Retail Meat and Crop Demand Continue to Grow

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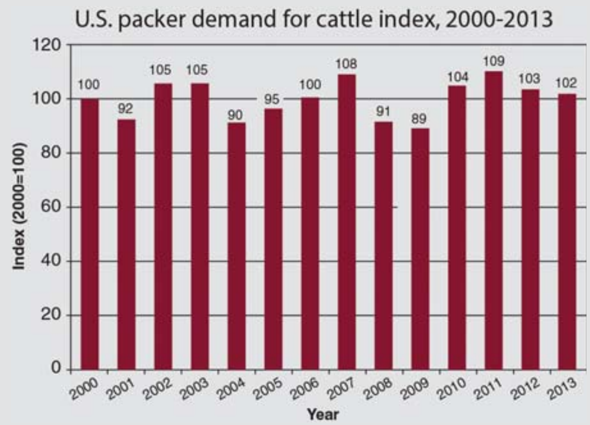
WITH THE general economy posting some positive numbers now, consumer demand continues to rebuild out of the depths of the past recession. The general demand trend across agriculture is positive, moving right along with other consumer demands. If there is a weak spot in agricultural demand right now, it is at the wholesale level for livestock. Record high prices and limited supplies have pinched packer demand for meat animals, as packers are concerned about the ability to continue to pass along higher prices to consumers. For crops, given the ample supplies that emerged last fall, the strength in crop demand has helped moderate prices over the past several months—basically holding crop prices around break even levels.

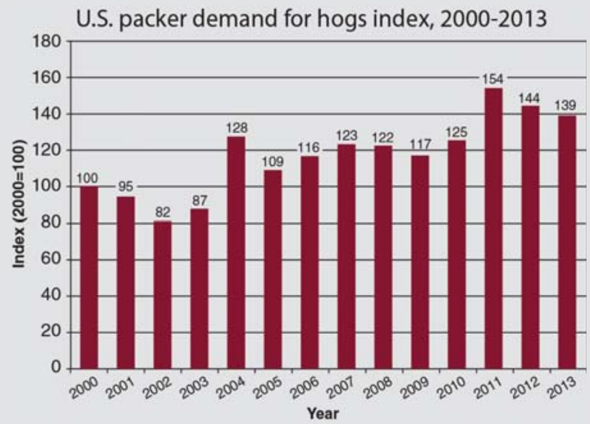
For livestock and meat demand, we will concentrate on the last quarter of 2013. Over the past decade-and-a-half, 4th quarter cattle demand from meat packers has been a see-saw affair. The big drop in demand occurred with the 2008–2009 recession. There was a strong rebound in packer demand in 2010 and 2011, but that demand has backed off again in the past two years. Packer demand for cattle in the 4th quarter of 2013 was slightly below the previous year's levels. With fed cattle prices at or near record levels, there is a lot of concern in the beef industry about pushing beef prices too high at the retail counter. That concern shows up as lower packer demand for cattle.

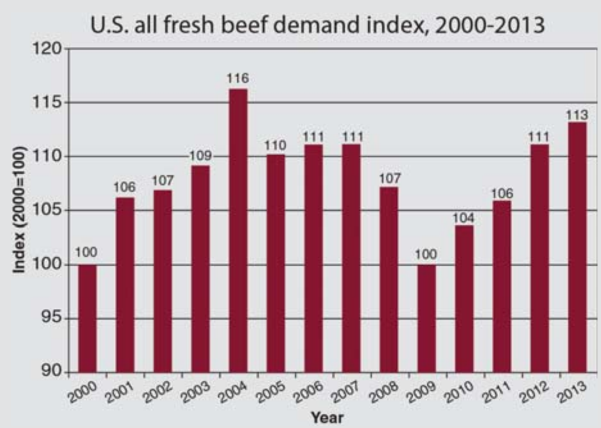
For hogs, the general trend has been for more demand from the packers. However, as with cattle, 4th quarter demand for hogs from the packing industry has been lower over the past couple of years, with 2011 being the high water mark for packer demand in the hog industry. Since then, the same concerns over retail meat prices have limited packer movements, so 2014 will be an interesting and challenging year in the meat packing industry with both cattle and hog prices in record territory.

While packers are concerned about the willingness of consumers to accept higher meat prices at the retail counter, the data from last quarter show that consumers have, for the most part, been willing to pay those higher prices. Retail beef demand in the 4th quarter has risen the last four years in a row, approaching the levels of demand from 2004. In fact, the last four years in beef demand is highly similar to a surge that occurred between 2000 and 2004; and with beef production expected to decline by roughly five percent this year, consumer willingness to accept higher beef prices will be challenged again.

Compared to the swings in retail beef demand since 2000, retail pork demand in the 4th quarter has been relatively steady. Pork demand also took a hit during the recession, but has since rebounded and is now above pre-recession levels. Last year's







bounce in pork demand was the largest since 2010. While retail pork prices have risen, the rise in retail beef prices has helped the pork industry. That competitive advantage at the meat case has led to more pork demand. Looking forward, while pork prices are at record highs, pork production is expected to increase by one percent this year. That should alleviate some of the price pressure for pork at the meat case.

The demand picture for livestock and meat remains mixed. Packers are concerned about consumer acceptance of higher meat prices, but so far, consumers have been willing to buy meat at those higher prices. In general, meat supplies are projected to remain steady as lower beef production is offset by higher pork and poultry production. Record high livestock prices have created profit incentives in the livestock industry, and producers are beginning to ramp up production and chase after those profits. Given its longer production cycle, the beef industry will be the last to begin expansion.

For the crop sector, the marketing year does not line up with the calendar year. The months September to November represent the 1st quarter of the marketing year. Probably the best way to think about a crop-marketing year is to pretend the crop harvest is like New Year's, a new crop means a new marketing year. The crop markets entered the 2013/14 marketing year with supplies at or near record levels. The 2013 U.S. corn crop was the largest ever, while the 2013 U.S. soybean crop was within 100 million bushels of the record. Therefore, the big question was how quickly crop demands would respond to larger supplies and lower prices. The answer thus far has been "fairly quickly." For corn, demand has a very strong seasonal pattern due to livestock feeding. Given the limited grazing opportunities in the fall and winter months, corn utilization for livestock feed is the highest in the 1st and 2nd quarters of the marketing year. For the 1st quarter this marketing year, corn feed demand pulled an additional 400 million bushels over last year's levels. With ethanol and export demand also on the upswing, corn usage so far is running 15.5 percent ahead of last year's pace. Therefore, corn demand is strengthening as we enter 2014. USDA's projections show that strengthening will continue as we move through the year.

Soybean demand follows a similar pattern to corn, again based on livestock feed requirements. However, soybean export demand also is seasonal, and that amplifies the impact for soybeans. The reasoning behind the seasonal pattern to soybean exports is the seasonal pattern of worldwide soybean production. The vast majority of global corn supplies are produced in the northern hemisphere, meaning that there is only one huge shot of supply each year. Global soybean supplies come in two waves, one from the northern hemisphere (United States) and one from the southern hemisphere (Brazil and Argentina). Due to the second round of supply each year, export demands tend to shift between the hemispheres after each harvest. The United States dominates exports from our harvest to the South American harvest and Brazil and Argentina dominate exports from their harvest to ours. So far this marketing year, the United States has seen both domestic and international demand for soybeans increase. Crop demands are back on the rise. The problem for the crop markets are that these demand increases are just enough to hold prices steady, not enough to bring prices back to higher levels. ■