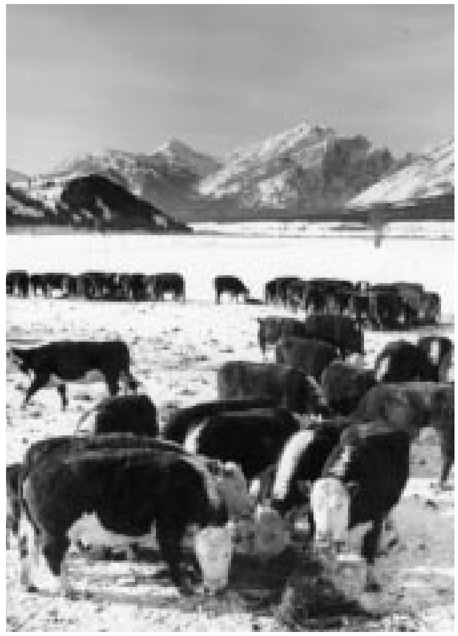
In This Issue . . .

World Beef Trade . . . the Changing Pork Industry . . . Meat Price Spreads . . . & Farm Real Estate Values

What Is Influencing World Beef Trade Patterns?

Increases in global incomes and a more liberalized trading environment have contributed to substantial growth in international beef trade over the past 15 years. Beef exports among the major traders are projected at 4.8 million tons in 1997, up 45 percent from 1980. Changing production, marketing, political conditions, and health and sanitary trade barriers have played an important role in the evolution of beef markets. These factors are likely to continue to exert a strong influence on meat production and trade patterns as meat trade continues to expand through the next decade. Global per capita consumption of beef is projected to increase through 2005 as meat demand rises in countries with rapidly industrializing and transition economies.



Interpreting Meat Industry Price Spreads

The farm-to-retail price spread for pork reached a record $1.62 per pound in October, attracting renewed attention to the difference between farm and retail meat prices. Current price spreads for Choice beef and broilers, although not at record levels, are also relatively high. Over time, nominal price spreads tend to widen as inflation increases the costs of marketing, processing, and retailing. Yet the most compelling feature of meat price spreads for Choice beef, pork, and broilers is that, when adjusted for inflation, they have remained fairly constant or even decreased slightly over the past three decades.

By examining price spreads and their components, the timeliness and completeness of price adjustments among marketing levels, as well as variations in marketing spreads, can be monitored over time. For beef and pork, the farm-to-retail spread has two main components: farm to wholesale and wholesale to retail. Deflated farm-to-retail spreads for both pork and Choice beef are driven by strong downward-trending *farm-to-wholesale spreads*, which more than offset changes in *wholesale-to-retail spreads* over the past three decades.

Value of Farm Real Estate Up Again in 1997

Agricultural real estate values in the U.S. continued to climb during 1996. USDA's estimate for the national average value of all agricultural real estate (land and buildings) as of January 1, 1997 is $942 per acre, up 5.8 percent from a year earlier—3.8 percent in inflation-adjusted terms. Several states showed double-digit growth. The increase in agricultural real estate values during 1996 marks the 10th consecutive year that values have risen since the national average bottomed out in 1987.

USDA's Economic Research Service (ERS) has been studying agricultural land values in order to determine the influences of agricultural and nonagricultural factors. Among the most influential agricultural factors are growing conditions and capital investments, including irrigation. Among nonfarm factors, the demand for farmland in urban and urbanizing areas is the predominant influence on farmland values. Not surprisingly, the relative influences of these and other factors vary among different regions of the country.

Cattle Cycle Unlikely to Turn Before 2000

The much-anticipated turn in the cattle cycle—when the nation's cattle herd will again begin to expand—appears unlikely to occur before 2000. For the second year in a row, disappointing pasture or range conditions and record-high hay prices led producers to retain fewer heifers for summer breeding than they had anticipated at the start of the year. Heifer slaughter for the first 9 months of 1997 was at a near-record pace. Although beef cow slaughter has been down since spring and is expected to decline even further over the next couple of years, without retention and breeding of larger numbers of heifers, beef cow numbers—and calf crops—will continue to decline at least through 1998, delaying expansion in the cattle herd until after the turn of the century.

Consumers May Benefit as Pork Industry Changes

How the hog industry is organized and how it does business ultimately affects consumers through prices and product selection. Production for the open market is being replaced by multi-year contracts and vertical integration (e.g., processors owning hog production facilities). These changing methods for transferring hogs from producers to packers can reduce packing costs and improve the quality of pork products for consumers.

Packers may reduce costs by obtaining a large, stable flow of hogs to minimize under- or overutilization of facilities, as well as by increasing control over the quality of hogs. Consumers stand to benefit through lower prices and/or an increased supply of higher quality pork products. ERS estimated potential benefits to consumers, in terms of leaner meat at lower costs, ranging from $60 to $693 million over one year, depending on the extent of change in industry organization and how much consumers were willing to pay for leaner products.