Briefs

Livestock, Dairy, & Poultry

Hog Producers' Returns Improve

U.S. hog producers are benefiting from the combination of a declining hog inventory that is reducing pork production and raising pork prices, and a booming economy that is fueling demand for meat products. Hog prices rallied in the last half of 1999, while feed costs remained relatively low, boosting producers' returns.

In 1999, hog prices generally climbed throughout the year from the low levels in December 1998, when prices were about the same as in 1970. Prices averaged $36 per cwt in fourth-quarter 1999, the quarterly high for the year and $14 over a year earlier. From December into February 2000, prices remained in the high $30's and low $40's, exceeding break-even (returns equal cash costs) for the first time since late 1997.

Producers began reducing breeding herds in late 1998, responding to low returns over that year, and continued reducing through 1999. The reductions ensure lower pork production in 2000 (with seasonal variations), higher hog prices, and a rise in producers' returns if feed costs continue low.

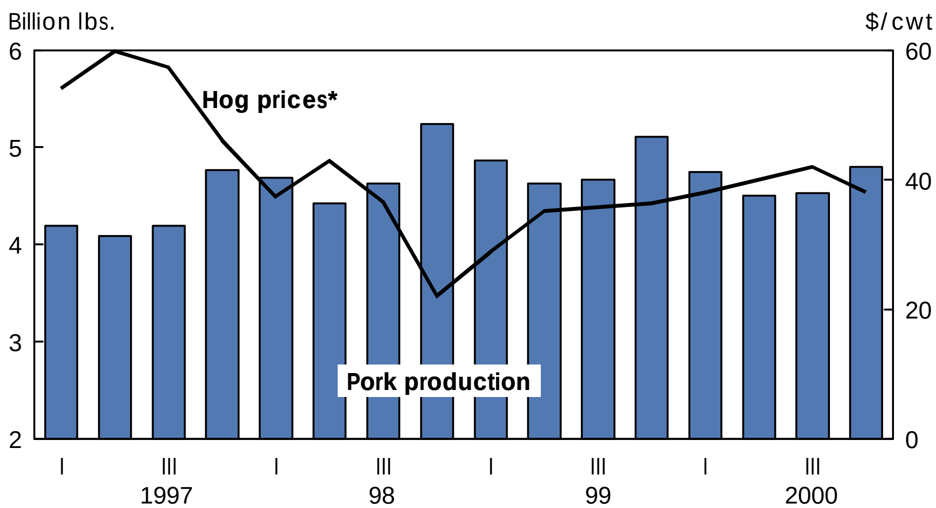
The December *Hogs and Pigs* report confirms the forecast of about 4 percent less pork production in 2000. Farrowing intentions reported for December-February were down 3 percent from a year earlier and the same as reported in September. Intended farrowings for March-May are down 5 percent from March-May 1999. Prospects for higher producers' returns have improved since the survey was taken because hog prices have risen about $3 per cwt.

With smaller pig crops, per capita pork consumption in 2000 will likely decline about 2.5 pounds from 1999. Hog prices are expected to continue to strengthen and average near $40 per cwt, compared with the mid-$30's in 1999. With continuing low feed costs, producers' returns are above break-even. In the past, 3 to 6 months of favorable returns generally led producers to decide to expand breeding herds. However, financial stress and structural changes over the past 2 years could alter this pattern. Once producers decide to expand, pork production usually begins to increase about a year later.

Based on the market hog inventory, pig crops, and farrowing intentions reported in December, pork production in 2000 is expected to total about 18.6 billion pounds, compared with a record 19.3 billion in 1999. The projected supply of slaughter hogs would suggest a larger decline in production, but heavier dressed weights will help moderate the decline.

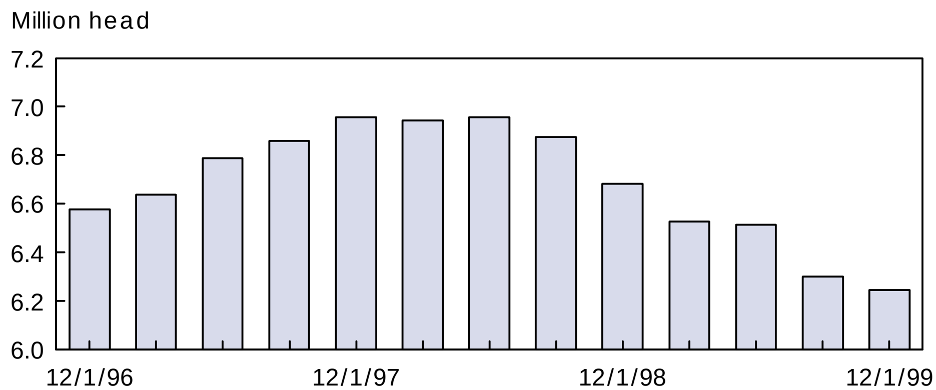
Hog prices began the first quarter of 2000 in the high $30's per cwt after averaging above previous expectations in December when meat product movement was exceptionally strong. However, prices may come under downward pressure later in the quarter, slipping from the low $40's expected in February, as food-away-from-home demand moderates after the winter holiday season and total meat production continues to rise. Pork belly prices have been extremely high, in part reflecting bacon demand from fast-food restaurants and lower supplies.

Hog Prices to Strengthen in 2000. . .



2000 forecast.
*Barrow and gilt national base converted to liveweight equivalent.

. . .Following Reductions in the Breeding Herd



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In the second quarter, lower red meat production, moderate poultry output, and seasonal influences will likely push hog prices to around an average $40 per cwt. With beef production declining sharply in second-half 2000, hog prices are expected to average in the low to mid $40's in the third quarter, declining seasonally to the high $30's in the fourth quarter. Given the outlook for a continuing strong economy, vacation travel during the summer months should be strong, fueling demand for meals at fast-food restaurants. Rising demand at these restaurants should support high pork belly prices. Also, higher beef prices will make pork products more attractive in retail stores.

Retail pork prices (as measured by the consumer price index) are expected to increase 4-6 percent in 2000 after a 2-year decline that was partially the result of reduced hog prices. Even with an expected rise in hog prices this year, farm-to-retail price spreads appear to have reached a new plateau near $1.80 per pound. The largest retail price increases will occur in the first half of the year, mirroring the rise in hog prices. Strong demand from fast-food outlets is expected to push up bacon prices as restaurants bid bacon away from retail food stores.

U.S. pork exports in 1999 totaled 1.17 billion pounds, 5 percent less than in 1998. Most of the export decline can be attributed to reductions in shipments to Russia. Before the ruble crisis of August 1998, Russia was the second-largest U.S. pork export market. Russia's pork imports have resumed, although at very low levels, but subsidized European pork exports have largely replaced commercial U.S. exports. Food aid now comprises a large percentage of U.S. pork shipments to Russia.

Asian markets showed revived interest in U.S. pork in 1999. Exports to Korea about doubled. Taiwan's World Trade Organization membership agreement with the U.S. boosted U.S. pork exports to Taiwan by 112 percent over 1998. Exports to Japan, the largest U.S. pork export market, were 9 percent above a year earlier. Sales to Hong Kong declined 24 percent, due largely to competition from subsidized exports from the European Union.

The U.S. continues to be an attractive import market for Canadian and Danish pork, especially as U.S. pork prices rise. Total U.S. pork imports increased 17 percent in 1999. Pork imports from Canada—the uncontested leading foreign supplier of U.S. pork—increased 26 percent in 1999. The strong U.S. economy, relatively weak Canadian currency, and rapidly restructuring and expanding Canadian pork industry all account for strong U.S. imports of Canadian pork.

The U.S. continued to import record numbers of Canadian hogs in 1999. Through November, 4.1 million Canadian hogs came south, about even with 1998 imports, although the composition differed. In 1998, slaughter hogs comprised two-thirds of live hog imports, and feeder animals the other third, while in 1999, feeders and slaughter hogs were evenly divided. U.S. demand for Canadian feeder pigs grew because of low-priced corn, attractive processor prices for fed animals, and an increased number of contracts between growers and processors that offer producers a premium over spot prices.

Mexico usually takes over 90 percent of U.S. live hog exports, and imported record numbers in 1998. However, restrictive Mexican trade policies and higher U.S. hog prices reduced the number of U.S. hog exports through most of 1999. Mexico's anti-dumping duty imposed on U.S. hogs in October 1999, effective for 5 years, more than doubled the price of U.S. hogs there. Consequently, the export market for U.S. hogs has declined dramatically since last fall, and exports were down 23 percent in 1999. **AO**

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Specialty Crops

Cutbacks Ahead for Processing Tomato Acreage

Spurred by low stocks of tomato products and strong wholesale prices, tomato processors purchased a record-large tomato crop in the fall of 1999. The 12.8-million-ton crop exceeds the previous record set in 1994 by 11 percent. With excellent weather (warm and dry) in California—which accounts for 95 percent of processing tomato production—the quality of the crop was high and the harvest season was long. An unusually large volume of tomatoes was harvested as late as October.

The record-setting harvest helped processors to replenish stocks of tomato-based products—estimated at 9.1 million tons in December 1999, 37 percent above a year earlier. However, despite strong domestic and export demand for processed tomato products, the sharp increase in domestic stocks, combined with increased stocks in other countries, will likely lead to a cutback in contract tonnage in 2000. Since nearly all tomatoes for processing are grown under contract, the result will be a reduction in acreage of processing tomatoes this spring.

Tomatoes are second only to potatoes in U.S. vegetable consumption. During the past 20 years, U.S. annual per capita use of tomatoes and tomato products has increased by nearly 30 percent, reaching a total fresh-weight equivalent of 93 pounds per person in 1998. Processed tomato products, including items such as sauces, ketchup, pastes, salsa, and juice, accounted for 81 percent of that total.

Domestic per capita use of processed tomato products was substantially higher in the 1990's, averaging 75.5 pounds per capita, up 19 percent from an annual average 63.5 pounds in the 1980's. The increase is likely the result of continued expansion in food-service demand (food purchased in restaurants and fast-food establishments), especially for Italian- and Mexican-style dishes. Some of the increase may also be due to rising public awareness of the health benefits of