



# WEEKLY OUTLOOK



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## **BEEF INDUSTRY HOPEFUL FOR 2010 RECOVERY**

The cattle industry should be on the mend in 2010. Available supplies of beef will drop in the U.S. as production declines and exports increase. Demand will be better at home as the U.S. economy continues to climb back from the depths of the recession.

The beef herd continues to drop slowly. Beef cow numbers on January 1 were estimated at 31.4 million head, down another one percent from last year. Over the past four years the beef cow herd has dropped five percent. Dairy cow numbers were down three percent in 2009 as herd reductions resulted from large financial losses.

The number of heifers being retained by beef cow producers is down two percent, indicating that beef cow numbers will continue their slow decline through this year. On the other hand, milk cow replacement heifers were up two percent. Does this mean milk cow numbers will rise this year? Probably not—it is just a reflection that modern dairy production requires a higher replacement rate.

During the past decade the beef cow herd dropped by 2.1 million cows, or about seven percent. Regionally, however, the location of beef cows was fairly stable during the last decade with some shift to the Southern Plains. The Eastern Corn Belt, as an example, had four percent of the nation's beef cows in both 2000 and 2010. The Western Corn Belt has maintained about ten percent of the beef cows, while the Southern Plains increased from 24 percent to 25 percent.

Beef production and the amount of beef available per person in the U.S. will decline in 2010. With smaller cow numbers, the 2010 calf crop is estimated to be down one to two percent and will be the foundation for smaller production. USDA currently expects beef exports to rebound by ten percent in 2010. If so, this will mean beef exports at 2.0 billion pounds will have reached 81 percent of the pre-BSE record set in 2003.

Trade improvements and population growth in the U.S. mean that per capita availability of beef will be down about three percent in 2010. In addition, pork availability per capita

is expected to be down four percent. When chicken and turkey are included, there will be about one percent less meat and poultry per person in the U.S.

Cattle prices were under severe downside pressure in 2009, primarily due to the recession. Looking back at 2009, beef availability per person in the U.S. was down two percent, yet finished cattle prices dropped by ten percent, representing about \$9 per live hundredweight. Lower supply and sharply lower prices represent the devastating impact of the very weak demand.

The degree to which demand improves this year depends on the extent of the 2010 U.S. and world economic recovery. The U.S. economy has been in modest recovery since the summer of 2009. The expectation for 2010 is for the slow recovery to continue, but with unemployment continuing to remain high. Given that the weak economy had such negative impacts on cattle prices in 2009; it may be possible for even modest economic recovery, in the range of three percent, to have a surprisingly strong impact on rebounding cattle prices.

In 2009, Nebraska finished steers averaged only about \$83 per hundredweight. For 2010, that number is expected to be closer to \$90 for the year. Prices are expected to reach the low-\$90 by early this spring and then trade in the high \$80 to low \$90s in the summer. Assuming continued improvement in the economy as the year progresses, prices in the fall could be in the very low \$90s.

Calf prices finally began moving higher this fall. Oklahoma steer calves weighting 550-600 pounds averaged \$109 per hundredweight in the final quarter of the year, about \$4 higher than in the fall of 2008. Strengthening finished cattle prices and moderation in feed prices should keep calf prices moving upward in 2010, perhaps pushing these same calves to the \$115 to \$120 range in the second-half of 2010.

This year is expected to be one of healing for a battered beef industry as smaller supplies and recovering incomes swing cattle prices upward. As the headlines indicate, a slow economic recovery is probable, but not yet assured. Thus, most cattle producers will approach this year both with optimism, but also with caution. It is also clear that their bankers feel the same way.

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