COW/CALF CORNER

The Newsletter

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Extent of Beef Demand Improvement Remains Uncertain

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There is no doubt that the faster and stronger than expected improvement in cattle and beef markets so far this year was due to unexpected help from both the supply and demand sides of the market. On the supply side, the obvious tightness of cattle numbers was supported by weather impacted carcass weights that stimulated currentness in fed cattle marketings and is still benefiting the market at this time. Moderating feed grain prices and generally good forage conditions around the country have supported both feedlot and stocker demand for feeder cattle. However, demand has helped too and it is more difficult to get a handle on just how much demand has improved and whether there is a trend in place that we can count on in the second half of the year.

There a several factors affecting demand both fundamentally and psychologically. Arguably, most of the improvement so far is more psychological than fundamental. Fundamental factors such as unemployment and the overall labor situation have not improved much yet. However, there are indications that, while consumers have a long road ahead to heal their personal financial woes, a good bit of the uncertainty that paralyzed consumer spending the last 18 months is beginning to decrease. People that are employed are less concerned about losing their jobs and are beginning to return to somewhat more normal spending patterns. One of the unknowns is how much consumer spending may be permanently changed by all this. Certainly there is a need for personal savings rates in the U.S.to remain higher than prerecession lows and that suggests that consumer spending as a percent of disposable income would remain lower than before.

There is nevertheless a likelihood that consumers will return to more familiar spending patterns and this will help, not only total beef demand in terms of quantity, but importantly will lead to a switch back to more middle-meat based demand. Restaurant performance surveys continue to show improvement based in part on better sales recently but also on expectations for coming months. However, the rate of improvement of the index is fairly slow. This is likely to be an on-going process over many months and possibly years. One of the questions in the very short run, that may well present the first real test of how much demand has improved, is that much of the recent wholesale beef price increase has not been fully reflected in retail prices. The post-Memorial day assessment of the holiday weekend and the resiliency of boxed beef prices into June will be an important indicator.

In a broader sense, both the U.S. and world macroeconomic situations remain quite fragile. While there are numerous indications that global recovery is happening, the continuing uncertainty over the European situation and the sensitivity of world markets to that situation are testament to the precarious nature of market psychology at this time. The volatility of equity markets, exchange rates and energy markets to these regional concerns lead to lots of short term uncertainty and keep markets on the defensive.

Beef export and imports markets are also part of this picture. Beef exports contribute an important component of total beef demand and have provided considerable support since late 2009. Continued slow but steady export recovery is expected to continue providing support for U.S. cattle and beef markets. However, exports are especially sensitive to the global uncertainty described above and could be impacted significantly by global economic conditions.

So far this year, beef demand is pretty clearly not the negative that it was in 2009, but it is not clear just how strong of a positive factor it is. While strong supply fundamentals imply a generally optimistic market outlook for the remainder of the year, continued monitoring of beef demand is needed to assess just how optimistic we can realistically be.

Percentage of Mature Weight at Puberty in Heifers

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For years, the accepted target weight for yearling replacement beef heifers at breeding was 65% of their mature weight. Recently that target has been questioned. Oklahoma State University reproductive physiologists have studied the weight that beef heifers reach puberty in relationship to their eventual mature weight. A total of 34 crossbred heifers (in 3 different years) were studied at puberty and again when they had reached maturity at 5 to 7 years of age. The heifers were at least ¾ Angus and ¼ or less Hereford. Shrunk weights were obtained when concentrations of progesterone in the plasma indicated that cycling activity had begun. ***Please remember that "average" is the point at which approximately half of the heifers reached puberty***. The "average" weights at puberty were statistically similar (695 lb, 695 lb, and 737 lb) for the three years. Mature weights were obtained in mid-gestation, adjusted to a body condition score of 5. Mature "average" body weights were also similar (1269 lb, 1256 lb, and 1280 lb) for cows born in all three years. The mean (or "average") weight at which heifers reached puberty was 56% of the mature weight. Figure 1 below shows the percentage of heifers reaching puberty at the incremental increases in percentage of mature weight.

Only 12% of the heifers reached puberty at 50% of mature weight or less. Only forty-seven (47%) percent of the heifers reached puberty at 55% of mature weight or less. Ninety-three (93%) percent of the heifers reached puberty at 60% of mature weight and 97% had reached puberty by the time they weighed 65% of the mature weight. **Producers wanting to be certain that a high percentage (90% or more) of their replacement heifers have reached puberty**

before the start of the breeding season, need to have heifers weigh at least 60% of the mature weight. Source: Davis and Wettemann. 2009 Oklahoma State University Animal Science Research Report.