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Livestock, Dairy, and Poultry Outlook, 2000 in Review And 2001 Outlook

Delmy L. Salin, Coordinator

Abstract

This report examines changes in the livestock industry in 2000 and provides initial assessments of 2001 based on forecasts from the August 2001 World Agricultural Supply and Demand Estimates. Strong economic growth in the United States in 2000 boosted the demand for high quality cuts of red meats, thereby increasing wholesale prices of beef, pork and lamb. However, broiler and farm milk prices declined compared with 1999. Poultry output remained strong in 2000 as exports increased by 9 percent. Extreme weather conditions may dampen beef production in 2001. U.S. pork exports should increase by 18 percent in 2001.

Keywords: Review, outlook, livestock, dairy, and poultry.

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Higher Income Boosts Demand for Higher Priced Meat Cuts

This review provides an analysis of the year 2000 for U.S. livestock, dairy, and poultry. It also looks at the early developments of 2001 and presents forecasts from the August 2001 World Agricultural Supply and Demand Estimates.

Strong economic growth in the United States in 2000 produced an increase in personal disposal income that boosted food expenditures. Although overall per capita consumption of red meat and poultry stayed about the same as in 1999, about 220 pounds, higher incomes increased the demand for commercially prepared food and more expensive cuts of beef and pork. Exports in 2000 accounted for about 12 percent of total U.S. red meat and poultry production. In 2001, exports are expected to climb by 5 percent due to higher shipments of pork, broilers, and turkeys.

U.S. beef production reached a record level during 2000. Increasing demand for higher quality beef resulted in the highest retail prices for Choice beef since 1993. Commercial cow slaughter was not sufficient to meet domestic demand for processed beef (largely for hamburgers), thereby causing increased imports, mostly from Australia and New Zealand. Despite a slowdown in the U.S. economy in 2001, the upward trend in cattle prices is expected to continue due to the sustained demand for high quality beef. However, beef exports in 2001 are expected to decline by 6 percent due to lower supplies during the first half of the year, record U.S. prices, a slowdown in the world economy, and the continued strength of the U.S. dollar.

Declining 2000 commercial pork production, coupled with the strong demand for pork products, especially bacon and loins, raised wholesale and retail prices. Higher hog and pork prices, along with relatively low feed costs, dramatically improved producers' returns, which were above break-even in early 2000 for the first time since 1997. Despite those higher prices, commercial pork production in 2001 is expected to increase by only 1 percent due to producers' caution in expanding their breeding herds.

Total poultry output increased in 2000 by 2.4 percent compared with 1999, in part due to relatively low feed costs. Domestic consumption rose by only 1 percent, while a 9-percent increase in exports (mostly dark meat parts) absorbed the increase in production. Wholesale broiler prices declined, while turkey prices increased. Poultry production in 2001 is expected to increase by 1 percent. Slower growth in broiler pro-

duction and rising exports will help to support prices, while turkey prices are expected to decline because of a third year of expanding production.

Consumption of eggs in 2000 increased by about three eggs per capita due to the rise in demand in the breaking egg market for commercial baking, confections, and the fast food industry. The strong demand for eggs more than offset the increase in production, resulting in higher wholesale prices.

The rapid increase in milk production in 2000 outpaced demand, resulting in lower farm milk prices. Farm milk prices were the lowest since 1991. On the other hand, retail prices rose slightly, resulting in an increase in the farm-to-retail price spread. Expansion in world demand for nonfat dry milk caused a greater than 40-percent increase in international prices. Even though international butter prices declined, the impact in the U.S. market was negligible due to the tight domestic milkfat market. Average 2001 milk prices are expected to return to the levels of the late 1990s. The substantial recovery in 2001 farm milk prices will likely be a result of the strong demand for cheese and butter and the slight decrease in milk production.

In 2000, the U.S. sheep industry continued its downward trend, which is expected to persist in 2001. However, the rate of inventory decline will likely be slower in 2001. In order to offset the decrease in domestic supply given fairly stable demand, total imports increased by 15 percent in 2000 compared with 1999. Imports represented more than one-third of total consumption and came mostly from Australia and New Zealand. Ethnic diversity in the U.S. population has helped maintain per capita consumption in recent years. In 2000, lamb prices increased about 5 percent compared with 1999 and are expected to be virtually unchanged in 2001.

In summary, due to the strong economy in 2000, consumers demanded more poultry products and high quality cuts of red meat, boosting the wholesale prices of beef, pork, turkey, eggs, and lamb. However, broiler and farm milk prices declined compared with 1999. Despite the slowdown in the U.S. economy in 2001, prices are expected to increase due to the continuous demand for high quality red meat cuts and dark meat poultry parts, especially for exports. Turkey prices are the exception to this trend.

For more information about this report contact Delmy Salin, 202-694-5170, dsalin@ers.usda.gov.

Record Production and Higher Retail Prices In 2000; 2001 Production Slides Slightly

Even though the cattle inventory continues the decline that began in 1996, beef production in 2000 totaled a record 26.8 billion pounds due to historically large heifer slaughter and record-high dressed weights. Dry conditions throughout much of the country, particularly in the Southeast, Great Plains, and Western grazing areas, coupled with attractive grain prices, forced more cattle, especially heifers, into feedlots. The large number of heifers placed on feed rather than being retained for herd expansion continued the contraction in the cattle inventory. Expansion of the drought conditions during the spring and summer of 2001 in the Pacific Northwest and Southern Great Plains resulted in a large placement of cattle into feedlots. In the first-half of 2001, beef production declined by 5 percent from a year earlier due to the unusually harsh winter and early spring. Due to extreme weather conditions, increased heifer placements are expected to slow the total 2001 decline in beef production to about 3 percent (fig. 1).

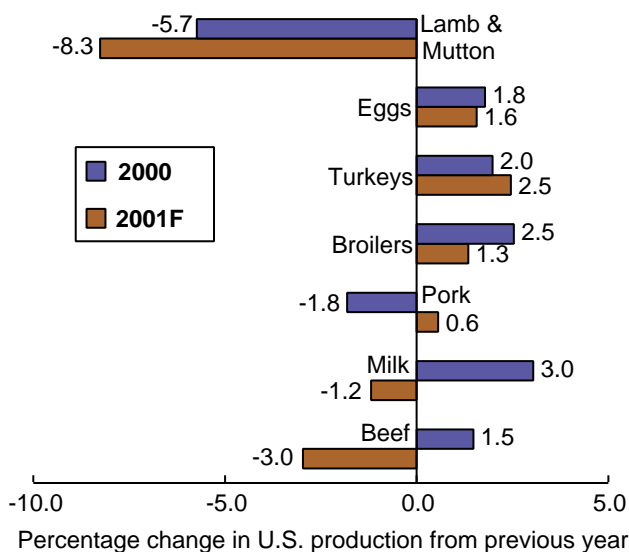
Fed cattle prices remained strong during 2000, averaging \$69.65 per hundredweight (cwt), up about 6 percent from a year earlier. Similarly, feeder cattle prices increased about 13 percent compared with 1999, aver-

aging \$86.17 per cwt. Likewise, beef cow prices increased to \$41.71 per cwt. The strength of cattle prices in 2000 was a combination of feeder cattle supplies tightening cyclically, the strong economy, weather conditions, and continued high consumer confidence. Demand for high quality beef in the domestic market increased, especially by hotels and restaurants. In addition, growing meat export markets, fueled by stronger economies globally in 2000, contributed to price increases. Despite a cooling of the U.S. economy in 2001, the sustained demand for high quality beef and limited supply continue to push cattle prices higher in the first half of 2001. Fed cattle prices may remain strong in 2001, but will likely decline from first-half peaks. Feeder cattle prices, already relatively high, are expected to rise slightly.

Composite retail prices for Choice beef averaged \$3.07 a pound in 2000, up 18 cents from a year earlier, the strongest prices since 1993. Per capita beef consumption has shown an upward trend since the late 1990s (fig. 2). The strong demand, especially for higher quality beef in the hotel-restaurant-export markets and retail outlets, combined with only modest production increases, resulted in record retail prices. Average Choice retail beef prices in 2001 are expected to continue a record-setting pace due to lower than anticipat-

Figure 1

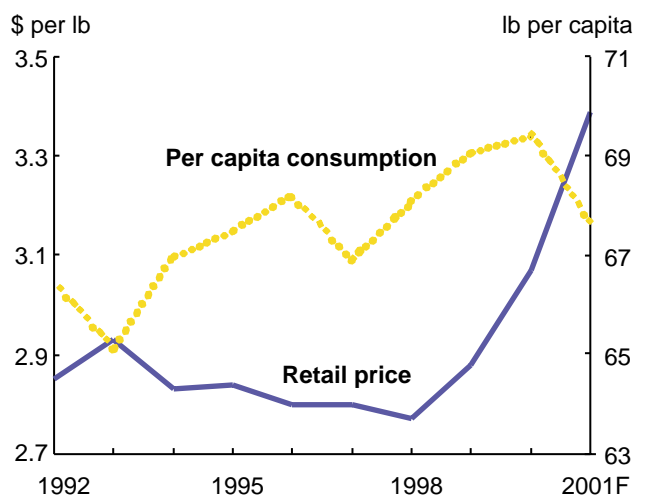
Production of most animal products up in 2000



2001 forecast from August World Agricultural Supply and Demand Estimates, USDA.

Figure 2

Beef prices continued to rise in 2000 as consumption slipped



Annual average retail price. 2001 forecast from August World Agricultural Supply and Demand Estimates, USDA.

ed beef supplies, especially in high quality beef early in the year. The lower supplies have been caused by extreme weather conditions since late 2000. Retail beef prices reached a peak of \$3.45 a pound during the second quarter of 2001 due to tight supplies and are expected to decline during the second half of the year as the supply increases.

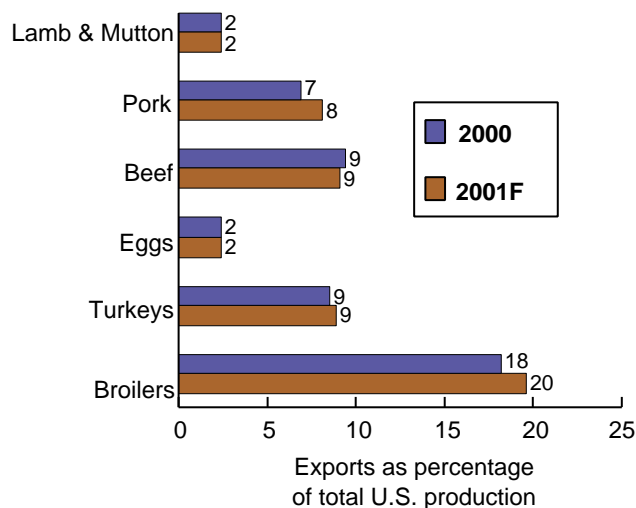
The rise in retail prices widened the farm-to-retail price spread to \$1.57 per pound, an increase of nearly 11 cents per pound compared with 1999. Even though the net farm value rose by 8 cents, the farmers' share of the retail price of a pound of Choice beef declined slightly. The 2000 retail beef and veal price index (measured by the Bureau of Labor Statistics) increased by 6.4 percent. The Economic Research Service has estimated that changes in the farm value are fully reflected in the retail prices after about 4 months. See our website for more information on meat price spreads (<http://www.ers.usda.gov/briefing/foodprice-spreads/meatpricespreads/>).

U.S. beef exports were supported by strong economic growth in major export markets during 2000. The United States and Canada are the primary sources of high quality beef in world markets. Exports accounted for about 9 percent of total U.S. beef production (fig. 3). Japan and Mexico were the major U.S. beef trading partners, accounting for two-thirds of our total beef exports. Total exports grew by 4 percent in 2000, to 2.5 billion pounds compared with 1999, led by strong increases in exports to South Korea and Mexico. However, exports in 2001 are expected to decline by 6 percent due to lower supplies during the first-half of the year, record U.S. prices, a slowdown in the world economy, as well as the continued strength shown by the U.S. dollar.

Mexico, a long-standing major purchaser of U.S. beef, is anticipated to remain a robust market because it cannot satisfy its consumption from domestic supplies. Weather, topography, and limited feed grain supplies have influenced the structure of Mexico's cattle industry, which limits its domestic capacity. Moreover, live cattle exports to Mexico have declined in recent years due to drought and poor financial conditions that have discouraged Mexican farmers from replenishing their depleted herds. As a result, Mexico may have to rely more on imports to meet its growing demand for beef. Mexican exports of feeder cattle to the United States for feeding is due largely to lack of grains, dependency on seasonal forage supplies, and relatively high prices for feeder cattle in the United States. A current analysis of

Figure 3

Broiler exports accounted for 18 percent of total production in 2000



2001 forecast from August World Agricultural Supply and Demand Estimates, USDA.

the cattle and beef market, with a special emphasis on the integration of the U.S.-Mexico cattle industry, can be found in an article by Leuck and Link (U.S.-Mexico Cattle Industries Becoming More Integrated, *Livestock, Dairy, and Poultry Situation and Outlook*, LDP-M-73, July 26, 2000, <http://www.ers.usda.gov/publications/so/view.asp?f=livestock/ldp-mbb/>).

Strong economic growth in the United States resulted in a strong demand for processed beef in 2000, and demand is expected to remain at about the same level in 2001. High processed-meat demand, combined with declining U.S. cow slaughter, encouraged a 5-percent increase in beef imports over 1999. Australia, Canada, and New Zealand accounted for about 85 percent of the 3 billion pounds of total U.S. beef imports. As U.S. supplies of processing meat dropped, imports from Australia and New Zealand (major exporters of grass-fed manufacturing-grade beef) increased by 18 and 14 percent, respectively. The favorable exchange rate for shipments to the United States, as well as the relatively lower cost to raise grass-fed cattle in Australia and New Zealand, made imports of processed beef from these countries attractive.

For more information on the domestic beef sector contact Ronald Gustafson, 202-694-5174, ronladg@ers.usda.gov; for the international beef sector contact Dale Leuck, 202-694-5186, djleuck@ers.usda.gov.

Declines in Production and Strong Demand Led To increased Imports and Prices in 2000; 2001 Exports Increase While Imports Slide

Commercial pork production in 2000 totaled almost 19 billion pounds, a decline of nearly 2 percent compared with 1999 (fig. 2). Due to poor returns in late 1998 and early 1999, producers reduced the number of hogs kept for breeding. The herd reduction resulted in a decline in the number of sows farrowing and a lower pig crop, leading to a 3-percent decline in 2000 hog slaughter. However, the reduction in slaughter was partially offset by heavier dressed weights. As returns improved, producers began to slowly rebuild their herds. The recovery was slow due to the large amount of capital required to build new farrowing facilities and the costs incurred in coping with environmental regulations. Commercial pork production in 2001 is expected to increase slightly due to continued weight gains.

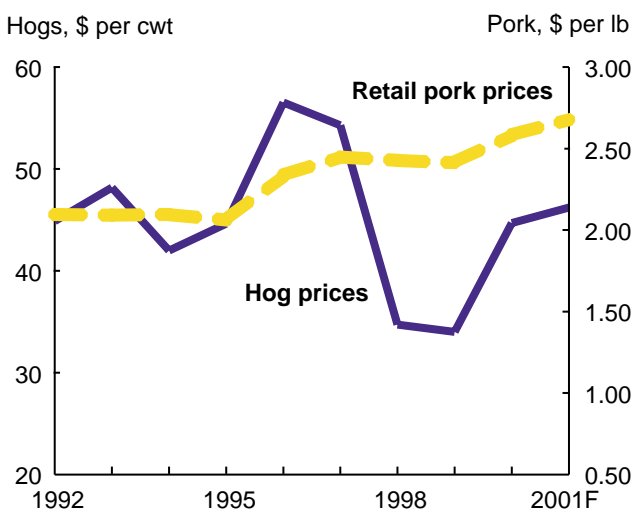
Hog prices were up 31 percent over the previous year to \$44.70 per hundredweight (cwt) in 2000 (fig. 4). This hike in 2000 prices reflects the decline in production from record levels in 1999. The substitution of pork, especially loins, for high price beef and the

strong demand for bacon, contributed to these higher prices. The farm-to-retail price spread narrowed slightly, as net farm value of pork rose by 19 cents and retail prices increased by only 17 cents. The 2000 retail pork price index (measured by the Bureau of Labor Statistics) increased by 7.3 percent. The farmers' share of the value of a pound of pork in a retail case rose from 25 percent in 1999 to 31 percent in 2000. As retail prices rose, per capita consumption of pork declined by 1.4 pounds compared with 1999 and equaled the 1998 level. Higher hog and pork prices, along with relatively low feed prices, drastically improved producers' returns, which were above breakeven in early 2000 for the first time since late 1997. Hog prices in 2001 are expected to continue increasing, but at a slower rate compared with 2000, averaging in the mid-40s per cwt.

U. S. pork exports in 2000 increased by 2 percent over 1999, to 1.3 billion pounds, representing about 7 percent of total U.S. pork production (fig. 3). Japan, Mexico, and Canada were the major destinations for U.S. pork, accounting for 80 percent of total U.S. exports. These three countries will likely be major purchasers again in 2001. Pork exports to Mexico increased by 81 percent in 2000 compared with 1999 due to the strong economic growth in Mexico. During the same period, pork exports to Russia declined by about 78 percent. The absence of U.S. food aid to Russia, combined with aggressive European Union (EU) export subsidies, accounted for the very low Russian pork purchases. U.S. exports to Japan are expected to rise in 2001 despite the triggering of the import safeguard effective August 1, 2001, through March 2002, which will increase the minimum import price in Japan by almost 25 percent. Total U.S. pork exports are expected to increase by 18 percent in 2001.

Expanded imports from Canada brought U.S. pork imports up to 967 million pounds, an increase of about 17 percent in 2000. Three-quarters of U.S. pork imports came from Canada, as did 4.3 million hogs. Reasons for these increases include the depreciation of the Canadian dollar relative to the U.S. dollar, making it more attractive for the United States to import from Canada, and the lack of slaughter and finishing capacity of Canadian pork processors. U.S. pork imports in

Figure 4
Hog prices recover in 2000



2001 forecast from August World Agricultural Supply and Demand Estimates, USDA.

2001 are expected to decline by 5 percent. The 10-week ban on pork imports from the EU due to the foot-and-mouth disease (FMD) outbreak in the first half of the year reduced the in-flow of baby-back ribs and hams from the EU, mainly from Denmark.

For more information on the domestic pork sector contact Leland Southard, 202-694-5187, southard@ers.usda.gov; for the international pork sector contact Mildred Haley, 202-694-5176, mhaley@ers.usda.gov.

Pork and Poultry : Vertically Coordinated Industries

The U.S. pork and poultry industries have experienced parallel structural changes in the last 30 years. They both successfully adapted to changes, have grown, and produce a high-quality product priced to attract consumers. These changes have accompanied major consolidation in the industries.

The broiler industry has been the leader in making adaptations, integrating technology to deliver the product demanded at an attractive price to consumers. Adopting new technologies, improving risk management, and stabilizing the orderly movement of birds into processing plants have resulted in lower production costs, increased production, and lower retail prices. Through production contracting and vertical integration of the feed, hatchery, and processing stages, firms could maintain large volumes yet still control the flow of broilers at each stage, thereby enabling them to capture economies of scale. By the mid-1990s contracting accounted for 88 percent of total broiler production. Along with these changes in vertical integration and adoption of new technologies, there has been a shift to larger production facilities. An in-depth analysis of the consolidation in the poultry industry can be found in the following three reports:

- Vertical Coordination in the Pork and Broiler Industries: Implications for Pork and Chicken Products, (<http://www.ers.usda.gov/publications/Aer777/index.htm>)
- Structural Change in U.S. Chicken and Turkey Slaughter, (<http://www.ers.usda.gov/publications/aer787/>)

- Broiler Farms' Organization, Management, and Performance, (<http://www.ers.usda.gov/publications/aib748/>)

Similar to the poultry industry's advances in vertical integration and market adaptations, technological conditions have recently changed in the pork industry. Improvements in genetics, nutrition, housing and handling equipment, veterinary medicine, and management have led to overall improvements in animal health. In addition, the industry has shifted to less reliance upon spot markets and greater utilization of contractual relationships. In 1999, packers obtained 59 percent of their hogs through contracts or integrated operations compared with only 2 percent 30 years ago. Furthermore, feed that was previously produced by small onfarm feed mills is now replaced by feed produced at large centralized mills and hauled to farms. These structural changes may be expected to increase pork supplies and generate higher quality cuts, while maintaining attractive prices to consumers.

As in the case of the broiler industry, the pork slaughter industry has experienced consolidation. Small, less efficient plants have disappeared. Larger plants replace smaller ones because their costs of slaughter and fabrication are lower and produce near-constant returns to scale. From the 1970s to 1990s, the growing cost advantages resulted in a shift to larger hog slaughter and production plants (Scale Economies and Consolidation in Hog Slaughter, James M. MacDonald and Michael E. Ollinger, *Amer. J. Agr. Econ.* 82 (May 2000) pp. 334-346.)

Higher Production and Exports

Poultry (broiler, turkey, and other chicken) output remained strong in 2000, expanding by 2.4 percent compared with 1999, to a volume of 36 billion pounds. Domestic consumption rose by only 1 percent, while a 9-percent increase in exports (mostly dark meat parts) absorbed the increase in production. The 2000 retail poultry price index (measured by the Bureau of Labor Statistics) increased by 1.2 percent. Poultry production is expected to rise by 1 percent in 2001 due to continued low feed costs and increased export sales.

Broilers: Exports Continue To Rise

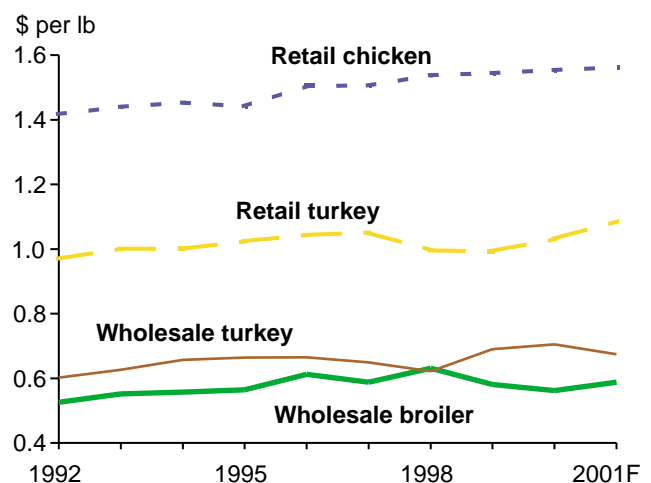
During 2000, broiler production rose by 2.5 percent compared with the previous year, to 30.5 billion pounds (fig. 1). The increased production was absorbed by higher exports. Since exports are primarily dark meat, large amounts of higher priced breast meat were available for domestic consumption. Discounts at the wholesale level to market the increased quantity of breast meat pressured wholesale prices for breast meat per capita and lowered wholesale prices for whole birds as well. The decline in wholesale prices was not fully reflected in lower net returns to producers because it was partially offset by sustained low feed costs. Wholesale whole broiler prices declined by 3.3 percent in 2000, to 56.20 cents per pound, while the composite retail prices for chicken rose slightly, widening the wholesale-to-retail price spread (fig. 5). In 2001, broiler production is expected to expand more slowly as producers continue to respond to the low wholesale prices in 2000. However, wholesale broiler prices are expected to be 5 percent higher in 2001, as per capita supplies will likely be slightly lower than they were in 2000. Exports of 5.5 billion pounds accounted for almost one-fifth of U.S. broiler production in 2000 (fig. 3) and are expected to continue increasing their share of production in 2001.

Russia and Hong Kong accounted for almost half of U.S. broiler exports. Exports to Latvia and Estonia declined by 55 percent, but this was offset by large increases to Russia, Hong Kong, and Singapore. The large increase in exports to Russia and the decline to Latvia and Estonia occurred because Russia restricted transshipments through the Baltic States, diverting poultry shipments directly to Russian ports. Also,

Exports of Poultry and Pork to Russia Are Potentially Favorable

Exports of U.S. poultry and pork to Russia have grown dramatically since economic reform in that country began in 1992. As detailed in an article by S. Osborne, (Prospects for U.S. Poultry and Pork Exports, *Livestock, Dairy, and Poultry Situation and Outlook*, LPD-M-80, Feb. 28, 2001, <http://www.ers.usda.gov/publications/so/view.asp?f=livestock/ldp-mbb/>) future exports to Russia will depend upon the ruble exchange rate, consumer incomes, oil prices, and competitors' trade policies. The outlook for these four factors is generally positive, pointing to favorable conditions for U.S. poultry exports to Russia. In addition, the outlook for U.S. pork exports to Russia is more favorable than it has been in the past because of suspension of export subsidies on pork by the EU, the major exporter of pork to Russia. Accordingly, future U.S. pork exports to Russia should show modest gains.

Figure 5
Wholesale turkey prices up, while broiler prices down in 2000



2001 forecast from August World Agricultural Supply and Demand Estimates, USDA.

exports to Mexico and Canada increased by 22 and 16 percent, respectively, due to a combination of favorable prices and strong economic growth in both countries.

Turkey: Production Increases and Exports Rise, While Prices Decline in 2001

Turkey production in 2000 totaled 5.4 billion pounds, about 2 percent higher than the previous year (fig. 1). Wholesale turkey prices continued to rise as domestic per capita supplies were reduced by increased exports and lower carryover stocks. Wholesale prices averaged 70.5 cents per pound, up 2 percent compared with 1999, while retail prices increased almost 4 percent (fig. 5). While both prices went up, the wholesale-to-retail price spread widened to 26 cents per pound. The price increases, due largely to a 21-percent growth in exports, are expected to spur an increase in turkey production of 2 percent in 2001. Wholesale turkey prices are forecast to fall 4 percent in 2001.

U.S. turkey exports in 2000 were 458 million pounds and accounted for 9 percent of total production (fig. 3). Turkey exports to Mexico grew 14 percent over the previous year and equaled half of U.S. turkey exports. Shipments increased due to the growth in the Mexican economy. Mexico imports mostly ground turkey and Mechanically De-boned Meat (MDM) turkey that is used mainly in sausage production. Shipments of turkey to Russia, our second largest export market, nearly tripled compared with 1999, accounting for almost 12 percent of U.S. turkey exports. Exports to Hong Kong in 2000 were 43 million pounds, up 28 percent and were 9 percent of U.S. turkey exports. It is expected that 2001 turkey exports will grow by 7 percent, with additional exports to Mexico accounting for most of this increase.

Eggs: Demand Increased in 2000

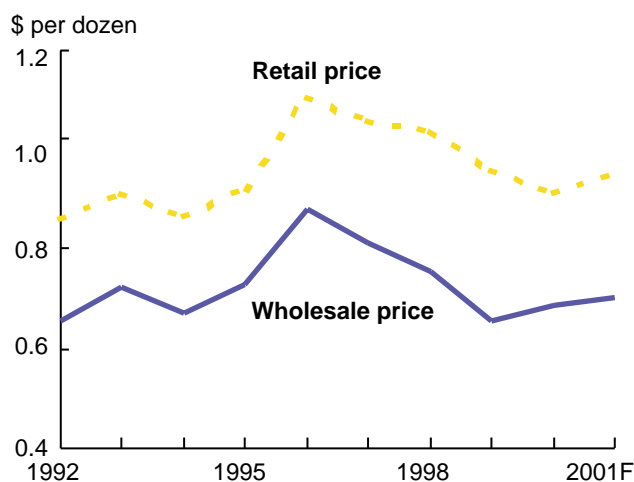
U.S. egg production, table and hatching, totaled 7 billion dozen in 2000, almost 2 percent higher than the previous year, with similar levels of growth expected in 2001 (fig. 1). Table eggs accounted for 85 percent of total production. Wholesale table egg prices averaged 68.9 cents per dozen, up 5 percent over 1999, while retail egg prices decreased by the same percentage, narrowing the wholesale-to-retail price spread

(fig. 6). Wholesale prices were below a year earlier for most of 2000, but increased substantially in the fourth quarter when per capita supplies were below the previous year. Eggs were used by retailers as “loss leaders” during the fourth quarter holidays, keeping retail prices low even as wholesale prices rose. Per capita egg consumption rose slightly to 258.3, due to increased demand in the breaking egg market for commercial baking, confections, and the fast food industry. Wholesale table egg prices are expected to rise by 2 percent in 2001.

U.S. egg exports in 2000 were 172 million dozen and accounted for 2 percent of production (fig. 3). Table eggs accounted for just over half of total U.S. egg exports. Japan, Canada, Mexico, and Hong Kong were the largest export markets, receiving nearly three-quarters of U.S. egg exports. The gain in exports to Hong Kong, Japan, and the EU offset the 14-percent decline in exports to Canada. Strong competition from China in the Hong Kong market is expected to limit export growth for U.S. eggs in 2001.

Figure 6

Wholesale table egg prices continue recovery of last couple years



2001 forecast from August World Agricultural Supply and Demand Estimates, USDA.

For more information on the poultry industry contact David Harvey, 202-694-5177, djharvey@ers.usda.gov.

Increased Production, Higher Retail Prices, Yet Lower Prices Paid to Farmers In 2000; Milk Farm Prices Show Recovery In 2001

Milk production rose to 167.7 billion pounds in 2000 (fig. 7), up by 3 percent compared with 1999 (fig. 1). While the number of milk cows rose slightly, milk per cow grew by 2.3 percent, to 18,532 pounds. The milk-per-cow gain was boosted by higher forage quality and heavier concentrate feeding in the dairy industry. Milk production is projected to slip slightly in 2001. Major factors in this decline are the relatively low returns during 2000, as well as weather and forage quality problems that occurred during winter 2001. Milk per cow is projected to recover by late 2001. In addition, milk cow numbers are expected to decline because of the continued exit of dairy farmers and slower expansion of financially stronger operations.

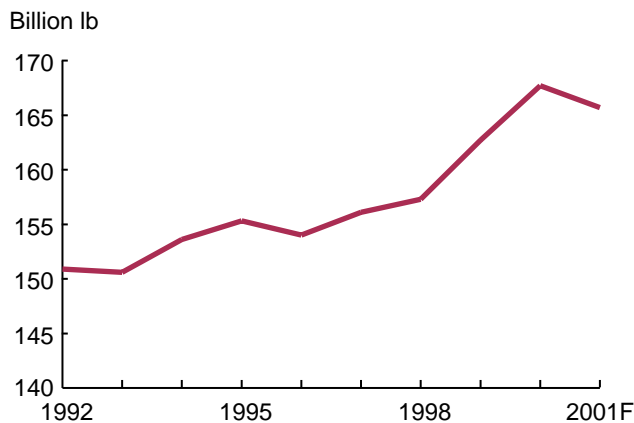
Strong demand for cheese and butter and the decline in milk production are expected to return 2001 farm milk prices to the levels of the late 1990s (fig. 8). Farm milk prices for 2000 averaged \$12.34 per hundred-weight, down 14 percent from a year earlier and the lowest since 1991. The 2000 retail price index for all dairy products (measured by the Bureau of Labor Statistics) increased by less than 1 percent following more substantial rises the two previous years. Compared with 1999, the 2000 farm-to-retail price

spread rose substantially due to the decline in farm prices at the same time that retail prices remained relatively steady.

Commercial use in 2000 expanded by about 3 percent on a milkfat basis and 2 percent on a skim-solids basis. While demand for butter, cheese, and fluid cream grew, demand for fluid milk and perishable, manufactured dairy products declined slightly. Moreover, the use of skim solids as an ingredient in processed food has continually declined since the late nineties. This decline is due to reduced demand for nonfat foods and increased use of imported milk protein concentrates. Government removals of nonfat dry milk under the milk price support program (<http://www.ers.usda.gov/publications/AIB761/>) increased by 28 percent compared with 1999, as Dairy Export Incentive Program (DEIP) exports fell by more than half and price support purchases more than doubled (<http://www.fas.usda.gov/excredits/deip.html>). While net removals on a milk equivalent, milkfat basis, totaled less than 1 billion pounds, removals on a skim-solids basis totaled about 9 billion pounds. With the domestic milkfat markets tight during most of 2000, butter was not available for export through the DEIP.

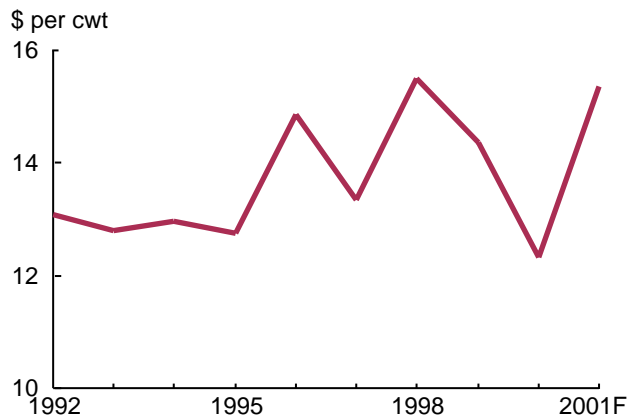
International market supplies of nonfat dry milk could not keep pace with rising world demand in 2000, which increased international prices by 42 percent

Figure 7
Milk production surged in 2000



2001 forecast from August World Agricultural Supply and Demand Estimates, USDA.

Figure 8
Farm milk prices bounce back in 2001



2001 forecast from August World Agricultural Supply and Demand Estimates, USDA.

over 1999. Strong nonfat dry milk prices were supported by improved Asian demand, coupled with smaller than expected export supplies from Oceania. On the other hand, the international butter market was depressed during much of 2000, with prices declining by 9 percent compared with the previous year.

This was mostly due to a decrease in Russian butter imports.

For more information on the dairy industry contact James Miller, 202-694-5184, jjmiller@ers.usda.gov.

International Dairy Markets and the World Trade Organization

International dairy trade, accounting for about 5 percent of world milk production, is confined mostly to manufactured products such as butter, cheese, dry milk powders, and whey. Despite the elimination of many of the non-tariff barriers affecting international dairy trade negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), standardization of tariff-rate quotas (TRQ), export subsidies, and import access still remain as issues to

be addressed under the World Trade Organization (WTO). For more information see the analysis of the international dairy markets and the WTO by Blayney and Miller (International Dairy Markets and the WTO, *Livestock, Dairy, and Poultry Situation and Outlook*, LDP-M-74, August 29, 2000, <http://www.ers.usda.gov/publications/so/view.asp?f=livestock/ldp-mbb/>).

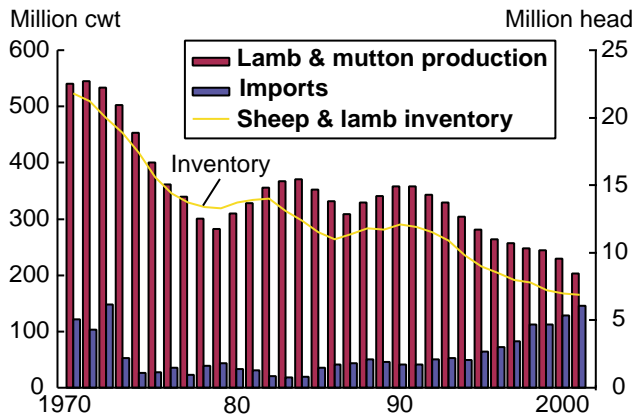
Lamb and Mutton Production Lower, Imports Increase To Meet Demand

In 2000, the U.S. sheep industry continued to decline, a trend expected to persist in 2001 (fig. 9). U.S. commercial production of lamb and mutton in 2000 was 230 million pounds, down almost 6 percent from 1999. On the other hand, 2000 lamb prices averaged \$79.40 per hundredweight, about 5 percent above a year earlier and the highest level since 1998. Prices are expected to remain about the same in 2001. With per capita consumption constant in 2000, lamb and mutton imports increased by 14 percent to offset the decrease in domestic supply. Imports in 2000, mostly from Australia and New Zealand (major exporters of high quality lamb cuts), represented just over a third of total consumption. Increasing ethnic diversity in the U.S. population provided a niche market for the lamb and mutton industries, particularly among Middle Eastern, African, Latin American, and the Caribbean ancestry groups.

In July 1999, the United States imposed a 3-year tariff-rate quota (TRQ) on lamb meat imports. A panel from the World Trade Organization (WTO) recommended, in December 2000, that the United States bring its import safeguard measures on lamb meat (the TRQ) into conformity with its WTO obligations, as a result of a complaint filed by New Zealand and Australia in October 1999. The United States appealed

Figure 9

Lamb and mutton production continues long-term decline, while imports climb



Commercial production. 2001 forecast, Economic Research Service, USDA.

the ruling but lost the appeal. The United States has settled the WTO dispute with Australia and New Zealand and will end its TRQ safeguard on November 15, 2001. Imports in 2001 are expected to continue increasing to satisfy the fairly stable demand.

For more information on the sheep industry contact Keithly Jones, 202-694-5172, kjones@ers.usda.gov.