THE OUTLOOK FOR U.S. LIVESTOCK AND POULTRY

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The U.S. livestock sector underwent a difficult year in 1998 as high levels of meat production coupled with a slowdown in export growth resulted in dramatic price declines in the red meat sector. Lower feed prices were insufficient to offset declining prices and the red meat sector is expected to contract in the near term as producers have reduced breeding animals. The poultry sector also faced challenges in 1998; problems with the hatchery supply flock and hot weather slowed the growth of production in the middle part of the year and the economic crisis in Russia resulted in the loss of a major export market. However, strong domestic breast meat prices and low input costs encouraged broiler producers to continue to expand although at a slower rate than in previous years.

In the absence of grain price shocks producers can expect to see moderate production costs over the next 2 years but feed costs are expected to increase through the later part of the next decade. Demand for meats from increasing incomes and growth in export sales through the period will support producer returns stimulating production growth. In the near term, biological lags will determine beef and pork production. Faced with hog prices not seen since the early 1970's producers have reduced their breeding inventories and while pork production in the first half of 1999 is expected to remain above 1998, it will likely fall off sharply in the second half of the year. Beef production is forecast to decline 3 percent this year as producers have placed large numbers of female stock in feedlots and the breeding inventory (beef cows and heifers for replacement) was estimated to be 2 percent lower on January 1, 1999. Broiler production however is expected to increase this year as producers have responded to higher prices and problems in the hatchery supply flock by increasing the number of eggs set.

Pork Production to Contract Through 2000, Then Expand

The current hog cycle traces its roots back to 1994. The liquidation of hogs as a result of low prices in 1994 resulted in a dramatic increase in prices in 1996 and 1997 as newly built large-volume slaughter plants aggressively bid for hogs. Concurrent with high hog prices in those years, grain prices fell from their high levels of 1995/96. Positive returns and optimism for the future expansion of pork exports provided substantial incentive for expansion during 1997 and 1998. The sector itself was also undergoing substantial transformation as a result of the expansion of large coordinated operations located in North Carolina and the western part of the United States. These operations had lower fixed costs per unit, different sources of outside capital and given their size were able to develop contractual marketing arrangements with slaughter plants. Thus, they were more likely to ride out short term declines in prices. Pork production continued expanding through the fourth quarter of 1998 as constraints in slaughter capacity drove prices to their lowest levels in decades.

Despite low grain prices, the virtual collapse of hog prices in December of 1998 and continued weakness of prices through first half of 1999 will slow and reverse production growth in 1999 and 2000. Beyond 2000, production is expected to expand at about 1-2 percent per year. It is entirely possible that following the shakeout at the end of this hog cycle, the sector may have dampened the hog cycle. Production will increase at considerably lower prices than would have previously been required to trigger a response

Per capita consumption of pork on a retail weight basis is expected to decline slightly from last year's peak of 52.5 pounds per person as production declines through 2000. As production increases through the baseline period, per capita consumption will expand slowly to about 54 pounds by the end of the forecast period. Despite pork's lower cost structure, continued expansion of poultry is expected to provide considerable competition for pork at the retail level.

Pork exports expansion suffered a setback in late 1998 when continued economic weakness in the Pacific Rim was compounded by the collapse of Russia as an export market. Although the donation of pork to Russia in mid-1999 will provide some benefit to the export sector, weakness in the Pacific Rim and Russia will temper export growth through the early part of the next decade. Further competition is expected from the EU which finds itself in an oversupply situation and Canada where pork production is expected to expand. Nonetheless, by the end of the forecast period, U.S. exports are expected to reach about 1.9 billion pounds, 50 percent higher than the 1998 level.

Beef Market Share Continues to Slide

The beef sector continues to adjust to the higher corn and hay prices of 1995/96 which resulted in low feeder cattle prices during late 1995 and 1996. Low returns for cow calf operations caused a reduction in female stock and poor forage in the south kept producers from rebuilding breeding herds in 1998. Despite over 2 percent lower slaughter numbers in 1998, abundant forage in the northern part of the country led to calves remaining on grass longer and boosted slaughter weights and thus beef production. The January 1, 1999 survey of cattle producers indicated that although heifer and cow numbers were lower than 1998, producers were retaining few heifers for replacement. With continued large numbers of cattle placed on feed at the end of 1998, beef production will remain high through early spring before declining 4 to 5 percent in the second half of 1999. Production may fall 3 percent for the year.

Reductions in cattle inventories are expected through 2000. Recovery in cattle inventories is expected to begin in 2001 but the beef sector is likely to come under increasing pressure from expanding pork and poultry production at even lower relative prices. The changing structure of those industries has allowed them to expand production while providing consumers a consistent product at a competitive price. In the beef sector, the highest prices will be received for those animals whose meat is destined for export or domestic hotels and restaurants. As beef is forced to remain competitive with pork and poultry at the retail level, producer returns will not be sufficient to encourage an expansion to this cattle cycle's 1996 peak. The cattle cycle is forecast to peak in 2003 at 99 million head. After breeding herds are rebuilt in 2000 and 2001, production will increase but is expected to hover at 24.5 million pounds through 2008.

In this cattle cycle, per capita retail weight consumption of beef peaked last year at 68 pounds and is expected to decline gradually to about 58 pounds by 2008. Lower beef production will reduce available supplies in the near term and the expansion of exports later in the forecast period will siphon supplies away from the domestic retail market.

The financial crisis in Asia and tightening supplies of beef in the U.S. during 1999-2001 will limit the expansion of beef exports. Exports in 1999 will be boosted by donations to Russia but steady increases in U.S. prices and continued weakness in the Pacific Rim will temper gains. Mexico is expected to remain a strong market for U.S. beef and as Asian markets recover later in the forecast period, U.S. exports can be expected to grow at about 3 percent per year. Imports will expand over the next several years due to demand for manufacturing beef but after the U.S. cow herd is rebuilt and cow slaughter rises, imports are expected to gradually decline. The U.S. will likely become a net beef exporter in the latter part of the next decade.

Broiler Production and Trade Growth Slower through 2008

The rate of growth in broiler production slowed in 1998 due to high temperatures in the southern portion of the United States and problems in the broiler hatchery supply flock. Strong price pressure might have been felt after the devaluation of the ruble in August virtually halted exports to Russia but high prices for breast meat offset the potential price declines from an oversupply of leg quarters. Thus composite prices remained strong. High bird prices and lower feed prices encouraged producers to expand production. Broiler production in 1999 and 2000 is expected to expand about 5 percent per year.

Growth in broiler production beyond 2000 is forecast to average 3-4 percent through 2008, well below historical rates. Changes in industry structure and technological innovation have allowed the poultry industry to keep production costs from rising as rapidly as in other sectors. However, further technological improvements and vertical integration are forecast to occur more slowly through the baseline period. In addition, increasing market share will become more difficult as total poultry has to compete with increasing quantities of competitively priced pork. Nonetheless, retail broiler consumption is expected to reach 98 pounds per capita by 2008.

In 1998, broiler exports suffered their first decline since 1984. The loss of Russia as an export market in August was too great to be offset by increases in other markets. Exports are expected to decline again in 1999 but gradually increase beginning in 2000. Growth in the future will be tempered by the speed of recovery of Russia and Asia as markets for poultry.

Turkeys Under Pressure

Turkey producers faced 2 years of negative returns which reduced production in 1998 and is expected to limit production in early 1999. Although turkey prices will remain weak relative to the past several years, declining feed prices will boost producer returns and encourage a moderate expansion through 2002. After that, feed cost increases will outpace increases in turkey prices and production after 2003 will likely increase less than 1 percent per year.

Although exports will increase from last year's depressed levels, growth will be slow due to competition from moderately priced pork trimmings. Competition from hams on the domestic market is expected to be strong and in the face of large pork supplies, per capita turkey consumption may decline slightly over time.

Eggs Consumption Stable

Egg production has been fairly profitable and egg production increased almost 3 percent in 1998 and is expected to rise another 2-3 percent in 1999. Per capita egg consumption is forecast to be relatively stable at about 246 eggs. This stability will reflect increases of egg products through consumption of prepared foods. Shell egg consumption is expected to decline slowly through the forecast period.