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Lower Cattle Inventories Point to Reduced Beef Supplies

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Tables will be released on Feb 26, 2008

The next newsletter release is Mar 19, 2008

Approved by the World Agricultural Outlook Board.

Beef/cattle: Lower inventories, especially beef cows, beef replacement heifers, and feeder cattle available for placement in 2008, pave the way for reduced beef supplies in 2008. Domestic economic weakness will contribute to negative pressure on the beef and cattle sectors. Weather and trade will play significant roles in domestic supply and price volatility.

Beef/cattle trade: Beef imports decline as heavy cow slaughter and a weak dollar lower the demand for foreign beef. Exports have also slowed in part due to global economic conditions. Imports of live cattle from Canada continue to be strong in 2008.

Dairy: Milk production will continue upward through most of 2008 lowering prices. However, a weak dollar and the small number of competing suppliers should help U.S. dairy exports and keep demand firm, despite some weakening in domestic demand.

Lamb/sheep: After consecutive increases in 2005 and 2006, sheep inventory has declined for the past 2 years. Liquidation in Texas was unusually high, despite improved weather conditions in 2007. The NASS *Sheep and Goats* report shows the inventory of all sheep and lambs decreased in 2007, down 2 percent to 6.06 million head, a 110,000-head decline from a year earlier. Breeding sheep inventory showed the greatest decline, from 4.62 to 4.51 million head. A 1-percent decline was also seen in the 2007 lamb crop, and this is expected to result in further production declines for 2008, with production expected at around 179 million pounds. As a result, slaughter lamb prices are expected to remain strong for 2008 and average around $88-$94 per hundredweight.

Pork/hogs: Larger-than-expected hog slaughter in January prompted USDA to raise its forecast for 2008 commercial pork production to 23 billion pounds, 5 percent above last year's production. For the first quarter of 2008, hog prices are expected to average between $38 and $40 per cwt, more than 15 percent below a year ago. With costs of producing slaughter-ready hogs estimated in the low-to-mid $50's per hundredweight (cwt), most hog producers are likely to operate in the red in 2008. Despite strong production increases, pork demand continues to be robust so far in 2008, as evidenced by modest increases in pork cold stocks and moderate declines in wholesale prices.

Poultry: Broiler meat production in 2007 was 35.9 billion pounds, up less than 1 percent from the previous year. The outlook for 2008 is for relatively strong growth in production in the first half of the year, with production growth slowing in second-half 2008 as weaker prices dampen production increases. The production estimate for 2008 was increased to 37.0 billion pounds, as the continuing higher numbers of chicks being placed for growout is expected to result in a higher number of birds slaughtered. Turkey meat production in 2008 is forecast at 6.1 billion pounds, up 2.6 percent from 2007. The turkey industry has continued to gradually expand in response to relatively strong prices over the last several years.

Lower Cattle Inventories Point to Reduced Beef Supplies

January 1, 2008 total cattle and calf inventory estimates, released February 1, 2008 in the National Agricultural Statistics Service's *Cattle* report, remained virtually unchanged from both the January 1, 2007 and January 1, 2006 inventories. Cow inventories declined for the second year, attributable to declines in the beef herd, as dairy cow inventories increased by about 2 percent since January 1, 2006. A smaller calf crop in 2007, combined with some anticipated heifer retention in 2008, suggests that fewer cattle may be available for placement on feed during 2008. However, many of the feeder cattle that would have been placed in 2008 were placed during the last quarter of 2007 when anticipated winter forage sources failed to materialize. Other factors contributing to a negative outlook for cattle inventories include declining prices throughout the beef and cattle complex due to abundant supplies of both pork and poultry, weak economic growth due to higher fuel and food prices, and continuing economic concerns.

Cattle cycles can be defined as total inventories from peak to peak or from trough to trough as used here. Each cycle consists of an expansion phase, a consolidation phase, and a liquidation phase. Historically, and prior to the current cycle, the shortest expansion phase, of 3 years, occurred from 1980 to 1982 when inventories increased by 4 percent from their low. This expansion followed a liquidation that lasted 8 years from 1983 to 1990, when inventories declined by 17 percent. The next cattle cycle peaked in 1996, increasing 8 percent from its 1990 low—a 6-year expansion. This was followed by an 8-year, drought-extended liquidation that saw inventories decline by 8 percent and left a 2004 cattle inventory about a million head lower than the January 1, 1990 trough. The shortest liquidation phase in historical terms occurred during the cattle cycle that began in 1959, peaked in 1965, and bottomed in 1967—a 2-year liquidation. The expansion phase of the current cattle cycle began in 2005 and peaked in 2007. With the January 1, 2008 inventory report, U.S. inventories are 1 year into a liquidation phase. Declines in both beef cow inventories (down 1 percent) and beef heifer inventories (down 4 percent) suggest that further declines are in store for January 1, 2009.

A number of factors in the future could fuel a continuation of the current inventory liquidation. Weather patterns, especially drought, will play a key role under any set of circumstances. Dry conditions have contributed to the weak expansion observed in the current cattle cycle. Other factors supporting further liquidation are the escalating demand for corn due to the congressionally mandated Renewable Fuel Standards for ethanol through the next 15 years; the ethanol-related effects on corn prices and other grains; and competition among various crops for acres. Roughages for cellulosic ethanol production will, at some point, amount to another acreage-competitive crop. Increased foreign demand for corn and other grains will exacerbate the domestic cattle-grain sector picture. Sustained higher energy prices will increase costs across the board, from basic farm-level production to transport of final retail products. The relatively high value of beef and the much quicker turnaround characteristic of other livestock species will put them at the forefront of any responses to increased demands for meats.

Not all factors the cattle sector is facing are necessarily negative. Normal weather would provide some flexibility to the cattle sector, particularly with respect to placement of cattle in feedlots and heifer retention. Relatively abundant pasture could lead to reduced beef production during the latter half of 2008, if feeder cattle could be kept on pasture until they reached heavier weights, thus shortening feeding periods and potentially spreading placements into the future. The impetus for longer grazing will come from cattle feeders themselves because they will face higher feed costs when they do place cattle on feed. Longer pasturing this summer could help alleviate the lower cattle feeding-beef production expectations for 2009, when inventories could be even lower, by pushing placements so far into the future that cattle would not become market-ready until 2009. Increases in trade with Japan and a resumpiton of trade with Korea would strengthen demand and prices for beef that would trickle down to the cattle sector and provide support for live cattle prices.

Cow-Calf Sector the Last To See Returns Deteriorate

Profits in the cow-calf sector continue a steady decline from their 2003 highs, when drought-induced liquidation and disruptions in the flow of Canadian cattle and beef to the United States resulted in low cattle inventories and high cattle and beef prices. Conditions that motivated cow slaughter during the last half of 2007 have eased somewhat this winter, but heavier cow slaughter than is consistent with the January 1 cow inventory could continue through the first quarter of 2008. The slaughter-inducing conditions are high and increasing feed prices, including high prices for poor-quality hay, absence of winter pasture, and a positive but deteriorating profit picture for cow-calf producers.

Beef from cull cattle will offset expected declines in beef from fed cattle slaughter. Cull slaughter has been especially heavy, particularly since Canadian cows and bulls have not contributed their roughly 300,000 head annually to U.S. cull cattle slaughter numbers since May 2003. Cull cow and bull slaughter for the 5 pre-BSE years 1999 through 2003 averaged about 6.4 million head per year and for 2004 through 2007 has averaged 5.8 million head. Average annual total commercial cattle slaughter for the 4-year period is about 3.5 percent below average annual levels for the 5 pre-BSE years. Total commercial beef production is about 1 percent below pre-BSE levels. This relationship between changes in slaughter and beef production is largely due to the United States allowing Canadian beef to be imported after August 2003 and cattle 30 months of age and under to be imported for slaughter (or feeding for slaughter) after July 2005, although it is in addition to trendline weight increases.

There likely will be some increase in Canadian cull cattle and fed cattle exports to the United States, and some shifts between imports of beef from cattle 30 months and younger and cattle older than 30 months (born after March 1999). Canadian packers have some incentives to maintain their packing industry above some minimum level. The strong Canadian dollar also makes exporting lower priced culled animals/beef to the United States more economical than exporting the more expensive under-30-month beef/animals. Higher quality beef can be sold to other countries where Canada has a more favorable exchange rate.

Some recent movement of cattle from Canada to the United States has also been weather- and market-driven. Overall U.S. beef production from all sources probably won't change much as a result of Canadian cattle-beef sector activity.

Feedlot Sector Squeezed in 2008

A smaller calf crop in 2007, combined with some heifer retention in 2008, suggests fewer cattle will be available for placement on feed during 2008. Many cattle that would have been placed in 2008 were placed during the last quarter of 2007. These early placements will be subject to higher feeding costs because of the longer feeding periods required for the cattle to reach market weights, although marketings will likely be shifted only slightly forward. The early placements could result in lower placements later in 2008, because some of the cattle placed early would normally have been overwintered without gaining much weight and then pastured at least part way through the summer before placement later in the year. Feedlot placements will also be affected by the smaller 2007 calf crop.

Cattle feeders will likely face wide feeder cattle-fed cattle price margins and higher feeding costs in 2008. This squeeze will be due to competition this spring for feeder cattle between pasture demand and feedlot demand. Feeder cattle prices could pair with higher prices for corn and other feeds—due to increased demand for corn for ethanol and competition for crop acreages—to generate tight or negative cattle-feeding margins. Fed cattle prices will face pressure from the wholesale beef sector because of excess slaughter capacity, abundant pork and poultry supplies, and the expected lackluster retail sales outlook associated with the weak overall U.S. domestic economic picture.

Fed cattle prices could reach lows both in the near term and during the latter part of the year. Near-term pressure will come from packers being squeezed between wholesale beef cutout values, which are challenged by the current overcapacity, and possible building inventories of market-ready cattle, although evidence for a cattle buildup is mixed. Factors indicating some inventory buildup include the slightly-higher-than-seasonal values for the percentage of slaughter cattle grading Choice or better, large placements of heavy cattle throughout the fall and winter (2007/08), which should begin to go to slaughter, and recently announced discounts by at least one packer for heavy carcasses. Factors indicating tight supplies of fed cattle include the ability for cattle feeders to maintain relatively high fed cattle prices in the face of current packer margins and abundant supplies of competing meats and the relatively high drop values.

Monthly average wholesale Choice and Select beef cutout values for the last several months have been about even with values for the same months a year earlier, ranging from 2 percent below (Select, October 2007 over 2006; Choice, January 2008 over 2007) to 6 percent above (Select, December 2007 over 2006). Monthly farm-to-wholesale margins have been narrower than a year earlier by as much as 47 percent (July 2007). Although they have improved substantially in recent months (December 2007 down by 14 percent from December 2006), wholesale beef cutout values appear to be insufficient to provide enough revenue for packers to offset losses encountered over the last several months.

Offsetting some of the pressure from too-narrow margins, drop values—again approaching record levels (weekly basis as of February 2, 2008)—are favorable to packers, and have been for much of the last year.

Retail Choice beef prices averaged 5 percent higher for December 2007 over December 2006 prices. The annual average retail beef price for 2007, at $4.16, was also 5 percent over 2006 and exceeded the previous 2005 record of $4.09. With total meat disappearance at 83.8 billion pounds (carcass-weight-equivalent), or 221 pounds retail weight per capita, and down fractionally from 2006's 222 pounds, it will be hard for retail beef prices to maintain these levels in the face of abundant pork and poultry supplies and their concomitant declining prices.

Beef/Cattle Trade

Beef Imports Slow at the End of 2007

Exchange rates and cow slaughter continued to affect beef imports in the final quarter of 2007. Heavy cow slaughter late last year increased the supply of processing meat used for products such as ground beef. Most foreign beef imported into the United States is processing meat. The weak dollar has effectively raised the price of foreign beef. The combination of increased domestic supply and more expensive foreign products has substantially decreased the demand for imported beef.

U.S. beef imports from nearly every major trading partner fell in the final months of 2007. The forecast for 2007 is 3.048 billion pounds of imported beef, which would be the third straight year of declining beef imports. The decline in imports is anticipated to continue, particularly early into 2008, as the resultant meat from the heavy domestic cow slaughter works its way to the marketplace and the dollar remains relatively weak. A slowing economy and the availability of competing meats should also contribute to weaker imports in 2008.

U.S. beef exports also slowed in the fourth quarter of 2007. After accelerating in the second and third quarters, U.S. exports to Japan appear to have since weakened. Domestic wholesale prices of high-value beef have been increasing, potentially affecting export markets. Concerns of a global economic slowdown may also be a major reason for the slower growth in U.S. beef exports, despite the weak dollar, which would make U.S. beef more competitive. New markets have been developing, however. Weekly export sales reports over the past few weeks have shown Vietnam becoming a larger market for U.S. beef. Vietnam joined the WTO in 2007 and has since reduced tariffs on beef. Total export forecasts in 2007 and 2008 are lowered to 1.431 billion pounds and 1.670 billion pounds, respectively, as the developing markets will not eclipse the decline in major export markets.

Based on AMS reports, cattle imports into the United States remained strong through the end of 2007. Cattle imports for 2007 are estimated to have been 2.5 million head, up from 2.289 million head in 2006. Official data will be released on February 15, 2008. The increase was mainly due to feeder cattle from Canada, although imports of slaughter cattle were above those of last year. Policy changes allowing cattle older than 30 months to cross the border also contributed to the increase in total imports.

According to weekly import reports for early 2008, the number of feeder cattle entering from Canada is similar to the past 2 years. This is in contrast to the end of last year, where imports of Canadian feeder cattle were several times higher than in 2006. This year will be the first full year since 2003 that slaughter cows and bulls, as well as breeding males and females, are eligible to be exported to the United States from Canada, which should keep 2008 imports above those of 2007. The forecast for cattle imports into the United States for 2008 is 2.6 million head.

Dairy

Higher Milk Production in 2008 Softens Prices; Exports Bolster Demand

Milk production is forecast to rise 2.7 percent in 2008 over 2007, reaching 190.6 billion pounds. The increase comes as cow numbers are forecast to rise just over 1 percent in 2008. The *Cattle* report indicated that on the first of the year, dairy cow numbers were 1 percent above the previous January 1st. Operators expected to retain 3 percent more heifers, and heifers expected to calve in 2008 were also 3 percent above a year earlier. This projected herd increase comes in the face of soaring feed prices. Corn is expected to average $3.75 to $4.25 a bushel, and soybean meal is forecast to average $305 to $335 a ton for the 2007/08 marketing year. Alfalfa hay prices will depend on improved weather and producers' planting responses to high grain prices. Lower milk prices and higher feed costs will likely dampen herd expansion later in 2008. Although production per cow will likely be affected by feed costs and hay availability, output per cow is projected to rise 1.6 percent to 20,605 pounds in 2008. Milk production growth will likely begin to slow in the second half of 2008.

The value of dairy exports set a record in fiscal year (FY) 2007 and is expected to set another in FY 2008. However, expansion is expected to be less robust, and international prices have softened. U.S. cheese exports are forecast to climb 5 percent above 2007's record 95,000 metric tons. Australian cheese exports are expected to decline again in 2008. Although Australia has finally received some rain, the amounts have been insufficient to overcome lingering drought.

U.S. butter exports should also benefit from the overall tightness in global supplies. In the European Union, butter production is being sacrificed for increased cheese production, both to meet domestic demand and for export, mostly to Eastern European countries and Russia. With Australia sidelined and a weak dollar, prospects for U.S. butter exports are favorable.

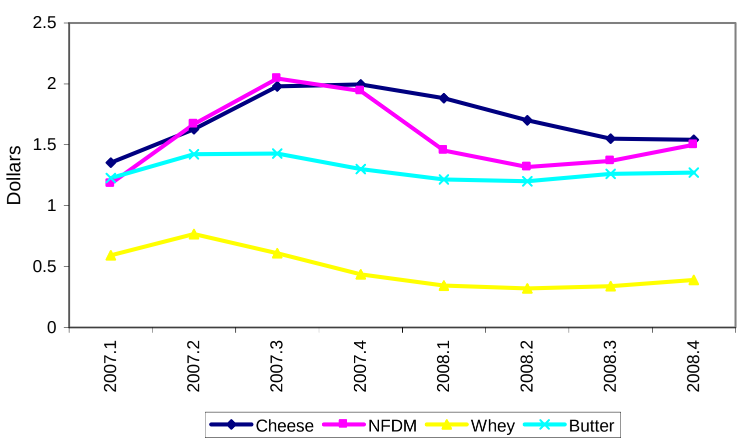
The same favorable conditions hold true for nonfat dry milk (NDM) and other dry milk products, and export prospects remain good for these products. High world prices for skim milk powder have fueled U.S. exports throughout 2007 and could continue to do so in 2008. In 2007, limited domestic availability of the product curtailed exports. In 2008, although there will be more milk, cheese demand could still limit supplies of NDM.

Whey exports soared in early 2007, but then declined and prices fell. In 2008, low prices could stimulate demand, but exportable supplies could be affected by domestic demand for low-fat cheeses.

Prices for U.S. dairy products should be somewhat lower in 2008. Cheese should show the least decline from 2007, with prices averaging $1.635 to $1.705 per pound. Butter prices are expected to average $1.185 to $1.285 per pound in 2008. Sharper declines are in store for NDM and whey, as prices for them are expected to average $1.380 to $1.440 and 33.5 to 36.5 cents a pound, respectively.

Lower product prices will result in lower milk prices in 2008. The Class IV price is forecast at $15.05 to $15.85 per cwt, substantially below 2007's average of $18.36 per cwt. The Class III price is expected to decline to $15.45 to $16.15 per cwt, down from 2007's $18.04 per cwt average. The all milk price is forecast to average $16.85 to $17.55 per cwt, a drop from $19.13 in 2007.

Prices and forecasts of dairy products



Lamb/Sheep

Sheep and Lamb Inventory Down for Second Consecutive Year

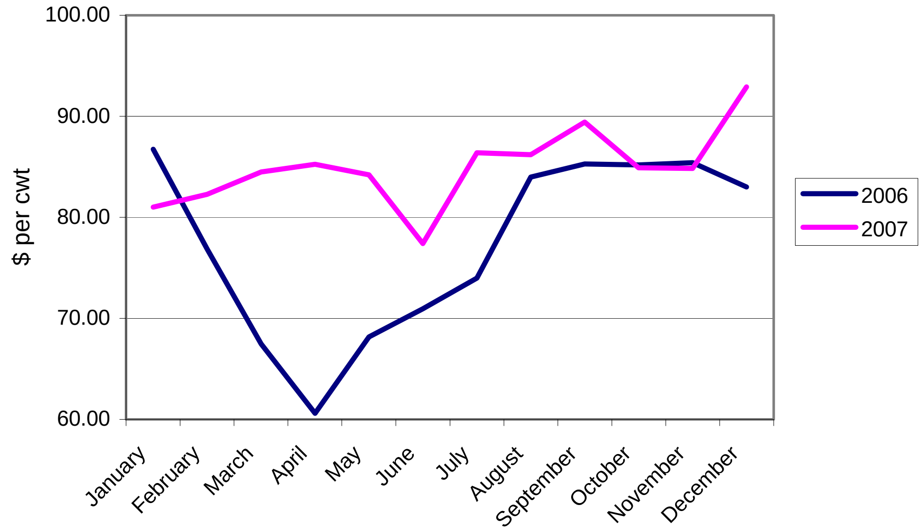
The NASS *Sheep and Goats* report showed that after consecutive increases in 2005 and 2006, sheep inventory has declined for the past 2 years. On January 1, 2008, the inventory totaled 6.06 million head, down 2 percent (a 110,000-head decline) from a year earlier, erasing all the gains from 2005 and 2006. Unusually dry conditions in the Southwestern and Western United States in 2006 affected inventory growth. Although by mid-2007 severe weather conditions had eased in the Southwestern United States, this did not occur early enough to slow the liquidation of Texas flocks. In fact, although the drought was ameliorated, conditions changed from too dry to too wet, and producers were unable to benefit from the rains. Four of the five largest producing States registered declining inventories. Among the top declines were those in Texas (50,000 head), South Dakota (25,000 head), Utah, Idaho, and Wyoming (all registering 20,000 head declines), and California (10,000 head). On a positive note, inventory increases were fairly well distributed, with nearly half of the States, especially the smaller Northeastern States, registering increases. Colorado, one of the largest sheep-producing States, registered its second straight year of inventory growth with a 20,000-head increase.

The breeding sheep inventory also decreased 2 percent from a year ago, from 4.61 to 4.51 million head. Texas, the largest sheep-producing State, registered a 40,000-head drop in breeding sheep; Utah and Idaho both saw 20,000-head drops, and Wyoming saw a 10,000-head decline. However, most of the other large producing States registered stable or increasing growth in breeding herd inventory. The replacement lamb inventory declined 3 percent from the previous year, much less than the 8-percent decline registered in January 2007.

Prices To Remain Fairly Strong in 2008

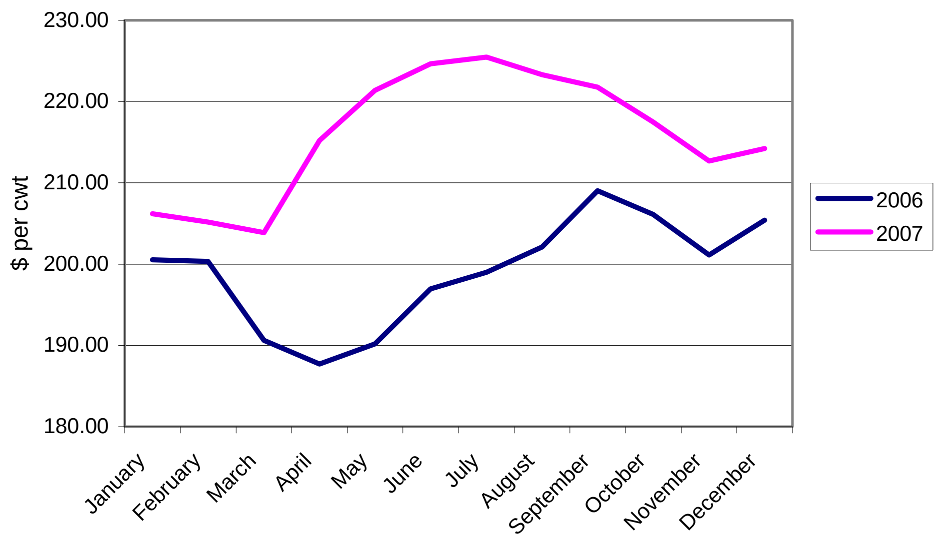
Unlike 2006, when slaughter-lamb prices underwent large swings, 2007 slaughter lamb prices were fairly stable within an $82-$88 per cwt range. The 2007 average Choice slaughter-lamb price at San Angelo was $84.93, due to tight supplies. Prices are expected to remain strong for 2008 and to average in the range of $88-$94 per cwt. Continued tight supplies and fairly stable demand are expected to contribute to the strong prices. Strong slaughter-lamb prices also translated to strong wholesale prices. The wholesale Lamb Carcass Price, Choice-Prime, East Coast, 55-65 lb averaged $215.99 per cwt in 2007, up nearly $17 from the previous year. Given the tight supplies, wholesale lamb carcass prices are expected to remain strong in 2008, in the range of $215-$220 per cwt.

Monthly slaughter lamb prices, San Angelo, Texas



Source: USDA, NASS, *Livestock Slaughter*.

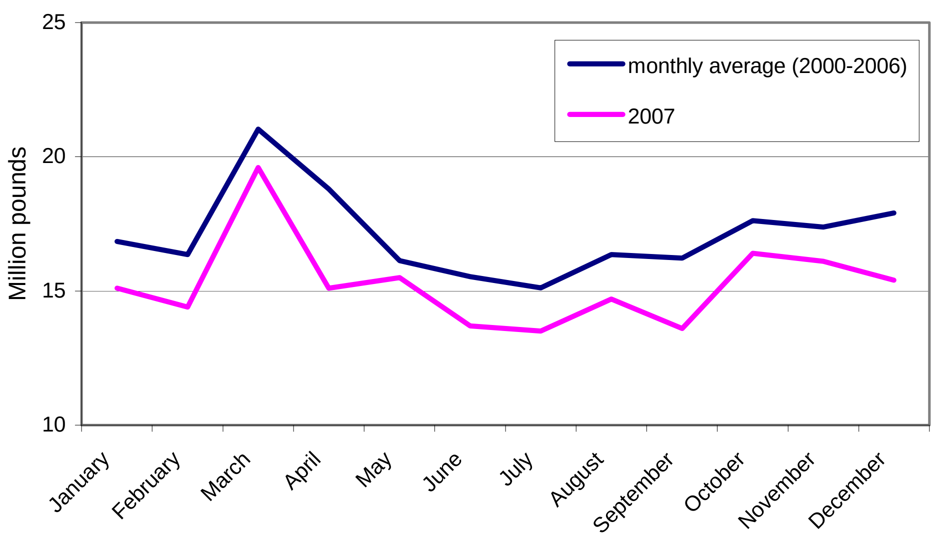
Monthly wholesale lamb prices



Source: USDA, NASS, *Livestock Slaughter*.

The NASS *Sheep and Goats* report showed the market sheep and lamb inventory is down slightly from January 2007, which suggests that lamb meat supply will also be down in 2008. Compounding the supply issues of the smaller number of market lambs are the higher feed costs. As a result, producers may be inclined to feed lambs for shorter periods, reducing the opportunity for production gains due to higher slaughter weights. Commercial lamb and mutton production totaled 183 million pounds in 2007, down 1 percent from 2006. Average dressed weights in 2007 averaged 69 pounds, 1 pound less than the 2006 average. First-quarter 2008 lamb and mutton production is expected to be 49 million pounds, equaling the same period in 2007. The smaller 2007 lamb crop and the reduced number of market lambs are expected to result in further declines for 2008, with production expected at 179 million pounds.

Monthly lamb and mutton production



Source: USDA, NASS, *Livestock Slaughter*.

Despite fairly strong Australian and New Zealand currencies relative to the U.S. dollar, lamb and mutton imports from these countries remained fairly strong in 2007, continuing to offset production declines. It is estimated that lamb and mutton imports for the fourth quarter were 49 million pounds and totaled 192 million pounds for 2007, up 1 percent over the 2006 total. The 2007 imports exceeded commercial production for the second consecutive year, buoyed by continued liquidation in Australia due to unfavorable weather conditions. First-quarter 2008 imports are expected to be around 55 million pounds, almost 2 percent below the same period in 2007. But because of fairly stable domestic demand and the drop in the 2007 lamb crop, imports in 2007 are expected to increase by about 4 percent to around 200 million pounds.

Exports are expected to decline about 39 percent to 11 million pounds in 2007. It is estimated that fourth quarter totaled 3 million pounds, 1 million pounds below the same period in 2006. Although the weak U.S. dollar favors exports, weak demand in Mexico and the rest of the Caribbean, as well as tight supplies, may have contributed to lower exports. First-quarter 2008 exports are forecast at 3 million pounds, equaling the same period in 2007, but exports in 2008 are expected to be down about 10 percent as the export-limiting conditions that existed in 2007 are expected to persist.

Pork/Hogs [1]

Hog Slaughter Larger Than Expected

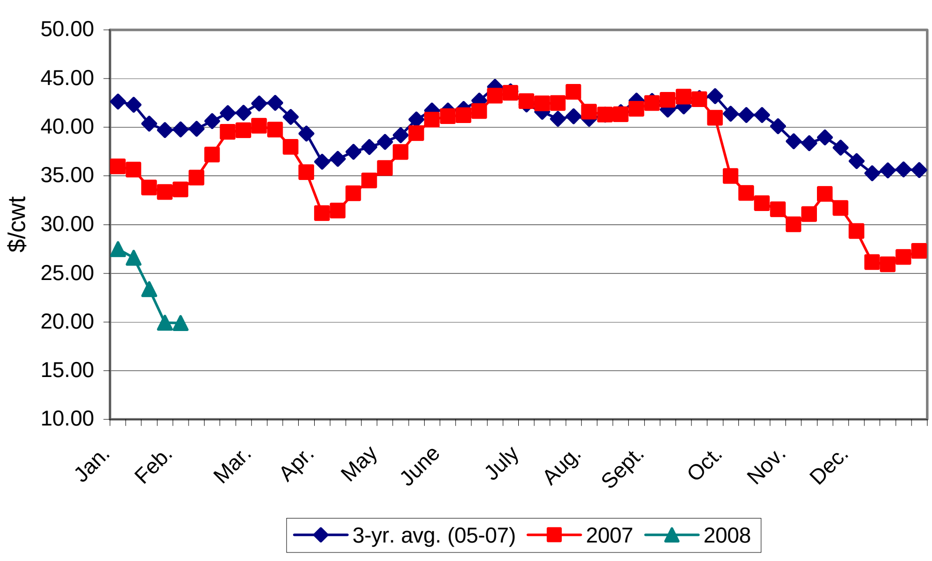
Larger-than-expected hog slaughter in the first quarter and expectations of higher imports of swine from Canada prompted USDA to raise its forecast for 2008 commercial pork production. The revised forecast—23 billion pounds—is slightly more than 5 percent above last year's total. Large supplies of slaughter-ready hogs were reflected in January hog prices. Prices for live equivalent 51-52 percent-lean hogs were $36.77 per cwt, almost 17 percent below prices in January 2007. For the first quarter of 2008, hog prices are expected to average between $38 and $40 per cwt, more than 15 percent below a year ago. With costs of producing slaughter-ready hogs estimated in the low-to-mid $50's per cwt, most hog producers are likely to operate in the red in 2008.

New Hog Industry Structure Makes Hog Cycle Changes Difficult To Gauge

In the past, persistent financial losses often prompted hog producers to liquidate breeding stock to reduce losses, or to exit the industry altogether. The structure of U.S. hog production industry has changed dramatically in the past 25 years. http://www.ers.usda.gov/AmberWaves/February08/Findings/HogOperations.htm The new structure of the industry makes it difficult to predict the timing and duration of hog cycle changes.

However, data point to increased sow slaughter in recent weeks. For the first 4 weeks of the year, weekly sow slaughter has averaged almost 4 percent above 2007. Average U.S. slaughter sow prices in January fell 30 percent below the same period last year.

Weekly U.S. slaughter sow prices



Source: USDA, AMS, USDA Market News, U.S. Slaughter Sow Report, NV_LS231, http://www.ams.usda.gov/lsmnpubs/psdn.htm

Anecdotal evidence suggests that operations cutting back now likely fall into categories such as smaller, older operations, undercapitalized operations, operations not handling price risk well, and/or operations without ready access to feedstuffs. But it is also more than likely that U.S. sow slaughter numbers will be pushed higher by elevated numbers of breeding animals coming from Canada for slaughter, given limited sow slaughter capacity in Canada. The March *Quarterly Hogs and Pigs Report*, to be issued by USDA on March 28, 2008, will provide new information on changes in U.S. breeding herd numbers.
http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1086

Cold Storage Stocks and Wholesale Prices Reflect Continued Robust Pork Demand

Despite strong production increases, demand—domestic plus foreign—for U.S. pork products continues to be robust so far in 2008. Given that fourth-quarter 2007 commercial pork production was 9.6 percent higher than the same period a year earlier, modest year-over-year increases in December 31 cold stocks (+5 percent), and measured year-over-year declines in the USDA Estimated Pork Carcass Cutout (-11 percent) in January, suggest that very large quantities of pork products are moving well through the U.S. pork industry's supply chain.

Retail pork prices moved up moderately in 2007, with a similar rise expected in 2008. The farm-to-retail price spread widened last year, with most of the increase going to the wholesale-to-retail component of the supply chain. Retail pork prices for 2007 were $2.87 per pound, 2.2 percent more than a year earlier. For the first quarter, and for 2008, retail prices are expected to average in the high $2.80's per pound.

U.S. import and export data for December 2007 will be posted to the ERS website on February 15, 2007 http://www.ers.usda.gov/Data/MeatTrade/ . U.S. pork exports in the first quarter of 2008 are expected to be 900 million pounds, 14 percent higher than first-quarter 2007. For 2008, exports are expected to be about 3.7 billion pounds, 16 percent above 2007. Pork imports are expected to drop slightly in 2008, to about 965 billion pounds. U.S. hog finishers and packers are expected to import 10.8 million head of Canadian hogs in 2008. About 150,000 hogs are expected to be exported in 2008, mostly to Mexico.

Broiler Production Forecast at 37 Billion Pounds in 2008

The outlook for broiler production in 2008 is for strong growth in the first half of the year. However, year-over-year growth is expected to slow in second-half 2008 as gradually falling prices dampen production increases. The first-and second-quarter production estimates for 2008 were increased, as the pace of chicks being placed for growout continued to be well above the previous year. While the estimate for first-quarter 2008 is up considerably from the same period in 2007, it should be noted that the estimate is only slightly higher than production in first-quarter 2006. The revised estimate for broiler meat production in 2008 is 37 billion pounds, up about 3 percent from 2007. In 2008, the broiler industry is expected to be pressured by increasing production costs, primarily higher feed costs and energy prices.

Broiler meat production in fourth-quarter 2007 totaled 9.25 billion pounds, up 5.1 percent from fourth-quarter 2006. The increase was the result of a combination of higher numbers of broilers being slaughtered (up 3.1 percent), an increase in the average weights at slaughter, and higher meat yields per bird. The average liveweight per bird at slaughter in fourth-quarter 2007 was 5.61 pounds, up 1.6 percent from the previous year. After declining in three of the previous four quarters, the average meat yield per bird was 2 percent higher in fourth-quarter 2007 than a year earlier.

U.S. broiler meat production in December 2007 was estimated at 2.88 billion pounds, up 5.8 percent from the previous year. The monthly increase is also due to the combination of factors that echoes the changes in fourth-quarter 2007. First, the number of birds being slaughtered rose by 3.1 percent. Second, the average liveweight at slaughter was higher, up 2 percent. Third, the average yield per bird rose strongly, moving up by 2.7 percent from the previous year.

Cold storage holdings of broiler meat products at the end of December 2007 totaled 741 million pounds. This is down less than 1 percent from a year earlier, but up 115 million pounds (18 percent) from the end of the third quarter. Much of the increase in cold storage holdings during fourth-quarter 2007 was the result of increased stocks of breast meat, leg quarters, and other products. Holdings of breast meat rose by about 40 million pounds (41 percent) from end of the third to end of the fourth quarter. However, breast meat cold storage holdings at the end of fourth-quarter 2007 were still at their level at the end of 2006. From the end of third-quarter 2007 through fourth-quarter 2007, cold storage holdings of leg quarters rose by 38 percent, or about 23 million pounds. Even with very strong exports in fourth-quarter 2007, cold storage holdings of leg quarters ended 2007 up 12 percent from a year earlier. With higher growth in broiler meat production forecast for first-half 2008, end stocks are projected to be above their year-earlier levels during the first three quarters of 2008.

The increase in broiler meat production in fourth-quarter 2007 and the growth in cold storage holdings has not yet had the expected impact on broiler meat prices. In January 2008, prices for boneless/skinless breast meat averaged $1.28 per pound in the Northeast market, up 1 percent from the previous year and 5 cents per pound higher than in December 2007.

Leg quarter prices have also risen, from 34 cents per pound in January 2007 to 42 cents per pound in January 2008. With higher broiler meat production expected, prices for most broiler products are expected to gradually move lower during much of the year.

Turkey Meat Production Forecast Higher in 2008

Turkey meat production in 2008 is forecast to total 6.09 billion pounds, up 2.6 percent from 2007. The production increase follows 3 years of relatively strong prices for whole turkeys and most turkey products. Most of the increased production is expected to come in the first three quarters of 2008, with production growth slowing in the fourth quarter. The higher meat production is expected to come from a larger number of birds slaughtered, with only a modest increase in average liveweight at slaughter. Turkey producers, like other livestock producers, will face large increases in their feed and energy costs in 2008, which are expected to narrow margins even if turkey prices remain strong.

The number of turkeys slaughtered in 2007 reached 264 million, up 3.5 percent from the previous year, and meat production rose by 4.4 percent to 5.94 billion pounds. The reason turkey meat production was not higher was that average turkey weights were up only 0.6 percent, to 28.4 pounds. Average weights had been higher in first-half 2007, but fell seasonally as the Thanksgiving period approached.

Turkey meat production in fourth-quarter 2007 was 1.56 billion pounds, 6.2 percent higher than the previous year and close to earlier forecasts. The total number of birds slaughtered was 70.2 million, up 3.6 percent from the previous year, and the average liveweight in fourth-quarter 2007 was 28.1 pounds, 2 percent higher than in fourth-quarter 2006.

Cold storage holdings of whole turkeys and turkey parts were 239 million pounds at the end of December 2007, up 9 percent from the same time in 2006. Stocks of whole birds totaled 65 million pounds, up slightly from the previous year (1.3 percent). Stocks of whole birds had been down considerably in November compared with the same period the previous year. This was a reversal from the previous 5 months, when whole bird stocks were well above their year-earlier levels. Turkey ending stocks during 2008 are forecast to be at slightly higher levels than in 2007. Turkey production is expected to increase in 2008, but turkey exports are expected to remain strong, absorbing some of the higher production.

Average prices for whole hens in the Eastern market were reported at 73.7 cents per pound in January 2008, up 9 percent from 67.6 cents per pound in January 2007 and 7.3 percent higher than the whole bird price in January 2006. Weekly prices so far in February 2008 indicate that whole bird prices are likely to continue to move higher. Hen prices for first-quarter 2008 are forecast at between 74 and 76 cents per pound, up from just under the 70 cents per pound in first-quarter 2007.

Table Egg Production Estimated at 6.5 Billion Dozen in 2008

Table egg production is expected to gradually increase in 2008, reaching 6.5 billion dozen, up only 1.2 percent, with most of the increase coming in the second half of the year.

Hatching egg production for 2008 is forecast at 1.13 billion dozen, up 2 percent from the previous year, as higher production will be needed to support the expected growth in broiler production.

Table-egg production reached 1.635 billion dozen in fourth-quarter 2007, giving a total for the year of 6.41 billion dozen, down 1.3 percent from the previous year. Table-egg production fell on a year-over-year basis in all four quarters of 2007. Hatching-egg production totaled 279 million dozen in fourth-quarter 2007 and totaled 1.11 billion dozen for all of 2007. Hatching-egg production moved in the opposite direction from table-egg production, with production of hatching eggs higher on a year-over-year basis in all four quarters of 2007.

The primary reason for lower table-egg production in 2007 was a smaller number of birds in the table-egg laying flock, with monthly bird numbers below year-earlier levels in every month in 2007. The estimate for the number of birds in the table-egg laying flock for the beginning of January 2008 shows a continuation of that trend, with bird numbers down 1.5 percent. The numbers of birds in the hatching-egg flock have shown the opposite pattern, with flock numbers higher than a year earlier in all but 2 months in 2007. This appears to be carrying through into 2008, with the number of birds in the hatching flock at the beginning of January 2008 up 3.4 percent over the same time the previous year.

With the lower egg production for the table-egg market, egg prices were extremely strong throughout 2007 and have continued strong into January 2008. The average wholesale price for a dozen large eggs was $1.41 in fourth-quarter 2007 and will likely average in the mid $1.50's in January 2008. For 2008, wholesale egg prices are expected to remain above their year-earlier levels during the first half of the year and then gradually decline as producers respond to the higher prices by increasing production.

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Meat Price Spreads, http://www.ers.usda.gov/Data/MeatPriceSpreads/, provides monthly average price values, and the differences among those values, at the farm, wholesale, and retail stages of the production and marketing chain for selected cuts of beef, pork, and broilers. In addition, retail prices are provided for beef and pork cuts, turkey, whole chickens, eggs, and dairy products.

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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Poultry and Eggs, http://www.ers.usda.gov/briefing/poultry/
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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	IV	Annual
Production, million lb																	
Beef	24,548	24,683	6,082	6,724	6,834	6,513	26,153	6,235	6,649	6,801	6,730	26,415	**6,190**	**6,700**	**7,000**	**6,410**	**26,300**
Pork	20,509	20,685	5,335	5,008	5,087	5,625	21,055	5,396	5,128	5,255	6,163	21,942	**5,825**	**5,500**	**5,575**	**6,145**	**23,045**
Lamb and mutton	195	187	49	47	42	47	185	49	44	42	48	183	**49**	**44**	**42**	**44**	**179**
Broilers	34,063	35,365	8,938	9,130	8,884	8,801	35,752	8,574	9,021	9,106	9,248	35,949	**8,950**	**9,350**	**9,350**	**9,325**	**36,975**
Turkeys	5,454	5,504	1,355	1,440	1,419	1,473	5,686	1,410	1,473	1,489	1,565	5,937	**1,465**	**1,525**	**1,530**	**1,570**	**6,090**
Total red meat & poultry	85,441	87,097	21,920	22,516	22,428	22,619	89,483	21,819	22,478	22,851	23,913	91,061	**22,635**	**23,284**	**23,663**	**23,662**	**93,244**
Table eggs, mil. doz.	6,365	6,411	1,611	1,610	1,624	1,649	6,494	1,592	1,586	1,596	1,635	6,409	**1,590**	**1,600**	**1,630**	**1,665**	**6,485**
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	16.4	16.2	65.2	**15.5**	**16.3**	**16.7**	**15.5**	**64.0**
Pork	51.3	49.9	12.3	11.9	11.9	13.1	49.3	12.4	12.2	12.3	13.9	50.7	**13.0**	**12.6**	**12.7**	**13.4**	**51.7**
Lamb and mutton	1.1	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.2	0.3	1.1	**0.3**	**0.3**	**0.2**	**0.3**	**1.1**
Broilers	84.2	85.6	21.8	22.5	21.9	20.7	86.9	21.0	21.4	21.4	21.0	84.8	**21.2**	**22.1**	**22.0**	**21.6**	**86.8**
Turkeys	17.0	16.7	3.5	3.9	4.3	5.2	16.9	3.8	4.0	4.2	5.5	17.5	**3.8**	**4.1**	**4.4**	**5.3**	**17.7**
Total red meat & poultry	221.4	220.5	54.1	55.8	55.6	55.9	221.4	53.7	54.9	54.9	57.2	220.8	**54.1**	**55.8**	**56.5**	**56.4**	**222.9**
Eggs, number	256.9	255.3	63.9	63.5	63.8	64.5	255.7	61.9	61.3	62.1	63.8	249.1	**61.5**	**61.6**	**63.0**	**64.1**	**250.2**
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	91.85	91.82	**89-91**	**89-95**	**87-95**	**86-94**	**88-94**
Feeder steers, Ok City, $/cwt	104.76	110.94	106.23	104.08	115.17	103.22	107.18	99.32	108.87	115.63	108.88	108.18	**102-104**	**104-110**	**101-109**	**99-107**	**102-108**
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	49.40	52.12	**49-51**	**51-53**	**49-53**	**48-52**	**50-52**
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	87.55	84.93	**89-91**	**89-95**	**86-94**	**88-96**	**88-94**
Barrows & gilts, N. base, l.e. $/cwt	52.51	50.05	42.63	48.45	51.83	46.13	47.26	46.04	52.55	50.33	39.43	47.09	**38-40**	**43-45**	**43-47**	**38-42**	**41-43**
Broilers, 12 City, cents/lb	74.10	70.80	62.7	61.0	67.8	65.9	64.4	75.00	80.30	79.20	71.10	76.40	**74-76**	**75-79**	**74-80**	**70-76**	**73-78**
Turkeys, Eastern, cents/lb	69.70	73.40	67.3	71.3	79.4	89.8	77.0	69.70	77.90	89.90	90.80	82.10	**74-76**	**75-79**	**78-84**	**82-88**	**77-82**
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	141.0	114.4	**133-137**	**112-118**	**91-99**	**92-100**	**107-114**
U.S. trade, million lb																	
Beef & veal exports	460	698	215	315	307	308	1,145	269	363	424	**375**	**1,431**	**370**	**405**	**450**	**445**	**1,670**
Beef & veal imports	3,679	3,599	843	789	731	722	3,085	770	884	774	**620**	**3,048**	**700**	**825**	**800**	**795**	**3,120**
Lamb and mutton imports	180	180	53	44	41	52	190	56	44	44	**49**	**192**	**55**	**50**	**44**	**51**	**200**
Pork exports	2,181	2,665	770	763	653	811	2,997	792	685	703	**1,000**	**3,180**	**900**	**870**	**815**	**1,100**	**3,685**
Pork imports	1,099	1,024	259	237	239	254	989	239	256	240	**250**	**985**	**230**	**235**	**245**	**255**	**965**
Broiler exports	4,784	5,203	1,338	1,298	1,224	1,412	5,272	1,275	1,393	1,493	**1,640**	**5,801**	**1,375**	**1,450**	**1,500**	**1,575**	**5,900**
Turkey exports	442	570	119	125	152	149	546	124	135	148	**155**	**562**	**135**	**150**	**160**	**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	2,464	**2,800**	**9,936**	**2,900**	**2,800**	**2,500**	**2,600**	**10,800**

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.

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Dairy Forecasts

	2007					2008				
	I	II	III	IV	Annual	I	II	III	IV	Annual
Milk cows (thous.)	9,130	9,129	9,156	9,195	9,153	9,230	9,260	9,270	9,250	9,253
Milk per cow (pounds)	5,039	5,195	5,037	5,008	20,279	5,195	5,290	5,070	5,050	20,605
Milk production (bil. pounds)	46.0	47.4	46.1	46.0	185.6	48.0	49.0	47.0	46.7	190.6
Farm use	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.1
Milk marketings	45.7	47.1	45.8	45.8	184.5	47.7	48.7	46.7	46.4	189.5
Milkfat (bil. pounds milk equiv.)										
Milk marketings	45.7	47.1	45.8	45.8	184.5	47.7	48.7	46.7	46.4	189.5
Beginning commercial stocks	9.5	11.9	13.6	12.3	9.5	10.4	13.5	15.2	13.4	10.4
Imports	1.1	1.2	1.0	1.5	4.8	1.1	1.1	1.1	1.5	4.7
Total supply	56.3	60.2	60.5	59.6	198.7	59.1	63.3	63.0	61.3	204.6
Ending commercial stocks	11.9	13.6	12.3	10.4	10.4	13.5	15.2	13.4	10.5	10.5
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	44.4	46.6	48.2	49.2	188.4	45.6	48.1	49.6	50.8	194.1
Skim solids (bil. pounds milk equiv.)										
Milk marketings	45.7	47.1	45.8	45.8	184.5	47.7	48.7	46.7	46.4	189.5
Beginning commercial stocks	9.1	9.7	10.1	9.5	9.1	9.8	11.0	11.5	10.5	9.8
Imports	1.0	1.1	1.1	1.3	4.5	1.0	1.1	1.1	1.4	4.4
Total supply	55.8	58.0	57.0	56.6	198.1	58.5	60.8	59.3	58.3	203.8
Ending commercial stocks	9.7	10.1	9.5	9.8	9.8	11.0	11.5	10.5	10.2	10.2
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	46.1	47.8	47.5	46.8	188.2	47.5	49.3	48.8	48.1	193.6
Milk prices (dol./cwt) 1/										
All milk	15.00	18.27	21.67	21.60	19.13	19.10 -19.40	16.45 -17.05	15.45 -16.35	16.35 -17.35	16.85 -17.55
Class III	14.28	17.95	20.43	19.51	18.04	17.71 -18.01	15.65 -16.25	14.20 -15.10	14.35 -15.35	15.45 -16.15
Class IV	12.98	18.45	21.71	20.29	18.36	15.53 -15.93	14.16 -14.86	14.69 -15.69	15.83 -16.93	15.05 -15.85
Product prices (dol./pound) 2/										
Cheddar cheese	1.352	1.627	1.978	1.995	1.738	1.868 -1.898	1.670 -1.730	1.505 -1.595	1.490 -1.590	1.635 -1.705
Dry whey	0.592	0.766	0.610	0.435	0.600	0.333 -0.353	0.305 -0.335	0.325 -0.355	0.375 -0.405	0.335 -0.365
Butter	1.227	1.421	1.428	1.301	1.344	1.183 -1.243	1.155 -1.245	1.200 -1.320	1.205 -1.335	1.185 -1.285
Nonfat dry milk	1.182	1.668	2.043	1.940	1.708	1.438 -1.468	1.292 -1.342	1.332 -1.402	1.465 -1.535	1.380 -1.440

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/dyfmos/mib/fedordprc_dscrp.htm

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