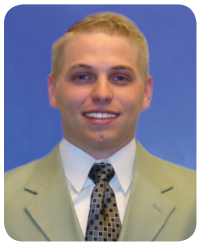
Flat Cattle Cycle Rolls On

By Tod Kalous



The U.S. beef cow herd was down 338,000 head as of Jan. 1 and totaled 32.6 million head. This should come as no surprise considering beef cow slaughter was up more than 6% in 2007 and the largest since 1998. Herd expansion is just not happening.

Drought – In 2006 drought gripped the South Plains region, which forced producers to reduce their herd size. Beef cow slaughter in the South Plains was up 38% (200,000 head) in 2006 vs. 2005.

Another region severely impacted by drought is the Southeast. The number of beef cows in the Southeast declined by nearly 250,000 head during 2007. So far in 2008, drought conditions remain in the Southeast, have crept into parts of the South Plains and stretch as far north as Montana and North Dakota and as far west as California.

Feed costs – Drought and the battle between crop acres continues to stretch feed resources, which has contributed to significantly higher feed costs for cow-calf producers. In 2007, alfalfa hay prices averaged a record high price of $131 per ton, up 21% from the year prior. If a cow consumes roughly 22 pounds of hay per day, that's a total hay cost of $526, which is nearly $100 per head more than in 2006.

Rising corn prices have a significant impact on the feeder cattle prices feedlots can pay in order to break even. For every 50 cent increase in the price of corn, the feeder price in which a feedlot can afford to pay and still break even declines $6-7/ cwt., assuming steady fed cattle values. With May corn futures trading about $2/bushel higher than last year, the break-even feeder purchase price is about $25/cwt. lower than it was a year ago.

Land Values – The most recent data indicate farm real estate values (the value of land and buildings on farms) were record high at the start of 2007 at $2,160/acre, up 14% or $260 from the year prior. Furthermore, farm real estate values have increased 70% since 2003. Pasture values have nearly doubled since 2003 and are up 92%.

Land use – The most recent USDA report on farmland indicate that about 931 million acres were used by farms in 2006, which was more than 100 million acres fewer than in 1980. Urban sprawl will continue as the population grows and rural land is developed.

Producer age – Less than 5% of producers in farming and livestock production are under the age of 34 compared to 23% in other U.S. self- employed positions. In addition, 27% of producers are over the age of 65 compared to just 8% for other U.S. self employed.

Bottom Line: For now, expansion appears to be on hold. However, as the global economy continues to grow along with incomes and population, beef production will need to continue to increase in order to keep pace. Some of the increased production will continue to come from increased efficiencies and new technology, which we have seen upfront with carcass weights.

However, if we continue to grow our export market as rapidly as is currently forecast, per-capita supplies will decline and retail prices likely will likely continue to rise.

At some point, higher retail prices and other commodity prices will lead to higher cattle prices and increased profitability. Any relief from the roaming droughts along with increased profitability would likely be enough to encourage at least mild expansion.