GENERAL AGREEMENT ON TARIFFS AND TRADE

INTERNATIONAL MEAT CONSULTATIVE GROUP

Eleventh Meeting - 10 November 1978

Statement Made by the Representative of Canada

CANADIAN SITUATION AND OUTLOOK

Situation

The output of beef from Canadian farms is expected to decline by 5 per cent in 1978. Although the decrease in the number of cattle being marketed this year has been relatively sharp, this has been offset to some extent by the increase in average carcass weights. The feeding of cattle to increased weights reflects the improved profitability of cattle feeding as a result of the combined effect of higher cattle prices and lower feed costs.

Canada's inspected cattle slaughter to date this year has been about 10 per cent below last year's level. The temporary closure of two packing house companies during the summer as a result of industrial disputes adversely affected Canadian slaughter levels during this period. For the balance of 1978, cattle slaughter in Canada will continue below last year's level. Prices for A1, A2 steers at Toronto are currently around $65 per cwt. and some price strengthening is expected towards the end of the year.

With sharply lower feeder cattle supplies together with a good grain crop, Canadian feeder cattle prices have been well above those of a year ago, but below the high price levels reached during the past summer. Feedlot profitability this autumn will not be as attractive as earlier this year, mainly due to the increased cost of feeder cattle. Feeder calves (500-600 lb.) have been selling at a premium to yearlings and have averaged above the 70 cent level (Edmonton price) compared with about 45 cents last year. It is anticipated that United States fed steer prices in 1979 will average above the $60 level. Allowing for little change in the exchange rate, it can be expected that fed steers at Toronto could average over $70 per cwt. in 1979.

Outlook

While the longer-term trend to lower beef supplies and higher cattle prices appears to be well established in North America, the shorter term outlook (the next three to six months) will be influenced by the continuation of relatively heavy marketings of fed cattle in the United States. Given improved feeding
margins, not only should the proportion of fed cattle in total steer and heifer slaughter increase, but the average weight of steers and heifers might also increase. These factors can be expected to moderate the anticipated beef supply reduction arising from the decrease in the number of animals being slaughtered. This should provide some constraint on live slaughter cattle prices for the next several months.

For the longer term, the supply of beef will be largely determined by the extent to which producers have sufficient confidence to expand their herds.

Prospects for recovery in 1979

The North American beef cattle population has continued to decrease in 1978, the third successive year of inventory reduction. 1 July 1978 inventory surveys indicate that total cattle numbers in Canada and the United States had decreased 7 per cent. Of particular significance is the further decrease in the size of the breeding herd in Canada of 8 per cent, and in that of the United States of 9 per cent.

The implication of reductions in calf-crop sizes and level of beef production in the immediate future is clear. A more important question is when a reversal in cow numbers and beef production can be expected. Growth in beef cow numbers will occur when new additions to the herd exceed cow marketings. During the past three years not only have marketings from the cow herd been high, but additions to the herd, that is first calf heifers entering the breeding herd, have been very low.

The ratio of steers to heifers in national marketings provides a rough measure of heifer retention rates. If the ratio is high it indicates that relatively more heifers have been held for breeding purposes than if the ratio is low. During the cow herd building phase of the current cycle, the ratio consistently exceeded 2:1, indicating a relatively high level of heifer retention. Since 1975 the ratio has been less than 2:1. To date in 1978, the ratio has been near the record low level of 1977.

Available evidence therefore indicates that new additions to the cow herd during 1979 will continue to be low. In other words, there is little evidence to suggest that any significant increase in heifer breeding has occurred in 1978. The continued relatively high levels of heifer marketings, and continued heavy placements of heifers on feed in the United States, indicates that there has been only limited interest among North American beef producers to breed heifers in 1978.
It is expected that despite sharp decreases in cow slaughter, during the fourth quarter of 1978 and into 1979, cow marketings will exceed new placements in 1979, and that cow herds could again register decreases in the 1979 inventory surveys. If the sharply higher feeder prices of 1978-79 do encourage increased heifer retention during 1979, and thus an increase in the breeding herd in 1980, it would be 1982 before a significant reversal of the down-trend in beef production, which is now under way, would occur. In the interim, significant reductions in slaughter can be expected.

Factors affecting current decline in cattle numbers

Cyclical conditions have been a continuing feature of the beef industry in recent years. Periods of expansion in cattle numbers have been followed by periods when there has been a run down in the total cattle inventory. A preliminary examination of the conditions surrounding the current decline in the size of the Canadian cattle herd suggests that a number of special factors have been in play.

The present decline in cattle numbers which commenced in 1975 has been sharper than that during previous cycles. During the last down-turn in numbers, the total inventory of cattle decreased by 6 per cent. Three years of reduction in the current cycle have already reduced the inventory by 10 per cent. Similarly, while in the last cycle, beef cow numbers decreased by only 3 per cent; three years of reduction in the current cycle have already reduced size of the beef cow herd in Canada by 12 per cent.

It is suggested that two major factors have contributed to this serious decline in cattle numbers in the last few years. The most important has been the sharp fall in beef prices as a result of the extended period of instability in world beef markets. The other factor which has had a particular influence on North American producers has been the higher level of feed grain prices. Since cereals comprise an important input into the beef industry in Canada and the United States, the increased level of grain prices have accentuated the decline in beef production particularly at a time when beef prices were depressed. This coincidence of low beef prices and increased feed costs has resulted in the more severe decline in cattle numbers at this time compared with previous occasions when there has been a fall in the size of the Canadian beef herd.