USDA
United States Department of Agriculture

LDP-M-123

Sept. 16, 2004

Outlook

Electronic Outlook Report from the Economic Research Service

www.ers.usda.gov

Livestock, Dairy, and Poultry Outlook

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Beef Production To Decline

The next release is Sept. 28, 2004

Approved by the World Agricultural Outlook Board.

NOTE: Due to uncertainties as to the length of bans regarding the imports of ruminant products due to the discovery of a BSE-infested cow in December 2003, forecasts for 2004 and 2005 assume a continuation of policies currently in place. Subsequent forecasts will reflect any announced changes.

Beef production in 2004 is expected to decline nearly 7 percent from a year earlier. The decline is sharper than earlier expected due to a slower pace of cattle placements and marketings. Feedlot inventories remain above a year earlier, and feedlots have more cattle to market than can be sold at a profit. The current marketing pace is not sufficient to keep cattle current and weights are increasing. However, even at these reduced marketing levels boxed beef prices have been declining to keep the product moving and cattle prices under pressure. While the wholesale retail price spread remains record wide, both cattle feeders and beef packers are losing money. Cattle feeding breakevens are expected to rise toward the low-$90 per hundredweight (cwt) this fall, and the present price/supply scenario indicates Choice steer prices averaging $85-89 per cwt in the fourth quarter.

Hog prices in August weakened seasonally as slaughter numbers reached the 2-million-head-per-week level during the week of August 21st. Last year, weekly hog slaughter did not reach the 2 million head level until the week ending October 4. Continued strong domestic and foreign pork demand, however, is expected to hold third-quarter hog prices 27 percent above the same period last year. The *Quarterly Hogs and Pigs* report, to be released on September 24, will provide recent inventories, pig crops, and producers' intentions for September 2004-February 2005.

Broiler production in 2004 is expected to increase about 4 percent over a year ago based on broiler hatchery data. However, the growth in chick placements is expected to slow later this year in response to the falling broiler prices. Broiler production in 2005 is expected to increase about 3 percent above a year earlier. Over the last 2 months (July and August), prices for almost all broiler products have fallen sharply.

While average prices for most broiler parts were considerably higher than a year earlier in the first half of this year, current prices for many parts are only slightly higher or below their year-earlier levels.

Dairy market fundamentals changed in early summer as milk production began to expand. Additional milk in the coming months should ease dairy markets during the remainder of 2004. Even so, some tightness likely will continue. Demand is expected to stay fairly good, and the growth in supplies probably will be gradual.

Slaughter Weights, Competing Meats Pressure Beef Prices

Year-to-year comparisons on the current beef market are skewed due to the very tight beef supply situation in 2003. The tight situation was due to poor feeding conditions with low weight gains in the winter and early spring 2003 and then the discovery of a Canadian dairy cow with (BSE) Bovine Spongiform Encephalpathy in May, resulting in an import ban on Canadian beef and cattle. This resulted in marketing cattle out of U.S. feedlots ahead of schedule to meet the strong demand for beef. As marketings were moved forward, slaughter weights were held well below seasonal averages. To meet the strong beef demand, cattle prices moved on a record-setting pace into the fall in an effort to get producers to market more cattle ahead of schedule.

While beef demand remains relatively strong, retail prices for Choice beef, while below the November 2003 record, remain sharply above prices prior to last fall. Prices in July averaged $4.18 a pound, well above the $3.99 first-quarter and $4.10 second-quarter averages. High beef prices combined with increased economic uncertainty and sharply higher fuel prices are likely putting pressure on consumer discretionary incomes and consequently on further increases in beef prices. In addition, both pork and broiler production remain large, and at relatively lower prices than beef. Choice boxed beef prices have dropped fairly sharply since peaking at $157.53 per cwt in April, averaging in the lower $130s in mid-September. The primary change during this period has been a more than seasonal rise in weights from the very low spring averages. Federally inspected steer and heifer dressed carcass weights averaged 772 and 712 pounds, respectively, in April, but had increased to 825 and 754 pounds in late August. Steer and heifer weights, in late August, were 20 pounds above a year earlier. Although still below the record pace of 2002, weights are likely to approach the 2002 record pace.

Feedlot inventories remain above a year earlier, and feedlots have more cattle to market than can be sold at a profit. Recent weekly slaughter levels have ranged from 620,000 to about 645,000 head, which is not sufficient to stay current. Even at these reduced slaughter levels, boxed beef prices have been declining to keep the product moving and are pressuring cattle prices as feedlots become less current. While the wholesale retail price spread remains record wide, both cattle feeders and beef packers are losing money. Cattle feeding breakevens are rising toward the low-$90s per cwt this fall, and the present price/supply scenario does not look promising for a return to feedlot profitability.

Even as fed beef supplies are increasing, cow and processing beef supplies remain tight. Utility boning cow prices are averaging in the upper-$50s per cwt, well above a year earlier. Ninety percent lean processing beef is averaging over $20 per cwt above a year earlier, while 50 percent lean trimmings are averaging $20 to $30 per cwt under a year earlier. Cow slaughter is expected to remain down as producers begin the initial stages of herd expansion. Consequently, imports of lean beef are likely to remain strong over the next couple of years.

Beef Trade

Beef Exports for the First 6 Months of 2004 Only 12 Percent of Last Year's Level

U.S. beef exports totaled only 204 million pounds in the first 7 months of 2004—86 percent below the 1.5 billion pounds exported during the first 7 months of 2003. While many small markets have reopened conditionally to exports of U.S. beef, the only major markets to allow U.S. beef have been Canada and Mexico. Canada began allowing imports of U.S. boneless beef from animals less than 30 months of age in January 2004, with Mexico following suit in early March. By June, however, U.S. beef exports to Canada had increased to only 5 million pounds, compared with 29 million pounds in June 2003. June 2004 beef exports to Mexico reached only 36 million pounds, compared with 68 million pounds in June 2003. Nevertheless, weekly export data (http://www.fas.usda.gov/export-sales/esrd1.html) do show significant increases above the low June level for both July and August. Forecast total exports to all countries for 2004 and 2005 are 446 and 600 million pounds, respectively.

Excess Cattle Supplies and Low Prices in Canada Have Restrained Imports of U.S. Beef

Restrictions placed on the export of Canadian beef and cattle immediately following the discovery of a cow in Canada with BSE in May 2003 created a huge surplus of cattle and beef in that country, which continues to pressure Canadian prices. Normally, annual exports of Canadian feeder cattle and slaughter-ready steers, heifers, and culled cows and bulls amount to about 1.3 million animals (2000-2003 average). With those animals kept in Canada, cattle numbers increased by 6.5 percent between July 1, 2003, and July 1, 2004, according to Statistics Canada (http://www.statcan.ca). That increase in total animals includes an 8.6-percent increase in beef cows and a 9.6-percent increase in steers and heifers for slaughter.

Resumption of Canadian beef exports to the United States from early August 2003 did help increase Canadian boxed beef prices (in Canadian dollars), but they still ended last year 9 percent lower than U.S. boxed beef prices (http://www.canfax.ca/), limiting U.S. beef exports. U.S. beef exports to Canada averaged only 14 million pounds per month in the final quarter of 2003, far below the pre-May 2003 average of 20-21 million pounds. Traditionally, the United States supplies beef cuts to eastern Canada, while importing cuts from western Canada into the western United States, and some processing beef.

The ban on U.S. beef exports after the December 24, 2003, discovery of a Canadian-born dairy cow with BSE in Washington State provided additional opportunities for Canadian beef cuts to displace U.S. beef in Canada. However, U.S. beef exports to Canada have remained low, even since Canada allowed U.S. boneless beef imports from animals less than 30 months of age to resume in January of this year. The United States exported less than 2 million pounds per month through April and only 5 million pounds per month in May, June, and July.

Explanations for low U.S. beef exports to Canada early in 2004 have focused on reports that U.S. slaughter plants were unable to provide assurances that beef was from facilities dedicated exclusively to the processing of beef from animals under

30 months of age. However, the weak U.S. exports during the last quarter of 2003 suggest that a fundamental reason for continued weak U.S. exports to Canada is simply that boxed beef prices in Canada have generally been well below U.S. prices in 2004. After being competitive with U.S. prices for a few weeks in January 2004, when Canadian beef was exported to Mexico as a replacement for banned U.S. beef, Canadian box prices declined to 90 percent of U.S. prices as Canadian slaughter increased. By mid-April, Canadian prices had dropped to 75 percent of U.S. prices, as increased U.S. beef exports to Mexico began displacing Canadian product there and forcing it onto the Canadian market. The price difference then began to narrow as Canadian exports improved. By June, total Canadian exports had rebounded back to the March 2004 level.

U.S. Beef Exports to Canada Should Improve as U.S. and Canadian Price Differences Narrow

By late August 2004, Canadian boxed beef prices were only 2-3 percent below U.S. boxed beef prices, and weekly U.S. export data were showing signs of increased exports to both Canada and Mexico. Part of explanation for both situations is the 3-percent decline in the U.S. Choice fed cattle price between April and July, from $87.04 to $84.27 per cwt. A 2-percent depreciation of the U.S. dollar between April and August also contributed to the improved situation. Both lower U.S. prices and a cheaper U.S. dollar make U.S. beef more competitive in Canada. In addition, decreased Canadian beef imports from other countries may help support the prices of Canadian beef cuts by creating the incentive to grind lower-valued cuts from younger animals into processing beef.

Compared with last year, Canadian beef imports from countries other than the United States were down 60 percent for the first 6 months of 2004 (*World Trade Atlas*). Were this trend to continue, Canada would import about 330 million pounds (carcass-weight equivalent) less beef from countries other than the United States than last year. Nearly all the 330 million pounds would be lean processing beef, representing approximately 471,000 animals, assuming a carcass weight of 700 pounds. Such a large reduction in processing beef imports is the ultimate result of low cull animal prices in Canada associated with the lack of a U.S. market for some 319,000-plus culled cows and bulls (2000-2002 average).

Reduced imports of lean processing beef, a strong domestic and, more recently, a strong export market have helped accommodate increased Canadian slaughter. Weekly slaughter has been gradually increasing in 2004, and expected Canadian slaughter is 4 million animals, roughly 500,000 more than were slaughtered in 2003. While culled animals older than 30 months may be ground for processing beef to be consumed in Canada, only meat from younger animals can be exported to the United States. That helps make these animals relatively more profitable to slaughter than older non-fed animals, on the average. As a result, cattle under 30 months of age comprise a higher percentage of total slaughter than normal, suggesting that a higher-than-normal share of lean processing beef is from cattle less than 30 months of age. In spite of more fed cattle being slaughtered in Canada, increased Canadian consumption, increased exports, and possibly high grinding rates from young cattle have relieved some price pressure that should allow higher exports of U.S cuts to eastern Canada.

U.S. Beef Exports to Canada may Remain Below Normal Until Borders Reopen

U.S. beef exports to Canada are likely to continue growing in view of the expectation that U.S. beef prices remain relatively favorable at least through mid-2005. Continued weakness in the U.S. dollar, robust Canadian consumption, and grinding lower valued Canadian cuts into processing beef should also help U.S. beef exports to Canada. However, they are unlikely to approach the 20-million-pound-per-month level that existed before BSE was found in North America, at least until borders are reopened to both beef and cattle trade.

Pork and Poultry Meat Substitute for High-Priced U.S. Beef Exports to Mexico

U.S. beef exports to Mexico have remained weak since declining in fourth-quarter 2003 due to higher U.S. prices and a weak peso. U.S. fed cattle prices increased in price throughout 2003 and were 44 percent higher in fourth-quarter 2003, compared with year-earlier levels, while the peso lost 10 percent of its value against the U.S. dollar. U.S. beef exports to Mexico in fourth-quarter 2003 were 115 million pounds, 26 percent below year-earlier levels, and the lowest fourth-quarter exports to Mexico since 120 million pounds in 1998.

Mexico banned U.S. beef during most of the first quarter 2004, and exports have increased to about 50 percent of last year's level since April. Both bone-in beef and products from animals older than 30 months remain banned. In 2003, bone-in beef accounted for over 8 percent of U.S. beef exports to Mexico (on a product-weight basis), and beef from culled animals over 30 months of age accounted for an unknown, but likely not trivial amount. In addition to these product limitations, however, high U.S. beef prices and a relatively weak peso may keep U.S. beef exports to Mexico significantly below the higher levels achieved prior to the fourth quarter of 2003, as pork and poultry meat increase as substitutes.

Supplies of meats other than U.S. beef in Mexico are up significantly for the first 6 months of 2004, compared with the same period last year. U.S. pork and broiler exports are up 108 million and 33 million pounds. According to the *World Trade Atlas*, Canadian beef and pork exports to Mexico are up 56 million and 23 million pounds (using product-to-carcass conversion rates of 1.36 and 1.3). For the first 6 months of 2004, therefore, the sum of added U.S. pork and broiler exports, and Canadian beef and pork exports totaled 220 million pounds, compared with reduced U.S. beef exports of 184 million pounds. In addition, preliminary estimates suggest that Mexican pork production may be up 4-5 percent in 2004, compared with 2003 (http://www.fas.usda.gov/gainfiles/200407/146106957.pdf), and production of broiler meat could increase 4-5 percent (http://www.fas.usda.gov/gainfiles/200407/146107196.pdf).

The pressure of such large levels of pork and poultry meat in Mexico, with additional increases expected, is likely to pressure both U.S. and Canadian beef exports to Mexico for the remainder of 2004 and into 2005. Canadian beef exports to Mexico fell slightly in second-quarter 2004, compared with 2002—the last normal second quarter before Mexico banned Canadian beef in May 2003. Any reductions in Canadian beef exports to Mexico are also likely to compete with U.S.

beef in Canada and contribute to increased Canadian beef exports to the United States.

U.S. Beef Imports Revised Upwards

Forecast U.S. beef imports for 2004 and 2005 are revised upwards 2.3 percent and 3 percent, respectively, partly because of expected increases in imports from Canada. Imports for 2004 are now forecast at 3.5 billion pounds, up 17 percent from last year's BSE-induced low level. Forecast imports in 2005 are 3.52 billion pounds. Not only has Canadian slaughter increased in 2004 to date, additional increases are possible in 2005, and increased availability of pork and poultry meat in Mexico may result in a redirection of Canadian beef from Mexico to the United States. According to the *World Trade Atlas*, exports to the United States accounted for 89 percent of Canadian beef exports in June—far above the first quarter average of 78 percent when larger quantities were shipped to Mexico to replace banned U.S. beef.

Imports of Uruguayan beef have also been running above expected levels. Uruguay had 1.2 million more cattle available on January 1, 2004, compared with a year earlier, and about 2 million above historical levels. Uruguay also is not sending large amounts of beef to Canada, and must compete in Europe with Argentina and Brazil. Finally, Uruguay devalued its currency by 80 percent in June 2002, making its beef much cheaper in terms of U.S. dollars. To date in 2004, Uruguay has declared about 80 percent of its beef exports to the United States above the tariff-rate quota (TRQ), paying the over-quota 26.4 percent tariff.

A significant reduction in U.S. cow slaughter is driving the demand for processing beef in the United States. Cow slaughter is expected to decline 15 percent in 2004 from last year's level, with the largest percentage declines occurring in the second half. The prices for imported 90-percent lean processing beef had climbed into the high $140 per cwt range by August.

Live Cattle Trade Revised Upward

Imports of live cattle from Mexico should reach 1.375 million head in 2004. While Mexican cattle inventories continue to decline, high feeder cattle prices in the United States continue to attract feeder calves from Mexico. Imports should decline in 2005 in response to smaller inventories.

Exports of live cattle and calves to Canada have been higher than expected. Most of these animals are veal calves exported from the northeastern United States for raising in Canada. Most of the veal from these calves is expected to be exported to the United States. Total live cattle and calf exports for 2004 are forecast at 45,000 head in 2004 and 40,000 in 2005.

Dairy

More Milk Eases Dairy Markets

Dairy market fundamentals changed in early summer as milk production began to expand. Additional milk in the months to come should ease dairy markets during the remainder of 2004. Even so, some tightness likely will continue. Demand is expected to stay fairly good, and the growth in supplies probably will be gradual.

Dairy product prices remain unsettled and probably will remain so until yearend. The aftermath of the surge and subsequent collapse of prices continues to confuse the underlying supply-demand balance. However, most adjustments probably have been made, and prices may steady a bit if no new surprises emerge.

Milk production rose above a year earlier in July for the first time since last autumn. The recovery was the result of quite favorable summer weather and expedient adjustments to record milk prices. Milk production is expected to expand during the second half of 2004, but large increases are not projected until next year.

Milk cow numbers in the 20 major States were a little higher in June and July after holding fairly steady since last November. Compared with a year earlier, milk cow numbers have gone from a decrease of more than 1 percent early in 2004 to barely lower in July. Even though changes in cow numbers have been weaker in the other 30 States, July U.S. numbers probably were down only fractionally.

The recent increase in cow numbers probably was not due to more heifers entering the herd. The dairy replacement herd was unchanged on July 1, and July replacement prices indicated that the market has been tight. Unusual retention of last lactation cows is much more likely. Between high milk prices and the lack of any summer heat stress, cows probably stayed profitable longer—enough so that any producer capable of stretching capacity probably was tempted.

High milk prices probably have had relatively small effect on addition of new capacity because many of the causes of the price jumps were obviously temporary. However, prices have stayed relatively high for long enough that they may be lessening the exit of dairy farmers. The low prices of 2002 and most of 2003 probably had eaten away the effects of earlier high returns. The cash infusion in 2004 may have restored the staying power of the weaker producers.

Milk cow numbers are projected to resume declines by this autumn. Much of the temporary capacity stretching will have run its course or become infeasible as the weather turns colder. Although only moderate erosion in milk prices is expected by late 2004, farmers probably will see clear signs of lower prices ahead. For the year, milk cow numbers are projected to average about 1 percent below a year earlier.

In 2005, expected much lower milk prices will work to weaken milk cow numbers. However, average declines are projected to be relatively modest, only slightly larger than this year's. Returns are projected to stay significantly above those of 2002 and 2003, and dairy farmers can prepay 2005 expenses out of this year's returns.

Milk Per Cow Coming Back

Milk per cow continues its gradual recovery from late winter weakness. In the 20 major States, July milk per cow rose at an annual rate of more than 1 percent from the average of the preceding 5 years, still relatively weak but twice the rate of late winter. The pickup reflected the rises in milk prices and milk-feed price ratios and particularly favorable summer weather. Heat stress, normally a major cause of seasonal declines in milk per cow, was almost absent from many important dairy areas this year.

Concentrate feed prices have eased under pressure from generally large projected 2004 crops. Drops in milk prices will mean that milk-feed price ratios will not stay at the very high second-quarter readings, but second-half ratios probably will be moderately favorable to increased feeding and further recovery in milk per cow.

Hay supplies this year are relatively ample in much of the country but quality is quite suspect. Rain damage was common in many areas, and growth was stunted by cool weather in some of the northernmost areas. For all of the country, alfalfa hay production is projected to be slightly larger than 2003's very large crop despite a 6-percent drop in acreage. In addition, corn silage prospects are quite good in most areas. The true exception to the overall forage picture is the West, where alfalfa hay production is expected to be down considerably because of tight water supplies.

Recovery in milk per cow is expected to continue, although sizable increases are not projected until normal availability of bovine somatotropin (BST), expected in 2005, resumes. Even then, hay quality and lackluster milk-feed price ratios probably will limit increases somewhat. The 2004 milk per cow is projected to rise less than 1 percent from a year earlier (on a daily average basis), the second straight such minimal gain. Even if normal BST and heavier feeding bring about the expected 3-percent growth in 2005, milk per cow would remain significantly below the earlier trend line.

Modest second-half increases are projected to about offset first-half declines and leave 2004 milk production very close to the 170.3 billion pounds of 2003. Next year's projected recovery in milk per cow would generate a 2005 increase of just less than 2 percent on a daily average basis.

Cheese Gives Up Milk

The late spring diversion of milk away from cheese and into butter-nonfat dry milk output continued into early summer. In fact, the diversion in July was stronger than it had been in May and June. As cheese prices fell from their very high spring peaks, buyers started working off their pipeline stocks by purchasing less than normal. As movement fell, warehouse cheese stocks mounted even with the diversion of milk to butter-powder operations. By July, total cheese production was below a year earlier even though supplies of milk for manufacturing were larger.

Output of both butter and nonfat dry milk went from being down sharply from a year earlier in April to posting sizable increases by July. The swing was particularly abrupt for butter, in part because the diversion of milk probably was augmented by milkfat users making their own pipeline stock adjustments. Early summer production of frozen products and cottage cheese was generally weak.

Supplies of milk for manufacturing are expected to run above a year earlier in coming months. If it has not started already, cheese probably will resume taking more of the milk supply. Final sales are expected to be relatively brisk and pipeline shrinking alone cannot meet needs for long.

Commercial warehouse stocks of American cheese on August 1 were the largest since 2000 and significantly larger than the preceding 2 years. These holdings might be a bit ample but probably not badly so. If autumn movement meets expectations, these stocks could be fairly easily trimmed by the end of the year. August 1 stocks of other cheese were similar to recent years.

The turnaround in butter production resulted in some boost in commercial butter stocks. Even so, holdings on August 1 were almost a third smaller than a year earlier and also sharply less than 2 years ago. Meanwhile, manufacturers' stocks of nonfat dry milk were somewhat higher than the last 2 years. Powder stocks probably have grown to accommodate this year's commercial export business.

Sales Decrease

June's decrease in commercial disappearance sharpened in July, mostly because of large declines from a year earlier in cheese movement. June-July cheese sales fell about 4 percent, in part counterbalancing the very large increases of February-April. Buyers reduced purchases to use up pipeline holdings built during the earlier panic. There is no reason to think that final use has weakened, particularly since restaurant sales reportedly have been robust. For the first 7 months of 2004, cheese sales rose 4 percent.

Butter movement slipped in July after extraordinary gains in May-June. Like cheese, this slippage probably was a technical correction after this year's tumultuous markets. On the other hand, sales of nonfat dry milk continued to post large increases. Powder movement reflected export demand and some possible improvement in use of skim solids by food processors. Concentrated milk proteins are less of a factor this year because higher international prices have eliminated any cost advantage.

July fluid milk sales evidently stayed weak, although not down as sharply as in May and June. Milk sales have struggled throughout the year but seemed to be hurt considerably by high retail prices and the resulting publicity. Most perishable manufactured products also were sluggish this spring and early summer.

Underlying dairy demand probably remains fairly good. The economy and consumer incomes continue growing even though there are scattered weak spots. The restaurant business appears to be back on track after a period of extended sluggishness—good news for cheese and butter demand. Total demand for dairy products is expected to be moderately strong during the rest of 2004 and 2005, although sales of some products, like fluid milk, may stay soft.

The dairy surplus was very small this summer. In July-August, net removals of butter and cheese were almost nonexistent while the nonfat dry milk surplus was small. Net removals of powder in July-August were less than half the year-earlier level and only about a fourth of 2002. Despite the falling prices, milkfat markets remained tight this summer. Commercial exports probably were the major factor behind the declines in nonfat dry milk purchases, but expanded domestic use of powder may have also played a role.

The surplus of skim solids may increase slightly during the rest of 2004 and 2005 as milk production expands. Even so, removals are expected to remain considerably below those of recent years if international markets stay firm as projected. Butter and cheese removals are projected to remain very small.

International Markets Hold

International dairy markets remain much the same. Milk production has been down in the European Union, resulting in smaller intervention purchases and limited export supplies. Oceania's season is just beginning among potential production concerns. Meanwhile, import demand has held firm at fairly good levels. In early September, both butter and nonfat dry milk prices were more than $2,000 per metric ton with no significant signs of softening. Prices are expected to stay relatively strong during the next year.

Reported exports of nonfat dry milk during January-July were close to exports under the Dairy Export Incentive Program (DEIP) plus shipments of Government-owned powder for food aid. Yet, commercial exports are known to have been made. Commercial exports will be sizable this summer and autumn, with some agreements reportedly already made for winter shipment. Allocations under the DEIP have not yet been announced for the commitment year that began July 1, although that action is largely academic in light of our current price competitiveness.

January-July 2004 imports of milkfat were considerably larger than a year earlier but skim solids imports were only slightly larger. The boost in milkfat imports was mostly the result of high-tariff imports of butter in response to high domestic butter prices. Even so, the 17 million pounds of high-tier butter was quite moderate in light of the nominal profitability. International butter markets were tight enough to make it difficult to obtain supplies quickly enough for over-TRQ imports. January-July cheese imports were somewhat larger than a year earlier.

Prices Trend Lower

Butter and cheese prices have continued to bounce this summer as traders attempted to sort out production, use, and stock effects. In general, prices have exhibited considerable resiliency even though the general trend has been downward. Price movements have been consistent with gradually changing market fundamentals rather than dramatically altered market conditions.

Nonfat dry milk prices have eased since their June peak. Production has increased and considerable old powder, swapped by USDA for pudding and processed cheese, reportedly is available.

With milk production expanding and ample stocks, wholesale dairy product prices would seem to have limited opportunity for rises by late 2004. The possible exception might be butter where early September price rises are a notable rarity, and the strength of the autumn holiday season is always somewhat unpredictable. On the other hand, sharp price drops also do not seem likely. Nothing in the fundamentals appears to be changing very quickly. In addition, the markets' susceptibility to large declines has been tested several times since the April peaks, and sizable drops thus far have been partially reversed fairly quickly.

Summer prices received by farmers for milk have been dramatically lower than the spring records but have stayed well above a year earlier. Milk prices are projected to stay above a year earlier through the rest of the year, but the autumn increase likely will be smaller than summer's. For all of 2004, farm milk prices are expected to average a record of almost $16 per cwt, up more than $3 from 2003.

Larger milk output will pressure 2005 milk prices. Although the size of the production increase will certainly be a factor, the extent of the price decline probably will be influenced most by the strength of dairy demand. If demand recovery, spurred by a rebound in the restaurant sector, is more robust than expected, price responses in dairy markets could be substantial. Under the expected demand conditions, milk prices are projected to decrease $2 to $3 per cwt next year. Even so, prices would remain well above the very low levels of 2000, 2002, or 2003.

The index of retail dairy prices stood at 187.7 (1982-84=100) in July, up 14 percent from a year earlier but slightly below the June peak. The largest rise was for fluid milk, up 25 percent from a year earlier. Retail milk prices had been relatively low in the summer of 2003. July prices for manufactured dairy products were significantly higher than a year ago but rises were much more moderate than for fluid milk.

The farm-to-retail price spread is currently much larger than a year earlier, after posting declines from mid-2003 until mid-2004. It is likely to continue posting large rises until the middle of next year as processors and retailers try to recoup. Even so, retail dairy prices are projected to be about stable to declining through 2005. This would leave the 2004 average about 9 percent above 2003, to be followed by a minimal increase in 2005.

Hogs/Pork

Hog Prices Soften on Higher Slaughter

August prices for 51-52 percent lean hogs (live equivalent) slid seasonally lower from July as weekly hog slaughter made an early push toward 2 million head per week. The August hog price, $56.19 per cwt, was almost 4 percent lower than in July. Lower prices are the consequence of large weekly slaughters. Weekly kills achieved the 2-million-head-per-week mark during the week of August 21st, a level not reached last year until early October.

Hog prices in the third quarter are expected to average between $54 and $55 per cwt, around 27 percent higher than the same period last year. Third-quarter pork production will likely run about 3-percent higher than last year.

Poultry

Broiler Production Estimate Increased

The U.S. broiler production estimate for third-quarter 2004 has been increased to 8.8 billion pounds, up 25 million pounds from the previous estimate. This is a 4.1-percent increase compared with a year earlier and reflects an expected upward turn in the number of birds slaughtered and continued growth in their average weight. The broiler meat production estimate for the fourth quarter has also been increased and is now 8.6 billion pounds. This is a seasonal decline from the third quarter, but it is 4.1 percent higher than the same period in 2003. Throughout July and August, the number of chicks being placed for growout ranged between 2.5 and 5.6 percent higher than the previous year. This pattern is expected to change slightly going into the fourth quarter, with the growth in chick placements averaging slightly lower due to the recent decline in prices for most broiler products.

Over the last 2 months, prices for almost all broiler products have fallen strongly. While average prices for most broiler parts were considerably higher than a year earlier during the first and second quarters of 2004, prices for many parts are now only slightly higher or below their year-earlier levels. Prices for whole birds are still higher than the previous year, but prices for boneless/skinless breasts dropped over 70 cents a pound between June and August and in August averaged slightly less than the previous year.

Broiler Exports Lower in Second Quarter;

Third Quarter Also Forecast Down

Second-quarter 2004 broiler exports totaled 1.008 billion pounds, down 14 percent from the same period in 2003. The chief reason for the reduction is continued low shipments to Asian countries, primarily Hong Kong/China, Korea, and Japan. Over the first half of 2004, exports to these markets totaled only 141 million pounds, well below the 459 million pounds exported in the same period in 2003. Partially offsetting the decline in shipments to these Asia markets have been strong exports to both Canada and Mexico. Exports to Canada were 26-percent higher in the first half of 2004, and exports to Mexico totaled 195 million pounds, 21 percent higher than the previous year. In July, broiler exports totaled 407 million pounds, considerably higher than the last several months, but still down slightly from July 2003. The increase from the last several months is mostly attributable to higher shipments to Russia, but also to higher exports to countries such as Cuba, Turkey, and Georgia.

The export forecast for the third and fourth quarters was reduced by 50 million pounds a piece to 1.050 and 1.1 billion pounds. Lower shipments to Asia are the chief cause of the reduction. The lower shipments to Asia are expected to be partially offset by higher exports to a number of other markets due to the reduction in the price of leg quarters. In the Southern market, leg quarters averaged 26.5 cents per pound in August, down 5.5 cents per pound from June and 1 percent below a year earlier.

Turkey Production and Stocks Down, Prices Higher

Over the first 7 months of 2004, U.S. turkey production totaled 3.13 billion pounds, down 5.5 percent from the same period in 2003. Although turkey exports have also declined (down 19 percent in the first half of 2004 compared with the first half of 2003), they have been more than offset by the lower production, resulting in declining cold storage stocks of turkey (whole and products). Turkey exports turned upward in July, with shipments totaling 40.8 million pounds, up over 5 million pounds from July 2003. Most of the increase was due to larger exports to Mexico.

Cold storage estimates at the beginning of August place turkey stocks at 603 million pounds, down 17 percent from a year earlier. The decrease in turkey stocks is almost evenly divided between whole birds (down 16 percent) and stocks of turkey products (down 17 percent). The decline in stocks along with lower production has placed upward pressure on turkey prices. In August, the average price for a whole hen turkey in the Eastern market was 73.2 cents per pound, up 27 percent from the previous year. Prices for whole hens in the third and fourth quarters are expected to remain considerably higher than in the same period in 2003, as poult placements continue to point towards lower turkey production.

Contacts and Links

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Subscription Information

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Data

An ERS database available at http://www.ers.usda.gov/Data/Meatscanner/ contains monthly average retail prices for selected cuts of red meat and poultry. The raw data underlying the database are from supermarkets across the United States that account for approximately 20 percent of U.S. supermarket sales. Leland Southard, (202) 694-5187.

Recent Report

"U.S. 2003 and 2004 Livestock and Poultry Trade Influenced by Animal Disease and Trade Restrictions" discusses how animal diseases have influenced trade in animal products in the past few years, and is available at http://www.ers.usda.gov/publications/LDP/JUL04/LDPM12001/

Related Websites

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

Red meat and poultry forecasts

	2001	2002	2003					2004					2005		
	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
Production, million lb															
Beef	26,107	27,090	6,282	6,902	7,081	5,973	26,238	5,834	6,254	6,360	6,000	24,448	5,725	6,275	24,350
Pork	19,138	19,664	4,898	4,741	4,807	5,499	19,945	5,130	4,897	4,965	5,475	20,467	5,085	4,925	20,485
Lamb and mutton	223	219	49	50	48	52	199	52	46	46	50	194	51	49	197
Broilers	31,266	32,240	7,786	8,275	8,448	8,240	32,749	8,208	8,491	8,800	8,575	34,074	8,400	8,825	35,125
Turkeys	5,562	5,713	1,380	1,439	1,409	1,423	5,650	1,302	1,365	1,350	1,375	5,393	1,315	1,410	5,575
Total red meat & poultry	83,006	85,669	20,570	21,586	21,965	21,355	85,476	20,687	21,220	21,686	21,636	85,229	20,734	21,653	86,396
Table eggs, mil. doz.	6,078	6,190	1,524	1,528	1,559	1,596	6,207	1,554	1,572	1,595	1,610	6,331	1,580	1,590	6,400
Per capita consumption, retail lb 1/															
Beef	66.2	67.6	16.2	16.9	16.9	15.0	64.9	15.9	16.9	17.0	15.8	65.6	15.4	16.7	64.6
Pork	50.2	51.5	12.6	12.5	12.6	14.1	51.8	13.0	12.4	12.7	13.8	51.8	12.5	12.2	50.9
Lamb and mutton	1.1	1.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.2	0.3	0.3	1.2
Broilers	76.6	80.5	19.7	20.7	21.3	19.9	81.6	20.8	21.2	22.5	21.6	86.1	21.2	22.0	87.4
Turkeys	17.5	17.7	3.6	3.9	4.6	5.3	17.4	3.6	4.0	4.1	5.3	16.9	3.4	3.9	17.0
Total red meat & poultry	213.6	220.5	52.9	54.9	56.1	55.0	218.9	54.1	55.1	56.9	57.1	223.1	53.2	55.5	222.7
Eggs, number	252.7	255.5	62.6	63.0	63.8	65.3	254.7	63.5	63.7	64.3	65.2	256.7	63.4	63.7	256.2
Market prices															
Choice steers, Neb., $/cwt	72.71	67.04	77.82	78.49	83.07	99.38	84.69	82.16	88.15	83-84	85-89	84-86	82-88	84-90	83-89
Feeder steers, Ok City, $/cwt	88.20	80.04	78.48	82.49	94.90	103.51	89.85	87.98	104.58	115-116	107-111	103-105	90-96	93-99	93-99
Boning utility cows, S. Falls, $/cwt	44.39	39.23	40.53	46.52	49.84	49.60	46.62	47.50	54.86	57-58	53-57	53-54	48-52	50-54	48-52
Choice slaughter lambs, San Angelo, $/cwt	72.04	72.31	91.92	93.71	89.48	92.82	91.98	100.62	97.06	95-96	94-98	96-98	95-101	93-99	93-99
Barrows & gilts, N. base, l.e. $/cwt	45.81	34.92	35.38	42.64	42.90	36.89	39.45	44.18	54.91	54-55	44-46	49-50	47-51	48-52	45-49
Broilers, 12 City, cents/lb	59.10	55.60	60.30	59.60	63.40	64.60	62.00	73.20	79.30	75-76	73-77	75-76	70-76	71-77	71-77
Turkeys, Eastern, cents/lb	66.30	64.50	61.10	60.60	59.10	67.40	62.10	62.10	66.60	73-74	74-78	69-70	60-66	63-69	66-71
Eggs, New York, cents/doz.	67.20	67.10	77.20	73.90	89.90	110.70	87.90	114.90	79.70	65-66	73-77	83-84	72-78	67-73	72-78
U.S. trade, million lb															
Beef & veal exports	2,269	2,447	582	678	680	578	2,518	36	120	140	150	446	135	165	600
Beef & veal imports	3,164	3,218	810	741	619	836	3,006	873	929	915	795	3,512	855	905	3,520
Lamb and mutton imports	146	162	40	44	35	48	168	62	47	42	46	197	57	50	199
Pork exports	1,560	1,611	412	440	404	461	1,717	523	546	475	525	2,069	510	545	2,115
Pork imports	951	1,070	289	301	298	297	1,185	275	265	285	290	1,115	275	265	1,115
Broiler exports	5,555	4,807	1,191	1,166	1,181	1,382	4,920	1,024	1,008	1,050	1,100	4,182	1,050	1,150	4,600
Turkey exports	487	439	103	114	129	137	484	83	93	100	125	401	105	105	455

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

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

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Published in Livestock, Dairy, and Poultry Outlook,http://www.ers.usda.gov/publications/ldp/

Economic Indicator Forecasts

	2003				2004					2005		
	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
GDP, chain wtd (bil. 2000 dol.)	10,288	10,493	10,599	10,381	10,709	10,778	10,871	10,978	10,830	11,080	11,181	11,233
CPI-U, annual rate (pct.)	0.6	2.3	0.9	1.9	3.6	4.7	3.0	2.3	3.4	2.3	2.3	2.1
Unemployment (pct.)	6.2	6.1	5.9	6.0	5.6	5.6	5.5	5.5	5.5	5.4	5.3	5.3
Interest (pct.)												
3-month Treasury bill	1.0	1.0	0.9	1.0	0.9	1.1	1.5	1.8	1.3	2.2	2.5	2.7
10-year Treasury bond yield	3.6	4.2	4.3	4.0	4.0	4.6	4.6	4.8	4.5	5.2	5.4	5.4

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, August 2004.

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Dairy Forecasts

	2003				2004					2005		
	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
Milk cows (thous,)	9,109	9,073	9,011	9,084	8,990	8,997	9,010	8,985	8,995	8,935	8,890	8,880
Milk per cow (pounds)	4,827	4,601	4,609	18,748	4,750	4,858	4,660	4,685	18,955	4,855	5,020	19,460
Milk production (bil. pounds)	44.0	41.7	41.5	170.3	42.7	43.7	42.0	42.1	170.5	43.4	44.6	172.8
Commercial use (bil. pounds)												
milkfat basis	43.0	44.9	45.3	174.6	42.1	43.7	45.3	45.7	176.7	42.6	44.2	177.1
skim solids basis	41.5	42.4	41.9	166.0	42.6	43.1	43.4	43.0	172.1	43.0	43.5	173.5
Net removals (bil. pounds)												
milkfat basis	0.6	0.2	0.0	1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1
skim solids basis	3.1	1.4	0.9	8.3	0.6	0.2	0.6	1.0	2.4	1.0	0.9	3.8
Prices (dol./cwt)												
All milk 1/	11.00	13.30	14.40	12.52	14.07	18.60	15.30 -15.50	15.10 -15.60	15.75 -15.95	13.05 -13.85	12.10 -13.10	12.95 -13.95
Class III	9.62	13.29	13.24	11.42	12.66	19.31	14.35 -14.55	13.45 -13.95	14.95 -15.15	11.20 -12.20	11.10 -12.10	11.60 -12.60
Class IV	9.74	10.05	10.33	10.00	12.43	14.26	12.60 -12.90	11.85 -12.45	12.75 -13.05	10.90 -11.80	10.80 -11.90	11.15 -12.25

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

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