

Economy

Still Top of Mind

After a roller-coaster year, 2010 will hinge on consumer spending.

by Kindra Gordon

For many people, 2009 won't be a hard year to say good-bye to. As the door opens to 2010, most are hopeful that the economic ups and downs of the last 12 months will take on a more optimistic tone.

While Wall Street seems to be trending that way, what can rural America — particularly the cattle markets — expect?

Darrell Mark, an associate professor and Extension livestock marketing specialist at the University of Nebraska-Lincoln, offers his view, saying, "I look for fed cattle prices in 2010 to remain mostly in the \$80s, similar to 2009. Seasonally, we should see upper \$80s in the first and second quarter, with a drop to the lower \$80s by the third quarter. Fourth quarter 2010 has a chance to move back towards \$90."

That said, Mark acknowledges that the outlook for 2010 is difficult to peg right now. "It is difficult in many respects because market prices will be more demand driven than

supply driven and that is hard to forecast," he says.

He further explains, "We really don't have a supply problem — we have an historically tight beef cow inventory, calf crop supply, and heifer retention is down. Cattle supplies won't be burdensome and cause lower prices. Demand will be more of a factor in determining whether we see higher or lower prices in 2010."

Specifically, Mark points out that roughly 90% of America's beef product is consumed domestically, so it is important for domestic consumer demand to remain strong. However, he says, "With the economic recession still looming on people's minds, consumer spending for many products, including higher-end protein, will be hard to improve in 2010."

Mark adds, "Restaurant demand, which has been key to 'middle meat' sales — specifically steaks — has been hurt most acutely by the recession, and I think people will be quite cautious about discretionary spending in the next year or so. They may continue to dine out less frequently or at fewer 'upscale' restaurants."

Thus, Mark concludes, "The bottom line, I think, is that we need to see an improvement in the economy and an increase in consumer spending before we see demand really pick up and support much higher fed cattle prices."

Global demand, too

Looking internationally, Mark says a strengthening beef export market would also contribute to better U.S. cattle prices. And he adds, "The relatively cheap U.S. dollar, if that continues into 2010, will help support that export trade."

Cattle-Fax Executive Vice President Randy Blach is also a believer in the importance of building U.S. beef exports. Blach addressed the Texas Cattle Feeders Association

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annual convention in late October and emphasized the continued need for building U.S. beef demand globally.

Blach said, "I don't want to sound like a broken record. I've said this for the last several years, but I still think this [restoring beef exports] is an area where we're really missing the boat as an industry."

He added that beef producers need to work harder to get "the right people's attention and get some of these markets opened up."

Blach said, "It would have a tremendous impact on what we're able to merchandise cattle for."

He explained, "We still aren't back to the same levels of beef

exports that we were pre-BSE. We were exporting 2.5 billion lbs. in 2003. We're going to be lucky to be at 1.8 or 1.9 billion lbs. this year."

According to Blach, if U.S. beef was operating under the same trade protocols with Japan as it is with South Korea, "It would be worth another \$60 to \$70 per head across our fed cattle market." Getting into China also needs to be a priority, he says.

Overall, the decline in beef demand is the biggest challenge facing the industry, according to Blach. "We've averaged \$83 to \$84 on fed cattle this year. If we had the same demand we had a year ago, our market would be averaging \$94 to \$95 per hundredweight."

On a brighter note, Blach said that because supply levels are well in check, a significant increase in fed cattle prices could come as the economy recovers, possibly toward the end of 2010. **HW**

A time for opportunity?

A billboard campaign that sprung up around the country in 2009, dubbed "Recession 101," aimed to help the country realize it has undergone recessions before and made it through.

One of the campaign's more popular billboards stated simply: "Bill Gates started Microsoft in a recession."

That said, many economists are suggesting that with economic lean times also come opportunities — particularly for young people looking to start their own businesses.

"Right now, we're going through a fundamental shift in the nation's economy," said Gary Whitehill, founder of New York Entrepreneur program, in a news release. "Unstable times create incredible opportunities, and there's an important opportunity for the younger generation."

A recent study from American Express OPEN, which focuses on small business, illustrates that point. The study found that 80% of Generation Y entrepreneurs (ages 18-28) have a positive outlook on the economy, compared with 55% of those aged 29-44 and 52% of baby boomers (ages 45-63). Gen Y entrepreneurs are also the most likely to hire, have a capital investment plan and take financial risk and the least likely to have cash flow issues, according to the report. **HW**

