

Reason to Keep Those Females

As demand for beef shows signs of a comeback, this economist says the U.S. cow herd will need to grow to keep up.

Story & photo by **Kindra Gordon**

With the economy beginning to recover — both here in the United States and globally — consumers are eating beef again. A 5% increase in beef demand has already been reported for 2010, with export demand especially strong.

Add to this the fact that the world population is projected to increase by another 700 million people around the globe in the next 10 years — 27 million of them in the United States — and even more demand for beef is anticipated in the decades ahead.

That's encouraging news for the U.S. beef industry. And to capitalize on the projected demand growth, Randy Blach, CEO of Cattle-Fax, believes the U.S. cow herd inventory needs to begin expanding.

He says to producers, "We need you to keep a few more heifers; we need a few more cows." Specifically, Blach anticipates

America's beef industry needs to grow by 600,000-700,000 more cows by the end of this decade to supply the increasing demand.

Time for a turnaround

But rather than expanding, the U.S. beef



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cow inventory has been shrinking. Presently, the U.S. beef cow inventory is at about 31 million head — the lowest inventory since 1963. And Blach says that number is projected to decrease by another 3,000-4,000 head when new inventory statistics are released Jan. 1, 2011.

Likewise, global beef production has decreased 1% each of the last three years.

"We (cattle producers) are not saving heifers," Blach says. He attributes this to the rocky economy

the last couple years, increasing production costs, and limited forage.

Those conditions put producers in a downsizing mind-set — beef cow slaughter

has increased 11% in the last year, Blach reports.

In the short term, that strategy has been bolstered by the uptick in demand, and producers have been rewarded with record salvage values for cull cows in the last 6-12 months, Blach says.

But for the long term, the declining cow inventory is setting the U.S. beef industry up with a lack of supply. "We don't have enough beef to meet global demand," Blach says — hence his recommendation for herd expansion.

He explains, "When you see that the national herd is smaller and is going to be even smaller on Jan. 1, that means it will be three years until we can impact production to meet demand. What's the opportunity? You can see what the masses are doing. Not many are keeping heifers or buying a few more cows. So those who do will have a pretty good pay day."

How good? Cattle-Fax projects market conditions could lead to fed cattle averaging \$94-\$95 per hundredweight (cwt.) by the end of this year and be \$3-\$4 higher than that next year. If demand goes up significantly, prices could even go above \$100 per cwt., Blach says.

"Cow-calf producers could have their most profitable three to four years ahead as any time in history," Blach says. "There's a chance we'll see cow-calf prices up where we've never experienced."

Keep a balance

All that being said, Blach cautions that the U.S. beef industry doesn't need a huge expansion — just enough supply growth to keep pace with the increase in demand.

"We don't need a 5-million-head expansion. We just need a stable herd with a little bit of uptick," Blach says.

He explains that the increased production efficiency in the beef industry — through improved genetics and better mortality rates of weaned calves — means American

Global access especially important

While the future appears to bode well for beef demand, Cattle-Fax's Randy Blach emphasizes that a big piece of the equation for U.S. beef will be determined by access to global markets.

He explains that the U.S. beef industry still hasn't gotten full access to key markets since 2003 when the bovine spongiform encephalopathy (BSE) incident in Washington State caused trade bans against the U.S.

"Between 2004 and now that has cost between \$70 and \$75 per head to our beef industry," Blach says, pointing out that access to China and Japan is hugely important for the U.S. beef industry.

He tells producers, "What we export brings 50¢ more than what we import, so that's money in your pocket. We need trade, and we need more trade."

Additionally, Blach says the beauty of international trade is that

it allows the ability to capture value for products — like variety meats, hide and offal — that consumers here at home are not willing to pay for. As examples, he says a beef tongue in the U.S. is worth \$1.50; on the international market it brings \$12. Likewise the export value for short plates and short ribs has climbed to \$32.67 per head because of global trade.

Blach says hide and offal values bring in another \$150-\$160 per head because of international buyers, as well.

Given the high quality of America's corn-fed beef, Blach believes U.S. beef has a strong demand future. He concludes, "We are a major supplier of protein around the globe and that's something we need to fight for. ... Call your congressman and senator and tell them we need to get access."

producers can produce more beef with fewer cows. He says, "Carcass weights alone offset the need for 5 million cows."

Specifically, he reports that carcass weights have increased by 175 pounds (lb.) during the last 35 years, and Blach expects that trend to continue.

"The market still pays for weight more than anything in the system, so I believe the weight trend will continue through this next decade," he says. Because of that increasing production per head, Blach says to producers, "I'm not going to tell you we need 3 to 5 million more cows, but we do need a few more cows."

Pay attention to demand

Looking forward, Blach reiterates that the cattle market hinges on consumer demand, and he remains cautiously optimistic. "Domestic demand has stabilized, and exports have snapped back."

Of the economy, he says, "It's come back, but we don't see robust growth. Are we out of the woods? No. Will there be a double-dip recession? We don't think so."

Instead, Blach expects the economic recovery will be "slow and tedious."

For beef producers, he suggests this slow buildup in economic recovery — along with the increasing population size — means the

door is open for herd expansion, so that when consumers are demanding beef, American cattle producers are ready for the windfall.



Editor's Note: Randy Blach spoke at the 2010 National Angus Conference & Tour in Bozeman, Mont., Sept. 15. For coverage or to listen to his presentation, visit www.nationalangusconference.com, Angus Productions Inc.'s (API's) meeting coverage site, or the video page at www.angus.org.