

MARKET TRENDS AND FUTURE DEVELOPMENTS

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The U.S. beef industry is expanding slowly in the early 1990's. This is in response to several years of profit in the business and to relatively good grass conditions through the Southwest and the Southeast.

Because of excess packing and feeding capacity, cow/calf producers have been, and will remain, in a strong bargaining position for the near term. However, as a result of substantial losses in the feeding industry from about mid-1991 through early 1992, feeder cattle prices have begun to trend lower. Over the next several months, this will result in lower calf prices as well. Ultimately, cow/calf producers will see their strong bargaining position erode. Exact timing will depend on the profits in the feedlot and packing sector and the rate of expansion in the herd. Input costs, demand, weather and other similar factors will ultimately determine when and how much bargaining position cow/calf producers lose.

This is not a short-term trend. Beef and total meat supplies are increasing and demand growth has slowed. Cattle numbers are increasing. Exports have leveled off, though long-term should still grow, and grain prices appear likely to increase. This is a reversal in trends seen the past several years which contributed to industry profitability.

Competition will become more intense in the future, not only within the industry, but also from without. If the beef industry doesn't continue to increase productivity to match or surpass gains in competitive meats, the price of beef will likely increase relative to the price of pork and poultry, placing beef at a competitive disadvantage. This could result in a loss of market share for beef.

As cattlemen, who are dependent on the business for their livelihood, take steps to become "least-cost" producers, productivity will improve.

This will offset the need for significant increases in cattle numbers, unless new demand is developed either domestically or abroad.

With exception of the cow/calf area, we're seeing consolidation, concentration, and integration in the industry because of increased competition and narrowing profit margins. In most cases this is contractual integration vs. integration by ownership, such as has been seen in the poultry business.

Cattle feeding and packing facilities are concentrated in the midsection of the U.S., and this is not expected to change. Cow/calf producers outside that area will have to produce at a lower cost than producers located close to feedlots, to offset their freight disadvantage and be competitive. This is only one example of the competition between producers in the same segment that will see feedlots compete for customers. Services, costs of gain, location and other factors combine to determine who gets the customers and succeeds. This competition has always been around, but it's becoming more evident today.

Premiums and discounts (primarily premiums) will be a long time coming because of the structure of the industry and the variability of product. Branded beef will be a step toward value-based marketing, when it represents a significant share of the market. Until that time it will be difficult to determine exactly what the market wants/needs, and the industry will remain a "commodity business" operating on averages instead of premiums and discounts.

Successful cattlemen in the future will know their costs of production, be well informed and run their operation as a business.