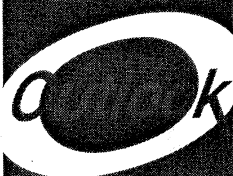




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Livestock, Dairy, and Poultry Outlook

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Cheese Markets Tighten, Other Dairy Markets Remain Soft

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Relatively weakened milk production and recovering sales led to significantly tightened late summer cheese markets while most other dairy markets stayed fairly soft. The cheese price increases are boosting milk prices. Production and market adjustments in coming months will test whether the prices can hold. The 2003 average price of all milk is projected to be similar to 2002's annual average (\$12.19 per cwt) about \$2 below the 1997-2001 average. Milk prices in 2004 are expected to be near this year's levels. Market adjustments leading to stronger prices could start to make a difference by late in 2004, but at least the first half of the year is threatening to be a lot like 2003. Milk production in 2003 is expected to total just barely larger than 2002's 169.8 billion pounds. Milk output may end the year again above the weakening levels of a year earlier. The projected recovery in milk per cow in 2004 would be enough to push 2004 production about 1 percent higher.

The ban on imports of Canadian beef and cattle by the United States since May 20 has created a shortage of market ready cattle. The continued strong domestic and international beef demand and tight beef supplies have resulted in U. S. cattle prices moving to record levels. Slaughter levels have remained relatively high to maintain beef production levels, but has sharply reduced slaughter weights and lowered the proportion of cattle grading Choice or Prime. Renewed imports of Canadian beef from cattle under 30 months of age will help ease the record setting price situation. Although prices are expected to decline as Canadian product reenters the market, prices are expected to remain strong as North American cattle inventories continue to decline due to continued drought in many areas.

Large hog exports by Canada have altered U.S. pork production and trade expectations for the balance of 2003 and the first half of 2004. Larger U.S. imports of Canadian slaughter hogs is the key factor pushing expected 2003 hog slaughter to nearly 99.3 million head, and pork production to 19.6 billion pounds. Higher slaughter hog imports will likely persist into 2004, lifting estimated slaughter for next year to 98.4 million head, and estimated production to 19.5 billion pounds.

ECONOMIC INDICATOR FORECASTS 1/

	2002				2003				2004			
	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
GDP, chain wtd (bil. 1996 dol.)	9,388	9,465	9,503	9,435	9,556	9,608	9,692	9,784	9,661	9,877	9,971	10,016
CPI-U, annual rate (pct.)	3.4	1.9	2.4	2.2	3.9	0.6	1.5	1.4	1.8	2.0	1.9	2.0
Unemployment (pct.)	5.9	5.7	5.9	5.8	5.8	6.2	6.2	6.1	6.1	6.0	5.9	5.9
Interest (pct.)												
3-month Treasury bill	1.7	1.6	1.3	1.6	1.2	1.0	1.0	1.0	1.1	1.1	1.3	1.5
10-year Treasury bond yield	5.1	4.3	4.0	4.6	3.9	3.6	4.2	4.3	4.0	4.4	4.5	4.6

1/ Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, August 2003.

DAIRY FORECASTS

	2002				2003				2004			
	II	III	IV	Annual	I	II	III	IV	Annual	I	II	Annual
Milk cows (thous.)	9,149	9,153	9,148	9,141	9,154	9,116	9,075	9,045	9,100	9,000	8,960	8,950
Milk per cow (pounds)	4,811	4,566	4,543	18,573	4,691	4,815	4,590	4,625	18,720	4,845	4,955	19,260
Milk production (bil. pounds)	44.0	41.8	41.6	169.8	42.9	43.9	41.7	41.8	170.3	43.6	44.4	172.3
Commercial use (bil. pounds)												
milkfat basis	42.2	43.8	43.9	170.5	41.2	43.1	44.5	44.8	173.6	42.6	44.5	177.6
skim solids basis	40.6	42.3	41.2	163.4	40.2	40.8	43.5	41.7	166.1	41.3	42.3	171.0
Net removals (bil. pounds)												
milkfat basis	0.1	0.1	0.1	0.3	0.4	0.5	0.2	0.1	1.1	0.3	0.1	0.7
skim solids basis	3.5	2.1	1.5	9.8	3.1	3.2	0.6	1.3	8.2	2.0	2.2	5.3
Prices (dol./cwt)												
All milk 1/	12.03	11.33	11.97	12.11	11.37	11.07	12.95	13.20	12.15	11.30	10.75	11.40
							-13.15	-13.70	-12.35	-12.10	-11.75	-12.40
Class III	10.59	9.59	10.10	10.42	9.52	9.62	13.05	11.40	10.90	9.65	9.80	10.15
							-13.25	-11.90	-11.10	-10.45	-10.80	-11.15
Class IV	10.73	10.36	10.52	10.81	9.89	9.74	9.90	9.90	9.80	9.60	9.40	9.70
							-10.20	-10.50	-10.10	-10.50	-10.50	-10.80

1/ Simple averages of monthly prices. May not match reported annual averages.