Briefs

Livestock, Dairy, & Poultry

Pork Production to Reach Record Levels in 2002 & 2003

U.S. hog producers are expected to respond to higher feed costs by reducing the number of sows that farrow in 2003. Sow farrowings in 2003 are expected to decline about 1 percent from 2002. Pigs per litter are expected to increase slightly, as less productive sows are eliminated from the breeding herd. The pig crop is expected to be down about 1 percent next year, with slaughter to increase just slightly. Average dressed weights will be lower, with the higher cost of gain.

USDA produces a *Quarterly Hogs and Pigs* report. This information, combined with pork production figures for the first half of 2002, indicates record quantities of U.S. pork products, both this year and in 2003. USDA forecasts 2002 pork production at 19.8 billion pounds and 2003 production at 19.85 billion pounds. Both quantities exceed all previous U.S. production levels.

Total red meat and poultry production is expected to be about 85.3 billion pounds this year, but may decline slightly in 2003. This year's large meat production, combined with an 8-9 percent decline in exports and a 3-4 percent increase in imports, will create an abundant supply of meat for domestic consumption.

Hog Prices to Average in the Mid-$30s in 2002 & 2003

Prices of 51-52-percent lean hogs (liveweight equivalent) ended the second quarter on a high note, averaging $35 per hundredweight (cwt). Seasonally lower slaughter in June and higher demand for pork products, particularly since mid-June, have increased hog prices. With demand expected to remain comparatively strong through the summer months, prices are expected to average $35-$37 per cwt in the third quarter. Because of the seasonally heavy slaughter, prices are expected to decline into the high-$20s per cwt in the fourth quarter of 2002, while first-quarter 2003 prices are expected to average around $34 per cwt. Second-quarter 2003 hog prices are expected to rise again, and average around $37 per cwt.

Retail pork prices are expected to average about $2.68 a pound this year and decline slightly in 2003. The difference between prices received by the producer, the wholesaler, and the retailer indicates the total price spread. The spread has averaged about $1.86 a pound since 1999, but in second-quarter 2002 the total spread was $2.06. Over the last 3 years, the wholesale-retail price spread has accounted for 80 percent of the total spread. So far in 2002, the wholesale-retail price spread accounts for about 82 percent of the total. The total price spread is expected to narrow toward the 3-year average next year, pointing to lower retail prices.

The U.S. is expected to export almost 6 percent less pork in 2002 than in 2001. Lower demand for U.S. pork products can be attributed generally to muted consumer demand resulting from slower-than-anticipated economic growth in foreign markets. Specifically, weakness in several markets has already been noted or is likely to become apparent in the near future.

Japan Imposes Safeguard Again

Japan—the largest foreign market for U.S pork products—imported 4 percent less pork in the first 5 months of 2002 than for the same period last year. Moreover, the Safeguard was triggered at the end of June—after data for the first quarter of Japan's April-March fiscal year became available. The Safeguard is a World Trade Organization-sanctioned restriction that protects domestic markets from surges in imported products.

Imposition of the Safeguard raises the minimum price at which foreign pork can be imported into Japan by 25 percent, making imported pork products less attractive to Japanese consumers than domestically produced products. The higher minimum import price resulting from the Safeguard was imposed on August 1 and will remain in place until March 31, 2003.

While Safeguard imposition typically lowers demand for all imported pork, frozen products tend to decline the most. Since fresh pork tends to have larger margins and limited shelf life, demand for imported fresh pork has not declined as dramatically as has demand for frozen pork under past Safeguard scenarios. And, since fresh products comprise more than half of U.S. exports to Japan, the Safeguard has impacted U.S. pork exports to a lesser degree than to a country such as Denmark—whose exports to Japan are nearly all frozen.

Compared with demand patterns under past Safeguard scenarios, Japanese demand for imported pork appears to have changed under the Safeguard that was imposed from August 2001-March 2002. Total August 2001-March 2002 pork imports increased compared with the same period in 2000-2001, when no Safeguard was in place. Under the most recent Safeguard, Japan imported more pork products (fresh and frozen), despite higher prices.

Consumer fears of bovine spongiform encephalopathy (BSE) was one likely factor in continuation of Japanese consumer demand for higher priced imported pork under the August 2001-March 2002 Safeguard. Intense competition for market share among international exporting companies is another likely factor.

Prospects Mixed For Other Countries

Export totals for the first 5 months of 2002 to Mexico and Canada—the second and third largest foreign markets for U.S. pork—show a mixed picture. Exports to Mexico declined slightly, likely resulting from the relatively high U.S. dollar exchange rate, and continued economic uncertainty in Mexico. Canada has imported 7 percent more U.S. pork so far this year, to meet demand for selected pork cuts that the domestic Canadian pork industry is unable to meet, or to fill "shortages" created by Canada's aggressive pork export industry.

Russia's declining demand for U.S. pork products continued through May. So far this year, U.S. exports to Russia are 62 percent lower than for the same period last year. U.S. pork products continue to have difficulty competing with lower priced pork products from Brazil and China.

For South Korea, 2002 was to have been the year of re-entry into international pork markets—Japan in particular—after foot-and-mouth disease (FMD) infected the Korean herd in the spring of 2000. In anticipation of resuming the lucrative loin trade to Japan, the Korean pork industry accumulated significant stocks of pork this year. U.S. exports to Korea had increased 75 percent over the same period last year. Korean traders imported lower priced U.S. cuts in order to accumulate stocks of Korean products for export to Japan. But, the reappearance of FMD in May has postponed Korean loin exports to Japan. Large Korean pork stocks will likely slow Korean demand for U.S. pork products for the remainder of 2002.

U.S. Pork Imports Increase

So far through May 2002, the U.S. has imported 17 percent more pork than over the same period last year. About 80 percent of U.S. imports are from Canada, representing the continuing integration of the U.S. and Canadian pork and food service industries. Denmark accounts for about 13 percent of U.S. imports. The American appetite for pork ribs is the primary factor driving Danish exports to the U.S.

Despite concerns about low fourth-quarter 2002 prices, and uncertainty surrounding requirements for Country of Origin Labeling contained in the 2002 Farm Act, the U.S. continued to import large numbers of live Canadian hogs. In the first 5 months of 2002, imports were 18 percent higher than for the same period last year. So far this year, nearly 64 percent of live Canadian imports have been feeder pigs destined largely for finishing in the Corn Belt States. The U.S. is expected to import 6.2 million hogs from Canada this year, 17 percent more than in 2001. AO

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For the latest data and analysis, see the Hogs briefing room on the ERS website: www.ers.usda.gov/briefing/hogs/

Specialty Crops

U.S. Sugar Policy Under the 2002 Farm Act

The 2002 Farm Act—the Farm Security and Rural Investment Act of 2002—reauthorized the sugar price support loan program and introduced measures to make the program work more effectively for producers and processors, and to lessen the cost of the program to the U.S. government.

The Sugar Loan Program

The 2002 Farm Act reauthorized the U.S. Department of Agriculture (USDA) to make loans available to processors of domestically grown sugarcane at the rate of 18 cents per pound and to processors of domestically grown sugar beets at 22.9 cents per pound for refined sugar. As before, loans are made for a maximum term of 9 months and must be liquidated along with interest charges by the end of the fiscal year. Processors are required to provide payments to producers in proportion to the amount of the loan value accounted for by the sugar beets and sugarcane the producers deliver. USDA retains the authority to establish minimum producer payment amounts.

Other sugar loan provisions in the 2002 Act include the following:

- Sugar loans must be nonrecourse, meaning that when the loan matures, the USDA must accept sugar pledged as collateral as payment in full in lieu of cash repayment of the loan, at the discretion of the processor.
- A new provision allows processors to obtain loans for "in-process" sugar and syrups at 80 percent of the loan rate. "In-process" sugar and syrups must be converted into raw cane or refined beet sugar at no cost to the Commodity Credit Corporation (CCC) before being eligible for forfeiture.
- The Act eliminates penalties that, under prior legislation, had been charged to processors who forfeited sugar to the CCC.
- The Act eliminates the requirement that sugar processors notify USDA of their intention to forfeit sugar under loan. Also eliminated are government assessments on sugar marketing by processors.

Operation of the program at no cost to the government. A key change in the 2002 Farm Act requires that USDA operate the U.S. sugar loan program at no cost to the Federal government, to the maximum extent possible. Specifically, USDA must avoid forfeiture of sugar to the CCC. To discourage loan forfeiture, the sugar price at the time of loan repayment must be high enough to cover the loan principal *plus* interest and marketing expenses.

The 2002 Farm Act gives USDA authority to accept bids from sugarcane and sugar beet processors to obtain raw cane sugar or refined beet sugar in CCC inventory in exchange for reducing production. This is one way to control expected excess (or "price-depressing") supplies of sugar. The 2002 Farm Act specifies that this authority is in addition to any authority the CCC may have under other laws.

Marketing allotments. Another way to guarantee that the sugar loan program operates at no cost to the Federal government is the requirement in the 2002 Farm Act that USDA establish flexible marketing allotments for sugar (supply control).