



Talk for 2012: \$1.75/lb. Calves

If Mother Nature cooperates, the year ahead could be a good one for cow-calf producers.

by Kindra Gordon

“With the market signals out there, you can make a case that calves are going to be worth a ton of money next year and in the next few years,” says CattleFax economist Mike Miller. He’s basing his comments on the fact that beef supplies are down and global beef demand grew steadily in 2011.

As a result, CattleFax is projecting a bullish 2012 with the

average price on a 550 lb. steer at \$175/hundredweight (cwt.) — with a range from \$158-192.

They project fed cattle in the range of \$120-122/cwt. for 2012. And Miller says that even if beef demand slips a little, the fed cattle market should still stay pretty solid at \$116-119.

Booming demand

Jim Robb, with the Denver-based Livestock Marketing Information Center, echoes Miller’s bullish outlook. Robb notes that global demand is helping bolster beef prices and says that outlook remains strong for the next several years.

He points to the world’s growing population — projected to grow by one billion people in the next 20 years — and says that this growth is good news for America’s beef producers.

With the cow inventory still on a downward trend in the U.S., thus creating tight supplies to fulfill demand, Robb suggests that those who have calves to sell have a “heck of an opportunity to make money in this business like we haven’t seen in a long time.”

Tom Brink of JBS Five Rivers Cattle Feeding — the world’s largest cattle feeding entity — is also optimistic for cattlemen. He says, “With supplies shrinking and demand growing, it is a great time to own beef cows if you have a competitive cost structure and the right genetics and management to compete.”

For those looking to rebuild or grow their herds, Brink calls cows a great investment. He

compared cows to gold and posed the question, “Which is a better investment?”

Brink points out that beef cow prices have hardly budged over the past decade while gold has increased 300%. He said, “If you buy gold today, you are going to pay more for it, while the value of beef cows has not appreciated — yet.”

Brink and Robb predict that in the next 12 months, the average value of cow-calf pairs could be \$500 more than they are today.

Brink asks who has the most leverage in the beef supply chain ahead? “It’s pretty clear the cow-calf producer has the leverage. We are headed into a period of strong cow-calf profits,” he says.

Brink even suggests calf prices could reach \$2/lb. “I think it’s likely we’ll see calf prices in that range in the next year or two. Lightweight calves are almost there now. If we see grain prices relax a bit, we’ll get there. That’s all it would take,” he says.

To capture some of that profit in the future, Brink suggests to producers: “If you have the ability in your operation to put weight on your own calves vs. selling at weaning, you can get in on some of those opportunities.”

Weather is the wildcard

Drought is the wildcard in the equation ahead. CattleFax numbers indicate that a quarter (25%) of cattle country has been severely affected by drought. Miller notes that the drought has kept cow inventories from bouncing back. He reports, “As a result of the drought in 2011, we had an unexpected drop in cow numbers by 225,000-250,000 head.”

But the forecast for the next six to eight months suggests Texas should get some moisture and conditions will be better than the last several months. “If that’s the case, 2012 has some better signs ahead,” says Miller.

As of Jan. 1, 2012, cow inventory will be 30.2 million head. Miller says, “If we see some cooperation from Mother Nature, we expect 30 million to be the low

watermark, and producers will start to rebuild and expand again for the next 10-15 years.” But it will likely be 2015 at least before more calves are produced by a larger cow inventory and back on the market; thus, the tight supplies should allow for high prices in the meantime.

Because of the tight supplies, Miller says feeder cattle imports from Canada and Mexico could be up slightly in the U.S. in 2012 to help fulfill supply needs, but he does not anticipate that being enough supply to affect prices much.

Regarding demand, Miller credits the strong pull overseas for beef and the value of the U.S. dollar for helping bolster U.S. beef demand and keeping cattle prices strong here at home.

Miller notes that the U.S. beef industry saw a 23% increase in exports for 2011. He says that has been a pleasant surprise as export growth was anticipated at only 10-12%.

For 2012 export demand is expected to continue with 10-15% growth. “Exports have been a great story. We’ve seen growth and still don’t have full access,” says Miller. This possible situation suggests that there is even more growth to come. He anticipates more access to the Japanese market in the next couple of years.

He acknowledges that domestic demand has not rebounded as quickly, saying, “We haven’t gotten the U.S. consumer employed and eating out like we’d like. It’s probably going to take 12, 24 or even 36 months until that rebounds.”

Full steam ahead

Miller anticipates producers should be able to better manage costs than they have been able to in the past few years and with that says, “The trend is for cow-calf producers to be more profitable in 2012-2014. That should signal producers to restock and expand.”

Even with the good prices, they will also come with volatility and risk. “There is a lot of variability in cattle prices over the course of the year — even week to week,” says Miller. He points out the market moves \$30 or more 20% of the time and \$20 or more 40% of the time between weeks.

As a result he encourages producers to continue finding ways to mitigate the risk: “Plan on a lot of risk and volatility. It’s a great time to be in ag, but producers have to be adaptable to thrive.”

If demand signals — and favorable weather conditions — continue, Miller anticipates the U.S. cow herd will stabilize and begin to grow. He concludes, “Hopefully the market will put some more money in everybody’s pocket over the next several years.” **HW**

Additional factors to watch

Industry economists are also suggesting:

- Land values are expected to continue to increase.
- Interest rates should be docile for the next 18-24 months.
- Retail beef prices will increase. CattleFax’s Mike Miller explains that the drop down in supplies and strong pull in demand has also squeezed retailers in 2011. For them to recover their profit margins, he anticipates retailers will be raising prices across the board. “They can no longer absorb prices and not pass them along to the consumer.” But Miller says this increase needs to happen. “We need to get consumers used to paying more for beef so that the industry can sustain higher cattle prices.” He adds that presently demand is for the lower priced beef cuts and says if the market for rib and loin cuts would rebound, that increased demand would support cattle prices going even higher.
- Beef exports will greatly influence U.S. cattle prices. “This is where a major frontier for our industry is,” says Kansas State economist Ted Schroeder. He notes that from 2009-2011 the increase in U.S. beef exports added \$40/head to feeder prices.
- Producers should invest in product improvement/development. Looking ahead, Schroeder says, “We don’t invest enough in developing our product.” He suggests the industry must recognize there are things we can continue to do to enhance beef’s tenderness and flavor and to promote its nutritional attributes. **HW**