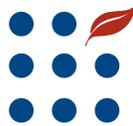





United States
Department
of Agriculture

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Livestock, Dairy, and Poultry Outlook

Leland Southard (Coordinator)

Despite Favorable Returns, Pork Producers Remain Cautious

NOTE: Due to uncertainties as to the length of bans regarding the imports of ruminant products due to the discovery of BSE-infested cow in December 2003, forecasts for 2004 and 2005 assume a continuation of policies currently in place. Subsequent forecasts will reflect any announced changes.

Although returns to pork producers have been favorable, the June *Quarterly Hogs and Pigs* report indicated that producers remain cautious in their future production plans and reduced the breeding hog inventory. However, since the survey, returns have been favorable and in July, USDA lowered the projected 2004/05 corn price range to \$2.30 to \$2.70 per bushel, down 25 cents on each end of the range from June. Based on the expectations of continued favorable returns and moderating corn prices, pork production forecasts for 2004 and 2005 are increased slightly from earlier expectations to about 20.5 billion pounds each year. Hog prices are expected to average in the mid-to-high \$40s per hundredweight.

Beef supplies remain tight, but the tightest supply/demand situation this year is past. While fed cattle marketings are likely to remain below a 2003 levels, supplies of higher graded beef are increasing and will reduce some of the market pressure to secure supplies. Demand is softening seasonally and slaughter weights are rising against low weights this winter and spring.

Although the cattle sector may be moving toward expansion, any expansion will have to come from retaining heifers from this year's calf crop for breeding in 2005. As more heifers are retained, feedlot inventories of market-ready cattle will decline, but not before late fall.

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The next release is
July 27, 2004

Approved by the
World Agricultural
Outlook Board.

Milk production remains below 2003 levels and is unlikely to recover substantially until after yearend. Recent wholesale cheese price drops have lowered expectations of second-half farm milk prices. Even so, milk prices are projected to average well above a year earlier. For all of 2004, prices received by farmers are expected to be more than \$3 per cwt above 2003's \$12.55. Cheese prices remain under considerable pressure from pipeline stocks built up during the buying frenzy that caused spring's record prices. Extra loads recently have been readily available as many buyers have become comfortable eating into their inventories. Recovery in cheese demand appears solid, although some slippage in use is possible as a delayed effect of the high prices. Also, the butter market is showing some surprising strength, while nonfat dry milk usage has been boosted by commercial exports.

Wholesale prices for most broiler products continue to be well above their year-earlier levels. With the third quarter broiler production forecasted to be over 3 percent higher than the previous year, price increases for most products are expected to slow. However, prices for export-sensitive parts, like leg quarters, may strengthen if exports resume to major markets like China.

The decline in turkey production has begun to raise prices for a number of turkey products. Prices for whole birds have been strengthening over the last several months and averaged 66.6 cents in the second quarter, up 6 cents (almost 10 percent) from a year earlier. Prices for other products have risen less; but with continued lower production, prices are expected to strengthen gradually in the second half of the year.

Despite Favorable Returns, Pork Producers Remain Cautious

Although returns to pork producers have been favorable, the June *Quarterly Hogs and Pigs* report indicated that producers remain cautious in their future production plans and reduced the breeding hog inventory. However, since the survey, recent returns are favorable and in July, USDA lowered the projected 2004/05 corn price range to \$2.30 to \$2.70 per bushel, down 25 cents on each end of the range from June. Based on the expectations of continued favorable returns and moderating corn prices, pork production forecasts for 2004 and 2005 are increased slightly from earlier expectations. Hog prices are expected to average in the mid-to-high \$40s per hundredweight (cwt).

Despite a declining breeding inventory, pork production and hog prices are projected to be about the same in 2004 and 2005. The June report indicated a 2-percent decline in the breeding inventory from a year ago and a 1-percent increase in the market hog inventory. Although the number of sows farrowing during December-May was down 1 percent from the same period a year earlier, the pig crop for the period rose 1 percent as more pigs per litter more than offset the lower farrowings. The increase in the June 1 market inventory also reflected increased feeder pig imports from Canada during January-May.

Based on the June 1 market hog inventory, the December-May pig crop, first-half 2004 feeder pig imports, and projected second-half slaughter hog imports, hog slaughter in the second half of 2004 is expected to be about 1 percent higher than in 2003. Dressed weights are expected to increase slightly over a year ago; as a result pork production is expected to be up nearly 2 percent from a year earlier.

If producers' intentions as of June 1 are realized, the number of sows farrowing during June-November will decline about 1 percent from actual farrowings a year ago. Given only a marginal uptick in the number of pigs per litter, the June-November pig crop would be nearly the same as a year ago. Current expectations are that feeder pig imports during June-December will also be near year ago levels. As a result, hog slaughter in the first half of 2005 will be essential unchanged from a year ago, but expected heavier hogs will boost pork production slightly.

Expectations are that the December 2004- May 2005 pig crop will be about the same as a year ago. The number of sows farrowing and the number of pigs per litter are expected to remain essentially unchanged from a year earlier. Feeder pig imports are also expected to plateau pointing to a second-half 2005 hog slaughter about the same as projected for this year. Pork production during the period is expected to inch upward due to the continuing slow rise in dressed weights.

Hog prices in 2004 are expected to average \$48-\$49 per cwt as both domestic and foreign demands remain strong. In June, hog prices were up 21 percent over a year ago while the pork carcass cutout in June was up 18 percent. Meat prices of all major species are running above year-earlier levels. Pork exports in 2004 have likely benefited from trade restrictions on U.S. beef and poultry products imposed by several countries. Hog prices in 2005 are expected to average \$45-\$49 per cwt, as demand is expected to dampen somewhat from this year.

Cattle Slaughter Weights Rise Seasonally, Market Nervous

Beef supplies remain tight, but the tightest supply/demand situation this year is already past. Demand is softening seasonally and slaughter weights are rising more than seasonally. Weights are rising against very low weights a year ago as cattle were being pulled forward in the absence of cattle imports following Canada's May 20 discovery of BSE. Following the U.S. discovery of a Canadian-born dairy cow in Washington State with BSE, beef supplies in the U.S. remained tight, even as exports to other countries ceased and this beef was worked into the domestic market. Canada and Mexico have resumed importing certain cuts of U.S. beef under 30 months of age, and imports of similar beef into the U.S. increased this spring. Two inconclusive screening tests in late June created a very unsettled market, but further confirmatory testing revealed that both were negative for BSE. Slower summer demand and rising supplies are resulting in a softer market and will keep prices under pressure. The price spread between Choice and Select grade beef has declined from near \$18 per cwt in April to less than \$2 in early July.

Mid-Year Cattle Inventory Decline Continues

Although the cattle sector may be moving toward expansion, any expansion will have to come from heifers retained from this year's calf crop for

breeding in 2005. First-half cow slaughter was down 15 percent from a year earlier. If grazing conditions in the Great Plains and eastern half of the country remain favorable, cow slaughter should continue well under year-earlier levels. Both steer and heifer slaughter are down simply because numbers available for slaughter have been down. This is the first year of real possibility for heifer retention since 1997, and even then declining forage conditions ended expansion expectations since 1998.

Heifer Retention to Tighten Supplies in Late 2004 and 2005

As cow slaughter continues to decline and more heifers are retained, feedlot inventories of market-ready cattle will begin to decline but not before late fall. Cattle-on-feed inventories are likely to be near to above year-earlier levels at mid year, and weights are increasing well above a year ago. While fed cattle marketings are likely to remain below a year earlier, supplies of higher grading beef are increasing and will reduce some of the market pressure to secure supplies. July 1 Cattle on Feed and Cattle reports, to be released by NASS on July 23, will provide the next solid view on producer actions regarding expansion. These reports contain information on heifer retention, heifers on feed and of course the first estimate on the 2004 calf crop. This data will begin to firm estimates of beef supplies later this year and in 2005.

Dairy Prices Seek Solid Ground

Cheese prices remain under considerable pressure from pipeline stocks built up during the buying frenzy that caused spring's record prices. Extra loads recently have been readily available as many buyers have become comfortable eating into their inventories. However, the fundamentals underlying the cheese market are largely unchanged. Milk production remains below a year earlier and is unlikely to recover substantially until after yearend. Recovery in cheese demand appears solid, although some slippage in use is possible as a delayed effect of the high prices. Also, the butter market has shown some strength, while nonfat dry milk usage has been boosted by commercial exports.

Cheese prices stabilized for almost a month following the sharp mid-May drops as traders reassessed market conditions. However, another round of drops ensued in late June as buying interest failed to develop in response to the earlier declines. Early July cheese markets were unsettled and generally weak but then recovered a bit at mid-month.

Butter prices had not been as weak as cheese prices in early July but took a tumble in mid-July. Prices have seesawed since the early April peak, with the general trend lower. Pipeline holdings of butter probably were not as excessive as for cheese, high-tariff butter imports were not large, and the season of greatest milkfat tightness has arrived. Countering these factors, warehouse holdings of butter have become significantly more ample in recent weeks.

With some strength in nonfat dry milk prices, the resiliency in butter prices resulted in the value of milk for butter-powder in early July exceeding that of milk for cheese. In late April, butter-powder values had been as much as \$6 per cwt below cheese values. The mid-month price shifts reversed relative values once again.

Milk production remained weak this spring, limiting supplies of milk for manufacturing.

Although milk output was only barely below a year earlier in May, the narrow difference was caused by extraordinarily weak milk per cow last year. Milk per cow in May 2003 was about 1 percent weaker than in the months preceding or subsequent to May. Although June 2004 weather was generally quite favorable, June's milk production likely was not as close to a year earlier as May's. Although milk production is projected to move fractionally above a year earlier by late 2004, supplies of milk for manufacturing probably will stay tight during the rest of the year.

Consumer demand probably remains fairly strong. Economic growth is expected to stay moderately strong, consumer spending continues to rise, and restaurant demand is back. Demand may prove strong enough to have been a significant antidote to the normal effects of very high prices. However, the extraordinary March-May wholesale movement was a greatly exaggerated picture of final use as a significant share of the wholesale purchases, particularly for cheese, wound up in pipeline stocks.

Cheese prices may firm this summer if current pipeline holdings are no larger than perceived. The supply-demand balance probably will be tight enough to stabilize prices, although any seasonal recovery likely will be quite limited. Butter markets are expected to remain unsettled. Butter markets are not projected to be able to withstand the summer drawdown in milkfat stocks by ice cream makers and the September surge in cream availability. Butter prices are expected to trend generally lower during the rest of 2004.

Recent wholesale price drops have lowered expectations for second-half farm milk prices. Even so, milk prices are projected to average well above a year earlier. For all of 2004, prices received by farmers are expected to be more than \$3 per cwt above 2003's \$12.55. However, the range of uncertainty around second-half price projections is unusually wide, with production, use, and stocks in substantial flux.

Broiler Meat Production Down Slightly in May, but Estimate for Second Quarter Increased

U.S. broiler meat production was up over 5 percent in the first quarter of 2004 and the revised estimate for the second quarter is now 8.525 billion pounds. This is an increase of 10 million pounds from last month and 3 percent higher than in the same period last year. This adjustment pushes the estimate for 2004 to 33.93 billion pounds, an increase of 3.6 percent from 2003.

Broiler meat production in May was down less than 1 percent from a year earlier. That decline was the result of a 1.7 percent decrease in the number of birds being slaughtered. However, the decrease in the number of birds slaughtered was partially offset by a 1-percent increase in the average liveweight of birds going to slaughter. The decrease in the number of birds going to slaughter can be attributed to the fact that May 2004 had one less working day than in May 2003. This will be reversed for June, with June 2004 having one additional working day than June 2003. Preliminary data point toward a significant increase in the amount of broiler meat produced in June due to a higher number of birds being slaughtered combined with a 1-to 2-percent increase in weight.

Even with second quarter production now estimated to be 3 percent higher than last year, wholesale prices for most broiler products continued to be well above their year earlier levels. Over the first 6 months of 2004, prices for boneless/skinless breast meat averaged nearly \$2.06 per pound, up 38 percent from the same period in 2003. Prices for whole birds also increased, with the 12-City composite price averaging 27 percent higher than in the first half of 2003. Leg quarter prices, which more greatly reflect strength in export markets, also rose, even though exports are down. Over the first 6 months of 2004, leg quarter prices averaged 35.1 cents per pound, 61 percent higher than in 2003, but prices in June were about even with May and are expected to decline in July. With broiler production now forecast to be 3.3 percent higher in the third quarter than last year, price increases for most products are expected to slow down. However, prices, for export sensitive parts, like leg quarters, may

strengthen if exports resume to major markets like China.

Broiler exports in May were 345 million pounds, down 11 from the previous year and considerably lower than average shipments over the last several years. Over the first 5 months of 2004, broiler shipments were down 11 percent from the same period in 2003. Even though the quantity of broiler exports was lower, it was offset by higher prices. The total value of broiler exports over the first 5 months of 2004 is \$640 million, up 23 percent from the previous year. Most of the decline in broiler exports through May has come from lower shipments to Russia, and Hong Kong/China which accounted for 42 percent of all broiler exports in 2003 and through May were down 7 and 71 percent, respectively.

Turkey Production Falls in May

Domestic turkey production totaled 448.9 million pounds in May, down 6.8 percent from last year. Turkey production has fallen in 6 of the last 7 months and so far in 2004 is down 5.8 percent from 2003. With hatchery numbers continuing to point to lower production in the future, the estimate for second quarter 2004 production was reduced to 1.36 billion pounds, down about 80 million pounds from a year the second quarter in 2003.

The declines in turkey production have begun to raise prices for a number of turkey products. Prices for whole birds have been strengthening over the last several months and averaged 66.6 cents in the second quarter, up 6 cents (almost 10 percent) from last year. Prices for other products have also risen and with continued lower production, prices are expected to continue to strengthen in the second half of the year.

Turkey exports totaled 34 million pounds in May, down 15 percent from the previous year. Over the first 5 months of 2004, turkey exports have been 141 million pounds, down 20 from the same period in 2003. As with broilers most of the decline has come from lower shipments to Hong Kong/China and Russia. Also like broiler exports, higher prices have more than offset the lower volume. Through May, the value of turkey exports totaled \$23 million, up 17 percent from the previous year.

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Related Articles

The recent discovery of bovine spongiform encephalopathy (BSE) <http://www.ers.usda.gov/features/BSE/index.htm> in a dairy cow in the State of Washington has caused importers to either ban or restrict beef imports from the United States.

"U.S. 2003 and 2004 Livestock and Poultry Trade Influenced by Animal Disease and Trade Restrictions" discusses how animal diseases and disease-related trade restrictions have influenced trade in animal products in the past few years, with an emphasis on 2003 and forecasts for 2004, is available at <http://www.ers.usda.gov/publications/LDP/JUL04/LDPM12001/>

Data

Retail Price Reporting for Meat

<http://www.ers.usda.gov/Data/Meatscanner/> A new ERS database contains monthly average retail prices for selected cuts of red meat and poultry, based on electronic supermarket scanner data. While not based on a random sample, the raw data underlying the database are from supermarkets across the United States that account for approximately 20 percent of U.S. supermarket sales. [Leland Southard](#), (202) 694-5187.

Web Sites

Animal Production and Marketing Issues, <http://www.ers.usda.gov/briefing/AnimalProducts/>

Cattle, <http://www.ers.usda.gov/briefing/cattle/>

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Red meat and poultry forecasts

	2002		2003			2004					2005			
	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
Production, million lb														
Beef	27,090	6,282	6,902	7,081	5,973	26,238	5,834	6,260	6,675	6,000	24,769	5,725	6,275	24,350
Pork	19,664	4,898	4,741	4,807	5,499	19,945	5,130	4,900	4,965	5,475	20,470	5,085	4,925	20,485
Lamb and mutton	219	49	50	48	52	199	52	46	46	50	194	51	49	197
Broilers	32,240	7,786	8,275	8,448	8,240	32,749	8,208	8,525	8,725	8,475	33,933	8,400	8,825	35,125
Turkeys	5,713	1,380	1,439	1,409	1,423	5,650	1,302	1,360	1,350	1,375	5,387	1,315	1,410	5,575
Total red meat & poultry	85,669	20,570	21,586	21,965	21,355	85,476	20,688	21,257	21,926	21,536	85,407	20,734	21,653	86,396
Table eggs, mil. doz.	6,190	1,524	1,528	1,559	1,596	6,207	1,554	1,570	1,590	1,610	6,324	1,580	1,590	6,400
Per capita consumption, retail lb 1/														
Beef	67.6	16.2	16.9	16.9	15.0	64.9	15.9	16.9	17.7	15.7	66.3	15.2	16.6	64.2
Pork	51.5	12.6	12.5	12.6	14.1	51.8	13.0	12.3	12.7	13.8	51.8	12.5	12.4	51.0
Lamb and mutton	1.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	1.2
Broilers	80.5	19.6	20.7	21.3	19.9	81.5	20.8	21.5	22.0	21.1	85.5	20.9	21.8	86.7
Turkeys	17.7	3.6	3.9	4.6	5.3	17.4	3.6	3.8	4.3	5.3	17.0	3.4	3.9	17.0
Total red meat & poultry	220.5	52.8	54.9	56.1	55.0	218.8	54.1	55.3	57.5	56.7	223.6	52.8	55.5	222.0
Eggs, number	255.5	62.6	63.0	63.8	65.3	254.7	63.5	63.9	64.7	65.4	257.5	63.4	63.7	256.2
Market prices														
Choice steers, Neb., \$/cwt	67.04	77.82	78.49	83.07	99.38	84.69	82.16	88.15	83-87	86-92	85-87	82-88	84-90	83-89
Feeder steers, Ok City, \$/cwt	80.04	78.48	82.49	94.90	103.51	89.85	87.98	104.57	103-107	102-108	100-102	90-96	93-99	93-99
Boning utility cows, S. Falls, \$/cwt	39.23	40.53	46.52	49.84	49.60	46.62	48.08	55.66	52-54	51-55	52-53	48-52	50-54	48-52
Choice slaughter lambs, San Angelo, \$/cwt	72.31	91.92	93.71	89.48	92.82	91.98	100.62	97.00	94-98	91-99	96-98	95-101	93-99	93-99
Barrows & gilts, N. base, l.e. \$/cwt	34.92	35.38	42.64	42.90	36.89	39.45	44.18	54.91	52-54	41-45	48-49	47-51	48-52	45-49
Broilers, 12 City, cents/lb	55.60	60.30	59.60	63.40	64.60	62.00	73.20	79.30	76-80	72-78	75-77	70-76	71-77	71-77
Turkeys, Eastern, cents/lb	64.50	61.10	60.60	59.10	67.40	62.10	62.10	66.60	66-68	68-72	66-67	59-63	61-67	64-69
Eggs, New York, cents/doz.	67.10	77.20	73.90	89.90	110.70	87.90	114.80	79.70	78-82	82-88	89-91	82-88	77-83	80-87
U.S. trade, million lb														
Beef & veal exports	2,447	585	678	681	579	2,523	36	115	140	150	441	135	165	600
Beef & veal imports	3,218	810	741	619	836	3,006	873	900	890	770	3,433	830	880	3,420
Lamb and mutton imports	162	40	44	35	48	167	62	43	39	42	186	55	48	191
Pork exports	1,611	413	438	406	460	1,717	523	550	475	525	2,073	525	535	2,085
Pork imports	1,070	289	301	298	297	1,185	275	280	285	290	1,130	270	275	1,090
Broiler exports	4,807	1,200	1,166	1,182	1,385	4,932	1,024	1,025	1,100	1,150	4,299	1,100	1,200	4,800
Turkey exports	439	103	114	130	136	482	83	80	80	115	358	105	105	455

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.

Economic Indicator Forecasts

	2003					2004					2005	
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	Annual
GDP, chain wtd (bil. 2000 dol.)	10,210	10,288	10,493	10,599	10,398	10,709	10,827	10,937	11,045	10,880	11,149	11,301
CPI-U, annual rate (pct.)	3.9	0.6	2.3	0.9	1.9	3.6	2.9	2.2	2.0	2.7	2.1	2.2
Unemployment (pct.)	5.8	6.2	6.1	5.9	6.0	5.6	5.6	5.5	5.4	5.5	5.4	5.3
Interest (pct.)												
3-month Treasury bill	1.2	1.0	1.0	0.9	1.0	0.9	1.0	1.3	1.6	1.2	2.0	2.5
10-year Treasury bond yield	3.9	3.6	4.2	4.3	4.0	4.0	4.6	4.8	5.0	4.6	5.2	5.2

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, May 2004.

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Dairy Forecasts

	2003				2004					2005		
	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
Milk cows (thous.)	9,109	9,073	9,011	9,084	8,991	8,980	8,970	8,940	8,970	8,900	8,860	8,855
Milk per cow (pounds)	4,827	4,601	4,609	18,748	4,750	4,850	4,630	4,675	18,905	4,845	5,020	19,445
Milk production (bil. pounds)	44.0	41.7	41.5	170.3	42.7	43.6	41.5	41.8	169.6	43.1	44.5	172.2
Commercial use (bil. pounds)												
milkfat basis	43.0	44.9	45.3	174.6	42.1	43.6	45.2	45.3	176.2	42.1	44.0	176.2
skim solids basis	41.5	42.4	41.9	166.0	42.7	43.6	42.7	42.4	171.3	42.5	43.0	172.4
Net removals (bil. pounds)												
milkfat basis	0.6	0.2	0.0	1.2	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.1
skim solids basis	3.1	1.4	0.9	8.3	0.6	0.3	0.8	0.9	2.5	0.8	1.3	3.9
Prices (dol./cwt)												
All milk 1/	11.00	13.30	14.40	12.52	14.07	18.67	15.15	14.80	15.65	12.90	12.10	13.05
							-15.55	-15.50	-15.95	-13.90	-13.10	-14.05
Class III	9.62	13.29	13.24	11.42	12.66	19.31	13.65	13.00	14.65	11.15	11.05	11.75
							-14.05	-13.70	-14.95	-12.15	-12.05	-12.75
Class IV	9.74	10.05	10.33	10.00	12.43	14.26	12.90	11.85	12.80	10.75	10.80	11.15
							-13.40	-12.65	-13.20	-11.85	-11.90	-12.25

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

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

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