

NewsWatch

Beef appears strong for '07

By J.T. SMITH

DEMAND for good beef has continued strong, and supplies have increased but still haven't rebuilt as rapidly as some had expected, partially due to the 2005-06 drought in the Southwest. The demand seems to be handling the supply well.

Stan J. Bevers, Texas A&M Extension agricultural economist, Vernon, says some places in Texas and the Southwest have received much more rain than others. And so, this winter will have a lot to do with a 2006 fall-weaned calf at 450 pounds actually making it to become a 750-pound feeder calf in the spring. An ample winter wheat pasture will be a big factor.



STAN J. BEVERS

"The stocker cattle business is a margin industry," Bevers notes.

In real-world studies, he found average cost of gain on wheat pasture to be 56 cents per pound.

The success or failure of stocker cattle will impact the eventual number and type of feeders subsequently moving into feedlots — and finally, the beef on the domestic plate or for export.

"The amount of gain all depends on weather, death loss and forage costs," Bevers notes.

Key Points

- Beef demand has helped offset slight increase in supply.
- Drought slowed the rebuilding of U.S. cattle inventories.
- U.S. beef can beat competitors in a growing export market.

Feedlot cost to change a 750-pound feeder into a 1,250-pound finished animal also is critical.

While the U.S. calf crop likely could continue to grow in numbers during 2007, that growth may be at a fairly slow rate all the way to 2010, Bevers notes. After all, that's not so far away. The overall calf crop could still be less than 40 million calves in the U.S. inventory at that time.

Beef outlook positive

You might think the cattle market is in for a major correction in 2007 if you were to focus only on the 6% increase in beef production in 2006.

Nevertheless, Randy Blach, executive vice president of Cattle-Fax of Englewood, Colo., says the beef market has held its own, despite that 6% increase in production and a fed slaughter jump of 800,000 to 900,000 cattle in 2006 over 2005. Yet, fed cattle prices for 2006 only dipped \$1.50 to \$2 per cwt. lower than the previous year.



SLOW GROWTH: U.S. beef production in 2007 is expected to increase only about 2% compared with 2006, and prices are expected to remain relatively strong.

"So we've gotten along very well," Blach observes.

Speaking in late 2006 to a joint meeting in Amarillo of the Texas Cattle Feeders Association and the Texas and Southwestern Cattle Raisers Association, Blach attributed both domestic and foreign demand as the reasons fed cattle prices held up reasonably well during 2006 despite higher supplies.

Blach notes aggregate beef demand in the United States was a bit softer during 2006. "But I think it is important we step back and look at what's really going on," he says. "Demand is growing for [USDA] Choice, the upper two-thirds of Choice, Prime and beef sold in many branded beef programs. Choice price is higher even though choice beef supplies are up 2% for the year. So we're not seeing the same softening in demand on

the higher-quality products that we're seeing in aggregate."

Like Bevers, Blach agrees the drought situation has had a huge impact on supply. "We have definitely slowed the rate of expansion of the nation's cow herd," he says. "It looks like cow numbers will be up 1% in 2007."

Blach says that fed cattle slaughter likely will increase only another 500,000 head in 2007. Overall beef production in the coming year will increase only about 2% compared with 2006.

He expects fed cattle prices in 2007 will be slightly softer but not significantly different from what cattle feeders experienced this year.

"We'll still end up averaging \$84 to \$85 [cwt.] on fed cattle in 2007, and have a practical range from the low \$90s to the upper \$70s," Blach says.

Uncertainty stays close to rebuilding economy

By LARRY D. SANDERS

THE November midterm election caused the earth to move in Washington, and the impacts on the economy are yet to unfold. An overview of the recent general and farm economies and trends for both suggest

an environment of uncertainty amidst a robust, rebounding economy.

The general economy

At the core of the nation's economic situation is the fact there has been a broad recovery from the recession and economic malaise of recent years. Consumer

2007 AGRICULTURE OUTLOOK

spending is up, while real estate markets are cooling down. Manufacturing continues to be steady to strong. Unemployment is at its lowest in many years, about 4.5%, but new jobs have relatively low wages and benefits. Tight labor markets are starting to drive up wages in some areas.

Inflation is relatively low, mainly due to Federal Reserve decisions to increase interest rates, the longest sustained period of increases ever. The economy continues to grow (about 3.4% in 2006) with a post-recession rebound, but indicators are stagnant to lower, suggesting 2007 growth will slow (perhaps to about 2.6%). The stock market continues to break records, with only selected sectors such as pharmaceuticals showing a negative reaction to the election.

The federal deficit and debt are still troublesome, with a \$260 billion deficit for 2006 and likely larger over the next few years. Pressure to restrain spending will increase. The general trade deficit continues to dwarf those of past years. Analysts say economic growth in the rest of the world will slow from about 3.9% to 3.4%. Coupled with steady to higher energy prices, there are few signs the trade deficit will moderate soon.

The farm economy

While some sectors of agriculture are doing relatively well, many red flags of caution exist.

Net farm income, or NFI, at recent highs, fell 25% to 30% in 2006 and may decline more in 2007. Weather (drought and floods) has been so severe in some areas that average income and production data are misleading. Input prices, especially energy-related inputs and interest rates, continue to be troublesome. Fuel prices are nearly double from three to four years ago, but down about 30% from early 2006. Watch for energy-related prices to climb again. Interest rates are up and will likely edge up further as the Fed continues to fight inflation.

The ratio of prices received to prices paid has fallen in the past two years and will likely continue to do so. The broad indices of prices received and paid by farmers suggest falling profits. Receipts cannot continue to fall and expenses increase without some producers going out of business.

While agricultural exports continue to be greater than imports, imports are growing at a faster rate with trends showing a deficit in agricultural trade within the next few years. Developing countries are the primary markets.

Sanders is with Oklahoma State University.

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