95th Congress }
1st Session }
COMMITTEE PRINT

1978 FOOD AND AGRICULTURAL OUTLOOK

Papers Presented at the Food and Agricultural Outlook Conference Sponsored by the U.S. Department of Agriculture—Held in Washington, D.C., November 14–17, 1977

PREPARED FOR THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

DECEMBER 19, 1977

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
98–723 WASHINGTON : 1977

MEAT ANIMAL OUTLOOK

(By Ewen M. Wilson, Director of Economics and Statistics, American Meat Institute)

I would like to direct my comments into two subheadings. First, those relating to supply. Second, those relating to demand.

Supply.—Next year we will see a further decline in beef production, and a shift in the beef mix toward more fed, Choice-style beef, and less non-fed hamburger type beef. Plentiful hamburger beef in the past 3 years was largely a consequence of herd liquidation resulting from adverse profits. That is now changing; our feedlots are filling up again, more Choice beef is on the way. Pork production is also headed for a substantial increase. The hog-corn ratio has been running above 20 since June, providing encouragement to hog producers to expand operations. Farrowing intentions and reports of gilt withholding indicate that expansion is proceeding at a rapid pace.

I agree with Jim Nix that declining feed grain prices have been a significant factor in shaping the outlook for livestock. If anything, the past few years have been characterized by distortions of relative prices from historical norms. Crop prices, boosted by export demand and depleted U.S. reserves, rose both in an absolute sense and also in relation to livestock prices. In 1974 the index of prices received by farmers for feed grains had risen 150 percent above its 1967 level. The price index for meat animals, by comparison, was only 65 percent over its 1967 level. In other words feed grain prices had risen at more than double the pace of livestock prices. That was the predominant factor in adverse profits in the cattle sector and a reason why in 1975 commercial pork production slumped below the low of 1958.

Today of course we are looking at alltime record corn and soybean harvests and at prospects for substantial additions to carryover in the 1977–78 marketing year. That will keep feed prices down and encourage cattle feeding and hog expansion.

One of the consequences of relatively high feed grain prices has been a heavy rate of liquidation of the cattle herd. If Jim Nix is correct and the January 1, 1978 cattle count comes out at 117.3 million then the decline in numbers since January 1, 1975 would be 11 percent. That's a far more severe adjustment than occurred in the past two cattle cycles. The 1965–67 adjustment was less than 1 percent. The 1956–58 adjustment was about 5 percent. The last time such drastic liquidation occurred was back in the 1945–49 period when 10 percent of the cattle herd was slaughtered. Even so, that was a 10 percent adjustment in 4 years; here we are looking at an 11 percent adjustment in 3 years.

The sheer magnitude of the 1975–78 liquidation provides the most encouraging prospects for cattle producers that we've seen for sometime. However, I would agree with Jim Nix that a dramatic turnaround is unlikely. Increased pork supplies in 1978 will put pressure on prices both in the pork and cattle sectors. Jim suggests a 88 million head commercial hog slaughter in 1978, a 13 percent increase. That's about 68 or 69 pounds per capita.

Demand.—Sluggish demand has been a pervasive factor in low cattle sector profits and has contributed to lackluster retail and farm level prices. Probably the one thing that would help the whole livestock and meat sector more than anything else at the moment is some evidence of stronger demand. According to data that we compute at the American Meat Institute, gross packer margins in 1977 for both cattle and hogs have been running behind year earlier levels. For instance, in the January–October 1977 period the gross margin for hog slaughering plants was 17 percent narrower than for the comparable year earlier period. At the same time packers are facing higher costs than they did a year earlier, particularly for labor and energy. Higher costs and lower margins are causing losses among many of them. That's why several Midwestern packers shut down plants in the past month. Unless we see some improvement in demand the malaise of the livestock and meat sector is likely to continue.

One area that has been difficult to analyze and is proving confusing in a projection sense is the relative levels of demand for Choice type versus hamburger type beef. As indicated earlier there has been an obvious supply phenomenon; the volume of nonfed steer and heifer slaughter and cow slaughter which comprises lower quality grade hamburger beef increased relative to fed Choice style beef during the liquidation phase of the cycle. But increased hamburger supplies were not accompanied solely by a movement down the demand curve. Rather there appears to have been a shift in the demand curve so that increased supplies were absorbed by the market at a higher price than otherwise would have occurred. Part of this is explained by income and population growth, but not all of it.

In fact if you look at Choice beef, the population and income effects appear to have been outweighed by other effects. In 1972 we consumed more Choice quality beef than we did in 1975, 1976, and 1977. The so-called law of demand says that the lower quantities consumed should have been taken from the market at a higher price; a move along the demand curve. In actual fact, the lower quantity of fed beef in the last 3 years has cleared the market at a lower real price. In other words, it appears that here has been a negative shift in demand for Choice beef and a positive shift in demand for hamburger beef.

The big question today: as we move out of the liquidation phase of the cycle toward more fed, less nonfed beef what is going to happen to demand? If the new demand mix stays with us, then we will see substantially higher hamburger prices and rather unresponsive Choice beef prices. However, I believe we are more likely to see a partial shift back towards the old demand characteristics. This implies a more moderate rise in hamburger prices and some strengthening in Choice beef prices.

Finally, a few comments about pork. Pork is going to be a good buy in 1978. Supplies are increasing, prices declining and we are looking at a much leaner product than in the past; an important consideration in todays health conscious market. One area of extreme concern in the pork sector is the issue of nitrites and nitrosamine formation. Adverse publicity has already had a negative demand and price affect. The pork bellies market has been particularly responsive to the scare reaction triggered by nitrosamine publicity. It happened in the fall of 1975, it happened again last month. The USDA notice on nitrites caused belly holdings to devalue overnight. The industry, quite naturally does not like these transitory losses. The full effect of an actual nitrite ban would, however, be far more serious. A ban would be disastrous to the pork sector and would have serious consequences in allied livestock and grain industries.

The immediate concern is not so much with the likely effect of a nitrite ban. A ban seems unlikely; scientific evidence does not support it. The immediate concern stems, rather, from the negative demand impact resulting from adverse publicity. I am not sure how significant this demand effect is (it is difficult to measure), but it compounds the effects of increasing supplies on a downward market trend.

Thus resolution of the nitrite issue is in the interest of the livestock sector.