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OUTLOOK FOR LIVESTOCK AND POULTRY IN 2012

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Total livestock and poultry production increased fractionally in 2011 as declines in beef production were overshadowed by increased pork and poultry production. Cattle inventories declined for the fifth year, but despite reduced numbers of cattle outside feedlots, drought and record feeder calf prices pushed placements and marketings in 1,000 head or greater feedlots above year-earlier levels. Coupled with the largest cow slaughter in 15 years, cattle slaughter and beef production declined by less than 1 percent during 2011. However, despite higher feedlot inventories at the beginning of the year, reductions in the number of cattle which will be available for placement in 2012 have set the stage for sharp declines in 2012 beef production. Pork producers were cautious in expanding even with positive returns for much of 2011. Producers farrowed fewer sows during most of 2011, but increases in the number of pigs per litter supported an increase in the pig crop which, coupled with favorable feeding conditions supported a modest increase in pork production. The broiler sector struggled with poor returns and despite cutbacks in chicks beginning in the middle part of the year, higher bird weights mitigated some of the impact of lower bird numbers. However, during the last months of 2011, a combination of lower bird weights and lower slaughter numbers resulted in lower broiler meat production.

Exports were a notable bright spot across all livestock and poultry products during 2011. Improved economic conditions in a number of countries, coupled with a weaker dollar helped boost exports to record levels. Exports were also helped in some cases by concerns about price inflation and lingering problems with livestock diseases in several countries which limited availability of domestic product. Strong exports helped support cattle and hog prices at record levels. However, continued heavy production early in the year pressured broiler prices.

The Outlook for 2012

Feed prices are likely to remain high during 2012 although some relief is expected in the later part of the year as corn prices decline in the face of an expected record 2012/13 corn crop. In the early part of the year, producers will be facing 2011/2012 corn prices that are forecast to average \$5.80-\$6.60 per bushel, compared with \$5.18 in 2010/2011. However, as the 2012/13 crop is harvested, prices are expected to average below the \$5.00-per-bushel price forecast for the crop year. Soybean meal prices for 2011/12 are forecast to average \$290-320 per ton, down from \$346 the previous year. Prices are expected to moderate further moving in the harvest period of the 2012/13 crop. Real U.S. GDP is expected to grow somewhat over 2 percent, higher than last year's growth and with relatively high albeit declining unemployment. Internationally, economic growth is forecast to be slightly higher than for the U.S. The U.S. dollar will likely remain relatively weak in the coming year helping U.S. exports. With lower total

meat supplies in 2012 and relatively stable total meat exports, domestic per capita disappearance of red meat and poultry for 2012 is expected to decline by over 6 pounds to just over 198 pounds, retail weight. This will be the lowest level of disappearance on a per capita basis since 1987. Livestock and poultry prices will reflect tight supplies of meat, with cattle and broiler prices reaching new records but hog and turkey prices falling as production increases. However, tight supplies of competing meats will likely cushion the decline in pork and turkey prices.

Cattle and Beef

The U.S. cattle herd declined for its fifth consecutive year in 2011. USDA's January *Cattle* report estimated that the number of cattle and calves on January 1, 2011 fell about 2 percent, to 90.8 million head. The cow herd was estimated at 39.1 million head, over 2 percent below a year earlier. The 2011 calf crop was estimated at 35.3 million head, the smallest calf crop since 1950.

The U.S. cattle inventory is expected to continue contracting during 2012. Cow-calf operators will have to decide whether to sell heifers at what are expected to be record prices in 2012 or hold them back for breeding with a return on their calves in 2-3 years. Their decisions will affect the speed of the sector's recovery. Beef cow numbers are the lowest since 1962 and although producers indicated that they are holding 1 percent more heifers for addition to the beef breeding herd, expected reductions in the dairy herd may, at best, keep the cow herd close to this year's level. With a smaller cow herd at the beginning of the year and only a small increase in number of heifers expected to calve during 2012, a further decline in the calf crop can be expected. This will lead to tighter cattle supplies moving into 2013 and to the extent producers retain heifers for breeding from the 2012 calf crop, it is unlikely that calf supplies could support an increase in beef production before late 2014 or 2015.

The number of cattle on feed on January 1, 2012 was estimated at 14.1 million head, a fractional increase from 2011. A combination of poor forage conditions in both the Southern Plains and northern Mexico and record feeder calf prices resulted in higher placements despite a diminishing pool of feeder calves. Net placements in feedlots with 1,000 or greater capacity increased 1.5 percent during 2011 although this was offset somewhat by a decline in the number of cattle in feedlots with less than 1,000 head. As these cattle were drawn forward, the number of calves outside feedlots has fallen; at the beginning of the year, there were about 4 percent fewer cattle available for placement than in 2011. If producers retain more heifers than indicated, these supplies may shrink further. The availability of forage will affect the timing of placements. The number of cattle grazing on winter pastures is below pre-drought levels but recent improvements in forage conditions may allow producers to hold cattle on pasture longer. Balancing feed prices against diminished supplies of cattle for placement, feedlots in the first half may be faced with the choice of having to incur the costs of keeping lighter-weight cattle on feed longer, or paying more for a tightening supply of calves later in the year. Imports of cattle in 2012 are forecast to be 2.05 million head, slightly below last year.

Commercial beef production for 2012 is forecast to decline about 4 percent, to about 25.1 billion pounds. Steer and heifer slaughter in the first half of 2012 is expected to be above 2011 as the large numbers of relatively light-weight cattle placed in mid-2011 are marketed. Thereafter, marketings and slaughter are expected to decline sharply from 2011. Cow slaughter is also expected to decline from 2011 as beef cow liquidation moderates. However, expected declines in the dairy inventories as

producers respond to weaker returns will offset a small portion of the decline in beef cow slaughter. Total commercial cattle slaughter during 2012 is expected to decline almost 5 percent. Carcass weights may benefit from milder weather conditions thus far this year and expected declines in feed prices in the second half of 2012, but light placement weights likely will keep steer and heifer weights from climbing sharply. The average aggregate carcass weight is expected to increase over 3 pounds to almost 772 pounds.

Exports for 2012 are forecast at 2.77 billion pounds. In 2011, exports increased 21 percent to a record 2.79 billion pounds. Exports were stronger to most of the top-10 markets, with only exports to Mexico and Taiwan declining. The United States benefited from improving global economies, and a weakness in the dollar which partly mitigated the impacts of rising U.S. beef prices and kept U.S. exports competitive against other exporters. Demand strength is expected to carry into 2012, especially for markets in Asia but U.S. beef supplies will be tighter, thereby increasing competition between U.S. and foreign consumers. In addition, the dollar is expected to decline only modestly, implying that any increases in U.S. beef prices will be more fully transmitted to foreign buyers.

U.S. beef imports are forecast at 2.09 billion pounds for 2012, up about 2 percent from 2011. Imports fell about 11 percent to 2.06 billion pounds in 2011. Improved economic growth and a weak U.S. dollar made a number of competitor markets more attractive for the relatively limited amount of exportable beef supplies. Although U.S. demand for imported beef will likely be supported by lower U.S. cow slaughter in 2012, imports of processing-grade beef may be constrained by continued strong global demand and the relative weakness in the value of the U.S. dollar.

The 5-Area steer price for 2012 is forecast to average \$121 to \$129 per cwt, up from 2011's record average of \$114.73. Tight cattle supplies and strengthening export demand led to double digit increases in prices during 2011, and as fed cattle supplies shrink in 2012, prices are expected to continue to climb. Tighter beef supplies are likely to be reflected in the increase in retail beef prices. However, resistance to high beef prices may limit gains in both wholesale retail prices in 2012. Retail choice beef prices for 2012 are expected to average slightly above \$5.00 compared with last year's record \$4.83 per pound.

Hogs and Pork

Producers are taking a cautious approach to expansion in 2012. Producer returns were negative in the early part of 2011 and although they became positive for much of the remainder of the year, those gains were modest as high feed costs offset strong hog prices. Volatility in feed prices likely remains a concern for producers as they plan for the coming year.

The December 2011 *Quarterly Hogs and Pigs* report estimated that on December 1, 2011 the inventory of all hogs and pigs was 65.9 million head, 1.5 percent higher than a year earlier. The breeding herd was fractionally higher at just over 5.8 million head. Although the breeding herd expanded every quarter in 2011, the rate of increase has been modest, as befits the slight increase in returns. Producers have also been expanding farrowings very slowly, relying on gains in pigs per litter to support the increase in market hogs. The numbers of sows farrowed did not increase year-over until the last quarter of 2011, but the increase in pigs per litter more than offset the annual decline in farrowings. Pigs per litter grew an average of almost 2 percent from 2010 and peaked at a record 10.03 pigs per litter in the second and

third quarters. As a result, the 2011 pig crop increased 1.3 percent to 115.2 million head, the second largest pig crop in history.

For 2012, producers intend to farrow fractionally fewer sows during December-May. However, with pigs per litter expected to grow at just under last year's rate, the pig crop for the first half of the year will be about 58 million head, slightly less than 2 percent above last year. This first half pig crop, coupled with the 58 million head reported for the second half of 2011, will support increased slaughter during 2012. During the second half of 2012, farrowings are expected to increase less than 1 percent and with only slightly slower gains in pigs per litter, the second-half 2012 pig crop could be about 2-3 percent above 2011. The second half pig crop will be slaughtered during the first half of 2013.

U.S. hog imports are forecast at 5.7 million head for 2012. Imports of hogs from Canada have been relatively stable over the past couple years and will likely reflect the gradual pace of expansion in the Canadian hog sector. The Canadian hog inventory was 12.0 million head on January 1, 2012, about 1 percent above a year earlier. With limited supplies of hogs and a relatively weak U.S. dollar, Canadian producers are unlikely to ship more hogs and pigs to the U.S.

Commercial pork production for 2012 is forecast at 23.2 billion pounds, 2 percent higher than 2011. Hog slaughter is expected to be about 2 percent higher than last year and carcass weights are expected to average just under 206 pounds. Although slightly above last year, relatively high feed prices through much of the year will likely limit incentives to feed to heavier weights.

For 2012, pork exports are forecast at about 5.12 billion pounds after achieving a record in 2011. Pork exports in 2011 benefited from a combination of economic recovery in a number of importing countries, a weaker U.S. dollar and the residual effects of disease outbreaks on domestic supplies in several key markets. Pork exports increased 21 percent to a record 5.19 billion pounds, exceeding the previous record set in 2008. Of the top 10 destinations for pork, exports declined for only 3 markets. However, what is notable is the magnitude of the increase to several markets. Exports to Korea doubled in 2011 and more than tripled to China; both of these countries dramatically increased imports due to inflation concerns as domestic supplies were limited due to earlier disease outbreaks. Exports also increased sharply to a number of other countries such as Japan, Russia, Canada, and Australia as the weak dollar helped mitigate the increase in U.S. prices. Sales for 2012 are forecast to remain relatively strong as the dollar remains weak, but the levels of increase in imports from several countries in 2011 are unlikely to be sustained. Korea's production is expected to rebound, limiting its need to rely on imported pork and exports to Russia are expected to face competition from increased domestic production and, with a lowered tariff-rate quota, competition with other exporters will increase.

Pork imports for 2012 are forecast at 785 million pounds, about 2 percent lower than 2011. If realized, this would be the smallest level of imports since 1998. Imports declined almost 7 percent to 803 million pounds in 2011. Imports from Canada, the predominant source of imports, were down 8 percent as Canada increased exports to Russia, South Korea and China. Imports from Denmark were lower last year, but imports from a number of other EU-27 members were higher. Imports for 2012 are expected to reflect increased U.S. production, weaker domestic prices, and the continued relative weakness of the U.S. dollar.

U.S. hog prices, on a national base, 51%-52% lean, live equivalent, are forecast to average \$63 to \$67 per cwt for 2012, down from last year's record \$66.11 per cwt. Despite continued strong exports, increased production will pressure prices. However, lower forecast beef and broiler production may provide support for prices if consumers view pork as price competitive. Retail pork prices for 2012 are expected to average in the high \$3.40's-low \$3.50's per pound, above last year's \$3.43 per pound.

Sheep and Lambs

The U.S. sheep and lamb inventory declined for a sixth straight year in 2011. The January 1, 2012 inventory of sheep and lambs was 5.35 million head, down over 2 percent from 2011. Although there were sharp reductions in mature sheep slaughter and exports, the total breeding inventory was down almost 3 percent. After increasing in 2010 and 2011, the number of replacement lambs on January 1, 2012 was down 16 percent. The lamb crop declined about 2 percent in 2011. In 2011, commercial lamb and mutton production declined almost 9 percent to 149 million pounds. Production in 2012 is forecast at 145 million pounds, down about 3 percent as market lambs on January 1 were down 2 percent and the lower breeding inventory and replacement numbers imply a smaller lamb crop in 2012.

Lamb and mutton imports for 2012 are forecast at 178 million pounds, 6 percent higher than 2011. Despite tight domestic supplies, a weak dollar made the U.S. a less attractive market and imports in 2011 were only about 1 percent higher than year-earlier. Both Australia and New Zealand exported less lamb and mutton in total during 2011, but while both countries shipped less to the United States, exports to China were higher. Forecast lower U.S. domestic production and relatively high lamb prices are expected to support an increase in imports, but in the face of a relatively weak dollar the United States is expected to remain a less attractive market. U.S. lamb and mutton exports were 19 million pounds in 2011 on higher exports of mutton. U.S. exports for 2012 are forecast at about 14 million pounds.

The San Angelo Choice slaughter lamb price is forecast to average \$138 to \$150 per cwt for 2012. Despite lower production, this would represent a decline from last year's record \$160.60 per cwt. Prices moderated in the later part of 2011 as fall lamb supplies increased and increased imports will help boost available supplies in 2012.

Broiler Meat

For 2012, broiler meat production is forecast 3 percent lower at 36.1 billion pounds. Production is expected to be below 2011 through the first 3 quarters of the year before improving broiler prices and lower feed costs in the second half encourage an expansion in production late in the year. During 2011, broiler producers faced a confluence of oversupply in certain broiler parts which depressed broiler prices and escalating feed costs. Although producers began to cut back on the hatchery flock early in 2011, significant inroads were not made in chick numbers until the second half of 2011. Even then, bird weights continued to increase until late-2011, offsetting part of the decline in slaughter. Moving into 2012, the stage is set for significant declines in broiler production. The number of broiler-type egg layers at the beginning of the year was about 7 percent below 2011 and weekly data indicates that about 4 percent fewer chicks have been placed in growing flocks since the beginning of the year. As broiler meat supplies were worked down in the later part of 2011 and into 2012, broiler prices moved higher.

Although it is expected that prices will be above year-earlier levels during 2012, relatively high feed costs likely will dampen expansion plans during the first part of the year. However, moderating feed prices coupled with stronger broiler prices may set the stage for a production expansion in late 2012.

U.S. broiler meat exports for 2012 are forecast to increase to a record 7.05 billion pounds. This comes on the heels of a 3 percent increase to a record 6.99 billion pounds in 2011. Exports to Mexico, the largest market for U.S. broilers increased to over 1 billion pounds for the first time. Exports also were boosted by increased sales to Angola, Hong Kong, and Iraq. However, Russia dropped to become the third largest market as restrictive tariff rate quotas limited shipments and exports to China remained subject to prohibitive duties, limiting their growth. U.S. exports were helped by the weaker dollar during 2011 which helped offset the increase in prices for many exported products. For 2012, export growth is likely to be constrained by tighter domestic supplies and higher prices. However, continued economic growth among importing countries and a relatively weak U.S. dollar is expected to support a slight increase in 2012 exports.

The 12-city wholesale broiler price is forecast to average 82 to 87 cents per pound in 2012, compared with an average of 79 cents in 2011. Tighter supplies of both broiler meat and beef are expected to support broiler prices through much of the year. As broiler production has declined and stocks were worked down towards the end of 2011, prices for both parts and whole birds have moved higher. Whole broiler prices have averaged in the lower 80 cent per pound range since the beginning of the year which is almost 7 cents above 2011. After declining sharply in the second half of 2011, boneless breast meat prices have recovered somewhat in the early part of 2012. Although weakening since the beginning of the year, prices in the Northeast have averaged about 14 cents per pound above 2011 thus far in 2012. During the 2011, leg quarter prices increased due to a combination of higher exports and stronger domestic demand, and have been fairly stable at 51-53 cents per pound since mid-2011. As consumers are faced with tighter supplies of broiler meat and beef, the composite retail price for broiler meat is forecast to average in mid-\$1.80's per pound, up from the 2011 average of \$1.77.

Turkey

Turkey production for 2012 is forecast to increase about 1 percent to 5.86 billion pounds after a 2.6 percent increase in 2011. Production dipped in the last quarter of 2011 but hatchery data points to increased production as eggs set and poult placement data are above last year. Poult placements in January were about 5 percent higher than 2011, but producers only placed about 1 percent more eggs in incubators at the beginning of February. In light of generally high feed costs, producers appear to be cautious in their expansion plans. However, with relatively high turkey prices extending into mid-2012, producers may begin to expand at a more rapid rate in the second half as grain prices moderate. The National turkey hen price is forecast to average \$1.00-\$1.07 per pound, compared to an average of \$1.02 in 2011.

Turkey exports for 2012 are forecast to decline about 8 percent to 650 million pounds as higher prices limit export opportunities. Turkey exports rose 21 percent last year as sales to Mexico, the largest U.S. turkey market, were 24 percent higher. Exports rose to most major markets with exports to China/Hong Kong and Canada up 22 and 7 percent respectively.

Eggs

Total U.S. egg production for 2012 is expected to be 7.68 billion dozen, fractionally higher than 2011. Table egg production is expected to increase less than 1 percent as high early-year feed prices will likely dampen expansion plans despite relative strong egg prices. Although feed prices are expected to moderate later in the year, declines in egg prices are expected to limit production growth. On January 1, 2011 the number of table egg layers was about 1 percent below year earlier. Hatching egg production for 2012 is expected to remain below year earlier for much of the year as broiler producers scale back production.

For 2012 New York wholesale eggs are forecast to average \$1.03 to \$1.09 per dozen, down from the \$1.15 average for 2011. Prices are likely to be above year-earlier levels in the first quarter but average below 2011 levels for the remainder of the year.

In 2011, egg and egg product exports increased almost 7 percent to 275 million dozen, shell egg equivalent. Among the major markets, exports to the Japan, Hong Kong, and Mexico were higher but exports to the EU-27 and Canada were lower. Egg exports for 2012 are forecast at 260 million dozen slightly lower than 2011 due in part to lower expected shipments to Japan.

Additional information about the 2012 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