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Agricultural Outlook Forum
A New Horizon: The Future of Agriculture
February 23-24, 2017 • Crystal Gateway Marriott Hotel, Arlington, Virginia

The banner features a dark green header with the USDA logo and name. Below this is a yellow section on the left containing the text "USDA's 93rd Annual". The main body of the banner is light orange and contains the title "Agricultural Outlook Forum" in a large, bold, black serif font, followed by the subtitle "A New Horizon: The Future of Agriculture" in a smaller, bold, black serif font, and the dates and location "February 23-24, 2017 • Crystal Gateway Marriott Hotel, Arlington, Virginia" in a smaller, black serif font.

Livestock and Poultry Outlook

Friday, February 24, 2017

www.usda.gov/oce/forum

OUTLOOK FOR LIVESTOCK AND POULTRY IN 2017

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Two thousand and sixteen was the first time since 2008 that production of beef, pork, broilers, and turkey all increased from the prior year. Although no single species production was record large, in aggregate, total red meat and poultry production grew 3.1 percent to a record 97.6 billion pounds. In 2017, red meat and poultry production is forecast to increase over 3 percent and breach the 100 billion pound level for the first time. Production records are forecast for pork, broilers and turkey.

Despite improvements in demand, these record production levels, coupled with increases in beef production, are expected to weigh on markets. Prices will be lower for cattle, hogs, and turkeys while broiler prices are expected to be only fractionally higher. Exports are likely to benefit from lower prices but continued modest growth in world economies and continued strength of the U.S. dollar may limit exports from realizing the full impact of lower domestic prices.

Feed Prices Will Remain Moderate and Economic Growth Will Support Demand

Feed prices during 2017 are likely to be relatively close to 2016. Corn prices in the first 3 quarters of 2017 are expected to compare favorably relative to a year ago, reflecting a forecast 2016/17 crop year average of \$3.40 per bushel, versus \$3.61 in 2015/16. Prices in the last quarter are expected to be above 2016 as lower production and a reduced carryout support a marginal increase in the season average price to \$3.50 per bushel for 2017/18. Soybean meal prices in the first 3 quarters will reflect a 2016/17 crop year average close to \$325 per ton and prices in the fourth quarter are expected to reflect a market year forecast of \$330 for 2017/2018. Hay supplies on December 1, 2016 were about the same as year-ago, but this masks regional disparities. For instance, stocks in the Southern Plains were higher than year earlier, but those in the Northern Plains were mostly lower. Likewise, stocks in the more northern part of the Southeast region were generally in better supply than those in the more southern states. At the national level, a greater percentage of the U.S. cattle herd is likely affected by drought conditions; at the end of January approximately 20 percent of the herd was in areas with moderate or more intensive drought compared to 11 percent in the same period of 2016. Moreover, the distribution of the drought has shifted geographically with the area in drought in the West reduced, but swathes of drought now located in the central Plains, Southeast, and Northeast regions. For those regions in the Plains with higher hay stocks, the impacts of these dry conditions are likely less than for those regions of the Southeast which are facing lower hay stocks.

Real U.S. GDP is expected to grow by more than 2 percent, somewhat higher than last year's growth with unemployment continuing to decline; but with slightly higher inflation. Internationally, economic growth is forecast to be slightly more rapid than last year. The U.S. dollar will likely remain strong against a large number of currencies which may offset some of the advantage of declining livestock product prices in foreign markets.

Cattle and Beef

The U.S. cattle herd is entering its fourth year of expansion in 2017. USDA's January *Cattle* report estimated that the number of cattle and calves on January 1, 2017 was 2 percent higher than 2016 at 93.6 million head. The beef cow herd was estimated at 31.2 million head, about 3 percent more than a year earlier. Producers indicated that they planned to retain 1 percent more heifers for addition to the beef herd and expected to have 1 percent more heifers calve during 2017. Dairy cow numbers were about equal with last year but producers indicated that they were holding 1 percent fewer heifers for addition to the cow herd and they expected a similar decline in the number calving during the year. The 2016 calf crop was estimated at 35.1 million head 3 percent above 2015 and the largest calf crop since 2011.

Beef cattle producers likely responded to high returns from calf production in 2014 and 2015. Forage conditions in the Southern Plains were favorable for supporting herds and only about 10 percent of the U.S. cattle inventory were in areas of moderate or more intense drought in May 2016, a time when many breeding decisions for spring calving are made. Although feeder calf prices are weaker and cow-calf returns declined sharply during 2016, retention decisions made earlier in the year and the biological cycles inherent in cattle production make it likely that the expansion will continue through 2017, albeit at a slower rate than the previous 2 years.

The number of cattle on feed in U.S. feedlots on January 1, 2017 was estimated at 13.1 million head, a 1 percent decline from 2016. This decline reflects less cattle feeding by smaller-sized cattle feeders; the inventory for feedlots with a capacity of 1,000 head or greater was 1 percent higher. Despite higher placements of cattle in large feedlots during 2016, the growth of the calf crop and availability of forage resulted about 2 percent more cattle outside feedlots at the beginning of the year. Imports of cattle declined to about 1.71 million head in 2016 as supplies remain tight in both Canada and Mexico. Imports are expected to fall to 1.68 million head in 2017 as inventories in those countries are slowly rebuilt.

Commercial beef production for 2017 is forecast to increase by about 3 percent, to 26.00 billion pounds. Although not a record, this will be the highest level of production since 2011. Steer and heifer slaughter will be above 2016 as above-year-earlier placements in late 2016 and early 2017 are marketed during the first half of the year. The pace of placements is expected to slow in the first half of 2017, but second-half marketings are expected to remain above 2016. Cow slaughter is also expected to increase from 2016. Total commercial cattle slaughter during 2017 is expected to increase by just under 3 percent. Carcass weights are forecast to increase to just over 828 pounds.

Beef exports for 2017 are forecast at 2.72 billion pounds, almost 7 percent higher than 2016. Exports in 2016 increased almost 13 percent as U.S. beef supplies increased and prices declined with larger supplies. Additionally, exports by Australia declined as herds in that country were smaller. However,

the strength of the dollar remained a constraint on capturing the full benefit of lower beef prices. U.S. exports in 2017 will benefit from lower U.S. prices, although continued strength in the dollar will remain a headwind. Australia is in the process of expanding herds, but the biological lags in beef production will constrain beef production increases and hence exports which could compete with the United States.

As U.S. beef production increased in 2016 and supplies tightened in Oceania, U.S. beef imports declined almost 11 percent. Imports are forecast at 2.74 billion pounds for 2017, down over 9 percent from 2016. Increased U.S. cow slaughter and lower prices for domestic lean processing-grade beef will reduce demand for imports. In addition, supplies of beef from Australia and New Zealand, 2 of the 3 largest sources of imports, will be constrained by lower cattle inventories and herd rebuilding. However, Mexico has been expanding its feeding and slaughter industry and Brazil has been gradually expanding its exports to the United States after receiving foot-and-mouth disease-free status in 2015. To the extent that Mexico and Brazil find the U.S. an attractive market, increased imports from these two countries could support aggregate beef imports despite continued weak shipments from Oceania.

The 5-Area steer price for 2017 is forecast to average \$109 to \$116 per cwt, down from 2016's average of \$121. Larger fed cattle supplies during 2017, coupled with large supplies of competing meats are expected to pressure cattle prices. Cow-calf operators and backgrounders will likely see lower prices bid for their calves as feedlot margins are squeezed, but adequate supplies of forage may provide a cushion in negotiating prices with feedlot operators. Feeder steer prices are forecast to average \$132 to \$139 per cwt, down from \$143 in 2016.

Hogs and Pork

Producers responded to favorable returns during much of 2015 and early 2016 by increasing the breeding herd and farrowing more sows. In addition, growth in sow productivity is supporting record numbers of pigs per litter. Even with a more cautious expansion indicated for first-half 2017, a record number of hogs are expected to be slaughtered during 2017; increased slaughter capacity is expected to come on line during the year, but the timing of the plants' openings will be critical in establishing price patterns in the second half of 2017.

The December 2016 *Quarterly Hogs and Pigs* report estimated that on December 1, 2016 the inventory of all hogs and pigs was 71.5 million head, about 4 percent above the prior year and the highest inventory since 1943. The breeding herd was 1 percent higher at almost 6.1 million head. Producer returns in 2015 and early-2016 were generally favorable and expectations of increased hog demand during 2017 due to expanded slaughter capacity may have encouraged producers to expand production. In the most recent *Quarterly Hogs and Pigs* report, producers indicated they farrowed about 2 percent more sows in the second half of 2016 and intended to farrow about 1 percent more sows in first-half 2017. The increase in pigs resulting from higher farrowings is reinforced by levels of growth in pigs per litter near pre-PEDv levels. The larger pig crops in both second-half 2016 and first half 2017 will likely result in record numbers of hogs for slaughter in 2017. The timing of marketings relative to the expansion of slaughter capacity will be critical, especially towards the end of 2017.

U.S. hog imports are forecast at 5.82 million head for 2017, up 3 percent from 2016. The January 1, 2017 Canadian hog inventory will be released on March 3, but it is expected that Canadian hog numbers will be slightly higher as most of the expansion reflects continued gains in hog productivity rather than increased farrowings. Although U.S. early-weaned feeder pig prices were below year earlier during the third quarter of 2016, the strength in the U.S. dollar may have cushioned Canadian producers and U.S. feeder pig prices recovered toward the end of the year.

Commercial pork production for 2017 is forecast at a record 26.17 billion pounds, 5 percent higher than 2016. Although the increase will be driven by higher slaughter hog numbers, carcass weights are forecast at about 212 pounds, slightly above 2016. Producers are expected to be very timely in their marketings to balance market-ready hog supplies with available slaughter capacity; this will likely keep weight growth moderate.

For 2017, pork exports are forecast at about 5.44 billion pounds, up 4 percent from 2016. Exports increased over 4 percent in 2016 as lower pork prices and economic growth likely supported exports in the face of the strong dollar. Strong gains in sales to China, Mexico, and Hong Kong more than offset weaker exports to South Korea and Japan where market share was lost to the EU. Exports in 2016 are forecast to increase as global economic growth supports increased meat demand, and as U.S. hog prices decline.

Pork imports for 2017 are forecast at 1.09 billion pounds, fractionally lower than 2016. Imports from Canada, the predominant source of imports, decreased 8 percent in 2016. Although imports from Denmark declined for the second year, strong imports from Poland and several other countries supported higher imports from the EU. Higher U.S. pork production and lower prices will likely make the United States a less attractive market.

U.S. hog prices, on a national base, 51%-52% lean, live equivalent, are forecast to average \$42 to \$45 per cwt for 2017, down from last year's \$46. Demand has been strong through the early part of 2017 and the addition of slaughter capacity during the year will help absorb the expected higher year-over-year quantities of hogs. Nonetheless, larger supplies of pork are expected to require lower prices to compete with increased supplies of other meat and hog prices are expected to reflect at least part of the decline in pork prices.

Sheep and Lambs

After 2 years of increase, the U.S. sheep and lamb inventory on January 1, 2017 was below year earlier. The inventory of sheep and lambs was 5.2 million head, 2 percent lower than 2016. The breeding flock also declined 2 percent and the number of replacement lambs was 2 percent lower. Declines in the breeding flock were fairly widespread. Of the 10 largest sheep-producing states, only 2 states (Wyoming and California) had an increase in the breeding flock. Despite generally favorable grazing conditions in the major sheep producing regions, producers are likely responding to 2 years of declining lamb prices. In 2016, commercial lamb and mutton production was fractionally lower than 2015. Production in 2017 is forecast at 148 million pounds, down about 1 percent as market lambs on January 1 were down almost 1 percent.

Lamb and mutton imports for 2017 are forecast at 197 million pounds, 9 percent lower than 2016. Although U.S. production is forecast lower, price pressure from large supplies of competing meats is expected to limit demand for imported lamb and mutton. Additionally, supplies of lamb and mutton in Australia and New Zealand are expected to be constrained by a greater retention of lambs for breeding.

The San Angelo Choice slaughter lamb price is forecast to average \$129 to \$136 per cwt for 2017, down from 2016's \$135. With increased supplies of alternative meats, U.S. lamb demand is expected to face pressure despite lower forecast production and imports.

Broiler Meat

For 2017, broiler meat production is forecast 2 percent higher at a record 41.53 billion pounds. After broiler-type layer flocks increased through the first quarter of 2016, flocks were steadily below year-earlier levels for the remainder of the year. This likely reflects a response to weaker margins in last part of 2015 and early 2016. Margins for broiler producers began to deteriorate in mid-2015 and although recovering above 2015 in the later part of 2016, the margin is low relative to 2014. At the beginning of January, the layer flock was about 1 percent below 2016. In the face of relatively weak margins, it is expected that producers will be rather cautious in their flock expansion plans in the coming months, relying more heavily on growth in eggs per layer to expand the supply of broilers for slaughter. Along with moderate increases in bird numbers, slower weight growth is also expected to temper growth of broiler meat production in 2017. After 3 years of gains in live weights in excess of 1 percent, broiler weight growth slowed noticeably in the second half of 2016. The proportion of birds marketed at weights at 7.76 pounds or higher declined and the average weight of the category was close to 2015 levels at the end of the year. This may reflect a response by the industry to breast muscle myopathy ("woody breast") which affects the quality of breast meat in heavier-weight birds. It is likely that weight growth in 2017 will be limited as the industry continues to address this issue.

U.S. broiler meat exports for 2017 are forecast to increase 4 percent to 6.93 billion pounds. This would be the second year of growth in exports following a sharp reduction in exports in 2015 due largely to Highly Pathogenic Avian Influenza (HPAI)-induced bans on imports from the United States. Supplies of leg quarters are expected to be ample with increased U.S. broiler production, but gains in trade with many price sensitive markets will depend on the strength of the dollar and the price of oil for those markets reliant on petroleum exports as a foreign exchange earner. Although outbreaks of HPAI have affected a number of countries exporting broiler meat, there are only limited areas of competition where U.S. product might benefit.

The National Composite wholesale broiler price is forecast to average \$0.82 to \$0.87 per pound in 2017, compared with an average of \$0.84 in 2016. Broiler prices are forecast increase during the first half of the year on demand strength, but stabilize mid-year and decline slightly in the last quarter as producers respond to higher first-half prices.

Turkey

Turkey production for 2017 is forecast to increase 2 percent to a record 6.12 billion pounds. Producers increased flocks in 2016 as the sector recovered from HPAI. Prices during 2016 remained above pre-HPAI levels through the first half, which likely supported expansion decisions. Eggs set in incubators early in 2016 were below year-earlier, but rapidly increased during the year. The number of eggs in incubators on February 1, 2017 was 10 percent above 2016 and the highest February number since 2008. Net poult placements in January were 5 percent above 2016 and the highest monthly total since 2013. However, with increased production in 2016, stocks at the end of year were the highest since 2012 and prices in early 2017 were at pre-HPAI levels. For 2017, the National turkey hen price is forecast to average \$1.04-\$1.10 per pound, compared to an average of \$1.17 in 2016. Higher production and relatively high stocks of turkey during the year will likely pressure prices.

Turkey exports for 2017 are forecast to increase about 11 percent to 630 million pounds. This would be the second year of increase after HPAI-related restrictions pushed exports in 2015 down 34 percent to 529 million pounds. Trade remains below pre-HPAI levels as China, which prior to the HPAI bans was the second largest market for turkey exports, has continued to maintain its restrictions on imports of U.S. poultry. However, large supplies and lower prices are expected to boost exports to a number of smaller markets.

Eggs

Total U.S. egg production in 2017 is expected to be 8.55 billion dozen, almost 2 percent higher than 2016. The egg sector has recovered from HPAI with the table egg laying flock rising above year earlier by mid-2016 and table egg production in fourth-quarter 2016 exceeding pre-HPAI levels. However, producers appear to be slowing the rate of the sector's expansion; year-over-year growth in the flock of egg-type layers, was at double-digit rates during April-September 2016, but slowed in the last quarter. On January 1, 2017, the egg-type hatching flock was 2 percent above 2016. Table egg production in 2017 is forecast at 7.42 billion dozen, slightly less than 2 percent above 2016. Hatching egg production for 2017 is expected to increase slightly with demand from both the broiler and table egg sectors.

In 2016, egg and egg product exports fell 11 percent to 279 million dozen, shell egg equivalent. Exports were below year-ago in first-half 2016 as production continued to recover from the effects of HPAI and U.S. egg prices were high. However, as production increased in the second half exports averaged above year-early. Exports are expected to increase 16 percent in 2017 to 325 million dozen. In addition to increased sales due to lower prices, the U.S. is expected to benefit from increased access to South Korea. Facing HPAI-induced reduction in domestic egg supplies, South Korea granted access to U.S. fresh eggs early in 2017.

For 2017, New York wholesale egg prices are forecast to average \$0.93 to \$0.98 per dozen, up from the \$0.85 average for 2016. Egg prices were volatile early in 2016 as markets attempted to balance HPAI-supplies which had not yet fully recovered from HPAI with demand. However, markets have become more stable with increased production and are expected to return to more typical seasonal price patterns.

Additional information about the 2017 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
<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1350>

Foreign Agricultural Service (FAS)
Livestock and Poultry: World Markets and Trade
<http://www.fas.usda.gov/data/livestock-and-poultry-world-markets-and-trade>