

Beef Cattle Outlook

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Introduction

Other than no rain, cattle producers have had little to complain about in the past 12 months. In a little less than a year cow-calf producers have added around \$40 per hundredweight (Figure 1) or \$200 per head in revenue to their calf-crops.

It should come as no surprise that these high prices are a result of extremely tight feeder cattle supplies, favorable weather conditions in the primary stocker growing regions and speculation on the direction of the fed cattle market.

Will these prices hold or are we in the midst of a “cattle bubble?” The fundamentals say prices should remain firm, but there has also probably been some “irrational exuberance” on the part of some buyers.

The remainder of the paper considers the key factors affecting supply, demand, and ultimately cattle prices for the foreseeable future.

Supply Situation

Overall beef supply is expected to be down in 2012. Even though exports are expected to increase this year, the overall decline in beef and total meat production (Table 1) will be the primary driver for supplies.

The decline in beef production is directly tied to the declining U.S. beef cow herd. In the past five years, the herd has declined by 2.5 million cows or almost eight percent to less than 30 million beef cows. To be sure, the price signals were present last year to stimulate herd expansion, but the crippling drought in the primary cow-calf states of Texas and Oklahoma led to another drop in cow numbers (Figure 2).

Demand Outlook

Overall demand is expected to remain steady for the foreseeable future. Many people confuse

higher prices with an increase in demand. In reality, higher prices can be function of short supplies or increased demand. Currently, the high prices that cattlemen are experiencing are a result of short-supplies and stable demand domestically, and short supplies and increased demand internationally.

Demand is a function of income, population, prices of competing goods, and consumer's tastes and preferences. Domestically, demand is influenced mostly by consumer's disposable income. In other words, it's all about the economy.

The Congressional Budget Office (CBO), a non-partisan economic part of the government, projects U.S. economic growth to be sluggish for the next several years (Figure 3). According to their projections, it will take about five years for the U.S. economy to get back to where it should be. As a result, it will be difficult to pass along much higher prices to consumers, especially if gas remains close to \$4 per gallon.

The good news is that as long as the economy does improve (albeit slowly) that should bode well for beef prices in the near future as supplies will remain tight.

Internationally, exports are expected to be down ever so slightly as other nations' economies continue to struggle. However, as long as the U.S. Dollar remains weak exports should hold up reasonably well.

Prices and Profitability

Overall, prices are expected to remain favorable for the next several years as supplies remain tight. Cattlemen should expect prices to stay about where they are to improving slightly for the next several years.

Profits are expected to be buoyed by high cattle prices. Even though input prices have increased

in recent years, they are expected to stay in-line with current prices.

For the near-term, the major concern on the cost side is not so much prices but how much feed and hay will need to be fed.

Current projections are for significant drought to continue in the Southeastern US (Figure 4). As a result, costs of gain will likely remain elevated due to decreased performance of animals.

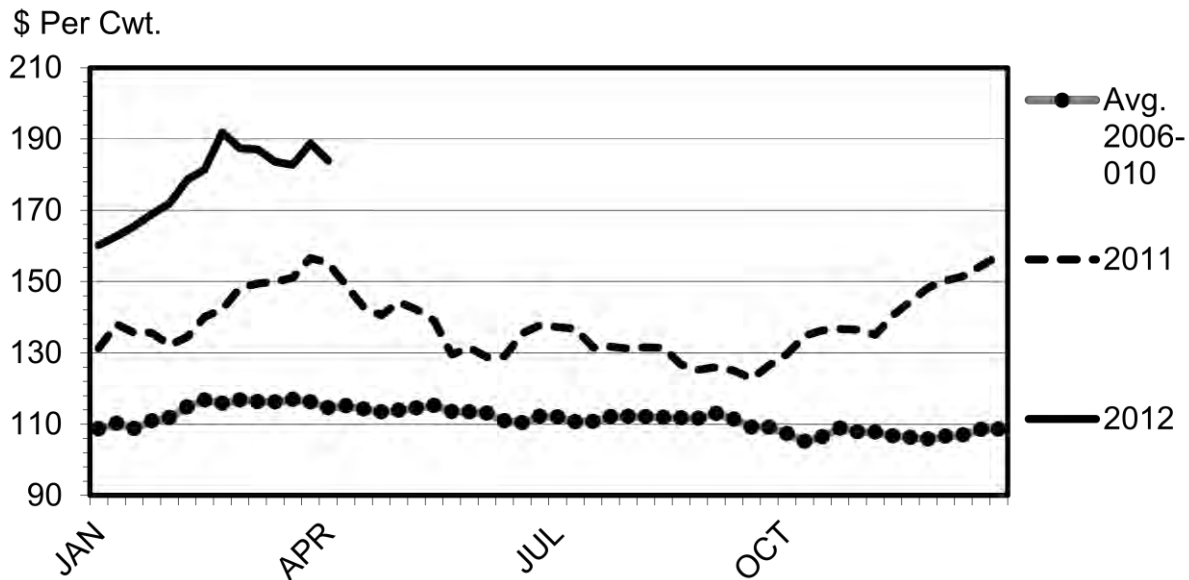


Figure 1. Average weekly prices for Georgia 400-500 pound steers and bulls. Source: USDA-AMS, graph compiled by Livestock Marketing Information Center (LMIC).

Table 1. Projected Meat Production for 2012.

Commodity	2010	2011 Projected	2012 Forecast	11 vs 10	12 vs 11
	Billion Pounds			Percent Change	
Beef	26.41	26.19	25.04	-0.84%	-4.59%
Pork	22.46	22.76	23.27	1.32%	2.17%
Total Red Meat ¹	49.18	49.24	48.58	0.12%	-1.37%
Broilers	36.52	37.20	36.55	1.83%	-1.78%
Total Poultry ²	42.59	43.51	43.04	2.11%	-1.09%
Total Red Meat & Poultry	91.77	92.75	91.62	1.06%	-1.24%

Source: April 2012 WASDE Outlook, USDA-ERS

¹Also includes veal and lamb production

²Includes turkey production

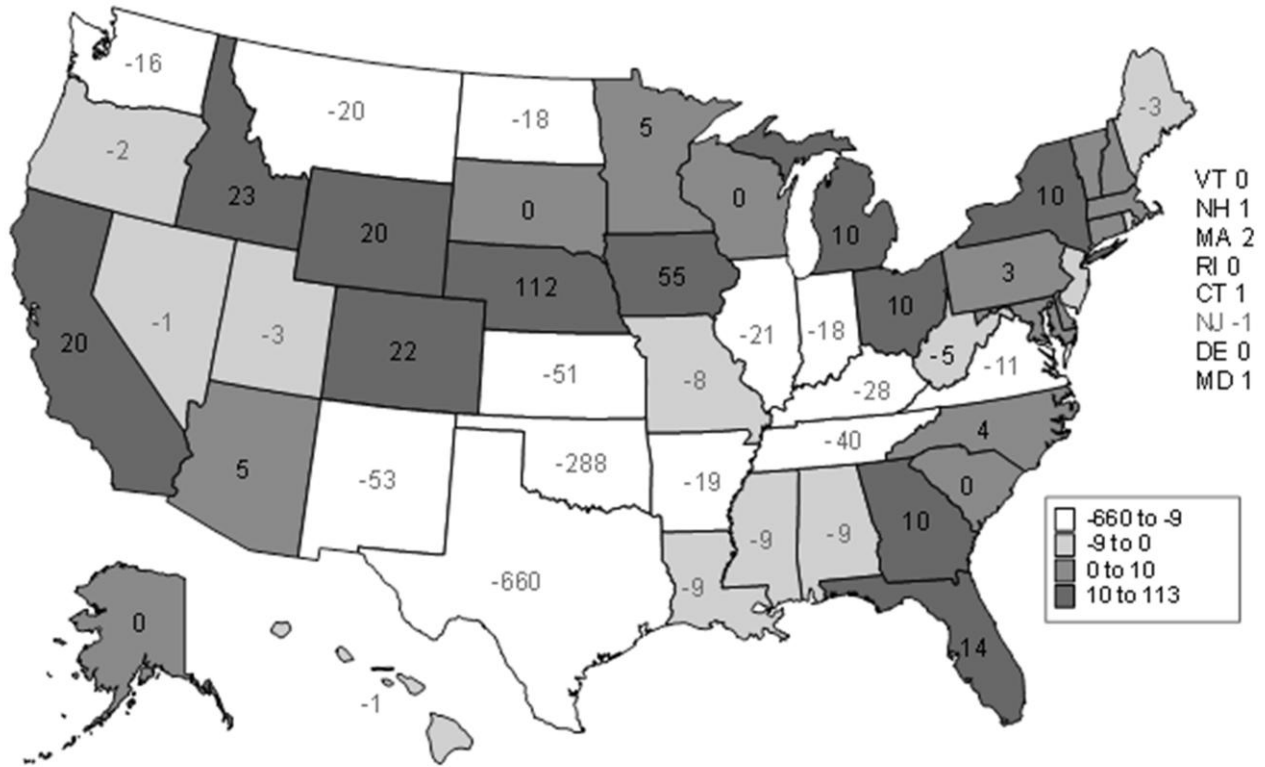


Figure 2. Change in beef cow numbers from 2011 to 2012. Source: data compiled by USDA-NASS, chart developed by LMIC

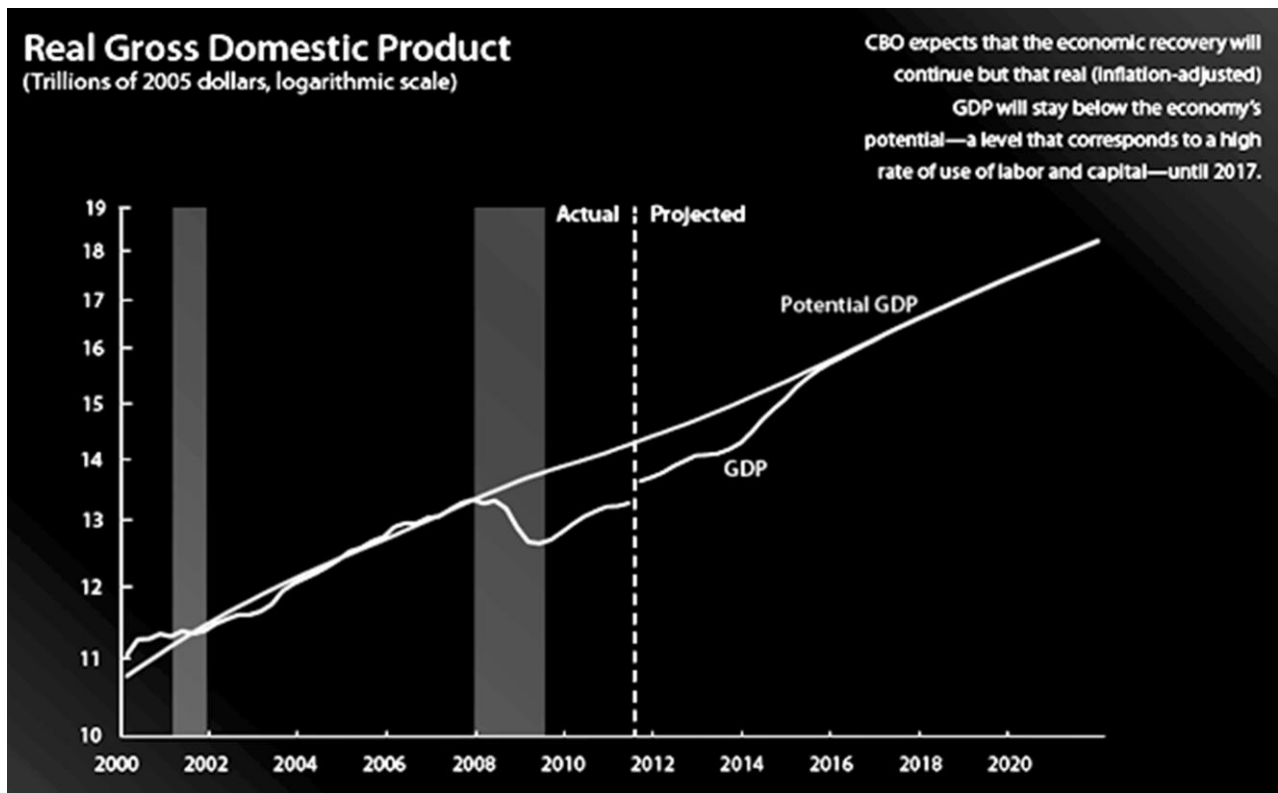


Figure 3. Projections for economic growth in the US until 2011

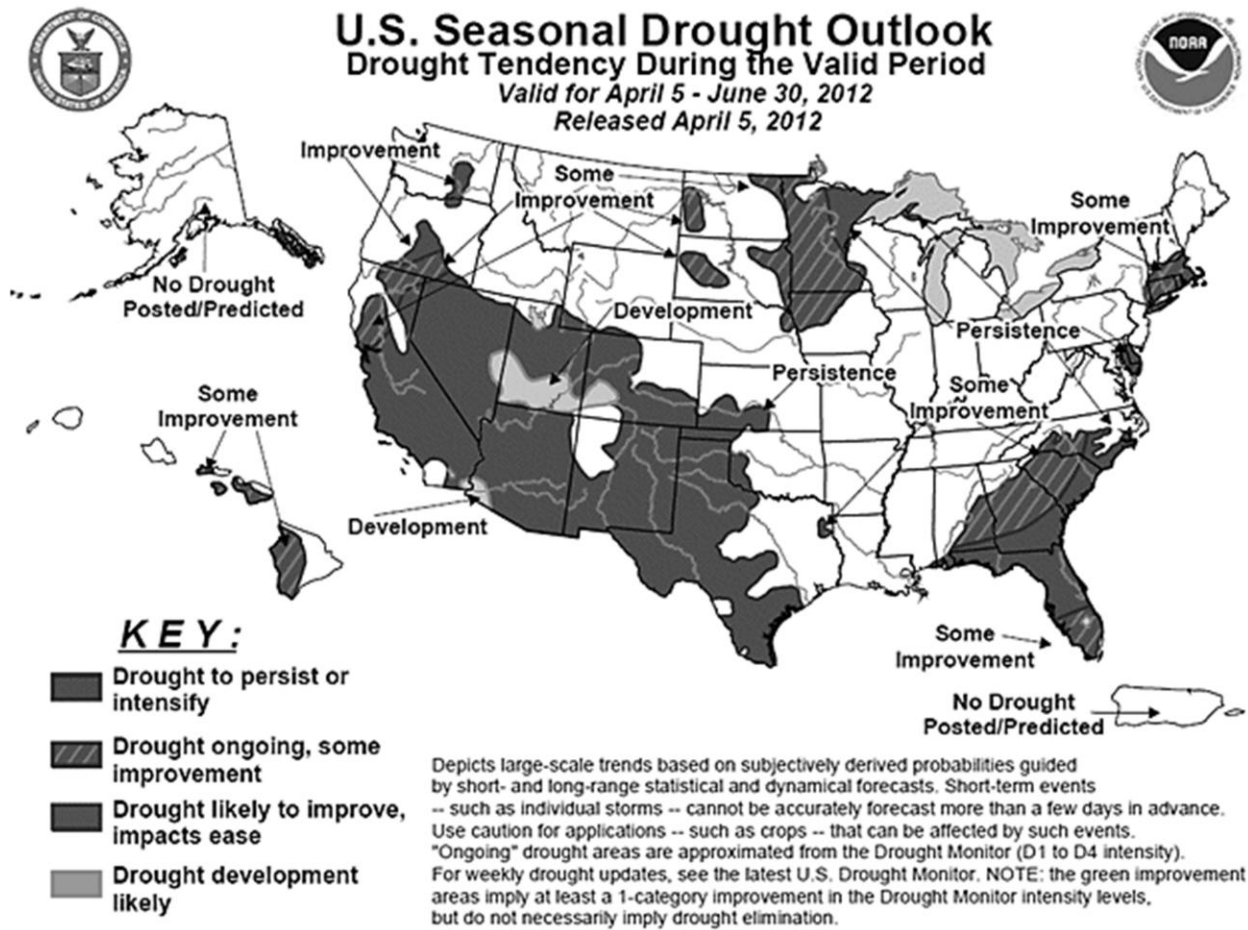


Figure 4. Projected precipitation through June 30, 2012. Source: NOAA