

Market Advisor

Cow prices struggle

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Cow harvest prices have been on a roller coaster ride this year. For the third quarter they averaged about \$10 per hundredweight (cwt.) below last year and \$5 below the previous five-year average.

Cow harvest has averaged almost

2% higher for the year, with 15% higher dairy cow harvest, but 8% lower beef cow harvest. Cow prices are likely struggling due to weak domestic demand. Wholesale fresh 90%-lean boneless beef is trading at \$1.30 per pound (lb.) compared to \$1.75 last year, when all

commodity prices had soared to high levels.

The stagnant economy with high unemployment has kept consumers away from restaurants. And ample pork supplies at historically low prices have offered stiff competition to beef. For example, wholesale fresh 72%-lean pork trim is selling for 35¢ per lb. compared to 85¢ last year. For prepared meat manufacturers who have flexibility in substituting ingredients, pork trim is a good buy relative to beef.

The typical seasonal price pattern for cows shows a sharp decline in October and November, when heavy beef cow culling occurs.

In addition, imports of manufacturing-grade beef have increased 20% during last year's historically low levels. Last year, imports of beef from Australia, the leading supplier of manufacturing-grade beef to the U.S., were down due to the low value of the U.S. dollar. This year, imports have increased back to historic levels as the dollar increased in value and other countries importing beef also dealt with poor economic conditions.

Cow byproduct (e.g., hide) values have averaged almost 50% lower than last year, in part due to poor export demand caused by the worldwide recession.

Cow prices are likely to struggle for the rest of the year. The second for 2009 Cooperatives Working Together (CWT) dairy herd retirement is in the process of sending 87,000 dairy cows and 3,200 bred heifers to market. The buyout should be complete by early October. The first herd retirement of 2009 removed 101,040 cows in late May, June and July. Details of both buyouts are available at www.cwt.coop.

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In addition, the western Canadian provinces are experiencing abnormally dry conditions. If that dry pattern continues, Canadian cow imports, which so far are near last year's levels, could increase. And consumer demand is showing little sign of improvement as the economic recession lingers.

Cow prices in 2010 are forecast to rebound compared to 2009, as cow harvest is expected to decline and some improvement in U.S. and world economies should occur.