Forecast for '09

Industry economists predict the wild ride will continue.

by **Kindra Gordon**

A bucking bronco might be the perfect metaphor for the economy these past few months. Wall Street has seen more twists and turns than anyone could have forecast — making for a pretty rough ride no matter what business you are in. It's been especially challenging for a cattle industry that was already dealing with higher input costs, more competition for corn and a struggling feedlot sector.

What will get us through this economic setback? Most financial advisors suggest it's important to remain calm and devote some time to analyzing your situation with the help of a professional and then make decisions rather than indulge in the instinct to panic.

For beef producers and agribusinesses, the advice is much the same — stay calm to stay the course.

So, where is the market headed for 2009? For starters, Jim Robb, director of the Livestock Marketing Information Center (LMIC), believes the volatility seen in agricultural markets will continue. He says, "The ups and downs will be more so in the next four years than they have been during the last four years."

That said, he urges producers to be proactive in following the markets and preparing their operations for the future. "A lot of the cards have already been dealt," he says. The key is to sort out what those factors mean.

Current status

As the saying goes, "To get where you are going, you must first know where you have been." Thus, in taking stock of the economy last fall, indications are that hourly swings in exchange rates, interest rates and commodity markets are factors gravely affecting the cattle business and creating lower prices.

While all agricultural commodity futures price charts have essentially followed the downward trends of crude oil and the stock market, the cattle market has been particularly hard-hit, says National Cattlemen's Beef Association Chief Economist Gregg Doud in a statement released in late October.

He explains that these current economic times are particularly problematic for U.S. ranchers, who are marketing the majority of their calf crop during this same time period.

In his statement, Doud goes on to explain, "The slowing U.S. economy has taken its toll on wholesale beef prices, which is particularly important since 50% of U.S. beef consumption occurs away from home. Other key negative fundamentals include an incredible appreciation in the U.S. dollar that has hurt our exports, a collapse in the Russian economy that has hurt U.S. poultry exports and a sudden decline in U.S. pork exports to China. It has been the combination of these factors that has led to a sudden and steep drop in U.S. beef, pork and poultry prices in recent weeks as these supplies back up into the domestic marketplace."

Doud concludes, "This clearly sets the stage for a very difficult fourth quarter and probably beyond for cattlemen. Like it or not, we live in a global economy and right now it is imperative that our leaders here and around the world do everything they can to get the belt back on the machine and get it running again. It also means that our ability to export not only beef but also pork and poultry is critical to maximizing the value of the product ranchers bring to market."

Price predictions

Looking forward, LMIC's Robb says he believes prices for 500-600 weight calves will remain lower into the first quarter of 2009, attributing the weaker calf price mostly to corn prices. He says, "Historically, calf prices are more sensitive to corn prices than fed cattle because calves have to be on feed longer."

Moreover, the cattle feeding sector has had a difficult two years. Robb reports that at the end of September, the feedlot sector just completed 20 consecutive months of losing money. "That has turned them away from bidding up calves this fall. This is a trying time," Robb says.

Conversely, prices for 700-800 weight feeders should be trending steady to upward through year-end. The slight premium for these heavier calves results from their need to be on corn for fewer number of days to slaughter.

Robb says that fed cattle prices have been somewhat of a surprise this year and adds that on the point of fed cattle, 2008 was an abnormal year. "The seasonal high was in July — when that is usually the average low," he reports.

In fact, Robb says fed cattle prices will average about $90 per hundredweight (cwt.) for 2008 — and he expects that to continue. "By 2010, if the U.S. economy rebounds, fed cattle could be over $100/cwt.," Robb says. He also expects the heavier feeder prices to stay relatively high in 2009 but says calf prices likely won't bounce back much until 2010.

Robb emphasizes that all of these price predictions are based on the assumption that corn prices will moderate some.

Robb says, "The corn market has come down, but it is still a major uncertainty. As we get into 2009, we still expect volatility in the corn market." Robb attributes this to the fact that corn will be competing with soybeans for acres to be planted and the feeding industry will be competing with ethanol.

Even so, Robb says projections are for corn to average $4.75/bushel (bu.) for the next two years. But he adds, "If corn goes back to $6/bu., those projections for cattle prices in 2009 are too high."

What's driving prices?

Like Doud, Robb says critical to keeping U.S. beef prices up is demand, particularly international demand.

Specifically, he says, "One of the keys to how prices will behave in 2009 is beef exports."

To date, demand for U.S. beef exports has been on the rise and approaching the levels prior to BSE. "We've had a nice gain in beef tonnage being exported, and in 2009 the U.S. could set a record for the dollar value of beef exports," says Robb — but that will hinge on the global economy and the spending dollars of consumers.

Already, here at home, the weakened economy is causing some hiccups in beef demand. Robb reports that beef sales at U.S. restaurants are down and American consumers are buying more beef at grocery stores instead. But rather than buy steaks, consumers are trading down and buying cheaper cuts like hamburger and chuck roasts.

Likewise, Robb says the consumer demand index shows a decline in beef spending that started in the second quarter of this year. "We are seeing a decline in demand for beef and how much consumers are willing to pay for it," says Robb.

This change in demand will be important to watch, he emphasizes, as he reiterates that cattle prices for 2009 are affected by domestic and foreign beef demand.

Increasing cull cow value

Another factor at play for 2009 is the U.S. cow herd inventory. Robb says fewer heifers are being retained, and some cow herd liquidation is also occurring due to drought in California and high fertilizer prices in the Southeast.

As a result, the U.S. cow herd inventory is low. That — along with fewer imports — helped bump up cull cow prices this past summer. But this does create some supply issues. Robb reports that in 2009 the U.S. will have the smallest per capita supply of beef in the domestic marketplace since 1959.

This reduced beef inventory is also occurring on the global scale. Robb says the national inventory of cows in Canada, Mexico, South America, Australia, and Europe are all declining. He says, "The cow herd numbers are tightening worldwide more than most people realize."

Knowing this, Robb says he believes cull cows will become a valuable commodity in 2009 and beyond. He points out that cull cow prices have dropped for the fall. But he suggests if you have the feed — and can make the economics pencil out — it may be worth feeding culls through the winter. "We will probably see a big bounce back in cull cow prices in March-April 2009," says Robb.

He adds, "If I had to bet, I think we'll see $70/cwt. on culls in the next few years. This kind of marketplace is going to make the cull cow a valuable animal for the next couple years."

Managing for '09

Going into 2009, Robb emphasizes that producers need to adapt to the volatility that exists. He says, "Cattle cycles still exist, but they've been greatly dampened and will continue to be.... There are no textbook situations."

Speaking to cow-calf producers, Robb adds, "If you sell at the same time every year, that mindset may need to change. The marketplace today is volatile, so you need to have an array of options for when you'll sell."

Specifically, Robb says the cattle industry is seeing a change in the seasonal pattern of when cattle are going to market. For instance, he says more calves will be held in 2008 to be sold in 2009 than have been held back for many years.

Less competition from pork and poultry?

Just as the U.S. cow herd inventory has been reduced, Jim Robb, Livestock Marketing Information Center, reports that the U.S. pork and poultry industries are also seeing a reduction in numbers, so much so that Robb calls the reduction among the poultry industry "phenomenal."

He says by spring 2009, the lack of poultry numbers will be evident and there will be a higher price for boneless, skinless chicken breasts.

As a result of these reductions, Robb says he believes pressure on the beef segment from pork and chicken will be less than it has been in many years. "Competition for beef is going to be much less at the grocery store and in restaurants," says Robb. **HW**

As a result of these changes, he anticipates prices in 2009 will be weak during the first quarter, better during the second quarter, weakest during the summer (third quarter) and rally in the fourth quarter.

Thus, if you are carrying yearlings over to 2009, he suggests holding them until March, if possible. If you intend to retain ownership, he suggests studying when they'll go to market in 2009. He anticipates prices will be best during the second and fourth quarters.

As producers look to the future, Robb suggests they think in three-month blocks. Here's why: He says after a shock to the markets, they tend to take two to six months to completely settle down. "In about three months, most of the worst is behind you," says Robb. So, in the current environment, if cow-calf operators re-asses every three months and plan ahead, that should keep them one step ahead."

And Robb concludes, "The shocks are becoming rather normal — whether it comes from corn, the macro environment or something more global." **HW**