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Livestock, Dairy, and Poultry Outlook

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Sheep Inventories Continue Downward Trend

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Tables will be released on August 26, 2008

The next newsletter release is Sept. 19, 2008

Approved by the World Agricultural Outlook Board

Save the Date: Register for ERS' conference on *Emerging Issues in Global Meat Trade*, September 18 and 19, 2008. Go to www.ers.usda.gov/ConferenceCenter/GlobalMeat/ for information and registration.

Sheep: The USDA *Sheep* report released on July 25, 2008, indicated that the July 1, 2008, U.S. sheep and lamb inventory totaled 7.35 million head, down 3 percent or 250,000 head from 2007 and down almost 6 percent or 450,000 head from 2005. Inventory reductions were seen in all major categories; breeding sheep (down 3 percent), market sheep (down 4 percent), replacement lambs (down 4 percent), and lamb crop (down 2 percent). Lambs born per 100 ewes remain at 110, the same as 2007, suggesting no decline in productivity. The inventory decline and particularly the pronounced drop in market lambs have put added pressure on first-half lamb and mutton production and will continue to keep supplies tight for the rest of the year.

Cattle: Daily live cow prices in July remain at relatively high levels despite heavy commercial cow slaughter that continues to be supported by dry conditions, high supplemental feed costs, and imported cows from Canada. In early July, weekly fed cattle prices and beef cutout values had moved counter-cyclically higher to levels not seen since October 2003, while first-half beef supplies were near-record.

Beef/Cattle Trade: Beef imports fell 21 percent according to official trade numbers updated with figures from the first half of the year. In contrast, beef exports increased 31 percent. Cattle imports from Canada are well above last year's levels, while imports from Mexico are well below.

Hogs: The average price for 51-52 percent lean live equivalent hogs is expected to be between $53 and $55 per cwt in the third quarter of this year, and $47 and $49 per cwt in the fourth quarter. Despite expectations for increased second-half pork production, these price forecasts are 7.3 percent and 21.7 percent above the same period prices last year, and appear to be largely attributable to strong demand for U.S. pork exports.

June pork exports came in at 466 million pounds, 113 percent greater than June 2007, making first-half 2008 exports total 2.5 billion pounds, 68.5 percent ahead of the same period last year. Plentiful U.S. pork supplies and a low-valued U.S. dollar, which made U.S. pork prices attractive, are the likely factors driving foreign demand for U.S. pork this year.

Dairy: Milk production increases, both this year and next, will be slight. Lower forecast prices and lower forecast feed prices combine to maintain dairy herds and hold production relatively steady. Strong export sales, a weak dollar and a softening domestic economy combine to limit rises in domestic use in 2008. However, domestic use could climb next year as exports decline from 2008 levels and lower prices stimulate use.

Poultry: After increasing strongly in the first and second quarters of 2008, broiler meat production is expected to increase only marginally in the second half of the year. With the slowdown in production growth, prices for broiler products are expected to be higher on a year-over-year basis in the second half of 2008. Turkey meat production is also expected to slow in second-half 2008 as earlier increases in grain prices have raised production costs and reduced any incentive to expand production.

U.S. broiler and turkey shipments were up in the second-quarter of 2008 from a year earlier. U.S. broiler shipments for the second-quarter of 2008 totaled 1.79 billion pounds, up 25 percent from 2007 second-quarter. U.S. turkey shipments totaled 160 million pounds for April, May and June of 2008, up 20 percent from a year earlier. U.S. boiler shipments for June 2008 totaled 559 million pounds, an increase of 2 percent from last year. March turkey shipments totaled 55 million pounds, an increase of 23 percent from June 2007.

Sheep

Mid-Year Sheep Inventory Below a Year Ago

The USDA *Sheep* report released on July 25, 2008, indicated that the July 1, 2008 U.S. sheep and lamb inventory totaled 7.35 million head, down 3 percent or 250,000 head from 2007 and down almost 6 percent or 450,000 head from 2005. Inventory reductions were seen in all major categories; breeding sheep (down 3 percent), market sheep (down 4 percent), replacement lambs (down 4 percent), and lamb crop (down 2 percent). Productivity remained constant as the number of lambs born per 100 ewes remained at 110, the same as 2007.

The pronounced drop in first half market lambs has put added pressure on first-half 2008 lamb and mutton production, which was down 4 percent from the same period last year. Commercial slaughter was down by about 4 percent from the same period. First-half average commercial dressed weight for sheep and lambs was 70 pounds, the same as last year. Third-quarter production is expected to be light, equaling that of the same period last year, and production for the fourth quarter of 2008 is expected to be about 10 percent below last year. Second-half prices are expected to benefit from continued tight supplies in the second half. Lamb and mutton demand also tends to increase during the latter half of the year, and with the expected reduction in imports, prices should rise.

First-half farm prices for lambs averaged $98.95 per cwt, up 3 percent from the same period last year, while first-half 2008 Choice slaughter lamb prices at San Angelo, Texas, market averaged $82.93 per cwt, slightly above the same period last year. Second-half prices at San Angelo are expected to average near $90 per cwt. The increase in slaughter lamb prices have also translated to an increase in wholesale prices. The wholesale Lamb Carcass Price, Choice-Prime, East Coast, 55-65 lb has also increased from a first-quarter 2008 average of $213.15 per cwt to a second-quarter average of $230.88 per cwt. Wholesale lamb carcass prices are expected to continue to increase into the third and fourth quarters of 2008.

Second-quarter 2008 lamb and mutton imports were 48 million pounds, up over 6 percent from the same period last year. The past decade has seen lamb imports increase to offset declining domestic production. Although imports remain strong for the first half of 2008, they are down from a year ago (1 percent). The weakness of the U.S. currency relative to the currencies of New Zealand and Australia, the major lamb suppliers, is expected to weigh on imports in the coming months. U.S. imports from Australia and New Zealand are now more expensive to U.S. wholesale suppliers who may be opting for domestic substitutes. As a result, second half imports are also expected to be down by nearly 9 percent.

First-half 2008 lamb and mutton exports were 5 million pounds, equaling that of the same period in 2007. Although a weak U.S. currency favors exports, lamb and mutton suppliers are not expected to benefit much from the cheaper exports, as weaker economic conditions in some lamb and mutton importers may limit their ability to increase consumption. As a result, exports are expected to remain flat for the remainder of 2008.

Cattle

Cattle Industry Adapts to High Feed and Energy Prices

The cyclical character of inventory dynamics characterizing the cattle industry from 2005 to 2007 is difficult to explain, but some industry analysts think it may be a continuation of the previous liquidation phase, despite an inventory increase of 1.6 percent between January 1, 2005, and January 1, 2007. A short review of historical cattle cycles demonstrates the complex nature of cattle cycles and the difficulty of characterizing a "normal" cycle, and raises the possibility that the 1996-2004 liquidation phase is continuing rather than being part of a new cycle.

Cattle inventory dynamics have been dominated by cycles, 10 of them since 1867 when cattle inventory records began. Only 4 of these cycles have lasted the oft-touted 10-12 year average during which inventories increase from an inventory low in an expansion phase, then decline in a liquidation phase to the next low. The first recorded cycle lasted 29 years, with a 24-year expansion phase followed by a 5-year liquidation phase. The shortest expansion phase in any cycle was from 1980 through 1982, 3 years, during which inventories increased 3.8 percent from low to peak inventory. Through 2004, the shortest liquidation was from 1966 through 1967, 2 years, during which inventories declined by 0.2 percent. The longest liquidation, 1919 through 1928, 10 years, during which inventories declined by 27.4 percent. The average duration of the 10 completed cycles is 13.8 years. If the 29-year cycle from 1867 through 1895 is excluded, the average duration of the remaining 9 cycles is 12.1 years.

Drought often triggers the liquidation phase of a cattle cycle, as happened at the cyclical peak in 1996, which was also the last time corn/feed prices set record highs. By late summer/early fall 1996, grain prices were dropping. In 1996, contrary to 2008, energy prices were low, the dollar was strong and increasing in strength, and feeder cattle prices were low enough that cattle feeding was profitable, despite the temporarily high grain prices. Drought also extended the liquidation phase that followed the 1996 peak until it reached a low in 2004.

In 2003, during the latter stages of what was then an extended liquidation phase, U.S. beef supplies were already tightening. Prior to 2003, about 60 percent of U.S. live cattle imports came from Canada. These live-cattle imports from Canada entered the United States as cows to be slaughtered mainly for hamburger, as fed cattle for quality beef, and as feeder cattle of various weights that would eventually find their way to U.S. feedlots. As a result, the May 2003 BSE-motivated ban on cattle and beef imports from Canada instantly reduced U.S. domestic beef supplies almost 4 percent. These shortages exacerbated an ongoing price run-up for U.S. beef and cattle.

On August 8, 2003, the United States relaxed its ban on imports of Canadian beef, and trade, limited to boneless meat from animals less than 30 months of age, slowly resumed between the 2 countries. By the end of October 2003, Canadian-bolstered beef supplies had reached a level sufficient to blunt further price increases, and U.S. cattle and beef prices peaked and began to decline. In the week just prior to the first U.S. BSE case, weekly U.S. cutout values for Choice beef had already declined 24 percent from their October weekly peak of about $194 per cwt.

The situation in 2008 is very different: By January 1, 2006, total U.S. cow inventories had begun to slowly increase and had climbed to just under 2003 levels. Grain prices also began increasing in early 2006 as demand for corn for ethanol production began ramping up in response to a series of Federal Renewable Fuel Standard mandates for increasing annual minimum ethanol contributions to domestic fuel supplies. By July 1, 2008, U.S. cow inventories had declined to 42.4 million head, a level achieved only twice since sometime well before the July series began in 1973. July 1, 2008, U.S. cow inventories are at or below cyclical lows reached on July 1, 2004. This follows the January 1, 2008, inventory, which was the lowest January 1 inventory since 1952. A major reason for this decline is that grain prices have persisted at relatively high levels, suggesting a new livestock feeding paradigm. Cattle prices, while at historically high levels for all but feeder cattle, are below costs of production for most cattle sectors

Reduced by extremely dry conditions for at least the last 2 years and despite increased dairy cow inventories, calf crops are the smallest since the early 1950s. Feeder cattle supplies outside feedlots, up less than 1 percent, are in line with recent numbers for the same time of year. However, these supplies may also reflect the light March through May placements of feeder cattle. Cumulative weekly data through August 8, 2008, show that calf slaughter continues to run about 7 percent higher slaughter through the same week in 2007, and with (estimated) calf dressed weights running 9 percent below year earlier (actual), veal production continues to run below year-earlier levels by about 8 percent. This relatively higher calf slaughter suggests a reduction in potential feeder calves now through 2009 and perhaps beyond. Greater calf slaughter at lighter weights often accompanies situations characterized by relatively high grain prices and low feeder calf prices, a combination that sends male and excess female dairy calves to veal markets rather than their continuation into stocker programs.

The combination of liquidation in the U.S. herd and renewed imports of live animals from Canada has resulted in near-record 2008 first-half U.S. beef supplies of 15.794 billion pounds. While Canadian over-30-month cattle and beef have been contributing to U.S. beef supplies since November 2007, imports of Canadian cattle have been much higher than earlier anticipated, more than offsetting unexpectedly lower imports of feeder cattle from Mexico.

Possibly the most surprising number in the *Cattle* inventory report, released by USDA's National Agricultural Statistics Service (NASS) on July 25, 2008, was that the number of beef heifers kept for replacements was down only 2 percent, compared with average industry analysts' expectations of being down almost twice as much. This number, and an estimate of heifers entering the herd during the first half of the year that was up 8.5 percent over 2007's first-half entrants, suggest the possibility that some producers kept heifers and sold cows, heifers being relatively cheaper to feed. It also suggests that liquidation may not be as severe as originally thought, and may suggest that the 2009 calf crop could be larger than previous cow and heifer inventory expectations suggested.

Feedlot Returns Could be Volatile During the Last Half of 2008

July 1, 2008, U.S. inventories of steers and heifers on feed in 1,000-plus head feedlots were 4 percent below July 2007 inventories. Cattle on feed in feedlots of 1,000-plus head remain weighted toward those cattle that have been on feed for 120 days or more, a measure of expected near-term marketings. The July 1, 2008, inventory of cattle that have been on feed for 120 days or more, at 3.888 million head, was less than 1 percent below July 1, 2006's 3.922 million head, which was the only other instance that the July 1 inventory of cattle on feed for 120 days or more has been exceeded for the series that began in 1996.

Placements of cattle weighing less than 600 pounds, were larger than placements of those weighing 800-plus pounds from October 2007 through January 2008. Those under-600-pound feeder calves started going to slaughter in May 2008 and could continue through the fall 2008. The 800-plus-pound feeder cattle could come out as early as 100 days after being placed on feed. To the extent that heavy calves are placed during the remainder of the year in "bunches" because of seasonal grazing patterns, marketings during the remainder of the year could also be bunched up, a recipe for some volatility in prices.

Other signals suggest that cattle could be beginning to back up in feedlots: The first indications are the recent weekly gyrations in fed cattle prices from their early-July 2008 peaks in both Nebraska and the Southern Plains. Second, steer and heifer slaughter weights are 10 and 8 pounds per head heavier than 2007 weights for the same periods. Finally, the weekly share of steer and heifer slaughter grading Choice or better is 4 percentage points above both last year's share and the 5-year average.

Demand Drives Wholesale and Retail Prices

Packers appear to have shifted their management strategies away from one of competing for market share to focusing more on the spot market. Despite the recent increases in prices, wholesale prices may have reached a high, at least temporarily, with the Choice and Select cutout values reached in mid-July. The spread between Choice and Select beef cutout values has also stabilized, at least for the moment, suggesting that either ample supplies of Choice beef are available or that supplies of Select beef are tight. There are some indications that consumers are showing some preference for lower-quality beef and cuts, like Select cuts and ground products. July beginning cold storage stocks of beef increased slightly, 4 percent from June 2008 and 2 percent from July 2007 beginning inventories, while July 2008 veal stocks declined 7 percent from June 2008 and 2 percent from July 2007.

The real driver behind retail beef prices is demand. Total demand is being fed by new and expanded customer countries purchasing U.S. beef and old customers, like Vietnam, Thailand, Japan, Korea, India, and China, slowly returning to the U.S. beef export market. Despite near-record first-half 2008 U.S. beef production, U.S. beef imports were below first-half imports last year, and first-half U.S. beef exports increased, resulting in a decline in net imports (first-half 2008 down by 5 percent from first-half 2007). The net effect of these supply and demand factors is reduced total U.S. domestic beef disappearance and a decline in per capita disappearance—first-half 2008 down by 2 percent from first-half 2007.

Despite these demand factors and given current byproduct values and spreads, recent cattle feeding costs of as much as $105 per cwt or more suggest retail prices closer to the mid $4.40 per pound range. Retail Choice beef prices at this level would be about 3 percent above the most recent monthly estimate of $4.34 for July 2008, which was a new record high monthly average price, and about 8 percent above the July 2007 average price. Retail prices below breakeven levels eventually lead to losses to cattle feeders. Such losses work back through the system and, combined with pressures on feeder cattle prices due to cattle-feeding losses, could suggest a continuation of cow-herd reductions like we’ve seen over the last couple of years.

Beef/Cattle Trade

Beef Imports Down through First Two Quarters of 2008

According to the latest official trade update, beef imports were 1.299 billion pounds through the first two quarters of the year, a 21-percent decrease from 2007, as a weak dollar and high U.S. cow slaughter continues to make foreign beef less competitive at home, while abroad, drought and competing import markets are contributing to the decrease. Last year's total beef imports totaled 3.052 billion pounds according to the annual revisions released earlier this month.

Beef imported from Australia, the largest foreign supplier of beef in the United States, through the first two quarters has fallen 28 percent from last year. Australian beef producers supply mostly lean trim to the United States used for grinding. This decline follows multiple years of drought, which has led to poor grazing conditions and cow liquidation. While precipitation has improved only marginally for most of the year, there was above average precipitation in July. However, it should not have an effect on exports to the United States this year. Even if Australia were to see enough rainfall to significantly improve pasture conditions, exports from Australia would most likely decrease as herd rebuilding would limit the number of animals sent to slaughter.

Beef imports from Uruguay and other South American countries have declined substantially as those countries have reallocated their exports to Europe and Russia. Compared to last year, beef imports in the first two quarters have fallen 25 percent from Brazil, 37 percent from Argentina, and 87 percent from Uruguay.

In addition, high U.S. bull and cow slaughter has provided large domestic supplies of processing beef for items such as hamburger meat. The combination of ample domestic supplies, difficult weather conditions over the past few years in Australia, competing export markets, and exchange rates causing foreign products to be relatively more expensive has led to the dramatic decline in imports so far this year.

For 2008, 2.552 billion pounds of beef are expected to be imported, a 16-percent decline from last year. Next year, imports are expected to increase to 2.835 billion pounds, which would be the first increase in 5 years, as U.S. cow slaughter is expected to be below this year's levels.

Exports of U.S. beef increased 31 percent as of the end of June compared with the same period last year. Second-quarter exports were 471 million pounds, a 29-percent year-over-year increase. U.S. exports to Japan continue to have a larger seasonal increase than last year. The latest official trade update showed a 67-percent increase year-over-year in beef exports to Japan for the month of June, which indicates stronger growth potential in Japan for 2008. According to the Foreign Agricultural Service's weekly U.S. Export Sales Reports, U.S. exports should continue to be above last year's levels through July as well. U.S. beef exports to Canada also account for a large portion of the export growth so far this year. While exchange rates have made it more expensive to import foreign beef into the United States, it has made U.S. beef relatively less expensive to overseas consumers. The weekly reports also showed exports going to Korea in late July. The Korean market provides additional growth potential for U.S. producers.

However, how quickly U.S. beef will regain market-share there will become clearer as official trade numbers become available in the future.

Annual trade revisions showed U.S. beef exports totaled 1.434 billion pounds in 2007. U.S. exports are expected to increase 20 percent in 2008, to 1.725 billion pounds. Next year's exports are expected to increase again to 1.915 billion pounds as trade to Asia and Canada continues to expand.

Cattle Import Conditions from Canada and Mexico Differ Greatly

U.S. imports of live cattle totaled 1.245 million head through June this year. Mexico and Canada, the two major exporters of cattle to the United States, have had very different stories so far this year. Imports from Mexico have totaled 355,999 head according to official trade statistics, a 34-percent decrease from last year. Weekly AMS numbers show a continuation of this pattern through July. However, ample precipitation this summer and good grazing conditions, particularly in eastern Mexico, allow for the potential of above-average imports later in the year. Historically, the fourth quarter has the highest amount of imports from Mexico. Evidence of whether or not cattle have been kept in Mexico due to the good grazing conditions will most likely not become evident until the fall.

Imports of Canadian cattle, on the other hand, have been 46 percent above last year's totals through June. This has primarily been driven by the increase in feeder cattle from Canada; a trend that began in the fourth quarter of last year. Increased feed costs, a strong Canadian dollar, and a comparative disadvantage in the Canadian packing industry have created an environment where feeding cattle in the United States is more economical. However, weekly AMS reports show a decrease in U.S. imports of feeder animals in July. Historically, imports of Canadian cattle have exhibited an annual trough in June and July, before increasing again in August through the end of the year.

This year's total U.S. imports of cattle are expected to be 2.65 million head, an increase of 6 percent. Next year's imports are expected to fall to 2.5 million head, because of fewer Canadian feeder cattle expected.

Hogs

Pork Production Forecast Raised For Second-Half 2008

Higher-than-expected pork production in July and expectations of continued strong demand prompted USDA to add 75 million pounds to its estimate of commercial pork production for the second half of 2008. Second-half production is expected to be 11.9 billion pounds, a 4.6-percent increase over the same period last year. For 2008, commercial pork production is expected to be 23.6 billion pounds, 7.4 percent more than in 2007.

The average price for 51-52 percent lean live equivalent hogs is expected to be between $53 and $55 per cwt in the third quarter of this year, and $47 and $49 per cwt in the fourth quarter. Despite expectations for increased second-half pork production, these price forecasts are 7.3 percent and 21.7 percent above the same period prices last year, and appear to be largely attributable to strong demand for U.S. pork exports.

Slower Feed Cost Increases and Higher Hog Prices Slow Production Declines Next Year

Commercial pork production next year is expected to be about 23 billion pounds, 2.3 percent below production this year. The pork production forecast in July was for a 3.1- percent drop in 2009 production. Slower increases in expected feed costs and higher expected hog prices next year are the factors expected to moderate the pork production decrease in 2009.

USDA's August forecast for the 2008/2009 average farm price of corn is $4.90-$5.90 per bushel, compared with July's forecast of $5.50-$6.50. The lower expectations for corn prices next year reflect more positive supply conditions than were anticipated earlier in this growing season. Even with the lower forecast, however, the farm price of corn in 2009 is higher than the estimated 2007/2008 farm price.

The price for 51-52 percent lean live equivalent hogs next year is expected to average $51 and $56 per cwt, about 10 percent above prices in 2008. Lower hog supplies next year—from lower live imports from Canada and lower U.S. farrowings, together with expectations for continued strong export demand—are the most likely factors pushing hog prices higher.

Next year, the combination of slower increases in feed costs and higher hog prices are expected to slow the liquidation rate of the breeding herd. Smaller declines in the breeding herd will likely lead to smaller decreases in 2009 farrowings and pig crops, with first-half farrowings resulting in smaller decreases in second-half 2009 pork production. Despite a smaller decline in production next year, however, second-half 2009 pork production is expected to be about 2.3 percent lower than production in the second half of this year.

Double-Digit Increases Mark June, First-Half 2008 Pork Exports

June pork exports came in at 466 million pounds, 113 percent greater than June 2007, making first-half 2008 exports total 2.5 billion pounds, 68.5 percent ahead of the same period last year. Plentiful U.S. pork supplies and a low-valued U.S. dollar which made U.S. pork prices attractive are the likely factors driving foreign demand for U.S. pork this year. First-half exports to the 10 largest foreign markets are listed below.

Despite higher U.S. pork prices next year, U.S. pork products are expected to remain competitive in foreign markets, relative to pork originating from other pork-exporting countries. U.S. exporters are expected to ship 5.1 billion pounds of pork in 2009. This quantity, although 5.7 percent lower than exports forecast for 2008, is more than 62 percent larger than U.S. exports in 2007.

10 largest foreign markets for U.S. pork, January-June 2008, 2007

Country	2008	2007	Percent change
	thousand lbs.	thousand lbs.	
World	2,492,654	1,479,329	68.5
Japan	655,838	553,954	18.4
China	313,075	88,389	254.2
Hong Kong	309,983	30,743	908.3
Mexico	281,917	220,887	27.6
Russia	228,507	94,936	140.7
Canada	198,360	160,556	23.5
South Korea	172,627	145,577	18.6
Australia	54,307	44,463	22.1
Philippines	43,733	8,004	446.4
Taiwan	26,068	23,999	8.6

Source: USDA\ERS. http://www.ers.usda.gov/data/meattrade/

U.S. Pork Imports Lower In First-Half 2008

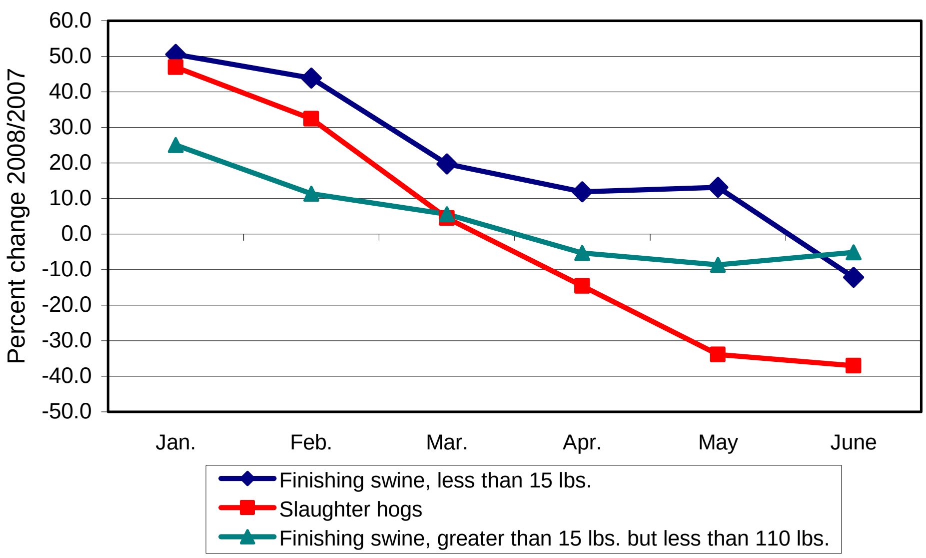
U.S. pork imports were almost 69 million pounds in June, nearly 20 percent lower than in June 2007. For the first half of 2008, imports were almost 15 percent lower than in the same period last year. The same factors driving U.S. pork exports are likely responsible for slowing imports: plentiful supplies and the relatively low value of the U.S. dollar in international markets. Higher energy costs to transport pork to U.S. markets also likely contribute to reduced competitiveness of imported pork in the United States.

U.S. pork imports are expected to be lower in the second half of 2008, and for 2009 as well. Second-half 2008 imports are likely to run almost 7 percent below the second half of 2007. Total imports for 2008 are forecast at 862 million pounds, almost 11 percent below 2007 imports. Next year, imports are expected to be 850 million pounds, about 1.4 percent below this year's level.

Live Hog Imports To Decline Year-Over-Year in Second Half and Next Year

Live swine imports totaled almost 5.1 million head in the first half of 2008, 8.4 percent above the same period last year. The year-over-year increase came in the first quarter of this year, however. The chart below indicates that slaughter hog and heavier-weight finishing animal imports have declined year-over-year, since the beginning of the second quarter in April. Less-than-15 pound pigs were year-over-year lower in June for the first time in 2008. Second-half 2008 imports are expected to be 4 million head, 25 percent lower than the same period of 2007. Total 2008 imports are expected to be almost 9.1 million head, down more than 9 percent from the 10 million head imported in 2008. Next year 7.8 million head will likely be imported, almost 14 percent fewer than this year.

Percent change in monthly U.S. live swine imports, Jan.-June 2008 versus 2007, by weight categories



Source: USDA\ERS. http://www.ers.usda.gov/data/meattrade/

Lower U.S. imports of heavier-weight finishing swine—weighing between 15 and 110 pounds—are likely a result of deteriorating producer returns in Canada from the relatively high-valued exchange rate of the Canadian dollar, and the high feed and energy costs that are forcing reductions in Canadian breeding herds. Also, higher costs of transporting heavier-weight animals to the United States are another factor likely curbing imports of these swine.

Lower U.S. Slaughter Hog Imports Probably Linked to Higher Demand for Pork in Asia and Russia

The drop-off in U.S. imports of Canadian slaughter hogs is likely connected to increased hog slaughter in major pork-producing provinces, and larger January-May Canadian pork exports. Canadian hog slaughter data for the first half of 2008 shows that while total Canadian slaughter is running slightly below the same period of 2007, hog slaughter in the largest producing provinces is running ahead of last year. First-half 2008 hog slaughter in Manitoba was 4.3 percent greater than a year ago, 8.7 percent greater in Ontario, and 2.9 percent greater in Québec. Both Manitoba and Ontario are major hog-exporting provinces. Total first-half 2008 Canadian hog slaughter was less than 1 percent below the same period last year.

On the pork export side, World Trade Atlas data for January-June 2008 Canadian pork exports show an increase of about 4 percent over the same period last year. Most of the increase is accounted for by shipments to Hong Kong and the Philippines, while exports to the United States and Japan are off sharply.

Single-digit increases in Canadian pork exports and reduced U.S. imports of Canadian slaughter hogs are likely connected. Higher year-over-year Canadian exports are probably more an indication of the enormous demand for meat from consumers in Hong Kong and the Philippines than a sign that the Canadian pork supply chain has resolved its overcapacity issues.

Dairy

Lower Feed Prices and Lower Milk Prices Maintain Milk Output

Milk production estimates for 2008 are unchanged from last month at 189.5 billion pounds. Forecasts for 2009 call for production to be up fractionally to 190.3 billion pounds. USDA projects cow numbers to average 9,255 thousand head for 2008 and step back to 9,225 thousand head in 2009. Production per cow is expected to advance 1 percent in 2008 to 20,470 pounds per cow and 0.75 percent in 2009 to 20,625 pounds.

The Cooperatives Working Together buyout will likely remove about 25,000 dairy animals from the herd. Also, the July *Livestock Slaughter* report showed dairy cow slaughter up slightly year-over-year. However, cow prices climbed in the second quarter of the year. The price strength for cows suggests demand for dairy replacements. The buyout removal is likely removing lower productivity animals from smaller operations while replacement cow prices suggest some operators, most likely larger ones, are replacing older cows with newer stock. This move is likely to boost productivity and feed efficiency and is a calculated response to earlier season high grain and alfalfa hay prices.

Strong dairy product exports, aided by a weak dollar and a slowly growing domestic economy, will limit the year-over-year rise in domestic use in 2008. With lower export sales forecast for 2009, the increase in domestic use should rebound from this year's slower growth rate. Milk prices are expected to be lower this year than last, and relatively higher feed prices, especially for corn, will likely stress profitability for some producers.

Demand has favored the butter-powder sector in recent weeks as demand for both butter and powder have been strong both domestically and internationally. Strong exports of nonfat dry milk and skim milk powder (NDM/SMP) have kept stocks from building. Stocks for butter are below those for a corresponding level in 2007. As a result, butter prices have shown remarkable strength in 2008 and are expected to average $1.415 to $1.455 per pound for the year. The average would be higher except for the weak first-quarter performance. Butter prices are expected to continue high in 2009 averaging $1.355 to $1.485 per pound. Nonfat dry milk (NDM) prices, although lower than in 2007, have strengthened of late and are expected to average $1.385 to 1.405 per pound in 2008 and $1.485 to $1.555 per pound in 2009. Robust export sales of dry milk products continue to buoy this market. Cheese prices as reported by the National Agricultural Statistics Service (NASS) peaked in early June and then declined until a slight uptick in early August according to NASS, closing at $2.05 per pound for barrels and $1.97 for blocks on August 2. Cheese prices will likely remain unsettled into the fourth quarter as softness in the U.S. economy works through the market. Cheese prices are expected to average $1.920 to $1.940 per pound for 2008 and decline modestly in 2009 to $1.855 to 1.955 per pound. Whey prices have been declining throughout 2008 as demand has flagged. Prices in 2008 are projected to average 27.0 to 29.0 cents per pound. Prices in 2009 are expected to improve slightly to 30.0 to 33.0 cents per pound.

Administrative changes to the make allowances, beginning in September, will push class prices lower relative to changes in product prices. The Class III price is expected to average $17.85 to $18.05 per cwt in 2008 and slide to $17.10 to $18.10 per cwt in 2009. The Class IV price, in contrast, is forecast higher next year than this year. The price is expected to average $15.95 to $16.25 per cwt in 2008 and rise to $16.40 to $17.50 per cwt in 2009. Slightly higher production is forecast to tip the all milk price lower into next year. The all milk price is projected at $18.85 to $19.05 per cwt this year, declining to $18.25 to $19.25 per cwt next year.

Poultry

Broiler Production Rises by 1.7 Percent in June

Broiler meat production in June totaled 3.1 billion pounds, up 1.7 percent from the previous year, boosting total production for second-quarter 2008 to 9.4 billion pounds, 3.8 percent higher than in the same period in 2007. This is the fifth consecutive quarter of year-over-year increases in broiler meat production. In first-half 2008, broiler meat production was 18.5 billion pounds, up 4.7 percent from a year earlier.

Over the first half of 2008, the number of broilers slaughtered was 4.5 billion, up 2.5 percent from a year earlier. The average broiler liveweight at slaughter during the first 6 months of 2008 was 5.57 pounds, 1.6 percent higher than in first-half 2007. The increase in the number of birds slaughtered and the increase in the average liveweight were important parts of the overall increase in broiler meat production, but the output was also boosted by the fact that the amount of meat produced per bird has also been consistently higher than last year.

Broiler meat production is expected to total 18.45 billion pounds during second-half 2008, up only marginally from the same period in 2007. The growth in meat production is expected to come from higher bird weights at slaughter as the number of birds slaughtered is expected to decline somewhat. With integrators facing both higher energy and feed costs, there is little incentive in the short term to expand production except for strong demand in the export market. However, with the current reductions in the expected 2009 prices for corn and soybean meal, the forecast for broiler production in 2009 was increased to 36.7 billion pounds, up 100 million pounds from the previous forecast, but still slightly lower than in 2008.

The number of chicks being placed weekly for growout has averaged approximately 173 million over the last 5 weeks (July 12 to August 9), down 2.1 percent from the same weekly period in 2007. Weekly chick placements have been below a year earlier for some time now, but over the last several weeks, the numbers of eggs being placed in incubators has been sharply lower (down more than 3 percent) than the previous year. After hatching, these chicks are expected to be ready for processing around the second-half of September.

Over the first 7 months of 2008, retail prices for broiler products averaged higher than a year earlier. Prices for whole legs averaged $1.39 per pound, up 6.2 percent over the same period in 2007. Prices for bone-in breast meat rose to $2.38 per pound, 4.9 percent higher than the previous year and prices for fresh whole chickens averaged $1.18 per pound, 7.8 percent higher. With a slowdown in production growth forecast, retail prices for broiler products are expected to remain above year-earlier levels through the remainder of 2008 and into 2009.

Turkey Production Increases in First-Half 2008

Turkey meat production during the first 6 months of 2008 was 3.1 billion pounds, up 7.3 percent compared with a year earlier. This increase was due to a combination of a 4.4-percent increase in the number of birds being slaughtered and a 2.3-percent increase in the average liveweight of turkeys.

The forecast for turkey meat production in the second half of 2008 is for a 1-percent increase compared to the same period in 2007. The growth in production is expected to come chiefly from heavier birds, as the number of turkey poults placed for growout during the first 6 months of 2008 totaled 156 million, down slightly from a year earlier.

Even with a strong market for turkey meat exports, the increase in production over the first half of the year is expected to result in higher turkey stocks for the remainder of 2008. Higher stocks of whole bird have not yet impacted wholesale whole birds, with prices of 8- to 16-pound whole hens in the Eastern market averaging 93 cents a pound in July. This is 7 percent higher than in July 2007 and 24 percent higher than in July 2006. Wholesale prices for whole turkeys are expected to remain higher than their year-earlier levels through the remainder of 2008.

Egg Production Falls in First-Half 2008

After rising on a year-over-year basis in all four quarters of 2006, total egg production fell in five of the last six quarters comprising all of 2007 and the first two quarters of 2008. In the first half of 2008, production of table eggs for consumption was 3.17 billion dozen, down slightly from first-half 2007. This decline in table eggs was partially offset by a small increase in hatching egg production to 559 million dozen. The increase in the production of hatching eggs occurred in the first quarter as broiler integrators were still expanding production in response to higher prices and and a strong export market.

Table egg production is forecast to be slightly higher in the second half of 2008, compared with last year, but to remain below the level of production seen in second-half 2006. Although higher feed and energy prices have raised producer costs, the high prices in the first quarter of 2008 have given producers some incentive to increase production.

The decreased production of table eggs resulted in sharply higher prices for eggs during the first quarter of 2008. In the second quarter of 2008, wholesale egg prices in the New York market averaged $1.17 per dozen, 27 percent higher than in second-quarter 2007, but down considerably from first-quarter 2008. Prices fell below a dollar per dozen in July, but by the beginning of August, prices had rebounded to approximately $1.10 per dozen. Wholesale egg prices in the New York market in third-quarter 2008 are expected to be approximately the same as last year, while prices in fourth-quarter 2008 are expected to average somewhat lower than last year.

June Broiler Exports Are Up Slightly from a Year Ago

Broiler exports for the month of June totaled 559 million pounds, up by 2 percent from a year ago. Strong purchasing power of foreign currencies in the U.S. continues to give rise to larger shipments of broiler meat. In June 2008, Korea and Singapore increased their imports of broiler meat from the United States and helped the total broiler shipments surpass June 2007 exports. Growth in broiler shipments is expected to continue to increase throughout this year.

2008 Broiler Exports Are Up in the Second-Quarter from Last Year

U.S. broiler shipments in the second quarter of 2008 totaled 1.79 billion pounds, up considerably (25 percent) from shipments during the same period a year earlier. The reason for the surge in broiler exports was due primarily to the depreciation of the U.S. dollar, which increased the purchasing power of certain broiler-importing countries. Shipments are expected to continue strong throughout 2008 and surpass 2007's record broiler shipments.

Turkey Shipments Continue Strong in June

Turkey shipments totaled 55 million pounds in June 2008, up about 23 percent from a year ago. The increase in turkey shipments recorded for June 2008 was stimulated mainly by stronger purchasing power exercised by foreign countries in U.S. markets. China, Mexico, and Hong Kong have shown the greatest increases in turkey shipments since June 2007. Shipments of turkey in 2008 are projected to exceed total shipments recorded for 2007 by almost 14 percent.

Turkey Exports Finish the Second Quarter Strong

Turkey exports totaled 160 million pounds for the second-quarter of 2008, up 20 percent from last year's second-quarter. This increase is attributed to a strong demand for turkey meat from importing countries such as Taiwan and Hong Kong and a favorable exchange rate. In comparison to the second quarter of 2007, exports to China rose by 250 percent in the second quarter of 2008 and shipments to Hong Kong increased 72 percent over the same time period. While Mexico continues to be the largest importer of U.S. turkey meat, its second-quarter turkey imports increased only by 4 percent from the 2007 second quarter.

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Related Websites

Animal Production and Marketing Issues,
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U.S. red meat and poultry forecasts

	2004	2005	2006					2007 1/					2008					2009	
	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
Production, million lb																			
Beef	24,548	24,683	6,082	6,724	6,834	6,513	26,153	6,237	6,649	6,802	6,733	26,421	6,371	6,897	**6,910**	**6,510**	**26,688**	**6,275**	**26,550**
Pork	20,511	20,685	5,335	5,008	5,087	5,625	21,055	5,396	5,128	5,256	6,163	21,943	6,023	5,593	**5,700**	**6,240**	**23,556**	**5,850**	**23,025**
Lamb and mutton	195	187	49	47	42	47	185	49	44	42	48	183	46	43	**42**	**43**	**174**	**44**	**172**
Broilers	34,063	35,365	8,814	8,980	8,870	8,835	35,500	8,625	9,085	9,131	9,285	36,126	9,108	9,434	**9,250**	**9,200**	**36,992**	**8,945**	**36,690**
Turkeys	5,454	5,504	1,351	1,435	1,419	1,476	5,682	1,413	1,482	1,488	1,575	5,958	1,541	1,565	**1,530**	**1,560**	**6,196**	**1,490**	**6,045**
Total red meat & poultry	85,442	87,097	21,792	22,362	22,413	22,656	89,224	21,874	22,552	22,876	23,962	91,264	23,258	23,714	**23,606**	**23,724**	**94,302**	**22,769**	**93,149**
Table eggs, mil. doz.	6,365	6,413	1,617	1,617	1,632	1,656	6,522	1,598	1,593	1,602	1,642	6,435	1,590	1,581	**1,610**	**1,650**	**6,431**	**1,590**	**6,435**
Per capita disappearance, retail lb 2/																			
Beef	66.1	65.6	15.8	16.9	16.9	16.3	65.8	15.9	16.6	16.4	16.2	65.2	15.6	16.3	**16.3**	**15.3**	**63.5**	**15.1**	**62.7**
Pork	51.4	50.0	12.4	11.9	11.9	13.1	49.4	12.3	12.2	12.3	14.0	50.8	12.6	11.7	**11.5**	**12.3**	**48.2**	**12.1**	**47.4**
Lamb and mutton	1.1	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.2	**0.2**	**0.3**	**1.0**	**0.3**	**1.0**
Broilers	84.4	85.8	21.7	22.1	21.9	20.9	86.5	21.2	21.6	21.4	21.2	85.4	21.2	21.4	**21.2**	**21.1**	**84.9**	**20.6**	**84.0**
Turkeys	17.1	16.7	3.5	3.9	4.3	5.2	16.9	3.8	4.1	4.2	5.5	17.5	4.0	4.1	**4.4**	**5.5**	**18.0**	**3.8**	**17.4**
Total red meat & poultry	221.6	221.0	54.1	55.5	55.6	56.1	221.3	53.9	55.1	54.9	57.6	221.6	54.0	54.3	**54.1**	**54.9**	**217.4**	**52.3**	**214.1**
Eggs, number	257.3	255.8	64.1	63.7	63.9	64.7	257.8	62.2	61.7	62.4	63.8	250.1	61.8	61.4	**62.6**	**63.9**	**249.8**	**61.2**	**247.0**
Market prices																			
Choice steers, Neb., $/cwt	84.75	87.28	89.24	80.39	85.40	86.61	85.41	90.61	93.45	91.36	91.85	91.82	89.59	92.82	**95-97**	**94-100**	**93-95**	**91-99**	**92-100**
Feeder steers, Ok City, $/cwt	104.76	110.94	106.23	104.08	115.17	103.22	107.18	99.53	108.87	115.64	108.88	108.23	99.88	106.60	**100-114**	**108-116**	**106-110**	**106-114**	**109-117**
Boning utility cows, S. Falls, $/cwt	52.35	54.36	48.89	47.79	49.28	44.29	47.56	51.04	53.96	54.07	49.40	52.12	53.88	57.30	**58-60**	**54-58**	**56-58**	**53-57**	**52-56**
Choice slaughter lambs, San Angelo, $/cwt	96.69	97.76	77.03	66.56	81.10	84.53	77.31	82.59	82.23	87.33	87.55	84.93	86.23	79.62	**86-90**	**885-93**	**82-90**	**86-94**	**87-95**
Barrows & gilts, N. base, l.e. $/cwt	52.51	50.05	42.63	48.45	51.83	46.13	47.26	46.04	52.55	50.33	39.43	47.09	39.64	52.51	**53-55**	**47-49**	**48-49**	**50-54**	**51-56**
Broilers, 12 City, cents/lb	74.10	70.80	62.7	61.0	67.8	65.9	64.4	75.00	80.30	79.20	71.10	76.40	78.1	80.60	**80-82**	**81-85**	**80-82**	**82-88**	**83-90**
Turkeys, Eastern, cents/lb	69.70	73.40	67.3	71.3	79.4	89.8	77.0	69.70	77.90	89.90	90.80	82.10	77.4	89-90	**93-97**	**92-98**	**88-90**	**80-86**	**89-96**
Eggs, New York, cents/doz.	82.20	65.50	71.4	62.7	64.0	89.0	71.8	105.3	92.0	119.1	141.0	114.4	158.8	117.30	**118-122**	**126-134**	**130-133**	**130-140**	**123-133**
U.S. trade, million lb																			
Beef & veal exports	460	697	215	315	307	308	1,145	269	363	424	375	1,431	360	**460**	**460**	**445**	**1,725**	**425**	**1,915**
Beef & veal imports	3,679	3,599	843	790	730	722	3,085	770	884	774	624	3,052	637	**660**	**640**	**615**	**2,552**	**665**	**2,835**
Lamb and mutton imports	181	180	53	44	41	52	190	56	44	44	59	202	52	**44**	**43**	**50**	**189**	**51**	**188**
Pork exports	2,181	2,666	767	763	654	811	2,995	792	685	703	959	3,138	1,106	**1,350**	**1,400**	**1,550**	**5,406**	**1,150**	**5,100**
Pork imports	1,099	1,024	259	237	239	254	989	239	256	240	232	968	217	**205**	**215**	**225**	**862**	**215**	**850**
Broiler exports	4,783	5,203	1,270	1,297	1,234	1,404	5,205	1,275	1,393	1,493	1,610	5,771	1,507	**1,775**	**1,650**	**1,630**	**6,562**	**1,525**	**6,275**
Turkey exports	442	570	119	125	152	150	547	124	135	148	146	553	148	**155**	**160**	**160**	**623**	**145**	**635**
Live swine imports (thousand head)	8,506	8,191	2,133	2,088	2,204	2,338	8,763	2,302	2,370	2,464	2,869	10,005	2,915	**2,150**	**2,050**	**1,950**	**9,065**	**1,950**	**7,800**

1/ Forecasts are in **bold**.

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

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

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Dairy Forecasts

	2007			2008					2009		
	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
Milk cows (thous.)	9,159	9,198	9,158	9,249	9,274	9,260	9,245	9,257	9,240	9,230	9,226
Milk per cow (pounds)	5,034	5,003	20,267	5,140	5,252	5,045	5,035	20,472	5,150	5,300	20,625
Milk production (bil. pounds)	46.1	46.0	185.6	47.5	48.7	46.7	46.5	189.5	47.6	48.9	190.3
Farm use	0.3	0.3	1.2	0.3	0.3	0.3	0.3	1.2	0.3	0.3	1.2
Milk marketings	45.8	45.7	184.4	47.3	48.4	46.4	46.3	188.3	47.3	48.6	189.1
Milkfat (bil. pounds milk equiv.)											
Milk marketings	45.8	45.7	184.4	47.3	48.4	46.4	46.3	188.3	47.3	48.6	189.1
Beginning commercial stocks	13.8	12.5	9.5	10.4	12.1	13.6	11.8	10.4	9.7	11.5	9.7
Imports	1.0	1.3	4.6	1.0	1.1	1.0	1.1	3.7	1.0	1.0	4.0
Total supply	60.6	59.5	198.6	58.6	61.3	60.9	59.2	202.4	58.0	61.0	202.8
Commercial exports	1.6	2.0	5.7	2.2	2.5	2.1	1.9	8.7	1.8	1.7	6.7
Ending commercial stocks	12.5	10.4	10.4	12.1	13.6	11.8	9.7	9.7	11.5	13.0	9.0
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	46.5	47.1	182.5	44.2	45.2	47.0	47.6	184.0	44.7	46.3	187.1
Skim solids (bil. pounds milk equiv.)											
Milk marketings	45.8	45.7	184.4	47.3	48.4	46.4	46.3	188.3	47.3	48.6	189.1
Beginning commercial stocks	10.2	9.7	9.1	9.9	10.1	10.7	9.8	9.9	9.4	9.4	9.4
Imports	1.1	1.2	4.4	1.0	1.0	1.0	1.0	3.8	1.0	1.0	3.9
Total supply	57.1	56.7	198.0	58.1	59.5	57.9	57.1	202.0	57.5	59.0	202.3
Commercial exports	6.1	6.5	24.5	6.7	7.6	6.7	6.2	27.2	6.2	6.1	24.0
Ending commercial stocks	9.7	9.9	9.9	10.1	10.7	9.8	9.4	9.4	9.4	10.2	9.1
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	41.3	40.2	163.6	41.4	41.2	41.4	41.5	165.5	41.9	42.7	169.3
Milk prices (dol./cwt) 1/											
All milk	21.67	21.60	19.13	19.23	18.57	18.75-19.05	18.75-19.35	18.85-18.95	18.30-19.20	17.90-18.90	18.25-19.25
Class III	20.43	19.51	18.04	18.12	18.40	17.53-17.83	17.29-17.89	17.85-18.05	16.96-17.86	17.17-18.17	17.10-18.10
Class IV	21.71	20.29	18.36	15.04	15.25	16.67-17.07	16.85-17.55	19.95-16.25	16.38-17.38	15.62-16.72	16.40-17.50
Product prices (dol./pound) 2/											
Cheddar cheese	1.978	1.995	1.738	1.933	1.977	1.895-1.925	1.880-1.940	1.920-1.940	1.845-1.935	1.860-1.960	1.855-1.955
Dry whey	0.610	0.435	0.600	0.305	0.267	0.255-0.275	0.275-0.305	0.270-0.290	0.285-0.315	0.295-0.325	0.300-0.330
Butter	1.428	1.301	1.344	1.230	1.411	1.553-1.613	1.475-1.565	1.415-1.455	1.350-1.470	1.368-1.498	1.355-1.485
Nonfat dry milk	2.043	1.940	1.708	1.364	1.300	1.400-1.430	1.478-1.528	1.385-1.405	1.485-1.555	1.392-1.462	1.485-1.555

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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