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CANADA'S OUTLOOK FOR LIVESTOCK AND POULTRY

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INTRODUCTION

Baseline Process

Agriculture and Agri-Food Canada's (AAFC) medium term policy baseline draws on the work of several other publications. The international baseline is based on the Organization for Economic Co-operation and Development's (OECD) *Agricultural Outlook* (1998). Other world agricultural outlooks consulted during the preparation of this baseline include the Food and Agricultural Policy Research Institute (*FAPRI 1998 International Outlook*, and *FAPRI 1998 U.S. Outlook*), and the United States Department of Agriculture's (USDA) *International Agricultural Baseline Projections to 2007* (February 1998).

Canadian macroeconomic projections are taken from the Conference Board of Canada's *Autumn 1997 Forecast*. World macroeconomic assumptions are based on projections embedded in the OECD's *World Agricultural Outlook*, the International Monetary Fund's (IMF) *World Economic Outlook, October 1997*, and the IMF's *Interim Assessment, December 1997*.

The publications mentioned above are crucial inputs in the Canadian baseline process. Because of the size of its economy and agricultural sector, Canada is considered as a "price taker", which means that Canada does not have any impact on world agricultural commodity prices. FAPRI, USDA and the OECD are in the process to finalize their 1999 baseline. Other factor that contributes to delay the 1999 Canadian baseline process is the fact that Statistics Canada will release 1998 cattle and hog inventories on February 25, 1999. For all these reasons, the 1999 Canadian baseline will only be completed in May of this year. What is presented below, is extracted from the 1998 Medium Term Baseline.

The 1998 baseline also incorporates comments received at a Canadian/industry consultation workshop, held in Ottawa on December 15, 1997. Workshop participants included representatives from federal and provincial governments, and industry organizations.

SUMMARY

This document provides a summary for a plausible policy baseline for Canadian livestock and poultry sectors over the next 10 years (1998-2007). It assumes stable world macroeconomic and political conditions, normal weather patterns, and a status quo international and domestic policy environment. Although the baseline is expressed in terms of single numbers, its projections are best interpreted as midpoints of ranges. For this reason, the reader should refer to the major directions, turning points, and trends indicated by the baseline, rather than the specific values.

Macroeconomy Baseline

Key Assumptions

World:

- Growth in developed economies is moderate in this baseline (2-3%)
- For developing economies, growth is stronger (5-6%)
- This baseline incorporates "modest Asian crisis"
- Inflation declines for most regions (developed countries below 3%; single digits for developing countries)
- This baseline assumes realignment among the major currencies. The US dollar strengthens against the ECU and currencies of most developing countries.

Canada:

- This baseline shows modest, but stable growth for the Canadian economy, with annual GDP increases averaging about 3%.
- The prime interest rate remains low, averaging 5.5-6% over the medium term.
- Inflation remains modest, with annual increases in the consumer price index (CPI) below 3%.
- Expected appreciation of the Canadian dollar at the end of the outlook period.

LIVESTOCK AND POULTRY BASELINE

A) Red Meats

Key assumptions

While the elimination of Foot and Mouth Disease (FMD) in Mercosur countries (principally Argentina and Uruguay) has potentially significant implications for world beef markets, it was not taken into account in this baseline.

The FMD outbreak in the Taiwanese herd in 1997 has temporarily removed this major exporter from the market. This baseline assumes that Taiwan gradually re-enters the Asian export market beginning in 2001.

Major Highlights:

- A return to growth in the breeding herd is expected from 1998 to 2003. In the short term, it will keep total exports of meat (including live animals in meat equivalents) below the record high of 1997. Over the medium term, it will generate growth in total exports of 10% above 1997 levels.
- Cattle prices were low as production in North America reached the peak of the cattle cycle, but began to increase in 1997 and are expected to rise up to 2001. Thereafter, prices fall as the next peak of the production cycle is reached.
- Grain transportation reform that took place in 1995 and low grain prices appear to have had a positive impact on cattle breeder competitiveness. For the first time since 1985, net trade of beef (excluding live animals) from Canada was positive in both 1996 and 1997. Net trade of beef is projected to remain positive over the baseline period.

- Major investments over the baseline period will increase slaughtering capacity in Canada. Meat exports in 2004 are expected to be double the average for 1993-97. Exports of live animals to the US will decline as more cattle will be processed domestically.
- Hog production shows strong growth over the long term, particularly in Western Canada where some of the anticipated growth in capital investment is already beginning to take place.
- Pork prices in 1996 were at the high point of the price cycle. Price strength was further re-enforced in 1997 by supply problems in key exporting countries such as swine fever in the Netherlands, and FMD in Taiwan. Over the long term, pork prices are expected to decline due to continued productivity gains, particularly related to the restructuring of the industry in the U.S. and Canada.
- The baseline shows domestic slaughter continuing to increase in line with increases in domestic packing plant capacity. As a result, live cattle and hog exports to the U.S. decline.
- Currently, Canadian beef exports are mainly to the U.S.. Canada is a net exporter of low quality beef to the U.S. and a net importer of high quality beef from the U.S.. The relationship is reversed on the world market where Canada is a net exporter of high quality beef (largely to Japan) and a net importer of low quality beef (mainly from New Zealand and Australia). Trends in exports indicate increased low quality beef to the U.S. and increased high quality beef exports to the rest of the world.
- Live pig exports to the U.S. have averaged 180 kt per annum since 1996 and are expected to drop significantly as slaughter capacity in Canada increases. Exports of pigmeat will increase as more hogs are processed domestically. The quantity of pigmeat (including live animals in meat equivalent) exported in the U.S. will remain at current levels but exports to non U.S. destinations will increase. Recently, 75% of the exports have been going to the United States, but it is expected that this will drop below 50% by the end of the outlook period.

B) Poultry

Major Highlights:

- International poultry prices decline initially from current high levels, but then increase over the baseline, in line with changes in grain prices. Poultry meat consumption in developed and developing countries continue on a strong growth trend.
- Canadian poultry production increases at an average of 3% per year, based on the expected rate of growth in domestic consumption.
- Poultry prices continue to increase over the baseline, reflecting changes in the cost of production formula.

1998 Baseline Review and Uncertainties

Baseline Review:

- New international baseline (Asian flu, Russia meat imports decline);
- New Canadian macroeconomic baseline with low Canadian dollar;
- Impacts of the pork crisis on Canadian hog producers;
- Significant increase in slaughtering capacity in Canada (Maple Leaf plant in Brandon, Manitoba)
- For the first time, the opportunity now exists for U.S. hogs to be shipped to Canada since the Government of Canada implemented (December 1998) new regulations which permit the importation for immediate slaughter of U.S. hogs from states which have achieved freedom of pseudorabies.

Uncertainties:

- Agricultural policy: Agenda 2000, WTO negotiations
- The impacts of changes in world markets on domestic agricultural production represents another area of uncertainty as world agricultural markets continue to liberalize.
- Biotechnology: Genetically Modified Organisms (GMOs)
- Weather: El Nino, La Nina