Livestock Market Update

Cattle and hog prices typically head in opposite directions in the summer months. In most years cattle prices peak in March or April and move to a low in July or August. Hog prices typically strengthen from the fall to mid-February, are stable into April, rally during May and decline in late summer. This year has a slightly different look as fed cattle prices peaked in January have steadily declined ever sense. Hog prices oscillated through the spring, but did rally over $11/cwt live weight from mid-April to mid-May. What can we expect for the remainder of 2006?

Cattle
U.S. cattle feedlot inventories for May were 11.56 million head, a record for the month and continued a string of record months started in January. Placements in April were down 1.9% from April 2005, marking the first year-over-year decline in placements since last September. Feedlot marketings were also down, -0.4% lower than April 2005, and the third month in a row of lower marketings. Thus, the higher placements and slower marketings have built inventories that will lead to higher marketings for at least the short run.

Feedlots are dealing with a backlog of market ready cattle. Steer carcass weights for the four weeks ending May 13 averaged 15 pounds heavier than the same period in 2005 and have started their seasonal climb to higher levels. The number of cattle May 1 that have been on feed 120 days or more was 12% higher than the year before and at the highest levels since USDA began this reporting series in 1996. The Choice-Select spread widen to over $20/cwt in mid-May which is not unusual, but it is also expected to narrow in the weeks ahead.

Currently, June futures are trading lower than August and later months suggesting that the market believes the low may be earlier as well. In fact, based on the futures market the low for the cash market was reached in the second half of May at $78-79. In spite of the futures market projections, there is reason to think that prices may be lower later in the summer. In 8 of the last 18 years the low price of the year has occurred in the third quarter. Ample supplies of beef, pork, and poultry at a time of high energy prices cutting into consumer spending will be a challenge for the cattle market.

Another factor to monitor is drought conditions in leading beef cow regions. Pasture and range conditions for the U.S. are slightly worse than last year and about even with the 2000-2004 average, which does include three years of severe drought. As of mid-May, 20% of the nation’s pasture and range was considered Very Poor to Poor versus 14% a year ago while slightly more than half of pasture and rangeland was deemed to be Good or Excellent. However, the Southern Plains are significantly worse
than prior years, despite recent moisture. As of mid-May, about 42% their pasture and rangeland was considered as Poor or Very Poor compared to only 21% last year and the 2000-2004 average of 22%.

A continued drought will likely pressure fed cattle prices in the short term. Dry pastures could force sales of cows to other regions or to the cull market which would add to supplies. Longer term heavy culling will slow the herd expansion that is underway reducing the increase in overall beef supplies and price decline. Watch the weather conditions and the rancher’s response.

Hogs
Hog slaughter through the first 20 weeks of 2006 averaged 1.978 million head a week, up 0.7% from the same period in 2005. The 7 weeks from April 1 through May 20 saw slaughter 4.2% higher than the previous year. This pace is higher than the 1.5% increase predicted from the March Hogs and Pigs report for the April – June time frame.

This additional April 1-May 20 slaughter is approximately 550,000 head more than the year before. Imports of Canadian slaughter hogs increased 11,600 during this period. Imports of Canadian pigs in December and January that would have been slaughtered during this time totaled approximately 100,000 head more than the same period a year earlier. These pigs would have been counted in the March Hogs and Pigs report. Domestic production accounted for over 80% of the increased slaughter.

Carcass weights for all hogs have averaged 203.4 year-to-date through mid-May, 0.7 pounds heavier than the same period in 2005. Weights for mid-April to mid-May are also up by the same amount. Seasonally, weights decline through the hot weather of the summer months and increase again in the fall.

Pork exports continue to be a bright spot in the market. First quarter pork exports were up 22.2% from the same time in 2005. Seventy-eight percent of this first quarter growth comes from three countries: Mexico, South Korea, and Russia. Mexico is our second largest export customer for pork behind Japan. Japan imported over a billion pounds pork in 2005, nearly 40% of US pork exports. Japan recently implemented changes in testing for residues in imported meats. While the changes may result in additional testing of US pork, it does not appear that imports will be blocked if violations are found.

Weekly average Iowa – Southern Minnesota hog price topped $51/cwt on a live basis (near $70 carcass) in mid-May, but weaken in late May. Lean Hog Futures fell approximately $2/cwt across all contracts the week ahead of Memorial Day. Basis adjusted futures the last full week of May suggest live prices could remain in the mid $40s through early August. However, futures also predict live prices near $40 in early October and the fourth quarter.

Feed price risk
While U.S. corn stocks are ample today, there is growing concern about the impact of rising ethanol demand for corn if there is a short crop. December 2006 corn futures traded above $2.85/bu in mid-May, $.45 higher than they were in mid-January. Perhaps more interesting is that Dec 2007 futures were over $3.10 and Dec 2008 were over $3.20. There is a lot of time between now and then, but do you have a plan for corn prices at these levels - double the harvest price in 2005?

John Lawrence
Dairy Prices Looking Up

The recent April 06 Milk Production report from USDA gave dairy farmers some positive news. April 06 milk production increased only 3.7%, down nearly 2 percentage points from March. Cow numbers did increase, up 13,000 from March 06 and 124,000 more than one year ago. The slower milk production growth rate came from smaller gains in milk per cow, only 37 pounds higher for April 06 compared to one year ago.

Of the 23 reporting dairy states, 19 had milk production increases and four had decline, see below table. The two largest increases came in NM, 13.7%, and TX, 11.8%. Both states added cows and had large per cow milk production increases.

Iowa milk production rose 3.5% due to 8000 more cows than one year ago. Milk per cow dropped by 10 pounds however and ended up with total milk up by 12 million pounds. Total cheese production in Iowa was up 1.2% for March 06 compared to one year ago with an 8% increase compared to February.

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<th>State</th>
<th>thousands cow numbers 2005</th>
<th>thousands cow numbers 2006</th>
<th>% change cow numbers</th>
<th>pounds 2005 milk per cow</th>
<th>pounds 2006 milk per cow</th>
<th>% change milk/cow</th>
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Source: Dairy Market News
Demand
March 06 total cheese production was 1.5% above March 05 but was 12.3% higher than the previous month, February 06. Italian style cheese rose also but was 1.4% higher than one year ago and 11.6% more than the previous month. American style cheese was 2.1% higher compared to one year ago and 11.2% higher than the previous month.

Butter production was 142 million pounds, 16% above March 2005 and 3.7% more than Feb 06. NFDM production was up 17.2% from one year ago and 9.1% more than Feb 06.

Analysis
Recent hot weather in the Central Valley and Northern California has reduced much of the pessimism about future milk prices. Buyers returning from the Memorial Day holiday pushed up July 06 Class III futures prices and paid 1 cent per pound more for barrel cheese.
The very strong production gains, over 5%, of the past few months are probably over due to hot weather in the SW US and its beginning in the upper Midwest. School Closings for the summer will move more milk into cheese manufacture. The milk-feed price ratio has dropped to 2.47 for April, due mostly to lower milk prices but also increased cost for corn.

Class III Sept 06 futures closed at $12.66, not an excellent price but stronger than anticipated just a month or two ago. Weather has begun to impact per cow production and feed production. Without further weather problems, prices are likely to remain in a narrow trading range.

New crop hay will be coming to market in the Midwest soon. Serious widespread weather problems did not disrupt first crop hay so quality should be good, helping promote more milk per cow. Further increases in feed cost may be coming based partly on worries for the US corn crop ending up lower than last year’s. Projected ending stocks are to be 1 billion bushels less than last fall. Milk production costs are likely to be higher this year than last giving some dairy farms, those buying most of their feed, serious cash flow problems.

Iowa Dairy Herd Outlook
In talking with Iowa dairy industry, contractors and professional farm managers, a picture of possible dairy cow numbers for Iowa at year end is emerging. The author knows of projects underway that will add between 10,750 and 12,000 dairy cows to new Iowa dairy facilities. Probably 2/3 of these cows will come from out of state. Dairy herd growth in Iowa will very likely be 4-5% for 2006. Iowa will lose more small herds this year, but the projects on tap are larger than Iowa’s average herd size.

Robert Tigner