Outlook for Georgia's Poultry, Dairy, and Livestock Sector

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In the middle of a year filled with strange weather and growing uncertainty of the financial and economic conditions of the world (and US) economy, it is difficult to predict accurately the short-term future of the livestock, poultry, and dairy industries in Georgia. However, looking at several macroeconomic scenarios, we can sketch out some likely paths for these sectors. The longer term picture is much clearer for these segments of agriculture, and this will be looked at, too.

The Big Picture – Macroeconomic Conditions

Much of what will determine economic returns in the livestock sector is driven by macroeconomic conditions, in the US and the rest of the world. My forecast for the U.S. is that economic growth (measured by real GNP) will be around 3.5 percent for 1998, slightly more optimistic than most forecasters. Inflation should remain essentially nonexistent, with official rates of between 1 and 2 percent for core inflation at the consumer level and likely a slight deflation at the producer price level. The stock market will turn in another above average year, getting a boost in the fall when the federal government announces the first official budget surplus since 1969. Unemployment will rise slightly, but not significantly and will finish the year in the range of 4.7-5.1 percent. Personal disposable income will rise by about 2.5 percent and consumer spending growth will exceed that, possibly rising by 3 percent as people’s purchases are buoyed by the stock market performance.

Internationally, it is assumed that Asia will slowly stabilize and that Japan will begin to slowly fix its banking system liquidity problems. Import demand from Asia will probably be slow to return, taking 3 to 5 years to normalize, but except for Japan and China, Asia was not that important a market for U.S. meat exports.

Overall, if no further large scale disruptions occur in international markets, and barring an unexpected large scale correction of the U.S. stock market, the macroeconomic conditions should remain favorable and stable for the next 1 to 2 years. This will promote a climate of slow growth in demand for farm products and a faster growth in demand for food away from home (close to 3 percent per year volume growth). This is probably better for beef, dairy, and chicken than for pork as they have a greater relative quantity sold through food service outlets.

Given this basic macroeconomic environment and no major weather disruptions, the sector by sector outlook for the livestock and dairy sectors is as follows.

Dairy

The Georgia dairy industry has been declining in number of farms, production, and profitability since 1995. Currently, three new fluid milk processing plants have opened in the Atlanta area, guaranteeing a certain level of demand for raw milk to keep them busy. Milk prices have risen this year from their lows in the winter and many Georgia dairies have moved back to the profitable side in their operations. Growth in demand for products using milkfat as a primary ingredient continues to outpace demand for milk in general. This is leading to a recent butter shortage and has driven milkfat prices up faster than milk prices. These prices will remain strong and volatile. Overall, 1998 is looking to be a reasonably good year for dairies in Georgia, with the vast majority able to earn positive returns.
In terms of technological and structural changes, there is a clear shift in the dairy industry growth toward South Georgia. Currently, 43 percent of Georgia production is south of Macon and much of the new dairies in the State are expected to locate there, increasing this percentage until it is a majority. Lower levels of development pressure and suburban encroachment along with proximity to Florida markets is driving this phenomenon.

Putting all of this together, the new processing capacity and growth in South Georgia will be enough to slow the decline in dairy production in Georgia and probably will even reverse the trend and lead to a stabilization of the industry for the next few years.

Beef

Beef prices have almost recovered from their recent low period and are back in the $0.85-0.90 per pound range and we may still be 1 to 2 years away from the upward part of the current cattle cycle. Georgia farm income from cattle was around $350 million in 1997, a good recovery from the $240 million in 1996. Cattle numbers are expected to drop slightly in Georgia this year, declining 1 to 2 percent. Prices should remain near $0.85 per pound. With constant prices, returns will be determined by feed costs. If weather in Georgia requires cattle owners who normally rely heavily on pasture to purchase higher than normal amounts of supplemental feed, this will lower returns to cattle owners.

Beef exports have been rising so far in 1998, up 10 percent in the first quarter of 1998 compared to 1997. This implies that the Asian problems have not hurt U.S. beef exports and offers a positive signal for the industry’s profitability for the coming year.

Pork

The current hog expansion in the U.S. has slowed, but not stopped. A June report from USDA showed a 1 percent increase in the breeding herd over the previous year, with a farrowing intention report showing plans to expand production by 3 to 4 percent. Hogs sent to market should increase by 5 to 6 percent in the fall and hog slaughter for the full 1998 year should be near 99 million head, which would be a record. Prices are currently around $0.42 per pound and are expected to stay at or below that level through the summer, falling into below $0.40 per pound in the fall. The average price for the entire year should be in the neighborhood of $0.38 per pound, the lowest annual average price since 1974 (when it was $0.35 per pound).

Low prices and possible rising feed costs (due to El Niño or other weather related problems in agricultural production) are placing heavy pressure on economic returns in the pork sector. Few operations are likely to be profitable under these conditions. However, expansion of the U.S. pork industry is likely to continue as the long term outlook remains more favorable and expectations are for the period 1999-2001 to be better from a profits standpoint. Adding to the long term positive outlook, pork exports in the first quarter of 1998 were 51 percent above the figures for 1997, while imports declined by 8 percent. This shows very strong demand for U.S. pork products and if demand continues to grow at anywhere near that pace, demand growth will pass the continuing supply increases and push up the market price.
Two major structural changes in the pork sector deserve attention. First the concentration and vertical integration of the U.S. pork industry is going to continue until it resembles the broiler industry with ownership retained by the integrator/processor at all stages from birth to sale of a processed pork product. Swine facilities will also be increasingly large scale operations with 5,000 to 10,000 head in one location. The industry is aware of environmental issues surrounding such concentrated production and is working hard both on improving the safety and mitigation measures used and on its public image. The industry realizes this is the top danger to its continued and successful growth and profits.

The second issue attracting attention in Georgia is the new processing cooperative that may soon open within the State. Georgia producers will soon be offered the opportunity to buy "shares" in the cooperative giving them the right and obligation to deliver a specified quantity of hogs for processing. If this operation is successful, it should help raise pork producers income within Georgia by increasing processing demand, reducing transportation costs (direct and indirect), and adding bargaining power to the producers' side of the negotiating table. However, producers will need financing to purchase these shares. Lenders will need to look at this opportunity fairly, without rejecting such applications simply because they are an unusual type of request.

Poultry

The poultry industry will continue to expand at a steady rate of 2 to 3 percent per year in broiler and egg production. Given pressure on feed costs, labor supply and a weakness in export markets such as Eastern Europe and Asia, prices should drop slightly (in real and nominal terms), squeezing returns. For growers, returns are likely to remain low due to required capital expenditures for new technology in their houses. For integrators, profits will also be squeezed, reducing their return on capital. Poultry may be nearing an equilibrium industry size if new technological improvements do not lower processing costs. New feed sources are also being investigated as a potential source of cost savings.

The poultry industry is facing pressure to decrease its environmental impact on surrounding areas, by reducing its use of water and avoiding pollution of nearby water sources (or other types of environmental degradation). The industry is responding to these concerns and some technological improvements along these lines are likely. The industry is also under considerable pressure on a food safety front and future uncertainty can be reduced by reaching some agreement between federal regulators and the industry on new inspection programs. Finally, due to the environmental pressures and advances in cooling technology, the poultry industry will continue its migration from the North Georgia Mountains into South Georgia. South Georgia locations offer profitable uses for the chicken litter, lower land costs, and more space for environmental mitigation measures.

The Big Picture

To put some perspective on agriculture, agribusiness and the livestock sector, 1995 numbers show that the food and fiber sector contributed $56.7 billion to Georgia's gross state product of $352.8 billion, an amount equaling 16 percent of the state economy. Farm level production (including timber) accounts for about $7.5 billion in annual income. The agribusiness sector breaks down into the following categories: inputs (4 percent), farm level
production (12 percent), food and fiber processing (64 percent), wholesale and retail food sector (5 percent), and food service (15 percent).

Of the $7.5 billion in Georgia annual farm income (in 1997), beef contributes 4.7 percent ($350 million), pork 2.7 percent ($200 million), dairy 3.3 percent ($250 million), and poultry 33 percent ($2.5 billion).

John McKissick and Bill Thomas, Extension Economists with The University of Georgia contributed information to the preparation of this report.