

Market Advisor: International meat trade a key market driver in

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International trade surfaced as an important 2016 presidential campaign issue, and it will likely be a key market driver for the entire meat industry in the next couple of years. U.S. domestic meat production was record high in 2015 and 2016 and grew faster than the U.S.

population. That trend is forecast to continue in 2017 and 2018. Since the United States is a major exporter of beef, pork and chicken, export markets will be very important, not only for cattle prices, but for all the competing meats given the record production.

Competition

Both U.S. pork and chicken production were record high in 2015 and 2016, with record production expected to continue in 2017 and 2018. However, beef production is not record high. All-time record beef production occurred in 2002 at just more than 27 billion pounds (lb.). Beef production was close to 24 billion lb. in 2015, increased about 1 billion to 25 billion in 2016, and is forecast to increase another 1 billion in 2017 to 26 billion lb. Another 1-billion-lb. increase to about 27 billion lb. could occur in 2018, bringing beef production to or near an all-time record high.

For the U.S. beef industry, international trade aspects improved in 2016 compared to a very difficult 2015; export tonnage increased and imports declined. U.S. beef export volume increased 11% compared to 2015. U.S. exports of variety meats and other non-beef items also improved. Several factors, including herd liquidation due to a multi-year drought in Australia, caused a surge in imported beef during 2015.

In 2016, Australia began herd rebuilding, which was a key factor in U.S. imported beef tonnage from Australia being down 40% and total imports declining 11%. Cattle prices in Australia are record high, similar to the U.S. situation in 2014, when several years of drought in the Southern Plains had fueled beef herd liquidation and resulted in record-high prices.

By country, the major U.S. beef export markets are Canada, Japan, Hong Kong, Mexico and South Korea. In 2015, those five countries represented 80% of U.S. fresh and frozen beef export tonnage. In total, the United States exports beef to more than 100 countries, according to the USDA. In 2015, the United States struggled in all major markets except South Korea. In 2016 Japan, Mexico and South Korea all increased their purchases of U.S. beef, with South Korea leading the way with a 38% increase. The volume of beef shipped to Canada and Hong Kong was slightly behind 2015's totals, though.

Key announcements

Two key announcements occurred during the second half of 2016. At the beginning of August, USDA announced the opening of fresh-beef trade with Brazil. Second, as of mid-September, China's government lifted its 13-year ban on U.S. beef imports to cattle harvested at ages younger than 30 months of age. The ban is still in place for beef from cattle harvested at ages older than 30 months of age. While the two announcements affect the U.S. beef industry differently, both countries are important.

Based on size of the industries and recent herd growth, only a few countries, including the United States

2017 and 2018

and Brazil, are in good position the next few years to fill demand for beef in countries with growing incomes. Australia will be on the back burner as an exporter for a while as they transition out of a multi-year drought and rebuild herds.

Importantly, even with Brazil able to sell fresh and frozen beef to the United States, the total tonnage of beef imported by the United States will continue to decline from the very high levels of 2015. The more important longer-term story may turn out to be how well the United States is able to compete with Brazilian product in foreign markets like Mexico and Asian countries.

Brazil also offers some potential for U.S. exports, especially to higher-end restaurants. Small shipments of high-quality U.S. beef began to be exported to Brazil in late 2016. As with many other markets, the future potential of the Brazilian market comes as their economy recovers, and, with that, the ability of middle- and upper-class consumers to afford high-quality, grain-fed U.S. beef.

Moving on to China's announcement to finally reopen their markets to U.S. beef, it indicates important progress has been made. The ban on U.S. beef imports had been in place since 2003 due to a case of bovine spongiform encephalopathy (BSE). Currently, there are many questions regarding the details that are still to be worked out. So, the timeline is very uncertain, and the details will be important to how quickly exports will start. In the long-term, the United States may be positioned well to sell more beef to China.

USDA is projecting 2017 beef exports to increase about 5%, with chicken exports up 4.5%, pork exports climbing 4%, and total red meat and poultry exports strengthening 4.8%. China's increasing demand for pork could enhance the pork volume going there. Avian influenza in Europe and Southeast Asia could help U.S. poultry exports as long as the influenza does not hit the United States again.

Trade relationships and economic growth rates in other countries impact export demand. Exchange rates also affect U.S. exports and imports, and the high U.S. dollar value is a headwind for increasing exports. Those factors are difficult to forecast in the current geopolitical environment, especially when the new administration is scrutinizing existing and potential trade agreements.



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