Unparalleled Times

Economist Jim Robb says markets will remain strong, at least for a while.

Story & photos by ***Troy Smith,*** *field editor*

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"These are unparalleled times, at least in my career," claimed Jim Robb, director of the Livestock Marketing Information Center (LMIC). Speaking to an audience consisting of mostly cow-calf producers during the University of Nebraska Gudmundsen Sandhills Laboratory Open House, the Denver-based agricultural economist said, "I didn't know I'd live long enough to see prices like these."

According to Robb, supply and demand fundamentals have come together to create a prolonged period of high cattle prices. While many cow-country folk have been wondering if a serious price correction is just around the corner, Robb believes tight beef supplies and relatively strong beef demand could support prices for some time to come. Prices could peak in 2015, but he doesn't foresee significant decline until 2016 or 2017, mainly because beef supplies will be rather tight for the next couple of years.

Robb said the marketplace is being driven by demand. He called consumers "still poorer than they were prior to the recession," but still hungry for beef, too. As evidence, Robb cited steady demand for beef during the first quarter of 2014, followed by an increase in demand during the second quarter.

"It tells me that consumers that would quit buying beef (because of higher prices) already have. The rest are willing to pay more for it," said Robb, noting that the second quarter boost to demand added $25-$30 per hundredweight to calf prices.

Don't misunderstand. That does not mean there is no limit to what consumers are willing to pay for beef. Robb says beef prices may be nearing levels at which consumers will start to push back. Consequently, he believes most of the run-up in calf prices is past.

Export markets also have continued to support the beef and cattle prices. While foreign consumers tend to be more price-sensitive than U.S. consumers, they have not backed away from U.S. beef. It's not what Robb and his colleagues expected, but foreign demand has remained surprisingly good.

Noting how some northern calves have traded at $3 per pound, Robb said some price erosion in the fall is to be expected, but that price level could be revisited next year. Citing cow-calf producer profits averaging near $500 per cow, he foresees similar profit potential for 2015. However, with average production costs nearing $800 per cow, there never has been a more expensive time to be in the cow business. Feedstuff prices have come down, but feed remains expensive. Forage and costs are particularly high and Robb admitted that he never expected pasture rental rates to reach current levels. He does expect cash costs, per cow, to remain in the $700 to $800 range for the next five years.

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Lower corn prices are favorable for cattle producers, and Robb doesn't expect them to bounce back anytime soon. He said the biggest corn crop ever — some 14 million bushels — is expected this year. Corn production should decline slightly in the next two years, but prices are likely to remain under $4 per bushel until the United States experiences a short crop. Cheaper corn is good for the beef industry's competition, too. Robb says both pork and broiler production in the United States are ramping up.

Future growth

Asked about potential growth of the cow-calf sector, Robb said beef cow numbers are low worldwide, and a generalized expansion of the U.S. herd is not occurring yet. Cow slaughter is down, but heifer retention remains stagnant.

"Heifers are being retained to stock range and pasture, but it is not growing the herd. We will see modest growth, eventually, but it will be slow," said Robb, noting conversion of forage acres to other crops and high production costs as factors buffering the rate of expansion. "When expansion does happen, most of it will occur in the spine of the industry, from Texas to North Dakota."

Robb does not expect cow numbers to return to former levels. It won't be necessary, in his opinion, because of the greater numbers of feeder cattle coming from the dairy industry. Asked if a cattle cycle still exists, Robb said it does, but it is different and not as important as it once was. The greater flow of Holstein feeder cattle to feedlots is part of the reason.

Another factor, said Robb, is the industry's ability to maintain relatively high levels of beef production with fewer brood cows. This has happened as a result of heavier carcass weights and high levels of cow slaughter. The latter is in decline now, but Robb believes the trend to heavier carcass weights will continue.

"Even if Zilmax® (growth-promoting feed additive) doesn't come back, other technologies will take its place. Weights will increase," stated Robb. "That's the long-term trend."

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Editor's Note: *Troy Smith is a freelance writer and cattleman from Sargent, Neb.*