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Livestock, Dairy, and Poultry Outlook

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Tighter Prospective Corn and Hay Supplies Boost Prices

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Tables will be released on
October 24, 2006

The next newsletter
release is November 17,
2006

Approved by the World
Agricultural Outlook
Board.

Feed and Forage Conditions: U.S. corn production for 2006 was forecast at 10.9 billion bushels in the October *Crop Production* report, down from the September forecast of 11.1 billion bushels. Hay production was forecast at 147 million tons this year, down 2.4 percent from last year, but up from the August estimate.

Hogs/Pork: The *Quarterly Hogs and Pigs* report released by USDA on September 29, 2006 showed the September 1st inventory of breeding animals to be almost 2 percent larger than at the same time last year. The additions come in response to an extended period of positive producer returns. Larger pork supplies in 2007 will most likely translate into lower hog prices next year. Prices for 51- to 52-percent live-equivalent hogs in 2007 are expected to range between \$40 and \$43 per hundredweight (cwt). Simulated pork producers' returns, using USDA price forecasts in ERS's "Estimated Returns" program, suggest that producers can expect positive returns through 2007.

Cattle/Beef: Corn and forage crop prospects remain a major concern for the U.S. cattle sector. Feeder and fed cattle prices continue at relatively high levels despite large inventories of cattle on feed. Choice-grading cattle remain relatively scarce, but the Choice-Select price spread is narrowing.

Poultry: Broiler meat production in July and August was in line with the third-quarter estimate of 9 billion pounds, up less than 1 percent from the same period last year. With slow growth expected in broiler meat production, the estimates for the quarterly ending stocks for the third and fourth quarters of 2006 were reduced. The relatively slow growth in turkey production and low stock levels pushed whole turkey prices upward.

Relatively tight supply conditions are expected to continue into the fourth quarter. With only small production growth expected in the third and fourth quarters, estimates for ending stocks were reduced.

Poultry Trade: U.S. exporters shipped less broiler meat in August than a year ago, while August turkey exports were up slightly, compared to August 2005. Broiler exports totaled 423 million pounds, a year-over-year decline of almost 21 percent from the very strong exports of last August. August turkey exports totaled 55 million pounds, an increase of almost 9 percent from a year ago. Broiler meat exports in 2006 are expected to be 4 percent higher than in 2005. Exports of turkey products in 2006 are expected to be about 6 percent below exports in 2005.

Special Section: “U.S. Milk Powders: Commercial Exports Flow Onto a Changed World Market.” Growth in commercial exports of nonfat dry milk (NDM) and skim milk powders (SMP) have occurred since 2004 because of a combination of increased international demand, changes in U.S. and European Union policies that have favored U.S. dairy powders on international markets, and a weakened U.S. dollar. As a result, U.S. government stocks of NDM have nearly disappeared and may not become significant again for some time, although any significant strengthening of the U.S. dollar could limit exports.

Feed and Forage Conditions

Grain, Forage Prospects Decline

U.S. corn production for 2006 was forecast at 10.9 billion bushels in the October *Crop Production* report, down from the September forecast of 11.1 billion bushels, but still the third-largest crop on record. Dry, hot conditions resulted in lower harvested acreage than a year earlier. Expected yields were reduced from September but remain 5.6 bushels per acre higher than last year. Food, seed, and industrial (FSI) use continues to expand rapidly, largely due to increased production of ethanol for fuel. This FSI use has expanded from 2.7 billion bushels in 2004/05 to 3 billion bushels in 2005/06, with a forecast use of 3.5 billion bushels in 2006/07. Ending corn stocks have declined from 2.1 billion bushels 2 years ago to 2 billion bushels in 2005/06 and are expected to be less than 1 billion bushels at the end of 2006/07. The 2006/07 marketing year average price for corn was raised to \$2.40-\$2.80 per bushel, reflecting the tighter balance sheet, higher-than-expected cash prices in recent weeks, and strong futures prices. This average is up sharply from the 2004/05 average of \$2.06 a bushel and the \$2.00 average in 2005/06.

Soybean production is forecast record large, up 3 percent from the September forecast and up 4 percent from the 2005/06 crop. Soybean meal prices are expected to average \$147.50 to \$177.50 per ton, down from \$174.17 in 2006/06 and \$182.89 2 years ago.

Hay production was forecast at 147 million tons this year, down 2.4 percent from last year, but up from the August estimate. May 1 hay stocks were down 23 percent from a year earlier, and dry conditions in many areas forced hay feeding this past summer. Consequently, hay supplies are likely to be fairly tight and expensive for this winter, particularly if a more normal winter pattern develops following the mild winter last year. Other hay production is forecast at 72.5 million tons, up 2 percent from the August estimate, but down 3 percent from 2005. Alfalfa hay production is forecast at 74.5 million tons, up 5 percent from the August forecast, but down 2 percent from last year. The September farm price of other hay averaged \$93 a ton, up from \$78.90 a year ago. Alfalfa hay price averaged \$112 a ton, up from \$106 a year earlier.

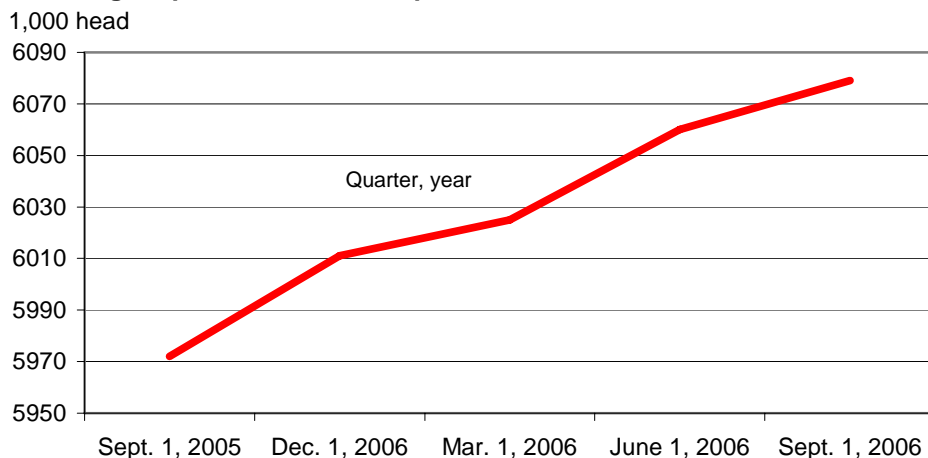
Pasture conditions continue a modest recovery, but favorable temperatures and moisture are still needed to accumulate much-needed growth for winter grazing. Wheat and other small grain pasture grazing potential are still very uncertain, as they were last fall, although recent moisture will help. Wheat planting in the October 16 weekly *Crop Progress* report in Kansas was slightly ahead of the 5-year average and last year, while Texas was even with the 5-year average and 6 points ahead of last year. However, planting in Oklahoma is 6 points behind the 5-year average and 4 points below last year. Wheat emergence in Texas is 13 points ahead of last year and slightly ahead of the 5-year average. Emergence in Kansas was 1 point ahead of last year, but down 5 points from the 5-year average. Oklahoma again falls even further behind, with emergence down 12 points from last year and down 16 points from the 5-year average. After a favorable start last year, wheat grazing in most areas was poor. The present wheat grazing prospects appear all too similar to last year, and forage needs are even greater following the dry conditions of the past year in many areas

Hogs and Pigs Report Shows Continued, Measured Additions to Breeding Herd

The *Quarterly Hogs and Pigs* report released by USDA on September 29, 2006 showed the September 1st inventory of breeding animals to be almost 2 percent larger than at the same time last year. The 1.79-percent change was the largest year-over-year increase of breeding herd numbers in more than 8 years. The addition of 19,000 breeding animals since June 1, 2006 continues a modest expansionary trend that began in the September-November quarter of last year (see figure below). The additions come in response to an extended period of positive producer returns.

Since September 1, 2005, the U.S. pork industry has added about 107,000 animals to the breeding herd. The gradual rate of expansion so far, and the modest number of additional animals, suggests that net breeding-animal additions are being made by medium- and smaller-sized operations. Large operations appear to be “expanding” via acquisition of existing operations. For example, Smithfield Foods recently announced its intention to purchase Premium Standard Farms, Inc. Once finalized, the acquisition would increase Smithfield’s breeding inventory by 50 percent. The acquisition would represent an internal expansion however, and not a net addition to the U.S. breeding herd.

U.S. hogs and pigs, quarterly inventory of animals kept for breeding, September 1, 2005-September 1, 2006



Source: *Quarterly Hogs and Pigs*, USDA, NASS.

Continuation of Positive Producer Returns Likely in 2007, Despite Lower Hog Prices and Higher Corn Prices

U.S. commercial pork production is expected to be 21.9 billion pounds in 2007, about 3.9 percent higher than production this year. The 2007 forecast reflects higher breeding herd numbers, farrowing intentions, and litter rates, as reported in the September 1st *Quarterly Hogs and Pigs* report. The production forecast also includes an increase in the number of live Canadian swine expected to be imported by U.S. finishers and packers in 2007 (<http://www.fas.usda.gov/gainfiles/200609/146218886.pdf>).

Larger pork supplies in 2007 will most likely translate into lower hog prices next year. Prices for 5- to 52-percent live-equivalent hogs are expected to range between \$40 and \$43 per cwt, more than 11 percent below prices this year. Moreover, corn prices--a key input to pork production--are expected to rise next year, due to a smaller corn crop and strong demand. Farm prices of corn next year are expected to range between \$2.40 and \$2.80 per bushel. (<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1194>).

When USDA's 2007 price expectations are used to simulate returns in the Economic Research Service's "Estimated Returns" program for a farrow-to-finish operation located in the North Central States, the results show positive returns in each quarter of 2007. Returns estimated with the simulation program show strongest positive returns in the summer quarter (July-September) and weakest returns in the fall quarter (October-December).

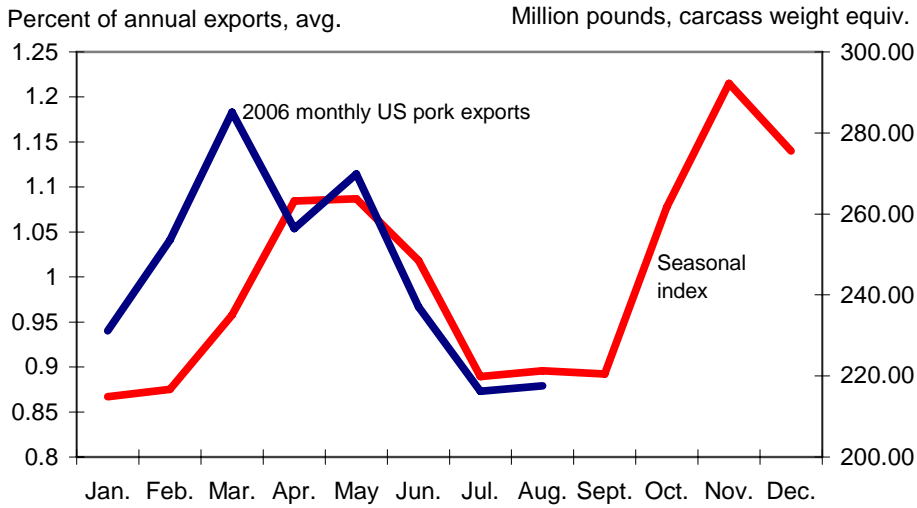
Domestic and Foreign Pork Demand Remain Key Variables in 2007

Domestic and foreign demand for U.S. pork have been among the key variables driving U.S. hog producer returns in 2006, and they will likely remain as important in 2007. On the domestic side, larger pork supplies are expected to boost per capita consumption by 1.5 pounds in 2007, compared with this year. Consequently, retail prices are expected to average lower in 2007--but only slightly so. Retail pork prices will likely average in the mid-\$2.70s per pound next year, down from the low-\$2.80s per pound average anticipated for 2006. Despite larger expected pork supplies, 2007 retail prices are likely to be supported by relatively strong retail prices for beef and poultry, and a wholesale-to-retail price spread that is expected to remain about as wide as in 2006, due primarily to higher energy costs.

Robust Foreign Demand for U.S. Pork Expected for Balance of 2006 and for 2007

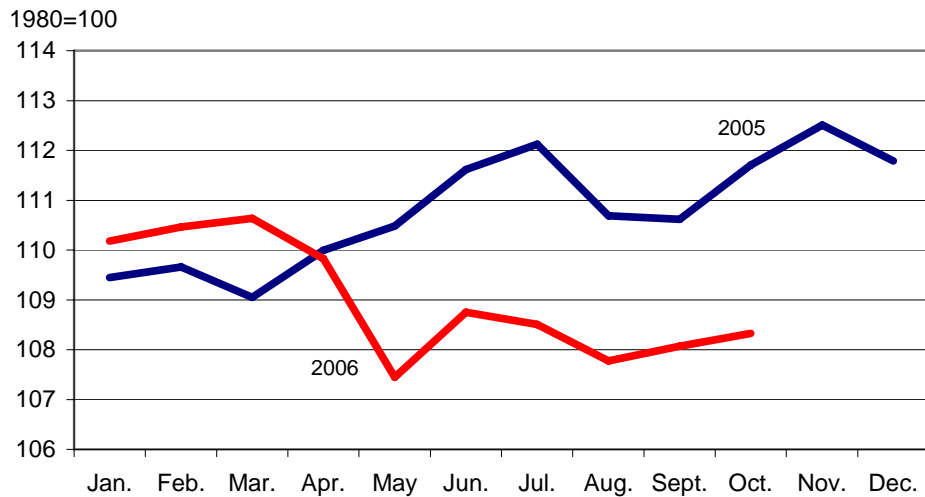
Although the third quarter tends to be the lightest of the year for pork exports, July and August 2006 shipments were lower than expected to almost all countries, especially to Mexico. Higher U.S. ham prices in the third quarter are likely part of the explanation for lower exports to Mexico. Lower exports in July prompted USDA to lower the third-quarter export forecast by 50 million pounds, to 650 million pounds. The new forecast represents a 3-percent increase over the thirdquarter of 2005.

U.S. pork exports: seasonal index vs. 2006 monthly totals



Source: USDA, ERS, <http://www.ers.usda.gov/Data/MeatTrade>.

Nominal Broad U.S. Dollar Index



Source: Board of Governors of the Federal Reserve System, Federal Reserve Statistical Release H.10.

The third (July-September) quarter typically establishes the export low for the calendar year. Lower summer exports are consistent with seasonally higher U.S. pork prices. As the figure below indicates, lower U.S. exports for July and August are consistent with the lower summer values of the monthly seasonal index. The figure suggests that U.S. pork monthly exports in the third quarter will likely average around 215 million pounds, before rebounding in the fourth quarter, when U.S. pork supplies are plentiful and prices typically at seasonal lows. Fourth-quarter exports are expected to be 785 million pounds, more than 11 percent above fourth quarter 2005.

Total U.S. exports for 2006 are expected to be 2.97 billion pounds, more than 11 percent above the total for 2005. In 2007, exports are expected to be about 3.10 billion pounds, or 4 percent above expected exports this year. The lower year-over-year increase expected next year compared with this year represents a continued market adjustment to disease issues and outbreaks. Thus, exports will likely continue to support pork demand again next year, a result of the same two variables that have driven exports in the past few years: attractive U.S. pork prices from plentiful supplies, and a relatively low-valued exchange rate of the U.S. dollar, measured against other pork-exporting countries. The figure below shows the broad U.S. index for 2005 and through part of October 2006 (<http://www.federalreserve.gov/releases/H10/Summary/>). The index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The lower values of the index after April 2006 suggest that U.S. pork products have a price advantage over pork priced in the currencies of competing exporting countries.

Cattle Sector Focused on Crop and Grazing Conditions

The corn crop remains in relatively good condition with harvest 41-percent complete (as of October 15, 2006), but behind both last year and the 5-year average, and the projected corn crop is for 10.9 billion bushels. Sixty-nine percent of the soybean acreage has been harvested, 5 points behind last year, but 4 points ahead of the 5-year average, with the crop estimated at 3.19 billion bushels. Wheat emergence is ahead of both 2005 and the 5-year average in Texas, ahead of last year, but behind the 5-year average in Kansas, and behind last year and the 5-year average in Oklahoma.

Yearling feeder cattle prices averaged \$114.01 in September, just over 1 percent above September 2005 prices. However, yearling feeder cattle prices have slipped in recent weeks due to higher corn prices, field work, and a wait-and-see attitude motivated, in part, by last year's similar but unsustainable start toward wheat pasture development. Cash fed cattle prices have also slipped to the \$88 per cwt range, although February 2007 and April 2007 futures prices are still near \$90 per cwt. Cattle prices in the \$86-\$88 per cwt range will break even with \$111-\$114.50 per cwt feeder cattle and \$3.00 per bushel of corn. A 25-cent change in corn prices is equal to an inverse change of roughly \$1-\$1.50 per cwt for feeder cattle. Despite record inventories of cattle on feed, cattle feeders are dominating the packer-feeder shuffle, and an apparent backlog of fed cattle may turn out to be a case of feeder cattle placements that were earlier than usual, while marketings may be more or less normally distributed. This is borne out in marketings reported in NASS' August and September 2006 *Cattle on Feed* reports that are comparable to the last several years.

September commercial heifer slaughter is shaping up as one of the smallest for that month going back to 1973-74. Heifer slaughter for the summer quarter 2006, down about 4 percent from a year ago, is only the lowest since the early 1990s, during the expansion phase of the previous cattle cycle. Beef cow slaughter for the 2006 summer quarter is about 26 percent above the relatively low year-earlier levels, reflecting both earlier beef cow culling because of dry pasture conditions and current seasonal culling. The reduced heifer slaughter and increased cow slaughter indicate possible heifer retention, with heifers being more attractive to over-winter than cows that could be culled.

Year-to-date cattle slaughter for 2006, about 4 percent higher than year-earlier slaughter, is generating year-to-date beef production that is up almost 6 percent over year-earlier levels. With pork production and poultry production also higher, supplies of all meats are adequate. These supplies are exerting downward pressure on beef prices at a time when seasonal prices ordinarily begin increasing.

Since early September and except for a short period in the Spring 2006, the weekly spread between Choice and Select beef has been below year-earlier levels, and, since late September, has been below the 5-year-average levels for the first time this year. It has been declining since its June 10, 2006 peak. The proportion of cattle grading Choice or better remains below normal, indicating that feedlot inventories are relatively current and that the problem of cattle not reaching Choice grade still exists. Third-quarter retail prices for beef were down by 1 percent from the third-quarter 2005 price. September retail prices for Choice beef were down by 1 percent

from August, 2006, but virtually unchanged from September 2005. Relatively lower retail prices for competing meats are making beef less attractive for featuring and are exerting pressure on retail beef prices. Despite this, steaks and other middle cuts were expected to be featured during the first part of October 2006 and roasts and other end cuts later in the month. Wholesale-to-retail price spreads for the third quarter 2006 were down by 12 percent from third-quarter 2005 levels. While farm-to-wholesale price spreads were up by 32 percent for the same period, monthly farm-to-wholesale price spreads have narrowed dramatically, by 49 percent, since their June 2006 peak of 56.9 cents per pound.

U.S. beef is trickling into Japan, which has just reported its 29th confirmed case of BSE. No beef movement has begun into South Korea as traders await resolution of bone fragment discussions.

Broiler Production Steady, Cold Storage and Prices Down

Broiler meat production in August (RTC basis) was 3.2 billion pounds, up 1.9 percent from August 2005. The number of birds slaughtered was 793.3 million, down slightly from a year earlier, but the average live weight at slaughter was up 1.5 percent to 5.36 pounds. This was the lowest average weight so far this year, but weights normally hit their lowest points in July and August due to summer heat stress. Broiler meat production in both July and August was in line with the third-quarter estimate, so no revisions were made. The broiler meat production estimate for the third quarter is 9 billion pounds, up less than 1 percent from the same period last year. The slow rate of growth is expected to continue in the fourth quarter, as the broiler production forecast is slightly less than 9 billion pounds, again an increase of less than 1 percent from the previous year.

Over the 5-week period (September 9 - October 7), the number of chicks placed for growout has been down slightly from the same period in 2005. With no growth in the number of broiler chicks being placed for growout, all the increase in broiler meat production in the fourth quarter will likely come from higher average weights.

With slow growth expected in broiler meat production, the estimates for the quarterly ending stocks for the third and fourth quarters of 2006 were reduced. The estimate for third-quarter 2006 ending stocks was lowered by 35 million to 690 million pounds. The estimate for the fourth quarter was lowered by 25 million to 725 million pounds. The slow growth in broiler meat production is expected to continue into 2007, so the ending stock estimates for the first and second quarters of 2007 were each reduced to 725 million pounds.

With higher production of beef and pork, the slow growth in broiler meat production has not resulted in price strength for many broiler products. In the third quarter of 2006 the 12-City whole bird price averaged 67.8 cents per pound, down over 4 cents per pound from a year earlier. Prices were down for a number of other broiler products. In the Northeast market the September average price for boneless/skinless breast meat was \$1.30 per pound and leg quarters averaged 33.7 cents per pound, down about 8 cents per pound for breast meat and almost 14 cents per pound for leg quarters compared with a year earlier. The prices have not fallen for all products, as wing prices in September averaged \$1.06 per pound, almost 10 cents per pound higher than in September 2005.

Turkey Prices Continue Higher

Turkey meat production over the first 8 months of 2006 totaled 3.8 billion pounds, about 3 percent higher than during the same period in 2005. The relatively slow increase in turkey production and fairly low stock levels pushed whole turkey prices upward. The average price for whole hen turkeys (8-16 lbs. in the Eastern market) averaged 79.4 cents per pound in the third quarter, about 3 cents higher than the previous year. Relatively tight supply conditions are expected to continue into the fourth quarter and the price estimate was revised to 85 cents per pound, about 1.5 cents per pound higher than in 2005 and about 8 cents higher than in fourth quarter 2004.

Overall turkey meat production in August was 500 million pounds, up 2.5 percent from a year earlier. The number of turkeys slaughtered was up 1 percent to 23.4 million, and the average live weight at slaughter was 26.93 pounds, up 1.3 percent from a year earlier. As with broiler production, the July and August turkey meat production was in line with expectations. No changes were made to the third- or fourth-quarter estimates, which are both 1.4 billion pounds, only slightly higher than for the same time last year.

With only small growth expected in the third and fourth quarters of 2006, the estimate for turkey ending stocks were reduced. The estimate for third-quarter ending stocks was reduced to 480 million pounds, down 70 million pounds. The estimate for fourth-quarter ending stocks was lowered to 225 million pounds, a reduction of 25 million pounds.

Broiler Exports Lower in August

August broiler exports totaled 423 million pounds, a decline of almost 21 percent from a year ago; however, exports in August 2005 were the fourth-largest ever. Lower-than-expected exports in both July and August prompted a lowering of the USDA third-quarter forecast of broiler meat exports by 40 million pounds, to 1.350 billion pounds, a quantity still 1 percent more than in the third quarter of last year. The export forecast for fourth quarter 2006 was also lowered, in anticipation of slower growth. The fourth-quarter forecast was lowered 25 million pounds, to 1.425 billion pounds, but still more than 8 percent above fourth quarter last year. A total of 65 million pounds was also taken off second-half 2007 estimates, specifically, 25 million pounds off the third quarter and 40 million pounds off the fourth quarter.

Turkey Exports Were Up in August

Turkey exports totaled 55.4 million pounds in August, up almost 8 percent from a year ago. Higher exports to Russia, Hong Kong, Taiwan, and Canada accounted for most of the increase. Despite the increase in August exports, both third-and fourth-quarter export forecasts were each lowered 10 million pounds, to 140 and 150 million pounds respectively, as price-sensitive foreign markets respond to higher turkey prices. U.S. turkey meat exporters are expected to ship 534 million pounds of products in 2006, a reduction of more than 6 percent compared with 2005. Turkey meat exports in 2007 are expected to be 575 million pounds, or more than 7 percent above exports in 2006.

Commercial Exports Flow Onto a Changed World Market

Significant dairy policy changes and increasing world dairy product demands favor continued commercial exports of U.S. nonfat dry milk (NDM) and skim milk powder (SMP), and low government-held stocks in the near term. NDM was exported for many years with either the aid of tendered bonuses (subsidies) provided by the Dairy Export Incentive Program (DEIP) or through international aid programs, such as PL-480. By mid-2004, however, large amounts of NDM and skim milk powder (SMP) were being commercially exported without assistance.¹ The last DEIP bonus was awarded in early-2004 and exports of NDM/SMP reached a record 612 million pounds in 2005. The increased commercial exports, and domestic and international donations allowed NDM stocks held by the Commodity Credit Corporation (CCC) to decline from a near-record 1.35 billion pounds in mid-2003 to 12 million in June 2006.

CCC accumulation of NDM stocks was minimal from the mid-1990s until mid-1998 because of a period of strong NDM prices in 1996 through mid-1997 and use of the DEIP. DEIP was initially authorized by the Food Security Act of 1985 for the purpose of developing international markets for U.S. dairy products and countering the export subsidies the European Union (EU) used to dispose of its surplus dairy products. CCC stocks began accumulating in mid-1998, in spite of higher all-milk prices, because NDM prices fell to the offer price at which the CCC stood ready to buy NDM. Stocks continued building through mid-2001 in spite of continued use of the DEIP, with bonuses averaging in excess of \$0.40 per pound through most of 1998 and 1999—roughly 40 percent of the then-existing CCC offer price, which averaged close to \$1.00.

In 2001 and 2002, changes in the CCC offer prices for butter and NDM contributed to reductions in government stocks and higher commercial NDM exports. The \$9.90 per cwt support price mandated under the 2002 Farm Bill is maintained with different combinations of offer prices for butter and NDM. In May 2001, USDA reduced the offer price for NDM by \$0.10 per pound, to \$0.90 per pound, and raised the offer price for butter by an offsetting \$0.20 per pound. Responding to a continued buildup of CCC stocks, in November 2002 USDA again lowered the NDM offer price by \$0.10 per pound, to the current \$0.80, and raised the offer price for butter by an offsetting \$0.20 per pound. There were no offers of butter for sale to the CCC in 2001 and 2002 and only 11 million pounds were offered to the CCC in 2003 in response to the changed structure of offer prices. CCC stocks of NDM began declining by late-2003, after increasing early in the year in response to weakened dairy prices.

DEIP helped to minimize CCC stock accumulation and develop the U.S. as a competitive international supplier of dairy products. DEIP helped the United States move from a minor supplier of NDM to Mexico, for example, to the dominant source by the late-1990s, mainly at the expense of the EU, which had long provided subsidized exports to Mexico. U.S. exports to Mexico were also helped by implementation of the North American Free Trade Agreement (NAFTA), signed in 1994, which provided a tariff rate quota (TRQ) for the United States. No tariffs were levied on imports within the TRQ, which will reach 130 million pounds in

¹NDM is classified for the purpose of being successively offered to the Commodity Credit Corporation (CCC) as unmodified milk powder derived from skim milk. SMP is also derived from skim milk, but its protein level is adjusted to meet recognized standards for international trade. Exports of both are classified under HTS 04021 (milk powder less than 1.5% milkfat).

2007 from an initial 88 million. Tariffs on imports of U.S. NDM are to be removed completely in 2008.

The 1994 Uruguay Round (UR) trade agreement also committed Mexico to duty-free imports--totaling 176 million pounds in 2005. In addition to its NAFTA and UR commitments, Mexico sometimes allows some *out of quota* duty-free imports. For example in September 2005, Mexico announced it would allow 109 million pounds of *out of quota*, duty-free imports because its 2005 NAFTA and UR quotas totaling 298 million pounds were not sufficient to meet desired imports. This brought Mexico's total duty-free 2005 quotas to 407 million pounds.

Mexico is now the world's largest importer of milk powders, and the most important export market for the United States. In 2005, Mexico imported 341 million pounds of NDM/SMP, more than twice the level of other major importers such as the Philippines, Indonesia, and Algeria. The United States supplied 84 percent of the Mexican imports in 2005, and is also a major supplier to other important markets. Many of the remaining markets for U.S. NDM/SMP are middle income countries with fairly rapidly growing economies, and some (such as Mexico) provide reconstituted milk to low- and-middle-income consumers. As such, they are likely to remain stable markets for milk powders.

The UR agreement and internal budget pressures helped induce reforms in EU dairy policy that have greatly reduced the EU's presence in international NDM/SMP markets. The UR agreement required its signatories to reduce subsidized exports and subsidies by 21 percent and 36 percent, respectively, from a 1986-88 base period. In 1992-93, the EU was exporting nearly 3 times more subsidized NDM to world markets than the United States was exporting under DEIP. Therefore, the UR agreement implied a quantity reduction for subsidized exports by the EU about twice as large as it implied for reduced DEIP-assisted exports (<http://aae.wisc.edu/pubs/mpbpapers/pdf/mpb50.pdf>, pp. 5-6). Moreover, the UR agreement provided minimum access for NDM into the EU market, subsequently supplied by New Zealand. EU commitments under the UR agreement added to already existing budget pressures for reform of EU agricultural policies.

EU agricultural reforms in 2003 reduced the incentives for producing butter and NDM, thus shifting more milk solids into cheese. Beginning in 2004, the NDM intervention (purchase) price was reduced 15 percent over 3 years and the butter intervention price was reduced 25 percent over 4 years. Single Farm (decoupled) Payments, were instituted to compensate for lower prices. The EU also limited the amount of NDM and butter accepted into intervention to 240 million and 132 million pounds, respectively, and only purchased during the months of March through September. By 2008 butter intervention buying beyond 66 million pounds may either be suspended or replaced with a tendering system. In addition, the quotas limiting EU milk supplies are restricted to annual increases of 1.5 percent between 2006 and 2008, thus limiting milk production growth. The lower butter and NDM intervention prices have increased cheese production, pushing down the price of cheese in the EU and thereby increasing cheese demand.

Worldwide growth in both cheese consumption and an array of milk protein concentrates (MPCs) is also reducing the amount of milk protein that might otherwise be made into NDM or SMP. MPCs are combinations of selected casein and/or whey proteins often formulated to deliver functional attributes, such as those

found in nutrition products or products that deliver specific medications to the body. The ITC reported that 88 percent of U.S. MPC imports exceeded 70-percent protein, and that processed cheese and specialty nutrition products accounted for 62 percent and 24 percent of MPC uses, respectively (<http://hotdocs.usitc.gov/docs/pubs/332/pub3692.pdf>). The United States remains a major market for MPCs. Strategic investments have been made in the production of MPCs by companies in Oceania, the EU, and recently in the United States.

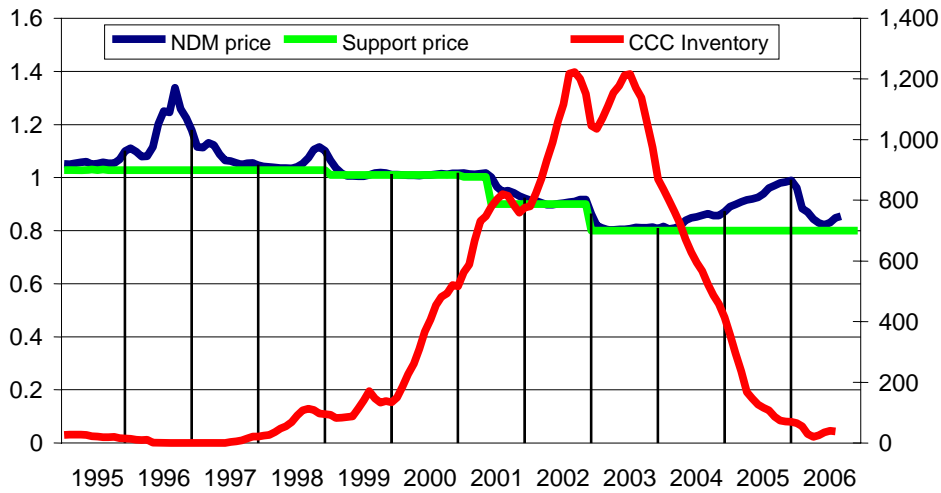
While growth in world demand for dairy products has been supported by a strong world economy in recent years, the growth in the U.S. share of world NDM/SMP markets has also been helped by a lower U.S. dollar. Between 2001 and 2005, the U.S. dollar depreciated more than 25 percent against the New Zealand dollar, in real terms, improving the competitiveness of U.S. NDM/SMP in world markets. Both economic growth and exchange rates are to some extent cyclical, but the policy changes in the EU and worldwide growth in cheese and MPC demand represent fundamental changes favoring significant commercial exports of U.S. NDM/SMP, at least for the near term.

USDA this month revised forecasted CCC purchases of NDM for 2007 from 100 million pounds to zero.

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CCC inventories have fallen since 2003

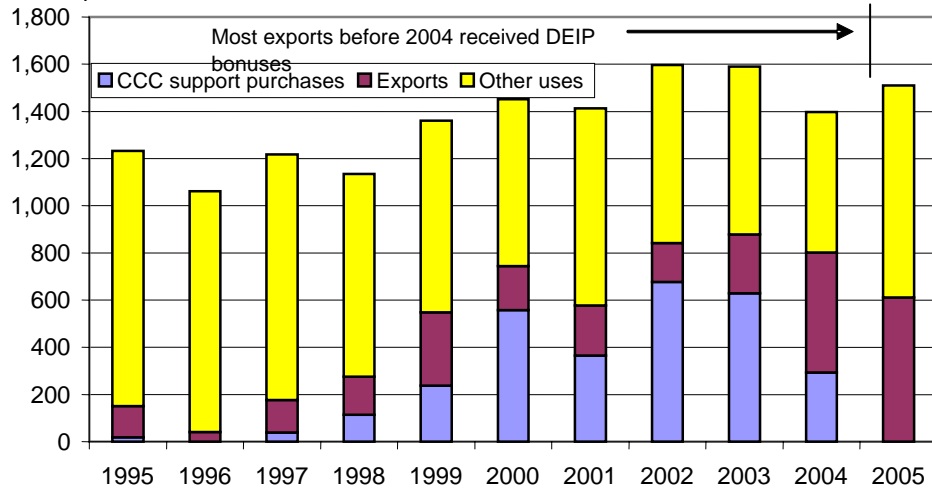
Dollars per pound



Source: (NASS, ERS).

Exports displaced CCC purchases in 2005

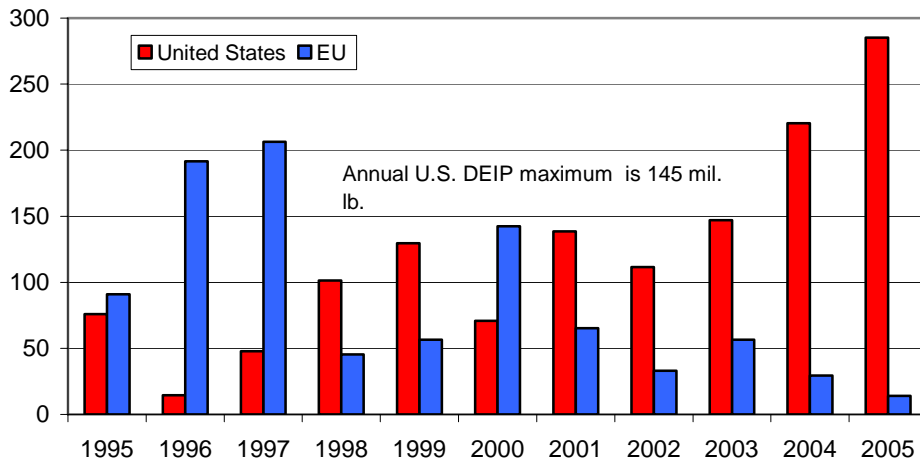
Million pounds



Source: NASS (production); FAS/Commerce (exports); Other (calculated residual).

Most of Mexico imports of NDM from the United States and less from the EU

Million pounds

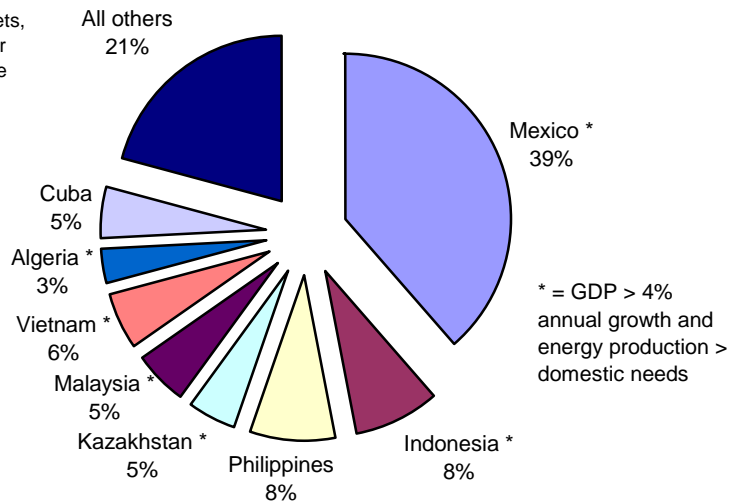


Source: World Trade Atlas (Mexico imports: HTS 04021).

Exports of NDM/SMP: The major markets in 2005

After the top 8 markets, 21% went to 60 other countries. Among the most important:

- El Salvador
- Guatemala
- Thailand
- Singapore
- China
- Netherlands
- Haiti
- Egypt
- Dominican Republic
- Spain
- Taiwan
- Canada
- Guyana

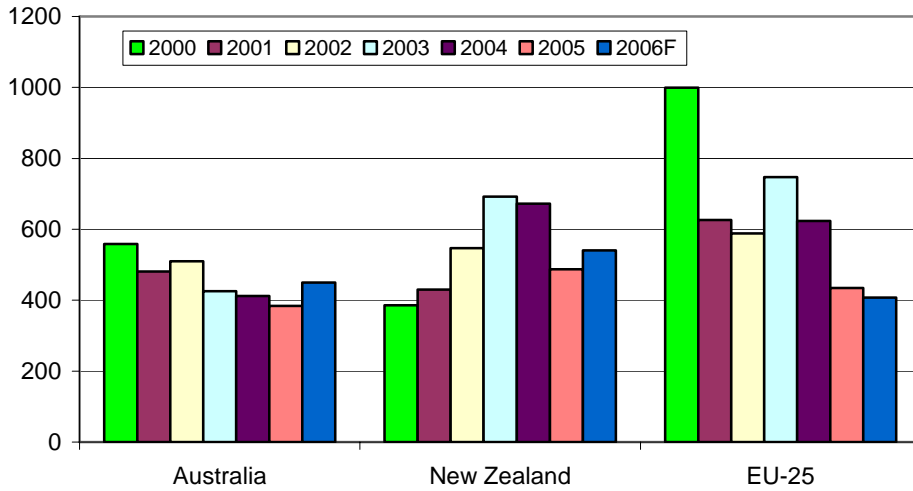


* = GDP > 4% annual growth and energy production > domestic needs

Source: FAS (U.S. exports, HTS 04021).

Exports of NDM/SMP by major competitors have declined

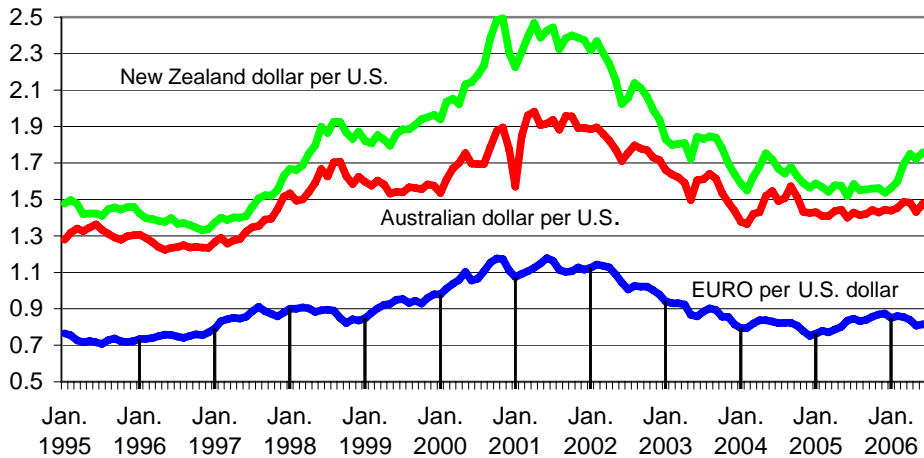
Million pounds



Source: FAS Foreign Agriculture Circulars.

Real U.S. dollar declined against competitor's currencies between 2001 and 2005

Local currency per U.S. \$



Source: ERS (Real exchange rate database).

Contacts and Links

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Recent Report

Did the Mandatory Requirement Aid the Market? Impact of the Livestock Mandatory Reporting Act, <http://www.ers.usda.gov/Publications/LDP/Sep05/ldpm13501/> compares the mandatory price reporting system developed by USDA's Agricultural Marketing Service in 2001 with the previous voluntary reporting system. The trend toward formula purchases has slowed since mandatory price reporting was implemented, and market forces have likely contributed to an increase in the volume of cattle moving under negotiated purchases.

Market Integration of the North American Animal Products Complex, <http://www.ers.usda.gov/Publications/ldp/may05/ldpm13101/> The beef, pork, and poultry industries of Mexico, Canada, and the United States have tended to become more economically integrated over the past two decades. Sanitary barriers, which are designed to protect people and animals from diseases, are some of the most significant barriers to fuller integration of meat and animal markets.

Related Websites

Animal Production and Marketing Issues, <http://www.ers.usda.gov/briefing/AnimalProducts/>
Cattle, <http://www.ers.usda.gov/briefing/cattle/>
Dairy, <http://www.ers.usda.gov/briefing/dairy/>
Hogs, <http://www.ers.usda.gov/briefing/hogs/>
Poultry and Eggs, <http://www.ers.usda.gov/briefing/poultry/>
WASDE, <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1194>

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U.S. red meat and poultry forecasts

	2004	2005	2006				2007				
	Annual	Annual	I	II	III	IV	Annual	I	II	III	Annual
Production, million lb											
Beef	24,548	24,683	6,078	6,699	6,810	6,375	25,962	6,400	6,800	7,025	26,750
Pork	20,509	20,684	5,321	4,998	5,060	5,650	21,029	5,375	5,250	5,375	21,850
Lamb and mutton	195	187	49	48	41	49	187	49	47	45	190
Broilers	34,063	35,365	8,937	9,129	9,000	8,950	36,016	9,000	9,175	9,225	36,575
Turkeys	5,454	5,504	1,354	1,440	1,410	1,445	5,649	1,375	1,445	1,440	5,730
Total red meat & poultry	85,441	87,097	21,902	22,483	22,486	22,634	89,505	22,363	22,885	23,278	91,769
Table eggs, mil. doz.	6,365	6,411	1,612	1,611	1,625	1,655	6,503	1,625	1,635	1,650	6,585
Per capita consumption, retail lb 1/											
Beef	66.1	65.5	15.8	16.8	71	16	65.6	16.1	17.1	17.4	66.6
Pork	51.3	50.0	12.3	11.9	12.1	13.1	49.4	12.3	12.4	12.7	50.9
Lamb and mutton	1.1	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.2	1.1
Broilers	84.3	85.8	21.8	22.5	21.9	21.2	87.4	21.6	22.1	87.1	87.0
Turkeys	17.1	16.7	3.5	3.9	4.3	5.1	16.8	3.5	3.8	4.3	16.6
Total red meat & poultry	221.4	220.9	54.2	55.8	55.9	56.1	222.0	54.2	56.1	57.1	224.1
Eggs, number	257.2	255.1	63.9	63.5	64.1	65.4	256.9	64.1	64.5	65.0	259.4
Market prices											
Choice steers, Neb., \$/cwt	84.75	87.28	89.24	80.39	85.40	86-90	85.76	84-90	84-90	81-87	82-89
Feeder steers, Ok City, \$/cwt	104.76	110.94	106.80	104.08	115.17	111-115	109.76	105-111	103-109	97-103	100-107
Boning utility cows, S. Falls, \$/cwt	52.35	54.36	48.89	47.79	49.28	48-50	48.74	49-51	48-52	48-52	49-52
Choice slaughter lambs, San Angelo, \$/cwt	96.69	97.76	77.03	66.56	81.10	83-87	77.42	85-91	83-89	83-89	84-91
Barrows & gilts, N. base, i.e. \$/cwt	52.51	50.05	42.63	48.45	51.83	43-45	46.73	40-42	40-44	41-45	40-43
Broilers, 12 City, cents/lb	74.10	70.80	62.70	61.00	67.8	65-67	64.40	65-69	65-71	65-71	65-70
Turkeys, Eastern, cents/lb	69.70	73.40	67.30	71.30	79.4	83-87	75.8	63-67	64-70	71-77	68-74
Eggs, New York, cents/doz.	82.20	65.50	71.40	62.70	64.00	73-75	68.00	72-78	69-75	72-78	73-79
U.S. trade, million lb											
Beef & veal exports	461	689	223	315	305	310	1,153	345	365	395	1,500
Beef & veal imports	3,679	3,599	843	789	785	755	3,172	790	900	845	3,360
Lamb and mutton imports	181	180	53	44	44	48	189	51	49	40	184
Pork exports	2,179	2,660	770	763	650	785	2,968	800	790	675	3,090
Pork imports	1,099	1,024	259	237	255	270	1,021	260	240	260	1,030
Live swine imports	8,505	8,191	2,133	2,087	2,200	2,200	8,620	2,200	2,200	2,200	8,800
Broiler exports	4,768	5,147	1,338	1,298	1,350	1,425	5,411	1,350	1,340	1,390	5,530
Turkey exports	443	569	119	125	140	150	534	130	145	145	575

1/ Per capita meat and egg consumption data are revised, incorporating a new population series from the Commerce Department's Bureau of Economic Analysis based on the 2000 Census.

Source: World Agricultural Supply and Demand Estimates and Supporting Materials.

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Published in Livestock, Dairy, and Poultry Outlook, <http://www.ers.usda.gov/publications/ldp/>

Economic Indicator Forecasts

	2005			2006					2007			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
GDP, chain wtd (bil. 2000 dol.)	11,193	11,234	11,049	11,381	11,385	11,462	11,544	11,426	11,626	11,704	1,049	11,750
CPI-U, annual rate (pct.)	5.1	3.2	3.7	2.0	3.4	3.6	2.8	3.3	2.7	2.5	2.5	2.6
Unemployment (pct.)	5.0	4.9	5.1	4.8	4.7	4.7	4.8	4.7	4.8	4.9	4.9	4.9
Interest (pct.)												
3-month Treasury bill	3.4	3.8	3.2	4.4	4.8	5.1	5.2	4.9	5.2	5.1	5.0	5.0
10-year Treasury bond yield	4.2	4.5	4.3	4.6	5.1	5.1	5.2	5.0	5.2	5.2	5.2	5.2

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, August 2006.

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Published in Livestock, Dairy, and Poultry Outlook, <http://www.ers.usda.gov/publications/ldp>

Dairy Forecasts

	2005			2006					2007			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Milk cows (thous.)	9,060	9,060	9,041	9,094	9,135	9,125	9,115	9,115	9,090	9,075	9,050	9,060
Milk per cow (pounds)	4,871	4,821	19,577	5,009	5,134	4,915	4,910	19,970	5,080	5,225	4,995	20,295
Milk production (bil. pounds)	44.1	43.7	177.0	45.6	46.9	44.8	44.8	182.1	46.2	47.4	45.2	183.9
Farm use	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.3	1.0
Milk marketings	43.9	43.4	175.9	45.3	46.6	44.5	44.5	181.0	45.9	47.2	44.9	182.9
Milkfat (bil. pounds milk equiv.)												
Milk marketings	43.9	43.4	175.9	45.3	46.6	44.6	44.5	181.0	45.9	47.2	44.9	182.9
Beginning commercial stocks	11.3	9.6	7.2	8.0	10.9	12.7	10.5	8.0	8.7	10.9	11.9	8.7
Imports	1.1	1.2	4.6	1.1	1.1	1.1	1.2	4.5	1.3	1.3	1.3	5.1
Total supply	56.2	54.2	187.7	54.4	58.6	58.3	56.2	193.5	55.9	59.4	58.1	196.7
Ending commercial stocks	9.6	8.0	8.0	10.9	12.7	10.5	8.7	8.7	10.9	11.9	9.6	7.7
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	46.6	46.2	179.7	43.6	45.9	47.8	47.5	184.8	45.0	47.5	48.5	189.0
Skim solids (bil. pounds milk equiv.)												
Milk marketings	43.9	43.4	175.9	45.3	46.6	44.6	44.5	181.0	45.9	47.2	44.9	182.9
Beginning commercial stocks	9.7	8.9	8.2	9.0	9.6	10.0	8.7	9.0	8.5	8.8	9.8	8.5
Imports	1.2	1.2	4.5	1.1	1.1	1.1	1.3	4.5	1.2	1.4	1.4	5.7
Total supply	54.7	53.5	188.6	55.3	57.3	55.7	54.4	194.5	55.7	57.4	56.2	197.1
Ending commercial stocks	8.9	9.0	9.0	9.6	10.0	8.7	8.5	8.5	8.8	9.8	8.4	8.6
Net removals	-0.2	0.0	-1.0	0.0	0.7	0.0	0.0	0.7	0.0	0.0	0.0	0.0
Commercial use	46.1	44.5	180.6	45.7	46.5	47.1	45.9	185.2	46.9	47.6	47.8	188.5
Milk prices (dol./cwt) 1/												
All milk	14.97	15.17	15.14	13.53	12.00	12.13	13.15	12.70	12.70	12.45	13.15	13.00
							-13.35	-12.80	-13.40	-13.45	-14.15	-13.90
Class III	14.08	13.69	14.05	12.23	11.02	11.42	11.78	11.60	11.59	11.81	12.61	12.10
							-12.18	-11.70	-12.29	-12.81	-13.61	-13.00
Class IV	13.45	13.03	12.87	11.33	10.30	10.65	11.08	10.80	10.45	10.24	10.55	10.45
							-11.58	-11.00	-11.25	-11.34	-11.65	-11.45
Product prices (dol./pound) 2/												
Cheddar cheese	1.481	1.431	1.488	1.272	1.184	1.217	1.227	1.225	1.228	1.263	1.340	1.290
							-1.267	-1.235	-1.298	-1.363	-1.440	-1.380
Dry whey	0.287	0.314	0.278	0.345	0.289	0.289	0.330	0.315	0.295	0.275	0.282	0.285
							-0.350	-0.325	-0.325	-0.305	-0.312	-0.315
Butter	1.646	1.487	1.541	1.247	1.153	1.210	1.248	1.210	1.170	1.165	1.222	1.195
							-1.318	-1.240	-1.270	-1.295	-1.352	-1.315
Nonfat dry milk	0.957	0.984	0.941	0.905	0.831	0.844	0.867	0.855	0.845	0.815	0.823	0.820
							-0.907	-0.875	-0.905	-0.885	-0.893	-0.890

1/ Simple averages of monthly prices. May not match reported annual averages.

2/ Simple averages of monthly prices calculated by the Agricultural Marketing Service for use in class price formulas. Based on weekly "Dairy Product Prices", National Agricultural Statistics Service. Details may be found at http://www.ams.usda.gov/dyfmos/mib/fedordprc_dscrp.htm

Source: World Agricultural Supply and Demand Estimates and supporting materials.
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