



Corn Costs Signal Biggest Beef Surge Since 2003 as Herds Shrink

By Jeff Wilson



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May 27 (Bloomberg) -- Enjoy your next steak, because prices from Shanghai to San Francisco are only going up.

The highest corn prices since at least the Civil War, based on Chicago Board of Trade data, mean U.S.

feedlots are losing money on every animal they sell,

discouraging production as rising global incomes increase meat consumption and a declining

dollar spurs exports. Cattle may rise 13 percent by the end of the year on the Chicago

Mercantile Exchange and Brazil's Bolsa de Mercadorias e Futuros, futures contracts show.

Not since 1996, when corn reached what was then a record \$5 a bushel, have cattle been this

cheap relative to their primary source of feed. Cattle are the **seventh-worst performer** of the

26-member UBS Bloomberg Constant Maturity Commodity Index in the past year, a time when

soybeans, oil and copper jumped to records. After adjusting for **inflation**, cattle are down 27

percent from their 1988 peak.

“It's pretty certain that we'll see a decline in domestic supply in the U.S.,” **Joesley Batista**,

chief executive officer of **JBS SA**, the world's biggest beef producer, told reporters in Sao Paulo

on May 15. "As a result, we'll have price hikes and improved margins."

Production also is dropping or failing to keep pace with demand in **China**, **Brazil** and the European Union, mostly for grain-fed beef, analysts and government data show.

"We expect meat prices, especially beef prices, to rise this year," said **Peter Weeks**, chief economist at Meat & Livestock Australia, a trade group in Sydney. "We've already seen big increases in beef prices in China, **Russia**, India and throughout Southeast Asia."

Food Inflation

The beef rally risks accelerating global **food inflation**, which has sparked riots from Haiti to Egypt. In the U.S., **food prices** will jump 5.5 percent this year, the fastest pace since 1989, according to the U.S. Department of Agriculture.

"Our demand far exceeds supplies, and our production is stagnating," **Liu Qiangle**, deputy general secretary, China National Cattle Association, said in Beijing.

Wholesale choice-grade beef in the U.S., the world's biggest producer and consumer, will rise 16 percent to a record average of \$1.86 a pound next year, the biggest gain since 2003 and the second-largest since 1979, said **Len Steiner**, a principal at Manchester, New Hampshire-based Steiner Consulting Group, which provides research to the food industry.

Steakhouse Partners Inc., operators of 21 steakhouses in California and the Midwest, filed for bankruptcy May 16, citing rising costs for corn-fed beef.

Feedlot Losses

Cattle prices haven't kept pace with the grain used to feed the animals. Corn surged to a record \$6.39 a bushel on May 9 from \$3.6625 a year earlier.

Feedlots lost money on animals sold for slaughter the past 11 months, including \$139.56 a head in April, compared with a profit of \$46.79 a year earlier, said **Erica Rosa**, an economist at the Livestock Marketing Information Center in Lakewood, Colorado. Losses were a record \$169.80 per animal in March, and feedlots may not be profitable until after October, she said.

"Higher prices are necessary for survival of the industry," said **Douglas Carper**, 58, the principal of Omaha, Nebraska-based DEC Capital Inc., which manages or consults for \$300 million in commodity investments. "The job of the market now is to create a price high enough that provides the industry with profitability."

Corn more than doubled in the past two years as demand for meat boosted feed consumption and U.S. government mandates and subsidies promoted the use of grain-based ethanol. Cattle futures gained just 31 percent over the period, and cash prices rose 16 percent.

Rising Prices

Richard Bond, the chief executive officer of **Tyson Foods Inc.**, the world's largest meat processor, said that the ethanol boom has boosted feed costs so much that consumers should expect higher meat prices.

A 1,250-pound (567-kilogram) steer in the U.S. is worth about 4.2 times the cost of the corn he consumes over five months to reach slaughter weight, down from almost 12 times in December 2005 and the lowest since June 1996.

Cattle may not remain cheap for long. Prices jumped 6.5 percent last month, the most since August 2006, and there are signs of reduced supply from U.S. producers.

As of May 1, **feedlots** held 11.1 million head, down 1.4 percent from a year earlier, the government said. Ranchers last year cut the number of young females they held by 3.5 percent

to 5.67 million on Jan. 1, the second straight annual decline.

Export Demand

As the incentive for producers dwindles, demand for U.S. beef exports will jump 14 percent next year, the USDA said. Sales will increase because of a declining **dollar**, rising global incomes and a relaxation of bans imposed after a case of mad-cow disease in 2003, the USDA said.

U.S. beef exports in the first quarter rose 29 percent from a year earlier, data from the USDA show. Increasing beef shipments to Russia, South Korea and other emerging economies will help push up prices in the U.S., JBS's Batista said.

Global demand for beef, pork and chicken may grow as much as 50 percent by 2020 as the population increases and incomes improve, a study by Rural Industries Research and Development Corp. said in December.

"We are witnessing the globalization of meat as incomes rise," said **David Kruse**, president of CommStock Investments Inc., an agricultural broker and researcher in Royal, Iowa. "The first thing these consumers buy as their incomes rise is more and better food, not a flat-screen television or a computer."

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