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Livestock Marketing Information Center

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MARGINS & MARKETS

A Quarterly Update from the Livestock Marketing Information Center

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Inside this Issue

Across the Livestock Industry...

- ► Meat demand in 2025 will be a driving factor in profitability for the livestock and poultry industries. Strong beef demand in 2024 is likely to continue into 2025, but record beef prices may be a headwind in the near term. Pork demand held steady in 2024 and will likely continue that trajectory in 2025. Poultry demand appears to be positive at the start of 2025 as it is a more competitively priced option in the meat case.

- ► Across the livestock and poultry complex, feed costs remain in focus as a driving factor into profitability for the year ahead. On the cattle side, monthly hay prices continue to trend lower with prices in early 2025 at $160 per ton for alfalfa hay and $140 per ton for other hay. The weekly Omaha corn price has averaged just over $4.60 per bushel year to date through March, which is slightly above the $4.44 average during the same period in 2024 but below the five-year average of $5.20.

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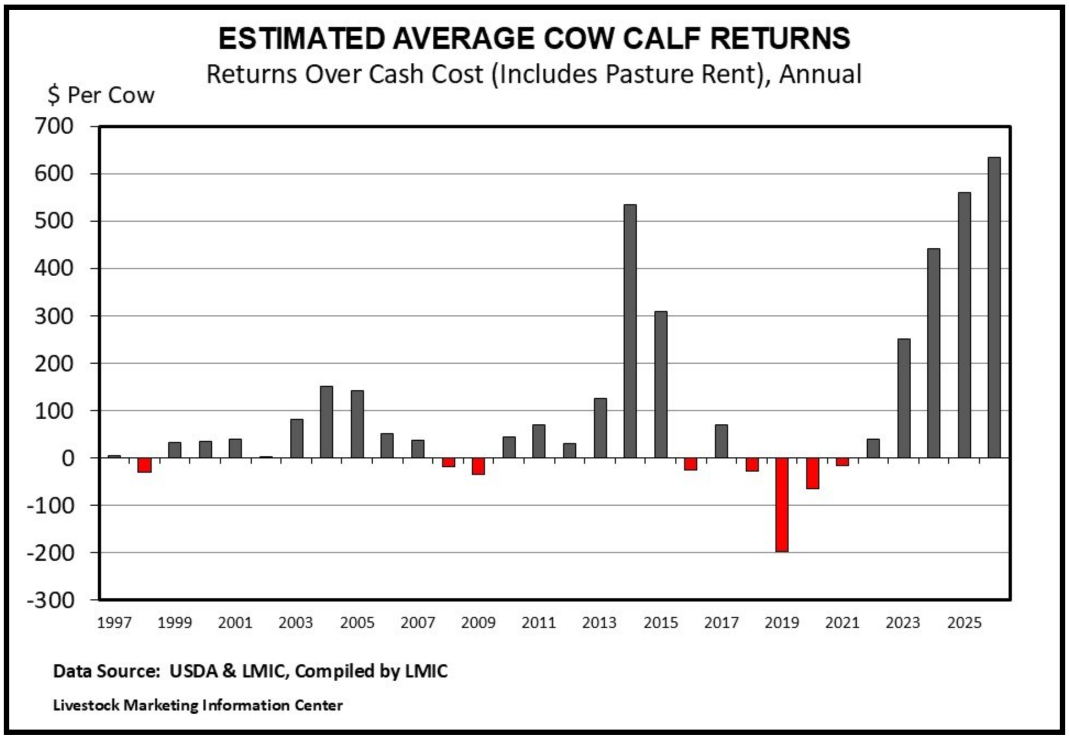
Cow-Calf

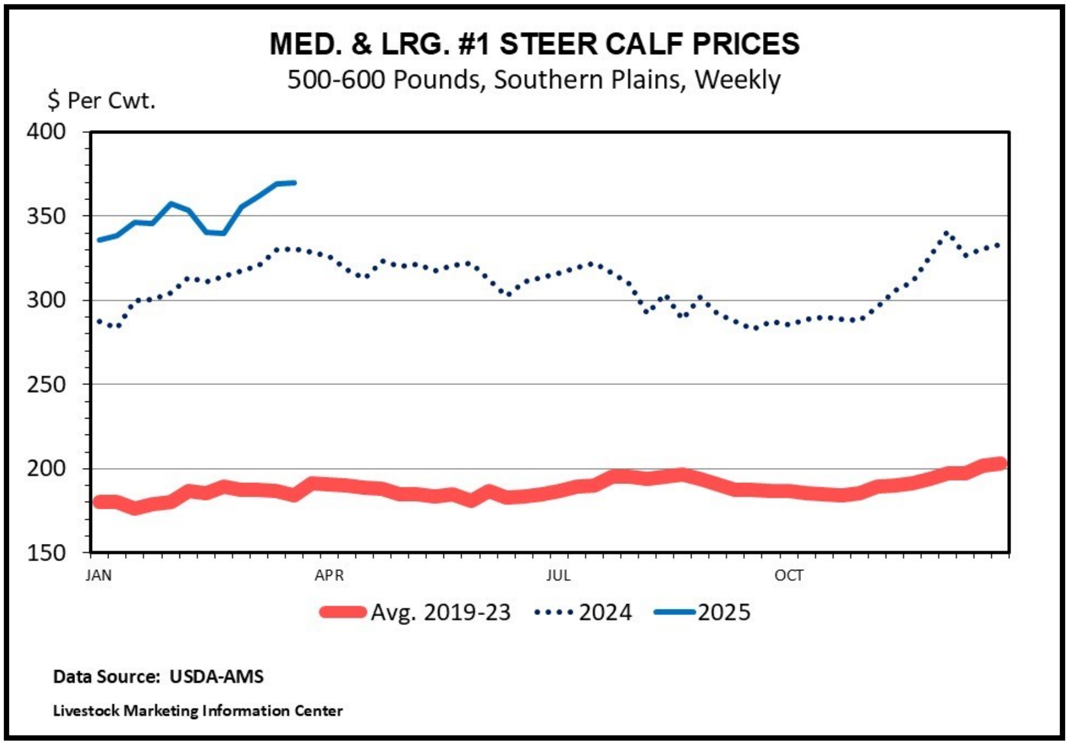
Key Drivers:

- ► Strong profits are expected for cow-calf producers in 2025 with average estimated returns projected to reach above $500 per cow.
- ► Hay prices have been trending lower for several months, which is expected to support average estimated returns for cow-calf producers in 2025.
- ► Drought remains in focus as a larger portion of cattle-producing regions in the US are experiencing dry conditions as compared to this time last year.



The January 1 cattle inventory report released by USDA National Agricultural Statistics Service (NASS) on January 31, 2025, reported a decline of less than one percent (-0.6%) in all cattle and calves from a year ago to 86.7 million head. This marks the lowest all cattle and calves inventory level in more than 70 years when it was 82.1 million head in 1951. The lower all cattle and calves inventory level signals that the cattle sector is still contracting but in 2025, the focus has turned to see if producers will start herd rebuilding efforts and if inventory levels will start to expand. The calf crop was reported down less than one percent (-0.1%) to 33.5 million head on January 1, which indicates that contraction of the herd may be slowing. Beef cows and beef cow replacements were reported down -0.5% and -1.0% to 27.9 and 4.7 million head, respectively, on January 1 in the Cattle report. Both inventory categories being down from a year ago does not point to producers actively looking to retain heifers and start herd rebuilding efforts. As we move through 2025, profitability will be a driving motivation for producers to consider actively rebuilding the herd.

In 2024, the Livestock Marketing Information Center (LMIC) calculated estimated average returns for a cow-calf producer in the southern plains region at $443 per cow, which was the second highest behind 2014's $534 per cow and up $190 per cow from 2023's $252 per cow. Lower feed costs were a supporting factor



in the rise of profitability during 2024. Alfalfa hay averaged $223 per ton in the 2023/24 crop year; this average was down about $50 per ton from the $272 price in the 2022/23 crop year. Alfalfa hay prices for the 2024/25 crop year have fallen from around $200 per ton to just above $160 per ton in recent months, which has led to reduced feed input costs. Other hay prices have moved lower from the $176 and $172 per ton seen in the 2022/23 and 2023/24 crop years, respectively, to current prices that have been ranging from $145 to $154 per ton in recent months.

The lower hay prices have reduced feed input costs, and LMIC is expecting hay prices to track below year-ago levels in 2025, but drought is a looming concern for cow-calf producers. USDA-World Agricultural Outlook Board (WAOB) estimated that as of late March, approximately 43% of the cattle inventory in the US was within an area experiencing drought. Much of the drought is focused on portions of the upper Midwest, the plains regions, the southwest, and southern Texas. A year ago, USDA-WAOB reported approximately 13% of the cattle inventory in the US was within an area experiencing drought. Drought was still in the plains regions and southwest US but also in the northern intermountain region. The rise of drought in cattle-producing regions of the US during the first quarter of 2025 is noteworthy as this raises concerns regarding available forage for the cow and her calf.

Profitability in 2025 is shaping up to be another strong year for cow-calf producers. The LMIC is forecasting average estimated returns for 2025 to be over $500 per cow. The higher projected average estimated returns for the year ahead are based on lower feed input costs and stronger calf prices. Weekly prices for steer calves (medium and large #1, 500-600 pounds) in the southern plains have averaged about $350 per cwt since the start of the year with a range between $335 per cwt at the start of the year to $370 per cwt at the end of March. Seasonally, prices tend to move slightly lower during the summer months and into the fall before rising during the fourth quarter of the year. §

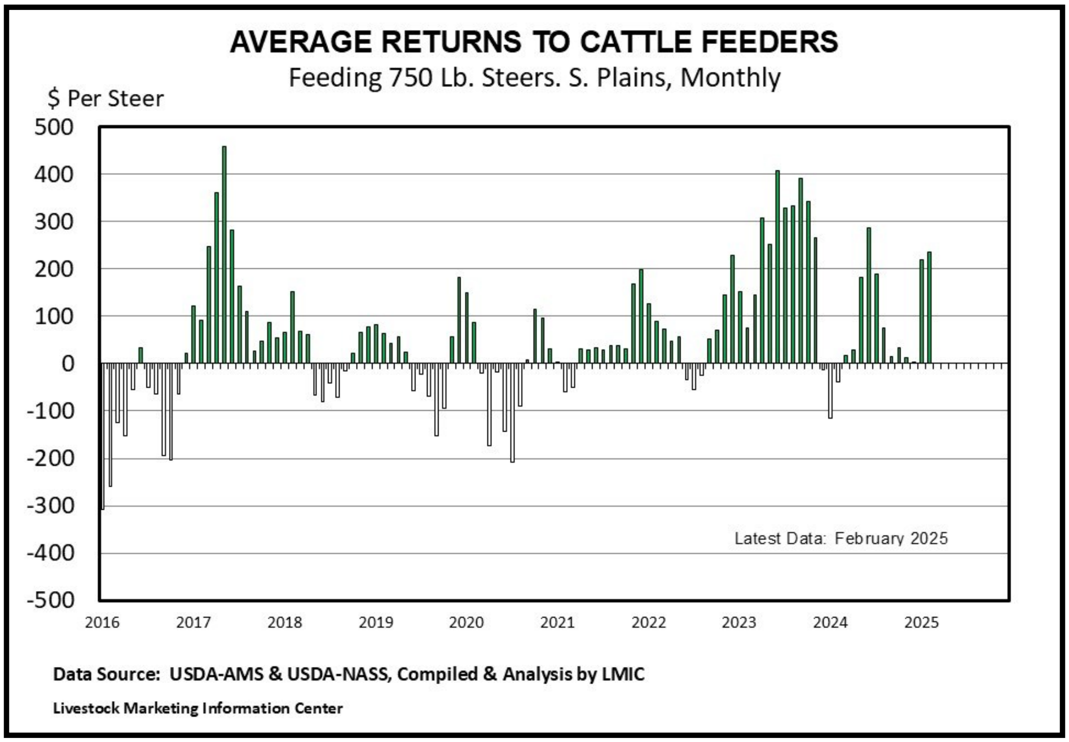
Cattle Feeding

Key Drivers:

► Lower feed costs are likely to persist in 2025, but they will be partially offset by rising feeder steer prices as available supplies remain tight.

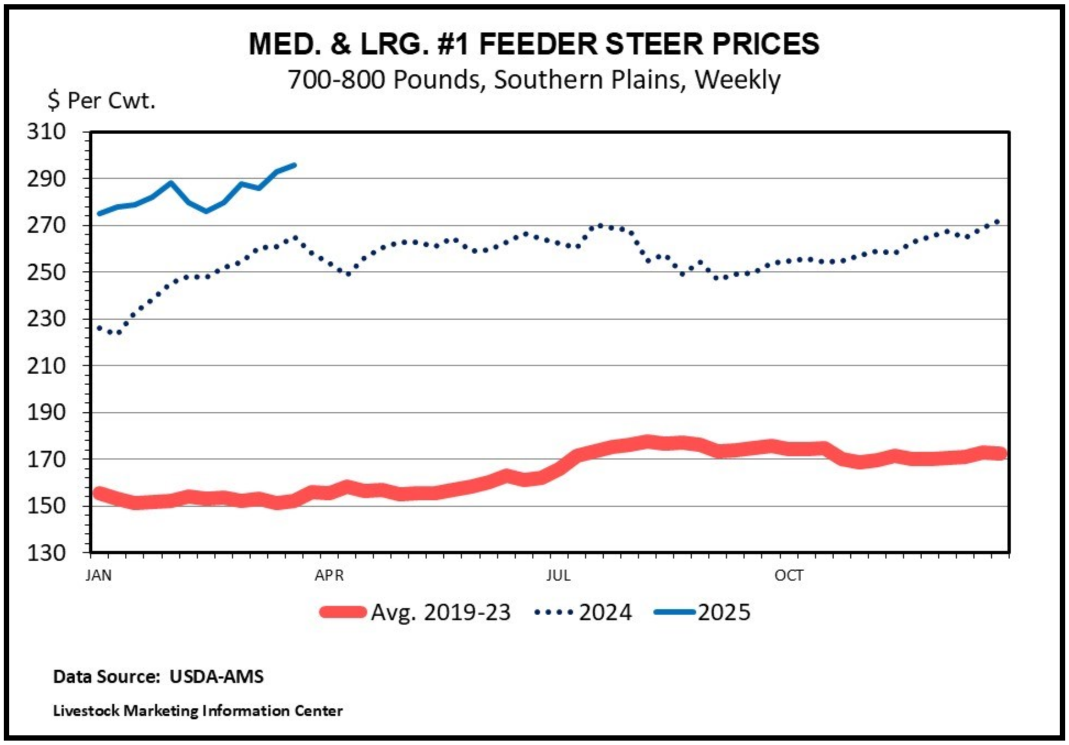
► Strength in feeder steer prices at the end of 2024 has carried into the start of 2025, which is expected to be a headwind to profitability in the near term.

► Beef demand performed well in 2024 despite a record retail beef price. The looming question is: Will beef demand continue to hold strong in 2025?



Cattle feeding returns in 2024 averaged $58 per steer for feeding a 750-pound steer in the southern plains. That was down substantially from the estimated feeding returns of $248 per steer that were seen in 2023 but more in line with the $64 per steer in 2022. Total feed costs declined from $488 per steer in 2023 to $351 per steer in 2024, a decrease of -28%. A large portion of the decrease in total feed costs was due to lower corn feed costs, which declined -31% on average from the prior year. Feed costs for alfalfa hay in 2024 fell -27% on average from the previous year. Although feed costs were lower last year, this was partially offset by a rise in the price for a feeder steer.

The monthly Kansas feeder steer price (Western KS, medium & large #1, 700-800 lbs.) averaged $256 per cwt in 2024, which was an increase of +18% ($39 per cwt) from the prior year's average price. In 2024, the monthly feeder steer price started the year at $240 per cwt and rose seasonally to $271 per cwt by June then move lower to $250 per cwt by September, but finished the year at $262 per cwt. Strength from the end of 2024 has carried into 2025 with prices reaching $282 and $285 per cwt in January and February, respectively. Weekly data is showing that feeder steer prices have pressed higher towards $290 per cwt. The higher feeder steer prices are partially offsetting the lower feed costs, which is a trend that is expected to continue in 2025 and may be a headwind to profitability in the year ahead for the cattle-feeding sector.



The recently released March 1 Cattle on Feed report from USDA-NASS had cattle on feed in 1000+ capacity feedlots down -2% (261 thousand head) from the prior year to 11.6 million head. The decline was driven primarily by lower placements of 336 thousand head (-18%) in February to 1.6 million head. Cattle marketings in February was 1.6 million head, a decline of 160 thousand head (-9%) due partly to one less slaughter day during the month compared to the previous year.

The latest Cattle on Feed report, cattle on feed over 120 days in March was up +6% from the prior year, and cattle on feed over 150 days was up +7%. The increase in both categories signals that cattle continue to remain on feed for a longer period, which is likely to keep dressed weights elevated. Weekly steer dressed weights have averaged around 950 pounds since the start of the year, which is tracking above the 918 pounds average through the same period. The lower price for corn and for hay remains a key factor driving an economic incentive for the cattle-feeding sector to hold cattle on feed for a longer period, resulting in heavier dressed weights. The heavier dressed weights are bolstering beef production and partially offsetting the lower number of cattle in the supply chain

Cattle imports from Mexico are starting to resume following the detection of New World Screwworm in late November 2024. Year-to-date, weekly cattle imports from Mexico have totaled just over 78 thousand head, which is down substantially from the more than 308 thousand head imported during the same period in 2024. On a weekly basis, cattle imports from Mexico have been tracking similar to levels seen last year, which was around 18-to-20 thousand head per week. This trend is signaling that cattle imports from Mexico will likely start tracking closer to year-ago levels in the coming months, which should support cattle placements.

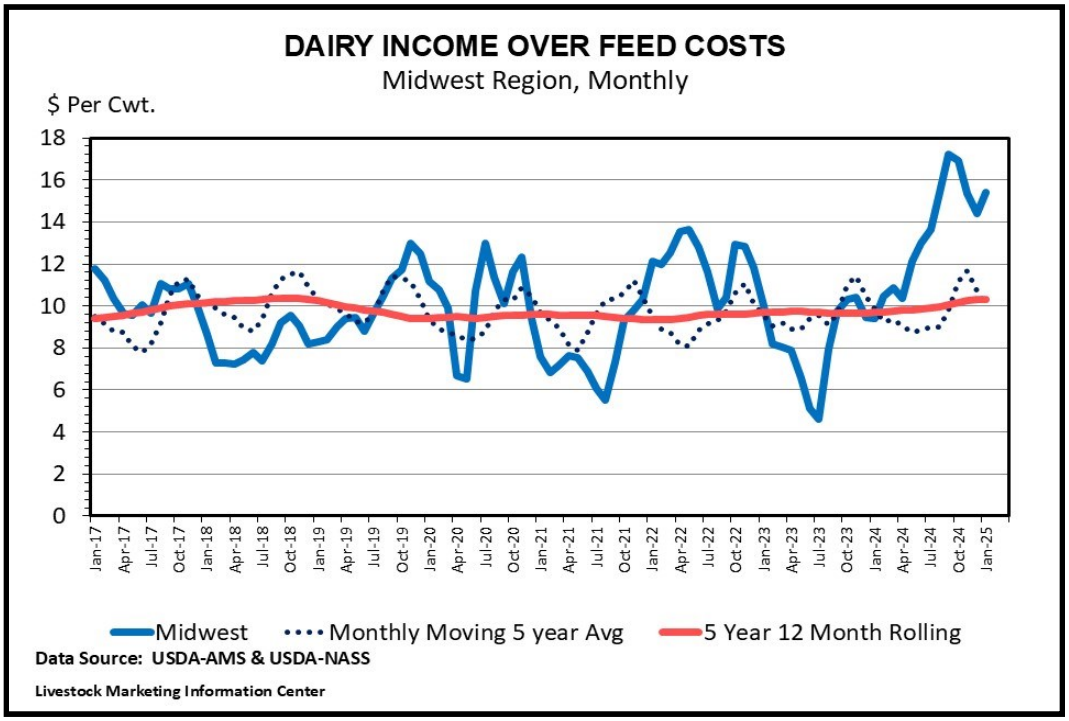
Beef demand performed well in 2024 based on the LMIC calculated all-fresh retail beef demand index, which came in at 128, the highest level in more than two decades. The LMIC calculated beef demand index uses per capita beef consumption, the own-price elasticity for beef and the all-fresh retail beef price, which is deflated by the CPI to the base year of 2000. Strength in the beef demand index in 2024 is encouraging for 2025, but it will be an item to watch as the all-fresh retail beef price was $8.15 and $8.32 per pound in January and February, respectively, to start 2025. §

Dairy

Key Drivers:

- ► Milk producer profitability continues to track above year-ago levels due partly to lower feed costs. The positive trend in economic returns has not led to an increase in milk supply so far in 2025.
- ► The December milk cow herd was estimated to be 9.355 million cows by USDA-NASS. The dairy profitability trends of the last half of 2024 are expected to support some herd expansion in 2025.
- ► As US milk production unfolds in 2025, butter demand appears to be moderating while cheese demand seems to be improving.

Milk producer profitability, as measured by the LMIC's Income Over Feed Cost (IOFC) calculations, peaked at its highest value ever last September and October across all three regions (Northeast, Midwest, and West) going back to the year 2000. The calculations are not adjusted for inflation for non-feed production inputs such as labor, machinery, or other purchased factors of production.



The positive trend in economic returns has not led to an increase in milk supply so far in 2025, as US milk production has declined by -1%. All the decline is accounted for by reduced milk cow productivity, which has fallen by -1.7% during January and February. The majority of this is due to the Leap Year effect that occurred in 2024. By the end of March, US milk production is expected to be down only -0.4% from last year.

The All-Milk Price at the farm reported by USDA-NASS in January was $24.10 per hundredweight, close to unchanged from the last quarter of 2024 and up from the average for all of 2024 of $22.60. Profitability for the dairy industry usually dips early in the year due to rising feed costs as grain prices rise following harvest-time lows. This year has been no exception, although hay prices continued to slump following a good harvest last summer. Feed costs in the Midwest in January were +2% higher than in October. Feed costs in the West were slightly lower from October to January and in the Northeast, feed costs were up +6% during the same three-month period.

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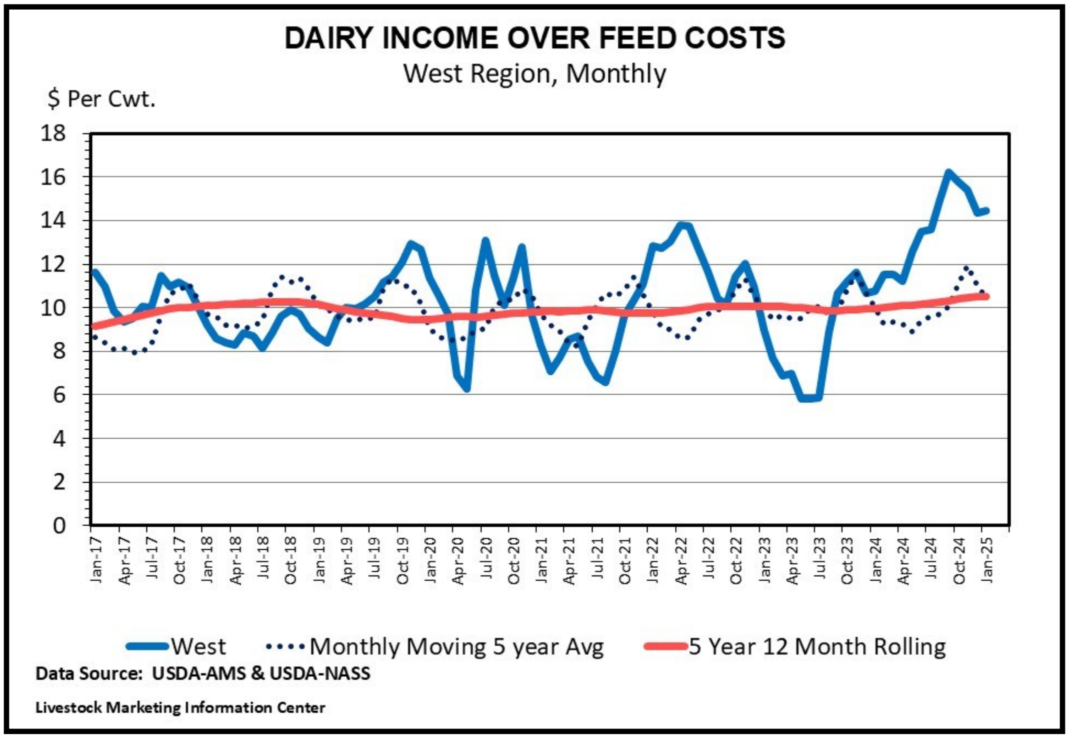
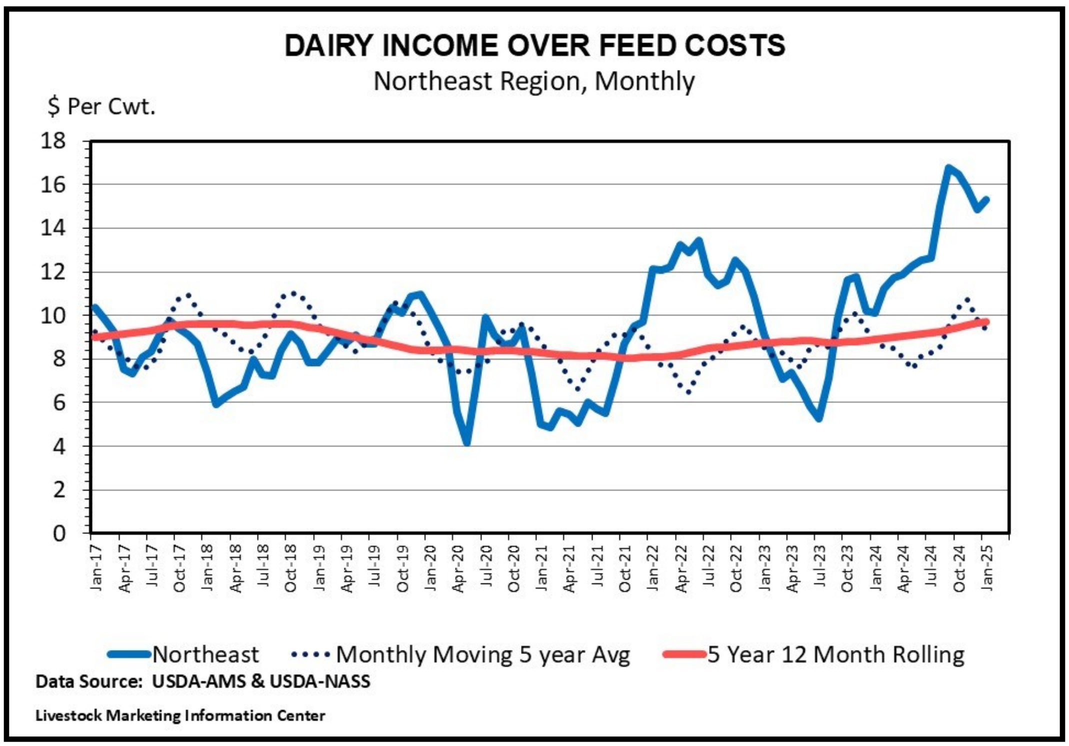
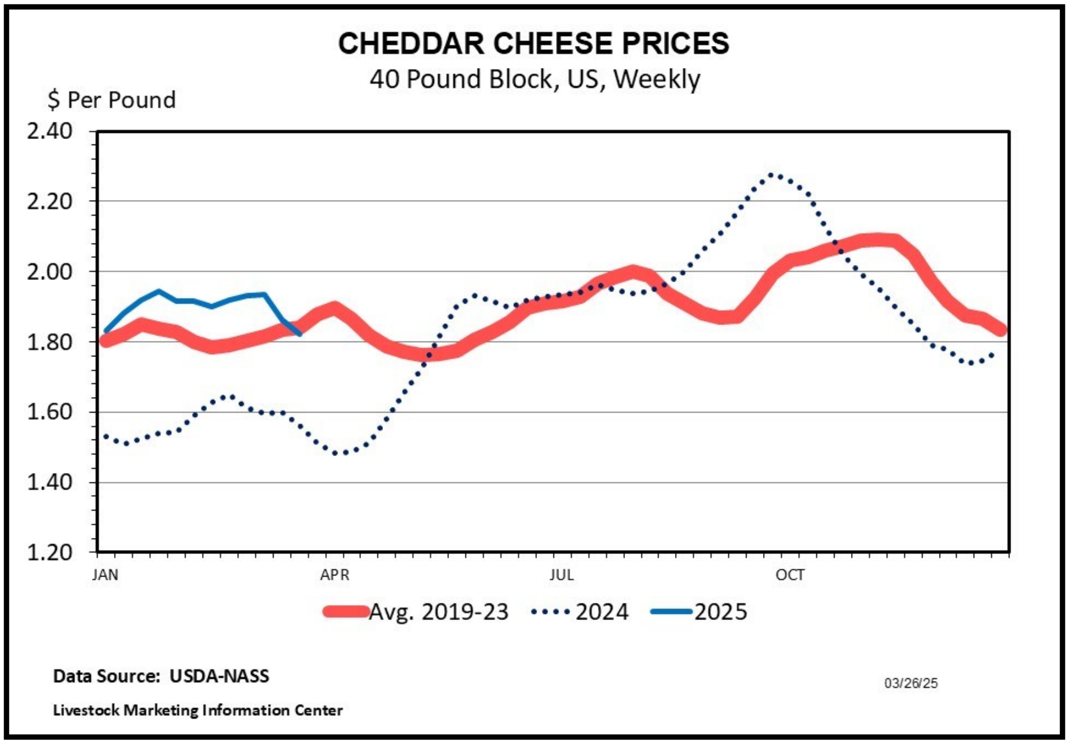
The December milk cow herd was estimated to be 9.355 million cows by USDA-NASS. For the year, the milk cow herd averaged 9.345 million cows and was up only 6,000 cows from the prior December. The dairy profitability trends of the last half of 2024 are expected to support some expansion in the milk cow herd this year. The average size of the milk cow herd has been declining since 2021. This year, the milk cow herd is forecast to average slightly over 9.4 million cows. At the beginning of the year, the herd was expected to expand by 10-15 thousand head per month during the first three months and then grow at a slower pace through the spring and summer. The reality has been that 35,000 cows were added to the dairy herd in January, and 15,000 cows were added in February.





Changes in the milk cow herd inventory have been consistent with regional variations in feed cost trends. The biggest add came in Idaho, with a 20,000-head boost. The rest of the West added 17,000 head. The Midwest added 12,000 cows, and the Northeast subtracted 1,000. Other regions account for the difference between the 50,000-cow gain for the US and the three regions.

Milk and dairy product prices were able to post impressive rallies last year, to some extent because US milk production declined slightly from the prior year, fluid milk product sales were up, exports were up, and butter demand was excellent. The story is unfolding a little differently so far this year as butter demand seems to be moderating, and cheese demand is improving.



Class 3 milk prices, the milk used for cheese production, declined $5 per cwt in the last quarter of 2024 after being a big factor creating the profitability for the dairy industry in September and October. Class 3 milk prices have rallied above $20 this quarter as cheese inventories in cold storage remained below a year ago in January. According to estimates by the USDA-Economic Research Service (ERS), cheese consumption in January was up from a year earlier, reversing trends of the last quarter of 2024 when cheese consumption was below a year earlier. Higher cheese prices are expected to bring a balance between supply and consumption this year. This will also be the key factor supporting the All-Milk Price at the farm at a value of about $1 per cwt higher than in 2024. §

Summary Dairy Table of Weighted Milk Price and Feed Costs (Five-Year Historical Average 2020-2024)

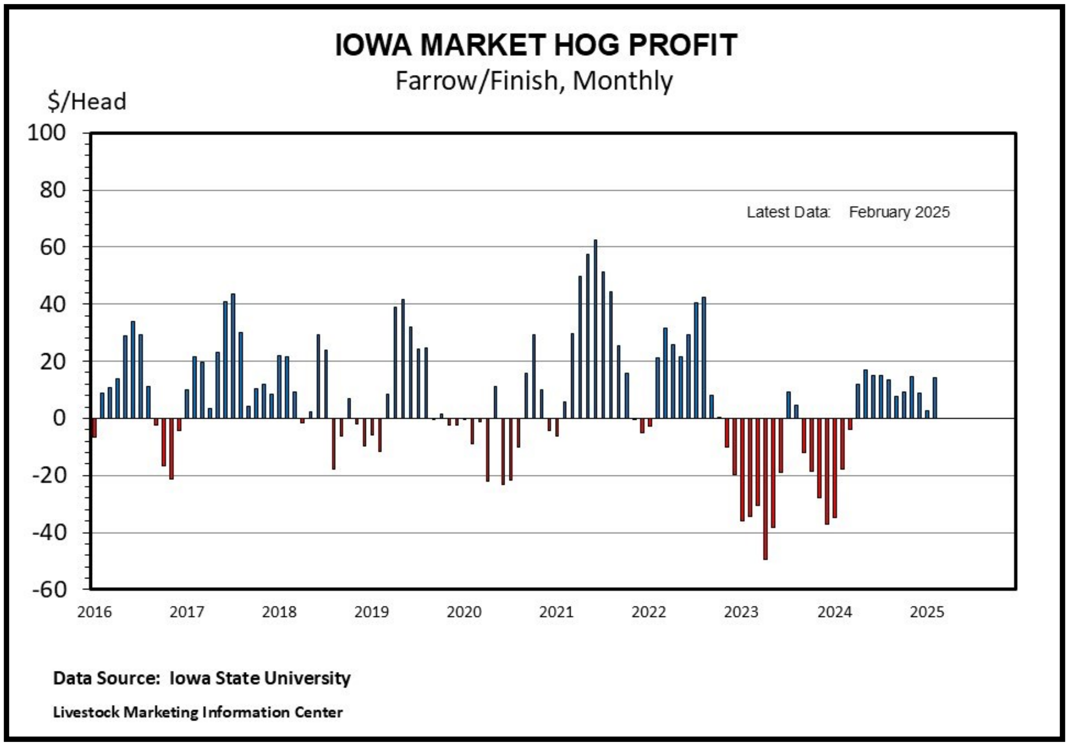
Region	Milk Price	Alfalfa	Corn	Soybean Meal	Whole Cottonseed	IOFC
Northeast	$ 21.72	$ 224.72	$ 5.61	$ 394.19	N/A	$ 9.72
Midwest	$ 21.04	$ 169.47	$ 5.13	$ 394.19	N/A	$ 10.32
West	$ 20.70	$ 229.27	$ 5.73	N/A	$ 228.06	$ 10.53

Sources: LMIC uses the USDA NASS data for milk price, alfalfa, and corn using state-level data to calculate regional data. Soybean meal data is from USDA AMS and whole cottonseed data is not available consistently enough to use state-level data, so national prices are used.

Hogs

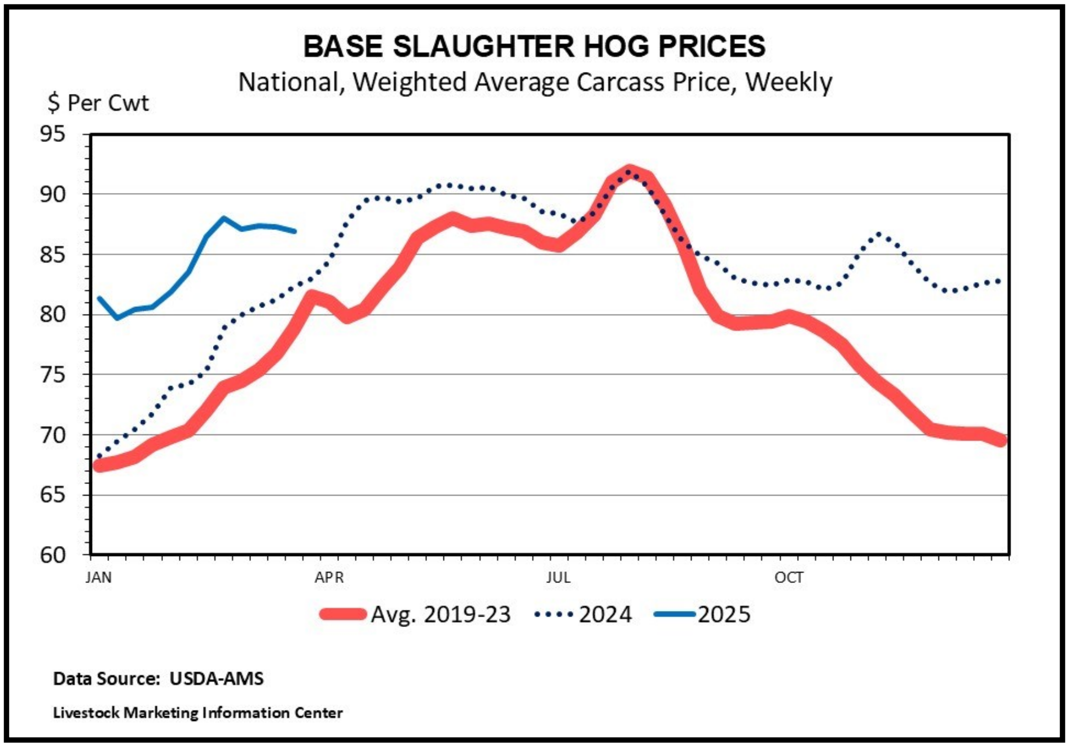
Key Drivers:

- ► Lower feed costs and higher prices are supporting profitable returns for hog producers.
- ► The March 1 Hogs and Pigs report was slightly bullish but also signaled a measured approach to production through 2025.
- ► Pork demand will remain critical in 2025. Domestic demand held steady in 2024, but higher retail pork prices could be a headwind to consumer demand in the near-term.



Iowa State University's estimated returns for a farrow to finish hog operation in 2024 averaged a profit of $4.70 per head, which was an improvement from the dismal $24.10 per head loss in 2023. In 2024, only the first quarter recorded a loss of $18.84 per head; the subsequent three quarters posted profits of $14.61, $12.08, and $10.94 per head. The first two reported months of 2025 posted profits of $2.67 and $14.07 per head, respectively. In 2025, profitability will still be driven partly by feed costs, which continue to track in the mid-$80 per head range. Corn feed costs increased from $39.71 per head in January to $40.99 per head in February. February's corn feed costs accounted for 47% of total feed costs compared to 44% a year ago. Soybean meal feed costs decreased from $15.21 per head in January to $14.52 per head in February. February's soybean meal feed costs accounted for 17% of total feed costs, compared to 20% last year.

As feed costs remain low, the first two months of 2025 show hog prices have improved from last year's levels. Iowa State University reported the hog selling in January and February this year at $81.38 and $87.65 per cwt, respectively, which is an improvement from $68.93 and $76.87 per cwt during the same months last year. The breakeven price was reported at $83.36 per cwt in February, compared to $88.84 per cwt during the same month last year. Seasonally, prices move higher through the first half of the year and peak around July



or August before declining through the remainder of the year. With February's selling price already above the breakeven price, producers are likely to see profitable months ahead into the third quarter.

The March 1 Hogs and Pigs report released from USDA-NASS has all hogs and pigs down marginally by less than one percent (-0.2%) to 74.5 million head. The breeding herd fell -0.6% to just under 6.0 million head while market hogs were down fractionally (-0.2%) to 68.5 million head. Across the market hog weight categories, hogs weighing under 50 pounds, 50-119 pounds, and 120-179 pounds each declined -0.3%, -0.4%, and -0.3%, respectively, to 21.3, 19.0, and 15.7 million head. Market hogs weighing 180 and over increased +0.5% to 12.5 million head. The December-to-February pig crop decreased slightly by -0.2% to 33.7 million head. This was due largely to the December-to-February farrowings decreasing -1.2% from last year to just under 2.9 million head, which more than offset the +1.1% increase in pigs per litter to 11.65. Farrowing intentions for the March-to-May and June-to-August periods were down from a year ago by -0.2% and -0.8%, respectively, to 2.913 and 2.961 million head. Although the report was slightly bullish, it signals producers are taking a measured approach to production this year.

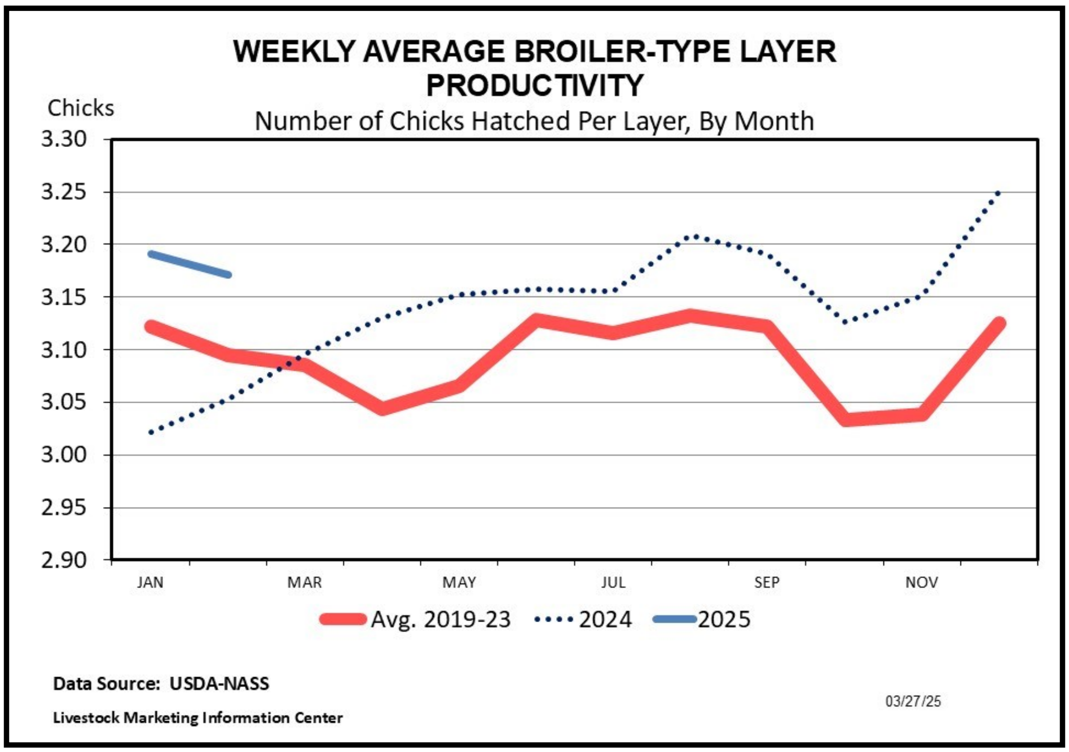
The retail pork price averaged $4.87 per pound in 2024, which was down from $4.81 in 2023 and $4.90 in 2022. For the first two months of 2025, the retail pork price was reported at $4.95 and $4.84 per pound for January and February, respectively. The retail bacon price remains in the upper $6 per pound range and reached $7.04 per pound in January 2025 but fell to $6.80 per pound in February. Retail prices for chops and hams have been steady to start the year at just above $4.20 and $4.40 per pound, respectively. The retail pork price holding relatively steady signals pork demand is also holding level.

The LMIC calculates a pork demand index based on per capita pork consumption, the own-price elasticity of demand for pork and the retail price for pork, which is deflated using the CPI to the base year of 2000. The pork demand index value for 2024 was reported at 98, which was down slightly from 99 in 2023 and below the 106-111 values for the period from 2019 to 2022. Domestic pork demand will be a critical piece to profitability in the hog sector. Early indications for 2025 suggest domestic pork demand is holding steady, but higher retail pork prices could be a headwind to consumer demand. §

Poultry

Key Drivers:

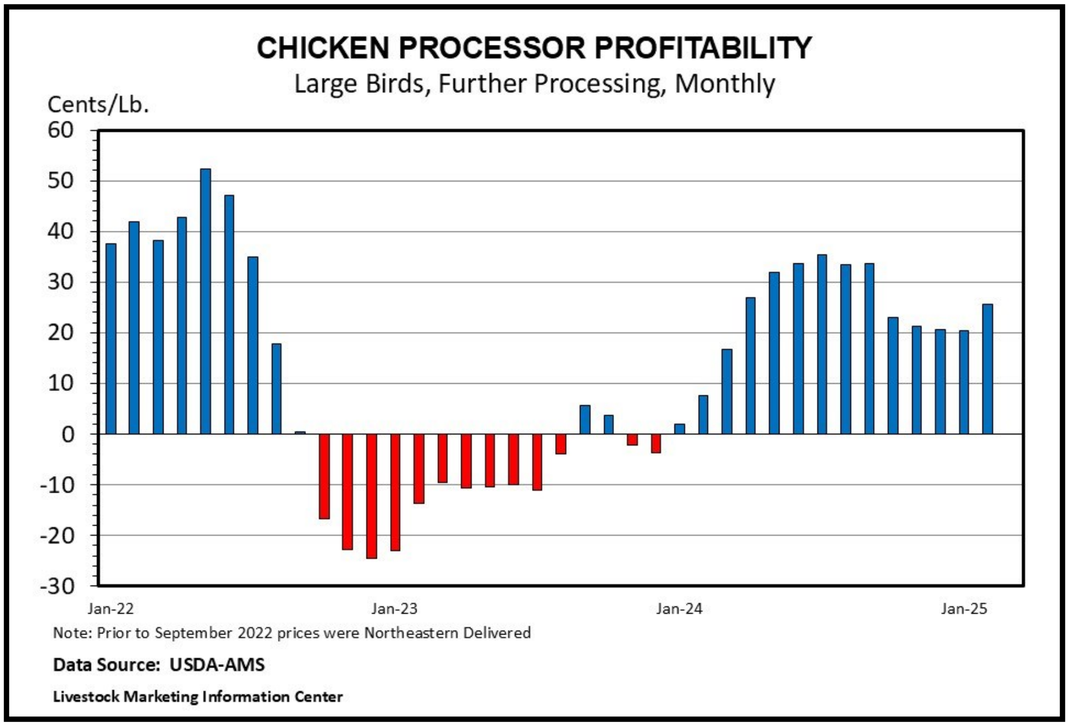
- ► Potential supply impacts from Highly Pathogenic Avian Influenza continue to loom for the poultry sector, especially the turkey industry.
- ► Chicken is still priced very attractively relative to beef in early 2025, but retail pork prices dipped in February, which could influence chicken consumption growth this year.
- ► The turkey industry continues to grapple with the challenge of secular decline in consumer demand for whole turkeys at Thanksgiving and Christmas.



Profit margins for poultry processors started to turn upward a couple months earlier than usual this year. Prospects for reduced supplies of beef, potential poultry production losses from Highly Pathogenic Avian Influenza (HPAI), and declining grain and meal prices are working concurrently. February data on turkey production that was released by the USDA in recent days highlights the impact that disease could have on turkey markets this year. Prices for chicken and turkey breast meat have already climbed significantly in anticipation of possible shortages later this year.

As the first quarter of 2025 ends, consumer demand indicators for chicken have lost some momentum from late 2024. Breast meat prices moved from $1.50 to over $2.00 from February to March but inventories in cold storage have accumulated. Breast and breast meat inventory at the end of February were up 21 million pounds (+9%) from a year earlier. At the beginning of the year, breast and breast meat inventories were 8 million pounds less than a year earlier. At some point (probably this spring) these inventories will be liquidated, essentially increasing supplies available to the market.

Total chicken inventories in cold storage at the end of February moved above levels a year earlier for the first time since the middle of 2023. Underlying this event was a slowdown in



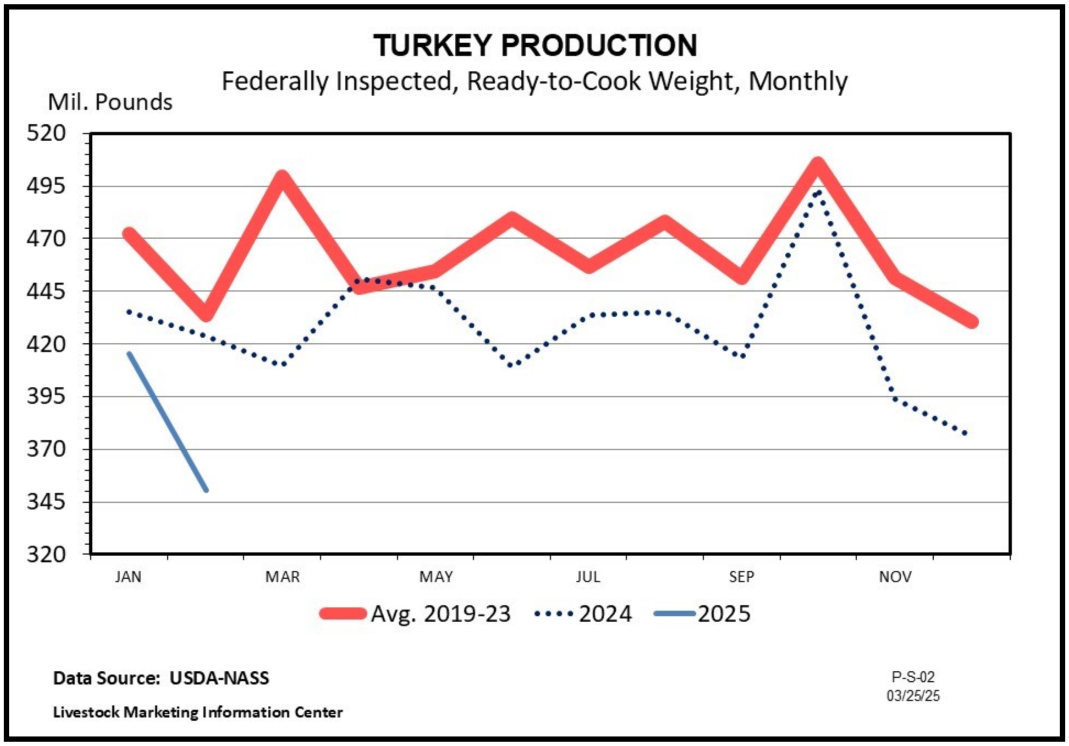
the growth in chicken consumption and declining exports, along with chicken production that is increasing. Chicken production for the year is projected to be up +2%, a little less than was expected late last year as the industry juggles its views between increasing production by processing more birds at lighter or heavier weights. At this point, fewer birds will likely be processed than were expected but at heavier weights. Average bird weights during the first quarter should be more than +1% heavier than a year ago, accounting for all of the increase in production.

Chicken consumption during the last three quarters of 2024 was expanding at a pace of 200-300 million pounds per quarter compared to a year earlier. Preliminary evidence for the first quarter of 2025 indicates that the growth rate has tapered back to 100-200 million pounds over the same period in 2024. Chicken is still priced very attractively relative to beef in early 2025, but retail pork prices dipped in February, according to USDA-ERS data, and could be the key relationship driving chicken consumption growth this year.

Chicken exports in 2024 dropped back from close to 7.3 billion pounds in 2022 and 2023 to 6.7 billion pounds. Leg parts prices, the popular chicken product in international markets, increased by close to 20% last year as US consumers saw value for this item versus higher priced beef, pork, and chicken breast meat items. Chicken exports in January 2025 were down -15% from a year earlier, pointing to another year of sharp export declines. The forecast pegs exports at 6.4 billion pounds as beef, pork, and chicken breast prices remain the dominant forces supporting leg parts prices.

Chicken industry profitability is expected to improve on the returns seen in 2024. Wholesale breast meat and leg parts prices start the year +10-30% higher than where they were a year ago. Feed costs are -5-10% less than a year ago. Placements of young hens into the hatchery supply flock this year were expected to be up +3% from last year, driven by last year's economic success. So far this year, young hen placements have run below expectations and will support only a +2% increase. Some of this trend is probably supported by the dramatic improvement in hatchery flock productivity that began last year, limiting the need for young hen placements this year.

The turkey industry continues to grapple with the challenge of secular decline in consumer demand for whole turkeys at Thanksgiving and Christmas. The verdict for 2024 was not favorable. Per capita consumption for the October-



December quarter was 3.97 pounds, the first time that volume fell below four pounds since 1980. It was almost one pound less than five years earlier. Average wholesale turkey prices in 2024 were slightly higher than in 2019, but profitability was about the same, which is not encouraging. Between 2019 and 2024, young turkey slaughter dropped more than -10%.

Turkey production this year is forecast to be close to a year ago in terms of slaughter and average bird weights. HPAI will be the issue confronting the industry trying to meet that projection. Several large commercial turkey flocks were disposed of beginning late last year in the Upper Midwest. Numerous moderate-sized flocks from Ohio to the Dakotas and down to Oklahoma have been disposed of in the last couple of months. January young turkey slaughter was down one million birds from a year earlier. This slaughter total was about one million short of what was expected based on turkey hatchery output in prior months. The comparison in February was more pronounced, with young turkey slaughter down three million birds from the prior February, two million less than expected.

Hen turkey prices averaged $0.88 per pound during the first two months of the year, in line with forecast expectations. Beginning in the last week of February, turkey prices started to jump, going up eight cents, followed by eleven and four cent increases in following weeks. These price increases are consistent with consequences of reduced turkey production this quarter. Average hen turkey prices this quarter will likely average close to $0.98 per pound versus the earlier expectation of $0.88 per pound.

Early indications of domestic turkey usage for the first quarter of 2025 suggest a -1% decline from last year. The forecast assumes a -3% decline, extending the trends seen late last year. This would be another factor supporting the strong turkey prices in the last 30 days. An extension of these consumer demand conditions over the next six months would keep whole bird turkey price trading slightly above $1 per pound, about 10 cents higher than a year ago. Frozen turkey inventories at the end of the year would be down about -10% from the start of the year. §

Questions or Comments?

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