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Livestock, Dairy, and Poultry Outlook

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Drought and Grain Price Volatility Makes Livestock Expansion Tenuous

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Tables will be released
on July 26, 2011

The next newsletter
release is Aug 17, 2011

Approved by the
World Agricultural
Outlook Board

Cattle: Drought continues to motivate sales of feeder cattle and cows, which will likely reduce feedlot placement in 2012 and calf crops this year and in 2012. As a result of declining corn prices, cattle feeders have gained some relief from high feeding costs.

Pork/Hogs: The *Quarterly Hogs and Pigs* report indicated the highest ever litter rate of 10.03 for the March-May pig crop. Expectations for continued strong exports and only slightly higher second-half pork production will likely support hog prices and retail pork prices at least until the end of the year. May exports continued a string of double-digit increases over 2010, with China now routinely one of the top-10 destinations for U.S. pork products.

Poultry: The number of broiler chicks being placed for growout continues sharply lower than the previous year, but some of this decline in bird numbers is being offset by higher average weights when the birds are sent to slaughter. Broiler meat production over the first 5 months of 2011 is 4.8 percent higher than the previous year. However, in third-quarter 2011, broiler meat production is expected to fall below year-earlier levels. Turkey meat production over the first 5 months of 2011 is 5.4 percent higher than during the same period in 2010. Even with the higher production, cold storage holdings of whole turkeys are lower and prices for frozen whole turkeys in June were up considerably from the previous year.

Dairy: Milk production continues to rise despite high feed prices. Climbing domestic commercial use and exports act to keep milk and dairy product prices high. Cow numbers are forecast to fall slightly in 2012, but production is expected to continue to climb. Higher milk production will likely lead to lower milk and product prices in 2012.

Drought Continues To Push Cattle Sales

Commercial cow slaughter— primarily drought-driven at this point in 2011— is set to exceed last year's high rate and numbers for the first half of the year. Despite the heavy slaughter levels and despite being down by almost 9 percent from an early-April weekly high, cow prices have held up reasonably well, and monthly average June prices were up almost 25 percent from June 2010. Reduced imports of processing beef and high demand for ground beef products have likely helped support cow prices.

The high rate of cow slaughter will likely limit calf crops for at least this year and next. Cow inventory and calf crop data will be presented in the July 1 Cattle inventory report to be released on July 22. The report is also expected to show the effects the drought has had on plans to retain replacement heifers. Many auction runs have included relatively large percentages of heifers, and it is likely that at least some of the heifers that had been retained for replacements have been sold in response to the drought-reduced forage supplies.

Like cow prices, feeder cattle prices have remained strong despite the lack of pasture and subsequent forced sales of feeder cattle from the southern part of the United States and Mexico. Drought-induced feedlot placements of cattle have been at weights lighter than if there had been adequate grazing conditions. Lighter placement weights, falling feed prices, and expectations of reduced supplies of feeder cattle for feedlot placement over the next 2 to 3 years are providing support for current or higher price levels for feeder cattle. June 2011 feeder cattle prices for 750-800-pound Medium and Large No. 1 feeder steers in Oklahoma City averaged 18 percent above June 2010 prices, and on a weekly basis were continuing their upward march through July 2.

While hedging opportunities exist at futures prices that would provide positive margins, cattle being fed on a cash-basis (unhedged and with no contracts for feed or cattle prices) could lose as much as \$140 per head during July. Lower grain prices will likely translate into lower feeding costs for the remainder of the year, especially after the new crop is in and if yields and acreages turn out as indicated in the latest WASDE report.

Weekly wholesale cutout values for Choice beef during June and early July have been at levels 13 percent higher than in June and early July 2010. These levels, combined with record and near-record byproduct values 28 percent higher than June-July 2010 levels, have provided packers with positive profit margins since late May 2011. However, these margins have declined from highs reached in early-June. Retail prices, already down 6 cents per pound (June \$4.80) from their May high of \$4.87 per pound, will likely decline from a second-quarter peak over the next quarter, as summer grilling demand has been affected by high temperatures and drought in the South. On the other hand, international demand for beef is increasing and U.S. beef exports have surpassed 2003 levels, in part due to a relatively weak dollar.

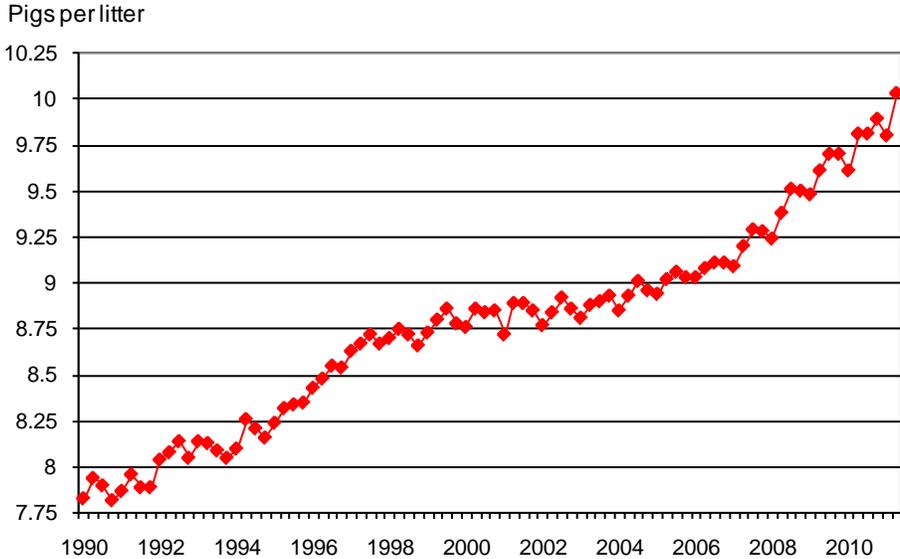
Pork/Hogs

June 1 Pigs per Litter Record-High

U.S. hog producers broke through the 10-pigs-per litter barrier in the March-May quarter, according to the *Quarterly Hogs and Pigs* report, released by USDA on June 24. The report indicated a litter rate of 10.03 pigs per litter, or 2.2 percent higher than the litter rate of the spring quarter a year ago. The 10.03 pigs per litter mark positions the U.S. hog production industry to possibly surpass Canadian hog producers' longstanding litter-rate lead. Canada will report its April-June metrics on August 22nd.

U.S. litter rates have trended upwards for more than two decades, but the 10+ pigs per litter mark had never been achieved until March-May 2010. Several factors likely culminated to push the U.S. hog production industry to 10+ pigs-per-litter mark in the second quarter.

U.S. quarterly pigs per litter, 1990-2011

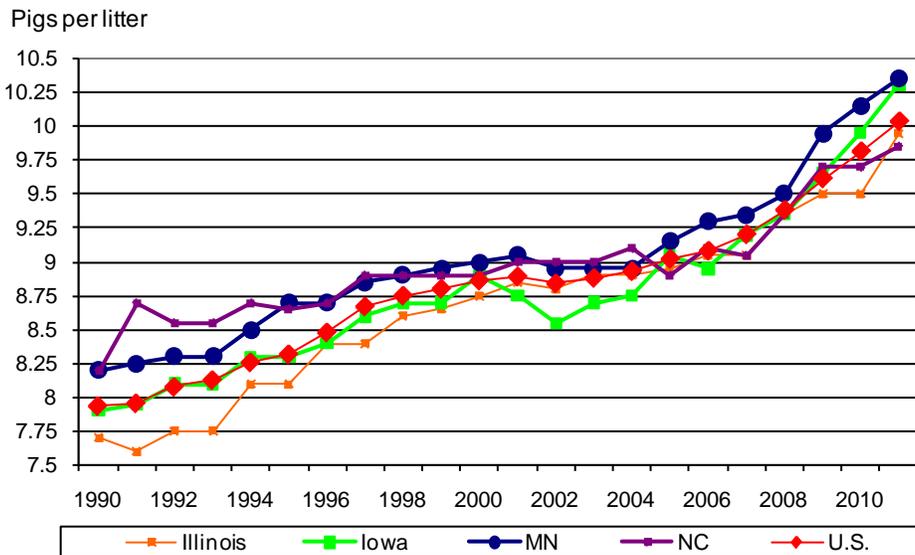


Source: <http://www.nass.usda.gov/>

Genetic improvement—the ability to identify, select and incorporate strong breeding characteristics in the reproductive herd—is a key factor in accelerated U.S. litter rates. A generalized industry adoption of innovations in technology that improve animal handling procedures, breeding methods, and nutritional composition are also among the major factors contributing to larger litters, superior survival rates, and improved weaned-pig numbers. It is also hard to minimize the importance of management and labor coordination in large breeding programs, both of which have received significant industry attention in recent years. Finally, while structural change in the U.S. hog industry has received exhaustive attention from economists, it is hard to overestimate the reproductive implications that derive from an industry that has moved from a very large number of small operations to a relatively small number of very large, specialized operations.

It is notable that the litter rates of major hog producing States Iowa and Minnesota have led the pack, exceeding the U.S. average and effectively pulling the country’s average over the 10 pigs per litter mark.

Second Quarter pigs per litter: U.S. and major producing states: 1990-2011



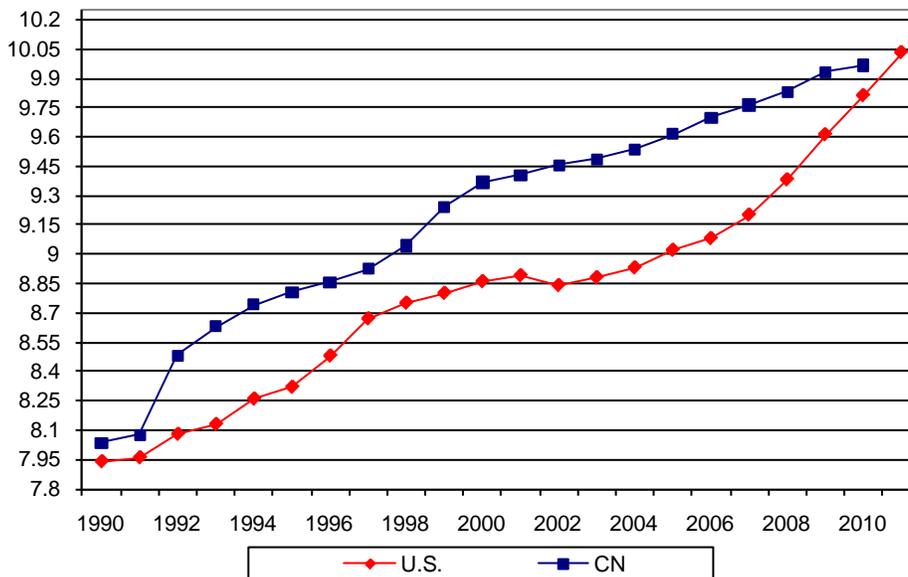
Source: <http://www.nass.usda.gov/>

Canada's Lead in Spring-Quarter Litter Rates in Jeopardy

The record-high second-quarter litter rate achieved by U.S. hog producers sets up the U.S. industry to surpass Canada's long-standing lead in this production metric.

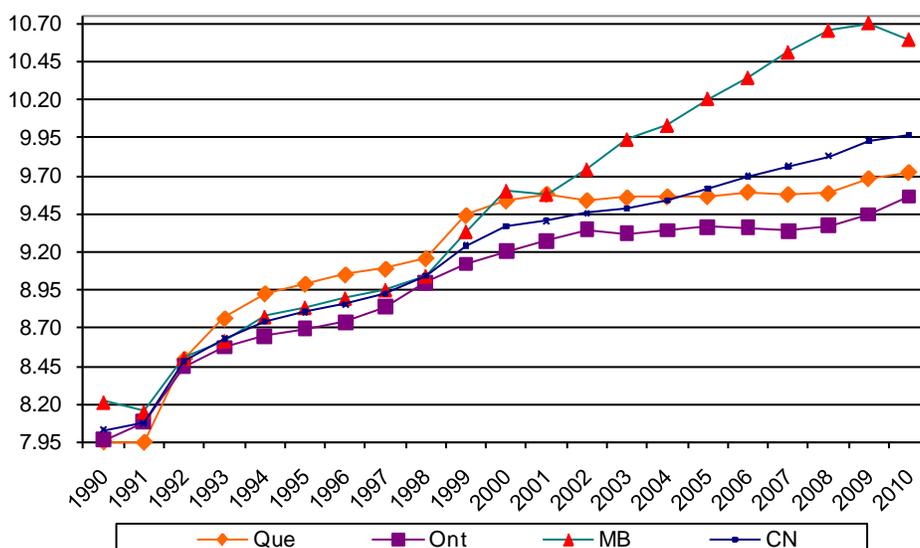
While the Canadian industry as a whole has yet to achieve a 10+ litter rate in its spring-quarter production, one province in particular, Manitoba, has consistently scored a 10+ litter rate in each quarter since 2004. Manitoba's spring-quarter litter rate peaked at 10.7 in 2009, however, and it appears to be trending lower. The downward trend is likely a consequence of lower investment in reproductive maintenance and technologies, brought about by negative producer returns in recent years. Looking ahead, the high valued exchange rate of the Canadian dollar, along with expectations for continued imposition of restrictive provincial environmental regulations, will likely continue to stress Manitoba producers, with implications for litter rates.

U.S.-Canada pigs per litter, second quarter 1990-2011



Source: <http://www.nass.usda.gov/>,
<http://www.statcan.gc.ca/bsolc/olc-cel/olc-cel?catno=23-010-X&CHROPG=1&lang=eng>

**Pigs per litter: Canada, and major producing provinces
April-June, 1990-2010**



Source: <http://www.statcan.gc.ca/bsolc/olc-cel/olc-cel?catno=23-010-X&CHROPG=1&lang=eng>

Despite June Report Revisions, Fourth-Quarter Production Likely To Be Slightly Below a Year Ago

The June report also indicated that higher actual farrowings in March-May accompanied the record-high spring litter rates. Nevertheless, spring farrowings were 1.8 percent below March-May of 2010, which—when combined with record-high litter rates—yielded a spring pig crop only slightly higher than a year ago (+0.42 percent year-over-year). While the spring pig crop points to slightly higher fourth-quarter slaughter, dressed weights will likely average below 2010 levels, which were achieved when a combination of corn-quality and optimal feeding weather boosted weight gains. Fourth-quarter commercial pork production is expected to be 6.1 billion pounds, or about 1 percent below fourth-quarter 2010. Combining expected fourth-quarter pork production with third quarter’s expected 2 percent higher production of 5.5 billion pounds implies slightly higher second-half pork production—less than 1 percent above second-half 2010.

Despite expectations of slightly higher second-half production, second-half exports are anticipated to come in at more than 12 percent ahead of second-half 2010, suggesting lower second-half 2011 domestic pork disappearance. Consequently, continued year-over-year higher hog prices and unusually high retail pork prices are the most likely outcome for second-half 2011. Third-quarter prices of live equivalent 51-52 percent lean hogs are expected to be \$67-69 per cwt, 13 percent above the same period last year. In the fourth quarter, hog prices are expected to be \$58-\$62 per cwt, about 20 percent above a year earlier. Second-half retail pork prices are expected to be in the high \$3.30s to low \$3.40s per pound.

May Exports Continue Strong 2011 Trend

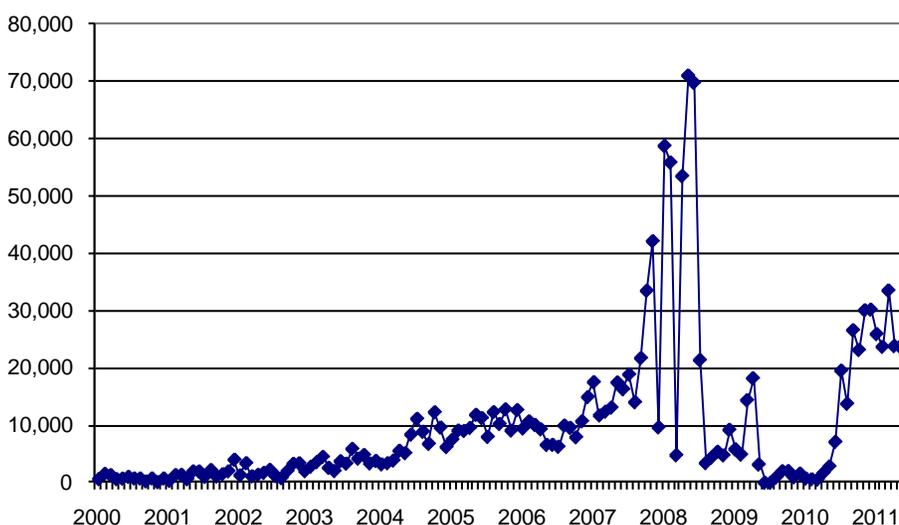
May pork exports of almost 409 million pounds—12.7 percent greater than a year ago—continued a trend of double-digit year-over-year increases in exports that began late last year. The top three foreign destinations for U.S. pork products in May were Japan (+16.4 percent), Mexico (+26.9 percent), and Canada (+15.1 percent), and together these three countries accounted for 66 percent of U.S. exports. Exports to South Korea and China rounded out the top five destinations in May. Shipments to South Korea of 30.2 million pounds were 32.7 percent higher than in May 2010; this increase is more than likely attributable to product deficits created by FMD problems earlier in the year. Moreover, the South Korean Government recently further relaxed pork import restrictions, implying that demand for U.S. pork products will likely stay strong.

China Returns as an Important Export Destination for U.S. Pork

Since the second half of 2010, China has stepped up its demand for U.S. pork and now routinely ranks in the top 10—often in the top 5—of U.S. export destinations. China was the fifth largest export destination in May, importing 23.7 million pounds of U.S. pork. Comparisons of current Chinese purchases with recent past U.S. shipments are difficult, because of restrictions placed by the Chinese on U.S. pork due to concerns about H1N1. With this restriction removed in May 2010, China has developed a pattern of consistent purchases of important quantities of U.S. pork products. Some perspective is gained, however, by comparing May 2011 China exports to those of Japan. Exports to Japan in January-May were 627 million pounds, or, almost 5 times more than exports to China. January-May exports to Japan accounted for 30 percent of total U.S. exports; shipments to China accounted for 6 percent. China is becoming an important outlet for U.S pork products, but shipments are currently relatively small compared with Japan and Mexico, the United States' two largest export destinations. However, China's evolution as an export destination for U.S. pork products is likely to continue to evolve.

U.S. pork exports to China, monthly 2000 - May 2011

Thousand lbs



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

2011 Broiler Meat Production Slowing

U.S. broiler meat production for the first 5 months of 2011 was 15.5 billion pounds, up 4.8 percent from the same period in 2010. The increase in 2011 is the result of a greater number of birds being slaughtered and higher average weights at slaughter. Due to the increased broiler meat production in May and the continuing higher average bird weights, the production estimate for second-quarter 2011 was raised to 9.4 billion pounds, 75 million higher than the previous estimate. However, starting in late May and continuing through the most recent data, the number of eggs placed in incubators and the number of chicks placed for growout has turned sharply lower than the previous year. Based on this trend, broiler meat production in third-quarter 2011 is expected to be below that of the previous year. The falling year-over-year production is expected to continue in fourth-quarter 2011, and the fourth-quarter production estimate was lowered to 9.3 billion pounds, down 75 million from the earlier estimate. Production for all of 2011 is estimated at 38.4 billion pounds, unchanged from last month's estimate.

The relatively higher grain prices and the sluggish economy are expected to influence broiler production through 2012. Production in 2012 was reduced by 230 million pounds to 37.8 billion pounds, up only 1.1 percent from the 2011 total. Most of the reduction was attributed to changes in the second half of 2012, as the expected production increase in that period is now expected to be more modest than originally forecast.

At the beginning of June the number of birds in the broiler breeder flock was estimated at 54.8 million, down just less than 1 percent from a year earlier. If the size of the broiler breeder flock remains below the previous year over the next several months, the number of eggs placed in incubators and chicks hatched are expected to continue to be significantly lower compared with the previous year, and this will reduce the number of birds available for slaughter.

Two of the major factors driving the current changes in the broiler industry are the large increases in the prices of feed grains and little or no growth in the domestic economy. Higher grain prices have greatly increased the cost of growing out the birds to market size. With little or no growth in the economy, the overall demand for meat products has been down, and as a result prices for many broiler products are below those of a year earlier.

Over the last 5 weeks (June 11 to July 9), the average number of chicks being placed weekly for growout was 169.1 million, 3.4 percent lower than in the same period in 2010. This is a continuation in a downward trend in chick placements that began about 4 weeks earlier. A smaller numbers of chicks being placed for growth is expected to continue at least for several weeks, as the number of eggs placed in incubators in the last 3 weeks has averaged 4.8 percent lower than in the previous year. With a typical growout period of 7 to 8 weeks, chicks placed for growout during June would likely go to slaughter during the second half of July to the middle of August.

Broiler meat production in May 2010 totaled 3.2 billion pounds, 7.1 percent higher than the previous year. The increase in meat production was due to a combination of a higher number of birds slaughtered in May, up 5.0 percent from the previous year, and higher average weights at slaughter. The number of birds slaughtered was higher due to 1 additional slaughter day in May 2011 compared with May 2010. The average liveweight at slaughter in May was 5.81 pounds, 1.8 percent higher than the previous year. Weekly broiler slaughter data from the Agricultural Marketing Service points toward continued higher average liveweights at slaughter in June, as most of the increase in the weekly number of birds being slaughtered during June has been from heavier birds (6.25 pounds and higher).

Broiler meat production is expected to be up 2.2 percent in second-quarter 2011 compared with the previous year, with almost all of the growth coming from higher production of large birds. This production increase has generally had a depressing effect on wholesale prices. After rising in the first quarter of 2011, prices for whole birds averaged 82.6 cents per pound during second-quarter 2011, 2.8 percent lower than a year earlier, as stocks have increased and the economy remained weak. Demand has also been weak for boneless/skinless breast meat, with prices in the Northeast market averaging \$1.25 per pound in June, down 18 percent from the previous year. With generally lower stock levels, prices for a number of leg meat products and wings have been increasing. Prices for leg quarters and thigh meat in June were both up considerably (between 28 and 46 percent) from June 2010.

Broiler stocks at the end of May totaled 719 million pounds, up 8.3 percent from a year earlier. The year-over-year changes in cold storage stock levels varied widely for the different categories. Stocks of whole birds, and breast meat products were higher, while stocks of a number of leg meat products were lower. Stocks for whole birds were 21.8 million pounds, an increase of 14 percent from the previous year. Stocks of breast meat were up 36 percent from the previous year and totaled 157 million pounds. Over the first 5 months of 2011, stocks of breast meat rose by 21 million pounds, and this increase has been reflected in the falling wholesale price over the last several months. Cold storage holdings of broiler wings presents a more complex picture. At the end of May 2011, wing stocks totaled 66 million pounds, 72 percent higher than the previous year. However, since the beginning of 2011 wing stocks have declined by 1.9 million pounds, and wholesale prices for wings have generally been strengthening in the last month or two. Wing prices were around \$0.88 per pound in June, down 24 percent from the previous year, but up 8 cents from the previous month.

Partially countering the increases for the products discussed above have been falling stocks for thighs and thigh meat, which were down 29 and 39 percent from the previous year. Most of the decrease for these products came during the first 2 months of the year, with stock levels basically unchanged in the last 2 months.

For the remainder of 2011, cold storage holdings for broiler products are expected to slowly decline. While broiler meat production on a year-over-year basis is expected to be lower in the second half of 2011, the decline is expected to be partially offset by lower exports and a sluggish domestic economy. Broiler stocks are expected to slowly fall, ending the year at 630 million pounds.

Broiler Exports Higher in May

Broiler exports totaled 566 million pounds, 5.7 percent higher than a year earlier and almost 14 percent higher than in April. The export strength was likely a significant factor in the strengthening of leg quarter prices in the Northeast market, which averaged 49.6 cents per pound in May, up over 11 cents per pound from the previous year and 3 cents per pound higher than the previous month.

Much of the increase in exports from the previous year is attributable to a handful of countries. In May 2011, exports to Latvia were 32.5 million pounds compared with zero exports in May of 2010. Exports of broiler products were also much higher to Russia, South Korea, and the United Arab Emirates, due to trade restrictions in the previous year, shortfalls in domestic meat production, or large buyers taking advantage of the weakness of the U.S. dollar against the currency of major competitors.

Turkey Production Rises in May

Turkey meat production totaled 496 million pounds in May 2011, up 13.1 percent from a year earlier. Over the first 5 months of 2011, turkey meat production has totaled 2.4 billion pounds, 5.4 percent above the same period in 2010. The increase in turkey meat production in May was the result of both a higher number of turkeys slaughtered—20.6 million, up 11.5 percent from a year earlier—and a higher average weight. Much of the gain in the number of turkeys slaughtered was the result of 1 additional slaughter day in May 2011 compared with a year earlier. In May, the average liveweight for turkeys at slaughter was 30.2 pounds, 1.6 percent higher than a year earlier. Over the first 5 months of 2011, the average liveweight for turkeys at slaughter has been 30.3 pounds, up 1.1 percent from the same period in 2010.

Although turkey meat production in the second half of 2011 is expected to be higher, estimated at 2.9 billion pounds, it will still be down slightly (1 percent) compared with the second half of 2010. The turkey hatchery report showed that net placement of poults for growout in May were 23.7 million birds, 1.6 percent lower than the previous year; however, over the first 5 months of 2011 net poult placements have totaled 115.5 million, up just less than 1 percent from the same period in 2010. Turkey meat production is expected to remain about the same or just below the previous year through the rest of 2011, but to turn to positive growth in the second half of 2012. Even when it turns positive, however production will be below that of the second half of both 2007 and 2008.

Even with higher turkey production so far in 2011, lower stocks of whole birds to start the year have kept available supplies tight and whole bird prices have remained well above year-earlier levels. National prices for whole hen turkeys averaged 99.9 cents per pound in second-quarter 2011, up over 15 cents per pound from the previous year. Whole turkey prices are expected to remain above year-earlier levels through the remainder of 2011 and into 2012.

At the end of May, cold storage holdings of all turkey products totaled 444 million pounds, down 3.9 percent from a year earlier. The decrease has come from declines in both the stocks of whole birds and the stocks of turkey parts. Cold storage holdings of whole turkeys totaled 234 million pounds, 6 percent lower than a year earlier. Holdings of turkey parts were 210 million pounds at the end of May, down only 1.2 percent from the same period in 2010. The decline in turkey products in cold storage has developed because the strong increase in production has been mostly offset by strong export demand, especially to Mexico. Stocks of turkey products (whole birds and parts) are expected to follow the normal seasonal pattern of increasing through the third quarter and then declining during the peak demand period in the fourth quarter. With slightly lower production expected for the second half of 2011, ending turkey stocks for 2011 are forecast at 200 million pounds, just slightly higher than 2010's very low level.

Turkey Exports Continue Their Strong Pace

In May, turkey exports totaled 64.6 million pounds, up 37 percent from a year earlier. This lifts total turkey exports over the first 5 months of 2011 to 277.2 million pounds, 36 percent higher than during the same period in 2010. Much of the growth in exports has come from shipments to Mexico, the largest market for U.S. turkey products. Exports to Mexico in May totaled 37.8 million pounds, or 58 percent of all turkey exports. Also boosting total turkey exports were larger shipments to China, which were up 34 percent compared with May 2010. During the first 5 months of 2011, shipments to China were more than double those for the same period in 2010.

Egg Production Slightly Higher, Prices Strong in Second Quarter

U.S. table egg production totaled 556 million dozen in May, up 1 percent from the same period the previous year. Higher table egg production in May was the result of an increase in the rate of lay in May compared with the previous year, as the number of hens in the table egg laying flock was actually slightly lower than in May 2010. During May the number of hens in the table egg laying flock averaged 280 million, down fractionally from a year earlier. It is expected that the number of birds in the table egg laying flock will continue to be slightly lower than the previous year. Although wholesale prices are relatively strong, much higher feed prices have negated incentives to expand the size of the table egg flock. As a result, the number of egg-type eggs in incubators at the first of the months has been lower for the last 3 months in a row. Table egg production in second-half 2011 is expected to total 3.3 billion dozen, slightly higher than in the second half of 2010.

Much of the increase in second-quarter table egg prices is due to the Easter holiday having fallen late in April. However, egg prices normally fall sharply after Easter, and this year the decline was less severe and shorter in duration. After averaging \$1.20 per dozen in April, prices fell to \$0.99 in May, but then increased in June to push the second-quarter average to \$1.07 per dozen in the New York market, up 29 percent from the same period the previous year.

With a slightly lower table egg flock, egg prices are expected to remain above the previous year through the third quarter. However, egg prices are expected to average \$1.09- \$1.17 per dozen in fourth-quarter 2011, down somewhat from the \$1.23 per dozen in fourth-quarter 2010, as a sluggish economy is expected to have a depressing effect on the normal fourth-quarter strengthening in egg prices.

Overall Egg Exports Rise

Total egg exports (shell eggs and egg products) were 26.3 million pounds in May 2011, up 13 percent from the previous year. Much of the increase was due to larger shipments to Japan, Canada, and South Korea. Japan and Canada have traditionally been major markets for U.S. shell eggs and egg products. Exports to Japan in May totaled 6.3 million pounds, 55 percent higher than the previous year. Monthly shipments to Japan have steadily been growing during 2011 and over the first 5 months are 39 percent above the same period in 2010. Egg exports to South Korea were only 1.3 million pounds in May, but this is a large jump from the previous year when shipments to South Korea totaled only 324,000 pounds.

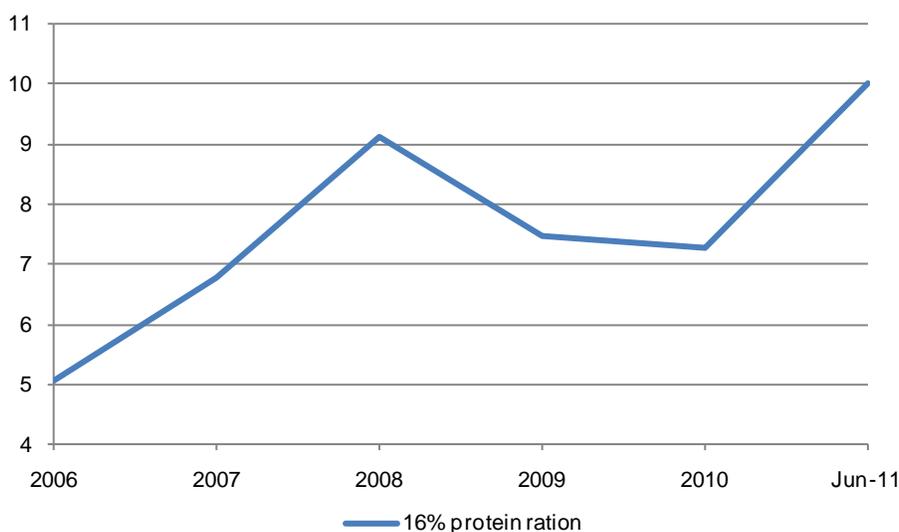
Strong Demand, Both Domestic and Global, Keeps Milk Prices High and Production Advancing, Despite High Feed Prices

The June *Acreage* report indicated that producers planted 92.3 million acres of corn, up 4.1 million acres from last year, and the second highest since 1944. The prospects for a larger crop in 2011/12, coupled with larger beginning stocks, resulted in lower expected corn prices compared with last month's forecast. Corn prices are forecast at \$5.50 to \$6.50 a bushel. Soybean meal prices were lowered this month from last month's forecast to \$345 to \$375 a ton. While corn and soybean prices in 2011/12 are likely to be lower than earlier season expectations, forage prices could remain near record highs.

Nationally, alfalfa prices set a record high in May. The June *Acreage* report confirmed expectations that the harvested area of alfalfa hay and alfalfa mixtures had declined from 2010. The expected harvested area decline, along with severe drought in parts of Texas and the southwest and excessive wetness in parts of the northwest (which adversely impacted first cutting), will keep alfalfa hay prices high for the rest of 2011 and into 2012. On balance, the change in feed ingredient prices will offer only scant relief for dairy producers, as the benchmark 16-percent protein ration will likely remain well above 2010 for both the balance of 2011 and 2012.

16% protein dairy ration value

\$/cwt



Data: NASS/AMS.

Dairy cow numbers continue to advance and are projected to average 9,185 thousand head this year. Some retrenchment is expected in 2012 based on relatively high feed prices and lower expected milk prices in 2012. Milk per cow is estimated at 21,305 pounds this year and forecast at 21,665 pounds in 2012; both numbers are unchanged from June. The result will be continued expansion in milk production, with 195.7 billion pounds expected in 2011 and 198.8 billion pounds forecast for 2012. This year, both an increase in cow numbers and output per cow support the rise. In 2012, a strong year-over-year rise in output per cow, and the added leap-year milking day, will offset the expected decline in cow numbers.

According to the June *Milk Production* report in the 23 surveyed States, the strongest percentage increases in year-over-year milk production were posted in western States, with Texas, Colorado, and Arizona leading the rise. Declines in milk production were observed in the Midwest with Ohio, Illinois, and Missouri showing the largest declines in 2011 from 2010.

Milk equivalent imports are placed at 3.4 billion pounds in 2011, declining to 3.2 billion pounds in 2012 on a fats basis. Imports are forecast at 5.0 billion pounds this year and 4.5 billion pounds next year on a skims-solids basis. Import forecasts are unchanged from last month and are a continuation of an apparent longer run downward trend in dairy imports that began on a fats basis in 2007, with an interruption in 2009, and on a skims-solids basis in 2008, with a slight upturn expected this year.

Exports have shown resiliency to date, but will likely decline next year. Milk equivalent exports are forecast at 8.8 billion pounds this year on a fats basis, based on continued strong shipments of butterfat. The forecast represents an increase from last month's forecast. Exports in 2012 are forecast at 8.7 billion pounds, unchanged from last month. The competitive price advantage for U.S. butter in world markets has narrowed considerably, which could ultimately slow exports. Milk equivalent skims-solids exports were increased slightly from last month to 32.1 billion pounds for 2011 and are unchanged from last month at 32.3 billion pounds forecast for next year.

Growth in domestic commercial use of dairy products continues despite slow economic growth. Domestic commercial use is forecast at 188.8 billion pounds this year on a fats basis, but a stronger rise is forecast for 2012 as use is forecast to rise to 192.2 billion pounds. Somewhat stronger economic growth and moderating prices, especially for butter, prompt the rise. Year-to-date use through April shows butter 15 percent above 2010, American cheese 4 percent above last year, and other cheese 7.1 percent above last year. Domestic commercial use, on a skims-solids basis, is on track for a robust 2.1 percent year-over-year rise to 167.5 billion pounds for 2011. For 2012, domestic use is forecast at 170.4 billion pounds, a strong 1.7-percent rise.

Dairy product prices were revised upward from June's estimates. Cheese prices are projected higher based on current price strength. Cheese prices are forecast to average \$1.815 to \$1.845 per pound this year and fall to \$1.660 \$1.760 in 2012 based on continued increases in milk production. Butter prices may have reached their zenith in the second quarter. Increased butter and nonfat dry milk (NDM) production, both domestically and internationally, could lower prices later in the year for both products. However, butter prices could firm toward the end of 2011 as more milk moves to cheese production.

Butter prices are expected to average \$1.925 to \$1.985 per pound in 2011 and slide to \$1.615 to \$1.745 per pound in 2012. NDM prices reflect the robust export outlook for NDM and will likely average \$1.520 to \$1.550 per pound in 2011 and decline slightly to average \$1.375 to \$1.445 per pound in 2012. Whey prices are forecast at 47.5 to 49.5 cents per pound for the current year and 41.0 to 44.0 cents per pound in 2012.

The price outlook for the major dairy products points to slowly declining milk prices toward the end of 2011 and into 2012. The Class III price is forecast at \$18.00 to \$18.30 per cwt this year and \$16.00 to \$17.00 per cwt next year. The Class IV prices continue to lead Class III prices both this year and next, averaging \$19.15 to \$19.55 per cwt and \$16.50 to \$17.60 per cwt in 2011 and 2012, respectively. The all milk price is forecast to average \$20.00 to \$20.30 per cwt in 2011 and \$17.75 to \$18.75 per cwt in 2012.

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Livestock and Meat Trade Data, <http://www.ers.usda.gov/Data/MeatTrade/>, contains monthly and annual data for the past 1-2 years for imports and exports of live cattle and hogs, beef and veal, lamb and mutton, pork, broiler meat, turkey meat, and shell eggs. The tables report physical quantities, not dollar values or unit prices. Breakdowns by major trading countries are included.

Related Websites

Livestock, Dairy, and Poultry Outlook, <http://www.ers.usda.gov/Publications/ldp/>
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/>
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Dairy Forecasts

	2010					2011					2012	
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
Milk cows (thous.)	9,093	9,119	9,126	9,130	9,117	9,164	9,195	9,195	9,185	9,185	9,185	9,175
Milk per cow (pounds)	5,212	5,462	5,267	5,208	21,149	5,284	5,490	5,280	5,250	21,305	5,410	21,665
Milk production (bil. pounds)	47.4	49.8	48.1	47.5	192.8	48.4	50.5	48.6	48.2	195.7	49.7	198.8
Farm use	0.2	0.2	0.3	0.3	1.0	0.2	0.2	0.2	0.2	1.0	0.2	1.0
Milk marketings	47.1	49.6	47.8	47.3	191.8	48.2	50.2	48.3	48.0	194.7	49.5	197.8
Milkfat (bil. pounds milk equiv.)												
Milk marketings	47.1	49.6	47.8	47.3	191.8	48.2	50.2	48.3	48.0	194.7	49.5	197.8
Beginning commercial stocks	11.3	13.1	13.5	12.2	11.3	10.9	12.1	13.5	12.9	10.9	11.4	11.4
Imports	1.2	1.0	1.0	0.9	4.1	0.8	0.8	0.9	1.0	3.4	0.8	3.2
Total supply	59.7	63.6	62.3	60.4	207.2	59.9	63.2	62.7	61.9	209.1	61.7	212.4
Commercial exports	1.3	2.4	2.4	2.2	8.3	2.5	2.5	2.0	1.8	8.8	2.1	8.7
Ending commercial stocks	13.1	13.5	12.2	10.9	10.9	12.1	13.5	12.9	11.4	11.4	12.9	11.6
Net removals	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	45.0	47.8	47.7	47.3	187.8	45.3	47.1	47.8	48.6	188.8	46.7	192.2
Skim solids (bil. pounds milk equiv.)												
Milk marketings	47.1	49.6	47.8	47.3	191.8	48.2	50.2	48.3	48.0	194.7	49.5	197.8
Beginning commercial stocks	11.3	12.0	12.7	12.5	11.3	12.3	11.9	12.7	12.2	12.3	12.3	12.3
Imports	1.2	1.1	1.3	1.3	4.8	1.3	1.2	1.2	1.4	5.0	1.3	4.5
Total supply	59.6	62.7	61.7	61.0	208.0	61.7	63.3	62.2	61.6	212.0	63.1	214.6
Commercial exports	6.2	8.7	8.4	8.7	32.1	8.2	8.2	8.0	7.7	32.1	8.1	32.3
Ending commercial stocks	12.0	12.7	12.5	12.3	12.3	11.9	12.7	12.2	12.3	12.3	12.2	12.0
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	41.9	41.3	40.9	40.0	164.0	41.6	42.4	41.9	41.6	167.5	42.7	170.4
Milk prices (dol./cwt) 1/												
All milk	15.60	15.07	16.80	17.70	16.29	18.73	20.07	21.45	19.90	20.00	18.05	17.75
								-21.85	-20.60	-20.30	-19.05	-18.75
Class III	13.85	13.31	15.06	15.40	14.41	16.63	17.50	20.00	17.95	18.00	15.90	16.00
								-20.40	-18.65	-18.30	-16.90	-17.00
Class IV	13.22	14.82	16.04	16.29	15.09	18.08	20.37	20.05	18.15	19.15	16.70	16.50
								-20.55	-18.95	-19.55	-17.80	-17.60
Product prices (dol./pound) 2/												
Cheddar cheese	1.471	1.419	1.587	1.614	1.523	1.710	1.751	1.995	1.820	1.815	1.640	1.660
								-2.035	-1.890	-1.845	-1.740	-1.760
Dry whey	0.386	0.366	0.362	0.373	0.372	0.425	0.500	0.520	0.475	0.475	0.425	0.410
								-0.540	-0.505	-0.495	-0.455	-0.440
Butter	1.387	1.551	1.915	1.955	1.702	1.990	2.052	1.955	1.735	1.925	1.580	1.615
								-2.025	-1.835	-1.985	-1.710	-1.745
Nonfat dry milk	1.107	1.212	1.174	1.183	1.169	1.373	1.611	1.610	1.505	1.520	1.415	1.375
								-1.650	-1.565	-1.550	-1.485	-1.445

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/dyfmoms/mib/fedordprc_dscrp.htm

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

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