FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
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Trends in meat production, trade, and consumption

Meat production this year is headed toward another new high, despite contrasting trends for individual components of the meat complex. Preliminary figures show commercial meat production during the first half of 1989 was up 1.6 percent from the same period the year before and up 6.5 percent from two years ago. The first half rise encompassed gains of 4.0 percent for pork and 3.6 percent for poultry, which together offset a 1.5 percent decline for beef. USDA analysts believe that total meat production in the second half will remain above the year-earlier level, although the gain may narrow to about 1 percent.

Expectations of bigger gains in poultry account for all of the projected second-half rise in total meat production. Poultry has been the fastest growing component of the meat complex for years, reflecting both the sustained strength in consumer demand and the technological advances adopted by producers and processors to capitalize on the efficiencies by which broilers and turkeys can convert grains into meat. Since 1960, poultry production has recorded annual gains in all but four years. The last year-over-year decline was in 1975. Since then, poultry production has recorded a remarkable compound annual rate of growth of 5.3 percent.

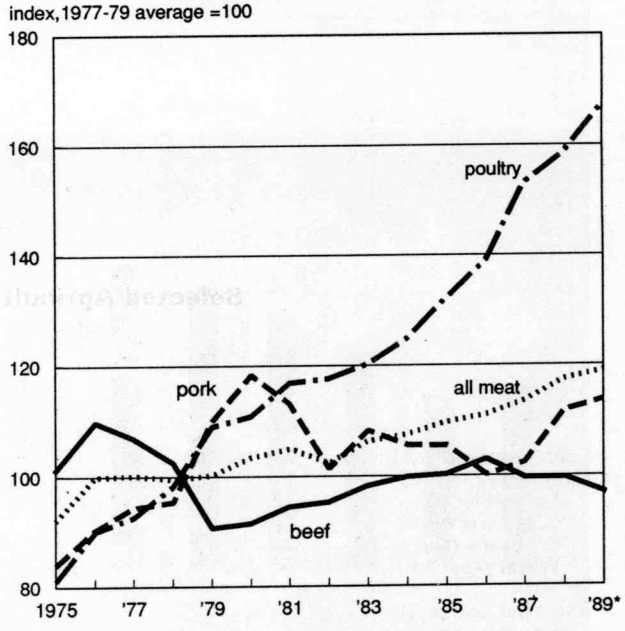
For a variety of reasons, the growth in poultry production slowed abruptly in the second half of last year and remained comparatively slow during the early months of this year. Following strong gains throughout 1987 and into the first half of 1988, the year-over-year rise in poultry production narrowed to less than 1 percent in the second half of 1988. The year-over-year gain held at a modest 1.7 percent in the first quarter of this year, and then widened to a more normal 5.4 percent in the second quarter. For the rest of this year, USDA analysts are looking for the gains in poultry production to widen to 7.7 percent, with roughly comparable increases for both chicken and turkey. Coupled with the first half performance, that would translate into a 5.7 percent rise in domestic poultry production for all of 1989.

Unlike the situation for red meats (where imports supplement domestic supplies) the U.S. is a net exporter of poultry. In general, the growth in poultry exports since the mid 1970s has about matched that for poultry production. Some 4.8 percent of U.S. poultry production has been exported the past two years, up only marginally from the 4.6 average that has prevailed since 1975. During the first five months of this year, combined broiler and turkey exports were up nearly a fourth from the year-earlier pace. For all of 1989, however, the USDA is projecting poultry exports will rise only 3 percent.

The USDA's latest production and export estimates imply that domestic poultry consumption this year will rise to 84.1 pounds per capita (retail weight basis). Such a level would be up 4.5 percent from the year before and up 40 percent from a decade ago. Of the total projected poultry consumption, 65.3 pounds is for broilers, 16.3 pounds is for turkey, and 2.5 pounds is for mature chicken.

While pork production follows an entrenched cyclical pattern, the overall trend has roughly paralleled population growth. In the current cycle, pork production has recorded year-over-year gains for the past eight consecutive quarters. But reflecting retrenchments by hog farmers due to operating losses sustained over the

Trends in meat production



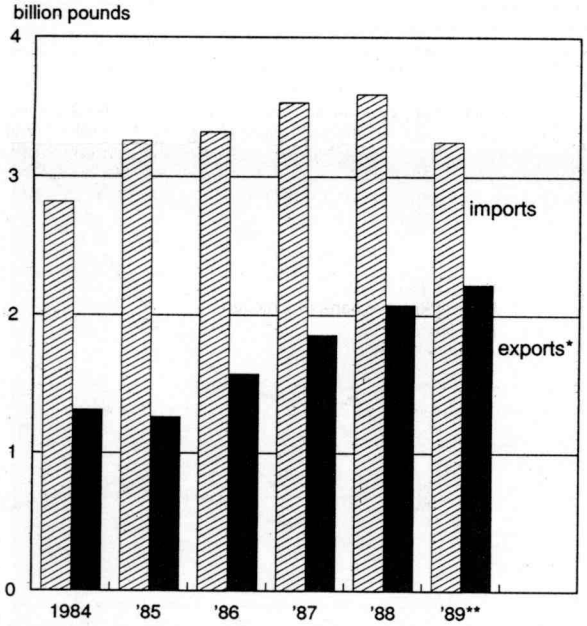
*USDA projections as of July 12, 1989.

past several months, pork production during the second half of 1989 is expected to only match the year-earlier pace. Because of the first half gains, however, pork production for all of this year is projected to be up about 1.8 percent from 1988. Part of the rise reflects a hefty increase in live-hog imports which add nominally to domestic pork production.

In terms of domestic pork supplies, about half of the projected rise in production will be offset by smaller net imports (imports less exports, including shipments to U.S. territories). Net pork imports in recent years have been equivalent to about 6 percent of domestic pork production, well above the 1 percent share more typical in the early 1980s. Net pork imports declined 16 percent last year, largely because of a surge in U.S. shipments abroad. For the current year, net pork imports are projected to decline another 16 percent, in part because of fewer shipments coming in from Canada. A recently imposed ruling that a countervailing duty of 3 cents per pound must be escrowed on imports of Canadian pork, pending a final ruling on the issue of unfair Canadian subsidies, will slow the inflow of pork from that country.

With lower imports offsetting about half of the modest rise in domestic production, pork consumption this year is projected to rise only marginally to about 63.5 pounds per capita (retail weight basis). Such a level would be somewhat above the 59.9 pound average of the past three decades but still short of earlier cyclical highs that reached 68 pounds per capita in both 1971 and 1980.

U.S. net meat imports are projected to decline this year



*Includes shipments to U.S. territories.
**USDA projection as of July 12,1989.

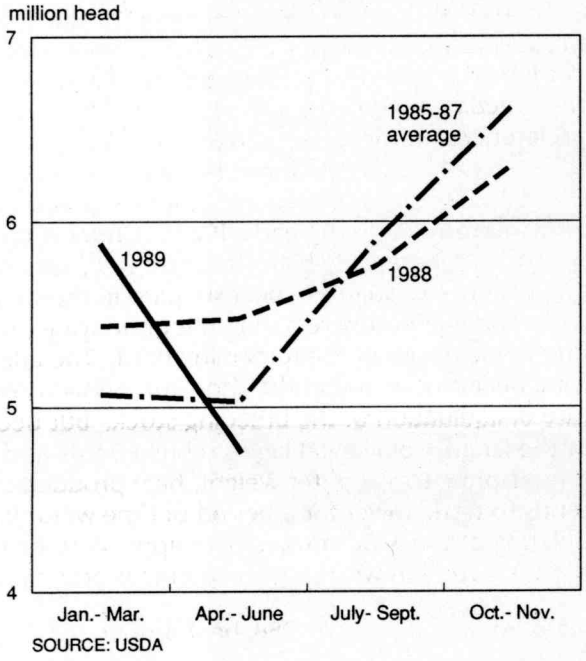
Beef production trended steadily higher until peaking in the mid 1970s. Since then, it has leveled off as cattlemen have undergone a prolonged liquidation of the breeding herd in response to changing consumer preferences for meat and periods of low operating returns. As reflected in the inventory of beef cows, the liquidation phase has prevailed since 1975 with only a brief interruption in the early 1980s. Under such conditions, comparatively high slaughter rates for cows and heifers can augment beef supplies in the short run while simultaneously reducing the underlying production capacity of the remaining herd. The affect on total beef production in the short run depends on the rate of liquidation of the breeding stock. But because of the lengthy biological lag to rebuild herds and raise the offspring to slaughter weight, beef production tends to trend lower for a period of time when the liquidation phase winds down. This appears to be the current situation with respect to beef production.

After holding steady in 1988, beef production declined 1.5 percent in the first half of this year and is projected to register larger declines in the second-half. The inventory of beef cows at the beginning of this year was reported to be up slightly from a year earlier, but (reflecting the long liquidation phase) still down 26 percent from the 1975 peak and about the lowest for any year since 1966. While the inventory numbers suggest the liquidation phase may have ended last year, a comparatively high level of cow and heifer slaughter during the first half of this year suggests that herd rebuilding is, at best, modest.

Beef production forecasts in recent years have not been as accurate as many would like, in part, because of the changing flows of cattle moving through various channels to slaughter plants during the liquidation phase. During the first quarter of this year, and despite the tightness in feeder cattle supplies, the movement of cattle into feedlots was unusually large. The number of cattle placed in feedlots in the 13-major states during the first quarter, net of death losses and movements between feedlots, was up 8 percent from the high year-earlier level and the highest for any first quarter since at least the early 1970s. The shortage of hay and pasture, especially in parched winter wheat areas, apparently triggered the large first quarter placements. But as pasture conditions improved this spring, net placements of cattle in feedlots in the second quarter dropped off 13 percent from the year-earlier pace to a 9-year low.

The movement of cattle from feedlots to slaughter plants has followed a similar roller coaster. Fed cattle marketings from feedlots in the 13-major states in

Net placements of cattle in feedlots turned down in second quarter



SOURCE: USDA

1988 were up 1.5 percent from the year before and at a 10-year high. The pace in fed cattle marketings fell off to a 7-year low in the early months of this year but then, following the bulge in first quarter placements, returned to the highest level since 1978 in the second quarter. For the entire first half, fed cattle marketings were down 1 percent.

The combination of curtailed placements and heavy marketings in the second quarter left the 13-state inventory of cattle in feedlots as of July 1 some 6 percent below the year-earlier level. In Illinois and Iowa, the only District states included in the 13-state total, the midyear cattle-on-feed numbers were down 21 and 5 percent, respectively. Second-half fed cattle marketings will reflect both the reduced inventory number as well as the pattern of cattle moving into feedlots this summer. If the recently favorable crop growing conditions continue to translate into lower feed costs, the number of cattle moving into feedlots could pickup again this summer. But in general, second-half fed cattle marketings are expected to lag somewhat below year-earlier levels. Moreover, if pasture and forage conditions improve and encourage herd rebuilding, the slaughter of cows and forage fed steers and heifers may also register bigger declines in the second half.

USDA analysts currently project that domestic beef production in the second-half of this year will be down about 4 percent from the year-earlier level. If that is the case, total beef production this year would be down 2.7 percent and the lowest since 1982. Moreover, projected declines in beef imports, coupled with further strong gains in beef exports, will add to the cut in domestic supplies of beef. U.S. imports of beef this year are expected to decline about 8 percent from the near-record of last year. And paced by further gains in shipments to Japan, U.S. beef exports are forecast to rise 16 percent. These contrasting trends suggest that net beef imports into the United States this year may decline 18 percent to a 22-year low of 1.34 billion pounds (carcass weight basis). Such a level would be equivalent to 5.8 percent of domestic beef production, down from 6.9 percent last year.

With both domestic production and net imports declining, consumption of beef is projected to decline for the fourth consecutive year in 1989. At the 69.6 pounds (retail weight basis) currently projected by the USDA, per capita beef consumption this year would be down more than 4 percent from last year. The level projected would mark declines of 11 percent from a decade ago and 26 percent from the 1976 peak. It would also represent the lowest per capita consumption of beef since 1962.

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Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from Prior period	Year ago	Two years ago
Prices received by farmers *(1977=100)*	June	146	-2.0	5	12
Crops *(1977=100)*	June	137	-2.8	6	26
Corn *($per bu.)*	June	2.46	-4.7	2	46
Oats *($per bu.)*	June	1.84	-14.0	-30	21
Soybeans *($per bu.)*	June	7.00	-2.9	-14	31
Wheat *($per bu.)*	June	3.78	-5.7	12	55
Livestock and products *(1977=100)*	June	155	-0.6	5	4
Barrows and gilts *($per cwt.)*	June	45.20	6.1	-7	-26
Steers and heifers *($per cwt.)*	June	72.90	-1.5	4	8
Milk *($per cwt.)*	June	12.10	-0.8	7	2
Eggs *(¢per doz.)*	June	63.3	2.1	37	27
Prices paid by farmers *(1977=100)*	April	177	1.1†	5	10
Production items	April	165	1.2†	6	12
Feed	April	140	-0.7†	25	39
Feeder livestock	April	185	-8.4†	-6	3
Fuels and energy	April	185	11.4†	12	16
Producer Prices *(1982=100)*	June	114	-0.1	6	8
Agricultural machinery and equipment	June	117	0.2	5	6
Fertilizer materials	June	104	-3.7	8	17
Agricultural chemicals	June	115	0.3	7	11
Consumer prices *(1982-84=100)*	June	124	0.2	5	9
Food	June	125	0.1	6	10
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	3,419	N.A.	-41	-46
Soybean stocks *(mil. bu.)*	June 1	655	N.A.	41	-22
Beef production *(bil. lbs.)*	June	2.02	1.2	0	3
Pork production *(bil. lbs.)*	June	1.27	-5.6	3	17
Milk production *(bil. lbs.)*††	June	10.5	-5.3	-1	0

N.A. Not applicable
†Prior period is three months earlier.
††21 selected states.

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