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Livestock, Dairy, and Poultry Outlook

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Lower Feed Grain Prices Improve Margins

Tables will be released on Nov 26, 2013

The next newsletter release is Dec 16, 2013

Approved by the World Agricultural Outlook Board.

Beef/Cattle: Prospects for a large corn crop, good prospects for wheat pasture this winter, and anticipation of higher prices for fed and feeder cattle all combine to present a more positive outlook for cattle and beef sectors and opportunities for beginning to expand the national beef cow herd.

Beef/Cattle Trade: U.S. cattle imports through August are down 20 percent from a year earlier and are expected to fall 15 percent for the year. The forecast for U.S. beef imports in 2013 and 2014 were lowered due to weaker shipments this year and tight global supplies expected next year. Beef exports have increased year-to-date, especially to Japan and Hong Kong. As a result, the 2013 forecast for U.S. exports was raised to 2.458 billion pounds.

Recent Livestock, Dairy and Poultry Special Articles

"Japan Announces New Rules for Imports of U.S. Beef," pdf pages 17-20 of the March 2013 Livestock, Dairy and Poultry Outlook report (http://www.ers.usda.gov/media/1058622/ldpm225.pdf)

"U.S. Pork Production Rises on a Smaller Base of Breeding Animals," pdf pages 16-19 of the April 2013 Livestock, Dairy and Poultry Outlook report (http://www.ers.usda.gov/media/1077557/ldpm226.pdf)

"Implications of the Trans-Pacific Partnership for Meat, Poultry, and Seafood Trade," pdf pages 20-24 of the April 2013 Livestock, Dairy and Poultry Outlook report (http://www.ers.usda.gov/media/1077557/ldpm226.pdf)

"Determinants of Japanese Demand for U.S. Pork Products in 2012," pdf pages 20-25 of the May 2013 Livestock, Dairy and Poultry Outlook report (http://www.ers.usda.gov/media/1106754/ldpm227.pdf)

Pork/Hogs: Relatively high hog prices and moderating feed costs are likely to encourage producers to increase farrowings in 2014. The first-half 2014 production forecast was tempered, however, by continued reports of porcine epidemic diarrhea. Pork production in 2014 is expected to be almost 27.8 billion pounds, 2.6 percent above production this year. July and August pork retail prices were record high, likely influenced by high beef prices.

Poultry: Broiler meat production in fourth-quarter 2013 is forecast at 9.5 billion pounds, 3.3 percent higher than a year earlier. Broiler meat production in 2014 is forecast at 38.9 billion pounds, an increase of 2.9 percent from 2013. Broiler integrators are expected to have an incentive to expand production in 2014, mostly due to significantly lower expected prices for corn and soybean meal. Turkey meat production in fourth-quarter 2013 is forecast at 1.48 billion pounds, which would be 4 percent lower than a year earlier. Most of this decrease is expected to come from a smaller number of turkeys slaughtered, with only a small gain in average liveweight at slaughter. Turkey meat production in 2014 is forecast at 6 billion pounds, which would be an increase of 1.7 percent from the previous year. This forecast is a decrease of 95 million pounds from the previous forecast, as turkey poult placements continue to be significantly lower compared with a year earlier.

Poultry Trade: Broiler and Turkey shipments in August were down from a year ago while egg products exports were up significantly. Broiler shipments totaled 628.8 million pounds in August 2013, a decrease of 3 percent from a year earlier. Turkey shipments decreased 14.1 percent from a year ago, totaling 66.3 million pounds, while egg exports totaled 34.7 million dozen in August 2013, a 45.1 percent increase from last August.

Dairy: Feed prices are expected to moderate in 2014, easing profit pressure on producers and leading to a modest increase in herd size in 2014. Imports on both a fats and skims-solids basis are forecast lower this month than in September and exports are raised. Exports on both a fats and skims-solids basis will slip in 2014 compared with 2013 as foreign competition increases.

Special Article: "Effect of the Trans-Pacific Partnership on U.S. Dairy Trade"

Beef/Cattle

Light at the End of a Long, Dark Tunnel?

Despite the fact that some areas remain severely affected by drought (notably, the western portions of the Central and Southern Plains, most of the West, and Southwestern United States), the bulk of U.S. cattle areas are facing some of the most positive conditions in many months. According to the NASS Crop Progress report (November 4, 2013), over 80 percent of the winter wheat pasture grazing areas—in Texas, Oklahoma, and Kansas—is in fair to excellent condition. Despite a late start, what is shaping up to be a record or near-record corn harvest is well underway and has already generated significant declines in corn and feed prices. Hay supplies appear to be adequate for winter supplemental feeding.

Herd Expansion May Lower Beef Production

Feeder heifer and heifer calf prices have recently begun moving higher amid mounting indications of cow-herd expansion and improving prospects for winter wheat grazing. Early signs include declining beef cow slaughter and the apparent beginnings of heifer retention. Both factors will exacerbate declining beef production, likely beginning in the first half of 2014.

Although it is a reversible decision, retaining heifers for replacing cows or expanding the cow herd removes them from the pool of heifers available for placement in feedlots for beef production. While all but 3 to 4 percent of the male portion of each calf crop goes toward beef production as steers, the heifer proportion of each calf crop can go one of two ways: the heifers can be retained for breeding stock or they can follow steers into beef production. Heifers generally account for roughly 37 to 38 percent of total steers and heifers on feed. However, when the cow herd is being heavily liquidated, heifers can account for as much as 40 percent or more of this total. On the other hand, when heifers are being retained for breeding stock, heifers account for only 33 percent or less of total steers and heifers on feed. This swing in the heifer proportion of cattle on feed can represent a significant quantity of beef.

Because of drought impacts on available feed sources, relatively few heifers were likely to have been retained from the 2012 calf crop; more will be retained from the 2013 and subsequent calf crops unless drought again becomes a concern. Heifers retained from the 2012 crop would have been bred this past summer and will calve during 2014. Most of those calves will grow as stockers into 2015, will likely be placed on feed sometime after the first quarter of 2015, and will begin going to slaughter in the last half of 2015. However, they will likely not add much to total beef supplies due to the relatively small size of the calf crop from which they came. Replacement heifer calves from the 2013 calf crop will be retained over the winter, bred in 2014, will calve in 2015, and their calves will begin to contribute to beef production probably no sooner than the last half of 2016. Again, it is not likely that their numbers will contribute much to expanding total beef production. Given the long lags between the decision to expand the beef herd and the increase in beef production, annual fed beef production is not likely to begin increasing above recent and current levels until 2017 or later.

Similar to impacts from heifer retention, as herd expansion begins, fewer cows are culled from herds, which reduces the quantity of non-fed beef produced in the short run. Further, fewer cows result in fewer calves, so again, until the inventories of beef cows and heifers that have calved exceed current levels, beef production is not likely to increase much, if at all. Fewer cows in the slaughter mix can also result in tighter supplies of processing beef and can adversely affect the price of 50-percent lean trim because there may not be sufficient supplies of processing beef to blend with lean trim to produce ground beef products.

In addition to the reductions in beef production due to retention of females for breeding, other factors can also result in reduced beef production. For example, average dressed weights of all cattle increase with more steers in the slaughter mix but decrease as feeder cattle placement weights decline. These offsetting forces occur because steers yield heavier carcasses than either heifers or cows, so average dressed weights of all cattle will likely increase with higher proportions of steers in the slaughter mix. Thus, the larger the share of total slaughter made up by steers, the heavier the average dressed weight of all cattle slaughtered is likely to be.

The same increase in average dressed weights occurs when dairy cows account for a larger than usual share of total cow slaughter because dairy cows generally have higher dressed weights than beef cows. Despite lower year-over-year levels of dairy cows and milk prices that have been increasing slightly, federally inspected dairy cow slaughter has been increasing since its June 2013 low. The increasing cow slaughter is likely due to the closure of a Canadian cow slaughter plant, seasonal patterns, and high feed prices. Dairy cow slaughter may begin to decrease with declining feed prices and increasing incentives to expand herds, exacerbating the decline in non-fed beef production projected for 2014.

Ironically, at the same time that more steers are in the slaughter mix and average dressed weights of all cattle are likely to be heavier, cattle feeders find themselves strongly competing for the limited supply of feeder cattle. One result of this competition is that cattle feeders may begin to "pull cattle forward" into feedlots—that is, they make up for reduced feeder cattle supplies due to heifer retention by putting younger, generally smaller cattle in feedlots. Smaller cattle going into feedlots results in smaller cattle coming out. These lighter cattle produce smaller carcasses, so the increases in average dressed weights of all cattle due to a higher proportion of steers in the slaughter mix are not as large if the steers been placed on feed at normal ages and weights. Further complicating these beef production dynamics are overlying seasonal and weather impacts.

Cattle Feeding Margins Improving

While most fed cattle currently being marketed have received some expensive feed, feed costs have moderated significantly since corn harvest began in late August, and profit margins have improved as a result. At the same time, feeder cattle prices have risen to levels that offset much of the decline in feed costs. With fed cattle prices climbing into the low $130-per-cwt range, the rise in feeder cattle prices has not been enough to prevent projected breakeven costs of cattle placed since August from moving toward positive territory.

However, while expectations are for lower year-over-year fourth-quarter marketing from 1,000-head-plus feedlots, fed cattle and wholesale beef prices could face some pressure before the end of the year as marketings of fed cattle could be bunched up

by then and conceivably into 2014. This is a possibility because of the large proportion of over-800-lb cattle placed in the second and third quarters, which would be on feed for 4-5 months. Between 35 and 39 percent of monthly placements in the April-August period were in the 800-plus-lb category, much higher than the usual 20-30 percent. Assuming average weights of 550, 650, 750, and 850 pounds for each NASS-reported placement category, estimated average placement weights for May-June were almost 14 percent above the May-June average of the previous 5 years and averaged about 6 pounds heavier than the next highest placement weight observed during the previous 5 years. If these cattle all go to slaughter at the same time, prices could experience some downward pressure until the fed cattle supplies are worked through. Factors that may affect prices positively are the overall low total inventories of cattle on feed and increasing beef exports.

Packers Squeezed

With seasonal and holiday factors partly to blame, beef packers appear to have begun reducing kills the last couple of weeks. In addition, at least some of the kill reduction is in response to the red ink packers are likely to have been observing in their profit margins as fed cattle prices have moved into the low $130-per-cwt range, with retail beef prices holding about steady. If the reduced kills lead to backed-up fed cattle supplies, additional downward pressure could be exerted on fed cattle prices. Some evidence that this is occurring is the increase in 5-day moving average dressing percentages and percent grading Choice or better observed in the Daily National Carlot Meat Report. Other factors affecting packer decisions include seasonal and holiday shifts toward turkey, ham, and other nonbeef fare.

Estimated average monthly retail prices for beef are not expected to exceed third-quarter average prices before the end of 2013. Beef demand will take a seasonal break as consumers turn toward turkey, ham, and lamb for the coming holidays. On the plus side, positive economic reports will improve consumers' willingness to spend for beef. After holding relatively steady at or near record levels for the remainder of 2013, retail beef prices are expected to increase into next year and remain generally strong-to-higher over the next few years, largely due to anticipated lower inventories of both fed and nonfed cattle and subsequent reduced beef production. As a side note, monthly average retail Choice beef prices have been revised downward by a monthly average of about 2 cents per pound back through 2008 (see http://www.ers.usda.gov/data-products/meat-price-spreads.aspx).

Beef Cattle Trade

Higher Canadian Cattle Imports Partially Offsetting Lower Imports from Mexico

The forecast for 2013 U.S. cattle imports was raised to 1.93 million head, below the 2012 level of 2.28 million head. Cattle imports are down 20 percent through August compared with year-earlier levels. Trade from Mexico has fallen after 3 years of drought that caused extensive herd liquidation. Forage conditions in Mexico have improved this year, while domestic demand for feeder cattle is strong. According to AMS weekly data, Mexican imports have totaled 725 thousand head through November 9, 40 percent lower than year-earlier levels. Imports are expected to pick up during remainder of the year as forage conditions experience a seasonal decline.

Imports of Canadian cattle have accelerated this year, especially feeder cattle. This has mitigated some of the loss in Mexican cattle, which are almost entirely feeder cattle. Imports from Canada are up 35 percent through August, while AMS weekly data through November 2 show imports 27 percent above 2012 levels. Slaughter steer and heifer imports have dipped slightly, while imports have risen for feeder cattle (+94 percent) and slaughter cows (+66 percent). Total cattle imports are expected to increase slightly in 2014 to 1.95 million head, again reflecting limited supplies in Canada and Mexico. Canadian imports may also be affected by a recent decision by Tyson Foods to halt purchases of Canadian cattle for U.S. slaughter. The decision is expected to result in lower imports of slaughter cattle and higher imports of feeder cattle.

U.S. Beef Exports Revised Higher, Imports Revised Lower

Through August 2013, U.S. beef exports are 3 percent above 2012 levels as exports have remained high to Japan and Hong Kong. Exports to Japan have risen 49 percent since import restrictions were relaxed in February to allow for imports of U.S. beef from cattle aged less than 30 months. Exports have also increased 66 percent to Hong Kong, year-over-year. Due to stronger trade in the first 2 months of the third quarter, the 2013 forecast for U.S. beef exports was raised to 2.458 billion pounds, virtually unchanged from 2012. Cumulative exports to Russia have fallen to nearly zero from 108.7 million pounds in 2012 since a Russian ban on U.S. beef imports was implemented in February 2013. Shipments have also fallen to Vietnam (-90 percent) and South Korea (-24 percent). U.S. beef exports in 2014 are forecast at 2.3 billion pounds, a decline of 6 percent year-over-year. Trade is expected to fall next year due to lower domestic beef production.

The 2013 U.S. beef import forecast was lowered to 2.258 billion pounds as imports have weakened from Australia (-11 percent) and Canada (-16 percent). Beef production has risen this year in Oceania as drought earlier in the year led to higher slaughter. Although imports from New Zealand have grown (+7 percent), total imports through August are 3 percent below year-earlier levels. With higher production, Australian beef exports have risen over 15 percent through September, but much of the increase in production has gone to Asia. Australian exports to China have risen tenfold as Chinese demand for beef continues to increase because of food safety concerns for both pork and chicken. Due to higher anticipated demand in Asia and nearly flat beef production among traditional beef suppliers to

the United States, the forecast for 2014 U.S. beef imports was lowered to 2.265 billion pounds.

Pork/Hogs

October Slaughter Less Than Expected

Fourth-quarter 2013 production is forecast at 6.23 billion pounds, down fractionally from 2012 and a reduction from the September forecast. The reduction reflects a lower than expected pace of slaughter, which was well below projections in October as packers reduced Saturday slaughters during the month. Although it is expected that slaughter schedules will increase seasonally during the quarter, tight supplies of hogs may temper the size of slaughter during November and December.

The September 27 Quarterly Hogs and Pigs report indicated that producers intended to increase farrowings in both the last quarter of 2013 (September-November) and the first quarter of 2014 (December-February). Relatively high hog prices and moderating feed prices are likely to encourage producers to increase farrowings through 2014. However, the production forecasts for the first half of 2014 have been tempered by continuing reports of outbreaks of porcine epidemic diarrhea. For 2014, pork production is forecast at almost 27.8 billion pounds, an increase of 2.6 percent.

Fourth-quarter prices of live equivalent 51-52 percent lean hogs are expected to be $63-$65 per cwt, more than 9 percent above a year ago. With growth in production in 2014, prices for the first and second quarters of 2014 are expected to average $59-$63 and $61-$67 per cwt, respectively, with the annual hog price averaging $59-$63 per cwt, about 6 percent below 2013.

Retail Pork Consumers Paid Record Prices in July and August

The most recent retail price data available shows that pork prices set all-time highs in July and then again in August. In July, the pork retail price was $3.63 per pound —compared with $3.43 in July 2012— and $3.76 per pound in August, compared with 3.53 in August 2012. In both July and August, the total farm-to-retail spread widened considerably compared with a year earlier. The July 2013 total spread was $2.38, compared with $2.23 a year earlier; the August total spread was $2.54 compared with $2.43 a year earlier. In each case, while both components of the total spread widened—wholesale-to-retail component and the farm-to-wholesale component—the wholesale-to-retail component increased the most, meaning that some portion of increased total supply chain costs was passed along to consumers. It is possible that record-high retail beef prices emboldened retailers to increase pork prices, on the assumption that even if they raised pork prices, consumers who treat beef and pork as substitute goods would still pay less per pound for pork than for beef.

Poultry

Broiler Production Continues Higher in Fourth Quarter

Fourth-quarter 2013 broiler meat production is forecast at 9.5 billion pounds, 3.3 percent higher than a year earlier. The increase in production in fourth-quarter 2013 is expected to be driven by both a higher number of birds slaughtered and an increase in average liveweight, borne out by preliminary slaughter data over the last several weeks.

Broiler meat production in third-quarter 2013 was 9.68 billion pounds, up 3.3 percent from the same period in 2012. The increase was the result of 1.8 percent more broilers slaughtered, to 2.2 billion birds. In addition, average liveweight at slaughter was 5.89 pounds, 1.3 percent higher than in third-quarter 2012.

Broiler meat production in 2014 is forecast at 38.9 billion pounds, an increase of 2.9 percent from 2013. This forecast is 150 million pounds higher than the previous forecast. In 2014, the increase in broiler meat production is expected to come mainly from a higher number of birds slaughtered, but average bird liveweights are also expected to be higher than in 2013. Broiler integrators are expected to expand production due to the combination of large drops in the prices for corn and soybean meal and expected growth in the domestic economy. Broiler producers will also gain somewhat from expected strong prices in 2014 for most beef products.

The most recent weekly broiler hatchery report seems to indicate a divide between the number of eggs placed in incubators and the number of chicks placed for growout over the last several weeks. Over the last 5 weeks (Oct. 5 through Nov. 2), chicks placed for growout averaged 157.1 million per week, only 1.5 percent higher than in the same period in 2012. Looking at a 5-week moving average, 3 weeks earlier, eggs placed in incubators averaged 191.1 million eggs per week, 3.1 percent higher than during the same time period the previous year.

Although there is always a difference in the absolute number of eggs placed in incubators and the number of chicks placed for growout, the difference in the two 5-week moving averages is normally not this wide. The differences in the two series could point to significant differences in the number of broilers reaching market size over the next 7 to 10 weeks.

Third-Quarter Ending Stocks Slightly Higher

Higher broiler meat production in third-quarter 2013 compared with the previous year was mostly offset by gains in exports, which left cold storage holdings of broiler products at 633 million pounds at the end of third-quarter 2013, only 10 million pounds higher, (up 2 percent) than the previous year and only slightly lower than second-quarter 2013 stocks. However, cold storage holdings of a number of broiler parts were quite different from the previous year. Stock levels of whole birds, leg quarters, and wings were sharply higher than in 2012, while cold storage holdings in the breast meat, legs, and "other" categories were lower. Cold storage holdings of whole birds had the largest increase, and stocks at the end of September were 21.4 million pounds, over 100 percent higher than the previous year. Stocks of leg quarters at the end of September were 139.4 million pounds, a gain of 47

percent, and stocks of wings were 39 percent higher. Although cold storage holdings for wings were up considerably from the previous year, they were down over 12 million pounds from a month earlier as McDonald's rollout of wings in their restaurants pulled down stock levels when the product moved from storage to stores. Partially offsetting these increases were decreases in the cold storage holdings for breast meat (-15 percent), legs (-47 percent), and the "other products" category (-17 percent). Overall stocks of broiler meat products are expected to increase to 650 million pounds by the end of 2013, chiefly due to an anticipated strong year-over-year gain in production in fourth-quarter 2013. In 2014, cold storage holdings are expected to be higher in the first quarter but then become similar to their 2013 levels throughout the rest of the year.

Prices for Most Broiler Products Decline

Higher overall broiler meat production, especially in the second and third quarters of 2013, along with growing stocks of a number of products has resulted in falling prices for many broiler products. In October, prices for whole birds were just over $0.90 per pound, 6 percent higher than the previous year. However, while prices are still higher than in 2012, prices for whole birds have fallen significantly over the last several months and in May averaged over 20 cents higher at $1.10 per pound. The wholesale whole bird price is forecast at $0.88 -$0.92 per pound in fourth-quarter 2013, a slight decrease from the third-quarter average. However, prices in 2014 are forecast to be somewhat lower than the previous year. Higher cold storage holdings have also placed downward pressure on wing prices. Wing prices in October averaged $1.47 per pound, 23 percent lower than at the same time in 2012. Weekly wing prices in early November have continued to move lower, most recently to around $1.28 per pound. Falling prices for some broiler products do not seem to be linked to changes in the cold storage holdings. Stocks of breast meat at the end of September were lower than the previous year, but prices for such products as boneless/skinless (B/S) breast meat have fallen sharply over the last several months. In May, prices for B/S breast meat averaged $1.95 per pound, but by October prices had fallen to $1.32 per pound. Weekly prices at the beginning of November seem to indicate that prices have fallen into the high $1.20's per pound.

Turkey Production Lower in Third Quarter

U.S. turkey meat production in third-quarter 2013 was 1.44 billion pounds, down 2.7 percent from a year earlier. The decrease in turkey production was due to a lower number of turkeys slaughtered, as average liveweights at slaughter were higher. The number of turkeys slaughtered in third-quarter 2013 was 60 million, down 5 percent from a year earlier. This is the fourth quarter in a row where the number of birds slaughtered has been lower than in the same quarter a year earlier. This decrease in the number of birds slaughtered was partially offset by gains in the average liveweight at slaughter to 29.9 pounds, 2.5 percent higher than a year earlier.

Turkey meat production in fourth-quarter 2013 is forecast at 1.48 billion pounds, 4 percent lower than a year earlier. Again most of this decrease is expected to come from a smaller number of turkeys slaughtered, with only a small gain in average liveweight at slaughter.

Turkey meat production in 2014 is forecast at 6 billion pounds, which would be an increase of 1.7 percent from the previous year. This is a decrease of 95 million pounds from the previous forecast, as turkey poult placements continue to be significantly lower than the previous year. The decline in turkey production is expected to result from a combination of lower prices in 2013 for both whole birds and many turkey parts. Production is expected to begin to expand in the second half of the year as turkey processors determine that falling feed costs more than offset lower prices and strong competition from the broiler industry in both the domestic and export markets.

Even with lower turkey meat production over the second and third quarters of this year, overall turkey stocks have remained above the previous year throughout 2013. Cold storage holdings of turkey products at the end of September were 542 million pounds, 4 percent higher than a year earlier. The higher cold storage levels for overall turkey products conceals differences in the cold storage levels for whole hens and toms and other turkey products. Stocks of turkey products totaled 216 million pounds at the end of the third quarter, almost identical to the previous year. The fact that stocks of turkey products are about even with the previous year is due partly to the lower overall turkey production and partly to continued relatively strong turkey product exports. The two different stocks of whole birds have also been moving in somewhat different patterns. At the end of September, stocks of whole hens were estimated at 137 million pounds, down 3 percent from a year earlier, while stocks of whole toms were estimated at 188 million pounds, 15 percent higher than at the end of September 2012.

Overall turkey cold storage holdings at the end of 2013 are estimated at 300 million pounds, 20 million pounds lower than the previous estimate and about even with cold storage holdings at the end of 2012. In 2014, the quarterly ending stocks forecasts are expected to be slightly higher throughout the year.

With higher stocks of whole birds, there has been downward pressure on whole turkey prices. Prices for whole frozen hen turkeys at the wholesale level averaged $1.00 per pound in third-quarter 2013, down from $1.08 per pound in third-quarter 2012. Whole frozen hen prices are expected to average $1.01-$1.05 per pound in fourth-quarter 2013, down about 3 cents from the $1.06 per pound average in fourth-quarter 2012. The quarterly price forecasts for frozen whole hens in 2014 are expected to be very-close-to-slightly-lower than the levels seen in 2013.

Egg Production Higher

Table egg production in third-quarter 2013 was 1.72 billion dozen, up 2.6 percent from the same period in 2012. On a year-over-year basis, table egg production has been above year-earlier levels for the last 11 consecutive quarters. During September, the number of table egg layers in production totaled 291 million birds, an increase of 1.4 percent from September 2012. Table egg production is expected to continue above the previous year's level in fourth-quarter 2013, with production expected at 1.8 billion dozen, an increase of 2.7 percent from the previous year. Overall table egg production in 2014 is expected to total 7 billion dozen, up 1.5 percent from 2013, as falling feed prices are expected to encourage producers to expand production.

Hatching egg production in third-quarter 2013 was 268 million dozen, up 4.7 percent from the same period in 2012. This is the third consecutive quarter that

hatching egg production has increased on a year-over-year basis, chiefly due to expanding broiler production. Hatching egg production is expected to total 270 million dozen eggs in fourth-quarter 2013, an increase of almost 6 percent from the previous year. This expansion is expected to continue to come largely from higher production of meat-type hatching eggs, as broiler production is expected to be higher through the end of 2013. In some recent weeks the number of broiler eggs going into incubators has been over 5 percent higher than during the same week the previous year. Hatching egg production growth is forecast to continue to expand in 2014, driven by higher broiler production; however, the growth is expected to moderate somewhat and total 1.1 billion dozen, 2.7 percent higher than the previous year.

Wholesale table egg prices in third-quarter 2013 averaged $1.19 per dozen, down about 13 cents a dozen or 10 percent lower than a year earlier. The normal seasonal increase in demand in fourth-quarter 2013 is expected to keep prices at relatively high levels, averaging $1.26 to $1.32 per dozen. These prices would be very close to the $1.29 per dozen that table eggs averaged in fourth-quarter 2012. With additional growth in production forecast in 2014, prices are expected to average $1.06 to $1.14 per dozen, down about 9 percent from the expected average for 2013.

Poultry Trade

Broiler Shipments Still Strong in August

Broiler shipments in August 2013 declined 3 percent from a year earlier, totaling 628.8 million pounds, due in part to high export totals in August 2012. The 648 million pounds of broiler exports last August were the second highest of the year. Among the countries experiencing drops in exports in August were Cuba, Taiwan, and the United Arab Emirates. Other trade destinations remained steady as the United States shipped 115.8 million pounds of broiler meat to Mexico in August 2013, a 1-percent increase from last year, and 53.6 million pounds to Russia, a 3-percent decrease from last year. China once again displayed a strong year-over-year gain with 25.4 million pounds of U.S. broiler shipments, a 44-percent increase over last August. This was prior to the recent WTO ruling against China's anti-dumping and countervailing duties on imports of U.S. chicken parts. Prior to the implementation of the duties in 2010, U.S. broiler shipments to China consistently exceeded 40 million pounds per month. Although it is expected that any reduction in duties will support exports to China, the timing of implementation of the ruling is uncertain and is not included in the broiler export forecast. USDA forecasts 7.395 billion pounds of broiler exports for 2013, a 10-million pound increase in the forecast for September.

Turkey Shipments Down in August

Turkey shipments totaled 66.3 million pounds in August 2013, down 14.1 percent from a year ago. Similar to the story for broilers, much of the year-over-year drop is related to last year's strong August exports of 77.2 million pounds, the highest total of 2012. The U.S. shipped over 33.5 million pounds of turkey meat to Mexico in August 2013, a decrease of 11.1 percent from a year earlier, amounting to 50.6 percent of all shipments. Shipments to virtually all other leading turkey markets, such as China and Canada, were down from a year ago; shipments to China were down by 28.1 percent and to Canada by 50.3 percent. The forecast for 2013 turkey exports is 745 million pounds, an increase of 10 million pounds from September.

Egg and Egg Product Shipments Remain Up in August

Egg and egg product shipments in August 2013 were up 45.1 percent from a year ago. On a shell-egg basis, a total of 34.7 million dozen eggs was shipped. August's increase in total egg shipments is again due almost solely to the large demand from Mexico; the 13.8 million dozen eggs shipped to Mexico in August constitute a 360-percent increase from a year ago. Mexico is still facing delays in rebuilding its egg laying flocks following the August 2012 Avian Influenza outbreak at layer farms in Jalisco and Aguascalientes. As a result of the outbreak, U.S. egg exports to Mexico have been significantly higher; in the 2 years preceding the outbreak, U.S. monthly egg exports to Mexico had not exceeded 2.3 million dozen. The forecast for 2013 egg exports remains at 359.5 million dozen.

Dairy

Feed Prices To Ease in 2014, Production To Expand and Prices To Soften Slightly

Feed price forecasts continue to decline, based on the most recent World Agricultural Supply and Demand Estimates report. The forecast corn price for 2013/14 is lowered to $4.10-$4.90 a bushel in November from September. Lower harvested acreage is more than offset by higher yield, leading to a record production forecast. However, the soybean meal price is revised higher for 2013/14 in November to $375-$415 a ton. Soybean production forecasts for 2013/14 are raised in November based on higher yield expectations, but stronger exports of soybean meal are expected to boost prices. According to the October Agricultural Prices report, the preliminary October price for alfalfa was $193 a ton, down fractionally from September's estimate and below the October 2012 price. Dairy feed ration prices will likely be lower in 2014 than this year.

Herd size projections were resumed this month, and the National Agricultural Statistics Service estimated the nation's herd at 9.227 million head for the July-September quarter. The U.S. dairy herd is expected to average 9.225 million head in 2013 and increase to 9.245 million head in 2014 as producers respond to improved returns. The current-year milk yield per cow is forecast at 21,865 pounds. Milk per cow is forecast at 22,170 pounds next year, based on expectations that cheaper feed and abundant forages will support improved yields. Milk production this year is projected at 201.7 billion pounds, slightly lower than forecast in September. Production in 2014 is forecast at 204.9 billion pounds, based on slightly higher cow numbers next year and trend yield growth. The improved feed price outlook should lead to some herd expansion in 2014.

Fats-basis imports are forecast at 4.0 billion pounds for both this year and next, down fractionally from September. Imports were lowered based on slower cheese imports. The slower pace of cheese imports is expected to carry into 2014. Skims-solids basis imports for this year were reduced slightly from September to 5.1 billion pounds, based on sluggish imports of milk protein concentrates (MPC). Lower imports of MPC's are expected to affect skims-solids basis imports in 2014 as well, as imports are forecast at 5.2 billion pounds. Fats-basis exports were raised in November for both 2013 and 2014 to 11.5 and 10.6 billion pounds, respectively. The export increases are based on strong movement of fats based products. Exports are reduced in 2014 from 2013 as competition from foreign producers is expected to stiffen. Skims-solids basis exports were raised from September to 39.1 billion pounds for 2013 and to 37.8 billion pounds in 2014, based on continued strong nonfat dry milk (NDM) exports. Skims-solids exports are projected to decline in 2014 from the current year for the same reasons that fats-basis exports are forecast to slip next year.

Fats-basis commercial ending stocks for 2013 and 2014 remain unchanged in November from September. However, skims-solids basis ending stocks are projected higher both this year and in 2014. Higher than previously forecast NDM stocks this year are expected to carry over into 2014, which, combined with higher production, is expected to support higher skims-solids stocks during the year.

Dairy product price forecasts for 2013 are projected mostly higher in November since September. Cheese, butter, and NDM prices are projected higher this year based on recent price performance and apparent robust demand. Cheese prices are forecast at $1.765-$1.775 per pound. For 2014, the price is reduced to $1.670-$1.760 per pound from September. The butter price is forecast to be $1.515-$1.545 per pound this year and is expected to decline to $1.465-$1.585 per pound next year on lower exports and increased production. NDM prices are forecast at $1.685-$1.705 per pound this year and to climb to $1.685-$1.755 per pound in 2014. Whey prices are reduced from the September forecast to 58.0-59.0 cents per pound based on lower than expected year-to-date prices, and they are expected to soften to 54.5-57.5 cents per pound in 2014.

The Class III price forecast is lowered this month from September to $17.90-$18.00 per cwt and lowered for 2014 to $16.85-$17.75 per cwt, based on forecast lower cheese and whey prices. The Class IV price is raised from September for 2013 to $18.80-$19.00 per cwt and to $18.60-$19.60 per cwt next year, based on continued international demand for NDM. On a year-over-year basis, the Class IV price is forecast lower next year as skim-solids based exports are expected to decline from 2013 forecast totals. The all milk price range is narrowed from September to $19.80-$19.90 per cwt this year and dropped for 2014 to $19.30-$20.20 per cwt on the basis of expected lower 2014 Class III prices.

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Meat Price Spreads, http://www.ers.usda.gov/data-products/meat-price-spreads.aspx, provides monthly average price values, and the differences among those values, at the farm, wholesale, and retail stages of the production and marketing chain for selected cuts of beef, pork, and broilers. In addition, retail prices are provided for beef and pork cuts, turkey, whole chickens, eggs, and dairy products.

Livestock and Meat Trade Data, http://www.ers.usda.gov/data-products/livestock-meat-domestic-data.aspx, contains monthly and annual data for the past 1-2 years for imports and exports of live cattle and hogs, beef and veal, lamb and mutton, pork, broiler meat, turkey meat, and shell eggs. The tables report physical quantities, not dollar values or unit prices. Breakdowns by major trading countries are included.

Related Websites

Livestock, Dairy, and Poultry Outlook,
http://www.ers.usda.gov/publications/ldpm-livestock,-dairy,-and-poultry-outlook.aspx
Animal Production and Marketing Issues,
http://www.ers.usda.gov/topics/animal-products/animal-production-marketing-issues.aspx
Cattle, http://www.ers.usda.gov/topics/animal-products/cattle-beef.aspx
Dairy, http://www.ers.usda.gov/topics/animal-products/dairy.aspx
Hogs, http://www.ers.usda.gov/topics/animal-products/hogs-pork.aspx
Poultry and Eggs, http://www.ers.usda.gov/topics/animal-products/poultry-eggs.aspx
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U.S. red meat and poultry forecasts

	2010					2011					2012					2013					2014			
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Production, million lb																								
Beef	6,248	6,546	6,768	6,741	26,305	6,410	6,559	6,736	6,490	26,195	6,283	6,473	6,586	6,572	25,913	6,172	6,517	6,608	**6,295**	**25,592**	**5,870**	**6,135**	**6,175**	**24,090**
Pork	5,607	5,302	5,401	6,126	22,437	5,719	5,370	5,484	6,186	22,758	5,858	5,519	5,631	6,244	23,253	5,777	5,519	5,624	**6,230**	**23,150**	**5,865**	**5,615**	**5,770**	**23,760**
Lamb and mutton	43	40	39	42	164	36	40	36	37	149	39	39	39	39	156	38	40	40	**39**	**157**	**38**	**39**	**39**	**153**
Broilers	8,733	9,198	9,496	9,484	36,910	9,290	9,509	9,542	8,860	37,201	9,089	9,381	9,372	9,197	37,039	9,143	9,466	9,682	**9,500**	**37,791**	**9,425**	**9,825**	**9,925**	**38,900**
Turkeys	1,340	1,383	1,415	1,506	5,644	1,402	1,471	1,423	1,495	5,791	1,446	1,505	1,480	1,537	5,967	1,459	1,486	1,440	**1,475**	**5,860**	**1,420**	**1,490**	**1,500**	**5,960**
Total red meat & poultry	22,122	22,626	23,291	24,058	92,097	23,011	23,113	23,396	23,225	92,745	22,866	23,085	23,274	23,738	92,963	22,742	23,190	23,563	**23,690**	**93,185**	**22,771**	**23,271**	**23,575**	**93,508**
Table eggs, mil. doz.	1,610	1,626	1,645	1,666	6,547	1,624	1,634	1,646	1,686	6,590	1,658	1,653	1,677	1,734	6,722	1,680	1,696	1,721	**1,780**	**6,877**	**1,720**	**1,730**	**1,740**	**6,980**
Per capita disappearance, retail lb 2/																								
Beef	14.6	15.1	15.3	14.6	59.6	14.1	14.6	14.7	14.0	57.3	14.0	14.7	14.5	14.2	57.4	13.7	14.5	**14.3**	**13.9**	**56.5**	**12.8**	**13.6**	**13.7**	**54.0**
Pork	11.8	11.4	11.7	12.8	47.8	11.4	11.1	11.0	12.2	45.7	11.1	10.9	11.2	12.7	45.9	11.5	11.3	**11.3**	**12.5**	**46.6**	**11.5**	**11.2**	**11.4**	**47.1**
Lamb and mutton	0.2	0.2	0.2	0.2	0.9	0.2	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.8	0.2	0.2	**0.2**	**0.2**	**0.9**	**0.2**	**0.2**	**0.2**	**0.9**
Broilers	20.1	20.5	21.4	20.4	82.4	21.5	21.5	20.8	19.1	82.9	20.1	20.4	20.3	19.7	80.4	20.1	20.3	**20.9**	**20.4**	**81.7**	**20.3**	**21.3**	**21.2**	**83.7**
Turkeys	3.5	3.6	4.1	5.2	16.4	3.5	3.5	4.0	5.0	16.1	3.5	3.6	4.1	4.9	16.0	3.7	3.6	**4.0**	**4.7**	**16.0**	**3.5**	**3.6**	**4.2**	**16.3**
Total red meat & poultry	50.7	51.2	53.3	53.7	208.9	51.3	51.3	51.0	51.0	204.6	49.3	50.3	50.6	52.0	202.2	49.5	50.3	**51.2**	**52.2**	**203.2**	**48.7**	**50.3**	**51.1**	**202.6**
Eggs, number	61.5	61.4	62.2	62.8	247.9	61.1	61.3	62.2	63.1	247.6	62.3	61.3	62.2	64.0	249.7	62.4	61.6	**62.5**	**65.2**	**251.7**	**63.0**	**63.5**	**63.8**	**255.9**
Market prices																								
Choice steers, 5-area Direct, $/cwt	89.44	96.33	95.47	100.28	95.38	110.07	112.79	114.05	121.99	114.73	125.29	120.91	119.69	125.54	122.86	125.52	124.95	122.3	**127-133**	**125.69**	**125-135**	**124-134**	**128-138**	**126-137**
Feeder steers, Ok City, $/cwt	98.73	112.65	112.29	113.55	109.31	127.20	131.09	134.74	141.93	133.74	152.81	150.05	139.31	143.40	146.39	141.36	133.10	152.00	**158.00**	**146**	**155-165**	**161-171**	**159-169**	**161-172**
Cutter Cows, National L.E., $/cwt	51.79	58.79	58.90	54.93	56.10	68.66	74.88	66.11	63.54	68.30	76.57	83.51	76.94	73.81	77.71	77.87	77.46	77.59	**78-80**	**77.98**	**79-83**	**83-87**	**81-85**	**81-85**
Choice slaughter lambs, San Angelo, $/cwt	103.87	106.17	115.57	141.62	116.81	174.66	157.99	161.13	148.61	160.60	145.33	127.08	89.28	89.85	112.89	107.53	91.72	94.26	**115-125**	**103**	**110-116**	**110-120**	**105-115**	**105-115**
Barrows & gilts, N. base, Le. $/cwt	50.41	59.60	60.13	50.11	55.06	59.94	68.80	71.06	64.66	66.11	61.68	61.79	61.43	58.63	60.88	59.03	65.46	70.59	**63-65**	**64.77**	**59-63**	**61-67**	**59-63**	**58-62**
Broilers, 12 City, cents/lb	82.20	85.00	84.50	80.00	82.90	77.90	82.60	78.80	76.80	79.00	87.40	85.1	82	92.1	86.6	103.5	108.6	93.9	**88-92**	**99**	**89-95**	**90-98**	**90-98**	**89-97**
Turkeys, Eastern, cents/lb	75.60	84.40	97.90	103.70	90.40	90.20	99.90	106.40	111.60	102.00	100.70	106.9	108.5	106.1	105.6	96	97.7	99.9	**101-105**	**99.2**	**91-97**	**93-101**	**95-103**	**95-102**
Eggs, New York, cents/doz.	126.00	82.80	93.10	123.20	106.30	105.80	106.60	117.70	131.20	115.30	108.70	99.7	131.9	129.4	117.4	126.9	109.9	119	**126-132**	**121.2**	**106-114**	**101-109**	**96-104**	**106-114**
U.S. trade, million lb																								
Beef & veal exports	478	585	590	646	2,299	633	702	766	683	2,785	558	625	650	620	2,453	557	631	**700**	**570**	**2,458**	**525**	**600**	**600**	**2,300**
Beef & veal imports	573	690	598	436	2,297	461	593	548	454	2,057	582	669	516	453	2,220	590	628	**530**	**510**	**2,258**	**525**	**600**	**600**	**2,265**
Lamb and mutton imports	47	46	31	42	166	49	48	31	34	162	37	38	38	40	153	49	44	**38**	**42**	**173**	**44**	**42**	**38**	**164**
Pork exports	1,046	1,081	951	1,146	4,224	1,248	1,200	1,261	1,481	5,189	1,444	1,302	1,252	1,386	5,384	1,218	1,226	**1,235**	**1,375**	**5,054**	**1,260**	**1,285**	**1,290**	**5,270**
Pork imports	199	204	237	219	859	201	195	194	213	803	207	191	198	205	802	207	210	**220**	**220**	**857**	**210**	**210**	**220**	**860**
Broiler exports	1,469	1,699	1,643	1,954	6,765	1,527	1,588	1,978	1,879	6,971	1,734	1,790	1,864	1,886	7,274	1,759	1,876	**1,885**	**1,875**	**7,395**	**1,850**	**1,850**	**1,975**	**7,550**
Turkey exports	114	136	158	174	582	159	171	173	199	703	181	185	216	217	798	178	182	**190**	**195**	**745**	**190**	**195**	**200**	**780**
Live swine imports (thousand head)	1,446	1,408	1,479	1,416	5,749	1,452	1,429	1,407	1,508	5,795	1,441	1,444	1,387	1,380	5,652	1,326	1,301	**1,230**	**1,100**	**4,957**	**1,225**	**1,225**	**1,225**	**4,900**

1/ Forecasts are in bold.

2/ Per capita meat and egg disappearance data are calculated using the Resident Population Plus Armed Forces Overseas series from the Census Bureau of the Department of Commerce.

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

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11/13/2013

Dairy Forecasts

	2012			2013					2014			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Milk cows (thous.) 1/	9,211	9,203	9,233	N/A	N/A	9,227	9,220	9,225	9,220	9,235	9,250	9,245
Milk per cow (pounds)	5,284	5,335	21,696	N/A	N/A	5,356	5,400	21,865	5,555	5,725	5,410	22,170
Milk production (bil. pounds)	48.7	49.1	200.3	50.5	52.0	49.4	49.8	201.7	51.2	52.9	50.0	204.9
Farm use	0.2	0.2	1.0	0.2	0.2	0.2	0.2	1.0	2.0	2.0	2.0	1.0
Milk marketings	48.4	48.9	199.4	50.3	51.7	49.2	49.5	200.7	50.9	52.6	49.8	203.9
Milkfat (bil. pounds milk equiv.)												
Milk marketings	48.4	48.9	199.4	50.3	51.7	49.2	49.5	200.7	50.9	52.6	49.8	203.9
Beginning commercial stocks	14.7	13.2	10.9	12.2	15.1	16.9	14.3	12.2	12.3	15.0	16.2	12.3
Imports	1.0	1.3	4.1	1.1	0.9	0.9	1.1	4.0	1.0	1.0	0.9	4.0
Total supply	64.1	63.4	214.3	63.5	67.7	67.0	65.0	216.9	64.3	68.6	66.9	220.3
Commercial exports	2.0	1.9	8.8	2.4	3.0	3.5	2.7	11.5	2.6	2.8	2.8	10.6
Ending commercial stocks	13.2	12.2	12.2	15.1	16.9	14.3	12.3	12.3	15.0	16.2	13.9	11.5
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	48.9	49.4	193.3	46.1	47.9	49.2	50.0	193.1	46.7	49.6	50.3	198.2
Skim solids (bil. pounds milk equiv.)												
Milk marketings	48.4	48.9	199.4	50.3	51.7	49.2	49.5	200.7	50.9	52.6	49.8	203.9
Beginning commercial stocks	12.6	11.8	11.8	12.4	13.7	14.2	12.4	12.4	12.4	12.7	13.6	12.4
Imports	1.4	1.5	5.7	1.5	1.2	1.2	1.2	5.1	1.4	1.2	1.2	5.2
Total supply	62.5	62.1	216.9	64.1	66.7	64.5	63.2	218.2	64.8	66.5	64.6	221.5
Commercial exports	8.3	7.6	33.3	8.3	10.6	10.6	9.6	39.1	9.4	9.7	9.6	37.8
Ending commercial stocks	11.8	12.4	12.4	13.7	14.2	12.4	12.4	12.4	12.7	13.6	12.1	12.2
Net removals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial use	42.4	42.1	171.2	42.1	41.9	41.5	41.2	166.7	42.7	43.2	42.9	171.5
Milk prices (dol./cwt) 2/												
All milk	18.27	21.50	18.53	19.50	19.57	19.53	20.70	19.80	19.70	19.20	19.20	19.30
							-21.00	-19.90	-20.30	-20.10	-20.20	-20.20
Class III	17.80	20.17	17.44	17.44	18.04	17.81	18.40	17.90	16.95	17.05	16.95	16.85
							-18.70	-18.00	-17.55	-17.95	-17.95	-17.75
Class IV	15.87	18.34	16.01	17.71	18.62	19.13	19.95	18.80	18.80	18.45	18.85	18.60
							-20.35	-19.00	-19.50	-19.45	-19.95	-19.60
Product prices (dol./pound) 3/												
Cheddar cheese	1.773	1.952	1.708	1.686	1.780	1.761	1.830	1.765	1.690	1.685	1.680	1.670
							-1.860	-1.775	-1.750	-1.775	-1.780	-1.760
Dry whey	0.541	0.643	0.594	0.632	0.575	0.579	0.555	0.580	0.535	0.555	0.545	0.545
							-0.575	-0.590	-0.565	-0.585	-0.575	-0.575
Butter	1.684	1.785	1.594	1.555	1.622	1.438	1.480	1.515	1.405	1.480	1.535	1.465
							-1.540	-1.545	-1.495	-1.600	-1.665	-1.585
Nonfat dry milk	1.269	1.505	1.328	1.546	1.619	1.769	1.835	1.685	1.740	1.665	1.685	1.685
							-1.865	-1.705	-1.790	-1.735	-1.755	-1.755

1/ Starting in May, contains no data updates or analysis on milk cows or milk output per cow.
2/ Simple averages of monthly prices. May not match reported annual averages.
3/ 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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Livestock, Dairy and Poultry Outlook: Special Article

Effect of the Trans-Pacific Partnership on U.S. Dairy Trade

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Approved by the World Agricultural Outlook Board.

The Trans-Pacific Partnership (TPP) is a plurilateral free trade agreement presently being negotiated among 12 countries: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States. The TPP is expected to address many important trade issues; among them is increasing market access to goods and services by reducing tariffs and other trade barriers. The agreement may have an impact on the U.S. dairy industry, which is transitioning from being domestically-focused to filling an important role in global trade. In general, the TPP may:

- Create new opportunities for U.S. dairy trade in growing markets, especially Malaysia and Vietnam, where dairy consumption has expanded rapidly due to increasing incomes.
- Facilitate trade with existing partners, including Canada and Japan, by removing barriers that limit imports.
- Increase access to the U.S. dairy market for TPP partners by reducing tariffs and/or establishing dairy tariff-rate quotas (TRQs), as has been done under past U.S. free trade agreements (FTAs).

What is TPP?

TPP negotiations began in March 2010 with the goal of promoting trade and investment between nine original nations. The partnership has expanded since to 12 countries, with Japan the most recent addition. The 19th round of negotiations was completed in August 2013 in Brunei with the target of concluding discussions by the end of 2013. Details have been kept largely private, but the agreement is expected to focus on lowering existing trade barriers and integrating legal and regulatory procedures, including differences in government procurement, intellectual property rights, and Sanitary and Phytosanitary standards (SPS) (USTR 2011). The TPP aims to echo or expand on previous FTAs by increasing integration among TPP economies while streamlining diverse regulatory structures that inhibit trade.

New Opportunities for U.S. Dairy Exporters

The TPP is expected to lead to greater export opportunities for the U.S. dairy industry in both existing and developing markets. The U.S. dairy industry has become increasingly export-focused over the last decade. The United States exported $945.5 million of dairy products in 2002. Since then, exports have increased at an average annual rate of 44 percent to total $5.1 billion in 2012. Trade with TPP countries accounted for 46 percent of U.S. dairy exports in 2012 (table 1). Growth can be attributed to several factors, including higher global dairy product prices and a weaker U.S. dollar that made U.S. products more competitive abroad. International demand has also risen dramatically, particularly in Asia where consumption of dairy products has risen along with incomes.

Table 1: U.S. exports of selected dairy products to TPP countries, calendar year 2012

	Nonfat dried milk	Whey	Butter	Cheese	Other [1]	Total
Partner Country			Total (Million $)			
World	1,346.09	801.15	172.51	1,111.04	1,693.06	5,123.85
TPP12	819.71	378.80	23.82	567.39	888.83	2,678.55
% U.S. Exports	61%	47%	14%	51%	52%	52%
Australia	1.04	10.57	0.50	53.92	38.89	104.92
Canada	7.28	74.07	5.79	69.02	313.52	469.68
Chile	29.88	4.49	0.88	16.84	10.18	62.27
Japan	20.04	51.46	4.55	123.26	85.09	284.39
Malaysia	51.78	24.83	0.20	8.19	48.10	133.10
Mexico	590.51	135.24	10.50	276.23	215.32	1,227.80
New Zealand	0.05	19.68	0.02	6.11	86.29	112.15
Peru	33.88	8.09	0.12	8.12	6.87	57.08
Singapore	10.64	22.36	1.26	5.12	48.08	87.47
Vietnam	74.61	28.01	0.00	0.58	36.48	139.68

1/ Other dairy products; primarily lactose, milk albumin, buttermilk, yogurt, and milk protein concentrates.

Source: U.S. Department of Commerce, Bureau of the Census.

The TPP is expected to increase trade with Malaysia and Vietnam, both growing economies with significant dairy imports. Demand is likely to grow in years to come as more affluent consumers have higher disposable incomes and demand more dairy products. Per capita GDP growth has been strong for both Malaysia and Vietnam, respectively, averaging 3.1 and 5.7 percent annually from 2003 to 2012 (USDA/ERS). In 2012, U.S. dairy exports to Vietnam totaled $139.7 million, mostly in the form of nonfat dry milk (NDM) used in food manufacturing. Vietnam also imports significant quantities of butter and whey, but not from the United States, whose tariff rates stand at 15 percent for butter and 10 percent for cheese (table 2). U.S. dairy exports to Malaysia totaled $133.1 million in 2012, composed primarily of NDM, whey, and buttermilk. Although Malaysia currently maintains low or zero tariff rates for most U.S. dairy product imports, the TPP could remove any remaining tariffs on U.S. dairy products and mitigate any regulatory practices that impact trade such as SPS barriers. It would also assure a level playing field for the U.S. dairy industry that competes directly with dairy industries in Oceania. Malaysia and Vietnam currently participate in an FTA with Australia and New Zealand through the Association of Southeast Asian Nations.

Table 2: Tariff rates for selected dairy products for Australia, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam

Country	Nonfat dry milk	Whey	Butter	Cheese	Duty Nature [1]	Duty Type [2]
			Tariff Rate			
Australia	0.00%	0.00%	0.00%	$0.096/kg [IQ][3]	A	IQ
				$1.22/kg	S	OQ
Chile	6.0%	6.0%	6.0%	6.0%	A	NQ
Malaysia	0.0%	0.0%	0.0%	0.0%	A	NQ
New Zealand	5.0%	5.0%	0.0%	0.0%	A	NQ
Peru	0.0%	0-9%	0.0%	0-9%	A	NQ
Singapore	0.0%	0.0%	0.0%	0.0%	A	NQ
Vietnam	3.0%	0.0%	15.0%	10.0%	A	NQ

1/ A signifies Ad-Valorum Duties; S signifies Specific Duties.

2/ NQ signifies non quota rate; IQ signifies in quota rate; OQ signifies over quota rate.

3/ Except blue and goat cheeses ($0.0/kg, non quota).

Sources: Country customs tariff schedules.

Reducing Trade Barriers in Canada and Japan

Beyond U.S. trade with emerging markets, the TPP has potential to expand dairy trade with Canada and Japan, to whom the United States had exports of $469.7 million and $284.4 million respectively in 2012. In Canada, technological advances during the mid-20th century led to higher milk production. Meanwhile the loss of key export markets in Europe after World War II lowered dairy trade, and the introduction of dairy alternatives like margarine lowered consumption (Conference Board, 2012). The result was milk surpluses and falling prices. The present supply management system was introduced in the 1950s to remedy the problem, establishing milk quotas and setting domestic prices that are well above international prices (Conference Board, 2012). Partial reform was accomplished after the Uruguay Round, which led to a switch from binding import quotas to a system of TRQs. TRQs allow for limited imports with generally low duty rates, but once quotas are met, rates can increase dramatically (table 3). For example, the in-quota rate for cheese is 3.32 cents per kilogram but rises to 245.5 percent (and not less than $4.25 per kilogram) for imports over quota. Imports from the United States substantially increased after the North American Free Trade Agreement, although price supports and production quotas kept trade below potential (Conference Board, 2012). Similar gains may be possible with TPP.

Table 3: Canadian tariff rates for selected dairy products

Commodity	Tariff	Duty Nature [1]	Duty Type [2]
Nonfat dried milk	3.32¢/kg	S	IQ
	201.5% (but not less than $2.01/kg)	M	OQ
Whey protein concentrate	4.94¢/kg	S	NQ
Powdered whey	3.32¢/kg	S	IQ
	208% (but not less than $2.07/kg)	M	OQ
Butter	11.38¢/kg	S	IQ
	298.5% (but not less than $4.00/kg)	M	OQ
Cheese	3.32¢/kg	S	IQ
	245.5% (but not less than $4.52/kg)	M	OQ

1/ S signifies Specific Duties; M signifies Mixed Duties.

2/ NQ signifies non quota rate; IQ signifies in quota rate; OQ signifies over quota rate.

Source: Customs Tariff of Canada.

Japan's dairy industry has suffered from many of the same issues as Canada's. Surpluses and falling prices led to the creation of the Japan Dairy Council in 1962 to manage drinking-milk production. A complex system of tariffs, supply quotas, and Government support pricing currently protects farmers from international competition. As a result, Japanese consumers pay higher prices for milk and other dairy products than consumers in other developed countries. The wholesale market price for domestic butter was 1,186 yen per kilogram in 2012, equivalent to over $12 per kilogram (USDA/FAS, 2013).This is more than double the average international market price for butter, which was $4.81 per kilogram (USDA/ERS, 2013). Even with restrictions in place, Japan is the third largest market for U.S. dairy exports among TPP countries after Mexico and Canada. Most imports were of cheese, followed by other dairy products and whey. Tariff rates vary significantly between products (table 4). The within-quota rate for cheese is zero percent, while the rate for butter is 35 percent. Once exports rise above quota, the rates increase to 29.8 percent for cheese and 29.8 percent plus 985, or 1,159 yen per kilogram, for butter. Opening the Canadian and Japanese markets would facilitate increased trade between TPP countries while lowering prices for both Canadian and Japanese consumers.

Table 4: Japanese tariff rates for selected dairy products

Commodity	Tariff	Duty Nature [1]	Duty Type [2]
Nonfat dried milk	0-25%	A	IQ
	0 or 21.3% (plus 396 ¥/kg)	M	OQ
Whey	0-35%	A	IQ
	29.8% (plus 400 - 1,023 ¥/kg)	M	OQ
Butter	35%	A	IQ
	29.8% (plus 985 or 1,159 ¥/kg)	M	OQ
Cheese	22.4-40%	A	NQ
	0.0%	A	IQ
	29.8%	A	OQ

1/ A signifies Ad-Valorum Duties; M signifies Mixed Duties.

2/ NQ signifies non quota rate; IQ signifies in quota rate; OQ signifies over quota rate.

Sources: Dairy Policies in Japan, LDP-M-134-01 (Aug. 2005) and Customs Tariff Schedule of Japan.

Increasing Access to U.S. Dairy Markets

The TPP offers the potential for increasing access to the U.S. dairy market for TPP partners beyond the current access provided by the United States' dairy TRQs established under the World Trade Organization. The United States is a net exporter of dairy products, in part due to a large domestic industry and the presence of import tariffs (table 5). In 2012, dairy imports totaled $3.1 billion, 46 percent of which came from TPP countries (table 6). Most imports from TPP countries came from New Zealand, followed by Canada and Mexico. The highest volumes of imports are of products with zero or low tariff rates, including milk protein concentrates, casein, and whey. Therefore, it is unlikely that the TPP would have much of an effect on imports of these products. The agreement would have a greater effect on products for which tariff rates are relatively large, such as butter and cheese.

Table 5: U.S. tariff rates for selected dairy products

Commodity	Tariff	Duty Nature [1]	Duty Type [2]
Nonfat dried milk	3.3¢/kg	S	IQ
	86.5¢/kg	S	OQ
Modified whey	8.5% [3]	A	IQ
	13% [4]	A	IQ
	8.5% (plus $1.035/kg)	M	OQ
Dried whey	3.3¢/kg	S	IQ
	87.6¢/kg	S	OQ
Butter	12.3¢/kg	S	IQ
	$1.541/kg	S	OQ
Cheese	varies	A	IQ
	varies	S	OQ

1/ S signifies Specific Duties; A signifies Ad-Valorum Duties; M signifies Mixed Duties.

2/ NQ signifies non quota rate; IQ signifies in quota rate; OQ signifies over quota rate.

3/ In-quota duty rate for milk protein concentrate (MPC).

4/ In-quota duty rate for modified whey, excluding MPC.

Source: Harmonized Tariff Schedule of the United States.

Table 6: U.S. imports of selected dairy products from TPP countries, calendar year 2012

Partner Country	Butter	Cheese	Milk protein concentrate	Casein	Other [1]	Total
	Total (Million $)					
World	71.16	1,094.01	351.79	609.73	957.48	3,084.16
TPP12	47.70	89.06	333.61	272.25	678.17	1,420.78
% U.S. Imports	67%	8%	95%	45%	71%	46%
Australia	7.71	7.37	37.27	4.94	19.48	76.76
Canada	1.42	24.40	4.93	0.79	389.45	420.99
Chile	0.16	0.01	0.00	0.00	13.63	13.79
Japan	0.00	0.00	0.00	1.21	1.18	2.39
Malaysia	0.09	0.00	0.00	0.00	2.79	2.88
Mexico	3.80	15.26	0.20	0.70	142.59	162.56
New Zealand	34.46	42.02	291.21	264.59	98.95	731.23
Peru	0.00	0.00	0.00	0.02	6.83	6.85
Singapore	0.06	0.00	0.00	0.00	3.16	3.22
Vietnam	0.00	0.00	0.00	0.00	0.11	0.11

1/ Other dairy products; primarily whey, miscellaneous food preparations, and ice cream.

Source: U.S. Department of Commerce, Bureau of the Census.

If the TPP leads to preferential dairy access for TPP partners, U.S. imports of dairy products may increase. New Zealand is the most likely source of raising U.S. imports due to its large export-oriented dairy industry (USDA/FAS, 2013). Because of its strong market position, New Zealand may have the ability to affect international dairy prices. However, in recent years, New Zealand has been unable to fill its allowance of U.S. TRQs due to lower prices for

U.S. dairy products coupled with rising New Zealand exports to China and other parts of Asia. Therefore, the U.S. net trade position is likely to improve from TPP even if New Zealand exports should increase.

Conclusions

The TPP has the potential to increase economic cooperation and trade between the United States and some of its most important partners. The TPP expands U.S. relations with six countries that have existing FTAs while adding agreements with five new partners. The partnership could have a significant effect on U.S. dairy, an industry undergoing rapid change to become more integrated with the international market. At present, further market evolution is restricted by trade barriers, which remain strong in the United States and other TPP countries. The TPP seeks to remove barriers to trade, thus helping to expand markets for U.S. products while expanding access for TPP partners to U.S. dairy markets.

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