

**STATEMENT OF DR. JOSEPH GLAUBER  
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BEFORE THE U.S. HOUSE COMMITTEE ON AGRICULTURE,  
SUBCOMMITTEE ON LIVESTOCK, RURAL DEVELOPMENT AND CREDIT**

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Chairman Crawford, Ranking Member Costa, and members of the Subcommittee, thank you for the opportunity to testify today on the state of the livestock and poultry sectors. While the state of the broad U.S. agricultural economy has been strong these past several years, the livestock sector has not shared in the boom experienced by many crop producers. On April 15, the U.S. Bureau of Labor Statistics (BLS) reported that the Consumer Price Index (CPI) for beef and veal prices in March was 7.4 percent higher than year ago levels. The CPI for pork was also up 5.3 percent above year ago levels while chicken prices were up 3.6 percent. While hog and cattle prices have been at or near record levels so far in 2014, these prices reflect tight supply due in part to tight margins the last several years, but also drought in the southern plains and California and the outbreak of PEDv among swine herds, which will continue to influence the ability of producers to benefit from and respond to these high prices.

Record prices for grains and oilseeds have kept feed costs high and operating margins tight for most animal producers for much of the past 5 years. Tight margins, in turn, have constrained expansion which has led to record high prices for cattle and hogs and near-record prices for broilers. With falling grain and oilseed prices following record global crops of grains and soybeans, the livestock sector would normally be poised to take advantage of strong livestock prices and moderating feed costs in 2014. However, the ability of the beef and pork sectors to expand production will be limited by non-feed cost factors. We expect that red meat production will remain constrained in the near term and is forecast in 2014 to be the lowest since 2010 and 1.8 percent below the 2008 record (figure 1). Prospects for the beef sector, in the near term, are limited by the decline in cattle inventory, the biological lags inherent in the production system and persistent dryness in the southern plains, now in its fourth consecutive year of drought. Likewise,

in the hog sector, positive producer returns and lower feed costs have set the stage for strong expansion. However, the spread of Porcine Epidemic Diarrhea virus (PEDv) through the U.S. herd is expected to sharply limit the supply of hogs compared to earlier expectations. In comparison to the beef and pork sectors, the poultry industry is able to respond more quickly to market signals. Broiler production is forecast to be at record levels in 2014, up 1.8 percent over the previous record set last year. Egg production will likely see record levels as well in 2014.

In my testimony today I will first discuss general trends in the livestock and poultry sector before turning to a more extensive review of the current situation and outlook for the red meat, poultry and egg sectors including recent movements in retail prices. Lastly, I will discuss government safety net programs available for livestock producers, including recently implemented disaster programs from the Agricultural Act of 2014.

### **Trends in the livestock and poultry sectors**

While there are unique characteristics of the markets for red meats, poultry and eggs, there are many common trends that have shaped those markets in recent years.

1. For the past several years, feed costs have been high relative to cash receipts for livestock, poultry and egg producers. Since 2007, grain and oilseed prices spiked to record (nominal) highs in 2007/08, 2010/11 and again in 2012/13, raising feed costs and reducing operating margins. Feed costs as a percent of total cash receipts average over 33 percent over 2007-13, compared to less than 25 percent over 2000-06 (figure 2).
2. High feed costs and poor pasture conditions reduced profitability for livestock and poultry producers. Feed ratios for hogs, cattle, broiler and layer operations declined sharply in 2007 and remained at low levels up through mid-2013 (figure 3). For cattle, low feed ratios have been exacerbated by poor pasture conditions as a result of lingering drought in the southern plains over the past 3 years. Poor margins over that period limited expansion for hogs and broilers and contributed to further contraction in the cattle sector. While feed costs have moderated, other factors have hampered expansion plans in the beef and pork sector.

3. Since 2007, lower meat production and increased net exports have resulted in higher consumer prices and lower per capita consumption in the United States. Annual average consumption of red meats and poultry has declined from a peak of almost 222 pounds per capita in 2004 to less than 204 pounds in 2013 (figure 4). The slowdown in the broader economy which began in late 2007 also had a negative impact on per-capita consumption and likely curtailed the ability to fully pass along higher feed costs to consumers. With production forecast to increase over 2014-23, per capita consumption of red meats and poultry is forecast to increase but only reach 215 pounds by 2023. Most of the gain in per capita meat consumption is expected to come from growth in per capita poultry consumption, continuing the rapid rise in poultry consumption that began in the mid-1970's. Per-capita beef consumption is expected to continue to decline in the near term through 2016 before showing modest growth with the expected rebound in beef production once herds have recovered. Per capita pork consumption is expected to rise slightly as production recovers over the next four years before flattening as production growth is projected to slow.
  
4. Consumption patterns for red meats poultry and eggs have changed significantly over the past 40 years. Consumption of food prepared away from home plays an increasingly large role in the American diet. In 1970, 25.9 percent of all food spending was on food away from home; by 2012, that share rose to its highest level of 43.1 percent. A number of factors contributed to the trend of increased dining out since the 1970s, including a larger share of women employed outside the home, more two-earner households, higher incomes, more affordable and convenient fast food outlets, increased advertising and promotion by large foodservice chains, and the smaller size of U.S. households.

Consumer surveys suggest that almost 40 percent of beef and 42 percent of chicken is consumed as food prepared away from home. Ground beef eaten at restaurants, including the fast food sector, accounted for 60 percent of the beef eaten away from home.

5. Exports account for an increasing share of total demand for red meats, poultry and eggs. Twenty-five years ago, exports of red meats, poultry and eggs were negligible, accounting for less than 5 percent of total production. Over the past 5 years, exports have averaged almost 10 percent of beef and veal production, 20 percent of pork and chicken production, and about one-eighth of turkey production (table 1). Exports have brought additional value to U.S. producers and consumers, particularly exports of cuts of meat that are less popular with U.S. consumers such as chicken leg quarters and beef offal.

Trade in live animals is also important, particularly for cattle and hogs. The United States imports both feeder and slaughter cattle from Canada and Mexico and imports hogs, primarily feeder pigs, mainly from Canada. Canadian feeder pigs have represented upwards of 5-6 percent of finishing hogs in the U.S., but have recently seen their share shrink considerably.

**Table 1—Share of red meat, poultry and egg production that is exported**

	1970-79	1980-89	1990-99	2000-09	2010-14
	(percent)				
Beef and veal	0.4	1.9	6.8	6.6	9.7
Pork	1.4	1.3	4.2	12.4	21.5
Chicken	2.2	4.3	12.7	16.4	19.4
Turkey	2.3	1.4	6.2	9.2	12.5
Eggs*	0.8	2.1	2.9	2.6	3.9

Source: PSD database and ERS, includes farm production. \* includes shell eggs and egg products

6. Contracting is a major feature of livestock and poultry production. Contracting is a major feature of U.S. agriculture (MacDonald and Korb 2011) but can vary considerably by livestock type. In 2008, agricultural contracts covered almost 90 percent of poultry and egg production, over two-thirds of hog production and almost 30 percent of cattle production (table 2).

Contracts are evolving to cover new and often unforeseen developments or changes in market conditions. Standard poultry production contracts are designed so that the

integrator provides feed and chicks and technical advice, while the farm operator provides the on-farm equipment, structures, labor, and utilities. Hog production contracts largely follow suit. Today more production contracts are specifying animal welfare and health standards, while some provide for joint financing of utility expenses. Production contracts are also evolving to handle more complex organizational structures, including third party (nongrower) ownership of housing. Cattle feedlots typically charged clients a fee for providing custom feeding and marketing services for the client's cattle, but some feedlots now offer contracts that share equity ownership (of the cattle) between the feedlot and the client.

**Table 2—Share of commodity production under contract, by commodity**

Commodity	1991-93	1996-97	2001-02	2005	2008
	Share of production under contract (percent)				
Livestock <sup>1</sup>	32.8	44.9	48.2	50.1	52.8
Cattle	na	17.2	21.0	17.6	29.4
Hogs	na	34.2	62.5	76.2	68.1
Poultry and eggs	88.7	83.8	92.3	94.2	89.9

<sup>1</sup>Includes dairy and all other livestock. na = data not available for commodity detail.

Source: MacDonald and Korb 2011.

### **The Outlook for Cattle and Beef**

USDA's January *Cattle* report estimated that the number of cattle and calves on January 1, 2014 fell about 2 percent to 87.7 million head, the lowest cattle and calf inventory since 1951 (figure 5). The cow herd was estimated at 38.3 million head, about 1 percent smaller than a year earlier. Producers indicated that they intended to retain 2 percent more heifers for addition to the beef herd and expected to have 1 percent more heifers calve during 2014. Dairy cow numbers were about equal with last year but producers indicated that while retaining slightly fewer heifers for addition to the cow herd, they expected more to calve this year than last. The 2013 calf crop was estimated at 33.9 million head, the smallest calf crop since 1949.

Both the U.S. cattle inventory and the beef cow herd are expected to continue to shrink in 2014. Although returns to cow calf operators have improved, many producers appear to

be taking a cautious view, and are rebuilding their capital after a year or more of buying expensive forage and ensuring sufficient supplies of forage and water will be available before expanding in earnest. Moreover, persistent drought in California and the southern plains will likely continue to put pressure on cow-calf producers in those regions. Since the start of 2011, the cattle and calves inventory has declined by almost 5 million head, with almost 65 percent of those losses occurring in the drought-affected states of Texas and Oklahoma.

USDA estimates that as of April 15, 2014, approximately 44 percent of the domestic cattle inventory was within an area experiencing drought (figure 6). While the portion of the inventory currently in drought is down significantly from September 2012 when over 75 percent of the inventory was in areas experiencing drought, the amount of inventory in drought has increased 10 percentage points since last fall and remains high relative to historical levels (figure 7).

Commercial cow slaughter for first-quarter 2014 is forecast to be the lowest since 2008 and is indicative of both low cow inventories and intentions to retain or increase cow inventories as soon as pasture conditions permit. If pasture conditions fail to develop normally, the rate of cow slaughter could again increase and delay expansion. First-quarter commercial steer and heifer slaughter is forecast at the lowest level since 1965. First-quarter beef production will likely be the lowest only since 1995 because dressed weights have increased over time and have largely offset general declines in inventories and slaughter since their peaks in the mid-1970s (figure 8).

Weekly average processing beef prices continue to increase as weekly federally inspected cow slaughter declines, year over year (figure 9). Cow-calf producers should continue to see attractive cow prices for the near term because of low cow inventories and continued demand for ground beef products made from culled cows. Choices for cow-calf operators who are not entirely certain they want to deal with another year of drought will be made more difficult by high cow prices. Feeder cattle prices could decline slightly in the near future as demand for pasture cattle subsides with stocking of available pasture.

However, the anticipated smallest calf crop since 1949 will provide significant price support for the limited supplies of feeder cattle. At the same time, fed cattle and beef prices may have reached their peak for the season. For 2014, beef production is forecast at 24.6 billion pounds, 4.5 percent below 2013. Steer and heifer slaughter will be below 2013 as feedlot numbers dwindle. Strong prices and lower feed prices have supported heavier slaughter weights as a short-run means to increase beef output and carcass weights are forecast to increase to almost 795 pounds.

Beef and cattle trade. Year to date U.S. cattle imports for 2014 totaled 364,804 head through February, about even with a year earlier. Imports from Canada were up 7 percent, while imports from Mexico have fallen 6 percent. Imports of slaughter cattle from Canada were unchanged from 2013, but feeder cattle imports have increased 19 percent this year. Demand from U.S. buyers has been strong as feeder cattle prices in Canada have lagged strong growth in U.S. prices. Agricultural Marketing Service weekly data through March 22, 2014 show cattle imports are 17 percent above year earlier levels. Cattle imports are forecast at 1.97 million head for 2014. This is a 1 percent decline in cattle imports from 2013 as inventories have fallen in both Canada and Mexico.

U.S. beef exports were up 4 percent through February 2014 compared to a year earlier. Strong demand from Japan, Mexico, and Hong Kong more than offset declining shipments to Canada, South Korea, and Taiwan. Higher prices for U.S. beef may have limited demand from some markets, including Canada which has also experienced a depreciating exchange rate with the U.S. dollar. Higher prices have not discouraged strong sales in product to Japan and Hong Kong as the United States continued to take market share from Australia. Exports to Mexico have also been strong in 2014. After declining in 2012 due to a drought-induced rise in Mexican beef production, U.S. exports to Mexico rose 15 percent in 2013 and were up 32 percent through February. Demand is likely to remain strong as beef production is expected to fall this year in Mexico due to diminished cattle inventories. The forecast for 2014 U.S. beef exports is 2.515 billion pounds, implying a nearly 3 percent decline from 2013 as lower production will limit trade volumes. Tight supplies of processing meat and continued strong demand for hamburger will likely support increased imports of beef during 2014. Imports are

forecast at 2.3 billion pounds, about 3 percent above 2013. However, growth in imports, especially in the first half of the year will be constrained by tight supplies in those countries traditionally supplying the United States and strong demand in a number of markets world-wide.

### **Hogs and Pork**

While pork producers have also faced high feed prices over the last several marketing years and hog prices have risen significantly in recent weeks, tight supplies are less a result of cautious expansion seen among cattle feeders and, more concretely, the impact of Porcine Epidemic Diarrhea (PEDv). Much of the recent volatility in hog prices can be attributed to changing market expectations about the impact of the virus. From the earliest reported incidents in 2013, the virus has spread to 30 U.S. States, 4 Canadian Provinces and several areas in Mexico (figure 10).

The March 1 inventory of market hogs of just over 57 million head was 3.7 percent lower than a year ago, the latest in a string of year-over-year quarterly inventory contractions which began March-May 2013, and the lowest March 1 inventory level since 2007. That lower inventory number is largely a reflection of a smaller pig crop in the previous two quarters. The September-November pig crop was fractionally lower than a year earlier while the December-February pig crop came in at 27.3 million head, almost 3 percent lower than a year ago. The December-February pig crop declined *despite* a 2.8-percent increase in farrowings from year ago levels and reflected the negative impact of PEDv on litter rates. The PEDv virus has proven particularly lethal to young piglets, increasing pre-wean mortality which is captured in reported reductions in litter rates, a measure of the number of pigs weaned per farrowing. The litter size for the December-February pig crop was 9.53 pigs per litter, down 5.5 percent compared to the same period a year earlier (figure 11). That represents the first year on year decline in the litter rate since the June-August quarter of 2003 and the largest percent year-on-year decline since the December-February period in 1977 (37 years ago) at a time when the litter rate was much lower.

The lower litter rate indicates that the spread of PEDv may be affecting hog numbers and future pork production. To compensate for piglet losses, the industry has indicated plans to increase farrowings and feeding animals to heavier weights. While feeder pig imports, primarily from Canada, were up in the first quarter of 2014 compared to the previous quarter, they were down year over year for the December-February period and part of a broader decline in feeder pig trade which saw feeder pig import numbers fall by over 13 percent in 2013. To date, the spread of PEDv in Canada has not been as severe as in the United States, with approximately 50 cases reported in four Canadian provinces as of mid-April. Nonetheless, hog imports are forecast lower than last year as supplies in Canada remain tight.

The reduced litter rates reflect average industry wide impacts but ability to capitalize on higher hog prices and lower feed prices will depend on the operations exposure to PEDv. Producers who have avoided significant animal losses will be able to sell feeder pigs or finished hogs into a tight market at high prices, however, those hardest hit by PEDv will be left with little to sell. Given the tighter supply of feeder pigs, finishing operations may bid away margins in order to maintain finishing facilities at capacity. The last several weeks have seen hog slaughter dip 5% compared to the same period last year and moving forward, lower pig crops and gilt retention are likely to lead to reduced hog slaughter numbers.

The slight increase in the March 1 inventory of breeding animals, combined with aggressive year over year increases in farrowing intentions for the spring and summer pig crops, suggest that producers are responding to high hog prices and mitigating some of the PEDv losses. Producers have indicated intentions to expand farrowings over the next two quarters by 2 percent (figure 12). In addition to expanded farrowings, carcass weights are expected to average over 211 pounds dressed weight, 2 percent above last year. In the short run this will offset some of the loss in pork production from lower market hog numbers. As a result of the combination of lower litter rates, reduced hog

imports, increased farrowings and heavier carcass weights, commercial pork production for 2014 is forecast to be 22.76 billion pounds, down 1.8 percent from last year.

Live hog prices have risen dramatically since the first of the year (figure 13). U.S. hog prices, on a national base, 51%-52% lean, live equivalent, are forecast to average \$72 to \$75 per cwt for 2014, up significantly from last year's \$64.05. Prices are expected to peak in the first or second quarter as the reduced December-February pig crop comes to market and supplies are tightest.

If farrowings follow intentions, supplies in the second half of the year should expand and moderate prices, but they are still likely to average above year ago levels. The continuing impacts of PEDv remain a significant uncertainty and will influence the price path in the coming months.

Pork exports were lower in 2013 as Russia was closed due to restrictions on the use of Ractopamine and exports to Japan were lower as higher beef sales cut into pork exports, but they are expected to slip further as high U.S. pork prices and limited supplies will dissuade some foreign buyers. Pork exports are expected to fall 3 percent to 4.85 million pounds. Pork imports are expected to show gains as higher U.S. prices encourage imports.

In the coming decade, domestic pork production is expected to overtake domestic beef production on a weight basis but a greater proportion of the pork is destined for the export market as efficiency gains in the sector are expected to enhance competitiveness overseas. Asia and Mexico are likely to remain key markets for U.S. product while the importance of Russian markets, in pork and other meats, may decline as the country pursues a policy of greater meat self-sufficiency. With expanding pork exports, per-capita pork consumption while growing, is expected to remain third behind beef and poultry consumption in the coming decade. The on-going impact of PEDv will continue to shape market expectations in the near term and beyond and will continue to shape market expectations.

## **Sheep and Lamb**

While world sheep numbers have remained relatively stable over the last several decades, the size of the U.S. flock has seen steady declines. The U.S. sheep and lamb inventory is expected to decline for a ninth straight year in 2014 (figure 14) with a January 1, 2014 inventory of sheep and lambs of 5.21 million head, down 2 percent from the previous year. While Colorado, California and Wyoming showed a decline of 110,000 head, or an 8 percent decline, Texas, the top sheep producing state has been building inventory after drought related losses in 2011. Texas inventory numbers were up 30,000 head in 2012 and another 40,000 head in 2013.

The breeding flock likewise declined 2 percent and the number of replacements lambs was almost 4 percent lower. The lamb crop declined over 2 percent in 2013 as the lambing rate fell to 1.07 lambs per ewe per year. In 2013, commercial lamb and mutton production was virtually unchanged from 2012 despite a smaller 2012 lamb crop, as poor forage conditions and high feed costs encouraged producers to advance marketings in mid-2013. Commercial lamb and mutton production in 2014 is forecast at 150 million pounds, almost 4 percent lower, as market lambs on January 1 were down over 2 percent and producers may choose to hold back lambs to rebuild flocks. Continued or worsening drought conditions could, however, negatively impact plans for ewe retention.

Lamb imports, primarily from Australia and New Zealand, represent about half of available supplies and tend to move in concert with domestic production. In 2014, the fall in imports may outpace the fall in domestic production. Lamb and mutton imports for 2014 are forecast at 160 million pounds, 7 percent lower than 2013. Despite the lower forecast for U.S. production, supplies in Australia and New Zealand will be relatively tight. Competition for those supplies has also increased with the expansion of sales in Asia and exports to the U.S. are expected to be limited, supporting domestic lamb prices.

Per-capita lamb consumption is expected to continue its long-run decline, with per-capita consumption expected to be 0.9 pounds in 2014, less than one-third the level in 1970. The

decline is expected to continue, although at a much slower pace, in the next decade. Population growth will offset some of the decline in per-capita consumption with total disappearance likely to be relatively flat in the coming years.

The San Angelo Choice slaughter lamb price is forecast to average \$157 to \$165 per cwt for 2014, a sharp increase from \$111.12 in 2013 and very close to 2011's record of \$161. Prices began to increase in the second half of 2013 and are expected to average above year-earlier through 2014 as supplies of marketable lambs and lamb and mutton imports remain tight, other meat prices remain elevated and demand improves.

### **Broilers**

The broiler industry has faced some of the same challenges the pork and beef industry has faced since 2006. The sector has faced high feed costs and a sluggish economy which weakened demand, but broiler meat has benefited from a quicker response time, price increases in other meats and continued strong export demand. Producers responded to higher broiler prices in 2012 by beginning to increase production in late 2012. However, high feed prices in late 2012 and early 2013 kept the expansion in check and producers appear to be taking a very measured view toward expansion. In anticipation of moderating corn and soybean meal prices for the 2013/14 marketing year and strong broiler prices supported by record prices for competing meat products, the number of broiler chicks placed in the second half of 2013 increased compared to a year earlier. However, growth has slowed since the beginning of 2014. Current projections show modest growth in bird numbers and increased bird weights encouraged by low feed costs. As a consequence broiler production is expected to be up almost 2 percent to 38.5 billion pounds in 2014. Expectations are for longer run return to steady growth in subsequent years.

Trade has been a major factor in the growth of the broiler industry over the last two decades and the United States is expected to export 7.5 billion pounds of broiler meat in 2014, up from 7.4 billion pounds in 2013. The United States is the world's second largest broiler exporter and U.S. exports have generally grown at or exceeded the rate of

production growth. Exports represented just under 20 percent of broiler production in 2013, up from less than 5 percent prior to 1990. Mexico is the largest destination for U.S. exports accounting for 19 percent in 2013 of U.S. exports, but Russia and Canada are also significant destinations as well as Georgia, Angola and Cuba in recent months.

The U.S. broiler industry has benefited from income and population growth overseas as consumers in developing economies look for increasing quantities of meat imports. Broiler meat has also benefited from the complimentary nature of consumer demand in those countries. Little of what is exported is whole chicken. While breast meat is in high demand in the United States, for many of our export destinations, leg meat is preferred and leg quarters have become the dominant broiler product exported (figure 15). The availability of a segmented market has helped boost the overall value of the bird to producers.

Despite higher production, tight supplies of beef and pork and improving economic conditions are likely to support stronger demand for broiler meat putting upward pressure on retail prices. For 2014, the National Composite Weighted Average Broiler price is forecast to average a record \$1.00-\$1.04 per pound, compared with just under \$1.00 in 2013.

### **Turkeys**

Turkey production for 2014 is forecast to remain flat at just under 5.7 billion pounds, about 2 percent lower as the number of poult placed remains below year-earlier. Since the second quarter of last year, turkey production has been consistently below year-earlier levels despite declining feed prices as weak turkey prices in the first half of 2013 have likely delayed expansion plans. Eggs set in incubators were below year-earlier through the fourth quarter-2012 and into early 2014. With stronger whole turkey prices forecast for 2014 and moderate feed costs, producers are expected to expand in the second half of 2014. A portion of the growth in production is likely to be the result of heavier weight birds as producers take advantage of lower prices feed. Turkey stocks at the end of

February were 17 percent lower than a year earlier with the largest decline in legs which fell 59 percent boosting prices for legs but with more limited upward pressure on whole bird prices. Year on year growth in inventories is expected in the second half of 2014 as production lags.

The National turkey hen price is forecast to average \$1.03-\$1.08 per pound, compared to an average of \$1.00 in 2013.

In 2013, turkey exports were 5 percent lower, largely on weaker sales to most major markets. Turkey exports for 2014 are forecast to decline about 6 percent to 710 million pounds as demand remains soft and other poultry products are competitive as turkey prices rise.

### **Eggs**

Egg production slipped in 2007 and 2008 as producers responded to increasing feed costs and relatively weak egg prices. However, with only modest increases in production, egg prices have steadily increased in the past several years, supporting continued expansions despite high feed prices. Total U.S. egg production in 2014 is expected to be 8.06 billion dozen, almost 2 percent higher than 2013.

Table egg production is expected to increase about 2 percent to 6.97 billion dozen as producers respond to lower feed prices and higher egg prices in the first half of 2014. On January 1, 2014 the number of table egg layers was about 2 percent higher than year-ago. Table egg layers have been above year-earlier since October 2011. Hatching egg layers were also up over 2 percent compared to a year ago with strength in both broiler-type and egg-type layers indicating expansion breeding stock for both uses. Hatching egg production is expected to increase about 2.5 percent in 2014 as broiler and table egg producers look to expand bird numbers and increase production.

Annual per-capita consumption of eggs for is currently estimated at 255.1 eggs. Between 1945 and 1995, per-capita egg consumption decreased about 44 percent, from over 400 eggs per person per year to 232 eggs. Since then per capita egg consumption has risen by about 10 percent. Most of the growth in consumption has been in the form of eggs processed in food products (figure 16).

For 2014, New York wholesale egg prices are forecast to average \$1.26 to \$1.32 per dozen, up from the \$1.25 average for 2013. Prices are expected to decline in the second half of the year as output expands on hatching egg decisions made in the past several months.

In 2013, egg and egg product exports increased 23 percent to 372 million dozen, shell egg equivalent. The main driver of the increase was exports to Mexico as an outbreak of highly pathogenic Avian Influenza in Jalisco in mid-2012 reduced Mexican egg production and has since limited Mexican egg availability as local production attempts to rebuild. Higher sales to Japan and Canada also supported increased egg exports. Looking forward to 2014, egg exports are forecast at 312 million dozen, down 16 percent as Mexico's production recovers and egg prices strengthen.

### **Retail prices**

Consumer expenditures for meats, poultry and eggs account for almost one-fifth of total at-home food expenditures. While recent changes in the Consumer Price Index (CPI) for food consumed at home have been low relative to historical levels, high product prices for animal products have resulted in larger increases in retail prices for meats, poultry and eggs prices relative to other food items. Beef and veal prices, which are already at or near record levels across the country, rose 1.9 percent in March and are up 7.4 percent over March 2012 levels. Pork prices rose 1.9 percent in March and are up 5.3 percent over year ago levels. Chicken prices in March were up 4.9 percent over March 2013 levels while egg prices were up almost 10 percent from a year ago.

Table 3 shows annual inflation rates for various food categories since 2010 as well as forecasts for 2014. Aggregate food at home prices have, on average, risen by 2.1 percent annually since 2009. Over the same period, meat prices rose by 4 percent annually with retail prices for beef and veal increasing, on average, by 5.3 percent annually. Between 2009 and 2013, pork, poultry and egg prices rose annually by 3.6 percent, 3.2 percent and 4.2 percent, respectively. With the exception of fish and seafood (3.2 percent annual increase), dairy products (2.5 percent annual increase) and fats and oils (3.3 percent annual increase), most other food categories had annual inflation rates less than 2 percent.

The Economic Research Service forecasts changes in the CPI for food at home for 2014 to be in line with historical rates of inflation at 2.5 to 3.5 percent.

**Table 3—Annual change in consumer price index, selected categories, with forecasts for 2014**

	Weight	2010	2011	2012	2013	Avg 2010- 13	Forecast 2014
Food at home	100.0	0.3	4.8	2.5	0.9	2.1	<b>2.5 to 3.5</b>
Meats, poultry, and fish	21.4	1.9	7.4	3.6	2.1	3.7	<b>2.5 to 3.5</b>
Meats	13.8	2.8	8.8	3.4	1.2	4.0	<b>2.5 to 3.5</b>
Beef and Veal	6.6	2.9	10.2	6.4	2.0	5.3	<b>3.0 to 4.0</b>
Pork	4.2	4.7	8.5	0.3	0.9	3.6	<b>2.0 to 3.0</b>
Other meats	3.1	-0.1	6.4	1.7	-0.1	2.0	<b>2.0 to 3.0</b>
Poultry	4.1	-0.1	2.9	5.5	4.7	3.2	<b>3.0 to 4.0</b>
Fish and seafood	3.5	1.1	7.1	2.4	2.5	3.2	<b>2.5 to 3.5</b>
Eggs	1.3	1.5	9.2	3.2	3.3	4.2	<b>3.0 to 4.0</b>
Dairy products	10.5	1.1	6.8	2.1	0.1	2.5	<b>2.5 to 3.5</b>
Fats and oils	3.1	-0.3	9.3	6.1	-1.4	3.3	<b>1.5 to 2.5</b>
Fruits and vegetables	15.0	0.2	4.1	-0.6	2.5	1.5	<b>2.5 to 3.5</b>
Fresh fruits & veg	11.5	0.7	4.5	-2.0	3.3	1.6	<b>2.5 to 3.5</b>
Fresh fruits	6.1	-0.6	3.3	1.0	2.0	1.4	<b>3.5 to 4.5</b>
Fresh vegetables	5.4	2.0	5.6	-5.1	4.7	1.7	<b>2.0 to 3.0</b>
Processed fruits & veg	3.5	-1.3	2.9	3.8	0.3	1.4	<b>2.5 to 3.5</b>
Sugar and sweets	3.5	2.2	3.3	3.3	-1.7	1.7	<b>2.0 to 3.0</b>
Cereals and bakery products	14.3	-0.8	3.9	2.8	1.0	1.7	<b>1.5 to 2.5</b>
Nonalcoholic beverages	11.0	-0.9	3.2	1.1	-1.0	0.6	<b>2.5 to 3.5</b>
Other foods	19.9	-0.5	2.3	3.5	0.5	1.5	<b>2.0 to 3.0</b>

Source: BLS and ERS.

## **Safety Net for Livestock Producers**

USDA offers several types of programs to assist livestock producers manage and recover from events that adversely affect their production. Many livestock producers are also crop producers and so the discussion here is limited to programs that are specific to livestock production. The two main types of programs that are directly targeted to livestock production are insurance products and supplemental disaster assistance.

Insurance programs. USDA's Risk Management Agency offers several products that are tailored to livestock production: livestock gross margin policies (LGM), livestock risk protection policies (LRP), and several policies to guard against adverse weather affecting on-farm forage production. LGM and LRP are livestock pilot programs and are limited by the Federal Crop Insurance Act to total annual outlays for all livestock programs of \$20 million per fiscal year. The bulk of the monies available to those pilots are used in the LGM-dairy program.

Pastureland, rangeland, and forage losses can be insured under individual or area-based forage policies or under the index-based Pasture Rangeland and Forage (PRF) policy based on a rainfall or vegetative index. The PRF-Rainfall Index (PRF-RI) is based on weather data collected and maintained by NOAA's Climate Prediction Center. The index reflects how much precipitation is received relative to the long-term average for a specified area and timeframe. The PRF-Vegetative Index (PRF-VI) is based on the U.S. Geological Survey's Earth Resources Observation and Science (EROS) normalized difference vegetation index (NDVI) data derived from satellites observing long-term changes in greenness of vegetation of the earth since 1989.

In 2013, forage and forage seeding policies covered almost 3.5 million acres with crop value of \$631 million; and rainfall and vegetative PRF programs covered 54 million acres with an insured crop value of nearly \$1 billion. In total producers paid about \$110 million in premiums for those policies in 2013, which covered approximately \$200 million in losses.

In addition, mechanically harvested or grazed forage production can be covered under the noninsured crop disaster assistance program (NAP), which covers the up to 50 percent of losses. NAP payments were \$225 million in 2013.

Livestock disaster assistance. On April 14, 2014, USDA published its final rule implementing the supplemental disaster programs from the new Farm Bill. On April 15, the department began to sign-up producers for those four permanent disaster programs. Three — the Livestock Forage Disaster Program (LFP), the Livestock Indemnity Program (LIP), and the Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP), cover certain livestock losses.

Those programs were previously authorized through September 30, 2011 under the 2008 Farm Bill (the Food, Conservation, and Energy Act of 2008, Pub. L. 110-246). With the authorization provided in the 2014 Farm Bill, those disaster assistance programs are permanent, continuing programs that are not subject to annual appropriations. They are expected to provide more than \$2 billion in payments to producers for eligible losses that have occurred since the expiration of the livestock disaster assistance programs in 2011 for years 2012 and 2013 (table 4). Within the first week of signup, \$9.4 million in LFP payments had been requested or were awaiting certification, and more than \$4 million had been disbursed. Overall payments from 2012 to 2023 are forecast to be about \$6 billion (of which about 85 percent is for Livestock Forage Disaster Program payments).

LFP provides payments to eligible livestock producers that have suffered livestock grazing losses due to qualifying drought or fire. An eligible livestock producer must own, cash lease, or be a contract grower of eligible livestock during the 60 calendar days before the beginning date of the qualifying drought or fire in a county that is rated by the U.S. Drought Monitor as D2, D3, or D4. LFP payments are forecast to be approximately \$5 billion from 2012–2023.

LIP provides disaster assistance to livestock owners and contract growers that have incurred livestock death losses in excess of normal mortality due to adverse weather (including hurricanes, floods, blizzards, disease, wildfires, extreme heat, and extreme cold) during the calendar year. LIP also provides assistance to livestock owners and

contract growers that had losses due to livestock deaths in excess of normal mortality due to attacks by animals reintroduced into the wild by the Federal Government or protected by Federal law, including wolves and avian predators. Eligible livestock includes beef cattle, dairy cattle, bison, poultry, sheep, swine, horses, and other livestock as determined by the Secretary. LIP payments are forecast to be \$700 million from 2012–2023.

ELAP provides emergency assistance to eligible producers of livestock, honeybees, and farm-raised fish that have losses due to adverse weather, or other conditions, that are not covered under LFP or LIP. ELAP payments are forecast to be about \$150 million from 2012 – 2023. ELAP payments are capped by the 2014 Farm Bill at \$20 million annually.

To expedite applications, information on the types of records necessary can be provided by local FSA county offices. Note that the final rule provides producers with greater flexibility as to their documentation. For example, for ELAP, if verifiable or reliable records are not available, FSA may now accept producers’ certification of eligible losses if similar producers have comparable eligible losses, as determined by FSA. The final rule does not, however, change the requirement that participants receiving ELAP, LFP, and LIP payments must keep documentation supporting the request for payment for 3 years following the end of the year in which the application for payment was filed. That recordkeeping requirement is consistent with other FSA rules and programs, as well as with previous similar disaster assistance programs. County offices can schedule appointment times for sign-up.

**Table 4—Estimated Outlays for FSA Livestock Disaster Programs**

Program	Average FY 2008–11	Retroactive Payments FY 2012–13 estimate	Forecast FY 2012-23
ELAP	\$11.3 million	\$20.9 million	\$154 million
LIP	\$42.9 million	\$98.4 million	\$728 million
LFP	\$443.0 million	\$2,218 million	\$5,061 million
Total	\$497.2 million	\$2,337 million	\$5,943 million

Source: Regulatory Impact Assessment associated with the Farm Service Agency Final Rule. [http://www.regulations.gov/#!documentDetail;D=CCC\\_FRDOC\\_0001-0253](http://www.regulations.gov/#!documentDetail;D=CCC_FRDOC_0001-0253)

## **Conclusions**

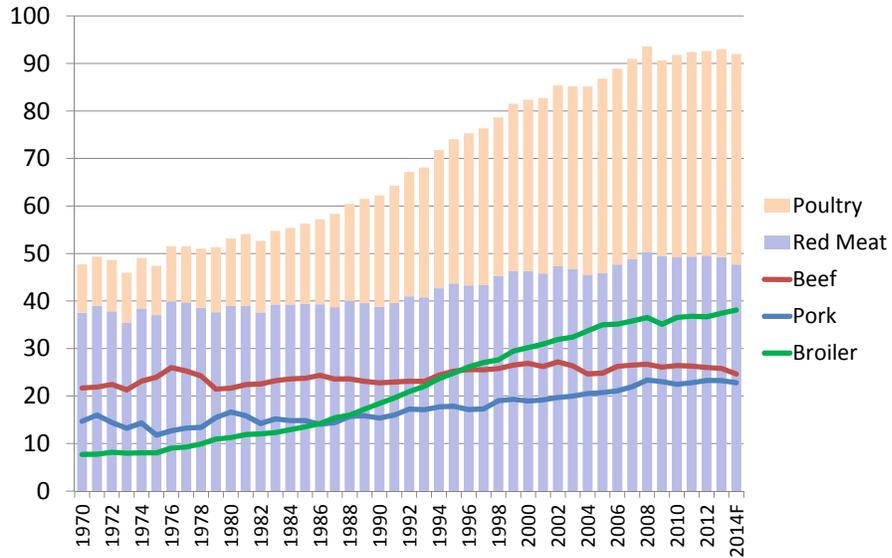
Following years of high feed costs and tight margins, the outlook for livestock and poultry appears to be improving but significant challenges in the beef and pork sector remain. Record high output prices and reduced prices for grains and oilseeds are tempered by lingering drought and the spread of PEDv. Production of red meat and turkey production is forecast lower for 2014. Although broiler production is forecast to increase, the gain will be insufficient to offset declines in the other meats. Livestock and poultry prices will be higher in 2014, reflecting tight overall meat supplies and improving demand. Eventually production of red meat, poultry and eggs is expected to increase when producers are able to take advantage of more favorable margins to expand herds and flocks, and increased production will then moderate retail prices for red meats, poultry and eggs. How soon steer and hog prices respond will depend on whether we see improvement in pasture and forage conditions in the southern plains and the west and the extent to which PEDv can be controlled through biosecurity practices. Despite global production records for most grains and oilseeds in 2013, global grain and oilseed stocks remain tight going into 2014/15 crop year. As such, feed costs and livestock margins will remain vulnerable to potential supply shocks throughout the year.

## **References**

MacDonald, J. and P. Korb (2011). Agricultural contracting update: Contracts in 2008.

Figure 1

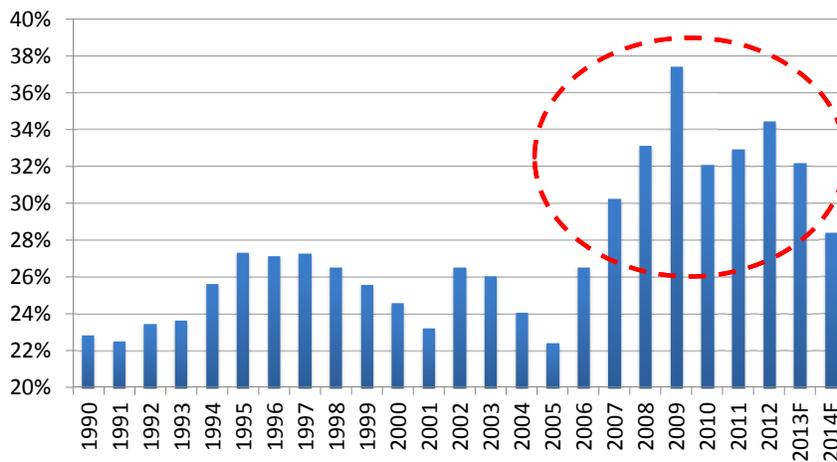
## U.S. Red Meat and Poultry Production



Source: USDA-NASS

Figure 2

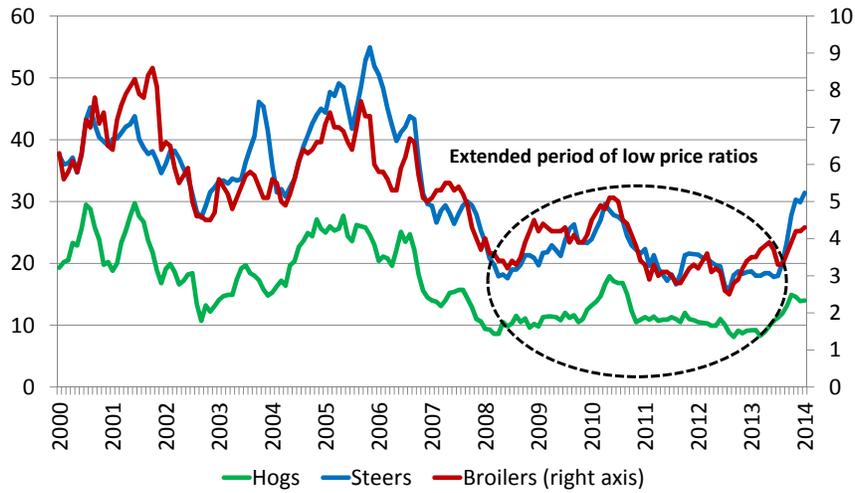
## Feed Costs as Percent of Total Livestock Receipts



Source: USDA-ERS

Figure 3

## Feed Price Ratios Improve in 2013

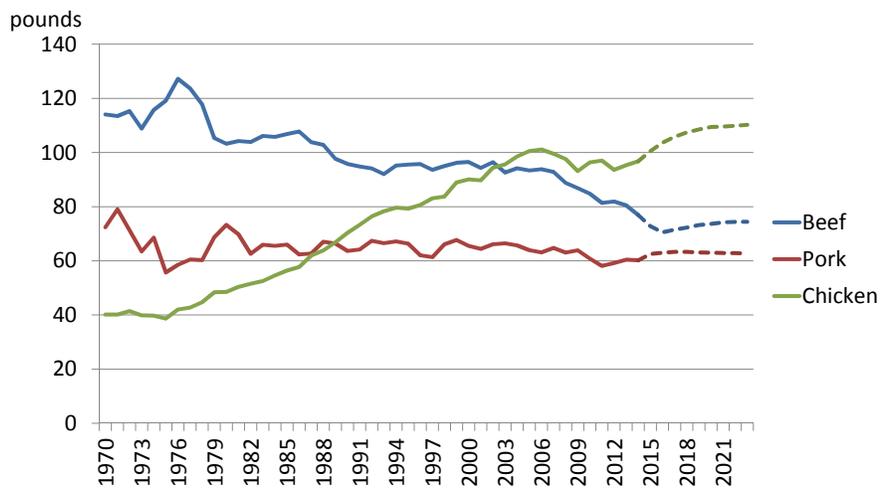


Source: USDA-NASS

Figure 4

## Per Capita Meat Consumption

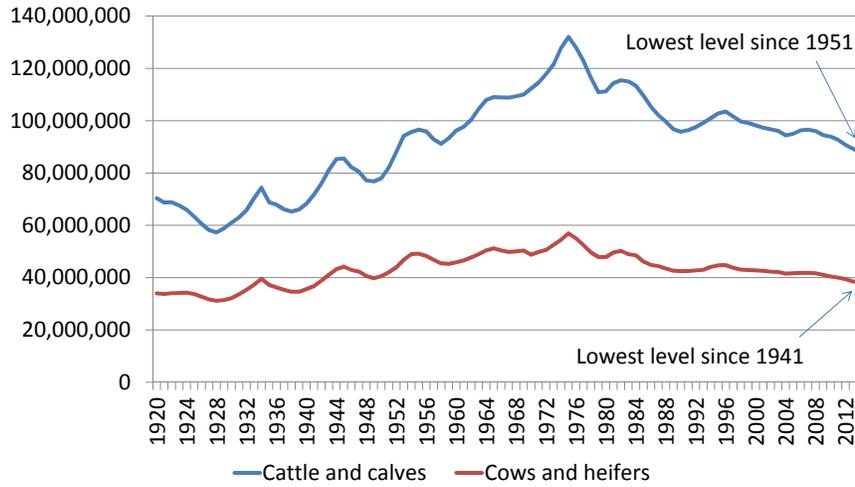
Carcass equivalent



Source: USDA-ERS

Figure 5

## Cattle Inventory as of January 1



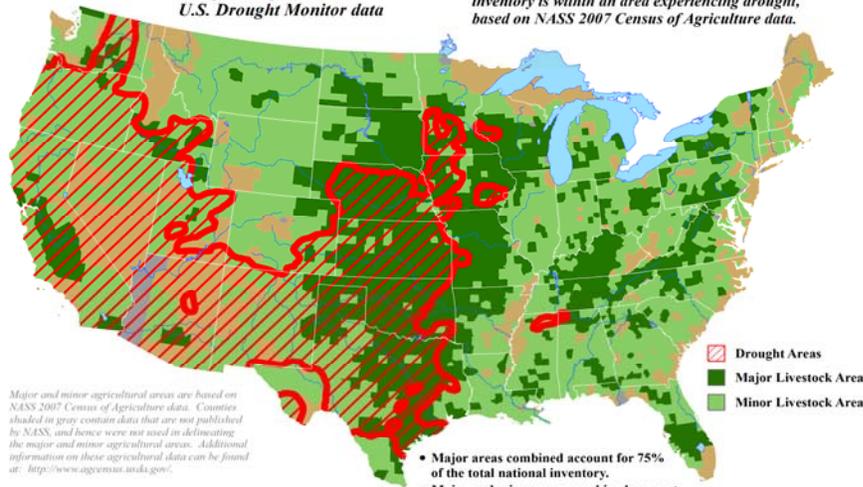
Source: USDA-NASS

Figure 6

## U.S. Cattle Areas Experiencing Drought

Reflects April 22, 2014  
U.S. Drought Monitor data

Approximately 45% of the domestic cattle inventory is within an area experiencing drought, based on NASS 2007 Census of Agriculture data.



Major and minor agricultural areas are based on NASS 2007 Census of Agriculture data. Counties shaded in gray contain data that are not published by NASS, and hence were not used in delineating the major and minor agricultural areas. Additional information on these agricultural data can be found at: <http://www.agcensus.usda.gov/>.

Mapped drought areas are derived from the U.S. Drought Monitor product and do not depict the intensity of drought in any particular location. More information on the Drought Monitor can be found at: <http://droughtmonitorand.edu/>.

- Major areas combined account for 75% of the total national inventory.
- Major and minor areas combined account for 99% of the total national inventories.

USDA Agricultural Weather Assessments  
World Agricultural Outlook Board

Figure 7

## US Cattle Areas Located in Drought

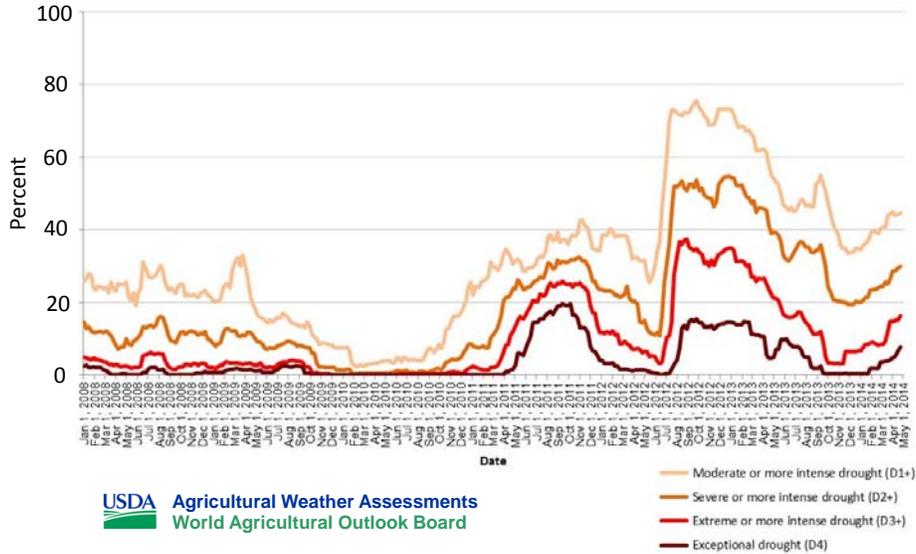
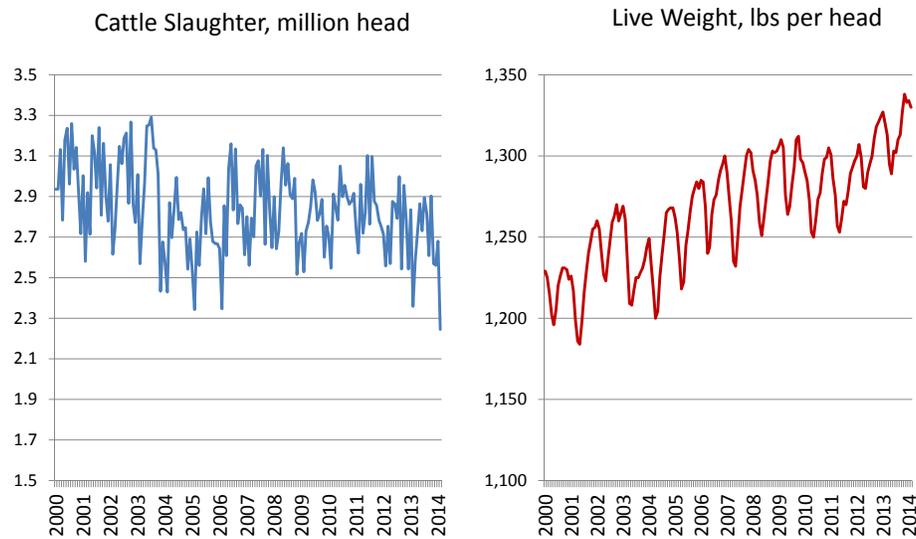


Figure 8

## Cattle Slaughter

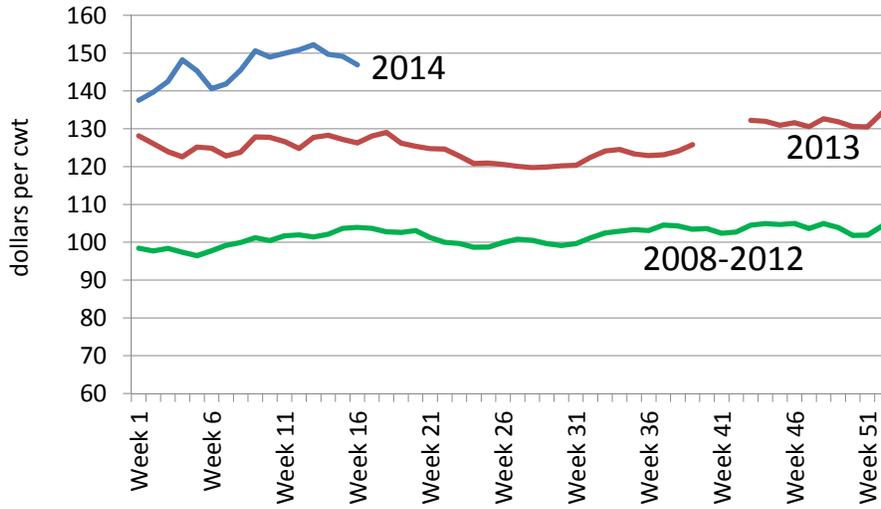


Source: USDA-NASS

Figure 9

# Weekly Steer Price

5 Area steer price, all grades, live weight

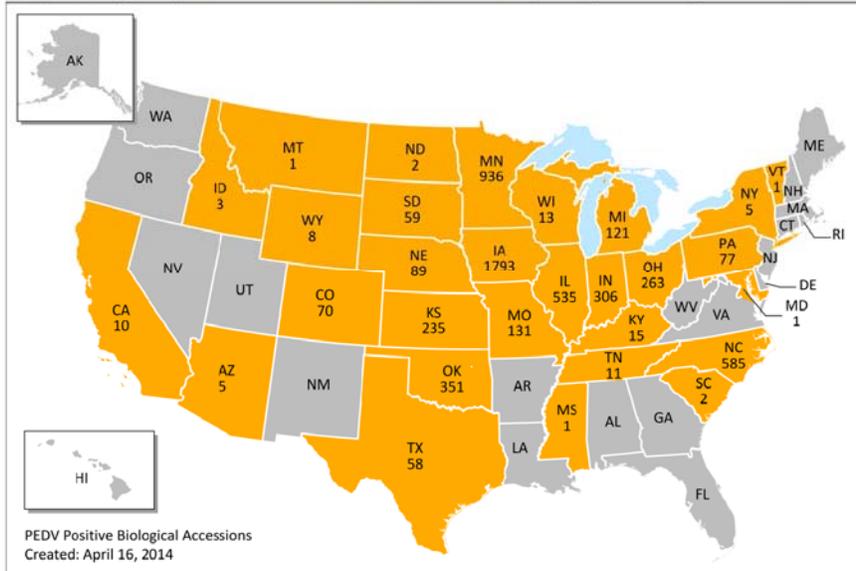


Source: USDA-AMS

Figure 10

## PEDV Positive Biological Accessions

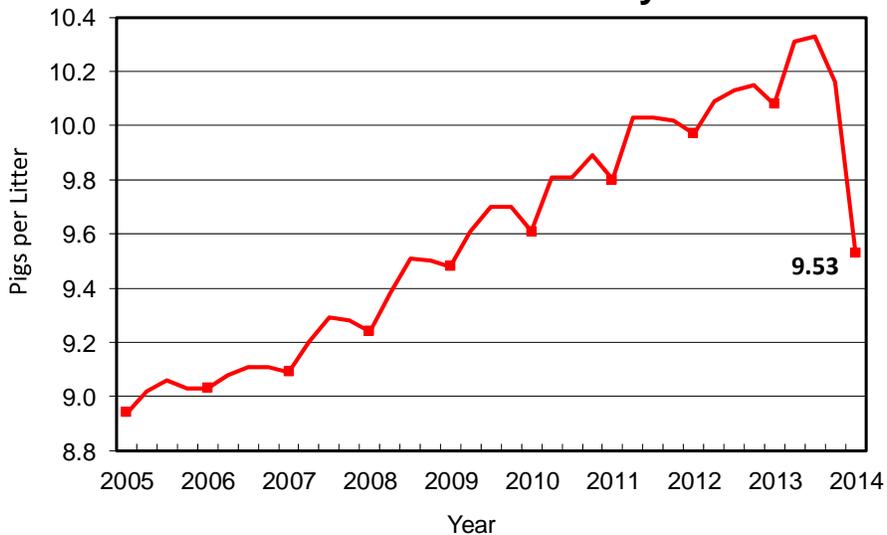
\*Virginia has reported positive environmental accessions but have not reported positive biological accessions



Source: AASV

Figure 11

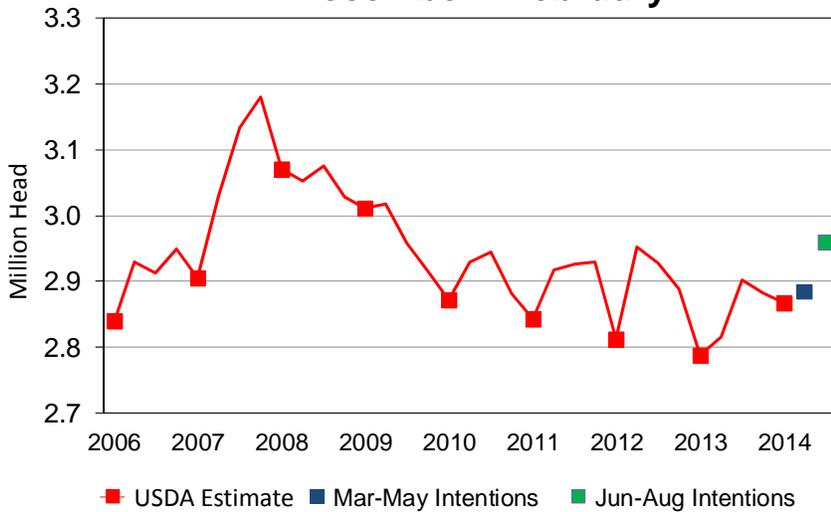
### U.S. Quarterly Pigs per Litter December - February



Source: USDA-NASS *Hogs and Pigs* Report, March 28, 2014

Figure 12

### U.S. Quarterly Sows Farrowed December - February



Source: USDA-NASS *Hogs and Pigs* Report, March 28, 2014

Figure 13

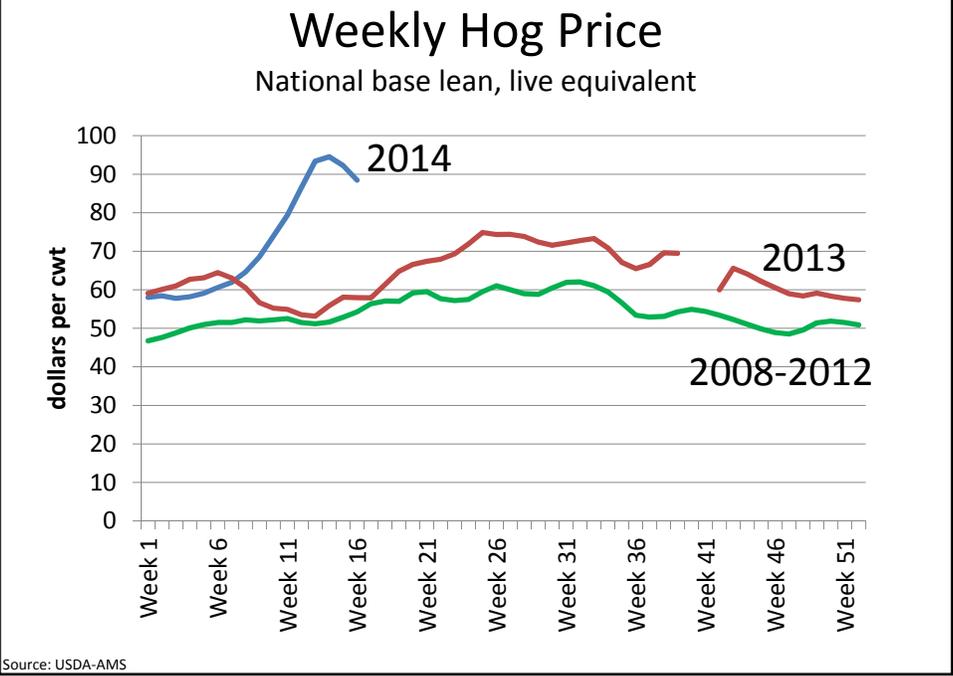


Figure 14

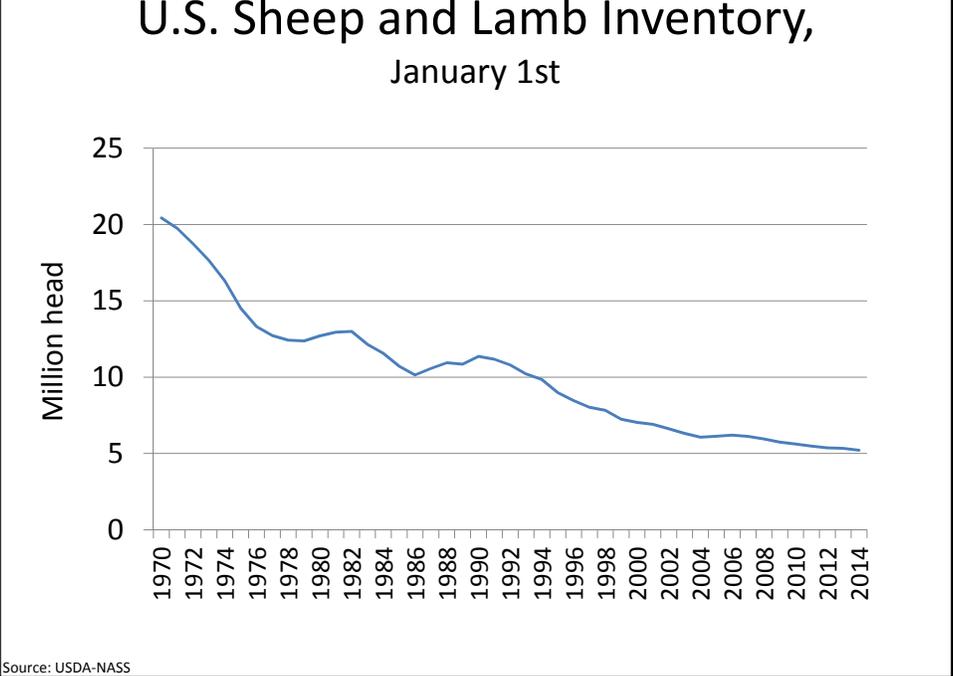
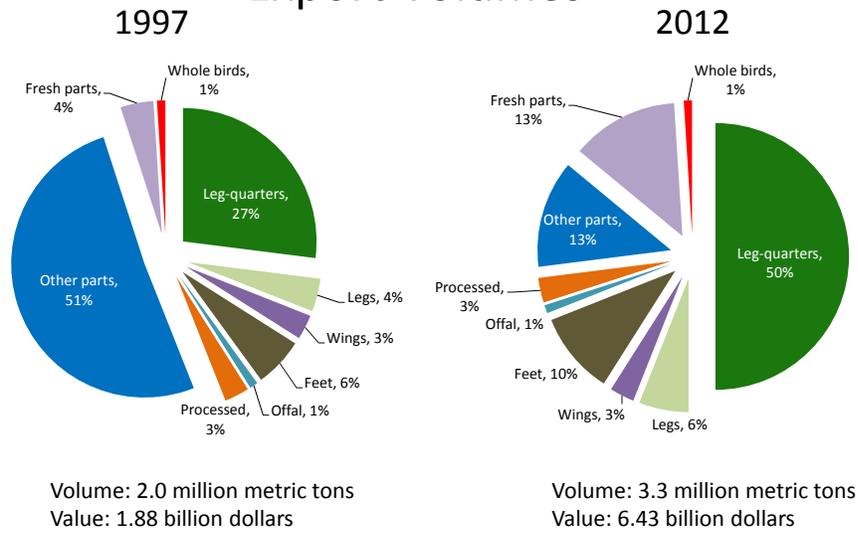


Figure 15

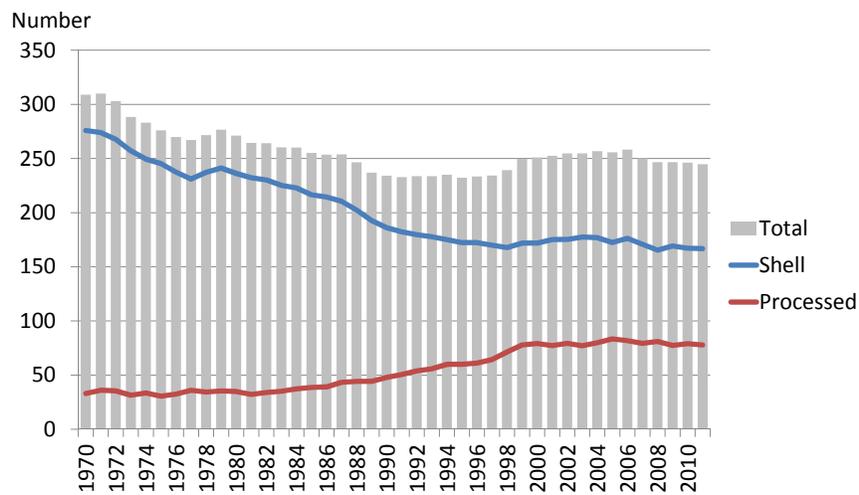
## Broiler Trade by Product Type Export Volumes



Source: USDA-ERS Assessing the Growth of U.S. Broiler and Poultry Meat Exports, November 2013

Figure 16

## Per Capita Egg Consumption



Source: USDA-ERS