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Integration in the North American Livestock and Meat Industries

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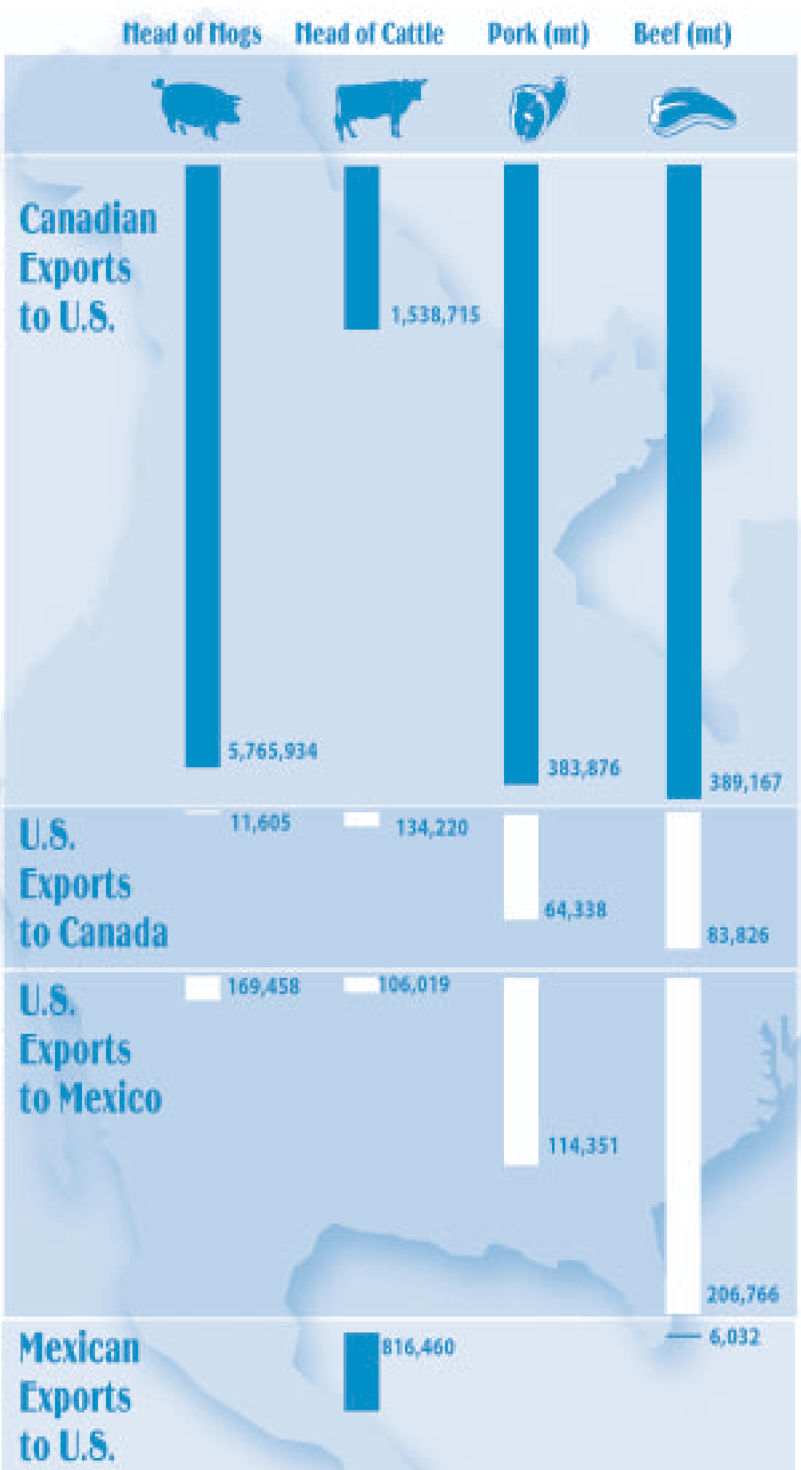

The accompanying chart illustrates the extent of integration in the North American meat and livestock industries that has occurred since the implementation of NAFTA. As shown, this integration is especially high between the United States and Canada.

The United States is Canada's most important market for livestock and meat exports. In 2002, Canada exported 1.54 million head of cattle and 5.76 million head of pigs to the United States. Given that 31 percent of these imports were feeder cattle and 68 percent were feeder pigs, these animals consumed an additional 73.9 million bushels of U.S. corn and 278,000 metric tons (mt) of U.S. soybean meal than would otherwise have been consumed by the U.S. livestock industry. Assuming that all these animals were eventually slaughtered in the United States, this trade increased U.S. cattle and pig slaughter by 4.3 percent and 5.7 percent, respectively, in 2002.

The importance of Canadian livestock and meat to the U.S. industry is especially apparent when viewed in the context of U.S. exports. In addition to livestock, Canada exported 389,167 mt of beef and 383,876 mt of pork (product weight equivalent) to the United States in 2002. At the same time, the United States exported 828,668 mt of beef and 549,989 mt of pork. Cumulatively, imports of Canadian slaughter animals and meat were equivalent to 55 percent of U.S. beef exports and more than 100 percent of U.S. pork exports. Adding in feeder animals makes Canada's contributions to U.S. export totals even higher.

Canadian livestock production and slaughter are expanding in the western provinces, but the U.S. industry has greater overall slaughter capacity and the U.S. Midwest is more efficient at feeding pigs because of lower feed-grain costs. As a result, Canadian live animal exports to the United States represent 11 percent and 40 percent, respectively, of the Canadian live cattle and pig herds (based on January 1, 2002, inventories). This trade flow has allowed Canadian producers to expand production and to supply both cattle and pigs to fill out U.S. feeding and slaughter capacity.

Given Canada's lower slaughter, feeding, and meat consumption capacities, trade in the opposite direction is much less. The United States exported 127,135 head of slaughter cattle and 9,252 head of feeder and slaughter pigs to Canada, which were equivalent to 3.9 percent of Canada's cattle slaughter and 0.05 percent of Canada's pig slaughter in 2002. These exports accounted for 0.14 percent and 0.02 percent of the U.S. cattle and pig herds, respectively. Canada is an important but comparatively smaller market for U.S. red meats, with imports totaling 83,826 mt of beef and 64,338 mt of pork in 2002. The United States fills spot export needs and some consumption needs in Canada.

Under normal circumstances, any large reduction in U.S. imports of Canadian animals and/or meat would eventually increase Canadian meat exports to other parts of the world and reduce total U.S. meat exports unless U.S. production expanded. With the discovery of bovine spongiform encephalopathy (BSE) in the Canadian beef herd, however, Canada will suffer from a large surplus of beef and variety meats that normally would have been exported.

Integration of Mexico, the third member of NAFTA, into the North American red meat complex has been slowed by lack of infrastructure and by sanitary, political, and social issues. Despite these hurdles, Mexico is a growing importer and exporter of animals and meats. In 2002, Mexico imported 271,671 mt of beef and 157,402 mt of pork from the United States and Canada combined. At the same time, Mexico exported more than 800,000 head of cattle to the United States and about 45,000 mt of pork, mostly to Japan. Recent livestock trade between the United States and Mexico has fluctuated widely because of weather conditions, trade barriers, and sanitary barriers, but unrestricted trade would continue to pull lightweight U.S. pigs and Mexican feeder steers across the border. In addition to Mexico's large potential to import more muscle meats, Mexico provides by far the largest market for U.S. beef and pork variety meat exports, making it a valuable complement to markets that purchase large quantities of high-value muscle meats. However, sanitary and border issues will need to be resolved before Mexico's full integration and full potential as an export market can be realized.◆

Iowa's Agricultural Situation
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cent of Iowa's soybean acreage to herbicide resistant varieties, 2 percent higher than March intentions, and 3 percent above the national share. Despite some stormy weather, overall excellent weather conditions in early July spurred crop growth. At the beginning of July, topsoil moisture was rated 3 percent very short, 13 percent short, 73 percent adequate, and 11 percent surplus. Subsoil moisture had similar ratings across the state. At that time, 82 percent of Iowa corn and 80 percent of soybeans were in good to excellent condition.

On the demand side, lower carry-over stocks and increased ethanol usage offset most of the projected corn production gain of 30 to 36 percent over last year. According to the June USDA *Grain Stocks* report, national corn stocks in all positions totaled 2.98 billion bushels, down 17 percent from last year's levels. The spring corn utilization was 2.15 billion bushels, 5 million bushels below the 2002 level. Despite reduced stocks, smaller crops in Russia and Ukraine, and strong corn demand for both exports and domestic use, analysts agree that a dry weather outlook is needed to push corn prices considerably above loan rate levels at harvest. On the news of excellent growing conditions, September corn futures dropped to $2.15 per bushel on July 10, a decline of 10.25¢ over the week.

Dampening of soybean prices followed an unexpected increase in quarterly soybean stocks, increased acreage, and favorable weather conditions. However, continuing strong export demand enhanced by a weaker dollar balanced the downturn. According to official estimates, soybean storage totaled 602 million bushels, down 12 percent from the 2002 level but above prior trade expectations. Analysts predict that soybeans may rally after the ample South American crop has gone through marketing channels and if the weather deteriorates. In light of the reports, August soybean futures fell 12¢ to close at $6.0275 per bushel on July 10.

Livestock Inventory

According to the June USDA *Hogs and Pigs* report, the national hog inventory continues to diminish, to a level 2.6 percent below that of last year. The breeding herd declined the fourth time in a row, down 4.3 percent from this time last year. The market herd was 2.4 percent below the 2002 level and, looking at the reduced spring pig crop, is not likely to meet or exceed last year's level until winter. However, looking at fall farrowing intentions coupled with the higher productivity indicated in the report, analysts warn that spring marketing numbers in 2004 may surpass those for 2003.

In Iowa, there were 15.5 million hogs and pigs, down 1 percent from last year's level. The breeding herd inventory was recorded at over 1 million head, down 8 percent from the level in 2002 but identical to the March 2003 level. The number of market hogs on Iowa farms was unchanged compared to a 2.4 percent decline nationwide. Iowa remains first in the nation in hog production, with North Carolina running a close second. Iowa's share of the nation's breeding herd inventory has declined from 24 percent in 1983 to approximately 17 percent in 2003. So far this summer, hog prices have been 13 percent above last year's lows and are expected to remain at levels profitable for most producers (at or above $40/cwt) until the year's end. ◆