PEACE COUNTRY BEEF & FORAGE ASSOCIATION

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Forage Facts

2014 Outlook: No Lack of Excitement in the Beef Business

By: Monika Benoit

If you've been hearing any news at all in the beef industry lately, you've likely been hearing very positive messages. We are only a month into 2014, and already we are seeing some very interesting things happening in the cattle markets. On one side, we are seeing an explosion of prices south of the border and some very positive prices in Canada as well; on the other hand, the extremely wide basis and the shadow of the American COOL legislation is hanging over our Canadian industry.

At the very beginning of 2014, the Chief Economist with Farm Credit Canada, JP Gervais, put out an article, "FCC Offers Five Agriculture Economic Issues to Watch in 2014."

Here is a brief summary:

1) Farmland Values in North America: could plateau in 2014 according to Gervais, mainly due to lower grain prices which will result in less expansion by large grain operations.
2) Trade Deals: deals such as the Comprehensive Economic Trade Agreement (CETA) between Canada and the European Union, and the Trans Pacific Partnership (TPP) will provide new opportunities. Gervais says, "Between these two agreements, every sector of Canadian agriculture will have opportunities and face some challenges. We need to start preparing to manage our business in a new environment."
3) American Politics and Economics: there is uncertainty south of the border, including the partial shutdown of the U.S. government in late 2013 and disputes in the U.S. legislature which are slowing down the process of renewing the 2008 Farm Bill. Gervais expects things to improve in 2014 south of the border.
4) Equipment Sales Gearing Down: After five years of very strong equipment sales, we will likely be seeing a retreat in sales in 2014. Gervais predicts that in the short term, prices will likely stay steady, but could soften if producers decide to put their profits elsewhere in the coming year.
5) Canadian Beef Gets Bullish: Canadian livestock producers, the beef sector specifically, should expect healthy returns over the next couple of years, says Gervais. Beef prices will be stronger due to the dynamics of supply and demand. American cattle numbers will of course, have a great influence on our Canadian market, and the U.S. herd has shrunk by 5% over the past two years. Our Canadian herd is stable and is in position to rebound. The demand for animal protein is strong in markets such as China and the European trade deal also holds potential for Canadian beef.

Recent market reports and news stories on the beef markets have also been optimistic and it is encouraging for the beef industry to be seeing this positivity! To expand on Gervais' bullish predictions for the beef industry for 2014, I referred to a few other sources to expand on the forces that will influence our markets over the next year.

Traditionally, there is always a pick-up in beef demand following the holiday season. Retailers are looking to restock their shelves, and consumers are looking to serve beef to their families. This could be one explanation for the significant jump in prices, but as experts are saying, in the first few weeks of January, we've already seen what most analysts were predicting for February and March of this year. Market analyst Anne Wasko, of Gateway Livestock was featured on a Real Agriculture interview; she commented on how analysts did expect an increase in prices, but not the 'explosion' we've seen. She said that the reason boils down to a tight supply of cattle. The packing plants are currently making money, and passing on their extra costs of buying higher priced cattle to the retailer. Anne also explained that the entire meat system is priced high right now, including pork and chicken, which is positive for moving beef in the grocery stores. Over the past several weeks, Anne commented that the packer is making money, and so are the feedlots, which will bring strong prices into the feeder markets, as we see auction mart volumes picking up into February. Anne also feels that the prospect of exporting Canadian beef to new markets will help to hold up demand in Canada, and we've already seen a strong demand in areas such as the Greater China region, which became the second largest buy of Canadian beef in 2013, behind the U.S.

How things in the American market continue to unfold will be interesting to watch, as well as influential on what happens in our Canadian markets. The Jan 17th, 2014 Canfax Weekly Report comments on how the U.S. market has been enjoying prices much higher than in Canada. Their cow herd is finally showing signs of stabilization, including very high prices for bred cows. An article from *Drover's Cattle Network* states that the state of Nebraska is seeing several new feedlots being built by young producers. Cattle numbers have been picking up in the northern states with more access to grazing and feed grains.

EVENTS

2014 AGM
February 7, 2013, 5pm
Dunvegan Motor Inn
Fairview, AB
Supper, AGM & entertainment by Cowboy Comedian Bud Edgar
RSVP to Morgan @ (780) 835-6799

Producer Workshops:
Growing Forward 2, Environmental Farm Plans, Google Earth

Grovedale
Fri, Feb 21st
10am-3pm
Grovedale Hall

Fairview:
Mon, Feb 24th
6 pm-9pm
GPRC Trades Bldg

Eaglesham
Wed, Feb 26th
5:30-9pm
Eaglesham School

High Praire:
Thurs, Feb 27th
1 pm-4 pm
PCBFA office Prov Bldg

Beef Market Outlook
Join PCBFA & FCC Fri, March 7th at the Peace Country Classic AgriShow
10:00 am
Program will include a Beef Market update and a special presentation geared towards young farmers!

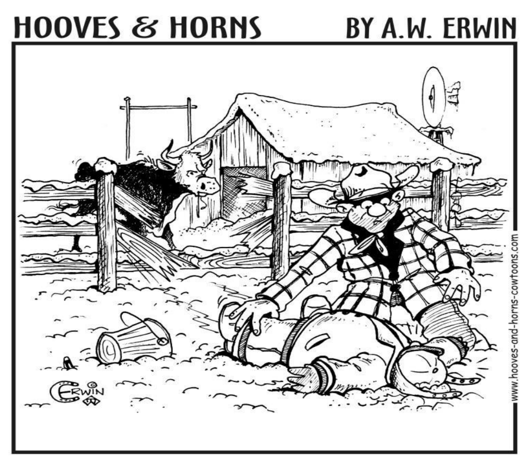
Check out our Website ! www.peacecountrybeef.ca

One factor that is causing our Canadian market to look less positive compared to the U.S., is the basis, which is much wider than it should be. According to the Canfax weekly report for Jan 17th, 2014, the basis has not been this weak since 2005, when the border was still closed to live cattle exports. Country of Origin Labelling (COOL) is largely to blame for the weakness in the basis. Last year at this time, the basis was also weak due to the closure of the Brooks plant. Brian Perillat of Canfax comments that if Canadian feeder cattle continue to move south, this will create tighter Canadian cattle supplies and this may help the basis to stabilize from where it is now over the long term.

The delay in passing a new U.S. Farm Bill has had an influence on our Canadian markets as it is the major factor holding up any movement on the requests to have the COOL rules removed. It is a very interesting situation, full of confusion and politics. On one hand, many American producer groups and special interest groups have been lobbying the Farm Bill decision-makers to keep the COOL rules in place, while the American packers, the Canadians and Mexicans have been working to get the rule eliminated. In general, strong opposition for all segments of the farm bill is exactly what has kept the U.S. farm bill from being passed so far. In an article on the U.S. Farm Bill by Chuck Jolley, the Farm Bill situation can be likened to a 'traffic jam,' where congressperson's are being pulled in many directions by many different special interest groups.

The Canadian Cattlemen's Association is speculating that at least two large U.S. packing plants could shut down in early 2014 as a result of COOL. Not only will this continue to affect Canadian producers, but it will also affect American producers. If these packing plants shut down, it will inevitably lead to the American feedlots that supply cattle to the plants to struggle and likely shut down as well. After attending many state cattle meetings over the past several months, CCA staff report that many American cow-calf producers are now against COOL, as they realize the impacts that will result over the long term with their feedlots and packing plants. The Canadian Cattlemen's Association has been working diligently along with other Canadian producer groups as well as groups in Mexico, to get the COOL legislation changed so that U.S. consumers still have origin information, but the labels won't be discriminatory against Canadian and Mexican livestock and costly for the packing plants. It was hoped that retaliatory measures could be avoided, and that the U.S. Congress would make a decision to support free trade of livestock in North America, but on January 27th, the U.S. Congress made progress towards passing the new Farm Bill that did not include any revisions to the current COOL legislation. According to the statement from the Canadian Cattlemen's Association on January 27th, Canada will continue with the World Trade Organization (WTO) process to have the WTO panel decide whether the U.S. is in compliance or not with their WTO obligations. The government of Canada could then target U.S. goods for retaliatory tariffs, including meats, produce and packaged food.

Despite the issues with COOL and its effects, the outlook for the beef industry is positive in Canada and many factors point to a profitable year for 2014. In an article from January 27th on the Canadian Cattlemen Magazine website, market analyst Jerry Klassen summed up the first few weeks of the new year very well, "Newton's first law of motion continues to describe the cattle market, as an object in motion tends to stay in motion until acted upon by another force." A tight supply, strong demand for beef, including new possible markets, low feed grain prices, and a weaker Canadian dollar are all factors that are in our favour. One thing, that we can always be sure of, the year ahead will be interesting with no lack of excitement in the beef business!



".......5 shirts, 4 pair of jeans, 6 coats, 7 pair of socks an' 8 pair of gloves, ***I - DIDN'T - FEEL - A - THANG!"***

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