

Beef Price Recovery In 2010 Depends On U.S. Economy And Exports

BOLIVAR, MO. “I’ve got good news for beef producers,” Scott Brown, a University of Missouri livestock economist, said Monday night at the Polk County Soils and Crops Conference. “Good news, if you believe the economy will recover by 2010.”

In a show of hands, not all believed that the economy is in an upturn. However, many believed we are at or near the bottom and ready for a rebound. “What we need is some optimism in the market,” Brown said. “We’ve heard enough bad news.”

Brown, with the MU Food and Agricultural Policy Research Institute (FAPRI), based his beef outlook on a 10-year baseline presented to the U.S. Congress in early March.

His talk came on a day of news on buyouts of \$1 trillion in toxic assets held by banks. Stock markets around the world surged and the Dow Jones average rose nearly 500 points. It was the most optimistic day on Wall Street since October.

“Maybe the stock market is like the cattle market,” Brown said. “A cattleman’s adage says the cure for low prices is low prices. After awhile, things have to turn around.”

An upturn in cattle prices won’t come quickly, Brown warned. “We have biology working against us. It takes time to raise and sell a calf crop.”

Projecting beef prices is no longer about estimating the supply alone. “For years, all we had to do was look at how many calves were coming into feedlots to estimate beef prices,” Brown said. “If you could tell me what the price of a barrel of oil will be, I could tell you the prices for corn and feeder calves.”

When oil prices surge, more corn is diverted into ethanol for fuel, raising the cost of corn for feed. In turn, higher feed costs lower feedlot demand for calves. That means less money for cow-calf producers.

The price of oil also affects the value of our currency and its foreign exchange rate. “When our dollar is cheap, beef demand abroad goes up. When the dollar is strong, demand drops,” Brown said.

“World market is very important to beef producers in Missouri. If we do not export product to Korea this year, we’ll have an extra billion

pounds of meat to eat here at home. That will depress prices.” The U.S. sells about 8 percent its beef abroad.

In the FAPRI baseline, fed cattle prices run from 85 cents to \$1 a pound for the coming year. “We used to think that was a good price,” Brown said. “But not with high feed costs.”

Beef price depends on the price of oil, price of corn, the exchange rate, beef demand both foreign and domestic, among other factors.

Also, in a poor economy, fewer people eat at high-end restaurants. That affects the price of Choice beef. “If you want to help beef farmers, eat out more,” Brown said.

Beef producers surviving the economic downturn will be in position to profit in 2010 and beyond, Brown said. “Unfortunately, to keep meat supply down, it will require some producers exiting the business.”

“Beef supply is not that plentiful,” Brown added. “In a recovery, there won’t be enough beef to meet the demand.” That applies locally and around the world. Consumers in foreign countries want our beef. It just depends on whether their economies will support buying U.S. beef.

Brown used Korea as an example. After years of exclusion, trade negotiators convinced Korea to accept U.S. beef. Just when trade resumed, a stronger U.S. dollar weakened the buying power of the Korean yuan by 30 percent. “Our beef became too high-priced in their stores. Demand dropped.”

“Some producers don’t like NAFTA (North American Free Trade Agreement),” Brown said. “I remind you that buyers in Mexico and Canada have been very good for U.S. beef producers. If you don’t believe the importance of world trade, ask your dairy farmer neighbors.”

World demand for U.S. milk products collapsed and farm price for milk is at the lowest level in 30 years.

“Beef prices in 2009 will not be very good for you,” Brown said. “However, in a couple of years, we’ll be telling a much more positive story.”

Other speakers at the conference told how to improve Polk County’s major crop, pasture for livestock. The annual meeting organized by the local University of Missouri Extension center drew about 100 producers. Δ



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