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Livestock and Meat Trade; Sheep and Lamb Outlook

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LIVESTOCK AND MEAT TRADE

by

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The livestock industry in the U.S. is moving rapidly toward a situation which has been around in the grain industry for many years -- one in which our markets are affected by foreign events. For example, it is not uncommon for the grain industry to comment about the South American bean crop, Canada's wheat supplies or even South Africa's corn crop. We typically export 20-25 percent of our corn, 30-40 percent of our soybeans and 50 percent of our wheat. Those exports often are in competition with grains produced by other countries. So, what others do affects our grain markets.

Livestock markets, at least until recently, have not been impacted as much by foreign trade. And, when it has, it has been more because of imports to the U.S. than exports from the U.S. Often, when cattle prices have been low in the past, those damn imports have been blamed. There even have been attempts to keep meat and live animals out of the U.S. The U.S. livestock industry is affected by others, but the historical impact, generally, has been small.

The above is changing. Several recent events can be used to illustrate the situation. First, almost a year ago the so called "mad cow disease" disrupted beef trade. At least some impact was felt in the U.S. Second, there was an "e coli problem" in Japan. Our exports of meat to that country were negatively affected. Third, the use of certain trade barriers by Japan early in 1997 caused price reductions for U.S. hogs. And, in mid-March, the discovery of foot and mouth disease in Taiwan's hog industry caused lean hog futures in the U.S. to shoot up by $5-6 in three days.

The last event noted above is very interesting. We don't send pork to Taiwan -- we do sell them some corn for them to

(Continued on page 2)

SHEEP AND LAMB OUTLOOK

by

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In the first quarter of 1997, slaughter lamb prices have averaged about $100 per hundredweight (San Angelo direct trade). The price is almost $20 above first quarter 1996 prices and $40 above the 1991-95 average. In fact, there have been year-over-year increases in lamb prices since 1992. And, while the large price increase in early 1997 compared to early 1996 is not expected to continue, 1997 should be another good year (price wise) for lamb producers.

Most of the above price experience can be traced to lower supplies, especially domestic supplies. Figure 4 can be used to illustrate the supply situation. In the 1991-95 period, sheep and lamb slaughter in the U.S. averaged about 100,000 head per month. In 1996, the level was closer to about 80,000 head per month. Thus far in 1997, slaughter has been 6% below the low levels of 1996. For example, the total tonnage of lamb and mutton available in the U.S. in 1996 was the smallest since 1979. And, that occurred despite the largest imports of lamb and mutton since the early 1970's. Both of the supply trends (lower U.S. production and larger imports) are expected in 1997. Thus far in 1997, U.S. lamb and mutton production is about 6% below 1996 and almost 25% below the 1991-95 average.

In the U.S., the total sheep and lamb inventory on farms was slightly below 8 million head. That is 6% below the 1996 inventory and 11% below the 1995 inventory. At the peak sheep and lamb inventory in the U.S.in 1942, there were over 56 million head on farms and ranches. In general, inventories have declined since then.

There are a number of reasons for the decline in sheep and lamb inventories. Some reductions in numbers can be

(Continued on page 3)

(Livestock ... cont'd from p.1)

feed to their hogs. However, Taiwan exports almost twice as much pork to Japan than does the U.S. After the disease was discovered, the government of Taiwan stopped all exports of pork. This opened the door to the U.S. Since we are about the only country that could fill the gap with chilled pork, our futures market moved higher.

There are no guarantees that we will get all of the "lost Taiwan" market. Nor can we assume we will keep forever whatever gains we get. Nonetheless, our markets reacted. U.S. producers were presented a $5-6 per hundredweight gift.

The above situation is a good example of what can happen to "our markets" if something happens "somewhere else". Usually, the events are not in our control. Yet, the impact can be great. It means the livestock industries in the U.S. are somewhat dependent upon someone else. A brief discussion of changes in U.S. exports of selected commodities is presented below to help illustrate what has happened.

In a recent article, Ron Plain of the University of Missouri discussed the changes noted in the table below. In general, the poultry industry has led the way in exports. Recently, maybe the last 3 or 4 years, the pork industry and, to a lesser extent, the beef industry have followed. The increases in exports by the pork industry have made it a net exporter. As can be noted in Figure 1, the U.S. was a net importer of about 40 million pounds of pork (carcass weight) per month during the 1990-94 period. In 1995, exports of pork were slightly greater than were imports. In 1996, the positive trade balance for pork was even greater. And, given the recent events in Taiwan, the positive trade balance for pork should continue to improve.

The beef industry still is a net importer (but almost a "zero" net importer). The data in Figure 2 can be used to show this situation. On average, in the 1990-94 period, the U.S. was a net importer of beef by about 100 million pounds per month. In 1995, the situation changed from a net importer early in the year to one where we were a net exporter late in the year. The increase in net imports in 1996 (especially mid year) can be traced at least in part to the "e coli problem" noted earlier in this article.

The poultry industry long has been a net exporter. The large growth in turkey exports is in part due to more exports and in part due to a very low starting base.

Table 1. Changes in U.S. Exports, 1990-96.

Beef	+ 87%
Pork	+300%
Chicken	+287%
Turkey	+711%
Corn	- 6%
Soybeans	+ 36%
Wheat	+ 1%

Figure 1

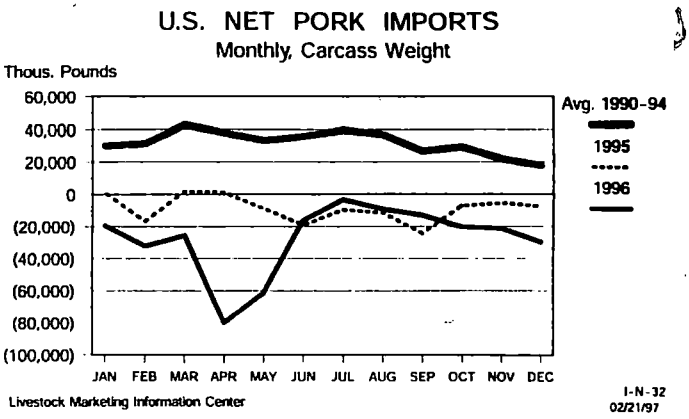


Figure 2

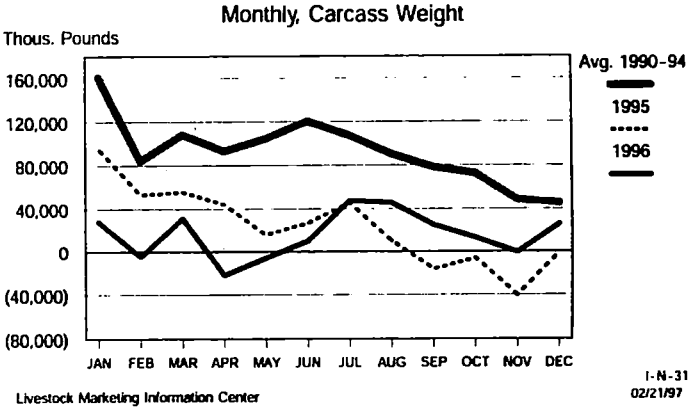
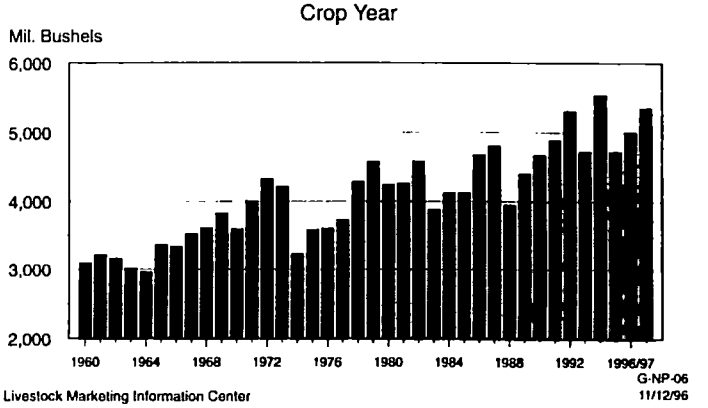


Figure 3



The changes in exports for grains are small (even negative for corn) compared to meat. Those small changes are the result of several factors, including more production and exports by other countries, a relatively large starting base, and greater use of the grains to feed livestock in the U.S. so the meat can be exported. Note the general upward trend in the use of corn as a feed in Figure 3. That upward trend likely will continue in the next few years as the poultry industry continues to expand and the hog industry increases production to over 100 million head per year (a goal many forecasters are predicting).

In summary, the U.S. meat producing industry is becoming more dependent upon changes outside of our control. Sometimes those changes benefit us (as is the case with Taiwan) and sometimes they don't (as with "e coli" in Japan). It means producers must now look not only beyond their backyard but beyond the oceans. What already was a fairly complex picture will become even more complex.

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HOG SLAUGHTER

by

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There has been considerable discussion in recent months about the hog industry and the changes which are taking place there. Some of that discussion has included the hog slaughtering industry. A few comments about that industry might provide some surprises.

First, the hog slaughtering industry in the U.S. is following the trend of many -- getting bigger and fewer. In 1996, there were 770 federally inspected hog slaughter plants in the U.S. That is down from 1250 plants in 1986. In 10 years, there has been a 38 percent reduction. That trend likely will continue.

In 1996, the smallest 640 plants (almost 85% of all plants) accounted for only one percent of the nation's hog kill. The largest 14 plants (less than 2% of all plants) combined to slaughter over 50% of the U.S. total.

The decline in the number of plants in the U.S. has occurred in the smaller and medium sized plants (let's say 1.5 million head or less per year). There has been an increase in the number of larger plants. Economics is the reason. Double shifts (use of the plant for 16 hours per day) and high chain speeds (1000 head per hour) are possible only in large plants.

The leading hog slaughtering state in 1996 was Iowa (26.2 million head). North Carolina, although a major hog producer about equal to Iowa, slaughtered only 8.85 million head in 1996. Illinois, Minnesota, Nebraska and South Dakota were third through sixth in volume of hog slaughter in 1996. Of the top six, Iowa and South Dakota are leaders in terms of excess slaughter capacity (import much of what is slaughtered in the state).

Certainly, the number, size and location of hog slaughter plants is important to producers. Hog prices generally are highest in areas which have excess slaughter capacity. In 1996, the Sioux Falls market had the highest averaged price of all terminal markets in the U.S. That was at least in part due to the demand for hogs by nearby packers.

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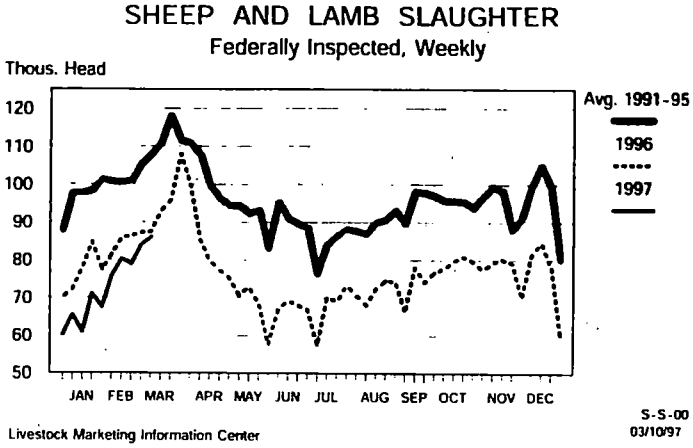
(Sheep and lambs ... cont'd from p.1)

traced to low prices. Recent high prices are the exception rather than the rule. Government programs have had an impact, particularly those related to grazing on public lands and the demise of the wool incentive program. Predator problems have had their toll. And, bad weather (such as last Spring's drought in Texas and this year's weather in South Dakota) has cut into numbers.

Figure 4



In summary, producers should see a strong lamb market in 1997. Slaughter lambs likely will average close to 1996 levels to as much as $5-10 above those levels. That would mean prices in the low to mid $90's for this Fall.

Feeder lamb prices, like feeder cattle and feeder pigs, are largely dependent on corn prices. In early 1997, corn prices have been well below 1996 prices. This has supported feeder lamb prices. Another good corn crop in 1997 (remember that the 1996 crop was the third largest on record) could keep feeder lamb prices at a premium (maybe even $20 or more) to slaughter lamb prices.

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LOWER HAY PRICES EXPECTED IN 1997

by

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Hay prices are likely to decline in 1997 partially due to increased production and partially because of reduction in demand. Looking back, the carry out of hay on May 1, 1996 was about the same as for 1995. Export demand for alfalfa was good and drought conditions on pastures in the South increased the demand for hay this feeding season.

In 1996, alfalfa acres declined about 1%. Since yields were down about 5%, there was about a 6% decline in total alfalfa production. Other hay acreage in 1996 increased about 5%. Yield per acre was down about 4%, netting a 1% increase in production. Total forage production in 1996 declined about 3% compared to 1995. Other hay acreage was up because of the harvesting of CRP to alleviate drought conditions in the South and additional acres of emergency forage, such as sudan grass, were planted.

A lower expected carryout on May 1 and a strong export market should provide support for the hay market in 1997. Major reasons for the lower carryout include the severe winter in the Midwest, which increased feed requirements, poor production last summer in the West, and an expanding export market. Production, however, is expected to increase significantly in 1997.

Because their payments are not tied to the crops or acres planted under the new farm program, it is much easier and less costly for farmers to switch to hay production. In addition, base crop acres are no longer subject to change when crop patterns are changed. These reduced constraints, along with the current high alfalfa prices, should create considerably more interest in growing alfalfa as a cash crop.

How much acreage will increase remains to be seen. According to an article by Thomas Morgan in *Feedstuffs Magazine* [March 1, 1997], a 7% increase in acreage could be possible. Less CRP acres will be harvested and less emergency forages grown, at least if we have a more normal growing season. How much land will end up in the new CRP program is yet to be determined.

If alfalfa acres increase 7% and yields increase 6% (to 3.48 tons per acre), total production could be 90.32 million tons. This would be the largest alfalfa harvest since 1968. Other hay acreage likely will decline about 1%. However, yields could increase about 4% to 1.99 tons per acre. This would put total production at nearly 72.34 million tons, the largest harvest since 1945. The combined total alfalfa and other hay production would then become the largest on record, at nearly 162.66 million tons, according to Morgan.

If we have a normal growing season in 1997, pastures should improve. Demand for hay can be expected to move back to a more normal level. With normal conditions, the price of other hay could decline 14% to about $66 per ton. Alfalfa prices should fair better because protein supplement prices have risen. Also, export demand is expected to continue to grow. The national average price for alfalfa can be expected to decline about 8%, or to about $95 per ton. Because the biggest increase in production likely will be in other hay, the price differential between premium quality alfalfa and lower quality should remain or even increase. This will increase the importance of producing top quality alfalfa for the cash market.

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