



WEEKLY OUTLOOK



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DOWN GO THE CATTLE NUMBERS—AGAIN

The nation's beef herd continues to decline. After several years of financial difficulty, producers show no interest in rebuilding the herd. As a result, beef supplies will continue to decline and prices will remain strong for several years to come. On the down side, however, beef consumption per person will lag and other animal species will gain larger market share in coming years, especially chicken.

The USDA estimates that beef cow numbers as of July 1, 2010 dropped to 31.7 million head, a decline of two percent from a year ago. Milk cow numbers were down one percent. Just as importantly, producers reported they were retaining two percent fewer beef heifers to go back into the herds. This seemingly assures that beef cow numbers will continue to drop into early 2011.

Low calf prices and large losses in cattle feeding since 2007 have continued to discourage beef cow expansion. In fact, the poor returns which were driven by much higher feed prices starting in late 2006 and culminating in the recessionary economy in 2009 resulted in an aborted beef expansion cycle. Normally the expansion phase of the beef cycle takes about six years. Beef cow numbers made a low in 2004 and began an expansion in 2005 and 2006. That all changed in 2007 as numbers turned lower. Since 2006, beef cow numbers have dropped by five percent.

The great news is that beef supplies will remain limited in 2010 and 2011. Per capita beef supplies will be down about two percent this year and will fall an additional one percent next year. Smaller available supplies mean that consumers will have to pay more for beef and that cattle prices should remain strong well into the future—perhaps for three to five years.

The unfortunate side of the story is that other meats are going to absorb some of beef's market share. Pork availability per person will be down by nearly five percent this year, but herd expansion is expected to begin very late this year and into early 2011. This means that 2011 pork availability will be up one to two percent, especially late in the year. Of course broilers are the ones that will quickly fill the beef and pork shortfall, with a six percent expansion in available supplies per person this year and a further surge of three percent next year.

The high feed prices and recession were difficult for producers of all species. Total meat and poultry consumption in the U.S. fell from about 222 pounds per person in 2006 to 208 pounds in 2009. The drop in pork consumption was about five percent, chicken consumption was down eight percent, but beef led the decline with a ten percent reduction. Chicken production will expand this year and next, and pork will be in expansion next year. This leaves only the beef industry with declining numbers and no expansion in sight. Seeing the beef industry move slowly to expansion is not a new concept. The beef cycle normally takes at least ten years and sometimes stretches to 15 years. The feathered industry responds much more rapidly.

Unless feed prices return to much lower levels, it is likely that consumers will eat less red meat and poultry than at the peak in 2006. In order to eventually pass the higher feed prices on to consumers, the animal industry had to suffer large losses and eventually reduce the size of their herds. Once supplies are cut sufficiently, consumers have to pay higher prices for meat and poultry. Given these higher prices, consumers will eat less meat and poultry.

If the long period of increasing consumption of meat and poultry has come to an end, the U.S. market will have limited growth potential in coming years. If that is the case, the domestic market may only grow at about the same rate as the U.S. population, which has been somewhat under one percent a year. The best hope for more rapidly growing meat and poultry demand will probably come from exports. The most robust of that growth will likely be in developing economies.

For the next several years, beef supplies will be small and many people still love beef. This likely means that beef cow ownership will be financially rewarded.

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