# The Outlook for Livestock and Poultry

Ronald A. Gustafson
Senior Economist, Economic Research Service
U.S. Department of Agriculture

## Meat Sector in Uncertain Times

Uncertainties in the meat sectors in the U.S. and throughout the World due to weather vagaries, grain production/price changes and economic conditions are factors the meat complex has to contend with day-to-day. The winter of 2000/01 resulted in dramatic swings in feedlot performance and slaughter weights, the availability of top grading cattle, and consequently prices. Since 1995/96, when drought and record grain prices affected the meat sector, market uncertainties have been heightened by a proliferation of international disease outbreaks and economic slowdowns in many important markets. Now closer to home, the markets are overshadowed by an economic slowdown and concerns with livestock as both a potential victim and vector of disease. Consumers are increasingly concerned with the credibility of meat sources and more recently, particularly in Japan and Europe, traceability of product. Disease breakouts, while reducing demand for one product, may increase demand for other meat products.

### No End to Cattle Herd Liquidation This Year

Cattle and calves on farms and ranches on January 1, 2002, were down another 1 percent from a year earlier, and down nearly 7 percent from the 1996 cyclical peak. This decline marks the 12th year in this long cattle cycle, which began in 1991 and follows the previous cyclical low of 95.8 million head in 1990. This report strongly suggests that inventories will continue to decline for at least the next 2 years. Sufficient replacement heifers are not expected to calve this year to even begin to offset the larger cow slaughter in 2001. The next real chance for expansion will have to come from heifers retained from this year’s calf crop, bred in 2003, and calving in 2004.

Because of strong prices, the cow-calf sector has had positive returns above cash costs since 1999. However, extended drought during much of this period, and the most severe winter in 2000/01 since 1992/93, resulted in less forage and lower quality forage. Given the high prices for beef, this, in turn, led to operators sending beef cows to slaughter and another year of relatively large numbers of heifers being placed on feed prior to the breeding season.

### Inventory Decline Continues

On January 1, 2002, both beef and dairy cow inventories were down another 1 percent from a year earlier. While dairy cow slaughter in 2001 was down nearly 2 percent from 2000, beef cow slaughter rose nearly 11 percent and continued to increase into early 2002. Although hay stocks on December 1, 2001, were 5 percent above a year earlier, available stocks remain in tight hands as reflected by higher hay prices. The January farm price of hay was nearly $8 a ton above a year earlier and the price of alfalfa hay was up $10 with many producers apparently concerned with needing to feed extra hay stocks themselves. The cattle sector remains concerned about adequate forage supplies and moisture developments. As this year’s grazing season begins, forage conditions will be paramount to developments in the second half of the year.

Numbers of beef heifers retained for possible addition to the breeding herd this year were almost unchanged from the relatively low levels of the last 4 to 5 years. The number of beef heifers expected to calve this year, the second year of this new statistic, while up 3 percent, is only 115,000 above the low level a year earlier. The number of heifers calving and entering the beef and dairy cow herd in second-half 2001 continued to decline, to the lowest since 1988. To even begin to offset continued beef cow slaughter, larger numbers of heifers from this year's calf crop will have to be retained. The expected increase in heifer retention, in turn, will reduce fed placements this spring and summer, and consequently heifer slaughter and meat production beginning this fall.

## Reduced Placement Support Feeder Cattle Supplies

Feeder cattle supplies outside feedlots on January 1 were above year-earlier levels when severe weather forced more cattle into feedlots, but still down 3 percent from 2000 and 8 percent from 1999. Cattle on feed placements declined 6 percent in 2001, with placements up only in the second quarter, by 3.5 percent. Large numbers of heavier heifers were likely placed on feed last spring. The number of heifers on feed was up 7 percent in the July 1, 2001 *Cattle on Feed* report; many likely were intended for the breeding herd. Although heifer slaughter declined 4 percent from the near-record 2000 level it was the fifth largest on record. The past 5 years of heifer slaughter are also the largest on record.

Improved moisture and forage-grazing prospects would supply the base for increased heifer retention and reduced beef production in fourth quarter 2002. Dairy calves have also contributed to placements as feeder cattle prices have risen over the past several years, but calf slaughter has already declined sharply and only marginal additional declines are likely. The revised 2001 calf crop declined 1 percent, and further declines are expected at least in 2002 and 2003.

## Fed Beef Supplies To Remain Large Until Mid Year

Although cattle on feed inventories on January 1 were down about 2 percent from a year earlier, large inventories of record heavy cattle will support large beef supplies through early summer. Steer and heifer slaughter weights normally peak in October, but weights peaked in November 2001 and remained unseasonably heavy into January and February. Although commercial dressed slaughter weights for 2001 declined 1 pound from 2000, weights vacillated widely during the year. Severe winter weather brought quarterly weights down 12 pounds in the first quarter, and down 8 pounds in the spring. Weights began to rebound in mid summer with weights averaging 1 pound above a year earlier, before rising 16 pounds in the fourth quarter. Weights this winter and spring will certainly remain on a seasonal record pace remaining near the 757-pound record of fourth-quarter 2001, particularly as cow slaughter declines. Beef production in 2002 is expected to decline 2 percent from last year and 4 to 5 percent from the 2000 record. First-quarter production is expected to be up 4 percent, due to increased fed cattle marketings, but more importantly, sharply higher slaughter weights are expected compared to a year earlier. Second quarter production is likely to be down slightly from a year earlier, with the third quarter beginning the transition to cyclically lower production, down 3 to 4 percent. Fourth quarter begins a transition to decreased heifer slaughter, reduced cow slaughter, and lowered beef production that is expected to continue through 2004. If forage supplies improve and heifer retention begins this spring and summer, together with declining calf crops, fourth-quarter beef production is likely to decline 8 percent. Cow slaughter rose 4.5 percent in 2001 as a severe winter and drought forced hard culling of the herd. Slaughter is likely to drop sharply as forage supplies improve this spring and if favorable conditions can be sustained in second-half 2002.

## Prices Unlikely to Exceed Early 2001 Levels

Fed cattle prices averaged $72.43 per cwt in 2001, with prices declining through the year as the effects of the severe winter weather eased and feedlot performance improved. An economic slowdown and the market extremes from the September terrorist attack further pressured prices, along with rapidly rising slaughter weights, particularly in the fourth quarter.

In 2002, fed cattle prices are likely to rise through the year, even as slaughter weights rise to record levels. Expected price strength into the upper-$70s in the second half of the year will depend on a return to more normal forage conditions and increased heifer retention. Record weights have not been a particular problem as cattle have not been overfinished and the market continues to demand a larger quantity of higher quality beef. In addition, the added weight on carcasses allows increased marketing of individual muscles to fulfill emerging market needs.

Corn prices are expected to rise modestly this year, and together with negative feedlot returns beginning last spring, will hold down price gains on heavier yearling feeder cattle this year. Prices averaged $88.20 last year, but likely will be held down to the mid-$80's this year. Lighter weight stocker-feeder cattle prices are likely to rise sharply and as feeder cattle supplies tighten, particularly if grazing conditions improve. Competition for calves from both stocker operations and feedlots will be fierce.

Utility cow prices will continue to rise cyclically, with prices likely averaging near $50 this spring and early summer as cow slaughter drops off. Unusually good fall and over-wintering prospects could result in continuing lower cow slaughter and price support in late summer through fall and strong prices for replacement cows.

## Retail Prices and Spreads Continue to Rise

Retail beef consumption declined over 1 pound per person in 2001 and another pound reduction is expected in 2002, with the entire decline occurring in the second half. Total red meat and poultry consumption is expected to remain about 217 pounds per capita, down from the 220-pound record of 1999 and 2000. All of the beef offset is expected to come from already relatively lower priced broilers.

Retail prices for Choice beef rose over 10 percent in 2001, breaking the old 1992/93, storm-related record early in the year. The latest record, $3.48 a pound, was set last June. The farm-to-retail spread moved to a record $1.83 a pound last year, with the spread widening to near $2 a pound in the fourth quarter. Largest increases have occurred in the wholesale-to-retail spread, although the farm-to-wholesale spread has also widened.

Retail prices are expected to rise another 1 percent this year, but the June record is unlikely to be tested until fall, assuming heifer retention begins and beef production declines sharply. A continued wide farm-to-retail spread and much lower byproduct credit will hold down fed cattle price gains. Spreads may have taken another periodic step upwards, possibly due to new product develop or increased operating costs.

## Beef Exports to Decline

Beef exports in 2001 were likely down 9-10 percent from 2000 and exports in 2002 are likely to continue the decline another 2-3 percent. If realized, exports in 2002 would be down 10-12 percent from the record 2.5 million pounds achieved in 2000. During the same period, domestic consumption is expected to decline only 2-3 percent. Exports are down generally as a result of high U.S. prices, slowing economies worldwide, and BSE concerns in Asia.

The situations in Korea and Japan have altered earlier expectations of beef exports to these countries. After 2001 started off with seven months of sharply lower exports to Korea, export activity nearly doubled in both September and October. Korean buying patterns tend to be variable, but are typically characterized by several months of light activity followed by some months of greater activity. However, monthly exports during February-August were the lowest since the Asian financial crisis in 1997.

Reduced exports to Korea in 2001 were due to a buildup of stocks that peaked late in 2000, a result of a slowing Korean economy and concerns about BSE. Stocks were accumulated as imports of beef rebounded rapidly after the 1997 Asian financial crisis and substantial reductions occurred in the domestic beef herd. The herd was reduced in anticipation of expected competition from imported beef as Korea liberalized its beef import regime, consistent with the WTO agreement, giving more equal treatment of imported meat in retail establishments. The stocks draw down could have displaced roughly 10 million pounds of imports per month, and helps explain why an otherwise moderate decline in imports caused by a slowing economy in 2001 became much worse. Exports to Korea in 2002 are now expected to be substantially above 2001.

One of our best customers for beef exports, Japan, continues to be adversely effected by BSE concerns and a weak economy. As the holiday season approached late last year, consumers began reducing consumption of beef, instead showing increased interest in pork, poultry, and seafood dishes.

There are few reasons to be optimistic about the performance of the Japanese economy over the next year or more. The Japanese government is predicting no growth, but the consensus among other analysts is that the Japanese economy will contract in 2002. The International Monetary Fund, for example, predicts a GDP decline of 1.3 percent this year.

In addition to a weak economy, continued BSE concerns point to lower U.S. beef exports to Japan, at least over the next year or so, especially as U.S. beef prices increase in response to tightening U.S. beef supplies. While some reforms have been undertaken or proposed, the fundamental restructuring in banking and protected industries that could help Japan regain a self-sustaining growth path does not appear on the horizon. Consequently, overall beef consumption is expected to be lower than last year. Continued weakening of the Australian dollar is also expected to help the competitiveness of Australian beef, particularly in the Japanese market.

## Hog Producers’ Returns Remain Favorable

In 2001, the $1-per-hundredweight (cwt) rise in hog prices nearly offset increased hog production costs (cash expenses), but returns to hog producers were favorable for their second year. In 2002, hog prices are expected to decline about $1-2 per cwt, and given expectations of slightly higher corn costs, producers’ returns are likely to remain positive but squeezed somewhat compared with the past 2 years.

Despite relatively favorable returns in recent years, producers have not responded to the improved returns as they have done in the past, likely in part to large losses in 1998 and 1999. Historically, producers have increased the number of sows farrowing after 6 to 9 months of above-breakeven returns. In 2001, the number of sows farrowing was below a year earlier in each quarter, except for a slight increase in September-November. However, according to the latest *Quarterly Hogs and Pigs* report, producers intend to have more sows farrow during December-May than a year ago.

In addition to a smaller number of sows farrowing in 2001, annual average pigs per litter declined slightly for the first time since 1988 and for only the third time in the past 20 years. As a result, the 2001 pig crop was down 1.274 million head from 2000. However, hog imports from Canada rose by more than a million head, of which almost 60 percent were feeder pigs. (Hog exports were insignificant.) This left hog slaughter in 2001 virtually unchanged from 2000. A 2-pound gain in dressed weights boosted pork production by 1 percent over 2000.

## Hogs and Pigs Report Suggests Larger Pig Crop in 2002

The *Quarterly Hogs and Pigs* report released on December 28 suggests a larger pig crop in 2002. Producers indicated intentions to have 3 percent more sows farrow in December-February than a year ago and 1 percent more in March-May. The December 1 breeding inventory was down 1 percent from a year earlier, but still up about 1 percent from September. Sows farrowing as a percentage of the breeding inventory continues on an upward trend (44.5 percent in 2001 versus 41.5 percent in 1996). The inventory of all hogs and pigs totaled 58.8 million head on December 1, 1 percent below a year ago and slightly below the September 1 figure.

## Pork Production To Be Nearly Unchanged

Based on the market hog inventory, pig crops, and farrowing intentions reported in December, commercial pork production in 2002 is forecast at 19.2 billion pounds, only slightly above 2001. If the 2002 forecast is realized, production would be just short of the record set in 1999. Commercial hog slaughter is expected to be slightly lower than in 2001, with continued heavier slaughter weights supporting production levels.

The June-August pig crop implies a first-quarter 2002 slaughter down nearly 2 percent from last year to about 24.15 million head, assuming slaughter is about 96-97 percent of the pig crop (5-year average). Given the upward trend in weights and relatively cheap feed, the average dressed weight is expected to rise about a pound, which will only partially offset lower slaughter. As a result, pork production in the first quarter will likely be down about 1 percent from a year ago.

Most of the September-November pig crop will be slaughtered in second-quarter 2002. Dressed weights are expected to decline from the first quarter but still be about a pound above a year ago. The expected reduction in commercial slaughter due to a smaller pig crop will likely be offset by heavier weights. As a result, commercial pork production is expected to be about the same as a year earlier.

Based on December farrowing intentions, the December-February pig crop is expected to be up about 3 percent, even though it is expected that pigs per litter will be slightly below a year ago. Using a slaughter rate of 98 percent (the 5-year average), the implied third-quarter slaughter is 24.25 million head. The average dressed weight for the quarter is expected to climb about 2 pounds. Third-quarter pork production is expected to total about 4.7 billion pounds, up 3 percent from last year.

The December farrowing intentions for March-May imply about a 1-percent increase in the pig crop. If these intentions are realized, fourth-quarter slaughter would total about 26 million head, as the percentage of the pig crop slaughtered is expected to drop to 101 percent, compared with an extraordinary 104 percent in 2001. In the past, this would mean that the herd was being liquidated, but today imports from Canada support this rate of slaughter.

## Hog Prices To Decline

Prices in the first quarter are expected to average in the low-$40s (about the same as last year) as pork production declines from a year ago. Price gains may be limited by competing meat supplies, which are expected to register year-over-year increases, and continued weakness in the economy. In the second quarter, prices are expected to climb seasonally into the high $40s per cwt. In 2001, second-quarter prices averaged $52 per cwt. If the economy remains weak, consumers are likely to scale down their food purchases, pressuring prices. In the third quarter, a year-over-year increase in pork production is expected to pressure hog prices into the mid-$40s, compared with $51 a year ago. But, in the fourth quarter, hog prices are expected to average about $40 per cwt, compared with $37 in 2001.

Moderately low pork production, sharply lower beef production, and a strengthening economy will likely boost prices. As slaughter rises seasonally in the fourth quarter, weekly federally inspected slaughter rates are expected to exceed 2 million head for several weeks, but not enough to strain capacity. When slaughter rates exceed 2 million head per week for an extended period, slaughter capacity is strained, and hog prices are bid down.

## Retail Pork Prices To Remain Unchanged

Retail pork prices are expected to average about the same in 2002 as in 2001. With the farm value expected to decline, the farm-to-retail spread is expected to widen. In 2001, retail prices rose 3 percent after a sharp rise of 7 percent in 2000. The farm-to-retail spread likely widened 10 cents a pound after a penny increase in 2000.

### Pork Export Forecasts Above Earlier Expectations

The United States is expected to export nearly 1.5 billion pounds of pork in 2002, down 6 percent from 2001 when foot and mouth disease slowed EU pork exports. The forecast is above earlier expectations as Japanese consumers continue to substitute imported pork in place of beef because of BSE fears. Also, stronger than previously expected fourth quarter 2001 exports due to strong Japanese demand likely pushed U.S. pork exports for the year to about 1.58 billion pounds, 23 percent over 2000.

Strong demand from Japan drove U.S. exports throughout 2001. At the beginning of last year, the U.S. faced very strong demand from Japan for pork products. Demand increased further when disease issues appeared throughout the year- FMD in March, and BSE in September. If BSE fears continue in Japan, an even more favorable scenario for U.S. pork exports will likely result in 2002.

### Sheep and Lamb Inventory Decline Continues

The inventory of all sheep and lamb fell in 2002, continuing a long downturn. On January 1, 2002 the sheep and lamb inventory totaled 6.69 million head, down 4 percent from 2001 and 5 percent from 2 years ago. The breeding sheep inventory declined only 1 percent from a year ago, compared with 5 percent last year. Several major sheep producing-states registered increases in their breeding inventory. Interestingly, Texas, the largest sheep producing state, saw a 50 thousand-head increase in its breeding inventory and Colorado saw a 10 thousand-head increase in its inventory. The replacement lamb inventory was 9 percent higher than a year earlier. The ewe retention program instituted as part of the Lamb Industry Improvement Initiative contributed to the increase.

## Production Down and Prices Expected to Recover

In 2002, commercial production of lamb and mutton is projected to total 199 million pounds, down 11 percent from a year ago as dressed weights drop about 4-5 pounds to around 65 pounds (the 1997-2000 average). In 2001, despite 7 percent lower slaughter, production was down only 3 percent as lambs were fed to heavier weights. High prices in the late spring/early summer encouraged producers to hold lambs back and feed them to heavier weights. These expectations of continued price strength resulted in over-finished (i.e., fatty), less desirable market animals at higher-than-normal dressed (i.e., carcass) weights.

As a result, San Angelo slaughter lamb prices defied their usual seasonal pattern. The backlog of over-finished animals coming to market forced prices down until dressed weights began to decline in late fall. Lamb prices recovered slightly in December of 2001. As the problem of overweight lambs abates and seasonal demand begins accelerating in midwinter, prices should recover and average in the mid-$70s during the first quarter.

### Lamb and Mutton Imports Continue to Increase

In 2002, lamb and mutton imports are expected to total about 155 million pounds, up 7 percent. In 2001, imports rose about 12 percent. Although 2002 slaughter is forecast to be down in both New Zealand and Australia, the strong U.S. dollar relative to New Zealand and Australian, currencies coupled with the recent removal of the tariff rate quota favors, increase exports from these countries. Australia exports are expected to increase as more lamb is diverted from the domestic market to the higher valued export market.

**Higher Broiler Production Pushes Prices Down**

Broiler production increases continue to moderate. Production increased 2 percent in 2001 and is expected to expand 2 to 3 percent in 2002. Stronger prices were due to static supply increases in the first through third quarters of 2001. Combined with an 18 percent increase in exports, this price strength resulted in increased production, with fourth-quarter production up nearly 4 percent. Production increases are expected to slow throughout 2002, dropping from a 3 percent increase in the first quarter to a fourth quarter rise of nearly 2 percent. Although the slower production increases and strong exports strengthened broiler prices, prices for breast meat continue to be depressed. Prices for boneless, skinless breast meat in the Northeast averaged $1.19 a pound in December 2001, the lowest price since June 1974. Broiler prices are likely to remain near last year's 59 cents a pound. After rising rapidly over the past couple of years, broiler export gains are likely to slow markedly this year.

**Broiler Exports Expected Higher**

Broiler exports in 2002 are expected to total about 6.35 billion pounds, up only 3 percent from a year ago. The slowing world economy and the continuing strength of the dollar is expected to substantially moderate the growth in broiler exports. Stronger than expected exports in fourth quarter 2001 likely pushed exports for the year to 6.18 billion pounds, an increase of 15 percent from 2000. Expanding shipments to Russia were the largest factor in the 2001 increase, although part of the increase in direct shipments to Russia are due to falling transshipments through both Latvia and Estonia. Direct shipments to Russia likely totaled about 2.4 billion pounds in 2001 and accounted for over one-third of all broiler exports. Other countries showing considerable growth in broiler shipments are Korea, Mexico, and a number of Central American and Caribbean countries.

At the present time, the Ukraine has banned imports of U.S. poultry products. The official reasons given were the use of antibiotics in U.S. broiler production and anti-microbial rinses in U.S processing plants. U.S. broiler shipments to the Ukraine have varied widely over the last several years. In 1999, shipments were over 100 million pounds, but fell to just over 1 million in 2000. Shipments totaled 33 million pounds during January-November 2001.

The current ban on U.S. broiler exports to Japan is based on an outbreak of a low-pathogenic strain of Avian influenza in Pennsylvania in December. Japan in one of the largest markets for U.S. broiler exports, totaling 230 million pounds in 2000 and 212 million during January-November 2001. If the ban runs its full-length (90 days), exports could resume in the middle of April. One possible course of action is for Japan to narrow the ban so that it only affects broilers and broiler products coming from birds grown in Pennsylvania. The Philippines and China have imposed bans of this type. This would greatly reduce the overall impact of the ban on U.S. broiler shipments as products from Pennsylvania destined for exports could be used domestically, while the shipments could be made up with birds grown in other States.

## Turkey Production Increases Slow

Turkey producers have gone through a tumultuous period of export shifts and the resultant swings in prices in recent years. After rising nearly 3 percent in 2001, turkey production in 2002 is expected to rise nearly 1 percent and to another record. Turkey prices are expected to average about unchanged from last year's 66 cents, but below the near 70 cent average in 1999 and 2000.

## Turkey Exports To Stabilize

Turkey exports in 2001 likely rose 11 percent over 2000. The bulk of the increase has come from higher shipments to Russia, Poland, and other NIS countries, which offset a slowdown in exports to Mexico. However, the export pace is expected to slow in 2002 following double digit increases in 2000 and 2001. In 1997 turkey exports rose 38 percent, only to be followed by a 26 percent decline in 1998, a 15 percent decline in 1999 and then an 18 percent rise in 2000.