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ANOTHER LOOK AT THE LIVESTOCK AND POULTRY SECTORS

Bob Remmele
Economic Analyst, Conagra, Inc.

The well-being of the livestock and poultry industries was impacted by three outside factors during the last three years. Foremost was the drop in feedgrain prices that occurred as a result of changes in the government's farm program. Second in importance was the strong growth in consumer expenditures that spurred consumption of value added products. Finally, the high level of farm debt that slowed expansion plans of livestock producers.

Lower feed costs in these industries were rapidly translated into reduced production costs. It is estimated that the cost of producing hogs dropped by 7 to 9 cents per pound because of lower feed costs and the cost of producing broilers dropped by 4 to 5 cents. The cattle feeding industry also benefitted from lower feedgrain costs, however, much of these benefits have been passed onto the cow-calf producer in terms of higher feeder cattle prices.

The poultry industry appears to have benefitted most from the economic expansion. Households with two incomes and also the single household looked for convenience in meal preparation. Together, the fast food industry and the poultry industry responded with new menu items that boosted chicken consumption. Furthermore, the poultry industry introduced many new value added and convenience products for the fresh food counter as well as the frozen food freezers.

Farm debt has been sharply reduced during the last three years and is now much more manageable. Many hog producers and cow-calf producers are able to expand with their own equity if they so desire.

The outlook for 1988 appears much different. Feedgrain prices appear to have bottomed and are trending higher as are protein prices. Thus, costs of production are climbing at a time when increased output of pork and poultry is lowering prices received by producers. At the same time, the economy appears to be slowing down. Real consumer expenditures had been growing at a 4 to 5 percent annual rate during 1985 and 1986, but slowed to a 2 percent

increase during 1987 and expenditures are expected to slow even more during 1988. It is very possible that consumer expenditures will show no growth or even a slight decline in at least one or two quarters in 1988.

On the other hand, expansion of livestock industries appears more possible given the improved financial condition of farmers. However, farmers are still expected to take a cautious attitude towards expansion.

CATTLE

Returns to cow-calf producers in 1987 were the best since 1980. Yearling feeder steer prices are expected to average about \$75 per cwt., up from \$63 last year. This price increase and anticipated increases in 1988 will change the beef cattle cycle from the liquidation phase to the expansion phase.

A very important factor for the year ahead will be the reduction in the feeder cattle supply. As of October 1, 1987, the yearling feeder cattle supply was estimated to be down 19 percent from a year earlier and the feeder calf supply was estimated to be down 3 percent. With the 8 percent increase in placements on feed during October, the supply of available yearling cattle has been further reduced. During the coming year, cattle feeders will need to look at placing lighter weight cattle on feed to keep their feedlots filled. Because of this, the cattle feeding industry will be moving from feeding cattle for 120 days to feeding cattle for 150 to 180 days. In addition, cattle can be expected to be marketed at lighter weights; however, the feeders have a good deal of latitude about finished weights depending on market conditions.

Cattle placements during 1988 are expected to decline slightly from 1987 levels so fed cattle marketings will decline by 2 to 4 percent from 1987 levels. However, the biggest shifts will occur in the nonfed categories. Nonfed steer and heifer slaughter will decline sharply as nearly every available feeder will be bid into the feedlot. This category of slaughter could decline as much as 40 percent in 1988.

Cow slaughter is expected to decline by 9 percent in 1988. The estimated reduction in cow slaughter for 1988 comes almost entirely from the beef cow sector. Beef cow slaughter is expected to fall by 10 to 15 percent during the year. The dairy cow slaughter number will be influenced by any changes in the milk support program. If the milk support price is cut by 50 cents per cwt. in 1988, dairy cow slaughter is expected to decline 3 to 5 percent from 1987 levels.

Beef production during 1988 is expected to decline by 5 percent. Production during the first quarter may decline by just 3 percent because there will still be ample supplies of fed cattle to be marketed during the quarter. However, fed cattle supplies are expected to tighten during the remainder of the year resulting in quarterly declines in beef production of 4 to 6 percent.

Choice steer prices, basis Omaha, are expected to average above 1987 levels for the entire year. Prices are anticipated to be the weakest during the first quarter and average in the low to mid \$60's. However, prices are expected to increase to the low \$70's by the second quarter of the year and average in the upper \$60's during the second half of 1988.

HOGS

Profits in the hog production industry for the last two years have been about as good as any time in the last 15 years. An average farrow to finish operator in the Midwest received profits of over \$50 per head this summer and there are other producers that have done considerably better than that. For the last two years, profits are estimated to have exceeded \$25 per head. Although it took the hog industry longer to respond to these profits this year than in previous cycles, the industry finally did withhold gilts and sows to increase the breeding herd. This withholding may explain in part why hog slaughter was lower than anticipated during the spring of this year.

After a good deal of uncertainty about an expansion in the hog industry, hog slaughter has finally met or exceeded expectations. Hog slaughter during the last quarter of 1987 is expected to total about 10 percent above year ago levels. The latest "Hogs and Pigs" survey indicates that the expansion is just underway and will continue for all of 1988.

While withholding gilts and sows for the breeding herd contributed to short supplies and higher prices in the early stages of the hog cycle, lower withholding rates and higher culling have the opposite effects during the latter stages of the cycle. Thus, we are anticipating that hog slaughter during 1988 will exceed 1987 levels by a larger amount than indicated by the "Hogs and Pigs" report. Hog slaughter during the first quarter of 1988 is expected to exceed year earlier levels by 8 percent and hog slaughter during the second and third quarters are expected to increase by 13 and 11 percent, respectively. A lower expansion rate is expected by the fourth quarter of 1988 when we are looking for hog slaughter to be up by about 6 percent.

Hog prices have fallen from the low \$60's per cwt. this summer to the low \$40's this fall. This decline has erased much of the profit margin for hog producers but most hog producers are still receiving \$5 to \$10 per head over production costs. Although feed

costs are expected to increase in 1988, we expect that hog prices will still exceed the cost of production for most of the year. Hog prices in 1988 are likely to fluctuate from the low \$40's during the first quarter of the year to the mid \$40's during the second and third quarters. Prices are expected to decline to about \$40 per cwt. by the end of the year. Consequently, hog producers should still receive modest profits during the year ahead. Prices are not expected to be so low as to trigger a large scale liquidation of the breeding herd; thus hog output will likely increase into early 1989.

BROILERS

Profitability in the broiler industry was exceptional during most of the period 1983 to 1986. During that time, rapidly increasing demand for chicken products and lower feed costs more than offset a moderate growth in broiler supplies.

Demand for further processed chicken products was the primary force behind the growth in demand. This food category was indeed a growth industry as consumers desired more convenient, low-fat menu items. The further processed category of chicken production as measured by the USDA increased from 11 percent of ready-to-cook production in 1980 to 21 percent in 1986. Although further processed consumption is still expanding in absolute terms in 1987 it was not expanding as fast as the overall supply of chickens. The further processed category is sensitive to changes in the economy, so a slowdown in consumer expenditures could reduce the growth rate of this sector.

Broiler supplies in 1987 increased by about 8 percent from the year earlier levels. Based on USDA pullet placements, there is still sufficient capacity to expand broiler production sharply in 1988. However, the actual industry expansion rate has been less than indicated by the pullet placements. For example, cumulative broiler type pullet placements suggested that the broiler layer flock would have been up as much as 15 percent during the summer months. However, the number of broiler type chicks hatched during the summer quarter increased by 11 percent.

Lagged pullet placements indicate that the broiler flock at the beginning of 1988 could still be 13 percent larger than a year earlier. However, the actual increase in broiler output is expected to be substantially less than that. Because of the reduced broiler prices during 1987, the broiler industry has culled the layer flock much more intensively and kept the actual size of the layer flock down. Consequently, broiler production during 1988 may increase by about 4 percent from 1987 levels. If the economy would happen to slow down more than anticipated, it is likely that the industry would respond by increasing production by less than four percent for one or two quarters.

Broiler prices are expected to average in the low to mid 40's in 1988. With feedgrain prices trending higher during the year, margins in the broiler industry are expected to remain under pressure.

TURKEYS

Turkey production increased by 19 percent during 1987 and there appears to be sufficient capacity in the industry to expand output by double digit figures in 1988 if so desired. Poultry placement data already indicates that production during the first quarter of 1988 will be up by 15 to 20 percent from 1987 levels. However, the industry is expected to reduce the rate of increase during the remainder of the year so that total production may be up about 7 percent from 1987 levels.

Turkey prices during early 1988 will be influenced by the movement during the Thanksgiving and Christmas holidays. Retail prices of turkeys are very attractive this year so the holdings of turkeys in freezers are expected to be sharply reduced from the record levels on hand prior to the Thanksgiving holiday. However, the apparent consumption of turkeys during the holiday period may overstate the actual disappearance of turkeys if consumers are buying one turkey for immediate consumption and another for the home freezer. Thus, prices are still expected to remain under pressure during most of 1988. Prices for turkey hens at Eastern markets are expected to average near 51 cents per pound during the year ahead, compared with 56 cents during 1987.