USDA

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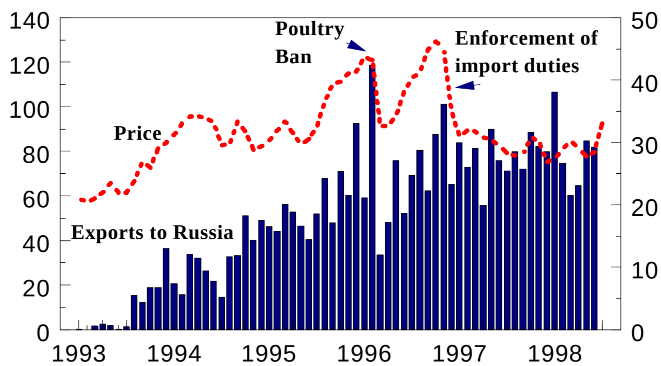
Weekly Market Report: Dairy, Livestock, & Poultry

RUSSIAN RUBLE DEVALUATION: *Effect on U.S. Poultry Meat Exports*

The U.S. poultry industry is heavily dependent on Russia as an export market, with shipments in 1998 estimated to absorb 6 percent of total U.S. poultry meat production, or nearly 40 percent of total exports. The recent devaluation of the ruble, difficulties in getting letters of credit, and price uncertainties in Russia imply an immediate decline in U.S. leg quarter exports and an adverse impact on U.S. leg quarter prices. Despite the likely short-term export shock, industry margins are expected to remain above break-even levels.

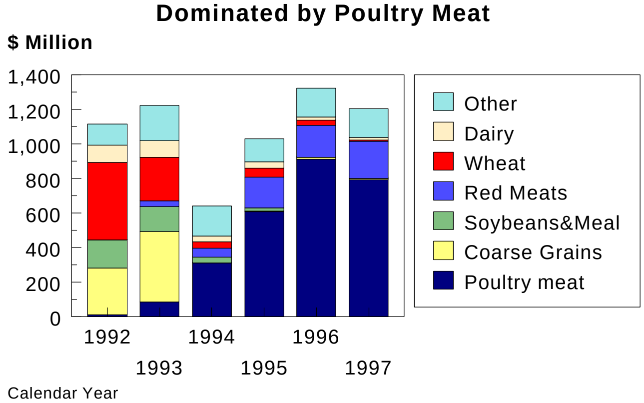
Market conditions in 1998 for the U.S. broiler industry are very dissimilar to the situation in 1996, when two market access issues in Russia–-the temporary import ban in March 1996 and the enforcement of customs collections in November–-dropped U.S. leg quarter prices by more than $.10/pound. In 1998 the U.S. broiler industry is faced with fairly tight supply conditions as a result of hot weather and disease that have held down production gains and pressured up whole bird prices, despite abundant supplies of competing meats, to record levels.

Russian Market Access Issues Move U.S. Leg Quarter Prices



Initially, due to canceled contracts and price uncertainty, U.S. exports to Russia are likely to drop significantly in September/October. Past price shocks in response to significant changes in monthly shipments to Russia indicate that a 10,000 ton drop in broiler meat exports to Russia can lead to a 1 cent to 1.6 cents/pound drop in the U.S. leg quarter price. The present tightness of the U.S. broiler market makes it likely that the impact would be in the lower range of the above estimate.

U.S. Agricultural Exports to Russia Dominated by Poultry Meat



Poultry meat accounts for nearly two-thirds of the value of total U.S. agricultural exports to Russia. Thus, a 30-percent or more devaluation of the ruble that lowers exports in the short term and puts prolonged pressure on leg quarter prices will affect the U.S. trade balance with that country.

RUSSIAN RUBLE DEVALUATION: *Effect on U.S. Poultry Meat Exports*

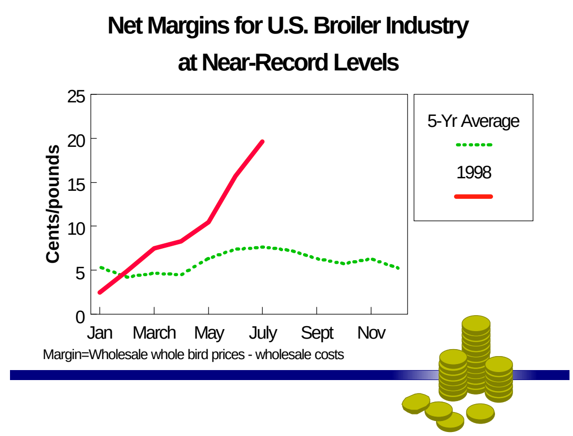
What Does This Mean for U.S. Broiler Meat Exports?

Exports to Russia in September and October are likely to be significantly lower than the 72,000 and 88,000 tons shipped in the same months, respectively, last year. Consequently, overall 1998 U.S. broiler exports to Russia are expected to drop below the 933,000 tons registered in 1997 with the value of these exports significantly below the $729 million generated last year. After the initial trade impact, it is likely that U.S. product will move but at a lower price than previously. This is similar to the situation felt by the U.S. industry in late 1996 when, after strict imposition of the 30 percent tariff, product continued to be shipped but at prices approximately $.10/pound lower. Overall demand in Russia for imported poultry meat in 1999 will, however, hinge on the inflationary effect of the devaluation and its effect on disposable income and consumer buying patterns.

Imported poultry meat products are presently supplying 70 percent of the poultry meat consumed in Russia as imported leg quarters are the cheapest meat available. This high dependency on imports implies that the full extent of any devaluation of the ruble will be directly transmitted to Russian consumers. Red meat prices are likely to experience less price pressure because only 26 percent of the domestic supplies of beef and pork are imported.

Effect of lower U.S. leg quarter prices on industry profitability?

Broiler exports contribute to the profitability of the U.S. poultry meat industry as exports account for nearly 17 percent of domestic production. Any policy or market-induced price changes for product in the Russian market has historically been directly transmitted back to U.S. exporters; consequently, any export shock from that market has implications for both prices and industry margins.



While the broiler meat industry will be adversely affected by slower exports to the Russian market, current near-record net margins will allow the industry to weather the crisis initially. Producer margins for July were estimated at nearly $.20/pound. In August margins are likely to be higher as hot weather and disease issues constrain overall production gains, and move domestic prices higher. Margins, however, are set to decline seasonally in the early fall. A decline in leg quarter prices, especially if continued over more than a few months, implies a more than seasonal decline in overall prices and margins. However, near-record broiler prices and low grain prices probably will keep margins significantly above break-even levels.

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