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OUTLOOK FOR LIVESTOCK AND POULTRY IN 2013

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Total livestock and poultry production increased about 1 percent in 2012 as declines in beef and broiler production were more than offset by increased pork and turkey production. However, during the year drought in much of the country caused changes in production decisions. The cattle sector, which had been poised for increased heifer retention at the beginning of 2012, was hit with loss of pasture and pond water reserves through much of cattle-raising country and a spike in feed prices as the corn crop deteriorated mid-year. For producers in much of the Southern Plains, this was the second year of poor forage production and water shortages, further exacerbating resource tightness. In the face of tight forage and water supplies, cow herd liquidation continued at relatively high rates in much of the country. Nationally, federally inspected beef cow slaughter was just over 3.3 million head, down slightly from 2011 but it remained relatively high as a proportion of beginning year inventories. Steer and heifer slaughter was also lower as supplies of cattle outside feedlots dwindled, but the decline was mitigated by cattle being sent to feedlots earlier than normal, at lighter weights, as forage conditions worsened. Despite higher feed prices, cattle weights increased in 2012 as a combination of mild-winter weather and increasing use of beta-agonists improved feed efficiency. The hog sector faced sharply higher costs for feed mid-year which likely changed production decisions. Early in the year, returns to hog producers were generally positive and producers increased farrowings. As feed prices jumped, returns became negative and coupled with the uncertainty about feed prices into 2013, producers reduced farrowings in the second half of 2012. However, the increase in first-half farrowings more than offset the decline in second-half farrowings, and with continued increases in pigs per litter, hog supplies increased in 2012. In response to higher feed costs, producers reduced market weights in late 2012, but the confluence of higher slaughter numbers and slightly heavier weights earlier in the year resulted in a slight increase in 2012 pork production. Broiler production in 2012 was below 2011, reflecting industry retrenchment in the later part of 2011 and through much of 2012 in response to poor returns. However, the sector began to expand production in the later part of 2012, relative to the severely reduced fourth-quarter 2011 production, likely in response to stronger broiler prices during the year.

The Outlook for 2013

Feed prices are likely to remain high through the summer of 2013, but later in the year feed prices are expected to decline sharply as the 2013/14 corn and soybean crops are harvested. In the first 3 quarters, producers will be facing corn prices that will reflect a forecast crop year average of \$6.75-\$7.65 per bushel, compared with \$6.22 in 2011/2012. However, with expectations of a relatively large planted area and trend yield growth, prices in the last quarter are expected to average below the \$4.80-per-bushel price forecast for the 2013/14 crop year. Soybean meal prices for 2012/13 are forecast to average \$430-

460 per ton, up from \$394 the previous year, but like corn, prices will decline with the harvest of next year's the soybean crop. Soybean meal prices are forecast to average \$300 per ton in 2013/14 with prices averaging lower in the early part of the marketing year. Real U.S. GDP is expected to grow somewhat over 2 percent, higher than last year's growth and with gradually declining unemployment. Internationally, economic growth is forecast to be slightly more rapid than for the U.S. The U.S. dollar will likely remain relatively weak against most countries in the coming year, helping U.S. exports, but the dollar's current strength against the Yen may limit red meat export opportunities.

Production of pork and poultry meat are forecast to increase as producer returns in those sectors will likely improve with declining feed prices in the later part of the year, slightly higher hog prices, and record broiler prices. However, increases in non-ruminant meat production will be insufficient to offset lower beef production which will face tighter supplies of cattle available for slaughter as the year progresses. Despite increased meat imports and slightly lower red meat and poultry exports, total domestic meat supplies in 2013 will be lower and total domestic per capita disappearance of red meat and poultry for 2013 is expected to average 201.9 pounds, the lowest level of disappearance on a per capita basis since 1991. Cattle and whole-bird broiler prices are forecast to reach record levels; cattle prices will reflect tight supplies of beef and broiler prices will be supported by strong demand. Hog prices will also increase, although remaining below 2011's record level. However, turkey prices will decline as production increases.

Cattle and Beef

The U.S. cattle herd declined for its sixth consecutive year in 2012. USDA's January *Cattle* report estimated that the number of cattle and calves on January 1, 2013 fell about 2 percent, to 89.3 million head. The cow herd was estimated at 38.5 million head, over 2 percent smaller than a year earlier. The 2012 calf crop was estimated at 34.3 million head, the smallest calf crop since 1949.

The U.S. cattle inventory is expected to continue contracting during 2013. The rate of decline will depend to a large extent on the availability of forage. Producers in much of the country are facing tight supplies of forage and in many areas, supplies of pond water are critical. Assuming normal pasture development during the year, returns to cow-calf operators would support retention of beef cows and the placement of heifers in the breeding herd. On January 1, producers indicated they were retaining 2 percent more heifers for beef cow replacement. However, dairy cows, while about equal to 2012 at the beginning of the year, are expected to decline; the number of heifers held for dairy cow replacement was down 2 percent. With a smaller total cow herd at the beginning of the year and a slight decline in the total number of heifers expected to calve during 2013, a further decline in the calf crop can be expected. This will lead to tighter cattle supplies moving into 2014 and to the extent producers retain heifers for breeding from the 2013 calf crop, it is unlikely that calf supplies could support an increase in beef production before 2016.

The number of cattle on feed on January 1, 2013 was estimated at 13.4 million head, a 5.5 percent decline from 2012. Net placements in feedlots with 1,000 head or greater capacity declined by 6.5 percent during 2012 as the number of cattle available for placement shrank. There was also a slight decline in the number of cattle in feedlots with less than 1,000 head. However, the sharp decline in prices of light-weight feeder calves relative to heavier weight calves may have encouraged

backgrounding operations which had access to forage or supplies of alternative roughages to retain cattle to add weight on the farm. Thus, the number of cattle outside feedlots at the beginning of the year was slightly above 2012. If producers retain more heifers than indicated, the supplies of heifers available for placement during 2013 may decline more sharply. The availability of forage will affect the timing of placements, but placements are expected to drop more rapidly in the second half of the year. Imports of cattle in 2013 are forecast to be 1.95 million head, about 14 percent below last year as smaller calf crops in both Canada and Mexico in 2012 imply tighter supplies of feeder cattle for export in 2013.

Commercial beef production for 2013 is forecast to decline about 3 percent, to about 25.1 billion pounds. Steer and heifer slaughter in first-half 2013 is expected to be virtually the same as 2012 but then decline sharply as feedlot inventories decline. Cow slaughter is also expected to decline from 2012 as producers retain cows and the breeding herd liquidation moderates. However, poor returns in the dairy sector will result in dairy cow slaughter remaining relatively high and partly offsetting the decline in beef cow slaughter. Total commercial cattle slaughter during 2013 is expected to decline almost 4 percent. The decline in slaughter will be partly offset by increased carcass weights. Carcass weights are forecast to increase to almost 791 pounds due to a combination of mild winter weather so far this year and increased adoption of beta-agonists which improve feed efficiency.

Beef exports for 2013 are forecast at 2.45 billion pounds down from 2.46 billion pounds in 2012. In 2012, exports declined almost 12 percent from 2011's record as U.S. prices rose and due to the relative strength in the dollar, a greater proportion of the increase in prices was passed on to foreign buyers. Sales declined to most major markets with the exception of China and Hong Kong. Although economic growth in most markets for U.S. beef should support demand in 2013, economic growth and tight supplies of beef in the U.S. will limit exports. In addition, the dollar is expected to decline only modestly, implying that any forecast increases in U.S. beef prices will be more fully transmitted to foreign buyers. Russia has banned imports of beef which is not certified as Ractopamine-free, but with tight U.S. beef supplies available for export, it is expected that product will shift to other markets.

U.S. beef imports are forecast at 2.57 billion pounds for 2013, up about 16 percent from 2012. This follows an 8 percent increase in imports in 2012. Improved economic growth and reduced U.S. cow slaughter will support increased imports. However, continued strong global demand and the relative weakness in the value of the U.S. dollar may constrain growth in imports.

The 5-Area steer price for 2012 is forecast to average \$125 to \$134 per cwt, up from 2012's record average of \$122.86. As fed cattle supplies shrink in 2013, prices are expected to continue to climb, but both packers and feedlot operators are facing poor-to-negative margins which will limit flexibility in price negotiations. Feedlot returns are negative and operators will continue to face increasing feeder cattle prices as feeder calf supplies shrink and relatively high feed costs until the next crop is harvested. Packers, on the other hand, may be limited in what they can pay given the downstream effects of potential resistance to high beef prices and competition from other meats. Although tighter supplies will likely pressure retail prices, increases may be limited compared to the past several years. Retail choice beef prices for 2013 are expected to average slightly above last year's record \$5.02 per pound.

Hogs and Pork

Despite relatively high feed prices and recent negative returns, producers are expected to expand production in 2013. Producer returns were negative for most of the later part of 2012 and returns in 2013 will reflect the relatively high feed costs for much of 2013. Over the past year, producers have kept the number of sows farrowing little changed, while increasing pig crops though gains in pigs per litter.

The December 2012 *Quarterly Hogs and Pigs* report estimated that on December 1, 2012 the inventory of all hogs and pigs was 66.3 million head, virtually unchanged from a year earlier. The breeding herd was fractionally higher at just over 5.8 million head. Producers reduced farrowings in second-half 2012, likely as a result of poor returns and concerns about further increases in feed prices. However, in the second half of 2012, the decline in farrowing numbers was largely offset by gains in pigs per litter and the pig crop was virtually unchanged from 2011. The impact of poor second half returns and concerns about feed prices through the balance of the crop year has extended into the first part of 2013 as producers intend to farrow fewer sows in the first half of the year. However, as concerns about feed prices diminish with approach of the next crop harvest, producers are expected to increase second-half farrowings. Pigs per litter in 2013 are expected to grow at an average rate of just over 1 percent from 2012 which implies that the pig crop in first-half 2013 will be fractionally higher than last year despite reduced farrowings. With expected increases in second-half 2013 farrowings and continued gains in pigs per litter, the 2013 pig crop is forecast at 118.6 million head, 1 percent above 2102.

U.S. hog imports are forecast at 5.5 million head for 2013, down slightly from 2012. The January 1, 2013 Canadian hog inventory will be released on March 6. Although recent data points towards a gradual increase in the Canadian inventory over the past several years, a relatively weak U.S. dollar is expected to limit incentives for Canadian producers to ship more hogs and pigs to the U.S.

Commercial pork production for 2013 is forecast at 23.4 billion pounds, 0.7 percent higher than 2012. Hog slaughter is expected be about 1 percent higher than last year as the slightly smaller second-half 2012 pig crop will be slaughtered during first-half 2013 and the larger expected first-half 2013 pig crop will be slaughtered in second-half 2013. Carcass weights are expected to average just over 205 pounds. This is fractionally below last year as high feed prices during the first 3 quarters of the year are expected to encourage produces to market hogs as rapidly as possible.

For 2013, pork exports are forecast at about 5.46 billion pounds, up slightly from 2012's record 5.38 billion pounds. Although 2012 exports were down to several key markets, notably, Japan, Korea, China, and Hong Kong, exports were higher to Russia, Canada and Mexico and a number of smaller markets. Sales in 2013 are forecast to remain relatively strong as U.S. pork prices reflect higher production and increasing prices for beef may increase the attractiveness of pork for importing countries. However, Russia's recent ban on U.S. pork which is not certified as Ractopamine-free may be a constraint on export growth during 2013.

Pork imports for 2013 are forecast at 800 million pounds, virtually unchanged from 2012. Imports have been between 802 and 803 million pounds for the past 2 years. Imports from Canada and Demark, the

predominant sources of imports, were lower in 2012, but were partly offset by increases in imports from Mexico, Chile, and other European Union sources. Imports for 2013 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 \$61 to \$65 per cwt for 2013, up from last year's \$60.88 per despite higher production. Higher forecast beef and broiler prices and increased exports may provide support for the hog sector if consumers view pork as price competitive. Retail pork prices for 2012 are expected to average slightly below last year's \$3.47 per pound.

Sheep and Lambs

The U.S. sheep and lamb inventory declined for a seventh straight year in 2012, but at a lower rate than past years. The January 1, 2013 inventory of sheep and lambs was 5.34 million head, down less than 1 percent from 2012. There was a fractional decline in the breeding flock, but there are signs that the breeding numbers may be stabilizing. Replacements lambs were unchanged from the prior year and with higher mature sheep slaughter in 2012, the implied number of replacement lambs entering the breeding herd during 2012 was the highest since 2005. The lamb crop declined about 2 percent in 2012. In 2012, commercial lamb and mutton production rose over 5 percent to 156 million pounds, fueled in part by higher weights in the first 3 quarters. Production in 2013 is forecast at 152 million pounds, down about 3 percent as market lambs on January 1 were down fractionally and weights are expected to decline as the backlog of over-finished lambs has worked its way through the system.

Lamb and mutton imports for 2013 are forecast at 165 million pounds, 7 percent higher than 2012. In 2012, U.S. imports of lamb and mutton were 154 million pounds, the lowest level of imports since 2001. Imports were higher from Australia but lower from New Zealand. Production in Australia increased, and exports to all major destinations were higher. In New Zealand, sheep numbers declined in 2011/12 which limited supplies and exports to China were sharply higher. However, with lower U.S. production, increased Oceania production and improved economic growth in the U.S., lamb and mutton imports are forecast to rise.

The San Angelo Choice slaughter lamb price is forecast to average \$104 to \$111 per cwt for 2013, a decline from \$112.89 in 2012 and well below the record \$161 set in 2010. Prices declined sharply in second-half 2012 due to an oversupply of over-finished animals. Although prices have recovered somewhat from their mid-2012 lows, prices are expected to be under pressure in the first half until supplies are gradually worked down. Prices are expected to average above year-earlier in the second half of the year as supplies become relatively tight and demand improves.

Broiler Meat

For 2013, broiler meat production is forecast 0.7 percent higher at 37.3 billion pounds. After declining sharply in late 2011 and remaining below year-earlier through the first 3 quarters of 2012, producers are responding to strengthening broiler prices and expectations of lower feed prices. The number of broiler-type hatching layers were above year earlier in December for the first time in 23 months and the number

of broiler type pullets hatched in fourth-quarter 2012 averaged above the prior year (albeit fractionally) for the first time since first quarter 2011. The number of broiler type hatching eggs was higher in December. Eggs set in incubators began to increase during the fourth quarter of 2012 and, with the increase in eggs, the number of chicks placed in growout flocks increased as well. In the first 6 weeks of 2013, the number of chicks placed in the 19 reported states averaged almost 1 percent higher. Producers are expected to continue expanding broiler hatchery flocks during 2013. However, broiler production growth is expected to be modest through most of 2013 before greater certainty about the state of the grain and oilseed crops and potential reductions in feed costs provide an incentive to more rapidly increase production in the fourth quarter.

U.S. broiler meat exports for 2013 are forecast to decline slightly to 7.25 billion pounds. This follows record exports of 7.28 billion pounds in 2012. Exports to most major markets were higher in 2012, but exports to Hong Kong were sharply lower. However, despite strong gains early in the year, exports to Russia declined sharply in the fourth quarter as increasing amounts of product were sourced domestically and through the recently established Russia-Kazakhstan-Belarus Customs Union. For 2013, further declines are expected in sales to Russia as the quota is lowered but some offset is expected as shipments to a number of other markets are forecast to increase.

The National Composite wholesale broiler price is forecast to average 92 to 98 cents per pound in 2013, compared with an average of 87 cents in 2012. 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 2013, composite retail broiler price is forecast to average in the lower \$1.90's per pound, compared to \$1.89 in 2012.

Turkey

Turkey production for 2013 is forecast to increase about 1 percent to 6.03 billion pounds after a 3.1 percent increase in 2012. Production increased steadily during 2012 but the rate of growth is expected to slacken in the first half of 2013 as producers responded to weaker fourth-quarter 2012 turkey prices and sharply higher feed prices by increasing slaughter of old (layer) turkeys and scaling back eggs set. Eggs set in incubators were below year-earlier through much of fourth quarter-2012 and into early 2013. Likewise, poult placements in December and January were below year-earlier. With somewhat weaker whole turkey prices forecast for the first 3 quarters of 2013, incentives to expand will likely come from expectations of moderating feed costs. Thus any significant expansion in production is unlikely to occur before the second half of 2013, with more rapid growth occurring in the last quarter as feed prices fall and turkey demand improves. The National turkey hen price is forecast to average \$1.00-\$1.07 per pound, compared to an average of \$1.06 in 2012.

Turkey exports for 2013 are forecast to increase about 4 percent to 830 million pounds as weaker turkey prices and stronger broiler prices provide increased export opportunities. In 2012, turkey exports rose 14 percent from last year as sales to Mexico, the largest U.S. turkey market, were 4 percent higher and exports to China, the second largest market were 23 percent higher. Economic growth in these countries is also expected to support increased turkey demand.

Eggs

Total U.S. egg production in 2013 is expected to be 7.82 billion dozen, 1 percent higher than 2012. Table egg production is expected to increase about 1 percent as high feed prices and weaker December 2012 egg-prices have made producers cautious in their expansion plans. Slaughter of light hens was above year earlier much of the year and fewer egg-type pullets were hatched in the fourth quarter. However, on January 1, 2013 the number of table egg layers was about 1 percent higher than year-ago and egg-type hatching layers were up 6 percent. Hatching egg production for 2013 is expected to increase about 1 percent as broiler and table egg producers increase production.

For 2013, New York wholesale egg prices are forecast to average \$1.13 to \$1.20 per dozen, down slightly from the \$1.17 average for 2012. Prices are likely to be above year-earlier levels in the first half of 2013, but fall below year-earlier in the second half as production ramps up.

In 2012, egg and egg product exports increased 9 percent to 302 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 reduced egg production and resulted in a sharp increase in Mexico's egg imports. However, partly offsetting the increase in exports to Mexico was a decline in sales to Japan. Among other major markets, exports to Canada, the EU-27 and Hong Kong were higher. Egg exports for 2013 are forecast at 276 million dozen, down 9 percent as Mexico's production recovers and egg prices remain relatively high in the early part of the year.

Additional information about the 2013 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