

Outside the Box **What a year!**

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2009 has been painful, frustrating, and in many ways an almost surreal experience. Political change has yielded an unprecedented movement of governmental intrusion into markets, manufacturing and financial institutions. The narrow-viewed activists, noteworthy

only for their zealotry, have foisted themselves into public policy while our leaders in the executive and legislative branches sideline common sense and balance in favor of perspectives unrestrained by knowledge of the law of diminishing returns, cost-benefit

analysis, and the dangers of unintended consequences.

These are the unfortunate facts of our times and, while hope must be held that the inherent wisdom of the American people will eventually return our nation to true principles, business owners must carefully assess the current landscape and then execute an action plan that will help assure the survival of their enterprises.

Clint Eastwood's film *The Good, the Bad, and the Ugly* serves as a good template for categorizing the economic and demographic trends that confront us.

The ugly

- The overall economy. The American gross domestic product (GDP) in 2009 will decline by 3% while the overall decline in GDP among developed nations will fall by 4%. Credible analysts forecast that the economy will stabilize in 2010 but will not likely begin to recover until 2011. Simultaneously, the value of the dollar will continue to be highly volatile while lenders become increasingly cautious and risk averse.
- Short-term beef demand. Cattle-Fax estimates that wholesale beef demand has slipped nearly 10% since October. These accrued losses equate to a loss of nearly \$90 per head of fed cattle over the same time period. While retail indexes suggest a milder loss of beef demand, the inability of the U.S. to make progress in re-opening beef exports into Japan or growing Korean demand has cast a decidedly gloomy pall over the beef complex. Complicating the situation is the rapid rise in culling of dairy cows and brood sows, which serves only to pile additional protein tonnage on an already sluggish marketplace.

The bad

- The U.S. beef cow herd has slipped to 31.7 million head — a loss of nearly 2 million head in the past decade. With a decline in the number of calves in the market, the feedyard and packing sectors must adjust their capacity to these lower levels of available calf inventory. Some analysts forecast that more than 2 million head of feedyard bunk space will be idled in 2009 and 2010 and that the packing industry will also contract in an attempt to reverse their equity losses and lack of profitability. The loss of infrastructure to the industry will be difficult to replace in the future, particularly at the packing level. These trends taken together almost certainly assure that the industry will continue to undergo concentration.
- Fed-cattle prices are \$8.50 per hundredweight (cwt.) behind a year ago and only modest recovery can

be anticipated in 2010. Market cow prices are likely to be pressured downward by the dairy sell-off while calf and feeder prices are anticipated to demonstrate volatility through summer and lag \$3-\$5 behind 2008 values.

The good

- The short-term forecasts suggest that total beef production will decline moderately into 2011 before stabilizing. While there are long-term worries embedded in this news, declining supplies stacked against a weak economy should help buffer the industry against further price erosion. Assuming that the current fire sale of dairy and sow capacity is completed by the fourth quarter of the year, supplies of grinding beef and competing meats should decline into 2010.
- The recent U.S. Department of Agriculture (USDA) corn report suggests that the stocks-to-use ratio is significantly better than previously thought and that — if conditions hold through harvest — total corn production will also be higher than the spring forecasts. While federal energy policy stands in the way of corn prices moving below \$3 per bushel (bu.), the amount of stored corn coupled with a favorable outlook for production in 2009 should help hold corn close to \$3.50 per bu. However, volatility in the grain market should be an expectation.

Get tough

My view of the situation is that we are 12-18 months away from real improvement in the overall economy and that, while the situation will be difficult for most Americans, we are not headed for economic Armageddon. Remember the book *Tough Times Never Last but Tough People Do?* These are tough times, and those who not only survive but prosper in these conditions will have to be disciplined, focused and Marine-tough. Here are a few thoughts for tackling these challenges:

1. Planning won't be enough; only those who can effectively execute their strategy will win.
2. The K.I.S.S. principle is good as gold — keep it simple or simpler.
3. Take Benjamin Franklin's advice to heart — hope for the best and plan for the worst.
4. Stick to the basics, stay true to foundational principles, and keep excellence at the heart of the business enterprise.
5. Engage in leadership opportunities and the political process. Only through the sustained conviction of our citizens can America be returned to the right path.
6. Study the past — our ancestors knew a lot about dealing with adversity and our children are counting on us to be the equal of those who built this nation.

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