# NORTH AMERICAN BEEF INDUSTRY OUTLOOK

**By**
**Steve Kay**

**Editor & Publisher**
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# DEMAND AND DROUGHT WILL DOMINATE MARKETS

- Beef demand in North America and globally remains key to all in the beef industry
- U.S. has smallest total cattle number since 1952
- Canadian cattle numbers stabilize after seven years of liquidation. Mexico’s keep falling
- Only Brazil, Australia and Argentina will increase cattle numbers in 2013. India grows buffalo herd – carabeef puts India as No. 1 beef exporter
- COOL dispute will drag into 2014

# NORTH AMERICAN HERD KEEPS SHRINKING

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| U.S. | 93.701 | 92.582 | 90.769 | 89.301 |
| Canada | 12.905 | 12.457 | 12.515 | 12.5 |
| Mexico | 22.192 | 21.456 | 20.090 | 18.570 |
| Beef Production | 15.064 | 14.946 | 14.750 | 14.186 |

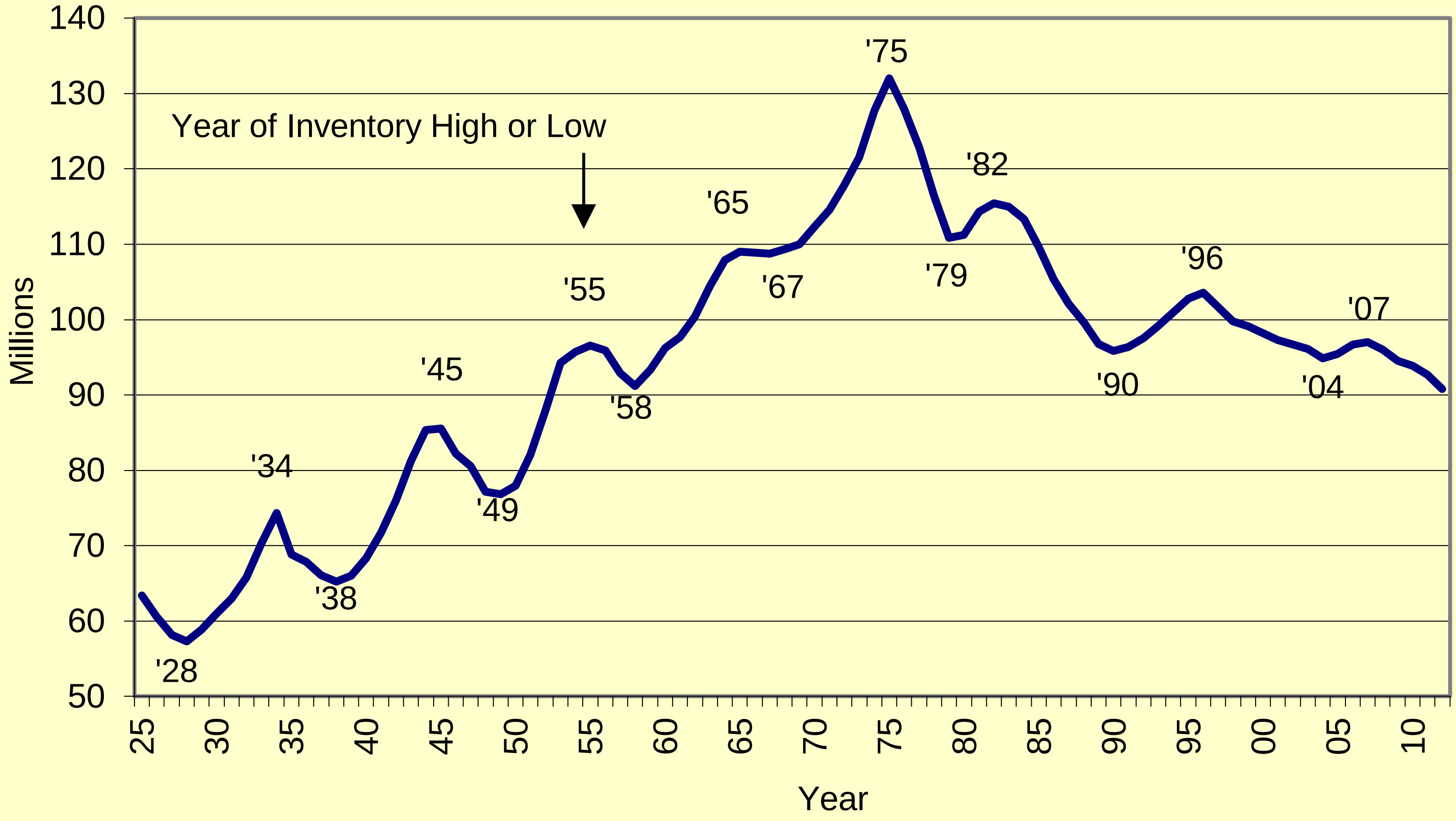
***(in millions of head and metric tons) Source: USDA***

**North American numbers down 8.427M in 3 years**

# CANADA HAS STABLE HERD

- Canada's cattle herd stabilized in 2012 after seven years of liquidation
- Industry structure has changed somewhat
- Number of beef farms declined to 68,434 farms, with 88% cow-calf, 6% stocker operations
- But farms with more than 528 beef cows increased 0.5% 2006-2011. Their cow numbers rose 6% while all others fell
- But 63% of all farms still have less than 47 head

# IS THE U.S. CATTLE CYCLE BROKEN?



# DROUGHT DICTATES

- U.S. producers in 2012 wanted to expand herds
- But key inhibitors include:
  - severe to exceptional drought
  - high input costs
  - age of producers and risk aversion
  - lack of financing
- Industry loses 862,600 beef cows in 2012 (–2.9%)
- Beef cows below 30M for first time since 1962
- Top five beef cow states lose 872,000 head
- Beef cow herd grows in northern states

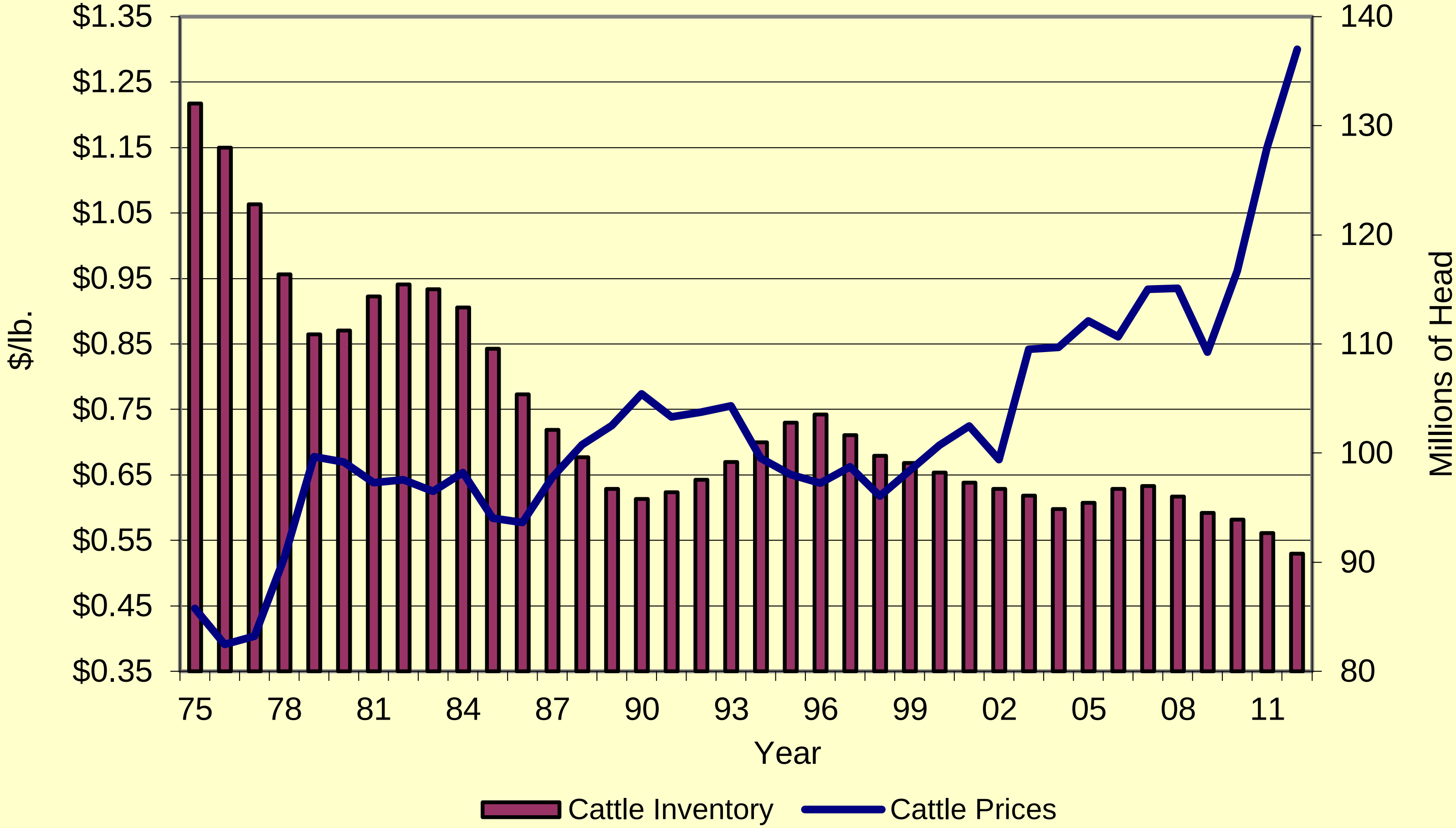
# MORE CONTRACTION IN 2013

- **2012 calf crop was 1.034M head smaller than 2011**
- **Smallest crop since 1941**
- **Producers retained 100,000 more heifers**
- **But many of these have gone on feed already**
- **Drought continues in key cow-calf states**
- **53% of beef cows in states with at least 40% poor or very poor range/pasture conditions**

# NO EXPANSION UNTIL 2016

- **Beef cow slaughter year to date is down only slightly on last year. Total cow slaughter up**
- **Beef cow total might decline another 400,000 to 800,000 by January 1, 2014**
- **Any net heifer retention will shrink COF and fed steer and heifer slaughter total even more**
- **U.S. won't see herd expansion until 2016 at earliest**

# U.S. CATTLE TOTAL AND PRICES



# BEEF DEMAND WILL DETERMINE CATTLE PRICE

- **2012 Choice steer price averages $122.86 per cwt**
- **Assumption that 2013 prices will be well above $130 per cwt due to decline in cattle numbers**
- **Futures start year above $130 - April at $137.32**
- **But weak beef demand shatters assumption**
- **Record retail beef prices, cold/wet weather, payroll tax increase, higher gasoline prices**
- **Futures sell off but cash prices hold up – average $125.52 in first quarter**

# DEMAND TAKES OFF BUT FUTURES STAY IN FUNK

- Grilling season sees surge in beef sales
- Pushes Choice spot cutout to record high of $211.37 per cwt May 23
- Cash live cattle don’t benefit as futures remain negative
- Cattle feeders sell due to positive basis
- Average cash price last week was $124.64
- June futures June 6 at $120.45
- So prices this week likely to be $123-124

# FEEDER CATTLE TAKE HIT

- Feeder cattle prices slump due to heavy cattle feeding losses
- OK City 700-800 lb steer:

  - $141.36 per cwt in Qtr 1 2013

  - $152.81 per cwt in Qtr 1 2012

  - $146.39 per cwt in all of 2012
- Prices have since recovered somewhat as corn prices ease but still depressed due to drought-enforced movement
- Will rally in third and fourth quarters

# AUCTIONS' VITAL ROLE

- **Posted stockyards: 1238 in 2012 v. 1429 in 2003**
- **Bonded dealers : 4619 v. 4675**
- **Commission firms' volume increased 2008-2011**
- **Markets play key role for cull cows**

| Livestock Handled | 2008 | 2011 |
|---|---|---|
| Cattle: | 32.792 | 34.956 |
| Hogs: | 7.553 | 8.919 |
| Sheep/lambs: | 2.872 | 3.046 |

***(in millions of head)***

***Source: 2012 Annual Report, Packers and Stockyards Program, Grain Inspection, Packers and Stockyards Administration, USDA***

# CATTLE PRICES 2013-2014

- Will be higher due to smaller herd
- How high depends on beef demand

| | USDA | LMIC |
|---|---|---|
| 5-area fed steer 2013 | 126-131 | 126.50 |
| 5-area fed steer 2014 | 128-138 | 131-135 |
| 700-800 lb steer 2013 | 145-150 | 140-142 |
| 500-600 lb steer 2013 | | 164-168 |
| 500-600 lb steer 2014 | | 177-182 |

- 2015 prices will likely be up another 5-8%

# WHERE'S THE BEEF?

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Beef per capita supplies | 59.6 | 57.3 | 57.4 | 56.1 | 54.3 |
| Pork per capita supplies | 47.8 | 45.7 | 45.9 | 47.2 | 47.6 |
| Broiler per capita supplies | 82.4 | 82.9 | 80.4 | 82.0 | 83.5 |
| Total red meat/poultry | 208.9 | 204.6 | 202.2 | 204.0 | 204.6 |

***(in pounds per person)***

***Source: Livestock, Dairy and Poultry Outlook, May 16, 2013,***
***Economic Research Service, USDA***

- **Beef p.c. supplies in 2013 will be lowest since 1959**
- **Decline is due to what's available, not preference**
- **Will boost prices for imports of muscle meats, manufacturing beef, feeder and slaughter cattle**

# CONSUMERS TURN TO GROUND BEEF

- The most interesting protein trend in the U.S. is growth in ground meat sales. Gourmet burger business grows
- Category accounts for 55% of all beef sales
- Trend will continue. Consumers want the taste of beef and be able to afford it.
- But $1.99 per lb ground beef is a thing of the past
- Retailers sell a lot more ground turkey

# BURGER BOOM

- Consumption rises sharply since recession
- 2009 – 38% of Americans eat a burger a week
- 2012 – 50% do, says Technomic, Inc.
- Gourmet/specialty burger business explodes
- $12-15 for a burger = indulgence on the cheap
- Five Guys – one store in 2002. Now 1,000 plus in 47 states and six Canadian provinces. Has 1,500 new stores in development
- Smashburger, founded 2007, has 156 U.S. stores. Entered Canada 2012 with 2 Calgary stores. Plans to open 200 new stores across Canada in next decade

# COOL RETALIATION LOOMS

- USDA publishes final rule same as proposed rule
- Meets deadline but won't bring the U.S. into compliance
- USDA ignores comments about impact
- USDA disregards the threat of retaliation
- Canada had made its position clear
- Final rule makes discrimination even worse
- Canada and Mexico has strong case that
  the U.S. is still out of compliance

# NEXT COOL MOVES

- USDA rule took effect May 23
- Retailers are technically out of compliance
- Will force them to make label changes and stop commingling meat products soon
- WTO compliance panel will examine rule

  but might take nine months to issue a decision
- Appeals might take another nine months
- Canada may have even stronger case against final rule. Will cost $90-100 per head rather than $25-40 now

# THE CASE TO CONGRESS

- This might strengthen the case for Congress to act sooner rather than later. Case will be:
  - U.S. industry will incur needless costs
  - Disruptions to livestock imports will put producers and packers out of business
  - U.S. faces $1 billion of retaliatory tariffs
  - Dispute damages relationship between the U.S. and its two most important trading partners

# COOL'S POSSIBLE OUTCOME

- Congress moves to amend the COOL law
- Attaches a provision to House version of Farm Bill
- Amendment would revert to FSIS definition of "Product of the U.S." – any meat processed in a U.S. plant
- Or make COOL voluntary
- This would gut COOL and enrage supporters
- But might be only way to bring the U.S. into compliance
- USDA can say it did its best to protect COOL

# TRADE TRAGEDY

- Retaliation threatens $2.5 billion 2-way trade
- 786,373 Canadian cattle went south in 2012
- That though was half the number in 2009
- 5.652M hogs went south in 2012, down 40% from 2009
- Canada is U.S. beef's most valuable export market

  2012 sales were $1.177 billion, up 14% from 2011
- Canada is U.S. pork's fourth most valuable export market. 2012 sales were $855.7M, up 16%
- U.S. took C$874.6M or 197.1M mt of Canadian

  beef in 2012 – 72.3% and 72.67% of total exports

# CATTLE MOVE AHEAD OF COOL?

- COOL suggests a slowdown in cattle exports
- Harder to get contracts from U.S. packers
- BUT exports to May 25 up 44% on 2012

| | |
|---|---|
| Feeders: | 144,864, + 58,964 or 68.6% |
| Sl. S &H: | 187,038, + 10,063 or 5.7% |
| Sl. cows: | 125,307, + 68,180 or 219.3% |
| TOTAL: | 489,015, + 148,725 or 43.7% |

# U.S. NEEDS YOUR CATTLE

- U.S.'s shrinking herd has feedlots, packers scrambling for cattle to remain viable
- Cargill cites COOL as a reason it idled its Plainview, Texas, plant in February
- Plants in Northwest and Texas are at risk
- Eliminating 37,000 cattle from C and M and 100,000 hogs from C per week would jeopardize 4,600 and 2,500 jobs in the beef and pork processing industries, says Tyson

# JBS RESTORES LAKESIDE

- JBS's purchase of XL Foods is opportunism not altruism
- But it restores Lakeside as an outlet for slaughter cattle in Western Canada (WC)
- Plant kills 2,000 per shift; cows on the second shift
- WC fed cattle market becomes more competitive again
- JBS's global reach will increase exports from the plant
- Has special focus on Japan, rest of Asia

# JBS – GLOBAL MEAT GIANT

- Founded 60 years ago, went public 2007
- 2012 revenues = R$75.7B (C$35B). Up 22.5% on 2011
- Employs 142,000 people

| | Daily capacity | 2012 Slaughter |
|---|---|---|
| • Cattle: | 84,500 | 16.359M (+8.4%) |
| Hogs: | 51,300 | 13,683M (+4.2%) |
| Chickens: | 9,000,000 | Not disclosed |
| Lambs: | 25,000 | 4.042M (+26.4%) |

- Produced 9.124M metric tons of red meat in 2012
- Has 300,000 customers in 150 countries
- Exports totaled US$9.8B in 2012
- Canada took 5.4% ($531M)

# GLOBAL NUMBERS AND PRODUCTION ARE FLAT

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| • INDIA | 316,400 | 320,800 | 323,700 | 327,100 |
| • BRAZIL | 185,159 | 190,925 | 197,550 | 203,273 |
| • CHINA | 105,430 | 104,822 | 104,346 | 104,203 |
| • EU-27 | 88,300 | 87,437 | 86,196 | 85,750 |
| • ARGENTINA | 49,057 | 48,156 | 49,597 | 51,195 |
| • AUSTRALIA | 27,906 | 27,550 | 28,506 | 29,879 |
| • GLOBAL | 1,009,995 | 1,013,032 | 1,019,291 | 1,027,264 |

*(in 1000 head)*

| | | | | |
|---|---|---|---|---|
| **Production** | 57.303 | 57.058 | 57.257 | 57.527 |

*(in millions of metric tons)*

*Source: USDA-Foreign Agricultural Service, April 2013*

# BEEF SUPPLY FLAT AS DEMAND GROWS

- Global cattle numbers will increase only 0.8% in 2013. Total will still be below 1.029 billion of 2008
- Global beef production will be up 0.5%
- Main increase (9.8%) will come from India, which produces carabeef from buffalo
- U.S. remains No.1 - will produce 20% more beef than Brazil - but production will be down 4%
- Yet global demand, especially in Asia and the Middle East, is growing. EU continues to have a beef deficit

# GLOBAL BEEF EXPORTERS

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| • INDIA | 917 | 1,268 | 1,411 | 1,700 |
| • BRAZIL | 1,558 | 1,340 | 1,524 | 1,600 |
| • AUSTRALIA | 1,368 | 1,410 | 1,407 | 1,465 |
| • U.S. | 1,043 | 1,263 | 1,114 | 1,100 |
| • NEW ZEALAND | 530 | 503 | 517 | 505 |
| • URUGUAY | 347 | 320 | 355 | 370 |
| • CANADA | 523 | 426 | 335 | 330 |
| • GLOBAL | 7,822 | 8,090 | 8,134 | 8,601 |

***(Carcass weight equivalent, in thousands of metric tons)***

***Source: USDA-Foreign Agricultural Service, April 2013***

# GLOBAL BEEF IMPORTERS

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| • U.S. | 1,042 | 933 | 1,007 | 1,163 |
| • RUSSIA | 1,057 | 991 | 1,023 | 1,035 |
| • JAPAN | 721 | 745 | 737 | 760 |
| • SOUTH KOREA | 366 | 431 | 370 | 370 |
| • EU-27 | 437 | 367 | 348 | 350 |
| • HONG KONG | 154 | 152 | 241 | 325 |
| • CANADA | 243 | 282 | 301 | 315 |
| • MEXICO | 296 | 265 | 215 | 260 |
| • GLOBAL | 6,619 | 6,421 | 6,674 | 7,077 |

***(Carcass weight equivalent, in thousands of metric tons)***

***Source: USDA-Foreign Agricultural Service, April 2013***

# U.S AND CANADA LEAD IN PRODUCTIVITY

| | |
|---|---|
| **U.S** | **345 kilos per head** |
| **Canada** | **339** |
| **EU-27** | **275** |
| **Brazil** | **226** |
| **Argentina** | **215** |
| **China** | **136** |

**Based on production divided by slaughter**

***Source: Foreign Agricultural Service, USDA***

# GLOBAL BEEF SHORTAGE LOOMS

- EU-27 became net importer in 2003 and will import more beef. So will Russia, even as it bans U.S. beef due to ractopamine issues
- Japan relaxes age limit to under 30 from under 21. U.S. exports exceed $1 billion in 2012. USMEF forecasts $1.5 billion in sales in 2013
- Middle East is growing market for cuts
- China will import more beef – four more Canadian plants are approved in January - but will it demand ractopamine-free beef?
- Canadian advantages: competitive feeding, high quality beef, traceback system

# THE NEXT TEN YEARS

- Global population in the next decade will grow 1.0% per year, says USDA
- Much of the growth is in developing nations
- By 2022 will account for 82% of the population, up from 80% in 2010
- Global meat consumption will grow 1.8% per year
- Africa and the Middle East will account for 40% of the increase in global meat imports
- Poultry - more gains than pork and beef
- Much food for thought as Canada plans ahead