint products and byproducts, alternative categories of products from multiple output processes. A joint product is one that has significant economic value; byproducts have minimal economic value. Curd has economic value—after further processing it becomes the many varieties of cheese that are available for consumption. But, what about the whey?

Traditionally, most of the whey, with the exception of the amount used for animal feed, was a byproduct cheese producers wished to dispose of as quickly and as cheaply as possible. That is not so today, as whey products are used as ingredients in many food products and are a significant source of protein for energy foods and drinks. This economic value of whey has moved it into the joint product category. However, further whey processing can be costly and in some instances whey is still viewed as a byproduct. A short survey of recent historical trends in production, sales, and prices illustrates the growing importance of whey as a source of income for the U.S. dairy industry.

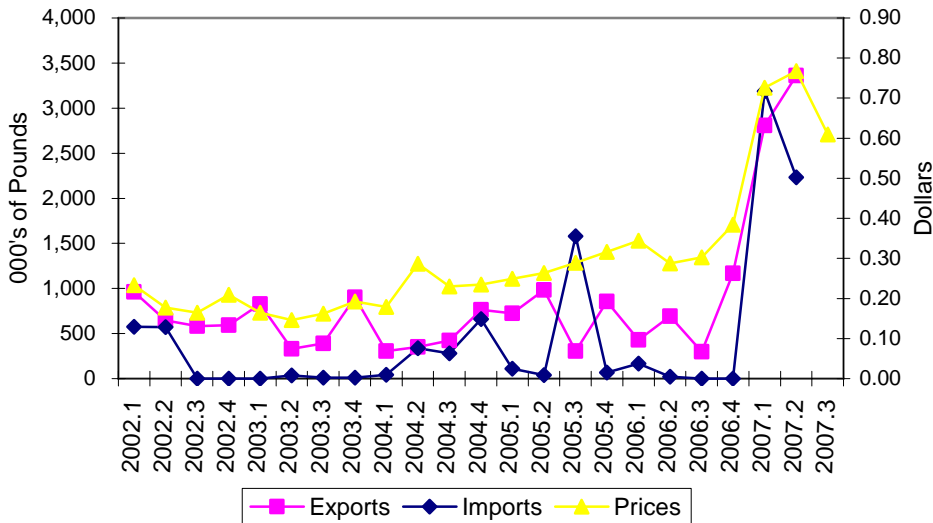
The fact that dry whey for human consumption has recently become a joint product is reflected in the graphs. Even though production and sales levels do not show any considerable trend from 2002 to 2007, the behavior of prices is completely different. From first-quarter 2004 to second-quarter 2007, prices increased from 18 to 77 cents per pound, or almost 428 percent.

U.S. dry whey for human consumption
Production, sales, and prices



Source: USDA, NASS

U.S. dry whey for human consumption
Imports, exports, and prices



Source: USDA FAS

The rapid price rise is essentially demand driven—the development of new uses for whey and whey products and increased demands in international markets have been key factors. Moreover, there have been wide movements in U.S. imports and exports. Exports increased dramatically during 2006, as the effects of milk production problems in Australia and dairy policy changes in the European Union were felt in international markets.

However, adjustments in the whey markets are occurring. Exports have declined since June, stock holdings are building, and prices have declined from earlier peaks. In fact, according to USDA, the price for the third quarter of 2007 was 61 cents; this represents a 21-percent decrease from the previous quarter. Moreover, USDA forecasts the price of whey at between 40 and 42 cents for the fourth quarter of 2007, and between 59 and 60 cents for the year.

Weather Remains a Cattle Market Factor

The 2007 corn crop is proceeding well ahead of both last year at this time and the 5-year average. On October 14, more than half of the crop had already been harvested, compared with 41 percent for the 5-year average at this point in the crop year. The soybean harvest is about equal with last year and the 5-year average. Forecast prices for feedstuffs are increased. On October 12, USDA raised the 2007/08 corn price to \$2.90-\$3.50 per bushel and the price for soybean meal to \$220-250 per ton.

Wheat pasture is developing slowly, which, along with high wheat prices, is discouraging some wheat grazing out of fear that grazing now and this winter will damage the wheat crop next year. This could provide a dampening effect on feeder cattle prices for the fall and early winter. Pasture and hay are in relatively short supply in the Southeastern United States, which will play a role in culling rates for that area this fall. A similar situation exists in the Western States. Despite recent dryness and the slow start to wheat grazing, the Plains States, where most cattle are found, are in relatively good shape.

To the extent that higher corn prices and reduced wheat pasture exert downward pressure on feeder cattle prices, feedlot placements could become more attractive. Cattle feeders have maintained their marketings at a pace that has prevented a significant buildup of overly finished cattle in feedlots. Despite this, and somewhat contrary to what are ordinarily modest seasonal price increases into the winter, but that are fully consistent with last year's early fall price peak, fed cattle are selling for prices in the low \$90s.

Lower prices for fed cattle will provide some limited relief for packers who have been sandwiched between declining wholesale prices and strong fed cattle prices. Another bright spot for packers is the continued high value of byproducts, which have been challenging record levels for most of the last year. Dressed weights, nearing periods in which they have reached seasonal peaks in past years, are at record levels. Weekly average dressed weights of all cattle slaughtered, Federally Inspected (F.I.), reached 793 pounds the week of October 6, 2007, which compares with 791 pounds the week of October 8, 2006. One result of the heavier weights is that beef production in early October has been running ahead of last year on both a weekly basis and a cumulative basis.

Retail beef prices were \$4.23 per pound in September 2007—almost 8 percent above September 2006—pushing third-quarter prices to \$4.18 per pound. Fourth-quarter retail prices are expected to be somewhat lower, at \$4.08 per pound, reflecting abundant supplies of pork and poultry and increased demand for these competing meats that typically accompanies the holiday season.

Live Import Forecast Increased on U.S. Regulation Changes, Strong Canadian Currency Value, and Declining Condition of Mexican Pastures

Forecasts of U.S. imports of cattle were raised to 2.4 million head in both 2007 and 2008. U.S. imports of Mexican cattle through August have been lower than a year ago because conditions encouraged producers to keep calves on pasture. However, September's lower precipitation should lead to declining pasture and forage conditions in Mexico and support increased exports. U.S. cattle imports from Mexico should ultimately be near last year's levels as winter closes in.

Imports from Canada are forecast higher for three main reasons. The strength of the Canadian dollar that has magnified the effects of already-higher feed costs, and problems in the Canadian slaughter sector have likely resulted in lowered value for finished cattle. As a result, 2007 imports of Canadian feeder cattle into the United States have been above year-earlier levels. In addition, the USDA announced a change in import regulations for cattle born before March 1, 1999, and for beef from animals over 30 months of age. Animals and products that are able to be age verified and meet USDA safety guidelines are scheduled to be allowed U.S. entry beginning on November 19, 2007. The new regulations are in line with the international standards of the OIE, the organization that sets world guidelines for animal health. The policy most directly impacts Canadian cull cows. U.S. imports of Canadian cull beef and dairy cows are expected resume in late 2007, and to increase in 2008.

Expected Implementation of Minimum Risk Region Rule Supports Increase of U.S. Beef Import Forecast; Exports Also Expected Higher

Lower U.S. cow slaughter due to cyclically modest cow inventories is expected to increase the demand for imported beef. U.S. imports of beef are expected to increase due to revised regulations of products from animals over 30 months old, allowing a resumption of imports of Canadian beef from older animals to cross the border. In addition, U.S. imports of Australian beef should also increase in the coming months as drought conditions have led to record-high slaughter levels there. This is expected to lead to U.S. imports of 790 million for the fourth quarter 2007. The 2008 forecast of U.S. imports of beef is increased to 3.42 billion pounds.

U.S. exports of beef were forecast to increase to 1.45 billion pounds in 2007 and 1.88 billion pounds in 2008. Again, due to foreign exchange rates favorable to U.S. products, U.S. exports to Canada are well above last year's figures. U.S. exports to Japan continue to increase at a gradual but steady pace. However U.S. exports of beef to Korea are constrained due to ongoing trade restrictions put in place by Korea.

Lambs Remain Longer on Forage

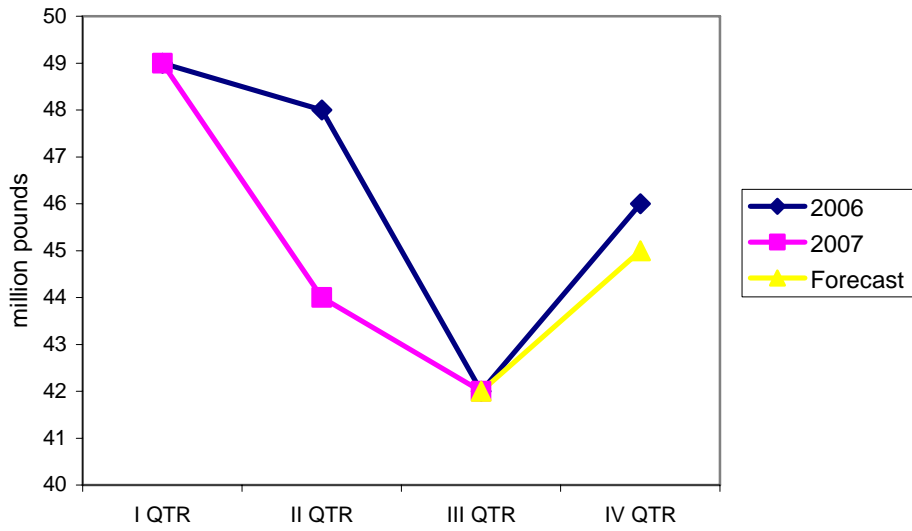
In the third quarter of 2007 commercial production of lamb and mutton is expected to be 42 million pounds, equaling the third quarter of 2006. Improved forage conditions in the Plains States and Southwest, coupled with higher feed costs, have resulted in animals staying on pasture for a longer period. Although movement of feeder lambs into feedlots, especially in western South Dakota and Wyoming, has begun, it is at a much slower rate than last year. Longer periods on forage imply shorter periods on feed. Some animals are also moving directly from pastures to slaughter. As a result, average slaughter weights are likely to be lower. With the reduced slaughter weights, commercial production is expected to be lower for the rest of the year compared with the same period in 2006.

Tight supplies outweighed the softer demand that typically occurs during the third quarter, and as a result, slaughter lamb prices increased almost 8 percent. Choice slaughter lamb prices at San Angelo averaged between \$82-\$83 per cwt during the first and second quarters of 2007, but increased steadily, averaging \$87.33 per cwt in the third quarter. Fourth-quarter 2007 Choice slaughter lamb price at San Angelo is expected to continue its steady increase due to the seasonal increases in demand and is forecast to average \$88-92 per cwt.

Imports of lamb and mutton continue to offset production declines. First-half 2007 lamb and mutton imports were 3 percent above the same period last year, buoyed by continued liquidation in Australia due to unfavorable weather conditions. Third-quarter imports are forecast at 46 million pounds, 12 percent above the same period last year, while fourth-quarter 2007 imports are forecast at around 52 million pounds, equaling fourth-quarter 2006.

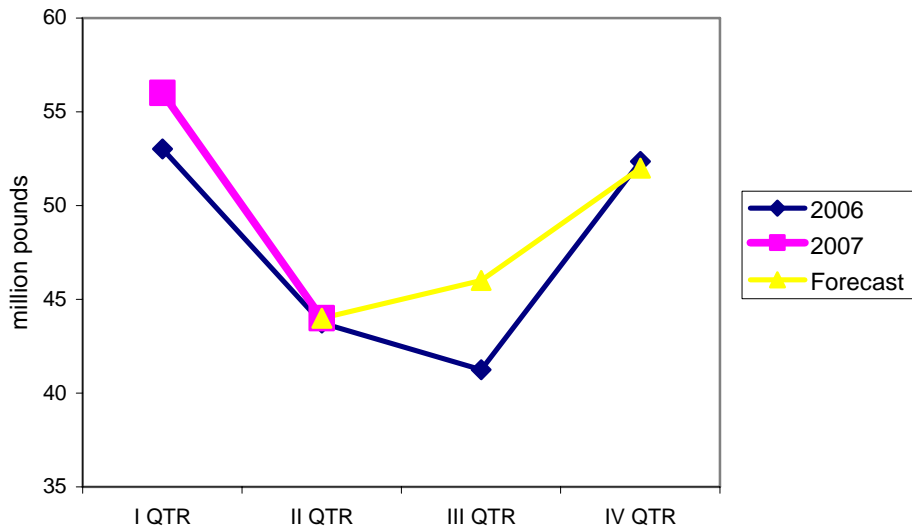
Exports declined in the past 6 months and are expected to remain flat for the rest of 2007. Exports were 9 million pounds in the first half of 2006, and in the same period in 2007 they declined 44 percent to 5 million pounds. Third-quarter 2007 exports are forecast at 2 million pounds, a 60-percent decline from the same period in 2006. With improved weather in the Northern Plains and Southwest, greater ewe retention and increased demand for replacement lambs may be limiting export opportunities. Weaker demand in Mexico and the rest of the Caribbean may also be a contributing factor to lower exports.

Quarterly commercial lamb and mutton production, 2006 and 2007



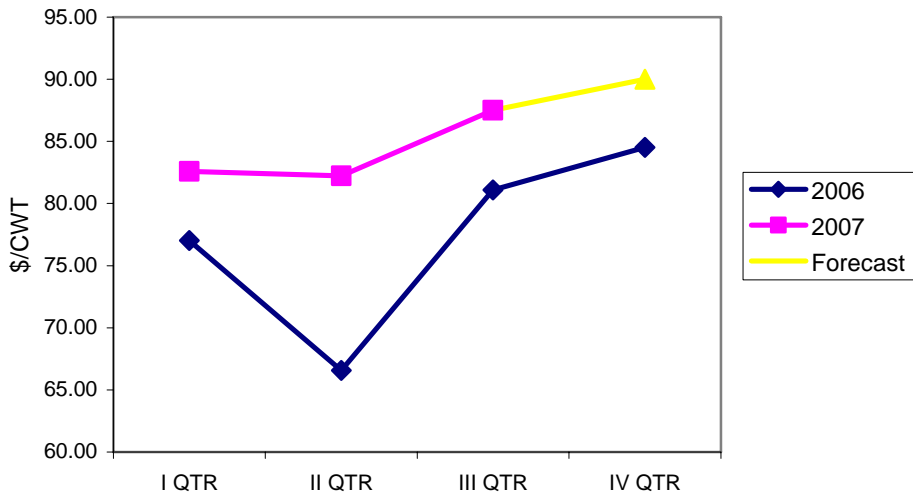
Source: *Livestock Slaughter*, NASS, USDA

Quarterly lamb and mutton imports, 2006 and 2007



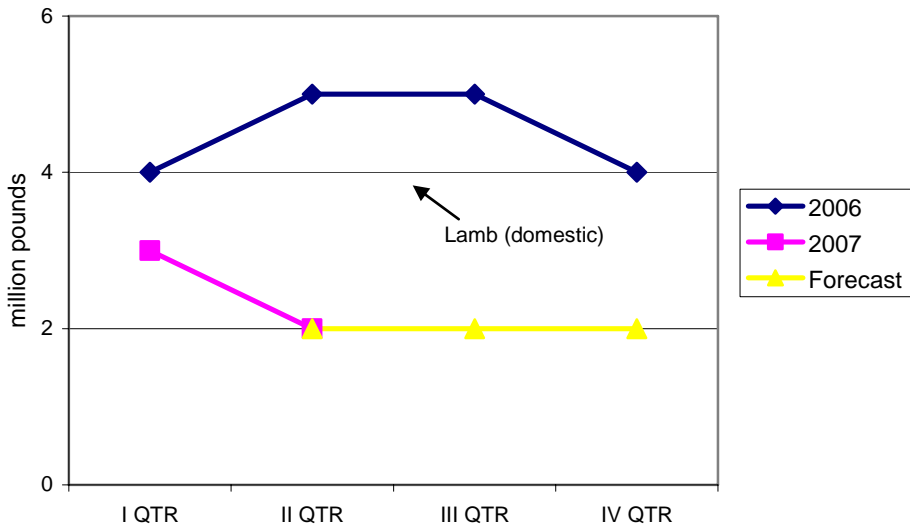
Source: *Livestock, Meat and Wool*, AMS, USDA

Quarterly price of Choice slaughter lambs at San Angelo, 2006 and 2007



Source: U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics

Quarterly lamb and mutton exports, 2006 and 2007



Source: U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics

Quarterly Hogs and Pigs Points to Large Production Increases

The *Quarterly Hogs and Pigs*, released September 29th by USDA, reported increases in inventories and farrowing intentions that point to significant production increases in both fourth-quarter 2007 and first-quarter 2008. The September 1 inventory of “all hogs and pigs,” at 64.6 million head, was 3 percent higher than the same period last year. The “kept for breeding” component of the inventory was 1 percent above September 1, 2006. This increase in breeding animals, although modest, represents the 10th in a series of consecutive quarterly year-over year increases that began in June 2005. The largest breeding herd additions occurred in Missouri (+25,000 head, for a 7-percent increase over September 2006), Minnesota (+20,000 head, for an increase of 3 percent), and North Carolina (+20,000 head, for an increase of 2 percent).

The “market hogs and pigs” component of the “all hogs and pigs” inventory increased 3 percent over September 2006. Part of the increase is attributable to a very large June-August pig crop, which, at almost 27.5 million head, was almost 4 percent greater than the same-period pig crop last year. The September report indicates that the very large summer pig crop derives from 3 percent year-over-year larger farrowings, and a record litter rate of 9.19 pigs per litter. June-August farrowings, at 2.986 million head, were greater than producer intentions stated in the *Quarterly* reports of both June (2.958 million head) and March (2.917 million head).

Larger U.S. imports of Canadian finishing animals also contributed to the higher September inventory of market hogs and pigs. Data from the U.S. Commerce Department indicate that June-August imports of Canadian swine weighing 110 pounds or less were 8 percent higher than a year ago. More Canadian finishing animals are available for export to the United States as the Canadian pork industry adjusts to relatively high foreign exchange values of the Canadian dollar, which makes Canadian pork less competitive in foreign markets. The high-valued Canadian dollar is no small factor, given that in a typical year more than 50 percent of Canadian pork production is exported, compared with about 14 percent for the United States. U.S. hog finishers and packers are expected to import 2.5 million head of swine in both the third and fourth quarters of this year. Total imports for 2007 are expected to be almost 9.7 million head, more than 10 percent above last year.

The larger inventory of market hogs reported in the September report points to year-over-year increases in pork production, along with year-over-year reductions in hog prices for both the fourth quarter of 2007 and the first quarter of 2008. Fourth-quarter pork production is expected to be 5.9 billion pounds, almost 5 percent above the same period last year. Fourth-quarter prices for live equivalent 51-52 percent hogs will likely range between \$41 and \$43 per cwt. First-quarter 2008 pork production is expected to be 5.5 billion pounds, 2.4 percent more than for the first quarter of this year. First-quarter 2008 hog prices are expected to range between \$41 and \$45 per cwt, about 7 percent lower than first-quarter 2007. Price ranges for both fourth-quarter 2007 and first-quarter 2008 fall below most break-even prices calculated in estimated production costs for farrow-to-finish and finishing operations.

September break-even prices for farrow-to-finish, and finishing operations in Iowa were estimated at about \$47 per cwt in Iowa State University's estimated production cost calculation:

http://www.econ.iastate.edu/faculty/lawrence/Lawrence_website/livestockreturns.htm

Third-Quarter Retail Prices Higher than a Year Ago

Third-quarter retail pork prices averaged \$2.92 per pound, 2.3 percent higher than a year ago. The total pork price spread for the quarter was slightly more than \$2.05 per pound, more than 5 percent above third quarter 2006. With the wholesale-to-retail component of the total spread at \$1.67 per pound, compared with \$1.57 per pound last year, it appears that retailers were able to pay packers less, and in addition, to push other costs along to the consumer.

August Pork Exports Year-Over-Year Higher for Second Consecutive Month

U.S. pork exports in August totaled 241 million pounds, 11 percent above August 2006, and marked the second consecutive month in which exports increased year-over-year. Exports from February through June of this year were below same-month shipments in 2006. For the first 6 months of this year, exports were about 3.5 percent below the same period in 2006. It appears increasingly likely, however, that mid-to-late summer marked the beginning of an export recovery. Through August, cumulative 2007 exports of 1.9 billion pounds were off only 1.3 percent compared with the same period last year. While Hong Kong and China were the key drivers pushing July exports above year-earlier levels, they were joined in August by Japan, Canada, and Russia. The table below compares pork exports of August 2007 with those of 2006, highlighting major buyers of U.S. pork products.

Japan imported 88 million pounds of U.S. pork in August, 14 percent more than a year ago. It is likely that the exchange rate between the U.S. dollar and the Japanese yen provided an incentive for Japanese buyers to purchase U.S. pork. The yen price of one dollar fell from 121.41 yen in July, to 116.73 yen in August, evidencing the price incentive that the dollar's fall in value creates for Japanese buyers.

Canada's August imports of U.S. pork were 28 million pounds, 9 percent above a year ago. Again, the low-valued U.S. dollar likely provided some impetus to Canadian demand. In August 2006, the Canadian dollar price of one U.S. dollar was 1.12\$CN, while in August 2007 the price had fallen to about 1.06\$CN. Another factor likely contributing to larger U.S. exports to Canada is lower 2007 Canadian pork production. Weekly Canadian pork production in the summer months of June through August was consistently 2 percent below year-earlier levels.

Russia imported 14 million pounds of U.S. pork in August, 7 percent more than in August 2006. Higher consumer incomes from the economic growth stimulated by high petroleum prices, together with the low-valued U.S. dollar, were likely factors behind Russian imports of U.S. pork in August. However, through August, Russian imports of U.S. pork were 12 percent lower than in the same period last year, likely due to strong competition from Brazilian pork products.

Exports to both Hong Kong and China were also strong in August. Shipments to Hong Kong of 13.5 million pounds were more than 5 times larger than in August 2006. Shipments to China of 14 million pounds were larger than the 9.9 million pounds shipped in August 2006, but lower than the 18.8 million pounds exported in July. Strong exports to both Hong Kong and China are attributed to high pork prices in China, brought on primarily by lower hog supplies from swine disease.

U.S. pork exports, August 2007 and August 2006: major countries and regions

Line no.		August 2007 (1000 lbs.)	August 2006 (1000 lbs.)	Difference (Aug. 2007-Aug. 2006) (1000 lbs.)
1	Total U.S. pork exports	241,478	217,486	23,992
2	Japan	88,425	77,269	11,156
3	Canada	31,307	25,565	5,743
4	Russia	17,561	11,734	5,827
5	Total Japan + Canada + Russia	137,293	114,568	22,726
6	China	14,007	9,947	4,061
7	Hong Kong	13,454	2,558	10,896
8	Total China + Hong Kong	27,461	12,505	14,956
9	Cen. & S. America	5,617	5,344	273
10	Other	11,778	7,502	4,275
11	Total C. & S. Am. + Other	17,395	12,846	4,548
12	Mexico	34,888	43,616	-8,728
13	South Korea	12,974	20,062	-7,088
14	EU-27	5,118	6,207	-1,089
15	Caribbean	4,786	4,954	-168
16	Taiwan	1,563	2,728	-1,165
17	Total Mex. + S. Korea + EU-27 + Car. + Taiwan	59,329	77,568	-18,239
18	Sum (5) + (8) + (11)+ (17)	241,478	217,486	23,992

U.S. exports are expected to be 690 million pounds in the third quarter of this year, 5.6 percent above the same period last year. The fourth-quarter export forecast of 860 million pounds is 6 percent above fourth quarter a year ago. For 2007, U.S. pork exports will likely total slightly more than 3 billion pounds, 1.1 percent above 2006. Next year, exports are expected to be about 3.1 billion pounds, about 1.9 percent above the forecast for 2007.

Broiler Production Slightly Higher, Cold Storage Down

Broiler meat production in August (RTC basis) was 3.2 billion pounds, up 1 percent from the previous year. The increase was due to both a higher number of birds slaughtered (799 million, up 0.6 percent) and a small gain in the average live weight at slaughter, up 0.7 percent to 5.39 pounds. Although this liveweight is up from the previous year, it is the lightest monthly average so far in 2007, but weights are normally low in August due to heat stress.

Broiler meat production in July and August has been slightly lower than expected, so the overall estimate for the third quarter was reduced by 25 million pounds to 9.025 billion. If achieved, this would represent a 1.6 percent increase from third-quarter 2006. The rate of growth for broiler meat production is expected to increase in the fourth quarter. The growth in broiler meat production in the third and fourth quarters of 2007 follows four consecutive quarters of falling production on a year-over-year basis.

Broiler meat production for fourth-quarter 2007 is estimated at 9.050 billion pounds, 2.8 percent higher than fourth-quarter 2006. Part of the increase can be attributed to the fact that fourth-quarter 2007 has 1 more slaughter day than the previous year, but most of the increase is expected to come from a continued larger number of chicks being placed for growout.

Over the last 5 weeks (September 15 to October 13), the number of chicks placed for growout has been 2.3 percent higher than during the same period in 2006. With an average 7-week growout time, chicks placed up until the beginning of November will be expected to go to slaughter in fourth-quarter 2007.

With the reduction in the third-quarter meat production estimate, the quarterly broiler meat ending stocks forecasts for the third and fourth quarters of 2007 were lowered by 25 million pounds each. The forecast for third-quarter 2007 ending stocks was lowered to 625 million pounds, down about 75 million pounds from the previous year. At the end of August, cold storage holdings of broiler meat products totaled 608 million pounds, down 13 percent from the same period in 2006. Stocks for a number of broiler products were lower, but lower overall stocks of leg meat products (leg quarters, drumsticks, and thighs) were major contributors to the decline. The forecast for fourth-quarter 2007 ending stocks was lowered to 650 million pounds. In addition, with the relatively slow growth in meat production expected to continue into 2008, the ending stocks forecasts for all four quarters of 2008 were reduced by 25 million pounds.

The relatively slow growth in third-quarter broiler meat production has resulted in price strength for many broiler products. In the third quarter of 2007, the 12-City whole bird price averaged 79.2 cents per pound, up over 11 cents per pound (17 percent) from a year earlier. Prices were also higher for a number of other broiler products. In the Northeast market the September average price for boneless/skinless breast meat was \$1.58 per pound and leg quarters averaged 47.2 cents per pound. This is an increase of 29 cents per pound for breast meat (22 percent) and 13 cents per pound for leg quarters (40 percent) compared with a year earlier.

However, since the middle of September, prices of most broiler products have declined, with the largest declines in breast meat products. While some of this decline is seasonal, prices for most broiler products are expected to average lower in fourth-quarter 2007 due to higher fourth-quarter broiler meat production and competition from higher turkey and pork production.

Broiler Exports Surge

Over the last 2 months, (July and August) broiler meat exports have totaled 993 million pounds. This higher-than-expected total has resulted in revisions to the export forecast for third-quarter 2007 and to the export forecast for 2008. The export forecast for third-quarter 2007 was increased by 100 million pounds to 1.4 billion. Much of the increase in shipments in the last 2 months can be attributed to higher exports to Russia. In July and August, broiler meat exports to Russia have totaled 409 million pounds, over 40 percent of all broiler exports. Exports have also been much higher to the China/Hong Kong market in July and August at approximately 145 million pounds, up from 69 million in the same period in 2006. The broiler meat export forecast for 2008 was increased to 5.565 billion pounds. If this total is realized, it would be slightly higher than the previous record of 5.555 billion pounds exported in 2001.

Turkey Meat Production and Whole Bird Prices Continue Higher

Turkey meat production over the first 8 months of 2007 has totaled 3.9 billion pounds, 4 percent higher than during the same period in 2006. Even with the increase in turkey meat production, fairly low stock levels have placed upward pressure on whole turkey prices for most of 2007. The average price for whole hen turkeys (8-16 lbs. in the Eastern market) averaged 89.9 cents per pound in the third quarter, slightly over a dime higher than the previous year. The relatively tight supply conditions are expected to ease somewhat in the fourth quarter, but the wholesale price for Eastern market whole hens is still forecast between 90 and 94 cents per pound, up from the fourth-quarter 2006 average of 89.8 cents per pound.

Turkey meat production in August was 515 million pounds, up 3.2 percent from a year earlier. The number of turkeys slaughtered was up 1.4 percent to 23.7 million, and the average live weight at slaughter was 27.4 pounds, 1.7 percent higher than a year earlier. Turkey meat production in July and August was somewhat higher than expected earlier, and the forecasts for third and fourth quarter turkey meat production were increased slightly. The revised forecast for third-quarter 2007 is now 1.485 billion pounds, 20 million higher than the earlier estimate. The meat production forecast for the fourth quarter was increased by 10 million pounds to 1.51 billion, up 2.5 percent from fourth-quarter 2006. The quarterly forecasts for 2008 are also increased slightly, with the total forecast for 2008 now at 5.9 billion pounds.

With the upward revisions to turkey meat production in the third and fourth quarters, the third-quarter 2007 ending stocks forecast was increased to 470 million pounds, slightly higher than a year earlier. The forecast for fourth-quarter 2007 ending stocks remains at 230 million pounds, up from 218 million pounds in fourth-quarter 2006.

Egg Prices Surge Higher in Third Quarter, Exports Strong

In August, table egg production was 537 million dozen, down 1.8 percent from the previous year. Over the first 8 months of 2007, table egg production has been 4.3 billion dozen, which is down 1.5 percent from the same period in 2006. This trend of lower production is expected to continue through the rest of third quarter and on into the fourth quarter. The major reason is that the number of birds in the table egg laying flock and the number of pullets being added to the table egg flock have been generally lower than the previous year.

The increase in wholesale egg prices in September implies that shell egg supplies have remained very tight through the end of the third quarter. In August, wholesale prices for a dozen large eggs in the New York market was \$1.12. In September, the wholesale price climbed even higher to \$1.30 per dozen, making the third-quarter 2007 average \$1.19 per dozen, up 55 cents, or 86 percent, from the same period in 2006. Prices are expected to decline only slightly to \$1.13 to \$1.17 per dozen in fourth-quarter 2007, with the traditional strong demand for eggs in the holiday season keeping prices well above year-earlier levels.

Much higher egg exports through the first 8 months of 2007 have contributed to the strength in domestic egg prices. Through August, shell egg and egg product exports have totaled the equivalent of 169 million dozen, a 37-percent increase over the same period in 2006. While three of the top four traditionally large markets -- Japan, Mexico, and Hong Kong -- have had strong growth (Canada is the exception, falling by 8.5 percent), it is the continuing large shipments of eggs and egg products to European Union countries (EU) that have pushed up export totals. The major markets in the EU have been Germany, the Netherlands, and Denmark.

Contacts and Links

Contact Information

Mildred M. Haley (coordinator)	(202) 694-5176	mhaley@ers.usda.gov
David J. Harvey (poultry)	(202) 694-5177	djharvey@ers.usda.gov
Ken Mathews (cattle)	(202) 694-5183	kmathews@ers.usda.gov
Michael McConnell (beef trade)	(202) 694-5158	mmcconnell@ers.usda.gov
Keithly Jones (sheep and goats)	(202) 694-5172	kjones@ers.usda.gov
Mildred M. Haley (hogs/pork)	(202) 694-5176	mhaley@ers.usda.gov
Roger Hoskin (dairy)	(202) 694-5148	rhoskin@ers.usda.gov
David Johnson (web publishing)	(202) 694-5222	davidj@ers.usda.gov
Christopher Davis (poultry trade)	(202) 694-5167	chrisdavis@ers.usda.gov
Fawzi Taha (eggs)	(202) 694-5178	ftaha@ers.usda.gov

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Livestock and Meat Trade Data, <http://www.ers.usda.gov/Data/MeatTrade/>, contains monthly and annual data for the past 1-2 years for imports and exports of live cattle and hogs, beef and veal, lamb and mutton, pork, broiler meat, turkey meat, and shell eggs. The tables report physical quantities, not dollar values or unit prices. Breakdowns by major trading countries are included.

Related Websites

Animal Production and Marketing Issues, <http://www.ers.usda.gov/briefing/AnimalProducts/>
Cattle, <http://www.ers.usda.gov/briefing/cattle/>
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U.S. red meat and poultry forecasts

	2004	2005	2006				2007 ^{1/}					2008				
	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Production, million lb																
Beef	24,548	24,683	6,082	6,724	6,834	6,513	26,153	6,235	6,649	6,800	6,275	25,959	6,175	6,700	6,825	26,075
Pork	20,509	20,685	5,335	5,008	5,087	5,625	21,055	5,396	5,128	5,250	5,900	21,674	5,525	5,375	5,450	22,325
Lamb and mutton	195	187	49	47	42	47	185	49	44	42	45	180	48	44	42	179
Broilers	34,063	35,365	8,938	9,130	8,884	8,801	35,752	8,574	9,021	9,025	9,050	35,670	8,850	9,250	9,275	36,525
Turkeys	5,454	5,504	1,355	1,440	1,419	1,473	5,686	1,410	1,473	1,485	1,510	5,878	1,430	1,495	1,470	5,905
Total red meat & poultry	85,441	87,097	21,920	22,516	22,428	22,619	89,483	21,819	22,478	22,764	22,936	89,997	22,187	23,031	23,223	91,654
Table eggs, mil. doz.	6,365	6,411	1,611	1,610	1,624	1,649	6,494	1,592	1,586	1,600	1,650	6,428	1,610	1,610	1,645	6,535
Per capita disappearance, retail lb ^{2/}																
Beef	66.0	65.4	15.8	16.8	16.8	16.2	65.7	15.9	16.6	16.5	15.6	64.6	15.5	16.3	16.3	63.5
Pork	51.3	49.9	12.3	11.9	11.9	13.1	49.3	12.3	12.2	12.3	13.5	50.3	12.5	12.5	12.8	51.5
Lamb and mutton	1.1	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.2	1.1
Broilers	84.2	85.6	21.8	22.5	21.9	20.7	86.9	21.0	21.4	21.4	21.3	85.1	20.8	21.9	21.9	85.8
Turkeys	17.0	16.7	3.5	3.9	4.3	5.2	16.9	3.8	4.0	4.3	5.2	17.3	3.6	4.0	4.2	17.0
Total red meat & poultry	221.4	220.5	54.1	55.8	55.6	55.9	221.4	53.6	54.8	55.1	56.3	219.9	53.3	55.4	55.8	220.5
Eggs, number	256.9	255.3	63.9	63.5	63.8	64.5	255.7	61.7	61.2	62.3	64.1	249.4	62.5	62.1	63.5	252.2
Market prices																
Choice steers, Neb., \$/cwt	84.75	87.28	89.24	80.39	85.40	86.61	85.41	90.61	93.45	91.36	91-95	92.11	90-96	90-98	87-95	88-95
Feeder steers, Ok City, \$/cwt	104.76	110.94	106.23	104.08	115.17	103.22	107.18	99.32	108.87	115.62	111-115	109.2	108-114	109-117	102-110	105-112
Boning utility cows, S. Falls, \$/cwt	52.35	54.36	48.89	47.79	49.28	44.29	47.56	51.04	53.96	54.07	50-52	52.52	48-52	49-53	48-52	48-52
Choice slaughter lambs, San Angelo, \$/cwt	96.69	97.76	77.03	66.56	81.10	84.53	77.31	82.59	82.23	87.33	88-92	85.54	87-93	88-96	86-94	88-95
Barrows & gilts, N. base, i.e. \$/cwt	52.51	50.05	42.63	48.45	51.83	46.13	47.26	46.04	52.55	50.34	41-43	47.73	41-45	45-49	47-51	44-48
Broilers, 12 City, cents/lb	74.10	70.80	62.7	61.0	67.8	65.9	64.4	75.0	80.3	79.2	71-73	76.6	71-77	74-80	74-80	72-78
Turkeys, Eastern, cents/lb	69.70	73.40	67.3	71.3	79.4	89.8	77.0	69.7	77.9	89.9	90-94	82.4	71-77	73-79	76-82	75-81
Eggs, New York, cents/doz.	82.20	65.50	71.4	62.7	64.0	89.0	71.8	105.3	92.0	119.1	113-117	107.9	96-102	83-89	87-95	89-97
U.S. trade, million lb																
Beef & veal exports	460	698	223	315	307	308	1,153	269	363	425	395	1,452	400	460	505	1,875
Beef & veal imports	3,679	3,599	843	789	731	722	3,085	770	884	800	790	3,244	835	885	855	3,420
Lamb and mutton imports	180	180	53	44	41	52	190	56	44	46	52	198	57	51	43	198
Pork exports	2,181	2,665	770	763	653	811	2,997	792	685	690	860	3,027	780	785	670	3,085
Pork imports	1,099	1,024	259	237	239	254	989	239	256	245	265	1,005	245	250	260	1,025
Broiler exports	4,784	5,203	1,338	1,298	1,224	1,412	5,272	1,275	1,393	1,400	1,400	5,468	1,350	1,380	1,410	5,565
Turkey exports	442	570	119	125	152	149	546	124	135	140	155	554	135	150	160	605
Live swine imports (thousand head)	8,506	8,192	2,133	2,087	2,205	2,338	8,763	2,302	2,370	2,500	2,500	9,672	2,325	2,400	2,500	9,750

^{1/} Forecasts are in bold.

^{2/} Per capita meat and egg disappearance data are calculated using the Resident Population Plus Armed Forces Overseas series from the Census Bureau of the Department of Commerce.

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

For further information, contact: Mildred Haley, (202) 694-5176, mhaley@ers.usda.gov

Economic Indicator Forecasts

	2006					2007					2008		
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
GDP, chain wtd (bil. 2000 dol.)	11,381	11,385	11,433	11,542	11,319	11,549	11,508	11,579	11,656	11,539	11,733	11,818	11,864
CPI-U, annual rate (pct.)	2.0	3.4	2.9	-2.2	2.0	3.8	6.0	2.6	2.0	3.6	2.3	2.4	2.2
Unemployment (pct.)	4.8	4.7	4.7	4.5	4.6	4.5	4.5	4.6	4.7	4.6	4.7	4.7	4.7
Interest (pct.)													
3-month Treasury bill	4.4	4.8	4.9	4.9	4.7	5.0	4.7	4.8	4.9	4.9	4.9	4.8	4.8
10-year Treasury bond yield	4.6	5.1	4.9	4.6	4.8	4.7	4.9	4.9	5.0	4.8	5.0	4.9	5.1

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, August 2007.
 For further information, contact: Roger Hoskin 202 694 5148, rhoskin@ers.usda.gov
 Published in Livestock, Dairy, and Poultry Outlook, <http://www.ers.usda.gov/publications/ldp>

Dairy Forecasts

	2006			2007					2008			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Milk cows (thous.)	9,113	9,115	9,112	9,130	9,129	9,165	9,180	9,150	91,200	9,220	9,230	9,220
Milk per cow (pounds)	4,906	4,894	19,951	5,039	5,197	5,040	4,990	20,265	5,185	5,290	5,080	20,625
Milk production (bil. pounds)	44.7	44.6	181.8	46.0	47.4	46.2	45.8	185.4	47.7	48.8	46.9	190.2
Farm use	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.3	1.1
Milk marketings	44.4	44.3	180.7	45.7	47.2	45.9	45.5	184.3	47.4	48.5	46.6	189.0
Milkfat (bil. pounds milk equiv.)												
Milk marketings	44.4	44.3	180.7	45.7	47.2	45.9	45.5	184.3	47.4	48.5	46.6	189.0
Beginning commercial stocks	13.5	11.6	8.0	9.5	11.9	13.6	12.2	9.5	9.8	12.4	14.2	9.8
Imports	1.1	1.5	5.0	1.1	1.2	1.1	1.5	4.9	1.1	1.2	1.1	4.8
Total supply	59.1	57.5	193.6	56.3	60.2	60.7	59.2	198.8	58.3	62.0	61.9	203.7
Ending commercial stocks	11.6	9.5	9.5	11.9	13.6	12.2	9.8	9.8	12.4	14.2	12.0	9.3
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	47.4	48.0	184.1	44.4	46.6	48.5	49.4	189.0	45.9	47.8	49.9	194.4
Skim solids (bil. pounds milk equiv.)												
Milk marketings	44.4	44.3	180.7	45.7	47.2	45.9	45.5	184.3	47.4	48.5	46.6	189.0
Beginning commercial stocks	10.2	9.1	9.0	9.1	9.7	10.1	9.9	9.1	9.3	9.8	10.2	9.3
Imports	1.1	1.4	4.8	1.0	1.1	1.1	1.4	4.6	1.0	1.1	1.1	4.6
Total supply	55.7	54.8	194.4	55.8	58.0	57.1	56.8	198.0	57.7	59.4	57.9	202.9
Ending commercial stocks	9.1	9.1	9.1	9.7	10.1	9.9	9.3	9.3	9.8	10.2	9.7	9.2
Net removals	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	46.7	45.7	184.5	46.1	47.9	47.2	47.5	188.7	47.9	49.2	48.2	193.7
Milk prices (dol./cwt) 1/												
All milk	12.23	13.90	12.90	15.00	18.27	21.70	20.80	18.95	19.80	17.65	16.55	17.70
							-21.20	-19.05	-20.50	-18.65	-17.55	-18.60
Class III	11.42	12.88	11.89	14.28	17.95	20.43	18.03	17.65	16.98	15.66	14.95	15.50
							-18.43	-17.75	-17.68	-16.66	-15.95	-16.50
Class IV	10.65	11.97	11.06	12.98	18.45	21.71	21.08	18.50	19.40	17.18	16.30	17.35
							-21.58	-18.70	-20.20	-18.28	-17.40	-18.35
Product prices (dol./pound) 2/												
Cheddar cheese	1.217	1.316	1.247	1.352	1.627	1.978	1.857	1.705	1.752	1.590	1.520	1.590
							-1.897	-1.715	-1.822	-1.690	-1.620	-1.680
Dry whey	0.289	0.381	0.329	0.592	0.766	0.610	0.400	0.590	0.395	0.438	0.428	0.430
							-0.420	-0.600	-0.425	-0.468	-0.458	-0.460
Butter	1.210	1.267	1.219	1.227	1.421	1.428	1.275	1.330	1.203	1.152	1.215	1.195
							-1.345	-1.360	-1.303	-1.282	-1.345	-1.315
Nonfat dry milk	0.852	0.986	0.893	1.182	1.668	2.043	2.039	1.725	1.877	1.648	1.515	1.645
							-2.079	-1.745	-1.937	-1.718	-1.585	-1.715

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

Source: World Agricultural Supply and Demand Estimates and supporting materials.
For further information, contact: Roger Hoskin 202 694 5148, rhoskin@ers.usda.gov
Published in Livestock, Dairy, and Poultry Outlook, <http://www.ers.usda.gov/publications/ldp>