OUTLOOK FOR LIVESTOCK AND POULTRY IN 2010

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The livestock and poultry industry was in retrenchment mode last year as all sectors struggled with the aftermath of high feed prices that drove up the cost of production and hammered returns. Then recession and a sharp rise in unemployment resulted in less demand for meat, both domestically and internationally. Production of all major meats in 2009 declined to 90.9 billion pounds, down from 93.9 billion the previous year. Livestock and poultry prices dropped as demand weakened last year. Per capita meat disappearance declined 2.5 percent to 210.5 pounds, retail weight.

Cow/calf producers, cattle feeders, and hog producers have endured more than two years of huge per head losses. Poultry producers were hard hit by the run up in grain prices in 2008, but had improved returns later in 2009. These negative returns led to last year's meat production declines and effect the outlook for production going forward this year. This year, producers face 2009/2010 corn prices that are forecast to average $3.45-$3.95 per bushel, compared with $4.06 in 2008/2009 and $4.20 2007/08. Soybean meal prices for 2009/10 are forecast to average $270-$320 per ton, down from $331 in 2008/09 and $336 in 2007/08. Red meat and turkey production will continue to decline, and broiler meat output will grow only gradually, which will be price supportive for livestock and poultry.

In 2010, the U.S. economy (real GDP) is expected grow about 3 percent, compared with a 2.5-percent drop last year. Internationally, economic growth is also expected to be about 3 percent for the year, compared with a 2.1-percent decline in 2009. Economic growth, both domestic and international, should benefit the meat sector this year. U.S. exports of red meat and poultry declined 6 percent last year as global recession reduced demand for meat. The U.S. dollar is expected to remain relatively weak, which will support exports of red meats and poultry this year. But caution is necessary as a couple of trade issues have already arisen this year with Russia and China that could have a potential dampening effect on the meat sector. Recent surveys indicate that consumer confidence is much improved from last year and restaurant business is expected to stem two years of declining sales, which would be especially beneficial to meat consumption. Domestic per capita disappearance of red meat and poultry for 2010 is expected to decline to about 208 pounds, retail weight.

Cattle

The U.S. cattle herd continued to decline in 2009. Large negative returns to cow/calf producers and cattle feeders have been a huge disincentive to expansion. As estimated by the Livestock Marketing Information Center, cow/calf returns were negative in both 2008 and 2009, and cattle feeder losses in the Southern Plains were more than $120 per head in 2008 and $90 per head in 2009. Cow/calf returns are likely to improve this year as demand for feeder cattle should be firm as cattle supplies tighten. Feeding returns have been negative since 2004 and will be slower to move towards positive territory.

The January *Cattle* report estimated that the number of cattle and calves declined about 1 percent, to 93.7 million head on January 1, 2010. The current cattle cycle had a short three year expansion from 2005 to 2007, and has now declined for three years. The beef cow herd was estimated at 31.4 million head, more than 1 percent below a year earlier, and is the smallest beef cow herd since 1963. Beef cow slaughter declined in 2009 but was still relatively high. The 2009 calf crop was estimated at 35.8 million head, the smallest calf crop since 1951.

U.S. cattle inventory is not expected to expand during 2010. The cow herd will continue to decline as total commercial cow slaughter is expected to remain above 6 million head for a third straight year. The *Cattle* report estimated that producers retained about the same number of heifers, with a lower number of beef replacement heifers offset by a higher number of dairy heifers. The 2010 calf crop is expected to decline slightly. With nearly 50 and 60 year lows for the beef cow herd and calf crop, herd expansion and consequently increased beef production will be a gradual process with a potential rebound in beef output not occurring until 2013.

The number of cattle on feed on January 1, 2010 was estimated at 13.6 million head, about 1.5 percent lower than a year ago. However, the estimated number of cattle outside of feedlots on January was just fractionally lower than a year earlier. The *Cattle* report estimated the number of cattle on small grains pasture in the 3 reporting states (Kansas, Oklahoma, and Texas) was 16 percent above a year earlier as pasture and forage conditions were favorable last fall. Depending on producer decisions about the wheat crop, some additional cattle should be placed in feedlots in March or in early spring if producers decide to graze out wheat, providing a bump in cattle available for marketing during the summer. Overall, cattle placements and marketings during 2010 are expected to be below 2009.

Commercial beef production for 2010 is forecast to decline more than 1 percent, to about 25.7 billion pounds. Beef production in 2009 declined more than 2 percent, to almost 26 billion pounds. Last year commercial cattle slaughter declined 3 percent but the decline in beef production was limited because of strong gains in average carcass weights through the first three quarters of the year. Weather conditions during both the winter and summer, provided ideal growing conditions that boosted the average weight of total cattle slaughter to 779 pounds, 6 pounds heavier than the previous year. In 2009 steer and heifer weights were record heavy, as federally inspected steer carcasses averaged 847 pounds, 22 pounds heavier than the 2004-2008 average; heifer carcasses were 23 pounds heavier. Total commercial cattle slaughter during 2010 is expected to decline 1 percent and the average aggregate carcass weight is expected to decline 2 pounds to 777 pounds.

U.S. beef exports for 2010 are forecast to rise 9 percent to 2.04 billion pounds. U.S. beef exports in 2009 were 1.87 billion pounds, 1 percent lower than 2008. Shipments last year were strong in the first quarter, but then weakened before resuming some year-over-year growth in the fourth quarter. Demand for U.S. beef picked up towards the end of the year as the global economy began to recover and the weak U.S. dollar supported shipments. Exports to Japan continued to steadily increase last year to 275 million pounds, a 19-percent increase, but were still less than a third of pre-BSE level shipments. Beef exports reached record levels to Hong Kong and Vietnam, exceeding 82 million and 148 million pounds, respectively. Exports to South Korea increased during the year but were below 2008. In 2009, Mexico and Canada were again the number one and two markets for U.S. beef, but shipments were 13 percent and 7 percent below the previous year. Continued economic growth in Asian markets and Mexico should support increased beef exports during 2010.

U.S. beef imports are forecast at 2.78 billion pounds for 2010, up about 6 percent from 2009. Imports increased more than 3 percent to 2.63 billion pounds in 2009. The relatively strong U.S. dollar vis-à-vis the Australia and New Zealand dollars was especially supportive of strong U.S. imports during the first half of 2009. But as the U.S. dollar weakened and domestic cow slaughter stayed high, imports slowed. Imports from Australia increased 19 percent to 792 million pounds, but shipments from Canada (812 million pounds) and New Zealand (517 million pounds) declined 3 percent and 2 percent, respectively. Imports from Uruguay increased last year, but were lower from Brazil and Argentina. Lower cow slaughter in 2010 should encourage imports.

The Choice Nebraska steer price for 2010 is forecast to average $85 to $91 per cwt. In 2009, the steer price averaged $82.68 per cwt, the lowest price since 2002. Weak demand for beef was reflected in Choice wholesale and retail beef prices last year as both declined from the previous year. The wholesale Choice beef cutout value averaged about $141 per cwt last year compared with a $153 per cwt average for 2008. Through early February 2010 wholesale Choice beef values have averaged about $3 per cwt below a year ago. So far this year estimated packer margins have remained mostly positive which has helped support cattle prices above year earlier levels. Severe winter weather has also disrupted cattle markets. But reduced fed cattle supplies are expected to keep prices higher during each quarter of the year. Retail beef prices in 2010 are expected to be slightly above the 2009 average of $4.26 per pound.

Pork

U.S. hog producers have endured two years of losses that were not much less than the average loss of about $27 per head in 1998. Last year, according to Iowa State University estimated returns for hog farrow-to-finish operations, hog producers lost an average $26.04 per head. This followed 2008 when producer returns were a negative $21.53 per head. Estimated returns in January 2010 were a negative $2.23 per head. Hog producers have now had negative returns 26 out of the last 28 months. Undoubtedly, much of producer equity gained during the 4 profitable years of 2004-2007 has been lost during the last two years. But returns are likely to begin to improve later this year.

The December 2009 *Quarterly Hogs and Pigs* report estimated that on December 1, 2009 the inventory of all hogs and pigs was 65.8 million head, 2 percent lower than a year earlier. The breeding herd was 3.5 percent lower at 5.85 million head. Hog producers have been reducing the breeding herd since spring 2008. The numbers of sows farrowed during September-November 2009 were 1.8 percent lower, which continued declines since the summer 2008. However, productivity gains continued to limit declines in the pig crop. Pigs per litter were 9.70 head for the September-November quarter, the same as the June-August quarter. Since spring 2008, growth in pigs per litter has been at least 2 percent or higher in each quarter. With this growth in pigs per litter, the pig crop for September-November was slightly higher than a year earlier.

For 2010, producers intend to farrow 2.3 percent fewer sows during December-May. However, with expected pigs per litter growth at just over 2 percent, the pig crop for the first half of the year will be about 57.4 million head, only slightly smaller than last year. During the second half of 2010, producers are forecast to farrow about 2 percent fewer sows, but with expected pigs per litter growth of about 2 percent, the second half pig crop will be about even with 2009. This second half pig crop will be slaughtered during the first half of 2011, comparable to slaughter during the first half of 2010. One key difference for hog slaughter this year and heading into 2011, is that imports of Canadian hogs are expected to be significantly lower.

For 2010, U.S. hog imports are forecast at 5.7 million head, down from about 6.4 million head in 2009. About 80 percent of hog imports are expected to be feeder pigs. Fewer hogs are available for import from Canada as the Canadian herd has significantly declined over the past several years. The Canadian hog inventory was 11.6 million head on January 1, 2010, down 4.5 percent from a year earlier, and is expected to continue to decline this year. With fewer hogs and a weak U.S. dollar, Canadian producers are likely to send fewer hogs and pigs south.

Commercial pork production for 2010 is forecast at 22.5 billion pounds, down 2 percent from 2009. Pork output during 2009 declined 1.5 percent to 23 billion pounds, with the decline not as large as indicated by a 2.5-percent decline in hog slaughter because average hog carcass weights increased 1 percent to a record 202.4 pounds. Hogs, like cattle, enjoyed favorable growing conditions last year and corn prices were lower on average than in 2008, which favored feeding hogs to higher weights. In 2010, hog slaughter is expected to decline about 2 percent due to a smaller pig crop and reduced hog imports. Average carcass weights are also forecast to be lighter than in 2009. Severe winter weather has already cut weights by about 1 pound so far this year and second and third quarter weights are expected to follow a more regular pattern than last year.

Pork exports for 2010 are forecast to increase 9 percent to 4.5 billion pounds. Pork exports were 4.1 billion pounds in 2009, 12 percent below the record setting exports of 4.7 billion pounds in 2008. A majority of the decline in exports was due to lower shipments to China and Hong Kong, where shipments were very strong in 2008 because of an outbreak of blue ear disease in the China pig herd and the Beijing Olympics. Global economic recession also slowed demand for U.S. pork. Exports to Japan totaled nearly 1.3 billion pounds, down about 4 percent. Pork exports began to regain some strength in the fourth quarter of 2009, increasing nearly 7 percent over fourth quarter 2008, after falling sharply through the third quarter. Demand for U.S. pork increased towards the end of the year, supported by the relatively weak U.S. dollar. There was little evidence that H1N1 had much of an impact on total exports. Shipments to Mexico slipped below year ago levels in May following the H1N1 outbreak there, but there were double-digit increases in every other month of the year, and shipments to Mexico jumped 33 percent to a record 899 million pounds. Exports are expected to be supported by continued recovery in the global economy and the relatively weak dollar.

Pork imports for 2010 are forecast at 900 million pounds, 8 percent higher than 2009. Pork imports increased fractionally to 834 million pounds in 2009. Canada provides about 80 percent of all U.S. pork imports Canada's shipments increased about 5 percent, to 678 million pounds, last year. But shipments from other markets, primarily Denmark and other EU-27 countries, were lower last year, primarily as the weak U.S. dollar hampered shipments.

U.S. hog prices, on a national base, 51%-52% lean, live equivalent, are forecast to average $46 to $49 per cwt for 2010. In 2009, hog prices averaged $41.24 per cwt, down 14 percent from the previous year, and were the lowest since 2003. Hog prices are expected to increase as production tightens and export demand picks up. Retail pork prices for 2010 are expected to average slightly below last year's $2.92 per pound.

Sheep and Lambs

The U.S. sheep and lamb inventory declined for a fourth straight year in 2009. The January 1, 2010 inventory of sheep and lambs was 5.63 million head, down nearly 2 percent from January 2009. The total breeding inventory was down 1.3 percent and the lamb crop in 2009 was fractionally lower than the previous year. The number of replacement lambs was up 1.3 percent, the first increase since 2006, and an indication that producers could be looking to expand inventory. In 2010, commercial lamb and mutton production is forecast at 172 million pounds, less than a percent higher than 2009. Production in 2009 declined almost 2 percent. The 4-percent reduction in the number of market sheep and lambs on January 1 and the small lamb crop in 2009 should tighten slaughter this year.

Lamb and mutton imports for 2010 are forecast at 187 million pounds, 9 percent higher than 2009. Imports in 2009 declined about 7 percent to 171 million pounds as shipments from Australia were about unchanged but imports from New Zealand down about 20 percent as their supplies were tight as they have been rebuilding herds reduced by drought conditions. Economic weakness likely hurt imports as a large portion of lamb is consumed away from home and these sales were negatively impacted by the weak economy. Expected tight domestic production this year should result in increased imports as the economy improves. U.S. lamb and mutton exports increased 4 million pounds to 16 million in 2009 largely due to increased shipments to Mexico. U.S. exports for 2010 are forecast unchanged at 16 million pounds.

The San Angelo Choice slaughter lamb price is forecast to average $89 to $95 per cwt for 2010. This would be about a 2-percent increase from 2009's average price of $90.10 per cwt. Lamb prices are expected to firm this year as production tightens.

Broiler Meat

For 2010, broiler meat production is forecast to rise about 1 percent to 35.9 billion pounds. Growth in broiler meat production is expected to build gradually during each of the first three quarters—less than 1 percent year over—before rising to 3 percent in the fourth quarter. Broiler producers responded to the escalation of feed prices and poor returns in 2008 by reducing broiler type laying flocks in mid-2008. Producers maintained reduced laying flocks until turning slightly positive in December 2009. Broiler meat production turned negative in 4^{th} quarter 2008, and remained below year earlier levels for each quarter of 2009, with the sharpest declines in meat output during the first half of the year. For 2009, broiler meat output fell about 4 percent to 35.4 billion pounds. This was the first year-over-year decrease in production since 1973. The number of broiler chicks hatched was negative throughout 2009, but approached year ago levels in November and December 2009. Producers are expected to slowly expand laying flocks this year and broiler hatch, resulting in a gradual increase in broiler meat output.

U.S. broiler meat exports for 2010 are forecast to decline to about 5.83 billion pounds, a decline of nearly 15 percent. Exports in 2009 totaled 6.84 billion pounds, about 2 percent below 2008's record shipments of 6.96 billion pounds. Exports during 2009 were much stronger than initially expected as leg quarter prices averaged 6 cents per pound lower than in 2008, and the weak U.S. dollar supported shipments. Record exports to Mexico of 815 million pounds and higher year-over-year shipments to markets such as Cuba, Hong Kong, Iraq, and the Baltics limited last year's decline. Exports to China were flat and shipments to Russia, the largest U.S. market, were down about 10 percent, in line with Russia's 2009 reduced tariff-rate quota (TRQ) quantities. Although the exchange rate outlook for 2010 continues to support broiler meat shipments, exporters face additional challenges that are expected to constrain shipments this year.

For 2010, Russia cut its poultry TRQ to 780,000 tons (1.7 billion pounds) from 952,000 in 2009. With its bid to become self-sufficient in meat, further TRQ quantity cuts are scheduled through 2012. The United States is allocated 600,000 tons (1.3 billion pounds) of the 2010 TRQ quantity, which is 20 percent lower than 2009's 750,000 ton share. In addition, Russia's ban on chlorine washes, effective January 1, 2010, has shut out U.S. exports as virtually all U.S producers use chlorine washes. On average, the smallest amounts of U.S. poultry are shipped in the first quarter of the year because of winter weather concerns in Russian ports, and once the United States and Russia governments reach agreement on the chlorine issue, shipments should resume. In addition, China's Ministry of Commerce issued their preliminary determination in an antidumping investigation of U.S. broiler exports, with duties ranging from 43 to 105 percent, effective February 13. These duties are to be deposited with China Customs until a final determination is made later this year.

The 12-city wholesale broiler price is forecast to average 77 to 82 cents per pound in 2010, compared with an average of 77.6 cents in 2009. Whole broiler prices have moved up to the low 80 cent range since the beginning of the year. Prices are expected to remain firm through the third quarter, and then decline a few cents as broiler meat production growth increases in the last quarter. Broiler parts prices have remained fairly strong. Boneless/skinless breast meat prices in the Northeast averaged $1.30 per pound in 2009, 1 cent higher than in 2008. The January 2010 price was about $1.27 per pound, which is the highest price since September 2009 when b/s breast meat prices began to seasonally weaken. Bulk leg quarter prices in the Northeast averaged about 39 cents per pound in 2009, down from the record high of 46 cents in 2008. Leg quarter prices were about 37 cents per pound in January 2010. Parts prices are expected to hold steady during 2010 as production gains are modest. However, any extended trade disruptions could dampen prices for broilers and broiler parts.

Turkey

Turkey production for 2010 is forecast to decline 1.6 percent to 5.58 billion pounds. Turkey production dropped more than 9 percent in 2009, as turkey producers maintained production cutbacks that were induced by the high feed costs of 2008. The number of turkey eggs hatched was below year earlier levels each month of 2009, and with the number of eggs in incubators down more than 7 percent in January 2010, and poult placements still year over negative, turkey production is not expected to expand until the second half of the year. Turkey hen prices are expected to increase as turkey production declines for the second year. The Eastern Region turkey hen price is forecast to average 80 to 85 cents per pound, up from an average of 79.5 cents in 2009.

Turkey exports for 2010 are forecast to increase about 2 percent to 545 million pounds. Turkey exports dropped 21 percent last year from the record level of 676 million pounds in 2008. Shipments to Mexico, the largest U.S. turkey market, dropped sharply as well as to other markets such as China, Russia, and

Taiwan. Given the weak economy last year, broiler meat was probably a better buy than turkey for some markets.

Eggs

Total U.S. egg production for 2010 is forecast to increase a half percent to 7.57 billion dozen. In 2009, egg production only increased 0.2 percent and that followed two years of declining output. Table egg production is expected to increase about a half percent this year after a gain of about 1 percent to 6.47 billion dozen last year. Although egg prices have remained relatively high, egg producers maintained a 2009 table laying flock that averaged only fractionally above 2008. On January 1, 2010 the number of table layers were fractionally below a year earlier. Hatching egg production for 2010 is expected to rise 1 percent as broiler production expands. On January 1, 2010 hatching egg layers numbers were slightly higher than a year earlier. Hatching egg output in 2009 dropped more than 4 percent to 1.06 billion dozen as broiler output declined.

For 2010, New York wholesale eggs are forecast to average $1.08 to $1.15 per dozen, up from the $1.03 average for 2009. With gradual egg production growth forecast, egg prices are expected to stay strong.

In 2009, egg and egg product exports increased 17 percent to 242 million dozen, shell egg equivalent. Exports to Canada, Mexico, Hong Kong, and EU-27 were especially strong through most of last year. Lower 2009 egg prices and the weak U.S. dollar contributed to export gains. For 2010, egg exports are forecast at 220 million dozen as higher egg prices this are expected to dampen demand for U.S. egg shipments.

Additional information about the 2010 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