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Agricultural Outlook Forum

Presented: February 17, 2006

OUTLOOK FOR U.S. LIVESTOCK AND POULTRY

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OUTLOOK FOR LIVESTOCK AND POULTRY

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Last year was a good year for the livestock and poultry industry. Returns continued to be favorable. Production of red meat and poultry was a record 87 billion pounds last year, with both pork and broilers hitting record output. Even with record meat output, livestock and poultry prices were strong. Both cattle and turkey prices were at record levels. Consumer demand remained strong. Meat consumption was more than 220 pounds per person, just slightly below 2004's record of 221.3 pounds, and retail prices for beef, pork, and broilers set records. Although the industry continued to grapple with the effects of BSE and Avian Influenza on trade, in addition to a disruptive hurricane season for the Gulf port area, it was still quite a positive year, especially as Japan's beef market was reopened in December. Pork and turkey exports reached records, while beef and broiler shipments showed recovery from 2004 declines.

But 2006 could be a bit more difficult. Input prices for grain and meal are expected to be favorable for production. Corn prices are expected to be slightly higher than in 2005, with prices rising more at the end of the year for the 2006/2007 corn crop. Soybean meal prices are slightly lower. There will also be greater supplies of distiller dry grains available for livestock feeding. Pasture and forage conditions are a growing concern for cattle because a much larger share of the U.S. beef cow area has become dry since last fall. The supply of red meat and poultry will approach 90 billion pounds in 2006, more than 3 percent higher than last year, and the strongest growth since 2002. Although the economic outlook is for GDP growth of 3 to 4 percent, there is increasing concern that high energy costs and rising interest rates could cut into consumer spending on meat. With increased supplies, each meat group will be competing against the other, and as a result consumers are likely to see lower prices at the meat case this year, and meat consumption is expected to approach 224 pounds per capita. A strengthening dollar, along with still relatively high meat prices, could affect export growth. The United States has already hit a bump in the road with Japanese beef trade, and any intensification of concerns over Avian Influenza will be critical for trade.

Cattle Herd Expansion Continues

U.S. cattle inventory expanded in 2005, a second year of rebuilding following 8 years of decline. The January 2006 *Cattle* report estimated that the number of cattle and calves on farms on January 1, 2006 was 97.1 million head. This was about 1.7 million head, or 1.7 percent higher than a year earlier. The number of retained beef heifers for breeding was up nearly 4 percent and the number of heifers expected to calve this year was up about 2 percent. The 2005 calf crop

was 37.78 million head, less than 1 percent above the relatively low 2004 crop. The pace of the expansion of the cattle herd over the last two years is on par with the start of the last expansion in 1991 and 1992. However, the relatively light calf crops and moderate calving expectations imply a relatively slow build up so far in this cattle cycle. Key to the rate of herd expansion will be how many of the replacement heifers not expected to calve this year will calve in 2007. Pasture and forage conditions will be key to producers' decisions to hold heifers, especially as the opportunity cost of retaining heifers remains very high.

Returns over cash costs to cow/calf producers were strong in 2005, and returns are expected to be positive this year. Feeder steer (750 to 800 pound) prices averaged a record \$110.94 per cwt in 2005, and prices are expected to remain near the \$100 mark this year. Corn prices in 2006 are expected to be modestly higher, rising at the end of the year. Forage conditions are a question mark at this time and could still affect the pace of expansion this year. Parts of the Southern Great Plains cow/calf areas of Texas and Oklahoma turned very dry last fall, and dryness has continued to spread into large parts of the Great Plains cow area. The number of cattle and calves on small grain pastures on January 1, 2006 fell 32 percent compared with a year earlier. Indicative of the developing forage problem was the strong placements of cattle into feedlots during the last quarter of 2005.

On January 1, 2006 the total number of cattle on feed in all U.S. feedlots was over 14.1 million head, about 3 percent higher than a year earlier, and was the third highest on record for January 1. Supplies of cattle outside of feedlots are estimated to be about 2 percent higher than last year. Cattle placements in 2006 are expected to be about 2 percent higher, with the strongest growth coming during the first half of the year before tailing off during the second half as a relatively ample supply of cattle are worked through the system. Part of the increase is accounted for by the availability of Canadian cattle under 30 months of age. Cattle imports from Canada resumed last July. By the end of the year, 558,000 head were shipped south, of which approximately 40 percent were feeder cattle. Cattle imports from Canada are still limited to animals under 30 months of age for placement in feedlots or for immediate slaughter in 2006, and shipments are expected to be around 1 million head.

Fed cattle marketings in 2006 are expected to be about 3 percent higher than in 2005, and commercial slaughter about 5 percent higher. Steer and heifer slaughter has been flat the past two years, but should increase this year, supplemented by increased slaughter cattle imports from Canada. Commercial cow slaughter declined about 6 percent in 2005, but is forecast to gain about 2 percent in 2006. But cow slaughter will still be cyclically low. Average carcass weights are projected slightly above 2005 when average weights increased by 13 pounds to 763 pounds per head. Total commercial beef production in 2006 is forecast at almost 26 billion pounds, up from 24.7 billion pounds last year.

The Choice fed steer price in 2005 was a record \$87.28 per cwt. In 2006, the steer price is forecast to decline slightly and average \$83 to \$87 per cwt. Prices have remained in the low \$90's so far this year but are expected to fall to the mid to upper \$80's through midyear, then drop to the low \$80's for the second half of the year. Weekly wholesale boxed beef prices

averaged about \$145 per cwt last year and have been in the low \$150's per cwt through the first few weeks of this year. In the fall of 2005 the percentage of cattle grading Choice or better turned consistently below year earlier levels. Supplies of Choice beef are tight, keeping boxed beef prices near a year ago, and resulting in a Choice-Select spread well above average. In 2005, retail beef prices were a record \$4.09 per pound. Increased supplies of competing meats and more beef output is expected to push beef prices down somewhat, but they are still expected to average in the mid-\$3.90's per pound for the year.

In 2006, beef exports are forecast at 905 million pounds, one-third higher than in 2005, as more markets are open to U.S. beef. In 2005, beef exports totaled 689 million pounds, about 27 percent of the 2003 pre-BSE level, as the major Asian markets of Japan and Korea remained closed to U.S. beef. Taiwan reopened its market to U.S. beef briefly in 2005 and shipments in May and June were well above the usual monthly averages prior to the BSE ban, indicating strong demand for U.S. beef in the market. After the second case of BSE was announced in June 2005, Taiwan closed the door again. In the meantime, Mexico and Canada remained the largest markets for U.S. beef. This year, beef exports started off with the Japanese beef market opened, several other Asian markets reopening in January, and negotiations progressing on reopening the South Korean beef market. But now shipments are expected to lag because of Japan's temporary suspension of imports from the United States until the investigation of the problem veal shipment is completed and Japan is satisfied with the U.S. inspection program. Shipments to Japan in the latter quarters of 2006 are likely to be limited even as the market reopens because of relatively high U.S. beef prices and competition with cheaper imported beef from Australia and other competing meats.

U.S. beef imports are forecast at 3.5 billion pounds in 2006, down about 3 percent from 2005 when imports reached 3.6 billion pounds. Imports in 2005 declined about 2 percent from 2004 due largely to reduced shipments from Australia and New Zealand. Shipments from Canada, the second largest source of beef imports, were up about 3 percent from the previous year. Beef imports in 2006 are forecast lower because shipments from Australia and New Zealand are not expected to increase while herd rebuilding takes place. A modest increase in U.S. cow beef output in 2006 will also help offset some the strong demand for manufacturing beef that has existed over the last two years as U.S. cow slaughter dropped. Canadian beef shipments to the United States could flatten this year, especially as Canada's recently imposed duty on U.S. corn imports causes some Canadian producers to send more of their cattle to U.S. feedlots than would be expected if the duty were not in place.

Hogs Cautiously Advance

U.S. hog numbers continued to expand at a moderate rate in 2005 and are expected to do the same in 2006. The December 1, 2005 hog inventory was about 61.2 million head, up less than 1 percent from a year earlier. The breeding herd was also up less than 1 percent at just over 6 million head, about where the breeding herd has remained in recent years. Looking into 2006, hog producers are not expected to expand much at all. The December *Quarterly Hogs and Pig*

report showed that producers only intend to farrow 0.9 percent more sows during the December 2005 to May 2006 period. Sows farrowing in the second half of 2006 are also expected to be only fractionally higher than 2005. Pigs per litter in 2005 averaged 9.01 head, the strongest year-over-year gain since the late 1990's. Continued gains in pigs per litter, estimated to average about 9.06 head in 2006, will help to provide about a 1-percent larger pig crop to slaughter in 2006.

Hog slaughter in 2006 is expected to reach about 105.6 million hogs, 2 percent higher than in 2005. In addition to increased domestic hog supplies, slaughter continues to be supplemented with imports of hogs from Canada. If Canada's implementation of duties on U.S. corn remains in place, it is expected to result in increased hog imports in 2006. In 2006, hog imports are expected to reach 8.7 million head, an increase of almost 500,000 head from 2005. Two-thirds of the hog imports are expected to be feeder pigs. In 2006, commercial pork production is forecast at a record 21.2 billion pounds, more than 2.5 percent larger than 2005's record output of 20.7 billion pounds. Average hog carcass weights are expected to rise about 1 pound this year, compared with a 1.5-pound gain in 2005.

Hog prices were quite strong during the last two years. In 2005, the national base, 51%-52% lean, live equivalent hog price averaged \$50.05 per cwt, down about 5 percent from 2004, but still the second highest since 1997. This year, the hog price is forecast at \$42 to \$45 per cwt, 13 percent lower than last year. Prices will be pressured by higher pork production as well as increased production of competing meats. In addition, pork export growth is expected to slow after two years of 20 percent plus gains. Hog prices are expected to peak seasonally at \$45 to \$47 per cwt during the second quarter, and then decline through the end of the year. The wholesale pork carcass cutout price remained firm in 2005, averaging nearly \$70 per cwt, down about \$3 from 2004. However, wholesale prices have started this year off considerably weaker than a year earlier, dropping into the mid-\$50's per cwt in early February. Pork retail prices are expected to be in the mid-\$2.70's per pound range for 2006. This would be down from 2005's record price of \$2.83 per pound.

Pork exports in 2006 are forecast at a record 2.76 billion pounds, up nearly 4 percent from 2005's record shipments of 2.66 billion pounds. A record 1 billion pounds of U.S. pork was shipped to Japan last year, as well as record shipments to Mexico and South Korea. U.S. pork continued to be a substitute in Asian markets to fill gaps created by beef and poultry bans due to BSE and Avian Influenza. Trade was also strong to Canada, Russia, and China. Shipments to Mexico, the second largest U.S. pork market, grew less than 1 percent, likely because of increased beef imports last year. But demand in Mexico's retail and processing sectors remain strong for pork. Opportunities exist for improved trade in 2006, but increased access for U.S. beef in various markets could slow shipments somewhat. An outbreak of foot-and-mouth disease in Brazil last fall could hamper one of the world's largest pork exporters, as various markets have banned Brazilian product. This would be especially true of the Russian market where Brazil has been supplying more than 60 percent of total Russian imports over the past couple of years.

Pork imports are forecast at 1 billion pounds in 2006, about 2 percent less than in 2005. Canada provides about 83 percent of all U.S. pork imports. Shipments of pork from Canada have declined as live hog shipments have expanded over the past three years, and a weakening U.S. dollar vis-a-vis the Canadian dollar made pork shipments less price competitive.

Sheep and Lamb Inventory Increases

In 2005, the inventory of all sheep and lambs increased for a second year. On January 1, 2006 the inventory of sheep and lambs was 6.23 million head, an increase of 2 percent. The breeding sheep inventory also gained 2 percent from a year earlier. The 2005 lamb crop increased 1 percent to 4.13 million head. In 2006, commercial production of lamb and mutton is projected at 202 million pounds, up about 7 percent from 2005, and the first production increase since 1990. Production in 2005 dropped to 188 million pounds, the lowest level of output on record as more lambs were retained last year as producers continued to rebuild herds.

In 2006, lamb and mutton imports are expected to be 184 million pounds, about 4 percent higher than in 2005. Imports in 2005 were 180 million pounds, unchanged from 2004, as increased shipments from Australia offset reduced imports from New Zealand. Even though U.S. lamb prices were record high, tight lamb supplies in Oceania limited shipments last year.

The tight U.S. supplies of lamb resulted in record high lamb prices in 2005. The Choice slaughter lamb price averaged a record \$97.76 per cwt last year. Prices are expected to decline slightly to \$90 to \$96 per cwt in 2006 as production starts to recover.

Broiler Production Continues to Expand

Broiler production is forecast at a record 36.1 billion pounds in 2006. This is about 2 percent higher than 2005 production, which reached 35.3 billion pounds. Broiler output grew about 4 percent during each of the last two years and prices were very strong. Last year the increase in broiler meat production was attributable to 3 percent higher live weights and only a 1-percent gain in the number of birds slaughtered. There has been a large shift towards demand for larger birds for cut-up. Weekly hatchery data for sets and placements were considerably weaker for the first 6 weeks of this year compared with last year. With increasing uncertainty in trade because of Avian Influenza, a large build up in broiler stocks at the end of last year, and weakening prices since last fall, the result is likely to be reduced growth in production this year.

The 12-city wholesale broiler price is forecast to average 65 to 69 cents per pound in 2006, down from a record 73.4 cents in 2005. Favorable returns over the last couple of years has generated production that has been weighing on broiler prices this year. In addition, lower beef and pork prices are expected to put downward pressure on broiler prices. The fall off in broiler prices is most evident in the parts complex. Through September 2005, the Northeast boneless/skinless breast price averaged over \$1.40 per pound, but the current price has fallen to around \$1.00 per

pound. Likewise, the Northeast leg quarter price in September was over 47 cents per pound, but is currently averaging in the low- to mid-20 cents per pound. Increased supplies and slowing export movement are weighing on prices.

U.S. broiler meat exports are forecast to increase almost 5 percent to 5.4 billion pounds in 2006, but the export situation is in a state of flux because of Avian Influenza (AI) outbreaks that have dampened the demand for broilers in markets in parts of Asia and Eastern Europe. Broiler exports in 2005 totaled 5.15 billion pounds, up nearly 8 percent from 2004. However, shipments were much weaker than expected in the last quarter of the year, dropping almost 14 percent from a year earlier. December shipments to Russia, the other Commonwealth of Independent States, the Baltic States, and Eastern Europe were down sharply because of concerns about AI and weaker demand for poultry meat. Past experience has shown that disease outbreaks have often resulted in short-term disruptions of consumption and trade. Thus, broiler exports through the first half of the year are expected to fall below year ago, but then recover somewhat in the last half if AI related concerns do not intensify. Exports should also be supported by lower expected broiler parts prices.

Turkey Market Holding Firm

Turkey production in 2006 is forecast to increase more than 1 percent to about 5.6 billion pounds. Turkey output remains below the highs of around 5.7 billion pounds reached in 2002 and 2003. Output in 2005 was less than 1 percent higher than the previous year. The total number of turkeys slaughtered in 2005 was down 2.7 percent from the previous year, but average live weights were up 3.3 percent, accounting for the slight gain last year. Hatchery set and placement data has turned mostly positive. Eggs set in incubators in January was nearly 6 percent higher than a year ago. With limited production, turkey prices continued to rise last year. Turkey hen prices were a record 73.4 cents per pound in 2005. With production gains still limited this year, prices in 2006 are forecast to remain firm at 70 to 75 cents per pound.

Turkey exports rose almost 29 percent in 2005 to 569 million pounds. Turkey exports are forecast to rise 5 percent to a near record 600 million pounds in 2006. Shipments to Mexico were a record 354 million pounds last year and are expected to continue to grow as Mexico's demand for meat increases.

Egg Production Up Slightly and Prices Firm

U.S. egg production is forecast to increase about 2 percent in 2006. Table egg production is expected to be about 2 percent higher, and hatching eggs up about 1 percent. Egg production was up less than 1 percent in 2005, as producers reacted to the large drop in egg prices during the last half of 2004. The laying flock was on average about 1 percent higher in 2005, with much of the strong growth early in the year. During the last half of the year, growth in the laying flock was on average below a year earlier. Egg exports reached 209.6 million dozen in 2005, the

highest since 1998, as shipments were up sharply to Japan and the EU. In 2006, egg exports are forecast at 200 million dozen. Wholesale egg prices in 2005 were 65.5 cents per dozen, and prices are forecast to average between 68 to 73 cents this year as production increases are limited and exports are expected to be firm.

Additional information about the 2006 livestock and poultry forecasts are available at:

World Agricultural Supply and Demand Estimates

<http://www.usda.gov/oce/commodity/wasde/index.htm>

Livestock, Dairy, and Poultry Situation and Outlook

<http://www.ers.usda.gov/publications/ldp/>

Livestock and Poultry: World Markets and Trade

<http://www.fas.usda.gov/dlp/dlp.html>

Outlook for U.S. Livestock and Poultry in 2006

Joel L. Greene

World Agricultural Outlook Board, USDA

USDA Agricultural Outlook Forum

Washington, D.C.

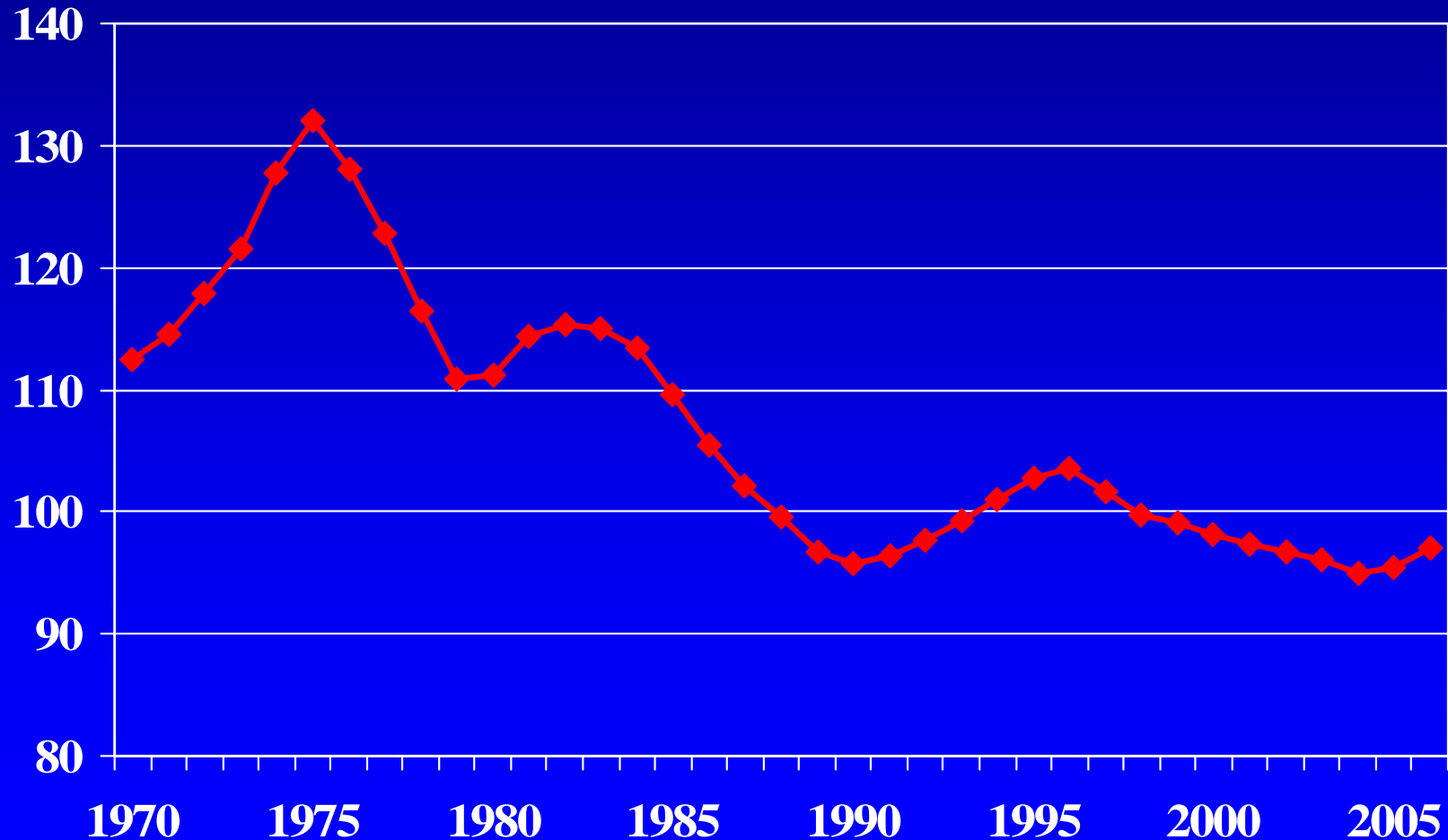
February 17, 2006

Key Factors Influencing Livestock and Poultry in 2006

- **Firm economic growth in U.S. and world**
- **High energy and interest costs**
- **Appreciating, albeit slowly, U.S. dollar**
- **Little change in feed costs this year**
- **Cow areas turned dry**
- **Diseases affect meat export markets**
- **Domestic meat supplies will be large**

Cattle Inventory Rises for Second Year, January 1 Inventory at 97.1 Million Head

Million Head

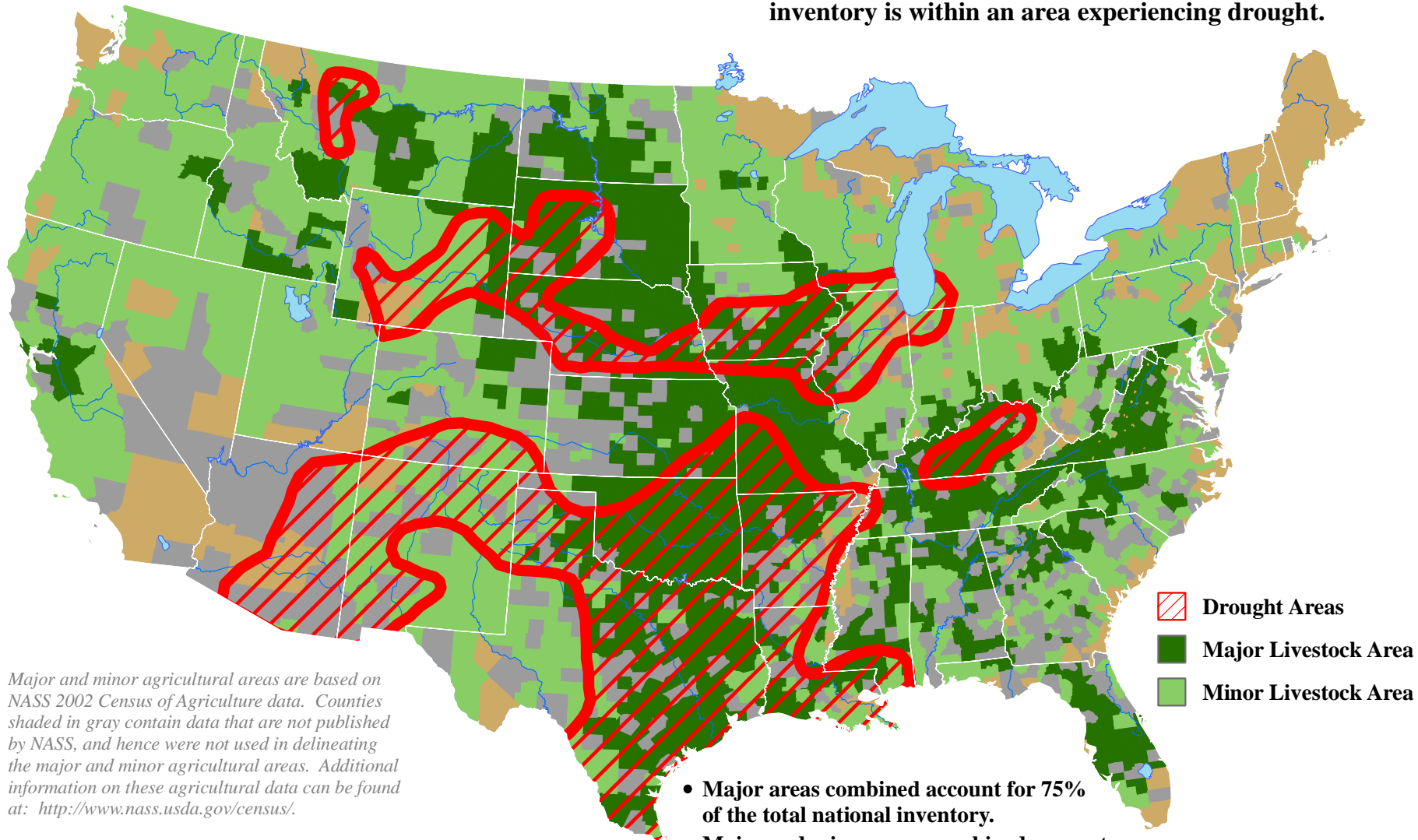


World Agricultural Outlook Board

U.S. Beef Cow Areas Experiencing Drought

Valid: January 24, 2006

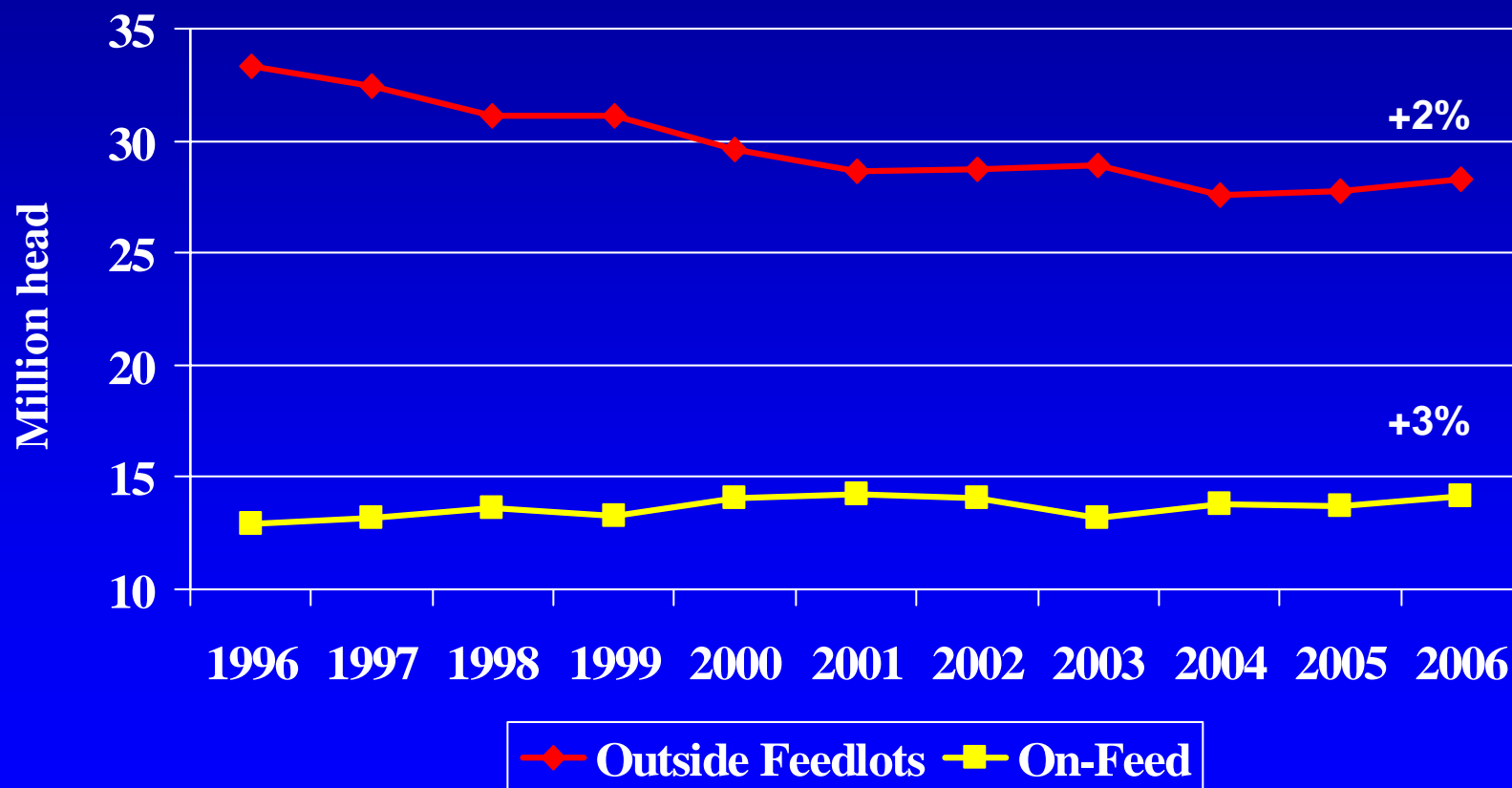
Approximately **42%** of the domestic beef cow inventory is within an area experiencing drought.



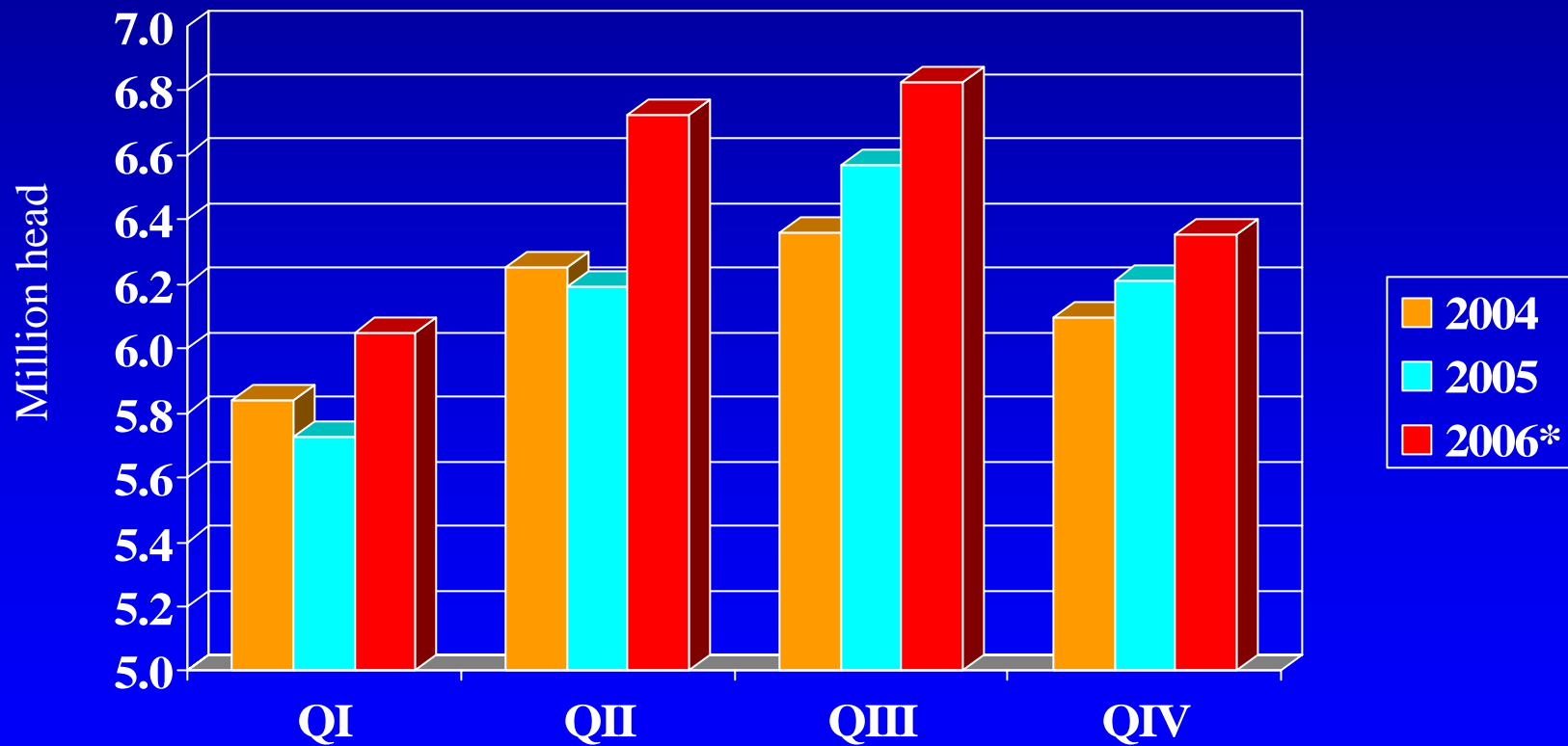
Major and minor agricultural areas are based on NASS 2002 Census of Agriculture data. Counties shaded in gray contain data that are not published by NASS, and hence were not used in delineating the major and minor agricultural areas. Additional information on these agricultural data can be found at: <http://www.nass.usda.gov/census/>.

Mapped drought areas are derived from the U.S. Drought Monitor product and do not depict the intensity of drought in any particular location. This map is not used for USDA programs. More information on the Drought Monitor can be found at: <http://www.drought.unl.edu/dm/monitor.html>.

Cattle On Feed Up On January 1 Higher, Supplies Outside Feedlots Also Up

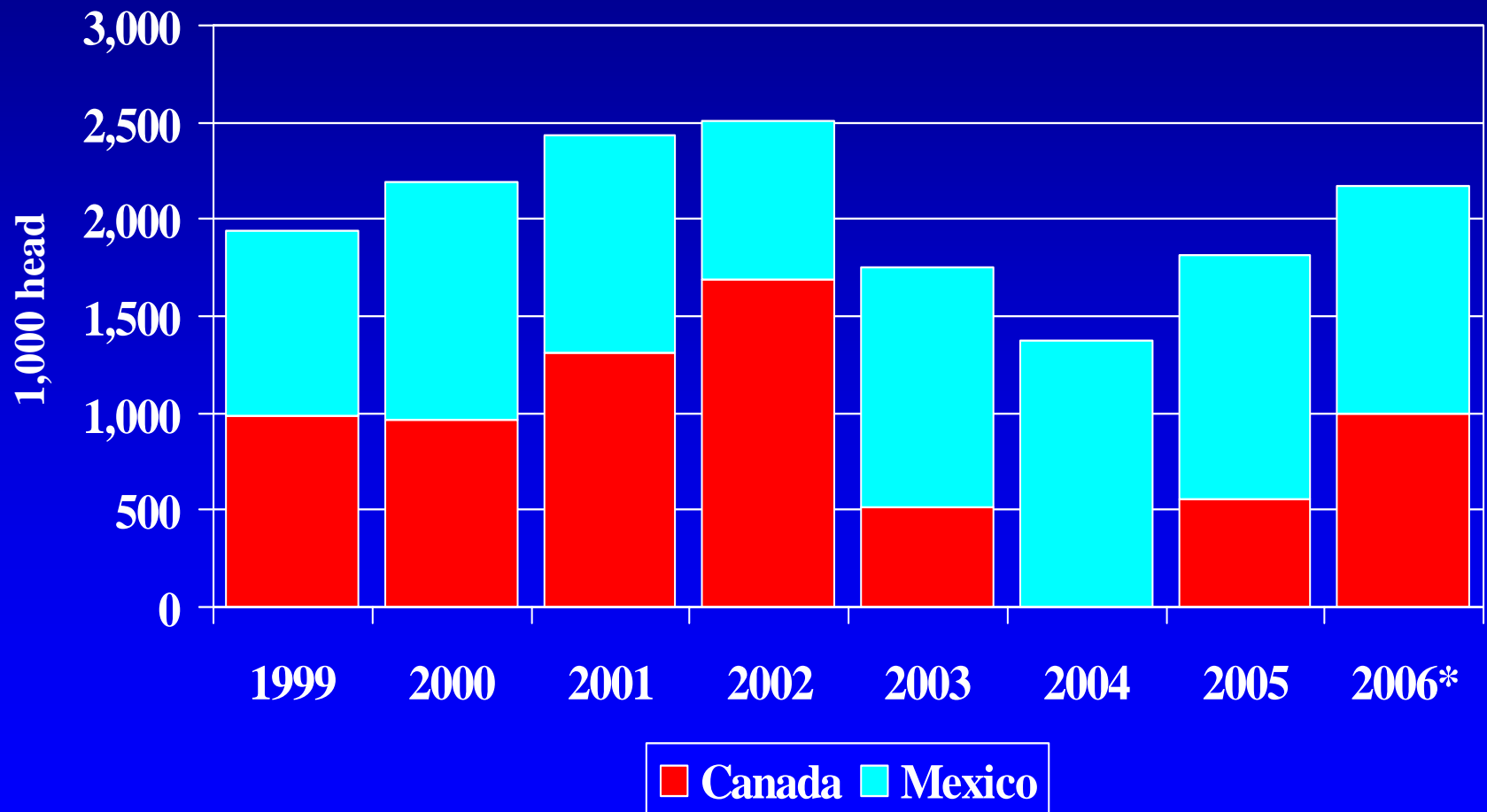


Beef Output Rises 5 Percent to Nearly 26 Billion Pounds



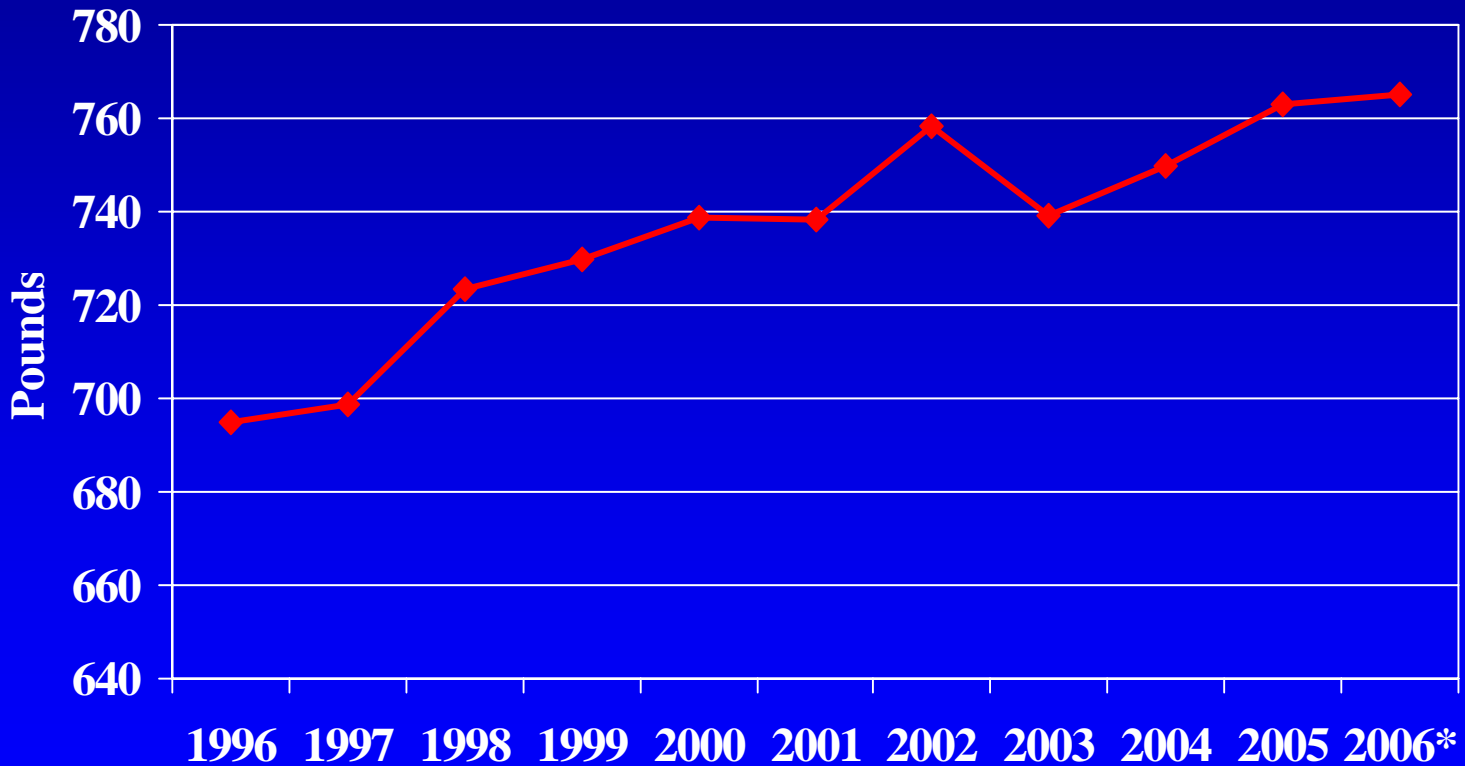
* Forecast

Cattle Imports Above 2 Million Head for First Time Since BSE Discoveries in 2003



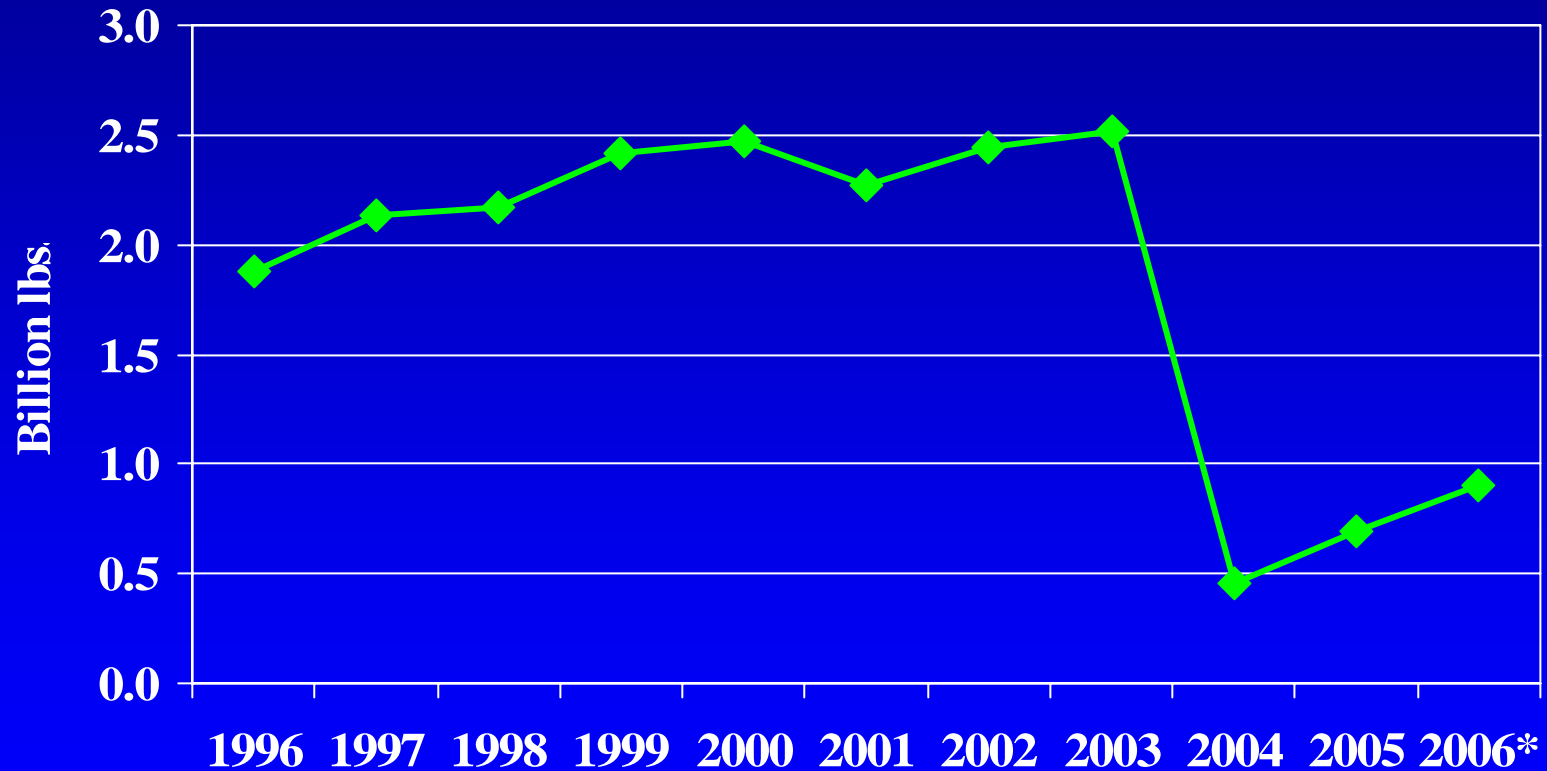
* Forecast

Average Cattle Carcass Weights Rise Less Sharply in 2006



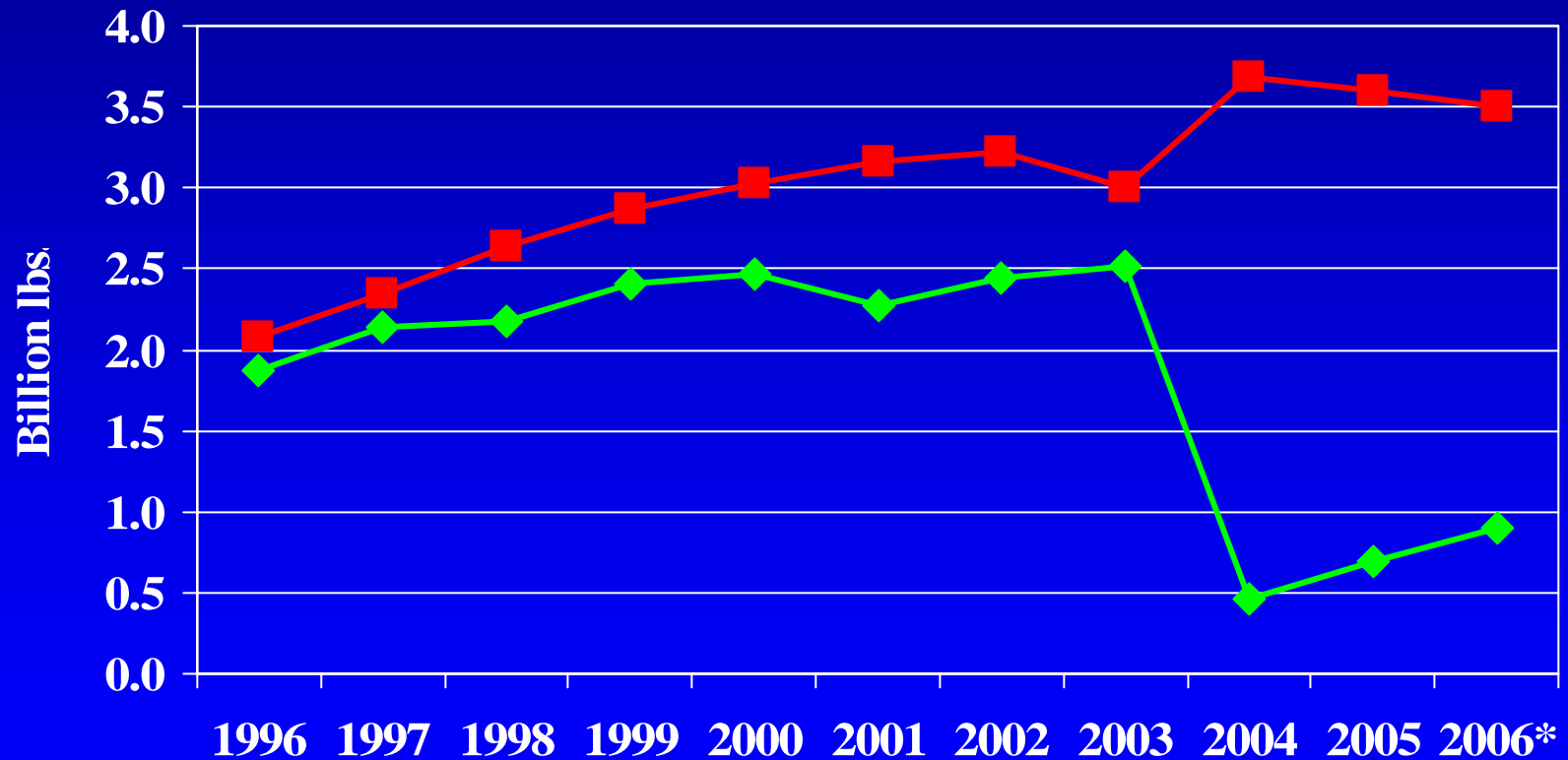
* Forecast

Beef Continues to Recover From BSE Bans, Exports at 905 Million Pounds



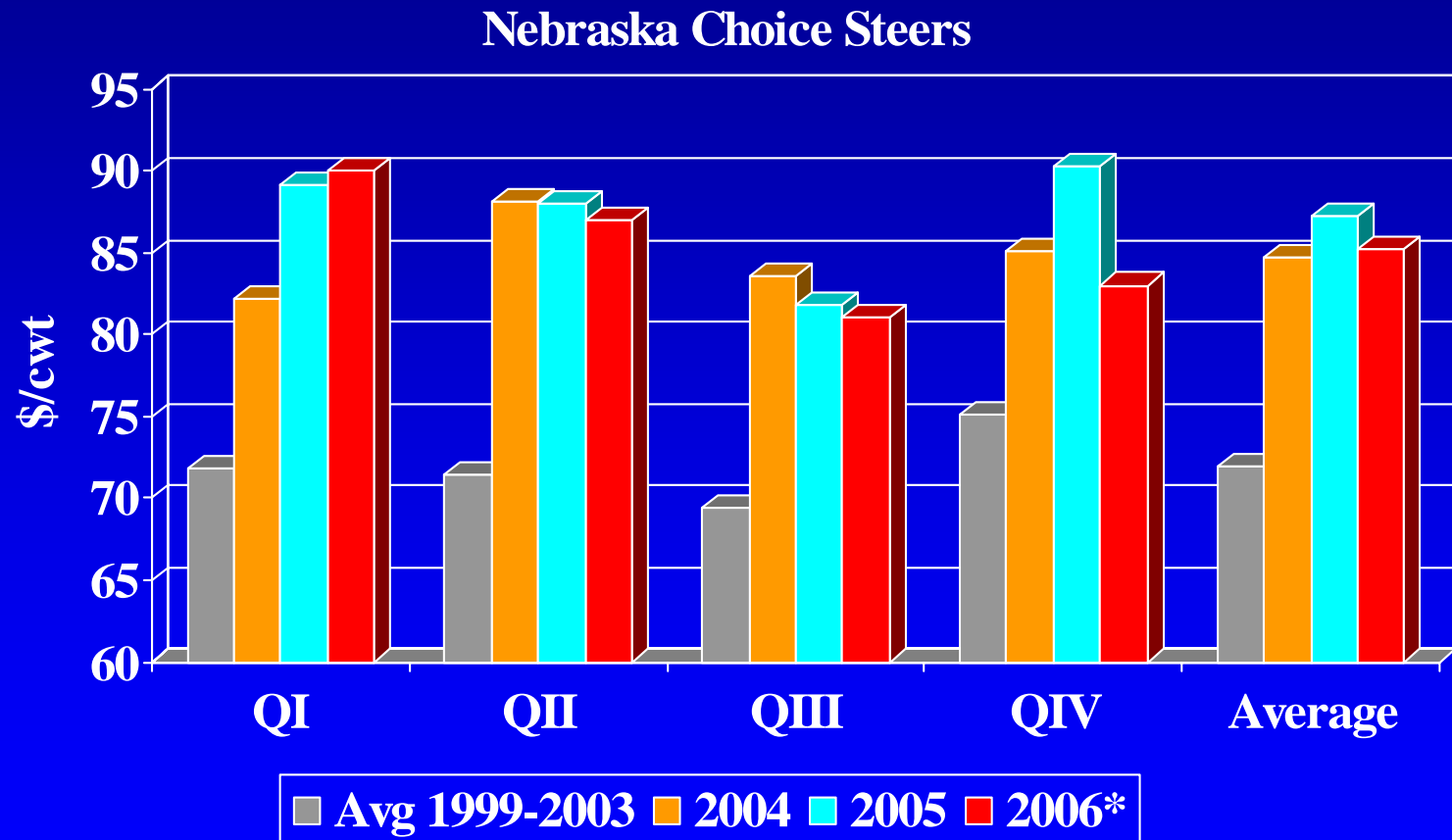
* Forecast

Beef Exports Recover, Beef Imports Decline to 3.5 Billion Pounds



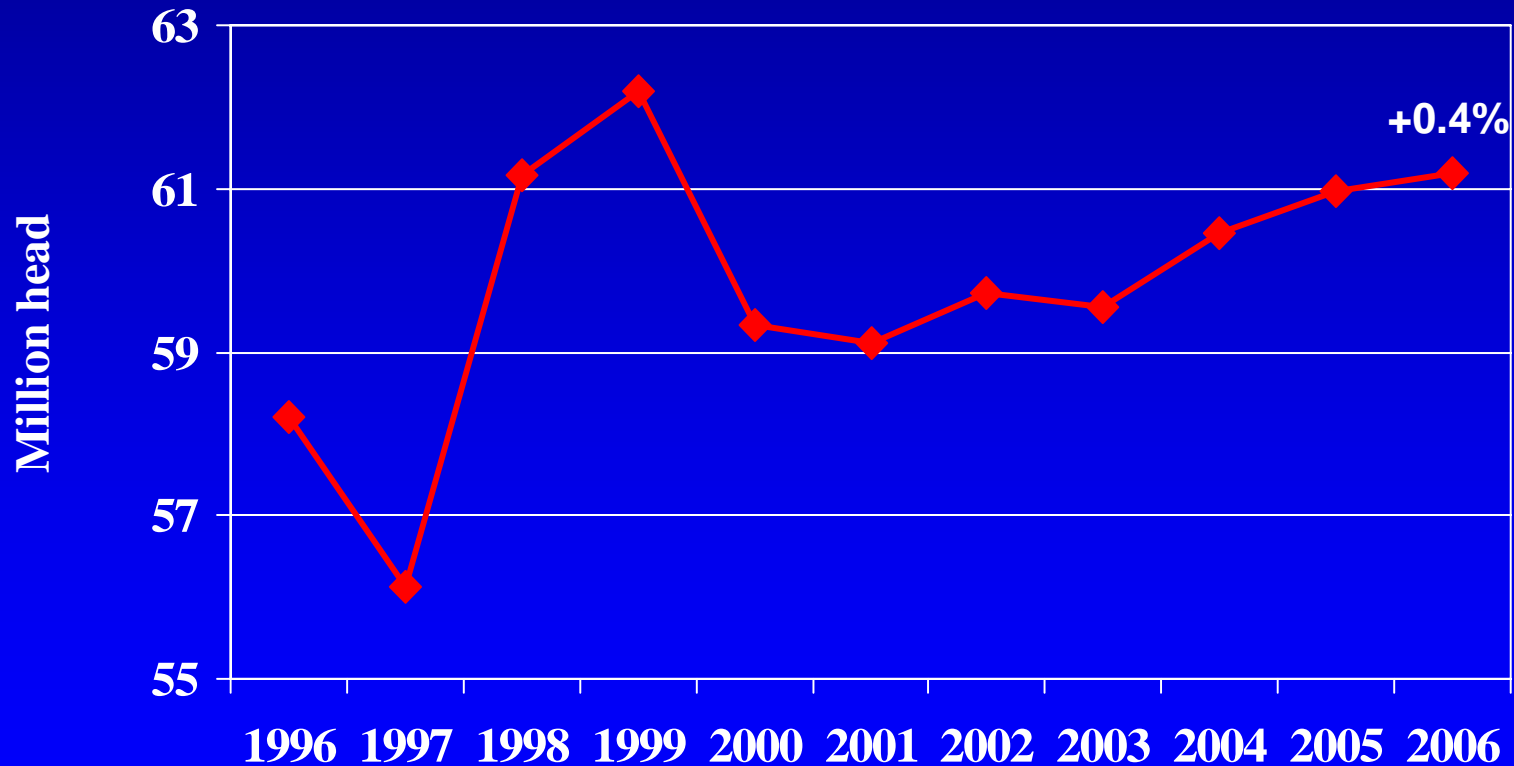
* Forecast

Cattle Prices to Average \$83-\$88/cwt, Lower Than 2005, About Even With 2004

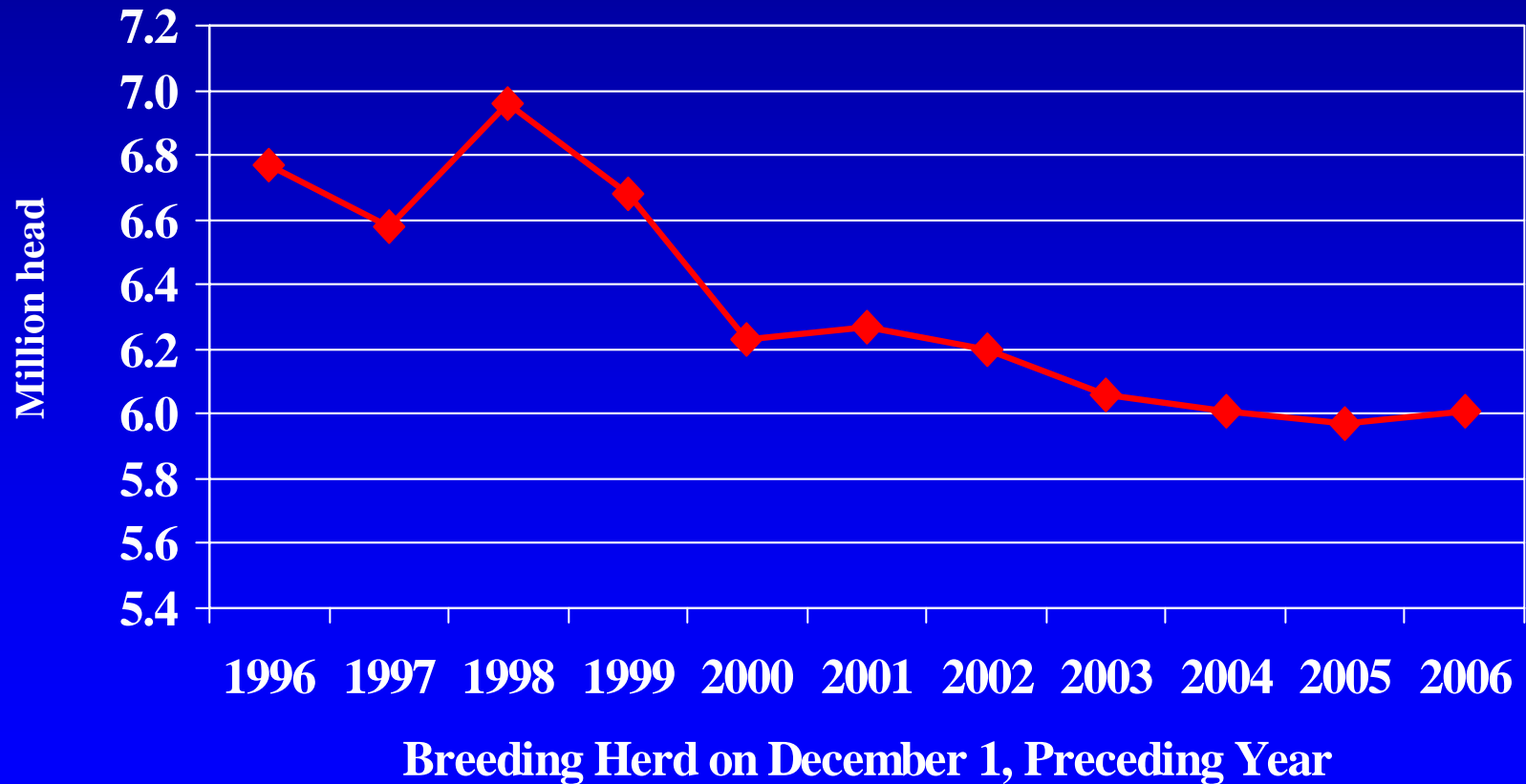


* Forecast

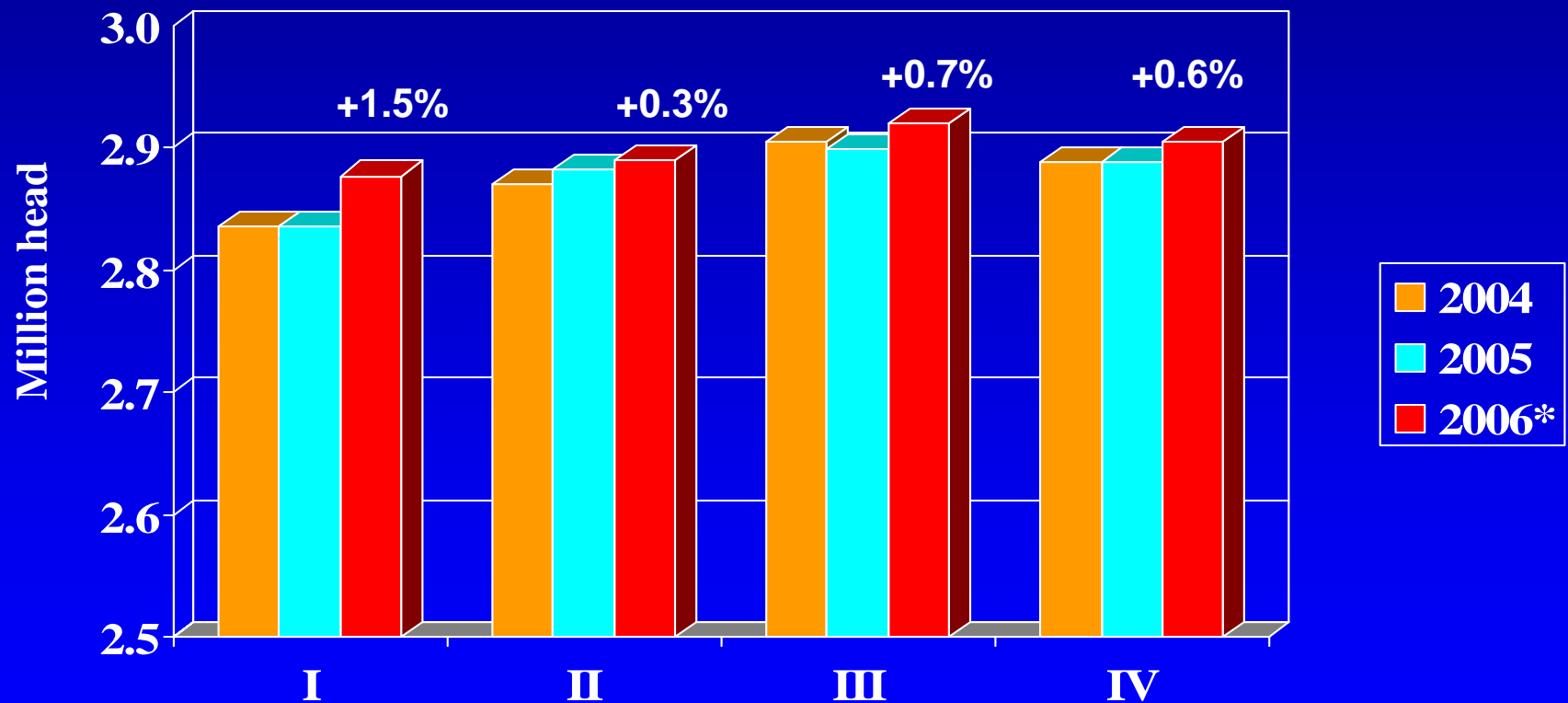
Hog Inventory on December 1 Modestly Higher At 61.2 Million Head



Breeding Herd Has Leveled Off Around 6 Million Head

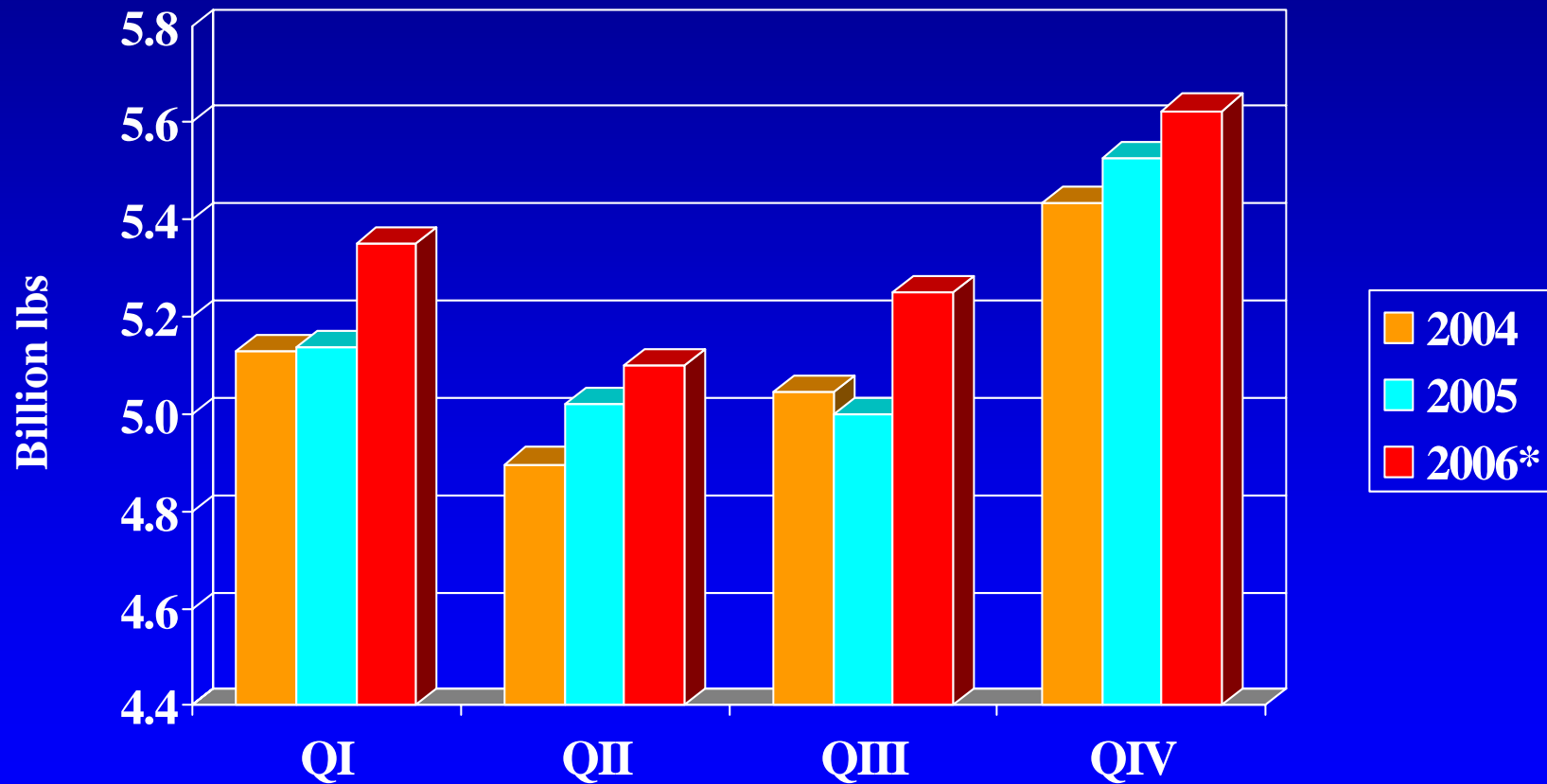


Sows Farrowing Expectations Still Rather Modest in 2006



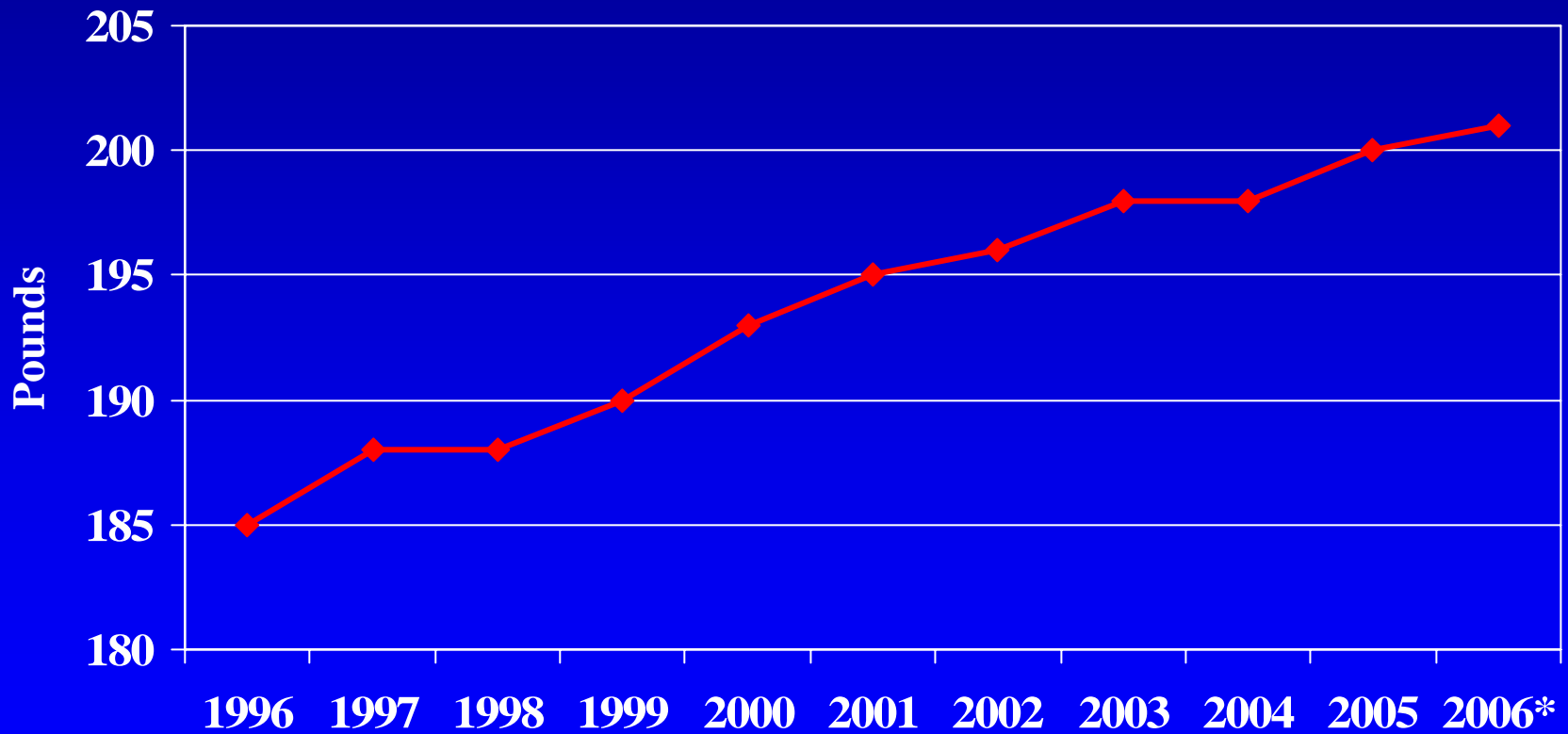
* First Half Reported Intentions,
Second Half Forecast

Pork Production to Rise to a Record 21.1 Billion Pounds



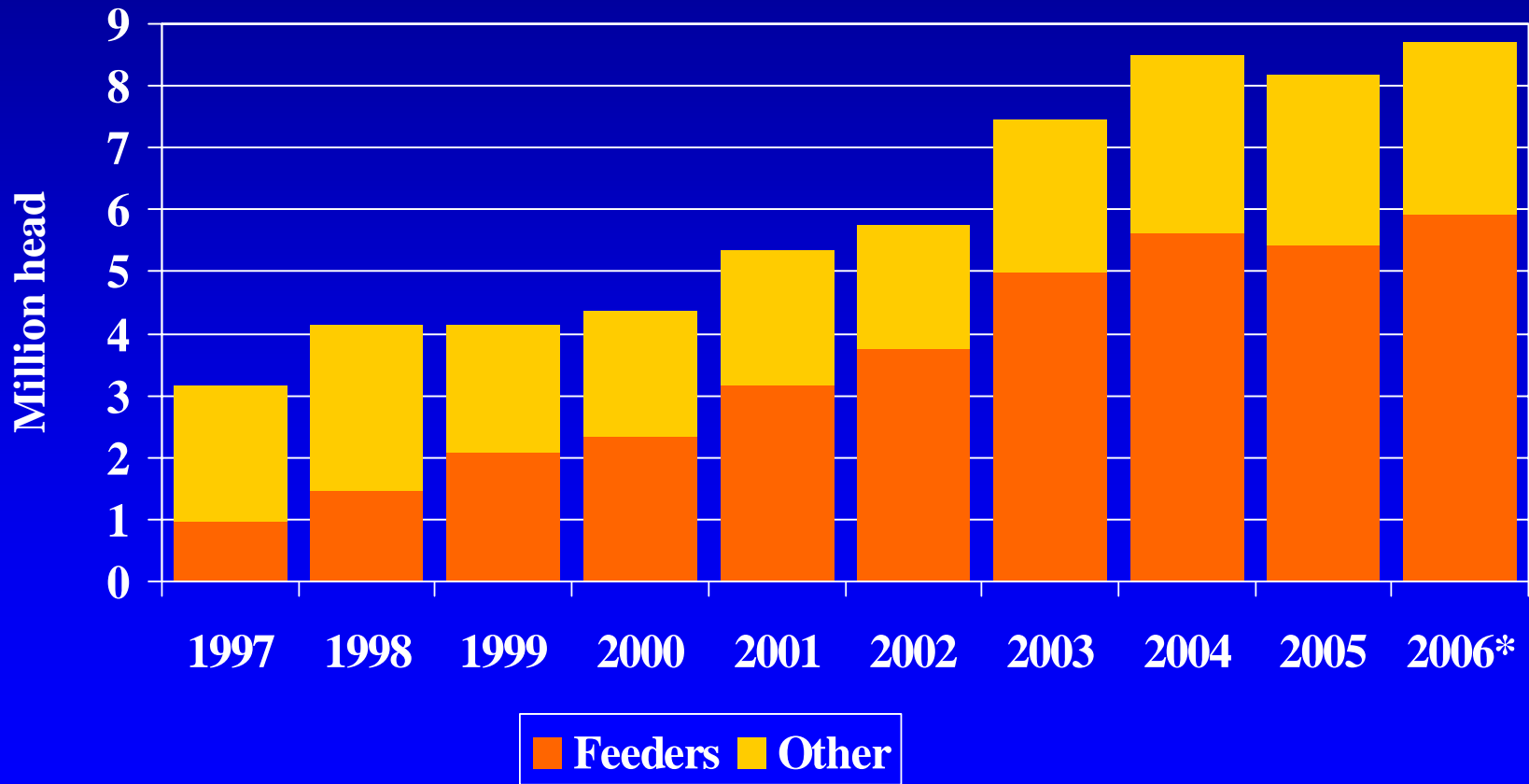
* Forecast

Hog Weights Continue Upward Trend



* Forecast

Hog Imports to Surpass 2004, Feeder Pig Share Expected to Increase



* Forecast

Pork Export Growth Expected to Slow, But Still Record 2.76 Billion Pounds



* Forecast

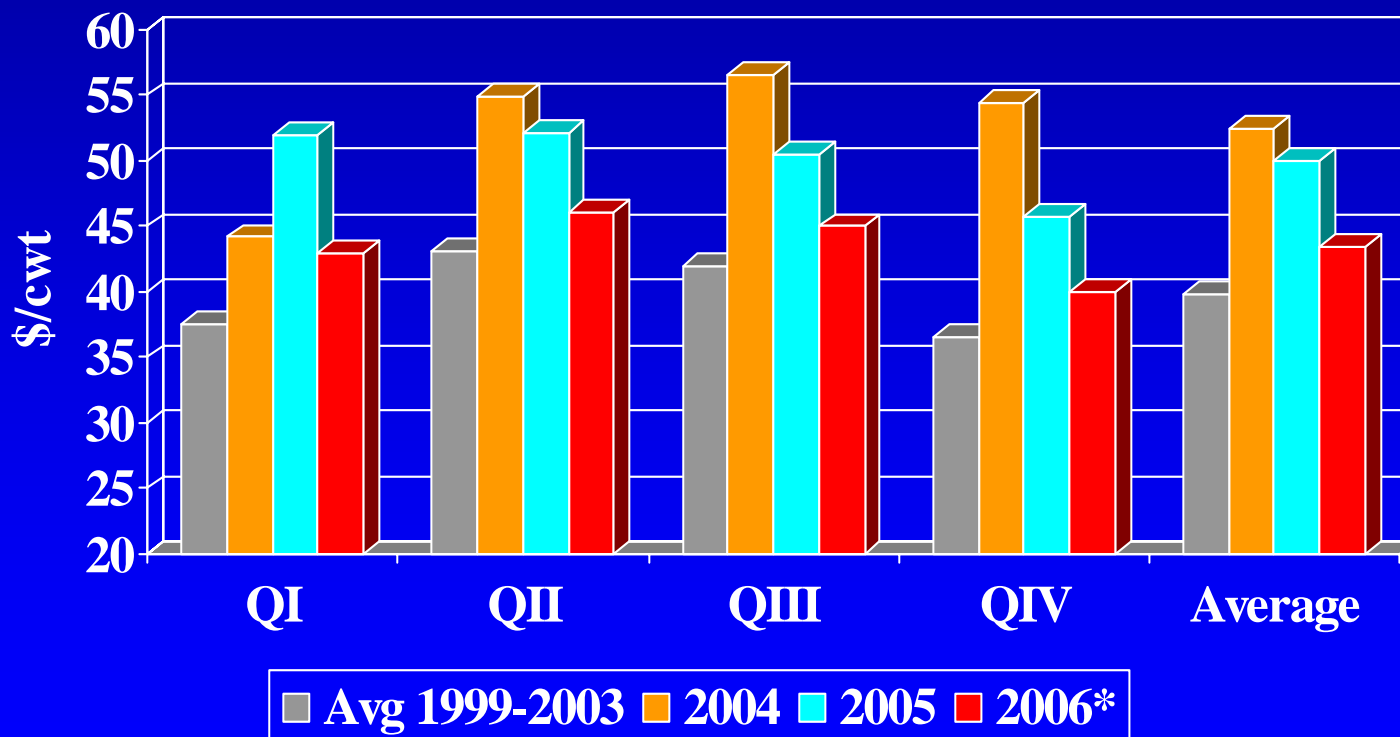
Strong Pork Exports, But Pork Imports Continue to Slow



* Forecast

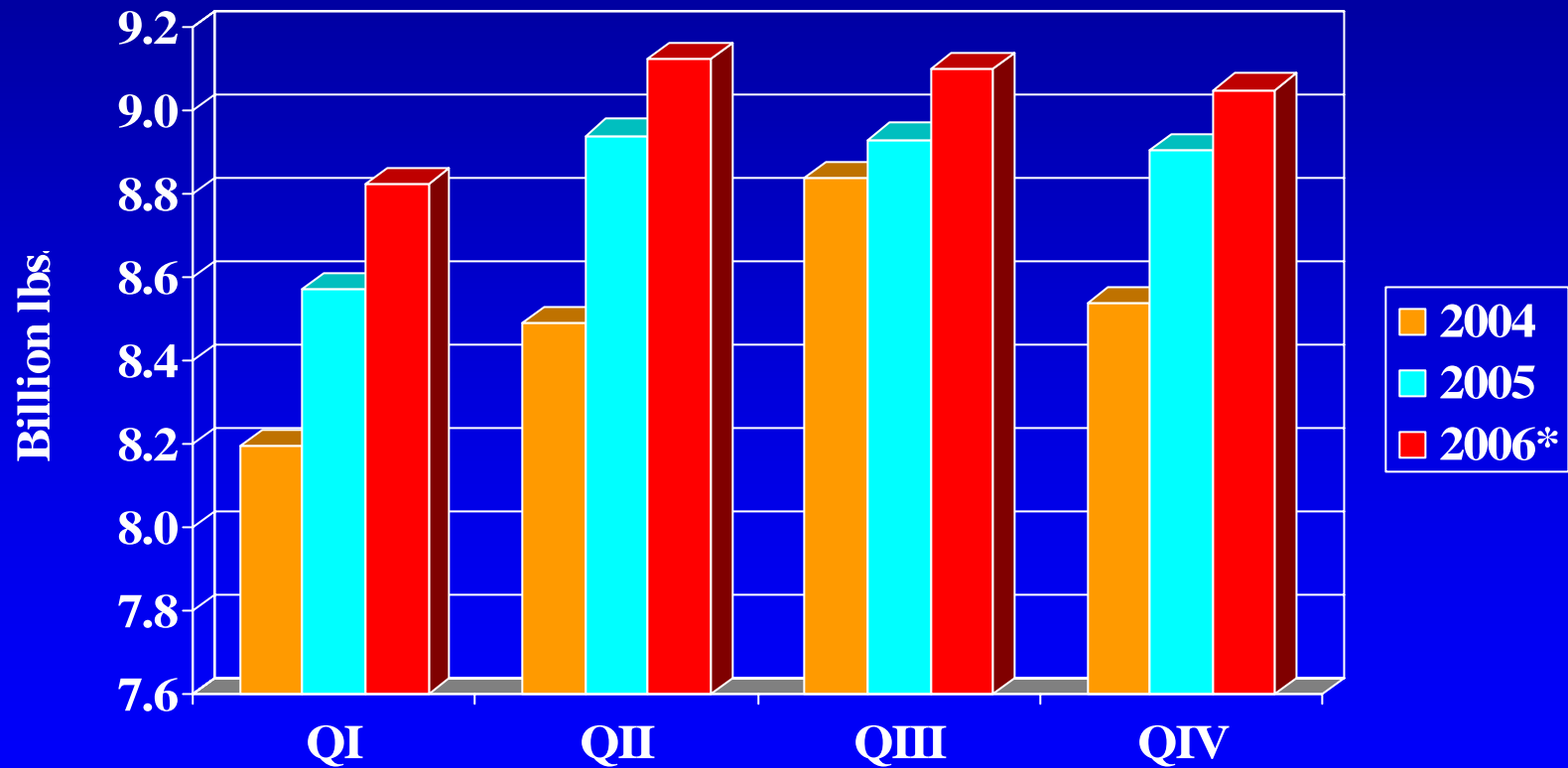
Hog Prices Drop Below Last Two Years to \$42-45/cwt, But Above Earlier Average

National Base, Live Equivalent



* Forecast

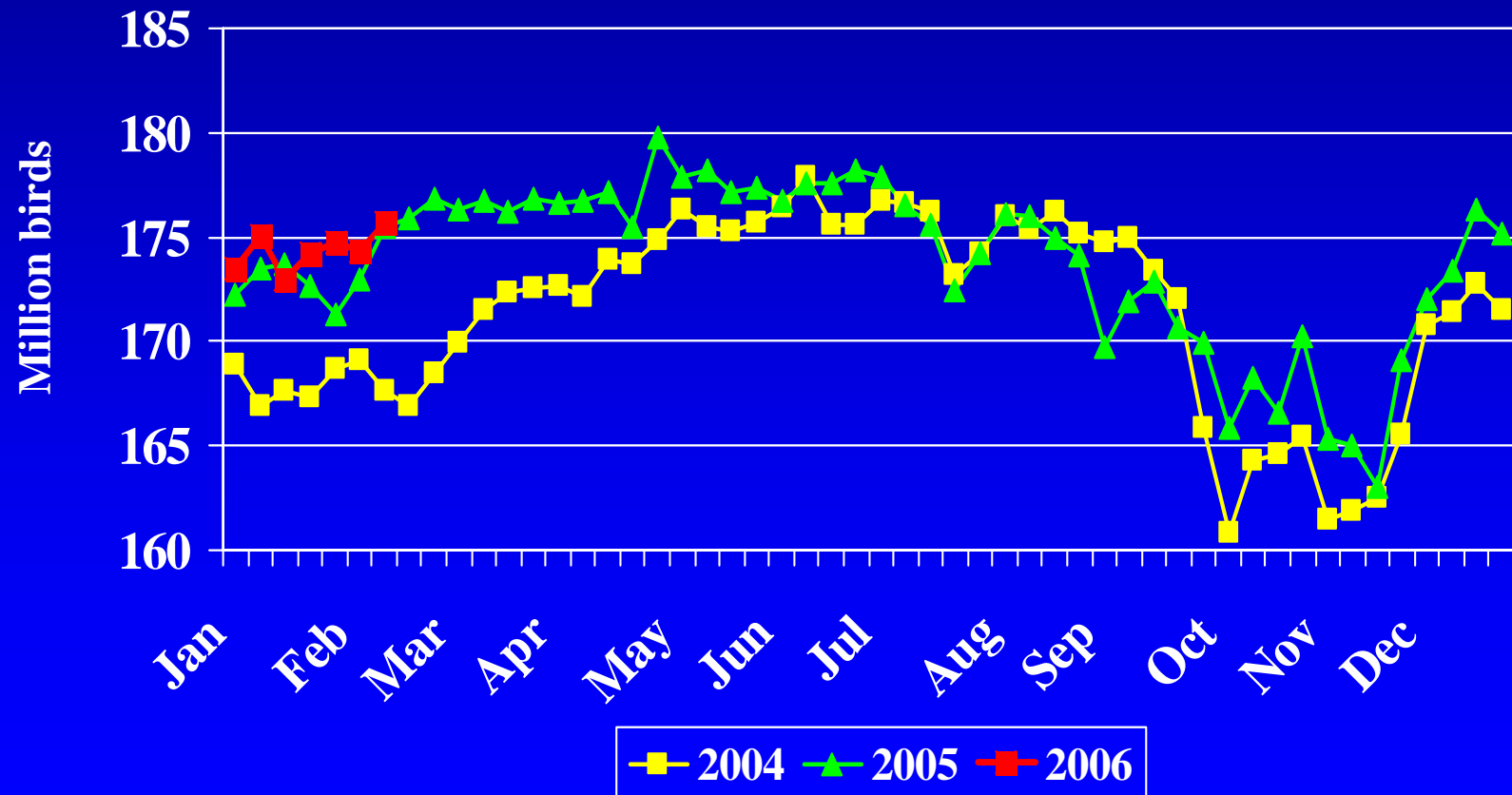
Broiler Output Up 2 Percent to 36.1 Billion Pounds



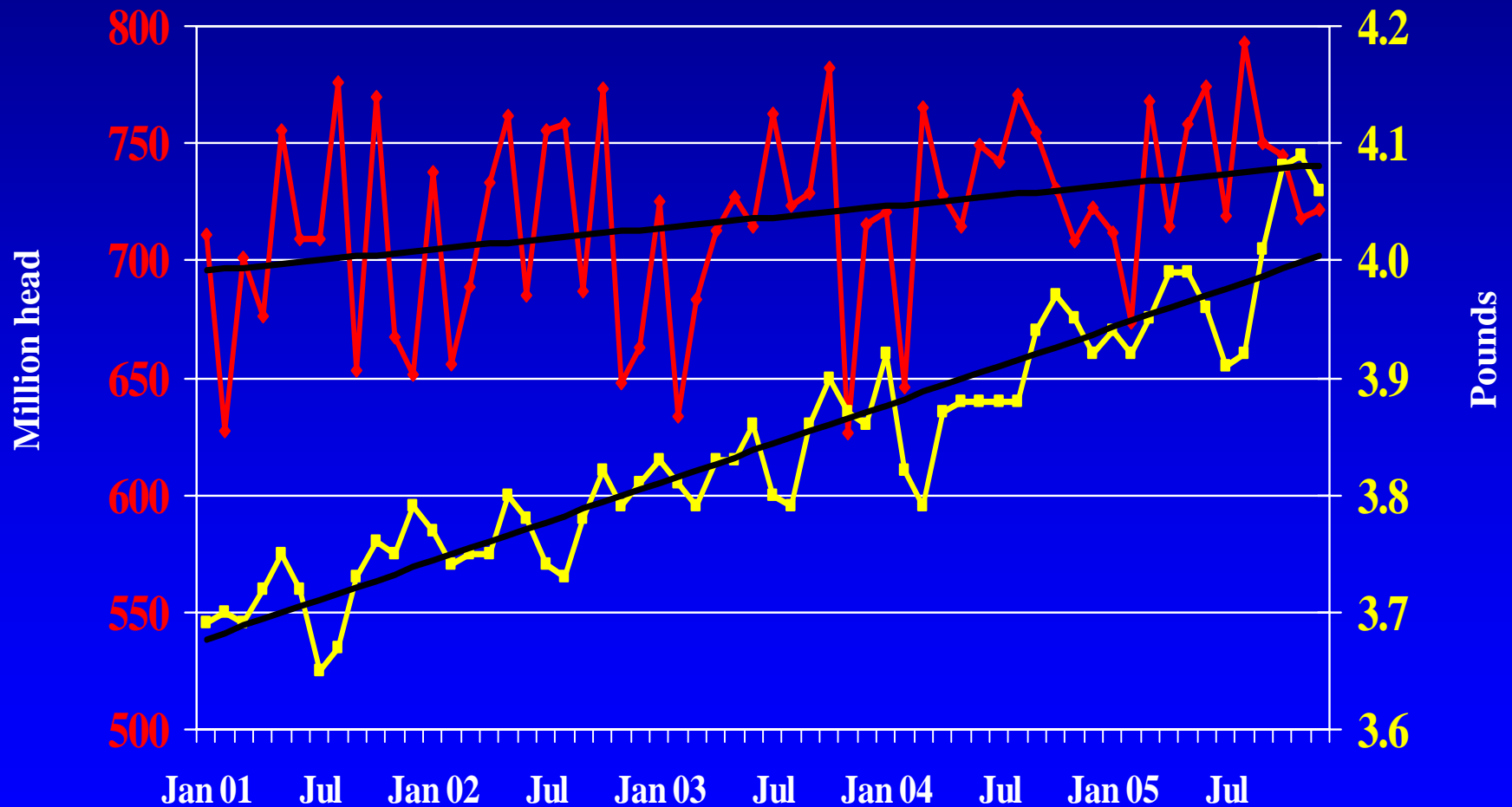
* Forecast

Chicks Placed For Grow Out Tracking With Last Year So Far

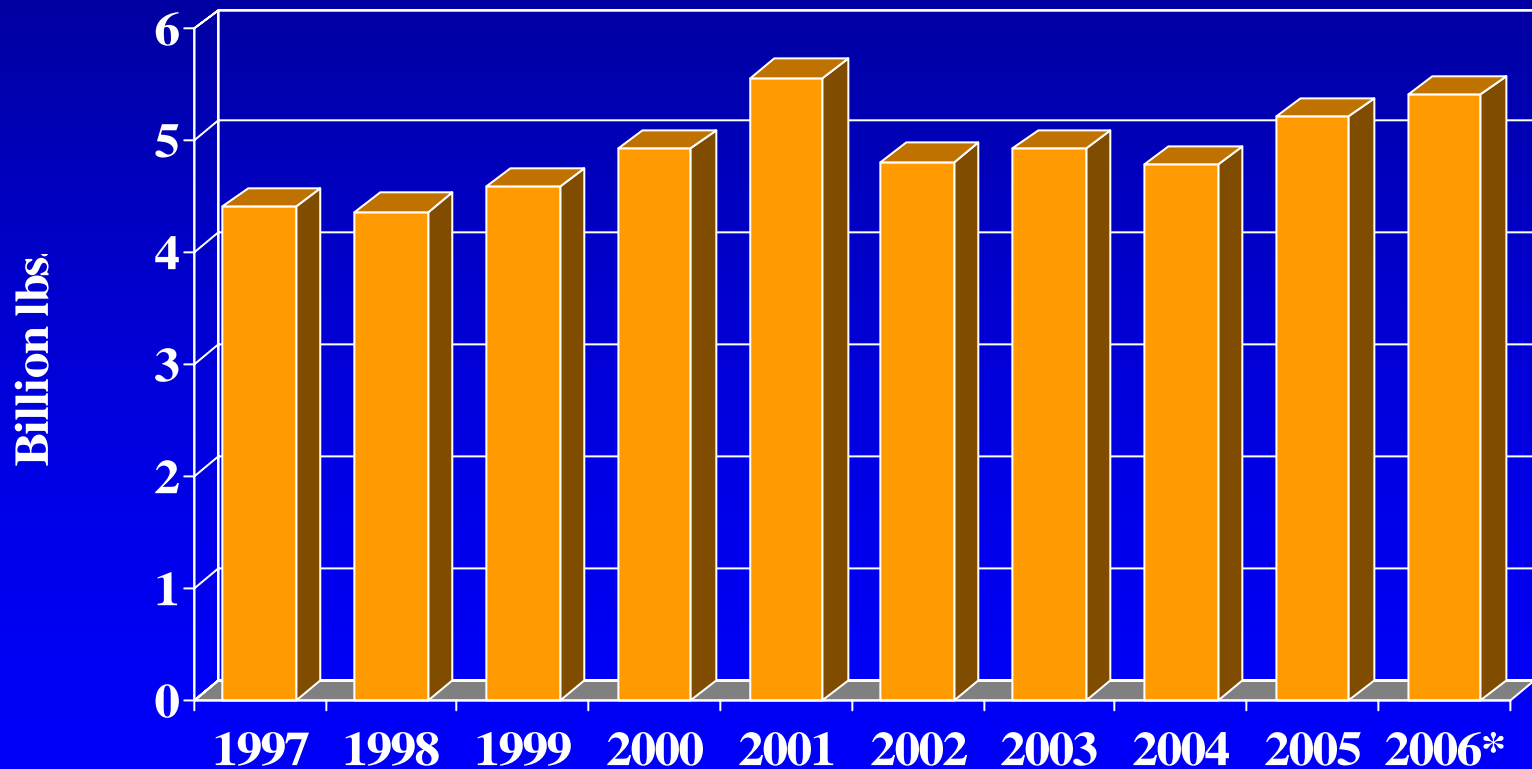
19 Selected States



RTC Meat Yield Per Bird Growing Faster than Number of Broilers Slaughtered

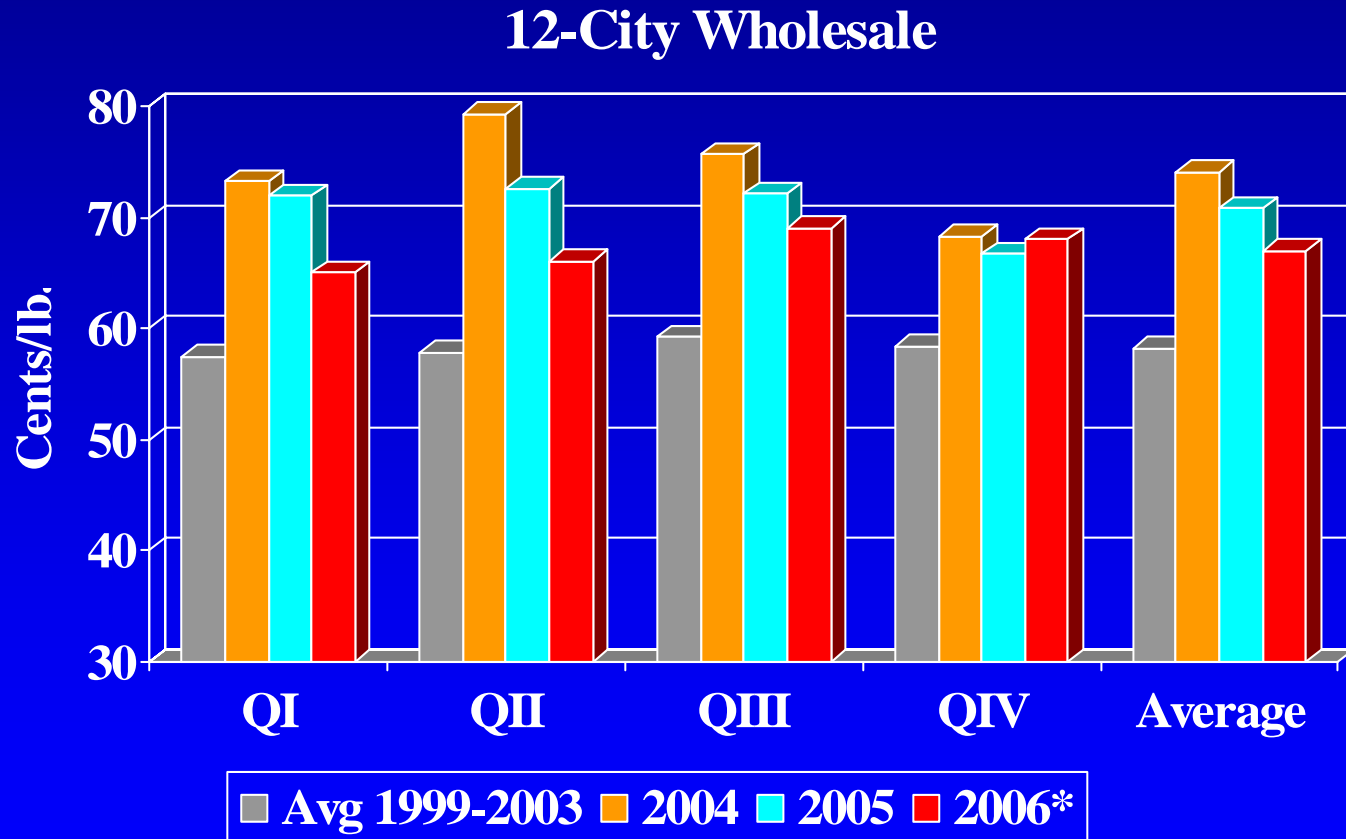


Broiler Exports Rise 3-4 Percent to 5.4 Billion Pounds



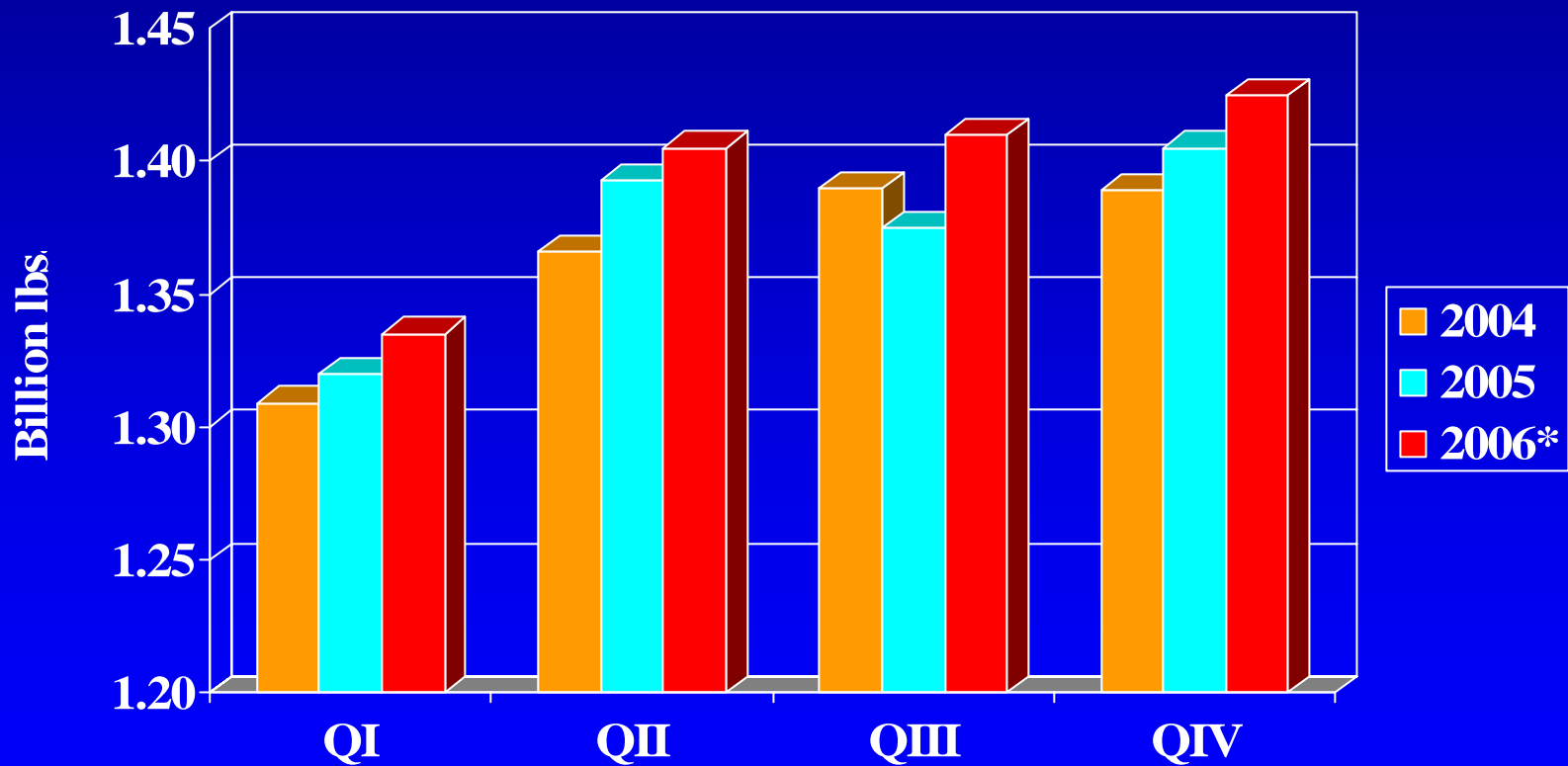
* Forecast

Broiler Prices Decline to 65-69 Cents Per Pound, Still Relatively High



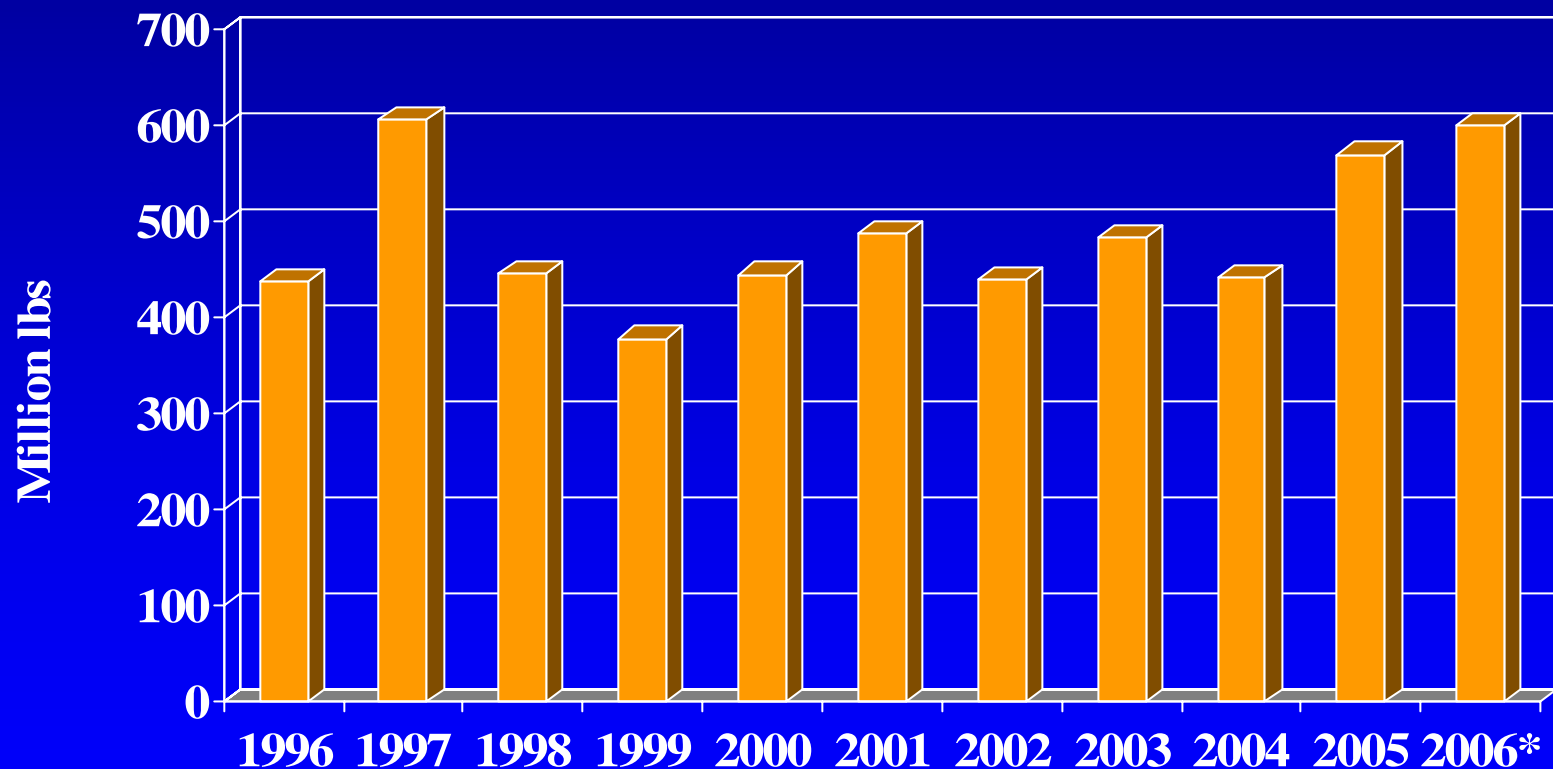
* Forecast

Turkey Production Rises Moderately, Up 1.5 Percent to Nearly 5.6 Billion Pounds



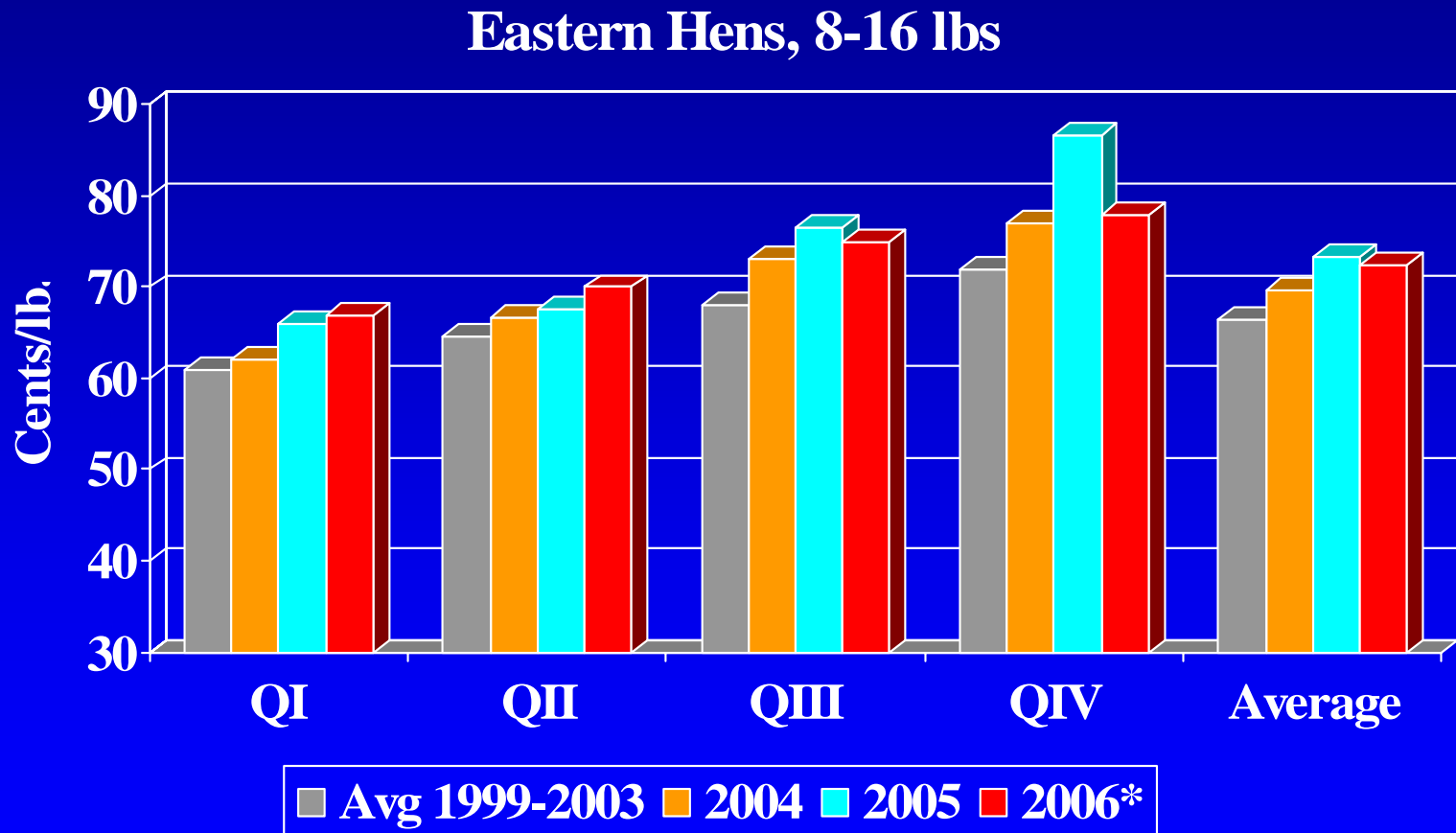
* Forecast

Turkey Exports Rise to Near Record 600 Million Pounds in 2006



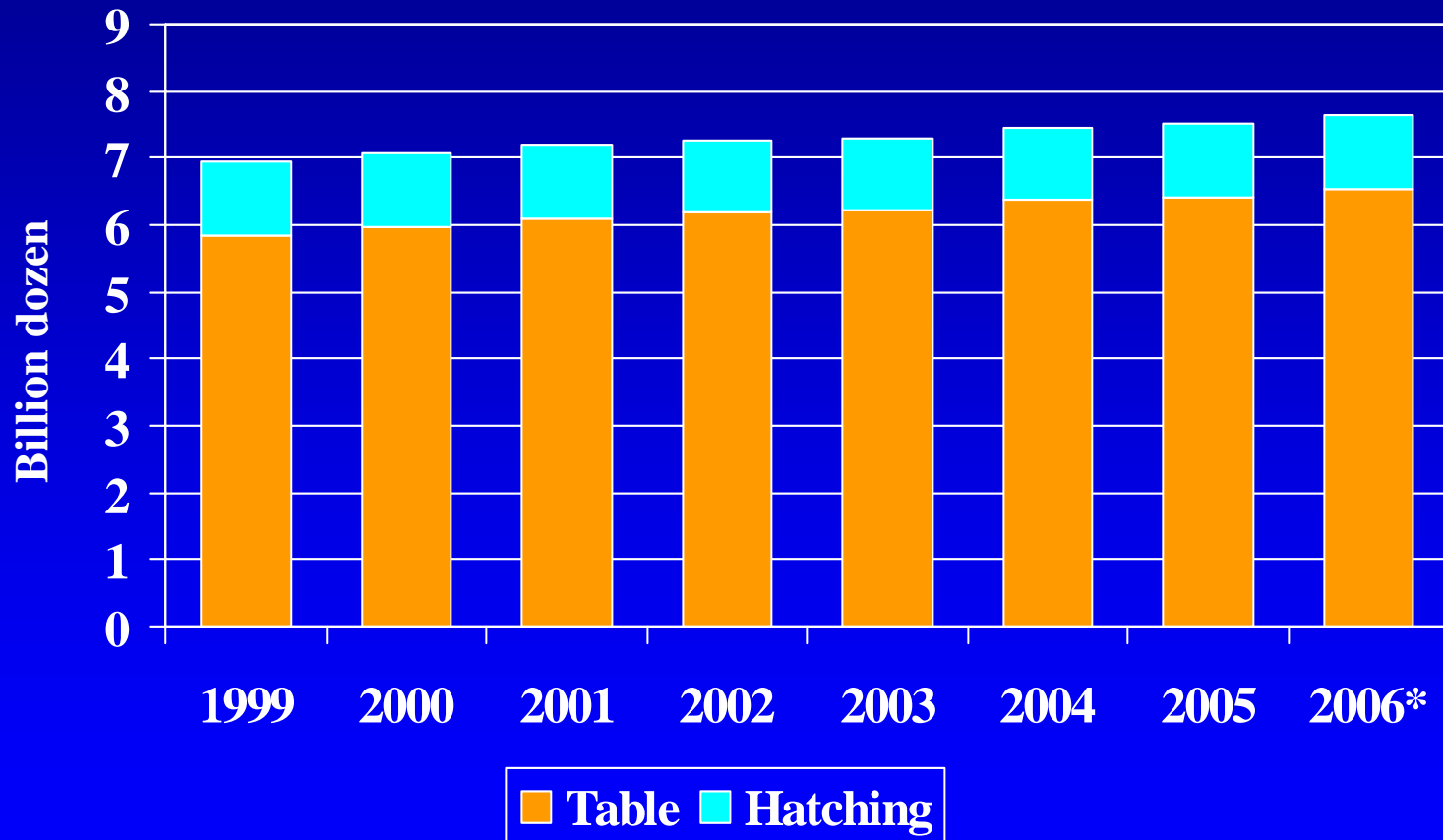
* Forecast

Turkey Prices Decline From Last Year's Record, to 70-75 Cents Per Pound



•Forecast

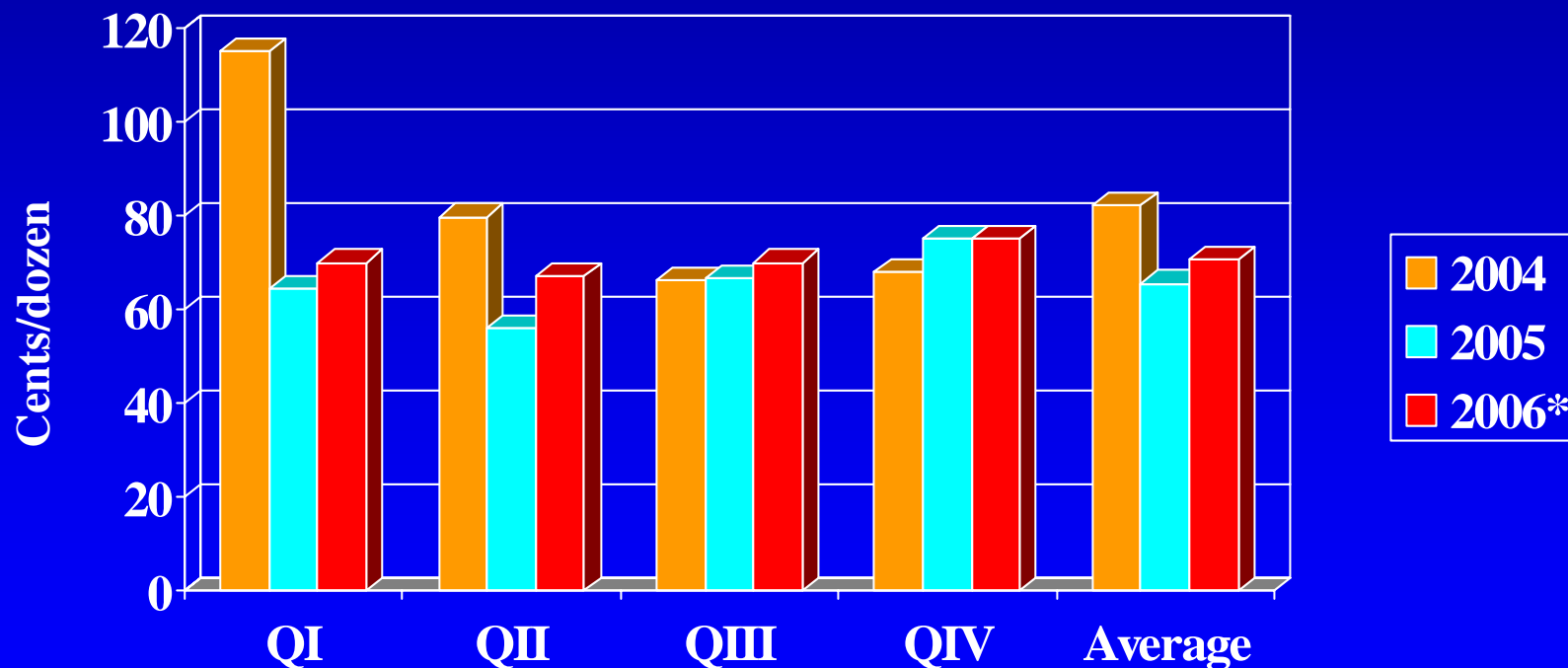
Egg Production Up About 2 Percent to 7.65 Billion Dozen



* Forecast

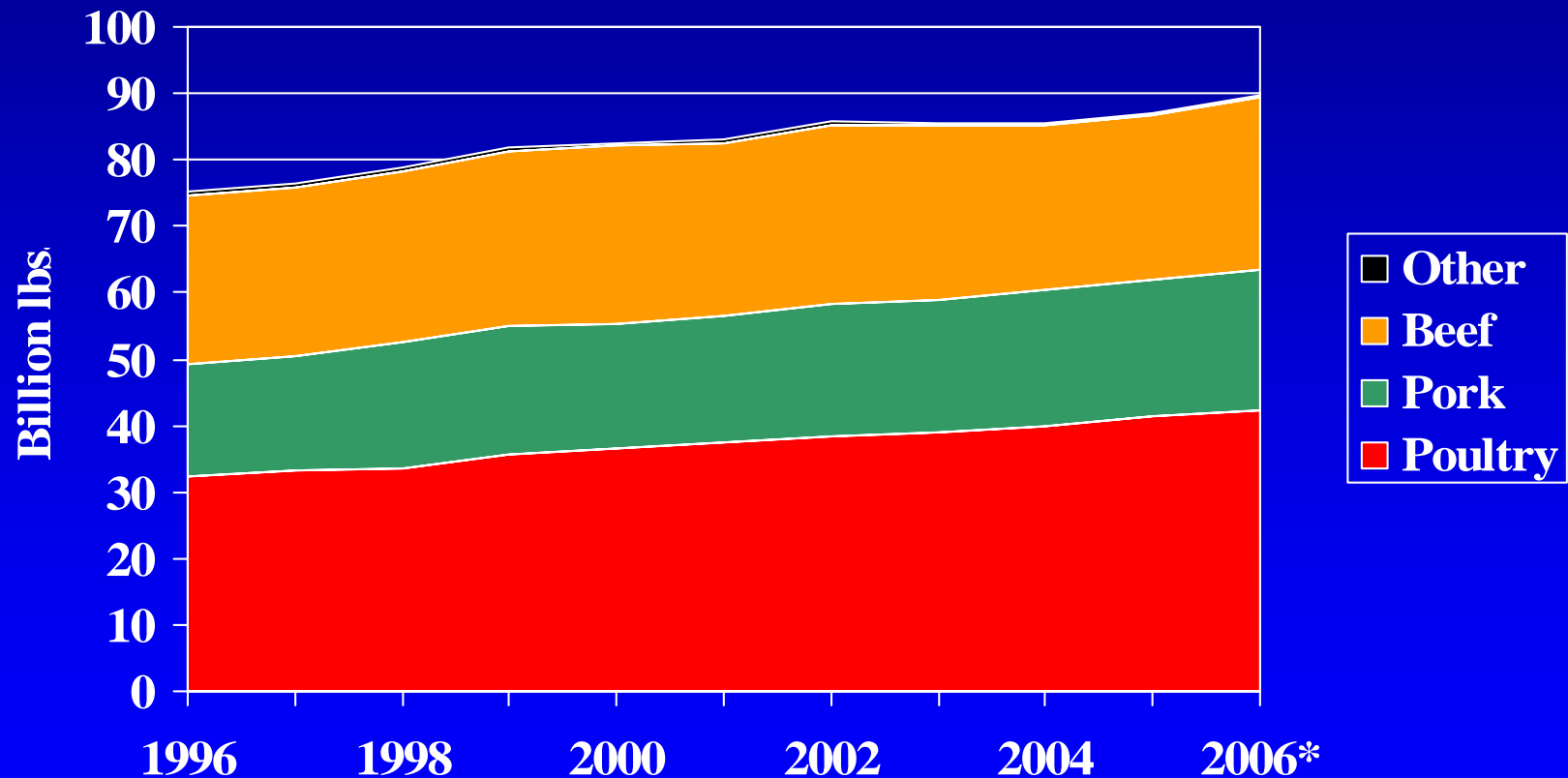
Egg Prices Recover in 2006 to About 68-73 Cents Per Dozen

Wholesale, Grade A, Large, NY



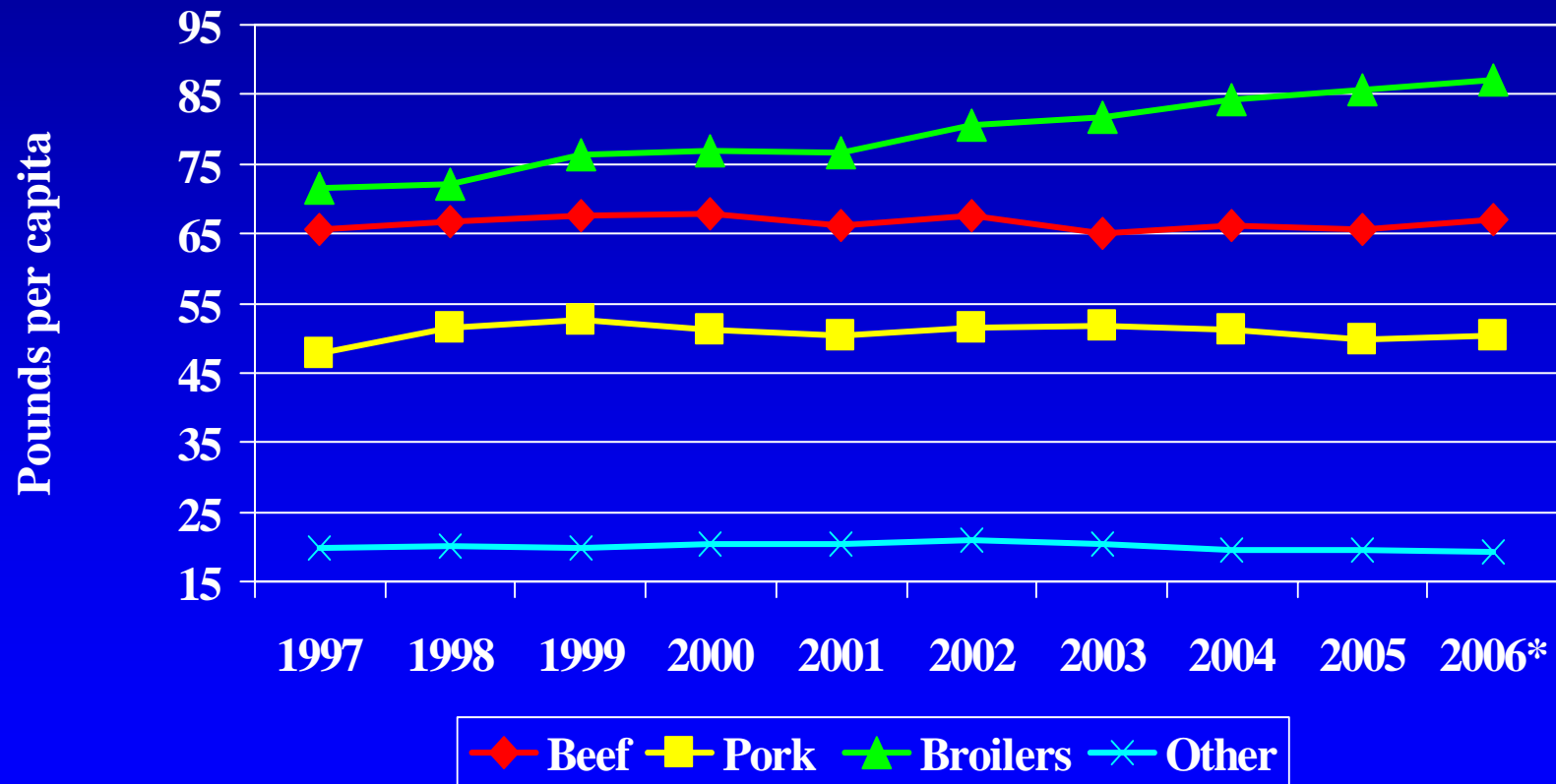
* Forecast

Total Red Meat and Poultry Production Reaches 90 Billion Pounds in 2006



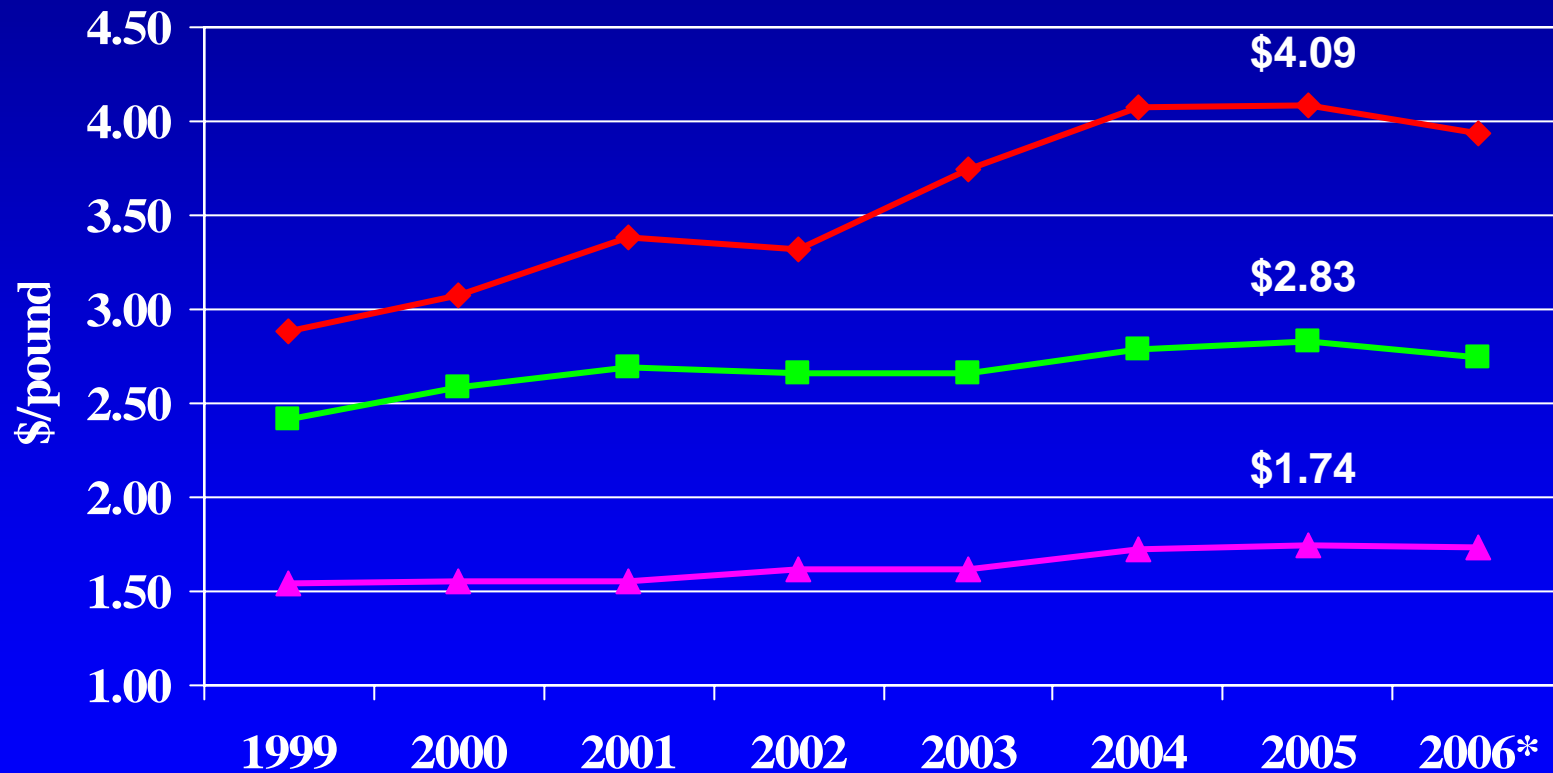
* Forecast

Per Capita Consumption of Total Meats Approaches 224 Pounds in 2006



* Forecast

Retail Meat Prices Decline From Last Year's Record Levels



* Forecast

Additional information about the 2006 outlook is available on the following websites:

- World Agricultural Supply and Demand Estimates
 - www.usda.gov/oce/commodity/wasde/index.htm
- Livestock, Dairy, and Poultry Situation and Outlook
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