The U.S. livestock sector will begin to climb out of its dismal hole as the low prices of late 1998 and early 1999 result in red meat production declines in 2000 which will carry into much of 2001. Cattle and hog prices are expected to climb into 2001 as the stage is set for the next phase of the respective livestock cycles. Conversely, the poultry sector is expected to follow a different pattern. Responding to the strong returns in 1998 and 1999, broiler producers expanded in 1999 and into 2000. However, the increase in production coupled with weakness in some segments of the parts market resulted in price declines in 1999 which will carry into 2000 and 2001. Turkey production is expected to expand in 2000 and 2001 as producers respond to the strong positive returns generated in 1999. Prices are forecast to decline as production increases. Despite declines in beef and pork production, total red meat and poultry production in 2000 is likely to be fractionally above last year.

**Beef Production to Fall on Herd Rebuilding**

The liquidation of the U.S. cattle sector continues to generate large volumes of beef as a combination of near record heifer slaughter and dryness in much of the traditional winter grazing area moves large numbers of cattle into feedlots. Feedlot placements in 1999 averaged 9 percent over 1998; thus the number of cattle reported in feedlots nationwide on January 1 was 14.0 million head, the highest level since 1973. Heavy placements late last year and in the beginning of 2000 are likely to boost slaughter into the second quarter of 2000, but thereafter cattle slaughter will begin to diminish as much of the available supplies of feeder cattle have already been drawn forward. Placements during 2000 are expected to fall below year earlier levels as the supply of feeder cattle declines and cow-calf operators retain heifers for breeding. Quarterly cattle on feed data indicates that in 1999 heifers averaged about 40 percent of the cattle reported in feedlots in 7 states with more than 1000 head. This is the highest percentage since the survey began in 1992. As cow-calf producers respond to positive returns, increased numbers of heifers will likely be retained in 2000 for breeding to calve in 2001. This will likely dry up an important source of recent feedlot placements.

Beef production in 2000 is forecast to be 25.7 billion pounds, about 3 percent below 1999's record. As mentioned previously, production in the first quarter will likely be higher, driven by the large placements in the last quarter of 1999. Production is expected to decline through the remainder of the year with the greatest reductions in year-over-year production occurring in the fourth quarter. As the cattle cycle bottoms, beef production in 2001 could be 5 percent lower before beginning to turn up the
Cattle prices climbed sharply from first quarter lows in the last quarter of 1999 on tight Choice beef supplies and strong year-end demand for higher grading beef. Strong economic growth and optimism about the future fueled demand for beef and raised fourth quarter retail choice beef prices to the highest levels since 1993. Demand has remained firm through the first part of 2000 and as prospects for continued economic growth remain good, it is likely that tightening supplies will drive retail and live animal prices higher. Cattle prices in 2000 will average in the upper $60 per cwt range. Large expected slaughter in the first quarter of the year will hold Choice steer prices to $67-$69 per cwt but prices are expected to rise $1-2 per cwt in subsequent quarters. In the absence of stronger grain prices, the demand for feeder cattle should boost prices into the mid-$80 per cwt range increasing returns should be enough to encourage herd expansion. As production falls even further in 2001, increases in prices are likely.

The reduction in cow slaughter as inventories fall and herd rebuilding commences will likely provide opportunities for increased imports. New Zealand should be able to capitalize on U.S. demand, but both Canada and Australia have liquidated their herds and like the United States will be entering their herd rebuilding phases. Both Argentina and Uruguay reached their quotas in 1999 so no increase in fresh, chilled or frozen product can be expected. 1999 saw growth in cooked product imports from both Argentina and Brazil, a trend which may continue into 2000. Nonetheless, the majority of trade occurs in uncooked product; thus, after reaching just under 2.9 billion pounds in 1999, beef imports may increase only 4-5 percent in 2000.

Exports are expected to have been over 2.3 billion in 1999, on the strength of sales to Mexico and Asia and food aid shipments to Russia. Economic recovery in Asia is responsible increased for sales to Japan and Korea. Over the past several years, Japan’s imports shifted towards lower-value cuts and recent price increases in U.S. cut prices have been partly offset by an appreciation of the Yen relative to the dollar. In the absence of further food-aid shipments to Russia and higher U.S. prices, it is likely that U.S. exports in 2000 will fall 2-3 percent.

**Cutback Underway in Pork Sector**

The traumatic price movements of late 1998 and early 1999 have led to a reduction in hog inventories in 1999. Pork production grew on a year over basis during the first half of 1999 due to large second half 1998 pig crops and reduced gilt retention but began to decline in the second half as fewer farrowings earlier in the 1999 resulted in fewer animals available for slaughter. However, based on the large slaughter early in 1999 and slightly higher carcass weights, annual production reached a record 19.3 billion pounds. Lower production, coupled with firm demand led to substantial price recovery in the last quarter of 1999 and the early part of 2000.

Based on producer data supplied in the December *Hogs and Pigs* report, it is likely that pork production in 2000 will decline 3-4 percent to 18.6 billion pounds. The pig crops reported in the
report would imply production declines of about 2 percent in the first quarter and 3 percent in the second. The farrowing intentions reported for December-February and March-May would suggest that production may decline 3 percent in the third quarter and 6 percent in the fourth. However, it must be noted that in the month prior to the survey was taken, hog prices were averaged $35 per cwt but since December 1 prices have averaged $39 per cwt, reaching $40-41 in early February. To farrow hogs in March-May, producers would have to breed their hogs between December and February and it is possible that the recent runup in prices, along with expectations of low grain prices might encourage producers to farrow more sows than they had originally reported in December. On the other hand, the financial condition of some producers may require a longer period of positive returns before they are willing or able to increase production. Under this scenario, pork production would likely continue to decline in 2001 as producers would begin holding back female stock to begin the next expansion phase of the hog cycle. The March Hogs and Pigs report will provide a further indication of producer plans in 2000.

Hog prices have rebounded as production declined and stocks were worked down. Product demand was strong in the fourth quarter of 1999 due to strong economic growth and demand for bellies by the HRI sector. Prices in that quarter averaged $36.40 per cwt, $8 higher than first quarter prices and over $14 higher than the fourth quarter of 1998. As long as the outlook for economic growth remains favorable and with tighter red meat supplies on the horizon, 2000 prices are forecast to average $39-41 per cwt, about $5 higher than the 1999 average. Prices are expected to climb to about $2 per cwt in the third quarter before dipping seasonally in the fourth.

Despite the loss of Russia as a commercial market, pork exports in 1999 are expected to have reached exceeded 1.2 billion pounds. Asia and Mexico were strong markets for U.S. pork and additional support came from the food-aid shipments to Russia. Economic recovery in Korea and the appreciation of the Yen increased exports to those markets but sales to Taiwan also increased sharply. Mexico is a growing market for U.S. pork and in light of economic growth will likely remain so. Exports in 2000 will likely decline to about 1.2 billion pounds as it is unlikely that Russia will be reemerging as a commercial market for U.S. pork. However, sales to Asia and Mexico are likely to continue to expand although the rate of growth may be limited by increased U.S. prices.

Imports grew in 1999 to approximately 827 million pounds as production in Canada and the EU encouraged increased sales. Canada continues to expand production and the U.S. is the predominant market for Canadian product. Canadian statistics on January 1 indicated that the breeding herd was 3 percent higher, pointing toward continued expansion. It is thus likely that imports will continue to flow heavily from Canada in 2000. The opening of Maple Leaf Foods new plant in western Canada is expected to encourage the movement of pork into the United States. However, to the extent that this plant and any planned expansions of other plants during the year increase the slaughter of Canadian hogs, the effect may be netted out by reduced live slaughter hog imports. Total pork imports for 2000 are forecast to be about 800 million pounds.

**Broiler Production Continues to Expand**
Despite broiler price declines in 1999, returns have remained strongly positive which has encouraged further expansion of the industry. On the heels of very strong returns in 1998 and 1999, broiler producers increased production. Federally inspected production climbed 6.5 percent to 29.7 billion pounds, the most rapid of expansion since 1994. The most rapid growth was in the first 3 quarters, by the fourth quarter of 1999 production growth slowed, reflecting more modest returns.

Production in 2000 is likely to expand an additional 4-5 percent as returns will remain positive albeit less than 1999. The hatching egg flock on January 1 was reported to be fractionally smaller than the previous year but the rate of eggs per bird more than offset the decline so egg sets should increase. Based on weekly data, after a period of lower egg sets in the fourth quarter of 1999, broiler egg sets are increasing. Cumulative potential placements into the hatchery supply flock indicate that further expansion of the supply flock through the first half of this year is likely.

Although many of the parts prices so far this year have been below last year, leg quarters are receiving some support from their price competitiveness in a number of export markets. Broiler prices are forecast to decline as production grows, especially in the first half of the year but tightening red meat supplies should provide some support for prices in the second half. Wholesale broiler prices are forecast to average 55-59 cents per pound for the year.

Broiler exports in 1999 were slightly above 1998 at about 4.74 billion pounds as trade with Russia began to slowly recover and the low price of leg quarters encouraged sales in a number of markets. Although commercial sales to Russia has not come close to its pre-collapse levels, exports to Russia and to the Baltic states for sale in Russia have shown signs of recovery. Exports to the Baltics through November were more up 150 percent. Exports to Asia, most notably Hong Kong/China and Korea helped limit the decline in broiler exports. Exports in 2000 are forecast to increase 2-3 percent to about 4.8 billion pounds. Russia is expected to continue recovering slowly and with slightly weaker U.S. prices in 2000 exports will likely continue to flow to Asia.

**Turkey Production to Increase**

In response to negative returns in 1997 and 1998, turkey production declined in 1998 and during the first quarter of 1999. As production declined and stocks were worked off in 1998, turkey prices rose and with relatively cheaper feed prices the industry regained profitability. In response to positive returns, the turkey production expansion began to manifest itself in production increases in the second quarter of 1999 and carried through the entire year. Annually, production increased less than 1 percent to approximately 5.3 billion pounds. Prices increased almost 11 percent in 1999 which will likely encourage further expansion in 2000. Turkey production is forecast to increase about 2 percent in 2000, the strongest rate of increase since 1996.

Turkey prices are forecast to increase above year-earlier levels through the first half of 2000 as higher production is partially offset by lower stocks. Although prices will remain firm in the second half, they will not match the price increases of 1999. The average Eastern Region Hen prices is forecast to
average, 66-70 cents per pound in 2000.

Turkey exports to most traditional markets were weak in 1999. Exports were down about 17 percent from 1998 at 379 million pounds. Exports are forecast to increase in 2000 on the basis of increased sales to Asia and the potential for some recovery in Russia. In 2000, exports may reach 390 million pounds 5 percent above 1999.

**Egg Returns Favor Further Production Increases**

Egg returns were positive in 1999 which will likely spur further increases in production for 2000. Table egg production increased almost 4 percent in 1999 reaching just over 5.8 billion dozen. Hatching egg production increased as well, rising almost 4 percent to just under 1.1 billion dozen. As production increased, egg prices fell in 1999, with the sharpest drop occurring in the fourth quarter. Prices for the year averaged 65.6 cents per dozen.

For 2000 total egg production is forecast to rise 2-3 percent to slightly less than 7.1 billion dozen eggs. The greatest increase is likely to occur in hatching egg production. Increasing production will likely put further pressure on egg prices dropping them about 5 cent per dozen.