

# Jim Robb Offers Economic Update

Story & photo by **Troy Smith**

**E**conomist Jim Robb, director of the Denver-based Livestock Marketing Information Center (LMIC), didn't pull any punches during a presentation at the Gudmundsen Sandhills Laboratory Open House in late August. Speaking to a crowd gathered at the University of Nebraska research ranch, Robb spoke plainly about the U.S. economic environment, beef demand, ethanol production and market price expectations.

"The economy is not growing," Robb stated. "The average consumer has less disposable income, in real money, than in 2008. On the bright side, consumer demand for beef is pretty good."

Robb called consumer demand for beef stable at present. He said reports claiming demand has declined amount to misinformation. Granted, per capita consumption has declined somewhat. However, the beef supply is down, prices continue to increase and consumers are buying up the supply.

"Consumers don't care what it costs you to produce your product," Robb told the audience consisting largely of cow-calf producers. "But they're paying record-high prices to buy it. They especially want hamburger and are paying up to \$5 per pound for it. Consumption of all (protein) sectors is down, but demand for beef remains positive."

Robb said U.S. beef net export values are up, but tonnage is in decline, mostly because of high prices. Beef imports to the United States are rising, mostly because processors have backed away from lean, finely textured beef (LFTB) product made from domestic beef trimmings.

"Consumers want hamburger, so if LFTB is not produced here, we will import beef to replace it," explained Robb. "LFTB is not an additive, although it has been called that. It's beef."

Robb expects feeder-cattle imports to decline as cattle numbers in Mexico and Canada are diminishing.

Corn exports are down, and U.S. production is expected to increase as ethanol production continues to drive the value of



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corn. Acreage devoted to other feedstuffs is expected to decline further next year, as more than 100 million U.S. acres are seeded to corn. Robb said prices could "go crazy," possibly averaging more than \$8 per bushel. In his opinion, he said, relaxing the Renewable Fuels Standard (RFS) would have a minimal effect on prices.

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"It might pull the corn price down 75¢ (per bushel) but probably only 30 or 40¢," said Robb. "What nobody wants to talk about is octane. Ethanol is a cheap source of octane. The oil industry understands that and is not going to give it away. What has to change is the way they make gasoline."

It might be cheap now, but Robb said he expects to hear consumers start complaining about the cost of chicken.

"Corn is high; the price of soybeans is going high, high, high; and broiler production is going down, down, down," predicted Robb.

If cow-calf producers have cull cows to sell, Robb advised them to do it quickly or wait until early 2013. He foresees cull prices going to \$1 per pound by then, but there will be plenty of dairy cows to work through the system first. A reduction in dairy cow numbers is already in progress and is likely to hasten substantially.

"The dairy industry is in the third year of a bad situation, with increasing numbers of bankruptcies. Dairy cow slaughter will drive cull cow prices for the next six months," Rob explained.

Total U.S. beef production is expected to decline further. Fed-cattle prices should trend higher. While selling calves may have been a "no-brainer" in recent years,

Rob advised cow-calf producers to think about next year and retained ownership opportunities that could be more profitable. Looking farther ahead, Robb said calf prices could reach new record highs by mid-2014.

Of course, things could change, admitted Robb. He called the drought a definite game changer. Considering its intensity and the amount of country it covers, he expressed dismay at the lack of planning displayed by producers. He's observed the same thing in the several states he has visited during the summer.

"I believe (many producers) are 'planning' to limp through this — just find some forage somewhere. There's already been high use of supplemental feed," shared Robb. "I'm pretty optimistic about prices for the future, but I'm worried about how we'll get there. It will take some planning and good management."

Robb concluded his remarks with a dig at government bureaucracy and the widespread lack of understanding regarding agricultural production and the beef industry in particular.

"Among the people at USDA, there's a common view that 'Meatless Monday' is a good thing," stated Robb, noting the growing criticism of feeding grain to cattle. "When you hear someone complain about the beef industry using so much corn, remind them that it's really a forage-based industry."

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