Commodity Briefs

Livestock, Dairy & Poultry

Lower Hog Inventory to Strengthen Prices In 1997

Hog producers continue to reduce their herds despite relatively favorable returns in 1996. The December 1, 1996, hogs and pigs inventory totaled 56.2 million head, the lowest December inventory since 1990. The market hog inventory, at 49.5 million head, was 4 percent below last year and the previous quarter.

Breeding hog numbers plunged to the lowest December on record. While June-November sow and boar slaughter declined sharply from a year earlier, it was not enough to offset a slowdown in additions to the breeding herd. The March 1 *Hogs and Pigs* report will be released on March 28. This report will provide indications of pork production for the remainder of the year.

Based on the market hog inventory, pig crops, and farrowing intentions reported in December, pork production should be about 17.1 billion pounds in 1997, about the same as in 1996. Lower per capita supplies (from population gains), along with continued moderate economic growth and an expected sharp increase in exports, are expected to boost average hog prices to $55-56 per cwt, about $2 higher than last year's average. Retail composite pork prices are expected to average 2-4 percent above last year's average of $2.21 per pound. The farm-retail spread widened to $1.36 per pound in 1996, compared with $1.28 in 1995. Spreads are expected to widen 3-4 percent further in 1997.

Total U.S. exports are expected to rise about 20 percent to 1.1 billion pounds in 1997, due largely to expected increases in shipments to Japan, Korea, Hong Kong, Mexico, and Russia. This follows a hefty gain in 1996. The U.S. exported 868 million pounds of pork during January-November 1996, 22 percent more than a year earlier, with Japan accounting for more than 80 percent of the increase.

Japan remains the preeminent U.S. customer, accounting for almost 55 percent of total U.S. pork shipments. The pattern of exports to Japan in 1996 was driven largely by WTO-sanctioned Safeguard (SG) mechanisms imposed by Japan. U.S. exports to Japan were up dramatically in the first half of 1996, in anticipation of the SG, and then receded after the SG was in place. The SG mechanisms will continue to be major factors in trade with Japan this year.

Japan protects domestic pork producers from significant import surges by using SG mechanisms to raise the minimum price of imported pork (*AO* June 1996). When the quarterly and/or annual SG is imposed, the minimum price of imported pork increases by 24 percent. Under certain conditions, the "Special" SG (SSG) can be imposed, which increases the existing import tariff on pork cuts from 4.8 percent to 6.4 percent.

U.S. Livestock and Poultry Products—Market Outlook

		Beginning stocks	Production	Imports	Total supply	Exports	Ending stocks	Consumption Total	Consumption Per capita	Primary market price
		Million lbs.							Lbs.	$/cwt
Beef	1996	519	25,526	2,079	28,124	1,872	377	25,875	67.7	65.21
	1997	377	25,482	2,125	27,984	2,045	400	25,539	66.2	65-69
Pork	1996	396	17,118	620	18,134	924	364	16,846	49.2	53.39
	1997	364	17,088	605	18,057	1,110	380	16,567	48.0	54-57
										c/lb.
Broilers*	1996	560	26,085	0	26,645	4,523	637	21,485	70.3	61.2
	1997	637	27,772	0	28,409	5,075	675	22,659	73.5	58-62
Turkeys	1996	271	5,400	0	5,671	437	328	4,906	18.5	66.5
	1997	328	5,559	0	5,887	495	300	5,092	19.0	65-70
		Million doz.								c/doz.
Eggs**	1996	11.2	6,358.3	5.4	6,374.9	257.9	8.6	5,246.5	237.1	88.2
	1997	8.6	6,600.0	4.0	6,612.6	280.0	12.0	5,410.6	242.3	81-86

Based on February 12, 1997 World Agricultural Supply and Demand Estimates.
*Cold storage stocks previously classified as "other chicken" are now included with broiler stocks. **Total consumption does not include eggs used for hatching.
See tables 10 and 11 for complete definition of terms.

Economic Research Service, USDA

Since the SG was imposed on July 1, 1996, U.S. pork exports to Japan have averaged about 32 million pounds (carcass weight) per month, compared with 51 million pounds per month in first-half 1996. Total pork shipments are expected to begin climbing again this spring when the SSG expires in April (after being in effect for 3 months) and shippers begin to anticipate the lifting of the annual SG on July 1. The SG will likely be reimposed in October.

U.S. imports of Canadian hogs surged to a record 280,000 head in October, impelled by relatively high U.S. prices. Following established seasonal declines, live hog imports were almost 226,000 head in November. Seventy-five percent of Canadian hogs imported are slaughter animals, while feeder pigs make up the balance.

Total U.S. imports were likely more than 2.8 million hogs in 1996, over 1 million above 1995. Relatively strong U.S. prices, favorable exchange rates, and low countervailing duties continue to provide strong incentives to trade. Imports from Canada are expected to climb higher this year.

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Beef Herd Downsizing Tightens Feeder Cattle Supplies

The January 1997 cattle inventory was down 2 percent from last year to 101.2 million head. The current cattle cycle began with 95.8 million head of cattle and calves in inventory on January 1, 1990, peaking in January 1996 at 103.5 million head. The cattle cycle typically is 7 to 10 years from one high point to the next. Cow slaughter is expected to drop sharply as spring grazing season approaches and to remain low for the next couple of years, setting the stage for yet another cattle cycle likely beginning about the turn of the century.

Cow and heifer herd downsizing started in mid-1995, with about 16 percent of the total cow herd slaughtered last year. Beef cow slaughter was up 24 percent, while dairy cow slaughter rose 6 percent. Steer slaughter in 1996 declined more than 2 percent, while heifer slaughter rose over 3 percent. The strong slaughter numbers suggest fewer heifers have been bred to calve in 1997. Heifer slaughter will remain large through winter, the result of 15 percent more heifers on feed on January 1, 1997 in the seven monthly reporting states. Steers on feed were down 3 percent.

Poor fall pastures and declining grain prices led to large feedlot placements this past fall. The increased placements and continued large calf slaughter (up 24 percent) will cause feeder cattle supplies to tighten and likely create very strong demand for feeder cattle this spring. The impact of tightening feeder cattle supplies will affect beef production in late 1997 and over the next couple of years. Tighter feeder cattle supplies should result in fed-cattle prices averaging above $70 per cwt by late 1997 and well into 1998.

Winter Storms Hit Western Milk Production

The December-January storms that hit the West could have a significant effect on U.S. milk production through most of 1997, although the disruptions could be short-lived and local. The potential impact is substantial because the areas most affected produce 15 to 20 percent of the national milk supply. The extent of damage to western milk production is unlikely to be known for several months.

Heavy precipitation occurred in Washington, Idaho, and Oregon in late December, causing mud problems, flooding, and snow-blocked roads. Some milk had to be dumped because of closed roads, and a number of cows were stressed. However, precipitation was normal in January and the episode passed with probably few persistent effects.

Many California milk producers may not be as fortunate as their northern counterparts. A series of heavy January rains covered most of central and northern California, causing flooding along rivers, and mud problems everywhere. Cows that were moved away from flooded farms probably were stressed considerably, but they represented less than 2 percent of the state's cow herd.

Widespread muddy conditions represent the greatest likely threat to milk production. Mud increases mastitis and other diseases and disrupts milking routines, as well as directly stressing cows. If the stress on the cows has been severe, the effects on milk production may last 6 to 12 months, leading to increased culling and lost milk per cow.

Flooding will also aggravate an already tight supply of dairy-quality alfalfa. Stored feed was destroyed, established alfalfa stands were damaged or destroyed, and reseeding probably will be delayed. Under normal conditions, the extent of the damage initially estimated would not have much effect on the regional feed situation. However, because supplies of good hay had been stretched even before the rains, some farmers may have to shift to lower quality hay.

Even as feeder cattle prices rise, fewer cattle will be available from Mexico, where drought over the past several years has sharply reduced the cattle inventory. Mexican producers are expected to rebuild their herds and retain steer calves for more weight gain before exporting them. Larger grain supplies at lower prices in Canada will result in continued expansion of cattle feeding activities there, and likely continued large shipments of slaughter cattle to the U.S.

Cattle slaughter continues to increase following the large second-half 1996 feedlot placements and seasonally large cow slaughter, but weights remain well below a year earlier. Many cattle are likely being marketed ahead of schedule, and light slaughter weights suggest supplies of Choice beef likely remain tight. Larger fed-cattle inventories will hold down prices near the mid-$60's per cwt in the first half of the year, about $2-$5 higher than a year earlier.

Export demand will hold an important key to fed-cattle price strength this spring. Exports to Japan are likely to remain sluggish until April 1 when the Japanese import tariff declines. In addition, overcoming the *E. coli* problem in Japan's food sector would help return U.S. beef exports to the strong levels that existed prior to mid-1996.

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