OUTLOOK FOR LIVESTOCK AND POULTRY

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The livestock and poultry industry will be increasingly challenged this year by rising feed prices that drive up costs and lower returns, and by consumers confronted with uncertain economic conditions. Based largely on last year’s production decisions, there will be a record 93 billion pounds of red meat and poultry to move through domestic and international channels this year.

U.S. economic growth is expected to fall to between 1 and 2 percent for 2008, with the weakest growth during the first half of the year. Recent surveys indicate that consumers’ concerns about the economy and their personal economic situations have grown. Given weakening confidence, consumers may alter spending patterns, be it curtailed dining out or choosing less expensive meats for both at-home and dining out. Internationally, economic growth is expected to slow but still be around 3 percent for the year. U.S. red meat and poultry exports will continue to be supported by a weak U.S. dollar, and are expected to top 12 billion pounds this year.

Returns for livestock and poultry producers will fall during the year, and as a result production growth for all red meat and poultry slows later in the year. Increases in average weights have contributed to production gains in past years, but this year weight gains are expected to be minimal as pork and poultry producers manage weights to control costs. Cattle producers are expected to leave cattle on grass longer if pasture conditions permit in order to offset some of the increased feed costs. Prices for cattle, hogs, and poultry in 2008 are expected to decline. But at retail, prices for beef and pork are expected to average higher, although broiler and turkey prices should be slightly lower. Domestic per capita disappearance of red meat and poultry is expected to reach a record of nearly 223 pounds retail weight.

Cattle

The U.S. cattle herd expansion that began in 2004 came to a halt during 2007. The annual Cattle report estimated that the number of cattle and calves on January 1, 2008 was 96.7 million head, down 0.3 percent from a year earlier. The beef cow herd was nearly 32.6 million head, about 1 percent below a year ago, and the smallest beef cow herd since 1991. High cow slaughter throughout 2007, partly due to widespread drought in cow/calf areas in the Southeast, resulted in a 338,000 head reduction in beef cows.

There is little indication of expansion in the cow herd this year. Total cow slaughter is expected to remain relatively strong at nearly 5.3 million head. The Cattle report estimated that producers will retain about 4 percent fewer replacement heifers for the beef cow herd this year, and the number of beef heifers expected to calve during 2008 was also 4 percent lower. The 2007 calf crop was 37.2 million head, slightly smaller than the 2006 calf crop which was revised downward 48,000 head. Given these
lower cow and calf numbers, the calf crop is likely to decline in 2008 and again in 2009. The ability to expand the herd and consequently beef production is limited by biological lags. Heifers that are retained this year from last year’s calf crop will be bred this year, calve in 2009, and then the calves may not be available for slaughter until 2010 and into 2011.

Beef production for 2008 is forecast to decline slightly to 26.3 billion pounds. The number of cattle available for slaughter this year is expected to be relatively tight. The number of cattle on feed declined through the first half of the year, but very strong wheat prices led producers to keep cattle off wheat pasture and caused net cattle placements to surge about 11 percent in the 4th quarter of 2007 after placements had fallen below year earlier for the previous four quarters. The Cattle report estimated the number of cattle on small grains in the 3 reporting states (Kansas, Oklahoma, and Texas) were 33 percent below a year earlier. As a result, the total number of cattle on feed on January 1, 2008 was 14.3 million head, fractionally higher than a year ago. However, the number of cattle outside of feedlots on January 1 was below a year ago and once current feedlot cattle are moved through the system, supplies of cattle and consequently beef will tighten.

The Choice Nebraska steer price for 2008 is forecast to average $88 to $94 per cwt. In 2007, the steer price averaged a record $91.82 per cwt. Above year ago fed cattle marketings through spring this year should keep cattle prices from increasing much. In January, the cattle price fell below $89 per cwt, but the current price is closer to $91. Estimated packer margins were mostly negative during the second half of 2007 and into 2008, leading to efforts by packers to slow slaughter throughput in an attempt to keep fed cattle prices lower. However, with tighter supplies of cattle, if any retention develops prices could move up quickly. Conversely, any deterioration of pasture conditions could temporarily drop prices sharply as cattle would be forced into feedlots earlier than normal. Retail beef prices in 2008 are expected to be slightly above the 2007 average of $4.16 per pound.

U.S. beef exports are forecast at about 1.7 billion pounds for 2008. This would be a 17-percent increase from 2007’s 1.4 billion pounds of exports. Mexico and Canada were again the leading markets for U.S. beef in 2007. Exports to Japan more than tripled to 159 million pounds, but shipments are still limited to boneless beef from cattle 20 months of age or under. Although the South Korean market reopened briefly to U.S. beef last summer, South Korea’s zero tolerance standards for bone chips essentially shut the market soon after it opened. Last year the World Organization of Animal Health (OIE) classified the United States as a controlled BSE risk country, meaning that an internationally acceptable surveillance system is in place, bans on ruminant feeding are observed, and specified risk material (SRM) is properly removed during the slaughter process. Although the United States received the controlled risk designation, Japan and South Korea maintain their restrictions on U.S. shipments. In 2008, Mexico and Canada will again be leading markets and shipments to Japan are expected to gradually increase. No exports to South Korea are forecast for 2008 pending an agreement between the United States and South Korea for beef access that accepts international standards. Access for U.S. bone-in beef is especially critical to rebuilding the South Korean market because a significant portion of beef shipped to South Korea prior to the BSE discovery was bone-in beef.

U.S. beef imports are forecast at 3.1 billion pounds in 2008, up about 2 percent from 2007. Imports declined in 2007 as domestic cow slaughter rose to the highest level in 4 years. The weak U.S. dollar put additional downward pressure on imports as imported beef became less competitively priced. Imports from Australia, the source for about one third of U.S. beef imports, were unchanged from the
previous year and shipments from Canada and New Zealand declined. Imports from Uruguay increased 16 percent to 355 million pounds and there were smaller increases from Brazil. The BSE Minimal Risk Region rule 2 was implemented in November 2007 and allowed the import of cattle over 30-months of age if born after March 1, 1999, and the import of beef from cattle over 30-months of age. Cattle imports from Canada increased during the last two months of 2007 but beef imports remained below 2006 levels. Exchange rates and available exportable beef supplies are likely to keep total imports to a moderate pace this year.

**Pork**

A nearly 4 year long string of positive monthly returns (excluding one slight negative in January 2007), for U.S. hog producers came to an end the last quarter of 2007. According to Iowa State University estimated returns for hog farrow-to-finish operations have been negative since October. During this long run of positive returns, sows farrowing growth was very modest and producers did not start to boost sows farrowing until the first half of 2007.

The December 2007 *Quarterly Hogs and Pigs* report estimated that on December 1, 2007 the inventory of all hogs and pigs was about 65.1 million head, about 4 percent higher than 2006. However, the breeding herd was only about 1 percent higher at nearly 6.2 million head. Expansion in the hog industry continues to be driven by productivity gains. Pigs per litter jumped up to 9.24 head for the September-November quarter, an increase similar to the June-August quarter. Growth in pigs per litter had been well under 1 percent over the last couple years, but over the last three quarters, the year over growth rate has risen to about 1.4 percent. Much of the increase is attributed to successful vaccinations for Circovirus that was killing a significant number of pigs.

For 2008, producers intend to farrow 2 percent more sows in December-February and then slightly more in March-May than last year. With larger pig crops there will be more than 3 percent more hogs to kill this year. In addition, hog imports are expected to reach 10.8 million head this year, up from 10 million in 2007. U.S. imports of Canadian hogs were strong the last half of 2007, and combined with expected shipments this year, about 1.5 million more Canadian hogs will be available for slaughter here in 2008. The Canadian hog industry has been hit hard by the strong Canadian dollar and rising feed costs, and the Canadian hog inventory on January 1, 2008 plunged 6 percent to 14 million head, the lowest Canadian hog inventory since 2001. U.S. hog imports are expected to fall below year ago levels by the second half of the year with an increasing proportion imported for finishing.

Pork production is forecast at a record 23 billion pounds, 5 percent higher than 2007. Pork output during 2007 rose 4 percent to a record 21.9 billion pounds, and was the seventh year of expanded production, but 2007 was the first year since 1989 that average hog weights did not increase. With feed costs even higher this year, average hog weights are expect to remain flat in 2008.

U.S. hog prices, on a national base, 51%-52% lean, live equivalent, are forecast at $41 to $43 per cwt. In 2007, hog prices averaged $47.09 per cwt, just slightly below the previous year despite the strong increase in pork production, especially in the last quarter. Retail pork prices for 2008 are expected to average slightly above the $2.87 per pound average for 2007.
Pork exports for 2008 are forecast to increase for the 18th straight year to a record 3.7 billion pounds, almost 17 percent higher than 2007’s 3.1 billion pounds. Through the first half of 2007 accumulated pork exports were nearly 4 percent below the previous year and it appeared a long string of records was threatened. But in the second half of the year foreign buying picked up and pork exports were over 13 percent higher. Exports were a record 1.1 billion pounds to Japan, as well as record high to Canada, Russia, and China.

Pork imports for 2008 are forecast at 965 million pounds, slightly lower than 2007’s 969 million pounds. Canada is the largest provider of pork to the United States but increased Canadian exports of hogs likely came at the expense of pork shipments. A similar situation this year dampens prospects for pork imports.

**Sheep and Lambs**

Sheep and lamb inventory declined for a second consecutive year in 2007. The January 1, 2008 inventory of sheep and lambs was 6.06 million head, down nearly 2 percent from January 2007. The total breeding inventory was down more than 2 percent and the number of replacement lambs was down more than 3 percent. In 2008, commercial lamb and mutton production is forecast at 179 million pounds, down 2 percent from 2007. The reduced number of market sheep and lambs on January 1 and a slightly smaller lamb crop in 2007 result in fewer animals being available for slaughter this year.

Lamb and mutton imports for 2008 are forecast at 200 million pounds, down fractionally from 2007. Lamb and mutton imports in 2007 were 203 million pounds, about 7 percent higher than 2006. Imports for the 4th Q of 2007 jumped to 59 million pounds on strong December shipments, especially from Australia. Drought conditions in Australia led to liquidation in 2006 to 2007, and consequently, U.S. lamb and mutton imports from Australia were a record 152 million pounds in 2007. However, a smaller lamb crop is available for slaughter this year and flat to lower imports are expected as Australia heads into herd rebuilding if weather conditions permit.

The San Angelo Choice slaughter lamb price is forecast at $88 to $94 per cwt for 2008. This would be about a 7 percent increase from 2007’s average price of $84.93 per cwt. Lamb prices are expected to firm this year as production declines and imports remain fairly flat.

**Broilers**

Broiler production is forecast to increase about 3 percent to nearly 37 billion pounds in 2008. Broiler production in 2007 increased less than 1 percent to 35.9 billion pounds. From the last two quarters of 2006 through the 2nd quarter of 2007 broiler output declined year-over-year, the first time since 1973 that there were consecutive quarters of declines in broiler production. By the middle of 2007 broiler prices were record high and broiler producers started to increase production. The number of chicks placed each week for growout has averaged 3 to 5 percent above year earlier since last fall, compared with about a 1 percent increase for the earlier part of the year. By mid-2007 growth in the broiler laying flock turned strongly positive after lagging through 2006 and into 2007. Broiler production growth is expected to be stronger during the first half of the year, and then slow considerably by the 4th quarter because of higher feed costs and weaker prices. Stocks of broiler meat during the year are expected to be higher in 2008 than in 2007 but start to decline by the last quarter.
The 12-city wholesale broiler price is forecast to average 73 to 78 cents per pound in 2008, compared with an average of 76.4 cents in 2007. Broiler prices are forecast to remain firm through the middle of the year, but prices will slip below year ago before gaining some strength in the last quarter when production growth is expected to slow. Broiler parts prices have remained stronger than expected. Boneless/skinless breast meat prices in the Northeast averaged $1.48 per pound in 2007, the highest since 2004. The January 2008 price was $1.28 per pound, steady with a year ago. Bulk leg quarter prices in the Northeast averaged about 43.5 cents per pound in 2007 and prices have held firm into February of this year. As broiler production builds through the middle of 2008, parts prices will likely be under some pressure, but then rebound towards the end of the year as production growth slows.

U.S. broiler meat exports are forecast to increase 2 percent to a record 5.9 billion pounds. In 2007, broiler exports reached nearly 5.8 billion pounds, surpassing the 2001 record of 5.6 billion. Over several years prior to 2007 broiler export growth was sluggish because of an uncertain import regime in Russia, including a quota that was eventually converted to a tariff-rate quota, restrictions on border trade with countries surrounding Russia that were often entry points for U.S. broiler meat, and then, of course, outbreaks of highly pathogenic Avian Influenza that dampened demand for broiler meat for short periods in markets across the globe, but especially Eastern European and Asian markets. Last year exports took off again even though U.S. broiler parts prices, particularly leg quarters, reached record highs mid-year. Firm world economic growth, a weak U.S. dollar, and in many markets, strong growth in oil income, provided the impetus to send broiler exports higher in 2007. In 2007, exports to Canada, China, and Cuba reached record levels. U.S. broiler shipments to Russia were 1.9 billion pounds, the highest since 2001. In 2008, the United States is allocated nearly 2.0 billion pounds of total poultry under the Russia quota regime. Broiler exports to China benefited from the outbreak of blue ear disease in Chinese hogs that drove pork prices up and shifted consumption towards broilers.

Turkey

Turkey production in 2008 is forecast to increase more than 2.5 percent to almost 6.1 billion pounds. This growth is below the 3 to 4 percent gains of the previous two years. Higher feed costs for turkey producers will temper growth in turkey weights. In 2007, turkey production increased more than 4 percent to a record 5.9 billion pounds because of a 3.5-percent increase in the number of turkeys slaughtered, combined with a less than 1 percent gain in average dressed weights. Weight gains are again expected to be modest this year because of higher feed costs and higher turkey slaughter will account for most of the production increase.

Although the latest turkey hatchery data showed a slowing of poult placements in January, eggs in incubators on February 1 were 4 percent higher than a year earlier, indicating increases in turkey production later this year. But higher feed prices will continue to limit weight gains and will pressure producer returns. With increased production, Eastern Region hen prices are forecast to slip from the record 2007 price of 82 cents per pound to average 77 to 82 cents.

Turkey exports increased about 1 percent in 2007 to 554 million pounds. For 2008, turkey exports are forecast to rise 9 percent to 605 million pounds, about even with the 1996 record of 606 million pounds. Exports to Mexico, the largest market for U.S. turkey, were slightly lower last year, but record
shipments to China and a strong increase to Russia more than offset the weaker Mexico market. Demand for turkey by the meat processing industry remains firm in Mexico.

Eggs

Total U.S. egg production for 2008 is forecast to increase slightly more than 1 percent. Egg production declined 0.7 percent in 2007 the first annual decline since 1989. Hatching egg production, which accounts for about 15 percent of total egg production, rose nearly 3 percent last year and is expected to increase 2 percent this year. Table egg production declined 1.3 percent in 2007, but is expected to increase 1.2 percent. Despite record egg prices, table egg producers have been slow to boost production. Throughout 2007 the number of table layer hens was below a year earlier, and the number of layers remained below year ago to start this year.

For 2007, New York wholesale eggs were a record $1.14 per dozen, with records set in the 4th quarter and in December. With egg production forecast to gradually rise during the year, egg prices are expected to decline but remain relatively strong, averaging $1.07 to $1.14 per dozen.

Egg and egg product exports reached 251 million dozen, shell egg equivalent, the highest since 1996. Shipments to the EU-27 more than doubled in 2007. Exports are forecast to decline to 230 million dozen as high prices slow demand. Eggs broken declined 1.3 percent in 2007 as egg prices soared, but are expected to increase 1.2 percent this year as prices moderate.

Additional information about the 2008 livestock and poultry outlook is available at:

World Agricultural Outlook Board (WAOB)
World Agricultural Supply and Demand Estimates
www.usda.gov/oce/commodity/wasde/index.htm

Economic Research Service (ERS)
Livestock, Dairy, and Poultry Situation and Outlook
www.ers.usda.gov/publications/ldp/

Foreign Agricultural Service (FAS)
Livestock and Poultry: World Markets and Trade
www.fas.usda.gov/dlp/livestock_poultry.asp
Outlook for U.S. Livestock and Poultry in 2008

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World Agricultural Outlook Board
United States Department of Agriculture

USDA Agricultural Outlook Forum
Washington, D.C.
February 22, 2008
Challenges For Livestock and Poultry

- Escalating feed prices
- High energy prices
- Declining returns
- Slow U.S. economic growth
- Uncertain consumer confidence
Highlights for Livestock & Poultry in 2008

• Large domestic meat supplies
• Lower prices for cattle, hogs, broilers
• Record per capita disappearance
Total Red Meat and Poultry Production Reaches 93 Billion Pounds in 2008

* Forecast
Year to Year Change in Average Weights to Slow in 2008

- Cattle and hogs, carcass weight
- Broilers, live weight

*Estimate
Total Meat Per Capita Disappearance in 2008 Nearly 223 Pounds, Retail Weight

* Forecast
Retail Red Meat Prices Slightly Higher, Broilers Slightly Lower

* Forecast
Highlights for Livestock & Poultry in 2008

• Large domestic meat supplies
• Lower prices for cattle, hogs, broilers
• Record per capita disappearance
• Strong exports for meat and poultry

Foreign economic growth slows to 3 percent
Exchange rate favors meat exports
Cattle Expansion Ends,
January 1 Inventory at 96.7 Million Head
Beef Cow Herd Declined, Calf Crop Expected to Be Lower in 2008

Calf Crop 2008 Estimate all calves
**U.S. Beef Cow Areas Experiencing Drought**

Reflects January 30, 2007
U.S. Drought Monitor data

Approximately 23% of the domestic beef cow inventory is within an area experiencing drought, based on NASS 2002 Census of Agriculture data.

Major and minor agricultural areas are based on NASS 2002 Census of Agriculture data. Counties shaded in gray contain data that are not published by NASS, and hence were not used in delineating the major and minor agricultural areas. Additional information on these agricultural data can be found at: [http://www.nass.usda.gov/census/](http://www.nass.usda.gov/census/).

Mapped drought areas are derived from the U.S. Drought Monitor product and do not depict the intensity of drought in any particular location. This map is not used for USDA programs. More information on the Drought Monitor can be found at: [http://www.drought.unl.edu/dm/monito.html](http://www.drought.unl.edu/dm/monito.html).

- Major areas combined account for 75% of the total national inventory.
- Major and minor areas combined account for 99% of the total national inventory.
U.S. Beef Cow Areas Experiencing Drought

Reflects January 29, 2008
U.S. Drought Monitor data

Approximately 28% of the domestic beef cow inventory is within an area experiencing drought, based on NASS 2002 Census of Agriculture data.

Major and minor agricultural areas are based on NASS 2002 Census of Agriculture data. Counties shaded in gray contain data that are not published by NASS, and hence were not used in delineating the major and minor agricultural areas. Additional information on these agricultural data can be found at: http://www.nass.usda.gov/Census_of_Agriculture/.

Mapped drought areas are derived from the U.S. Drought Monitor product and do not depict the intensity of drought in any particular location. More information on the Drought Monitor can be found at: http://www.drought.unl.edu/dm/monitor.html.

- Major areas combined account for 75% of the total national inventory.
- Major and minor areas combined account for 99% of the total national inventory.

USDA World Agricultural Outlook Board
Joint Agricultural Weather Facility
Beef Production Slips to 26.3 Billion Pounds in 2008

* Forecast
Cattle On Feed Up Slightly On January 1, Supplies Outside Feedlots Down

- On-Feed: +0.3%
- Outside Feedlots: -0.4%

Million head

Average Cattle Carcass Weight Growth Stalls in 2008

* Forecast
Beef Output Rises Mid-Year, Declines by 4th Quarter, Totals 26.3 Billion Pounds

* Forecast
Cattle Imports for 2008 Increase About 6 Percent to 2.6 Million Head

* Forecast
Beef Exports Expected to Increase to About 1.7 Billion Pounds

* Forecast
Beef Imports Increase 2 Percent in 2008 to 3.1 Billion Pounds

*Billion lbs.*

* Forecast
Cattle Prices to Average $88-$94/cwt, Slightly Below the 2007 Record of $91.82

* Forecast
Hog Inventory on December 1 Jumps to 65.1 Million Head

+4.2%
Breeding Herd Gradually Rising to About 6.2 Million Head

Kept for Breeding on December 1, Preceding Year
Sows Farrowing Expectations Still Rather Modest in 2006

* First Half Reported Intentions, Second Half Forecast
Pigs Per Litter Growth Steadily Higher

* Estimate
Hog Weights Level Off

* Forecast
Pork Production Rises 5 Percent to 23 Billion Pounds

* Forecast
Hog Imports Hit 10 Million Head in 2007, Rise in 2008

* Forecast
Pork Production Growth Slows, Then Declines by 4th Quarter

* Forecast
Strong Pork Exports Expected, Record 3.7 Billion Pounds

* Forecast
Pork Imports Continue to Slow

* Forecast
Hog Prices Average $41-43/cwt, Prices Below Year Earlier Until 4th Quarter

National Base, Live Equivalent

* Forecast
Broiler Output Up 3 Percent to 37 Billion Pounds

* Forecast
Chicks Placed For Grow Out Tracking Well Above Last Year

19 Selected States

Million birds

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

2006 2007 2008
Live Bird Weights Growing Faster than Number of Broilers Slaughtered
Broiler Exports Increase 2 Percent to Record 5.9 Billion Pounds

* Forecast
Broiler Prices Decline to 73 to 78 Cents Per Pound

* Forecast
Turkey Production Rises About 2.5 Percent to Nearly 6.1 Billion Pounds

* Forecast
Turkey Exports Approach Record
605 Million Pounds in 2008

* Forecast
Turkey Prices Slip From Last Year’s Record, to 77-82 Cents Per Pound

Eastern Hens, 8-16 lbs

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*Forecast
Egg Production Up About 1 Percent to 7.6 Billion Dozen

* Forecast
Egg Prices Remain Strong in 2008 at $1.07 to $1.14 Per Dozen

Wholesale, Grade A, Large, NY

* Forecast
Additional information about the 2008 outlook is available on the following websites:

- World Agricultural Outlook Board (WAOB)
  World Agricultural Supply and Demand Estimates

- Economic Research Service (ERS)
  Livestock, Dairy, and Poultry Situation and Outlook

- Foreign Agricultural Service (FAS)
  Livestock and Poultry: World Markets and Trade