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A View of Romania; Livestock Situation and Outlook

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A VIEW OF ROMANIA

by

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A nine-month sojourn in Romania left me with some impressions to share with fellow South Dakotans. While my purpose in traveling to Bucharest was to teach in the Academy of Economic Studies, I had opportunity to travel some throughout the country and to observe current events in politics and in the economy.

It was an exciting time -- the government was changed through peaceful elections, the citizenship of the former king, Michael, was restored, and he received a tumultuous welcome on this return to the country. Events in Romania were in sharp contrast to happenings in surrounding countries where protests of many weeks were in progress to change the government and to protest the economic conditions.

The new government which took power in November 1997 was faced with serious economic conditions. Inflation was high, the exchange rate had been held down unrealistically, and privatization of state enterprises was proceeding too slowly. One of their first actions was to meet with representatives of the International Monetary Fund (IMF) and the World Bank to map out a strategy to solve their economic problems and, probably most importantly, encourage foreign investment in the country. Shortly, an austerity program was announced.

The exchange rate was allowed to fluctuate in response to market conditions to achieve a truer value. When I first arrived, the exchange rate was 3560 lei per

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LIVESTOCK SITUATION AND OUTLOOK

by

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It appears that the cattle and hog price outlooks for late 1997 and early 1998 are taking opposite paths. While cattle prices likely will move higher and be well above year ago levels, hog prices probably will go lower and be below last year. This section of the *Commentator* will be devoted to a discussion of some of the factors which currently impact the above situation.

Hog Situation and Outlook

As can be noted in Figure 1, cash hog prices thus far in 1997 have been well above the 5-year average and fairly close to prices in 1996 (with the exception of January and February). During the first half of 1997, prices moved almost $10 lower in the first quarter and then recovered that and more in the second quarter.

Feeder pig prices in the first half of 1997 have been $20-30 above 1996 levels and $5-20 above the 5-year average (see Figure 2). The big impact here was the corn market. Extremely high corn prices in 1996 caused lower feeder pig prices. Lower corn prices in 1997 have stimulated feeder pig prices.

Current expectations are that cash slaughter hog prices will peak during the Summer (probably in the $60-65 area) and then go lower the rest of the year. That downward path likely will continue into at least the first quarter of 1998. "Best guess" estimates now for slaughter hogs are:

(Continued on p.2)

dollar. After floating, the exchange rate settled between 6000 and 7000 lei per dollar. The immediate effect was to increase the price of imported goods which, hopefully, would make domestic goods more competitive. Also, in the longer run, it could increase exports as they became relatively cheaper.

Consumer good prices were no longer fixed. The price of gasoline doubled and bread went from 500 lei to 1300 lei per loaf. Other prices rose correspondingly. The immediate effect was a jump in the inflation rate to over a 90% annual rate. To compensate, interest rates paid on lei savings in banks rose as high as 125%. High interest rates had several effects. Dollars were drawn into the banking system as citizens changed their dollars for lei to take advantage of the high interest rates. However, the high rates made investment more difficult and risky.

Agricultural subsidies were to be lowered though some provision was made for funds to purchase seeds and fertilizer to start the season. There were complaints that the funds were insufficient and loans to producers were no longer subsidized. Thus, they were required to take loans at the going rate.

The government promised to institute social programs to protect citizens from the price increases. Some indexation of wages did occur but much later than the price increases.

Another major aspect of the program is a rapid increase in the privatization of state industries and state farms. Under the prior administration, privatization had been slowed and had been subject to charges of corruption. While privatization did not proceed as rapidly as promised, the government did publish lists of firms to be sold to investors or closed because of insolvency. An earlier privatization program had given citizens shares in companies but did not result in any fresh capital. Therefore, the emphasis at the current time is to secure investors who are willing to inject capital to modernize the facilities. If investors cannot be found, some of the firms will be closed.

While it appears that the government recognizes that changes are needed, most of the programs were initiated because of the unwillingness of the IMF or World Bank to lend money unless the reforms were put in place. In late May, the IMF and World Bank indicated they were willing to release the first tranches of credit as they were satisfied with the progress of reform. The actual funds to be received from these international organizations are relatively small but are important because they signal other foreign investors that it is "safe" to invest in Romania. Another important goal of the current Romanian government is accession to NATO in the first round of new members to be invited. A stable free market economy is essential to achieve that goal.

My overall impressions is that it will be possible for Romania to work out its economic problems if the citizens are willing to undergo austerity for some time. They have been supportive to this point, but labor unions are beginning to show their concern with the possibility of losing jobs and the loss of purchasing power. It is vitally important the program succeed. There are great possibilities for the country but there is so much to be done.

NOTE: *Dr. Lundeen is Professor Emeritus of Economics at SDSU. She was a member of the Economics staff for over 20 years and served as department head for nearly 10 years. She recently returned from Romania where she taught in the Academy of Economic Studies.*

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(Murra ... Cont'd from p.1)

1997 III	-	upper $50's
1997 IV	-	low $50's
1998 I	-	around $50
1998 II	-	upper $40's
1998 III	-	around $50

Feeder pig prices also likely will be lower in the last half of 1997. Although lower corn prices will support feeder pig prices, lower slaughter hog prices probably will more than offset that impact.

Several factors will impact the above forecasts. Lower slaughter hog prices are expected because of greater supplies. Farrowing intentions for the June-Aug and the Sept-Nov periods are expected to be up 5 and 6 percent, respectively. Expansion has been encouraged by both high slaughter hog prices and low corn prices. Breakevens are well above costs. In fact, given the favorable economic setting, it is a little surprising that expansion has been quicker and greater.

One possible explanation is "environmental concerns". These concerns often are expressed through laws and regulations. Sometimes the fear of possible regulations (or even neighbor responses) is noted. At any rate, any factor which stifles expansion will help those already in production. Even then, hog prices are expected to be lower.

Cattle Situation and Outlook

During the first half of 1997, slaughter cattle prices have been above levels noted in 1996 but well below the 5-year average (Figure 3). During the last half of 1996,

Figure 1.

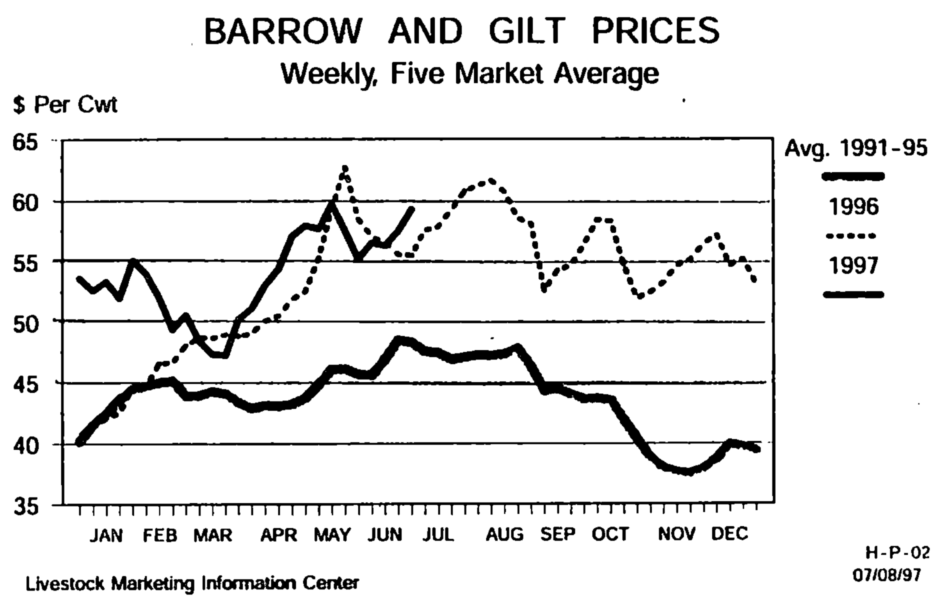


Figure 2.

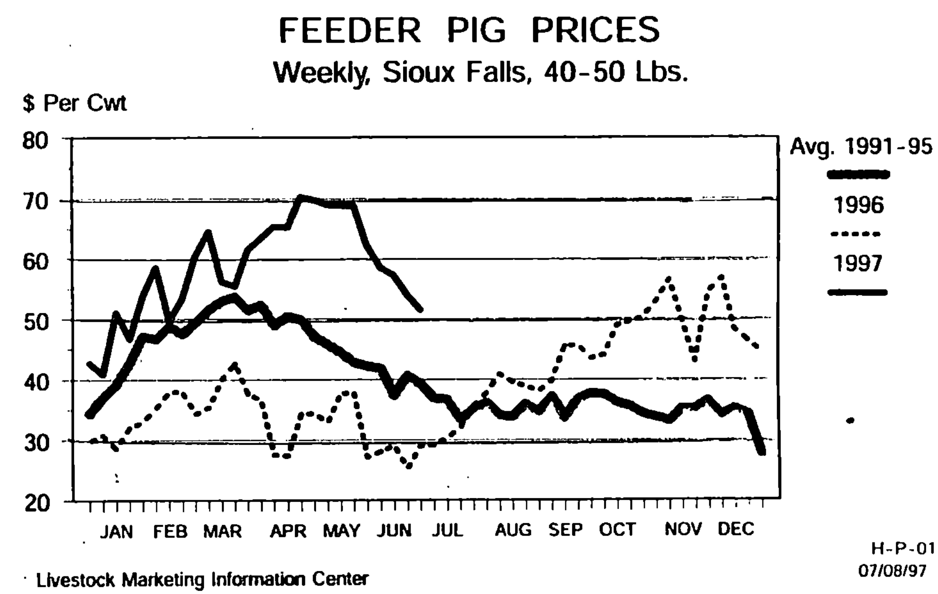


Figure 3.

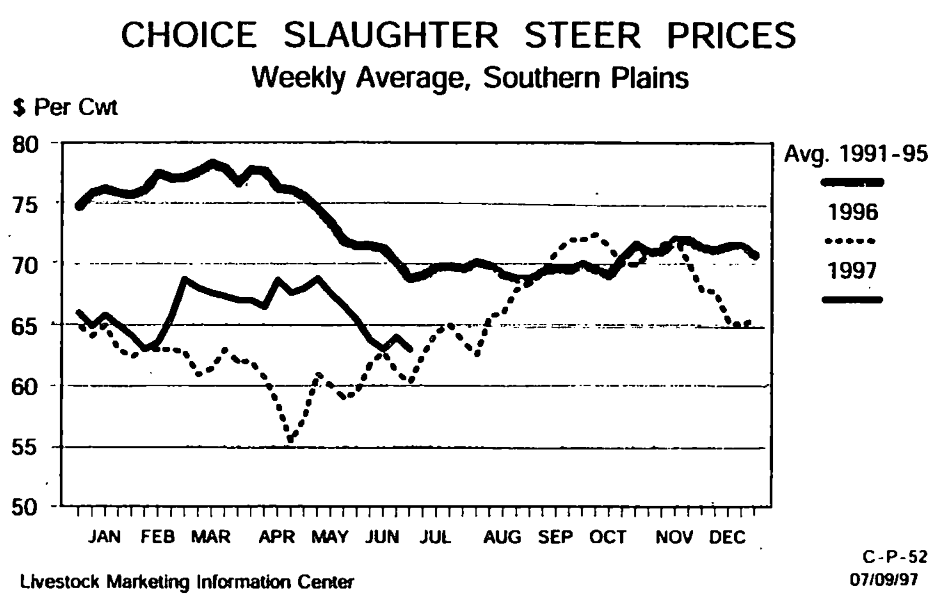
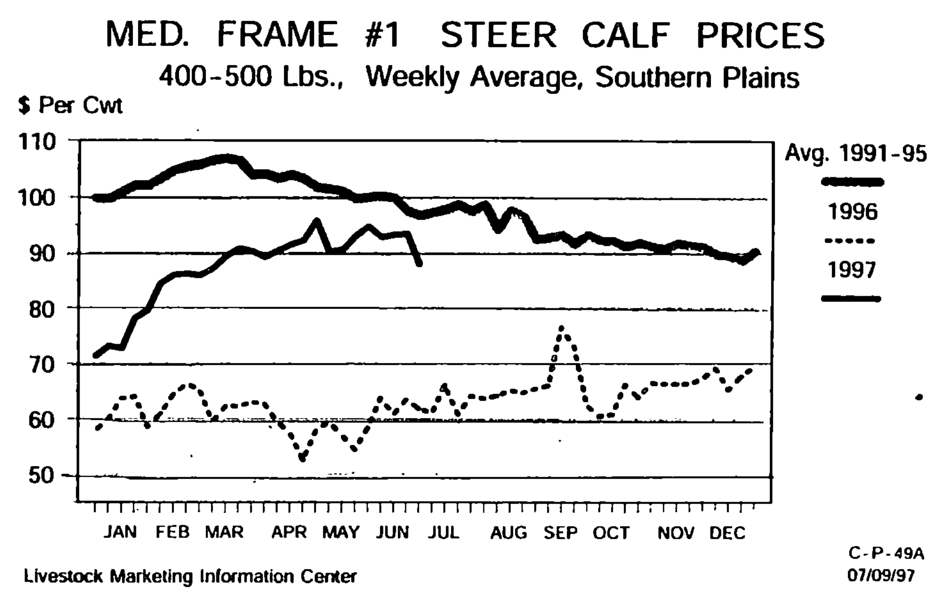


Figure 4.



prices moved higher until a decline in prices in November-December. During the first half of 1997, prices have been a few dollars above and below $65.

Feeder cattle prices in the first half of 1997 have been well above the depressed levels of 1996 but still below the 5-year average. In general, prices for all weights have increased during the year. Figure 4, for 500-600 weight steers, is representative of what has happened.

Current expectations are for slaughter cattle to hit the yearly low in mid-to-late Summer and then recover this Fall and continue that recovery in early 1998. "Best guesses" for slaughter cattle prices are:

1997 III	-	low $60's
1997 IV	-	around $70
1998 I	-	low $70 to mid-$70's
1998 II	-	low $70's

Feeder cattle prices in the Fall of 1997 should be well above ($25 to $30 for Spring born calves) 1996 levels. If a huge corn crop is harvested (over 10 billion bushels), many calves will be above $90 and some could be over $100. However, if the corn crop is only average (8 billion bushels), Fall calf prices could easily be $10-15 lower.

Several factors do, and could, affect the above forecasts. The very short term situation for this Summer basically is one of supply. On July 1, 1997, there were 17 percent more cattle on feed than on the same date in 1996. High corn prices last year discouraged placements and feeding. Lower corn prices and expectations for higher slaughter cattle prices have encouraged placements this year.

Fall supplies of fed cattle should be lower. A lower calf crop (down 2% from last year) and a lower carryover from the 1996 calf crop should help. Also, cow slaughter should be lower, more heifers might be held back rather than put in feedlots and foreign demand may "take more of our of beef". All point to higher prices, at least by late in 1997.

The 1998 situation is similar. Lower supplies is the major factor.

The longer term situation is a little less clear. High feeder cattle prices this Fall could encourage an early end to the "down cycle" in cattle inventories. The cattle industry probably would be "better off" if inventory reduction continued in 1998. That now is very questionable. It could mean that after a good year in 1997 (price-wise) and maybe even 1998, 1999 could be the start of lower prices.

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