

Long-Term Demand Will Drive Beef Prices Higher: MU Economist Urges Looking Beyond Short Term

COLUMBIA, MO.

“I’d have been laughed out of the room if I’d mentioned \$1.25 fed cattle prices just a year ago,” said Scott Brown, University of Missouri livestock economist.

“Considering the supply, you have to think stronger prices are ahead,” said Brown with the MU Food and Agricultural Policy Research Institute. He’d been looking at feedlot prices already above a dollar, April futures prices above \$1.05 and fewer calves on feed.

“We’re not seeing any slowing in that shrinking of the cow herd,” Brown added. “There are going to be fewer calves.”

But in economics, demand plays a role as well in making prices.

“The great driving force will be demand,” Brown said. “The economy has shown life and demand will return. But when? Prices are moving higher and could move up sharply if large demand recovery occurs.”

At a recent meeting with cattle producers at Bolivar, Mo., Brown told the hazards of making price projections. “In the past, if you knew the supply, you could come pretty close on predicting a price.

“Nothing is that simple anymore with a hard-hit consumer economy that slows demand. Add great volatility in all markets and a price outlook becomes more uncertain.”

Brown added, “Cow-calf producers are slow to respond to new market signals.” There is a biological lag in raising calves. It takes years between the decision to produce a calf and having one ready for market.

“It’s like turning around a large towboat, instead of a speedboat,” he said.

So far, cow herd numbers continue to drop, in

spite of higher short-term prices.

Just when feeder-calf prices were starting to rise, they were hit by higher feed costs and uncertainty in the feed supply.

“A lot depends on what happens in the corn market,” Brown told the Polk County cattle producers.

He reminded producers, “In spite of a drop in projected corn harvest, we will still have the third-largest corn crop on record. Both market fundamentals and speculative activity have moved corn prices higher quickly.”

The corn supply will impact the beef price outlook.

“We have to decide how to allocate the crop,” Brown said. “Without policy change, we will continue to have volatility.”

We have a big supply of corn this year, he said. But think what could happen next year. There is competition for corn ground from other sources. “If we plant fewer acres and then have a shortage of rainfall, it could become a pretty scary scenario.”

Brown urges cow-calf producers to look beyond the short-term feed outlook.

“The market still comes down to supply and demand,” Brown said. “Cow numbers are shrinking, there will be fewer calves and domestic demand will recover. Current macroeconomic outlooks do not point to a double-dip recession.”

For more optimism, Brown said, add growing international demand. Both Korea and Japan reopened their trade for more high-quality beef.

“International consumers will battle domestic consumers for our restricted supply of meat,” Brown said. “That’s very positive for prices.” Δ