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Tables will be released on December 28, 2005.

The next newsletter release is January 19, 2006

Approved by the World Agricultural Outlook Board.

NOTE: Due to uncertainties as to the length of bans on trade in ruminants and ruminant products because of the discovery of BSE in the United States and Canada, forecasts for 2005 and 2006 assume a continuation of policies currently in place among U.S. trading partners as of December 9, 2005. Subsequent forecasts will reflect any announced changes.

Dairy: Dairy markets in the second half of 2005 developed much as expected. The strong returns of the last 2 years unleashed large increases in milk production. These jumps outstripped expansion in dairy demand and eroded milk and dairy product prices. However, the remarkable demand of late 2005 was enough to keep price declines small. For the year, farm milk prices will average less than $1 per hundredweight (cwt) below the 2004 record—even though milk production probably has risen almost 4 percent on a daily average basis.

Cattle/Beef: Cattle and beef markets are gearing up for the winter holiday season and continue to react as Japan and the United States work out details for resuming Japanese imports of U.S. beef. Higher fed cattle prices, and favorable gain costs overriding deteriorating winter forage conditions, are reflected in higher feeder calf prices. The 2005/06 winter wheat pasture situation is likely shaping up well below last year's favorable situation and will likely also be below the 2003/04 conditions with fewer calves being placed on pasture. Feedlots continue to move cattle at strong prices as disappointing grading conditions continue. Packer margins hover at or below breakeven levels. Wholesale prices continue well above year-earlier levels, while retail prices remain strong and about steady with prices for the same time during 2004.

Hogs/Pork: Hog slaughter and pork production typically achieve annual highs in the fourth quarter of each year, while hog prices register annual lows. The current market situation reflects typical seasonal patterns. Pork production in the fourth quarter is expected to be about 5.6 billion pounds, or about 2 percent more than a year ago. Fourth-quarter prices of live equivalent 51-52 percent lean hogs are expected to average between $45 and $46 per (cwt), or about 16 percent below fourth-quarter prices in 2004. Prices are lower not only because of slightly larger year-over-year hog numbers, and heavier dressed weights, but also because U.S. consumer demand for pork appears to have declined compared with last year. Foreign demand for U.S. pork products and lower numbers of swine imported from Canada, however, are supporting factors in the market right now.

Poultry: An uncertain export market situation, rising stocks, and an increase in production in October has placed downward pressure on most broiler prices. Cold storage holdings for the end of the third quarter were revised upward by 18 million pounds, and broiler meat production was 5 percent higher in October. Prices for breast meat products and leg quarters in November were down 18 and 2 percent from last year. Turkey supplies and prices are the exact opposite, with tight supplies from little growth in production and a strong export market, pushing most turkey prices higher.

Eggs: Wholesale table egg prices (NY grade A large) in the third quarter of 2005 averaged 66.6 cents a dozen, compared with 55.9 cents a dozen, or 19 percent higher than the second quarter. For all of 2005, wholesale table egg prices (NY grade A large) are expected to average 64.6 cents per dozen, substantially less than last year's close of 82.2 cents per dozen. For 2006, wholesale egg prices are expected to average between 63 and 68 cents per dozen.

Dairy

Milk Production Surge Overcomes Demand Growth

Dairy markets in the second half of 2005 developed much as expected. The strong returns of the last 2 years unleashed large increases in milk production that outstripped expansion in dairy demand and eroded milk and dairy product prices. However, the remarkable demand of late 2005 was enough to keep price declines small. For the year, farm milk prices will average less than $1 per cwt below the 2004 record—even though milk production probably has risen almost 4 percent on a daily average basis.

Next year likely will look a lot like 2005. Milk production probably will rise substantially. The year-to-year increase is projected to be significantly smaller--but simply because the comparison is with the strong 2005 output instead of the weak 2004 production. Both domestic and export demand are expected to stay brisk. Farm milk prices are projected to decrease again but to hold near the 2000-05 average.

Milk Production Still Jumping

Expansion in milk production continues along expected patterns. Milk cow numbers have been pushed higher by farm expansions and the relatively few farm exits, results of the strong returns of the last 2 years. In the 23 major dairy States, October milk cow numbers were up 0.7 percent from a year earlier. Cow numbers have grown almost steadily since February. However, month-to-month increases slowed in late summer-early autumn, reflecting tightness in heifer markets and cooperative efforts to buy out milk cows.

Milk per cow also has been quite strong. The 23-State average jumped about 4 percent from a year earlier during summer, up from the 5-year moving average at an annual rate of more than 2 percent. However, growth has been somewhat erratic and slipped a bit in October. Relative milk and concentrate prices provided ample incentive to push concentrate feeding. The mixture of good and mediocre forage from this year's crop may help to explain the variability in milk per cow expansion.

These general patterns are expected to last through at least the end of 2006. The expected reduction in 2006 returns probably will not be enough to significantly slow farm expansions or boost farm exits. As long as enough replacements can be found, cow numbers are likely to edge higher. Variable forage quality probably will continue to be reflected in milk per cow, but growth likely will be robust. Year-to-year increases probably will drop by next spring as comparisons shift from the weak milk per cow of 2004 to the strong output of most of 2005.

Milk production in the last quarter of 2005 is expected to remain more than 4 percent larger than a year earlier, bringing annual output almost 4 percent higher than 2004 on a daily average basis. The increase in the 2005 total will be the largest in two decades. Milk cows will average fractionally larger than 2004, while the rise in daily average milk per cow will exceed 3 percent. Another fractional rise in milk cows is projected to combine with about a 2-percent jump in milk per cow to boost 2006 milk production almost 3 percent.

The modest growth in 2006 cow numbers is expected to be significantly constrained by tightness in replacement markets and the increasingly ponderous approval process for new or expanded dairy farms. However, the returns of recent years probably provided enough impetus for a significantly faster rise in cow numbers. If new operations can be brought on line faster than expected, increases in milk cow numbers and milk production could be considerably larger than projected, particularly during the second half.

Strong Replacement Demand Boosts Heifer Prices

Dairy replacement prices were a record $1,870 in October, up more than $200 from 1 year earlier and almost $500 from 2 years earlier. The difference between replacement and slaughter values was about $1,200, also a record. These high prices imply heifer availability is, and will continue, to constrain growth in cow numbers.

Demand for heifers is responsible for the price increases. Even without imports from Canada, 2005 heifer supplies have been larger than 2004 and at least as large as 2003. The brisk demand represents continued farm expansion stimulus resulting from strong 2004 and 2005 returns. Expected modest declines in 2006 milk prices are unlikely to dampen expansion pressures significantly.

Growth in heifer supplies is likely to fall short of demand, as the lagged effects of high 2004 replacement prices is expected to generate only slight inventory growth in 2006. Autumn replacement calf prices have reached levels over $600, implying heifer raisers hold optimistic views of future heifer demand. Pressure on replacement heifer prices likely will ease only when milk prices decline enough to accelerate farm exits, opening up another source of replacements.

Manufactured Product Output Larger; Stocks Moderate

The increase in milk production during late summer-early autumn was spread among a number of manufactured dairy products. August-October output of all products rose about 4 percent on a milk-equivalent basis, with several cheeses and butter showing sizable increases. During this period, the values of milk for cheese and for butter-nonfat dry milk were similar. These patterns are expected to persist through at least the first half of 2006.

November 1 commercial stocks were slightly smaller than a year earlier on both a milkfat and skim solids basis. However, 2005 seasonal declines from the summer peaks have not been as dramatic as in 2004. November holdings probably were comfortable in light of the continuing expansion in milk supplies. However, the brisk autumn sales probably would have kept somewhat larger stocks from being a concern, particularly for cheese.

November 1 butter stocks were still slightly smaller than a year ago. Since then, weekly stocks reported to the Chicago Mercantile Exchange (CME) indicated that the seasonal decline remained slower than last year's, and stocks at the start of December may well have moved above a year earlier. Barring a late holiday surge in use, autumn holdings may have been slightly larger than needed. On the other

hand, cheese stocks have run quite close to 2004 levels since early summer and probably were just adequate.

Commercial Use Grows

Commercial disappearance of dairy products was up sharply during September-October. Sales rose almost 4 percent from a year earlier on a milkfat basis and almost 5 percent on a skim solids basis. During these months of 2004, movement was relatively weak as buyers drew down pipeline holdings in order to minimize purchases on a falling market. Even so, this year's disappearance demonstrated continued good dairy demand.

September-October commercial use of butter rose about 2 percent from a year earlier. Gains in butter sales this year have posted only modest gains from 2004's strong use. However, movement has been much steadier in this year's more stable markets. Commercial disappearance was above 100 million pounds in 7 of the first 10 months of 2005, the first time that has happened since 1999. In addition, any gain in the year following the volatile 2004 markets must be considered a sign of good demand.

Like butter, cheese use benefited from brisk restaurant sales. September-October disappearance rose 3 percent from a year earlier. Meanwhile fluid milk sales managed to post a small gain, while use of soft manufactured products was mixed.

Commercial disappearance of nonfat dry milk fell sharply during September-October—but the data are highly misleading. Very strong export markets have led to considerable production of powder that meets the international standards for skim milk powder but does not meet the U.S. standard of identity for nonfat dry milk. In addition, custom blends of skim solids and whey or other products are being produced for export. Sales of skim solids in all powders undoubtedly have risen in 2005.

Dairy product demand is projected to remain good in 2006. Expected economic conditions are favorable, and restaurant use should be solid. Meanwhile, exports of skim solids are likely to stay heavy. Movement probably will be brisk enough to absorb the increase in milk output with only a modest decline in prices.

International Prices Hold

International dairy markets have remained strong as brisk demand continues to strain available export supplies. Nonfat dry milk prices were about $2,200 per ton in November, down slightly from summer and a year earlier. However, the slippage was considerably less than would ordinarily be expected in light of the strengthening of the U.S. dollar. Butter prices rose a bit seasonally since summer, although November prices were down about $100 per ton from a year earlier.

Demand for milk powders has remained strong, reflecting good growth in the economies of Asia and parts of Latin America and high oil prices. Butter demand also has been fairly firm for many of the same reasons. However, Russia reportedly has not been seeking as much for winter needs as in recent years. Dairy product demand is expected to stay firm through at least the first half of 2006.

After a promising start, New Zealand's milk production has faltered, the result of cool, wet weather on the North Island and dry conditions on the South Island. The seasonal peak was early and below expectations. Even if conditions improve during the second half of the season, the season total may not match the previous year. Higher rainfall after several drought years has improved Australia's production prospects, with gains posted in most states. A significant increase is expected for the season, but output is not likely to regain the levels of a few years ago.

Powder supplies from the Northern Hemisphere are not expected to grow. The European Union (EU-25) continues to have relatively tight markets and low intervention stocks. The United States will remain a large supplier of skim milk solids to international markets. However, the growth in U.S. milk output is projected to be absorbed domestically. Also, the low government stocks cannot provide additional market supplies as they did through most of 2005.

Prices of butter and nonfat dry milk are expected to be fairly steady in 2006. Markets seem poised to maintain a fairly firm balance with no major shocks looming, at least through the first half. Some buyers appear a little more anxious than earlier because of concerns about Oceanic production. However, recovery in New Zealand could quickly dissipate these fears, and supplies should be large enough to forestall a buying frenzy in any case.

Summer exports of U.S. nonfat dry milk slipped below a year earlier, although the quantities stayed large. The very large exports of autumn 2004 and winter 2005 were not sustainable in the face of strong domestic demand for dairy products (particularly cheese), even allowing for the unknown quantities of skim solids exported in blends with whey or other ingredients. Through September, reported 2005 exports of nonfat dry milk exceeded 500 million pounds. Exports may slip in 2006 because of smaller exportable supplies.

January-September imports of milkfat fell 14 percent from a year earlier because of smaller high-tariff imports. This year's much more moderate domestic prices made imports in excess of the tariff-rate quotas (TRQ) considerably less profitable. January-September imports were down only slightly on a skim solids basis. Imports in 2006 are projected to be similar to 2005.

Wholesale Dairy Prices Erode

Cheese prices on the CME fell about 20 cents per pound between late September and early November. Although cheese movement was good, it could not absorb all of the available cheese at late summer prices. Since Thanksgiving, some of the earlier loss has been regained. The rise probably reflects concern about holiday supplies, as autumn production has faltered a bit, and stocks were modest. Once holiday needs are met, prices are likely to be under pressure again. Wholesale cheese prices are expected to slip during the first half of 2006.

Unlike cheese, CME butter prices continued to decline. Since late September, butter prices decreased more than 30 cents per pound. Butter production has been large, and seasonal reductions in stocks have not matched last year's rapid pace. By the start of December, commercial butter holdings quite possibly were larger than

the small stocks of a year earlier. Further erosion is projected once holiday needs are filled, but declines might be fairly modest.

Unlike butter and cheese prices, prices of nonfat dry milk generally edged higher until reaching a plateau in November. Recent powder prices were aligned fully with international market prices for the first time this year. In fact, domestic prices were possibly a bit high relative to international prices, a situation that likely will adjust once seasonal increases in milk production begin in earnest.

After modest winter increases, farm milk prices ran below a year earlier during the last three-fourths of 2005. However, the decline from last year's record average price will be less than $1 per cwt, incredibly small for a year with 4-percent increases in milk production. In fact, the 2005 price will rank as the third highest ever. Strong domestic demand and tight international powder markets were key to holding milk prices.

Additional milk production is expected to again outstrip demand growth in 2006, and milk prices are projected to fall $1-2 per cwt. But, this decline must be considered moderate in light of the production expansion. In fact, expected 2006 milk prices would be close to the 2000-05 average.

Several factors could substantially alter price prospects for next year. Milk production, under the stimulus of the returns of 2004-05, might easily break the bonds expected to restrain it. Also, international markets are traditionally unstable, and export of all of our extra skim solids is not certain. The return of nonfat dry milk surpluses would weigh heavily on domestic prices. On the other hand, domestic demand strength was under-estimated in both 2004 and 2005. Prices could run significantly higher if demand growth stays as robust.

Retail Prices Wobbly

During the first 10 months of 2005, retail dairy prices rose and fell erratically but stayed within a very narrow range. In September-October, retail prices were barely higher than a year earlier, after posting large year-to-year increases earlier in the year. For all of 2005, retail prices are expected to average about 1 percent higher than 2004. A moderate rise in the farm-to-retail price spread will have outweighed the decline in farm milk prices. A similar rise in the spread in 2006 is projected to offset the farm milk price decline, leaving retail prices averaging much the same as 2005.

Cattle/Beef

Cattle and Beef Markets Steady to Improving

Cattle markets during 2005 have moved significantly in response to changes in market status quo, such as mid-July when live cattle under 30 months of age were again allowed to be imported from Canada. In other instances, despite the apparent significance of events, markets reacted very little. The markets reacted very little to the June 2005 confirmation of the second case of BSE. In part, this lack of response was likely due in part to the time lapse between November 2004 when the cow was initially tested and the June confirmation and the lack of additional cases. Also, consumers and other market participants may have developed a mature perspective regarding the extremely low level of human risk to BSE. Weather conditions in 2005 were generally favorable throughout most of the year, but over the past couple of months soil moisture conditions deteriorated to the point of reducing winter forage prospects, particularly winter wheat pasture.

Cattle and beef markets are gearing up for the winter holiday season and may continue to react to the potential impact of resuming Japanese imports of U.S. beef. Higher fed cattle prices, and favorable cost of gain overriding deteriorating winter forage conditions are reflected in higher feeder calf prices. The 2005/06 winter wheat pasture situation is likely shaping up well below last year's favorable situation and likely also below the 2003/04 conditions with fewer calves being placed on pasture. Feedlots continue to move cattle at relatively high prices as disappointing grading conditions continue. Packer margins hover at or below breakeven levels. Wholesale prices continue well above year-earlier levels, while retail prices remain strong and are about steady to slightly below prices for the same time during 2004.

Feeder Calf and Fed Cattle Prices Move Higher

Feeder cattle prices continue to inch higher as grain prices continue well below year-earlier levels. November feeder steer prices are 5 to 6 percent higher than in November 2004. Feeder heifer prices are about 12 percent higher than a year ago, reflecting their dual demand as feeder animals and as breeding stock. Increasing numbers of stocker cattle are likely being moved into feedlots with some being backgrounded rather than finished in response to deteriorating pastures. This strategy is possible because of low grain prices, and, as such, these cattle do not show up in *Cattle on Feed* reports because they are not being fed at present to grade Select or higher.

Current cow prices, while averaging over 4 percent higher thus far in 2005 than in 2004, are only steady to slightly lower than year-earlier levels. If expected January 1, 2006, cow herd and breeding heifer inventory increases over 2005 are reported in the January 2006 *Cattle* inventory report, it would indicate that expansion for the next 10-12 year cattle cycle is well under way. Current cow prices remain strong, reflecting the current situation of reduced cow inventories in the early herd-expansion stages of the new cattle cycle. However cow slaughter has increased seasonally and along with rebuilt stocks of imported 90-percent trim processing beef, is adequate for mixing with the available supplies of 50 percent trim, which comes from fed cattle, to produce hamburger. Utility cow prices are averaging near to slightly below year-earlier levels.

Cattle on feed November 1, 2005, were 1 percent above November 1, 2004, and 4 percent above November 1, 2003. October 2005 placements were up 3 percent over October 2004, and are shifting seasonally to lighter-weight cattle representing the majority of placements. Fed cattle prices this fall are averaging about 5 to 6 percent above year-earlier levels. Despite marketings during October 2005 being down 3 percent from October 2004, feedlots appear to be moving cattle, as they are ready for market, so there are no accumulating backlogs of over-finished cattle. The percentage of cattle grading Choice or better has moved higher over the last couple of weeks compared with the period from late August to early-November. Despite good gains, poorer grading is likely slowing down the marketing pace. Interruptions in cattle moving to packing houses due to weather markets, such as the one observed last week in the Northern and Central Plains, will occur from now until April, briefly boosting prices with each occurrence. These winter weather events slow movement of cattle from feedlots to packers and reduce gains in cattle on feed. The extent to which weather becomes a major performance issue is still developing.

Wholesale-Retail Spreads Narrow; Retail Prices Strengthen Seasonally

Consistent with price activity in the feeder calf and feedlot sectors, boxed beef prices in mid-December for Choice beef were about 14 to16 percent higher than year-earlier prices. Although prices for Select carcasses are about 12 percent above year-earlier levels, they are up by less than Choice beef, again reflecting the relatively tight supply of Choice beef. Prices for 90-percent lean processing beef, which is primarily cow and imported beef, are about 5 percent below year-earlier levels. This combination of both higher and lower prices compared with 2004 prices reflects both the inadequate supplies of Choice cattle and U.S. beef production that is about even with beef production during 2004, which was the second lowest since 1993. Carcass weights, which likely peaked in November, continue to be well above year-earlier levels and above 5-year averages and may offer some explanation for the increase over the last couple of weeks in the percentage of cattle grading Choice or better. With some cyclical and other, mainly weather-related variation, carcass weights have gained about 5 pounds per year since at least 1965.

The retail beef market is currently split into two markets, a higher value market for loin and rib cuts and a lower market for remaining cuts. Both markets are represented in winter holiday featuring that follows Thanksgiving specializing for other meats, especially turkey. The premiums on loin cuts reflect the low supplies of Choice cattle and seasonal demand for the holidays. Average retail prices for Choice beef in November averaged $4.02 a pound, while up from this year's $3.92 per-pound low set in September, but still 1 percent lower than the average retail price in November 2004. Wholesale-to-retail spreads are shrinking. The November spread was 7 percent below a year earlier, reaching the lowest levels since 2003.

Hogs/Pork

Pork Production Seasonally Higher, Hog Prices Seasonally Lower

In the hogs and pigs "crop year", spring and summer pig crops are typically larger than those of the fall and winter quarters. Milder temperatures are still conducive to larger pig litters and increased weaning rates, even when the animals are housed in fully confined building systems. But with higher spring and summer pig crops come larger slaughters and higher pork production in the fall and winter quarters. With steady demand and increased supplies come lower prices. This year is no exception to this biological/meteorological/economical rule. The 2005 March-May pig crop, which was 1-percent greater than spring 2004, is currently being slaughtered by U.S. packers. So predictably, fourth-quarter U.S. pork production is seasonally higher, and hog prices are seasonally lower.

Fourth-quarter commercial hog production is expected to be about 5.6 billion pounds, or slightly more than 2 percent larger than a year ago. Compared with fourth-quarter 2004, two additional pounds of dressed weight per carcass, largely from moderate feed costs, are expected to contribute to the fourth quarter production increase in addition to higher seasonal slaughter numbers. Fourth-quarter live equivalent prices of 51-52 percent lean hogs are expected to average between $45 and $46 per cwt, or 16 percent below the fourth quarter of last year, but still above breakeven production costs for most U.S. hog production operations.

Reduced U.S. Demand for Pork Likely a Factor in Lower 2005 Hog Prices

In addition to seasonally higher numbers of slaughter-ready hogs, lower year-over-year hog prices are also likely attributable to lower U.S. consumer demand for pork products. Weaker consumer demand is reflected in lower wholesalers' bids to packers for pork products, with packers responding in turn by lowering prices paid for hogs. Last year, the USDA estimated pork carcass composite cutout--an indicator of wholesale value--in the fourth quarter averaged $74.35 per cwt. This year, the fourth quarter cutout is averaging almost 11-percent lower, at $66.99 per cwt. With fourth-quarter pork consumption this year expected to be 5.0 billion pounds, compared with 5.1 billion pounds last year, it appears that consumers (via wholesalers) were willing to pay more, for a larger consumption quantity in 2004. In the fourth quarter this year, so far, lower wholesale values suggest that U.S. consumers are paying lower prices for a smaller consumption quantity. Taken together, wholesale values of fourth-quarter pork consumption suggest that U.S. consumer pork demand jumped in a positive direction last year, due in part perhaps to high-protein diets, while shifting in the opposite direction this year.

The argument for lower U.S. pork demand appears to hold for previous quarters of 2005 also. U.S. pork consumption in 2005 is expected to be 19.1 billion pounds, which is about 2 percent below pork consumption last year. Wholesale values so far in 2005 fall about 2.3 percent below 2004; hog prices this year are, on average, almost 5 percent below last year, and second-half 2005 retail prices are expected to be about 1.2 percent lower than in 2004. With lower consumer demand for pork, at the same time 2005 pork production is expected to be about 1 percent above last year, foreign demand for U.S. pork products is likely a key factor supporting hog prices this year.

Exports a Main Driver of U.S. Pork Demand in 2005

In October, U.S. exporters shipped 222 million pounds of pork to foreign markets, almost 8 percent more than October of last year. Through October, total U.S. pork exports are almost 2.2 billion pounds, 24 percent greater than in the same period last year.

The U.S. pork export story, through October, has a familiar ring to it. As shown below, three key countries--Japan, Canada, and Mexico account for almost 72 percent of U.S. exports. Last year at this time, these three countries bought 78 percent of U.S. exported pork.

	Total U.S exports Jan.-Oct. 2005	Percent change from Jan.-Oct. 2004	Export share 2005	Export share 2004
	Million pounds	%	%	%
Japan	885	+16	40.6	43.1
Canada	248	+32	11.4	10.7
Mexico	428	-0.6	19.6	24.5

Japan's accelerated demand this year for U.S. pork is largely attributable to favorable U.S. exchange rates, as World Trade Atlas data (see below) indicate that Japanese pork imports from all sources this year are up by less than 2 percent. The higher valued euro, has made Danish pork products--whose currency is tied to the euro--more expensive relative to North American products.

Japan Pork Imports, Jan.-Oct. 2004, 2005 [1]

Country	2004 Million pounds	2005	Percent change
World	1,634	1,658	1.5
United States	481	538	11.8
Denmark	504	448	-11.1
Canada	348	379	9.0
Chile	74	94	26.5
Mexico	61	64	5.6
Others	165	134	

[1]Tariff line 0203, product weight

Source: World Trade Atlas

With respect to 2006, negotiations to re-open Japanese markets to North American beef are currently ongoing. Re-introduction of U.S. and Canadian beef into Japan is likely to change Japanese demand for pork products. The USDA's Foreign Agricultural Service expects Japan's pork imports to decline slightly next year (http://www.fas.usda.gov/dlp /circular/2005/05-11LP/toc.htm)

Canada and Mexico: Big Customers and Strong Competitors

Canada's imports of pork products from all sources have increased significantly in 2005, largely to compensate for its brisk rate of export growth. According to the World Trade Atlas, in the first 10 months of 2005, Canada has imported 157 million pounds of pork products, or 44 percent more than in the same period last year. The majority of Canadian imports--92 percent so far in 2005--originate from the United States. USDA expects Canadian imports to increase almost 15 percent next year.

Canadian pork exports so far in 2005 are 14 percent above a year earlier. Major Canadian customers are largely the same as for the United States, suggesting the highly competitive nature of world pork markets. A small number of large exporters compete for market share in a relatively small set of importing countries. USDA expects Canadian exports to increase about 2 percent next year.

Canadian Pork exports, Jan.-Oct. 2004[1] and 2005 [1]

Country	2004	2005	Percent change
	Million pounds		
World	1,239	1,411	14
United States	591	561	-5
Japan	335	446	33
Korea, South	37	81	122
Australia	59	63	6
Mexico	80	60	-24
Romania	18	41	135
Russia	13	34	159
China	16	25	53

[1]Tariff line 0203, product weight

Source: World Trade Atlas

So far in 2005, Mexico remains the second-largest importer of U.S. pork products, although this year, the rate of increase of Mexico's demand has moderated. Last year, Mexico's monthly demand for U.S. pork products averaged 71 percent above 2003. Through October of this year, Mexico's pork imports from the United States are slightly lower than over the same period last year.

Much of Mexico's animal protein imports serve as inputs in sausage manufacturing. Because of the ease of substitutability between pork and poultry in sausage production, it is possible that the increase in Mexican demand for U.S. poultry products accounts in part for moderating demand for U.S. pork. Mexican imports of all poultry products in 2005 have increased 23 percent. Imports of chicken cuts have increased 46 percent, while turkey imports have increased 65 percent above the same period last year. Next year, Mexican pork imports are expected to increase about 12 percent.

Smaller Markets An Important Source of Growth

Three new, smaller markets--Australia, Romania, and China--plus Russia, have together pushed the pace of U.S. export growth this year:

	Total U.S exports Jan.-Oct. 2005	Percent change from Jan.-Oct. 2004	Export share 2005	Export share 2004
	Million pounds	%	%	%
Australia	53	863	3.1	.3
Romania	56	245	3.1	.8
China	102	48	4.4	2.8
Russia	77	92	3.5	2.3

Australia, Romania, China, and Russia together account for 14 percent of U.S. exports this year. This block of countries together accounts for the third-largest share of U.S. exports, after Mexico and Japan.

Russia's recent ban on pork and beef products from eight additional states in Brazil due to FMD occurrences is likely supportive to North American pork. If the bans remain in place for a significant period, it will be necessary for Russia to identify other sources of red meat, with Europe, the United States, and Canada being the most likely suppliers.

Year-Over-Year Export Increases Expected in 2005 and 2006

For 2005, U.S. exports are expected to total almost 2.7 billion pounds, or 23 percent more than in 2004. Next year, the rate of export growth is expected to moderate somewhat, as the United States will likely face a foreign demand structure that is mostly similar to the one reflected in international markets in late 2005. Re-opening of Asian markets to North American beef could pressure exports lower.

In 2006, exports are expected to total about 2.8 billion pounds, an increase of 3.8 percent, and implying that more than 13 percent of U.S. commercial pork production will be consumed abroad, compared with 1996 when 6 percent of U.S. pork production was exported.

Lower Hog/Pig Imports Are Likely Supporting U.S. Hog Prices Also

Lower year-over-year imports of live swine from Canada are another likely factor supporting U.S. hog prices. U.S. import data show that 2005 imports through October were almost 5 percent lower than a year ago. The data further show that feeder pig imports are proportionally lower than last year; that is, in the first 10 months of 2004, feeder pigs comprised 67 percent of total swine imports. This year, feeder pigs account for 66 percent of imports and slaughter hogs for 33 percent. Sows (for slaughter) and breeding animals make up the balance.

Data collected weekly by the USDA/Animal and Plant Health Inspection Service (APHIS) in *Canada Live Hog Imports into the United States by State of Entry* (http://www.ams.usda.gov/mnreports/WA_LS635.TXT) may help to identify changes in import composition by likely Canadian province of origin. The data through November show that, consistent with previous years, most Canadian hogs

and pigs enter the United States via Michigan and North Dakota. Michigan is the State closest to the major swine producing province of Ontario, and North Dakota is adjacent to Manitoba. Data contained in *Hog Statistics* issued by Statistics Canada (http://www.statcan.ca/ bsolc/english/ bsolc?catno=23-010-X&CHROPG=1) indicate that last year Ontario and Manitoba accounted for 37 percent and 59 percent of Canadian swine exports, respectively.

A summary of USDA/APHIS data for slaughter hogs and feeder pigs entering the United States through the States of Michigan and North Dakota are set out below. Assuming that most hogs and pigs entering through Michigan originate in Ontario, the data suggest that Ontario is the source of most of the reduction in U.S. imports this year. Numbers of Canadian slaughter hogs entering the United States through Michigan was more than 17-percent lower than last year. Feeder pig imports through Michigan were off by more than 35 percent. Canadian slaughter hogs entering through North Dakota increased more than 5 percent over the same period last year, while feeder pig imports via North Dakota fell slightly by more than 2 percent.

Supply and utilization tables for pigs, published in *Hog Statistics* suggest that smaller quarterly pig crops in Ontario and Manitoba in the first three-quarters of 2005 largely explain lower U.S. swine imports. The data indicate that January-September pig crops were 1-percent lower than a year ago in Ontario. Manitoba--the primary U.S. source for imported feeder pigs--produced 1.7 percent fewer pigs in the first 9 months of 2005. Fewer pigs have also impacted Canadian slaughter. January-September hog slaughter in Canada was marginally lower than a year ago, due primarily to decreased kills in Quebec. A 4-percent decline in Quebec slaughter is largely due to disease problems (ie, circo virus) and lingering effects of the expansion moratorium. Small slaughter increases in Ontario and Manitoba suggest that Canadian packers are bidding to keep hogs in Canada, and that the U.S. market for live Canadian hogs and pigs functions as a residual market for Canadian producers, particularly on the slaughter hog side.

Canadian live hog imports into the United States by State of Entry, January-November, 2004, 2005.

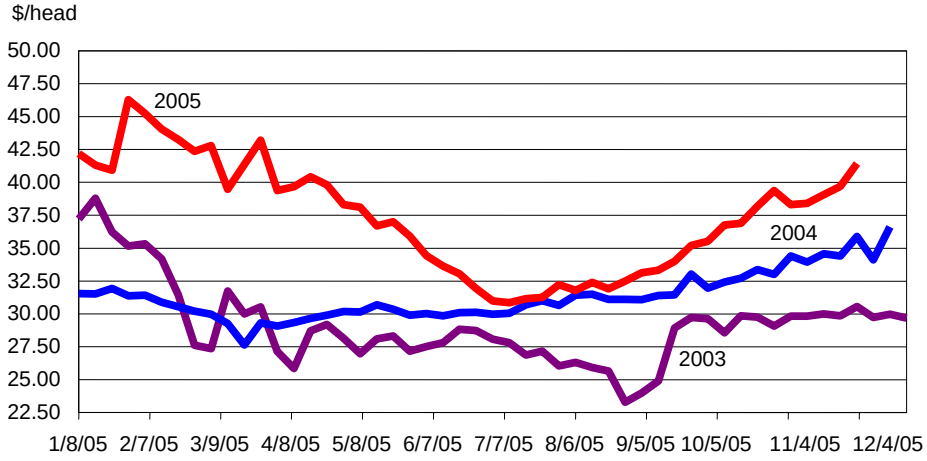
	2004 Head	2005 Head	Percent change (05/04) %
Michigan			
Slaughter hogs	731,671	605,202	-17.3
Feeder pigs	1,520,148	984,976	-35.21
North Dakota			
Slaughter hogs	972,924	1,023,306	5.2
Feeder pigs	3,667,665	3,591,126	-2.1

Source: AMS/USDA.

Canada: Percent change in 2005 components of quarterly supply and demand balances for major producing provinces, compared with 2004

		Ontario (%)	Manitoba (%)	Canada (%)
	Jan.-March			
1	Inventory Jan. 1	-1.6	0.6	0.4
2	Pig Crop	-3.5	2.4	0.2
3	Interprovincial imports	0.0	-24.8	43.5
4	International imports	-50.0	200.0	-22.2
5	Total supply (1+2+3+4)	-2.3	1.3	0.4
6	Slaughter	5.8	5.4	1.9
7	Interprovincial exports	17.3	0.0	43.5
8	International exports	-32.6	-4.7	-14.2
9	Deaths and condemnations	22.4	0.1	12.2
10	Output (6+7+8+9)	-7.8	-0.2	-1.5
	April-June			
1	Inventory April 1	1.1	2.5	1.5
2	Pig Crop	0.1	-3.2	-1.1
3	Interprovincial imports	0.0	0.0	30.3
4	International imports	-100.0	-60.0	-50.0
5	Total supply (1+2+3+4)	0.7	0.1	0.7
6	Slaughter	-0.1	5.6	-0.5
7	Interprovincial exports	0.0	0.0	30.3
8	International exports	-6.1	-8.2	-4.0
9	Deaths and condemnations	52.2	-1.8	26.5
10	Output (6+7+8+9)	0.3	-2.3	0.1
	July-September			
1	Inventory July 1	0.9	1.7	0.9
2	Pig Crop	0.5	-4.5	-0.3
3	Interprovincial imports	0.0	0.0	18.1
4	International imports	-77.8	0.0	-50.0
5	Total supply (1+2+3+4)	0.8	-0.9	0.6
6	Slaughter	-3.8	0.1	-2.6
7	Interprovincial exports	0.0	0.0	18.1
8	International exports	-7.6	-7.8	-4.0
9	Deaths and condemnations	61.3	-4.3	25.2
10	Output (6+7+8+9)	-2.0	-4.4	-1.4
	January-September			
	Total Change: Pig Crop	-1.0	-1.7	-0.4
	Total Change: Slaughter	0.6	3.7	-0.4
	Total Change: International Exports	-16.0	-6.9	-7.5

Early weaned feeder pigs, 10-pounds basis, estimated 50-54 percent lean value



Source: *National Direct Delivered Feeder Pig Report*, MN_LS255, AMS, USDA.

More Feeder Pigs Are of U.S. Origin This Year

Smaller Canadian pig crops, higher U.S. feeder pig prices, strong North American packer demand for hogs, and relatively low-cost U.S. feed, have shifted the origins of feeder pigs reported in the *National Direct Delivered Feeder Pig Report* (http://www.ams.usda.gov/ mnreports/NW_LS255.txt). In 2004, Iowa, Oklahoma, Minnesota, Ontario, and Manitoba were the origins of a significant proportion of feeder pigs reported each week. This year, the proportions of feeder pigs originating in from Canada are lower, while North Carolina, Kansas, and Indiana appear filling the gap created by lower Canadian imports.

The Canadian International Trade Tribunal recently determined that Canadian corn producers are being harmed by imported non-processed U.S. corn. Interim duties could be imposed on imported U.S. corn by the Canadian Border Service as early as mid-December. Interim duties on imported U.S. corn would increase the costs of producing slaughter-weight hogs in Canada, thus reducing Canadian hog producers' incentives to do so.

The United States is expected to import 2.1 million head of swine in the fourth quarter 2005, and about 8.1 million head for the year. Last year, imports were 8.5 million head.

USDA will release the *Quarterly Hogs and Pigs* report on December 28. *http://usda.mannlib.cornell.edu/reports/nassr/livestock/php-bb/*

More Challenges for the Brazilian Meat Industry

The October 2005 outbreak of foot-and-mouth disease (FMD) in Brazil's major beef producing state of Mato Grosso do Sul (MGS) raised concerns for the Brazilian meat industry because of the domestic implications and detrimental impacts on meat exports. The situation deteriorated with confirmation of FMD in Paraná in early December, and the ban on meat and livestock exports from Brazil by important importing countries widening to more states.

Mato Grosso do Sul is both the largest cattle producing state, with over 19.8 million head (12 percent of the cattle herd) and cattle slaughtering state (5.5 million head or 16 percent of the total) in Brazil in 2004. The 2004 slaughter represented an increase of nearly 40 percent since 1995, indicative of the significant growth of the MGS cattle sector in the past 10 years. A CNA (Confederação da Agricultura e Pecuária do Brasil) survey reports a total of 37 beef slaughter/processing plants in MGS, including eight plants federally inspected and export certified in the state. MGS was the second largest exporting state of fresh/frozen and processed beef (nearly 72,000 tons) in 2004 and the third largest for fresh and frozen beef only (over 50,000 tons, or 6 percent of 2004 fresh/frozen beef exports), behind the states of São Paulo and Goias. The swine industry in MGS is less significant, with less that 1 million swine head or 2.6 percent of the country's swine inventory but it does account for nearly 6 percent of Brazil's pork exports (28,000 tons in 2004) (tables 1 and 2).

Following the announcement of FMD in MGS, 55 countries instituted bans on meat imports from MGS and some countries also extended the ban to the neighboring states of Paraná and São Paulo. The most significant markets closed to Brazilian exports were the European Union-25 (EU-25) which halted all beef imports from MGS, Paraná, and São Paulo; and Russia which halted all beef, pork, poultry and dairy products imports from only MGS.

The EU-25 accounted for 40 percent of Brazilian fresh/chilled/frozen and prepared beef exports (US$953 million) in 2004, and 5 percent (US$38 million) of the country's pork exports in 2004. Russia accounted for nearly 10 percent (US$239 million) of Brazil's beef exports and nearly 60 percent of the pork exports (US$442 million) during the same period.

Exports of fresh/frozen red meat from Brazil in November 2005 totaled 109,000 tons, significantly below the 133,000 tons exported in October and 16.4 percent below the level in November 2004, a direct result of the trade restrictions imposed due to the foot-and-mouth disease outbreak. Revenue fell from nearly US$271 million in October 2005 to less than US$245 million a month later (Secretaria de Comércio Exterior, SECEX data).

FMD in Paraná Confirmed

Two months after the initial FMD discovery in MGS, the Brazilian Ministry of Agriculture, Livestock, and Food Supply (MAPA) confirmed FMD in the state of Paraná in early December. A state of significant importance in the pork sector, Paraná had in 2004 nearly 4.6 million head of swine (over 13 percent of the

country's swine herd) and was Brazil's third-largest pork-exporting state in that year: 64,000 tons, equivalent to 14 percent of Brazil's pork exports (Table 2). The beef industry in Paraná (cattle and cow-calf operations) is less significant in terms of the cattle population (8.6 million head or 5 percent of the country's cattle herd). However, Paraná is a large buyer of cattle for processing by the state's meat industries. The CNA industry survey reports Paraná as having 37 beef slaughter/processing plants providing for the domestic sector, and five plants federally inspected and being certified for the export market. In 2004, Paraná accounted for 7 percent (3.2 million head) of cattle slaughter in the country, In terms of exports, Paraná accounted for 5.2 percent of fresh/frozen beef exports (41,000 tons) in 2004 (table 1).

More importantly, the proximity of Paraná to the neighboring states of Santa Catarina and Rio Grande do Sul increases the risk that FMD may spread to those states. The confirmation of FMD in four municipalities of Paraná prompted Russia, the single most important buyer of meat from Brazil to ban imports of live animals, beef and pork from the states of Mato Grosso do Sul, Mato Grosso, Goias, Sao Paulo, Minas Gerais, Paraná, Rio Grande do Sul and Santa Catarina, Pará, and Amazonas (see map). Russia is also banning imports of poultry, milk, dairy products, animal feeds, and equipment used for slaughtering and processing animals from the states of Mato Grosso do Sul and Paraná. The bans became effective December 13, 2005.

Russia is the second-largest importer of Brazilian beef (10 percent of Brazil's beef exports) and the largest importer of Brazilian pork products (60 percent of Brazil's pork exports). The Brazilian meat exports to Russia in 2004 were valued at US$868 million. To better understand the implications of the confirmation of FMD in Paraná and MGS, it is important to focus on the structure of the red meat industry in the Brazilian states currently banned from exporting beef and pork to Russia.

FMD in Paraná Has Implications for State Close By

Of the 10 states covered by Russia's bans in addition to MGS, two other states are very significant for the beef industry in terms of their export market share: São Paulo and Goias. São Paulo is by far the most important beef exporting state: it provided over 68 percent of fresh/frozen beef exports (equivalent to 635,000 tons) in 2004. Although the 2004 cattle inventory in São Paulo is only 6 percent of the country's cattle herd (10 million head), the large number of federally inspected slaughter and processing plants (53 plants certified for the domestic market and 16 certified for the export market) further exhibits the importance of the state to Brazil's meat exports. The state of Goias was the second-largest exporter of fresh/frozen beef (9 percent of fresh/frozen beef exports or 84,000 tons) in 2004 and had 16 million head of cattle (10 percent of the country's cattle herd) in that year (table 1).

In addition to Paraná, two other states play significant roles in Brazil's pork sector: Santa Catarina and Rio Grande do Sul. Santa Catarina is Brazil's largest pork producing and exporting state. In 2004, Santa Catarina had 5.7 million head of swine (17 percent of Brazil's swine herd), and accounted for 44 percent of Brazilian pork exports (230,000 tons in 2004). Rio Grande do Sul (RGS) is Brazil's second-largest pork exporting state, accounting for 26 percent of pork exports or 127,000

tons in 2004. RGS is also Brazil's third-largest swine producing state with 4.6 million head of swine or 13 percent of Brazil's swine herd in 2004 (Table 2).

Brazil's Efforts To Control and Eradicate FMD

Official controls to limit the spread of FMD in the country include notification to the World Organization for Animal Health (OIE), banning the sale of meat and by-products in MGS, and establishing sanitary checkpoints throughout a 25-kilometer (16 mile) buffer zone around the site of the initial outbreak (to date, 42 municipalities have been confirmed with FMD in MGS).

In Paraná, in addition to the four municipalities with confirmed outbreaks, quarantine measures are being applied in 10-kilometer (approximately 6 miles) radius around eight municipalities, and the sales of meat and by-products from the state are banned. In Santa Catarina - the only state in Brazil recognized by the MAPA (but not the OIE) as free of FMD without vaccination, state agricultural authorities are banning the movement of animals across state lines. In response to the outbreak, all animals in Rio Grande do Sul will be re-vaccinated (beginning in January 2006). Prior to this year's outbreak, Mato Grosso do Sul had two previous FMD outbreaks, in 1998 and in 1999, whereas Paraná had been recognized as free of FMD with vaccination since 1993.

The Brazilian meat industry is reportedly reallocating export supplies from other regions not affected by the bans to maintain the pace of foreign sales. In addition, cooked meat products from the FMD-infected states are being re-directed to the domestic market. For example, the beef exporting companies in MGS have slaughter plants in other states, allowing them to compensate for lost capacity in MGS. Brazil has 274 federally inspected slaughter plants located throughout the country, with 69 plants certified for the export market (table 3). CNA reports current nationwide capacity utilization is only at 64 percent.

The Brazilian Ministry of Agriculture estimates losses of about US$300 million per month due to the meat export bans. The pork exporters'association revised its estimate of meat export sales in 2005 to US$1.1 billion, 15 percent below estimates prior to the outbreak. The beef exporters' association estimates that exports in 2005 will be between 25 to 30 percent lower than expected. The resurgence of FMD in Brazil has also halted ongoing discussions with Mexico on becoming a new export destination for Brazilian pork.

The cost to the Brazilian Government of the FMD outbreak continues to rise and will likely exceed by several times the original 2005 budget of R$178 million (US$82 million) for animal health programs. The original budget for FMD eradication and control of R$35 million (US$16 million) was augmented by RS$27 million (US$12 million) in additional resources following the outbreak. MAPA reported that only 12 percent of budget for animal health programs had been spent during the first 11 months of the year. To date the state government in MGS has spent R$4.9 million (US$2.3 million) to compensate 33 farmers in MGS for destroying diseased animals.

Constanza Valdes, *cvaldes@ers.usda.gov* USDA/ERS/MTED.

Table 1. Structure of the Beef Industry of the Brazilian States Currently Banned from Exporting to Russia

		Inventory Million Head	% of Total Brazil Cattle Inventory	% of 2004 Beef Exports	Number of Beef Slaughter/Processing Plants	
					Domestic	Export Certified
1	Mato Grosso do Sul	19.8	12.0%	6.0%	29	8
2	Mato Grosso	19.7	11.9%	4.5%	16	7
3	Goias	15.7	9.5%	8.8%	25	5
4	Sao Paulo	10.0	6.1%	68.2%	53	16
5	Minas Gerais	18.5	11.2%	2.3%	29	8
6	Parana	8.6	5.2%	5.2%	37	5
7	Rio Grande do Sul	12.1	7.3%	3.3%	34	14
8	Santa Catarina	2.9	1.8%	0.3%	8	1
9	Para	9.6	5.8%	0.0%	4	1
10	Amazonas	1.2	0.7%	0.0%	1	0

Source: Instituto FNP; Brazilian Ministry of Development, Industry and Trade -SECEX data, Estudo sobre a Eficiência Econômica e Competitividade da Cadeia Agroindustrial da Pecuária de Corte no Brasil, IEL, CNAE SEBRAE, 2000, and ERS calculations.

Table 2. Structure of the Pork Industry of the Brazilian States Currently Banned from Exporting to Russia

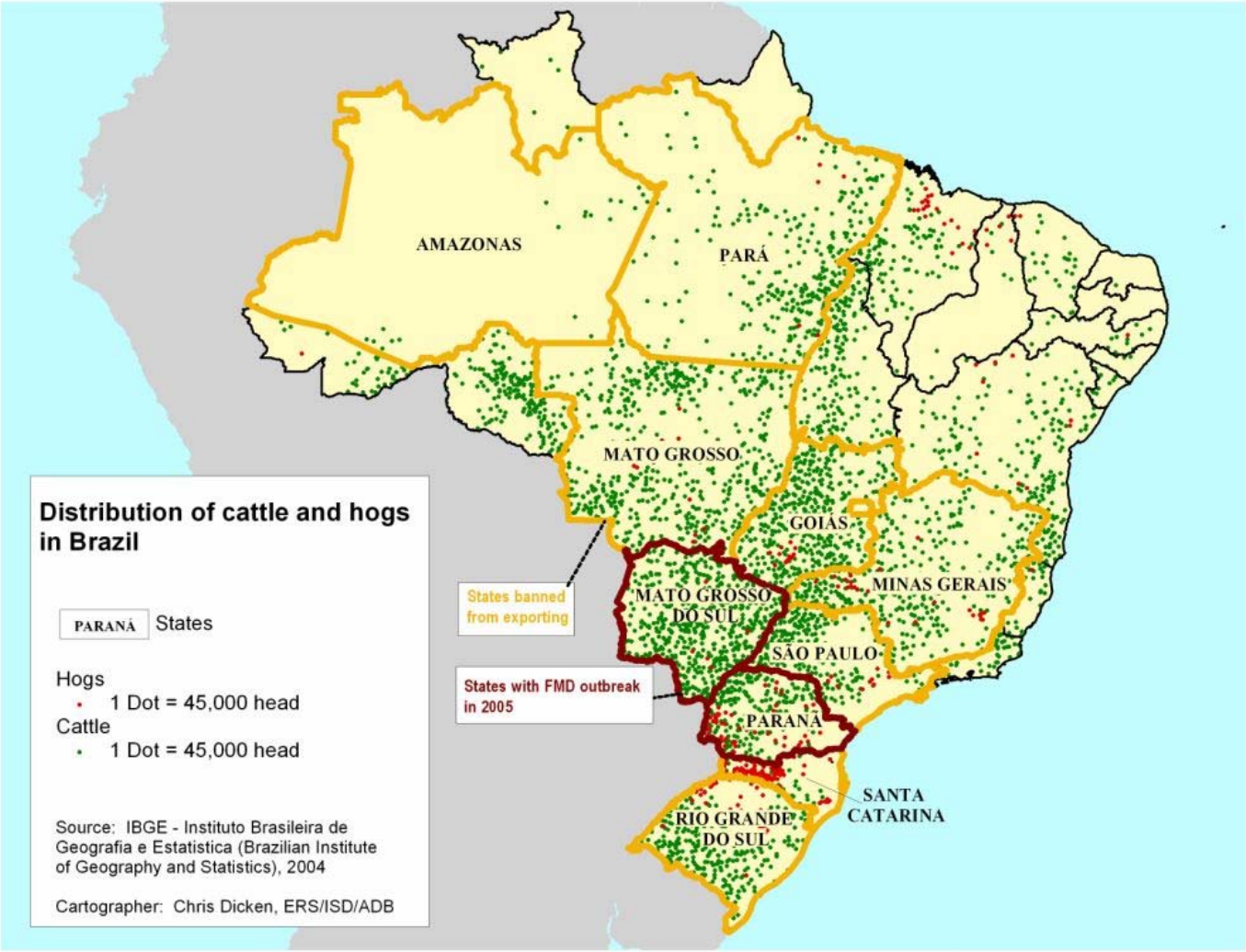
		2004 Swine Inventory Million Head	% of Total Brazil Swine Inventory	% of 2004 Pork Exports
1	Mato Grosso do Sul	0.9	2.6%	5.5%
2	Mato Grosso	1.2	3.5%	0.4%
3	Goias	1.6	4.6%	3.9%
4	Sao Paulo	1.7	4.9%	0.6%
5	Minas Gerais	3.4	9.9%	6.4%
6	Parana	4.6	13.3%	13.5%
7	Rio Grande do Sul	4.3	12.5%	26.0%
8	Santa Catarina	5.7	16.5%	43.6%
9	Para	1.1	3.2%	0.0%
10	Amazonas	0.3	0.9%	0.0%

Source: Instituto FNP; Brazilian Ministry of Development, Industry and Trade -SECEX data, and ERS calculations.

Table 3. Distribution of Federally Inspected Slaughterhouses in Brazil, by Size of Operation

State	Number of Slaughterhouses by Size							
	Annual Slaughter >100,000		Annual Slaughter 49,000-100,000		Annual Slaughter 9,999-50,000		Annual Slaughter 1-10,000	
	Domestic	**Export**	**Domestic**	**Export**	**Domestic**	**Export**	**Domestic**	**Export**
Minas Gerais	2		7	4	15	2	5	
Espírito Santo			1	1	4			
Rio de Janeiro					5			
São Paulo	13	8	11	5	17	2	12	1
Southeast	15	10	19	10	41	4	17	1
Goiás	4	2	4	1	13	2	4	
D. Federal					2			
Mato Grosso	2	2	7	2	7	3		
M. Grosso. do Sul	8	4	12	2	9	2		
Center-West	14	8	23	5	31	7	4	
Maranhão			1	1	4			
Piauí					1			
Ceará								
R. G. Do Norte								
Paraíba					1			
Pernambuco			1		3			
Alagoas					1			
Sergipe								
Bahia			1		5	1		
Northeast	0	0	3	1	15	1		
Tocantins	2	1			2			
Rondônia					2			
Acre					1			
Amazonas					1			
Roraima					1			
Pará	1	1	2				1	
Amapá								
North	3	2	2		7		1	
Paraná	2	1	7		20	3	8	1
Sta. Catarina					3	1	5	
R. G. Do Sul	3	3	4	3	13	7	14	1
South	5	4	11	3	36	11	27	2
Total Brasil	**37**	**24**	**58**	**19**	**130**	**23**	**49**	**3**

Note: Red denotes states from which exports have been banned by at least one major importing country.
Source: CNA, Estudio sobre a Eficiencia Economica e Competitividade, 2001.


Distribution of cattle and hogs in Brazil
PARANÁ States
Hogs
1 Dot = 45,000 head
Cattle
1 Dot = 45,000 head
Source: IBGE - Instituto Brasileira de Geografia e Estatistica (Brazilian Institute of Geography and Statistics), 2004
Cartographer: Chris Dicken, ERS/ISD/ADB
States banned from exporting
States with FMD outbreak in 2005
AMAZONAS
PARÁ
MATO GROSSO
GOIÁS
MINAS GERAIS
MATO GROSSO DO SUL
SÃO PAULO
PARANÁ
SANTA CATARINA
RIO GRANDE DO SUL

Poultry

Broiler Meat Production Up 5 Percent in October

Broiler meat production totaled 3.04 billion pounds in October, up 4.7 percent from October 2004. Over the first ten months of 2005 broiler production has totaled 29.5 billion pounds, 3.7 percent higher than the previous year. The increased meat production in October was the result of both an increase in the number of birds slaughtered, up 1.9 percent, and an increase in the average live weight of birds at slaughter, up 2 percent to 5.5 pounds. So far in 2005, the average weight at slaughter for broilers has been 5.35 pounds, which is 1.7 percent higher than in the same period in 2004. The growth in live weight at slaughter combined with gains in the number of chicks being placed for growout, points towards continued increases in broiler meat production through December and into 2006. Over the last five weeks (October 29 to November 26, 2005), the number of chicks being placed for growout has averaged 167 million per week, an increase of 2 percent over the same period the previous year.

Cold storage holding of broiler products at the end of the third quarter was revised upward to 753 million pounds. This is a 9.6 percent from the end of the second quarter, but still 21 million pounds less that at the end of the third quarter 2004. Stocks of most broiler products have risen over the last quarter, but stocks of breast meat and leg quarters have accounted for most of the increase. Stocks continued to grow in October with breast meat totaling 145 million pounds, up 7 percent from the previous year. Stocks of leg quarters had reached as low as 54 million pounds earlier in the year, but by the end of October had grown to 113 million pounds, however this is still 3 percent lower than at the same time in 2004.

Larger production and growing stocks have put downward pressure on most broiler prices. The two most dramatic declines have been for boneless/skinless breast meat and leg quarters. Boneless/skinless breast meat prices in the Northeast market averaged $1.03 per pound in November, down 18 percent from last year and down from a high of $1.53 per pound in February. Leg quarter prices in the Northeast market averaged 29 cents per pound in November, only 2 percent lower that last year, but through most of 2005 leg quarter prices had been very strong, averaging over 40 cents per pound from June to October. Prices for leg quarters have fallen chiefly due to uncertainties in export markets. The price of whole broilers was also lower in November at 67 cents a pound, down 2 percent from the previous year and 2 cents lower than the October price.

In the weekly AMS Broiler Market News Report, there is a breakout of the total number of broilers being slaughtered into three different size classes. Since the end of September the number of broilers with a live weight of over 5.25 pounds (the heaviest size class) has averaged a double digit growth rate compared with the same period in the previous year. This growth in the percentage of all broilers being slaughtered that fall into the biggest size class has driven up the average live weight at slaughter and since most broilers of this size are cut up for parts, it has placed more parts meat on the market placing downward pressure on prices.

October Turkey Meat Production Up 4 Percent

Turkey meat production in October was reported at 483 million pounds, up 3.6 percent. A 3.6-percent increase in the number of birds being slaughter accounted for the increase as the average live weight of birds at slaughter was 26.9 pounds, down slightly from last year. Even with the increase in October, turkey meat production so far in 2005 is up less than 1 percent from the same period in 2004. Although a higher number of birds were slaughtered in October, this is the opposite of what was happening in the turkey industry at the beginning of 2005. In the first quarter of 2005, the number of birds being slaughtered was down 6 percent from the previous year, but total meat production was up 1 percent because the average live weight of turkeys at slaughter was 29.3 pounds, 6.5 percent higher that the previous year. For most of 2005 the average live weight of turkeys at slaughter has gradually been declining. As supplies have tighten in 2005, turkeys are being slaughtered at slightly lighter weights to keep supplies moving to consumers.

With little overall growth in turkey meat production and a strong export market, stocks of turkey products have gradually fallen and prices for almost all turkey products have increased. Cold storage levels for turkey products at the end of the third quarter were revised downward to 478 million pounds, down 9.4 percent from the same period in 2004. The decline was due to a mixture of lower stocks of whole turkeys and turkey products.

Prices for turkeys and most turkey products were moving in the opposite direction from broiler products. Prices for whole hens in the Eastern market averaged 87.8 cents per pound in November, up 9.5 percent from the previous year. Throughout 2005, prices for whole birds have been at or above the previous year. Prices for turkey parts have also been strong, with prices for breast meat averaging $1.18 per pound in October, up 21 percent from a year earlier. Prices for drumsticks and fresh mechanically separated meat were also higher, 7 and 16 percent above the previous year.

Over the first 10 months of 2005, the number of turkey poults being hatched for growout has averaged 23 million per month, down slightly from the same period in 2004. This indicates that turkey meat supplies are expected to remain tight through the remainder of 2005 and through at least the first quarter of 2006.

Poultry Trade

Broiler Exports Down From Previous Year but Recover From September

Broiler exports at 520 million pounds for October are down 9 percent from October of last year. Lower shipments to Commonwealth of Independent States countries (-38 percent), Eastern Europe (-38 percent), the Baltic States (-61 percent), and the Caribbean (-41 percent), accounted for most of the decline. Lower exports to these and other smaller markets may have been due to high leg quarter prices. Leg quarter prices were as high as $0.46 per pound in October before declining in November to $0.29 per pound (Northeast Market Prices). Lower export demand may also reflect importer concerns about consumers' reactions to recent Avian Influenza discoveries in Asia and Europe.

Exports in October were almost balanced by very large exports to Russia. Shipments to Russia totaled 216 million pounds, the largest monthly export of U.S. broiler meat in 3 years. Shipments to Russia increased by 193 percent from September's 74 million pounds, likely due to recovery of exports following Gulf Port disruptions.

October Turkey Exports Continue Strong

Total U.S. turkey exports in the first 10 months of 2005 were 470 million pounds, 33 percent higher than the same period last year. Exports this year are clearly being driven by Mexican demand for imported turkey meat. So far this year, Mexico has accounted for about 63 percent of U.S. turkey exports. A favorable exchange rate--the peso has appreciated more than 6 percent against the U.S. dollar in the last 12 months--continued strong macro economic growth in Mexico supported by oil prices, in addition to population increases are likely contributing factors to strong demand for U.S. turkey products.

In addition to the factors mentioned above, Mexico's consumption growth of U.S. turkey may have come at the expense of higher U.S. pork prices and slower increases in pork imports from the United.States. The average monthly shipment of pork to Mexico in 2005 was 42,831 million pounds, 4 percent (44,651) less than 2004 shipments. A similar story could be told for beef and veal given the tight U.S. supplies and high prices of both commodities.

Eggs

U.S. Egg Prices Rebound in the Third Quarter

Wholesale table egg prices (NY grade A large) in the third quarter of 2005 averaged 66.6 cents a dozen, 19 percent higher than the 55.9 cents a dozen reported in the second quarter. For all of 2005, wholesale table egg prices (NY grade A large) are expected to average 64.6 cents per dozen, substantially less than last year's close of 82.2 cents per dozen. For 2006, wholesale egg prices are expected to average between 63 and 68 cents per dozen.

Retail egg prices averaged $1.20 cents per dozen in the third quarter, 3.4 percent higher than the second quarter. But for all of 2005, retail egg prices are expected to average in the low $1.20s per dozen, a price much lower than the 2004 record high of $1.34 per dozen. Retail egg prices in 2006 are forecast to be about unchanged from 2005.

During the third quarter of 2005, the total number of U.S. table egg layers declined by a total of 1.2 million birds, compared with the second quarter. However, the monthly average eggs produced per 100 layers rose from 2,231 to 2,267 over the same period. Consequently, U.S. table egg production increased from 1,580 million dozen in the second quarter to 1,603 million dozen in the third quarter.

Total U.S. egg production in 2005, table and hatching, is expected to rise to 7.5 billion dozen, less than 1 percent over 2004. Table eggs are expected to account for about 85 percent of total production in 2005, and likely will stay at this same percentage in 2006. Hatching egg production in 2005 is expected to rise by a little over 1 percent, reflecting higher egg and broiler production.

U.S. Eggs and Egg Products Strongly Up

During the first 10 months of 2005, U.S. eggs and egg product exports (in-shell egg equivalent), rose substantially from 133 to 173 million dozen, 30 percent higher than the same 10-month period in 2004. Exports of processed egg products were the front runner, showing a substantial increase of 67 percent in volume terms, followed by table eggs at 22 percent higher than the same period a year ago.

U.S. table egg export shares reversed direction during the first 10-months of 2005. U.S. export share to East Asia (Japan, China, and Hong Kong) more than doubled from 24.5 to over 50 percent, while the share to Mexico and Canada declined from 67 to 41 percent. Hong Kong and China were the largest export markets for U.S. table eggs, receiving 19.5 million dozen, compared with only 10.7 million dozen during the same period last year.

For all of 2005, total U.S. exports of eggs and egg products are expected to reach 200 million dozen, up 19 percent from last year. This increase in U.S. exports of egg and egg products is mainly due to the lifting of all restrictions imposed by many countries following outbreaks of low pathogenic Avian Influenza in early 2004. For 2006, U.S. exports are estimated to be unchanged at about 200 million dozen.

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Recent Report

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

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

Related Websites

Animal Production and Marketing Issues, http://www.ers.usda.gov/briefing/AnimalProducts/
Cattle, http://www.ers.usda.gov/briefing/cattle/
Dairy, http://www.ers.usda.gov/briefing/dairy/
Hogs, http://www.ers.usda.gov/briefing/hogs/
Poultry and Eggs, http://www.ers.usda.gov/briefing/poultry/
WASDE, http://www.usda.gov/oce/waob/wasde/wasde.htm

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Red meat and poultry forecasts

	2003	2004				2005					2006				
	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Production, million lb															
Beef	26,238	5,838	6,253	6,360	6,097	24,548	5,727	6,192	6,566	6,180	24,665	6,050	6,700	6,800	25,850
Pork	19,945	5,130	4,897	5,047	5,435	20,509	5,136	5,022	4,999	5,550	20,707	5,200	5,075	5,225	21,125
Lamb and mutton	199	53	46	46	50	195	49	46	45	49	189	51	53	49	205
Broilers	32,749	8,195	8,492	8,839	8,537	34,063	8,571	8,941	8,931	8,750	35,193	8,825	9,125	9,300	36,325
Turkeys	5,650	1,309	1,366	1,390	1,389	5,454	1,320	1,393	1,375	1,410	5,498	1,325	1,395	1,410	5,555
Total red meat & poultry	85,476	20,687	21,220	21,858	21,676	85,441	20,964	21,770	22,086	22,102	86,922	21,618	22,520	22,961	89,756
Table eggs, mil. doz.	6,225	1,556	1,574	1,598	1,637	6,365	1,585	1,580	1,603	1,640	6,408	1,600	1,625	1,640	6,540
Per capita consumption, retail lb 1/															
Beef	64.9	16.0	16.9	16.9	16.3	66.1	15.6	16.8	17.1	16.0	65.4	16.1	17.4	17.6	67.4
Pork	51.8	13.0	12.2	12.7	13.4	51.3	12.3	12.1	12.3	13.1	49.8	12.2	12.1	12.6	50.0
Lamb and mutton	1.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	1.1
Broilers	81.6	20.8	21.2	21.9	20.4	84.3	21.3	21.7	21.6	20.8	85.4	21.5	21.9	22.4	87.2
Turkeys	17.4	3.6	4.0	4.5	5.0	17.1	3.6	3.8	4.2	4.9	16.5	3.4	3.7	3.9	16.1
Total red meat & poultry	218.9	54.1	54.8	56.6	55.9	221.4	53.5	55.2	55.5	55.5	219.9	54	55.8	57.2	223.6
Eggs, number	254.7	63.7	63.9	64.1	65.5	257.2	63.3	62.9	63.8	65.0	255.1	63.2	64.2	64.7	257.9
Market prices															
Choice steers, Neb., $/cwt	84.69	82.16	88.15	83.58	85.09	84.75	89.09	87.96	81.79	89-90	87.09	82-86	80-86	77-83	79-85
Feeder steers, Ok City, $/cwt	89.85	87.98	104.58	116.27	110.19	104.76	104.05	113.36	111.50	115.5-116.5	111.23	103-107	97-103	95-101	97-103
Boning utility cows, S. Falls, $/cwt	46.62	47.50	54.86	56.25	50.78	52.35	54.18	59.17	55.34	49-50	54.55	51-53	53-57	52-56	52-55
Choice slaughter lambs, San Angelo, $/cwt	91.98	100.62	97.06	93.62	95.44	96.69	106.10	98.60	92.90	93-94	97.78	95-99	92-98	90-96	92-98
Barrows & gilts, N. base, l.e. $/cwt	39.45	44.18	54.91	56.58	54.35	52.51	51.92	52.09	50.51	45-46	50.01	46-48	46-50	44-48	44-47
Broilers, 12 City, cents/lb	62.00	73.20	79.30	75.70	68.30	74.10	71.90	72.60	72.10	67-68	71.00	67-71	67-73	69-75	68-73
Turkeys, Eastern, cents/lb	62.10	62.10	66.60	73.10	77.10	69.70	65.90	67.70	76.50	80-81	72.70	63-67	65-71	71-77	69-74
Eggs, New York, cents/doz.	87.90	114.90	79.70	66.20	68.00	82.20	64.50	55.90	66.60	71-72	64.60	63-67	60-64	62-68	63-68
U.S. trade, million lb															
Beef & veal exports	2,518	36	120	138	167	461	130	189	150	175	644	150	180	190	680
Beef & veal imports	3,006	873	929	940	937	3,679	831	1,065	906	785	3,587	855	945	905	3,560
Lamb and mutton imports	168	62	47	34	38	181	41	52	39	47	179	44	47	40	175
Pork exports	1,717	523	546	486	624	2,179	630	699	629	725	2,683	670	705	655	2,785
Pork imports	1,185	275	265	291	268	1,099	245	245	257	255	1,002	240	235	245	960
Live swine imports	7,438	2,210	2,024	2,196	2,075	8,505	1,894	1,951	2,157	2,100	8,102	2,000	2,000	2,000	8,000
Broiler exports	4,920	1,024	1,008	1,250	1,486	4,768	1,199	1,347	1,315	1,475	5,336	1,285	1,380	1,415	5,595
Turkey exports	484	83	93	134	133	443	126	147	147	160	580	130	150	155	600

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

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

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Economic Indicator Forecasts

	2004			2005					2006			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
GDP, chain wtd (bil. 2000 dol.)	10,809	10,897	10,756	10,999	11,092	11,193	11,282	11,142	11,385	11,477	11,568	11,522
CPI-U, annual rate (pct.)	1.9	3.4	3.4	2.4	4.2	5.1	3.9	3.9	2.4	2.3	2.4	2.4
Unemployment (pct.)	5.4	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.0	4.9	4.9	4.9
Interest (pct.)												
3-month Treasury bill	1.5	2.0	1.4	2.5	2.9	3.4	3.9	3.2	4.3	4.5	4.6	4.5
10-year Treasury bond yield	4.3	4.2	4.3	4.3	4.2	4.2	4.6	4.3	4.9	5.2	5.2	5.1

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, November 2005.
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Dairy Forecasts

	2004			2005					2006			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Milk cows (thous.)	9,027	9,019	9,010	8,996	9,034	9,054	9,065	9,035	9,070	9,085	9110	9,100
Milk per cow (pounds)	4,679	4,655	18,958	4,807	5,054	4,859	4,835	19,555	4,970	5,145	4910	19,925
Milk production (bil. pounds)	42.2	42.0	170.8	43.2	45.7	44.0	43.8	176.7	45.1	46.7	44.7301	181.3
Farm use	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.275	1.1
Milk marketings	42.0	41.7	169.7	43.0	45.4	43.7	43.6	175.6	44.8	46.5	44.4551	180.2
Milkfat (bil. pounds milk equiv.)												
Milk marketings	42.0	41.7	169.7	43.0	45.4	43.7	43.6	175.6	44.8	46.5	44.4551	180.2
Beginning commercial stocks	11.6	9.9	8.3	7.2	9.4	11.2	9.6	7.2	7.4	10.0	11.5	7.4
Imports	1.0	1.3	5.3	1.3	1.1	1.1	1.3	4.8	1.2	1.2	1.2	4.9
Total supply	54.6	52.9	183.3	51.5	55.9	56.0	54.4	187.6	53.4	57.7	57.1551	192.6
Ending commercial stocks	9.9	7.2	7.2	9.4	11.2	9.6	7.4	7.4	10.0	11.5	9.8	7.5
Net removals	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.005	0.0
Commercial use	44.6	45.7	176.2	42.1	44.7	46.4	47.0	180.2	43.4	46.2	47.3501	185.0
Skim solids (bil. pounds milk equiv.)												
Milk marketings	42.0	41.7	169.7	43.0	45.4	43.7	43.6	175.6	44.8	46.5	44.4551	180.2
Beginning commercial stocks	10.1	9.5	8.5	8.2	8.4	9.6	8.9	8.2	8.1	8.5	9.85	8.1
Imports	1.1	1.3	4.8	1.2	1.0	1.2	1.4	4.8	1.0	1.3	1.125	4.8
Total supply	53.2	52.5	183.0	52.3	54.9	54.5	53.9	188.6	53.9	56.2	55.4301	193.2
Ending commercial stocks	9.5	8.2	8.2	8.4	9.6	8.9	8.1	8.1	8.5	9.9	9	8.3
Net removals	0.4	0.0	1.3	-0.4	-0.3	-0.2	0.0	-1.0	0.0	0.1	0.2301	0.7
Commercial use	43.3	44.3	173.5	44.3	45.6	45.8	45.8	181.5	45.5	46.2	46.2	184.2
Milk prices (dol./cwt) 1/												
All milk	15.50	16.07	16.05	15.67	14.83	14.90	15.05	15.10	14.20	12.90	12.65	13.35
							-15.25	-15.20	-14.70	-13.70	-13.65	-14.15
Class III	14.54	15.06	15.39	14.31	14.10	14.08	13.55	14.00	12.60	11.75	11.70	12.05
							-13.75	-14.10	-13.10	-12.55	-12.70	-12.85
Class IV	12.92	13.19	13.20	12.64	12.38	13.45	12.85	12.75	12.10	11.55	1.05	11.45
							-13.15	-12.95	-12.70	-12.45	-2.15	-12.35
Product prices (dol./pound) 2/												
Cheddar cheese	1.558	1.610	1.643	1.531	1.507	1.481	1.415	1.480	1.330	1.265	1.275	1.295
							-1.435	-1.490	-1.380	-1.345	-1.375	-1.375
Dry whey	0.234	0.235	0.232	0.248	0.263	0.287	0.305	0.275	0.285	0.255	0.235	0.255
							-0.325	-0.285	-0.315	-0.285	-0.265	-0.285
Butter	1.722	1.778	1.824	1.570	1.459	1.646	1.470	1.525	1.330	1.280	1.280	1.300
							-1.510	-1.555	-1.410	-1.390	-1.410	-1.410
Nonfat dry milk	0.858	0.862	0.841	0.899	0.923	0.957	0.970	0.930	0.950	0.905	0.855	0.890
							-0.990	-0.950	-0.990	-0.965	-0.925	-0.950

1/ Simple averages of monthly prices. May not match reported annual averages.
2/ Simple averages of monthly prices calculated by the Agricultural Marketing Service for use in class price formulas. 'Based on weekly "Dairy Product Prices", National Agricultural Statistics Service. Details may be found at http://www.ams.usda.gov/dyfmos/mib/fedordprc_dscrp.htm

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