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Corn Crunch Means Costliest Beef in Quarter Century (Update2)
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(Updates price in sixth paragraph.)

By Whitney McFerron and Elizabeth Campbell

Oct. 11 (Bloomberg) -- Meat prices are poised to extend a 14 percent rally this year that drove U.S. retail costs to the highest levels since the 1980s as surging corn futures prevent livestock producers from expanding their herds.

The U.S. cattle herd in July was the smallest since 1973 and the number of breeding hogs last month was near the lowest ever, government data show. Corn futures jumped to a two-year high today and the price of the main feed ingredient is more than 70 percent above the 10-year average.

U.S. per-capita beef supplies next year will be the lowest since 1952 and pork the smallest since 1976, industry researcher CattleFax said. Hog futures will rise 14 percent by July and cattle may gain 3.6 percent by April, according to a Bloomberg survey of analysts. Wendy's/Arby's Group Inc., the maker of the 1,360-calorie Baconator Triple burger, and CKE Restaurants Inc., owner of the Hardee's chain, have warned investors they are contending with higher commodity costs.

"If grain prices go up, then meat prices are going to have to move up," said Mark Greenwood, a vice president at AgStar Financial Services Inc. in Mankato, Minnesota, who oversees \$1 billion in loans and leases to the hog industry.

Corn costs "tempered any enthusiasm there was on expansion," he said.

Livestock prices failed to keep pace with third-quarter rallies of as much as 40 percent for corn and wheat, as too much rain and heat eroded U.S. yields and drought hurt crops in Russia and Europe. Cattle futures rose 11 percent in the period and hogs dropped 8.3 percent.

Corn soared the 45-cent maximum limit allowed by the Chicago Board of Trade today to \$5.7325 a bushel, the highest price since September 2008, after the U.S. Department of Agriculture on Oct. 8 cut its harvest forecast for the second time in two months. The December corn futures contract was up 43.25 cents, or 8.2 percent, at \$5.715 a bushel at 10:51 a.m. in London. Wheat, soybean, rice and oat futures also rose.

Cattle Feedlots

U.S. cattle feedlots that didn't lock-in corn costs faced losses in the third quarter, said Ron Plain, an economist at the University of Missouri in Columbia. Feedlots made money in the first half after two years of unprofitable markets from surging feed costs and the global recession, he said.

"Normally, six months of profit will get you to the early stage of herd expansion," Plain said. Costlier corn "slows expansion plans," he said.

Farmers may earn \$5.46 per hog in the first seven months of 2011, according to Steve Meyer, president of Paragon Economics in Des Moines, Iowa. That's down from his July forecast of \$19. Cattle feedlots lost about \$17 a head last month, compared with profit of \$42 in the first half of 2010, Plain said.

Price Forecasts

Hog futures will advance to 84 cents a pound on the Chicago Mercantile Exchange by July, up from 73.85 cents on Oct. 8, according to the average estimate of seven analysts surveyed by Bloomberg. The top estimates were 90 cents, which would be the highest level since 1996.

Cattle futures will rise to \$1.024 a pound by April, from 98.875 cents on Oct. 8, according to the survey. Goldman Sachs Group Inc. last month predicted \$1.05 as early as December, which would be the highest since September 2008.

Hogs rose 13 percent this year while cattle advanced 15 percent. The Standard & Poor's GSCI Index of 24 commodities gained 7.5 percent, and the MSCI World Index of stocks added 3.7 percent. Treasuries returned 9.3 percent this year as of Oct. 7, according to an index from Bank of America Merrill Lynch.

Producers may revive expansion plans should feed costs drop, said Don Roose, the president of brokerage U.S. Commodities Inc. in West Des Moines, Iowa. Slower economic growth also may curb meat demand, Roose said.

Slowing Growth

U.S. growth will slow to 2.5 percent next year, from 2.7 percent this year, according to the median of as many as 61 economists surveyed by Bloomberg. The cost of living in the U.S. rose 1.1 percent in the 12 months ended in August, the Labor Department said Sept. 17. Excluding food and fuel costs, the core rate increased 0.9 percent each month since April, matching the smallest gain since 1966. The S&P GSCI Agriculture Index rose 14 percent this year.

Consumers also may buy more poultry to cut costs, said Lawrence Kane, a market adviser in Yates City, Illinois, for Stewart-Peterson Group. U.S. retail prices for bone-in chicken breast were 35 percent cheaper than center-cut, bone-in pork chops in August and 53 percent less than sirloin steak, government data show.

U.S. chicken production may rise 1.8 percent next year to 36.678 billion pounds, the USDA predicts. Pilgrim's Pride Corp., with 25 domestic processing plants, said it plans to boost chicken output 10 percent by 2012.

U.S. retail prices for ground beef and bacon in August were the highest since the 1980s, and the cost of meat next year will rise faster than total food inflation, the USDA said Sept. 24.

Pork Bellies

The wholesale price of U.S. pork bellies, used to make bacon, surged to a record \$1.5725 a pound on Sept. 16, government data show. In August, retail bacon reached \$4.353 a pound, the highest since at least 1980. Retail ground beef sold for \$2.502 a pound, the most in a quarter century.

Beef and bacon "are two commodities that have been troublesome" at Atlanta-based Wendy's/Arby's, Chief Financial Officer Stephen Hare said at a Sept. 28 investor conference.

The company's commodity costs will rise 2 percent to 3 percent this year, according to Bob Bertini, a spokesman.

Wendy's/Arby's shares fell 7.2 percent this year in New York trading as analysts cut their profit forecasts. The company will earn 8 cents a share this year, according to the mean of eight analyst estimates compiled by Bloomberg. In January, the mean was 21 cents.

Shares of McDonald's Corp., based in Oak Brook, Illinois, jumped 22 percent this year. While the company is the largest burger seller, it uses more chicken than beef, so poultry affects costs more, Chief Financial Officer Peter J. Bensen said on a July 23 conference call. Profit rose 12 percent in the first six months, and analysts project 6.8 percent growth in net income this year.

Meat Trade

Food costs at Carpinteria, California-based CKE have risen about one percentage point this year, "primarily due to increased costs for beef, pork and dairy products," Chief Executive Officer Andrew F. Puzder said on a conference call Sept. 29.

Some U.S. fast-food companies import ground beef from Australia and New Zealand to offset contractions in U.S. supply, said Altin Kalo, a commodity analyst for Steiner Consulting Group in Manchester, New Hampshire. A weakening dollar may make that too expensive, he said.

Rising overseas demand for U.S. meat also is tightening domestic supply. U.S. beef exports climbed 17 percent in the first seven months of the year and imports fell 12 percent, according to USDA data.

Beef Supply

The U.S. per-capita beef supply may drop to 57.6 pounds per year in 2011, the smallest in 59 years, according to Centennial, Colorado-based researcher CattleFax. The supply of pork available to each U.S. consumer will slump to 46.8 pounds annually, the least in 35 years.

Meat may be in short supply even if farmers decide to expand because it takes as long as three years to breed a cow and raise its calf to a weight suitable for slaughter, said Paragon's Meyer. A hog cycle is about a year, he said.

"It's going to take a long time to recover," said Steiner's Kalo. "The U.S. consumer is going to have to pay more for beef, and meat proteins in general."

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