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AgLetter

MEAT PRODUCTION

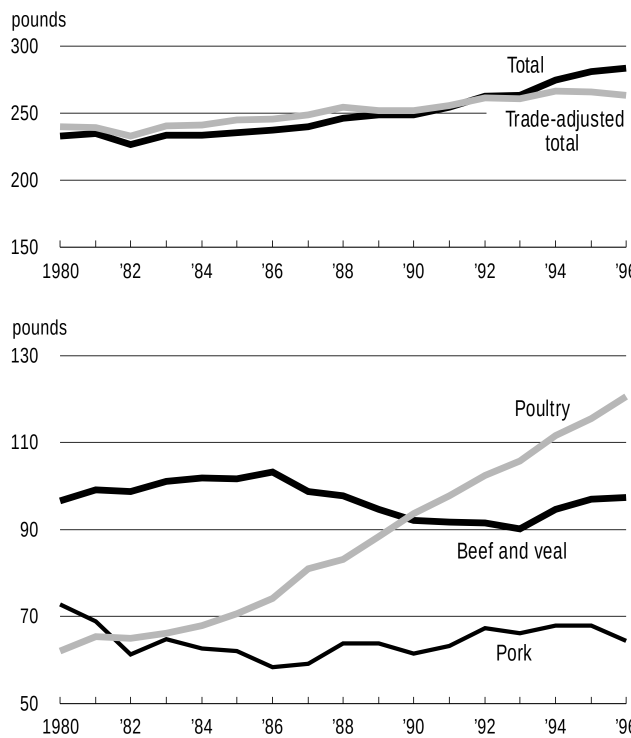
U.S. meat production edged higher again last year, despite the dampening influence of high grain prices and feed costs. The latest figures from the U.S. Department of Agriculture show meat production rose 1.7 percent in 1996, marking the 14th consecutive year of expansion. However, last year's increase fell short of the 2.6 percent compound annual rate of gain that has characterized the trend since 1982. And on a trade-adjusted basis, virtually all of last year's gain in production was wiped out in terms of the output that was available for domestic consumers. Another below-trend rise in meat production is projected for this year.

Poultry continued to dominate the growth in meat production last year. Production of chicken and turkey meat has more than doubled since 1982, growing at a compound annual rate of 5.5 percent. Despite very high feed costs and a general view that poultry producers would be the first to scale back, last year's rise in poultry production fell only nominally short of the long-term trend. Turkey production rose the most, 6.5 percent compared to a 5.2 percent rise for broilers. In both cases, the gains reflected an increase in the number of birds processed and—despite high feed costs—a surprisingly large gain in the average weight of the birds. The live weight of both the broilers and the turkeys processed last year averaged more than 2 percentage points higher than in 1995.

Red meat production declined slightly (nearly 1 percent) last year, reversing the uptrend of the two previous years. The overall performance encompassed gains for beef and veal (1.2 and 19 percent, respectively) which were countered by declines in pork and lamb and mutton production (4.1 and 6.6 percent, respectively). Last year's developments throughout the red meat complex were heavily influenced by the shortages and high prices that characterized feed supplies. A combination of drought-reduced pasture supplies during the fall and winter months of 1995/96, the sharp escalation in feed prices into the summer months, and the curtailed first-half movement of young cattle into feedlots led to the heaviest liquidation of the cow herd in ten years and another large gain in the number of calves shipped to packing plants. The number of cows processed in packing plants surged 16 percent last year, paced by a 24 percent jump for beef cows. The number of calves sent to packing plants also rose 24 percent last year. In contrast, the number of cattle shipped to packing plants from feedlots leveled-off last year as weak first-half placements led to curtailed second-half marketings. In summary, the number of all cattle sent to packing plants last year was up a little over 2.5 percent. But the change in the mix of those cattle—more cows and heifers and fewer steers—led to a 1.3 percent decline in the average dressed weight of cattle processed at packing plants in 1996.

Pork production was down throughout all of last year, with virtually all of the decline due to the reduction in the number of hogs marketed by farmers. Despite higher feed costs, the average dressed weight of hogs that moved through packing plants last year was unchanged from the year before. Hog farmers began to trim their output in the spring of 1995 following several months of depressed earnings.

Per capita meat production



Source: U.S. Department of Agriculture.

The downscaling continued through most of 1996, accounting for the 4 percent reduction in hogs shipped to packing plants last year and the anticipated cut in marketings during the first half of this year.

For the current year, USDA analysts project a continuation of last year's trends in meat production. Feed supplies are expected to be more ample and less costly than last year, helping to restore improved operating returns to livestock and poultry producers. Hay prices remain very high, but the onset of spring and abundant moisture supplies in most areas should help replenish pasture and roughage supplies. And the start of a new cropping season, despite the many uncertainties and weather scares that will undoubtedly surface prior to the fall harvest, brings hope of more corn and soybean acreage and the possibility of further rebuilding feed supplies.

Total meat production for 1997 is projected to record another below-trend increase. Although the final outcome hinges on crops and other developments, the latest USDA projections point to another rise of less than 2 percent. All of the gain is expected to come from poultry. Although the growth in turkey production is slowing from last year's pace, bigger gains are expected for broiler production this year. Accordingly, the USDA expects another rise of over 5 percent in poultry production for this year.

Pork production prospects will be clarified in a late March quarterly update on hog inventories and the production plans of hog farmers. The last report issued in December showed that the inventory of market hogs was down 4 percent and that intended sow farrowings numbered slightly fewer than the year before. Many analysts believe an upturn in hog production is now underway which will lead to a gain in second-half pork production. But first-half pork production will continue to lag year-earlier levels. The bulk of the decline has already occurred, implying that pork production will likely be drawing closer to year-ago levels in the weeks ahead. For the year, however, USDA analysts are still projecting a nominal decline in pork production.

Projecting beef production encompasses a broader range of variables than is the case for the other meats. The number of cattle placed in feedlots rebounded during the second half of last year as easing feed costs offered the potential of better returns to operators. The number of cattle in all feedlots as of the beginning of this year was up 2 percent nationwide, paced by a 5.5 percent gain in the five states comprising the Seventh Federal Reserve District. Subsequent reports show the faster inflow of feeder cattle continued during January and February, at least among larger feedlots in the top cattle feeding states. Assuming no major feed shortages reappear, these developments imply fed cattle marketings in 1997 will surpass the year-earlier level.

A key variable for beef production, both for this year and next, will be whether the liquidation of the cow herd continues in 1997. The heavy liquidation that occurred last year, along with a smaller inventory of replacement heifers, led to a 2.5 percent decline in the beginning inventory of all cows on farms. With prospects for smaller calf crops both this year and next, it appears the liquidation rate has slowed, at least temporarily. During the last three weeks of February, cow slaughter dipped below the high year-earlier level. If this pattern continues, it could offset the pick-up in cattle coming out of feedlots. In line with this, USDA analysts are expecting beef production will be down nearly 1 percent this year with all the decline coming in the first half.

Gary L. Benjamin

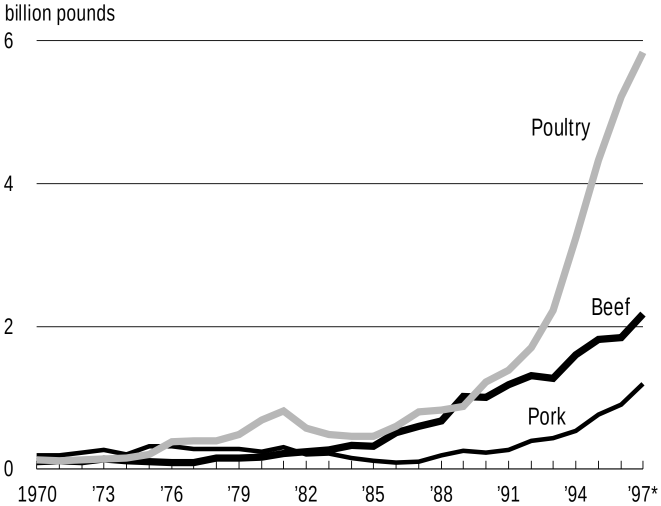
RED MEAT AND POULTRY EXPORTS CONTINUE TO EXPAND

Data released by the U.S. Department of Agriculture (USDA) show that exports of pork and poultry meat products made strong gains in 1996 when compared to the prior year, while beef shipments to other nations posted a more modest increase. In general, trade liberalization and the rising tide of world income contributed to the gains. Furthermore, the recovery of the Mexican economy from the peso crisis and economic downturn helped boost red meat and poultry exports to that nation last year. In this decade (1990-96), the performance of poultry and pork exports has been nothing less than stellar, with compound annual growth rates of 27 percent and 25 percent, respectively. In comparison, beef exports grew at a more modest clip of 11 percent.

Exports of poultry posted a solid year-over-year gain of nearly a fifth in 1996 to reach 5.1 billion pounds (ready-to-cook weight). The U.S. runs a large trade surplus in poultry meat, with few imports. Sales to China were up nearly 90 percent, while double-digit gains were also made in shipments to Russia, Mexico, and Poland. Russia is the primary destination for U.S. poultry and accounted for nearly 40 percent of total shipments. The year also marked the resolution of a dispute between Canada and the U.S. that stemmed from the tariffs Canada imposed on poultry imports in 1995. This disagreement was set up by a contradiction between two trade agreements that both nations are part of: the General Agreement on Tariffs and Trade (GATT) permits these tariffs, while the North American Free Trade Agreement (NAFTA) prohibits them. However, a NAFTA dispute panel ruled in late 1996 that the Canadians were within their rights according to both treaties.

At 1.9 billion pounds (carcass weight), beef and veal exports posted a modest year-over-year gain of 3 percent in 1996. Despite another slight decline in imports, last year's performance failed to live up to earlier predictions

Poultry exports make rapid gains



*Projection.
Source: U.S. Department of Agriculture.

that the U.S. would become a net exporter of beef. However, the U.S. registered a trade surplus in beef in terms of value, thanks to our propensity for exporting high-value cuts while importing lower-value manufacturing beef. Japan remained our primary customer, accounting for over half of U.S. beef exports. Yet the growth in shipments to Japan registered a year-over-year gain of only one percent. Part of this weak performance stemmed from food safety concerns brought on by an incidence of E. coli bacterial contamination in Japan. Furthermore, beef exports dropped off sharply to two other major customers—Canada and South Korea. But this poor showing was more than offset by increased shipments to Mexico, Hong Kong, and Taiwan.

Pork exports posted a year-over-year gain of 23 percent to reach 950 million pounds (carcass weight) in 1996. Moreover, the U.S. was a net exporter of pork for the second consecutive year. Shipments to Taiwan doubled, while those to Canada rose by 70 percent. Exports to Japan were up by a third and accounted for over half of U.S. shipments. The food safety concerns that curbed the growth in beef exports to Japan may have provided a boost to pork exports as consumers there substituted one meat for the other. Furthermore, USDA reports suggest that Denmark—a strong competitor in the Japanese market—is shipping relatively more pork to other nations within the European Union (EU) due to the problems associated with bovine spongiform encephalopathy in Europe, providing the U.S. a greater opportunity to gain market share in Japan. However, the EU recently initiated a complaint against Japan with the World Trade Organization, claiming that Japanese "safeguard" tariffs unfairly harm EU producers relative to those in other exporting nations.

The safeguard mechanism is GATT-legal and allows Japan to increase tariff rates on pork when imports exceed a predetermined "trigger" level. This provides a measure of protection to the Japanese pork industry by raising the minimum import price and reducing the competitiveness of foreign pork. The higher tariff rate remains in effect (under most circumstances) until the end of the Japanese fiscal year. The trigger was initially "pulled" in 1995, when higher tariffs were imposed in November. That increase expired at the end of March, 1996, the close of the Japanese fiscal year. But large purchases of foreign pork by Japanese importers again exceeded the trigger level in the first quarter of the fiscal year. Consequently, higher tariffs were again imposed on pork imports in June, 1996. Ironically, it seems that Japanese importers, anticipating the higher tariff rates, loaded up on frozen pork in the first quarter of the fiscal year, leading to the relatively early exercise of the safeguard mechanism. But since the trigger level is based on a rolling average of the preceding three years, it rises over time as imports increase and will allow a greater quantity of imports each year before coming into play. But this situation will not continue indefinitely, as Japan is to phase out all tariffs on pork imports by mid 2001.

Canada and Mexico are our major trading partners in both live hogs and cattle. Most of our hog exports go to Mexico, while Canada provides nearly all our imports. At 56,000 head, exports of hogs more than tripled from the prior year, thanks to the improved performance of the Mexican economy. But despite this expansion, our trade deficit in live hogs widened. Imports jumped 60 percent from the prior year to reach 2.78 million head. Spurred by lower hog numbers in the U.S. and firm packer demand, domestic prices moved higher last year and presented an attractive opportunity for Canadian producers. The positive side of this development is that some U.S. processors were able to operate closer to capacity and maintain higher employment levels than without the Canadian hogs. Underscoring this notion, recent news reports indicate that some Midwest pork processing plants are reducing shifts because adequate hog numbers are not available to keep the lines running.

In contrast to hogs, our trade deficit in live cattle narrowed in 1996 from the prior year. Exports rose 80 percent last year to reach 174,000 head, while imports dropped about a third to 1.97 million head. The change was entirely due to improved trading patterns with Mexico. In contrast, our trade gap with Canada widened. However, there is some expectation that cattle imports from Canada will decline this year due to the construction of two packing plants there that will bid for cattle that might otherwise be sent to the U.S. for processing. Moreover, Canada's ability to compete with the U.S. in world markets will probably be enhanced by the additional processing capacity.

Mike A. Singer

SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1990–92=100)*	February	105	–2.8	–1	8
Crops *(index, 1990–92=100)*	February	113	–2.6	–8	12
Corn *($ per bu.)*	February	2.69	0.0	–20	21
Hay *($ per ton)*	February	105.00	5.3	33	26
Soybeans *($ per bu.)*	February	7.37	3.4	5	36
Wheat *($ per bu.)*	February	3.91	–3.0	–21	8
Livestock and products *(index, 1990–92=100)*	February	98	0.0	5	4
Barrows and gilts *($ per cwt.)*	February	52.90	–2.2	12	33
Steers and heifers *($ per cwt.)*	February	64.50	–1.1	6	–11
Milk *($ per cwt.)*	February	13.30	–0.7	–4	6
Eggs *(¢ per doz.)*	February	75.7	–0.1	–1	23
Consumer prices *(index, 1982–84=100)*	February	160	0.3	3	6
Food	February	157	0.0	4	6
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	6,906	N.A.	13	–15
Soybean stocks *(mil. bu.)*	December 1	1,823	N.A.	–1	–13
Wheat stocks *(mil. bu.)*	December 1	1,219	N.A.	–9	–18
Beef production *(bil. lb.)*	January	2.22	14.0	0	11
Pork production *(bil. lb.)*	January	1.46	2.2	–6	–3
Milk production* *(bil. lb.)*	February	10.4	–7.2	–2	1
Receipts from farm marketings *(mil. dol.)*	November	19,495	–15.6	–5	–5
Crops**	November	11,466	–12.8	–8	–11
Livestock	November	7,972	–5.0	6	6
Government payments	November	57	–96.3	–90	–37
Agricultural exports *(mil. dol.)*	December	5,249	–11.0	–2	4
Corn *(mil. bu.)*	December	188	–22.1	2	–9
Soybeans *(mil. bu.)*	December	122	–20.1	36	17
Wheat *(mil. bu.)*	December	53	–31.7	–48	–51
Farm machinery sales *(units)*					
Tractors, over 40 HP	February	5,379	21.1	22	21
40 to 100 HP	February	2,900	17.4	22	28
100 HP or more	February	2,479	25.7	22	14
Combines	February	319	–27.8	–10	–26

N.A. Not applicable
*20 selected states.
**Includes net CCC loans.

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Federal Reserve Bank of Chicago
Public Information Center
P.O. Box 834
Chicago, Illinois 60690-0834
312-322-5111