

# July 2010 - Livestock Market Update

## Department of Economic Analysis



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- Livestock Update: John Anderson, Livestock Economist
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- Crop Market Update: released on August 13, 2010

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*Renaissance Hotel – Pittsburgh, PA*  
*October 13 – 15, 2010*

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### Livestock Update: A Look at Long Run Trends in Livestock and Poultry Production

On Friday, USDA released their semi-annual cattle inventory report, detailing estimates of July 1 inventories of cattle of various classes. The report was expected to confirm a continuing trend of beef herd contraction and that is basically what it did. Table 1 below compares key inventory numbers in the *Cattle* report with last year's figures and with private pre-report estimates:

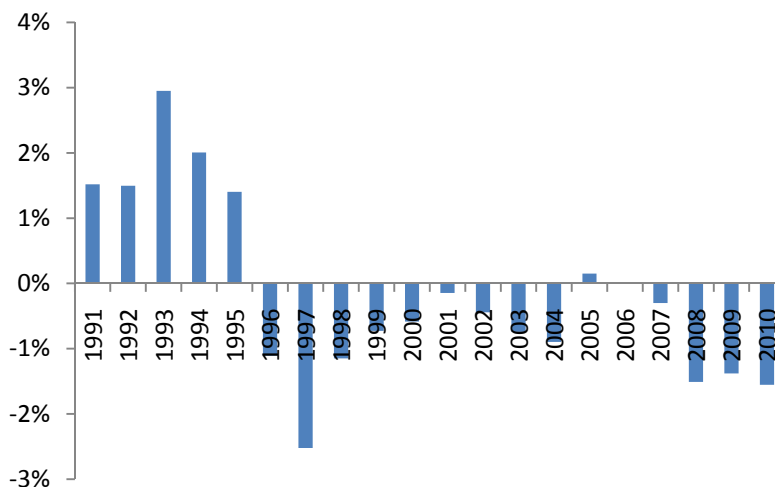
**Table 1.** July 1 Inventory Estimates from USDA *Cattle* Report

Class	Million Head		Pre-Report Estimates	
	2010	% of 2009	Average	Range
All cattle & calves	100.80	98.8	98.8	98.2 – 99.2
Beef cows/heifers that have calved	31.70	98.4	98.6	98.4 – 98.8
Beef replacement heifers	4.40	97.8	97.9	97.7 – 98.4
Other heifers	7.65	98.7	99.8	96.8 – 102.6
Steers 500 lbs and over	14.30	99.3	98.5	97.9 – 99.3
Calves under 500 lbs	27.50	98.6	99.1	98.2 – 99.6
Annual calf crop	35.40	98.8	98.9	98.3 – 99.8

The decline in beef cow numbers has been virtually uninterrupted since 1995; however, it has been a pretty slow decline. Inventory levels dropped generally less than 1 percent per year between 1999 and 2007. Given this context, the decline in cow numbers in each of the past three years has been relatively large at almost 1.5 percent. This is illustrated in Figure 1, which shows the annual percentage change in the July 1 beef cow inventory for each of the past twenty years. The drop in July 1 beef cow numbers this year is certainly not surprising. Historically high cow prices have provided a strong incentive for producers to sell cows, and weekly slaughter figures confirm that the pace of beef cow slaughter so far this year has run well ahead of last year. The monthly *Livestock Slaughter* report, also released on Friday, shows that beef cow slaughter through June was up by more than 13 percent compared to 2009.

Smaller breeding herd numbers obviously point toward declining supplies of beef in the longer run. The July *World Agricultural Supply and Demand Estimates (WASDE)* report included USDA's most recent assessment of this long-run production situation. Their figures project 2011 beef production of about 25.2 billion pounds. This would be a roughly 2 percent decline from expected 2010 production and would leave beef production 5.3 percent below the recent peak in 2008.

**Figure 1.** Annual Percentage Change in US July 1 Beef Cow Inventory: 1991-2010



Data Source: Livestock Marketing Information Center and USDA National Agricultural Statistics Service.

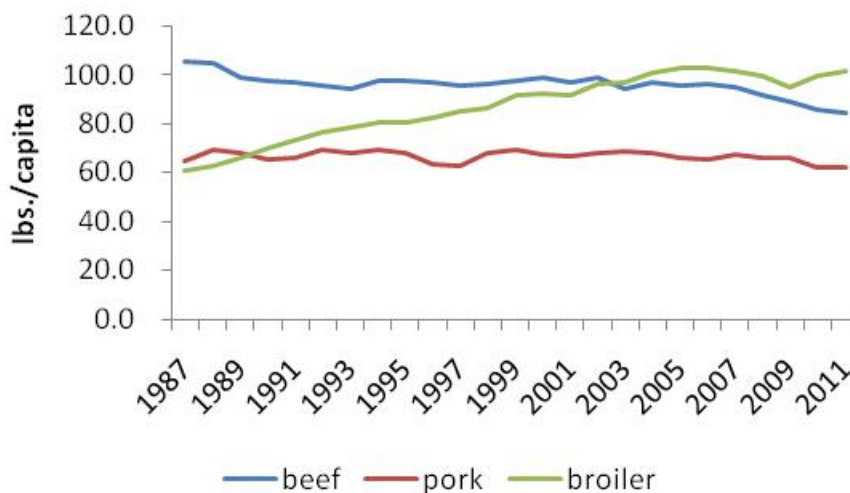
It is instructive to compare USDA's projections through 2011 for all three major meats: beef, pork, and broilers. These numbers reveal how the fallout from the demand shock of 2008/09 is likely to affect each of these industries.

Perhaps the most striking fact about USDA meat production projections is that of the three major species, only broiler production is projected to be higher in 2011 than in 2008. Broiler production is currently forecast to be about 1.8 percent higher in 2011 than in 2008, which was to that point a record level of broiler production. Pork production is currently forecast to be down 2.8 percent in 2011 compared to 2008 – a record production year for the pork industry also. As noted, beef production is forecast to be down 5.3 percent over that time period.

The shorter biological lags in broiler production obviously give that industry an advantage over pork or beef in terms of being able to respond to changing market conditions. Thus, while the pork industry is engaged in the slow process of ramping production back up after the 2009/10 slowdown and the beef industry is still wrapping up a long, slow contraction, the broiler industry is well into its expansion phase. These differences in production systems have important implications for domestic meat supplies and

consumption patterns moving forward. With broiler production expanding as beef and pork production continue to decline, consumption of chicken will increase. The increase in domestic consumption of chicken will most likely be greater than the expected increase in production implies, though, because of changes in export levels. Current projections of meat exports call for poultry exports to remain rather sluggish as Russia becomes an increasingly reluctant customer of the US. At the same time, pork and beef exports are projected to continue to experience moderate growth. This means that relatively less beef and pork and relatively more poultry will be available on the domestic market. Figure 2 shows domestic availability of beef, pork, and poultry on a per capita basis using USDA supply and use projections through 2011. Note that domestic availability consists of total projected supply less projected exports for each year.

**Figure 2.** Domestic Availability of Beef, Pork, and Broilers: 1987 through 2011 (Forecast)



Data Source: USDA Economic Research Service and USDA Office of the Chief Economist.

Without question, the growth in broiler consumption has been a longstanding trend in the meat industry, extending back well beyond the past 25 years shown in this figure. What is notable here is how dramatic the jump could be over the next couple of years if we do, in fact see a combination of declining beef and pork production, a resumption of roughly 3 percent growth in broiler production, and a modest decline in broiler exports.

***Cattle on Feed Summary***

While longer term projections in the cattle industry call for smaller supplies probably well into 2012, in the short run, cattle and beef supplies are beginning to look plenty large. Table 2 summarizes key figures in Friday’s *Cattle on Feed (COF)* report.

**Table 2.** July *Cattle on Feed Summary*

	<b>1,000 head</b>	<b>% of Previous Year</b>	<b>Avg. Pre-Report Estimate*</b>	<b>Range of Estimates*</b>
On Feed July 1	10,070	103.3	103.3	102.5 – 104.5
June Placements	1,628	117.0	120.3	115.0 – 128.0
June Marketings	1,997	100.4	101.7	99.2 – 103.4

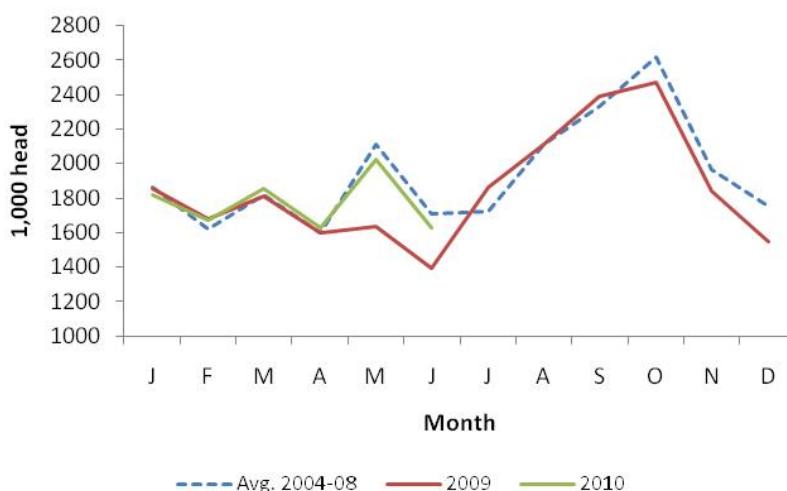
Data Source: Dow-Jones Newswires through the Livestock Marketing Information Center.

The *COF* report showed a July 1 on feed inventory that was over 3 percent larger than a year ago – the second month in a row of year-over-year increase. Placements were also sharply higher for the second month in a row but were actually at the low end of expectations.

While June placements were large relative to 2009, it is important to remember that 2009 placements were somewhat unusual. This year’s June placements, and in fact the seasonal pattern of placements overall for this year, are very much in line with historic values, as Figure 3 demonstrates. Still, these consecutive months of year-over-year larger placements have served to increase feedlot inventories. While the cash fed cattle market has rallied in the last couple of weeks, the biggest fed cattle supplies of the season still lie ahead in late summer/early fall.

Looking a little further down the road, though, recent larger placements coming from a smaller calf crop have somewhat depleted available calf supplies. This is evident from the fact that while the on feed inventory is up by 3 percent, the *Cattle* report shows a decline in the total stocker/feeder inventory (i.e., heifers not for replacement, steers over 500 pounds, and calves under 500 pounds), suggesting a pretty tight supply of calves outside of feedlots. This situation provides solid supply-side support for the calf market as fall approaches.

**Figure 3.** Number of Cattle Placed on Feed: 1000+ Capacity Feedlots



Data Source: Livestock Marketing Information Center and USDA National Agricultural Statistics Service.

### **Dairy Market Update: The Dog Days of Summer**

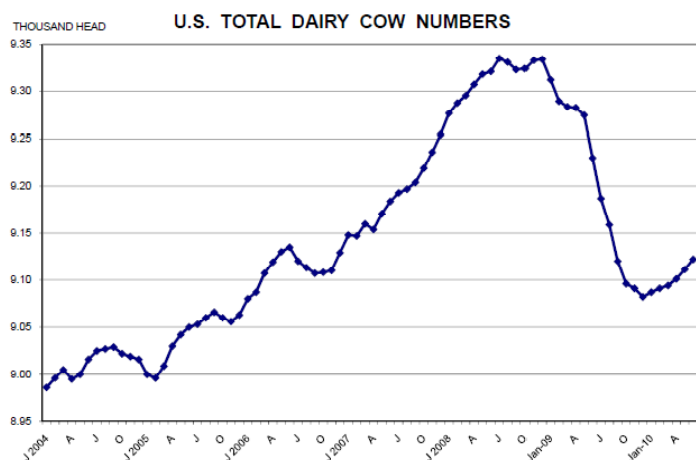
The dog days of summer are upon us. It was just five short months ago that those of us in the Mid-Atlantic were digging ourselves out of snow storm after snow storm. The abrupt change in weather patterns is having an impact on milk production throughout much of the nation, as heat and humidity are affecting both volume and component outputs. Timely rains will be needed to keep the margin outlook positive for the balance of the year. Price outlook remains much the same.

#### ***Milk Production impacts not widely known...***

USDA’s milk production report for June does not reflect the recent heat wave. June milk production for all states topped off at 16.3 billion pounds, an increase of 2.3 percent from last June. Month-over-month milk production was down 4 percent, as the seasonal decline is underway. Year-to-date milk production is 97.1 billion pounds, compared to 96.2 billion pounds last year. Despite the fact that U.S. dairymen are milking fewer cows, that is an increase of nearly 0.9 percent compared to last year. The U.S. herd totaled

9.12 million cows in June – a decline of 106,000 cows from June 2009 but an increase of 11,000 cows from May 2010. Strong June production is driven by milk production per cow. CWT announced a well-timed buyout to counter the positive inventory adjustment. Cooperatives Working Together plans to remove about 34,000 cows in its 10<sup>th</sup> round. This should help moderate production.

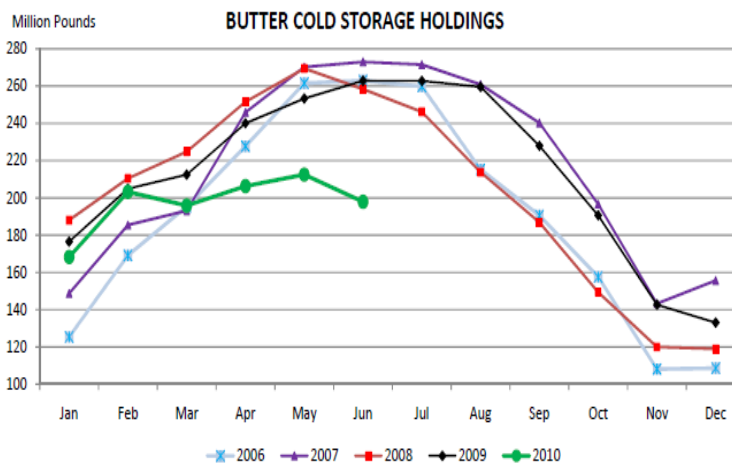
Milk production per cow continues to outpace last year, but recent weather patterns and seasonal changes are causing output and component declines. *Dairy Market News* reports tightening supplies in virtually all portions of the country based on declining milk production and lower component values. July production numbers should be tempered considerably from June’s break-neck pace.



It would behoove dairy producers to pay close attention to the corn markets for the next few months. USDA’s June 30 crop production report showed a million fewer acres being planted to corn for the 2010/11 crop year than many analysts expected. On top of that, current stocks estimates were tightened. The most common explanation for the stocks adjustment given is low test weight corn. Even if we make trend yields – and that is a big “if” based on wild weather patterns this crop year – corn supplies after harvest will be tight. This is the rationale for firmer corn futures’ prices for December and later contracts. Tighter margins in late fall and winter could be a reality.

**Butter reigns as the market mover...**

As mentioned in last month’s column, butter continues to move the domestic and international marketplace. Global and domestic butter supplies are tight. USDA’s July *Cold Storage* report about 198 million pounds of butter in storage on June 30, which is significantly lower 263 million pounds in storage last June. With the seasonal drop in component values, CME butter prices are breaking the glass ceiling. The CME butter market began the month at \$1.75/lb. on July 1, but CME spot butter prices closed at \$1.80/lb. on July 26. This is the highest price for butter in recent memory – since 2008 when the CME butter prices topped off at \$1.77/lb. on October 13, 2008.



Cheese prices continue to improve, yet there is considerable uncertainty in that market. The *Cold Storage* report shows the opposite picture for butter. Total cheese stocks came in at just over one billion pounds at the end of June. June 30, 2009’s total was 987 million pounds, an increase of almost 4 percent from last year. CME spot prices seem to be moving despite the inventory overhang, yet these prices are increasing based on unfilled bids. Thus, many worry about the long-term strength of the market. CME block prices closed at \$1.60¼ on July 26. This is a gain of 17¼¢ this month. Barrel prices

have seen similar strength, which is a positive indicator compared to past run-ups that saw little increases in this segment. CME cheddar barrels closed on July 26 at \$1.56/lb – an increase of 16¢.

Powder markets are soft – literally. Western NFDM supplies are high, and few buyers are in the market. Both CME extra-grade and Grade A NFDM spot contracts lost two cents this month. Extra-grade closed at \$1.22½ on July 26, and Grade A prices closed at \$1.21/lb. The NASS whey survey showed a whey price of \$0.3615/lb on July 17. Survey prices were about a cent higher for the survey taken the first week of the month. Whey prices have not seen much movement in the past few months.

***Export outlook is cautiously optimistic...***

May 2010 dairy export figures came in on July 13<sup>th</sup> and they were nothing less than shocking. The U.S. dairy industry exported \$357 million worth of product in May, which is the highest total since May 2008. In comparing 2008 to 2010, the biggest difference is that this total came on a volume basis not a price basis. According to the U.S. Dairy Export Council (USDEC) and USDA trade data, cheese exports posted a second consecutive month of record high volume exports. Most products had significant volume gains, as well. One bright spot in 2010 is the reemergence of the U.S. dairy industry as an exporter, and that brings returns to dairy producers. USDEC reports that 11.4 percent of U.S. milk production, on a milkfat basis, was exported through the first five months of the year. Yet, many wonder whether this trend will continue as U.S. milk prices recover and Oceanic production comes online this fall. Recent global skim milk powder auctions have netted lower prices, so long-term export recovery remains tenuous.

***Milk price overview...***

The milk price outlook for the remainder of the year looks favorable, but further margin improvement will depend on feed prices, especially after harvest. USDA projects Class III prices for 2010 to be \$13.80-\$14.10, while Class IV projects are estimated to be \$14.40-\$15.40. A higher Class IV versus Class III is a reflection of strong butterfat markets. USDA analysts suggest the average All-Milk price in 2010 to fall between \$15.80 and \$16.10.



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