

NORTH AMERICAN AND GLOBAL OUTLOOK – FULL OF OPPORTUNITY

**By
Steve Kay**

**Editor & Publisher
Cattle Buyers Weekly
Petaluma, California**

January 2012

DEMAND AND DROUGHT ARE TOP ISSUES

- **Beef demand in North America and globally remains key to all in the beef industry**
- **Because all wealth comes from consumers**
- **Exceptional drought in several states, notably Texas, will cause U.S. herd liquidation in 2012, the sixth year in a row**
- **Other issues: corn prices, federal regulations, food safety, animal welfare**

SUPPLY SHORTAGE MEANS OPPORTUNITY

- **Declining U.S. and flat global beef supplies coincide with better demand at home and abroad**
- **Shows up in record high U.S. cattle prices, by-product values and beef trim prices, and near-record high wholesale beef prices**
- **Global cattle numbers are slow to increase**
- **U.S. faces sharp decline in beef supplies in 2012**
- **Asian markets continue to import more beef**
- **China looms as new buyer of North American beef**

DEMAND IS KEY TO HOW HIGH PRICES WILL GO

- Demand is solid in Canada. Retail prices in 2011 are higher but consumption is up (Statistics Canada's CPI)
- U.S. beef demand is up sharply in first 3 quarters, slowed in fourth and will be flat in 2012 with 2011
- U.S. sees record high U.S. retail prices most of 2011
- Nov All Beef price : \$4.50 per pound – up 9.5%
- Pork retail price : \$3.51 – up 5.7%
- Chicken retail price : \$1.79 – down 1.6%

RETAIL PRICES WILL RISE BUT BY HOW MUCH?

- **Nov retail beef price reflects only \$112 live cattle. Will have to rise to \$5 to fully reflect cattle priced at \$120-125 and even higher cattle prices this year**
- **Retailers are wary of raising prices for fear of losing customers. Beef = 42% of meat case space. Retailers use beef to draw in shoppers**
- **Will consumers pay more per pound if they eat less beef overall?**
- **Demand will limit cattle price increases**

CONSUMERS TURN TO GROUND BEEF

- **U.S. consumers still face high unemployment, high energy prices, record high beef and pork prices**
- **Buy chicken as it remains cheap. But chicken “fatigue” is apparent. Retailers can’t raise prices**
- **The most interesting protein trend is growth in ground beef/hamburger sales**
- **This category accounts for half of all U.S. beef sales in volume. Is by far the industry’s most important product**
- **Trend will continue. Consumers want the taste of beef and be able to afford it**

BURGER BOOM

- **Consumption rises sharply in past two years**
- **2009 - 38% of Americans eat a burger a week**
- **2011 - 50% now do, says Technomic, Inc.**
- **Gourmet/specialty burger business explodes**
- **\$12-15 for a burger = indulgence on the cheap**
- **Five Guys chain keeps expanding. Had one store in 2002. Now has 800 in 40 states, 30 in six provinces (8 in Alberta). Says it will add 600 stores in next 2 years**
- **Smashburger, founded 2007, has 100 stores. Looks to expand into Miami and Los Angeles**

BOOM CHANGES USE OF BEEF CUTS

- **New chains use fresh patties, cook to order**
- **Use trim-end meat combination**
- **Use briskets, short ribs, rounds, sirloins, Wagyu and Certified Angus Beef to create “standout” burgers**
- **Great news for producers of niche beef programs – can get much more for their grinding beef**

SCRAMBLE IS ON FOR RAW MATERIAL

- **More chucks, rounds, sirloins go through grinder**
- **Accounted for record 36.3% of 2011 ground beef sales**
- **Boom creates record high prices for lean cow beef (90CL) and fatty trimmings (50CL)**
- **90CL in 2011 averages \$187.42 per cwt – up 18.4%**
- **50CL in 2011 averages \$95.33 per cwt – up 22.8%**
- **Retail ground beef at \$1.99 per pound is history**
- **Prices will keep rising due to fewer supplies in 2012**

DROUGHT FORCES COWS TO SLAUGHTER

- **Severe to exceptional drought on Southern Plains, part of Nebraska, Colorado, Alabama, Georgia, Florida – one third of U.S. beef cow inventory under drought**
- **2011 driest on record in Texas, second hottest**
- **U.S. cow slaughter in 2011 was up 5.7%**
- **U.S. beef cow herd might decline 1.5%**
- **Driest in 5 years in parts of western Canada, notably around Lloydminster**

U.S. NEEDS HUGE CORN CROP

- **U.S. has two disappointing corn crops in a row**
- **2011 crop: 12.358 billion bushels (147.2 bpa)**
- **Prices 2011-2012 will average \$5.70-6.70 (USDA), versus \$5.18 2010-2011 and \$3.55 2009-2010**
- **Cash corn prices at year end were up 10% on last year. High prices erode cattle feeding margins, cause losses on unhedged cattle/corn**
- **U.S. can produce a 14 billion bushel crop (up 15% on 2011) if yields return to trend of 163.6 bpa. Would push prices back to \$4.50 per bu., says Informa Economics**

GIPSA RULE – INDUSTRY DODGES BULLET

- **USDA bows to producer pressure – sends watered-down final and interim rules to OMB**
- **Rules contain no livestock provisions**
- **USDA drops several provisions entirely**
- **But it intends to re-propose three other livestock provisions at some point**
- **A victory so far for common sense, excellent independent economic analysis and the power of producer lobbying**

EPA'S RED TAPE AND ETHANOL MANDATE

- **EPA proposes 1,100 rules in 17 months**
- **A proposed rule on dust threatened to cripple farming operations. EPA withdraws it**
- **EPA raises bio-fuel blend percentage to E15**
- **This continues to give ethanol industry a guaranteed market**
- **Ethanol will still take 40% of corn crop**
- **But Congress allows blenders' credit (\$6 billion per year) and import tariff to expire**

E.COLI REMAINS HOT TOPIC

- **CFIA reports 2011 food recalls are up 24% to 263**
- **Stems from shocking 2008 listeria outbreak**
- **More CFIA inspectors and industry focus on detecting bugs**
- **USDA might declare any beef item “adulterated” if found with *E. coli* O157:H7**
- **USDA March 5 will start testing for all six non-O157.H7 serotypes or STECs**
- **Cost: USDA says \$10M, Industry says \$173M-323M**
- **Canada, Australia, New Zealand and others protest and hint at WTO action**

ANIMAL WELFARE ISSUES CONTINUE

- **HSUS and other activist groups press for more changes, look for new targets**
- **Branding is already under the spotlight**
- **USDA ends brands as ID for interstate movement**
- **De-horning, castrating and tail-docking (dairy cows) will be likely targets**
- **Antibiotic use is ongoing target**

NORTH AMERICAN HERD KEEPS SHRINKING

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
U.S.	94.521	93.701	92.582	91.450
Canada	13.195	12.905	12.457	12.615
Mexico	22.666	22.192	21.456	20.075

(Source: USDA)

- **U.S./Canada numbers down 3.65M in 3 years. Canada loses 1.5M head since 2007**
- **Private forecasts have Canada at 12.395M, U.S. at 91.0M**
- **U.S. producers show no signs of expanding herds**
- **Drought, high input costs, age, aversion to risk, market volatility, economic uncertainty are key inhibitors**

RECORD CATTLE PRICES

- 2011 sees record prices. 2012 will also but annual price increases will be much smaller

	<u>2011</u>	<u>2012</u>
• Fed cattle	\$114.73, up 20.4%	\$124
• 700-800 lb steer	\$134, up 21.2%	\$145
• 400-500 lb steer	\$158, up 17.8%	\$171
• Canner-cutter	\$70, up 24.7%	\$75

- Excellent grass conditions in some states encourages heifer retention and herd expansion

IMPLICATIONS FOR CANADIAN PRODUCERS

- Shrinking herd means record Canadian cattle prices, after adjusting for value of the loonie
- Alberta 500-600 lb cattle prices last fall at \$160 per cwt far exceeded August 2001 record
- Industry has coped before with declining numbers
- 1976: 14.048M - Canadian herd total
1987: 10.667M
2002: 13.752M
2005: 14.925M
2012: 12.395M to 12.615M

DEMAND FOR CANADIAN CATTLE WILL INCREASE

- **Canadian industry weathers the 2003 BSE storm and MCOOL's implementation in 2009**
- **Feedlots adjust to changing numbers. Focus is on creating value chains**
- **Only two packers in Western Canada but still have to compete for cattle**
- **Producers/feeders have option to send cattle south, especially if loonie weakens**
- **U.S. will need Canadian cattle even more in 2012**

U.S. LOOKS TO COMPLY WITH WTO RULING

- **WTO last November ruled against parts of COOL - segregation of livestock/meat**
- **USTR wants to settle the matter, not appeal. Has until March 23 to decide**
- **White House will have to work with Congress to amend the COOL law**
- **2011 Canadian cattle exports fell 366,000 or 35% from 2010. Amended COOL might help boost numbers in 2012**

WHERE'S THE BEEF?

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Production (billion lbs)	26.414	26.387	25.070
Exports	2.299	2.765	2.775
Imports	2.297	2.029	2.090
<u>Beef per capita supplies</u>	<u>59.6</u>	<u>57.4</u>	<u>54.1</u>
Pork per capita supplies	47.7	45.8	46.5
<u>Broiler per capita supplies</u>	<u>82.3</u>	<u>82.9</u>	<u>79.6</u>
Red meat/poultry per capita supplies	208.7	204.8	199.1

(Source: USDA, Jan 12, 2012)

- **Beef p.c. supplies in 2012 will be lowest since 1959**
- **Decline of 10.7 lbs per person since 2007**
- **Decline is due to what's available, not preference**
- **Will boost domestic and imported prices for muscle meats and manufacturing beef, and cattle prices**

POSITIVE GDP GROWTH FUELS GLOBAL DEMAND

GDP Forecasts	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
USA	- 2.6	+ 2.6	+ 1.7	+ 1.5
Canada	- 2.2	+ 3.0	+ 2.3	+ 2.4
Mexico	- 7.1	+ 4.7	+ 3.9	+ 4.5
Brazil	- 1.0	+ 7.5	+ 3.0	+ 2.1
Japan	- 5.5	+ 2.9	- 0.6	- 0.7
South Korea	- 1.6	+ 6.5	+ 3.8	+ 3.5
China	+ 8.1	+ 9.9	+ 9.2	+ 9.1
Russia			+ 4.0	+ 4.8

(The Economist, January 7, 2012)

GLOBAL CATTLE NUMBERS, BEEF PRODUCTION ARE FLAT

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
• INDIA	309,900	316,400	320,800	324,300
• BRAZIL	179,540	185,159	190,925	197,280
• CHINA	105,722	105,430	104,814	103,944
• EU-27	88,837	88,300	86,993	85,750
• ARGENTINA	54,260	49,057	48,156	48,856
• AUSTRALIA	27,321	27,907	26,733	27,500
• <u>GLOBAL</u>	<u>1,023,766</u>	<u>1,01,231</u>	<u>1,012.085</u>	<u>1,017,719</u>

(in 1000 head)

(+ 0.6%)

Production **58.148**

57.043

56.848

56.798

(in millions of metric tons)

(- 0.1%)

Source: USDA-FAS, April, 2011

U.S AND CANADA LEAD IN PRODUCTIVITY

<i>U.S.</i>	<i>761 pounds per head</i>
<i>Canada</i>	<i>747</i>
<i>EU-27</i>	<i>606</i>
<i>Brazil</i>	<i>498</i>
<i>Argentina</i>	<i>474</i>
<i>China</i>	<i>300</i>

EXPORTS REVEAL CANADIAN-U.S. TIES

- **Beef trade reflects truly North American market**
- **Canada 2010 exports to U.S. = 306,200 mt worth \$1.023B of value. Were 75% of total exports and 72% of value**
- **U.S. 2010 exports to Canada = 153,177 mt worth \$733.4M. Canada is U.S.'s second biggest export market in both volume (14.4%) and value (18.0%)**
- **U.S. exports to Canada Jan-Oct 2011: 159,396 mt (up 30%) worth \$862M (up 46%)**

EXPORTS OFFER MORE GROWTH

- **Global buyers paid 20% more for U.S. beef in 2011. Might be up much less this year**
- **Canada: 2012 exports up 8% on 2011 to 450,000 mt (USDA forecast)**
- **U.S. : 2012 exports flat at 1.241M mt (USDA)**
- **USMEF says 2012 exports will be up 6% to 1.3M mt, breaking the 2000 volume record**
- **Russia is top beef importer – will continue to buy more beef in 2012 (possibly 1.06M mt)**
- **Emerging markets in Middle East, south Asia**

GLOBAL DEMAND MEANS A BRIGHT FUTURE

- **Global beef supplies are flat**
- **Demand improves - more people eat meat as standard of living improves**
- **Expect increased market access for Canadian and U.S. beef**
- **North American advantages: highly productive cow-calf and efficient cattle feeding sectors, largest producer of grain-fed beef in world**
- **Producers are the key to producing one of the most sought-after food products in the world**
- **Expand if possible to take advantage of this**