



## International Agricultural Trade Report

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### Financial Crisis Dents Certain Asian Livestock & Feed Sectors: Trade Impact Marginal

The Asian financial crisis appears to have had little overall effect on either total domestic livestock inventories or feed grain import demand throughout most of the region. However, the impact of the crisis and prospects for a return to pre-crisis growth levels varies significantly by country. The impact is likely to be greater for meat trade, not local production. Meanwhile, U.S. red meat, poultry, and feed grain exports to these selected countries are expected to remain steady in the near term.

#### Japan's Livestock & Feed Industries Largest in the Region and Least Affected

While livestock inventories and feed grain imports by **Japan** thus far in 1998 are relatively unchanged from last year's levels, the following points need to be factored into the outlook for 1999.

- ! Livestock and poultry inventories are projected down slightly in 1999; however, this reflects the overall long-term decline in Japanese agriculture rather than the economic recession.
- ! Purchases of feed grains in 1998 are actually accelerating; some Japanese traders are apparently buying more aggressively in anticipation of a yen devaluation. These imports will likely be stockpiled and result in slackened imports in 1999.

With more than half of Japanese meat consumption supplied by imported products, the effect of the present economic crisis will have more of an impact on meat imports than on inventory numbers or the structure of Japan's livestock industry. Overall meat consumption in Japan in 1999 is expected to remain stable with demand for U.S. red meat and poultry increasing slightly.

#### Thailand & the Philippines Impacted in Different ways

The red meat sector in **Thailand** is suffering with inventories of cattle and pork expected to drop 6 and 8 percent respectively in 1999. Conversely, the export orientation of the poultry industry and prospects for increased international competitiveness resulting from the devalued baht, is likely to lead to a 8 percent rebound in both inventories and production in 1999. However, near-term poultry profitability may be adversely affected by a reduced 1997/98 domestic corn harvest, which is only partially being offset by imports. The 1998/99 corn crop is expected to be large enough to enable record feed use, with minimal imports.

Despite the regional currency crisis, the **Philippines** and **Malaysia** livestock and poultry industries are expected to be relatively unchanged to slightly higher in 1999 due to relatively

stable economies and increased consumer demand for meat products. Inventories are forecast up across the board with hog inventories expected to rebound somewhat in 1998. The Philippine market access agreement for pork and poultry meat signed in 1997 should lend support to meat imports in 1999 despite the prospects for higher domestic meat production.

Historically a marginal feed importer, the Philippines nevertheless has expanded imports in the face of the El Niño drought that resulted in the smallest corn crop in over a decade. An improved 1998/99 corn harvest, coupled with some continued imports, will result in a rally in feed use to nearly pre-crisis levels. Virtually no change is expected in Malaysia's corn imports.

### **Indonesia and, To A Lesser Extent, South Korea Are Experiencing Difficulty**

The most severe impact of the crisis is in **Indonesia**, where poultry inventories in 1999 are expected to fall 50 percent from the previous year's level, resulting in animal numbers that are only 10 percent of the pre-crisis level. As poultry feed constitutes nearly 90 percent of total feed demand in Indonesia, this will seriously impact corn imports. After growing rapidly throughout the 1990's, corn imports by Indonesia in 1998/99 are expected to be zero. Corn production is expected to exceed domestic demand to such a degree that exports are likely. An increase in cattle inventories is projected, however most of these animals are used for draft purposes and are grass fed.

Inventories in **South Korea** are projected down 7-8 percent across the board. Cattle and poultry inventories are adversely affected by falling prices and costly inputs while lower hog inventories are resulting from high slaughter levels spurred on by favorable farm-gate prices and relatively strong export demand. In 1999, red meat consumption is expected to remain flat, while only a slight recovery is anticipated for imports.

South Korean feed millers are renowned price buyers. As such, the currency crisis has resulted in increased imports of feed wheat, as well as non-grain feed ingredients (tapioca, citrus pellets, glens, etc), to the detriment of corn imports. Total feed demand (including oilseed meals) is expected to decline about 5 percent in 1998/99, after falling 8-10 percent in 1997/98.

### **The Crystal Ball...**

The near-term effects of the current situation will be for stagnant consumption of meat and animal products, or in the case of Japan a switching of consumption to lower priced cuts of meat. A return to pre-crisis growth levels hinges on the timing of economic recovery. Unfortunately, the consensus macroeconomic forecast does not bode well for a quick turnaround. On the positive side, overall demand for meat, poultry, and feed grains in Asia has shown surprising strength in the face of some strong currency and income shocks. Thus, these sectors can be expected to be among the first to rebound in any economic recovery.

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