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CANADA: HOGS AND CATTLE SITUATION AND OUTLOOK

HOGS AND PORK

Canadian hog inventories decreased 1.25% in 1999. Hog slaughter for the first quarter of 2000 was up 4% compared to a year ago because of an increase in demand by the Canadian packers resulting in a decrease in live hog exports. Hog prices increased over 48% in the first quarter of 2000 compared to record lows a year ago. The annual price for 2000 is expected to average near \$170 per hundred kilograms (/ckg), while in 2001 prices are forecast to average near \$154/ckg. Both pork production and pork exports are expected to increase in 2000 and 2001 based on an increase in domestic slaughter capacity.

US PRODUCTION AND PRICES

According to the USDA *Hogs and Pigs* report of March 2000, US inventories of all hogs and pigs, at 58.1 million head (mln hd) on March 1, 2000, were 3% lower than a year ago. US hog producers intend to have 2.87 million sows farrow between March and May 2000, 4% below the actual farrowings during the same period in 1999. Intended farrowings between June and August 2000, at 2.85 million sows, are 2% lower than the same period a year ago. Between March 1, 1999 and 2000, breeding inventory, at 6.22 mln hd, was down 5%, and market hog inventory, at 51.9 mln hd, was down 3%. Imports of slaughter hogs from Canada declined 23% in 1999 compared to 1998 as a result of increased domestic slaughter capacity in Canada. Live hog imports from Canada are likely to decline further in 2000 and 2001.

As a result of a decline in hog inventories, US pork production is likely to fall to 18,650 million pounds (mln lb) in 2000, registering a decline of about 3% compared to 1999. Low feed prices and continuing expansion of the larger vertically integrated operations will likely moderate the decline in production resulting from the exit of smaller high cost operations. US pork exports are expected to increase slightly to approximately 1,200 mln lb and imports are expected to increase to about 875 mln lb in 2000. Per capita pork consumption is expected to decline about 5% to 51.7 lb in 2000. This decline is at the expense of an expected increase in per capita consumption of chicken from 77.5 lb in 1999 to 80.8 lb in 2000.

According to the USDA report, reduced pork production is expected to lead to a significant price gain in 2000. Hog prices are currently in the mid-US\$40 per hundredweight (/cwt), up about US\$7/cwt from a year ago. Major pork cuts are exhibiting price strength, boosting the pork carcass cutout prices nearly 40% from a year ago. Pork bellies are exhibiting the largest year-over-year increase, about 80% above a year ago. The 2000 annual hog price is expected to average around US\$47/cwt. Hog prices are expected to be in the low US\$50/cwt range through the third quarter, and then drop to the low US\$40/cwt in the last quarter as supplies increase seasonally.

CANADIAN HOG PRICES

The bottom of the hog price cycle occurred in 1998 and peak prices are expected to occur in mid-2000. Canadian hog prices follow US prices but at a lower rate since Canada is a net exporter of hogs (Figure 1). On average, Canadian hog prices increased over 48% in the first quarter of 2000 compared to a year ago. The growing popularity of bacon-topped sandwiches at various restaurants is boosting live hog and retail pork prices. It is hard to predict how much longer bacon prices will remain high. Normally, bacon demand is strongest during the summer. In 2000, the Ontario Index 100 hog price is expected to average around \$173/ckg, registering a 44% increase compared to the 1999 average price. The Ontario Index 100 price, however, is expected to decline about 9% in 2001, averaging in the mid to upper \$150/ckg. The Alberta Index 100 hog price is expected to increase to \$167/ckg in 2000 but decrease to \$151/ckg in 2001. Price projections are based on the assumption that the Canadian dollar will continue to appreciate from approximately \$1.45 to \$1.40 Canadian to one US dollar between the first quarter of 2000 and the fourth quarter of 2001.

HOG TO FEEDGRAIN PRICE RATIOS

Since grain is the major input for hog production, the ratio of hog to feedgrain prices is a good indicator of profitability. Figure 2 shows that returns to hog producers were quite high in early 1990s, but very low prices in late 1998 and early 1999 resulted in low hog-corn and hog-barley ratios indicating low profitability. As shown in Figure 2, these ratios started increasing in 1999 and are expected to remain high throughout 2000 as feedgrain prices remain very low. In 2001, as a result of an expected decline in hog prices, these ratios are expected to decline

slightly. Continued restructuring of hog farms into larger units is expected to allow operations to remain profitable in 2000 and 2001.

INVENTORIES AND MARKETINGS

Statistics Canada reported that total hog inventories as of January 1, 2000, decreased to 12,254 thousand head (k hd), 1.25% lower than January 1, 1999. Canadian hog inventories are expected to be about 12,466 k hd at the beginning of the fourth quarter of 2000 and increase to about 13,192 k hd in another one year period. Comparing January 1 inventories,

FIGURE 1: HOG PRICES

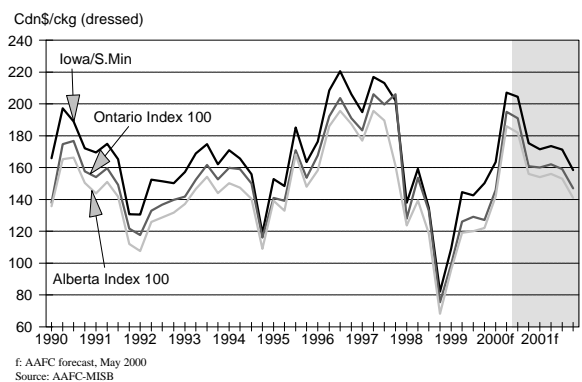
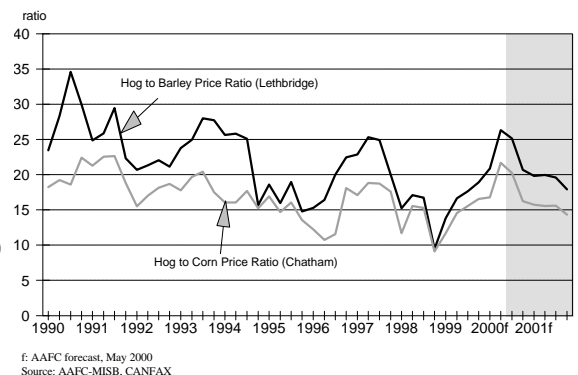


FIGURE 2: CANADA - HOG/FEEDGRAIN PRICE RATIOS



2000 versus 1999, Quebec, Newfoundland, New Brunswick and Saskatchewan showed a marginal increase in their inventories. Total pig inventories increased 29.6 k hd in Eastern Canada but decreased 185.1 k hd in Western Canada (Figure 3). Quebec's pig inventory, at 3.7 mln hd, was the largest in Canada but increased less than 1% compared to January 1, 1999 inventory.

According to Statistics Canada, sows farrowed in the first quarter (January-March) of 2000 were 3.6% higher than a year earlier. These hogs should show up in mid to late 2000. Farrowing intentions for the second quarter (April-June) of 2000 increased 2.4% over the same period a year ago mainly due to continued high hog prices in 2000.

Hog marketings are expected to reach 23,784 k hd in 2000 (including exports of piglets), an annual increase of 3.3%, and marketings for 2001 are expected to increase another 5.5%. Higher farrowing intentions in the second quarter of 2000 will result in a moderate increase in inventories and marketings in late 2000.

DOMESTIC SLAUGHTER AND HOG EXPORTS

Recent expansion in production and slaughter capacity is expected to lead to a 5% increase in the total hog slaughter from 18.9 mln hd to 19.9 mln hd between 1999 and 2000 respectively. In the absence of any strikes or lockouts in the Canadian pork packing industry, hog slaughter is expected to increase 8% in 2001 to 21.6 mln hd. Several processing plants have either increased or will increase their slaughter capacity to compete for a share of the potential increase in hog supply.

As a result of an increase in domestic slaughter capacity, exports of slaughter hogs are expected to decline in 2000 and 2001. The Maple Leaf Food's Brandon hog-kill plant opened in September 1999 and is approaching its annual slaughter capacity of 2.3 million hogs more quickly than planned. The take over of

J.M. Schneider Inc. by US processor Smithfield Foods was completed in 1999. Late in 1999, Schneider announced plans to triple the capacity of its two-year-old Winnipeg hog plant from 30,000 head a week to 90,000 head (or 1.6 mln hd to 4.7 mln hd/year) at a cost of \$125 million by 2003. This increase in domestic slaughter capacity has led to a sharp decline in live hog exports to the US. Canadian live slaughter hog exports were 464 k hd in the first quarter of 2000, down 15% from the first quarter of 1999. Weaner pig exports, on the other hand, were 543 k hd, up 20% compared to the same period a year earlier. Weaner pig exports to the US are likely to increase further since the US farrow-to-finish operations are becoming "finishing-only" operations as a result of cheap feedgrain and fewer labour requirements. To keep their barns full, the US operations are drawing weaner hogs from Canada.

Compared to a year ago, the first-quarter 2000 hog slaughter was up 1.4% in Eastern Canada and 7.8% in Western Canada. Quebec slaughtered the largest number of pigs (1.7 mln hd) followed by Ontario (1.3 mln hd) in the first quarter of 2000. Total Canadian hog slaughter was up 3.7% in the first quarter of 2000 compared to the same time period a year ago. Hog slaughter during the remainder of 2000 is expected to be up as a result of an increase in Canadian processors' demand leading to a decrease in live hog exports to the US. Due to recent investments in larger, state-of-the-art slaughtering plants, Canadian slaughter capacity will continue to increase at least until 2003.

PORK PRODUCTION AND EXPORTS

Canadian pork production has increased about 15%, from 1.4 million tonnes (Mt) to 1.6 Mt in 1999. As a result of increased slaughter, pork

FIGURE 3: CANADA (JANUARY 1) - TOTAL HOG INVENTORIES

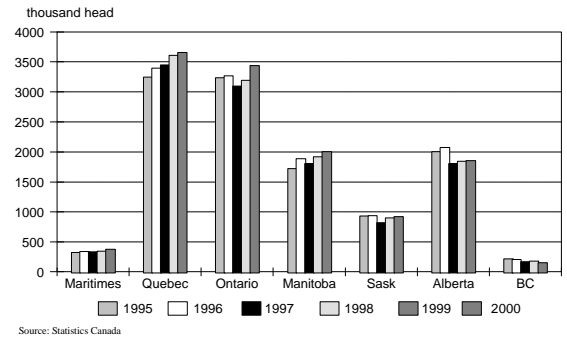
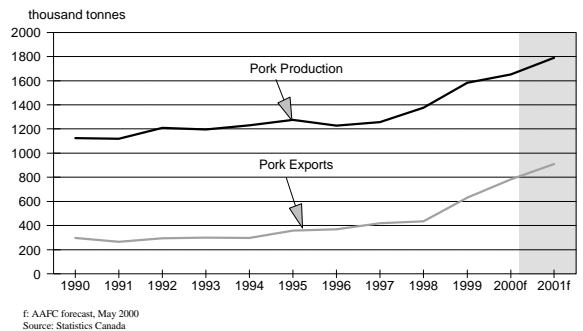


FIGURE 4: CANADA - PORK PRODUCTION AND EXPORTS



production is expected to increase 4% in 2000 and another 8% in 2001 (Figure 4). At the same time, because of an expected increase in pork price, per capita consumption of pork in Canada may decline marginally. However, total domestic pork disappearance will increase about 1% between 2000 and 2001 due to the increasing population. Pork exports have increased significantly over the years. As a result of an increase in pork production, pork exports are expected to increase 24% in 2000 and 17% in 2001.

CANADA: HOG AND PORK SUPPLY AND DISPOSITION

	2000f				2001f				1999	Annual 2000f	2001f
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
	thousand head										
Beg. Inventory Hogs	12,254	12,186	12,515	12,466	12,624	12,688	12,997	13,192	12,409	12,254	12,624
Hog Marketings (incl. < 50 kg)	5,929	5,673	6,104	6,078	6,249	6,115	6,328	6,409	23,028	23,784	25,101
Hog Slaughter	4,973	4,735	5,106	5,077	5,355	5,263	5,427	5,504	18,900	19,891	21,549
Hog Exports: < 50 kg	493	537	534	530	523	531	530	528	2,106	2,094	2,112
Hog Exports: > 50 kg	463	401	464	470	371	321	371	376	2,030	1,798	1,439
Total Hog Exports	956	938	998	1,000	894	852	901	904	4,136	3,892	3,551
	thousand tonnes (cold carcass equivalent)										
Pork Production	413	393	424	421	444	437	450	457	1,582	1,651	1,788
Pork Exports	190	184	207	200	219	225	231	233	631	781	908
Domestic Disappearance	240	226	234	239	243	229	237	242	929	939	951
	PRICES										
Ontario Index 100 {Dressed (\$/ckg)}	146	195	191	161	160	162	159	147	120	173	157
Alberta Index 100 {Dressed (\$/ckg)}	142	186	182	156	154	156	153	141	114	167	151
Iowa/South Minn. {Live (\$US/cwt)}	41	52	51	44	43	44	44	41	33	47	43

f: AAFC forecast, May 2000
Source: Statistics Canada and AAFC, MISB

CATTLE AND BEEF

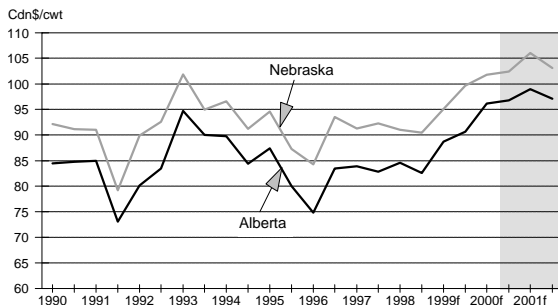
The Canadian cattle cycle is in the contraction phase and as a result, the cattle herd has declined for the third consecutive year. Estimated total cattle and calves inventories decreased about 2% in 1999. Both beef production and beef exports are expected to increase in 2000 and 2001 based on an increase in domestic slaughter. Live cattle prices for the remainder of 2000 and into 2001 are expected to remain strong as a result of tight supplies.

US PRODUCTION AND PRICES

The *Cattle* report released by the National Agricultural Statistical Service (NASS), USDA, on January 28, 2000, reported that total cattle and calves inventories on January 1, 2000 were 98 million, 1% below January 1, 1999 and 2% two years ago. The January 1, 2000 survey of cattle producers indicated that beef replacement heifers and beef cows were down 4% and 1% respectively. Steers weighing 500 lb or over, at 16.7 mln hd, are down 1%.

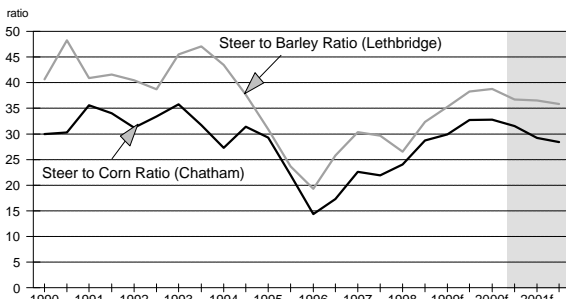
According to the USDA *Cattle on Feed* report of March 17, 2000 cattle and calves on feed for slaughter market in the US for feedlots with capacity of 1,000 or more head totalled 11.3 mln hd on March 1, 2000. Inventories were up 9% from the 10.4 mln hd on March 1, 1999. According to the USDA, feeder cattle supplies outside feedlots on January 1, 2000 were down 5% compared to a year earlier. The number of heifers on feed and heifer slaughter remain historically high but are likely to decline sharply as producers retain more heifers for the breeding herd, but it is unlikely that this will slow production until fall 2000. Fed cattle marketings will remain at record levels through the summer of 2000. Although cow slaughter remains well below a year ago, slaughter weights continue to be record heavy and add to production because of cheap feedgrains.

**FIGURE A:
SLAUGHTER STEER PRICES**



f: AAFC forecast, May 2000
Source: CANFAX, AAFC-MISB

**FIGURE B: CANADA -
STEER/FEEDGRAIN PRICE RATIOS**



f: AAFC forecast, May 2000
Source: AAFC-MISB, CANFAX

The decline in cattle numbers during the past several years will lead to a decline in beef production in 2000. According to the USDA, beef production is expected to rise in the first two quarters and fall in the remaining two quarters of 2000 compared to the same time period in 1999. Annual beef production is expected to decrease about 1% in 2000. Beef exports increased 8% between 1998 and 1999 but are unlikely to change in 2000. Imports, however, are expected to increase 5% in 2000 compared to the 1999 levels.

The USDA forecasts that the 2000 price of choice steers in Nebraska is expected to average about 8% above (US\$71/cwt) the 1999 price. This increase is primarily due to a stronger demand than supply of cattle. First-quarter prices of choice steers in Nebraska, at US\$68-69/cwt, are also expected to be about 8% higher than a year ago. The USDA expects stronger feeder prices as well. The 2000 price of feeder steers is expected to average near the US\$90/cwt range.

CANADIAN CATTLE PRICES

Canadian cattle prices closely follow US prices (Figure A). Average annual cattle prices are expected to rise in 2000 as the impact of herd liquidation takes effect, causing supplies to decline. Compared to 1999, the 2000 average slaughter steer prices are expected to increase 11 and 8% respectively for Ontario and Alberta. Compared to a year ago, the average feeder steer prices in 2000 are expected to be about 7% higher in both Ontario and Alberta. Average slaughter and feeder steer prices are expected to remain strong in 2001.

STEER TO FEEDGRAIN PRICE RATIOS

The steer to feedgrain price ratio is a good economic indicator of profitability. Figure B shows that the steer to feedgrain price ratios were quite high in the early 1990s indicating high profitability. These ratios were lowest in the first half of 1996 but have shown significant improvement since. The ratios are expected to stay relatively stable in 2000 but may decline slightly in 2001 due to an expected increase in feedgrain prices and stable cattle prices.

INVENTORIES AND MARKETINGS

The cattle industry is currently going through a cyclical contraction. Following its peak in 1996, cattle inventories declined steadily.

According to Statistics Canada, the cattle herd has declined for the third consecutive year. Estimated total cattle and calves inventories at January 1, 2000 were 12.7 mln hd, a decrease of about 2% from January 1999. Beef cow numbers were down 1% while replacement beef heifers were down 0.5%, which indicates that producers reduced their herd at a relatively slower pace but are not yet ready to increase the breeding herd. Cattle and calves inventories between January 2000 and January 2001 are expected to remain unchanged. However, it is expected that producers will begin to retain heifers for the breeding herd beginning the fourth quarter of 2000.

Cattle marketings in 1999 were down 4% compared to a year earlier. Marketings are expected to decline about 5% in both 2000 and 2001.

DOMESTIC SLAUGHTER AND CATTLE EXPORTS

As a result of recent investments in Canadian slaughter facilities, domestic cattle slaughter increased about 6% in 1999. Domestic slaughter is expected to slow down in 2000 and 2001 as a result of a decline in marketings. These low marketings are expected to raise cattle prices which might lead to a reduction in packer margin and thus a lower demand for slaughter cattle by the packers. Annual cattle slaughter is expected to be 3.59 mln hd in 2000 and 3.57 mln hd in 2001 (Figure C). The effect of declining cattle inventories on total slaughter is expected to be minimized by increased Canadian demand for fed cattle resulting in lower cattle exports. This increase in fed cattle demand is due to expansion in plant size.

A petition filed by Ranchers-Cattlemen Action Legal Fund (R-CALF) alleged that Canadian cattle were being dumped (sold at prices below actual production cost) into the US market in 1998. Hence, the US Department of Commerce (DOC) imposed a preliminary anti-dumping duty on slaughter and feeder cattle exported to the US in the summer of 1999. The duty collected on live Canadian cattle exported to the US (not including breeding cattle) was increased from 4.73% to 5.57% of value as of July 23, 1999. The DOC ruled in October 1999 that Canadian cattle producers are not unfairly subsidized. The US International Trade Commission ruled in November 1999, that Canadian exports do not harm the US cattle industry and as a result the anti-dumping duty was subsequently abolished. Paid duties are being refunded to either US brokers or Canadian producers depending on who was registered as the "importer of record".

CANADA: CATTLE AND BEEF SUPPLY AND DISPOSITION

	2000f		2001f		Annual		
	January -June	July -December	January -June	July -December	1999	2000f	2001f
Cattle and Calves	thousand head						
Beginning Inventory	12,655	14,138	12,640	14,300	12,870	12,655	12,640
Slaughter (cattle)	1,831	1,761	1,799	1,775	3,615	3,592	3,574
Exports (cattle)	424	418	347	353	1,011	842	700
Marketings (cattle)	2,150	2,054	2,006	1,977	4,445	4,204	3,983
Beef	kilograms						
Average Cold Carcass Weight	344	349	350	350	338	347	350
	thousand tonnes (cold carcass equivalent)						
Production	629	614	630	621	1,223	1,243	1,251
Exports	280	269	288	272	487	549	560
Imports	119	118	117	116	238	237	233
Domestic Disappearance	468	465	465	464	974	933	929
Prices	\$/cwt live						
Ontario Steers	103	103	106	103	93	103	105
Alberta Steers	96	97	99	97	90	97	98
Nebraska Steers (US\$)	70	71	74	73	66	71	74
Ontario Feeder Steers (500-600 lb)	137	128	136	128	124	133	132
Alberta Feeder Steers (500-600 lb)	145	136	139	133	130	140	136
Oklahoma Feeder Steers (500-600 lb) US\$	92	87	93	89	81	90	91

f: AAFC forecast, May 2000

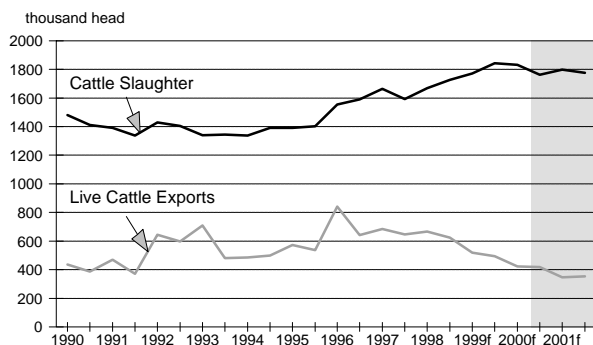
Source: Statistics Canada and AAFC, MISB

Canadian live cattle exports declined 22% in 1999 compared to 1998 due to an increase in domestic slaughter capacity which increased the demand by the Canadian processors. Annual live cattle exports are forecast to decline 17%,

from about 1 mln hd in 1999 to about 840 k hd in 2000. Improved efficiency and increased slaughter capacity in Canada will also contribute to a decline in live cattle exports in the future.

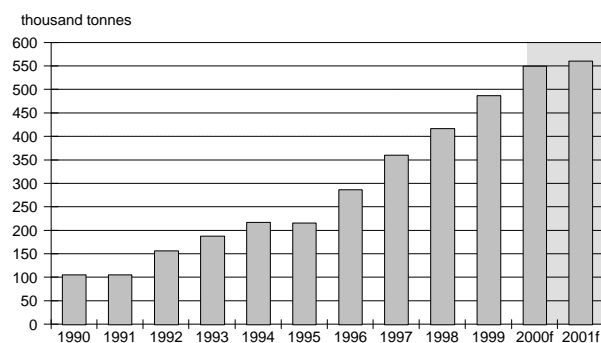
Also, as a result of the Northwest Cattle Project, imports of feeder cattle from the US increased sharply in 1999 and are expected to continue to increase in 2000 and 2001. The Northwest Cattle Project, aimed at facilitating trade in live cattle, was proposed by the Canadian Cattlemen's Association and was initiated in late-1997.

FIGURE C: CANADA - CATTLE SLAUGHTER AND LIVE EXPORTS



f: AAFC forecast, May 2000
Source: Statistics Canada

FIGURE D: CANADA - BEEF EXPORTS



f: AAFC forecast, May 2000
Source: Statistics Canada

BEEF PRODUCTION AND EXPORTS

Beef production for 1999 increased 8% compared to a year ago as a result of increased slaughter. However, beef production is expected to increase only about 2% in 2000 compared to 1999. As a result of an expected decline in cattle supply related to the cattle cycle, annual beef production is forecast to increase less than 1% in 2001.

Beef exports in 1999 increased over 17% and are expected to increase about 13% in 2000. With a slight increase in carcass weight and thus production, beef exports are expected to increase about 2% in 2001 (Figure D). Beef disappearance was up 2% in 1999. However, it is expected to decline slightly in 2000 and then remain relatively flat in 2001.

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