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Livestock, Dairy, and Poultry Outlook

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Total Red Meat and Poultry Production and Consumption In 2007 To Rise More Slowly Than in 2006

NOTE: Due to uncertainties as to the length of bans on trade in ruminants and ruminant products because of the discovery of BSE in the United States and Canada, forecasts for 2006 assume a continuation of policies currently in place among U.S. trading partners. The suspension of beef imports by Japan is considered to be temporary pending the resolution of importer concerns. U.S. beef exports to South Korea are not forecast pending implementation of import regulations by South Korea.

Total U.S. red meat and poultry production in 2007 is projected to grow at a considerably slower rate than expected for 2006. Increases of about 2 percent are expected for red meat and poultry production next year. Egg production will likely increase by slightly more than 1 percent, while 2007 milk production is expected to grow by slightly less than 1 percent.

Total per capita consumption of red meats and poultry on a retail basis in 2007 is expected to be 225.6 pounds, an increase of less than 1 percent from the 225.2-pound forecast for 2006. Per capita egg consumption expected next year is 260.3 eggs, less than 1 percent above forecast per capita consumption this year of 258.6.

Cattle/Beef: Despite abundant supplies of beef, markets are signaling there are inadequate supplies of higher quality beef. Fed cattle are having trouble reaching the higher grades. As a result, the spread between Choice and Select beef is well above \$15 per hundredweight (cwt), whereas last year at this time, the spread was about \$14.50. Fed cattle prices are declining with competition from other meats, although cow prices are relatively stable.

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Tables will be released on
May 30, 2006

The next newsletter
release is June 15, 2006

Approved by the World
Agricultural Outlook
Board.

Large cattle-on-feed inventories and higher production expected for 2007 will continue to pressure prices for the remainder of 2006 and most of 2007.

Beef Trade: The 2006 forecast for cattle imports remains unchanged at 2.2 million head, up 21 percent from the 2005 total, reflecting a full year of imports from Canada. Cattle imports for 2007 are forecast at 2.0 million head, with the small annual decline due to lower cattle prices in the United States, a continued reduction of the cattle “bubble” in Canada, and a smaller herd in Mexico. Total 2006 U.S. beef exports are pegged at 930 million pounds, down from last month, mainly reflecting the delay in resumption of exports to Japan. Exports for 2007 are expected to increase to 1,320 million pounds, an increase of 42 percent over the 2006 forecast total but still only 52 percent of the pre-BSE record set in 2003. A weaker dollar, rising U.S. beef production, lower beef prices, and continued growth in re-established markets all support this expansion. The beef import forecast for 2006 was raised slightly to 3,510 million pounds, as imports from Australia in the first quarter were significantly higher than a year ago. In 2007, beef imports are pegged at 3,340 million pounds, down 4.8 percent from the 2006 forecast, again mainly reflecting a larger U.S. cattle inventory, rising domestic beef production, and lower beef prices.

Dairy: Milk production is forecast to rise only moderately in 2007, due to sharply lower prices for milk and milk products in 2006. Commercial use on both fat and skim solids basis will be higher in 2006 compared with 2005. Prices for milk and milk products, with the exception of dry whey, will be lower this year than in 2005.

Sheep/Lambs: All sheep inventory is expected to post a third consecutive increase in 2007 as herd rebuilding still exists. Due to the increased inventory, production in 2007 is expected to increase slightly by about 3.5 percent. Slaughter lamb prices are expected to recover from 2006 lows, but price recovery could be dampened by the increased supply on the market. Lamb imports have been fairly stable for the past 2 years, and 2007 imports are expected to increase by less than 1 percent to around 184 million pounds.

Hogs/Pork: U.S. pork production is expected to increase about 2 percent next year, to 21.7 billion pounds. As in 2006, exports will be a major component of demand for U.S. pork and a critical determinant of the sector’s financial health. Exports are expected to increase 5 percent next year, to 3 billion pounds, largely on favorable values of the U.S. dollar relative to international competitors. Prices of 51-52 percent lean hogs (live equivalent) in 2007 are expected to average between \$39 and \$42 per cwt. Retail prices next year will likely average in the high 2.60s per pound.

Poultry: Poultry production is expected to continue to increase in 2007, although the rate of growth is expected to be less than in recent years. Broiler production is expected to total 36.8 billion pounds with turkey production estimated at 5.7 billion pounds. Expected higher corn prices and large supplies of total meat products are expected to dampen any incentive to strongly expand production. However, general economic indicators such as real GDP and per capita disposable income are forecast to continue to increase.

Poultry Trade: U.S. broiler and turkey exports in 2007 are expected to be about 5.4 billion pounds and 620 million pounds, respectively. First-quarter 2006 broiler exports totaled 1.338 billion pounds, considerably higher than previously estimated. It is likely that low prices for leg quarters spurred large purchases that more than offset lower shipments to areas with AI concerns. Broiler exports this year are expected to total 5.5 billion pounds. Russia has reportedly resumed re-licensing for poultry meat and poultry products on May 5, 2006, under a new system, after canceling all poultry import permits on April 27. Turkey exports in the first quarter 2006 were 119 million pounds more than 5 percent lower than the first quarter 2005. The United States is expected to export 575 million pounds of turkey this year, down slightly from 2005.

Eggs: The U.S. egg-type layer flock averaged a record, pushing egg production up and prices down in the first quarter 2006. However, as supplies come closer to demand, prices are expected to rebound, ending 2006 higher than 2005. In 2007, egg production is forecast to increase 1.4 percent, and prices are expected to go up 6 to 8 percent due to higher feed costs.

Grilling Season Firing Up

May 1 marks the beginning of the grilling season in U.S. wholesale markets, and recent beef movement reflects this demand. During the last week of April in expectation of planned immigrant worker rally disruptions on May 1, cattle slaughter chalked up one of the largest weekly slaughter tallies since summer 2004. Prices for 50-percent lean trim from fed cattle, mixed with 90-percent lean from cows for hamburger, also picked up dramatically.

There is no shortage of meat, domestically. Total meat production is up by 2 percent over 2004's year-to-date cumulative total and almost 4 percent over 2005's total. Production of beef, pork, lamb, and poultry are all up from 2005 levels. However, the spread between Choice and Select beef was above \$20 per hundred pounds in early May. This spread, plus the fact that the percent of steer and heifer slaughter grading Choice or better is in the low 50 percent range, suggests that, despite abundant total meat, there is an imbalance of Choice and higher quality beef in the marketplace. Production in 2007 will be higher than that expected for 2006. As a result, cattle prices for the remainder of 2006 and most of 2007 are not expected to exceed the levels seen over the last month or so. The reopening of any major foreign markets would likely lead to a slightly improved price scenario.

Stocker Demand Will Depend on Weather

Total federally inspected cow slaughter for the first quarter of 2006 is less than 2 percent above same-period slaughter for 2005 and is almost 4 percent below 2004. Beef cow cumulative slaughter is 8 percent higher than cumulative slaughter for 2005 and 3 percent above 2004. Beef cow slaughter is most likely a response to dry conditions in the central and southern Great Plains that have prevailed throughout the winter and spring, until recently. Despite relatively heavy slaughter, cow prices are holding up relatively well, and, with cow inventories only 2 years off cyclical lows, should remain relatively stable through most of 2006 and into 2007.

Relatively large numbers of heavier feeder cattle have been placed on feed over the last several months. Similar to last fall, it is becoming somewhat of a mystery as to the continued sources of these cattle. Feeder cattle supplies outside feedlots are relatively tight (see table). If recent rains throughout the Great Plains, especially the Southern Plains, continue, the outlook for spring and summer pasture will improve. Any improvement in pasture conditions would boost stocker cattle demand and improve prices.

Cash prices for Choice-grading fed cattle dipped below \$80 per hundredweight during the last 2 weeks in April. Fed cattle prices are expected to weaken into summer and early fall as the large number of feeder cattle placed over the last several months, because of poor wheat pasture and generally poor winter pasture conditions, are marketed as fed cattle. Cattle feeders will likely continue to experience negative feeding margins until feeder and fed cattle prices are aligned.

Despite increased demand for corn for ethanol and lower planting intentions, corn prices are not expected to increase to the point of significantly affecting feeder

cattle placements. Corn prices will move higher if the new crop materializes as short as expected due to reduced acreage and increased demand for ethanol. This could keep downward pressure on cattle feeding margins through most of 2007. Higher grain prices will be offset by increasing supplies of distillers' grains, a byproduct of ethanol production. As ethanol production rises, supplies of wet distillers' grains will likely be readily available at favorable prices. Distillers' grains are an excellent source of protein and energy for cattle, but just how much can be fed without affecting grading is uncertain.

Forage prospects continue to be a concern as the grazing season begins. The first pasture and range crop conditions release for 2006 indicated the following States with the proportion of conditions in the Poor-Very Poor range: Texas (52%), Oklahoma (45%), New Mexico (62%), Colorado (48%), and Arizona (76%). Recent rains in the Southern Plains have helped replenish stock ponds and should improve pasture and range conditions. Conditions in the Southwest continue poor, with only light showers reported.

Improved pasture and range conditions and rebuilt hay stocks will be important to maintain herd expansion. The May *Crop Production* report indicated a sharp draw down of hay stocks, the result of short 2005 hay harvests and heavy supplemental feeding in drought areas.

On May 1 hay stocks were down 23 percent from a year ago and down 19 percent from 2004 levels. Thirty-six of the 48 reporting States had lower May 1 hay stocks than a year ago. Drought conditions during the summer months in the Corn Belt and southern Great Plains States resulted in increased supplemental feeding of hay that reduced December 1 stocks and hay supplies for winter feeding. Drought conditions continued through winter in the central and southern Great Plains, forcing producers to continue heavy supplemental feeding from already short hay stocks. Hay stocks were down sharply in Texas, Oklahoma, New Mexico, Missouri, and Kansas. Conversely, conditions following a fairly mild winter and good conditions last summer and fall resulted in a sharp buildup in stocks in the northern Great Plains and upper Mississippi Valley States, particularly Montana, Minnesota, and North Dakota.

Choice Beef at a Premium

Cattle slaughter has been running about 580,000 to 640,000 through April, with breakouts to both the low side and high side periodically. Cumulative slaughter for the year is almost 3 percent ahead of cumulative slaughter for this same period in 2005. Because of record dressed steer and heifer weights, cumulative beef supplies for 2006 continue ahead of cumulative totals for the same period last year by more than 5 percent. Beef production for 2007 is expected to rise about 2 percent, the largest since 2002 and third largest in the current decade, despite cattle inventories only 2 years off their cyclical lows.

Fed cattle slaughter weights continue to decline seasonally, but remain at record levels. These lower weights further exacerbate the low proportion of Choice beef, compared with other years, because, as weights decline, cattle on feed do not reach the same level of finish achieved at heavier weights. Thus, declining weights led to decreased relative supplies of Choice beef. Further evidence of the imbalance in

supplies of Choice beef is seen in continued low and/or declining dressing percentages and widening Choice-Select beef price spreads. The spread between Choice and Select beef prices exhibits a seasonal pattern of declining into early spring, then spiking in the spring BBQ season. The seasonal low spread is usually in mid to late summer, the spread widens again, peaking in October and coinciding closely with seasonal peaks in dressed weights, which result from usually good feeding conditions during summer.

Prices for 50-percent lean trim beef from fed steers and heifers increased dramatically the last week of April. This 50-percent trim has value when mixed with 90-percent lean from cull cows, cull bulls, and imported processing beef to make hamburger. The United States imports processing beef because there aren't enough cull cows and bulls to meet the demand for ground products. The recent price increase was largely to build stocks for the first week in May when many plants were shut down to allow immigrant workers to rally, and gearing up for early spring Memorial Day specializing of ground products for grilling. Retail demand for beef, particularly Choice beef, continues to be relatively strong despite ample supplies of competing meats. Retail prices for Choice beef in April held fairly steady, averaging \$4.02 per pound, well below the \$4.25 per-pound record a year ago. Larger beef supplies and feeders needing to market more cattle are resulting in lower fed cattle prices and widening retail and packer spreads.

Cattle Imports Remain Strong in 2006, Down Slightly in 2007

The forecast for cattle imports to the United States during 2006 remains unchanged at 2.2 million head, up 21 percent from the 1.815 million cattle imported during 2005. The 2006 total reflects a full year of imports from Canada, in contrast to 2005 when the Canadian border reopened in July. The forecast assumes no imports of Canadian cattle over 30 months of age for 2006 and 2007, consistent with government policy currently in place.

Cattle imports from Canada in the first quarter of 2006 were 342,383 head. About 62 percent were fed cattle and 38 percent were feeders. The difference between U.S. and Canadian fed cattle prices has narrowed significantly in the past several weeks, in part due to slippage of the U.S. dollar against the Canadian dollar. Canada has been contributing about 25,000 head per week to U.S. slaughter totals, counting both fed cattle imported for immediate slaughter and imported feeder cattle placed some months earlier.

Canada continues to reduce the surplus of cattle that accumulated following its initial BSE case in May 2003. Canada's January 1, 2006, cattle inventory was 14.8 million head, down from the January 1 record of 15.1 million in 2005, but still above the January 2003 count of 13.5 million. Since the U.S. border reopening in 2005, Canadian slaughter patterns have shifted to include more nonfed cattle, as packer margins remain higher on these animals compared with the fed cattle for which U.S. packers also compete.

The Canadian International Trade Tribunal ruled on April 18, 2006, that duties imposed last December on U.S. corn entering Canada were not justified on anti-dumping grounds. These duties were \$1.65 per bushel of corn imported from the United States, although producers who exported livestock back to the United States could apply for rebates. The tribunal ordered duties charged in the interim to be refunded.

Cattle imports from Mexico in the first quarter of 2006 totaled 366,196 head, exceeding their strong performance in the same period of 2005. Drought conditions also exist in northern Mexico, although the severity does not appear to match that in adjacent areas of the United States. Total imports from Mexico in 2006 are expected to rival the 1.256 million head imported in 2005.

Cattle imports for 2007 are forecast at 2.0 million head, down 9 percent from 2006. Lower cattle prices in the United States, a continued reduction of the cattle "bubble" in Canada, and a smaller herd in Mexico should contribute to this decline.

The forecast for U.S. cattle exports in 2006 remains unchanged at 30,000. Canada received over 97 percent of the 8,721 head of U.S. cattle exported in the first quarter of 2006. Exports in 2007 are expected to increase to 50,000, with most going to Canada as its herd reduction continues.

2006 Beef Exports Reduced as Exports to Japan Not Yet Resumed; 2007 Increase Expected

The forecast for 2006 U.S. beef exports was reduced to 930 million pounds, down from the previous month's forecast mainly because exports to Japan have not yet resumed. Even so, the projected total for 2006 represents a 35-percent increase over 2005 exports, though only 37 percent of the record 2,518 million pounds exported in 2003.

First-quarter beef exports in 2006 totaled 223 million pounds, similar to exports in the last quarter of 2005. Exports to Canada and Mexico were both up significantly compared with the first quarter of 2005. In addition, exports to Taiwan, Hong Kong, and Singapore resumed in early 2006. Taiwan has been the largest buyer among these three so far.

Exports to Japan are expected to resume in the third quarter in 2006. In spite of complaints by some consumer groups there, and other negative publicity, specialized restaurants which were major users of U.S. beef prior to the BSE discovery still intend to utilize U.S. beef when the market finally reopens. However, retail sales of beef are expected to lag at first.

Negotiations have progressed with South Korea, but their new beef import regulations have not yet been issued. The process was delayed for several weeks when a cow with BSE was identified in Alabama in March 2006 and investigators examined whether it was born before the U.S. feed ban began in 1997. In the negotiations South Korea has expressed willingness to import boneless beef from animals under 30 months of age. However, until the resumption of trade is officially announced, the forecasts for 2006 and 2007 do not include projected exports to South Korea.

Hong Kong and Singapore have reported problems with bone fragments in what was supposed to be boneless beef shipments. So far they have only stopped shipments from the packing plants involved until those plants can adjust their procedures to avoid such problems in the future.

Exports for 2007 are forecast to increase to 1,310 million pounds, an increase of 40 percent over 2006. A weaker dollar, rising U.S. beef production, and lower beef prices all support this continued growth. Mexico is expected to remain the largest customer, with exports there approaching the pre-BSE record of 629 million pounds set in 2002. A strong economy bolstered by higher oil prices also supports the growth forecast for Mexico. U.S. exports to Canada should also grow steadily as the two countries move closer to pre-BSE patterns of trade. Exports to Japan are expected to grow steadily through 2007, to the point that Japan should become the second-largest market for U.S. beef. However, exports are still expected to be well below half the level of trade seen in pre-BSE days.

2006 Beef Import Forecast Little Changed, Lower Levels Expected in 2007

The 2006 forecast for beef imported to the United States was raised slightly to 3,510 million pounds, based on higher imports observed in the first quarter. In particular, imports from Australia were significantly higher compared with the same

period one year ago. Expected imports over the remainder of the year were unchanged. The 2006 forecast total reflects a decline of about 2.5 percent from the level seen in 2005 and a decline of 4.6 percent from the record set in 2004 of 3,679 million pounds. These year-to-year changes mainly reflect the stages of the U.S. cattle cycle, where herd size and beef production bottomed out in 2004 but have since begun to increase.

Restrictions on meat trade mainly due to health concerns throughout the world market have also produced uncertainty regarding U.S. import forecasts. The resumption of U.S. and Canadian beef sales in Asian markets during the forecast period should displace some Australian beef which could instead end up in the United States. There is also greater competition for beef exports from Uruguay from countries normally supplied by Brazil, which is trying to clear up another foot-and-mouth disease outbreak, and Argentina, whose government has imposed beef export restrictions intended to reduce its inflation.

In 2006 the biggest year-to-year change in imports is expected from Canada, whose exports to the United States are expected to decline. This decline reflects to some extent that Canada is instead sending a significant volume of live cattle under 30 months of age here while slaughtering more cull cows domestically. Canada's beef market is also facing less pressure as the cattle inventory and beef production continues to progress toward the levels seen before the distorting effects of BSE occurred.

In 2007, beef imports are forecast at 3,340 million pounds. This total is down 4.8 percent from the 2006 forecast, again mainly reflecting a larger U.S. cattle inventory, rising beef production, and lower beef prices. Year-to-year increases in U.S. cow slaughter will provide more lean meat domestically, displacing some of the foreign lean beef that represents the bulk of U.S. beef imports. In particular, a decline in imports from Uruguay is expected, reflecting increased worldwide competition for South American beef.

Milk Production Continues To Expand in 2007, but Prices Will be Sharply Lower in 2006

USDA forecasts 2007 milk production at 183.1 billion pounds, up from 182 billion projected for 2006. Production in 2006 is expected to be 2.8 percent higher than 2005's outturn.

Production will rise because both cow population and output per animal are expected to continue to rise in both 2006 and 2007. A decline in cow numbers is not expected until the second half of 2007 and then the decline will be a scant 0.3 percent. Quarterly milk output per cow is expected to continue a modest upward movement based on quarter-to-quarter comparisons.

The milk feed price ratio is pegged between 2.5 and 3.0. This should signal the end of expansion but is not low enough to trigger a major liquidation. Cow numbers will likely expand through the second quarter of 2006, hold steady in the third quarter, and then begin a decline that will continue through 2007. The delay is predicated on the notion that most producers make their "keep or cull" decisions in the late summer. Lower year-over-year heifer prices this spring may indicate a weakening demand for replacements and could lead to more culling by summer's end. Expected higher feed prices in the upcoming crop year and continued declines in milk prices throughout 2006 could provide an incentive for smaller operators to exit. However, exit decisions will likely be delayed until later in the season when Milk Income Loss Contract Program payments are assured.

Commercial use on a fat basis is expected to total 185.2 billion pounds in 2006 compared with 179.7 in 2005. On a skim solids basis, commercial use is projected to reach 184.4 billion pounds, up from 180.7 in 2005. A strong domestic macroeconomic outlook and substantially lower prices in 2006 for cheese, butter, and Nonfat Dry Milk (NDM) are the basis for a stronger demand outlook for the season. Commercial use for NDM will likely be supported by exports of NDM. Robust demand in Asia, a weaker U.S. dollar, lower U.S. prices, and continued tight exporter supplies form the basis for an optimistic forecast.

The decline in the all milk price that began in early 2005 will continue this year. The all milk price is expected to average between \$12.35 and \$12.85 a cwt for 2006, down from \$15.14 in 2005. Prices for cheese, butter and NDM are also expected to decline in 2006. Prices for Class IV milk will mirror the expected decline in butter and NDM prices. Class IV prices will likely average between \$10.45 and \$11.05 in 2006 compared with an average of \$12.87 in 2005. Although offset by slightly higher whey prices, lower cheese prices are expected to result in the Class III price averaging \$11.25-\$11.75 per cwt compared with \$14.05 in 2005.

Sheep and Lamb Outlook for 2007

The all sheep inventory is expected to post a third consecutive increase in 2007. Due to the increased inventory, production in 2007 is expected to increase by about 3.5 percent. Market lambs from the past 2 years of ewe retention and herd rebuilding will begin to impact the market, increasing production. Slaughter lamb prices are expected to recover slightly from 2006 lows, but the recovery could be dampened by the increased supply on the market. However, if the current weakness of the U.S. dollar relative to the Australian and New Zealand currencies persists, lamb imports could become relatively more expensive to U.S. importers, causing a shift away from imported lamb in favor of domestic lamb. This could help boost 2007 lamb prices. Lamb imports have been fairly stable for the past 2 years, and 2007 imports are expected to increase by less than 1 percent to around 184 million pounds.

First-Quarter 2006 Lamb Imports Strong; Domestic Production Weaker Than Expected

First-quarter 2006 commercial lamb and mutton production totaled 49 million pounds, unchanged from a year earlier. However, first-quarter imports increased 29 percent above the same period in 2005 to 53 million pounds, exceeding domestic production levels. Domestic production may have been affected by weaker-than-expected demand leading up to Easter and Passover, and also by the large number of fat lambs available for market.

Ordinarily, the average dressed weight for choice lambs ranges between 62-68 pounds. Lambs heavier than 70 pounds are considered over-finished (excessively fat lambs). Over-finishing may occur for two reasons: 1) during periods of weak demand producers tend to hold lambs for longer than normal and 2) when prices are very strong and producers hold back market lambs in anticipation of even higher prices. The latter may be the current case as dressed weights steadily crept up during the periods of high-price in 2005. Over-finishing in the industry tends to be negatively correlated with price as was the case between mid-2001 and the first half of 2002 when prices fell to the low- to mid-\$60s per cwt.

Weak domestic demand in the second quarter of this year resulted in lackluster domestic production ahead of Easter and Passover. Second-quarter commercial production is expected to total 49 million pounds, same as first-quarter 2006, and 6 percent above the same period in 2005. The seasonal spikes in domestic lamb and mutton production which normally occur in the first quarter was non-existent. Commercial production typically begins to increase at least 6 weeks prior to Easter and Passover in order for the final product to get to the consumer for the holidays.

The San Angelo slaughter lamb price fell sharply in the first quarter of 2006 to \$77.03, a 27-percent decline from the same period last year. Slaughter lamb prices are expected to fall further in the second quarter. The weaker-than-expected demand during the religious holiday season is expected to pull second-quarter prices down to between \$64 and \$66 per cwt. As the year progresses prices are expected to recover to a \$68-\$75 per cwt range as the over supply of fat lambs clears the market.

Second-Quarter 2006 Production Forecast Reduced Slightly

The forecast for second quarter 2006 pork production was lowered by 75 million pounds, as April hog slaughter was lower than anticipated. The U.S. pork sector's second quarter output is expected to be 5.05 billion pounds, about even with the second quarter a year ago. Production for the year is expected to be 2.1 billion pounds, about 3 percent above 2005. Live equivalent prices for 51-52 percent lean animals are expected to average \$42-\$44 per cwt.

U.S. Pork Production Expected To Increase 2.3 Percent in 2007

The U.S. pork sector is expected to produce about 21.7 billion pounds of pork next year, about 2 percent more than the 2006 forecast production. The most important sources of the anticipated production increase next year include larger imports of Canadian swine--of which a greater proportion will likely be small animals for finishing in the United States--higher litter rates from a largely stable U.S. breeding herd, and higher average dressed weights. Despite moderately higher prices for hog ration inputs that are anticipated next year, the trend of feeding hogs to larger live weights--yielding higher average dressed weights--is expected to continue.

U.S. imports of Canadian swine are expected to increase 5.6 percent next year to 9.4 million head, from forecast 2006 imports of 8.9 million head. The proportion of imports comprised by animals weighing 50 kilograms or less is expected to increase next year beyond levels seen in 2005--66 percent--and to surpass the highest level achieved--68 percent in 2003. Continued appreciation of the Canadian dollar, which tends to make Canadian pork products more expensive in international markets, is likely to persist in limiting prices that Canadian slaughter operations can pay for hogs. Comparatively lower prices offered by Canadian packer\processors creates incentives to export swine to the United States where costs of finishing swine are typically lower, and packer\processor bids are typically higher than in Canada.

Pork exports will continue to be a critical component of total U.S. pork demand in 2007. Exports of 3.0 billion pounds are expected next year, an increase of 5 percent over 2006 forecast exports of 2.89 billion pounds. Exports will likely account for 14 percent of production next year, a huge leap from just 10 years ago, when the export-proportion of production was just over 6 percent. Factors assumed to positively influence exports next year include favorable exchange values of the U.S. dollar compared with currencies of competitors, together with lower U.S. prices brought about by larger pork supplies, and continued strength in the Japanese, Canadian, and Mexican economies. Factors that could mitigate growth next year include adjustment and acceptance rates of Asian consumers as markets reopen to North American beef products. Market responses to disease outbreaks may add uncertainty and volatility in international pork markets as well.

U.S. pork imports are expected to increase to 1.04 billion pounds next year. With imports of 1.015 billion pounds anticipated in 2006, import levels have evolved into one of the less volatile components of the U.S. pork sector. Because of Canada's proximity to, and integration with U.S. markets, it is expected to account for more than 80 percent of U.S. imports this year and in 2007. Denmark, which in recent

years has largely been supplanted by Canada as the major exporter to the United States, will likely be the source of between 10 and 12 percent of U.S imports, both this year and next.

Prices of 51-52 percent lean, live equivalent hogs are expected to average \$39-\$42 per cwt next year, down almost 7 percent from expected 2006 average prices of \$42-\$44 per cwt. Next year is shaping up to be something of a continuation of 2006, in the sense that the U.S. red meat and poultry sector will supply increased quantities of beef, pork, lamb, chicken, and turkey to domestic and international consumers. Here at home, U.S. consumers will have an abundance of animal protein choices, and will thus more than likely pay lower retail pork prices--somewhere in the high \$2.60s are expected.

March Exports Were Highest Monthly Total Ever

U.S. exporters shipped more than 285 million pounds of pork products to foreign markets in March, a record for monthly exports. March shipments were almost 23 percent above March 2005. First-quarter exports, at almost 770 million pounds, were more than 22 percent above the same period a year ago. The same set of factors that has largely driven trade since 2005 continue to account for the very large U.S. export flows seen in the first quarter of 2006: attractive pork prices from higher domestic supplies, the lower valued U.S. dollar relative to currencies of competitors, and the effects of animal diseases including importers' access restrictions (i.e., Russia restricting beef and pork imports from Brazil, the restrictions of Japan and Korea on U.S. beef) and consumers' anxieties connected with poultry consumption and A.I.

Export Growth is Broad-Based

Record-large first-quarter export numbers are not attributable increases by one or two large importing countries. Comparing year-over-year export shares, and import quantities of important foreign markets, show that while there have been some significant changes in export shares, U.S. export growth is attributable to broad increases across almost all important foreign markets. U.S. pork exports are increasing because--with the exception of Japan--all foreign customers are buying more U.S. pork.

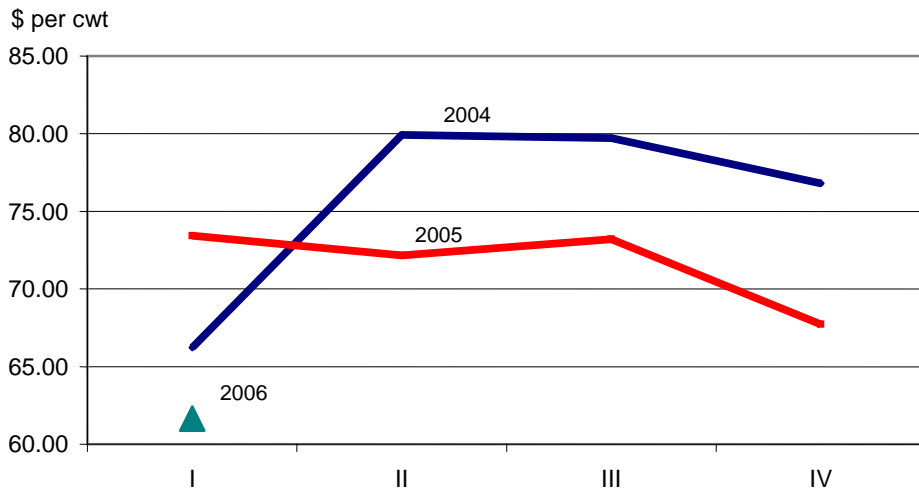
	2006 Quarter 1 Share of U.S. Exports	2005 Quarter 1 Share of U.S. Exports	2006 Quarter 1 Imports of U.S. Pork	2005 Quarter 1 Imports of U.S. Pork	(2005/2006) Year-over-year Change
	Percent	Percent	Million pounds	Million pounds	Percent
Japan	32	42	244	265	-8
Canada	10	11	77	70	9
Mexico	22	19	169	122	38
Russia	6	3	44	18	148
South Korea	12	8	89	52	69
Hong Kong	2	0.4	12	3	332
Taiwan	3	2	20	13	49
Caribbean	2	2	15	11	38
Central and S. America	2	2	17	12	44
EU	0.7	0.6	5	3	53
China	4	4	32	26	21
Australia	2	2	18	15	24
Romania	2	1	13	8	58
Other	1	2	16	11	38

Columns may not total to 100 percent due to rounding.

Source: USDA/ERS Darts System.

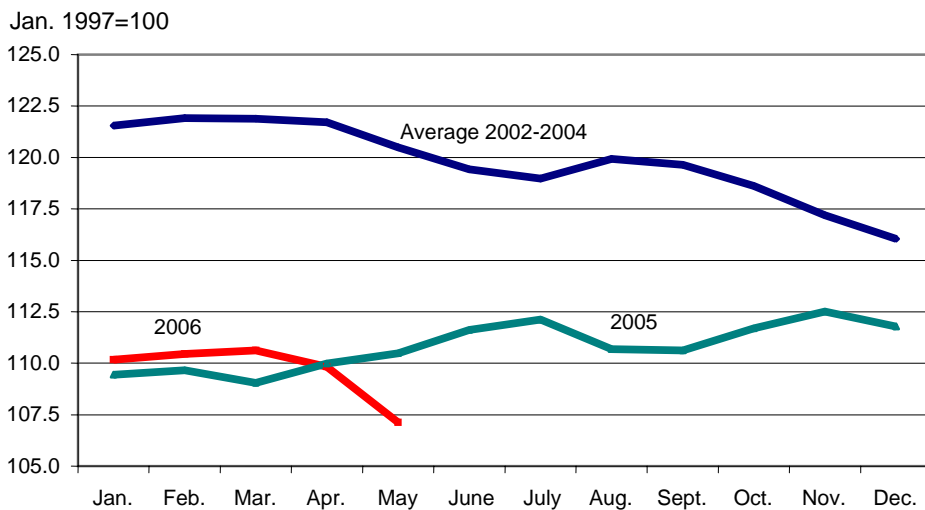
While Japan, Mexico, and Canada still account for more than half of U.S. pork exports, last year at this time, these three countries accounted for almost 73 percent. These countries together are importing more U.S. pork than a year ago, but the U.S. export “pie” is growing, to the extent that Japan, Mexico, and Canada are accounting for a smaller piece of the pie. Indeed, Japan’s first-quarter imports of U.S. pork are off by almost 8 percent--largely due to a very large overhang of stocks. Canada has been supplanted by South Korea as the third-largest importer, although Canada’s imports of U.S. pork increased more than 9 percent over first-quarter 2005. While the significant increases in Russia’s demand for U.S. pork are a likely outcome of Russian restrictions on imports of Brazilian pork due to Foot-and-Mouth disease outbreaks, favorable U.S. prices and exchange rates, in particular, are the most likely factors underlying the broad-based increases seen in the first quarter. The figure below shows that first-quarter 2006 U.S. wholesale pork prices were more than 16 percent lower than a year ago. The next figure shows the Federal Reserve Bank’s broad-based trade-weighted index of the value of the U.S. dollar. Although the dollar’s value in the first quarter was slightly higher than a year ago, the currency’s value has depreciated significantly from the 3-year (2002-2004) average. Lower pork prices and favorable relative exchange rates will likely remain the fuel for U.S. pork export flows.

Quarterly values, USDA estimated pork carcass cutout 2004-March 2006



Source: USDA/AMS, *Weekly National Carlot Meat Report*.

Federal Reserve Bank's nominal broad dollar index



Source: Federal Reserve Statistical Release,
<http://www.federalreserve.gov/release/H10/Summary>.

First-Quarter Imports of Live Swine Also Larger

U.S. swine finishers and packer\processors imported 2.1 million head of swine in the first quarter, almost 13 percent more than in the first quarter of 2005. This year, 70 percent of first-quarter imports were comprised by animals weighing 50 kilograms or less; last year, the share of smaller animals--to be finished and slaughtered in the United States--was 66 percent. Both the 17-percent increase in the number of smaller animals and the 2-percent increase in slaughter hogs imported, point up the presently uncompetitive environment for finishing and slaughtering hogs in Canada. The appreciated value of the Canadian dollar reduces the competitiveness of Canadian pork products in international markets--

particularly against U.S. pork. Because the Canadian pork sector typically exports at least half of its production, lackluster exports--through March, Canadian pork exports increased less than 2 percent year-over-year--constrain Canadian packers' ability to bid against U.S. slaughter facilities for hogs, creating incentives for exporting live animals to the United States.

The United States is expected to import 8.9 million head of swine this year--an increase of almost 9 percent over 2005--and 9.4 million head in 2007. The USDA forecast assumes that the small declines in Canadian pig crops seen in 3 of the last 5 quarters will be reflected in lower Canadian slaughters, rather than in lower exports to the United States. Indeed, through May 7 Agriculture and Agri-Food Canada statistics (<http://www.agr.gc.ca/redmeat/mimain.htm>) indicate that 2006 Canadian slaughter is down 4 percent from a year ago, while USDA\APHIS statistics, through the first week of May, show that live swine exports to the United States are up almost 11 percent over the same period in 2005.

U.S. Broiler Production To Increase

U.S. broiler production is expected to total 36.8 billion pounds in 2007, up 1.9 percent from forecast production for 2006. Broiler production increases are expected to be held down by high levels of total meat production and higher feed prices. The broiler industry has had annual gains in overall production since the mid-1970s. Increases in production are expected to be relatively even throughout the year. With the smaller gains in production and expected growth in exports, domestic per capita consumption levels are expected to increase only marginally in 2007. Cold storage holdings of broiler products are expected to gradually decline with stock levels becoming tighter towards the end of 2007. Most of the gains in production are expected to come from higher average live weights as increases in the number of birds slaughtered are only expected to rise slightly.

Per capita domestic broiler consumption (retail weight basis) is expected to only increase marginally in 2007 after increasing over 2 pounds to nearly 88 pounds in 2006. Over the 10 year period (1998 to 2007) per capita broiler consumption is forecast to rise from 72 to over 88 pounds, an increase of 16 pounds or around 7.9 billion pounds overall. By comparison during the same period, per capita retail weight consumption of pork and beef are forecast to be basically unchanged.

The 12-city price for whole broilers is expected to average between 64 and 69 cents per pound in 2007. This is an increase of almost 7 percent from 2006, when broiler product prices are expected to be depressed through most of the year due to large supplies of meat products and high stock levels caused by strong production growth at the end of 2005 and the beginning of 2006. The increase is expected to come from higher prices throughout the year as supplies of broiler products are expected to be tighter. Production increases for beef and pork in 2007 are expected to act to hold down any large price increases for broiler parts.

Turkey Production To Increase Less Than 2 Percent Next Year

After growing to an expected 5.6 billion pounds in 2006, turkey production is forecast to reach 5.7 billion pounds in 2007, up about 1.7 percent. The growth is expected to come from a slightly higher number of birds slaughtered and higher weights. Even with 2 years of positive growth, per capita consumption of turkey on a retail weight basis is forecast at 16.6 pounds in 2007, about the same as expected in 2006 and down slightly from earlier in this decade. One reason for the decline is the expected growth in turkey exports, especially those to Mexico.

Prices for whole hen turkeys are expected to average between 68 and 74 cents per pound in 2007 down almost 4 cents per pound on average from the 2006 forecast. The decrease is expected to result from increases in cold storage holdings as they begin to put downward pressure on whole bird prices.

Broiler Production Higher in First-Quarter 2006

Broiler production in first-quarter 2006 totaled 8.94 billion pounds, up 4.1 percent from first-quarter 2005. The growth in production came from a mixture of an 1.8-

percent increase in the number of birds going to slaughter and a 2.4-percent increase in the average liveweight of slaughtered birds.

Broiler production for second-quarter 2006 is forecast at 9.1 billion pounds, an increase of just under 2 percent from the previous year. During April, the daily broiler slaughter reported by the Agricultural Marketing Service (AMS) showed a 3.5-percent decline in the total liveweight of birds being slaughtered compared with April 2005. However, most of that decline is due to one additional slaughter day in April 2005. Another indicator pointing to slowing growth in broiler production is the weekly change in the number of chicks placed for growout. Over the last 5 weeks (April 8 through May 6) the number of chicks being placed for growout has averaged 1.5 percent lower than in the same period the previous year.

After reaching a high of 924 million pounds at the end of 2005, cold storage stocks declined to 865 million pounds by the end of first-quarter 2006, still 29 percent higher than the same period last year. This shows a large movement in broiler products, considering the strong (4.1 percent) increase in broiler production in first-quarter 2006. Most of the increases in cold storage holdings were of dark meat parts, particularly leg quarters which were up 143 percent from the end of first-quarter 2005.

Turkey Production Up Slightly

Turkey production totaled 1.35 billion pounds in first-quarter 2006, up 2 percent from first-quarter 2005. Most of the production growth came from a higher number of birds being slaughtered (up 1.4 percent). The average weight of turkeys being slaughtered in first-quarter 2006 rose to 29.5 pounds, up slightly less than 1 percent from first-quarter 2005. Turkey production in the second quarter is expected to reach 1.43 billion pounds. This would be a 2-percent increase from the same period last year.

Cold storage stock levels for turkey continue to be relatively tight, with total holdings at the end of first-quarter 2006 reported at 375 million pounds, down 10 percent from the same period in 2005. However the difference between cold storage holdings of whole turkeys and turkey parts is quite large. Stocks of whole turkeys were estimated at 163 million pounds, 22 percent lower than the previous year. Stocks of turkey parts were estimated at 211 million pounds, a 4-percent increase over a year earlier. The increase in cold storage holdings of turkey parts may be the result of a slowing in exports to Mexico in first-quarter 2006, down 4 percent from first-quarter 2005.

Broiler Exports Grow in First-Quarter 2006

U.S. broiler exports for January through March 2006 were up almost 12 percent from first quarter 2005. The expansion in exports is due primarily to very low U.S. leg-quarter prices. During the fourth quarter of 2005 and first quarter of 2006, a chain reaction of events related to foreign consumers' response to A.I. slowed demand for U.S. broiler meat. Stocks accumulated in the United States and abroad as a result, causing broiler meat prices--leg quarters particularly--to fall. The resulting low prices have increased demand in price-sensitive markets and also those markets that have not had any A.I. outbreaks. Three areas with large increases in purchases from the United States are Canada, Mexico, and China/Hong Kong. In both Canada and Mexico there have been no AI outbreaks and buyers have taken advantage of the low prices. First-quarter 2006 shipments to Canada were up 31 percent from the previous year with exports to Mexico 27 percent higher. Shipments to China/Hong Kong in the first quarter totaled 157 million pounds, 55 percent higher than in the previous year. While shipments to Hong Kong were down, they were more than offset by larger shipments directly to China. Over time a greater percentage of broiler shipments have been going directly to China rather than through Hong Kong.

On April 27, 2006, the Russian Government cancelled permits for poultry meat and poultry products, due "...to out of control fraud, smuggling and falsification of veterinary certificates." ("*Russia Orders Reissue of Poultry Import Permits*" USDA\Foreign Agriculture Service: <http://www.fas.usda.gov/gainfiles/200604/146187597.pdf>). The effective date of the ban was May 8th, meaning shipments on the water by May 8th were allowed into Russia under old permits. On May 5, 2006, the permitting process resumed under a new system of veterinary and phytosanitary surveillance. Russia is by far the largest importer of U.S. broiler meat. Last year Russia imported 1.6 billion pounds of U.S. broiler meat, accounting for 32 percent of all U.S. broiler exports. This year U.S. broiler exports are expected to total 5.5 billion pounds.

First-Quarter 2006 Turkey Exports Fall Slightly From a Year Ago

Turkey exports in the first quarter of 2006 were 119 million pounds, down more than 5 percent from the first quarter of 2005. The most likely reason for the reduction is Mexico's large purchase of broiler meat. In total, Mexico's purchases of U.S. poultry meat have increased as higher broiler shipments offset the 4-percent decline in turkey shipments to Mexico in first-quarter 2006. Because U.S. broiler meat prices are expected to remain favorable relative to turkey for most of the year, the 2006 forecast for turkey exports was reduced slightly. U.S. turkey exports this year are expected to be about 1 percent higher than in 2005.

Broiler Exports at 5.4 Billion Pounds in 2007

U.S. broiler exports are forecast at 5.4 billion pounds in 2007. Next year, expectations of increased supplies of U.S. broiler meat, and strong macroeconomic growth in important foreign markets, will likely keep broiler exports steady although leg-quarter prices are expected to be stronger. Most U.S. broiler meat shipments in 2007 are expected to go to Russia, Mexico, China/Hong Kong, the CIS countries,

and the Caribbean. Broiler exports to Russia are expected to only increase slightly in 2007, growth in shipments is limited due to an import quota.

Strength in Turkey Exports Expected To Continue Through 2007

Turkey meat exports are projected at 620 million pounds in 2007. Expectations of continued economic growth, both this year and in 2007, are the most important factor-likely to drive Mexican demand for U.S. turkey products. The Mexican economy is forecast to grow at a rate of almost 4 percent both this year and in 2007, pointing to continued growth in turkey demand. In the first quarter of this year, Mexico accounted for 66 percent of U.S. turkey exports, and will likely continue to dominate exports through 2007 as well.

U.S. Egg-Type Flocks Rose to Record High in the First Quarter

The U.S. egg-type layer flock averaged a record of 291.1 million birds during the first quarter 2006, continuing an increase that began in mid-2005. The laying flock is expected to continue to increase for the remainder of the year, but will likely slacken in 2007. In the first quarter of 2006, table egg production rose to 1,612 million dozen, nearly 24 million dozen over a year ago. For all of 2006, table egg production is forecast to grow 2 percent over last year. In 2007, however, production is expected to grow at a slower pace of 1.3 percent.

The result of those added eggs helped bring wholesale table egg prices (NY grade A large) down from 75.0 cents per dozen in fourth-quarter 2005 to 71.4 cents a dozen in the first quarter of 2006. For 2006, wholesale table egg prices (NY grade A large) are forecast between 68 and 72 cents per dozen, compared with 65.5 cents per dozen in 2005. In 2007, prices are expected to go up between 72 and 76 cents a dozen, as egg production growth slows.

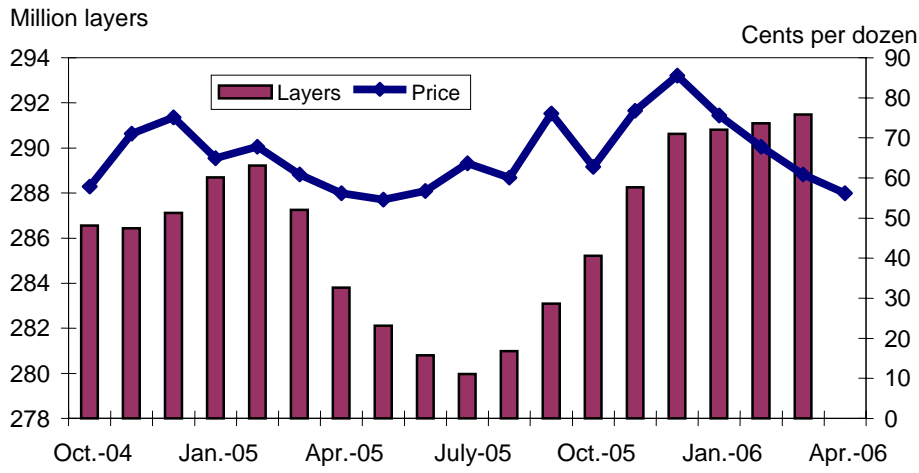
Retail egg prices averaged \$1.36 per dozen in the first quarter of 2006, compared with \$1.30 a quarter ago, and \$1.21 a year ago. For all of 2006, retail egg prices are expected to average between \$1.25 and \$1.29 per dozen. In 2007, prices are expected to increase about 7 percent, reflecting in part higher wholesale prices.

Shell egg prices will slow the growth of federally inspected eggs that go to the breaking market to 2 percent in 2006 compared with a 6.3-percent rise in 2005. In 2007, as egg prices are forecast to rise, growth in eggs broken will likely grow about 3 percent.

In the first quarter 2006, U.S. exports of eggs and egg products (in-shell egg equivalents) declined by 17 percent compared with a year ago. Major markets where U.S. shipments declined include Japan, Canada, Brazil, the United Kingdom, the Netherlands, and Spain. On the other hand, U.S. shipments to Germany, Hong Kong, and Taiwan increased in first-quarter 2006 above a year earlier. For all of 2006, U.S. exports are forecast to decrease about 17 percent.

In Asia, both the United States and Brazil are facing tough competition from the Netherlands, especially in the shell egg market. U.S. egg exports in 2007 are forecast nearly 4 percent higher than in 2006.

U.S. egg-type layers and New York wholesale prices (grade A large)



Sources: USDA, NASS Monthly *Chicken and Eggs Reports*, April 21, 2006. *Daily New York Egg Report*, *Shell Eggs*, *Market News Reports*, USDA/AMS.

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Recent Report

Did the Mandatory Requirement Aid the Market? Impact of the Livestock Mandatory Reporting Act, <http://www.ers.usda.gov/Publications/LDP/Sep05/ldpm13501/> compares the mandatory price reporting system developed by USDA's Agricultural Marketing Service in 2001 with the previous voluntary reporting system. The trend toward formula purchases has slowed since mandatory price reporting was implemented, and market forces have likely contributed to an increase in the volume of cattle moving under negotiated purchases.

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

Related Websites

Animal Production and Marketing Issues, <http://www.ers.usda.gov/briefing/AnimalProducts/>
Cattle, <http://www.ers.usda.gov/briefing/cattle/>
Dairy, <http://www.ers.usda.gov/briefing/dairy/>
Hogs, <http://www.ers.usda.gov/briefing/hogs/>
Poultry and Eggs, <http://www.ers.usda.gov/briefing/poultry/>
WASDE, <http://usda.mannlib.cornell.edu/reports/waobr/wasde-bb/>

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Red meat and poultry forecasts

	2003	2004	2005				2006					2007		
	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
Production, million lb														
Beef	26,238	24,548	5,725	6,189	6,560	6,209	24,683	6,078	6,850	6,950	6,375	26,253	6,330	26,755
Pork	19,945	20,509	5,138	5,021	5,000	5,525	20,684	5,321	5,050	5,200	5,675	21,246	5,375	21,740
Lamb and mutton	199	195	49	46	44	48	187	49	49	48	52	198	52	205
Broilers	32,749	34,063	8,588	8,934	8,939	8,904	35,365	8,937	9,100	9,100	9,050	36,187	9,075	36,825
Turkeys	5,650	5,454	1,328	1,397	1,375	1,405	5,504	1,354	1,425	1,410	1,445	5,634	1,375	5,730
Total red meat & poultry	85,476	85,441	20,991	21,764	22,088	22,254	87,097	21,902	22,642	22,881	22,772	90,197	22,371	91,939
Table eggs, mil. doz.	6,225	6,365	1,588	1,583	1,596	1,644	6,411	1,612	1,630	1,635	1,665	6,542	1,625	6,630
Per capita consumption, retail lb 1/														
Beef	64.9	66.1	15.6	16.8	17.0	16.0	65.5	15.8	17.8	17.9	16.1	67.6	15.9	66.9
Pork	51.8	51.3	12.3	12.1	12.3	13.3	50.0	12.4	11.9	12.5	13.4	50.2	12.5	50.8
Lamb and mutton	1.2	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	1.1
Broilers	81.6	84.3	21.3	21.7	21.6	21.2	85.8	22.2	22.2	22	21.5	87.9	22.3	88.4
Turkeys	17.4	17.1	3.6	3.9	4.2	5.1	16.7	3.5	3.8	3.9	5.3	16.5	3.6	16.6
Total red meat & poultry	218.9	221.4	53.6	55.2	55.7	56.4	220.9	54.7	56.4	57	57.1	225.2	54.9	225.6
Eggs, number	254.7	257.2	63.4	63.0	63.5	65.0	255.1	63.9	64.5	64.7	65.6	258.6	63.9	260.3
Market prices														
Choice steers, Neb., \$/cwt	84.69	84.75	89.09	87.96	81.79	90.27	87.28	89.24	79-81	76-80	80-86	81-84	82-88	81-87
Feeder steers, Ok City, \$/cwt	89.85	104.76	104.05	113.36	111.50	114.84	110.94	106.80	100-102	96-100	95-101	100-103	101-107	98-104
Boning utility cows, S. Falls, \$/cwt	46.62	52.35	54.18	59.17	55.34	49.75	54.36	48.89	50-54	49-53	49-53	50-52	49-53	49-52
Choice slaughter lambs, San Angelo, \$/cwt	91.98	96.69	106.10	98.60	92.90	94.44	97.76	77.03	64-66	68-72	72-78	70-73	79-85	78-84
Barrows & gilts, N. base, i.e. \$/cwt	39.45	52.51	51.92	52.09	50.51	45.67	50.05	42.63	44-46	44-46	38-42	42-44	37-41	39-42
Broilers, 12 City, cents/lb	62.00	74.10	71.90	72.60	72.10	66.70	70.80	62.70	59-61	61-65	60-66	61-63	63-69	64-69
Turkeys, Eastern, cents/lb	62.10	69.70	65.90	67.70	76.50	83.60	73.40	67.30	70-72	75-79	77-83	72-75	62-68	68-74
Eggs, New York, cents/doz.	87.90	82.20	64.50	55.90	66.60	75.00	65.50	71.4	62-64	65-69	75-81	68-71	70-76	71-77
U.S. trade, million lb														
Beef & veal exports	2,518	461	130	189	150	220	689	223	215	230	265	933	305	1,310
Beef & veal imports	3,006	3,679	831	1,065	906	797	3,599	843	950	900	820	3,513	770	3,340
Lamb and mutton imports	168	181	41	52	39	48	180	38	50	40	44	172	51	184
Pork exports	1,717	2,179	630	699	629	702	2,660	770	750	665	750	2,935	725	3,035
Pork imports	1,185	1,099	245	245	257	277	1,024	259	240	260	270	1,029	250	1,040
Live swine imports	7,438	8,505	1,894	1,951	2,157	2,189	8,191	2,133	2,200	2,300	2,300	8,933	2,300	9,400
Broiler exports	4,920	4,768	1,199	1,347	1,315	1,286	5,147	1,338	1,285	1,390	1,450	5,463	1,200	5,405
Turkey exports	484	443	126	147	147	149	569	119	145	150	160	574	135	620

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.

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

Economic Indicator Forecasts

	2005					2006					2007	
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
GDP, chain wtd (bil. 2000 dol.)	10,999	11,092	11,193	11,234	11,135	11,381	11,449	11,534	11,651	11,518	11,734	11,863
CPI-U, annual rate (pct.)	2.4	4.2	5.1	3.2	3.7	2.0	3.4	2.6	2.4	2.6	2.3	2.4
Unemployment (pct.)	5.3	5.1	5.0	4.9	5.1	4.8	4.7	4.7	4.8	4.7	4.8	4.8
Interest (pct.)												
3-month Treasury bill	2.5	2.9	3.4	3.8	3.2	4.4	4.8	5.0	5.0	4.8	5.0	4.8
10-year Treasury bond yield	4.3	4.2	4.2	4.5	4.3	4.6	5.1	5.2	5.3	5.1	5.3	5.2

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, May 2006.
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Dairy Forecasts

	2005					2006					2007	
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
Milk cows (thous.)	9,002	9,041	9,060	9,060	9,041	9,093	9,120	9,125	9,120	9,115	9,115	9,031
Milk per cow (pounds)	4,816	5,069	4,871	4,821	19,577	5,006	5,140	4,915	4,905	19,966	5,075	20,275
Milk production (bil. pounds)	43.4	45.8	44.1	43.7	177.0	45.6	46.9	44.8	44.7	182.0	46.3	183.1
Farm use	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	1.0
Milk marketings	43.1	45.6	43.9	43.4	175.9	45.3	46.6	44.6	44.5	180.9	46.0	182.1
Milkfat (bil. pounds milk equiv.)												
Milk marketings	43.1	45.6	43.9	43.4	175.9	45.3	46.6	44.6	44.5	180.9	46.0	182.1
Beginning commercial stocks	7.2	9.5	11.3	9.6	7.2	8.0	10.8	12.0	10.0	8.0	8.2	8.2
Imports	1.3	1.1	1.1	1.2	4.6	1.2	1.1	1.1	1.2	4.5	1.3	5.1
Total supply	51.6	56.1	56.2	54.2	187.7	54.5	58.5	57.6	55.7	193.4	55.5	195.4
Ending commercial stocks	9.5	11.3	9.6	7.2	8.0	10.8	12.0	10.0	8.2	8.2	10.4	7.9
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	42.1	44.8	46.6	46.2	179.7	43.6	46.5	47.6	47.5	185.2	45.1	187.5
Skim solids (bil. pounds milk equiv.)												
Milk marketings	43.1	45.6	43.9	43.4	175.9	45.3	46.6	44.6	44.5	181.1	46.0	182.1
Beginning commercial stocks	8.2	8.4	9.6	8.9	8.2	8.9	9.5	10.1	9.0	8.9	9.0	9.0
Imports	1.2	1.0	1.2	1.2	4.5	1.2	1.2	1.1	1.3	4.8	1.2	5.7
Total supply	52.4	55.0	54.6	53.4	188.6	55.5	57.3	55.8	54.8	194.9	56.3	196.8
Ending commercial stocks	8.4	9.6	8.9	8.9	8.9	9.5	10.1	9.0	9.0	9.0	8.6	8.8
Net removals	-0.4	-0.3	-0.2	0.0	-1.0	0.0	0.7	0.1	0.3	1.2	1.2	2.3
Commercial use	44.4	45.8	46.0	44.8	180.9	46.0	46.5	46.7	45.5	184.7	46.5	185.7
Milk prices (dol./cwt) 1/												
All milk	15.67	14.77	14.97	15.17	15.14	13.53	11.70	11.85	12.35	12.35	12.30	12.85
							-12.00	-12.45	-13.25	-12.85	-13.30	-13.85
Class III	14.31	14.10	14.08	13.69	14.05	12.23	10.65	11.05	11.05	11.25	11.15	11.95
							-10.95	-11.65	-11.95	-11.75	-12.15	-12.95
Class IV	12.62	12.38	13.45	13.03	12.87	11.33	10.20	10.25	10.10	10.45	10.15	10.45
							-10.60	-10.95	-11.10	-11.05	-11.25	-11.55
Product prices (dol./pound) 2/												
Cheddar cheese	1.531	1.507	1.481	1.431	1.488	1.272	1.145	1.205	1.210	1.205	1.220	1.295
							-1.175	-1.265	-1.300	-1.255	-1.320	-1.395
Dry whey	0.249	0.263	0.287	0.314	0.278	0.345	0.280	0.250	0.240	0.275	0.230	0.240
							-0.300	-0.280	-0.270	-0.305	-0.260	-0.270
Butter	1.570	1.459	1.646	1.487	1.540	1.247	1.130	1.135	1.125	1.150	1.160	1.215
							-1.190	-1.225	-1.245	-1.230	-1.290	-1.345
Nonfat dry milk	0.899	0.924	0.957	0.984	0.941	0.905	0.830	0.825	0.815	0.845	0.810	0.815
							-0.860	-0.875	-0.885	-0.885	-0.880	-0.885

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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