

## Briefs

**Livestock, Dairy, & Poultry****Poor Winter Weather Reduces Beef Supply**

Cold, wet conditions have limited cattle weight gain in feedlots since late November, resulting in lower marketing weights, delayed marketings, and a very tight supply of market-ready animals. With buyer demand strong, competition for the reduced supply of beef, particularly higher quality beef, has pressed retail prices above the record levels of the early 1990s.

Poor weather conditions in recent months have given prices an extra boost and the market a view of the next couple of years. Overall cattle numbers continue to decline, putting a long-term squeeze on production. The total cattle inventory dipped slightly for the fifth straight year in 2000. Beef cows declined less than 1 percent from 1999, while dairy cows rose less than 1 percent. The total cow inventory was down 5 percent from the 1996 peak, and the downturn is unlikely to be reversed for at least the next several years.

The downward trend has been exacerbated by a sharp increase in cow slaughter this past winter and near-record number of heifers slaughtered in 2000. Consequently, the number of beef cow replacement heifers calving and entering the herd is expected to be down this year. In addition, on January 1, 2001, the number of heifers on feed (and thus not entering the breeding herd) in the seven states that report monthly was up from the large numbers recorded in 2000 and 1999 by 4 and 15 percent, respectively.

Total cattle-on-feed inventories on March 1 were up 3 percent from a year earlier as the poor feeding conditions (plus one less slaughter day) resulted in the marketing pace declining 16 percent in February. The sharp slowdown in the slaughter pace has been partially offset by a spike in cow slaughter in the first quarter, after poor weather conditions forced producers to use rapidly tightening hay stocks. Although annual cow slaughter is expected to decline for the fifth consecutive year, first-quarter slaughter rose 9 percent above a year earlier. For the year, steer

and heifer slaughter is expected to decline about 4 to 5 percent, while cow slaughter drops 7 percent.

Slaughter weights for federally inspected beef declined in December after running well above year-earlier levels since mid-spring 2000. With continued poor weather and feedlot conditions, weights in March were sharply lower. This past winter (2000/01) will likely go down as the worst feeding year since 1992/93 when feedlot conditions remained poor until well into spring.

Beef production declined nearly 7 percent in the first quarter (January-March) compared with first-quarter 2000. Production in the second quarter (April-June) will be about unchanged from a year earlier as more production is pushed into the second quarter. Second-half production will begin to fall well under year-earlier levels, a result of the declining cattle inventory.

For the year, beef production is forecast down 4 percent from 2000.

With demand strong and total slaughter running well below expectations given record on-feed inventories, first-quarter fed cattle prices averaged \$79 per cwt, up from \$69 a year earlier. Prices averaged near \$80 in early April, compared with \$73.52 a year earlier. Prices are expected to remain strong in 2001, reflecting the reduced supplies, but the present price premiums will erode somewhat as feedlot conditions improve and marketings increase.

Retail prices for USDA Choice beef soared in January and February, reflecting strong domestic and export demand and tight supplies. January's average \$3.21 per pound, up from the monthly record \$3.13 set in September 2000, rose to \$3.34 in February and March, the result of even tighter supplies. Prices will moderate from this high but should remain 5 to 10 cents above the 2000 annual record of \$3.07 per pound. Both the farm-retail spread and cattle prices, which rose in January, will likely moderate as beef supplies increase this spring. Prices for Choice boxed beef in January eclipsed the

The current outbreak of foot and mouth disease (FMD) in the European Union (EU) and elsewhere is creating uncertainty in international meat trade. Officials have confirmed FMD cases in the United Kingdom, France, Netherlands, Ireland, and Argentina, as well as a number of other countries.

FMD is a highly contagious and economically devastating disease of cattle and swine. It also affects sheep, goats, deer, and other cloven-hooved ruminants. While many affected animals recover, the disease leaves them debilitated, causing severe losses in production of meat and milk. The disease does not affect the safety of food and is not considered a public health threat. The virus can be spread by many different carriers, including humans, most uncooked meat products, manure, flies, water, and soil. To prevent FMD from entering the U.S., USDA in March intensified scrutiny and inspections at ports of entry and implemented a temporary import prohibition of swine, ruminants, and products that could potentially carry the virus from the EU and other countries that have confirmed cases of this animal disease.

As of mid-April, the U.S., Japan, and Russia (major red meat importers) continue to temporarily ban imports of live animals, frozen and chilled red meats, and other red meats from the EU and Argentina if the products do not meet certain processing standards to kill the FMD virus.

The U.S. ban affects a relatively small share (10 percent) of the U.S. red meat import market. In 2000, the U.S. imported \$3.8 billion of red meat and products, including \$278 million from the EU (pork) and \$113 million from Argentina (mostly beef). Leading suppliers include Canada (beef and pork), Australia (beef and lamb), and New Zealand (beef and lamb). Beef from the EU was already banned due to concerns about bovine spongiform encephalopathy (BSE)--so-called "mad cow disease." For more information, see the USDA website on FMD: <http://www.usda.gov/special/fmd/fmd.html>

December 1990 record of \$129.48 per cwt and approached \$135 in late February. First-quarter prices averaged \$129.41. With seasonal moderation of feeding conditions, prices this spring are expected to decline. However, prices remained strong

in April as feeding conditions remained poor. **AO**

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## Agricultural Policy

# U.S. Farm Policy for the 21st Century: A Diversity of Visions for the Future

As debate over the future of U.S. farm policy gathers momentum, a wide range of ideas has emerged regarding how to address the needs of farmers and other stakeholders in a new farm bill. The House Committee on Agriculture began hearing testimony in mid-February from agricultural economists, commodity groups, and farm organizations on specific options and program designs for a new farm policy. The testimony has reflected a diversity of views on the shape farm policy should take in the future.

Most of these views have been fleshed out with significant detail on program design, and generally fall into three positions. One favors continuation of traditional support programs with no supply controls, the second favors a return to supply controls, and the third favors continued transition to a more market-oriented policy.

### *Traditional Support Programs*

Continuation of traditional support programs has been advocated in testimony by most commodity groups and farm organizations before the House Committee on Agriculture and has characterized most of the views reported by the 21<sup>st</sup> Century Commission on Production Agriculture (AO April 2001). Proponents base their policy recommendations on the agricultural market conditions since enactment of the 1996 Farm Act. In their view, the promise of increased market access and rising exports for U.S. commodities has not been realized, and risk management programs were inadequate to address price and production losses over the past several years, resulting in emergency assistance.

Proposals from these groups have all recommended some type of countercyclical income support program, although details vary on trigger mechanisms and payment formulas. Proposals for triggers have included farm income, aggregate price, gross revenue, gross return per acre, gross cash receipts, or percentage of production cost, calculated at national levels, although some recommended state, regional, or county triggers.

Payments would be the difference between the current levels of the measure, and the measure during some historical base period—generally mid-1990s to 2000—multiplied by an eligibility factor which varies among proposals. For this factor, some suggest historical area and yields, others propose average recent production, and some suggest the same eligibility as current production flexibility contract (PFC) payments (also called Agricultural Market Transition Act—AMTA—payments). Some proposals recommend including government payments in calculating target income or price levels, but most do not. Nearly all proposals recommend covering the traditional program crops and adding oilseeds.

Most proponents of traditional support programs have favored continuing the current PFC payments. About half have proposed increasing the amounts paid out through that program, and most, though not all, have recommended including additional crops, particularly oilseeds. Most also favor maintaining the current marketing loan program, although most recommend adjusting commodity loan rates upward to rebalance price relation-

**For more information on the beef market**, see the Economic Research Service report *Livestock, Dairy, and Poultry Situation and Outlook* at <http://usda.mannlib.cornell.edu/reports/erssor/livestock/ldp-mbb/2001/>

ships among covered crops with the level currently set for soybeans. Many suggest changes to increase flexibility in the operation of the marketing loan and loan deficiency payment programs, including allowing for pre-harvest lock-in of loan deficiency payment (LDP) rates, allowance for payments on grazed-out wheat acreage, ending the requirement of PFC payment eligibility to receive loan deficiency payments, and extending sign-ups and final dates for requesting loan deficiency payments through the marketing year.

All proponents of traditional support recommend eliminating payment limitations for the loan programs, and most advocate no means testing for participation in income support programs. At least one proposal, however, favored targeting of benefits to family-scale operations, both to secure public support for farm income assistance and to guard against further concentration of production.

Virtually all advocates of traditional support programs have recommended continuing the planting flexibility introduced in the 1996 Farm Act; however, a small but vocal group recommends adoption of supply control programs to manage surpluses. They believe trade forecasts had been too optimistic when the 1996 Farm Act was enacted, overstating access to international markets as outlets for surplus domestic production. Their proposals included a voluntary supply control program that would provide higher marketing loan rates in return for fallowing land, as well as reauthorization of farmer-owned reserves, to assure adequate stocks and to provide a risk management tool for farmers. Other proposals suggest increasing humanitarian food aid donations and creating a farm storage program for government-owned surplus stocks designated for food aid and use as renewable fuels.