

Livestock, Dairy, and Poultry Outlook

Economic Research Service
U.S. Department of Agriculture

Aug. 17, 2011
LDP-M-206 text

Approved by the World Agricultural Outlook Board



Our ability to produce supporting tables and charts for Outlook reports has been interrupted as our servers are being transported to their new location by August 17. Full versions of all Outlook reports, complete with tables and charts, are expected to be available by Tuesday, August 23.

High Feed Prices Curb Production in 2012

Beef/Cattle: Drought continues to motivate sales of cattle in Southern auctions and placements in feedlots. These sales and placements are occurring despite high grain prices.

Pork/Hogs: Accelerating pork exports are expected to maintain hog and pork prices at or near record highs for the balance of 2011.

Poultry: Broiler meat production increased strongly during the first 6 months of 2011 (up 4.8 percent), growth in the first quarter was 6.4 percent higher than the previous year and second-quarter production was 3.3 percent higher than a year earlier. In the second half of 2011, broiler meat production is expected to decline as lower bird numbers offset an expected increase in average bird weights. Higher feed costs and slow growth in the domestic economy are expected to combine to reduce production. Turkey meat production is expected to decline in the second half of 2011 as the number of birds available for slaughter decreases. Poultry placements on a year-over-year basis have been lower for the last 3 months.

Dairy: Milk production will continue to rise both this year and next. Fats basis exports will rise in 2011 from last year but soften slightly in 2012. Skims-solids export will show slight increases both this year and next. Higher milk production and slower growth in exports will pressure prices in 2012.

Drought Weighing in on Cow Slaughter

July 1 beef cow inventories have been declining since reaching a cyclical peak of 36.1 million cows on July 1, 1995. Since July 1995, there have only been 2 years in which beef-cow inventories increased (143,000 head from 2004 to 2005 and 28,000 head from 2005 to 2006) from prior-year inventories. On July 1, 2011, beef cow inventories were down another 1 percent year-over-year. Beef replacement heifer inventories were down by 5 percent. The lower year-over-year beef cow inventory and the 5-percent decline in beef replacement heifer inventories imply very little potential for beef cow herd expansion before 2014.

Once it is decided to retain a heifer for breeding, she must be allowed to grow to a sufficient size for breeding. After she is bred, gestation requires another 9 months before she can calve. Only after a heifer has a calf is she added to either the January 1 or July 1 beef cow inventory, depending on whether she was bred to calve when she would be about 24 months of age. In addition to a long biological cycle, much of what occurs in cow-calf production is highly seasonal.

While dairy cow inventories have been trending lower during the same 1995-to-present period, they have been more variable as they responded to fluctuations in milk prices and Cooperatives Working Together whole-herd buyouts. July 1, 2011 milk cow inventories were about 1 percent above 2010.

Calf crops have also declined steadily since 1995, and the 2011 calf crop is now projected to be 1 percent below 2010's calf crop. Although there are exceptions, and because most steers and heifers are placed on feed at about 12 to 15 months of age, one year's calf crop translates roughly into the next year's placements of steers and heifers on feed. Thus, 2011's lower calf crop implies a reduction of placements of feeder calves in 2012.

As feedlot inventories decline and beef cow slaughter diminishes, beef production will likely begin to decline during the last half of 2011. The impacts of smaller calf crops this year and likely next year imply a smaller pool of feeder cattle for placement in feedlots and subsequently tighter supplies of fed cattle.

Cattle prices at all levels reached record highs during the first half of 2011. Despite these record prices and their expected high levels through 2012, drought impacts, high feed and energy prices, macroeconomic uncertainty, and increased equity requirements for cattle loans have dampened enthusiasm for cow-herd expansion.

Heavy Placements of Cattle on Feed Portend Future Beef Production

During the first half of 2011, net placements were 2 percent above placements for the first half of 2010 as drought has pushed cattle off pastures in many parts of the country, and most of these feeder cattle have gone into feedlots. This increase occurred despite relatively high corn prices and almost 4 percent fewer feeder cattle outside feedlots. With almost 4 percent more cattle in feedlots of 1,000 head or more capacity, marketings will remain above year-earlier through the third quarter. However, as marketings begin to decline in the fourth quarter, beef production will begin to decline.

While the direction prices will take over the next few months is uncertain due to heavy marketings of fed cattle, retail beef prices are likely to increase over the next several years as beef cow inventories are rebuilt and more heifers are kept for herd building and diverted from placement in feedlots. How high retail prices go will depend on the economic recovery, retail prices of pork and poultry, how rapidly exports increase, and how rapidly beef cow inventories are replenished.

Exports Driving Prices Across the Pork Supply/Demand Space

Second-half hog and pork prices are expected to remain record-high, supported in large part by accelerating pork exports. USDA raised its forecasts for both third- and fourth-quarter 2011 pork exports, with shipments to Asia and North America expected to be particularly robust. Third-quarter exports are expected to be 1.2 billion pounds, more than 26 percent higher than a year earlier. Fourth-quarter exports are forecast to be 1.3 billion pounds, more than 13 percent above the same period last year. In total, U.S. pork exports will likely exceed 5 billion pounds, both this year, at just over 5 billion pounds, and in 2012, at 5.1 billion pounds.

Several factors are accelerating foreign demand for U.S. pork products, but the continued low exchange rate of the U.S. dollar is probably foremost. The low-valued dollar translates into well-priced U.S. pork products in foreign markets, particularly when compared with pork produced by international competitors such as Denmark and Canada. Additionally, pork product deficits in South Korea created by recent foot and mouth disease outbreaks continue to drive South Korean demand, while it also appears that Chinese buyers have contracted for late-summer/fall shipments of U.S. pork as part of an effort to stem Chinese food price inflation.

While second-half U.S. commercial pork production is anticipated to be slightly higher than a year ago, strong export demand is tightening domestic pork supplies, contributing to record prices for hogs and for prices of wholesale and retail pork. In fact, it is likely that 22.1 percent of U.S. pork production will be exported this year, an impressive statistic considering that in 2000, 6.8 percent of U.S. commercial pork production was exported. The flip side of strong exports this year is lower available pork per capita. This year, retail weight per capita pork disappearance is expected to be 45.9 pounds, down from 47.7 pounds last year and from 51.3 pounds in 2000.

Second-quarter 2011 prices of live equivalent 51-52 percent lean hogs were record-high for that quarter, at \$68.80 per cwt. Third-quarter hog prices are expected to average \$69-\$70 per cwt, and in the fourth quarter, \$60-\$64. If realized, these prices would establish record highs for each quarter. Strong pork demand is also being reflected in pork wholesale prices. The USDA Wholesale Carcass Cutout averaged \$99.27 in July, up 18 percent from July of last year and almost 61 percent greater than in July 2009.

U.S. consumers are paying higher retail pork prices for lower domestic supplies. July retail pork prices were \$3.481 per pound, down just slightly from the all-time record-high retail price of 3.484 in June, and almost 9.3 percent higher than in July 2010. Retail prices are expected to remain in the neighborhood of the mid-\$3.40s for the balance of 2010, with next year expected to average in the low-\$3.40s per pound.

Broiler Meat Production Up 5 Percent in June

Broiler meat production in June totaled 3.3 billion pounds, up 4.5 percent from the previous year. The June production increase pushed total production for second-quarter 2011 to 9.5 billion pounds, 3.3 percent higher than in second-quarter 2010. This is the fourth consecutive quarter of 3 percent or greater year-over-year increases in broiler meat production. In first-half 2011, broiler meat production was 18.8 billion pounds, 4.8 percent higher than a year earlier. This year-over-year growth in broiler meat production is expected to halt in third-quarter 2011, with production estimated at 9.4 billion pounds, 1.3 percent lower than in third-quarter 2010. Lower production is expected to continue in the fourth quarter, with production in the second half of 2011 expected to total 18.6 billion pounds, a decrease of 2 percent from the same period in 2010.

Over the first half of 2011, the number of broilers slaughtered was 4.3 billion, an increase of 2 percent from a year earlier. The other factor in broiler meat production growth during the first half of 2011 has been higher average live weights at slaughter. During the first 6 months of 2011, the average live weight at slaughter was 5.79 pounds, up 2.4 percent from first-half 2010. In second-half 2011, the number of broilers slaughtered is expected to be down significantly from the previous year, but average bird weights at slaughter are expected to remain well above the previous year throughout the second half of 2011.

The number of chicks being placed weekly for growout has averaged approximately 165 million during the 5-week period July 9 to August 6. This is down over 4 percent from the same weekly period in 2010. Weekly placements of broiler eggs in incubators point to continued declines in the number of chicks available for growout compared with the previous year. Over the last 4 reported weeks, the number of eggs being placed in incubators has averaged almost 6 percent lower than during the same period a year earlier.

Even with relatively strong exports, the strong increases in production and a weak domestic economy have led to an increase in broiler meat stocks. Cold storage holdings at the end of the second quarter totaled 710 million pounds, 12 percent higher than a year earlier. One factor in the increase in cold storage holdings was higher stocks of breast meat products. Breast meat in cold storage was estimated at 155 million pounds, 47 percent higher than the previous year. Stock changes for leg meat products were mixed, with holdings of drumsticks and leg quarters up 39 and 14 percent. Partially offsetting these increases were declines in the cold storage holdings for legs, thighs, and thigh meat.

With the generally weak economy and the strong growth in production in second-quarter 2011, the estimates for ending stocks for the third and fourth quarters of 2011 were increased. The estimate for third-quarter 2011 was raised to 685 million pounds and the estimate for fourth-quarter 2011 was increased to 700 million pounds.

In 2011, wholesale prices for broiler products have generally declined compared with a year earlier. Prices for whole birds averaged 82.6 cents per pound in the second quarter of 2011 and are forecast to average 81 to 83 cents per pound in the third quarter. Even with falling production in the second half of 2011, whole bird prices are not expected to strengthen much. The forecast for fourth-quarter 2011 is only 81 to 85 cents per pound. In 2012 as lower production begins to impact stock levels, broiler prices are expected to experience some upward price pressure. However, any upward pressure is expected to also depend on a gradual strengthening of economic conditions.

Turkey Production Rises 6 Percent in First-Half 2011

Turkey meat production during the first 6 months of 2011 was 2.9 billion pounds, 5.5 percent higher than in the same period in 2010. The increase in turkey meat production was due to a higher number of birds slaughtered, up 4.6 percent, along with an increase in live weights at slaughter. Over the first 6 months of 2011, live turkey weights averaged 30.1 pounds, up 1.1 percent from the same period in 2010.

The forecast for turkey meat production in the second half of 2011 is 2.9 billion pounds, down slightly (less than 1 percent) from the same period in 2010. The decrease in turkey meat production is expected to come chiefly from a smaller number of birds slaughtered, as average live weights at slaughter are expected to continue slightly higher than those of the previous year.

Over the first 6 months of 2011, the number of turkey poult placed for growout totaled 139 million, up less than 1 percent from the same period in 2010. However, on a year-over-year basis, poult placements have been lower than the previous year over the last 3 months.

After declining on a year-over-year basis for the previous seven quarters, turkey stocks at the end of second-quarter 2011 were 510 million pounds, marginally higher than the previous year. Although turkey meat production is expected to be lower in the second half of 2011 compared with the previous year, turkey stocks are expected to remain above their year-earlier levels through the end of the year.

At the end of second-quarter 2011, whole birds stocks totaled 271 million pounds, down 3 percent, and stocks of breast meat were 72 million pounds, 8 percent lower than the previous year. However, any explanation of changes in turkey stocks is complicated by the fact that 148 million pounds of the cold storage holdings are in categories labeled “other” and “unclassified.”

Stocks of whole turkeys are still lower than the previous year, and the number of birds slaughtered in the second half of 2011 is expected to be lower than the previous year. Both these factors point to continued strength in prices for whole birds. Prices for whole hens in second-quarter 2011 were \$1.00 per pound, and the price for third-quarter 2011 is forecast at \$1.04 to \$1.08 per pound. Prices are expected to strengthen even further in the fourth quarter to \$1.06 to \$1.12 per pound, slightly higher than the previous year.

Egg Production Rises in First-Half 2011

In the first half of 2011, production of table eggs was 3.3 billion dozen, up about 1 percent from first-half 2010. However, production of hatching eggs fell by 0.7 percent compared with the previous year. The decrease in hatching egg production was chiefly the result of the gradual decline in broiler chick production for growout. Hatching egg production in the first half of 2011 was 532 million dozen. Production of table eggs in the second half of 2011 is expected to be about even with the previous year, and production is expected to be lower on a year-over-year basis in the first two quarters of 2012. Production of hatching eggs, especially those from meat-type birds, is expected to decline in the second half of 2011 as broiler chick production continues to be below the previous year.

Even with higher table egg production in second-quarter 2011, prices for eggs remained strong and averaged almost \$1.07 per dozen, up 24 cents from second-quarter 2010. With little or no growth expected in the second half of 2011, prices are expected to be above the previous year in third-quarter 2011 at \$1.04 to \$1.08 per dozen. However, with the weak economy, egg prices in fourth-quarter 2011 are expected to be lower than the previous year at \$1.12 to \$1.18 per dozen. The weak economy is expected to provide less of a seasonal boost in prices than in other years.

The U.S. Dairy Cow Herd Continues To Expand, but Output per Cow Projections Have Decreased; More Milk and Slowing Demand Will Likely Weaken Prices Across the Board in 2012

Corn prices continue their upward trajectory, with August forecasts for 2011/12 raised from July to \$6.20 to \$7.20 per bushel. Soybean meal prices were raised as well, to \$355 to \$385 per ton for 2011/12. Alfalfa prices are expected to remain high into 2012. The most recent *Cattle* report estimated that producers were retaining 4 percent more replacement heifers than last year. The retention, combined with a 1 percent higher dairy cow inventory on July 1, led to an increase in the dairy herd forecast for both 2011 and 2012. The U.S. dairy cow herd is forecast at 9.195 million head in 2011 and 9.190 million head in 2012. Milk per cow is forecast to increase fractionally in 2011 to 21,275 pounds as higher feed prices and hot weather take a toll on output. Next year, output per cow is forecast to increase to 21,630. Milk production is projected at 195.6 billion pounds in 2011, down from July's estimate due to lower output per cow. Production in 2012 is forecast at 198.8 billion pounds, reflecting a larger expected herd size. The larger herd size is offset by a lower forecast of milk per cow as feed prices will keep growth in output per cow below trend.

Milk equivalent imports were reduced in August from July to 3.2 billion pounds on a fats basis and 4.8 billion pounds on a skims-solids basis. Lower expected cheese imports are the main cause. Fats basis exports were raised from July to 9.0 billion pounds in 2011 based on strength in butterfat exports. Fats basis exports for 2012 remain unchanged from last month at 8.7 billion pounds. Exports on a skims-solids basis for 2011 were raised slightly from July to 32.2 billion pounds and to 32.3 billion pounds for 2012. Increases in milk production in Oceania and weakening international demand will impact exports.

Prices estimates for cheese, butter, and whey were increased from July based on current price strength. Nonfat dry milk (NDM) prices were lowered from July based on weaker international prices. Cheese prices are expected to average \$1.855 to \$1.875 per pound in 2011 and slip to \$1.670 to \$1.770 per pound in 2012. Butter prices are projected to average \$1.955 to \$1.995 per pound this year and fall to \$1.615 to \$1.745 per pound in 2012. NDM prices are forecast to average \$1.500 to \$1.520 per pound in 2011 and fall to \$1.370 to \$1.440 per pound next year. Whey prices are expected to average 48.0 to 50.0 cents per pound in 2011 and decline to 41.1 to 44.0 per pound in 2012. Class III prices were raised from July to \$18.40 to \$18.60 per cwt based on higher expected cheese prices. The Class III price is forecast at \$16.10 to 17.10 per cwt in 2012, a year-over-year decline from this year but a slight increase from the July forecast. The 2011 Class IV price forecast was lowered from July to \$19.05 to \$19.35 per cwt based on lower NDM prices. The 2012 Class IV forecast was also lowered from July's forecast to \$16.45 to \$17.55 per cwt. The all milk price projection is \$20.30 to \$20.50 per cwt, an increase from July. Similarly, the all milk price forecast was raised to \$17.80 to \$18.80 per cwt for August, but this represents a substantial year-over-year decline from 2011.