



August 2016 – Livestock Market Update

Public Policy Department Budget & Economic Analysis Team

Poultry Production Ramps Up: Turkey Highlights

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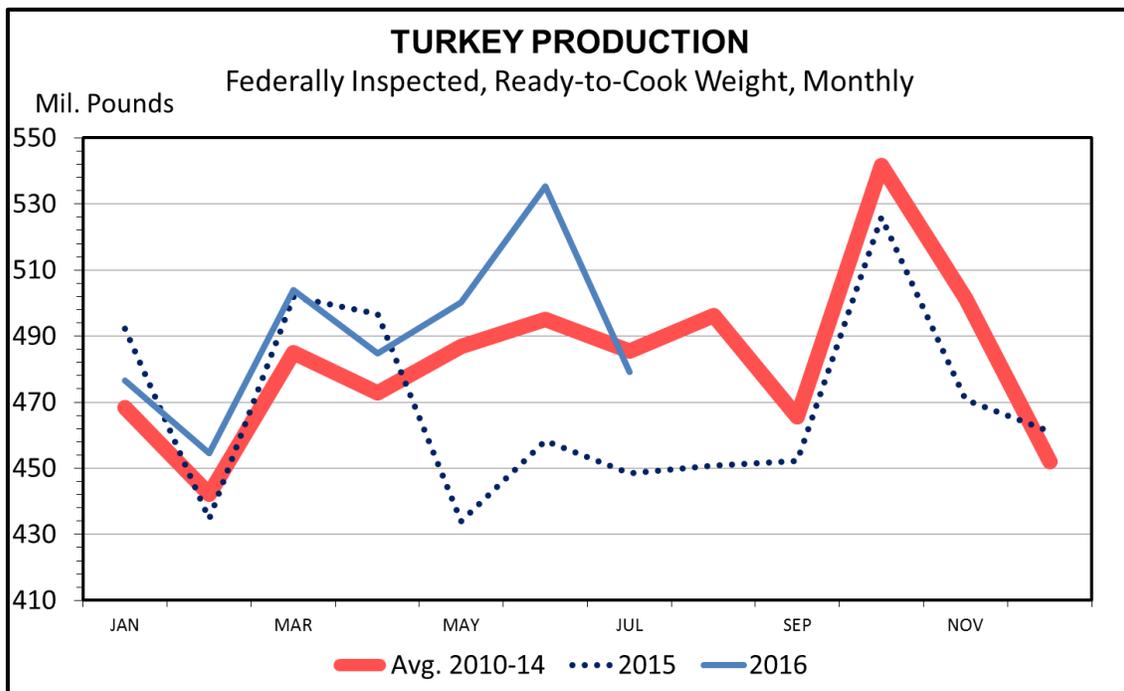
Since June, weekly broiler hatchery data has shown increases in year-over-year eggs set. Throughout 2016 broiler hatchery data suggests that poultry production has been slowly trying to ramp up. Weekly data in July and August has shown consistent positive year over year increase in the number of eggs sets compared to the same week in the previous year. Year to date that has translated into 31 million more chicks placed in 2016.

Turkey, one of the hardest sectors hit by Highly Pathogenic Avian Influenza (HPAI) in 2014/2015, has shown even more growth. Eggs in incubators are up 2 percent through August, while net poults placed are up 4 percent or 6.6 million more birds through July (monthly data release).

Chicken slaughter data has followed broiler hatchery trend and is hovering 1 percent above a year ago in ready to cook weights. Turkey production is running 5 percent above year-earlier figures through the first seven months of 2016. Seasonally, turkey production rises in the second half of the year due to Thanksgiving and Christmas demand. Over the last 10 years, peak poultry production has occurred in October and November. This year, turkey production had highest June on record (monthly data series back to 1960), 13 million pounds ahead of the previous June record set in 2008 (see Figure 1).

Figure 1: Ready to Cook Turkey Production

Source: USDA-NASS, compiled by LMIC



Turkey production is rebounding from depressed levels caused by HPAI. If turkey production continues on this pace, it would result in an annual production volume not seen since 2012. In part, there has been a small resurgence in domestic demand, which saw increases in 2015, and is expected to post another year over year increase. The second highlight is the return of export markets. During HPAI of 2014/2015 as many as 56 countries imposed full or partial bans on all poultry products. Annual ready to cook turkey exports declined 34 percent in 2015, a 272 million pound decrease from 2014. The first quarter of 2016 continued to struggle, but second quarter figures indicate a double digit percentage increase. This is driven in large part by Mexico lifting its trade ban against most U.S. states in April. Mexico represents over 50 percent of market share for U.S. turkey exports.

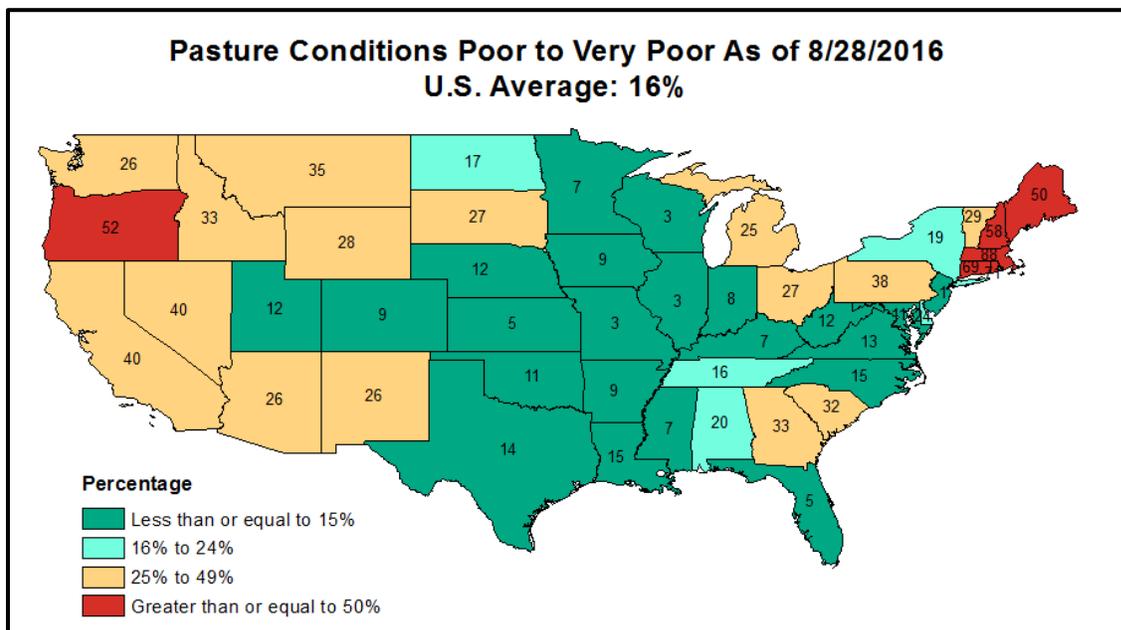
Through the second half of this year expects continued growth in the amount of net poultts placed at least for a month or two as the holiday heavy fourth quarter approaches. It takes about 15-20 weeks for a commercial tom turkey to reach a slaughter weight, which is generally much larger than the whole turkeys bought in stores for Thanksgiving. The turkey market has two major facets: whole bird (40 percent) and processed meat (60 percent). Generally the larger birds are processed further. Average slaughter weights dip a full 1-2 pounds in the fall quarter from the heaviest weights due to the volume increase in smaller birds. This ultimately shortens the production cycle closer to less than 15 weeks, meaning those that will be sold fresh at Thanksgiving are being placed in August/September.

Cattle Placed on Feed Weights Shift Higher

Pasture and range conditions in the U.S. have been well ahead of the curve through most of the summer. Less than 20 percent of the U.S. pasture conditions were rated poor or very poor compared to the five year mid-summer average for poor or very poor ratings at 30-35 percent (Figure 2). This has allowed calves to graze summer pastures longer and move into feedlots at heavier weights. Heavier weight feeder prices relative to lighter weight feeder cattle prices have supported this through much of the summer.

Figure 2: Poor and Very Poor Pasture and Range Conditions for week ending 8/26/2016

Source: USDA-NASS



The August [Cattle on Feed](#) report released by USDA-NASS on Aug. 19, indicated placements were up 2 percent from last year. This report breaks down the number of cattle placed by weight groups: Less than 600lbs, 600-699lbs, 700-799lbs, and Greater than 800lbs. Seasonally, the fewest number of the lighter animals are placed in the first six months of the year, as shown in Figure 2, and this year was no exception. The less than 600lb weight class had the lowest July placement since 1999. Over the first seven months of the year, placements of less than 600 pounders have been down 7 percent, while all other weight classes have increased. Notably 700-799lb placements and over 800lb placements are both up year over year more than 10 percent. These heavier cattle weights allow feedlots to move animals through the system faster and ultimately with less risk for the feedlot due to the shorter period of time on feed.

The release of the first objective yield for corn and soybeans brings an interesting twist into the mix. Decreasing cost of gain would mean feedlot operators could pay more for lighter weight animals. However, as long as there are ample supplies of heavier weight animals, there is little incentive to do so. Even with corn prices declining, keeping animals on pasture is still a more cost effective way to add weight to cattle as long as the good conditions hold.

Figure 3: Ten-Year Seasonal Index for less than 600lbs cattle placed on feed

Source: USDA NASS, compiled by AFBF

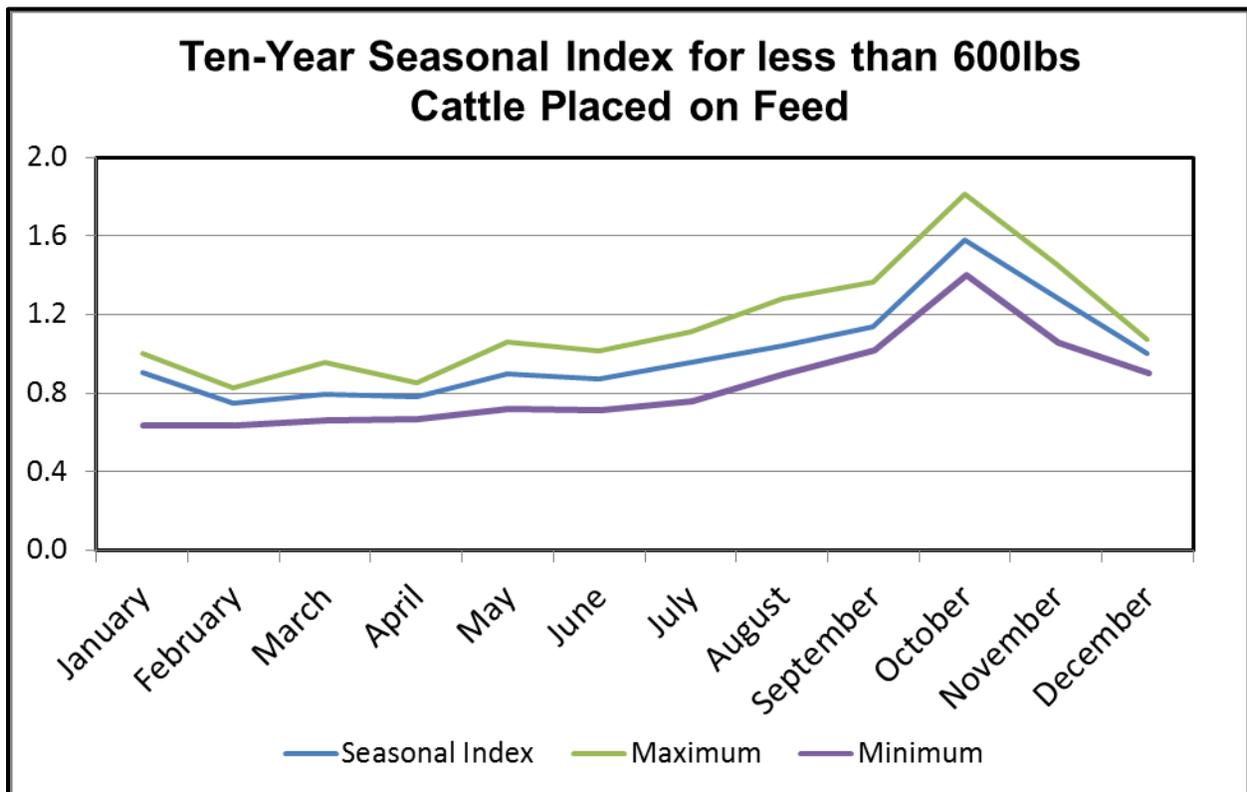
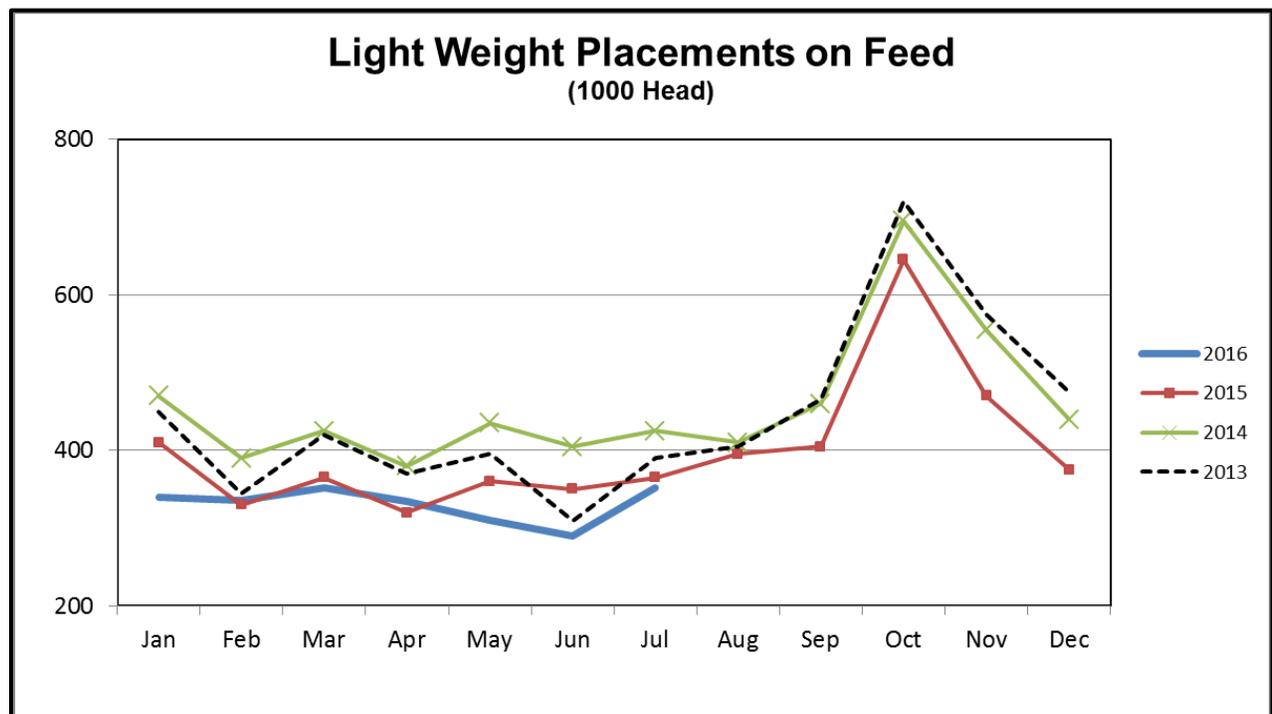


Figure 4: July Placements of less than 600lbs cattle relative to 2015-2013

Source: USDA-NASS



Dairy Cow Slaughter Below Year Ago

Milk prices have shown recent strength in the spot and futures market prices, giving some hope that the dairy industry may be coming out of this depressed milk market. A hot summer, combined with global production slowing, points to tighter supplies across the dairy complex. However, a recent Wall Street Journal [article](#) noted that U.S. does not seem to be following the same global trend of culling cows and cutting milk production.

One of the early indicators of culling decisions is the number of dairy cows slaughtered at federally inspected plants. These numbers are released regionally every week by USDA AMS. On an annual basis changes in dairy cow slaughter tracks inversely with changes in the national all milk price (Figure 4). As revenues per animal increase, the incentive to cull is reduced. Since 2004 the correlation coefficient has been negative 0.4, indicating a moderate negative relationship. In 2014, the all milk price averaged 20 percent higher than the previous year, conversely federally inspected dairy cow slaughter decreased by 10 percent. The following year dairy cow slaughter increased 4 percent while milk prices fell 29 percent. Although this does not translate perfectly into dairy cow inventory numbers, it gives a general direction.

Current weekly slaughter figures indicate federally inspected dairy cow slaughter is less than a year ago by about 1 percent (24,000 head) through 32 weeks of the year. Monthly milk production reports indicate average dairy herd inventories are a tenth of a percent higher than last year (up 9,000 head). July inventory is the highest since 2008 at 9.332 million head. First half all milk prices have averaged \$15.23 per cwt, down 10 percent from 2015 January through June. Historic trends would imply weekly slaughter figures should rise through the second half of the year to counter balance the decline seen in milk prices. However, milk prices are expected to be higher in the second half of this year,

making it less likely that additional dairy cows will make their way through slaughter channels.

Slaughter, inventory and milk production all point towards higher production. Fourth quarter demand could provide a boon both abroad and domestically, but steady gains in milk per cow (averaging 1.6 percent growth this year) are likely to dampen the ability to hold onto any price improvements for very long.

Figure 5: Federally Inspected Dairy Cow Slaughter and National All Milk Price, Annual Percent Change

Source: USDA-NASS, USDA-AMS, compiled LMIC

