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U.S. RED MEAT AND POULTRY OUTLOOK AND NORTH AMERICAN TRADE ISSUES

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The outlook for red meats and poultry is one of record total meat production. Per capita consumption of all meats will likely increase to 212 pounds retail weight, up from 1992's record of 209 pounds per capita. Poultry and pork will be the main sources of increased meat production. Beef and other red meat will keep pace with population growth. These added supplies will keep pressure on meat prices in 1993, even as income growth picks up with accelerating economic growth. Producer incomes will stabilize or decline slightly. Lower product prices for some meats will be partially offset as lower costs of feed, corn, oil meals, and forage will hold down production cost. Competitive prices and a favorable U.S. dollar will continue to make beef, pork, and poultry exports competitive in the international market. Beef, pork, and poultry will again make major gains in exports. The impact on consumer prices of higher supplies should result in little price change for 1993 over 1992.

BEEF: The outlook for beef is for continued growth in cattle numbers to around 102 million head on January 1, 1993, up about 2 percent over a year earlier. This growth in cattle numbers is expected to peak in 1996-97 at about 107 to 108 million head, finishing the growth phase of this cattle cycle which started from a low of 98 million in 1989. Prior to 1980, cattle cycle growth has been much more robust, gaining about 20 percent from trough to peak. This cycle will be much more modest, gaining only at half the rate of most cycles, but double the short lived 1980 to 1982 increase. Beef supply response is limited by the expansion plans of poultry and pork producers, who can respond faster to price and cost changes. The continued growth in poultry production is a major factor slowing the expansion in the cattle cycle. Currently pork production is setting new records.

Reflecting the past growth in cow numbers, the calf crop likely will increase less than 2 percent this year and again in 1993. Feeder cattle imports from Mexico and Canada could be up 7 percent in 1993 over 1992. Lower priced feed will fuel the demand for more feeder cattle from both domestic and imported sources. The increase in calves and imported cattle, plus yearling inventory should increase the total supply of animals available for slaughter or retention by more than 2 percent in 1993.

Relative free trade conditions in feeder cattle movement to the U.S. from Canada and Mexico are providing in 1992 about as many feeder cattle to the U.S. as herds in these countries can support. If adopted, NAFTA would maintain free trade by reducing tariff and non-tariff barriers. An example of an action that would be prohibited by NAFTA is the November, 1992 increase in tariffs by Mexico on imported feeder cattle, fresh, and frozen beef of 15, 20 and 25 percent, respectively.

Beef production is forecasted to increase about 1 percent in 1993 as more animals are slaughtered. The average carcass weight per animal in the slaughter mix will be little changed in 1993 from 1992. However, individual steer and heifer weights should increase slightly, but additional cows in the slaughter mix will hold down the overall average cattle weight.

Beef's deficit net trade position is expected to narrow in 1993 as exports increase faster than imports, closing the gap by 145 million pounds. Exports are expected to increase 10 percent in 1993. Additional exports to Japan and Korea will be the major force behind export growth for beef. As of April 1, 1993 Japanese tariffs on beef will decline to 50 percent, falling from 60 percent in 1992. This will be the last negotiated decrease under the 1988 agreement to remove beef quotas and replace them with tariff equivalents. Korea is expanding their quota as scheduled, but are expected to exceed the quota amount as they have done in 1991-92. Lower tariffs in Japan and the decline in the value of the dollar have made beef a more attractive buy in the Pacific Rim. Added growth in beef exports is also contemplated between the U.S. and Canada and to Mexico. However, recent tariff increases by Mexico if left in place could severely disrupt U.S. exports to Mexico.

Beef imports are expected to decline slightly as the Meat Import Law (MIL) trigger level declines slightly according to ERS estimates. Given the dynamics of the MIL we will see a slight decline as more cows enter the slaughter mix for 1993 as part of the counter cyclical numerator. But as earlier levels of cow slaughter begin to drop out of the previous 5 year average in the denominator, we could expect increased trigger levels beyond 1993.

Voluntary restraint agreements (VRA'S) were negotiated with Australia and New Zealand starting in mid 1992. If the expected growth in the Pacific Rim markets occurs, this should relieve some of the pressure on the North American market, making VRA's unnecessary for 1993. However, recent actions in Australia and New Zealand where meat exporters are not being charged for use of containers holding meat that is going into bond have induced shipments into bond through mid-November that is beyond the VRA level. This could exacerbate the supply available under the MIL in 1993, requiring further VRA's to avoid quotas. Mexico's tariff increase, if continued, will also pressure Australia and New Zealand into finding other markets, again placing pressure on U.S. and Asian markets.

Trade flows for the U.S. for 1993 should continue to sharpen recent trends. Feeder cattle, which recently have had little in the way of border restraints in terms of tariffs', should continue to flow from Mexico and Canada to the

U.S. The proposed North American Free Trade Agreement should solidify this trend, as cattle in areas far from centers of consumption in Canada and Mexico are drawn to U.S. feedlots. Slaughter cattle will move south from western Canada, and north from the U.S. into eastern Canada. Fed beef will also flow increasingly from the U.S. to Canada, Mexico, and the Pacific Rim to fill the market for more marbled beef. Oceania should continue to be the dominate supplier to the U.S. for manufacturing beef in the near term. Beef export demand will continue to be highly dependent on economic and income growth around the world.

Prices for beef producers will be slightly lower to unchanged for feeder cattle, fed animals, and cows. Yearling feeder cattle prices may average a $1-2 per cwt. lower in 1993 than this year. Fed cattle prices are expected to drop about $1 per cwt. while cow prices show little change from 1992's average. The downward price pressure results from record supplies of pork and poultry as well as slightly larger beef supplies.

Retail and wholesale prices for beef are expected to be about unchanged in 1993 compared to 1992. Retail prices will hold steady as the declines in farm level beef prices are used to offset increased distribution costs. Demand for beef will be tempered by the large supplies of competing meats, maintaining pressure on retail prices.

Producer returns are expected to decline as producer prices fall. However, part of the decline in producer revenue will be offset by lower feed costs. Items of non-farm origin will increase slightly to complete a picture of slightly tightening net returns. Returns above cash costs to cow calf producers will be near $74 per cow in 1993, enough to maintain current expansion plans.

PORK: The December 1992 hogs and pig inventory will probably be one of the largest on record. The December inventory is estimated to be up 5 percent in 1992 from 1991. This will continue the year-long pattern of inventory increases in market hogs, setting the stage for expanded production in 1993.

Commercial pork production in 1993 is forecasted to increase to 17.8 billion pounds, up 3 percent from 1992's record of 17.2 billion pounds. The previous record was 16.4 billion pounds that was set in 1980. Average carcass weights in 1993 are expected to average about the same as 1991 and 1992's 181 pounds. The relative high carcass weight allowed 1992 to set a new production record over 1980 even though the number of head slaughtered in 1980 was larger.

Trade in pork and live hogs is narrowing the net pork trade deficit. Pork imports in 1993 should be near the 1992 level of 650 million pounds. However, lower hog prices, and a favorable exchange rate should increase pork exports about 12 percent, to 460 million pounds. The pork trade deficit has been cut to a third of the 1990 level as exports increased and imports declined. Countervailing duties on Canadian hogs have shifted Canadian exports to the

U.S. from live hogs to pork and this is an area of continuing trade concern. NAFTA if approved could open Mexico up to added exports from the U.S.

Producer prices for hogs are expected to drop about $1 per cwt. in 1993 as production expands. Hog prices in 1992 should average about $41.50 for the year. The 1993 price decline follows the rather strong drop in early 1992 when prices declined to the upper $30's in the first quarter from the 1991 average of $48.78.

Retail prices for pork are expected to be near the 1992 price level in 1993, at just under $2 per retail pound. Both 1992 and 1993 will represent a drop in retail prices from the 1990-91 record of $2.13 per pound, as production increases sharply in 1992-93. Given the level of price decline and production increases, there still appears to be continued strong demand for pork products.

Pork producers net returns have been under pressure in 1992 with cash costs slightly greater than gross returns. However, receipts still exceeded variable cost in 1992, encouraging continuing production. In 1993, lower feed costs will offset slightly lower hog prices, and should boost net returns above cash expenses, helping to maintain high levels of production.

SHEEP: Lamb and mutton production for 1993 is expected to equal the 1991 production level after a 2 to 3 percent decline in 1992 from 1991. Per capita consumption of lamb and mutton will be unchanged in 1993 from 1992 and slightly lower than 1991. Trade for 1992-93 should be unchanged from 1991 levels. Prices for sheep and lambs will decline slightly in 1993 as large supplies of competing meats pressure prices.

BROILERS: Broiler production is expected to be up 3 to 4 percent in 1993 from 1992. This reflects a slowing from 1992's 6 percent increase in production as net returns to broilers tightened. Broiler production continues to set records each year and 1992 and 1993 will not be an exception to this trend. Per capita consumption will be up almost 5 percent in 1992, and up over 2 percent in 1993.

The 12 city wholesale broiler price is expected to be about unchanged in 1993 from 1992's expected 52.3 cents per pound. Prices for 1992 are expected to average just slightly above 1991. Retail prices are also expected to remain static at around 87 cents for whole fresh fryers, having averaged this since 1991.

Net returns for broilers decreased in 1992 but were still positive as production surged and prices declined slightly. Stable broiler prices for 1993 and falling feed costs should improve net returns to broiler producers.

Broilers exports reached a record in 1992 and likely will increase slightly in 1993. Broiler exports climbed 11 percent in 1992 in part aided by EEP sales. Prospects for additional exports in 1993 depend on world demand, but lower priced dark meat has enabled the U.S. to compete. However, recent increases in trade barriers in the South Africa, Venezuela, and Guatemala in the form of higher tariffs could slow the rate of export expansion for broilers.

Poultry exports to Mexico have been increasing rapidly in recent years. The NAFTA proposal will establish a tariff rate quota (TRQ) of duty free imports for Poultry at 95,000 tons starting in 1994 and will grow at 3 percent annually for 10 years. A high over quota tariff will be established and phased out over the transition period. Since recent U.S. poultry exports to Mexico have been near the TRQ, future growth will be slowed to the 3 percent rate of increase for the next few years.

TURKEYS: Turkey production is expected to be up 2 percent in 1993 compared to a 4 percent increase in 1992. Turkey prices in 1992 averaged about a penny below the 1991 level. Net returns fell below the break even level for 1992, likely resulting in a retrenchment on expansion plans for 1993. Slightly higher turkey prices in 1993 and falling feed prices should improve net returns above break even levels. Turkey exports are continuing to grow rapidly from a small base in 1988-90 of about 50 million pounds to 103 million in 1991. In 1992, exports will increase about 50 percent from the 1991 level and a 9 percent gain is forecasted for 1993. Turkey exports have more than tripled in 3 years time and now equal to about 3 percent of production.

EGGS: Egg production increased 2 percent in 1992, to the largest production level since 1988 and producers experienced losses. A slight decline in production is expected for 1993. Egg exports for 1992 and 1993 are expected to be near the 1991 level of 154 million dozen. Egg prices in 1992, at 65 cents per dozen at the wholesale level, were 10 cents lower than 1991. Wholesale egg prices in 1993 are predicted to increase a nickel. Net returns for egg producers were negative in the first half of 1992. Net returns should be positive for the rest of 1992 and into 1993.

Figure 1

Cattle Inventory, January 1

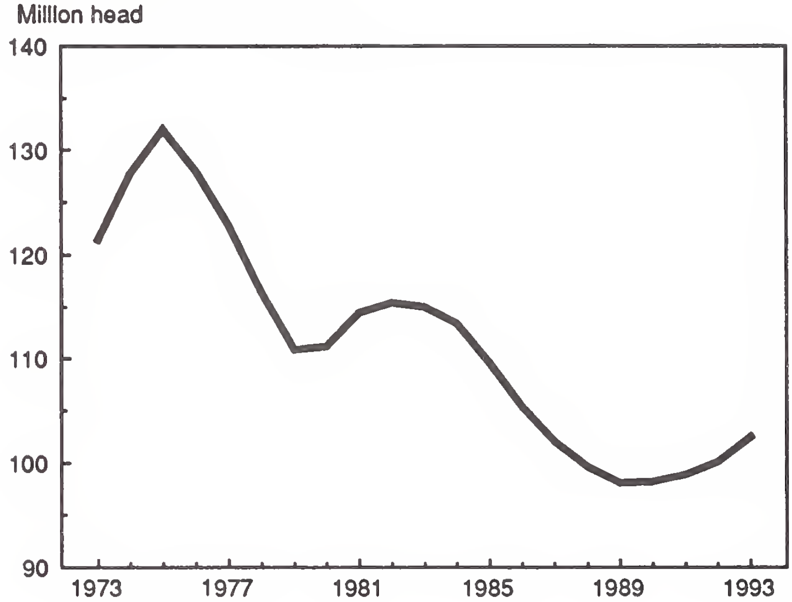

Figure 2

Beef Production and Prices

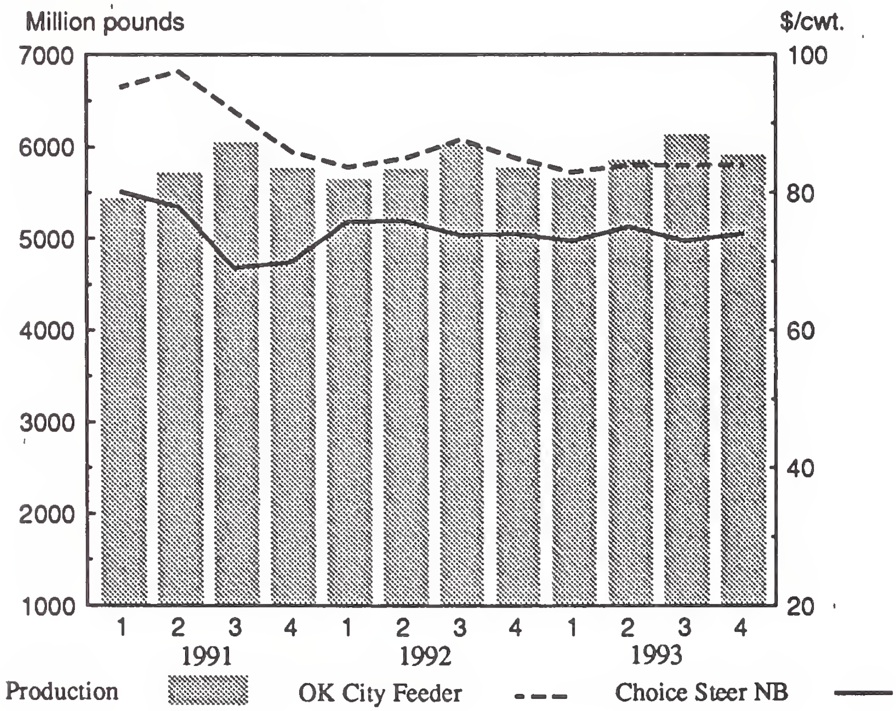

Figure 3

Beef Cow-Calf Net Returns

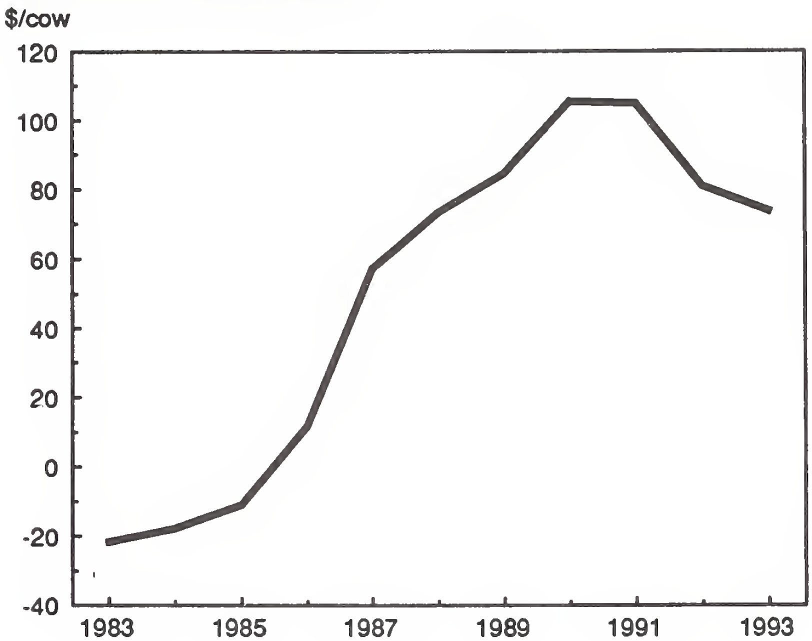

Figure 4

Hogs and Pigs Inventory

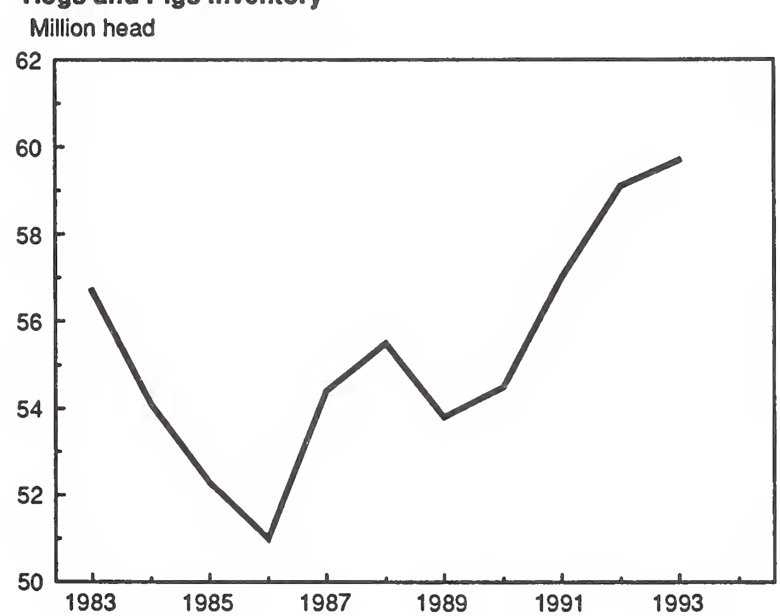

Figure 5
Pork Production and Price

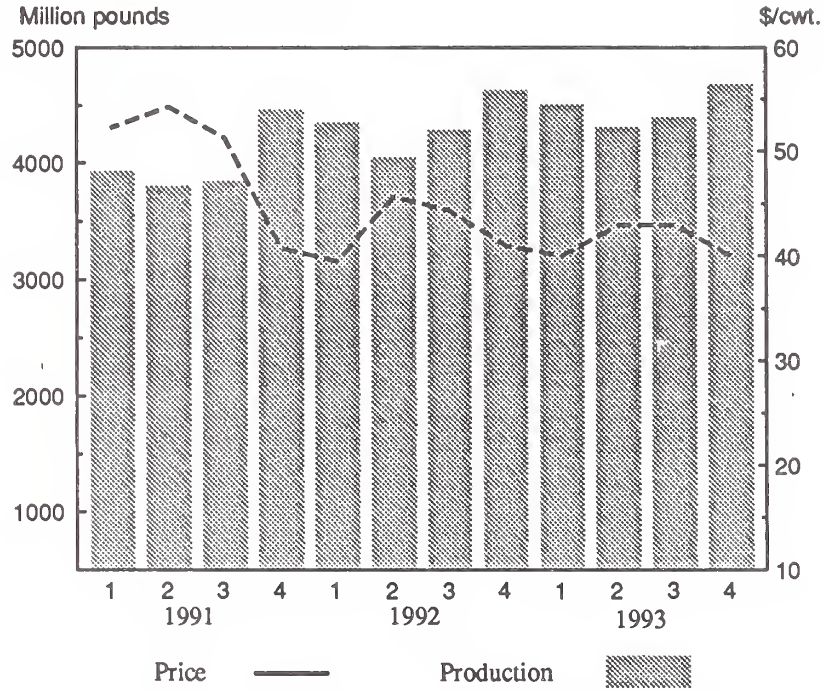

Figure 6
Hog Farrow-to-Finish Net Returns

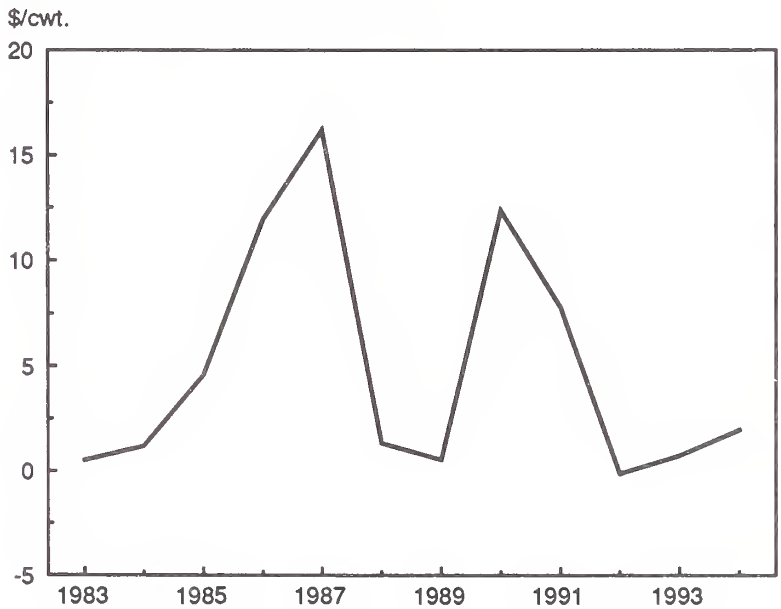

Figure 7
Broiler Production and Prices

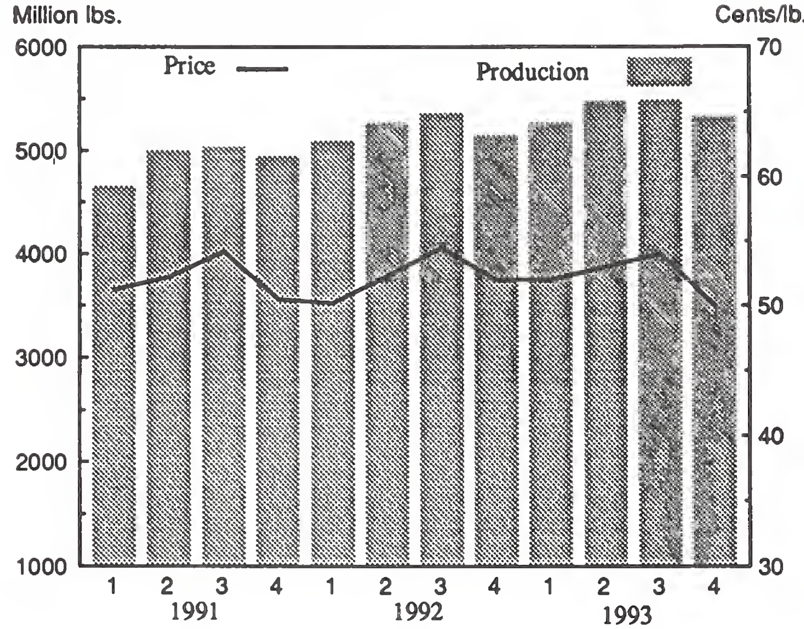

Figure 8
Broiler Net Returns

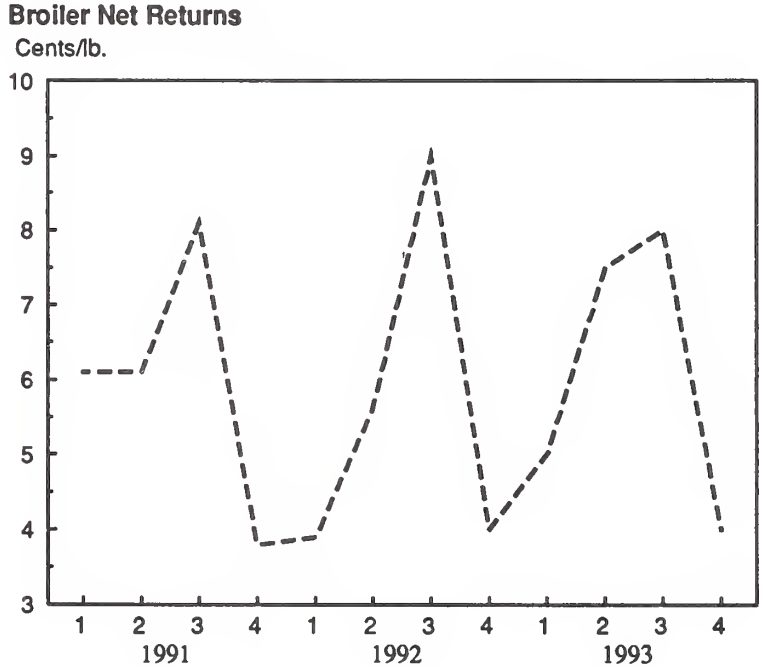

Figure 9

Turkey Production and Prices

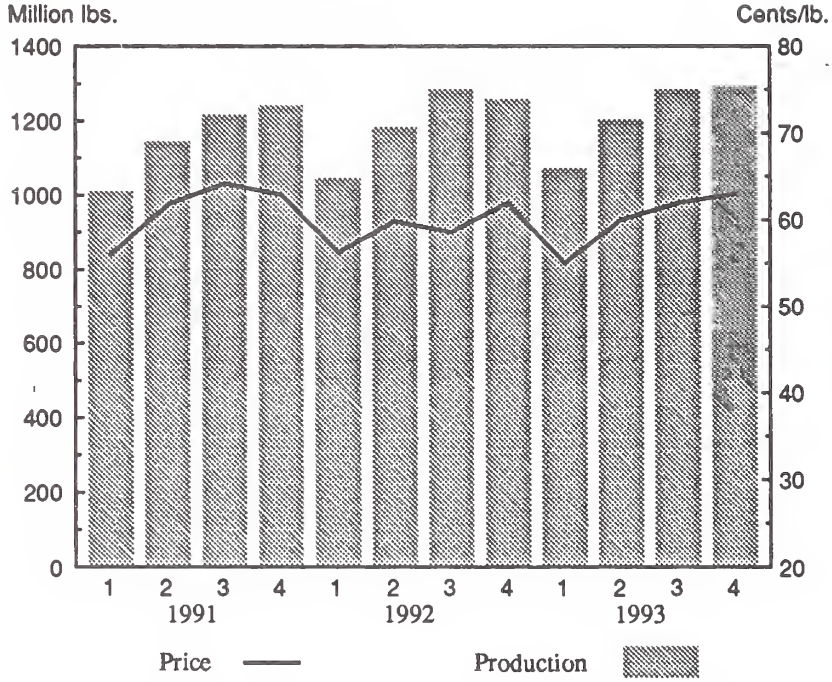

Figure 10

Retail Prices