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Building a Strong and Viable Beef Industry in Saskatchewan

February 21, 2002

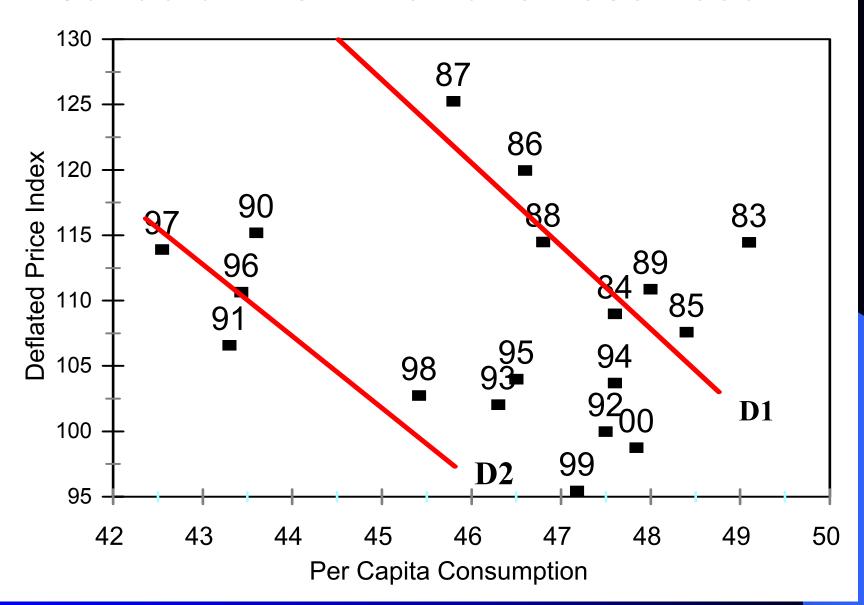
Industry Issues and Outlook By Kevin Grier



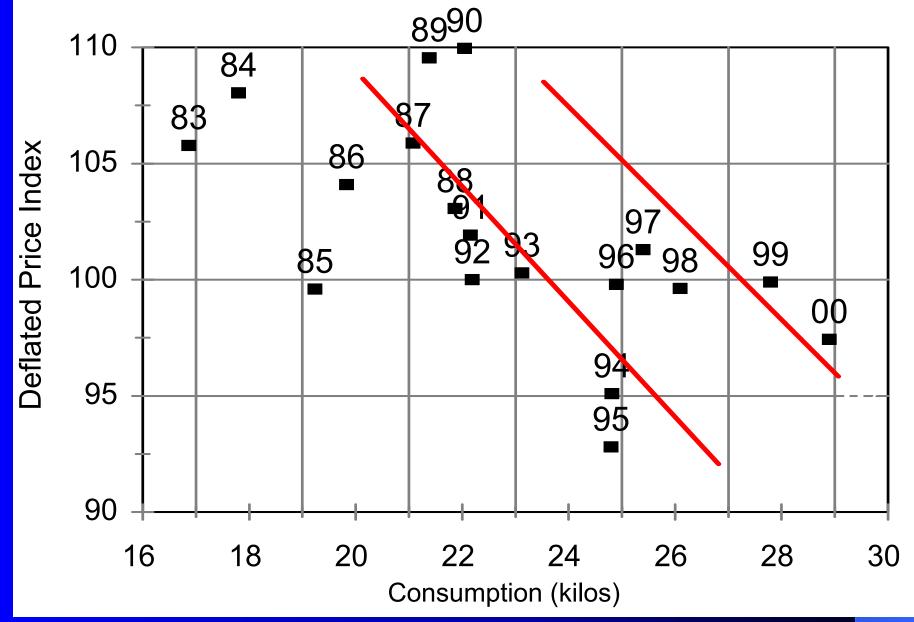
Presentation Overview

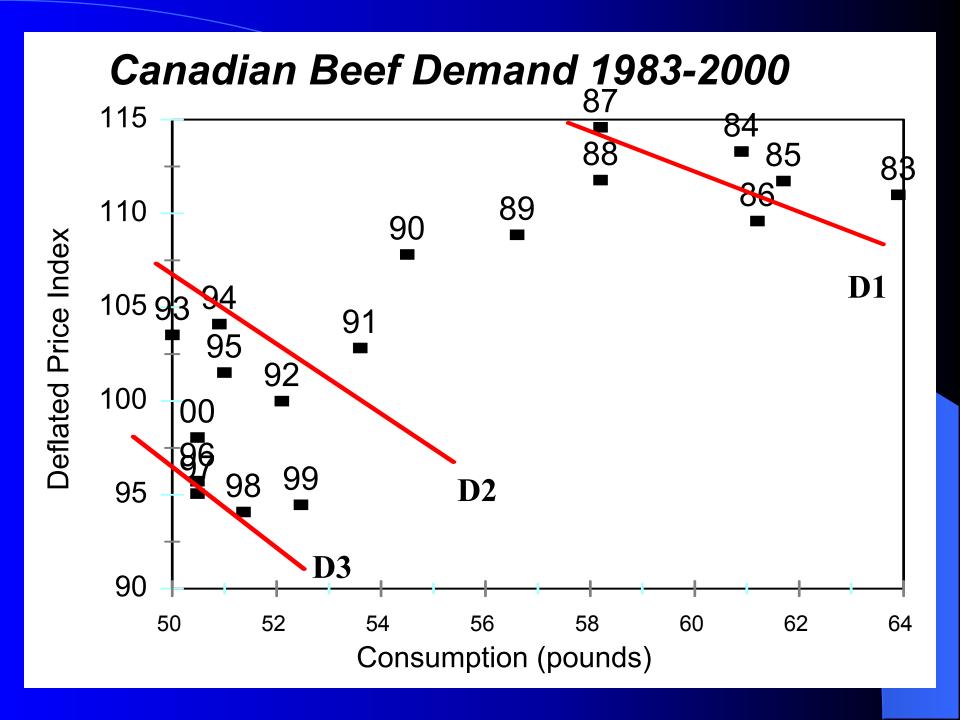
- Demand
- Market Evolution
 - Where is it all going?
- Saskatchewan's Potential
- Cattle Cycle
- Outlook

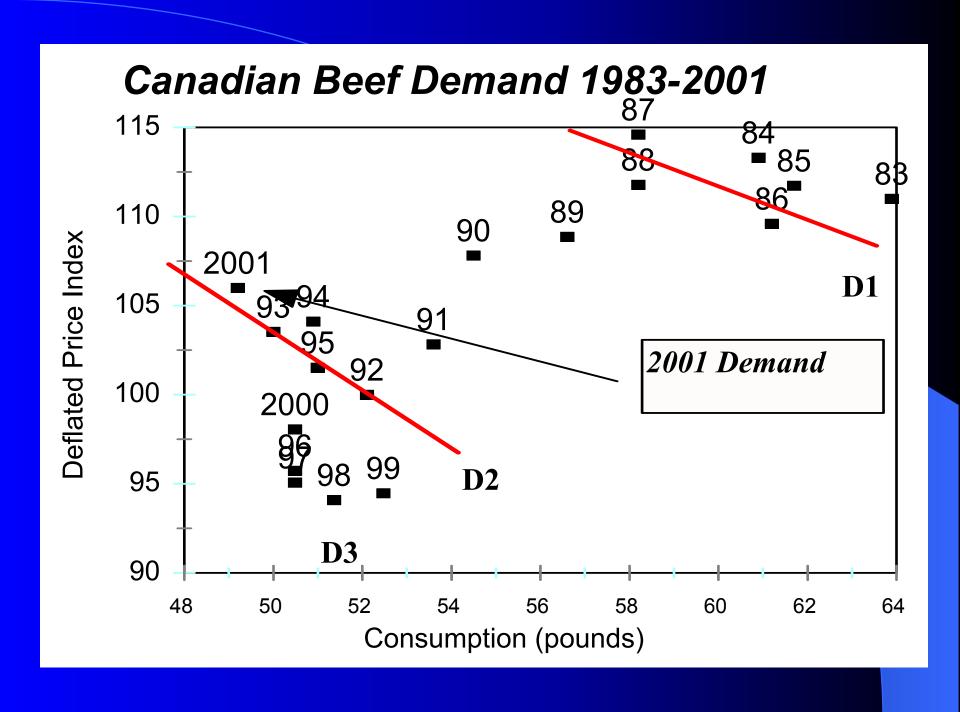
Canadian Pork Demand 1983-2000



Canadian Chicken Demand 1983-2000





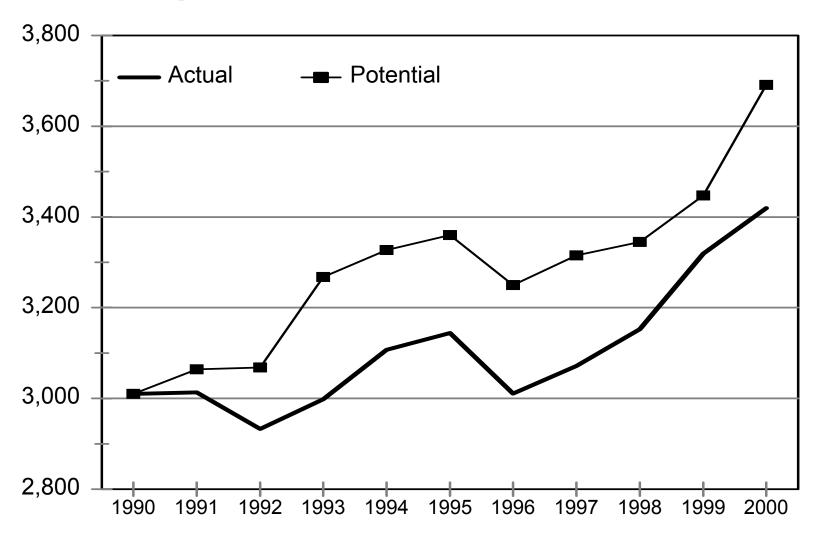


Demand Drivers

- Income
- Health and Safety
- Convenience
- Quality
- Substitutes

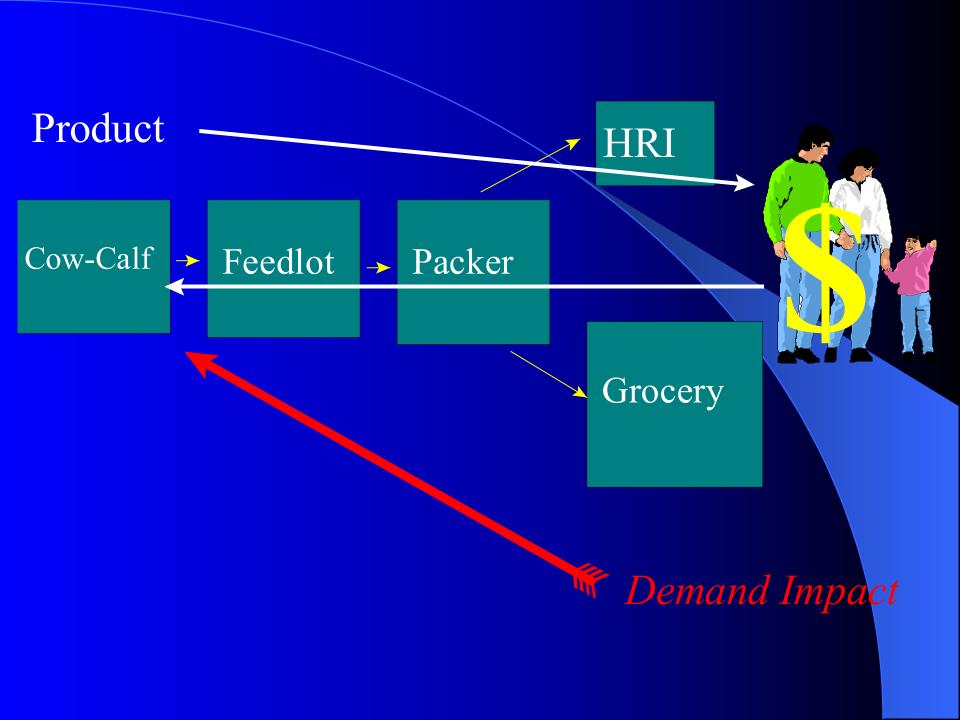
- Convenience
 - Cooking knowledge
 - Prep-time
- Health and Safety
 - Image (Oprah)
 - Journal and Mag Articles on Nutrition and Diet
 - Safety Recalls

Beef Expenditures at Retail in Canada



So What?

- If 1999 demand was only as bad as in 1991:
 - 1999 revenue would have been \$200 million higher
 - translates into \$50/head on every animal marketed in 1999.
- Look at impact of Improvement in Demand in 2000 versus 1999
 - \$3/cwt or over \$40/head
- Beef Demand Matters to Every Rancher and Feeder, but especially Ranchers



Why Did Demand Improve

- Economy (incomes)
- Changing Diets
- Changing Health Perceptions
- New Merchandising Methods
- New Products
- Retailer Emphasis

Who Gets Credit?

- BIC Provided
 - New Naming
 - Funded Nutrition Research
 - Distributed Nutrition Research
 - Informed Retailers of Profit Related Merchandising
 - New Product Funding
- Economy
- New Diet Trends

Demand

- Look back and see how demand shaped where we are today
- Look at demand today to see how it will shape where we'll be in the future

Past: How Did the Industry Deal With Declining Demand?

- Increase Scale
- Advanced cost reduction technologies
- Reduced Labor Costs
- Cattle Buying on scale/averages
- Enhanced safety technologies

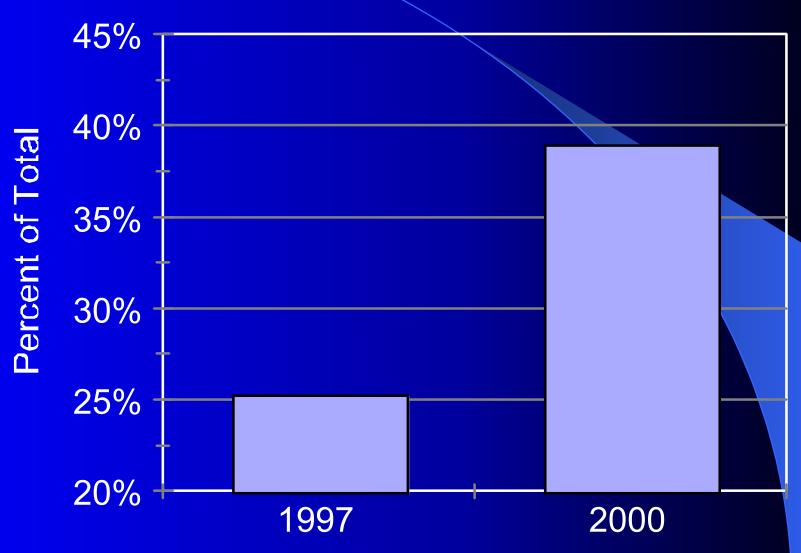
Impact of Declining Demand

More With Less =
Fewer Packers, Producers
Battle of Attrition

- Fearman
- Canada Packers
- Dvorkin
- Burns
- Schneider
- ...

- Lakeside/IBP
- Cargill
- XL
- BB

Share of Top Five Marketers



Strategies for Success 1980-199?

- The Effort towards low cost had to be made
 - Low hanging fruit
- Yet: Continued weak demand
- Plus: Low cost eventually yields diminishing returns
 - If everyone can do it, its not an advantage

As of late 1990's Subtle but Radical Change Occurred

- Retailers and big packers were part of the problem
- Now they are leading the change

The tide has turned toward a value added beef industry

Why? How?

- Packer Perspective
 - Gains from efficiency are diminishing
 - Higher Profit only comes from Higher Sales
 - New Competitive Dynamic
 - Consumer Choice is Exploding

Why? How?

- Retailer Perspective
 - Wal-Mart Says so...
 - Safety
 - Labor
 - Inventory management
 - Category/case management
 - Logistics
 - Micro-Marketing

Why? How?

- Retailer Perspective Cont'd
 - Increased Awareness that Meat Matters to Sales and Profit
 - Increased awareness of profit potential of brands and case ready
 - Competitive Tactic (Quality) versus
 Foodservice

- What Is IBP Thinking:
 - Planning Value-added and Branding Since early 1990's
 - Needed Critical Mass of Share and Resources
 - Marketing Scale
 - Full Meat Case Replacement
 - Mega-Brand
 - Billions \$







- Costco
- CAB Growth

What's Next

- Retailers will continue to push increasing responsibilities to the packer
- Progressive Retailers will become expert meat marketers
- Consolidated Retailers demand efficiency, consistency, quantity and quality
- That means case ready beef
- Branding is a guarantee of consistency at the least ("TEW will be our biggest Asset")

What's Next

- Vertical Co-ordination
- Growth in Agreements, contracts and partnerships between packers and producers
- Safety, quality (yields, size, consistency..)
- Mutual Benefits, Objectives and Responsibilities
- Identity Preservation

What Does it Mean?

- Requirement for growth and access to capital
- Must reach pasture, feedlot and plant goals
- Responsibilities for source verification processes
- Mgt practices to reach grid premiums
- Information sharing from grids

What Does it Mean

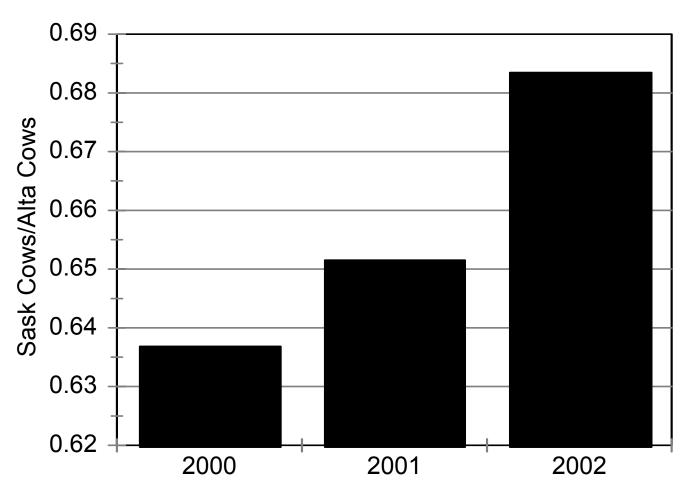
 Case ready and branded beef will take cattle production to "a different level."

Saskatchewan's Potential

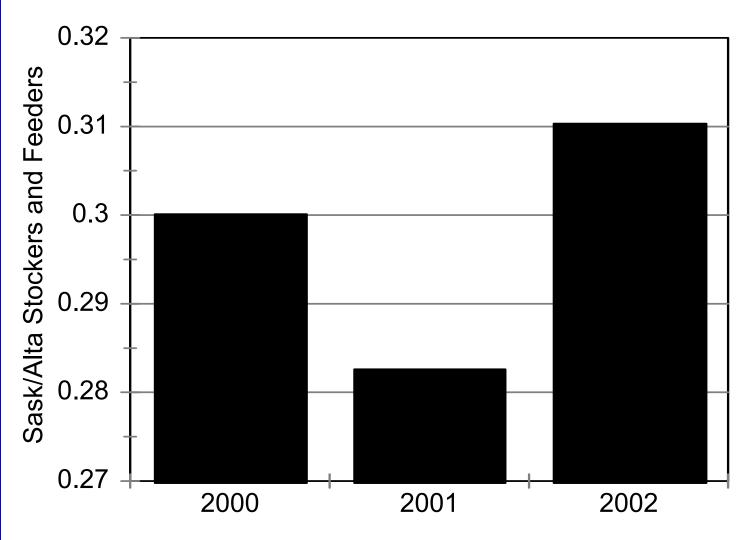
- Alberta is the most cost competitive of the major cattle regions in North America for feeding and cow calf
- Saskatchewan is lower cost than Alberta
 - Key advantages are land and feed

Sask is Moving Ahead in Many Ways





Sask/Alta Stocker-Feeder Ratio



Sask Potential

- Saskatchewan's advantages are partly due to the fact that there is a feeding machine in Alberta (and there isn't one in Sask)
- Bottom line: there are no logistical, geographic or market impediments to growth
- Risk takers

Market Outlook

Market Outlook

- Cattle Cycle
- Big Picture
 - Tighter supplies
- Smaller Picture
 - Big Front End Supplies

2001 LIVE CATTLE PRICES: ANALYSTS' FORECASTS

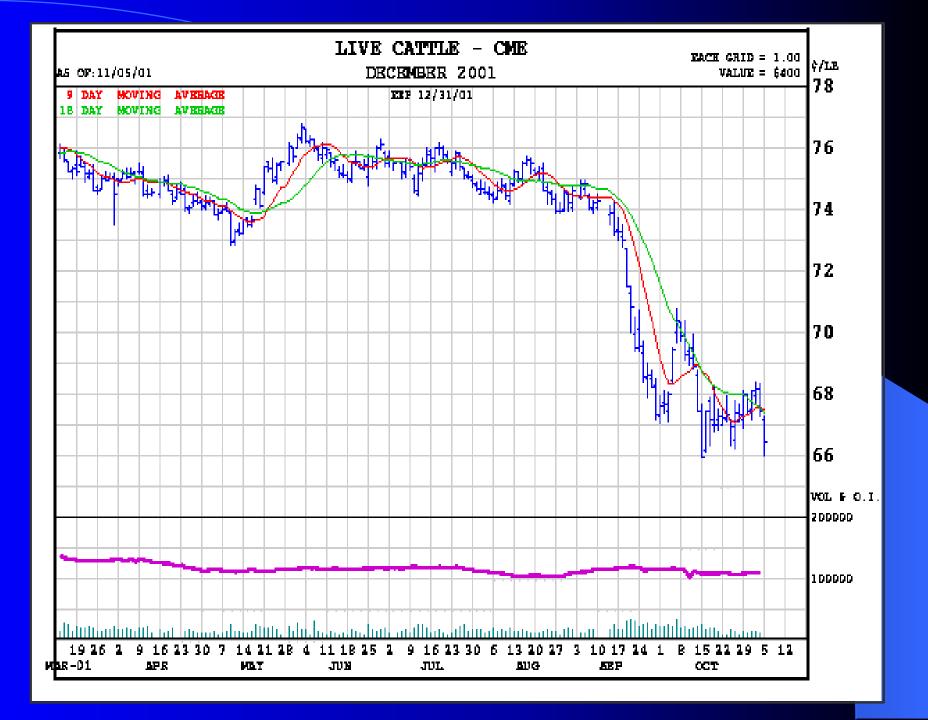
	201	THE LOS OF THE PARTY OF THE PAR						<i>a</i> ,	pp.
ANALYST	Gill	Gottschalk	Grier	Kropf	Levitt	Price	Robb	Sands	Tippens
First Quarter	72-78	76	76	75.17	77	78	75-76	77	77.50
Second Quarter	70-75	77	76	76.50	76	75	75-77	74	79.00
Third Quarter	68-72	72	73	74.17	74	72	69-71	70	74.00
Fourth Quarter	76-80	75	75	77.17	77	79	73-75	73	77.00
2001 Average	73.88	75	75	75.75	76	76	73.88	73.50	76.88
Beef Production	26.00	26.01	25.75	26.43	26.00	25.8	26.18	25.7	26.14

NOTE: Prices are in \$/cwt., basis Southern Plains Choice steer. Prices are expressed as an actual average or as a range for the average for each quarter. Beef production is expressed in billions of pounds for calendar 2001.

ANALYSTS: Jim Gill, Texas Cattle Feeders Assn.; Andrew Gottschalk, R. J. O'Brien & Associates.; Kevin Grier, George Morris Centre, Joe Kropf, Joe Kropf & Sid Love Consulting Services; Chuck Levitt, Alaron Trading Corp.; Bob Price, North American Risk Management Services; Jim Robb, Livestock Marketing Information Center; Mike Sands, Sparks Companies; Tom Tippens, eMerge/Professional Cattle Consultants.

RETENTION AND WEIGHTS WILL DETERMINE PRODUCTION

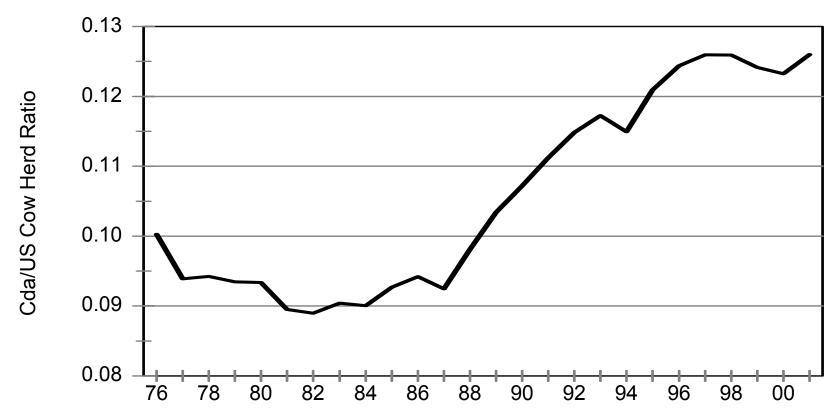
HEIFER retention and slaughter weights will be key factors in determining beef production this year. USDA forecasts production down 4.8% to 25.63 billion lbs. But analysts say that is way too low. As noted above, most analysts peg production at least at 26 billion lbs. Some even forecast 26.4 billion. A reduction in annual average slaughter weights to 732 lbs. and a reduction in commercial cattle slaughter by 1.1M head would mean a decline of 805M lbs from 2000, says Andrew Gottschalk. That would still put this year's total above 26 billion lbs. USDA expects pork production to increase 2.4% to 19.38 billion lbs although most analysts peg the increase at only 2%. USDA puts broiler production at 31.18 billion lbs, 3.7% above year earlier. So USDA expects meat and poultry production to total a record 82.71 billion lbs., 0.6% above year ago. More beef would increase this.



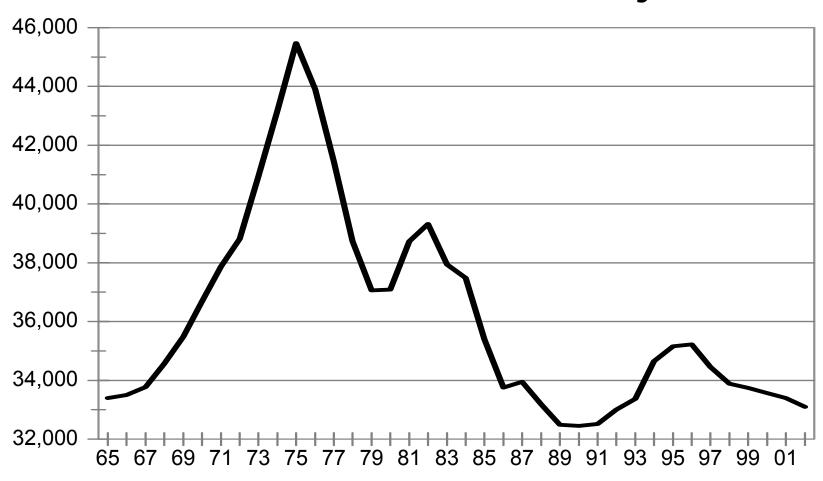
Cattle Cycle

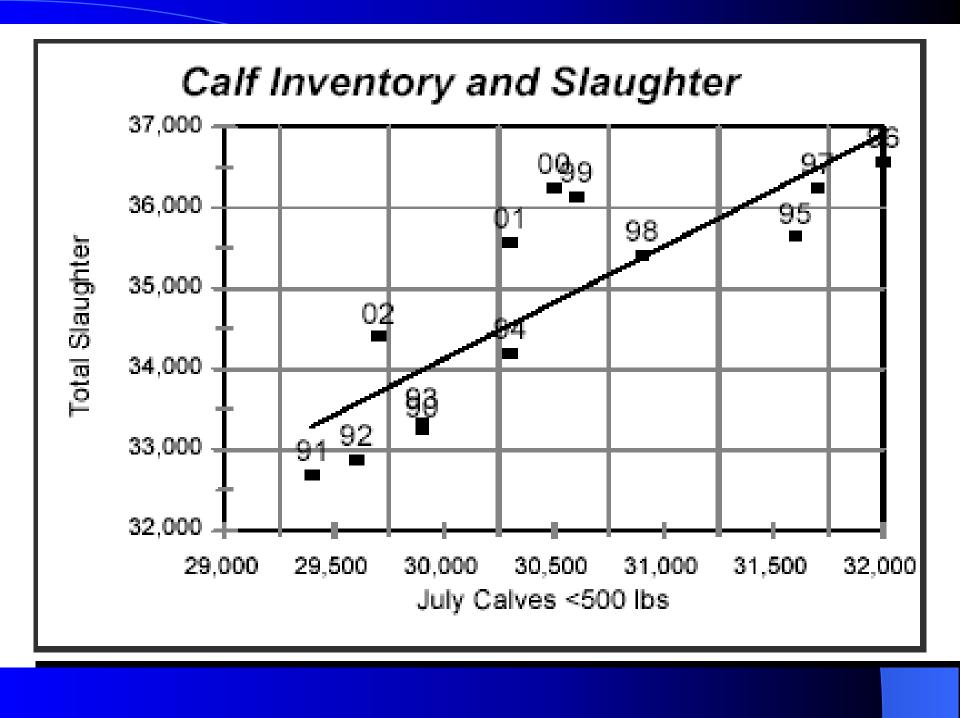
- Is the US ever going to start rebuilding?
 - Ranchers couldn't resist marketing heifers
 - Cows and replacements down (Jan 02)
- Sask cow herd grew but replacements down
- Alta cow herd and replacements were down

Cdn/US Cow Herd Ratio

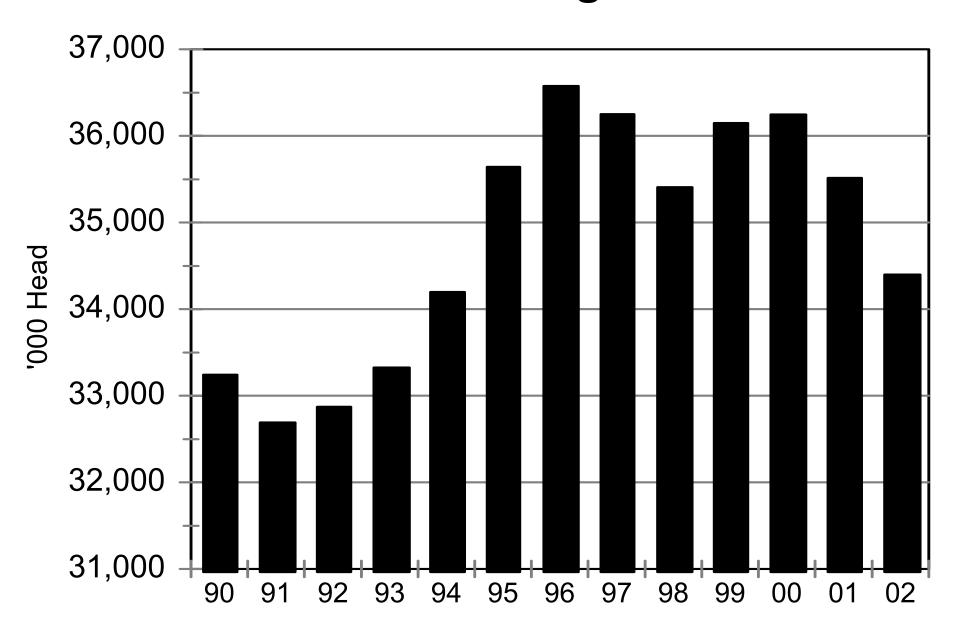


USDA Beef Cow Inventory

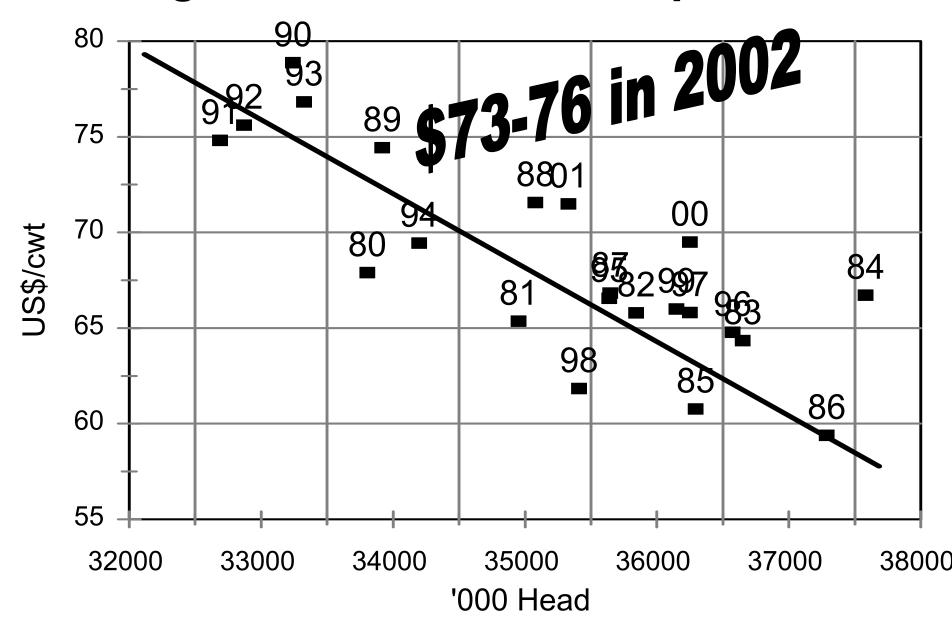




US Cattle Slaughter



Slaughter/Price Relationship 80-01



CATTLE BUYERS WEEKLY

MARKETING AND BUSINESS NEWS FOR THE BEEF INDUSTRY

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Welcome Kevin Grier. You are logged in as kgrier, you can log out here.

February 4, 2002

2002 Live Cattle Prices: Analysts'

Forecasts

ANALYST First Qtr Second Qtr Third Qtr Fourth Qtr Annual

Bluntzer 70 74.50 71 73 72.13

Gill 62-76 74-78 70-76 76-80 74

Gottschalk 68 70.50 71 69 69.65

Grier 69 76 73 76 73.50

Kropf 71.38 73.00 69.33 76.50 72.55

Levitt 70 75 71 74 72.50

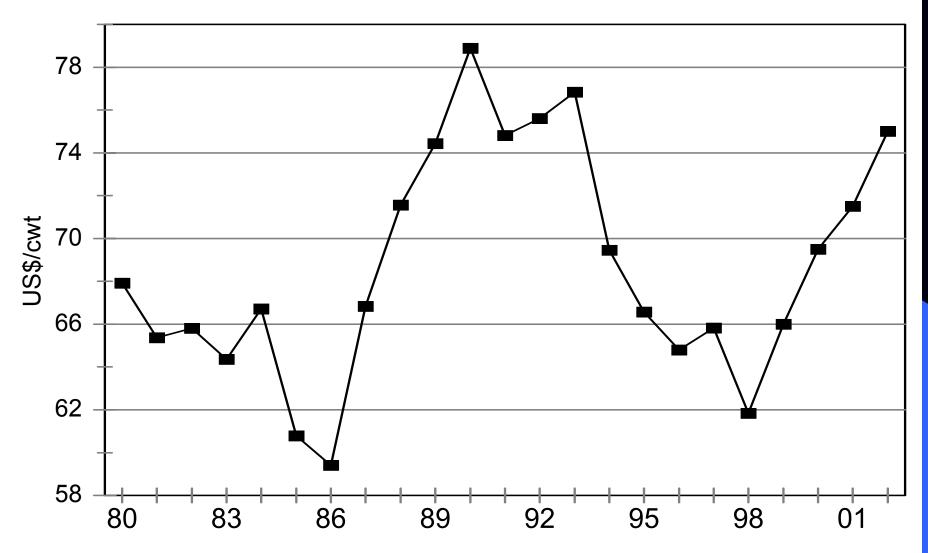
Price 66 74 71 75 71.50

Robb 70-71 74-75 71-73 74-78 73.50

Sands 70 72 68 71 70

USDA 66-68 74-80 78-84 79-85 76.75

US Steer Prices



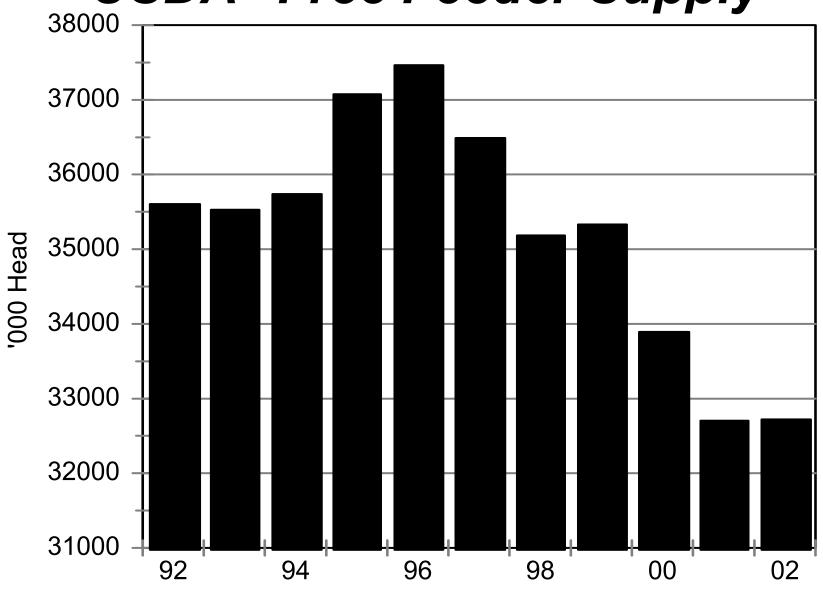
Forecast Challenges

- Economy
- Japan BSE

USDA Cattle on Feed 120 Days 4,000 3,500 3,000 '000 Head 2,500 2,000 1,500 **2001 96-00 2002** 1,000

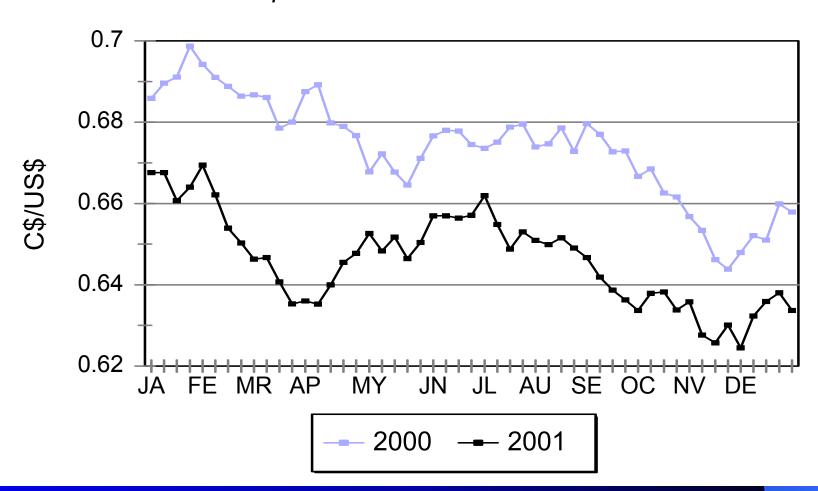
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

USDA "Free Feeder Supply"



C\$

C\$ Performance



C\$

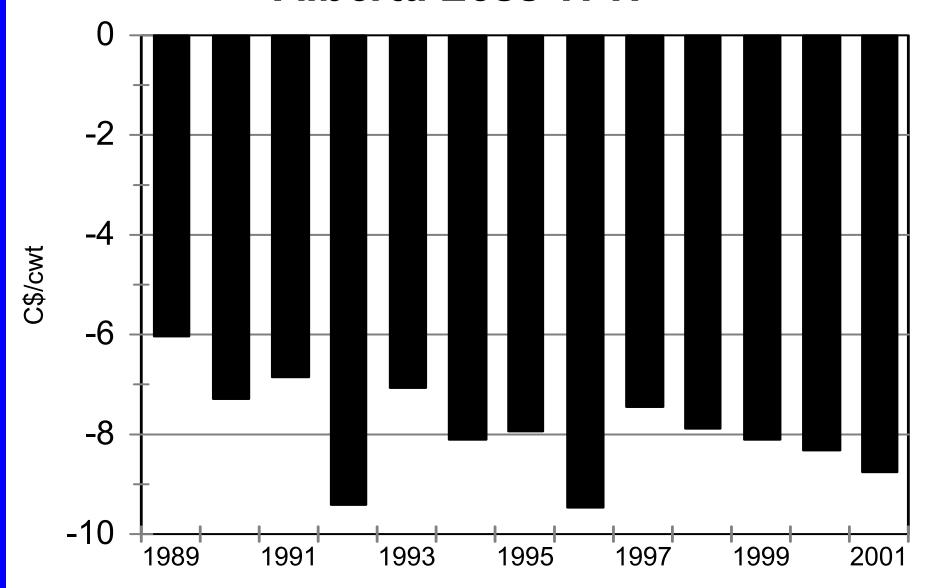
- 1 to 1 relationship between the C\$ and cattle prices
- Outlook:
 - LT bearish (relative productivity, taxes)
 - Reasons to invest in Cda vs. US?

Local Supply & Demand (otherwise known as spread or basis

- Supply and demand compared to the US
 - Packer capacity/markets
 - Transportation costs to alternative packers
 - Local supplies

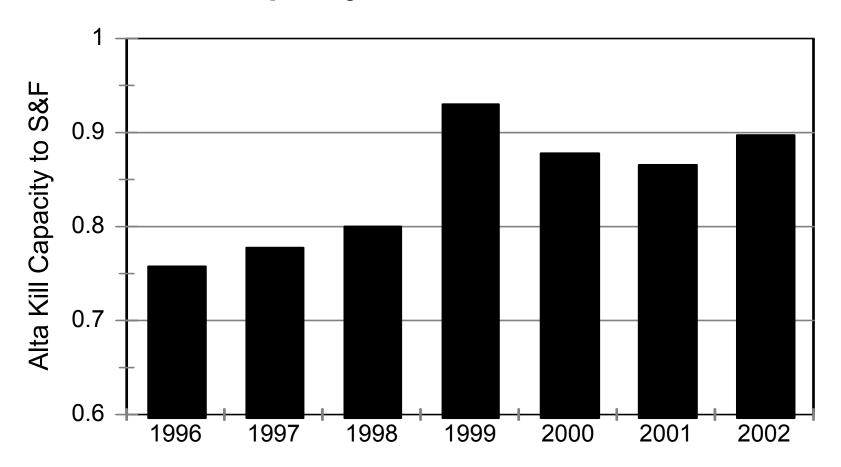
Alberta-TPH Spread 2001 vs.96-00 0 C\$/cwt -6 -8 -10 -12 -14 **─** 96-00 **─** 2002 -16 FE MR AP MA JL AU SE OC JN

Alberta Less TPH



What's in-store for the spread?

Ratio of Capacity to Stocker/Feeders



 Drought induced feeder exports or import reductions will make this worse.

	FIRST	SECOND	THIRD	FOURTH
Current Futures		73	71	72
US Forecast	70	76	71	76
C\$	0.63	0.63	0.63	0.63
Avg Alta Spread	-6.39	-8.78	-9.09	-7.91
2002 Alta Spread	-5.75	-8	-8.25	-7
Alberta Price	105	113	104	114