

Cattle Disappearing Amid Drought Signals Beef Rally: Commodities
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By Elizabeth Campbell

Feb. 14 (Bloomberg) -- Bill Donald, the third-generation owner of Cayuse Livestock Co., sold the calves he raised early last summer and cut purchases of cattle after pastures dried up. The herd grazing his land now is about 85 percent of normal. "There's a huge cattle country that is in need of quite a bit of moisture," Donald, 60, the former president of the National Cattlemen's Beef Association, said by telephone from his ranch near Melville, Montana. "It's going to take a major change in the weather patterns."

The worst U.S. drought since the 1930s is shrinking a cattle herd that's already the smallest since 1952 and signaling tighter beef supplies and higher costs for restaurant owners. Chipotle Mexican Grill Inc. says the burrito chain may have to raise prices, while government data show a pound of boneless sirloin steak cost consumers \$6.781 on average in December, 10 percent more than a year earlier.

Domestic beef output will drop to an eight-year low in 2013, and per-capita supplies will be the smallest since at least 1970, the U.S. Department of Agriculture estimates. Cattle futures in Chicago may rally to a record \$1.3925 a pound this year, up 7.6 percent from yesterday's close, according to the median estimate in a Bloomberg survey of five analysts.

Dry Spell

The herd declined for a sixth straight year as of Jan. 1 to 89.3 million head, the government reported Feb. 1. Even as retail-beef prices jumped to a record in November, the shortage of cattle in Texas forced the shutdown of a plant run by Cargill Inc., one of the three largest U.S. processors.

"This year and next year, there's no way around smaller production," said Randy Blach, the chief executive officer of CattleFax, an industry researcher in Centennial, Colorado.

"We'll have record-high average prices for 2013. We'll see that on retail, wholesale and at the fed-cattle level."

Cattle futures are down 1.9 percent this year on the Chicago Mercantile Exchange, after rallying 22 percent from a nine-month low in April to a record \$1.35175 on Jan. 11. The price rose 0.3 percent today, rebounding from a three-month low, and feeder-cattle futures rose for the first time this month.

The Standard & Poor's GSCI gauge of 24 raw materials rose 5.1

percent this year, and the MSCI All-Country World Index of equities climbed 4.9 percent. Treasuries lost 1.1 percent, a Bank of America Corp. index shows.

More than 55 percent of the contiguous U.S. was in drought as of the week ended Feb. 12, compared with 38 percent a year earlier, according to the U.S. Drought Monitor. The odds are against the dry spell ending soon, said John Nielsen-Gammon, a state climatologist and a professor at Texas A&M University, in College Station.

Grain Prices

Other agricultural commodities reflect expectations that the weather may be improving. Corn, wheat and soy are all retreating on speculation of more rainfall. Corn has dropped 18 percent from an all-time high of \$8.49 a bushel on Aug. 10.

Cattle in the U.S. are raised from birth on pastures for about a year, when they weigh 500 pounds (227 kilograms) to 800 pounds, and then are sold to feedlots. There, the animals consume mostly corn until they are 1,200 pounds to 1,350 pounds and are sold to slaughtering plants.

It may take years to rebuild the herd, said Donald, the Montana ranch owner.

“The market has given us a strong economic signal, but if you don’t have grass, you just can’t do it,” said Donald, who keeps the calves of his 1,500 cows and buys another 2,000 to 3,000 stocker cattle a year that graze on his pastures until they are big enough to be sold.

Eating Less

With beef prices approaching records, supermarket shoppers are buying less-expensive cuts of meat, according to John Lundeen, a senior executive director of market research for the National Cattlemen’s Beef Association. Reduced demand means any rally in cattle may not last.

Wholesale pork fetched 79.96 cents a pound yesterday, compared with \$1.8368 for beef, USDA data show. Wholesale chicken breasts at Georgia docks sold for \$1.61 a pound, government data show. U.S. demand for wholesale beef may drop 2 percent this year, according to CattleFax.

Prices for consumers are increasing at a time when unemployment is rising. Retail ground beef averaged \$3.08 a pound in December, up 5.4 percent from a year earlier, according to the Bureau of Labor Statistics. All fresh retail-beef prices may average \$4.85 a pound this year, a 4 percent jump from 2012, CattleFax projects.

U.S. gross domestic product unexpectedly shrank in the

fourth quarter at a 0.1 percent annual pace while the jobless rate in January climbed to 7.9 percent from 7.8 percent.

Demand Pressure

“Clearly, beef has gone up much faster than its competitors,” Michael Swanson, an agricultural economist at Wells Fargo & Co., said during a presentation at an industry conference in Tampa, Florida, last week. “If you rise at an above-average rate in a flat real-wage-rate environment, you’re going to see the most pressure from demand.”

Even with a smaller herd, livestock sales will grow 2.8 percent to a record \$176.5 billion this year, the USDA said in a report on Feb. 11. Parts of the U.S. may see more normal precipitation in the spring and summer growing season, according to Art Douglas, meteorologist at Creighton University in Omaha, Nebraska.

While the weather may improve, it takes about 30 months to boost beef production, CattleFax’s Blach said. Calves have a nine-month gestation and take about 20 months to reach slaughter weight.

Compounding Tightness

The USDA reported the number of young, female cattle for beef-cow replacement rose 1.9 percent to 5.361 million at the start of this year. That means fewer animals are being sent to slaughtering plants, compounding tight supplies until calves reach full size more than two years from now.

“I’ve never seen the herd decrease this much in my lifetime,” said Joe Leathers, 55, who is the general manager of 6666 Ranch in Guthrie, Texas. “The cattle prices will be good because of the low numbers to come for years to come.”

Cattle sold for immediate delivery at slaughterhouses may average \$1.26 a pound this year, up 2.4 percent from 2012, and cash prices for a 750-pound steers sold to feedlots may average \$1.55 a pound, up 5.8 percent, according to CattleFax. Calf prices will average \$1.75, up 4.8 percent.

Beef costs continue to be under “a lot of pressure” and are unlikely to ease for a couple years, Guy Constant, chief financial officer of Brinker International Inc., the owner of Chili’s and Maggiano’s dining chains, said on an earnings call on Jan. 22. Most of the Dallas, Texas-based chain’s higher commodity costs come from beef.

‘Cost Pressures’

The increase in food prices makes it “more likely” that

Chipotle, the Denver-based burrito chain, will have to raise menu prices, Chief Financial Officer John Hartung said on an earnings conference call with analysts on Feb. 5.

Texas Roadhouse Inc. projects higher commodity costs this year, mostly because of increased spending on beef by the Louisville, Kentucky-based chain, according to Chief Financial Officer G. Price Cooper.

"We are facing some cost pressures," Cooper said during a presentation at an industry conference in Miami on Jan. 16. "In 2013, we're looking at 6 percent to 7 percent commodity inflation because of our focus on beef." Cooper said the company has locked in the majority of their beef needs for the year.

Rising Exports

Domestic supplies are also constrained by rising overseas demand, especially from Asian markets. Exports, including variety meats, will grow 3.5 percent this year to 1.17 million metric tons, valued at a record \$6 billion or more, according to estimates from the U.S. Meat Export Federation in Denver. Japan has eased restrictions on imported meat from animals younger than 30 months, which will help boost demand, said Philip Seng, the federation's chief executive. South Korea bought \$582 million of American beef in 2012, according to the federation.

Pete Bonds said a lack of water and feed since the spring of 2011 has forced him to move animals from Bonds Ranch in Texas, the biggest cattle-producing state, to other states with better conditions.

"This whole thing is dependent on rain, and nobody can tell with 100 percent certainty what's going to happen," said the 60-year-old Bonds, who has several thousand cattle in Saginaw, Texas, as well as in Georgia, Oklahoma, Mississippi, New Mexico and Kansas. "If you don't have water, you can't run cattle. If we continue to see extremely dry weather, we will see more contraction."

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