

OUTLOOK FOR LIVESTOCK AND POULTRY

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Despite relatively strong livestock and poultry prices in 2008, producers faced cost shocks which set the stage for a sector wide retrenchment. Economic uncertainty which manifested itself most visibly in the fourth quarter of the year compounded the situation as weaker demand pressured meat prices and offset potential gains from declining feed and energy prices. The economic weakness is expected to continue to exert downward pressure on the meat sector through weak demand and, in the face of poor returns, production of meat from each major livestock and poultry category is forecast to decline for the first time since 1973. Despite production declines, generally lower exports are expected to add additional supplies of meat to the domestic market. Thus, in order to clear markets, prices for cattle, hogs, and turkeys are expected to remain relatively weak through much of 2009. Broiler prices, however, are forecast higher.

2008 in Recap

As a result of increased production in the first 3 quarters, total red meat and poultry production increased almost 3 percent in 2008, the largest increase in production since 2002. However, much of the increase was the result of herd and flock liquidation as producers responded to dry conditions, high prices of inputs and declining domestic and international demand. Cattle inventories declined for the second year and hog inventories declined for the first time since 2002. Broiler eggs set and chick placements turned consistently negative in the second half of the year. Yet despite the increase in production, livestock and poultry prices remained above year-earlier for much of the year. Exports helped provide an outlet for the increased production; pork, broiler, and turkey exports reached records, not only on a volume basis but as shares of production and beef exports continued to regain share lost after export markets were closed following the discovery of a cow with Bovine Spongiform Encephalopathy (BSE) in late 2003. By the fourth quarter, production had begun to decline for most meats. Tighter supplies of animals resulted in reduced slaughter levels and, in the case of hogs and broilers, lighter weights helped constrain supplies. However, weaker demand both domestically and in international markets began to pressure prices.

As the livestock and poultry sectors move into 2009, feed and energy prices have declined but weak economic growth worldwide is likely to provide little stimulus for producers to expand production. The industry is still contracting and there are few signs that meat production will expand until relatively late in the year.

Cattle Inventory Will Shrink

The January 30, 2009 *Cattle* report estimated that the number of cattle and calves on farms on January 1, 2009 was 94.5 million head, the lowest inventory since 1959. Despite positive estimated returns for several years, cow-calf operators have been hampered by dry conditions which limited forage and resulted in record prices for hay. Beef cow inventories have been declining since 2006 and as returns declined during 2008 producers reduced cow numbers at an increasing rate. By the beginning of this year, the beef cow herd had declined to 31.7 million head and producers indicated beef heifers retained for breeding would be at their lowest level since 2004. The 2008 calf crop was 36.1 million head, 2 percent below 2007. Even with normal grazing conditions, relatively weak first-half 2009 feeder calf prices will likely limit the recovery in cow-calf returns and delay any expansion in cow numbers and the calf crop into 2010 or beyond.

Supplies of cattle outside feedlots are marginally higher than last year. Although larger supplies of cattle outside feedlots may support feedlot placements at near last year's levels, worsening conditions in the Southern Plains could result in earlier placement of calves in feedlots and depress early-year feeder calf prices, especially if normal seasonal demand from stocker operators does not develop. Cattle feeders have been facing negative average returns since May 2007 and can be expected to limit what they will pay for feeder cattle until returns improve. The annual average feeder cattle price is forecast to average slightly below last year's \$102.98 per cwt, with prices in the first 3 quarters substantially weaker than 2008. To the extent cattle are placed in feedlots earlier, expected tightening of calf supplies will provide support for prices later in the year. Additional support for feeder calf prices in the last quarter is expected to come from a combination of lower feed prices in 2009 and improved late year fed cattle prices.

With the inventory of cattle in feedlots at the beginning of the year down 7 percent and roughly unchanged placements expected during 2009, fed cattle marketings and subsequent slaughter are expected to decline. The pace of placements will affect the rate of marketings. If cattle placements are bunched earlier in the year due to dryness or other reasons, second half marketings may show only slight declines. On the other hand, if forage conditions are favorable, placements may not occur until later in the year and these cattle likely would be marketed in 2010, furthering tightening interim fed cattle supplies. Nonetheless, cattle marketings in the first half of 2009 are expected to average well below last year due to low placements during the second half of 2008.

Compounding the decline in feedlot numbers is the expectation that cattle imports from Canada will be lower as inventories in Canada declined during 2008. Cow slaughter is also forecast lower in response to lower U.S. beef cow inventories although U.S. dairy cow slaughter is expected to increase in the later part of the year. Likewise, imports of slaughter cows will likely reflect lower cow inventories in Canada. Carcass weights are expected to be slightly higher, partly offsetting the decline in cattle slaughter numbers. Although cheaper feed may encourage cattle feeders to feed cattle to heavier weights, feed costs are expected to remain above those experienced in the middle of the decade. As a result, even with normal forage conditions, cattle may be placed on feed at heavier

weights. Commercial beef production is forecast to decline nearly 2 percent to 26.1 billion pounds in 2009.

U.S. beef exports increased dramatically in 2008 but growth in 2009 is expected to be limited by global economic weakness, a stronger U.S. dollar and tighter beef supplies. Beef exports grew almost 32 percent in 2008 as exports to most major markets increased. In addition, exports to a number of small, developing markets grew sharply. Exports to all markets will likely be affected by economic weakness but a number of these newly emerging markets may be more price and income sensitive and their imports may be more sharply affected by economic concerns. U.S. beef exports in 2009 are forecast at 1.88 billion pounds, about the same as 2008 but still below the 2.5 billion pounds exported prior to the U.S. discovery of BSE in late 2003.

U.S. beef imports are forecast at 2.68 billion pounds in 2009, up almost 6 percent from 2008. Beef imports in 2008 were 17 percent lower than in 2007. Relatively high cow slaughter reduced the need for imported processing beef and several major sources for imported beef concentrated on shipping beef to other markets. Lower cow slaughter in 2009 is expected to support increased U.S. beef imports this year. Moreover, economic concerns are expected to decrease demand among several importers who increased purchases sharply last year and the shrinking of these markets likely will encourage some beef exporters to redirect shipments to the United States.

Choice Nebraska steer prices averaged a record \$92.27 per cwt in 2008 but prices are expected to only average \$86 to \$92 per cwt in 2009. Prices declined sharply in December and have moved lower through late February despite lower to-date slaughter. Estimated packer margins were favorable for much of January and early February but weakening boxed beef prices have pressured margins and live cattle prices. Cattle prices are expected to remain below 2008 for much of 2009 until a combination of tighter meat supplies and seasonally stronger demand provides support for higher year-over-year prices in the last quarter. Retail prices for Choice beef are forecast to average in the low \$4.30's per pound for 2009, near 2008's \$4.33 per pound.

Pork Production to Decline

After almost 4 years of generally positive returns for U.S. hog producers, a combination weaker hog prices and relatively higher feed prices in late 2007 set the stage for lower producer returns. The situation was exacerbated in 2008 as sharply higher feed prices more than offset strong hog prices and returns were mostly negative during of 2008. As a result, producers cut back on breeding inventories and farrowings in the second half of the year, reducing market hog inventories, and setting the stage for production declines in 2009. On December 1, 2008 the inventory of all hogs and pigs was about 66.7 million head, about 2 percent lower than 2007, and the first decline in December inventories since 2002. The breeding herd also shrank 2 percent to under 6.1 million head. However, decreases in the sow numbers are being offset by continued growth in breeding herd efficiency. For September-November 2008 the sector averaged 9.50 pigs per litter

compared to 9.28 in 2007 and 9.11 in 2006. Thus, although producers cut back farrowings 2 percent in third quarter of 2008 and 6 percent in the fourth, the pig crop increased about 1 percent in the third quarter and only declined 4 percent in the fourth quarter. These are hogs which will likely be marketed in the first and second quarters of 2009 respectively. Producers indicated in the December report that they intend to farrow about 2 percent fewer sows during December 2008-May 2009 compared to last year. However continued growth in pigs per litter is expected to result in a first half pig crop that is only slightly below 2008.

Farrowings are expected to remain below year earlier during most of the second half of 2009 but may expand towards the end of the year as improved second half returns set the stage for a cautious expansion. Continued growth in pigs per litter will largely offset reduced farrowings, resulting in a 2009 pig crop that is expected to be only fractionally lower than 2008.

Hog slaughter in 2009 will reflect not only decreased U.S. domestic hog supplies but also reduced hog imports from Canada. Hog imports in 2007 reached their high-water mark of just over 10.0 million head as the Canadian hog sector entered its liquidation phase. By January 1, 2009 the Canadian hog inventory was 10 percent lower than 2008 and almost 18 percent below the 2006 peak. First quarter 2008 hog imports were above 2007 but declined through much of the year due to a combination of lower Canadian inventories, unfavorable exchange rates and uncertainties over implementation of the Country of Origin Labeling (COOL) regulations. Imports are expected to decline to 7.2 million head in 2009, primarily reflecting lower inventories of Canadian hogs. The Canadian hog breeding herd was 1.4 million head on January 1, 2009, the lowest level this decade, and producers reported intentions to farrow 3 percent fewer sows in the first half of 2009. Impacts of COOL remain uncertain as the hog/pork sectors on both sides of the border adapt to the new regulations. Much of the adjustment last year reflected uncertainties over the details and timing of the regulations. Clearer patterns are expected to emerge as the sector responds to consumer signals and the impacts of reduced inventories. With lower domestic hog supplies and lower imports, U.S. commercial hog slaughter is expected to fall to 114.4 million head in 2009. Carcass weights, which declined in 2008 in response to high feed costs, are expected to increase slightly as feed prices are forecast to remain lower than last year. In 2009, commercial pork production is forecast at 23.0 billion pounds, down from 2008's record of 23.3 billion pounds.

Pork exports have grown dramatically, increasing at double digit rates in 4 of the past 5 years. Exports in 2008 increased almost 50 percent to 4.67 billion pounds as shipments to all major markets increased. Exports to Japan, our largest market increased 23 percent. Three major markets also saw large increases; exports to Mexico, typically the second largest destination for U.S. pork, increased 49 percent but exports to China/Hong Kong almost trebled as that combined market displaced Mexico as the second largest destination. Exports to Russia jumped 78 percent to catapult Russia ahead of Canada, into the number 4 slot. Despite a 14 percent increase in exports, Canada, typically the third largest destination, dropped to fifth place. However, total pork exports in 2009 are forecast to decline 14 percent to 4.0 billion pounds as weaker economic growth

worldwide, a stronger U.S. dollar and a recovery of production in China are expected to limit export opportunities. Pork imports declined almost 14 percent to 832 million pounds in 2008 and imports in 2009 are expected to remain above 800 million pounds.

In 2008, hog prices, on a national base, 51%-52% lean, live equivalent, averaged \$47.84 per cwt, up about 2 percent from 2007. Prices in 2008 averaged below 2007 in the first half but climbed rapidly in the second half as stronger exports tightened domestic supplies. Although pork production is forecast lower in 2009, weaker exports are expected add to domestic supplies at the same time demand is expected to be softer as a result of economic weakness. Thus, pork prices are forecast to average \$46 to \$49 per cwt. Retail prices are forecast to be in the upper \$2.90's per pound range for 2009, slightly higher than 2008.

Sheep and Lamb Inventory Falls

The U.S. sheep and lamb inventory declined for a third year in 2008. The January 1, 2009 inventory of sheep and lambs was 5.75 million head, down over 3 percent from January 2008. The total breeding inventory was down more than 4 percent and the number of replacement lambs was down almost 7 percent. In 2009, commercial lamb and mutton production is forecast at 168 million pounds, down 3 percent from 2008. The 2008 lamb crop was 5 percent below 2007 and the market sheep inventory was 1 percent lower on January 1. The number of market sheep and lambs over 105 pounds was above last year which may support first quarter production at near last year's levels but lower numbers of lighter weight animals implies production declines in later quarters.

Lamb and mutton imports for 2009 are forecast at 177 million pounds, down about 3 percent from 2008. Lamb and mutton imports in 2008 were 183 million pounds, about 10 percent lower than 2007 as lower imports from Australia more than offset increased imports from New Zealand. Drought in Australia has resulted in declining sheep and lamb inventories over the past several years and sheepmeat production fell last year, reflecting tighter supplies of animals and lower weights. Consequently, Australian exports have declined and are expected to decline further in 2009, especially if rains late in the Australian spring encourage producers to hold back lambs for breeding.

The San Angelo Choice slaughter lamb price is forecast at \$86 to \$91 per cwt for 2009. This would be about 3 percent above 2008's average price of \$85.91 per cwt. Lamb prices are likely to be supported by lower production and imports although economic weakness may limit demand.

Broiler Production Declines

Federally Inspected broiler production is forecast to decline 2 percent to 36.1 billion pounds in 2009, the first annual decline in production since 1973. The sector continues to respond to poor returns experienced in 2008. Although declines in hatchery flocks and

eggs set began earlier, broiler meat production did not decline until the last quarter of 2008. Although the number of birds slaughtered (on a daily basis) fell below year earlier during the third quarter, continued demand for heavy-weight birds for processing kept weights high and offset the reduction in slaughter. In the fourth quarter, lower slaughter and about unchanged dressed bird weights resulted in a 4.5-percent decline in production.

Production declines are expected to continue into 2009. The industry reported 6 percent fewer broiler-type hatching layers on January 1, 2009 and weekly eggs set and chick placements through mid-February have averaged 7 percent and 6 percent lower respectively. This implies continued lower numbers of birds available for slaughter and consequently lower broiler meat production into the second quarter. Continued declines in pullets hatched for placement in the hatchery supply flock make it likely that production declines will continue into the third quarter. However, it is expected that relatively lower feed prices and stronger broiler prices will improve producers' returns and production is expected to increase during the fourth quarter.

U.S. broiler meat exports are forecast to decline about 13 percent to 6.05 billion pounds in 2009 after an 18 percent increase in 2008. Exports in 2008 were sharply higher to a number of countries including Mexico (up 27 percent), China/Hong Kong (19 percent higher), the Ukraine (97 percent), and Cuba (up 50 percent) but shipments to Russia, the largest market for broiler meat, were down almost 4 percent. Poor global economic conditions and a stronger dollar are expected to limit exports to many recently growing markets and economic concerns and revised import quotas will constrain exports to Russia.

The 12-city wholesale broiler price is forecast to average a record 81 to 87 cents per pound in 2009, up from 79.7 cents in 2008. Given lower production, even with reduced exports, domestic supplies will be tighter in 2009. Although demand is expected to be softer as a result of economic weakness, broiler prices may benefit from its value relative to beef prices. However, broiler parts prices for January through late-February are mixed. Composite bird prices have averaged about the same as last year but certain cut prices are weaker than last year. Leg quarter prices in the first 7 weeks of 2009 averaged about 36 cents per pound compared to 43 cents for the same period in 2008, largely reflecting weaker export sales. Boneless/skinless breast meat averaged \$1.26 per pound for the same period compared to \$1.37 as food service sales have suffered as consumers respond to the economic situation. However, prices are expected to firm later as production declines and stocks are worked down.

Turkey Production To Decline in 2009

Federally Inspected turkey production in 2009 is forecast to decline just under 4 percent to 6.04 billion pounds. This will represent the first annual decline since 2004. Turkey output in 2008 was about 5 percent higher as producers increased production through much of the year in response to relatively favorable returns. However, as returns worsened in the second half of the year, producers reduced eggs sets and poult

placements. Hatchery data for January point to continued reductions. Production is likely to remain below year earlier through 2009 but relatively lower feed prices and turkey price gains later in the year should slow the rate of decline during the second half of the year.

Turkey exports rose 24 percent in 2008, primarily on higher exports to Mexico and China/Hong Kong. Weak economic growth globally is expected to result in lower exports in 2009. Turkey exports are expected to decline to 605 million pounds.

Despite decreased production, turkey prices will likely be pressured by softer domestic demand due to economic weakness, weaker exports and high beginning stocks. However, as stocks are worked down and production falls through the year, prices may be supported in the later part of the year. For 2009, Eastern Region hen prices are forecast to fall from their 2008 record of 87.5 cents and average 83 to 88 cents per pound.

Egg Production Up Slightly

U.S. total egg production is forecast to increase less than 1 percent in 2008, reversing 2 years of annual declines. Producers have been scaling back flock sizes since 2007 and despite record prices in 2008, it was not until almost the fourth quarter of 2008 that egg-type hatching flocks began to increase. However, egg laying flocks remained fractionally below year-earlier levels at the end of 2008. This implies that while the stage is set for increased egg production, it likely will not begin until the second half of the year. For the year, table egg production is expected to rise less than 1 percent, but due to reduced broiler production, hatching egg production is expected to be down from 2008. Egg exports were 206 million dozen in 2008 as high domestic prices limited exports. For 2009, egg exports are forecast at 221 million dozen as prices are forecast lower. Wholesale egg prices in 2008 were a record \$1.28 cents per dozen. Due to weaker demand and gradually increasing production, prices are expected to drop from last year's high to average \$1.19 to \$1.26 per dozen.

Additional information about the 2009 livestock and poultry forecasts are available at:

World Agricultural Supply and Demand Estimates
www.usda.gov/oce/commodity/wasde/index.htm

Livestock, Dairy, and Poultry Situation and Outlook
www.ers.usda.gov/publications/ldp/

Livestock and Poultry: World Markets and Trade
http://www.fas.usda.gov/psdonline/circulars/livestock_poultry.pdf