The Beef Industry in the 1990s

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Introduction

These are some of the most exciting and challenging times for cattlemen and those who provide services for, or supply products to them.

It's a time filled with opportunity and pitfalls -- It all depends on how the situation is approached.

Change is difficult for most of us who prefer to remain in our "comfortable rut". If we choose to remain in this rut, the world will probably pass us by -- But, if we're willing to get out of the rut we can find new opportunity.

Factors influencing the changes being seen today -

- ★ Maturing of the meat industry
- ★ Declining cattle numbers
- ★ Excess capacity in feeding and packing
- ★ Increased competition for supplies
- ★ Narrower margins
- ★ Consolidation and integration

All of these factors are forcing producers and processors to become more efficient, low cost producers, if they want to stay in business.

A look at changes in the structure of the various beef producing and processing segments.

Structure of the Cattle Industry

Cow/Calf Segment

- ★ Decline in number of cow/calf operations continues.
- ★ Concentration not significant at this time.
- ★ Ninety-seven percent of beef cow operations have less than 200 head of beef cows.
- ★ About 52 percent of the beef cows are in operations with less than 100 head.
- ★ Forty-eight percent of the cows are in operations with greater than 100 head.
- ★ There are approximately 25,000 beef cow operations with more than 200 head, 4,700 beef cow operations with more than 500 head, and 1250 beef cow operations with over 1,000 head.

Stocker Segment

- ★ Function is being absorbed by cow/calf producers retaining ownership or feedlots buying calves and grazing them before entering feedlot.
- ★ The function of the stocker operator will continue but the decision makers are changing.

Feedlot Segment

- ★ Only 1/3 as many feedyards today compared to 1965.
- ★ About 30% excess capacity in the feedlot industry.
- ★ Ninety-six percent of feedyards have less than 1,000 head capacity. These feedyards marketed 16 percent of cattle in 1989.
- ★ Four percent of the feedyards (1,650) marketed 84 percent of the cattle in 1989. 193 feedyards marketed 52 percent.
- ★ Fed cattle marketings growth areas: Nebraska, Kansas, and Texas.
- ★ Fed cattle marketings decline areas: Iowa, Illinois, Minnesota, California and Arizona. Iowa is now stabilizing after the dramatic decline from 1970 through the mid-1980s.
- ★ Fed cattle marketings stable areas: Colorado, Oklahoma, Idaho, South Dakota, Washington.
- ★ Sixty-eight percent of the fed cattle marketed in the U.S. during 1989 were in the states of Kansas, Texas, Oklahoma, Nebraska, and Colorado.

Packing Industry Structure

- ★ Numbers of plants today represent 50 percent of the number in mid-to late-1970s.
- ★ IBP, (Con Agra: Swift And Monfort) and Excel slaughtered about 70% of fed cattle in 1989 and fabricated 80% of the total boxed beef.
- ★ Excess capacity continues to be a problem for the feeding and packing industries. Will likely lead to more change and fewer operators as each seeks to maintain market share.

Cattle Supplies

- ★ Cattle numbers peaked in year 5 of each decade from the 1930s to 1970s. Did not occur in the 1980s (peaked in 1982).
- ★ Cattle numbers now stable with a slow growth trend projected (about 1 percent per year).
- ★ Nine million fewer feeder cattle and calves compared to early 1980s.
- ★ In spite of reduction: annual fed cattle marketings have been stable at 24.5-26 million head per year and beef production has been relatively unchanged from year to year.

Why?

- ★ Increased weaning weights.
- ★ Increased placement weights.
- ★ Shorter days on feed.
- ★ Increased carcass weights.
- ★ Improved management and nutrition.
- ★ Industry producing nearly as much product today as it did in the 1920s with 32 million fewer cattle.

Competitive Meats

- ★ Poultry production continues to increase at the rate of 7-8 percent per year. Poultry production has increased about 9 billion lbs in the last decade. Pountry production is expected to increase the next few years. Long-term average growth rate (1960s, 1970s, 1980s) averaged 4 percent per year.
- ★ Pork production will be down 1-2 percent in 1990 - up in late 1991 and 1992.
- ★ Pork production is expected to remain between 15-16 billion pounds during the next few years.
- ★ Total meat supplies will be record large in 1990 at approximately 240 lbs per capita. The trend of increasing total meat supplies should continue for the next 2-3 years, mainly because of increases in poultry and modest increases in beef production from 1991 to 1993.

Demand

- ★ Consumer spending for all meats continues to increase, but at a slower pace compared to inflation. Beef, pork and poultry have each seen consumer spending increase by $6.5 to $7.5 billion dollars during the last decade.
- ★ Beef has lost market share to poultry during the last 10 years. Many positive things are occurring that should eventually win back some market share for beef. For example:

  - ★ ¼ inch trim program
  - ★ Beef Checkoff - promotion/education
  - ★ New beef cutting methods
  - ★ New products

Exports

- ★ Very positive the last several years for the beef industry. Have increased from 0.8 percent of production in 1980 to more than 4 percent of U.S. production in 1989.
- ★ Price impact on U.S. cattle industry is significant.
- ★ Total value of all beef products exported in 1989 was approximately 3.6 billion dollars compared to 1.8 billion dollars on beef and beef product imports.

Feed Grains

- ★ May be the single most important factor that could significantly affect the cattle industry.
- ★ Carryover supplies are extemely small.
- ★ Late planting and volatile weather patterns have added to the uncertainty.
- ★ Will need a corn crop in excess of 8.0 billion bushels to keep the carryover from declining further.
- ★ Cash corn prices may trade from $2.70/bushel to $3.30/bushel depending on the crop size.

Profitability

Total Industry

- ★ Has been profitable the last four years.
- ★ History tells us that it is rare for all segments of the industry to be profitable at the same time.

Cow/Calf Segment

- ★ Turned profitable in 1987 and is expected to remain profitable the next four years.
- ★ Only 6 of the last 15 years has this segment been profitable and 4 of those 6 are recent.
- ★ Profitability and adequate moisture to produce grass, roughage and grain are the keys to herd expansion. At the present time both look good which should lead to slow herd growth.

Feeding Segment

- ★ Feeding industry has been profitable the majority of the time since August of 1986. Profits so far in 1990 have been excellent.
- ★ Higher feed cost and replacement cattle costs will likely narrow feeding margins during much of the last half of the year. But in total 1990 should be positive.
- ★ Longer-term, feed grain costs will likely have the biggest impact on fed cattle profitability. Feeder cattle supplies are expected to increase modestly from 1991-1993.

Outlook

- ★ Structural changes will continue to be seen -- Primarily based on and due to economics. The least will occur in the cow/calf segment, while all "margin" segments will see additional consolidation and concentration.
- ★ Beef production is not expected to increase through 1991. From 1992-1994, beef production will likely increase, thus limiting the potential for higher fed cattle prices.
- ★ The overall business is expected to remain profitable with margin segments having the narrowest

margins.

- ★ The rate of expansion in the cow/calf sector will be the key to the longevity of the current profitability.
- ★ Overall, there are many positive things occurring in the business. All sectors are profitable, exports continue to grow, and the beef industry appears poised to meet the coninuting challenge of increasing competitive meat supplies and maintaining market share in the years ahead.
- ★ Financially, the total industry is in better shape than it has been for years; thus, positive and upbeat attitudes are present in all segments of the business.