

Livestock Monitor

A Newsletter for Extension Staff

Livestock Marketing Information Center

State Extension Services in Cooperation with the USDA

Market Indicators . . .

January 25, 2012

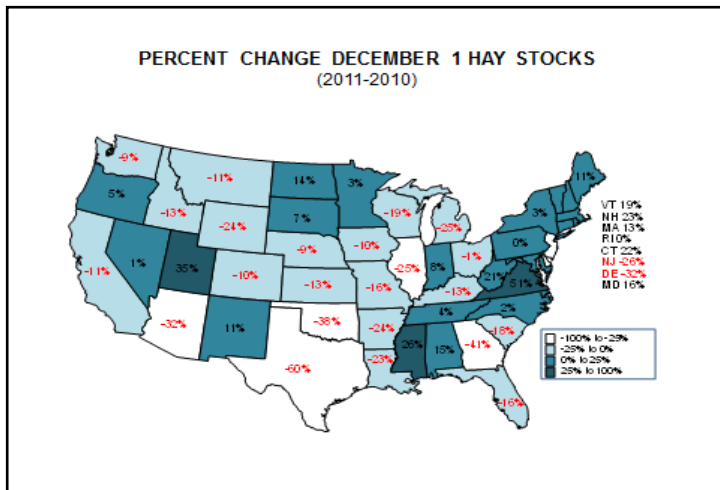
Production			Prices			
Week Ending 1/21/2012	Last	Year Ago	Weekly Average (\$/Cwt)	Last	Week Ago	Year Ago
FI Cattle Slaughter (Thou Hd)	628	639	Live Steer	125.68	122.99	105.83
FI Hog Slaughter (Thou Hd)	2221	2168	Dressed Steer	202.70	198.30	170.43
FI Sheep Slaughter (Thou Hd)	37	35	Choice Beef Cutout	182.54	187.92	172.52
Live Y. Chicken Sl. (Mil Hd)	153.9	149.6	USDA Hide/Offal	12.48	12.40	12.76
			GA Auction Fdr. Str. (6-7 Cwt.)	137.53	140.18	113.22
Slaughter Cattle Live Weight	1303	1307	Iowa/S. Minn. Base Hog	83.80	83.13	74.43
Slaughter Hog Live Weight	278	278	Natl. Net Hog Carcass	85.37	84.35	76.00
Slaughter Lamb/Sheep Live Wt.	144	141	Feeder Pigs (40 Lbs) (\$/Head)	73.84	72.26	77.91
Beef Production (Mil Pounds)	488.5	498.8	Pork Cutout	85.02	83.92	85.52
Pork Production (Mil Pounds)	462.6	451.9	Lamb Cutout	359.82	364.20	313.45
Lamb, Mutton Prod. (Mil Lbs.)	2.6	2.5	Corn, Omaha (\$/Bu)	6.12	6.06	6.25
Previous 6 Wk. Moving Avg.			Wheat, Portland (\$/Bu)	6.30	6.20	7.88
Total Beef (Mil Lbs)	468.7	479.5	Wheat, Kansas City (\$/Bu)	6.42	6.45	8.25
Total Pork (Mil Lbs)	449.4	436.4	Soybeans, Cntrl IL (\$/Bu)	11.96	11.78	13.93
Total Lamb, Mutton (Mil Lbs)	2.6	2.7				

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

Trends . . . DECEMBER 1 HAY STOCKS SHRINK

Hay stocks are short. Drought induced hay use was a market topic for much of the year, reflecting dire conditions especially in the Southern Plains. Perhaps the December 1 hay stocks wasn't the most anticipated item by USDA-NASS this month, but it certainly put this year in perspective when compared to history. The U.S. usually holds about 102 million tons of hay on December 1 (35 year average). This crop-year December 1 hay stocks were at 90.7 million tons, 11% below a year ago and the smallest December stock figure since 1988.

By region, it came as no surprise many states reported year-over-year declines in hay stocks. In the continental U.S. (Hawaii and Alaska are unreported), 25 states were below a year ago. Texas posted the largest year-over-year decline down a full 60%, followed by Georgia (41%) and Oklahoma (38%). States with the largest increases had large declines the previous year creating larger year-over-year gains as of December 1 – Virginia (50%), Utah (35%), and Mississippi (26%) were at the top of the that list.



Hay prices are expected to be high again in the coming marketing year. Acreage competition will again affect hay in most states. New seedlings of alfalfa are down 8% nationally. However, states such as Nevada, Arizona, and California indicate new alfalfa seedlings' are greater than 40% above a year ago. Another concern for hay prices is impending dryness across the Southern states. Last year, Texas and Oklahoma had the benefit of above average May stocks to cushion effects of the poor pasture and range conditions. Another dry year without a cushion would likely lead to record high prices, again.

May 1 stocks are already looking slim; however, a mild winter has left more than adequate feed for cattle this winter in the western half of the country. Many states that are usually under snowpack have been able to continue to let their cattle feed on pastures, cornstalks, and other forages reducing the amount of hay used. In comparison, an area of the country that may have surprisingly low May 1 stocks is the Northeast and Mid-Atlantic states, where winter has not been so mild and a devastating mid-summer hurricane impacted production and stocks. Nationally, May 1 hay stocks are forecast to be well below a year earlier (likely 20% to 25% below a year ago) and the smallest since May 1, 2006.

MEAT IN COLD STORAGE

Last week USDA-NASS released the monthly cold storage report which reported frozen stocks of red meat above a year ago on December 31, 2011, driven by both larger beef and pork stocks. However, chicken supplies at the end of 2011 were significantly smaller due to ongoing contraction within that sector.

As of December 31, frozen pork supplies were 1.2% larger than at the end of 2011 but down 3% from the prior month. On an item basis, frozen supplies of pork variety meats were 61% larger than a year ago which could be the result of either a potential slowdown in export trade or stockpiling of product for future export trade. Other items that were above a year ago on December 31, 2011 were bone-in picnics up 36%, pork butts up 21% and loins (bone-in and boneless) up 13%. Frozen stocks of bellies were down nearly 20% reflecting continued strength in the demand for bacon products.

Frozen stocks of beef at the end of 2011 were 1.4% higher than the prior year and were over 2% larger than at the end of November. According to the report, beef stocks at the end of December were the largest reported since February of last year. Supplies of frozen beef cuts on December 31, 2011 were up 8%, while boneless beef stocks were only slightly larger than the prior year.

USDA reported total frozen supplies of chicken as of December 31 were down about 22% from a year ago but broiler/fryers/roasters stocks (a relatively small category) were about 1% larger. A category with frozen stocks above a year ago was paws and feet were (up 41%), a key export item which could mean some sluggishness in trade. At the end of 2011, the largest year-on-year declines were reported in frozen stocks of

chicken legs (down 52%), followed by wings (down 39%) and leg quarters (down 32%).

BEEF & PORK PACKER MARGINS

Margins for beef and pork packers have eroded in recent weeks and are well below a year ago. Of course calculated margins do not include all the other costs (labor, transportation, depreciation, etc.) that must be covered in order to make a profit. Still, it is clear that in recent weeks, shrinking beef packer margins have translated into unprecedented red ink in terms of profitability. LMIC's estimated packer margins are the price spread or difference between what typical packers pay for an animal and the wholesale value of meat plus the estimated byproduct value (hide, variety meats, etc.). All those values are based on reports made available by USDA's Agricultural Marketing Service. In 2012, tight packer margins will provide a significant headwind to fed cattle prices and to a lesser extent limit increases in slaughter barrow and gilt prices.

LMIC estimated that the beef packer margin or price spread in December 2011 was about 3% below a year earlier. By most estimates, beef packer profits during December 2011 were in the red. For the first three full weeks of 2012, that margin collapsed averaging 40% below 2011's. During the first three weeks of 2012 margins declined each week as live fed cattle prices increased about \$5.00 per cwt. and the wholesale boxed beef value dropped nearly \$10.00 per cwt. In the wholesale market, beef buyers have not been willing to compensate packers for high cattle prices. Looking ahead, beef packer margins will likely improve seasonally as Spring approaches, which is normal, however their margins are forecast to remain below 2011's at least into the Summer quarter. Red ink will force packers to evaluate their plant efficiencies and suggests elimination of the most unprofitable plants.

Pork packer margins have eroded but the financial stress will be modest compared to the situation for beef plants. Still, expansion plans will likely go on-hold. Pork packer margins remained in the black during late 2011 but in December were estimated to be about 12% below a year earlier. For the first three weeks of 2012, those margins averaged about 30% below 2011's. But that timeframe in 2011 was very profitable, 2012's results will be much different.