

Market Outlook

11:30 a.m. session, Thursday, Dec. 8, 2005

Presenter: Randy Blach, Cattle-Fax, Denver, CO.

RAPID CITY, S.D. (Dec. 8, 2005) — With the announcement that the Japanese market will reopen to U.S. beef, Cattle-Fax Executive Vice President Randy Blach told attendees of the 2005 Range Beef Cow Symposium that U.S. cattlemen have cause to celebrate. The veteran market analyst claimed regaining export market share for U.S. beef is critical because U.S. beef production is growing significantly.

An expected increase in cattle supplies will result from expansion of the nation's breeding herd. Approximately 900,000 heifers were added this year, he shared. As beef cow numbers climb, so will beef production. Blach said he expects next year's steer and heifer slaughter to increase by more than 600,000 head. Beef production is likely to increase by 700 to 800 million pounds (lb.).

"We need to regain our export market share," Blach stated. "But it will take until the end of the decade to get back to the 2.5-billion-pound export capability of two years ago (when Japan closed its borders to U.S. beef)."



Randy Blach of Cattle-Fax emphasized the need to reestablish export markets. [PHOTO BY LYNN GORDON]

Even without access to important export markets, U.S. producers have been profitable during recent years. Many cattlemen realized record profitability. The reason, Blach explained, is domestic beef demand. Actually, he said, per capita consumption (of beef) has been relatively flat, at 66-67 lb. That's about the same as 15 years ago. However, it now sells at prices that are 25% higher.

"That's a good deal. It's why the market has been so good," Blach stated. "It adds about \$210 per head on the value of steer and heifer calves. Some bring another \$30, \$40 or \$50 premium in differentiated markets."

Blach said he believes the new and higher retail price levels are here to stay. He insists it is a good thing, allowing the industry to set cutout values at \$125-\$126, instead of \$95.

However, Blach emphasized the importance of recovering and building export markets so that increased production does not oversupply the domestic market.

The analyst's market forecast puts average feeder-cattle prices at \$105-\$107 in 2006, with 550-lb. steer calves averaging about \$120. He predicted fed-cattle prices to be a couple dollars lower than in 2005, with an expected average of \$84. With record-high breakevens, cattle feeders will face narrow margins.

Blach also predicted continued increases in brand-name beef products, more value differentiation and development of more consumer-friendly products during coming years.

— by Troy Smith, field editor, Angus Productions Inc.
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