

# Livestock Monitor

## A Newsletter for Extension Staff

### Livestock Marketing Information Center

State Extension Services in Cooperation with the USDA

Market Indicators . . .

December 19, 2008

Production			Prices			
Week Ending 12/20/2008	Last	Year Ago	Weekly Weighted Avg.	Last	Week Ago	Year Ago
FI Cattle Slaughter (Thou Hd)	592	661	Live Steer	82.71	84.03	90.94
FI Hog Slaughter (Thou Hd)	2379	2477	Dressed Steer	132.05	132.12	143.87
FI Sheep Slaughter (Thou Hd)	47	57	Beef Cutout (Choice 600-900)	143.08	143.13	149.29
Live Y. Chicken Sl. (Mil Hd)	158.1	168.5	USDA Hide/Offal (\$/Cwt)	5.99	6.06	9.82
			GA Auction Fdr. Str. (6-7 Cwt.)	74.48	73.34	93.29
Slaughter Cattle Live Weight	1306	1299	Iowa/S. Minn. Base Hog (Wtd. Avg)	51.66	54.16	51.61
Slaughter Hog Live Weight	272	271	Natl. Net Hog Carcass (Wtd. Avg)	58.84	59.17	57.04
Slaughter Lamb/Sheep Live Wt.	137	134	Feeder Pigs (40-50 Lbs)	56.19	54.78	40.42
Beef Production (Mil Pounds)	463.8	510.4	Pork Cutout	57.67	60.45	58.38
Pork Production (Mil Pounds)	483.1	501.3	Lamb Cutout (\$/Cwt)	233.46	234.16	232.77
Lamb, Mutton Prod. (Mil Lbs.)	3.2	3.8	Corn, Omaha (\$/Bu)	3.68	3.63	4.27
Previous 6 Wk. Moving Avg.			Wheat, Portland (\$/Bu)	5.42	4.93	12.97
Total Beef (Mil Lbs)	475.3	507.3	Wheat, Kansas City (\$/Bu)	5.38	4.88	9.39
Total Pork (Mil Lbs)	467.3	475.5	Soybeans, S. Iowa (\$/Bu)	8.23	8.12	11.33
Total Lamb, Mutton (Mil Lbs)	3.2	3.6				

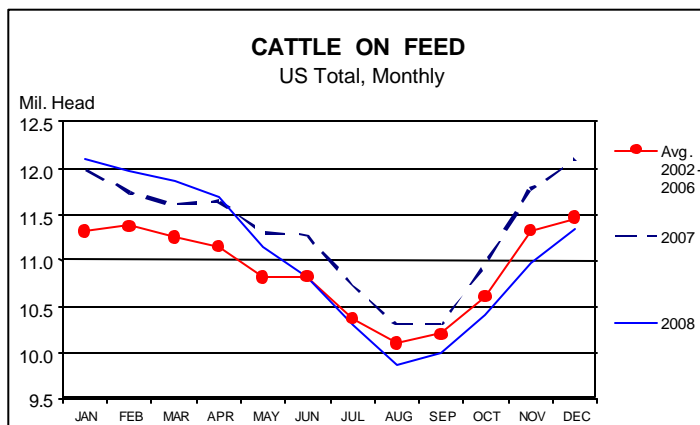
*Source: Various USDA-AMS reports. Some data are preliminary.*

### Trends . . . CATTLE ON FEED NUMBERS DOWN FROM '07

On Friday (December 19<sup>th</sup>), USDA-NASS released the December 1 Cattle on Feed report which was similar to pre-report expectations and followed the trends of recent months. As of December 1, 2008, the number of cattle on-feed totaled 11.3 million head; that was 6 percent below a year ago and 5 percent below 2006's. Of note, the December 1 cattle on-feed number was the smallest reported since 2004.

USDA reported fewer cattle were placed into feedlots during November compared to a year ago (down 5 percent compared to 2007). The U.S. industry continues to transition to placing more heavyweight and fewer lightweight cattle into feedlots due to high feedstuff costs. The number of cattle placed weighing over 700 pounds was above a year ago, while placements of cattle weighting under 700 pounds were down about 11 percent compared to 2007.

In November, feedlot marketings were reported at 9 percent below a year ago. However, daily marketings were essentially unchanged from a year earlier due to two fewer slaughter days in November 2008 versus 2007. All indications suggest that the feedlots continued to sell market ready animals in a timely way during November.



Overall the USDA report indicated that supplies of slaughter ready steers and heifers will remain rather tight well into 2009. Of course, fed cattle prices are currently depressed due to factors other than supply, specifically demand for beef (domestic and overseas) and plunging byproduct values (hides, etc.), which have pressured prices. Fed cattle prices are forecast to struggle higher as the first quarter of 2009 progresses and then should continue to move mostly higher at

least well into the second quarter. Fed cattle prices in the summer quarter of 2009 may be under pressure with seasonally large supplies and still rather weak demand. Look for calf and yearling price increases to lag fed cattle prices some at least into the summer of 2009.

### LIVE TO CUTOUT BEEF SPREAD

The live to cutout spread is the difference between the purchase price of a slaughter animal and the wholesale value (cutout value) plus the byproduct value (total sum of all non-meat items). Although this price spread provides an estimate for packer gross margins it does not represent packer profitability since it does not take into account direct and indirect costs (i.e. labor) incurred by packers. Overall, 2008 had higher beef packer gross margins compared to 2007's. However, recent declines in wholesale beef and byproduct values began pressuring packer margins in late 2008.

Due to the seasonality of demand and supply for cattle and beef, the live to cutout spread is quite seasonal as it widens during the first half of the year, peaks in the spring and then narrows for the remainder of the year. This year was not much different although the peak occurred later in the summer as macroeconomic conditions have played a greater role in the demand and supply picture than prior years. At the start of the year, the spread was at \$115.43 per steer, by July it had widened to \$203.81 per head and then narrowed to \$145.56 per head by November. Beef packer margins in 2008 were much better than 2007's in part due to a higher byproduct value, which soared to a record high this past summer. Of note, from January through November beef packer margins were about 33 percent higher than a year earlier.

Recent declines in hide values as well as other non-meat items pressured packer margins. That is one reason beef packers have cutback slaughter rates. The decline in byproduct values has been unprecedented. The byproduct value depends on demand for leather products (foreign and domestic), export demand for internal organs, value of tallow, etc. Still, for the last two months beef packer gross margins were above the severely depressed levels of a year ago when there were very serious concerns about financial viability of some firms.

### TURKEY HATCHERY

Most of the attention regarding the poultry industry this year has focused on the broiler sector, however, production cutbacks have also been occurring in the turkey industry. The turkey industry has been struggling to maintain profit margins, just like the chicken sector. Turkey producers have been pressured by high feed costs as well as economic slowdowns in the domestic and foreign markets. In response, the turkey industry began to initiate modest cutbacks in the hatchery flock late in the second quarter of 2008. As the year has progressed, so did the efforts by the industry to reduce production as turkey eggs placed in incubators and poult placements have continued to decline.

The number of turkey eggs placed each month during the first half of the year was rather stable with eggs placed averaging one percent larger than a year earlier each month except for March when eggs placed were up three percent. By June, the monthly number of eggs placed had fallen below a year ago and has been consistently smaller since. The largest year-to-year declines in eggs set occurred in the fourth quarter of the year. In fact, during November the industry placed nearly 12 percent less turkey eggs than 2007's. At the same time, the number of poult placements has been smaller than a year earlier each month since February with the largest declines posted in late 2008. In fact, as of November the year-to-date number of poult placements was down 4 percent from a year ago with placements in October and November down 13 percent.

Given cutbacks in the hatchery flock, turkey slaughter numbers are expected to be smaller in December and then well into 2009. Thus, given the current situation, LMIC forecasts for turkey production have been lowered, for the fourth quarter of 2008 with further year-to-year reductions forecast for calendar year 2009. For the first quarter of 2009, U.S. turkey production is currently forecast to decline by 9 percent compared to 2008's. Year-to-year declines are also expected for the balance of 2009 with annual production forecast to decline at least 5 percent compared to 2008's.