Market Advisor

►by Tim Petry, NDSU Extension Service

LMIC and beef demand

Some of you have likely heard about the Livestock Marketing Information Center (LMIC). I am North Dakota's representative on the Technical Advisory Committee of the LMIC. What is LMIC? The LMIC is a unique cooperative effort among 29 state university extension livestock marketing specialists, USDA economists, industry cooperators and LMIC staff. The goal is to reduce duplication of effort while enhancing the overall quality and quantity of livestock market information available to producers and other decision makers.

Economic factors of demand

More about LMIC, Denver, Colo., is available at *www.lmic.info.* The following information about beef demand is an example of output, and was written by LMIC Director Jim Robb in collaboration with several members, and modified and updated by me.

In a broad context, beef demand involves two aspects: domestic and export markets. In 2013, U.S. beef export tonnage was about 10% of production. Export markets have become ever more important for U.S. beef producers. Since the export market disruption after late 2003 due to bovine spongiform encephalopathy (BSE), U.S. beef exports have rebounded to pre-BSE levels. To maintain industry stability, U.S. beef products must appeal to a wide base of consumers both domestically and internationally.

U.S. consumer beef demand was better than anticipated throughout 2013. The concern has been that consumers would substitute relatively inexpensive pork and chicken at the expense of beef. So far, the U.S. economy has grown just fast enough to keep domestic consumers selecting beef items at the meat counter.

Looking ahead, two questions are important for 2014. First, will U.S. economic growth be fast enough to keep consumers buying high-priced beef cuts? Second, will domestic output of competing meats surge, causing prices to drop more relative to beef?

An improving economy, only modest growth in competing meats, and continued strong exports should support beef demand. That, coupled with a possible 6%-7% decline in beef production in 2014 could mean another year of record cattle prices.

First, U.S. economic growth prospects for 2014 have improved, but they still might be categorized as lackluster. Recent economic data has generally been better than earlier forecast, especially aggregate economic growth (i.e., Gross Domestic Product gains). Unemployment remains very high by historical standards, but progress has been made almost monthly. Even the U.S. housing sector has begun to be a positive economic force for the first time in several years. So, looking ahead, most of the concern regarding consumer demand for beef is related to the supply and associated prices of competing meats.

Pork wild card

In the U.S.-animal-protein complex, the wild card is pork — what is and will be the impact of porcine epidemic diarrhea (PED) virus? This highly infectious disease only became documented in the United States after midyear 2013, and it spread rather quickly. The disease has already reduced the availability of market hogs, and analysts have significantly lowered slaughter forecasts for 2014.

Earlier forecasts were that more sows, growth in pigs per litter, etc., would bring more hog slaughter, especially in the second half of 2014. Further, heavier hog weights due to less-expensive corn suggested burdensome pork output in the fourth quarter of 2014. Now, due to PED, forecasts are for a rather manageable 1.5%-2% increase in U.S. pork production.

If pork exports grow as expected, compared to the lower levels posted in 2013, the production increase means little change in U.S. per capita pork consumption. Expect unchanged to slightly lower retail pork prices compared to 2013.

Potential poultry expansion

U.S. chicken prices were surprisingly strong this past summer. History suggests that profits quickly translate into a larger breeder supply flock to support more eggs-set and chicken production. That trend was beginning to emerge, but the last two months of 2013 had unexpectedly large declines in chicken prices, which shrunk margins. Additionally, chicken exports were below expectations in 2013. Broiler firms are showing some restraint, dampening 2014 production forecasts that were up fully 4% or more to just more than 3%.

Chicken exports are expected to improve in 2014, so some of the increase in U.S. chicken production is expected to be absorbed by overseas markets. For the year, U.S. per capita supplies may be up a rather modest 2%.

The U.S. turkey industry has faced rather low profit levels in recent years. Even lower feedstuff costs in recent months have not changed the outlook much. U.S. turkey production posted an annual drop in 2013 (down nearly 2%), and forecasts are for output in 2014 to be unchanged to down slightly from 2013 levels.

Competition in the meatcase

Domestically, competition at the retail case will increase in 2014, but much more modestly than earlier forecasts. Beyond 2014, there are more concerns. Significant steps to solving the PED virus problem and breeding-herd expansion could cause an increase in U.S. pork output. Of course, chicken output can ramp up in a matter of months, so that sector can surprise, too.

Even though U.S. wholesale beef prices in 2013 posted new record highs, international sales did not soften. Beef exports set a record in 2011 and, after a slight decline, rebounded in 2013 to more than 2.5 billion pounds (carcass weight basis), or about 92% of the record tonnage. For the year, export tonnage grew about 4%, driven by Japan.

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After modifying outdated BSE-era trade standards in early 2013, Japanese beef purchases from the United States jumped about 48%. Japan was the largest foreign market, representing 27% of U.S.-export tonnage. In 2013, large percentage gains in sales to Hong Kong and Taiwan also occurred. In contrast, sales to Russia (which essentially banned U.S. beef in 2013) and Vietnam declined dramatically.

High beef prices and an increased value of the U.S. dollar may keep exports to some countries on the defensive in 2014. However, there could be progress on re-opening China and Russia to U.S. beef, maybe in the second half of the year.

Another country to watch is Mexico. The drought-induced decline in their cow herd has been dramatic. That means fewer Mexican feeder cattle will be imported (probably the lowest in many years), but it also means an end to the huge Mexican herd liquidation, potentially increasing U.S. beef exports to that country.

So an improving economy, only modest growth in competing meats, and continued strong exports should support beef demand. That, coupled with a possible 6%-7% decline in beef production in 2014 could mean another year of record cattle prices.

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