# Market Advisor

by **Brenda Boetel,** University of Wisconsin–River Falls

## The importance of beef imports to the U.S. cattle producer

*The USDA Economic Research Service (ERS) livestock and meat trade data released in September showed an increase in beef imports of 32% coupled with a decrease of 10% in beef exports. Given current trade expectations, approximately 14% of the U.S. supply of beef in 2015 will be from imports, as compared to 12% in 2014. The recent decline in cattle price combined with these changes in trade have many questioning the reason for beef imports and the importance of these imports to the U.S. cattle producer.*

### Long-term benefits

The primary sources of domestic beef are grain-fed cattle and culled dairy cows. U.S. exports of beef consist primarily of the high-valued beef cuts in the form of steaks and roasts from grain-fed cattle, whereas beef imports are primarily ground beef. Retail-level ground beef is typically made up of different combinations of lean trimmings.

For example, 76% lean hamburger is determined by blending 90 chemical lean (CL) trimmings with 50CL trimmings. The majority of 50CL trimmings come from grain-fed cattle, while 90CL trimmings are from culled cows or grass-fed cattle. The majority of U.S. beef imports are from countries that produce grass-fed cattle, and, without these imports, the United States would have significantly less 90CL trimmings that are used in hamburger.

The United States could produce a greater amount of lean beef and decrease imports, but by doing so there would eventually be a decrease in the production of high-value beef cuts that are consumed domestically or exported.

The recent decline in cattle prices combined with the increase in beef imports has prompted several comments regarding the need to restrict beef imports as the lower total supply of beef would support cattle prices. This solution is problematic in the long term.

In the short term, the United States would have a challenging time filling the need for lean beef due to decreased cow slaughter and heavier finished cattle weights. Hence the 90CL beef price would increase, eventually increasing the retail price of ground beef. Beef is already the highest-priced protein product, and additional increases would likely shift consumer demand faster from high-cost beef to lower-cost poultry or pork.

Additionally, the long-term increases in production of lean beef would decrease the more profitable sales of high-valued cuts both domestically and in the export market, further reducing the overall profit margin for U.S. cattle producers.

As herd rebuilding continues and the U.S. supply of grain-fed beef grows, the U.S. supply of lean beef will likely continue to decrease due to heavier finishing weights and decreased cow slaughter. This indicates that higher, not lower, levels of imports will be needed to meet U.S. demand needs and keep market share from shifting to lower-price alternatives such as poultry and pork products.

**Editor's Note:** *Brenda Boetel is a professor in the Department of Agricultural Economics at the University of Wisconsin–River Falls. This column was from the Livestock Marketing Information Center.*

## Farmers wonder how low calf prices will go

Cattle producers have benefitted from high calf and feeder prices in the not too distant past. More recently, however, cattle markets appear to be weakening, and farmers are wondering just how low the prices could go.

"I don't think many cattlemen and women are surprised that the cattle market has softened," said Kenny Burdine, livestock marketing specialist for the University of Kentucky College of Agriculture, Food and Environment. "But, I do think that many have been surprised at how quickly things have changed and how much lower prices have gone. Calf markets usually reach seasonal lows in October or November."

The U.S. beef herd continues to expand, and Burdine said that plays a part in the current markets, although not a huge part. The growth in beef cow inventory hasn't really had time to affect beef production yet. The cattle market is dealing with a growing supply of fed cattle and a significant increase in slaughter weights. These factors are working to increase beef production. At the same time, production of both pork and chicken has increased, which is applying additional pressure.

Beef cow slaughter continues to run below last year's levels, and most indications are that heifer retention continues. Long-run calf prices typically continue dropping as the size of the beef cow herd grows. Burdine said this is all part of a typical cattle cycle where cattle numbers reach a sufficient level to pressure prices enough that producers respond by scaling back, selling more heifers instead of breeding them. Eventually, liquidation causes prices to improve, producers once again expand the herd, and prices begin to trend upward for a few years.

"It will be interesting to see how much impact the lower calf prices have on the pace of expansion this fall," Burdine said. "Even though calf prices have softened, they remain profitable for most cow-calf producers."

While the recent drop in prices may slow the pace of expansion, Burdine quickly pointed out that most producers are still likely to sell calves this fall on a very strong market by historical standards.

"The largest impact from lower calf prices may be what is paid for bred heifers this fall, as those prices tend to move together," he said. "But the big-picture message is the calf-price environment is changing, and producers need to be thinking about managing their operations in a decreasing price market over the next several years. As we continue to grow the calf herd, we will also likely continue to see lower calf prices until the incentive to expand is no longer there."

***— by Aimee Nielson, UK College of Agriculture, Food and Environment***