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Livestock, Dairy, and Poultry Outlook

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Hog Prices are Expected To Recover in June

Hogs: USDA revised second-quarter hog prices downward, to reflect price weakness in April and negative effects of H1N1 flu virus in May. June prices are expected to recover from May lows. First-quarter U.S. pork exports were 1.033 billion pounds, 6.6 percent below a year ago, but more than 30 percent above first-quarter 2007. First-quarter U.S. pork imports were 205 million pounds, 5.5 percent lower than last year, with imports from Mexico accounting for a significant share of the decline. Live swine imports were almost 40 percent lower in the first quarter than a year ago.

Poultry: Broiler production is expected to increase modestly in 2010, after an expected decrease of 4 percent in 2009. With economic conditions expected to improve and relatively stable feed costs forecast, broiler integrators will have some incentive to expand production. Broiler production is expected to turn positive in fourth-quarter 2009 and continue positive through 2010, although the growth will be relatively small. Turkey production in 2010 is expected to be higher, rebounding after sharp declines in 2009.

Dairy: Herd contraction and below-trend increases in output per cow combine to lower milk production in 2009. For next year, further reductions in herd size will overcome productivity increases to reduce milk production further. Lower exports of all products except whey, both this year and next—along with lower domestic commercial use compared with last year—will keep prices low. Next year, reduced supplies should allow for some price recovery.

Cattle/Beef Trade: Poor economic conditions worldwide and a strong U.S. dollar are hampering demand for U.S. beef abroad. U.S. beef imports have increased over 2008 and could continue as foreign exporters send beef to the United States in lieu of other declining international markets.

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Tables will be released
on May 26, 2009

The next newsletter
release is June 17, 2009

Approved by the
World Agricultural
Outlook Board

Cattle/Beef: Drought concerns are decreasing due to recent rains in many areas. Cow slaughter has begun a seasonal decline, compounded by a wait-and-see attitude on the part of dairy producers with respect to the Cooperatives Working Together program announced last month. The likelihood of fewer cows in 2010 suggests potentially fewer calves and tighter fed cattle supplies in 2010-11 that could result in reduced beef production.

This Month's Special Boxes: This month's LDP newsletter contains boxes on the veal industry and organic dairy.

Concerns About H1N1 Influenza Push Second-Quarter Hog Prices Lower

USDA lowered its price forecast for second-quarter live equivalent 51-52 percent lean hogs to \$44-\$46 per cwt from \$49-\$51 per cwt last month. The lower forecast reflects generally weaker demand, amplified by the negative price effects that resulted from international H1N1 flu outbreaks in late April and early May. Consumer and foreign government reactions to the flu likely resulted in temporarily lower domestic and foreign demand for pork products. Domestic demand weakness likely reflected caution on the part of wholesale purchasers as they gauged consumer reaction to the flu. Export demand was likely affected by both foreign government actions to restrict imports and by the impact of disease concerns on the buying habits of foreign consumers.

Foreign and domestic consumer confidence with respect to pork products is expected to rebound as flu incidents recede. Prices of U.S. pork and hogs are expected to adjust upward as demand normalizes and seasonal product flows are restored. June hog prices are expected to be seasonally higher, reflecting lower supplies of slaughter-ready animals.

Strong First-Quarter Pork Exports

U.S. companies exported 370 million pounds of pork in March, bringing total first-quarter U.S. exports to 1.03 billion pounds. While first-quarter exports lag the same period last year by more than 72 million pounds, first-quarter 2009 shipments were more than 30 percent ahead of the same period in 2007. The difference between the first quarter of 2009 and 2008 is largely attributable to China and Hong Kong.

The presence of China and Hong Kong last year as buyers of U.S. pork cuts was likely more of a policy decision made in response to a random supply shock (i.e., reduced pork supplies as a result of blue ear disease) than the beginning of a consistent, growing source of demand for the U.S. pork industry. USDA expects China's pork production in 2009 to be almost 6 percent larger than last year, while total Chinese pork imports this year are forecast to be almost 17 percent below 2008.

http://www.fas.usda.gov/dlp/circular/2009/livestock_poultry0409.pdf

The largest importers of first quarter U.S. pork products were Japan (+9.7 percent year-over-year), Mexico (+59.6 percent, year-over-year), and Canada (-2.6 percent, year-over-year).

The export forecast for the second quarter is unchanged from last month, at 950 million pounds. Stronger sales expected for early in the second quarter in many foreign markets will likely be offset by declines due to actions by some foreign governments to ban pork, as well as declines in pork consumption in other countries, due to influenza concerns.

First-Quarter Pork Imports Lower Than a Year Ago

First-quarter 2009 U.S. pork imports totaled more than 205 million pounds, 5.5 percent below the same period last year. On a volume basis, U.S. buyers imported almost 12 million fewer pounds of pork products than a year ago. Imports from Mexico accounted for more than half of the reduction, followed by lower imports from Denmark. Lower pork imports from Mexico are likely attributable to lower demand for specialty cuts from immigrant population centers in the United States, while lower demand for Danish pork products—also something of a specialty product—is likely due to slower meat demand in a recessionary economy.

Live Swine Imports Off Sharply

Live swine imports were almost 1.8 million head in the first quarter, down almost 40 percent from a year ago. Slaughter swine imports from Canada were down almost 67 percent, while imports of Canadian finishing animals decreased 28 percent, year over year. Factors that likely account for lower imports include continuation of the contraction of Canadian hog inventories that began early in 2005, due to persistently negative producer returns, and market uncertainties surrounding Country of Origin labeling in the United States.

Broiler Production Slightly Higher in 2010

U.S. broiler meat production is expected to total 36.1 billion pounds in 2010, up 1.6 percent from 2009, a year of an expected meat production decrease of almost 4 percent. The 2010 broiler production expansion is expected to be kept relatively small due to uncertainties about future economic growth and high feed prices. On a year-over-year basis, broiler meat production is expected to increase at a slightly faster pace in the second half of 2010 in response to rising broiler product prices. The small increase in production and slight decline in exports is expected to be balanced by population growth, leaving domestic per capita disappearance levels in 2010 about the same as in 2009.

Gains in broiler meat production are expected to come chiefly from a higher number of birds slaughtered. Average bird weights at slaughter in 2010 are expected to be similar to those in 2009. Cold storage holdings of broiler products are expected to decline through much of 2009, but to gradually expand in 2010, especially in the second half of the year as production increases.

Broiler exports in 2010 are expected to decline slightly to 6.3 billion pounds. The reduction is expected to come in the first half of the year as higher prices make broiler exports less competitive. Exports are expected to grow in the second half of 2010 as higher production and some growth in cold storage holding puts downward pressure on prices.

The 12-city wholesale price for whole broilers is expected to average between 78 and 85 cents per pound in 2010, an increase of about 2 percent from 2009. Prices are expected to show some increase through 2009 and into 2010 as earlier production declines and as falling cold storage levels and an expected improvement in economic conditions place upward pressure on broiler prices.

Other Chicken

Other chicken meat production is expected to reach 480 million pounds in 2010, about the same as the previous year. Other chicken exports are expected to rebound to 140 million pounds in 2010, an increase of 12 percent, after falling sharply 127 million in 2009. Other chicken production is expected to be impacted in 2010 by an increase in the broiler breeder flock. The small increase in other chicken meat production is expected to be more than offset by higher exports, putting per capita other chicken disappearance at 1.1 pounds, down a tenth of a pound from 2009.

Turkey

After falling to a forecast 5.8 billion pounds in 2009, turkey production is expected to increase in 2010 to 5.9 billion pounds (up 2 percent). The production increase is expected to come primarily from a larger number of birds slaughtered, as average weights are expected to remain basically unchanged. While production is expected to increase in 2010 compared with 2009, it will still be well below the 6.2 billion pounds produced in 2008. The incentive to increase production is expected to come from higher prices in 2010, as stock levels decline in response to the sharp decrease in production in 2009.

Most of the gain in turkey meat production will be offset by increases in exports, leaving per capita consumption in 2010 only slightly higher than in 2009. Turkey exports are expected to expand as higher broiler prices make turkey products more competitive and higher demand is expected from Mexico (the largest export market) as its economy begins to recover from the impacts of the global economic downturn.

Wholesale prices for whole hen turkeys are expected to average between 79 and 86 cents per pound in 2010, up about 3 percent from a year earlier. The increase is the result of upward pressure on prices due to the sharp production decrease in 2009, the reduction in cold storage stocks at the end of 2009, higher export demand, and an improving domestic economy. Even with the increases, prices in 2010 are expected to average less than in 2008.

Table Egg Production Up Slightly in 2010, Hatching Eggs Higher

Table egg production is expected to total 6.5 billion dozen in 2010, up slightly from 2009. Over the previous 2 years, table egg production has basically been stagnant, as the laying rate has increased slightly, but the number of hens in the table egg laying flock has been lower. Hatching egg production is expected to total 1.1 billion dozen in 2010, an increase of 3 percent from 2009. Changes in egg production for hatching are expected to closely parallel changes in broiler production, as the majority of eggs produced for hatching are broiler chicks that will be grown out for meat.

Ending stocks (egg products only) in 2009 and 2010 are expected to remain relatively stable, at approximately 17 million dozen eggs. Egg exports are expected to expand by 11 percent in 2010 to 200 million dozen as weak egg prices make egg and egg product exports more competitive. Egg exports are a combination of both shell eggs (for consumption and hatching) and processed egg products.

Broiler Meat Production Falls 6 Percent in First-Quarter 2009

Broiler meat production in first-quarter 2009 totaled 8.6 billion pounds, down 6.3 percent from the previous year. The decline in first-quarter 2009 broiler meat production was due to a lower number of birds going to slaughter and 1 fewer slaughter day compared with first-quarter 2008. The average liveweight of birds going to slaughter was 5.55 pounds, unchanged from first-quarter 2008.

Broiler meat production for second-quarter 2009 is forecast at 8.9 billion pounds, a decrease of 6 percent from the previous year. However, the year-over-year decreases in broiler meat production are expected to become smaller in the third quarter and change to a small increase in production in fourth-quarter 2009. The average weight of birds at slaughter is expected to remain very close to a year earlier.

Over the last 5 weeks, (April 11 through May 9), the number of chicks being placed for growout has averaged 5.4 percent lower than in the same period the previous year. In addition, the number of eggs placed in incubators has also continued to be well below the previous year, pointing toward declines in chick placements into third-quarter 2009.

Broiler cold storage stocks totaled 619 million pounds at the end of first-quarter 2009, down 17 percent from a year earlier. This is opposite to first-quarter 2008, when ending stocks were up 31 percent from the previous year. The decline in cold storage holdings was due to large production declines and continued strength in broiler exports. Cold storage holdings of almost all broiler products were lower than the previous year.

Broiler Exports Jump 16 Percent in First-Quarter 2009

Although shipments to Russia, the largest market, were down 14 percent, total broiler shipments in first-quarter 2009 rose to 1.8 billion pounds, 16 percent higher than the previous year. Higher exports to Mexico (up 40 percent), China/ Hong Kong (up 11 percent) and a number of smaller markets such as Angola, Iraq, Vietnam, and Hong Kong, combined to increase exports. In Mexico, some of the gain may have been a substitution of broiler products for turkey products, as turkey exports to Mexico declined. Exports to Russia (down 27 percent) and China/Hong Kong (down 6 percent) were both lower in March compared with a year earlier. However, shipments to all destinations in March totaled 585 million pounds, 7 percent higher than the previous year.

Turkey Meat Production Down Sharply

Turkey meat production totaled 1.39 billion pounds in first-quarter 2009, down 9.8 percent from the previous year. The decline in meat production came from a lower number of birds slaughtered (down 10 percent).

The average liveweight of turkeys slaughtered in first-quarter 2009 was basically unchanged from the previous year at 29.9 pounds. Turkey meat production in second-quarter 2009 is expected to total 1.43 billion pounds, down 9 percent, as the number of turkeys slaughtered is again expected to decline markedly. Average liveweight at slaughter is expected to be close to that of a year earlier.

Cold storage holdings of turkey products expanded rapidly in first-quarter 2009, jumping to 508 million pounds, a 19-percent increase from first-quarter 2008. There was a wide difference between the stock levels for whole turkeys and those for turkey products. Cold storage holdings of whole turkeys at the end of first-quarter 2009 totaled 253 million pounds, up 40 percent from the same period in 2008. On the other hand, stocks of turkey products were 255 million pounds, only 3 percent higher than a year earlier. Cold storage holdings of whole birds and turkey products in 2009 are expected to grow seasonally over the next two quarters and continue above the previous year. However, with lower turkey meat production, turkey stocks are expected to fall to 375 million pounds by the end of 2009, 5 percent below a year earlier.

Turkey Exports Down 22 Percent

Shipments of turkey products fell to almost all major markets during the first quarter of 2009. Exports to Mexico, China, Russia, Canada, and Hong Kong, traditionally the five largest markets, all declined. In many cases the declines were substantial; shipments to Russia, for example, fell 94 percent.

The only major market that showed expansion was the Dominican Republic, where shipments were 215 percent higher. Some of the decline in exports may be due to the relatively high prices for MDM turkey meat, brought about by much lower domestic meat production in fourth-quarter 2008 and first-quarter 2009.

Egg Production Higher in First Quarter, Prices Fall After Easter

Table egg production totaled almost 1.6 billion dozen in first-quarter 2009, up slightly from the previous year. The average number of birds in the table egg flock in first-quarter 2009 was also slightly higher. Table egg production for the rest of 2009 is forecast higher than the previous year on a quarter-over-quarter basis. With the declines in broiler production, production of eggs for hatching in first-quarter 2009 was 263 million dozen, down 7 percent from a year earlier. Hatching egg production is expected to remain below the previous year in both the second and third quarters, but to turn slightly higher in fourth-quarter 2009 as broiler production begins to expand.

The big change for table eggs was the sharp drop in prices after the Easter holiday period, which is the normal seasonal pattern. During first-quarter 2009, the wholesale price for one dozen large eggs was \$1.10 in the New York market. After the Easter holiday, shell egg prices began to drop very sharply. Prices in the New York market are expected to average between \$0.94 and \$0.96 per dozen in the second quarter and to increase only slightly in the third quarter, as the increase in table egg production places downward pressure on prices.

Egg Shipments Fall by 15 Percent

The two major markets that contributed to the decline in egg exports were Japan and the overall EU countries. With Japan's economy under pressure, shipments of eggs and egg products fell to 5.9 million dozen in first-quarter 2009, down 42 percent from the previous year. Overall shipments to the EU were also lower, as smaller shipments to Germany, the Netherlands, the UK, and France more than offset higher shipments to Denmark. Canada and Hong Kong provided the real strength for the export market with shipments to Canada up 9 percent and shipments to Hong Kong rising sharply to 5.4 million dozen, an increase of 84 percent. Both Canada and Hong Kong are large markets for shell eggs for consumption and egg products. Shipments of these products have gained as shell egg prices in first-quarter 2009 were down significantly from the previous year.

Herd Liquidation, Already Underway, To Accelerate Later in 2009; Recovery Expected in 2010

The prospect of high feed prices and low milk prices is expected to continue to pressure dairy herd contraction for the balance of 2009 and throughout 2010. The calculated milk-feed price ratio stands at 1.55 and is expected to show only modest improvement in 2010. Consequently, the U.S. dairy herd is forecast to contract to an average of 8.95 million cows in 2010 following a retrenchment to an average 9.18 million cows this year. The 2.5-percent contraction forecast for 2010 exceeds the 1.5-percent contraction expected in 2009. According to the March *Milk Production* report, the total number of milk cows in the United States fell below the number on farms in 2008 by 8,000 head. Thus, the bulk of the herd contraction will likely occur in the second half of 2009 and into 2010. The Cooperatives Working Together program will likely remove slightly over 100,000 cows from the nation's herd, with actual liquidation occurring over the summer.

Production per cow is expected to be weak for the balance of 2009, averaging a quarter percent year-over-year rise, adjusted for leap year. However by 2010, a rebound is forecast as the remaining cows will be more productive, and a slight improvement in the milk-feed price ratio may encourage feeding a higher quality ration. The year-over-year increase in output per cow is forecast to climb by over 2 percent next year. First-quarter cow slaughter was 17.4 percent above first-quarter 2008, but in recent weeks the rate has fallen to about 5 percent ahead of the year-earlier level. Herd liquidation will likely pick up steam in the third and fourth quarters of 2009 and continue into next year. Milk production in 2009 is projected to decline to 187.7 billion pounds and to 186.8 billion pounds in 2010 as herd liquidation trumps output per cow increases.

Weakness in domestic demand, combined with a significant drop in exports, is the factor underlying low milk and dairy product prices. Milk equivalent exports on a fats basis totaled 8.8 billion pounds in 2008, the projected total for 2009 is 3.7 billion pounds, and USDA forecasts for 2010 exports are 3.8 billion pounds. The equivalent totals on a skims/solids basis are 26.6 billion pounds actual in 2008 and an estimated 15.3 and 22.0 billion pounds in 2009 and 2010, respectively. USDA projects 2009 exports of cheese, nonfat dry milk, and butter to trail 2008. Whey is the only exception. The sharp downturn in exports has led to greater supplies of milk and dairy products that must clear the domestic market. This year's domestic commercial use is projected to rise by 1.4 percent from last year to 186.8 billion pounds, with lower prices for dairy products prompting additional use. In 2010, domestic commercial use is expected to be flat as tighter milk supplies and improving demand boost product prices.

Although increasing through the year, most product prices are expected to remain below last year for the balance of 2009. An upturn is not likely until 2010. Cheese prices are expected to average \$1.245 to \$1.295 per pound in 2009. Prices for cheese have been close to support levels in recent weeks, but prices are expected to strengthen through 2010. The average price is forecast at \$1.545 to \$1.645 in 2010. For butter, the 2009 prices are expected to average \$1.165 to \$1.245 per pound for the year. In 2010, prices could rise to average \$1.430 to \$1.560 per pound.

NDM prices have suffered most, with the loss of export markets and prices reflecting that fact. NDM prices are expected to average 83 to 87 cents per pound this year and 97.5 cents to \$1.045 per pound next year. Whey prices show some recovery as exports have improved lately and will average 19.5 to 22.5 cents a pound in 2009 and likely rise to 24.0 to 27.0 cents a pound in 2010.

These lower product prices will translate to lower milk prices compared with 2008, with some recovery expected in 2010. The Class IV price is projected to average \$9.95 to \$10.55 per cwt this year and \$12.30 to \$13.40 per cwt next year. The Class III price is forecast to average \$10.55 to \$11.05 per cwt this year and to rise to \$13.80 to \$14.80 per cwt next year. The all milk price is projected to be \$11.85 to \$12.35 per cwt in 2009 and to climb to \$14.70 to \$15.70 per cwt in 2010.

Decline in Beef Exports Expected in 2009 Despite First-Quarter Growth

Exports of U.S. beef in the first quarter totaled 384 million pounds, a 7-percent increase from the same quarter last year. The year-over-year increase can be attributed primarily to a 23-percent increase in exports to Japan and the resumption of exports to Korea, a market to which the United States did not have access in the first half of 2008. Exports to Mexico and Canada, however, declined 18 percent and 20 percent, respectively, in the first quarter. The North American trading partners were the top two beef export destinations in 2008.

Poor economic conditions worldwide and a strong U.S. dollar are hampering demand for U.S. beef abroad. As of May 1, the dollar has strengthened 32 percent against the Mexican peso, 27 percent against the South Korean won, and 17 percent against the Canadian dollar compared with last year. Beef exports to Japan increased in the first quarter. However, they have been increasing at a slower rate compared with the past few years. Some of the effects of the slowing economy in Japan may be mitigated by a weaker dollar relative to the Japanese yen, however, for the beginning of 2009. If the dollar continues to strengthen against the yen as it has over the past few weeks, the Japanese could be motivated to import less U.S. beef, replacing it with other proteins or Australian beef.

Total U.S. beef exports are expected to fall 8 percent in 2009, to 1.74 billion pounds. Much of the year-over-year decrease is expected to come in the third quarter, which was particularly strong in 2008. Exports should rebound about 10 percent in 2010, to nearly 1.91 billion pounds. The outlook for 2010 depends on the state of the global economy.

Increased Beef Imports from Australia Drive Outlook for 2009

U.S. beef imports increased 10 percent in the first quarter of 2009. Australia, which typically vies with Canada to be the largest foreign source of beef in the United States, increased its exports to the United States by 42 percent. Australian producers' exports are also being affected by the global economic slowdown. As a result, some Australian beef that went to Asian and Russian markets last year under normal economic conditions is now being redirected to the United States.

Total U.S. federally inspected cow slaughter has been high so far this year, driven primarily by increased dairy cow slaughter and U.S. slaughter of cows and bulls imported from Canada. Typically, imported beef and beef from imported cows and bulls supplements domestic processing beef for grinding. These products are generally mixed with fed-cattle trim to produce ground beef. Domestic supplies of processing beef are expected to remain strong throughout the year. The outlook for imported beef will hinge upon relative prices in the United States relative to prices in the rest of the world. If foreign producers cannot find adequate export opportunities elsewhere, more beef may come to the U.S. market despite relatively high domestic supplies.

U.S. beef imports are expected to increase 12 percent this year, to 2.84 billion pounds, primarily because of the expected increases from Australia. Next year, U.S. beef imports are expected to continue growing to nearly 2.98 billion pounds, nearly a 5-percent increase from 2009 forecasts.

Cow Slaughter Declining into Spring

Most areas of the country have received precipitation in recent weeks, easing concerns that dry conditions would extend into the summer grazing season. The far West and Southwest continue to be exceptions. Hay prices are declining, and concerns in some areas have shifted to whether fields will be dry soon enough to plant or harvest crops.

Economic effects from the Influenza A/H1N1 virus on demands for red meat and poultry are difficult to discern beyond the direct impacts of bans by some countries on importing U.S. pork. In some cases, the bans are partial in that they are specific to pork from selected States. Any bans could be short-lived due to the apparent mild effects of the flu on humans. Some analysts have argued that the flu outbreak would have a negative effect on beef/cattle demand and prices as unexported U.S. pork weighs negatively on the U.S. domestic red meat sector. Others argue that the flu outbreak could generate positive effects as increased demands for beef and poultry fill gaps in international demand left by international restrictions on U.S. pork exports. Although both effects may occur, in the short run, they are expected to offset one another so that net impacts on the beef sector will be minor. Beef-sector impacts will also be difficult to separate from factors unrelated to influenza that are affecting beef markets.

Dairy cow slaughter has declined recently. While at least part of the decline can be attributed to a well-established seasonal pattern, anecdotal evidence suggests milk producers are withholding dairy cows from slaughter in anticipation of the latest Cooperatives Working Together (CWT) herd buyout. Removal of the 102,000 dairy cows via the most recently announced CWT buyout could begin swelling slaughter numbers as early as this month. This activity will adversely affect cow prices, but will occur at a time when cow slaughter is normally at a seasonal low, so effects should be relatively minor.

As of April, the heifer share of steers and heifers on feed in lots of 1,000 head or more continued its upward trend, climbing from a low in April 2006, and is indicative of a lack of breeding herd expansion. This trend, along with proportionally large cow slaughter, suggests a further decline in total cow inventories during 2009. The ensuing sequentially smaller calf crops in 2009, 2010, and perhaps beyond, and this will likely result in fewer cattle for placement in feedlots and eventual slaughter. These factors will likely translate into the potential for lower beef production from 2010 through at least 2011 or 2012. However, the final outcome will also depend to some extent on grain prices and timing and dressed weights of cattle slaughtered. For example, more cattle could be slaughtered in a given year if heavier placement weights result in shorter feeding period and faster feedlot turnover. Cattle placed in feedlots at heavy weights tend to be heavier when slaughtered, so the combination of heavier weights and more cattle in a given year could result in more total beef production for that year.

Cattle feeders received somewhat of a reprieve in April 2009 when cattle-feeding margins were near breakeven for the first time since May 2007.

This bright spot is largely due to coincidental declines in feed (grain) and feeder cattle prices from their summer (2008) highs and the small price rally in fed cattle markets during April. However, in the absence of steady-to-higher prices for fed cattle, the positive feeding margins are not likely to extend beyond summer.

Ordinarily, packers are able to sell byproducts from slaughter that help cover processing costs and allow them to offer slightly higher prices for cattle. Reduced demand for final leather goods brought on by the worldwide economic downturn has depressed hide values lately. Since byproduct values are driven largely by hide values, this has negatively affected packer margins. Ironically, despite low byproduct values, packer margins are high enough that kills in recent weeks have increased compared with weekly kills during most of first-quarter 2009. Cutout values for Choice steers began a seasonal spring rally in mid-April that may have already run its course, as prices have declined from their weekly high the week of April 25, 2009.

Retail beef prices have actually increased year-over-year for the first quarter, with retail Choice beef prices increasing by 4 percent. Retail all-fresh beef prices have increased just over 2 percent. Since these retail prices reflect grocery counter activity, the increases likely reflect grocery demand holding steadier than food service demand as consumers adjust their spending to reflect the uncertain economic conditions and choose grocery purchases for eating at home over restaurant dining.

Special Box: Veal Industry

U.S. Veal Production

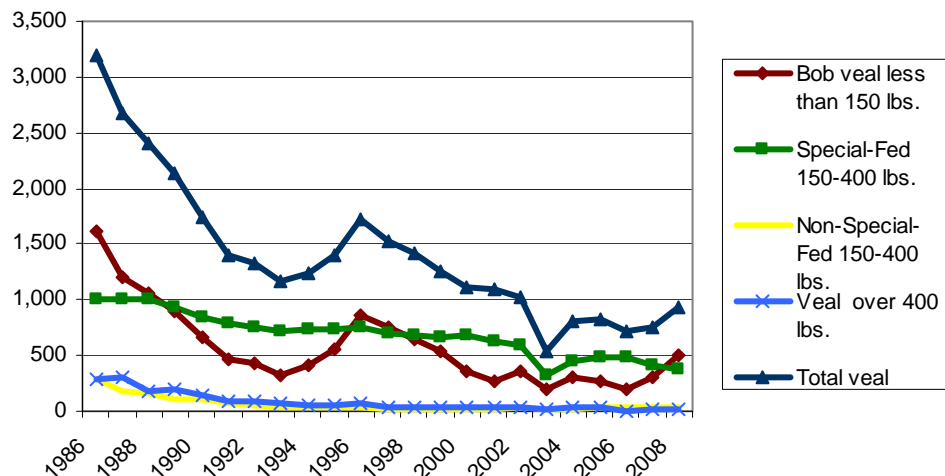
Veal is meat from immature bovine animals, called “vealers.” The primary source of vealers in the United States is the dairy industry. Dairy cows must give birth to a calf each year, that is, be “freshened,” in order to continue producing milk. A large percentage of heifer calves are retained as replacements for the dairy herd, but only a few bull calves are retained for breeding stock. As primarily a byproduct of the dairy industry, the nearly 75 percent of male dairy calves used for veal production typically comprises the veal industry.

Veal is usually classified into two types based on characteristics of the vealers used for production: “Bob” veal and “Special-Fed” veal. Bob vealers are typically marketed up to 3 weeks of age with a weight of less than 150 pounds. Meat from bob vealers is ivory to creamy pink in color and accounts for approximately 15 percent of the veal market. Special-Fed vealers are fed a special liquid milk replacer diet and marketed at 400-450 pounds, or at 16 to 20 weeks old, depending on regional variations and other factors affecting the beef industry. Special-Fed veal is light grey to pink in color and is the most common type consumed, primarily through hotels and upscale food service establishments. About 85 percent of the veal calf market is special-fed. Although not common in the United States, vealers can also be fed a variety of diets, including grains and forages, typically termed “non-special-fed,” and marketed at weights of 400-450 pounds and beyond. These calves can also be fed to slaughter weights of 1,200 to 1,400 pounds and sold as beef.

Veal production in the United States has decreased dramatically since the 1960s, from 960 million pounds produced in 1961 to 143 million pounds in 2008. In the last 10 years, the decline in production has been roughly 50 percent. Per capita domestic veal disappearance has also declined over time. Since peaking in 1944 at 11.2 pounds, consumption has gradually decreased to 0.4 pounds per capita in 2008. Veal imports (primarily from Canada) and exports have historically made up small percentages of total U.S. consumption and production.

Yearly U.S. commercial calf slaughter

Thousand head

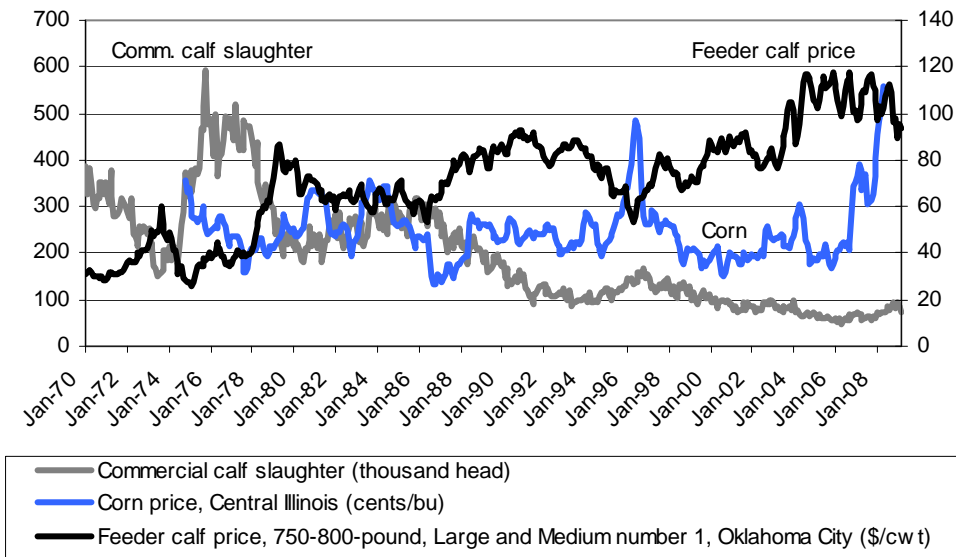


Source: Agricultural Marketing Service.

Veal production and demand declines can be attributed to simultaneous declines in dairy cow numbers, increases in feeder cattle prices, and changes in consumer tastes and preferences. Generally, there is an inverse relationship between feeder cattle prices and commercial veal production—as feeder calf prices increase, veal production declines, and vice versa. Veal production is also related to corn prices—as corn prices increase, so does veal production because it becomes too expensive to feed dairy calves to sell as fed cattle. Increased use of dairy bull calves for dairy beef production has also increased the demand for starter calves, tightening the supply of vealers. As a result, prices for vealers have increased.

Veal production, feeder cattle prices, and corn prices

Thousand head



Source: National Agricultural Statistics Service and Agricultural Marketing Service.

Any short-term changes in the U.S. veal industry will largely depend on immediate fed cattle prices and dairy cattle supplies. Long-term changes in demand for veal will largely depend on changes in consumer perceptions towards veal production and continued demand from upscale hotels and restaurants that offer veal on their menus.

Special Box: Organic Dairy

Organic Dairies Losing Money Too

The organic dairy sector has seen strong growth in recent years, with the number of specialized organic dairy farms increasing by 79 percent from 2002 to 2007 (USDA Agricultural Census). Land used for organic production on specialized organic dairy farms increased by 85 percent, and total organic dairy product sales increased by 83 percent over the same period. Like the conventional dairy sector, the organic dairy sector is composed of all types of dairy farms. Small organic dairy farms that grow most of their own organic feed can be found predominately in the Northeast and Midwest, whereas the Western United States is home to several larger dairies that rely more heavily on purchased organic feed. All organic dairy cows must have access to pasture, per USDA regulations. There is a limited, but growing, amount of data available on organic dairy production at the national level. However, examining the three States with the highest number of organic dairy farms, Wisconsin, New York and Vermont, can shed some light on the current market situation. Organic milk producers in the United States have suffered much the same fate as conventional milk producers, facing falling milk prices and high feed and energy costs.

<i>Where are organic dairies located?</i>		
State	Number of Specialized Organic Dairy Farms	Acres Used For Organic Production
Wisconsin	433	87,206
New York	301	79,234
Vermont	182	43,702

Source: 2007 USDA Agricultural Census.

The March 2009 ERS Monthly Milk Costs of Production estimates for conventional dairies in Wisconsin, Vermont, and New York were, on average, \$21.54/cwt, \$24.94/cwt, and \$26.55/cwt, respectively. Organic dairies, on average, have higher production costs by about \$5 to \$7 more per cwt. Thus, implied production costs for organic dairies in the three States can be approximated at \$27-29/cwt (Wisconsin), \$30-32/cwt (Vermont), and \$32-34/cwt (New York).

According to the Northeast Organic Dairy Farmers Association (NODPA), as of April 2009, pay prices for organic milk by the three largest processing plants in the region (HP Hood, Horizon Organic, and Organic Valley) will average about \$27.43/cwt. At current estimates of production costs, organic dairy farmers in Vermont and New York are losing about \$4/cwt and \$5/cwt, respectively. The average milk price paid to dairy farmers by the two largest organic processors in Wisconsin (Organic Valley and Horizon Farms) is currently \$24.63/cwt. At that price, the average loss for Wisconsin organic dairy farmers is \$3/cwt. Costs vary greatly across farms and production methods. Farms that rely more on purchased feed inputs can expect to see greater losses than farms that rely more on pasture-based feeds. Organic dairy farmers use fewer feed concentrates and more forage than conventional producers; however, the purchased feed they do use has a higher per unit cost since it must be certified organic feed. For example, prices published by USDA’s Agricultural Marketing Service at the beginning of May 2009 show Upper Midwest organic feed grade corn at about \$7.48/bushel, yet conventional no. 2 yellow feed corn was about half the price, averaging \$3.90/bushel in Chicago.

Organic vs. Conventional Milk Cost of Production (COP) and Returns

State	Organic COP ¹ (\$/cwt)	Organic Farmgate Price ² (\$/cwt)	Loss to farmers (\$/cwt)	Conventional COP ³ (\$/cwt)	Conventional Farmgate Price ⁴ (\$/cwt)	Loss to farmers (\$/cwt)
WI	\$28	\$25	-\$3	\$22	\$12	-\$10
VT	\$31	\$27	-\$4	\$25	\$12	-\$13
NY	\$33	\$27	-\$5	\$27	\$12	-\$15

1. Calculated: based on March 2009 ERS Monthly Milk Costs of Production and estimated organic milk cost of production.

2. NODPA.

3. March 2009 ERS Monthly Milk Costs of Production.

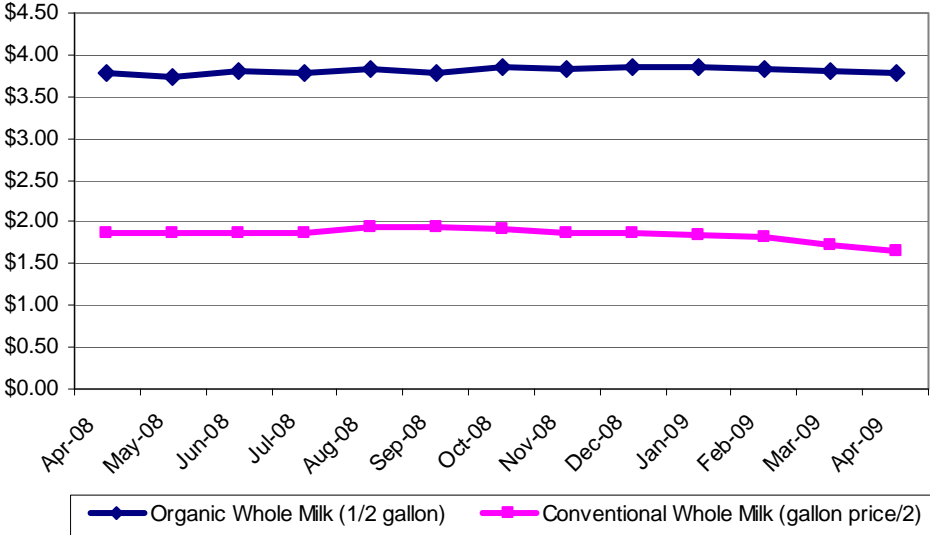
4. AMS.

While organic milk and dairy products have a higher cost of production, they also receive a higher price at the farmgate as well as the retail level. Organic dairy producers earn an average \$15/cwt premium for their product in WI, VT, and NY over conventional milk and, at the retail level, organic milk prices currently average over twice the price of conventional milk. Organic milk accounts for about 6 percent of retail milk sales and is widely available at all types of outlets, from big-box stores to conventional supermarkets to small independent retailers. Many supermarkets now offer both private label and branded organic milk products.

Organic milk retail prices vary substantially by region and brand, but have remained at a premium to conventional milk prices. In April 2009, a half-gallon of organic whole milk in the U.S. retailed for \$3.79 on average, compared with approximately \$1.64 for conventional whole milk. Conventional milk prices have declined almost 12 percent from the beginning of 2009 to the present (May 2009). Organic milk prices have been steadier, with roughly a 2-percent decline during the same period. Organic milk sales showed strong growth during 2008, with an annual increase of 23-percent for organic whole milk and 19.7-percent for organic reduced-fat milk, according to AMS Dairy Market News. Sales of both conventional whole milk and reduced-fat milk also increased during 2008, but at a significantly lower rate compared with organic milk sales. Conventional whole milk sales increased by 1.2-percent and conventional reduced-fat milk by 3.6 percent in 2008.

Retail whole milk prices: organic vs. conventional

Dollars per half gallon



Source: USDA-AMS.

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Data Products

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

Livestock and Meat Trade Data, <http://www.ers.usda.gov/Data/MeatTrade/>, contains monthly and annual data for the past 1-2 years for imports and exports of live cattle and hogs, beef and veal, lamb and mutton, pork, broiler meat, turkey meat, and shell eggs. The tables report physical quantities, not dollar values or unit prices. Breakdowns by major trading countries are included.

Related Websites

Animal Production and Marketing Issues, <http://www.ers.usda.gov/briefing/AnimalProducts/>
Cattle, <http://www.ers.usda.gov/briefing/cattle/>
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/MannUsda/viewDocumentInfo.do?documentID=1194>

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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	II	III	IV	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	6,372	6,899	6,908	6,382	26,561	6,248	6,800	6,950	6,530	26,528		
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	6,024	5,593	5,632	6,098	23,347	5,811	5,400	5,500	6,025	22,736		
Lamb and mutton	195	187	49	47	42	47	185	49	44	42	48	183	46	43	42	43	174	42	40	38	41	161		
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	9,145	9,439	9,457	8,865	36,906	8,571	8,870	9,050	9,000	35,491		
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	1,536	1,560	1,568	1,582	6,246	1,385	1,425	1,450	1,525	5,785		
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	23,292	23,717	23,791	23,137	93,937	22,210	22,685	23,142	23,280	91,317		
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	1,587	1,577	1,599	1,640	6,403	1,594	1,595	1,625	1,660	6,474		
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	15.8	15.1	62.8	15.3	16.3	16.3	15.3	63.3		
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	11.6	12.0	13.3	49.5	12.7	12.1	11.9	12.6	49.4		
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	0.3	0.2	0.3	1.0	0.3	0.2	0.2	0.2	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	21.3	21.4	21.1	19.7	83.5	19.4	20.2	20.9	20.4	80.9		
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	4.3	5.3	17.6	3.7	3.9	4.0	5.3	16.9		
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	54.1	54.2	53.8	54.0	216.1	51.8	53.1	53.7	54.3	212.9		
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	61.3	62.0	63.8	248.9	62.1	61.6	62.5	63.9	250.0		
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	98.45	88.22	92.27	80.98	85-87	85-91	87-95	85-88		
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	110.81	94.62	102.98	92.83	96-98	96-102	100-106	96-100		
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	61.78	46.70	54.92	46.42	44-46	47-51	49-53	46-50		
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	88.83	88.95	85.91	90.14	88-92	84-90	85-91	86-92		
Barrows & gilts, N. base, I.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	57.27	41.92	47.84	42.11	44-46	49-53	42-46	45-46		
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	78.10	80.60	80.60	79.40	79.70	79.70	48-80	79-83	77-83	78-82		
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	77.40	88.90	96.50	87.30	87.50	73.80	77-79	82-88	82-88	79-86		
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	114.50	122.60	128.30	109.70	94-96	97-103	106-114	101-106		
U.S. trade, million lb																								
Beef & veal exports	460	697	215	315	307	308	1,145	269	363	424	375	1,431	360	471	609	448	1,888	375	445	465	450	1,735		
Beef & veal imports	3,679	3,599	843	790	730	722	3,085	770	884	774	624	3,052	637	661	584	655	2,537	705	760	710	665	2,840		
Lamb and mutton imports	181	180	53	44	41	52	190	56	44	44	59	202	52	48	38	47	185	46	42	38	46	172		
Pork exports	2,181	2,666	767	763	654	811	2,995	792	685	703	959	3,138	1,106	1,387	1,126	1,049	4,668	975	950	1,000	1,175	4,100		
Pork imports	1,099	1,024	259	237	239	254	989	239	256	240	232	968	217	205	191	218	831	205	195	190	210	800		
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	1,787	1,912	1,756	6,962	1,700	1,600	1,500	1,575	6,375		
Turkey exports	442	570	119	125	152	150	547	124	135	148	146	553	148	160	186	182	676	120	130	145	155	550		
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	2,149	2,201	2,083	9,348	1,750	1,750	1,650	1,650	6,800		

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

	2008					2009					2010	
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
Milk cows (thous.)	9,286	9,315	9,330	9,330	9,315	9,297	9,250	9,130	9,035	9,178	9,000	8,950
Milk per cow (pounds)	5,127	5,236	5,025	5,008	20,396	5,088	5,255	5,060	5,045	20,448	5,190	20,870
Milk production (bil. pounds)	47.6	48.8	46.9	46.7	190.0	47.3	48.6	46.2	45.6	187.7	46.7	186.8
Farm use	0.3	0.3	0.3	0.3	1.2	0.3	0.3	0.3	0.3	1.2	0.3	1.2
Milk marketings	47.3	48.5	46.6	46.4	188.8	47.0	48.3	45.9	45.3	186.5	46.4	185.6
Milkfat (bil. pounds milk equiv.)												
Milk marketings	47.3	48.5	46.6	46.4	188.8	47.0	48.3	45.9	45.3	186.5	46.4	185.6
Beginning commercial stocks	10.4	12.1	13.6	11.5	10.4	10.0	12.5	13.9	12.2	10.0	9.8	9.8
Imports	1.0	0.7	0.7	1.5	3.9	1.0	0.9	0.9	1.2	3.9	1.1	4.7
Total supply	58.6	61.3	60.9	59.5	203.1	58.0	61.8	60.7	58.7	200.5	57.1	199.2
Commercial exports	2.2	2.5	2.5	1.5	8.8	1.0	0.9	0.9	1.0	3.7	1.5	6.0
Ending commercial stocks	12.1	13.6	11.5	10.0	10.0	12.5	13.9	12.2	9.8	9.8	11.7	8.6
Net removals	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Commercial use	44.3	45.2	46.9	47.8	184.3	44.4	47.0	47.5	48.0	186.8	44.5	186.8
Skim solids (bil. pounds milk equiv.)												
Milk marketings	47.3	48.5	46.6	46.4	188.8	47.0	48.3	45.9	45.3	186.5	46.4	185.6
Beginning commercial stocks	9.9	10.2	10.8	10.4	9.9	10.9	11.2	11.8	11.2	10.9	10.6	10.6
Imports	1.0	0.8	0.8	1.2	3.8	0.9	0.9	0.9	1.1	3.8	1.0	3.7
Total supply	58.2	59.5	58.2	58.0	202.5	58.8	60.4	58.6	57.6	201.2	57.9	199.9
Commercial exports	6.7	7.6	6.9	5.5	26.6	4.6	4.6	4.8	5.3	19.3	5.3	22.0
Ending commercial stocks	10.2	10.8	10.4	10.9	10.9	11.2	11.8	11.2	10.6	10.6	10.3	9.3
Net removals	0.0	0.0	0.0	1.3	1.3	1.1	0.9	0.3	0.0	2.3	0.0	0.0
Commercial use	41.4	41.1	40.8	40.4	163.7	41.9	43.1	42.3	41.7	169.0	42.3	168.7
Milk prices (dol./cwt) 1/												
All milk	19.23	18.57	18.67	16.80	18.32	12.23	11.30	11.25	12.70	11.85	13.30	14.70
							-11.60	-11.85	-13.60	-12.35	-14.30	-15.70
Class III	18.12	18.40	17.28	15.95	17.44	10.18	9.99	10.54	11.61	10.55	12.01	13.80
							-10.29	-11.14	-12.51	-11.05	-13.01	-14.80
Class IV	15.04	15.25	16.23	12.07	14.65	9.56	9.73	10.07	10.64	9.95	11.31	12.30
							-10.13	-10.77	-11.64	-10.55	-12.41	-13.40
Product prices (dol./pound) 2/												
Cheddar cheese	1.933	1.977	1.869	1.804	1.895	1.236	1.187	1.230	1.332	1.245	1.370	1.545
							-1.217	-1.290	-1.422	-1.295	-1.470	-1.645
Dry whey	0.305	0.267	0.243	0.186	0.250	0.164	0.198	0.215	0.225	0.195	0.225	0.240
							-0.218	-0.245	-0.255	-0.225	-0.255	-0.270
Butter	1.230	1.411	1.575	1.527	1.436	1.097	1.152	1.182	1.253	1.165	1.312	1.430
							-1.212	-1.272	-1.373	-1.245	-1.442	-1.560
Nonfat dry milk	1.364	1.300	1.334	0.904	1.226	0.823	0.810	0.835	0.865	0.830	0.918	0.975
							-0.840	-0.885	-0.935	-0.870	-0.988	-1.045

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/dyfmoms/mib/fedordprc_dscrp.htm

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

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