# Corn Driving 2011 Economic Outlook

### *Could corn continue to go up while cattle numbers shrink?*

*by* ***Kindra Gordon***

Speculation has been all over the board during the final months of 2010 as economists aim to make predictions on cattle and corn for the new year. One headline proposed "Think $5 corn is expensive? Some betting on $10 next year"; another touted "Will there be enough cattle?"

That, in a nutshell, sums up current market conditions: corn prices are sky-high which has resulted in continuing liquidation of the U.S. beef cow herd.

> **"We need you to keep a few more heifers…we need a few more cows."**
> ***— Randy Blach***

Cattle prices are expected to be favorable, but with higher feed costs, that could erode some of cattlemen's and cattle feeders' profits. Time will only tell how everything plays out for 2011, but here's a roundup of what economists are anticipating:

**Keep an eye on corn**

The corn market's rally above $5/bushel this fall — and even reaching a two-year high of $6.05 — was fueled by a smaller-than-expected U.S. crops outlook and increasing demand from top buyers such as China — both factors could force grain prices even higher in 2011. This possibility is also stirring growing concern among livestock producers and others dependent on corn, which is the U.S.'s largest crop.

The U.S. Department of Agriculture (USDA) has trimmed its estimate for the nation's corn harvest three times this fall and predicts domestic stocks of the grain in 2011 will sink to a 15-year low. That is intensifying market skittishness over potential shortfalls in coming years, with importers, ethanol producers and livestock feeders competing for dwindling global grain supplies.

As a result, expectations are for corn prices to remain high, but the speculation of corn at $10 is an extreme scenario, and it's unlikely prices will climb that high, many traders and analysts say. Even with this year's rally, corn is still below a mid-2008 peak of $7.65, the highest since corn futures began trading in Chicago in 1877.

**Strong cattle prices**

Cattle prices are anticipated to be strong in 2011 as well due to a boost in export demand and the tight supplies. Most projections call for fed cattle prices to be in the low $100s during the first quarter and then reach yearly highs in the second quarter, when they may average about $105.

Texas AgriLife Extension livestock economist David Anderson's 2011 forecast has 600-lb. calves priced at $104 to $112 per hundredweight (cwt.) and 700-800-lb. calves priced at $99-$105 per cwt.

Anderson would have pegged prices even higher than that if corn prices were more moderate. But, because of the increasing cost of production for beef producers, Anderson anticipates that cattle numbers will be fewer over the next couple of years and that the price of corn will dictate the level and spread in calf prices. He says, "We are forecast to produce 25.4 billion lb. of beef in 2011 versus 25.9 billion lb. in 2010. That reduction will lead to increases in price, but it also depends on corn prices and (their effect on) calf prices."

Similarly, Purdue University Extension economist Chris Hurt says the cattle industry is ready to set records for high prices this year and next, but he adds, "Although this is positive news for finished cattle prices, calves and feeder cattle still face the price-depressing burden of high feed costs. In the longer run, current high feed prices will keep the industry in a liquidation phase, and smaller beef supplies in coming years will be positive for returns for years to come."

Hurt adds, "The most recent surge in feed prices will likely keep producers from expanding until feed prices moderate. That will not be until the 2011 U.S. crops are assured, which is still at least eight to nine months away. This means cow numbers will not likely expand until 2012 and that beef supplies will not start to grow until 2014."

**Demand also a factor**

With tight cattle supplies, increases in demand could boost cattle prices even higher. Domestically, cull cattle particularly have been fetching premium prices — a result of the demand for ground beef.

The export markets also continue to show strength in customer demand for U.S. beef exports, which for 2010 increased to 2.3 billion lb. — up 21% over the previous year — due to a significant recovery by the majority of U.S. trading partners and a weak dollar. That trend of increasing beef exports is expected to continue — albeit gradually in 2011 as world economies recover from recessionary conditions. Any increase in the levels of U.S. exports of beef and/or competing meats such as pork or poultry will likely have a significant impact on U.S. beef prices during the next couple of years.

Anderson concurs, saying "Booming exports tighten domestic beef supplies even more and should lead to higher cattle prices for the next couple of years."

But beef demand domestically could dip in 2011 if consumers continue to experience rising prices for most goods and services — as is anticipated. One projection calls for beef to average $4.65/lb.

This could force consumers to substitute — or reduce — the bundle of goods and services they consume — including beef — which would have a negative toll on cattle prices.

That said, continuing growth in beef export markets is critical. "These export markets could be worth $5 to $10 per cwt. on the value of fed slaughter cattle," says Walt Prevatt, Auburn University Extension economist.

**To expand or not?**

Given the market outlook, it's a great time to own cattle — if you can pay the feed bill. Most economists agree that cow-calf producers should hold on to their cow herds because record finished cattle prices and, hopefully, cheaper feed in the fall of 2011 should result in much higher calf prices, perhaps for multiple years to come.

Randy Blach, CEO of Cattle Fax, is among those who believe the U.S. cow herd inventory needs to begin expanding.

He says to producers, "We need you to keep a few more heifers...we need a few more cows." Specifically, Blach anticipates America's beef industry needs to grow by 600,000 to 700,000 more cows by the end of this decade to supply the anticipated increase in global beef demand.

He explains, "When you see that the national herd is smaller and is going to be even smaller on Jan. 1, that means it will be three years until we can impact production to meet demand. What's the opportunity? You can see what the masses are doing — not many are keeping heifers or buying a few more cows. So those who do will have a pretty good pay day."

Of the future, Blach is optimistic and says, "It looks pretty good. I think there is a tremendous opportunity for cow-calf producers who know their costs, manage production and have market savvy. The cow-calf sector could have the most profitable three to four years ahead as any time in history."

That said, there are no sure bets, and Auburn's Prevatt acknowledges that the 2011 cattle market will continue to operate with a great deal of uncertainty. He suggests cattle producers monitor several factors including changes in domestic and global beef demand, supplies of broilers and pork, export and import sales of all meats, feedstuff prices, monetary exchange rates, and adverse weather effects.

The cattle markets could experience some volatile movements with abrupt changes in any of these factors and/or combinations of factors, Prevatt concludes. **HW**

## U.S. cow herd inventory

**Presently, the U.S. beef cow inventory is at about 31 million head — the lowest inventory since 1963. Heavier carcass weights have helped offset some of the loss in production, but U.S. cattle producers clearly are continuing to decrease their inventory of cattle and calves.**

**In the July 1, 2010, cattle report, cattle producers told U.S. Department of Agriculture (USDA) they had about 500,000 fewer beef cows that had calved (1.6% less) than a year ago. Beef cow replacements were down 100,000 head (2.2% less) from a year ago at 4.4 million head. These decreases suggest that herd liquidation will continue in 2011. HW**

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