



U.S. Beef Producers Both Lucky and Good

You have to appreciate the timing. In the depths of a low-price valley 10 years ago, the beef industry was rocked by *e.coli* food safety concerns. Then the first consumer reaction to bovine spongiform encephalopathy (BSE) in Europe seemed like the last straw. In fact, it was the start of a series of fortunate events.

The U.S. cattle inventory was into its liquidation phase. Prices would begin to recover regardless of the news, but the news kept consumers on our minds. A 10-year comeback in cattle prices ensued, led by a renewed focus on high quality and expanding exports. Pacific Rim markets demanded relatively obscure but premium Choice cuts like short ribs and skirts that were being ground into hamburger otherwise.

Feeder steer prices rose \$20 from 1996 to '97, then lost half of the gain and settled in for a sustained upward trend. But the shock to our nation from the terrorist attack in the fall of 2001 was followed by a shock to the export market as Japan discovered BSE.

Still, it seemed nothing could hold down the cattle market. Despite uneasiness and lower volume sales to Japan, other markets like Korea picked up the slack. Before the “Cow that Stole Christmas” in our country in 2003, we had logged a record \$5.4 billion in cattle, beef, byproducts and variety meat export sales.

Ever thought about how much foreign sales add to your cattle check? Exporting beef 30 years ago was even less predictable than today. Anyone could see potential in global trade, but the

world was a big place. It took producer vision, then government and producer cooperation and funding to get organized: \$2 from USDA for every \$1 from packers and producers. The U.S. Meat Export Federation was created in February 1976.

Twenty years later, a Cattle-Fax study put the impact of beef exports at \$7.30 per hundredweight (cwt.) on fed steers and \$15.30/cwt. on calf prices. Since then, USDA and Land Grant universities have charted export dollars and their direct impact on fed cattle. Exports added \$190 to the value of a 1,250-pound finished steer in 2003, more than \$15/cwt.

Cattle-Fax analyst Mike Miller says, in the long run, and depending on how attractive a set of calves look to a feedlot buyer, the whole export bonus trickles down to the cow-calf level.

As we know, the export markets shut down at the end of 2003, fortunately right as the U.S. cattle inventory cycle began to bottom and prices were headed for a breathtaking peak. Yes, it got crazy. And you have to admit, bad news couldn't have hit at a better time. Some U.S. consumers were reeling from sticker shock at the meat counter. Foreign buyers would soon begin to back away. Instead, they left in a rush. Since then, they missed U.S. high-quality beef and virtually all have come back.

We never lost all exports, but fresh beef trade fell by more than 85% for a time. The economists concluded export trade still added \$6.70/cwt. in 2004, thanks mainly to hides and byproducts. We may have gained a few cents on that line in 2005. Fresh beef sales reached about a quarter of their 2003 record level.

Now the fates are at it again. Japan has opened its doors to qualified U.S. beef sales after two years, and the last holdout, Korea, seems likely to open before summer. That would double beef sales to \$1.2 billion, though still less than half the 2003 mark. It's good news for sure, but to put it in perspective, look at the Dec. 15, 2005 Cattle-Fax *Long Term Outlook*.

Its "Cattle Price Cycle" graphic features a helpful arrow such as we find on shopping mall directories. "We are here," it says just over the hill from the 2003-05 peak and headed for the deep

2008-10 valley. Without the good news of reopening export markets, that would be a much more scary ride, says Iowa State University economist John Lawrence. Fed cattle prices stand to gain \$7.50/cwt. as exports return to 2003 levels—which could take until the bottom of the cattle cycle.

Because of progress on domestic beef demand and prospects for renewed world trade, the projected valley is not as deep as that of the 1990s. And with the renewed U.S. focus on producing premium Choice and Prime beef, the next peak in 2015 may once again break records. Maybe we will be able to sustain a larger, more productive cowherd that produces the most valuable beef on the export market.

Next time in *Black Ink*, we'll look at strategies for the downhill price slope ahead.

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