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Agricultural Outlook Forum
U.S. Department of Agriculture
Arlington, Virginia

Presented: February 19-20, 2015

Livestock and Poultry Outlook

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United States Department of Agriculture

AGRICULTURAL OUTLOOK FORUM

Smart Agriculture in the 21st Century

A Discussion on Innovation, Bio-technology, and Big Data

February 19-20, 2015 — Crystal Gateway Marriott Hotel, Arlington, Virginia



Livestock and Poultry Outlook

Friday, February 20, 2015

www.usda.gov/oce/forum

OUTLOOK FOR LIVESTOCK AND POULTRY IN 2015

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Total livestock and poultry production declined 1.2 percent in 2014, the first year-over-year decline since 2009, as lower beef, pork and turkey production more than offset higher broiler production. Annual average market prices for cattle, hogs, broilers, turkeys and eggs reached nominal records in 2014. Tight supplies of fed cattle and heifer retention by producers resulted in beef production declining 5.7 percent, the most in both percentage and absolute terms since 2004. The Porcine Epidemic Diarrhea virus (PEDv) reduced supplies of market hogs, but record hog weights dampened the production decline to 1.5 percent from 2013. Broiler production was about 1.9 percent higher, buoyed by sharply lower feed costs and record broiler prices. Turkey production declined by 0.9 percent as the sector was slow to respond to reduced feed costs.

In 2015, total livestock and poultry production is forecast to expand by 3.2 percent as higher pork, broiler and turkey production more than offset slightly lower beef production. If realized, this would be the largest year-over-year percentage increase in livestock and poultry production since 2002. Beef production growth will be constrained not only by biological lags inherent in the production system, but also as producers retain heifers for expansion. Conditions support greater pork production, while producers appear to be adapting to PEDv via improved biological security and other management practices including vaccines. Broiler and turkey production are expected to grow by 3.6 and 5.6 percent, respectively, as producers respond to favorable returns.

Meat demand in the United States is expected to increase in 2015 with moderate economic growth and larger meat supplies. Cattle prices are projected higher, but the percentage increase is expected to be below 2014's jump. Prices for hogs, broilers and turkeys are expected to be pressured lower during 2015 by increased production. Despite tight supplies of beef and record prices for fed cattle, larger supplies of competing meats will likely limit increases in beef prices during 2015. Exports are forecast to decline for all of the major meats due to strong competition and expectations of slow global demand growth. U.S. dollar strength will likely also be a headwind for U.S. exports.

Relatively Low Feed Prices and Continued Robust Economic Growth

In 2014, for the first time since 2009 national U.S. corn and soybean yields were above the 1988 to 2014 weather-adjusted trend level.¹ Marketing-year 2014/15 average prices for corn and soybean meal declined sharply from 2013/14, improving returns for livestock and poultry producers while providing

¹ See Westcott and Jewison, *Weather Effects on Expected Corn and Soybean Yields*, USDA-ERS, Feed Outlook No. (FDS-13G-01), July 2013, www.ers.usda.gov/publications/fds-feed-outlook/fds-13g-01.aspx.

an impetus for expansion. Forage prices were marginally lower in 2014 and are expected to continue to decline into 2015. Generally favorable winter pasture conditions in most parts of the country are also providing an opportunity to rebuild animal numbers. Corn prices during 2015 are expected to be slightly below 2014/15's \$3.65, with the 2015/16 corn marketing-year average of \$3.50 per bushel. Likewise, soybean meal prices for the 2015/16 marketing year are projected at \$325 per ton, below 2014/15's \$370.

Real U.S. GDP is expected to grow just above 3 percent in 2015, slightly higher than last year's growth. Unemployment is expected to continue to decline. Globally, economic growth is likely to be at levels slightly above 2014, although expectations are for slower economic growth in important export markets such as China and Japan, as well as some North African and the Middle Eastern countries.

Cattle and Beef

During 2014, the U.S. cattle herd increased for the first time since 2007. USDA's January *Cattle* report estimated that the number of cattle and calves on January 1, 2015 was up 1.4 percent from the previous year at 89.8 million head. The beef cow herd was estimated at 29.7 million head, 2.1 percent above a year earlier. Producers indicated that they planned to retain 4.1 percent more heifers for addition to the beef herd and expected to have 7.3 percent more heifers calve during 2015. Dairy cow numbers were above a year ago on January 1, 2015 and producers indicated they are retaining about 1.5 percent more heifers for addition to the cow herd and expected about 1.0 percent more to calve in 2015. The 2014 calf crop was revised higher to 33.9 million head, the first year-over-year increase since 1995.

Both the U.S. cattle inventory and beef cow herd are expected to continue expanding during 2015, assuming normal weather conditions. Estimated returns to cow calf operators were very favorable during 2014, pushing beef cow slaughter to the lowest level since 2005. This supported 2014's beef cow herd expansion, the largest in both percentage and absolute terms since 1994. Texas, Oklahoma and Kansas accounted for nearly three-quarters of the more than 0.6 million head increase in the beef cow herd during 2014, and almost two-thirds of the increase in heifers held for beef cow replacement on January 1, 2015. This is likely the result of improved pasture conditions following several years of drought. Beef replacement heifers as a proportion of the total beef cow herd on January 1, 2015 was at a record of 19.5 percent, portending aggressive expansion plans by producers during 2015.

Cattle placements during 2015 are projected to decline 0.9 percent from 2014, as lower feeder cattle imports from Canada and Mexico and heifer retention by producers more than offset a slightly larger number of cattle outside feedlots. In 2015 imports of cattle are forecast to decline only 2.5 percent from 2014 as demand for feeder cattle in the United States is expected to remain strong. With a 0.5 percent larger calf crop in 2014, the number of cattle outside feedlots on January 1, 2015 was 0.5 percent above 2014. Although well below pre-drought levels, the number of cattle grazing on small grains pasture for the 3 states of Kansas, Oklahoma and Texas was up 19.9 percent from a year ago. The number of cattle on feed on January 1, 2014 was estimated at 13.1 million head, an increase of 0.6 percent from 2014.

During 2014 net placements in feedlots with 1,000 head or greater capacity declined 2.2 percent as increased heifer retention by producers was only partially offset by feeder cattle imports from Mexico and Canada. Cattle dressed weights reached a record 804 pounds during 2014 as cattle feeders kept

cattle on feed longer, taking advantage of lower corn prices, greater bunk space and record prices for fed cattle.

Commercial beef production for 2015 is forecast 0.1 percent below 2014 at 24.2 billion pounds. Steer and heifer slaughter is expected to be fractionally below a year ago. Cow slaughter is expected to decline from 2014 but at a less rapid rate as incentives to rebuild beef breeding herds encourage producers to retain cows. Total commercial cattle slaughter during 2015 is expected to decline about 1 percent, but the decline in slaughter will be mostly offset by continued gains in carcass weights. Carcass weights are forecast to increase from 2014's record 804 pounds to about 813 pounds due to relatively low feed prices, a greater proportion of steers in the slaughter mix, and record fed cattle prices.

Beef exports for 2015 are forecast at 2.5 billion pounds, down 4.8 percent from 2014 as tight supplies and high prices reduce exports. The dollar is expected to remain strong relative to importing country currencies, implying that any increases in U.S. beef prices will be more fully transmitted to foreign buyers. In 2014, U.S. beef exports declined 0.7 percent from 2013. During the first half of 2014, shipments were above year-ago levels but as U.S. prices rose more rapidly during the second half of the year, exports fell below 2013. Japan was the largest market for U.S. beef in 2014, although U.S. exports fell 1.3 percent from 2013. In absolute terms shipments to Hong Kong during 2014 saw the largest expansion year-over-year, making it the third largest market for U.S. beef behind Japan and Mexico.

U.S. beef imports are forecast at 2.8 billion pounds for 2015, 4.6 percent below 2014's record. During 2014, lower U.S. cow slaughter and strong demand for processing grade beef supported increased imports, particularly from Australia, where drought resulted in herd liquidation by some producers. In 2015, high U.S. prices and a strong dollar are expected to make the U.S. a choice market but tighter exportable supplies in foreign exporters will limit U.S. imports with Australian slaughter likely to fall from 2014's elevated levels.

The 5-Area steer price for 2015 is forecast to average \$157 to \$167 per cwt, up from 2014's record average of \$155 per cwt. As fed cattle supplies are expected to remain tight in 2015, prices should remain above levels seen in previous years, but the possibility of substitution by consumers for relatively more affordable meats such as chicken and pork could limit the magnitude of price increases. Retail beef prices are expected to increase from 2014's record of \$5.97 per pound. Packer gross margins were generally weak in 2014 and high fed cattle prices coupled with consumer resistance to high beef prices could limit what packers are willing to bid for fed cattle during 2015. Feedlot operators are expected to see negative margins during 2015 as high feeder calf prices will likely offset reductions to feed costs. This will limit flexibility in price negotiations.

Hogs and Pork

Producer returns were very favorable during 2014, as the supply of market hogs available for slaughter fell with the spread of the Porcine Epidemic Diarrhea virus (PEDv) through the U.S. hog herd. Feed costs fell to levels not seen in several years and producers responded to strong returns and increased finishing barn space by feeding hogs to record weights. This limited the 2014 decline in pork production to 1.5 percent from 2013.

The December 2014 *Quarterly Hogs and Pigs* report estimated that on December 1, 2014 the inventory of all hogs and pigs was 66.1 million head, 2.0 percent above a year earlier. The breeding herd was 3.7 percent higher at nearly 6.0 million head, the highest on December 1 since 2008 and indicative of expansion plans by producers in 2015. Although farrowings were 0.8 percent higher during 2014, a 2.8 percent decline in the number of pigs per litter, due to PEDv, resulted in the smallest pig crop since 2006. Litter rates fell below year-ago levels during the first three quarters of 2014, but by the fourth quarter the litter rate was record high for the September-November period. Producers appear to be adapting to the effects of PEDv through increased biosecurity measures and improved herd management practices including vaccines.

For the first half of 2015, producers indicated intentions to farrow about 4 percent more sows. This increase, in combination with expectations of continued growth in litter rates, result in a 2015 pig crop projected to be over 5.4 percent higher than 2014. If realized, this would be the largest year-over-year percentage increase in the pig crop since 2007 and set the stage for sharply higher slaughter levels in the second half of 2015 and into 2016.

Commercial pork production for 2015 is forecast at 24.1 billion pounds, 5.5 percent higher than 2014. Hog slaughter is expected be above a year ago with greater farrowings and continued growth in litter rates. However, carcass weights are expected to average about 213 pounds, 1 pound below a year ago.

U.S. hog imports are forecast at 4.8 million head for 2015, down 3.0 percent from 2014 given expectations of larger hog supplies in the United States. The January 1, 2015 Canadian hog inventory will be released on March 5, 2014 and it is expected to report a larger pig crop in 2015 as producers in Canada respond to favorable returns.

For 2015, pork exports are forecast to decline 0.8 percent from 2014 as a result of strong competition from other exporters and slow growth in global demand. During 2014, pork exports totaled 4.9 billion pounds, down 2.7 percent from 2013. Relatively high U.S. prices in the second half of 2014 reduced competitiveness vis-à-vis other exporters, particularly Canada and the EU. Shipments declined to a number of major markets, including China and Japan, however these declines were partially offset by increases to Mexico and South Korea, with the former the largest market for U.S. pork in 2014.

Pork imports for 2015 are forecast at 910 million pounds, below 2014 which were the highest since the mid-2000s. Imports from Canada and the EU increased in 2014 but are expected to decline in 2015 as U.S. pork production rebounds.

U.S. hog prices, on a national base, 51%-52% lean, live equivalent, are forecast to average \$54 to \$58 per cwt for 2015, down from last year's record of \$76 per cwt as supplies of market hogs increase. Retail pork prices for 2015 are expected to decline from last year's record of just above \$4 per pound.

Sheep and Lambs

During 2014, the U.S. sheep and lamb inventory increased for the first time since 2006. The January 1, 2015 inventory of sheep and lambs was 5.3 million head, up 0.7 percent from 2014. The breeding flock was 0.9 percent higher and the number of replacement lambs was 2.4 percent higher. The lamb crop rose 2.1 percent in 2014. In 2014, commercial lamb and mutton production was fractionally below 2013.

Despite a smaller 2013 lamb crop producers took advantage of lower feed costs by feeding lambs to slightly heavier weights. Production in 2015 is forecast at 152 million pounds, down 2.4 percent from 2014. The market lamb inventory on January 1, 2015 was unchanged from a year ago but it is expected that producers will hold back lambs to rebuild flocks.

Lamb and mutton imports for 2015 are forecast at 191 million pounds, 2.0 percent lower than 2014. U.S. production is forecast to decline but larger stocks keep supplies high which will likely result in slightly lower imports from Australia and New Zealand.

The San Angelo Choice slaughter lamb price is forecast to average \$153 to \$162 per cwt for 2015, a slight decline from \$159 in 2014. Prices have been strong since late 2013 and are expected to remain high in 2015 as producers rebuild flocks.

Broiler Meat

For 2015, broiler meat production is forecast 3.6 percent higher at 40.0 billion pounds. Broiler prices hit record levels in 2014 as consumers sought alternatives to high-priced beef and pork and production growth lagged for much of the year. Strong domestic demand is expected to continue in 2015, although with lower broiler prices. Low feed costs following record 2014 corn and soybean harvests in the United States are expected to continue to provide an incentive for expansion by producers in 2015.

During 2014, the inventory of broiler-type hatching layers averaged 1.8 percent above 2013. However, genetic complications adversely impacted the breeder flock during the first half of 2014, resulting in a decline in the ratio of chicks placed relative to eggs set 3-weeks prior. This limited the level of birds placed for grow-out during the first half of 2014 to close to unchanged from a year ago. But by the fourth quarter of 2014 and into the first part of 2015, the number of chicks placed has been averaging close to 3 percent above the previous year. Producers are expected to continue expanding broiler hatchery supply flocks during 2015 while heavier bird weights should also provide a boost to production growth.

U.S. broiler meat exports for 2015 are forecast to decline 2.6 percent to 7.1 billion pounds, following a decline of 0.6 percent in 2014. Although Russia banned imports of agricultural products from the United States beginning in August 2014, much of the product that would have been exported to Russia was absorbed by other markets. In 2015, exports are expected to be below year-earlier levels as outbreaks of highly pathogenic Avian Influenza in the United States resulted in bans of imports of U.S. broiler meat in markets such as China, South Korea and several other smaller markets while U.S. dollar strength reduces export competitiveness to other markets.

The National Composite wholesale broiler price is forecast to average \$0.97 to \$1.03 per pound in 2015, down 4.4 percent from 2014. Continued tight supplies of beef and improving economic conditions are likely to support stronger demand for broiler meat. For 2015, composite retail broiler price is forecast to average slightly below 2014's \$1.96 per pound.

Turkey

Turkey production for 2015 is forecast to increase 5.6 percent to 6.1 billion pounds. In 2014, production declined 0.9 percent from 2013 as the lags inherent in flock expansion delayed production growth for much of the year. Turkey prices were consistently above year ago levels throughout 2014, while lower feed costs boosted producer returns. By the fourth quarter of 2014, production was 6.8 percent above 2013, the largest quarterly year-over-year growth in both percent and absolute terms since the first quarter of 2008. As of January 1, 2015 egg sets were 7.3 percent above a year ago. This trend is expected to continue for much of 2015, resulting in continued production growth over the first three quarters of 2015. However, production growth should moderate by the fourth quarter as supplies increase. The National turkey hen price is forecast to average \$1.02-\$1.08 per pound, down about 2 percent from 2014.

Turkey exports for 2015 are forecast to fall 3.7 percent to 775 million pounds on slow world demand growth and China's ban on U.S. poultry imports. In 2014, turkey exports increased 6.0 percent over 2013, as greater shipments to Mexico more than offset declines to China and Canada. In 2015, increased demand from Mexico is expected to be more than offset by continued declines to China.

Eggs

Total U.S. egg production in 2015 is expected to be 8.4 billion dozen, 2.3 percent above 2014. Table egg production is expected to increase 2.1 percent to 7.3 billion dozen as producers respond to high egg and low feed prices. On January 1, 2015 the number of table egg layers was 1.5 percent higher than year-ago, while egg-type hatching layers were up 5.9 percent, pointing to further expansion by producers. Hatching egg production for 2015 is expected to increase 3.9 percent on larger broiler and table egg production.

For 2015, New York wholesale egg prices are forecast to average \$1.25 to \$1.34 per dozen, down from the record \$1.42 average for 2014.

Egg exports for 2015 are forecast at 400 million dozen, up 1.2 percent from 2014. In 2014, egg and egg product exports increased about 6.3 percent to 395.4 million dozen, shell egg equivalent. Most of the increase was due to greater shipments to Canada and Mexico.

Additional information regarding the 2015 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://www.ers.usda.gov/topics/animal-products.aspx>

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