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OUTLOOK FOR LIVESTOCK AND POULTRY IN 2011

Shayle D. Shagam
Livestock Analyst
World Agricultural Outlook Board, USDA

The livestock sector in 2010 was rife with uncertainty as volatility in the feed sector had to be factored against gains from higher livestock and poultry prices. Cattle and hog producers continued to reduce inventories but the broiler sector ramped up production. Driven by higher broiler production, total red meat and poultry production was higher; yet coupled with lower beef imports and stronger beef and pork exports, supplies of meat to the domestic consumer declined in 2010. Prices reflected the competition for limited supplies of beef and pork. Wholesale prices for Choice boxed beef in 2010 averaged 12 percent higher and the wholesale pork cutout was about 40 percent above 2009. However, export demand increased as foreign consumers, already reaping the benefits of a more rapid economic growth gained the added benefit of a generally weak U.S. dollar which partly mitigated the impact of higher U.S. prices.

Increased demand supported higher livestock prices, the 5-Area steer price averaged almost 15 percent higher in 2010 and the National Base hog price was up over 33 percent. Increased broiler production and trade disruptions dampened gains in broiler prices. Breast meat prices averaged 12 percent higher for the year but prices toward the end of the year fell below year earlier levels as production increased. Leg quarter prices, an indicator for the majority of U.S. exports averaged about 3 percent below 2009. Trade interruptions, most notably with China and Russia likely resulted in price discounts as product was diverted to other markets. Whole bird prices averaged about 7 percent higher.

Despite higher livestock and poultry prices, producer returns suffered in the later part of the year as costs increased. Cow-calf operators saw positive returns in 2010 after 2 years of negative returns but very strong feeder calf and cull cow prices likely limited incentives to retain animals for breeding. The cattle feeding sector largely saw positive margins in the first part of 2010 but returns moved generally negative in the second half of the year as diminished supplies of feeder calves meant that feeders had to increase bids in addition to paying higher feed costs. Likewise, hog producers experienced positive returns during much of 2010 but higher feed prices pushed returns negative later in the year. Broiler margins which had improved through much of 2010 moved lower towards the end of the year.

The Outlook for 2011

Much of the grain volatility which was experienced in 2010 will likely continue in 2011. Feed prices are expected to climb as corn supplies ahead of next year's crop are expected to be very tight. Producers will be facing 2010/2011 corn prices that are forecast to average $5.05-$5.75 per bushel, compared with $3.55 in 2009/2010. Soybean meal prices for 2010/11 are forecast to average $340-380 per ton, up from

$311 the previous year. In 2011, the U.S. real GDP is expected to grow near 3 percent, only fractionally higher than last year's growth but with a gradual improvement in unemployment as the year progresses. Internationally, growth is forecast to be higher than for the U.S. although a bit slower than the rate of growth exhibited last year. The U.S. dollar will likely remain relatively weak in the coming year helping U.S. exports. With only fractional gains in total meat supplies in 2011, expected strength in exports is expected to keep domestic supplies in check. Domestic per capita disappearance of red meat and poultry for 2011 is expected to decline by about 1.5 pounds to just over 207 pounds, retail weight. Livestock and poultry prices will be supported by limited growth in total meat supplies.

Cattle and Beef

The U.S. cattle herd declined for its fourth consecutive year in 2010. USDA's January *Cattle* report estimated that the number of cattle and calves on January 1, 2011 declined slightly more than 1 percent, to 92.6 million head. The beef cow herd was estimated at 30.9 million head, almost 2 percent below a year earlier. The 2010 calf crop was estimated at 35.7 million head, the smallest calf crop since 1950.

The U.S. cattle inventory is expected to continue contracting during 2011. Commercial cow slaughter is expected to decline to about 5.8 million head from 6.5 million head last year, but beef producers indicated that they retained 5 percent fewer heifers for beef cow replacement, offset only slightly by retention of just under 1 percent more dairy heifers. In the face of lower cow and retained heifer numbers, a further decline in the calf crop is expected during 2011. Unless producers deviate from their stated intentions, the stage is set for further declines in inventories into at least 2012. If producers choose to expand, it is likely that heifers will be retained from this year's calf crop to be bred in 2012 and calve in late 2012 or 2013. Given the biological lags in beef production, it is unlikely that calf supplies could support an increase in beef production before 2014

The number of cattle on feed on January 1, 2011 was estimated at 14.0 million head, about 2.8 percent above a year ago. A deterioration of winter pasture conditions in the Southern Plains, coupled with high feeder calf prices resulted in heavy placements of cattle in feedlots during the fourth quarter of 2010. To the extent that some of the increase in cattle placed at the end of 2010 were "drawn forward", supplies of cattle for placement during 2011 are expected to be tight. USDA's *Cattle* report estimated the number of cattle on small grains pasture in the 3 reporting states (Kansas, Oklahoma, and Texas) was 17 percent below a year earlier and the total number of cattle outside feedlots was about 3 percent below 2010. Feedlots will need cattle and in the short term will have to pay more to attract placements despite facing higher feed costs. Producers will then be faced with the decision of whether to sell heifer calves as feeders and pocket the immediate high returns or whether to hold back the calves for breeding in hopes of future returns from expanded calf supplies. The lower number of cattle outside feedlots point toward lower placements in 2011. Any additional retention of calves for breeding will further shrink the already low supply of feeder cattle. The availability of forage during the year will affect the timing of placements. Given the expected price of feed in the first part of 2011, feedlots will have incentives to limit the amount of time cattle are on feed and price differentials light and heavy feeder cattle may support keeping cattle on grass longer.

Commercial beef production for 2011 is forecast to decline about 1.5 percent, to about 25.9 billion pounds. Steer and heifer slaughter in the first half is expected to be above 2010 as the relatively large number of cattle placed in the last quarter of 2010 is marketed. However, as feedlot inventories decline, cattle marketings and slaughter in the second half of the year are expected to drop below year-earlier levels. Beef production in the first half of 2011 will benefit from milder weather conditions relative to last year when cattle weights averaged below year earlier. In addition, lower slaughter of cows, which generally weigh less than steers and heifers, will also support higher average carcass weights. Total commercial cattle slaughter during 2011 is expected to decline almost 3 percent but the average aggregate carcass weight is expected to increase over 10 pounds to almost 779 pounds.

U.S. beef exports for 2011 are forecast to rise about 2 percent to 2.35 billion pounds. This follows an increase of 19 percent in U.S. beef exports in 2010. Exports strengthened through 2010 as exports to Japan, Korea, and Russia were sharply higher. The U.S benefited from continued rebuilding of market share in Korea after the market was reopened to U.S. beef as well as a relatively weak U.S. dollar which both mitigated the effects of U. S. price increases and increased competitiveness vis-à-vis other exporters. In 2010, Mexico and Canada remained our major markets but exports to Mexico declined about 20 percent in the face of U.S. beef price increases while exports to Canada increased 7 percent. Demand strength is expected to carry into 2011, especially for markets in Asia but tighter U.S. beef supplies will likely limit growth in exports.

U.S. beef imports are forecast at 2.39 billion pounds for 2011, up about 4 percent from 2010. Imports fell about 13 percent to 2.27 billion pounds in 2010. The relatively weak U.S. dollar vis-à-vis the Australia and New Zealand dollars, along with tight supplies in those countries, limited imports during the year. Imports were further affected by the delisting of Brazilian beef plants for export to the United States which effectively closed off imports from that country in the second half of the year. Demand for imported beef will likely be supported by lower U.S. cow slaughter in 2011 but imports of processing-grade beef may be constrained by continued tight supplies among our major suppliers. However, additional support for beef imports will come from the return of Brazil as a source of beef during the year.

The 5-Area steer price for 2010 is forecast to average $102 to $109 per cwt, up from 2010's average of $95.38. Tight cattle supplies and strengthening export demand led to double digit increases in prices during much of 2010 and declines in fed cattle supplies during the coming year are expected to underpin further gains in prices. However, although beef retail values increased about 3 percent in 2010, wholesale-retail margins declined, implying that the full increase in wholesale prices was not passed on to consumers. It is of concern as to how far retail prices can be raised before consumers shift to other meats. If there is resistance to higher retail prices, it may slow gains in wholesale beef and cash cattle prices. Retail choice beef prices in 2011 are expected to be slightly above the 2010 average of $4.40 per pound.

Hogs and Pork

After experiencing a stretch of almost 2 years of losses, U.S. hog producers saw returns turn consistently positive in early 2010. However, as hog prices dropped sharply in the fourth quarter and feed prices escalated, returns became negative. Volatility in both feed and hog prices in the coming months are likely to factor heavily into producer decisions concerning expansion. Uncertainty from both the input and demand sides may limit expansion plans in 2011.

The December 2010 *Quarterly Hogs and Pigs* report estimated that on December 1, 2010 the inventory of all hogs and pigs was 64.3 million head, just 0.9 percent lower than a year earlier. The breeding herd was 1.2 percent lower at 5.8 million head. Hog producers have been reducing the breeding herd since spring 2008. The numbers of sows farrowed during September-November 2010 were 2.3 percent lower, but gains in pigs per litter largely offset the decline in farrowings. Pigs per litter grew 2 percent from 2009 to 9.89 head for the September-November quarter. Since June-August 2007, growth in pigs per litter has been at least 2 percent or higher in 10 of the 14 quarters.

For 2011, producers intend to farrow 1.4 percent fewer sows during December-May. However, with expected pigs per litter growth at just under 2 percent, the pig crop for the first half of the year will be about 56.6 million head, fractionally above last year. During the second half of the year farrowings are expected to average close to 2010 and with only slightly slower gains in pigs per litter the second half pig crop could be slightly above 2010. This second half pig crop will be slaughtered during the first half of 2012.

In 2011, U.S. hog imports are forecast at 5.8 million head, about the same as last year. 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 11.9 million head on January 1, 2011, up less than 1 percent from a year earlier. With limited supplies of hogs and a relatively weak U.S. dollar, Canadian producers are unlikely to send more hogs and pigs south.

Commercial pork production for 2011 is forecast at 22.5 billion pounds, 0.4 percent higher than 2010. Hog slaughter is also expected be about the same as last year. The production gain will be due in part to a recovery in hog weights which began in the later part of 2009 as corn quality improved with the 2010/11 crop. In the first 3 quarters of 2010, hog carcass weights averaged fractionally below those in 2009; but in the fourth quarter, weights averaged over 4 pounds heavier. Carcass weights are expected to average above year earlier levels through much of 2011 but current increases are not likely to be sustained as feed prices encourage producers to market hogs as quickly as possible.

Pork exports for 2011 are forecast to increase almost 11 percent to 4.68 billion pounds, exceeding the previous record set in 2008. This follows a 3 percent increase in 2010. In 2010, exports to a number of countries in Asia were higher because of improving economic growth and a weaker U.S. dollar. Exports to Russia were sharply lower in 2010 due to a reduction in the pork quota; conversely, pork exports to China grew as China ended import restrictions imposed in 2009 due to concerns about H1N1. Exports to Mexico, the second largest market for U.S. pork increased 16 percent in 2010 on the strength of second half shipments. Despite facing higher duties on shipments of certain cuts to Mexico, export gains reflected a recovery in Mexican demand both due to economic growth and alleviation of concerns over H1N1 which affected demand in 2009. Continued global economic recovery and a relatively weak dollar will help support shipments in 2011. Exports will also be boosted by increased sales to Korea following the foot-and-mouth disease outbreak which forced large scale culling of the Korean swine herd.

Pork imports for 2011 are forecast at 920 million pounds, almost 7 percent higher than 2010. Pork imports increased 3 percent to 860 million pounds in 2010. Imports from Canada, the dominant source of imports were higher in the middle of the year but declined in the later part of the year especially as

Canada increased exports to Mexico. Imports from Denmark were lower last year but imports from a number of other EU-27 members were higher.

U.S. hog prices, on a national base, 51%-52% lean, live equivalent, are forecast to average $58 to $61 per cwt for 2011, which could eclipse the series high $58.78 per cwt set in 1982. In 2010, hog prices averaged $55.06 per cwt, up about 34 percent from the previous year. Increased exports will tighten domestic supplies despite increased production, pushing up prices. In the face of lower supplies for domestic consumers and higher prices for competing meats, retail pork prices for 2011 are expected to average above last year's $3.11 per pound.

Sheep and Lambs

The U.S. sheep and lamb inventory declined for a fifth straight year in 2010. The January 1, 2011 inventory of sheep and lambs was 5.5 million head, down nearly 2 percent from 2010. The total breeding inventory was also down almost 2 percent and the lamb crop in 2010 was over 2 percent lower. The number of replacement lambs was up for the second year but high lamb prices may result in producers having to decide whether to hold back lambs for herd expansion or sell them for immediate returns. Despite a larger year-over replacement flock at the beginning of 2010, the number of both breeding ewes and rams fell during 2010. In 2010, commercial lamb and mutton production declined almost 4 percent to 164 million pounds. Production in 2011 is forecast at 157 million pounds, down about 4 percent. With a lower number of market sheep and lambs on January 1 slaughter supplies will be tighter this year. Higher feed prices may limit incentives to add weight by supplemental feeding while high lamb prices may encourage producers to market their lambs as quickly as possible.

Lamb and mutton imports for 2011 are forecast at 168 million pounds, 2 percent higher than 2010. Imports in 2010 declined about 4 percent to 164 million pounds as lower imports from Australia more than offset increased imports from New Zealand. Imports from Australia were generally lower through the year although dry conditions in the middle of the year may have stimulated increased shipments. Conversely, imports from New Zealand were above 2009 through most of the year. Expected lower U.S. domestic production and high lamb prices are expected to boost imports in 2011 but reduced inventories in Australia and New Zealand will constrain sales, especially if producers in Australia hold back sheep for breeding. U.S. lamb and mutton exports were about unchanged at 16 million pounds in 2010 as higher exports of mutton were offset by lower lamb exports. U.S. exports for 2011 will likely remain about 16 million pounds.

The San Angelo Choice slaughter lamb price is forecast to average $151 to $159 per cwt for 2011. This would be about one-third higher than 2010's average price of $116.81 per cwt. Lower production and limited gains in imports will keep lamb supplies tight.

Broiler Meat

For 2011, broiler meat production is forecast 1 percent higher at 37.3 billion pounds. The increase reflects year-over gains in first half production but production is expected to be lower in the second half of the year. Following declines in broiler production in 2009, producers added layers to the broiler flock during 2010. As egg sets increased, larger numbers of birds were available for slaughter and coupled with increased bird weights, broiler meat production accelerated through the year. Production for 2010 was almost 4 percent higher at 36.9 billion pounds; the increase in the fourth quarter was 7.4 percent above 2009. Producers have slowed the rate of growth in hatchery production, but demand for heavier-weight birds continues to push average weights higher. The combination of these factors will support higher production in the first half. However, increasing feed costs will likely pressure producers returns and result in a retrenchment in second half 2011 production.

U.S. broiler meat exports for 2011 are forecast to decline to 6.65 billion pounds. This comes on the heels of a small decline in 2010. Exports were below 2009 for much of 2010 as trade disputes with Russia over chlorine washes and the imposition of prohibitive duties by China disrupted exports to those countries. However, exports increased to a number of other countries such as Cuba, Hong Kong, Angola, and Taiwan. In the fourth quarter, exports to these markets remained firm and the resumption of exports to Russia boosted total exports above a year earlier. Despite high levels of production, strong export demand has kept leg quarter prices relatively stable. However, a weaker dollar is offsetting some of the price strength and will likely keep exports above year earlier levels for part of 2011. However, as production falls below a year earlier in the later part of the year, exportable supplies may tighten, and exports to some of the more price-sensitive markets may be constrained. In addition, Russia set its 2011 poultry import quota at 350,000 tons (down from 780,000 tons in 2010) and is not issuing specific country allocations. Thus opportunities for export to Russia will be constrained by the size of the quota and competition with exporters such as Brazil can be expected to intensify.

The 12-city wholesale broiler price is forecast to average 80 to 85 cents per pound in 2011, compared with an average of 82.9 cents in 2010. Large supplies of broiler meat are expected to weigh on the domestic market, pressuring prices in the first half of the year despite higher prices for competing meats. Whole broiler prices have averaged in the upper 70 cents per pound range since the beginning of the year which is 5 cents below 2010. Boneless breast meat prices in the Northeast fell below year-ago levels in late 2010 and have averaged about 16 cents per pound below last year since the beginning of the year. Leg quarter prices have averaged below last year since late December but have been fairy stable at 35-36 cents per pound. Sharply lower wing prices are also depressing the composite broiler price. However, as production falls in the second half of 2011, prices could move above 2010.

Turkey

Turkey production for 2011 is forecast to decline less than 1 percent to 5.63 billion pounds after a similar decline in 2010. After being below year earlier for most of 2010, producers began increasing poult placements in the last 2 months of 2010 in response to improving returns. Placements in January were 5 percent higher than 2010 and 6 percent more eggs were in incubators at the beginning of February. These increases point toward increased production in the first part of 2011. However, higher feed prices are expected to weigh on producer returns and the production increase is expected to fall below last year in the second half of the year. Turkey stocks were low coming into 2010 which is expected to support higher prices in the first part of the year despite modest production increases. However, as stocks are gradually rebuilt, prices in the second half are not expected to reach levels of 2010. The National turkey hen price is forecast to average 89 to 95 cents per pound, compared to an average of 90.4 cents in 2010.

Turkey exports for 2010 are forecast to decline about 4 percent to 560 million pounds. Turkey exports rose 9 percent last year as sales to Mexico, the largest U.S. turkey market, were 21 percent higher. Exports rose to China/Hong Kong and Canada but fell to Russia.

Eggs

Total U.S. egg production for 2011 is expected to increase less than 1 percent to 7.66 billion dozen. The increase would be similar to the 0.8 percent gain experienced in 2010. Table egg production is expected to increase about 1 percent as improved returns in late 2010 will likely encourage producers to expand laying flocks. On January 1, 2011 the number of table layers was about 1 percent above 2010. Hatching egg production for 2011 is expected to decline slightly in the second half of the year as broiler producers scale back production.

For 2011, New York wholesale eggs are forecast to average $0.98 to $1.04 per dozen, down from the $1.06 average for 2010. With gradual egg production growth forecast, only a small decline in egg prices is expected.

In 2010, egg and egg product exports increased almost 7 percent to 258 million dozen, shell egg equivalent. Exports to the Japan, Hong Kong, and EU-27 were higher but exports to Mexico and Canada were lower. Egg exports for 2011 are forecast at 247 million dozen as relatively high egg prices will likely dampen demand for U.S. egg shipments.

Additional information about the 2011 livestock and poultry outlook is available at:

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