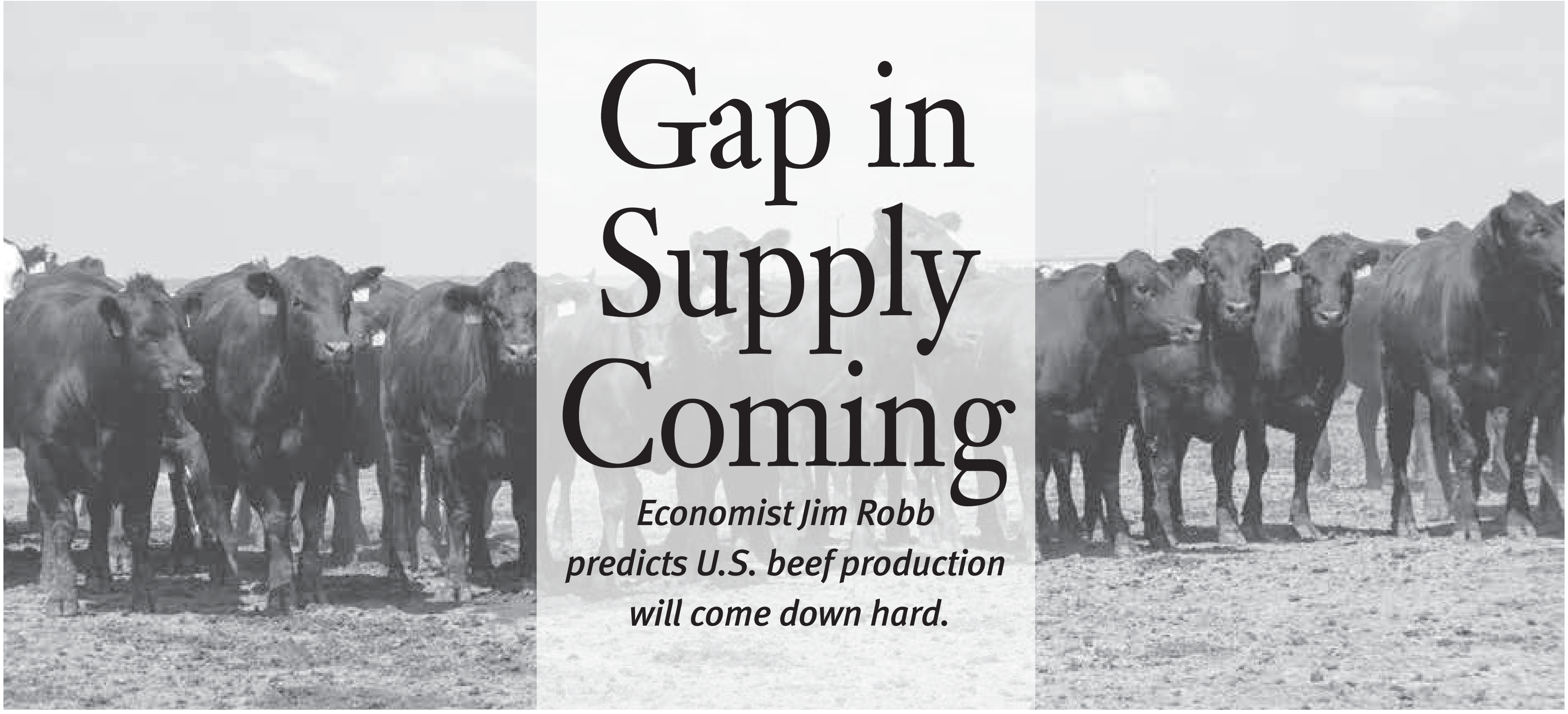

Gap in Supply Coming

Economist Jim Robb predicts U.S. beef production will come down hard.

PHOTO BY MICKY BURCH

by
TROY SMITH, *field editor*

When you consider the prices U.S. consumers are paying for it, the demand for beef is surprisingly good. Denver-based economist Jim Robb says drought, cow numbers, beef exports and imports have been important drivers of strong domestic demand due to their influence on beef supply. The director of the Livestock Marketing Information Center (LMIC) spoke at the University of Nebraska Gudmundsen Sandhills Laboratory Open House in late August. He warned that a big reduction in beef supply is just around the corner.

"Beef production has not yet come down in a big way because cow kill has been enormous," stated Robb. "A huge decline in cow beef production is coming, though, and (total) beef production is going to come down hard."

Drought, of course, is to blame for the prolonged liquidation of the country's cow herd. According to Robb, 60% of U.S. rangeland was rated "poor" or worse, by late-summer 2012. Many herds required supplemental feed and plenty of cows went to town.

This year, conditions on as much or more of the range are near normal. Robb expects this year's flow of cows to slaughter to slow way down, and the seasonal dip in prices should be less pronounced.

"Slaughter cow prices won't be pushed as low in the fall, and a rally in the spring could be strong. I wouldn't be surprised if the top end reached 90¢ to 95¢ per hundredweight (cwt.) — maybe a dollar," said Robb.

With many areas receiving a measure of relief from drought and high feed prices, and the promise of high calf prices, Robb said he thinks there will be sufficient incentive to start rebuilding breeding herds.

"But you know the biology," said Robb. "We don't have a ghost of a chance of turning things around and building up beef production until 2017."

The international front

Robb said international markets for U.S. beef were surprisingly strong during the summer. He gave much of the credit to Japan's decision to accept beef from animals up to 30 months of age. He called Japanese purchases of high-quality beef for the restaurant trade very positive for the United States. However, Robb said he foresees a bit of erosion in total U.S. exports, depending on competition from the domestic market.

Imports of foreign beef and cattle are expected to decline as a result of drought in other countries. Their herds are dramatically smaller, too — especially Mexico's. Calling the Mexican national herd "decimated by drought," Robb said this year's imports of south-of-the-border cattle to the United States will be down by a million head, compared to 2012.

"That's a big deal," stated Robb. "The U.S. is now driving the North American beef industry. Canada and especially Mexico are peripheral players."

The domestic front

Robb said domestic demand for beef can remain relatively high if growth of the U.S. economy doesn't falter. Economic growth of 3% per year could support even higher beef prices. However, if growth slows to 1%, consumers are likely to choose more of the alternatives — less expensive pork and chicken. There should be plenty of chicken to buy as the broiler industry is gearing up in anticipation of lower corn prices.

"I see a bunch of broiler meat ahead," said Robb.

In comments about beef industry evolution, Robb noted the overcapacity for both cattle finishing and beef packing. Some slaughter plants have closed, and he said he expects more to lock their doors. Not only have many smaller operations stopped feeding cattle, several large Southern Plains feedlots have gone out of business. He anticipates more feedlots to go empty unless the feeding segment can heal soon.

A new custom model

Robb also talked about significant changes within the feeding sector, including the emergence of a different custom-feeding model. There was a time, he said, when many large feedlots fed mostly custom cattle, or their numbers of custom-fed and company-owned cattle were more evenly split. Over the years, however, the share of cattle wholly owned by the average feedyard has increased.

There was a time, he said, when many large feedlots fed mostly custom cattle, or their numbers of custom-fed and company-owned cattle were more evenly split. Over the years, however, the share of cattle wholly owned by the average feedyard has increased.

"In 2011, about 60% were owned by the feedlot. Today it's probably 65% and growing," reported Robb.

Pointing to accelerating market segmentation, Robb said there is less "pen feeding" and much more "design feeding." Cattle are sorted and sorted again, into groups that are managed for specific markets.

"The volume of cattle sold on the cash market continues to decline and formula-priced sales are up," said Robb, noting that an increasingly thin cash market makes it harder to use as a base for formula pricing.

Robb said growing use of beta-agonists has contributed to the push toward more formula sales of finished cattle. Fed during the latter part of the finishing period, beta-agonist feed additives cause more dietary energy to be directed toward protein synthesis (lean-muscle deposition) than fat synthesis. Effective for only a limited period of time, their use means cattle feeders have a narrow marketing window for capturing the economic benefits beta-agonists offer. This narrow window has meant much less flexibility in marketing cattle.

"You can't hold animals fed beta-agonists," added Robb.

Noting that, for a long time, retained ownership hasn't been profitable for cow-calf producers, Robb said that might change. He urged them to really understand how it works, and understand that cattle are now managed by data analysis.

"Before you retain ownership," Robb warned, "you need to know how your cattle perform."

Editor's Note: *Troy Smith is a freelancer and cattleman from Sargent, Neb.*