Market Advisor

by **TIM PETRY,** *North Dakota State University Extension Service*

LMIC and beef demand

Some of you have likely heard about the Livestock Marketing Information Center (LMIC). I am North Dakota's representative on the Technical Advisory Committee of the LMIC. What is LMIC? The LMIC is a unique cooperative effort among 29 state university extension livestock marketing specialists, USDA economists, industry cooperators and LMIC staff. The goal is to reduce duplication of effort while enhancing the overall quality and quantity of livestock market information available to producers and other decision makers.

More about LMIC, in Denver, Colo., is available at *www.lmic.info.* The following information about beef demand is an example of output, and was written by LMIC Director Jim Robb in collaboration with several members, and modified and updated by me.

In a broad context, beef demand involves two aspects: domestic and export markets. In 2013, U.S. beef export tonnage was about 10% of production. Export markets have become ever more important for U.S. beef producers. Since the export market disruption after late 2003 due to bovine spongiform encephalopathy (BSE), U.S. beef exports have rebounded to pre-BSE levels. To maintain industry stability, U.S. beef products must appeal to a wide base of consumers both domestically and internationally.

U.S. consumer beef demand was better than anticipated throughout 2013. The concern has been that consumers would substitute relatively inexpensive pork and chicken at the expense of beef. So far, the U.S. economy has grown just fast enough to keep domestic consumers selecting beef items at the meat counter.

Looking ahead, two questions are important for 2014. First, will U.S. economic growth be fast enough to keep consumers buying high-priced beef cuts? Second, will domestic output of competing meats surge, causing prices to drop more relative to beef?

First, U.S. economic growth prospects for 2014 have improved, but they still might be categorized as lackluster. Recent economic data has generally been better than earlier forecast, especially aggregate economic growth (i.e., Gross Domestic Product gains). Unemployment remains very high by historical standards, but progress has been made almost monthly. Even the U.S. housing sector has begun to be a positive economic force for the first time in several years. So, looking ahead, most of the concern regarding consumer demand for beef is related to the supply and associated prices of competing meats.

Pork wild card

In the U.S.-animal-protein complex, the wild card is pork — what is and will

Beef byproduct values buoyed by export market

The importance of U.S. beef exports to U.S. cattle markets receives a lot of press and has been discussed before in this column. Beef exports on a value basis were record-high in 2013, but so were beef byproducts. Beef byproducts are less glamorous, and their importance sometimes is overlooked by cattle producers. However, the value of byproducts, sometimes referred to as "offal, or drop value," also plays an important role in cattle prices.

Beef byproducts include all items, both edible and inedible, from harvested cattle that are not part of the dressed carcass. The hide is the most valuable byproduct and usually accounts for about one-half of the total byproduct value. Other beef byproducts include items such as edible and inedible tallow, livers, hearts, tongues, oxtails, tripe (stomach), and meat-and-bone meal. Edible byproducts are often referred to as variety meats.

Values for individual beef byproduct items are influenced by many supply and demand factors. Export demand is especially important because the amount of U.S. byproducts produced is large in comparison to domestic demand. For example, many hides are exported to overseas customers to be processed into leather and leather products. So, economic conditions around the world and the value of the U.S. dollar relative to other currencies affect byproduct values. Strong economies with robust automobile and leather clothing sales certainly help the demand for leather.

Tastes and preferences for traditional beef cuts and variety meats differ throughout the world. Fortunately, some foreign customers actually prefer variety meats such as livers, hearts and tripe — unlike many U.S. consumers. Tongues, for example, are popular in Japan. In some countries, particular variety meats are considered luxuries or used for medicinal purposes. In other countries, a variety meat may be a cheaper source of protein for lower-income consumers. The USDA Economic Research Service (ERS) published a much more in-depth explanation of uses for byproducts titled *Where's the (Not) Meat? Byproducts from Beef and Pork Production,* which is available at *www.ers.usda.gov/media/147867/ldpm20901.pdf.*

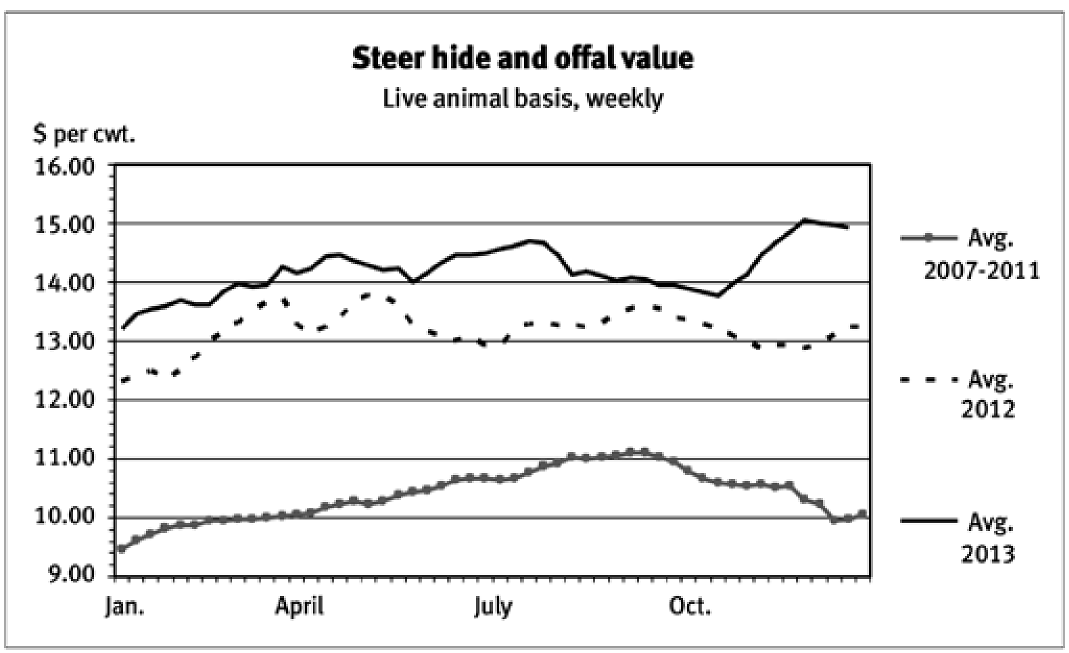
The USDA Agricultural Marketing Service (AMS) publishes a daily USDA Byproduct Drop Value report for fed cattle. It is available at *www.ams.usda.gov/mnreports/nw_ls441.txt.*

AMS reports the quantity, price and value for a number of the most important byproducts, both for a typical 1,360-pound (lb.) steer and a combined steer and heifer (1,300 lb.) category. Values are reported on a per-hundredweight (cwt.) live basis.

As I write this article, the byproduct value for a 1,360-lb. steer was quoted at $14.81 per cwt., or $201.42 per head. AMS reported the market value of an average live steer at $130 per cwt., so byproducts amounted to more than 11% of the steer value. Values of selected individual byproduct items included the steer hide at $7.43 per cwt. ($101 per head), tongue at $1.02 per cwt. ($13.87 per head), meat-and-bone meal at 87¢ ($11.83 per head), oxtail at 66¢ ($8.98 per head), liver at 42¢ ($5.71 per head), and heart at 22¢ ($2.99 per head).

AMS also issues a Weekly USDA Byproduct Drop Value (Cow) report. It is available at *www.ams.usda.gov/mnreports/nw_ls444.txt.*

The report lists the



Steer hide and offal value
Live animal basis, weekly

Source: Livestock Marketing Information Center, 12/30/13, USDA AMS be the impact of porcine epidemic diarrhea (PED) virus? This highly infectious disease only became documented in the United States after midyear 2013, and it spread rather quickly. The disease has already reduced the availability of market hogs, and analysts have significantly lowered slaughter forecasts for 2014.

Earlier forecasts were that more sows, growth in pigs per litter, etc., would bring more hog slaughter, especially in the second half of 2014. Further, heavier hog weights due to less-expensive corn suggested burdensome pork output in the fourth quarter of 2014. Now, due to PED, forecasts are for a rather manageable 1.5%-2% increase in U.S. pork production.

If pork exports grow as expected, compared to the lower levels posted in 2013, the production increase means little change in U.S. per capita pork consumption. Expect unchanged to slightly lower retail pork prices compared to 2013.

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An improving economy, only modest growth in competing meats, and continued strong exports should support beef demand. That, coupled with a possible 6%-7% decline in beef production in 2014 could mean another year of record cattle prices.

quantity, price and value for important byproducts from a typical 1,100-lb. cow. When I wrote this article, the cow byproduct value was estimated at $15.13 per cwt., or $166.43 per head. A 1,100-lb. cow selling for $75 per cwt. would have a market value of $825. So, byproducts would amount to about 20% of the cow's value.

Fed-steer byproduct values increased to record-high levels in the first part of 2008 at $12 per cwt., but the U.S. and world economic crisis sent values plummeting to $6 by the end of 2008. Values began improving in late 2009 as economic conditions improved. Gradual improvement throughout 2010 resulted in record-high values again at more than $12 by year's end. Continued gradual improvement fueled by strong export demand has resulted in the current record-high values near $15 per cwt.

Both supply and demand factors will affect beef byproduct values in 2014. Projected lower fed-cattle and cow slaughter and continued strong export demand should support byproduct values at near record levels.

— Tim Petry

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Potential poultry expansion

U.S. chicken prices were surprisingly strong this past summer. History suggests that profits quickly translate into a larger breeder supply flock to support more eggs-set and chicken production. That trend was beginning to emerge, but the last two months of 2013 had unexpectedly large declines in chicken prices, which shrunk margins. Additionally, chicken exports were below expectations in 2013. Broiler firms are showing some restraint, dampening 2014 production forecasts that were up fully 4% or more to just more than 3%.

Chicken exports are expected to improve in 2014, so some of the increase in U.S. chicken production is expected to be absorbed by overseas markets. For the year, U.S. per capita supplies may be up a rather modest 2%.

The U.S. turkey industry has faced rather low profit levels in recent years. Even lower feedstuff costs in recent months have not changed the outlook much. U.S. turkey production posted an annual drop in 2013 (down nearly 2%), and forecasts are for output in 2014 to be unchanged to down slightly from 2013 levels.

Competition in the meatcase

Domestically, competition at the retail case will increase in 2014, but much more modestly than earlier forecasts. Beyond 2014, there are more concerns. Significant steps to solving the PED virus problem and breeding-herd expansion could cause an increase in U.S. pork output. Of course, chicken output can ramp up in a matter of months, so that sector can surprise, too.

Even though U.S. wholesale beef prices in 2013 posted new record highs, international sales did not soften. Beef exports set a record in 2011 and, after a slight decline, rebounded in 2013 to more than 2.5 billion pounds (carcass weight basis), or about 92% of the record tonnage. For the year, export tonnage grew about 4%, driven by Japan.

After modifying outdated BSE-era trade standards in early 2013, Japanese beef purchases from the United States jumped about 48%. Japan was the largest foreign market, representing 27% of U.S.-export tonnage. In 2013, large percentage gains in sales to Hong Kong and Taiwan also occurred. In contrast, sales to Russia (which essentially banned U.S. beef in 2013) and Vietnam declined dramatically.

High beef prices and an increased value of the U.S. dollar may keep exports to some countries on the defensive in 2014. However, there could be progress on reopening China and Russia to U.S. beef, maybe in the second half of the year.

Another country to watch is Mexico. The drought-induced decline in their cow herd has been dramatic. That means fewer Mexican feeder cattle will be imported (probably the lowest in many years), but it also means an end to the huge Mexican herd liquidation, potentially increasing U.S. beef exports to that country.

So an improving economy, only modest growth in competing meats, and continued strong exports should support beef demand. That, coupled with a possible 6%-7% decline in beef production in 2014 could mean another year of record cattle prices.

Editor's Note: *Tim Petry is a livestock marketing economist with the North Dakota State University Extension Service.*