United States Department of Agriculture

LDP-M-106

Apr. 16, 2003

Electronic Outlook Report from the Economic Research Service

www.ers.usda.gov

Livestock, Dairy, and Poultry Outlook

Leland Southard (Coordinator)

Meat Production To Decline in 2003

Contents

Tables at a Glance

Web Sites

The next release is April 22, 2003

Approved by the World Agricultural Outlook Board.

Total meat production in 2003 is expected to drop 1-2 percent from last, year with all species registering declines. With weekly chick placements averaging lower than a year earlier, broiler production forecasts are lower than last month. Total expected production in 2003 is nearly 32.2 billion pounds, marginally lower than in 2002. Broiler prices are expected to average 60-63 cents per pound in 2003, compared with 55.6 cents in 2002.

American and Russian officials have announced the resolution of the remaining disagreements about veterinary standards for broilers. This action opens the way for certification of U.S. plants that can export to Russia. Russia is the largest importer of U.S. broiler products, accounting for almost a third of all U.S. broiler exports. Even with the poultry import quota that is scheduled to begin May 1, Russia is expected to remain by far the largest market for U.S. broiler exports in 2003.

The March *Quarterly Hogs and Pigs* report indicated that producers continued to reduce their breeding herds and year-over-year farrowing intentions. These reductions point to a smaller pig crop and lower hog slaughter in 2003. If dressed weights continue to increase, the decline in pork production in 2003 may be held to less than 1 percent. Hog prices are likely to average $38-$40 per hundredweight (cwt) in 2003, compared with $35 last year, reflecting lower production of pork and competing meats.

With the sharp drop in slaughter weights and tightening supply of market-ready cattle this winter, Choice fed cattle prices returned to the low-$80s per cwt in mid-April. Prices will remain strong until weights begin to pick up seasonally and, even then, are expected to remain above year-earlier levels. Although fed cattle prices are strong, the feeder cattle market continues to reflect the extended losses suffered by the cattle feeding industry in 2001/02. Rather than selling at a $10 to $12 per cwt premium to fed cattle, yearling feeder cattle are selling near to slightly below fed cattle prices.

Poultry

Poultry Processing Plant Inspections Expected To Resume

American and Russian officials have indicated that the remaining disagreements about veterinary standards have been resolved. This action opens the way for the resumption of Russian inspections of U.S. processing plants. The processing plants need to be certified by Russian officials if they continue to export products to Russia. Russia is the largest market for U.S. broiler products, accounting for almost a third of all broiler exports. Even with the poultry import quota scheduled to begin May 1, Russia is expected to remain by far the largest market for U.S. broiler exports in 2003. With weekly chick placements averaging lower than a year earlier, broiler production forecasts are lower that previously expected. Total expected production in 2003 is nearly 32.2 billion pounds, marginally lower than in 2002. Broiler prices are expected to average 60-63 cents per pound in 2003, compared with 55.6 cents in 2002.

Chick Placements Indicate Lower Broiler Production for Second Quarter

With weekly chick placements through April 5 averaged 2 percent lower over the last 5 weeks than for the same period a year earlier, the forecast for broiler production in the second quarter of 2003 is now 8.15 billion pounds. This is 50 million pounds lower than the previous forecast and down about 1 percent from the previous year. The forecasts for the third and fourth quarters remain at 8.2 and 8.1 billion pounds, making the overall expected production for 2003, nearly 32.2 billion pounds, marginally lower than in 2002.

The most recent *Poultry Slaughter* report contained a revised January 2003 broiler production estimate of 2.774 billion pounds, 26 million pounds higher than the earlier estimate, but still slightly lower than the previous year. The preliminary estimate for February places broiler production at 2.386 billion pounds, down 3 percent from the previous year. The decline was the result of fewer birds slaughtered. The number of birds slaughtered fell 4 percent in February, but was partially offset by a 2-percent gain in the average weight of birds going to slaughter, rising from 5.09 pounds in February 2002 to 5.18 pounds in February 2003.

Even with uncertainties in the export market and the Middle East conflict, prices for a number of broiler products were higher in the first quarter than a year earlier. The 12–city whole broiler price averaged 60.3 cents a pound, 8 percent higher than in 2002. Prices have also risen for breast meat products. Prices for boneless-skinless breasts in the Northeast averaged 139.9 cents per pound during the first quarter, 14 percent higher than the previous year. Prices for rib-on breasts averaged 84.4 cents per pound, up 32 percent from the first quarter of 2002. The increases in breast meat product prices are primarily a reflection of lower broiler production. Except for a small amount exported to Canada, most of these products are sold on the domestic market.

Prices for other broiler products have also moved higher, but most are still below their year-earlier levels. Leg quarter prices averaged 20.3 cents per pound in the first quarter of 2003. This is up significantly from the 18 cents per pound they averaged in the fourth quarter of 2002, but still below the first-quarter 2002 average of 23.8 cents per pound. The same pattern can be seen for wings, thighs and drumsticks, all which have increased in price since the end of 2002, though prices remain below those of a year earlier. With a forecast of lower production through the first three quarters of 2003, domestic broiler prices for whole birds and breast meat products are expected to strengthen further. In addition, given the current outlook for a more stable export market and an assumption of no new trade disruptions due to disease outbreaks, prices for products such as leg quarters and wings that are more heavily export oriented are also expected to gradually strengthen.

Turkey Placements Continue Lower

During 2002, turkey placements were lower in 8 months compared with 2001 levels (and 6 of the last 7), with total placements for the year down 1.5 percent from the previous year. This pattern has continued during the first 2 months of 2003 with placements during January and February totaling

49.2 million birds, down 1.8 percent from the same period in 2002. The lower placements of the second half of 2002 have translated into a 3-percent reduction in turkey meat production during the first two months of 2003. Turkey production in the first quarter of 2003 is expected to be about 2 percent below a year earlier. Second quarter production will likely decline about 1 percent from 2002. Annual 2003 turkey production is expected to be nearly 5.7 billion pounds, down less than 1 percent from last year.

Hogs

Lower Inventories, Intentions for Swine

Continued breeding herd reduction and lower year-over-year producer farrowing intentions (reported in the *Quarterly Hogs and Pigs* report released on March 28) point to a smaller pig crop and lower hog slaughter in 2003. If dressed weights continue to average a pound above last year, however, pork production declines are likely to be held to less than 1 percent below a year ago. Hog prices are likely to average $38-$40 per hundredweight (cwt) in 2003, compared with $35 last year, due to lower animal supplies. Retail pork prices are expected to be higher in the second half of 2003, reflecting lower pork and competing meat production.

Commercial hog slaughter in the first quarter of 2003 totaled just over 24.6 million head. Higher slaughter plus heavier dressed weights combined to push commercial pork production more than 2.5 percent ahead of the same period last year. Live equivalent prices of 51-52 percent lean hogs averaged $35 in the first quarter, 10 percent below the first quarter of 2002. Hog prices rose in March from earlier this year, reflecting seasonal patterns, but wholesale cut prices remain relatively weak as pork supplies remain large.

U.S. packers are expected to slaughter 2 percent fewer hogs in the April-June quarter, as the breeding herd reductions that occurred last summer begin to translate into lower availability of slaughter hogs. With the average dressed weight unchanged from a year ago, pork production in the second quarter of 2003 should drop by about 2 percent. Hog prices are expected to average $39-$41 in the April-June quarter. Retail pork prices are expected to average more than 5 cents above the first quarter, reflecting lower pork supplies.

The *Quarterly Hogs and Pigs* report indicated that the March 1 inventory of U.S. breeding swine fell 4 percent below herd levels of 2002. The December-February pig crop was 2 percent lower than in the same period last year. The lower pig crop implies a 3-percent lower slaughter in the July-September quarter, but declines in production should be held to less than 3 percent below a year ago, if weather and feed costs continue to support weights above last year's levels.

Producers indicated intentions to farrow fewer sows in March-August 2003. If producer intentions are realized, 3 percent fewer breeding animals will farrow during the March-May quarter than in the same period last year, suggesting a lower slaughter in the fourth quarter of this year. Hog slaughter in the October-December quarter is expected to fall about 2 percent below the fourth quarter slaughter of last year. Fourth quarter weights are expected to average a pound above last year, implying pork production 1 percent below last year. Hog prices are expected to be $36-$40 per cwt in the fourth quarter. Producers' intentions to farrow 3 percent fewer sows in June-August 2003, than in the same quarter of 2002, indicates less pork production in the first quarter of 2004.

Fed Cattle Weights Plummet in March/April, Prices Rise to Allocate Supplies

Winter added to supply uncertainties in the cattle-feeding sector in late February through early April when a series of storms moved across the country, hitting many of the drier areas of the West and Northern Great Plains in mid-March. Cattle-on-feed inventories started the year down 8 percent from 2002 and down 10 percent from 2001. Cattle marketings were being pulled forward to meet continued strong demand.

Commercial dressed carcass weights in January averaged 763 pounds, only 1 pound below the year-earlier record and 27 pounds above the weather-reduced 2001 level. Weights in February dropped 6 pounds from January, likely due to pulling cattle ahead of normal marketing dates, although the first major snowstorm struck in late February. Slaughter weights plummeted nearlt 20 pounds from February to March, with commercial dressed slaughter weights likely dropping to near 737 pounds from 752 pounds last year, but still well above 2001's 718-pound average. Slaughter weights decline seasonally and typically bottom out in April/May.

Weather conditions this spring will largely determine how strong the compensatory gains will be in late April into May as weather conditions improve. Much of the country has received moisture with the exception of the High Plains cattle feeding area; a turn toward wetter conditions and muddy feedlots could slow gains this spring.

Along with the sharp drop in slaughter weights and tightening supplies of market-ready cattle, Choice fed cattle prices returned to the low-$80s per cwt in mid-April. Choice boxed beef prices rose from near $126 per cwt in March to the low-$130's in mid-April, with the Choice/Select spread widening to $10. Prices will remain strong until weights begin to pick up, but even as prices decline they will remain well above year-earlier levels. Although fed cattle prices are strong, the feeder cattle market continues to reflect the extended losses by the cattle feeding industry in 2001/02 and uncertainty regarding fed cattle price strength this summer. Rather than selling at a $10 to $12 per cwt premium to fed cattle, yearling feeder cattle are selling near to slightly below fed cattle prices. Cow prices have strengthened over the last month as beef cow slaughter has begun to moderate. Dairy cow slaughter remains large relative to a year earlier.

Previous issues in the *Livestock, Dairy, and Poultry Outlook* series included an annual summary of the forces shaping the industry and how those forces were expected to affect the current year's outlook. Because timeliness was an issue, in 2003, instead of providing a separate report covering all the commodities later in the year, we are including summaries for the various commodities in the LDP monthly newsletter as information becomes available. In the March issue, we provided summaries for dairy, beef trade, and pork trade. The April issue contains summaries for the domestic beef, domestic pork, sheep, and poultry. Access these annual summaries on the *Livestock, Dairy, and Poultry Outlook* page, http://www.ers.usda.gov/publications/ldp/.

2002 Perspective--Drought Resulted in Record Beef Supplies, Lower Prices

Drought conditions expanded in 2002 and marked the fourth consecutive year of dry conditions for many cattle producers. Many producers have had to contend with drought to some extent during 1999-2002. Grazing conditions deteriorated and forage supplies became increasingly dear for many producers. The industry entered 2003 with continued drought conditions through the winter in parts of the country and the eighth year of herd reductions.

Feed Costs Remain Favorable, Forage Supplies Decline

Weather in most of the country was unusually mild in 2002, but below-average precipitation led to worsening drought conditions for much of the country. Timely rains in July and August prevented the drought from becoming more widespread in the Corn Belt. Moisture conditions the Southern Plains improved in 2002 and conditions in the East Coast improved late in the year. However, drought conditions remained well entrenched in the Northern Plains and Western States throughout 2002.

Corn prices remained below year-earlier levels for much of 2002, but prices began to rise as drought conditions reduced yields. Total feed grain production fell by more than 4 percent, the second year of declining production. The farm price of corn in 2001/02 remained under $2 a bushel, averaging $1.97, up from $1.85 in 2000/01. Prices moved above a year earlier in late summer and fall. Although grain prices remained relatively supportive for livestock producers, grazing/forage conditions continued to deteriorate for much of the year.

Grazing conditions were relatively poor in most areas in 2002, although conditions in the Southern Plains were much improved. Similarly, hay production declined 4 percent from 2001 to the smallest harvest since 1996. Hay disappearance in the May/November period was up sharply reflecting the dry spring and summer conditions limiting pasture and extending the hay feeding period in the Northern and Central Great Plains, Southeast, and much of the West. Hay stocks on December 1 were down 6 percent from a year earlier. Forage conditions improved in the Southeast in early fall and remained good in the Southern Plains with the best fall small grain grazing conditions in several years. Rebuilding grazing conditions and hay stocks will be paramount to slowing the rate of herd reduction in 2003.

Herd Decline Continues

Cattle inventories continued to decline, but the rate of decline has been relatively moderate over the past 2 years. Periodic drought in some areas and continued drought in others has limited the industry's forage resources, forcing cow slaughter to remain relatively high. Consequently, the industry has had difficulty stabilizing, much less beginning to expand. Cattle and calves on January 1, 2003, totaled 96.1 million head, down less than 1 percent from a year earlier, but down over 7 percent from the 1996 cyclical peak of 103.5 million head. 2002 marked the seventh year of herd liquidation in this cycle, which began in 1990 at 95.8 million head. The present high cow slaughter and continued drought in many areas will almost certainly extend even the beginning stages of expansion beyond 2003. Forage supplies remain very tight and water supplies for livestock are uncertain in many regions. Rebuilding the forage base, and for many producers the financial base, even with stronger cattle prices, is likely to be slow.

Feeder Cattle Supplies Tighten, On-Feed Inventories Down

Cattle-on-feed inventories started 2002 down 2 percent from a year earlier and finished the year down over 8 percent from January 1, 2002. Although feedlot placements declined 2 percent, fed cattle marketings rose 1 percent as feeding conditions were extremely favorable for feedlot gains, particularly when compared to the very poor feeding conditions in the first half of 2001. Feeder cattle supplies were bolstered by continued low heifer retention for herd expansion and extremely dry conditions in Canada resulting in poor forage conditions and sharply reduced crop production. Fewer U.S. feeder cattle were exported to Canada in 2002 due to their reduced feed grain supplies, and more feeder cattle were imported by the United States from Canada. Both factors helped hold up feeder cattle supplies, resulting in continued large feedlot placements. (See Beef and Cattle Trade Summary article, March issue)

Record Dressed Weights and Herd Liquidation Results in Record Production

Although cattle slaughter rose 1 percent in 2002, beef production was record large, up nearly 4 percent from a year earlier. Production was supported by heavier dressed commercial slaughter weights--up 20 pounds from the weather-stressed levels in 2001. Steer slaughter rose over 2 percent, aided by the increase in net imports of feeder cattle, primarily steers. Heifer slaughter was about unchanged from a year earlier, even as cattle inventories continued to decline. Cow slaughter remained large, about unchanged from a year earlier, with beef cow slaughter down 1 percent and dairy cow slaughter up 1 percent.

Veal production rose less than 1 percent. Calf slaughter increased nearly 4 percent. Production was held down by a 5-pound drop in commercial dressed carcass weights, due to the increased proportion of lighter bob veal calves in the mix. Stronger demand for stocker/feeder cattle would normally bid more of these calves out of the veal slaughter market.

Retail Beef Prices Under Pressure of Large Beef and Other Meat Supplies

Cattle and boxed beef prices, while below the record levels of 2001, remained strong. Retail prices for Choice beef averaged $3.32 per pound, down from $3.38 in 2001 when poor weather conditions held down production, but still the second highest on record. Beef consumption rose 1.5 pounds to 67.9 pounds per capita (retail weight) in 2002, while total red meat and poultry consumption rose 7 pounds to 221 pounds per capita. Although beef exports increased from the depressed 2001 levels of 2,269 million pounds, they only rose to 2,447 million pounds, near the levels of 1999 and 2000.

Cattle Prices Decline

All cattle prices were under the pressure of weather uncertainties and large meat supplies in 2002. Fed cattle prices in Nebraska averaged $67.04 per cwt in 2002, with the largest year-to-year declines occurring in the first half against the near record prices of 2001. Prices strengthened late in the year as feedlot inventories moved below year-earlier levels. Feedlot returns also turned positive in late summer.

Stocker/feeder cattle prices have remained under pressure of poor forage conditions and constraint due to large feedlot losses since late spring 2001. Prices for 750- to 800-pound feeder steers averaged $80 per cwt in 2002, down over $8 from a year earlier. Yearling prices averaged about $13 per cwt over fed cattle prices, down from a $16 spread in 2001 and about $17 in 2000.

Utility cow prices averaged near $39 per cwt, down about $5 as drought continued to force more cows to slaughter. Drought in Australia and reduced demand for beef in Japan also resulted in continued larger imports of processing beef.

Future Implications

Cattle inventories are expected to continue declining in 2003. If forage conditions begin to improve this spring and summer, inventories may begin to stabilize in 2004. Inventories are not likely to begin to rise before 2005, with production beginning to rise in 2006. With production continuing to decline for the next couple of years cow-calf production should remain profitable as forage conditions improve and increased heifer retention begins. However profitability in the cattle-feeding sector will be under pressure of strong demand for feeder cattle and higher feeder cattle prices. Although beef demand, particularly for higher quality beef, is expected to remain strong, increased production from competing meats will hold down retail beef price gains.

Sheep: 2002 in Review and Perspectives on 2003

Sheep inventory and lamb and mutton production declined further in 2002, despite efforts to rebuild the herd through the Lamb Industry Improvement Program, and the re-institution of the wool payment program. Drought conditions in the major sheep-producing regions contributed to an even greater decline in inventory than in recent years, despite the rebuilding effort.

Production Down and Prices Stable

Commercial lamb and mutton production in 2002 fell to 218 million pounds, a decline of 5 million pounds from 2001. Despite lower production, sheep and lamb slaughtered in 2002 exceeded the previous year's slaughter by 64,200 head. In 2002, there was less of a problem with overweight lambs than in 2001. This was evidenced by the lower average live and dressed weights in 2002. On average, live slaughter animals were more than 7 pounds lighter while dressed animals were nearly 2 pounds lighter than in 2001.

Despite low production throughout 2002, prices were steady. Choice slaughter lamb prices at San Angelo averaged $72.31 per cwt, up 27 cents per cwt from the previous year. Prices ranged from $64 per cwt to about $87 per cwt and the price variability was less than the previous year. The lowest prices were seen in the first half of 2002. As supplies tightened in the third and fourth quarters, prices increased considerably. The West Coast dock strike in late September and early October may have contributed to the price increase in the second half of the year, as lamb and mutton imports from Australia and New Zealand were below normal during this period.

Lamb and Mutton Trade Gap Continues To Widen

The lamb and mutton trade gap continued to widen with net imports totaling 155 million pounds in 2002. Lamb and mutton imports were 162 million pounds, up 11 percent from the previous year and double from 1997. U.S. lamb and mutton imports have surged for the last several years, largely to offset decreased lamb and mutton production. Australia and New Zealand supply 99 percent of all imported lamb and mutton to the United States. Imports of lamb and mutton from Australia and New Zealand increased by 0.5 percent and 23 percent over 2001. Australia experienced drought conditions, which resulted in flock liquidation and hindered their production of heavy prime lamb geared for the U.S. market.

On the other hand, U.S. exports of lamb and mutton in 2002 were 7.1 million pounds, up 7.4 percent over the previous year. Persistent drought conditions in the Western States resulted in higher than normal selloff and slaughter of breeding ewes, especially in the summer and early fall of 2002, which meant increased mutton exports. Mexico was the main recipient of U.S. exports of lamb and mutton.

Live Sheep Trade Gap Narrows

The United States remained a net exporter of live sheep in 2002, though the live trade gap is narrowing. Net exports decreased by 32,848 head or 11 percent to 266,543 head, a decline for 5 straight years. Interestingly, over those 5 years, both live sheep exports and imports have increased, but the rate of live import increase far outweighs the rate of live sheep export increase. In 2002, live sheep exports increased by 21,272 head, or about 6 percent, while live imports increased by 54,120 head or about 64 percent. Imports come primarily from Canada and are mainly slaughter lambs while exports go mainly to Mexico and are culled ewes. Most of the lambs from Canada go to U.S. slaughter facilities to utilize excess capacity. Mexico is an attractive market for U.S. culled ewes, which are a source of cheap protein.

Programs for Sheep Producers

The sheep industry has been involved in a number of improvement efforts. Among them is a 3-year, $100 million, Lamb Industry Assistance Package, instituted by USDA in January 2000 to help the industry rebuild herds so as to better compete in the global economy. The package included four major elements: direct payments to producers; animal health; marketing and promotion; and government purchase of lamb meat. The assistance package was designed to create a sheltered period during which the domestic lamb industry could make positive adjustments to import competition.

As part of the Lamb Meat Adjustment Payments, producers were provided with a ewe lamb incentive payment. The incentive payments were to help ewe lamb producers who were suffering financial losses from the poor market conditions. Eligibility required that producers purchase or retain new lambs to expand their herd from August 1, 2001, to July 31, 2003.

The Agricultural Marketing Service issued a final rule, effective April 12, 2002, on establishing a national industry Lamb Promotion, Research, and Information Order, under the commodity Promotion, Research, and Information Act of 1996. The Order provides for the industry-funded lamb promotion, research, and information program. The program will provide for an industry board to carry out promotion, research and information programs, designed to increase the demand for lamb and lamb products. Under the program, lamb producers, seed-stock producers, feeders, and exporters will pay an assessment of one-half cent per pound when live lambs are sold. The first handlers, primarily packers, will pay an additional 30 cents per head of lamb purchased for slaughter.

Also, with the signing of the new Farm Security and Rural Investment Act of 2002 on May 3, 2002, a wool and mohair program was re-instituted. The new program provides nonrecourse market assistance loans for the 2002 through 2007 crop years for wool and mohair. The loan rates are $1.00 per pound for graded wool and $0.40 per pound for non-graded wool in the form of unshorn pelts. This provides an opportunity for producers to procure loans at reasonable rates using the wool they produce as collateral.

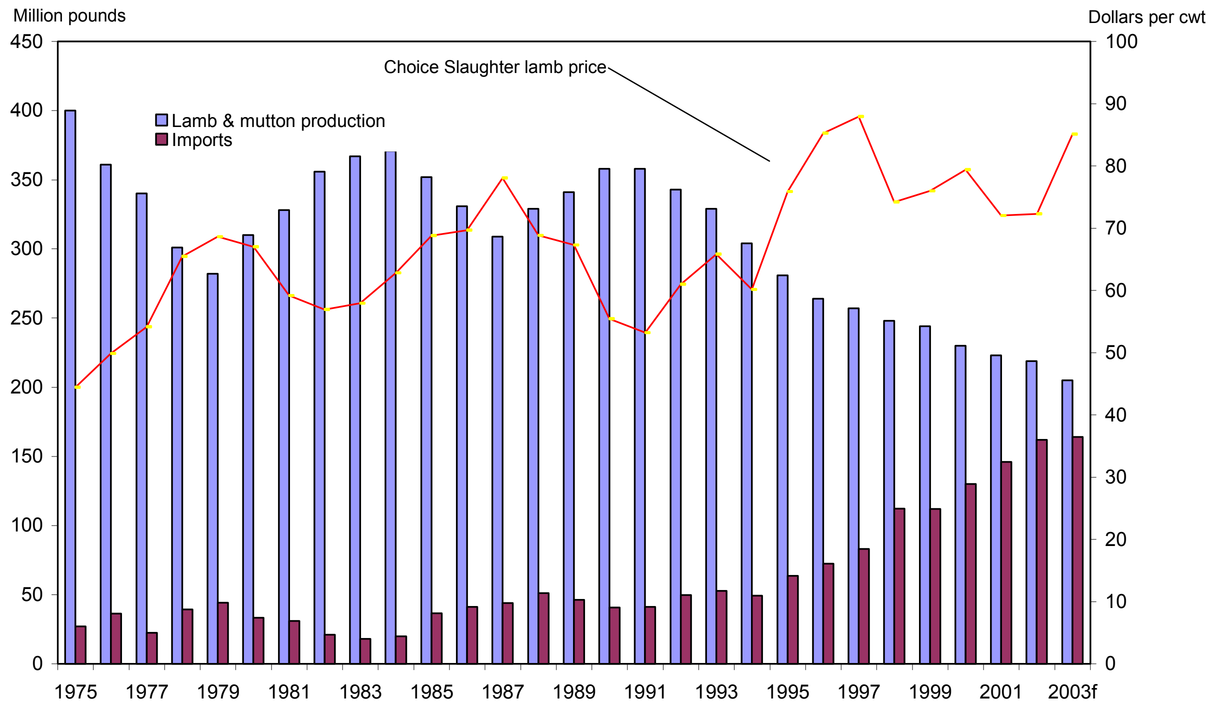
Outlook for 2003

The U.S. sheep industry is forecast to continue its long-term trend of declining lamb and mutton production, with an expected drop of nearly 8 percent in 2003. Fairly stable U.S. lamb demand, coupled with low supply from Australia, the largest supplier to the U.S. market, will continue to support lamb prices. Lamb prices in 2003 are expected to average $83-$85 per cwt, compared with $72 last year.

After declining by 5 percent from the previous year to an estimated 6.35 million head in January 1, 2003, sheep numbers are projected to continue to decline throughout 2003. The drought conditions of 2002 will continue to delay flock rebuilding efforts.

Imports are expected to increase by nearly 2 percent. The slowdown in the rate of increase over the past 2 years (12.5 percent in 2001 and 11.2 percent in 2002) is largely due to the drought conditions in Australia throughout much of 2002. This resulted in stock liquidation in Australia and the inability to produce extra-heavy lambs for the U.S. market. As a result, even with improved weather conditions in 2003, it will be difficult for Australia to rebuild its stock in time to significantly increase its depressed supply. Australia supplies nearly 60 percent of the lamb and mutton imported into the U.S.

Production, imports, and Choice slaughter lamb prices, 1975-2003



Monthly Lamb and Mutton, 2001 and 2002

	Mean		Minimum		Maximum		Coefficient of Variation	
	2001	2002	2001	2002	2001	2002	2001	2002
Prices								
Prices received by farmers for lamb ($/cwt)	67.56	73.34	51.4	64.4	84.3	87.2	18.29	10.05
Slaughter lambs, Choice price, San Angelo ($/cwt)	72.04	72.31	54.47	64	87	86.88	16.85	9.85
Production								
Commercial sheep and lamb slaughter (1000 head)	269	274	233	231	329	324	10.15	8.26
Commercial lamb and mutton production (million pounds)	18.58	18.16	16	15.1	23	22.2	10.64	9.74
Avg. dressed wt. of sheep and lambs slaughtered (pounds)	70.33	67.58	68	64	72	70	1.77	3.28
Imports								
Lamb imports from Australia (million pounds)	5.648	5.675	3.771	3.941	8.252	9.598	22.98	24.39
Lamb imports from New Zealand (million pounds)	3.298	4.042	1.801	3.078	5.023	5.011	29.53	15.78
Total lamb imports (million pounds)	9.014	9.751	5.606	7.065	12.146	14.668	22.61	19.26
Exports								
Total lamb and mutton exports (1000 pounds)	543.33	591.75	226	269	893	998	33.96	35.21

Implications of Russia's New Poultry Import Quotas

The Commission for Protective Trade Measures in the Russian Ministry of Economic Development and Trade (MEDT) has recommended that a number of restrictive measures be imposed on meat imports starting in April 2003 and lasting for 3 years. Included in these measures was a proposal to impose an absolute quota on poultry meat imports. Beef and pork tariff-rate quotas (TRQs) took effect on April 1. Reportedly, the poultry quotas are due to take effect on May 1, but the date has been quite fluid. The original date for implementation of the poultry quota was February 15, and it was then delayed to April 1.

Russia is one of the world's largest poultry meat importers, partly because falling incomes after reforms made in the 1990s led consumers to increasingly substitute lower priced poultry for beef and pork. In 2002, the retail supermarket price of frozen poultry in Moscow was $2.74/kg, about half the price of beef or pork.

Although the financial crisis of 1998 caused a temporary interruption in the flow of poultry exports to Russia, since 1997 Russia has been one of the most important destinations for U.S. poultry meat exports, particularly leg quarters. Roughly 80 percent of Russian poultry imports came from the United States in 2001, totalling a record 1.1 million metric tons (mt), and valued at $666 million. Exports to Russia generated 32 percent of total U.S. value of poultry meat exports in 2001.

Because Russia is one of the largest destinations for U.S. poultry products, the quota could significantly affect U.S. poultry exports and prices.

The New Policy Details

The import restrictions impose a 1.05 million mt annual import quota on poultry meat, and TRQs on beef and pork of 420,000 and 450,000 mt. Above-quota tariff rates rise from 15 to 60 percent for beef, and to 80 percent for pork. The restriction on poultry is a strict quantity quota.

The quotas would be set at roughly two thirds of Russia's 2002 meat imports:

Proposed quotas and 2002 total imports

	Beef	Pork	Poultry
	(1,000 mt)		
Proposed quota:	420	450	1,050
2002 Imports	730	800	1,515
Quota as % of 2002 imports	58%	56%	69%

Source: Interfax and USDA

The restrictive poultry quota will be in place for 3 years from the date of implementation. For the remainder of 2003, the annual 1.05-million-mt quota is prorated to 744,000 mt. The poultry quota was proportioned among traditional exporters according to their share of total poultry exports to Russia from 1999 to 2001. According to this formula, the United States was awarded about 74 percent of the quota, while the EU and Brazil received approximately 19 and 4 percent.

Size of import quota for poultry meat
Quota levels (1,000 mt)

	From April 29, 2003, to December 31, 2003	From January 1, 2004, to December 31, 2004	From January 1, 2005, to December 31, 2005	From January 1, 2006, to April 29, 2006
Poultry Meat	744	1050	1050	306

Source: Interfax

Distribution of import quota for poultry meat among exporting countries in 2003

Country (union of countries)	Size of 2003 import quota	
	Poultry meat (1,000 mt)	Quota Shares (%)
United States	553.5	74%
European Union	139.9	19%
Brazil	33.3	4%
China	3.1	0.4%
Other	14.2	1.9%

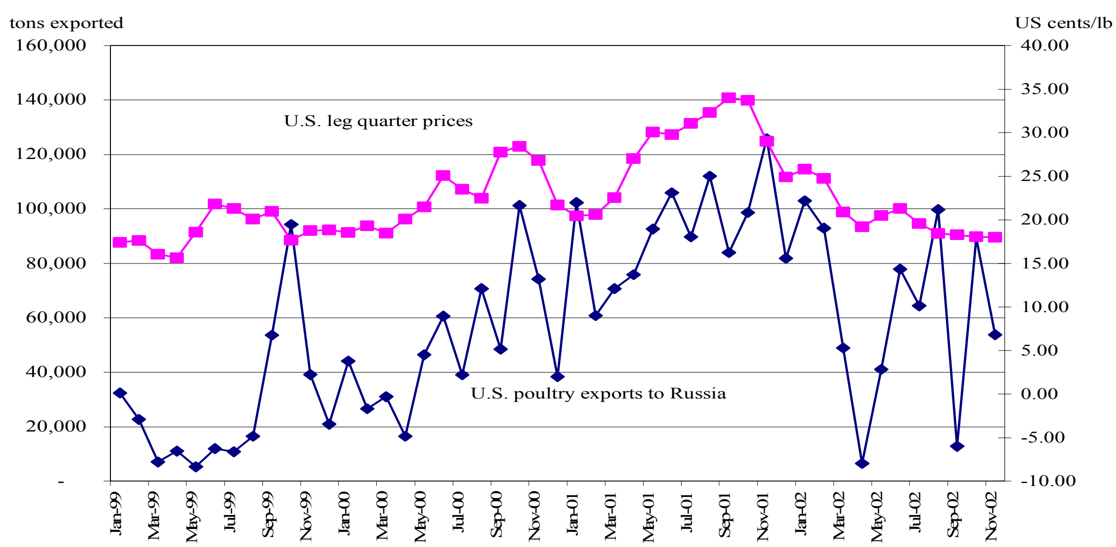
Source: Interfax

Effects of Quota on U.S. Poultry Market

Some understanding of the potential implications of a Russian quota on the U.S. poultry industry can be gleaned from the poultry market's response to the ban Russia imposed on imports of poultry from the United States in 2002. Russia banned imports of poultry from the United States in March 2002, claiming that U.S. poultry products contain substances (mostly antibiotics) that are forbidden by Russian veterinary requirements. The ban was ostensibly lifted in April, but licenses for imports of "new sales" were not granted until September 15, when negotiations on the veterinary requirements necessary for import were concluded. Part of the negotiated agreement was that Russian veterinary experts would visit U.S. poultry plants and certify them for export to Russia. Reportedly, only 86 plants were inspected in the November 2002 round of inspections, and of these only 15 were added to the list of plants allowed to export to Russia. Because of the ban, the United States exported only 721,000 mt of poultry meat to Russia in 2002, versus 1.1 million mt in 2001.

Prices of U.S. leg quarters have been strongly tied to export sales to Russia. In recent years (from 1999 to the present), for every 10-percent change in Russian poultry imports, domestic leg quarter prices changed in the same direction by approximately 1.5 percent. Furthermore, the response of prices to exports to Russia accounts for 35 percent of the variation in prices of domestic leg quarters. The ban in March 2002 significantly reduced sales to Russia and leg quarter prices fell accordingly (see chart). Quotas restricting the volume of U.S. exports to 553,500 mt for May-December 2003, and about 780,000 mt in 2004 and 2005 (assuming the United States is awarded the same proportion of the quota as in 2003) could continue to put downward pressure on U.S. leg quarter prices, which have not yet fully recovered from the effects of the 2002 ban.

Domestic leg quarter prices follow exports to Russia



Longer Term Effects Less Certain

The future course of poultry exports to Russia will depend on how the quotas affect the Russian domestic market. There are two main effects that the quotas will have, a near-term price effect and a longer-term supply response effect.

In the near term, the quotas will restrict the total domestic supply on the market in Russia and prices will rise. ERS analysis indicates that a quota that restricts the supply of poultry meat on Russian markets would raise the price of poultry meat in Russia by 30 percent. However, supply shortages could be tempered by a number of factors. Ukraine, which has been a significant beef supplier to Russia in the past, will not be subject to the higher above-quota tariffs for beef and pork because it is a member of the Commonwealth of Independent States, which is exempt from the TRQs and poultry quota. Consequently, price growth for poultry could be tempered as Russian consumers switch to beef imported from Ukraine. However, in price terms beef from Ukraine is a poor substitute for U.S. poultry. In 2002, the price of beef imported from Ukraine was $1.44/kg, while the price of poultry from the United States was $0.56/kg.

Over the longer term, Russian poultry production will likely be stimulated in response to the price increase. The degree of supply response will determine to what extent domestic prices will change. Predicting the supply response of the poultry sector in Russia is problematic. The technology for efficient poultry production is easily transferable, and the production cycle is much shorter than for other livestock products. The short production cycle makes short-term credit financing easier to secure, which is important in developing and transition economies where credit markets function poorly. Despite these advantages, poultry production in Russia has been surprisingly unresponsive to the favorable market conditions caused by the market reforms implemented in the early 1990s.

What is different now that might allow expansion in the Russian poultry sector? In the early 1990s, Russia's overall economy and the agricultural sector in particular were in steep decline. Investment, particularly in livestock production, was non-existent. The poultry sector was largely geared toward egg production, so that domestic poultry supplies were composed mostly of spent hens. To reorient the poultry sector toward broiler production, the poultry sector needed investment. The necessary investment is now possible, since Russia's economy has posted solid income growth for three straight years, the first time this has happened since reforms began in 1992.

While investors remain cautious because they recall that the optimism accompanying the GDP growth of 1997 was immediately followed by the financial crisis of 1998, some recent investment has gone into the poultry sector as a result of vertical integration. New large agro-food enterprises are developing in Russia, funded by capital from other highly profitable sectors, like oil and aluminum. These enterprises (called "agri-holdings") are vertically integrated, meaning the investors buy assets throughout the production chain, from broiler production through wholesaling to the final retail outlets. Since the agri-holdings are probably taking advantage of unusually profitable opportunities restricted to areas near large urban centers like Moscow and St. Petersburg, it is unlikely that the aggregate contribution to investment in the agricultural sector will be large. However, one of these profitable opportunities is in domestic poultry production, so the contribution of agri-holdings in the poultry sector may be significant. The 13-percent and16-percent growth in domestic broiler production in 2001 and 2002, respectively, following a decade of decline in the 1990s, indicates that domestic supply could respond favorably to trade intervention.

Contacts and Links

Contact Information		
Leland Southard (coordinator)	202-694-5187	southard@ers.usda.gov
David J. Harvey (poultry)	202-694-5177	djharvey@ers.usda.gov
Ron Gustafson (cattle)	202-694-5174	ronaldg@ers.usda.gov
Dale Leuck (beef trade)	202-694-5186	djleuck@ers.usda.gov
Keithly Jones (sheep and lambs)	202-694-5172	kjones@ers.usda.gov
Mildred Haley (hogs/pork)	202-694-5176	mhaley@ers.usda.gov
Jim Miller (dairy)	202-694-5184	jjmiller@ers.usda.gov
LaVerne Williams (statistics)	202-694-5190	lwilliam@ers.usda.gov
Laverne Creek (web publishing)	202-694-5191	lmcreek@ers.usda.gov
Donald Blayney (dairy)	202-694-5171	dblayney@ers.usda.gov
Fawzi Taha	202-694-5178	ftaha@ers.usda.gov

Subscription Information

Subscribe to ERS e-mail notification service at http://www.ers.usda.gov/updates/ to receive timely notification of newsletter availability. Printed copies can be purchased from the USDA Order Desk by calling 1-800-999-6779

Related Article

The following are links to recent articles (in Adobe Acrobat format).

Economic and Structural Relationships in U.S. Hog Production
http://www.ers.usda.gov/publications/aer818/ The hog industry is becoming increasingly concentrated among fewer and larger farms, and becoming more economically efficient. Of paramount concern are increasing market control and power concentrated among packers and large hog operations, and the manure management problem posed by an increasing concentration of hog manure on fewer operations. Addressing these concerns through regulations would likely increase costs to consumers, and could result in significant changes in the location of hog production facilities, with ripple effects in local economies. William D. McBride, (202) 694-5577 and Nigel Key, (202) 694-5567).

Data

Retail Price Reporting for Meat
http://www.ers.usda.gov/Data/Meatscanner/ A new ERS database contains monthly average retail prices for selected cuts of red meat and poultry, based on electronic supermarket scanner data. While not based on a random sample, the raw data underlying the database are from supermarkets across the United States that account for approximately 20 percent of U.S. supermarket sales. Leland Southard, (202) 694-5187.

Web Sites

Cattle, http://www.ers.usda.gov/briefing/cattle/
Hogs, http://www.ers.usda.gov/briefing/hogs/
Poultry and Eggs, http://www.ers.usda.gov/briefing/poultry/
Dairy, http://www.ers.usda.gov/briefing/dairy
WASDE, http://www.usda.gov/oce/waob/wasde/latest.pdf

Red meat and poultry forecasts

	2001		2002					2003				
	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
Production, million lb												
Beef	6,700	26,107	6,377	6,833	7,097	6,783	27,090	6,285	6,900	6,775	6,175	26,135
Pork	5,239	19,138	4,780	4,797	4,832	5,255	19,664	4,900	4,700	4,710	5,190	19,500
Lamb and mutton	59	223	58	54	50	56	218	49	53	51	53	206
Broilers	7,863	31,266	7,819	8,234	8,251	7,936	32,240	7,725	8,150	8,200	8,100	32,175
Turkeys	1,454	5,562	1,378	1,441	1,412	1,482	5,713	1,350	1,425	1,425	1,475	5,675
Total red meat & poultry	21,492	83,006	20,589	21,543	21,837	21,700	85,669	20,484	21,403	21,335	21,164	84,386
Table eggs, mil. doz.	1,563	6,074	1,506	1,518	1,551	1,573	6,148	1,510	1,520	1,555	1,580	6,165
Per capita consumption, retail lb 1/												
Beef	16.3	66.2	16.2	17.6	17.4	16.7	67.9	15.8	17.8	17.2	14.8	65.5
Pork	13.5	50.2	12.4	12.7	12.8	13.8	51.7	12.6	12.3	12.4	13.4	50.6
Lamb and mutton	0.3	1.1	0.3	0.3	0.3	0.3	1.2	0.3	0.3	0.3	0.3	1.1
Broilers	18.8	76.6	19.3	20.9	20.7	20.0	80.8	19.3	20.1	20.1	19.7	79.3
Turkeys	5.6	17.5	3.5	3.9	4.4	5.9	17.8	3.7	3.9	4.3	5.8	17.6
Total red meat & poultry	54.9	213.3	52.3	55.8	56.1	57.2	221.4	52.2	54.8	54.7	54.4	216.1
Eggs, number	64.5	252.6	62.6	62.9	64.3	64.8	254.6	62.2	62.3	63.8	64.7	253.1
Market prices												
Choice steers, Neb., $/cwt	65.13	72.71	70.19	65.58	63.29	69.10	67.04	77.82	73-75	72-78	74-80	74-78
Feeder steers, Ok City, $/cwt	85.37	88.20	81.24	76.96	78.87	83.08	80.04	78.38	82-86	85-91	88-94	83-87
Boning utility cows, S. Falls, $/cwt	39.23	44.39	41.56	42.28	37.69	35.69	39.23	40.32	44-46	44-48	43-47	43-45
Choice slaughter lambs, San Angelo, $/cwt	62.76	72.04	66.62	66.00	74.60	83.00	72.31	88.50	84-86	80-86	79-85	83-87
Barrows & gilts, N. base, l.e. $/cwt	37.30	45.81	39.43	35.03	33.86	31.34	34.92	35.38	39-41	40-42	36-40	38-40
Broilers, 12 City, cents/lb	58.50	59.10	56.00	56.10	56.40	53.70	55.60	60.30	61-63	61-65	60-64	60-63
Turkeys, Eastern, cents/lb	71.40	66.30	60.00	62.90	66.70	68.20	64.50	61.10	63-65	66-70	71-77	65-68
Eggs, New York, cents/doz.	68.20	67.20	69.10	58.40	65.30	75.40	67.10	77.20	67-69	68-72	77-83	72-76
U.S. trade, million lb												
Beef & veal exports	610	2,269	572	601	662	612	2,447	600	645	640	615	2,500
Beef & veal imports	689	3,164	737	934	839	708	3,218	790	910	840	725	3,265
Lamb and mutton imports	36	146	48	44	32	38	162	41	46	36	42	165
Pork exports	403	1,560	382	416	401	415	1,614	405	425	400	430	1,660
Pork imports	263	951	235	262	275	299	1,071	250	270	275	285	1,080
Broiler exports	1,402	5,555	1,204	1,119	1,257	1,219	4,800	1,250	1,250	1,300	1,325	5,125
Turkey exports	123	487	129	107	100	103	439	115	110	115	130	470

1/ Per capita meat and egg consumption data are revised, incorporating a new population series from the Commerce Department's Bureau of Economic Analysis based on the 2000 Census.

ECONOMIC INDICATOR FORECASTS 1/

	2001		2002					2003				
	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
GDP, chain wtd (bil. 1996 dol.)	9,248	9,215	9,363	9,388	9,465	9,503	9,436	9,554	9,619	9,701	9,786	9,672
CPI-U, annual rate (pct.)	-0.4	1.9	1.4	3.4	1.9	2.4	2.3	2.5	2.1	2.0	2.2	2.2
Unemployment (pct.)	5.6	4.8	5.6	5.9	5.7	5.9	5.8	6.0	6.0	5.9	5.7	5.9
Interest (pct.)												
3-month Treasury bill	1.9	3.4	1.7	1.7	1.6	1.3	1.6	1.2	1.3	1.5	1.8	1.4
10-year Treasury bond yield	4.8	5.0	5.1	5.1	4.3	4.0	4.6	4.0	4.2	4.4	4.6	4.3

1/ Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, February 2003.

DAIRY FORECASTS

	2001		2002					2003				
	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
Milk cows (thous,)	9,106	9,114	9,112	9,149	9,153	9,148	9,141	9,155	9,130	9,090	9,060	9,110
Milk per cow (pounds)	4,497	18,158	4,653	4,811	4,566	4,543	18,573	4,695	4,865	4,625	4,660	18,845
Milk production (bil. pounds)	40.9	165.5	42.4	44.0	41.8	41.6	169.8	43.0	44.4	42.0	42.2	171.7
Commercial use (bil. pounds)												
Milkfat basis	43.8	169.6	40.7	42.1	43.8	43.8	170.5	41.1	43.5	44.0	44.9	173.5
Skim solids basis	41.1	163.8	39.3	40.6	42.3	41.2	163.4	39.7	41.7	42.9	42.4	166.7
Net removals (bil. pounds)												
Milkfat basis	0.0	0.1	0.1	0.1	0.1	0.1	0.3	0.3	1.0	0.2	0.1	1.7
Skim solids basis	1.3	5.8	2.7	3.5	2.1	1.5	9.8	3.1	3.0	1.2	1.2	8.5
Prices (dol./cwt)												
All milk 1/	14.50	14.97	13.07	12.10	11.37	11.93	12.12	11.37	10.45-10.85	10.65-11.35	11.45-12.45	11.00-11.50
Class III	12.57	13.10	11.38	10.59	9.59	10.10	10.42	9.52	9.15-9.55	9.45-10.15	9.95-10.95	9.55-10.05
Class IV	12.18	13.76	11.63	10.73	10.36	10.52	10.81	9.89	9.50-10.00	9.65-10.45	9.80-10.90	9.70-10.30

1/ Simple averages of monthly prices. May not match reported annual averages.