

Is Expansion Occurring?

“We’ve started that process,” says K-State’s Glynn Tonsor.

by Kindra Gordon, field editor

As the summer grilling season sets in, consumers are experiencing noticeably higher retail beef prices than a few years ago. In 2013, retail beef prices averaged \$5.29 per pound (lb.). They moved to a record \$5.55 in the first quarter of 2014, more than a 20% increase compared to the 2010-2012 average. Retail beef prices in 2014 are now expected to average \$5.67 per lb., an increase of 7% more than last year.

The cause? A smaller supply of beef cattle primarily due to drought the last several years — as well as last summer’s loss of using beta-agonists to add pounds to current feedlot cattle, according to Glynn Tonsor, associate professor of agricultural economics at Kansas State University (K-State).

As of January 2014, the U.S. beef cow inventory was at about 29 million head, according to USDA. The U.S. cattle herd is the smallest since 1951.

That inventory could begin to rebuild. Sharing comments via a “Beef Outlook” webinar broadcast in early May, Tonsor says he is seeing signs of cow herd expansion in the beef sector.

He credits the record-high cattle prices as an incentive for the expansion. Currently, the Livestock Marketing Information Center (LMIC) in Denver is projecting that cow-calf producers could see a \$350-per-cow return over cash costs for 2014 and 2015.

Bolstering the cow-calf profit margins are lower input costs, higher calf prices and improved pasture conditions in many parts of the country.

As a result, Tonsor says, “I do think we’ve put the wheels in motion to expand the herd.”

Retaining heifers, cows

He noted that for the first quarter of 2014, 34% of animals placed on feed were heifers, which is a lower value than previous years

and the smallest percentage since 2006. That’s significant because 2005-2006 was the last time the industry attempted to expand.

Additionally, Tonsor reports that producers are also sending fewer cows to slaughter. He recognizes that is partly due to the fact that there is a smaller cow herd, but he sees indicators that more cows are staying home. Combined with feedlot placements, that “suggests we’ve pulled the trigger on expansion.”

However, Tonsor notes that drought will still be a factor holding back expansion in some regions of the country such as California and the Central and Southern Plains. Citing the U.S. Drought Monitor, Tonsor said the total acreage across the country affected by drought since last fall has decreased. However, the acres that are affected by drought, such as California and the Texas Panhandle, are in worse shape than they were a year ago.

Likewise, he noted, “As operating costs have gone up, not everybody is interested in expanding.” He added that because of operating costs, some regions of the country will have an economic advantage for expansion.

He continued, “That’s important to recognize. Anyone who is better at managing costs will do better.”

Despite those caveats, Tonsor says feedyard placements and slaughter numbers indicate the expansion process has started. During the next several years, he says, he thinks expansion could build the U.S. beef herd back up to 33 million cows.

With that said, the expansion process — and moderating retail beef prices — will take time. He notes that from the time a producer withholds a heifer and puts her in the breeding herd, it is two years before the industry benefits from it.

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Limited swine expansion may help beef demand

Kansas State University’s Glynn Tonsor explains that the Porcine Epidemic Diarrhea Virus (PEDV), a serious hog disease, will likely limit the pork industry from expanding in 2014 because of the increased death rate for preweaned pigs. Although the disease poses no risk to humans or food safety, it could result in a 2% decline in 2014 pork production and, therefore, tighten supplies. This means retail prices for bacon, ham, pork chops and other products could remain high, which should help retain beef demand strength by mitigating shifts from beef to pork.



PHOTO BY PAIGE NELSON

Editor’s Note: Kindra Gordon is a freelancer and cattlemaster from Whitewood, S.D.