

Bi-weekly Bulletin

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CANADA: HOGS AND CATTLE SITUATION AND OUTLOOK

HOGS AND PORK

Canadian hog inventories on October 1, 2000 were 1% lower than the level observed a year ago. Hog slaughter for the first half of 2000 was up 4% due to increased demand from Canadian packers and conversely live hog exports were down. Second quarter hog prices increased substantially (43% above second quarter 1999). On average, Canadian hog prices are expected to increase 34% in 2000 but decrease 10% in 2001. Both pork production and pork exports are expected to increase in 2000 and 2001 due to increased domestic slaughter capacity.

U.S. PRODUCTION AND PRICES

According to the September 2000 USDA *Hogs and Pigs* report, U.S. inventories of all hogs and pigs on September 1 were 60.2 million head (mln hd), which represents a 1% decline from the previous year. U.S. hog producers reported 2.90 million sows farrowed between June and August 2000, 1% below last year. They intend to have 2.88 million sows farrowed during the September-November 2000 quarter, 1% above farrowing during the same period in 1999, but 4% below 1998. Intended farrowing of 2.89 million sows over the December 2000 through February 2001 period would represent a 3% increase above the same period in 2000. This would suggest that low feed costs are resulting in favorable producer returns and are likely to reverse the hog cycle in mid to late-2001. Both breeding and market hog inventories declined 1% from 1999 levels to 6.27 mln hd and 53.9 mln hd respectively.

Based on the decline in hog inventories in 2000 and expected increase in 2001, U.S. pork production is likely to fall to 18,869 million pounds (mln lb) in 2000 (2% lower than 1999) but increase to 19,350 mln lb in 2001 (2.5% higher than 2000) respectively. Low feed prices and the continued expansion of larger vertically integrated operations will partially off-set the continued exit of

smaller high cost operations. U.S. pork exports are expected to decrease modestly to 1,253 mln lb and imports are expected to increase significantly (21%) to about 999 mln lb in 2000. Per capita pork consumption is expected to decline by 2.5% to 52.5 pounds due to continuing strong demand for both chicken and beef.

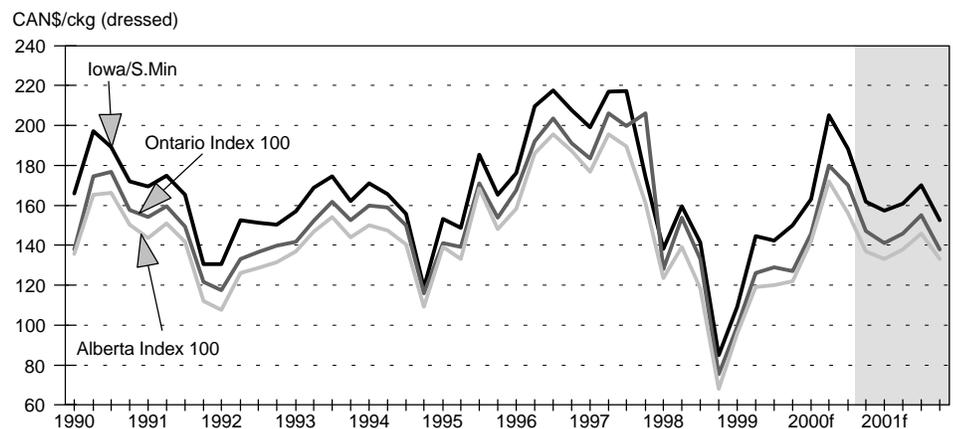
The hog price cycle will continue; the bottom of the cycle occurred in 1998 and prices peaked in June 2000. According to the September 2000 USDA *Livestock, Dairy and Poultry Situation and Outlook* report, increasing hog production is expected to lead to a decline in hog prices later in 2000. Hog prices averaged US\$45 per hundredweight (/cwt) in August compared to US\$50 in

July 2000. Major pork cuts exhibited price strength earlier this summer. The pork carcass cutout prices were over 20% higher in September 2000 compared to September 1999. The 2000 annual hog price is expected to average around US\$44/cwt. However, a turn in the hog cycle in mid to late-2001 will likely reduce the 2001 annual hog price to the US\$40/cwt range.

CANADIAN HOG PRICES

Canadian hog prices on an exchange rate adjusted basis generally follow U.S. prices (Figure 1). As Canada is a net exporter of hogs to the U.S., Canadian prices will lie below U.S. prices. On average, Canadian hog prices increased 43% in the second quarter of 2000 compared to one year ago. In 2000, the

FIGURE 1: HOG PRICES



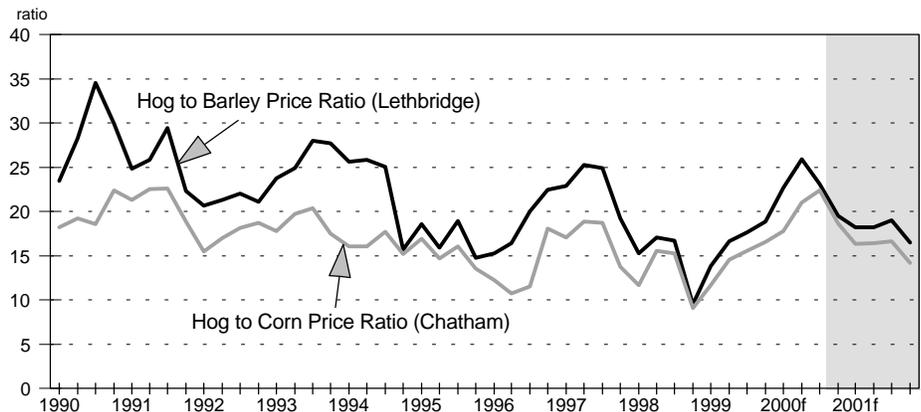
f: forecast, AAFC, October 2000
Source: AAFC-MISB

Ontario Index 100 hog price is expected to average around \$161 per hundred kilograms (/ckg), registering a 34% increase compared to the 1999 average price. For 2001, the prices are expected to drop 9% and average in the \$145/ckg range. The Alberta Index 100 hog price is expected to increase to \$152/ckg in 2000 but decrease to \$138/ckg in 2001. Price projections are based on the assumption that the Canadian dollar will likely fluctuate between approximately \$1.45 to \$1.48 CAN\$/US\$ 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 indicates that the returns to hog producers were quite high in early 1990s. Very low prices in late 1998 and early 1999, however, resulted in low hog-corn and hog-barley price ratios, which suggests lower profitability. As shown in Figure 2, these ratios started increasing in 1999 and are expected to remain high until third quarter 2000 as feedgrain prices remain low. Beginning fourth quarter 2000, these ratios are expected to decline slightly as a result of an expected decline in hog prices and a slight increase in feedgrain prices.

FIGURE 2: CANADA - HOG/FEEDGRAIN PRICE RATIOS



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

Relatively low feed costs will positively influence producer returns and should allow operations to remain profitable in 2000 and 2001.

On November 7, 2000, the Canada Customs and Revenue Agency imposed a provisional duty of US\$1.58 per bushel on grain corn imported from the U.S. The provisional duty will apply to imports west of the Manitoba/Ontario border.

INVENTORIES AND MARKETINGS

Statistics Canada reported that total hog inventories as of October 1, 2000, were 12.2 mln hd, approximately 1% lower

than October 1, 1999. Comparing October 1 inventories, 2000 to 1999, only New Brunswick, Manitoba, and Saskatchewan showed an increase in their inventories. Total pig inventories declined by 2.3% in Eastern Canada but increased by 1.3% in Western Canada (Figure 3). Quebec's pig inventory of 3.7 mln hd, was the largest in Canada but still 1% lower than the level observed on October 1, 1999.

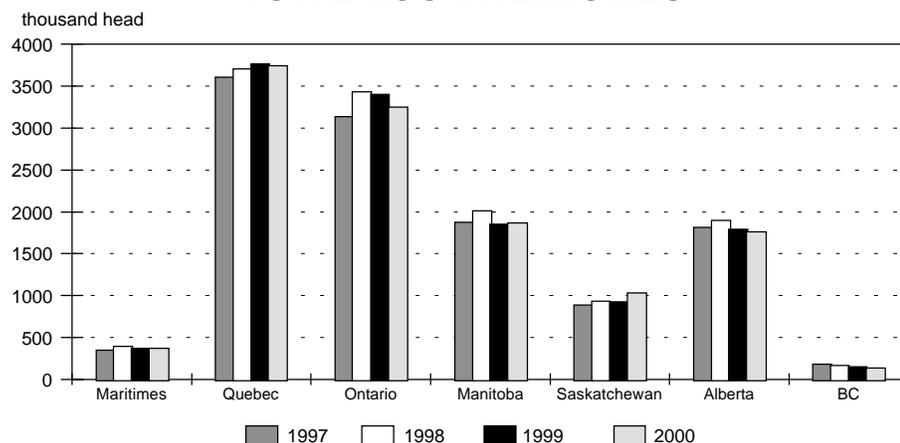
According to Statistics Canada, sows farrowed in the third quarter (July-September) of 2000 were 3.3% higher than the previous year. These hogs

CANADA: HOG AND PORK SUPPLY AND DISPOSITION

	2000				2001f				Annual		
	Q1	Q2	Q3f	Q4f	Q1	Q2	Q3	Q4	1999	2000f	2001f
	thousand head										
Beginning Inventory Hogs	12,242	12,131	12,231	12,148	12,051	11,938	12,084	12,136	12,409	12,242	12,051
Hog Marketings (incl. < 50 kg)	5,951	5,718	6,060	6,085	6,068	5,943	6,063	6,165	23,056	23,814	24,239
Hog Slaughter	4,972	4,676	4,886	5,053	5,177	4,994	4,995	5,221	18,928	19,587	20,387
Hog Exports: > 50 kg	475	506	570	470	380	405	456	376	2,031	2,021	1,617
Hog Exports: < 50 kg	<u>506</u>	<u>538</u>	<u>606</u>	<u>562</u>	<u>511</u>	<u>544</u>	<u>613</u>	<u>568</u>	<u>2,105</u>	<u>2,212</u>	<u>2,236</u>
Total Hog Exports	981	1,044	1,176	1,032	891	949	1,069	944	4,136	4,233	3,853
	thousand tonnes (cold carcass equivalent)										
Pork Production	424	399	417	431	440	425	425	444	1,584	1,671	1,734
Pork Exports	179	176	182	190	193	198	186	200	631	727	777
Domestic Disappearance	252	232	246	252	256	235	249	255	1,004	982	995
	PRICES										
Ontario Index 100 {Dressed (\$/ckg)}	146	180	170	147	141	146	155	138	120	161	145
Alberta Index 100 {Dressed (\$/ckg)}	142	172	156	137	133	138	146	133	114	152	138
Iowa/South Minn. {Live (\$US/cwt)}	41	50	46	40	39	40	42	38	33	44	40

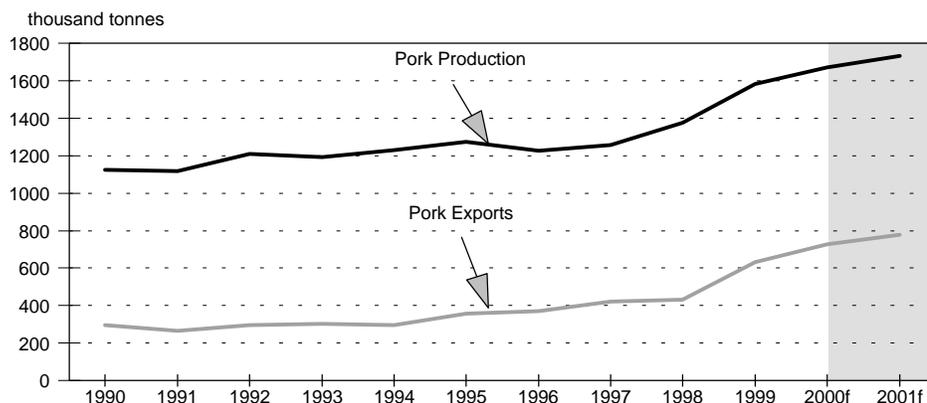
f: forecast, AAFC October 2000
Source: Statistics Canada and AAFC, MISB

**FIGURE 3: CANADA (OCTOBER 1) -
TOTAL HOG INVENTORIES**



Source: Statistics Canada

**FIGURE 4: CANADA
PORK PRODUCTION AND EXPORTS**



f: forecast, AAFC, October 2000
Source: Statistics Canada

should be marketed in early to mid-2001. Farrowing intentions for the fourth quarter (October-December) of 2000 indicate a decrease of 0.7% in sows farrowing over the same period a year ago because of an expected decrease in hog prices in the first two quarters of 2001.

Hog marketings are expected to reach 23.8 mln hd in 2000 (including exports of piglets), an annual increase of 3.3%, and marketings for 2001 are expected to increase another 1.8%.

DOMESTIC SLAUGHTER AND HOG EXPORTS

Recent expansion in production and slaughter capacity in Canada is expected to lead to a 3.5% increase in the total hog slaughter from 18.9 mln hd to 19.6 mln hd between 1999 and 2000

respectively. Barring any strikes or lockouts in the Canadian pork packing industry, hog slaughter is expected to increase 4% in 2001. 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, Manitoba hog-kill plant opened in August 1999 but has not operated at full capacity until recently.

Weaner pig exports to the U.S. are likely to continue to increase since some U.S. farrow-to-finish operations are becoming "finishing-only" operations as a result of cheap feedgrain and fewer labor

requirements. To keep their barns full, the U.S. operations are continuing to draw weaner pigs from Canada. Compared to a year ago, the first half 2000 hog slaughter was up 3% in Eastern Canada and 6% in Western Canada. Quebec slaughtered the largest number of pigs (3.3 mln hd) followed by Ontario (2.4 mln hd) in the first half of 2000. Total Canadian hog slaughter was up 4% in the first half 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 U.S. Due to recent investments in larger, state-of-the-art slaughtering plants, Canadian slaughter capacity is expected to increase at least until 2003.

PORK PRODUCTION AND EXPORTS

Canadian pork production has increased about 14% to 1.6 million tonnes in 1999. Pork production is expected to increase 5.5% in 2000 and another 3.7% in 2001 (Figure 4). At the same time, total disappearance is expected to decline 2.3% in 2000 because of an increase in the price of pork. As a result of increased pork production, pork exports have increased significantly over the years. Exports for 2000 are expected to increase 15% and another 7% in 2001. Depreciation of Canadian currency and recovery from the recent economic turmoil in the Asian countries are expected to contribute to an increase in demand for Canadian pork overseas.

PORK NEWS

Maple Leaf Pork recently announced that its Brandon plant would resume a five-day schedule, an increase from their four-day work week in effect since spring. The

Brandon plant was processing only 100 hogs per day when processing first began in August of last year. Now, the plant turns out 1,300 hogs per hour or, 36,000 per week. A large supply of hogs and the availability of an efficient labor force have led Maple Leaf to decide in favor of increasing hog slaughter at their Brandon plant. This will increase demand for slaughter hogs further and reduce live hog exports to the U.S. in 2001.

CATTLE AND BEEF

The Canadian cattle cycle is still in the contraction phase and as a result, the cattle herd has declined for the fourth consecutive year. Estimated total cattle and calves inventories decreased about 1% on July 1, 2000 compared to a year ago. Both beef production and beef exports are expected to increase in 2000 but decrease modestly in 2001. Live cattle prices for the remainder of 2000 and into 2001 are expected to remain strong as supplies tighten.

U.S. PRODUCTION AND PRICES

The *Cattle* report released by the National Agricultural Statistical Service (NASS), USDA, on July 21, 2000, reported that total U.S. cattle and calves inventories on July 1, 2000 were 106.4 million, 1% below the 107 million of a year ago. The July 1, 2000 survey of cattle producers indicated that beef replacement heifers and beef cows were down 2% and 1% respectively. Steers

weighing 500 pounds or over, at 14.3 mln hd, were down 1%.

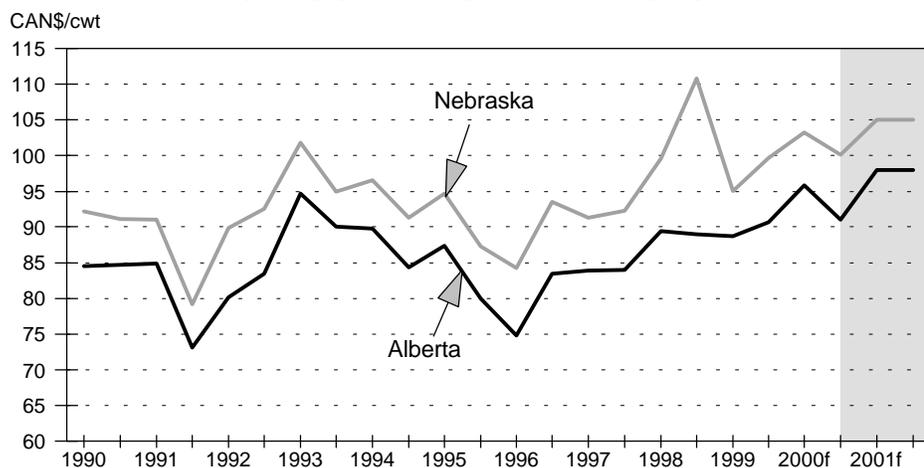
According to the USDA *Cattle on Feed* report of September 15, 2000, cattle and calves on feed for slaughter in the U.S. from feedlots with capacity of 1,000 or more head totaled 10.4 mln hd on September 1, 2000. Cattle on feed inventories were up 9% from a year ago. According to the USDA, worsening

drought conditions will likely extend the cattle herd decline into 2002 as heifer retention appears to have been delayed for another year.

The decline in cattle numbers during the past several years will lead to a decline in beef production in 2001. According to the USDA, beef production is expected to begin to decline in the fourth quarter of 2000. Annual beef production is expected to increase 1.5% in 2000 but decrease 5% in 2001. Beef exports increased 11% between 1998 and 1999 and are expected to increase 5% in 2000 but decrease 3% in 2001. Imports are expected to increase 5% in 2000 compared to the 1999 levels.

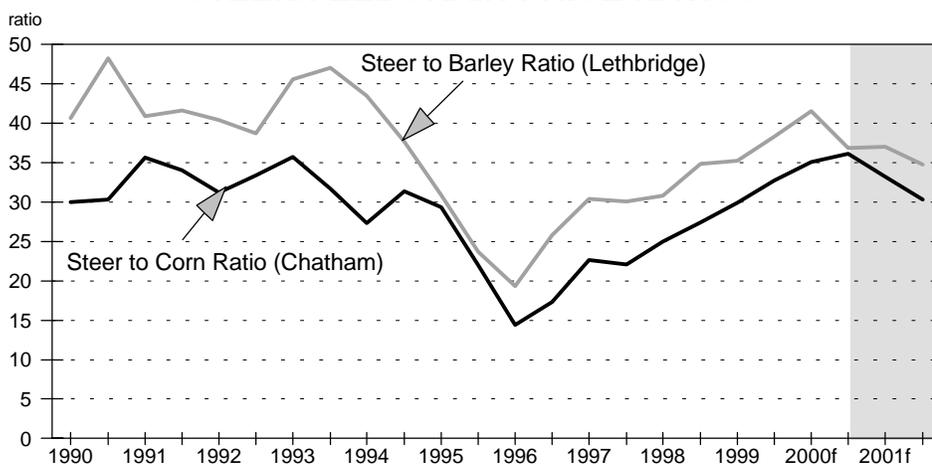
The USDA forecasts that the 2000 price of choice steers in Nebraska is expected to average US\$69/cwt, about 5% above the 1999 price. This increase is primarily due to a stronger demand than supply of cattle. Second quarter prices of choice steers in Nebraska averaged US\$71.59/cwt and showed an increase of 10% compared to the same time period a year ago. According to the USDA, prices of Oklahoma feeder steers (600-700 lb) are expected to stay strong and average near US\$95/cwt in 2000 and 2001.

**FIGURE A:
SLAUGHTER STEER PRICES**



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

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

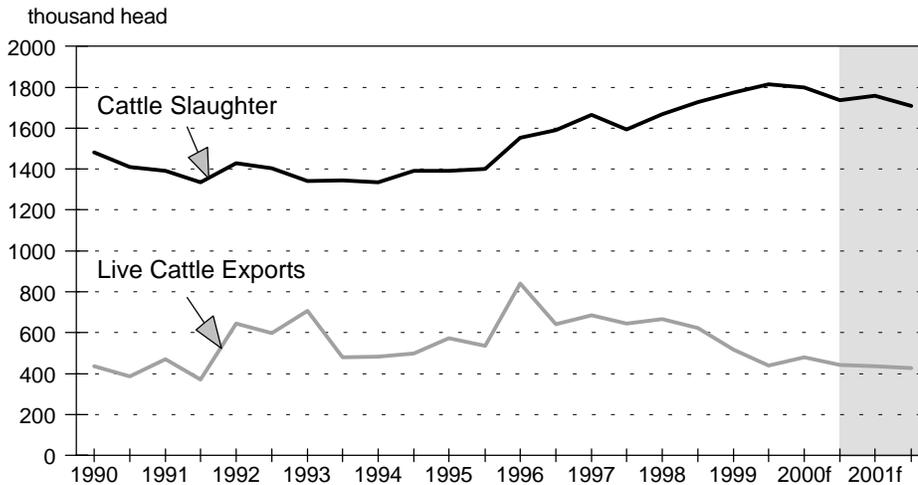


f: forecast, AAFC, October 2000
Source: AAFC-MISB, CANFAX

CANADIAN CATTLE PRICES

Canadian cattle prices closely follow U.S. prices (Figure A). Average annual cattle prices are expected to rise in 2000 compared to 1999 as low level of cattle inventory continues, and supplies decline. Compared to 1999, the 2000 average slaughter steer prices are expected to increase 11 and 4% respectively for Ontario and Alberta. Tight supply of fed-cattle during most of this year was the main reason for a larger increase in the Ontario price. Compared to a year ago, average feeder

**FIGURE C: CANADA -
CATTLE SLAUGHTER AND LIVE EXPORTS**



f: forecast, AAFC, October 2000
Source: Statistics Canada

steer prices in 2000 are expected to be about 16 and 18% higher in Ontario and Alberta respectively. Average slaughter and feeder steer prices are expected to remain strong in 2001. Fed-cattle and feeder cattle prices are expected to remain strong as long as feed stays cheap and beef demand remains strong.

STEER TO FEEDGRAIN PRICE RATIOS

The steer to feedgrain price ratio is a good economic indicator of feed lots' 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 since then shown significant improvement. The ratios are expected to stay relatively stable in 2000 but could decline slightly in 2001 due to a marginal increase in feedgrain prices with 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 fourth consecutive year. Estimated total cattle and calves inventories on July 1, 2000 were 14.3 mln hd, a decrease of about 1% from July 1, 1999. Beef cow numbers were down 2% while replacement beef heifers were up 2.4%. This indicates some sign of herd

rebuilding. Cattle and calves inventories are expected to begin rising in early 2001. Producers may continue to retain heifers for the breeding herd in the fourth quarter of 2000 as well. Cattle marketings are expected to be down about 3% in 2000 and again in 2001.

DOMESTIC SLAUGHTER AND CATTLE EXPORTS

As a result of a continuous decline in the cattle inventory, marketings are expected to fall in both 2000 and 2001. Domestic cattle slaughter is expected to decrease about 1.5% in 2000 and 2% in 2001. Due to high cattle prices, packers' margin will be reduced leading to a lower

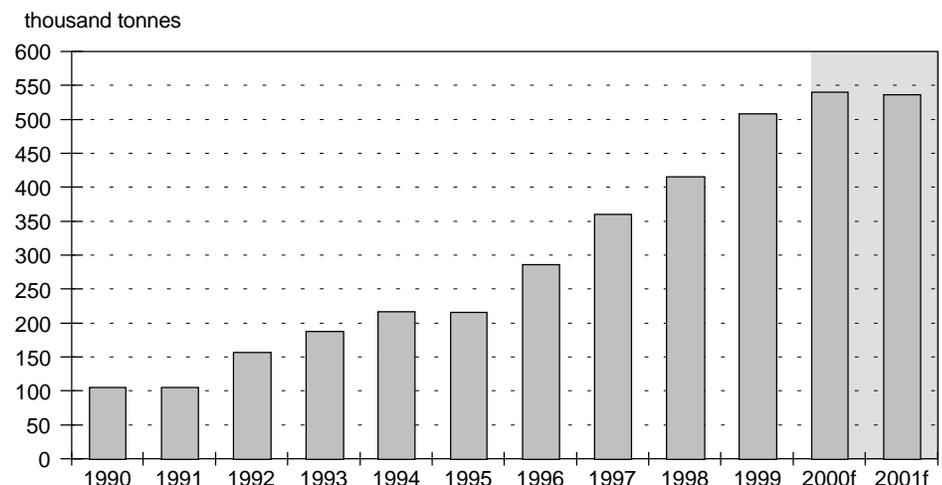
demand for slaughter cattle by the packers. Annual cattle slaughter is expected to be 3.54 mln hd in 2000 and 3.47 mln hd in 2001. Since marketings will be declining more rapidly than slaughters, exports of slaughter cattle should be falling in 2000 and 2001 (Figure C).

Canadian live cattle exports declined 7% in the first half of 2000 compared to a year ago. Annual live cattle exports are forecast to decline 3.5%, from 958 thousand head (k hd) in 1999 to about 925 k hd in 2000. Improved efficiency and increased slaughter capacity in Canada will contribute to a decline in live cattle exports in the future. Also, imports of feeder cattle from the U.S. increased sharply in 1999 and are expected to increase further in 2000. This is because of a severe drought in the U.S. that has damaged a large area of pasture land forcing producers to export more feeders to Canada.

BEEF PRODUCTION AND EXPORTS

As a result of increased slaughter, beef production increased 8% in 1999. However, beef production is expected to increase marginally in 2000 compared to 1999 because of a small decrease in cattle slaughter but heavier carcass weight due to low feedgrain prices. The expected decline in cattle supply due to the cattle cycle suggests a 2% decline in 2001 beef production.

**FIGURE D: CANADA -
BEEF EXPORTS**



f: forecast, AAFC, October 2000
Source: Statistics Canada

CANADA: CATTLE AND BEEF SUPPLY AND DISPOSITION

	2000		2001f		Annual		
	January	July	January	July	1999	2000f	2001f
	-June	-December f	-June	-December			
Cattle and Calves	thousand head						
Beginning Inventory	12,766	14,275	12,784	14,357	12,902	12,766	12,784
Slaughter (cattle)	1,800	1,737	1,758	1,709	3,588	3,537	3,467
Exports (cattle)	481	444	436	428	958	925	864
Marketings (cattle)	2,184	2,031	2,092	1,987	4,364	4,215	4,079
Beef	kilograms						
Average Cold Carcass Weight	339	349	340	349	339	344	345
	thousand tonnes (cold carcass equivalent)						
Production	611	606	598	596	1,213	1,217	1,194
Exports	265	275	272	264	508	540	536
Imports	146	140	139	138	262	286	277
Domestic Disappearance	491	471	471	470	967	962	941
Prices	\$/cwt live						
Ontario Steers	105	100	107	103	93	103	105
Alberta Steers	96	91	98	98	90	94	98
Nebraska Steers (US\$)	70	68	72	72	66	69	72
Ontario Feeder Steers (500-600 lb)	143	146	145	144	125	145	145
Alberta Feeder Steers (500-600 lb)	152	155	154	153	130	154	154
Oklahoma Feeder Steers (600-700 lb)	93	95	96	94	81	94	95

f: forecast, AAFC October 2000

Source: Statistics Canada and AAFC, MISB

Beef exports increased over 22% in 1999 but are expected to increase only 6% in 2000 due to a very small increase in production. However, in 2001, beef exports are expected to stay relatively flat because of a slight decline in beef production (Figure D). Mexican anti-dumping duty on certain types of U.S. beef has created opportunities for the Canadian beef exporters. Beef disappearance was up 2% in 1999 and is expected to decline marginally in 2000 and may decrease 2% in 2001.

For more information, please contact:

Research and Analysis Directorate

Dr. Raman Srivastava

Research Economist

Phone: (613) 759-7436

Fax: (613) 759-7036

E-mail: srivasr@em.agr.ca

Prepared in collaboration with:

Gord Fetterly,

Agricultural Marketing Officer

and

Randy Kroeker, Economist

BEEF NEWS

According to the Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF), Japanese beef consumption increased 2.7% in 1999 and is forecast to increase further in 2000. Consumption of pork and chicken, however, fell over the same period of time. This may have implications for Canadian red meat exports.

Antibodies of the virus known to cause foot and mouth disease (FMD) were recently found in a small number of cattle in Argentina. Government authorities in Argentina claim that the original 10 cattle detected with the FMD virus were illegally smuggled past sanitary controls from Paraguay. Apparently, Argentina was granted "FMD free without vaccination" status by the World Organization for Animal Health in May 2000. This ruling opened the way for Argentina to export beef to anywhere in the world, including the high-value, lucrative Pacific beef market of Japan and Korea. However, with this disease incident, Argentina's access to Pacific beef market and to the U.S. and Canada will be temporarily delayed.

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500-303 Main Street
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Telephone: (204) 983-8473
Fax: (204) 983-5524
Editor: Gordon MacMichael
E-mail: macmichaelg@em.agr.ca**

Director: Maggie Liu
Chief: Fred Oleson

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