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Agriculture Outlook '92

New Opportunities for Agriculture

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**United States
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**Washington, DC
December 3-5,
1991**

ANNUAL AGRICULTURAL OUTLOOK CONFERENCE

United States Department of Agriculture

Washington, D.C. 20250-3900



Outlook '92

For Release: Wednesday, December 4, 1991

OUTLOOK FOR RED MEATS

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Major factors shaping the 1992 red meat outlook are record large total meat supplies and a sluggish economy trying to recover from a recession. Retail meat and farm prices are expected to be lower than in 1991. As a result, producers' margins will be pinched, compared with this year, due more to lower livestock prices at the farm level than to changes in feed costs. Feed grain and protein meal prices for 1992 are expected to be little changed from this year but with lower hay prices. More growth is expected for beef exports in 1992 than for pork, unless food aid programs are developed that expand red meat exports. Beef imports are expected to decline but, pork imports are forecast to increase slightly.

FACTORS AFFECTING THE DEMAND FOR RED MEATS AND LIVESTOCK PRODUCERS IN 1992.

Moderate GNP Growth Expected for 1992

Moderate Real Gross National Product (GNP) growth is expected in 1992, at about 3 percent, compared with a fractional percentage decline this year. The recovery from the recession in 1992 is likely to be less robust than past recoveries, at least partly because this recession was relatively shallow compared with most of the recessions in the 1970's or 1980's. Recent developments indicate that quarter-to-quarter growth likely will be erratic for some regions and for some industries.

Inflationary pressures are expected to remain under control and support further reductions in interest rates into at least the first half of next year. The bank prime rate this year is expected to average around 8.5 percent compared with 10 percent last year. In 1992, the prime interest rate is likely to average below 8 percent.

Unemployment in 1992 is expected to decline by about half a percent point from this year's rate of 6.7 percent but still be above last year's 5.5 percent. Overall, per capita real disposable income is expected to grow in 1992 by around 2 percent after declining in 1991 and 1990. Improving consumer confidence with increasing disposable income is expected to be a major factor contributing to the recovery in 1992.

Feedgrain and Protein Meal Costs Little Changed in 1992

The corn crop is projected to be down 447 million bushels from 1990, leading to a drop in the carryover stocks in 1992. The September 1, 1992, corn carryover is projected at 1,284 million bushels, down from 1,521 million this September. The farm corn price is expected to average \$2.15-\$2.55 per bushel in 1991/92, compared with \$2.28 in 1990/91. Given the tight corn carryover expected September 1, 1992, corn prices will be particularly sensitive to weather developments in the spring and summer of 1992.

Soybean production in 1991 is estimated at 1,962 million bushels, up slightly from the last 2 years. Prices in 1992 are expected to be little changed from the last 2 years, averaging \$165 to \$185 per short ton for 44 percent soybean meal at Decatur.

Hay stocks should be adequate in most areas this year to support supplemental feeding an expanding cattle herd. Stocks expanded due to an increased carryover and larger production. Hay production this year was estimated at 157 million tons, up 7 percent from a year ago, due to a 3-percent rise in harvested acres and a 4-percent greater yield per acre. The farm price for all hay dropped nearly 20 percent below a year earlier in October as alfalfa hay prices declined 22 percent from the tight supply situation of a year ago, while the price of other hay was down 10 percent.

Expansion in Both Red Meat and Poultry Consumption in 1992

Red meat consumption is expected to expand nearly 4 pounds per capita and provide increasing competition to the poultry sector. As a result, poultry production is expected to continue increasing, but at a slower growth rate than in recent years. The competition among the meats will be intense in 1992, particularly for processing type meats. Overall, total retail meat consumption is expected to be about 223 pounds per capita, up 7 pounds from this year's record 216 pounds, and well above the 210 pounds average in 1988-90.

CATTLE SECTOR:

Cattle Herd Expansion Accelerates

Favorable cash returns above cash expenses for cow-calf operators and ample forage availability are stimulating the beef cow herd expansion. The 1991 calf crop is estimated at 40.1 million head, a fractional percentage expansion. For 1992, the calf crop is expected to expand over 2 percent from this year, to around 41.1 million head, the strongest expansion since 1980.

Cow-calf operators have had positive cash returns above cash expenses since 1986. In 1990 and 1991, cash returns were the highest since 1979. Returns are expected to decline in 1992 from this year's cyclic high as stocker and feeder prices decline. The cyclic peak in the size of the cattle herd is not expected until the mid-1990's.

Total Supply of Feeder Cattle Continues To Be Tight

The total supply of feeder cattle is expected to be tighter compared with the supply in the early 1980's. But, it is expected to expand in 1992 and beyond due to the expanding calf crops, continuing large numbers of stockers and feeders imported, and smaller numbers of calves slaughtered for veal. Market incentives continue to encourage shifting the majority of feeder cattle

through feedlot programs. However, fewer feeder cattle are now needed to produce the same amount of fed beef due to marketing cattle at heavier weights.

As a result of the reduced placements on feed this past spring and summer, the number of yearling cattle outside feedlots on October 1 was up 25 percent, compared with a year ago. Ample forage supplies and negative feedlot returns in recent months have resulted in sharply lower numbers of heavier feeders placed on feed.

Cattle Slaughter and Beef Production To Expand in 1992

Commercial cattle slaughter is expected to expand in 1992 to 33.3 million head, up less than 2 percent from 1991, the first year-to-year increase since 1986. Cattle slaughter in 1991, forecast to be 32.7 million head, is the smallest since 1964. The greatest expansion is expected for fed cattle in 1992. Fed cattle are expected to represent about 79 percent of the slaughter mix, up from this year's 78 percent. Given a tight feeder cattle supply, present feedlot capacity, and consumer preference for fed beef, non-fed steer and heifer slaughter is likely to continue to be at reduced levels in 1992.

Cow slaughter in 1992 is forecast to rise about 3 percent, compared with this year's cyclical low near 5.5 million head. Beef cow slaughter is expected to continue to be at low levels as cow-calf operators have a strong incentive to retain cows for breeding herd expansion. Next year, beef cow slaughter will likely increase modestly as more heifers calve and as operators expand culling rates for older cows. This year, beef cow slaughter was well below last year. Dairy cow slaughter expanded in 1991, due to reduced milk/feed price ratios.

Beef production in 1992 is expected to increase about 1 percent from this year. Average cattle dressed weights are expected to begin to stabilize next year following the increase of 17 pounds per head this year, a 2-percent increase. Presently and for much of 1991, producers have had a strong incentive to market cattle at heavy weights. Beef production this year expanded solely due to the incentives to market cattle at heavy weights. The incentives to market cattle at heavier weights are not expected to continue to be as strong in 1992.

Further Declines in Veal Production and Slaughter in 1992

Commercial veal production in 1992 is expected to decline about 8 percent compared with 1991. Veal production in 1991 declined 8 percent, as heavier dressed weights partly offset the 20-percent decline in calf slaughter.

Calf slaughter has declined sharply over the past several years as increasing numbers of calves are drawn out of slaughter into feedlot programs. As recently as 1986, commercial calf slaughter was 3.4 million head but is forecast to decline to 1.4 million head for 1991 and 1.3 million head for 1992.

The slaughter of high valued formula fed veal calves has remained little changed since 1986, but sharp declines have occurred for bob calves-- young calves weighing under 150 pounds, liveweight-- and non-formula fed calves weighing between 150 and 400 pounds. As a result of the change in calf slaughter mix, calf carcass weights have increased sharply this year, anticipated to average 205 pounds per head compared with 177 pounds last year.

Little change in average calf carcass weight is expected in 1992 as most of the shift in calf slaughter mix likely has occurred.

SHEEP SECTOR:

Lamb and mutton production in 1992 is forecast to be near or slightly above this year. The slaughter level along with expanded exports to Mexico, is likely leading to a smaller flock. Sheep are being exported to Mexico at a record rate this year, the accumulated sheep exports from January through September was 75 percent above last year. The majority of the sheep exports are expected to be mature sheep.

HOG SECTOR:

Fewer But Larger Operations With Hogs

The numbers of operations with hogs continues to decline. The USDA reported 278,040 operations with hogs on December 1, 1990, off 9 percent from the previous year and 58 percent below 10 years ago. Despite the smaller number of operations with hogs, record pork output is forecast in 1992.

Cash receipts less cash expenses for farrow-to-finish operators have been positive since 1986, high returns occurred in 1987 and again in 1990, but have declined in the second half of 1992. Sharply lower cash hog prices are squeezing returns. Total cash expenses and capital replacement costs are expected to remain around \$36 and \$6 per cwt, respectively. But, if weather conditions impact on crop development or grain exports expand sharply in 1992 hog producer's feed costs could increase sharply.

Expansion Continues Unabated

The September Hogs and Pigs report was the third consecutive quarterly report showing expansion. It indicated that both the U.S. total and market hog inventories were 6 percent above a year earlier, with the breeding inventory up 7 percent. The expansion appears to be gaining momentum as the June-August farrows exceeded previously reported June-August farrowing intentions and the first released September-November intentions were revised upward.

Record Pork Production Forecast for 1992

Pork production in 1992 is projected to be 17.2 billion pounds, carcass weight, exceeding the previous record in 1980 of 16.4 billion pounds and 8 percent above 1991. The greatest year-to-year increases are expected to occur during the spring and summer quarters in 1992.

Ample Processing Meat Supply at Low Prices

Very large pork and poultry production in the second-half 1991 has expanded the availability of trimmings and processing meats. As a result, wholesale trimmings and other processing meats prices have been under pressure. Trimmings materials with higher percentages of fat have been particularly depressed. Since many sausage product formulations allow substitutions among trimmings materials, the lower pork trimmings prices and the ample supplies give a strong incentive to expand pork trimmings use. In 1992, the abundant supply of pork processing meats at attractive prices is expected to give increasing competition to processing turkey meats. In recent years, some mixed formula sausage products have expanded the use of turkey meat and displaced pork trimmings. Processing lean beef, mostly from cows, bulls,

and imports will be less directly impacted by the lower priced pork trimmings and poultry processing meats.

RED MEAT TRADE OUTLOOK

Increasing Beef Exports, Decreasing Imports in 1992

U.S. imports of beef and veal rose earlier in 1991 due to tight domestic supplies and relatively high prices. Exchange rates were favorable with most of our principal trading partners. Due to heavy shipments of qualifying meat earlier this year, the U.S. negotiated voluntary restraint agreements with Australia and New Zealand to prevent the trigger level under the Meat Import Law from being hit. Australia and New Zealand, our major suppliers of imported beef voluntarily restraint shipments of meat late this year. Any meat shipped to the U.S. above the agreed upon limits from these two nations would be stored in bonded warehouses and not released until after January 1, 1992. Shipments from Australia and New Zealand in 1991 are to be limited to 743 million pounds and 445 million pounds, product weight, respectively. Because of the voluntary restraint agreement, beef and veal imports for 1991 are expected to be down 2 percent from 1990.

U.S. Beef imports are expected to decline again in 1992, perhaps 1 to 2 percent from 1991.

Beef exports in 1992 are forecast to increase 8 percent above this year, compared with a 14 percent year-to-year increase in 1991. Most of the increase will be to South Korea, Mexico, and Canada. While Japan remains the U.S.'s principal market, other markets are receiving an increasing percentage share of total exports.

Slight Decline in 1992 Cattle Imports from 1991's Record

Cattle imports for 1991 are forecast to be a record 2.2 million head, 2 percent above last year. Next year, cattle imports are expected to be down about 2 percent. The largest number of cattle continues to be shipped into the U.S. from Mexico, and they tend to be mostly light weight feeder steers. However, shipments of cattle from Canada into the United States has shown the greatest year-to-year percentage increase.

Pork Exports and Imports Expected To Increase in 1992

Pork imports in 1992 are expected to be around 865 million pounds, carcass weight, up 3 percent, but still below the imports for 1990 and 1989. Imports this year are forecast to be 840 million pounds, 6 percent below last year. Cumulative imports for January through September 1991 were 12 percent below a year earlier, with imports from both Canada and Denmark off 7 percent and a 65 percent decline from Poland. Next year, pork imports from Canada are expected to increase, unless U.S. pork prices increase or the dollar weakens, little growth is expected for pork shipments to the United States from Denmark or Poland.

Imports of live hogs from Canada are expected to decline for the remainder of the year due to the new duty of Canadian hogs shipped to the United States and low U. S. hog prices.

Price Outlook For 1992

Retail Pork prices Forecast To Decline, Beef About Unchanged

Retail Pork prices are expected to decline in 1992, due to the sharp expansion in pork availability. In 1992, retail pork prices are forecast to average about \$1.90 per pound, 10 percent below 1991. Retail Choice beef prices are expected to be about unchanged in 1992 at about \$2.90 per pound near or slightly below this year.

Choice steer prices for Nebraska Direct, 1100-1300 pounds, are forecast to average \$73-\$79, compared with around \$75 this year. The record high Choice steer prices, in the low \$80's, in late 1990 through early spring 1991 are not expected to be revisited during 1992.

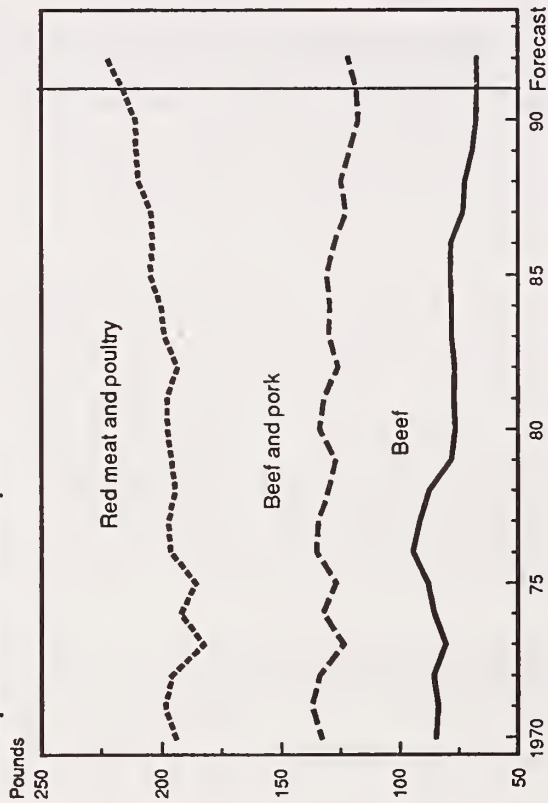
Feeder cattle prices are expected to decline from 1991's record of near \$93 per cwt to average \$86 to \$92 in 1992. Feedlot operators are expected to lower bids for feeder cattle prices to improve cattle feeding margins more than the expectations for higher fed cattle prices.

Utility cow prices in 1992 are expected to be near or below this year's \$50 per cwt average. Beef cow slaughter is expected to rise from cyclical lows this year. Modest increases in cow slaughter, together with large supplies of competing meats, is likely to result in some price decline.

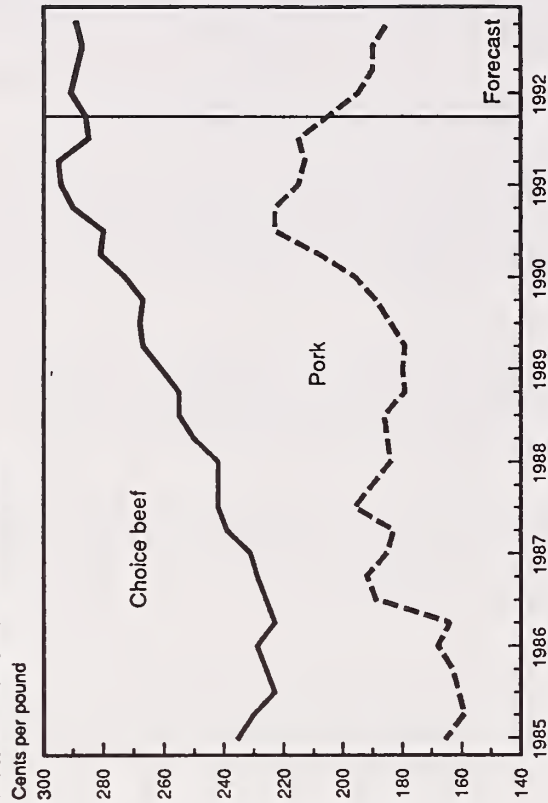
Barrow and gilt prices for 1992 are/ forecast to average \$39-\$45 per cwt compared with around \$49 this year. The lowest hog prices in 1992 are expected during the second half of the year. Lower hog prices in 1992 will likely pinch feeding margins sufficiently to lead to declining pork production in 1993.

Choice Lamb prices at San Angelo, Tex. are expected to average \$49 to \$55 per cwt, compared with around \$50 this year. Lamb prices have declined from the an average near \$67 per cwt as recently as 1989. Lamb is more of a specialty meat and in recent years has been at sharp discount to Choice steer prices.

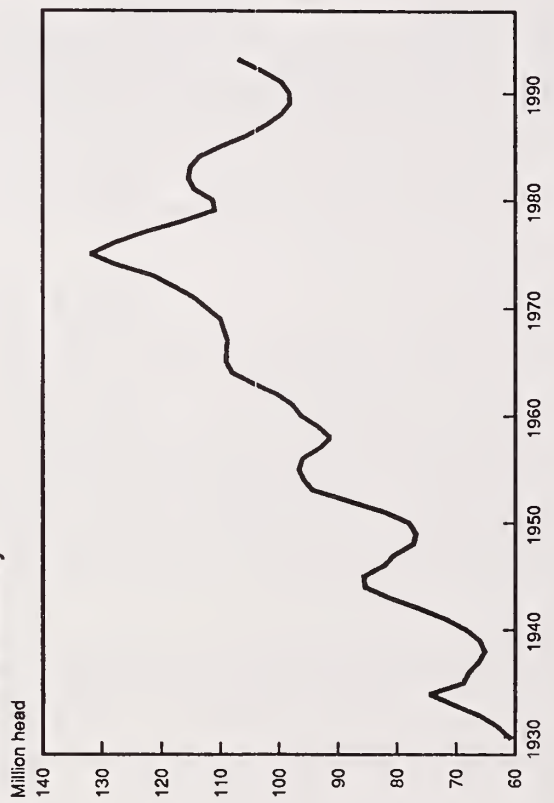
Per Capita Meat Consumption



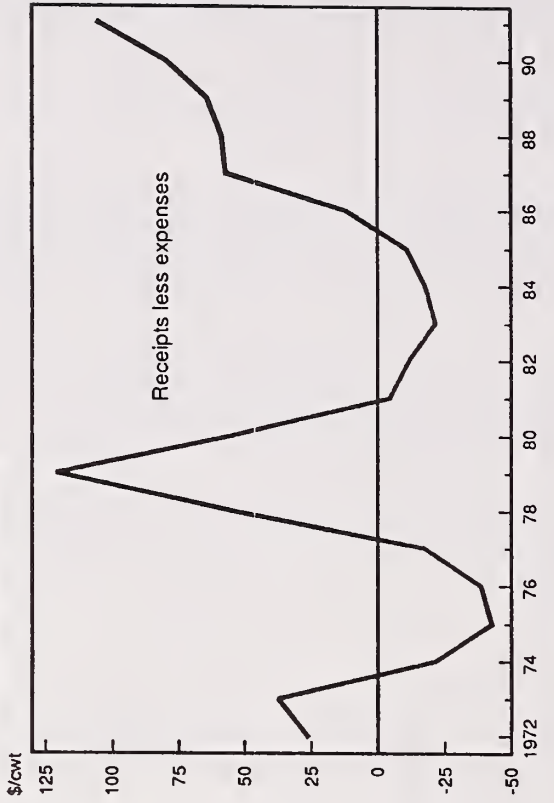
Retail Beef and Pork Prices



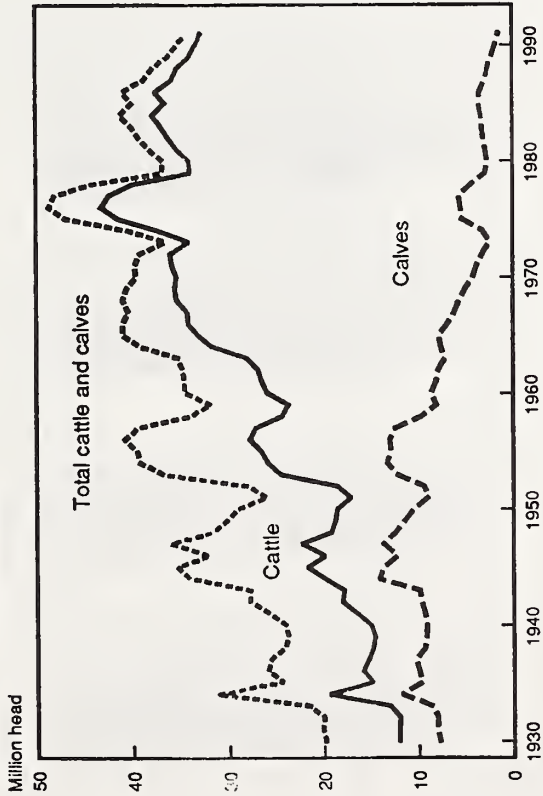
U.S. Cattle Inventory



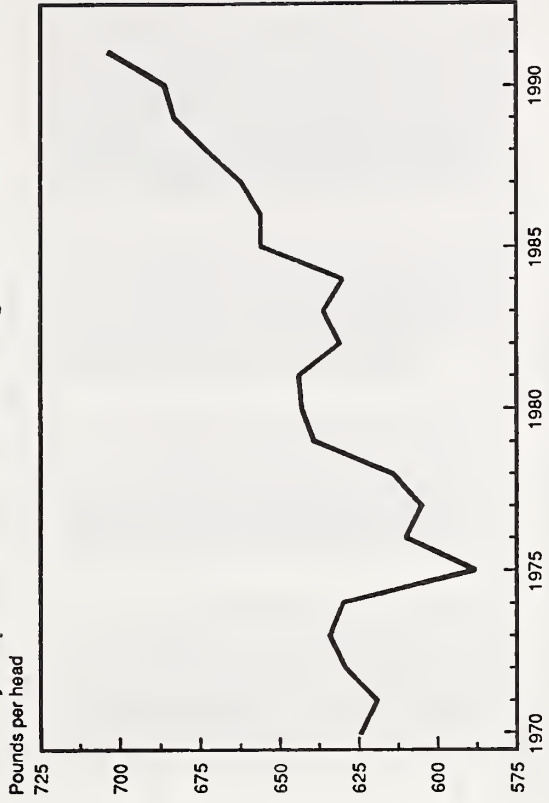
U.S. Cow-Calf Cash Returns



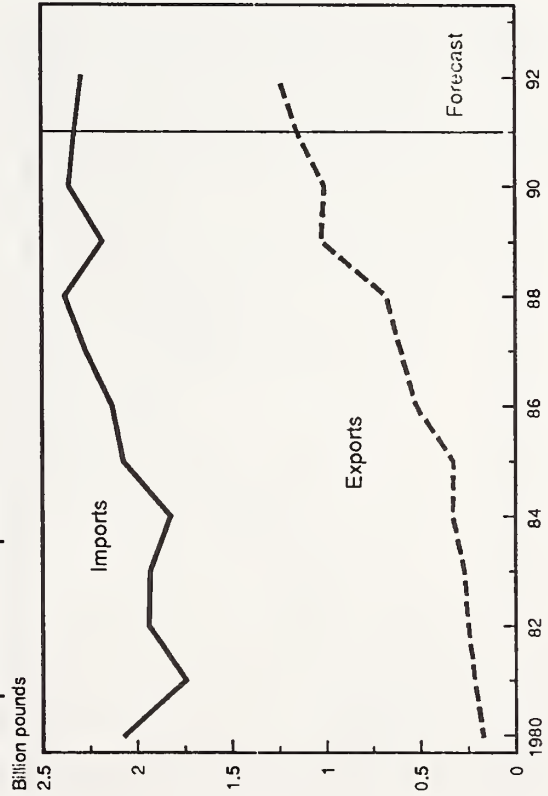
Cattle and Calf Slaughter



Federally Inspected Cattle Carcass Weights



Beef Imports and Exports



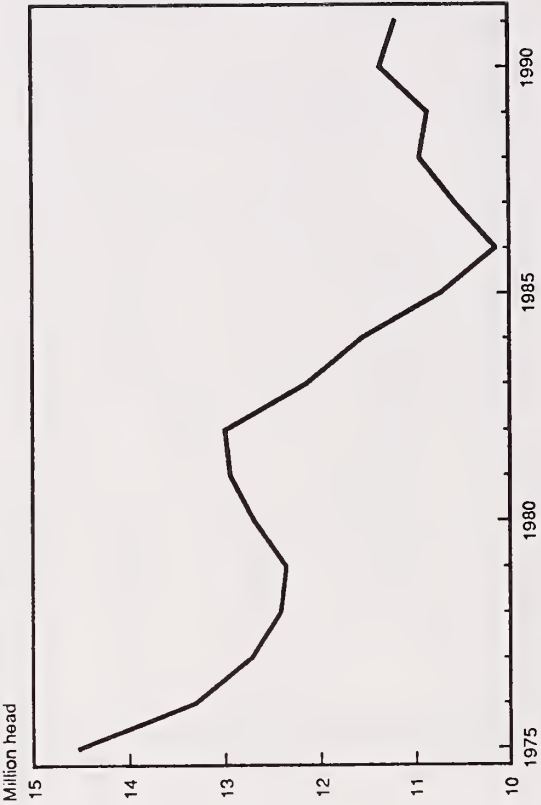
Pork Imports and Exports



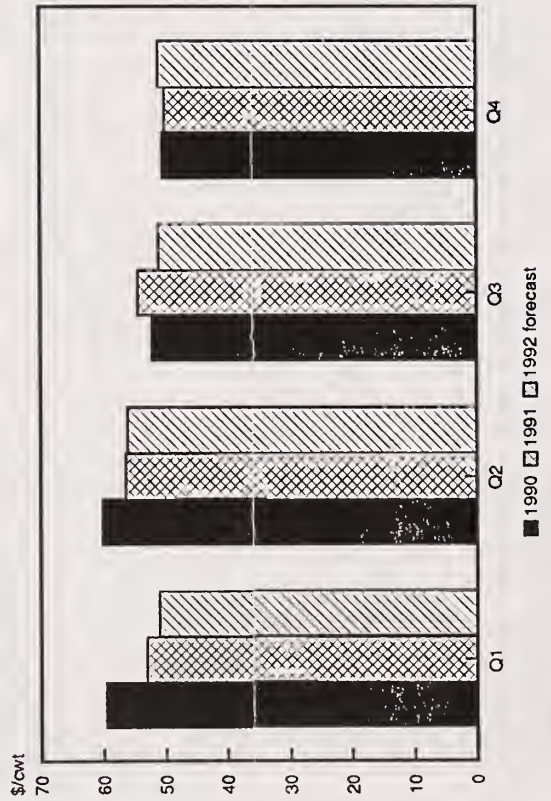
Calf Slaughter



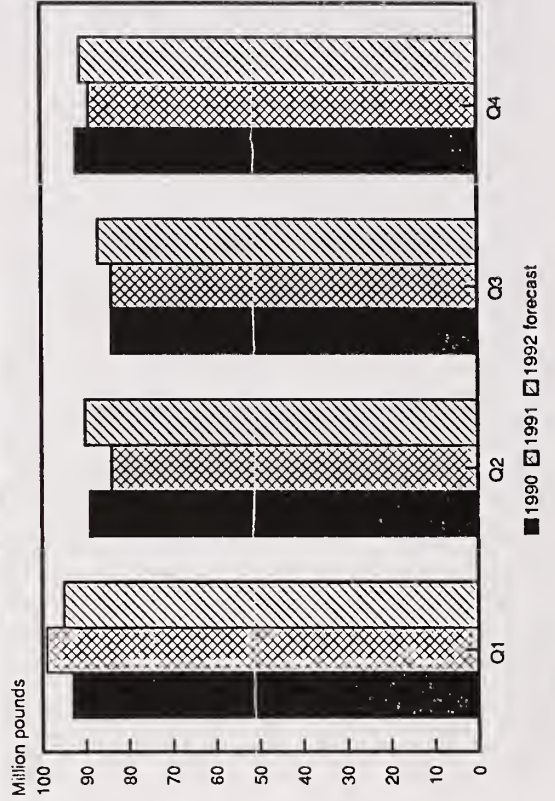
All Sheep Inventory



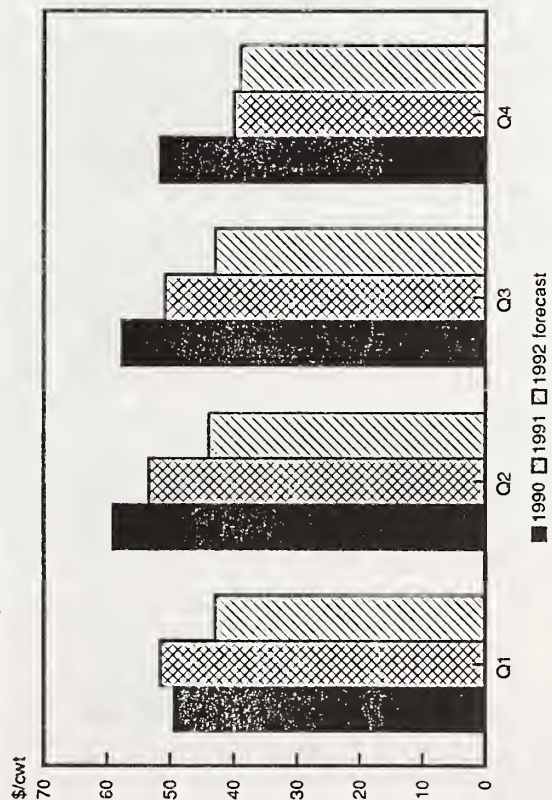
Choice Lamb Prices



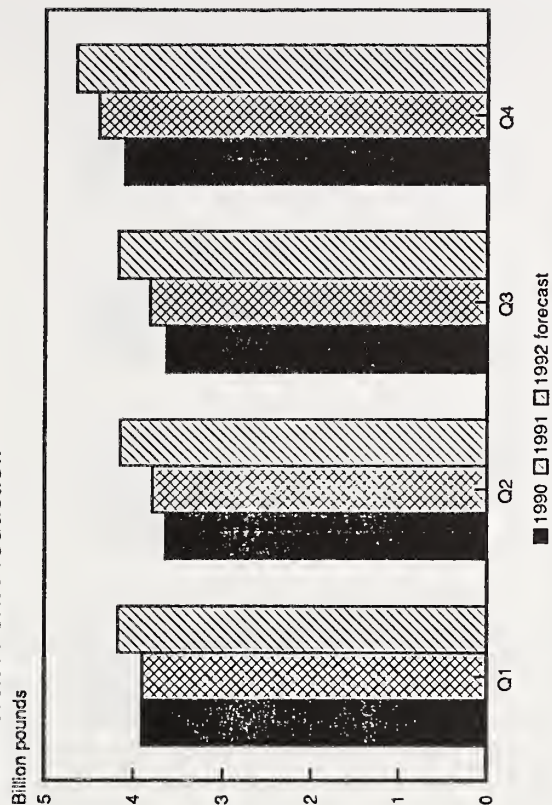
Commercial Lamb and Mutton Production



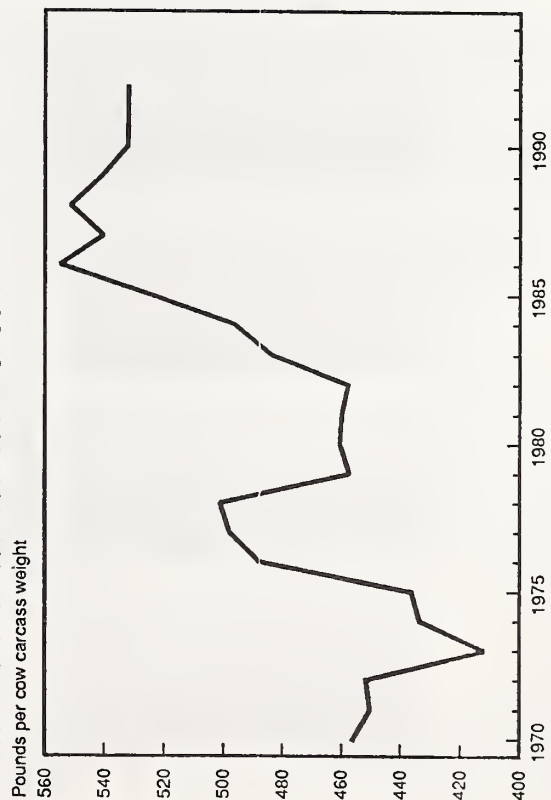
Barrow and Gilt Prices



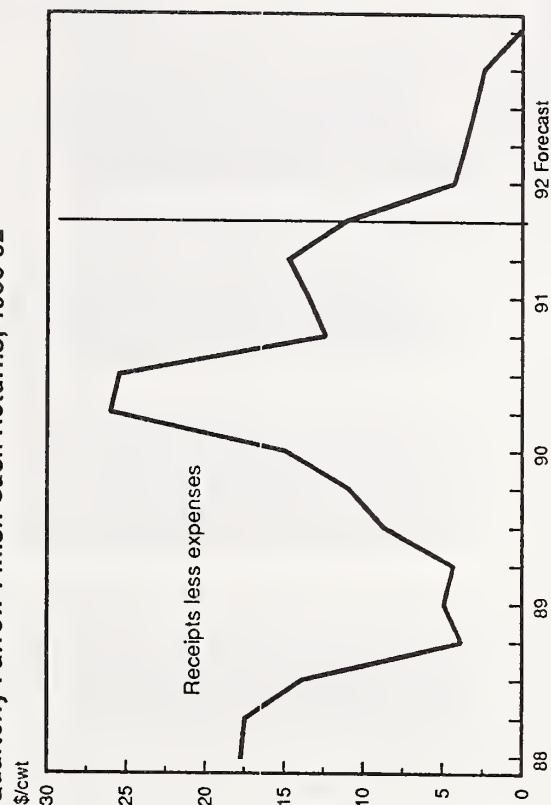
Commercial Pork Production



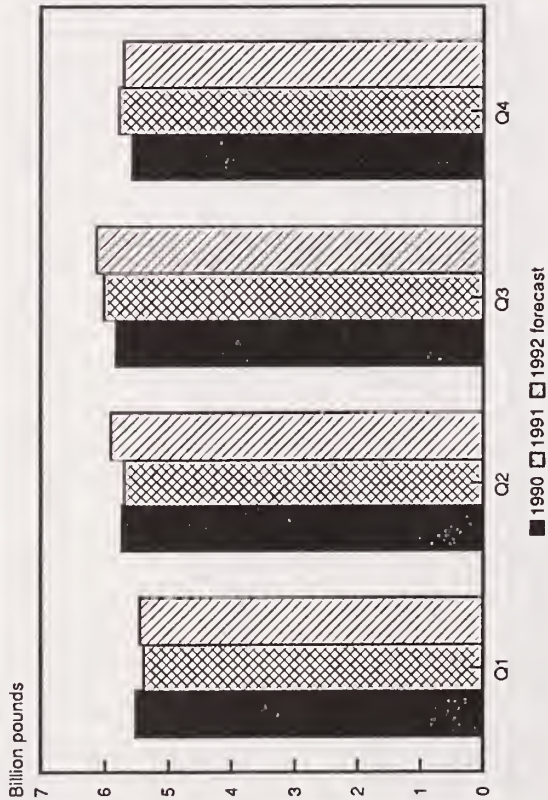
Annual Beef and Veal Production Per Cow



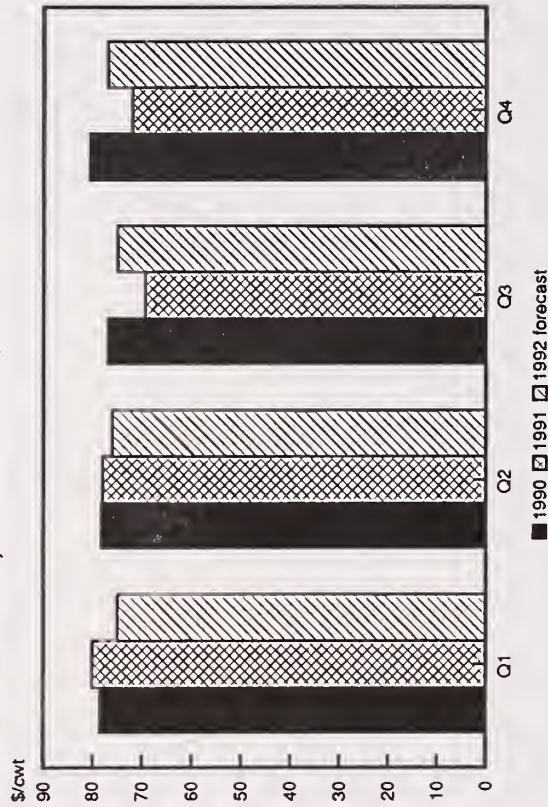
Quarterly Farrow-Finish Cash Returns, 1988-92



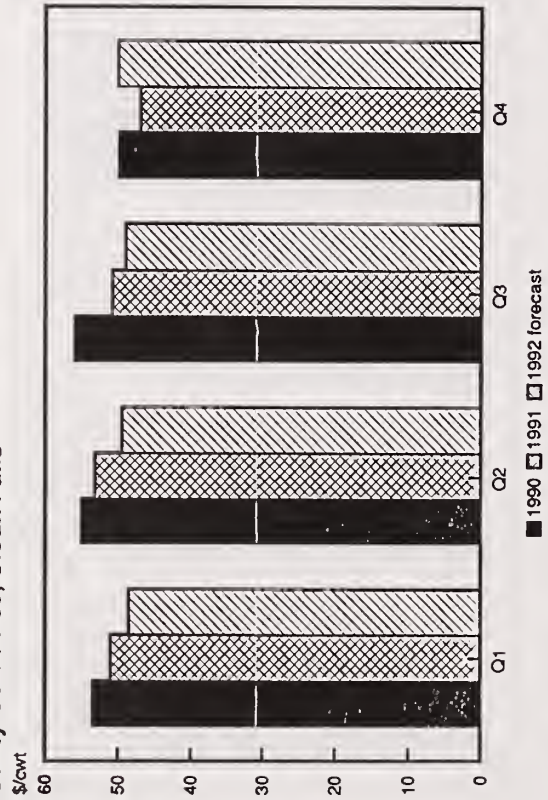
Commercial Beef Production



Choice Steer Prices, Nebraska Direct



Utility Cow Price, Sioux Falls



Feeder Cattle Price, Oklahoma City Feeder Steers

