

Feedstuffs

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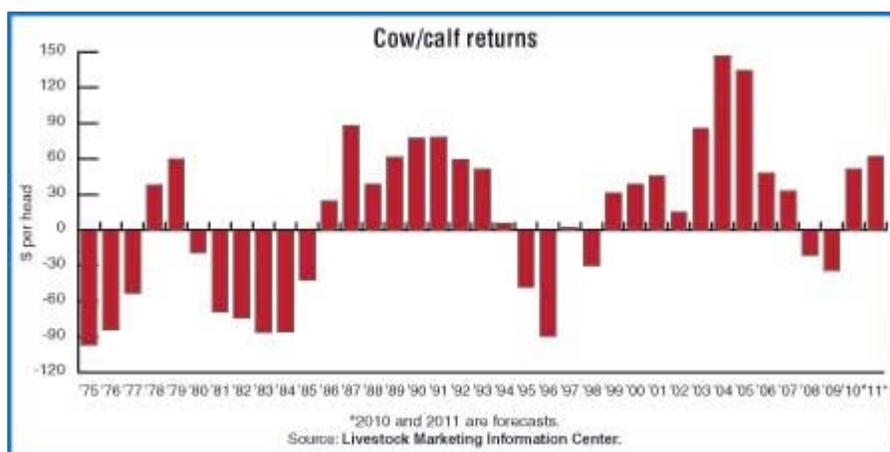
Beef industry exiting stage

- Cow herd liquidation will cause beef producers to lose market share for years.
- Feedlots and packing plants will close.
- Industry structure will be changed forever.

By ROD SMITH

THE beef industry may well be "un-producing" itself out of existence.

The cattle herd and the sum of its parts -- beef cows, calf crops, feeder supplies, fed production -- are shrinking so dramatically that when herd rebuilding does begin someday, the industry likely will have lost so much consumption that it might never return to the market, according to *Feedstuffs* sources.



There is a best-case scenario for the future and a worst case, but neither are positive, sources said.

Beef cow producers did make money in 2010 and have made money for 10 of the last 12 years (Figure 1), but the beef cow herd has shrunk for 13 of the last 15 years for a number of previously documented reasons been (*Feedstuffs*, Nov. 8, 2010).

The annual cattle inventory report scheduled to be released last week was largely predicted to show a Jan. 1 beef cow herd that is significantly under the Jan. 1, 2010, herd, with cow numbers lower than they've been in more than 50 years and a 2010 calf crop lower than any since 1950.

These kinds of numbers will have "a profound impact" on the beef industry's structure, noted Dr. Darrell Mark, an agricultural economist at the University of Nebraska.

Beef cow producers made more than \$50 per head last year and will make more than \$60 per head this year, based on the profitability series maintained by the Livestock Marketing Information Center (LMIC) in Denver, Colo.

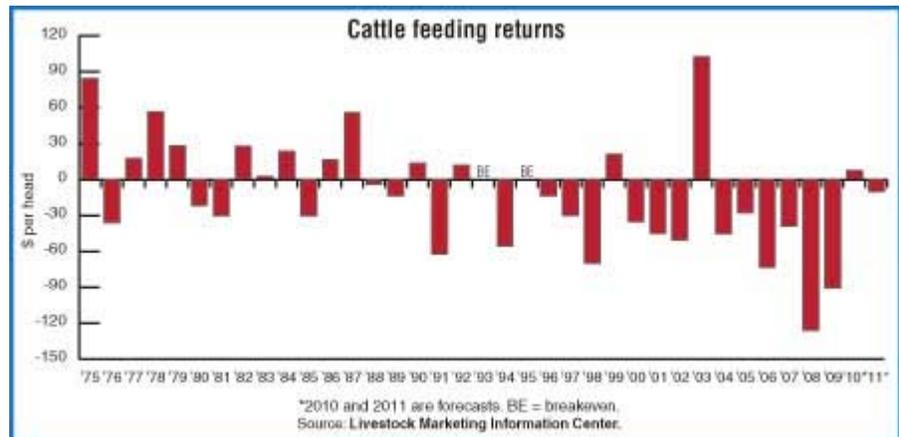
Returns will be a consequence of record-high calf and feeder prices (Table 1), as well as record-high cull cow prices, LMIC explained.

This does put money in producers' pockets, and the best-case scenario is that there will be talk about expansion and getting ranches "appropriately restocked," LMIC director Jim Robb said.

This means that heifers will be held back, but this will also tighten the cap on the feeder supply even harder than in the last several years, especially given how many feeders were drawn out of the also shrinking Canadian and Mexican herds over those years, Robb said.

Fed production will, in turn, continue to be limited, forcing packers to pay higher and higher prices for cattle, with fed steers averaging more than \$95 last year for the first time ever and more than \$100 this year for the first time ever (Table 2).

Cattle feeders did make money in 2010 for the first time since 2003 due to strong profits in the middle of the year, but those were bracketed by low cattle prices at the start of the year and high corn and feeder costs at the end of the year, according to the LMIC cattle feeding series (Figure 2). However, even \$100-105 cattle won't offset costs this year.



Beef production will continue its long-term decrease (Table 3), and packers, with margins under extreme pressure, will pass on higher cattle costs to retailers, sources said.

If heifers really are held back this year, the most optimistic outlook still is that it will be 2013 before feeder supplies increase and 2014 before beef production increases. Beef demand, therefore, will be critical in the next three to four years as retailers, with their own margins under pressure, will pass through higher beef costs to consumers.

That's the best case, but there was growing concern last week that the situation will get worse before it gets better.

Market incentives point to decisions supporting herd rebuilding, said livestock marketing specialist Derrell Peel at Oklahoma State University, but given recent trends, "it is not clear" if cow/calf profitability is enough or a sufficient reason for this to start.

Analysts at Allendale Inc. in McHenry, Ill., in a daily note last week, indicated that it isn't enough. The 2010 calf crop will be the lowest since 1950, they reiterated, and it will continue to be lower than year ago for the next three years, which suggests that, at the most optimistic, it will be 2015 before feeder supplies increase and 2016 before beef production increases.

There is evidence backing up this possibility. Mark noted that the 15-year herd liquidation has brought the female-to-male slaughter mix to almost 100%, i.e., equal, and historically, when the ratio reaches and/or exceeds 100%, cow numbers and calf crops continue to decline "for several more years."

As it is, cattle feedlots and packing plants already are running significantly below capacity, Mark said, and the longer this continues, the more feedlots and plants will be forced to close down, which will be devastating not only to the companies, employees and communities involved but to the beef industry itself.

Mark penciled beef production to decline this year and next year while pork and poultry production increase, noting that, as beef supplies decrease and beef prices increase, consumers will, by necessity, shift away from beef to pork and poultry.

As this highly plausible scenario takes place, beef will lose so much market share to competing meats that a real and serious question arises as to -- if and when herds start to expand -- how much, if any, of that market share can be recovered, sources warned.

The beef industry's size "could be forever reduced," Mark said.

The beef industry's business model is "broken," added Bill Helming at Bill Helming Consulting Services in Olathe, Kan.

Demand for ground beef, which can price competitively next to pork and poultry, will continue rising, he explained, while demand for the increasingly smaller supply of increasingly higher-priced middle beef cuts will continue slipping.

This will transition the beef industry from a "fed" industry to a "half-fed" industry, he said, with feedlots finishing two cattle tiers: a short-fed one for the ground beef markets and a longer-fed one for the middle markets.

Otherwise, the stage is set for the "practical exit" of the beef industry, sources said, adding that this is not the time for the industry's most-established groups to get in a snit with each other.

The cattle markets were \$2-3 lower through Thursday last week as cattle futures fell most of the week in response to a bearish feedlot inventory report Jan. 21 in which December placements came in higher than expected and pointed to larger-than-expected finished supplies in the first half of this year, sources said.

However, finished production then will tighten for the second half of the year and for years to come, sources added.

Cattle were \$104/cwt. in Kansas and Nebraska last Thursday and \$105/cwt. in the Southwest but still were 25.9% higher than at this time last year. Feeders indexed at the Chicago Mercantile Exchange at \$126.18/cwt., down 77 cents for the week but up 8.4% from last year.

The Choice cutout picked up 29 cents and the Select 75 cents last week and were \$173.10 and \$171.61/cwt., 23.6% and 25.5% more than year ago.

Elsewhere, the hog markets were higher last week at \$75.10/cwt. and 77.74/cwt. on a lean carcass basis last Thursday, equivalent to a \$57-59 live cash hog market.

The chicken markets were mostly unchanged, although whole birds and wings were becoming burdensome and starting to pressure the complex. The egg markets were 3-5 cents higher as demand picked up for features at considerably lower prices than in November and December.

The dairy markets continued to explode higher on solid demand for butter and powder that was driving manufacturing milk into butter and powder production and, in turn, pulling cheese prices higher.

1. Cattle prices (\$/cwt.)				
Category	2008	2009	2010	2011
500-600 lb. calves*	115.81	109.68	122.84	128.50
700-800 lb. feeders*	104.99	97.28	110.89	118.50
700-800 lb. feeders**	102.98	96.14	109.40	111.00
*Livestock Marketing Information Center.				
**U.S. Department of Agriculture.				

2. Fed steer prices (\$/cwt.)				
Source	2008	2009	2010	2011
LMIC	92.78	83.25	95.38	104.50

USDA	92.27	83.25	95.19	100.00
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3. Beef production (billion lb.)				
Source	2008	2009	2010	2011
LMIC	NA	25.965	26.300	25.800
USDA	26.561	25.983	26.186	25.535
Sources for Tables 2 and 3: Livestock Marketing Information Center and USDA.				