

CANADIAN PORK MARKET DEVELOPMENTS

Canada made hog market news recently because strikes at two plants resulted in increased hog imports into the U.S. This is not the first time U.S. pork producers have been concerned about Canadian hogs, and with recent developments in Canada, it will not be the last.

The figure shows the recent trend in Canadian hog exports to the U.S. There is an increasing trend in exports for both market hogs and feeder pigs. However, based on government estimates, 1997 market hog imports will be less than in 1996 in spite of the current strikes at two Canadian packing plants. Canada typically produces 16 to 18 million head annually and ships 2.5 to 3.0 million to the U.S. The U.S. imports approximately nine times more pounds of pork from Canada than it exports to Canada. In 1996 Canada represented 10% of U.S. exports and 70% of U.S. imports.

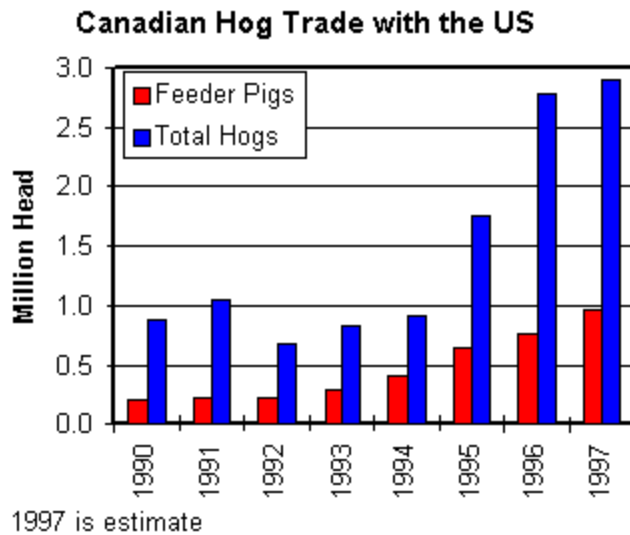
Recent Canadian Strike

Two Maple Leaf Foods pork packing plants, one in Ontario and the other in Alberta, were closed November 15, 1997 due to a strike by workers. These two plants combined had the capacity for 60,500 head a week compared to the total U.S. capacity estimated at over 2.1 million per week. It is reported that many Canadian plants have been running at 50-70% of their capacity, suggesting that these two plants may have been processing only 30,000-40,000 head a week before they closed.

While early estimates were that as many as 30,000 hogs a week would be shipped to the U.S. for slaughter, it is now estimated that the number should be closer to 15,000 head a week. These will add to the seasonally high slaughter in excess of 1.9 million head in the US. While U.S. prices were slightly higher the first week of the strike, Thanksgiving week saw prices about even with those of the week prior to the strike.

Canada as Export Competition

The USDA revised its estimate of hog imports from Canada to the U.S. downward because Canada is exporting more pork to Japan and processors can justify bidding up to keep the hogs in Canada. Canadian exports to the Eastern Rim may become more common in the future. Canada eliminated its freight subsidy on grain shipped from the Prairie Provinces to the coast in 1995. Now, these regions are looking at pork production as a way to add value to locally produced grain. Most of this increased pork will go into the export market.



Prior to March 20 when Taiwan announced having Foot and Mouth Disease, Taiwan was the largest pork exporter to Japan. Because of FMD, Taiwan cannot export pork. A large pork producer in Taiwan, Taiwan Sugar, has bought land in Alberta to build a packing plant and is working with farmers to produce hogs for the Japanese market. A large Taiwanese trading company has purchased part of a pork processing plant in Canada to source pork for Taiwan.

The Saskatchewan Wheat Pool, a marketing board representing wheat growers, has also bought part of a pork processing plant and is financing hog production facilities. The Manitoba Wheat Pool is looking into financing feed processing and hog production facilities.

If these efforts are successful it is expected that the Canadian sow herd will expand and more of the pigs will be fed in Canada. The net result may be fewer hogs exported to US plants and fewer pigs shipped to the US for feeding. However, Canada may become a major competitor in the global market. Iowa State University Economist are researching the global pork market and hope to have more insight on the topic in the future.

...*John Lawrence*

IOWA'S PORK INDUSTRY - DOLLARS AND SCENTS

AMES, Iowa - The ongoing debate about Iowa's pork industry is expected to continue in the coming months, as policymakers at the national, state and local levels discuss current laws and future strategies. To help provide research-based background information for these discussions, Iowa State University is sponsoring a day-long program Jan. 6, 1998 on the Iowa Communications Network (ICN).

Titled "Iowa's Pork Industry - Dollars and Scents," the ICN broadcast will be available at 28 sites. New information about what rural Iowans think of the industry and what production trends are occurring, plus a review of waste management options and an analysis of policy alternatives, will be shared by ISU agricultural economists.

An important component of the program will be four, 30-minute breaks during which area extension specialists will lead local discussions. Questions from these sessions will be called to the broadcast

origination site in Ames. The final hour of the program will feature a panel of ISU experts responding to these questions.

Organizers say they hope the program will be attended by pork producers, local and state elected officials, environmentalists, agribusiness representatives and the general public.

"Iowa's pork industry adds value to the state's crops, plus \$3.1 billion to the state's gross product," says John Miranowski, chair of the ISU economics department. "Because of the industry's economic importance, its future direction will have an impact on the entire state. We want as many people as possible involved in the opportunity to help shape that direction," Miranowski continued.

A \$20 registration fee will cover the cost of lunch, plus support material that will include a new publication on Iowa's pork industry from the ISU agricultural economics department.

The ICN broadcast will begin at 9:15 a.m. and adjourn at 4:30 p.m. Informational brochures are available at county extension offices. To register, send a \$20 check, payable to **Iowa State University**, to: C. Phillip Baumel, ISU Dept. of Economics, 460 Heady Hall, Ames, IA 50011. Indicate your first and second choices of ICN location and include name address and phone number. Or call toll-free 1-888-478-0088.

The ICN Broadcast Locations:

Algona - Iowa Lakes Community College

Ankeny - DMACC, Building 6

Carroll - Carroll National Guard

Cedar Falls - UNI Schindler Education Center

Cedar Rapids - Kirkwood CC, Building 32B

Chariton - Chariton National Guard

Cherokee - Cherokee Mental Health

Clarion - Clarion Middle School

Council Bluffs - Iowa Western CC 1

Creston - Southwestern CC 3

Decorah - Luther College Library, Room 3

Des Moines - Grimes State Office Building

Des Moines - DMACC Urban Campus

Fort Dodge - Ft. Dodge National Guard

Grinnell - Grinnell High School

Harlan - Harlan High School

Iowa City - UI, North Hall, Room 107

Iowa Falls - Iowa Falls National Guard

Maquoketa - Maquoketa High School

Marshalltown - Iowa Valley CC 1

Mason City - North Iowa Area CC 1

Mt. Pleasant - Mt. Pleasant National Guard

Oelwein - Oelwein National Guard

Oskaloosa - Oskaloosa National Guard

Red Oak - Southwestern CC 1

Sheldon - Sheldon National Guard

Sioux City - Western Iowa Tech CC 1

Washington - Kirkwood Learning Center

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CHINA: VULNERABLE TO ASIAN FINANCIAL CRISIS?

The Pacific Rim contains the top three export markets for U.S. corn, as well as a number of emerging growth markets for feed grains. It also is a major market for soybeans and soybean products. The strong upward trend in U.S. exports to this region has been tied closely to rapid economic growth in countries such as China, South Korea, Taiwan, Hong Kong, Singapore, Malaysia, the Philippines, and Indonesia. Since October, many of these countries have had sharply falling stock markets, greatly reduced purchasing power of currencies relative to the U.S. dollar, and slowing economic growth. In Japan, the largest and most stable foreign market for U.S. corn, economic growth has been slow in the past six months and is expected to remain slow for the next year. Japan's economy just experienced one of the largest business failures in history, the collapse of a major brokerage firm, although its impact on the economy is expected to be minor.

These developments raise questions about the strength of demand for U.S. farm products in the Far East. Sales of U.S. corn for export to the region this marketing year (with one-fourth of the year behind us) already are lagging sharply behind a year ago. That in turn follows a substantial decline in U.S. corn exports for the 1996-97 marketing year. While impacts on China's demand for farm products have not been evident so far, potential impacts should be considered. China is one of our largest foreign markets for soybeans and soybean products, and is expected to be a significant buyer of U.S. corn in the spring and summer.

Cumulative Exports Since September 1.

	1996-97	1997-98	% Chg.
Corn	445	365	-18
Soybeans	287	366	+28
Grain Sorghum	47	40	-15
Barley	13	62	+377
Oats	0.335	0.011	-97

As reported through 12/1/94

Impacts will occur in several ways. Currency exchange rates relative to the U.S. dollar for a number of Pacific Rim countries are down 20 to 35 percent from a year ago. With reduced exchange rates, buyers pay more of their currency per bushel of corn or soybeans than a year ago, even though prices are slightly lower in dollars. Another impact stems from the fact that stock markets are important in financing industrial expansion. Sharply lower stock markets may slow the growth of Pacific Rim economies. So far, we have expected these impacts to be only marginally depressing to the demand for U.S. corn, soybeans, and soybean products. The net effect is expected to be less severe than that from the Mexican peso crisis of 1994. Impacts on smaller countries are believed likely to be more than offset by increased demand for feed in China and reductions in China's 1997 feed grain and oilseed crops.

China, however, is not completely insulated from its neighbors' problems. A New York Times article dated November 27, by Seth Faison, suggests China's economy will bear watching closely in the next several months. Faison indicates China relies more heavily on external debt, and has more bad loans and a weaker banking system than its neighbors that are currently experiencing economic crises. According to the article, three of China's four biggest banks have been unprofitable and appear to be insolvent. Estimates from one of the nation's major banks indicate at least 22 percent of its loans are non-performing. A recent sharp decline in foreign investment in China is believed likely to slightly reduce its economic growth rate. Declining currency values of China's neighbors make their products more competitive against Chinese goods in world markets than in the past. Neighboring countries also are significant markets for Chinese products, and China's exports may slow in response to troubles in nearby nations. Thus, China is not totally insulated from the area's economic problems.

Despite these cautions, important and positive differences between China's financial conditions and those of its neighbors exist, according to the New York Times article. Its currency is not freely traded in international markets and has not been subjected to speculative fluctuations. Also, much foreign investment in China has been for long-term projects (with long-term financing) and reduces the chances for short-term capital flights. In Thailand, in contrast, much external debt was short-term. Difficulties in extending short-term loans contributed to Thailand's economic crisis. China's inflation rate is relatively low. Low inflation allows flexibility for the Chinese government to ease credit conditions and reduce domestic interest rates to stimulate business, if it is necessary to bolster a slowing economy.

Russia's Financial Needs

In a related development, Russia is seeking Western aid to help carry it through global financial problems, if the need should arise. Uneasiness about world financial conditions has led foreign investors to withdraw around \$4 billion in funds from Russia in recent months, according to a November 27 New York Times article by Michael R. Grodon. Russia is not expected to be a significant buyer of U.S. grains and oilseeds this marketing year. However, its needs could impact ability to support economies of major farm export markets with financial packages such as the one currently being put together for South Korea. Economic conditions in the Former Soviet Union (FSU) and Eastern Europe also may affect their volume of grain exports.

Recent USDA projections indicate this region will export around 200 million bushels of grain in the current marketing year. Unexpectedly slow economic growth could marginally increase FSU exports.

...Robert Wisner

