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Tightened Supplies Drive Red Meat Prices in 2010

Contents

[Beef/Cattle](#)
[Beef/Cattle Trade](#)
[Hogs/Pork](#)
[Poultry](#)
[Sheep/Lamb](#)
[Dairy](#)
[Contacts and Links](#)

Tables at a Glance

[Red Meat and Poultry](#)
[Dairy Forecasts](#)

Web Sites

[Animal Production and
Marketing Issues](#)
[Cattle](#)
[Dairy](#)
[Hogs](#)
[Poultry and Eggs](#)
[WASDE](#)

Tables will be released
on May 25, 2010

The next newsletter
release is June 18, 2010

Approved by the
World Agricultural
Outlook Board

Beef/Cattle: Cattle and beef producers are enjoying a period characterized by a favorable pasture and feed situation and high cattle and beef prices. Despite this favorable situation, cow slaughter continues into the second quarter at a high level relative to January 1 cow inventories.

Beef/Cattle Trade: U.S. beef imports during the first quarter decreased 19 percent from the same quarter last year, primarily due to decreased imports from Oceania. First-quarter imports from Australia in particular, which has historically vied with Canada as the largest source of beef to the United States, were 41 percent lower than first-quarter 2009 imports. A decline of a lesser magnitude for beef imports is forecast for the second quarter of 2010. Exports of U.S. beef, however, look to maintain strength throughout 2010, particularly with regard to Asian export markets.

Hogs/Pork: Prices of live equivalent 51-52 percent hogs are expected to continue to reflect lower supplies and recovering consumer demand. For 2010 prices will likely average \$55-\$57 per hundredweight (cwt), with U.S. commercial pork production off by 3.3 percent. Production next year will likely rebound to 2.1 percent above 2010. Hog prices in 2011 are expected to reflect larger supplies, falling 2 percent, to between \$53-\$57 per cwt. First-quarter U.S. pork exports were 1.05 billion pounds. Exports for 2010 are expected to be 5.7 percent above those of 2009. Next year exports will likely increase modestly—4.4 percent—reflecting ongoing recovery of foreign pork demand.

Poultry: Broiler production is expected to increase 3 percent in 2011, after a forecast increase of almost that much in 2010. With economic conditions expected to gradually improve, a forecast of lower feed costs and strong beef and pork prices, broiler integrators will have an incentive to expand production. After declining on year-over-year basis for five consecutive quarters, broiler production showed positive growth in first-quarter 2010, and it is expected to continue positive in 2010 and through 2011. Turkey production in 2011 is expected to be somewhat higher than in 2010, rebounding from a production decline in 2009 and an expected decline in 2010.

Sheep/Lamb: Prices have strengthened throughout the early spring and prices are expected to remain fairly strong with the advent of the summer months. Stronger prices are due to both supply-side tightness and improved demand.

Dairy: Although the U.S. dairy herd continues to show a gradual year-over-year contraction, higher output per cow continues to boost production. Demand, both foreign and domestic continues to improve as both the world and U.S. economies recover. Prices for milk and dairy products are higher this year compared with last, but the prospect is for only modest price increases in 2011.

Cattle and Beef Sectors Enjoy the Moment

The first 2010 reports of pasture and range conditions from the National Agricultural Statistics Service (NASS) indicate that pasture conditions are the best in possibly the last two decades. In addition, establishment of the corn crop is also well under way and ahead of previous years. These two factors indicate a steady feed price outlook for the immediate future, barring weather downturns, changes in export markets, or other supply/demand shocks. Despite the positive conditions observed in general, dry areas of varying sizes do exist in the northern Rocky Mountain region, the Upper Midwest, and the Appalachian Mountains. Expansion of these scattered areas of dry conditions could be cause for concern later in the grazing season.

Relatively high levels of federally inspected cow slaughter as a share of January 1, 2010 cow inventories, especially beef cows in the Midwest, Southern Plains, and Southwest, have continued into the second quarter of 2010, despite current calf price levels, profit margins, and pasture conditions. An explanation is that cow-calf producers may be marketing cull cows as the decision to cull them is made, thus capturing the high prices, rather than waiting until later in the year to sell them as a group and risking price declines.

Imported Canadian cows for slaughter are also contributing to the high cow slaughter numbers, but do not explain the whole picture. Recent weekly imports of Canadian cows represent about 2.5 percent of total weekly federally inspected cow slaughter. Weekly federally inspected cow slaughter during the week ending April 3 through the week ending May 1, 2010 was 13 percent ahead of slaughter for the same period last year. Adjusting for the Canadian cows still leaves U.S. cow slaughter up more than 10 percent above slaughter levels last year, which were also relatively high.

Feeder cattle prices at Oklahoma City have increased significantly above January/February levels. Average prices for April for 750-800 lb, No. 1 Large and Medium feeder steers were 18 percent above January 2010 prices and 14 percent above April 2009 prices. However, feeder cattle prices are at levels that—despite current projections for corn and feed prices—are rapidly narrowing cattle-feeding profit margins, indicated by current futures prices and USDA's projected prices for late summer and early fall. Feeder cattle inventories are expected to be tighter in 2011 than in 2010 because of the successively smaller calf crops that provide placements of feeder cattle. When heifer retention aimed at cow herd expansion occurs, in 2011 or whenever, feeder cattle placements will show additional declines.

The large proportion of lighter weight feeder cattle placements reported in the April *Cattle on Feed* report, has raised the question of whether there are heavier cattle still outside feedlots—perhaps on graze-out wheat—and, if so, when will they be placed on feed? The May and June *Cattle on Feed* reports should shed some light on this issue. In the meantime, receipts at the Oklahoma City Auction on May 10 included a large share of feeder cattle over 800 lbs, an indication that at least some of them exist.

Wholesale cutout values also continue at near-record levels. Byproduct values almost twice what they were this time last year are contributing to packer returns and providing some of the motivation for the recent increases in weekly slaughter levels compared with a year earlier. As a result, federally inspected beef production is above year-earlier levels on a weekly basis for the week ending May 8, despite dressed weights significantly below year-earlier levels. While there is some support from the pork sector in terms of higher year-over-year pork prices and lower supplies, poultry prices that are relatively lower than beef and pork prices, along with larger poultry supplies, will be factors mitigating further beef price increases.

Decreased Beef Imports from Oceania Drive Outlook for 2010

U.S. imports of beef in the first quarter totaled 573 million pounds, a 19-percent decrease from the same quarter last year. This decline should carry over into the remaining quarters of 2010, as total U.S. beef imports for this year are forecast at 2.5 billion pounds, a 5-percent decline year-over-year. Tight exportable supplies from Oceania, coupled with a weakened U.S. dollar relative to Oceania currencies, are the primary contributors for declining U.S. beef imports.

First-quarter beef imports from Australia and New Zealand were down 41 and 18 percent, respectively, from the same quarter last year. Indicative of lower exportable supplies, the Australian Lot Feeders' Association and Meat and Livestock Australia report indicated the lowest number of cattle on feed in first quarter 2010 since the last quarter of 2008. Coupled with these tightened exportable supplies is the strong Australian dollar, which is raising prices in U.S. dollar terms. In April the Australian dollar matched a high of 1.06 AUD/USD in its current uptrend, beginning early 2009, and remained near this mark throughout the month. To the extent the Australian dollar remains strong, importers will be forced to pay relatively high prices for Australian beef; however, any weakness in the currency could benefit importers. Upward price pressures for lean processing beef, as is imported from Australia, has been clearly evident in the domestic wholesale beef market, which shows no sign of weakening, at least in the near term.

Imports from our North American trading partners were up for first-quarter 2010, but not enough to offset declines from Oceania and South America. Most important, first-quarter beef imports from Canada were up 5 percent year-over-year. U.S. beef imports in 2011 are expected to total 2.79 billion pounds, almost a 12-percent increase year-over-year, a reversal of the decline in beef imports forecast for this year.

Exports of U.S. Beef Prove Competitive in the Global Marketplace

First-quarter exports of U.S. beef increased 25 percent from 2009. This growth largely stems from the increasing U.S. sales in several Asian markets, namely in Japan, South Korea, Taiwan, and Hong Kong. First-quarter 2010 exports to Japan and South Korea improved 30 and 9 percent, respectively, above year-earlier levels. The strength of the Australian and New Zealand dollars, coupled with strong U.S. beef marketing campaigns in Japan and South Korea, has shifted some of the market share away from Australia and New Zealand, the United States' primary competitors for these markets. The result is respective U.S. market share increases of 54 and 31 percent in Japan and South Korea, compared with the same quarter last year. Beef exports to Hong Kong increased 143 percent.

First-quarter beef exports to the United States' second largest export market, Canada, increased nearly 20 percent from year-earlier levels. The U.S. dollar continued its decline against the Canadian dollar throughout the first-quarter, fueling exports to Canada. U.S. beef exports to all countries for 2010 are forecast at 2.1 billion pounds, an increase of more than 10 percent from 2009.

Global demand for beef is anticipated to continue strengthening into 2011; however, supply constraints may prove to be much like this year's. U.S. and global beef supplies will continue to be very tight as herd rebuilding is either in progress (United States) or herd sizes are just beginning to increase as a result of heifer retention (Australia and New Zealand). Total beef exports for 2011 are forecast at 2 billion pounds, about a 3-percent decline from the 2010 export forecast. The United States can expect an even smaller calf crop and total January 1 cattle and calf inventory next year before producers fully commit to rebuilding herds; this should be in lieu of high cow slaughter rates in proportion to cow inventory, as has taken place this year. Although global demand should be nearer to full recovery in 2011, reduced domestic supplies will inhibit larger amounts of beef from entering the U.S. export market. Relatively higher prices for U.S. beef may limit its competitiveness against products from Oceania and South America.

U.S. Feeder Cattle Prices Provide Export Incentives to Trading Partners

The increase in Canadian slaughter cattle imports seen early in the first quarter has been shifting in recent weeks to feeder cattle imports. While first-quarter Canadian cow imports were nearly 30 percent higher year-over-year, due to increased U.S. demand for processing beef and reduced beef imports, AMS weekly reports for April show feeder cattle imports the largest since April 2009. Prices between Southern Alberta and Nebraska 700-800 and 800-900 pound feeder steers began widening late in March to a U.S.-Canadian price differential not seen since January 2009. Imports of feeder cattle from Mexico demonstrated a strong surge beginning in March, which should carry over into the second quarter. In line with current Nebraska feeder price trends, Mexican producers are also receiving a high price at the border. The Las Cruces price for imported feeders in April averaged \$112.20 per hundredweight (cwt) for 400-500 pound steers and \$106.90 per cwt for 500-600 pound steers, prices not seen since September 2008.

Higher Hog Prices Likely To Encourage Increased Pork Production Next Year

Lighter than expected weekly hog slaughters in April prompted USDA to adjust slaughter forecasts downward for the balance of 2010. Smaller slaughter numbers are likely to be partly offset by higher dressed weights than expected earlier, resulting from continued strong hog prices, moderate feed costs, and favorable spring weather conditions in major hog producing States. Pork production in 2010 is expected to be 22.2 billion pounds, 3.3 percent lower than last year.

Fewer available slaughter animals, however, is one of the more important reasons that hog prices remain significantly above year-ago levels. Moreover, higher hog prices are likely to induce higher farrowings late in 2010 and into 2011, which in turn points to year-over-year higher pork production in 2011. Commercial pork production in 2011 is expected to be 22.7 billion pounds, about 2 percent more than this year's production forecast.

Hog price forecasts for the balance of 2010 reflect smaller hog numbers and recovering consumer demand for U.S. pork products. Second-quarter prices for live equivalent 51-52 percent lean hogs are expected to be \$60-\$62 per cwt. Expectations for the third quarter of this year are for hog prices to average \$59-\$63 per cwt, before declining to \$50-\$54 per cwt in the fourth quarter. The expected price range for 2010—\$55-\$57 per cwt—exceeds that of 2009 by more than 36 percent, and is the highest since 1996. Prices for the balance of 2010 (second quarter through fourth quarter) also imply positive producer returns, given current USDA price forecasts for corn and high protein-soybean meal, the two major hog feed components.

Average hog prices in 2011 are likely to be lower than for this year due to higher pork production in quarters two to four. Next year's prices of live equivalent 51-52 percent lean hogs are expected to be \$53-\$57 per cwt, almost 2 percent below price forecasts for 2010, but still well above most hog producers' breakeven point, given USDA feed input prices.

The higher hog prices that relatively tight hog supplies bring about are expected to combine with recovering consumer demand to result in higher retail pork prices both in this year and in 2011. Second-quarter 2010 retail pork prices should average in the mid-\$2.90's per pound, and climb to about \$3.00 per pound in the second half of this year. Retail prices next year are expected to average just over \$3.00 per pound, a year-over-year increase of about 2.7 percent over retail prices this year.

First-Quarter Pork Exports Up Slightly Year-Over-Year

U.S. pork exports finished the first quarter of 2010 at 1.05 billion pounds, 1.3 percent greater than the same period in 2009. The list of the top five foreign buyers of U.S. pork was about the same as a year ago, and their year-over-year percent changes are calculated below.

Country	2010 Jan.-Mar. Million pounds	2009 Jan.-Mar.	Percent Change (2010/2009)
World	1,047	1,033	1.3
Japan	302	343	-11.9
Mexico	268	215	24.6
Canada	105	97	8.7
Hong Kong	91	64	42.4
S. Korea	58	80	-27.1

Source: USDA/Economic Research Service.

The forecast for 2010 exports remain unchanged at 4.4 billion pounds. However, persistent year-over-year declines in exports to Japan so far in 2010 are a source of concern. Japan is by far the largest foreign buyer of U.S. pork, typically accounting for almost 30 percent of U.S. exports, with the next largest importer—typically Mexico—accounting for about 20 percent. So far this year, increased demand for U.S. products from other large importers—especially Mexico and Hong Kong—has largely offset lower shipments to Japan.

Japanese Government data indicate an overall reduction in first-quarter 2010 pork imports of nearly 6 percent, with lower shipments from the United States accounting for most of the reduction. First-quarter pork shipments from the most important U.S. competitors in the Japanese market—Denmark and Canada—are significantly above year-earlier volumes. Canada's first quarter-exports to Japan increased 4.5 percent compared with a year ago. Denmark exported over 20 percent more pork to Japan than in the same quarter last year. During the first quarter, the year-over-year increase in average U.S. hog prices when converted to a Yen equivalent was larger than that for Canada or Denmark. To the extent that these increases were reflected in changes in pork values, the change in relative values may have accounted, at least partly, for the decline in Japan's imports from the U.S. while those of Canada and Denmark increased.

Most macroeconomic indicators appear positive for U.S. pork export growth prospects in 2011. Continued economic recovery abroad should drive modest increases in consumer demand for pork products in foreign markets next year. U.S. pork exports are expected to increase to 4.6 billion pounds, more than 4 percent over forecast exports in 2010.

Imports of Both Pork and Live Swine Were Off in the First Quarter

First-quarter imports of pork were 199 million pounds, 3.1 percent less than a year ago. Shipments from both major suppliers of foreign pork products to the United States—Canada and Denmark—were lower in the first quarter. At the margin, exchange rate relationships likely accounted for part of the reduction in imports from Canada. For 2010, total imports of 855 million pounds are anticipated, with a slight increase expected in 2011, to 885 million pounds.

Imports as a percentage of total U.S. pork disappearance averaged slightly above 5 percent between 2000 and 2009. For both 2010 and 2011, the ratio of imports to disappearance is slightly below the recent average, meaning that imports are a slightly less important component of total pork consumed in the United States.

First-quarter live swine imports were almost 18 percent lower than a year ago. The vast majority of live imports are of Canadian origin. Lower imports are a continuation of a trend that began in the second quarter of 2008, and imports are expected to remain low into next year. Total live swine imports, both this year and next, are expected to be about 6 million head.

It is worth pointing out that two categories of live swine imports—feeder pigs weighing over 7 kilograms but less 23 kilograms, and hogs weighing more than 50 kilograms—were year-over-year higher compared with first-quarter 2009. These increases could reflect very strong U.S. demand for hogs, in light of recent hog prices.

Broiler Production Higher in 2011

U.S. broiler meat production is expected to total 37.5 billion pounds in 2011, up 3.1 percent from 2010, with the expansion expected to be spread relatively evenly throughout the four quarters. Gains in broiler meat production are expected to come chiefly from a higher number of birds slaughtered. Average bird weights at slaughter in 2011 are expected to be only slightly higher than those in 2010. Broiler production is expected to strengthen as demand improves with the general economy and as unemployment slowly declines. Another factor in the decision by integrators to expand is the expectation of lower corn and soybean meal prices in 2010 and 2011.

Broiler meat production in the first quarter of 2010 was reported at 8.7 billion pounds, up 1.8 percent from a year earlier, which follows five consecutive quarters of year-over-year declines in broiler meat production. The increase was the result of higher average weights at slaughter, up 1.4 percent to 5.63 pounds. The number of broilers slaughtered actually fell 0.3 percent to 2.1 billion birds.

Over the last 5 weeks, (April 10 through May 8), the number of chicks placed for growout has averaged 1.3 percent higher than in the same period the previous year. In addition, the number of eggs placed in incubators has continued to be well above the previous year, pointing toward increasing chick placements and higher numbers of broilers available for slaughter into third-quarter 2010.

With higher broiler meat production forecast, stocks of broiler products are expected to begin to expand and quarterly ending stocks beginning in June and into early 2011 are expected to be higher than the previous year on a year-over-year basis. Broiler cold storage stocks totaled 600 million pounds at the end of first-quarter 2010, down 3.2 percent from a year earlier. Monthly broiler meat stocks have been below the previous year for the last 15 months. The decline in cold storage holdings at the end of first-quarter 2010 was due chiefly to smaller stocks of whole birds and breast meat products, both down between 17 and 20 percent. Cold storage holdings of almost all leg meat products were higher and stocks of other items, such as wings, also rose.

The 12-city wholesale price for whole broilers is expected to average 80 to 87 cents per pound in 2011, about the same as in 2010, but up about 7 percent from 2009, when it averaged 77.6 cents per pound. Prices in 2010 are expected to show some increase through the first three quarters, but then to decline seasonally in the fourth quarter. Prices in 2011 are expected to follow the same pattern. The source of the price strength in 2010 is a mixture of expected improvements in economic conditions and support from higher prices for other meats, partially offset by higher production and stock levels.

Broiler Exports

Broiler exports in 2011 are expected to increase to 6 billion pounds after declining sharply in 2010. The increase in export shipments is expected to be relatively constant throughout the year as a growing world economy and strong prices for beef and pork products make broiler products more competitive.

In the first quarter of 2010 broiler exports totaled 1.49 billion pounds, down 15 percent from the previous year. Shipments to Russia were down 79 percent, and there were no shipments to Russia in March. Exports to China were 77 percent lower, with only 5 million pounds being shipped in March, as trade disputes with these two countries heavily impacted trade. With trade down sharply to these two markets—formerly our largest—trade to other countries was relatively strong. Partially offsetting the declines to Russia and China during the first quarter have been larger exports to such countries as Mexico, Canada, Hong Kong, Taiwan, and Korea, all of which showed strong increases in broiler imports from the United States.

Other Chicken

Other chicken meat production is expected to reach 500 million pounds in 2011, up less than 2 percent from the previous year. The growth in production is expected to come later in the year, with production in the first quarter being slightly lower than in 2010. Other chicken production is expected to be impacted in 2011 by an increase in the broiler breeder flock. The increase in other chicken meat production is expected to be partially offset by higher exports. Per capita consumption is expected to be unchanged at 1.3 pounds, the same as in 2010. Exports of other chicken are expected to rebound to 110 million pounds in 2011, an increase of 10 percent, after falling sharply in 2009 and having no growth in shipments expected in 2010.

Turkey

Turkey production is expected to increase in 2011 to 5.6 billion pounds, up 1 percent from the previous year. The production increase is expected to be due primarily to a larger number of birds slaughtered, as average live weights at slaughter are expected to remain close to year-earlier levels. However, production in first-quarter 2011 will remain below a year-earlier. The incentive to increase production is expected to come from gradually rising prices during 2010 and the expectation of lower feed prices.

In the first quarter of 2010, turkey meat production was 1.3 billion pounds, down 3.3 percent from the first quarter of 2009. This is the fifth consecutive quarter with a year-over-year production decline. The decrease in turkey meat production was the result of a decline in the number of birds slaughtered (down 4.2 percent), as the average weight of the turkeys at slaughter was up slightly from the previous year. Turkey meat production in 2010 is forecast at 5.5 billion pounds, down 2.2 percent from a year earlier. Production is expected to remain negative on a year-over-year basis through the end of the year.

Turkey Exports

Per capita turkey consumption in 2011 is expected to be about the same as in 2010, as much of the increase in turkey meat production will be offset by increases in exports. Turkey exports in 2011 are expected to expand as higher broiler prices make turkey products more competitive. In addition, good demand is expected from Mexico (the largest U.S. export market) as its economy continues to recover from the impact of the global economic downturn.

Total turkey exports in first-quarter of 2010 were 114 million pounds, down 3 percent from the previous year. While turkey exports were down for the quarter, shipments in March totaled 42 million pounds, 11 percent higher than a year earlier. While broiler exports to Mexico were expanding, turkey shipments were contracting. Shipments to Mexico in the first quarter of 2010 totaled 64 million pounds, down 8 percent from the previous year, but the 24 million pounds shipped in March was 24 percent higher than the previous year. Shipments to Hong Kong and the Philippines were much higher than the previous year, but these were some of the few markets that had year-over-year increases.

Turkey Stocks Lower

With continued lower production on a year-over-year basis, turkey stocks are considerably lower than the previous year. At the end of first-quarter 2010, turkey stocks were 379 million pounds, down 26 percent from the previous year. This decline was from a combination of lower stocks of whole birds, down 33 percent, and lower stocks of turkey parts and products, down 20 percent. Some information is now available about the levels of stocks of a number of turkey parts. However, the unclassified category is by far the largest portion of turkey parts stocks, and these were 23 percent lower than the previous year.

Wholesale prices for whole hen turkeys are expected to average 78 to 85 cents per pound in 2011, about the same as a year earlier. While about the same as in 2010, prices are up about 5 cents per pound from 2009, the result of upward pressure on prices due to production decreases in 2009 and 2010. In 2011 any upward pressure on prices from improving domestic and higher export demands are expected to be countered by rising production and stock levels.

Egg Production Expected Higher in 2011

Table egg production is expected to total 6.5 billion dozen in 2011, up less than 1 percent from 2010. During 2009 and 2010, table egg production has basically been stagnant; although the laying rate has increased slightly, the number of hens in the table egg laying flock has been lower. Higher prices for many meat products and an improving economy in 2010 are expected to provide the incentive to increase the size of the laying flock. Hatching egg production is expected to total 1.1 billion dozen in 2011, an increase of 2 percent from 2010. Changes in hatching egg production are expected to closely parallel changes in broiler production, as the majority of hatching egg output is for broiler chick production.

Exports Up Slightly in 2011

Egg exports are expected to expand by less than 1 percent in 2011. Egg exports had expanded sharply in 2009, due primarily to increased demand from European Union (EU) countries for processed egg products. While exports are expected to continue to the EU, no additional sharp rise in demand is expected. Most of the growth in 2010 and 2011 is expected to come from improved economic conditions.

Egg Prices Higher in 2011

Better overall economic conditions in 2011 are expected to generate greater demand for shell eggs and egg products, especially from the food service sector. However, higher production is expected to offset the demand and leave overall wholesale egg prices in 2011 at \$1.08 to \$1.17 per dozen, about 4 percent higher than in 2010.

Egg Production Higher in First-Quarter 2010, Prices Fall Sharply after Easter
Table egg production totaled just over 1.6 billion dozen in first-quarter 2010, up less than 1 percent from the previous year. The average number of birds in the table egg flock in first-quarter 2010 was slightly lower than the previous year, but the rate of lay in first quarter 2010 was up 1.1 percent. Table egg production for the rest of 2010 is forecast higher in the second and third quarters on a year-over-year basis, but then is expected to be virtually unchanged in the fourth quarter. Production of hatching eggs in first-quarter 2010 was 264 million dozen, up slightly from the previous year. Hatching egg production is expected to remain above the previous year during the remaining three quarters of 2010 as broiler production continues to expand.

The big change for table eggs was the sharp drop in prices after the Easter holiday period. Although this is the normal seasonal pattern, the price declines at the wholesale level in 2010 were especially steep. During first-quarter 2010, the wholesale price in the New York market was \$1.26 per dozen for Grade A large eggs. After the Easter holiday, shell egg prices began to drop very sharply and are expected to average \$0.94 to \$0.96 per dozen in the second quarter and to increase only slightly in the third quarter, as increases in table egg production place downward pressure on prices.

Egg exports rose sharply in first-quarter 2010, totaling 57 million dozen, up 33 percent from the previous year. Exports of eggs and egg products rose to a large number of countries. Shipments to Canada and Japan, two of the largest traditional markets, were both up over 10 percent in first-quarter 2010. Trade to EU countries continues to expand, with shipments to Germany, Denmark, and the Netherlands all posting triple-digit increases over the same period in 2009.

Sheep/Lamb

Improved Lamb Demand, Tight Supplies, Result in Record Prices

Domestic sheep inventories have been declining, restricting domestic lamb supplies and making it difficult to keep up with demand. Prices have strengthened throughout the early spring and are expected to remain fairly strong with the advent of the summer months.

A number of factors support relatively strong prices. On the supply side, tight supplies are expected to continue well into the future. Mature slaughter remains above normal, implying that breeding inventory is likely to shrink as more animals that were likely to make up the breeding herd enter the marketing channel. On the heels of high prices, producers often struggle with the dilemma of whether to capture the profits available from the sale of higher priced lambs or whether to retain them for herd rebuilding with the hope that prices remain high. A decision to retain animals could push prices even higher in the short run.

On the demand side, as we enter the grilling season, it is expected that at-home lamb consumption will increase. In addition, the restaurant index is back above 100, signaling that consumers are once again increasing their consumption of food away from home. Since nearly half of the lamb is sold in food service, demand for it is expected to strengthen. As a result, the Choice slaughter lamb price at San Angelo, Texas for April was 107.67 per cwt, and the second-quarter 2010 Choice slaughter lamb price is forecast at \$107.00 - \$109.00 per cwt, more than 15 percent above the same period a year earlier.

Despite the strong demand, lamb and mutton production is still relatively lackluster, an indication of the tight supplies. First-quarter 2010 commercial production was 43 million pounds, just under 3 percent more than the same period in 2009, even though it included slaughter for the Easter and Passover holidays and although 37,200 more animals were slaughtered. Second-quarter commercial lamb and mutton production is forecast at 39 million pounds, 8 percent below the same period in 2009.

Imports of lamb and mutton continue to offset tight domestic supplies. First-quarter 2010 lamb and mutton imports were 47 million pounds, 9 percent below the same period last year. Imports from Australia were down 23 percent from the same period last year. Second-quarter imports are forecast at 47 million pounds. First-quarter 2010 exports were 6 million pounds, 59 percent above the same period in 2009.

Improved Demand Expected for Dairy Products in 2011, but Higher Milk Production Will Limit Price Increases

The outlook is for producer returns to be higher for the balance of this year and into 2011. The improvement is expected to be gradual. The milk-feed price ratio has rebounded from 2009 lows and is likely to continue to improve modestly into 2011. Corn prices are forecast to average \$3.50 to \$3.70 a bushel for the current 2009/10 crop year, and initial forecasts call for further moderating prices in 2010/11, with prices expected to average \$3.20 to \$3.80 a bushel. Similarly, for soybean meal the price outlook is for continued moderation. The soybean meal price is expected to average \$295 a ton for 2009/10 and is forecast to average \$230 to \$270 a ton in 2010/11. Alfalfa supplies should be adequate.

Although the U.S. dairy herd continues to show a gradual year-over-year contraction, higher output per cow continues to boost production. The 2010 all milk price will average well above 2009, and some improvement is forecast for 2011. Modest improvement in both feed and milk prices, from the producers' perspective, is not likely to ignite an expansion in U.S. dairy herd size. The effects of poor returns to producers in 2008 and 2009 are expected to result in continued reductions in the number of dairy cows, both this year and next. The number of cows is projected to average 9,070 thousand this year and to continue a gradual decline in 2011, to average 9,040 thousand. On balance, the increased milk per cow during the year is expected to offset the decline in herd size, leading to higher milk production. Production is projected to be 190.2 billion pounds this year, less than 1 percent above 2009. However, as the decline in the cow herd slows later this year and into next, milk production is forecast rise to 193 million pounds in 2011, an increase of about 1.5 percent.

Prospects are for improved demand, both foreign and domestic, for dairy products in 2011. Higher domestic use is expected to support slightly higher imports next year. Meanwhile, global economic recovery is continuing apace, boosting international trade in dairy products. The continued economic recovery is forecast to support higher exports on both a fats and skims-solids basis. U.S. dairy products are competitively priced on world markets, and production from Oceania countries fell short of early season forecasts. Also, there is no indication of the EU reinstating export restitutions. These factors help strengthen the U.S. dairy export outlook. However, skim-solid export forecasts for 2010 have been revised downward as nonfat dry milk (NDM) sales lagged early in the year, but the potential exists for NDM exports to quicken later in the year. Whey exports are higher. The outlook is for skims-solids exports to reach 25.3 billion pounds in 2010 and continue to rise next year to 27.0 billion pounds.

Domestic commercial use is expected to increase this year. A robust 1.2 percent increase is expected in commercial use on a fats basis while growth in use on a skims-solids basis is projected at a slight 0.4 percent rise. Stocks should tighten as use increases. Despite the improved demand outlook, prospects are for only modest price increases in 2011.

Cheese prices are forecast to trend higher both this year and next, averaging \$1.480 to \$1.530 per pound this year and \$1.505 to 1.605 per pound in 2011. Higher prices are also expected for NDM and whey for the balance of 2010 and into 2011. NDM prices are forecast to average between \$1.180 and \$1.220 per pound in 2010 and to climb to average \$1.210 to \$1.280 per pound next year. Strong exports of whey products will raise prices to average 36.5 to 39.5 cents per pound this year, and they will rise slightly to average 37.5 to 40.5 cents per pound in 2011. Butter counters the trend; while prices will average higher this year compared with last year, \$1.445 to \$1.525 per pound, 2011 prices are forecast lower at \$1.390 to \$1.520 per pound. Butter prices are forecast lower next year because the higher butter prices forecast for the second half of 2010 are not expected to be repeated next year.

Milk prices are much higher in 2010 than in 2009, but the prospect is for only moderate price increases in 2011 as milk production continues to rise. The Class IV price is expected to average \$14.15 to \$14.75 per cwt this year and only slightly higher next year at \$14.15 to \$15.25 per cwt. Class III prices are projected to average \$13.95 to \$14.95 per cwt in 2010 and to climb to \$14.25 to \$15.25 per cwt next year. The all milk price will average \$15.65 to \$16.15 per cwt this year and rise to average \$15.70 to \$16.70 per cwt next year.

Note that USDA has revised imports on a milk equivalent basis back to 2003 on a fat basis and on a skim solids basis. The revisions include a number of tariff lines previously not included.

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Data Products

Meat Price Spreads, <http://www.ers.usda.gov/Data/MeatPriceSpreads/>, provides monthly average price values, and the differences among those values, at the farm, wholesale, and retail stages of the production and marketing chain for selected cuts of beef, pork, and broilers. In addition, retail prices are provided for beef and pork cuts, turkey, whole chickens, eggs, and dairy products.

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/>
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U.S. red meat and poultry forecasts

	2004	2005	2006				2007 ^{1/}				2008				2009				2010				2011							
	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual	Annual					
Production, million lb																														
Beef	24,548	24,683	6,082	6,724	6,834	6,513	26,153	6,237	6,649	6,802	6,733	26,421	6,372	6,899	6,908	6,382	26,561	6,248	6,602	6,689	6,424	25,963	6,251	6,535	6,615	6,290	25,691	5,950	25,115	
Pork	20,511	20,685	5,335	5,008	5,087	5,625	21,055	5,396	5,128	5,256	6,163	21,943	6,024	5,593	5,632	6,098	23,347	5,811	5,488	5,698	5,996	22,993	5,607	5,310	5,420	5,900	22,237	5,600	22,705	
Lamb and mutton	195	187	49	47	42	47	185	49	44	42	48	183	46	43	42	43	174	42	42	42	45	171	39	40	42	164	42	161		
Broilers	34,063	35,365	8,814	8,980	8,870	8,835	35,500	8,625	9,085	9,131	9,285	36,126	9,145	9,439	9,457	8,865	36,906	8,573	8,939	9,172	8,827	35,511	8,731	9,125	9,400	9,125	36,381	9,075	37,500	
Turkeys	5,454	5,504	1,351	1,435	1,419	1,476	5,682	1,413	1,482	1,488	1,575	5,958	1,536	1,560	1,568	1,582	6,246	1,385	1,420	1,417	1,441	5,663	1,339	1,375	1,400	1,425	5,539	1,325	5,595	
Total red meat & poultry	85,442	87,097	21,792	22,362	22,413	22,656	89,224	21,874	22,552	22,876	23,962	91,264	23,292	23,717	23,791	23,137	93,937	22,148	22,561	23,091	22,819	90,618	22,122	22,542	23,034	22,942	90,640	22,141	91,711	
Table eggs, mil. doz.	6,365	6,413	1,617	1,617	1,632	1,656	6,522	1,598	1,593	1,602	1,642	6,435	1,587	1,577	1,599	1,640	6,403	1,597	1,603	1,614	1,661	6,475	1,603	1,610	1,625	1,660	6,498	1,610	6,530	
Per capita disappearance, retail lb 2/																														
Beef	66.1	65.6	15.8	16.9	16.9	16.3	65.8	15.9	16.6	16.4	16.2	65.2	15.6	16.3	15.8	15.1	62.8	15.3	15.7	15.6	14.7	61.2	14.5	15.2	15.2	14.3	59.3	14.0	58.3	
Pork	51.4	50.0	12.4	11.9	11.9	13.1	49.4	12.3	12.2	12.3	14.0	50.8	12.6	11.6	12.0	13.3	49.5	12.5	12.0	12.5	13.0	50.1	11.8	11.5	11.4	12.3	47.0	11.5	47.3	
Lamb and mutton	1.1	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.2	0.3	1.0	0.3	0.2	0.2	0.3	1.0	0.2	0.2	0.2	0.3	1.0	0.3	1.0	
Broilers	84.4	85.8	21.7	22.1	21.9	20.9	86.5	21.2	21.6	21.4	21.2	85.4	21.3	21.4	21.1	19.7	83.5	19.3	20.1	20.6	19.6	79.6	20.4	21.2	21.8	20.9	84.2	20.9	85.8	
Turkeys	17.1	16.7	3.5	3.9	4.3	5.2	16.9	3.8	4.1	4.2	5.5	17.5	4.0	4.1	4.3	5.3	17.6	3.7	3.9	4.0	5.3	16.9	3.6	3.7	3.7	5.0	16.1	3.4	15.9	
Total red meat & poultry	221.6	221.0	54.1	55.5	55.6	56.1	221.3	53.9	55.1	54.9	57.6	221.6	54.1	54.2	53.8	54.0	216.1	51.4	52.4	53.4	53.3	210.5	50.9	52.2	52.8	53.2	209.1	50.5	209.9	
Eggs, number	257.3	255.8	64.1	63.7	63.9	64.7	257.8	62.2	61.7	62.4	63.8	250.1	61.8	61.3	62.0	63.8	248.9	62.0	61.5	61.4	62.9	247.7	61.1	61.1	61.6	62.8	246.6	61.0	245.8	
Market prices																														
Choice steers, 5-area Direct, \$/cwt	84.75	87.28	89.24	80.39	85.40	86.61	85.41	90.61	93.45	91.36	91.85	91.82	89.59	92.82	98.45	88.22	92.27	84.48	84.48	83.05	83.29	83.25	89.44	97.99	94.100	94.102	94.98	93.101	95.102	
Feeder steers, Ok City, \$/cwt	104.76	110.94	106.23	104.08	115.17	103.22	107.18	99.53	108.87	115.64	108.88	108.23	99.88	106.60	110.81	94.62	102.98	92.84	98.64	99.40	93.67	96.14	98.73	109.111	105.111	105.111	104.108	101.109	105.112	
Cutter Cows, National L.E., \$/cwt	52.35	54.36	48.89	47.79	49.28	44.29	47.56	51.04	53.96	54.07	49.40	52.12	53.88	57.30	61.78	46.70	54.92	45.42	48.57	46.44	43.56	46.00	51.79	56.60	53.57	55.59	54.57	53.57	53.57	
Choice slaughter lambs, San Angelo, \$/cwt	96.69	97.76	77.03	66.56	81.10	84.53	77.31	82.59	82.23	87.33	87.55	84.93	86.23	79.62	88.83	88.95	85.91	90.14	91.44	88.35	90.47	90.10	103.87	106.108	103.109	105.111	104.108	106.114	107.113	
Barrows & gilts, N. base, 1c. \$/cwt	52.51	50.05	42.63	48.45	51.83	46.13	47.26	46.04	52.55	50.33	39.43	47.09	39.64	52.51	57.27	41.92	47.84	42.11	42.74	38.90	41.20	41.24	50.41	60.62	59.63	50.54	55.57	54.58	53.57	
Broilers, 12 City, cents/lb	74.10	70.80	62.7	61.0	67.8	65.9	64.4	75.00	80.30	79.20	71.10	76.40	78.10	80.60	80.60	79.40	79.70	79.70	81.90	76.80	72.10	77.60	82.2	83.85	82.88	78.84	81.85	80.86	80.87	
Turkeys, Eastern, cents/lb	69.70	73.40	67.3	71.3	79.4	89.8	77.0	69.70	77.90	89.90	90.80	82.10	77.40	88.90	96.50	87.30	87.50	73.80	79.10	81.40	83.80	79.50	75.6	81.83	81.87	83.89	80.84	74.80	78.85	
Eggs, New York, cents/doz.	82.20	65.50	71.4	62.7	64.0	89.0	71.8	105.3	92.0	119.1	141.0	114.4	158.8	117.30	114.50	122.60	128.30	109.70	89.70	94.80	117.70	103.00	126	94.96	92.98	110.120	105.110	111.121	108.117	
U.S. trade, million lb																														
Beef & veal exports	460	697	215	315	307	308	1,145	269	363	424	375	1,431	360	471	609	448	1,888	384	471	496	518	1,869	480	530	530	520	2,060	460	2,000	
Beef & veal imports	3,679	3,599	843	790	730	722	3,085	770	884	774	624	3,052	637	661	584	655	2,537	704	751	623	550	2,628	560	670	660	605	2,495	690	2,785	
Lamb and mutton imports	181	180	53	44	41	52	190	56	44	44	59	202	52	48	38	47	185	51	46	28	46	171	48	47	39	49	183	54	191	
Pork exports	2,181	2,666	767	763	654	811	2,995	792	685	703	3,138	1,106	1,387	1,126	1,049	4,668	1,033	952	1,016	1,125	4,126	1,080	1,020	1,080	1,180	4,360	1,120	4,550		
Pork imports	1,099	1,024	259	237	239	254	989	239	256	240	232	968	217	205	191	218	831	205	196	210	223	834	210	200	215	230	855	220	885	
Broiler exports	4,783	5,203	1,270	1,297	1,234	1,404	5,205	1,275	1,393	1,493	1,610	5,771	1,507	1,787	1,912	1,756	6,962	1,753	1,655	1,719	1,708	6,835	1,350	1,375	1,425	1,475	5,625	1,425	6,000	
Turkey exports	442	570	119	125	152	150	547	124	135	148	146	553	148	160	186	182	676	117	122	152	144	535	110	120	140	140	510	120	530	
Live swine imports (thousand head)	8,506	8,191	2,133	2,088	2,204	2,338	8,763	2,302	2,370	2,464	2,869	10,005	2,915	2,149	2,201	2,083	9,348	1,761	1,614	1,518	1,472	6,365	1,450	1,500	1,525	1,525	6,000	1,500	6,000	

^{1/} Forecasts are in bold.

^{2/} Per capita meat and egg disappearance data are calculated using the Resident Population Plus Armed Forces Overseas series from the Census Bureau of the Department of Commerce.

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

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Dairy Forecasts

	2009					2010					2011	
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
Milk cows (thous.)	9,295	9,262	9,155	9,090	9,201	9,089	9,080	9,065	9,050	9,071	9,040	9,040
Milk per cow (pounds)	5,097	5,278	5,111	5,090	20,576	5,208	5,390	5,195	5,170	20,963	5,300	21,355
Milk production (bil. pounds)	47.4	48.9	46.8	46.3	189.3	47.3	48.9	47.1	46.8	190.2	47.9	193.0
Farm use	0.3	0.3	0.3	0.3	1.0	0.2	0.2	0.2	0.2	1.0	0.2	1.0
Milk marketings	47.1	48.6	46.5	46.0	188.3	47.1	48.7	46.9	46.5	189.2	47.7	192.1
Milkfat (bil. pounds milk equiv.)												
Milk marketings	47.1	48.6	46.5	46.0	188.3	47.1	48.7	46.9	46.5	189.2	47.7	192.1
Beginning commercial stocks	10.1	12.7	14.5	13.7	10.1	11.3	13.1	14.1	12.4	11.3	10.5	10.5
Imports	1.5	1.5	1.3	1.3	5.6	1.3	1.2	1.1	1.4	5.0	1.3	5.1
Total supply	58.7	62.8	62.3	61.0	204.0	59.7	63.0	62.1	60.4	205.6	59.4	207.6
Commercial exports	1.0	1.1	0.9	1.2	4.2	1.1	1.2	1.3	1.2	4.8	1.2	4.9
Ending commercial stocks	12.7	14.5	13.7	11.3	11.3	13.1	14.1	12.4	10.5	10.5	11.7	9.9
Net removals	0.1	-0.1	0.1	0.5	0.6	0.3	0.1	0.0	0.0	0.3	0.0	0.0
Commercial use	44.8	47.3	47.6	47.9	187.6	45.1	47.6	48.4	48.7	189.9	46.5	192.8
Skim solids (bil. pounds milk equiv.)												
Milk marketings	47.1	48.6	46.5	46.0	188.3	47.1	48.7	46.9	46.5	189.2	47.7	192.1
Beginning commercial stocks	10.9	11.5	12.4	11.5	10.9	11.3	11.9	12.1	11.2	11.3	11.0	11.0
Imports	1.7	1.2	1.2	1.4	5.5	1.2	1.1	1.1	1.3	4.7	1.3	4.8
Total supply	59.7	61.4	60.2	58.9	204.7	59.7	61.7	60.1	59.0	205.3	59.9	207.8
Commercial exports	5.1	5.8	5.5	6.1	22.5	5.7	6.5	6.6	6.6	25.3	6.7	27.0
Ending commercial stocks	11.5	12.4	11.5	11.3	11.3	11.9	12.1	11.2	11.0	11.0	11.2	11.0
Net removals	1.1	0.7	0.6	0.4	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	42.0	42.4	42.9	41.4	168.6	42.3	43.2	42.2	41.5	169.2	42.1	170.3
Milk prices (dol./cwt) 1/												
All milk	12.23	11.60	12.13	15.40	12.84	15.60	14.90	15.75	16.35	15.65	15.30	15.70
							-15.20	-16.35	-17.25	-16.15	-16.30	-16.70
Class III	10.18	10.20	11.09	13.96	11.36	13.85	13.11	14.26	14.66	13.95	13.57	14.25
							-13.41	-14.86	-15.56	-14.45	-14.57	-15.25
Class IV	9.56	10.06	10.56	13.37	10.89	13.22	14.23	14.77	14.44	14.15	13.74	14.15
							-14.63	-15.47	-15.44	-14.75	-14.84	-15.25
Product prices (dol./pound) 2/												
Cheddar cheese	1.237	1.192	1.248	1.508	1.296	1.471	1.399	1.510	1.555	1.480	1.437	1.505
							-1.429	-1.570	-1.645	-1.530	-1.537	-1.605
Dry whey	0.163	0.232	0.294	0.344	0.258	0.386	0.358	0.365	0.365	0.365	0.375	0.375
							-0.378	-0.395	-0.395	-0.395	-0.405	-0.405
Butter	1.097	1.196	1.194	1.350	1.209	1.387	1.492	1.498	1.420	1.445	1.405	1.390
							-1.552	-1.588	-1.540	-1.525	-1.535	-1.520
Nonfat dry milk	0.823	0.832	0.892	1.142	0.922	1.107	1.165	1.225	1.225	1.180	1.155	1.210
							-1.195	-1.275	-1.295	-1.220	-1.225	-1.280

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/dyfmfos/mib/fedordprc_dscrp.htm

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

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