

**A LITTLE BIT COUNTRY
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Bright Outlook for Beef Markets

With cattle prices at record levels, producers question the market's longevity. Prior to the BSE, (*Bovine Spongiform Encephalopathy, commonly known as mad-cow disease*), scare in 2003 or even the September 11, 2001 terrorist attack, cattlemen could establish their production and marketing decisions based on a 10 year cycle. As prices peaked, cattle inventories increased to levels when supplies exceeded demand. When this occurred, producers then reduced herd inventory and converted land to other uses. It took about one decade to complete this cycle.

During the Bovine Connection held recently in Sidney, Jim Robb, Director of the Livestock Marketing Information Center based in Denver, told us the beef cattle market cycles were greatly dampened and the direction will be more difficult to identify. He identified three factors which will support cattle prices in the next few years. They are: 1) tight cattle numbers, 2) strong export markets (beef and beef by-products, and 3) rather tight domestic supplies of competing meats and poultry.

As of January 1, 2011, the National Agricultural Statistics Service reported the U.S. total cattle and calf inventory at 92.6 million head. This was 1.4 percent below a year earlier and the smallest since 1958. U.S. cattle numbers peaked in 1975 at 132.0 million head. At the beginning of 2011, beef cows totaled 30.9 million head.

The liquidation of the U.S. beef cow herd continued in 2011 making last year the 13th time inventories were reduced during the last 15 years. Despite the record high calf value in 2011 beef cow numbers tumbled another 600,000 head. Much of this reduction was driven by the drought in the South and Southeast. Texas and Oklahoma rank first and second respectively in cow numbers and they are located in the heart of the worst drought the area has experienced.

U.S. herd expansion is not expected until cattlemen in the South and Southeast experience more favorable growing conditions.

Global beef supplies are expected to decline for a fifth consecutive year in 2012 while global demand for U.S. beef continues to improve. Rising incomes of the Asian markets is the number one factor driving global meat consumption. Beef exports in 2012 are expected to grow by 10 percent. Brazil is increasing its ability to produce beef but its domestic demand has decreased exports by an estimated 20 percent in 2011.

Although pork production was up one percent in 2011, record exports more than offset the additional production. Like the beef producers, hog growers experienced record high prices in 2011. Pork production is expected to increase in 2012 but exports are also expected to increase, offsetting production gains.

Retail chicken prices have brought modest improvement in 2011 compared to beef and pork. High feed costs resulted in poor profit margins and some production declines. With reduced supplies and expected increases in exports, the industry is looking toward improved chicken prices in 2012.

Besides the drought impacted states, Robb feels the beef cow herd numbers will likely continue to shrink in some Midwest states where more mixed cropping/cow operations will downsize or eliminate their beef enterprise. He also expects some Southeast states also will continue to switch to crop production at the expense of the more labor intensive cows.

For the next five to ten years, Robb expects the beef cattle industry will operate with the following: 1) supplies of feeder cattle will remain tight by historical standards, 2) price volatility (inputs and outputs) and market shocks will continue, 3) historically high feedstuffs cost range will continue, 4) export demand for animal protein and by-products will grow.

Cattlemen know very well it takes more money to operate in the current business environment. According to Cattle Fax, another Denver based marketing information service, credit needs have increased 50 percent in three years and 100 percent in ten years.

Many years ago a 'seasoned' animal husbandman told me that management mistakes are the most costly when prices are good. With that in mind, I remind myself that now is a good time to prepare for the next calving season making sure the newborn has the best chance of surviving and the cow will be ready to conceive in another 90 days or less. Dead calves and late-breeding cows have more to do with profit than any other expense items.