

TIMELY INFORMATION

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Cattle Market Outlook 2010: Tangled in Economic Recovery

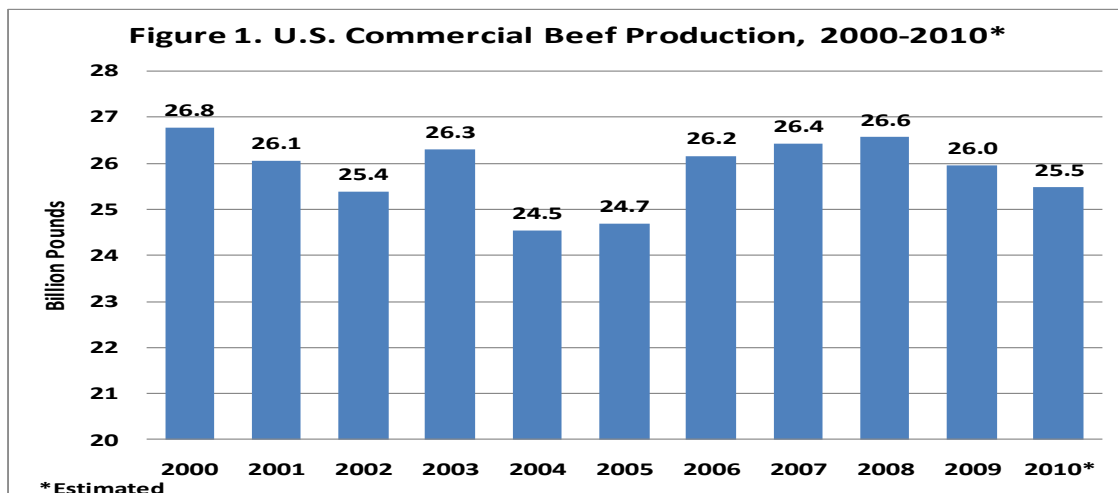
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Attempting to assess the cattle market outlook for 2010 is like trying to untangle the infinite number of knots and twists in a tangled fishing line. There are indeed an infinite number of factors affecting the cattle market outlook for 2010. Some of these include; the level of beef production, cattle numbers, beef demand, competing meats, grain prices, economic recovery, input costs, exchange rates, weather, and many others.

2010 Beef Production

U.S. commercial beef production is expected to decline to 25.5 billion pounds (-1.9%) during 2010 (Figure 1). Fed cattle and cull cow slaughter are estimated to decline by about 1 percent and 8 percent, respectively, this year. Assuming normal feedlot placements, beef production is expected to be slightly lower during all four quarters this year. Net beef supply (domestic beef production plus beef imports minus beef exports) is also expected to decline due to decrease domestic production and an increase beef exports. A minimal increase may be realized in beef imports this year.



Cattle Numbers

The inventory of cattle and calves is expected to decline another 1+ percent as of January 1, 2010. Beef and dairy cow numbers have declined in response to a lack of profitability (higher operating costs and lower output prices) and adverse weather. Beef cow numbers are currently as low as they were 47 years ago. The 2010 annual calf crop is expected to decline to about 35.6 million head. This is the lowest calf crop since 1950. Additionally, feeder cattle and calves outside of feedlots are expected to be about 26.8 million head, down 3 percent from a year-ago. However, carcass beef production is expected to increase about 5-8 pounds per carcass which adds about 200-250 million pounds of beef production.

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Beef Demand

Demand for beef during 2009 significantly weakened due to the recession. Reduced consumer spending, especially in fine dining restaurants, lowered the value of beef. Consumers also selected lower-cost products, such as hamburgers, roasts, sausage, etc. The decline in beef demand is expected to slow during the first half of 2010 and should show improvement in beef demand during the second half of 2010. The economic recovery and trade relations hold the keys to improvements in beef demand. The strength of the U.S. dollar will also impact the level of all meat exports. Current expectations are for beef exports to lead the way to improvements in beef demand in the near future. Global beef consumption is expected to increase significantly during the next decade if economic growth returns.

Competing Meats

Pork production during 2010 is expected to decline to about 22.6 billion pounds (-1.6% from a year ago), while broiler production is expected to show a slight increase to 35.9 billion pounds (+1.0% from a year ago). However, uncertainties about poultry exports to Russia due to the Russian ban placed on our poultry exports may alter poultry production plans by U.S. integrators. Russia received about one-fourth of our poultry exports in 2009. The decreases in U.S. meat production (beef, pork, and poultry) during 2009 were very price supportive. Any additional declines in meat production will help further support meat prices.

Grain Prices

The 2009 corn crop set a new production record at 13.15 billion bushels according to USDA. The National Ag Statistics Service recently reported that the acreage, yield, production, and stocks estimates for corn and soybeans may be revised in the March 10th Crop Production report because of significant un-harvested acres of corn and soybeans across several key states as of late November. A watchful eye on this report will help guide cattle farmers on managing feed grain prices. Regardless of the record crops, U.S. and world stocks remain historically low which will support prices. Some volatility in grain and oil seed prices is expected this spring as grain and oilseed markets once again face an acreage battle.

Cattle Prices

Cattle prices for all classes of cattle are expected to average higher in 2010 compared with a year-ago. Some demand weakness may be incurred during the first quarter of 2010 that could depress prices temporarily, but supply decreases and potential improvement in beef demand during the remaining quarters should result in higher cattle prices. Additionally, the declining inventory of cattle and calves should also help bolster cattle prices in the near future.

Economic Recovery

The consensus among business economists attending the Chicago Fed's annual Economic Outlook Symposium revealed that 1) domestic economic growth is forecast for 2010, 2) unemployment rate is predicted to peak in early 2010 and edge lower the remainder of the year, and 3) inflation is expected to increase modestly during the latter half of 2010. Many economists say that the U.S. recovery will follow the international economic recovery. In any event, the forthcoming recovery will likely be slow and filled with unpredictable hurdles. Some risks that may further delay or test the economic recovery include the fragility in financial markets, rising unemployment, lack of growth in small businesses, higher rates of personal saving, losses in commercial real estate, rising commodity prices, and others could introduce a potential setback to the economic recovery.

Final Thoughts

Many cattle farmers are feeling the hardships caused by the rise in input prices and the decline in output market prices due to extremely poor economic conditions. Some relief is expected in this cost-price squeeze situation during 2010. However, this is probably not the time to plan for expansion unless you are already making a reasonable profit.

Cattle farmers should not count on “higher prices” to save them or keep them going. Input costs will likely also begin to rise in the near future due to competition and inflation. Continued efforts to adopt improved management practices (breeding season, genetics, health, forage utilization, value added, etc.) will be needed to remain or become profitable. For most operations, being a low-cost producer will help them achieve profitability faster than anything else.

Any improvement in 2010 cattle market prices will be highly dependent on domestic and foreign economic recovery. The timing and extent of the economic recovery is highly uncertain. However, the consensus among most economists is that recovery will be slow during 2010. Fortunately, cattle market prices will be supported by cyclically lower beef supplies and should average higher than 2009. Any improvement in beef demand in 2010 and beyond will further improve beef prices.