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OUTLOOK FOR LIVESTOCK AND POULTRY IN 2014

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Total livestock and poultry production increased less than 1 percent in 2013 as modest declines in beef, pork production and a sharper decline in turkey production were more than offset by higher broiler production. In 2014, the livestock and poultry sectors should be poised to take advantage of moderating feed costs. However, the ability of the sectors to expand production will be limited by non-feed cost factors, resulting in total red meat and poultry production which will very close to last year's levels and about 1 percent below the 2008 record. Prospects for the beef sector are constrained by the decline in cattle inventory and the biological lags inherent in the production system. Although the conditions are favorable for an expansion in pork production, the outbreak and continued spread of the Porcine Epidemic Diarrhea virus (PEDv) is expected to limit the sector's ability to expand the herd and provide a base for increased slaughter. As turkey production is forecast to expand only in the second half of the year, the majority of growth in 2014 meat production is likely to be carried by the broiler sector.

Demand is expected to be generally favorable in 2014 with an improvement in the domestic economy and continued strength in international markets. Cattle prices are expected to reach record levels, but prices for hogs and broilers will be pressured from last year's levels by increased production. However, the impacts of tight beef supplies and record prices will provide support to other meats as consumers continue to seek value in lower-priced beef cuts and alternative proteins. Exports will expand for most meats, but beef exports will be constrained by increasingly tight supplies.

Lower Feed Prices and Economic Growth Underpin the Expansion

After successive record annual average corn prices in 2011/12 and 2012/13, the dramatic fall in prices with the advent of this year's crop harvest has improved returns for producers and set the stage for expansion. However, soybean meal prices have not fallen and have provided some drag on the decline of feed costs. For producers of ruminants, declines in forage prices and the availability of winter pasture are increasing opportunities to expand animal numbers. Feed prices during 2014 are likely to be well below 2013 as corn prices in the first 3 quarters will reflect a forecast 2013/14 crop year average of \$4.20-\$4.80 per bushel, compared with the record \$6.89 in 2012/2013. Prices in the last quarter are expected to decline further as expanding corn supplies lead to a season average price of \$3.90 for 2014/15. Soybean meal prices have remained stubbornly high thus far in 2014, but are expected to decline as prices for the 2013/14 crop year average \$425-\$465 per ton compared with \$468 in 2012/2013. As with corn, soybean meal prices in the fourth quarter are expected to reflect increased production in 2014/2015 when prices will average \$325 per ton for the marketing year.

Real U.S. GDP is expected to grow about 3 percent, higher than last year's growth and with unemployment continuing to decline. Internationally, economic growth is forecast to be slightly more

rapid than last year. The U.S. dollar will likely appreciate slightly against a large number of currencies, but a weaker dollar vis-à-vis several meat importing countries such as China, South Korea, and Mexico may help exports.

Cattle and Beef

The U.S. cattle herd declined for its 7th consecutive year in 2013. USDA's January *Cattle* report estimated that the number of cattle and calves on January 1, 2014 fell about 2 percent to 87.7 million head. The cow herd was estimated at 38.3 million head, about 1 percent smaller than a year earlier. Producers did indicate that they planned to retain 2 percent more heifers for addition to the beef herd and expected to have 1 percent more heifers calve during 2014. Dairy cow numbers were about equal with last year but producers indicated that while retaining fewer heifers for addition to the cow herd, they expected more to calve this year than last. The 2013 calf crop was estimated at 33.9 million head, the smallest calf crop since 1949.

Despite the expansionary signals, both the U.S. cattle inventory and beef cow herd are expected to continue contracting during 2014. The biology of cattle implies that even breeding decisions made this year will likely not be reflected in an increased calf crop until at least 2015. Although returns to cow calf operators have been at levels which should encourage herd retention, many producers are taking a cautious view, rebuilding capital after a year or more of buying expensive forage and ensuring that sufficient supplies of own-forage and water will be available in those areas which experienced a year or more of drought before expanding in earnest. In addition, current and expected calf prices will either raise costs for those producers planning to increase herds with bought replacement calves or cause some producers to balance the short-term returns of selling calves for finishing against the 2 year or longer benefits from retaining a heifer for breeding.

Thus, it is likely that the sector will see aggregate cow numbers at the beginning of next year near this year's level. Assuming that producers carry through their plans, supplies of cattle will remain tight this year and likely into 2015. To the extent producers hold back more heifers during 2014, supplies available for feeding will tighten further. It is unlikely that the size of the pool of cattle for feeding will support increased beef production before late 2016 or 2017.

The number of cattle on feed on January 1, 2014 was estimated at 12.7 million head, a 5 percent decline from 2013 and the lowest level since 1995. Net placements in feedlots with 1,000 head or greater capacity declined by less than 1 percent during 2013 as dry conditions early in the year forced higher levels of domestic and imported lighter-weight cattle into feedlots and declining grain prices late in the year encouraged feedlot operators to bid higher for calves to fill their lots. In the face of a smaller 2013 calf crop and increased heifer retention, the number of cattle outside feedlots at the beginning of the year was about 3 percent lower. Imports of cattle, which in 2013 supplemented dwindling supplies of U.S. calves, are not expected to be available to mitigate the decline in supplies. Imports are forecast to decline to 1.95 million head, about 4 percent below last year largely as the Mexican herd, also diminished by drought enters its rebuilding phase.

Commercial beef production for 2014 is forecast to decline almost 6 percent, to about 24.4 billion pounds. Steer and heifer slaughter will be below 2013 as feedlot numbers dwindle. Cow slaughter is also expected to decline sharply from 2013 as incentives to rebuild both dairy and beef breeding herds

encourage producers to retain cows. Total commercial cattle slaughter during 2013 is expected to decline over 5 percent. The decline in slaughter will be partly offset by increased carcass weights. Carcass weights are forecast to increase to almost 793 pounds as relatively low feed prices encourage feedlot operators to feed cattle to heavier weights.

Beef exports for 2014 are forecast at 2.34 billion pounds down almost 10 percent from 2013. In 2013, exports increased about 5 percent despite tighter supplies of beef as global demand improved with economic growth and the liberalizations of Japan's BSE-rules to permit imports of beef from cattle under 30 months of age presented opportunities to supply that market. However, high U.S. prices likely limited trade to several major markets and Russia's restriction on the use of Ractopamine resulted in the loss of what was the U.S.'s sixth largest market in 2012. Although economic growth in most markets for U.S. beef should support demand in 2014, tight supplies of U.S. beef and the resulting high prices will limit exports.

U.S. beef imports are forecast at 2.29 billion pounds for 2014, up about 2 percent from 2013 and the highest level of imports since 2010. Reduced U.S. cow slaughter and strong demand for ground beef will support increased imports. However, the U.S. will be competing against strong global demand and generally tight supplies of beef in Oceania and North America, the areas which traditionally supply the U.S. with fresh and frozen product.

The 5-Area steer price for 2014 is forecast to average \$132 to \$140 per cwt, up from 2013's record average of \$125.89. As fed cattle supplies shrink in 2014, prices are expected to continue to climb, but as retail beef prices rise, the threat of consumer resistance increases. Packer margins are generally weak and any resistance to high beef prices at retail will likely move downstream and limit what packers are willing to offer for cattle. Feedlot operators are expected to see improved margins, but they face higher feeder calf prices. This will limit flexibility in price negotiations. Tighter supplies will likely push retail prices higher, but increases may be limited compared to the past several years. Retail choice beef prices for 2014 are expected to about 2-3 percent above last year's record \$5.29 per pound.

Hogs and Pork

Producer returns were positive during much of second half-2013 and with expectations of lower feed costs, the stage had been set for a strong expansion in the sector. However, the spread of the Porcine Epidemic Diarrhea virus (PEDv) through the US herd is expected to sharply limit the supply of hogs from what had been expected earlier. Growth in the number of pigs weaned per litter has been curtailed by the disease as the mortality rate is highest among young piglets. Producers thus far have not dramatically expanded the number of sows farrowing to compensate for the losses in litter size.

The December 2013 *Quarterly Hogs and Pigs* report estimated that on December 1, 2013 the inventory of all hogs and pigs was 65.9 million head, almost 1 percent below the prior year. The breeding herd was 1 percent lower at just under 5.8 million head. Farrowings were below year-earlier during 2013, likely as a result of poor returns and concerns earlier in the year about further increases in feed prices. Offsetting this decline was strong growth in the number of pigs per litter in the first 3 quarters of 2013 and pig crops in 2 of the 3 quarters were above year-earlier. However, the impact of PEDv reduced growth in pigs per litter to a fraction of its historical rate by the fourth quarter. With lower farrowings in

the fourth quarter, the pig crop was estimated to be fractionally below 2012, implying tighter supplies of hogs available for slaughter during the second quarter of 2014. Although producers indicated intentions to farrow over 1 percent more sows in first half-2014, the number of pigs per litter is expected to be affected by PEDv and the first-half pig crop may only be slightly above 2013. As a result of PEDv, there is considerable uncertainty in this year's hog forecasts. This forecast assumes that there is slight increase in the second half pig crop as producers respond to good returns by increasing farrowings in the second half of the year to compensate for piglet death loss. This will set the stage for increased slaughter in early 2015.

U.S. hog imports are forecast at 4.9 million head for 2014, down slightly from 2013. The January 1, 2014 Canadian hog inventory will be released on February 20, but it is expected that the pig crop in 2014 may be lower as producers in Canada recover from the effects of their recent poor returns. Although the Canadian inventory is forecast higher, weaker U.S. hog prices may limit U.S. imports. The recent discovery of PEDv in Canada may impact growth in the Canadian pig crop and exports, but at the current time the number of cases is limited.

Commercial pork production for 2013 is forecast at 23.4 billion pounds, 1 percent higher than 2013. Hog slaughter is expected be slightly lower than last year as a result of the impact of PEDv on the herd. However, carcass weights are expected to average just over 210 pounds. This will offset the expected decline in slaughter and help support higher pork production.

For 2013, pork exports are forecast at about 5.14 billion pounds, up 3 percent from 2013. Exports declined in 2013 as Russia was closed due to restrictions on the use of Ractopamine and exports to Japan were lower as higher beef sales cut into pork exports. Exports in 2014 are forecast to increase as economic growth in many foreign economies supports increased meat demand and U.S. hog prices decline.

Pork imports for 2014 are forecast at 880 million pounds, virtually unchanged from 2013. Imports from Canada, the predominant source of imports, increased over 12 percent in 2013 and are expected to remain firm in 2014 as U.S. production increases only slightly.

U.S. hog prices, on a national base, 51%-52% lean, live equivalent, are forecast to average \$61 to \$65 per cwt for 2014, down from last year's \$64.05. Prices are expected to average above 2013 in the first half of the year as supplies of market ready hogs are tightest but as supplies in the second half of the year approach year-earlier levels prices are likely to drop below 2013 levels. Retail pork prices for 2014 are expected to average 6-7 percent above below last year's record \$3.61 per pound.

Sheep and Lambs

The U.S. sheep and lamb inventory declined for an eighth straight year in 2013. The January 1, 2014 inventory of sheep and lambs was 5.21 million head, down just over 2 percent from 2013. The breeding flock likewise declined 2 percent and the number of replacements lambs was almost 4 percent lower. The lamb crop declined over 2 percent in 2013. In 2013, commercial lamb and mutton production was virtually unchanged from 2012 despite a smaller 2012 lamb crop, as poor forge conditions and high feed costs encouraged producers to market animals in mid-2013. Production in 2014 is forecast at 150

million pounds, down about 4 percent as market lambs on January 1 were down over 2 percent and producers may choose to hold back lambs to rebuild flocks.

Lamb and mutton imports for 2014 are forecast at 168 million pounds, 3 percent lower than 2013. Although U.S. production is forecast lower, supplies in Australia and New Zealand will be relatively tight. Competition for these supplies has increased with the expansion of sales in Asia and exports to the U.S. are expected to be limited.

The San Angelo Choice slaughter lamb price is forecast to average \$157 to \$165 per cwt for 2014, a sharp increase from \$111.12 in 2013 and possibly eclipsing the 2011's record of \$161. Prices began to increase in the second half of 2013 as lighter weight sheep were marketed. Prices are expected to average above year-earlier through 2014 as supplies of marketable lambs remain tight and demand improves.

Broiler Meat

For 2014, broiler meat production is forecast 3 percent higher at 38.9 billion pounds. Producers responded to higher broiler prices in 2012 by beginning to increase production in late 2012. However, high feed prices in late 2012 and early 2013 kept the expansion in check. Production increased more rapidly in the second half of 2013 as feed prices declined. During 2013, broiler-type hatching layers were above year earlier, but the expansion in numbers was modest until the second half of the year. The number of layers averaged 2 percent above 2012 in the first-half of 2013, but in the second half, broiler layers were averaging 4 percent above 2012. However, as broiler prices weakened in late 2013 with the increase in production, the pace of production increases has slowed. Eggs set in incubators were above year-earlier through most of 2013 and averaged 3 percent higher in the last quarter of 2013. In the first 6 weeks of 2014 however, the number of eggs set has averaged just almost 2 percent higher. Producers are expected to continue expanding broiler hatchery flocks during 2014 but growth in bird numbers is expected to be modest with production growth driven largely by higher bird weights.

U.S. broiler meat exports for 2014 are forecast to increase 1.8 percent to 7.50 billion pounds. This follows rather anemic growth of 1.2 percent in 2013. Exports were stronger in the first half of 2013 but fell below 2012 in the second half of the year. Increased economic growth in much of the world and lower prices are expected to support higher exports in 2014.

The National Composite wholesale broiler price is forecast to average \$.094 to \$1.01 per pound in 2014, compared with an average of \$1.00 in 2013. Despite higher production, tight supplies of beef and improving economic conditions are likely to support stronger demand for broiler meat. Increased demand for broiler meat is likely to be manifested in higher retail prices. For 2014, composite retail broiler price is forecast to average about 1 percent higher than 2013's \$1.96 per pound.

Turkey

Turkey production for 2014 is forecast to increase about 1 percent to 5.85 billion pounds. Production has been consistently below year-earlier since August and despite declining feed prices weak turkey

prices have likely delayed expansion plans. Eggs set in incubators were below year-earlier through the fourth quarter-2012 and into early 2014. With stronger whole turkey prices forecast for 2014 and moderate feed costs, producers are expected to expand production during the year. However, given the lags inherent in flock expansion, it is unlikely that a significant increase in turkey production will occur until the second half of the year. The majority of the growth in production is likely to be the result of heavier weight birds as producers take advantage of lower prices feed. The National turkey hen price is forecast to average \$1.00-\$1.06 per pound, compared to an average of \$1.00 in 2013.

Turkey exports for 2014 are forecast to increase about 3 percent to 780 million pounds as demand improves. In 2013, turkey exports were 5 percent lower, largely on weaker sales to China/Hong Kong and Canada. Despite higher prices, stronger demand in Asia and Mexico due to economic growth is expected to support higher exports.

Eggs

Total U.S. egg production in 2014 is expected to be 8.06 billion dozen, almost 2 percent higher than 2013. Table egg production is expected to increase about 2 percent to 6.97 billion dozen as producers respond to lower feed prices. On January 1, 2014 the number of table egg layers was about 2 percent higher than year-ago. Table egg layers have been above year-earlier since October 2011. Egg-type hatching layers were also up 2 percent. Hatching egg production for 2014 is expected to increase about 3 percent as broiler and table egg producers increase production.

For 2014, New York wholesale egg prices are forecast to average \$1.14 to \$1.22 per dozen, down slightly from the \$1.25 average for 2013. Price declines are expected to be sharpest in the second half of the year.

In 2013, egg and egg product exports increased 23 percent to 372 million dozen, shell egg equivalent. The main driver of the increase was exports to Mexico as an outbreak of Avian Influenza in Jalisco in mid-2012 which reduced Mexican egg production continues to support large exports to Mexico. Support also came from higher sales to Japan and Canada. Egg exports for 2014 are forecast at 322 million dozen, down 13 percent as Mexico's production recovers and egg prices remain relatively high.

Additional information about the 2014 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

<http://www.fas.usda.gov/data/livestock-and-poultry-world-markets-and-trade>