



Market Advisor

► by **Tim Petry**, livestock marketing economist, NDSU Extension Service

Drought impact on meat production, cattle imports

Each month the USDA World Agricultural Outlook Board publishes the World Agricultural Supply and Demand Estimates (WASDE) report, which estimates supply, demand and prices for both crops and livestock through 2013. The latest report is available at www.usda.gov/oce/commodity/wasde/latest.pdf. I am using the August report as a source, but a later version may be available by the time you read this column.

Projections adjusted

Severe drought in the Corn Belt caused USDA to reduce the projected size of the 2012 corn crop from 14.8 billion bushels (bu.) to 10.8 billion bu. Correspondingly, USDA reduced expected corn for livestock feed and residual use from 5.45 billion bu. to 4.08 billion bu.

Beef production in 2012 is projected to decline 2.3%, with pork production up 2%, broiler production down 1%, and total red meat and poultry production down 0.2%. With the lower 2012 corn crop and resulting higher prices, USDA is projecting a further decline of 3.9% in 2013 beef production, with a 1.2% decline in pork production, a 1.3% decline in broilers and a 2.1% decline in 2013 total red meat and poultry production.

Given the reproductive biology of the different species, the broiler industry can respond and adjust to higher corn prices with lower production most quickly. The

swine industry is next, and beef last. At 34.5 million head, the 2012 calf crop is down 2% from 2011; however, with adequate price incentives, there are other ways that beef production could be lowered. For example, fed cattle could be marketed at lower weights, which has not been the case in 2012.

Import and export factors

Another factor that will be addressed in the rest of this column is feeder-cattle imports and exports, which also can affect beef production. Depending on price incentives, feeder cattle are imported into the United States from Mexico and Canada, and U.S. feeder cattle are exported to Canada. Factors such as the value of the U.S. dollar relative to the Mexican peso and Canadian dollar, feed availability, and prices of both cattle and feed in those countries all come into play.

Declining U.S. calf crops the last several years have led to excess feedlot capacity and

higher feeder-cattle prices. That, along with an increasing value in the U.S. dollar in 2012 and drought in Mexico, stimulated imports of feeder cattle into the United States in the first half of the year. Imports from Canada were up more than 80% from last year, and Mexican feeder-cattle imports were up about 31%. However, that could change by the fall calf-marketing season and particularly in 2013.

In 2011 Canadian feeder cattle imports were rather small due to: (1) its large cow herd decline during the last five years; (2) much cheaper feed (Canadian feedlots feed barley instead of corn) and more favorable feeding returns than in the United States; and (3) the impacts of the Canadian dollar's higher value on feeder-cattle prices.

Larger volumes this year are still relatively small and less than half the average year-to-date total for 2007-2010. Plus, in the 2011 fall calf-marketing season, about 2.5 times more calves were exported to Canada than the previous five-year average. That scenario may be setting up for 2012 as well, with drought-reduced supplies of corn in the United States and good growing conditions and a good barley crop in Canada.

The following information on Mexican feeder cattle imports is courtesy of Darrell Peel, Oklahoma State University Extension livestock marketing specialist.

Increased imports of Mexican cattle have supplemented dwindling U.S. feeder-cattle supplies the past two years. Mexican cattle imports increased 16% from 2010 to 2011 to 1.42 million head. This level is 29% above the average annual imports for the 10 years from 2001 to 2010 and was second only to the record 1995 level of 1.65 million head.

The increase in 2011 and 2012 is due to the severe drought that has affected northern Mexico the past two years. In 2011, the drought in northern Mexico was every bit as severe as the drought in Texas and Oklahoma. It is unlikely that the current rate of cattle exports can be maintained for many more months. If the exports drop off soon, the 2012 total may be close to the 2011 level. The recent weakness in U.S. feeder prices and the possibility of an average or better rainy season in July and August may provide additional reason for slowing Mexican feeder exports for the remainder of the year. In any event, it appears U.S. imports of Mexican cattle will decrease significantly in 2013 and likely for several years after.

Tim Petry
E-MAIL: Tim.Petry@ndsu.edu

Editor's Note: *Tim Petry is a livestock marketing economist at NDSU Extension Service and the NDSU Agribusiness and Applied Economics Department.*

PHOTO BY SHAUNA ROSE HERMEL

