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.

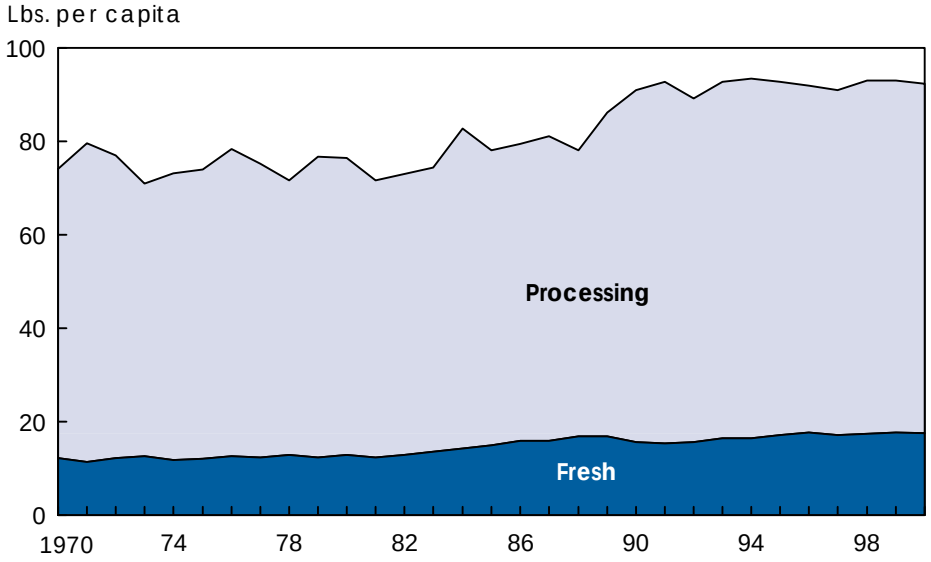
The record-setting harvest helped processors to replenish stocks of tomato-based products—estimated at 9.1 million tons in December 1999, 37 percent above a year earlier. However, despite strong domestic and export demand for processed tomato products, the sharp increase in domestic stocks, combined 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

Briefs

U.S. Per Capita Tomato Use Surged Before Heading into the 1990's



Farm-weight equivalent. 1999 preliminary; 2000 projected.

Economic Research Service, USDA

processed tomato products in the diet. Several medical studies in the 1990's linked diets rich in tomatoes and tomato products to reduced risk of various cancers and heart disease.

While domestic per capita consumption of processed tomato products surged heading into the 1990's, it leveled off as the decade progressed. Per capita use averaged just under 75 pounds in 1995-99, compared with an average 76 pounds in 1990-94. Total domestic use of processed tomato products decreased from 10.2 million tons in 1998 to 9.9 in 1999, but is expected to rise to 10.3 million tons in 2000. However, with strong export potential in the coming decade, slow growth (or even a slight decline) in domestic demand does not necessarily translate into no growth in long-term domestic production.

The U.S. has been the world's largest producer of processed tomato products for several decades, but only recently have exports become an increasingly important outlet for U.S. producers. Prior to 1989, exports of processed tomato products rarely accounted for more than 1 to 2 percent of total processed tomato supply (on a raw-equivalent basis). Since then, however, the value of U.S. exports of processed tomato products has nearly quadrupled—from $60.1 million in 1989 to $237 million in 1998—and the export share has steadily risen to 12 percent of total supply.

Although markets for Western-style cuisine served by American chain restaurants have already matured in Europe and the U.S., other markets—especially Asia and South America—continue to expand. The U.S. should remain well situated to continue increasing exports of processed tomato products.

Despite the long-term expansion potential for the processing tomato industry, the currently large domestic and international inventories of processed tomato products point to reduced output in 2000. With an expected cutback in processors' output, contract prices (between growers and processors) for the 2000 crop are likely to be significantly lower and contract acreage will fall. Some early estimates indicate a possible decline of 10-20 percent in planted acreage from a year ago, and early contract prices are about 9 percent below last year's average. Combined with average acreage abandonment and yields, this would put 2000 production of tomatoes for processing between 9.6 and 10.8 million tons.

Production at the upper end of this range would be unlikely to reduce processors' stocks significantly, because processors often buy their growers' quality production beyond the target tonnage. Large output, along with persistent large stocks, could lead to another acreage cut in 2001. However, with production at the lower end of the range, and with continued strong domestic and export demand, processors could reduce inventories to more comfortable levels and eliminate, or at least limit, the need for an acreage cutback again next year. **AO**

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Risk Management

Crop & Revenue Insurance: Premium Discounts Attractive to Producers

Sparked by $400 million in premium discounts, farmers' participation in crop insurance, particularly at "buy-up" coverage levels, picked up in 1999. Total insured acres increased about 8 percent from the 1998 level, reaching 196 million, and acres insured at buy-up levels—where the premium discounts applied—increased by 19 percent.

The new premium discounts—funded under the emergency assistance package in the 1999 agriculture appropriations legislation (FY1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act)—supplemented existing crop insurance premium subsidies. The discounts, along with increases in the maximum allowable yield or revenue guarantee—from 75 percent of expected yield or revenue to 85 percent for some crops in some areas—were intended to address concerns about the adequacy of crop insurance coverage in helping farmers protect against yield and revenue risk.

Coverage and participation in the Federal crop insurance program have been shift-