PERSPECTIVES

Market Advisor

▸ by **Tim Petry**, *livestock marketing economist, North Dakota State University*

International trade issues important

Increasing U.S. beef exports and declining beef imports in the first half of 2008 have had a positive effect on cattle prices.

Comparisons

Data for January through May were available when this article was written in late July. According to the U.S. Department of Agriculture (USDA), beef exports were up 33% from a year earlier, and beef imports were down 22%.

Harvest cow prices in July were at record-high levels and will likely set an annual record high. Fed-cattle prices were also record-high for the month of July and will likely be close to last year's record high for the year. Feeder-cattle prices were lower than last year due to higher corn prices, but they have been positively affected by the strong fed-cattle prices in spite of high feed prices.

Estimates are that the value of beef exports, including beef variety meats, is close to $100 for fed steers harvested compared to about $75 last year.

International trade is a complex process that involves numerous economic, political, geographical and historical relationships for many products and commodities. So a discussion of possible reasons for increased exports or declining imports of a single commodity, like beef, certainly does not explain the whole story. But, due to limited space and our specific interest in beef and cattle prices, I'll attempt to highlight several factors affecting beef exports and imports.

Causes and effects

A major factor that has been affecting U.S. beef exports and imports is the declining value of the U.S. dollar relative to other world currencies. The weak dollar causes the U.S. market to be less lucrative for countries that send beef here, and causes beef to be relatively less expensive for countries that import our beef.

Beef is not the only meat affected. U.S. pork exports increased 61% in the first five months of 2008, and broiler exports increased 29%.

Another important factor is increasing global demand for food, including meat, and declining beef production in several countries.

The world population is growing by almost 80 million people per year, and 96% of the world population lives outside the U.S. Increasing incomes and an increasing middle class in a number of underdeveloped countries are contributing to the increased global demand for beef.

Beef production has declined dramatically in the European Union (EU), and Europe is now a net importer of beef. Several years of drought in Australia, the leading supplier of beef to the U.S., has limited production there. Beef production in several South American countries is also down due to both political factors and pastureland being converted to cropland due to high crop prices.

Brazil is the largest beef exporter in the world, and production has declined there. Argentina is struggling with government-imposed beef export restrictions and price ceilings on cattle and beef.

The question as to why the U.S. both exports and imports beef always arises. A simple answer to a rather complicated situation is that the U.S. exports high-quality, grain-fed beef and also beef byproducts, including hides, hearts, livers, tallow, etc. Imports are lower-quality, processing beef similar to our domestic cow and bull beef.

Obviously, Angus cattle are an important player in the high-quality beef export market.

The U.S. harvests more cattle than any other country, so a large quantity of beef byproducts are available that have a higher value in the export market than the domestic market. Beef byproduct values were record-high in mid-2008 due to the strong export market. For example, the value of beef tallow was up almost 60% this year due to spillover demand from energy and oil.

The U.S. beef industry is very dependent on the international market to sustain adequate prices. Prior to 2004 when bovine spongiform encephalopathy (BSE)-related trade disruptions affected beef exports, exports resulted in a net flow of dollars into the U.S. Although the U.S. is still struggling with exports to the Pacific Rim, 2008 is shaping up to a return to more normal trade levels with the increased exports of beef and byproducts. That is certainly good news for cattle producers.

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Editor's Note: *Addressing marketing issues affecting the livestock industry, "Market Advisor" is a monthly column distributed by the NDSU Agricultural Communication office. Petry is a livestock economist with the NDSU Extension Service. In that role, he provides assistance to all livestock segments in the state, focusing on adding value to the livestock industry in the region. An archive of columns can be found at* www.ag.ndsu.nodak.edu/aginfo/lsmkt/news/archive.htm.