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Cattle Herd Drop to 1958 Low Boosting Cost for McDonald's, Tyson
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By Elizabeth Campbell

Jan. 27 (Bloomberg) -- The cattle herd in the U.S. may be the smallest since 1958, when McDonald's Corp. had just 79 hamburger restaurants, signaling tighter beef supplies and higher costs for companies including Tyson Foods Inc.

Ranchers held 91.24 million head of cattle as of Jan. 1, down 1.5 percent from a year earlier, according to the average estimate of 10 analysts surveyed by Bloomberg News. That would be the smallest since Dwight Eisenhower was president. The U.S.

Department of Agriculture is set to release its herd report at 3 p.m. in Washington.

A record drought in Texas last year and rising feed costs prompted ranchers to cull herds, even as beef exports surged from the U.S., the world's largest producer. Cattle futures are up 15 percent since the end of June, reaching a record seven times this month, and the Livestock Marketing Information Center says retail-beef prices that reached an all-time high on an annual basis in 2011 will keep rising through next year.

"The drought certainly was the game changer of 2011," Jim Robb, the director of the Livestock Marketing Information Center, a Denver-based researcher, said in a telephone interview. "Feedstuffs were record-high costs. The herd on a national basis declined."

Cattle futures rallied to \$1.29675 a pound on Jan. 25 on the Chicago Mercantile Exchange, the highest for a most-active contract since the commodity began trading on the CME in 1964. Prices may reach \$1.399, said David Kruse, the president CommStock Investments Inc., a commodity broker in Royal, Iowa.

Beef Rally

Wholesale beef rose 6.4 percent in the past year and reached \$1.9707 a pound on Nov. 23, the highest since at least 2004, according to the USDA. Ground beef averaged \$2.921 last month, the highest since at least 1984, and boneless round steak jumped to \$4.723 in December, the highest since at least 1980, Bureau of Labor Statistics data show.

McDonald's, the world's biggest restaurant chain by revenue with more than 33,000 outlets worldwide, is forecasting higher beef costs. The Oak Brook, Illinois-based company is the largest user of beef among U.S. restaurants, according to CattleFax, an industry researcher in Centennial, Colorado.

McDonald's will see "another midteens increase" in beef costs this year, Chief Financial Officer Peter J. Bensen said on an earnings conference call with analysts on Jan. 24.

Texas, the biggest cattle-producing state, had its driest year on record in 2011, according to the National Weather Service. The drought destroyed pastures, forcing ranchers to unload animals rather than incur costs for grain such as corn, which reached an all-time high price last year.

Fewer Cattle

The herd of beef cows held for breeding probably shrank to 30.05 million head as of Jan. 1, the lowest since 1962, according to the average of 10 estimates in the Bloomberg survey. The calf crop should be smaller than last year, marking the 17th consecutive year of declines, said Ron Plain, a livestock economist at the University of Missouri at Columbia.

“Fewer calves being born means ultimately fewer cattle will be slaughtered,” Plain, who has studied the industry for three decades, said in a telephone interview. “That means the tight beef supply is going to get tighter as we go through 2012 and 2013 and 2014.”

Once the herd starts to expand, it will take more than two years before beef supplies increase, Plain said. Calves have nine-month gestation periods and take about 20 months to reach slaughter weight, he said.

Prefer to Sell

Some herds grew in states unaffected by drought and in areas where there was less pressure to switch to growing crops, Robb of the Livestock Marketing Information Center said.

Ranchers would prefer to sell heifers for slaughter at current high prices than hold them for breeding, said Lane Broadbent, a KIS Futures Inc. vice president in Oklahoma City.

Ranchers earned an estimated \$93.50 per cow last year, compared with \$46.50 in 2010, Robb said. Even as rising profit provided an incentive to expand, that was overwhelmed by the impact of the drought, high grain prices and the potential for better profits in crop production, he said.

Tyson Foods, the biggest U.S. meat processor, projects a “gradual reduction” of 1 percent to 2 percent in supplies of cattle available for slaughter during the fiscal year that began Oct. 2, according to a Nov. 21 statement. Supplies will be “adequate” in regions where the Springdale, Arkansas-based company operates beef plants, it said. Most of those are in the Midwest, according to Gary Mickelson, a company spokesman.

Tyson Foods forecast profitability in its beef unit in the first fiscal quarter, though at a “lower level” than in the preceding quarter, James Lochner, the chief operating officer, said on a conference call with analysts on Nov. 21.

‘In the Red’

“Cattle costs continue to go up, but so do beef prices,” said Akshay Jagdale, a New York-based analyst at KeyBanc Capital Markets who has a “buy” rating on Tyson. Profit margins for meatpackers now “are actually in the red, but we expect that to improve as the year goes along,” he said. “For the full year, we expect them to still be profitable.”

Beef processors may have to adjust plant capacity as cattle supplies shrink, Jagdale said in a telephone interview. Higher beef prices will boost revenue enough to make up for the rise in costs from shrinking supplies, he said.

The USDA forecast total beef output at 25.075 billion pounds (11.4 million metric tons) this year, down 4.6 percent from an estimated 26.297 billion in 2011.

Export Surge

As supply tightens, exports are surging. The U.S. may ship a record 974,000 metric tons (2.15 billion pounds) of beef, excluding variety meats, in 2012 valued at \$5.13 billion, the U.S. Meat Export Federation said. That’s up 6.5 percent from an estimated 914,500 tons in 2011, the group said.

Consumers may pay as much as 5 percent more for beef this year, the biggest increase among all the food groups except for seafood, the USDA said in a Jan. 25 report. That follows an estimated 10.2 percent rise in the cost of the meat last year, and is projected to be higher than the 3.5 percent jump in overall food costs in 2012, the government said.

Cattle futures for April delivery closed yesterday at \$1.2805 a pound on the CME, up 5.4 percent this month, heading for the biggest January gain since 2002.

“Inventory reports are kind of like the state of the union for the cattle,” said Broadbent, who has been a commodity broker for more than two decades. “Our cow-herd numbers and our cattle numbers are going to stay tight for the next year and half or two years.”

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