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Milk Production Cattle on Feed ERS

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MILK PRODUCTION

NEW MEXICO: Milk production in New Mexico during December 2001 totaled 490 billion pounds an increase of 12 percent over the previous year's production of 436 billion pounds. Milk production per cow averaged 1,700 pounds per cow, compared to 1670 pounds per cow a year earlier. Number of milk cows was 288,000 head, an increase of 8,000 from November 2001 and 27,000 from December 2000. New Mexico ranked 7th nationally in milk production in December.

UNITED STATES: Milk production in the 20 major States during December totaled 12.0 billion pounds, up 1.0 percent from December 2000. November revised production, at 11.5 billion pounds, was up 0.8 percent from November 2000. The November revision represented an increase of 0.3 percent or 38 million pounds from last month's preliminary production estimate. Production per cow in the 20 major States averaged 1,547 pounds for December, 28 pounds above December 2000. The number of cows on farms in the 20 major States was 7.74 million head, 62,000 head less than December 2000, but 10,000 head more than November 2001.

Milk Cows and Production: November 2001^{1/} and December 2000-2001

State	Milk Cows ^{2/}			Milk per Cow ^{3/}			Milk Production ^{3/}		
	12/00	11/01	12/01	12/00	11/01	12/01	12/00	11/01	12/01
	-----1,000 Head-----			-----Pounds-----			-----Million Pounds-----		
AZ	140	140	140	1,735	1,650	1,730	243	231	242
CA	1,556	1,610	1,615	1,735	1,690	1,730	2,700	2,721	2,794
FL	156	152	152	1,325	1,160	1,330	207	176	202
ID	354	372	375	1,730	1,730	1,750	612	644	656
IL	118	115	115	1,460	1,375	1,490	172	158	171
IN	150	155	155	1,380	1,345	1,395	207	208	216
IA	215	206	206	1,495	1,485	1,550	321	306	319
KY	131	125	125	1,045	1,050	1,105	137	131	138
MI	300	299	298	1,575	1,525	1,620	473	456	483
MN	525	500	500	1,485	1,380	1,475	780	690	738
MO	151	141	141	1,180	1,080	1,145	178	152	161
NM	261	280	288	1,670	1,665	1,700	436	466	490
NY	670	670	670	1,410	1,440	1,450	945	965	972
OH	265	256	258	1,400	1,360	1,430	371	348	369
PA	613	596	592	1,470	1,460	1,540	901	870	912
TX	345	315	312	1,305	1,265	1,375	450	398	429
VT	158	154	154	1,435	1,400	1,495	227	216	230
VA	119	118	118	1,330	1,295	1,345	158	153	159
WA	246	247	247	1,820	1,775	1,845	448	438	456
WI	1,330	1,280	1,280	1,420	1,365	1,435	1,889	1,747	1,837
20 STS	7,803	7,731	7,741	1,519	1,484	1,547	11,855	11,474	11,974

1/ Revised. 2/ Includes dry cows, excludes heifers not yet fresh. 3/ Excludes milk sucked by calves.

CATTLE ON FEED

NEW MEXICO: Cattle on feed January 1, 2002, for the slaughter market in New Mexico remained unchanged from December at 108,000 head. Placements of cattle and calves on feed during December totaled 14,000, a decrease of 1,000 head from November, 2001 and a decrease of 2,000 head from December 2000. Marketings of fed cattle totaled 13,000 in December, 1,000 less than the previous month, but unchanged from the previous year.

UNITED STATES: Cattle and calves on feed for slaughter market in the United States for feedlots with capacity of 1,000 or more head totaled 11.6 million head on January 1, 2002. The inventory was 2 percent below January 1, 2001 but 1 percent above January 1, 2000. Placements in feedlots during December totaled 1.58 million, 7 percent below 2000 and 4 percent below 1999. Net placements were 1.49 million. Marketings of fed cattle during December totaled 1.81 million, 3 percent above 2000 but 2 percent below 1999. Other disappearance totaled 93,000 during December, 2 percent below 2000 but 3 percent above 1999.

Cattle on Feed: Number on Feed, Placements, Marketings, and Other Disappearance, 1,000+ Capacity Feedlots ^{1/}

	Number on Feed			Placed			Marketed			Other Disappearance ^{2/}		
	1/1/01	12/1/01	1/1/02	-----DURING-----								
				12/00	11/01	12/01	12/00	11/01	12/01	12/00	11/01	12/01
	-----1,000 Head-----											
AZ	301	303	305	30	31	30	23	27	26	4	2	2
CA	450	490	480	62	70	50	52	45	50	10	5	10
CO	1,210	1,160	1,180	170	175	165	180	180	135	10	5	10
ID	320	340	330	58	74	51	60	61	59	3	3	2
IA	385	350	355	38	75	55	45	64	49	3	1	1
KS	2,400	2,640	2,480	420	410	370	460	420	510	20	20	20
NE	2,400	2,270	2,230	340	390	300	340	305	325	10	15	15
NM	115	108	108	16	15	14	13	14	13	1	1	1
OK	410	385	360	57	59	42	59	66	65	3	3	2
SD	202	195	195	31	53	35	27	29	34	2	0	1
TX	2,930	2,990	2,880	380	430	360	400	500	450	20	20	20
WA	250	260	247	53	48	38	48	45	47	2	1	4
Oth Sts	425	400	415	44	78	68	47	44	48	7	4	5
US	11,798	11,891	11,565	1,699	1,908	1,578	1,754	1,800	1,811	95	80	93

^{1/} Cattle and calves on feed are animals for slaughter market being fed a ration of grain or other concentrates and are expected to produce a carcass that will grade select or better. ^{2/} Includes death losses, movement from feedlots to pastures, and shipments to other feedlots for further feeding.

LIVESTOCK, DAIRY SITUATION AND OUTLOOK

USDA, ERS, December 2001

2002 Milk Output To Rebound Milk production finally made it back to year-earlier levels in November after 12 months of declines. The relatively high milk prices and low concentrate feed prices normally would have been conducive to growth in milk production. However, expanding operations were slowed by very tight supplies of replacement heifers and of high-quality forage. Meanwhile, recent returns have only modestly affected the exit of farmers from dairying, and milk per cow continues to show the effects of forage and weather problems.

November milk cow numbers were more than 1 percent below a year ago and slightly less than spring levels. The shortage of replacement heifers continues. Prices of dairy replacements averaged \$1,700 in October, more than \$300 higher than at any time prior to this year. The lack of acceptable dairy heifers has slowed bringing new facilities

into full production and may have deterred some expansions, particularly where supplies of acceptable forage also were in question.

This year's strong returns have slowed the rate of dairy farm exit, but only modestly. Many farms received their last major investment in the eighties and do not have sufficient long-run income prospects to justify needed new investment. In addition, recent replacement cow prices made it a relatively attractive time to sell out.

Pent up expansion pressure from this year will support milk cow numbers in 2002, as the expected lower returns are unlikely to delay filling up expanded capacity. In addition, a significant number of producers will have both favorable long-run prospects and substantial cash savings from 2001. Heifer availability may still be a factor but should be somewhat less

troublesome than in 2001. Heifer prices started to rise in late 1999, encouraging farmers to retain as many as possible. These heifers will be available as replacements in early 2002. Also, heifer demand may ease with 2002's lower returns, at least by the second half of the year.

Dairy farm exits may be a bit more numerous in 2002 than they were this year, but probably will be moderate. Although returns will drop from this year's strong levels, the fall is not expected to result in rapid farm exit. Returns probably will not drop to 2000 levels, and even the weaker farms have been given more staying power as a result of their returns of recent years. Milk cow numbers are projected to decline only fractionally in 2002, following a 1-percent decrease in 2001.

Milk per cow has been weak in 2001, despite high milk-feed price ratios. Although there was plenty of incentive to boost concentrate feeding, forage quality and weather problems knocked milk per cow below a year earlier, in the 20 top States, from November 2000 through August 2001. Insufficient replacement heifers to maintain normal culling also may have played a role, as tail-end cows were kept longer and some poorer heifer prospects may have been given a chance. Although autumn milk per cow was above a year earlier, growth remained well below trend.

The uneven quality of the 2001 forage probably will continue to affect milk per cow adversely through mid-2002. Additionally, the herd may continue to contain some cows that normally would have been culled. For these reasons, growth in milk per cow in 2002 is not expected to bounce back to the long-run trend. However, milk per cow should recover substantially if weather problems do not again interfere. Milk-feed price ratios will stay fairly favorable, even if considerably below this year's levels. Output per cow is projected to rise 3 percent or more, resulting in an increase in milk production of 2-3 percent.

Dairy demand in 2002 remains quite uncertain but is expected to absorb the projected production increase without too drastic price drops. Farmers will receive an average of about \$15 per cwt of milk in 2001. Milk prices are expected to decline less than \$2 per cwt in 2002 and remain about \$1 above those of 2000.

Beef Cow Slaughter, Heifers on Feed Continue to Stall Expansion In 2001, weather took an unusually heavy toll on the beef sector as the most severe winter since 1992/93 resulted in poor feedlot performance and sharply reduced slaughter weights. The second half of the year saw drought and another round of record slaughter weights as feedlot performance improved and days on feed increased. Although grain prices were favorable for cattle feeders and feeder cattle prices strengthened, the drought extended the liquidation phase of the cattle cycle that began in 1995/96. Large beef cow slaughter in 1996-1998 reflected adjustments to low cow-calf returns during that period. Extended drought in 1999 and 2000 resulted in record heifer slaughter and, combined with the length of the biological lag, held down the beef cow herd expansion. Heifer slaughter in 2001 is down from the last couple of years, but remains large. Beef cow slaughter rose 11 percent during 2001 due to the most severe winter since 1992/93 followed by drought in major beef production areas.

Beef cow slaughter was the largest since 1998 and, along with large numbers of heifers on feed, further forestalls expansion. Returns have been above cash costs per cow since 1997, but drought-induced pressures since then have forced more heifers into feedlots rather than being retained for the breeding herd. Drawing from a smaller inventory, beef production likely will decline through 2004, particularly as heifers are retained for the breeding herd.

Retail prices for Choice beef have declined from the June peak of \$3.48 a pound, but remain well above the fall 2000 average of \$3.11. The farm-to-retail spread is at record levels, with the wholesale-retail spread very wide as fed cattle prices have declined. Retail prices are likely to decline through late winter, but most of the help in aligning beef supply and demand will come from declining feedlot placements.

Beef Exports to Decline Beef exports for the current year are now expected to be down 12-13 percent from last year and exports in 2002 are likely to decline another 2-3 percent. If realized, exports in 2002 would be down 14 percent from the record 2.5 million pounds achieved in 2000. During the same period, domestic consumption is expected to decline only 2-3 percent. Exports are down generally as a result of high U.S. prices, slowing economies worldwide, and BSE concerns in Asia.

The situations in Korea and Japan are expected to alter expectations of beef exports to these countries. After seven months of sharply lower exports to Korea, export activity nearly doubled in both September and October. Korean buying patterns tend to be variable, but are typically characterized by several months of light activity followed by some months of greater activity. However, monthly exports during February-August were the lowest since the Asian financial crisis in 1997.

Reduced exports to Korea this year were due to a result of a buildup of stocks that peaked late last year as a result of a slowing Korean economy and concerns about BSE. The stocks were accumulated as imports of beef rebounded rapidly after the 1997 Asian financial crisis and substantial reductions of the domestic beef herd. The herd was reduced in anticipation of the competition expected from imported beef as Korea liberalizes its beef import regime, consistent with the WTO agreement, which gives more equal treatment of imported meat in retail establishments. The stocks draw down could have displaced roughly 10 million pounds of imports per month, and help explain why an otherwise moderate decline in imports caused by a slowing economy became much worse. Exports to Korea in 2002 are expected to be above 2001.

Beef demand in Japan continues to be adversely effected by BSE concerns and a weak economy. Consumers have reduced consumption of beef; instead showing increased interest in pork and seafood dishes as the holiday season approaches.

There are also few reasons to be optimistic about the performance of the Japanese economy over the next year. The Japanese government is predicting no growth, but the

consensus among non-government analysts is that the Japanese economy will contract in 2002. The International Monetary Fund, for example, predicts a GDP decline of 1.3 percent next year. Unemployment has already reached 5.4 percent, a post war record, with more than one million Japanese having lost their jobs this year.

Past fiscal and monetary policies have failed to bring Japan out of its decade-long slump and may have contributed to its current recession. After years of deficit-financed fiscal spending, Japan's public debt has reached 130 percent of its gross domestic product, up from 110 percent only three years ago. Japan's public debt is the highest among industrial countries, and has been downgraded by three major ratings agencies since November. Expansionary monetary policy has also failed to stimulate the economy along a self-sustaining growth path, in view of private sector indebtedness, excess capacity, and a banking sector already burdened with bad loans secured with inflated collateral. Monetary policy, slow economic growth, and limited investment opportunities have contributed to what may be a continued near-term weakening of the Japanese yen, which raises prices of imported items such as beef.

Continued BSE concerns plus a weak economy point to lower U.S. beef exports to Japan, at least over the next year or so as U.S. beef prices increase in response to tightening U.S. beef supplies. While some reforms have been undertaken or proposed the fundamental restructuring in banking and

protected industries that could help Japan regain a self-sustaining growth path does not appear on the horizon. Consequently, overall beef consumption is expected to be lower next year. Continued weakening of the Australian dollar is also expected to help the competitiveness of Australian beef.

Pork Production Up Slightly Pork production this year is expected to be up 1 percent from last year due to a 3-pound increase in the average dressed weight. Annual hog slaughter in 2001 is expected to be about the same as in 2000. Hog prices this year are expected to register about a \$1 gain over 2000's \$44.70 per cwt as domestic and export demand support prices. Retail pork prices are expected to rise about 4 percent this year due to a higher farm value and a widening of the farm-to-retail price spread.

Based on previously stated producer intentions, pork production in 2002 is expected to be about unchanged from this year. Hog prices are expected to weaken to an average of \$43-\$44 per cwt due to a slackening economy and declining exports. Retail prices are expected to be unchanged in 2002. A further widening of the farm-to-retail price spread offsets the decline in farm value. The **Quarterly Hogs and Pigs** report released on December 28 provides additional information on hog inventories and producers' farrowing intentions affecting pork production and hog prices in 2002.