BEEF WATCH

NOVEMBER 2009

A service for cattle producers from the Canadian Cattlemen's Association and Cattlemen magazine

Building on the successful Cattle Cycle books started in 1981 by Charles Gracey; CanFax Research Services has updated and expanded that publication to include discussion on overall industry trends and changing market dynamics. The 2009 edition titled "Trends, Cycles and Seasonality in the Cattle Industry" analyzes data from 1960 to 2008 and includes discussion around cattle cycles, why they do or do not occur, historical cycles and trends as well as cycle indicators which are referred to throughout the Beef Watch articles. For more information or to order your copy, contact Brenna Grant at grantb@canfax.ca or (403) 275-8558.

The main purpose of the semi-annual Beef Watch articles is to explain the factors affecting the medium- and long-term outlook in the beef industry. This year has been marked by soft domestic and international demand for beef and an uncertain economic situation. Demand for fed cattle remains pressured due to large competing pork supplies and soft consumer demand. This situation will continue through the next three to five months, as pork supplies continue to remain large and with the winter months seasonally seeing softer beef demand, while turkey and ham dominate during the holiday seasons. Smaller fed cattle supplies are expected from December through February compared to last year due to smaller placements of heavy weight cattle in August and September, which should support prices in those months. However a higher exchange rate and continued large pork supplies, with only small reductions in the U.S. sow herd evident, will weigh on the entire protein complex and pressure Canadian beef and cattle prices moving into 2010.

NORTH AMERICAN CATTLE INVENTORIES CONTINUE TO DECLINE

Canadian beef cow inventories were down 5.6 per cent on July 1, 2009 to 4.58 million head. Total Canadian cattle inventories were down 2.3 per cent to 14.84 million head. Continued declines in the Canadian beef cow herd over the last four years have resulted in smaller calf crops, with the July 2009 calf crop reported at 5.0 million head, down 3.4 per cent from the previous year. Current reductions in fed cattle supplies are evidence of not only the smaller calf crops coming forward, but also large feeder exports in 2007 and 2008. With a 50 per cent reduction in feeder cattle exports YTD in 2009, there is some expectation that smaller calf crop numbers will be offset by reduced exports and keep fed marketings relatively steady into 2010. But this is dependent on feeder cattle exports remaining at current levels.

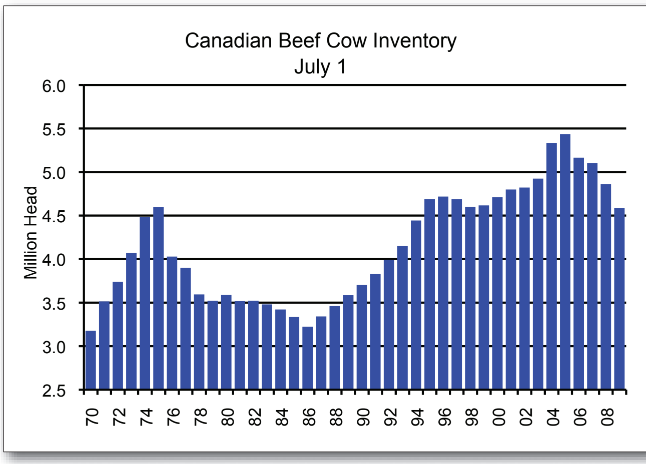
Beef heifer replacement numbers were down 2.5 per cent to 638,000 head on July 1. Heifer slaughter remains high in 2009 at 1.2 million head, up four per cent from 2008, implying producers are not interested in rebuilding the national herd at this time. Poor profitability has been a contributing factor to reduced heifer retention, but drought conditions in many major production regions has encouraged further increases in heifer slaughter due to grass and feed shortages.

In analyzing expected near term trends for the size of the Canadian cow herd, one very important maxim should be remembered — supply determines consumption, demand determines price. Smaller fed supplies this fall have been offset by higher carcass weights and lackluster consumer demand due to recessionary concerns and large pork supplies. So despite reductions in supplies, beef and consequently cattle prices are continuing to face negative pressure, which is further exacerbated by an appreciating dollar. Demand driven improvements in beef and cattle prices are not expected until well into 2010, as economies continue to see recovery from the global recession and results in improvements in beef demand and pork supplies decrease. Consequently inventories are expected to decline into 2010, at which time stabilization and/or expansion of the Canadian herd will be dependent on the extent and duration of beef and cattle price improvements.

CANADIAN INVENTORIES

July 1, 2009 (1,000 head)

	2008	2009	% change
Bulls	261.2	252.8	-3.2%
Beef cows	4,862.40	4,588.20	-5.6%
Dairy cows	981.8	982.8	0.1%
Dairy heifers	476.5	459.2	-3.6%
Beef heifers (brdng)	654.6	638.4	-2.5%
Beef heifers (sltr)	1,175.50	1,221.70	3.9%
Steers (> 1yr.)	1,576.40	1,667.50	5.8%
Calves (< 1yr.)	5,206.60	5,029.40	-3.4%
Total	15,195.00	14,840.00	-2.3%



In 2009 the U.S. saw improvements in pasture conditions, but due to poor cattle prices there continues to be reductions in the cow herd, which declined by 1.4 per cent on July 1, 2009 to 32.2 million head. Beef replacement heifers also declined 2 per cent to 4.5 million head, while the calf crop was down one per cent to 35.6 million head. Looking forward the U.S. cattle industry is facing similar price and demand trends to Canada, with these playing a role in future industry size. In addition the U.S. industry is facing increasing water and land constraints, with a significant proportion

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of arable land is going into grain production and non-arable land seeing competition from urban and recreational uses.

U.S. CATTLE INVENTORY			
July 1, 2009 (1,000 head)			
	2008	2009	'09/'08
Total cattle & calves	103,300	101,800	-1.5%
Beef cows	32,650	32,200	-1.4%
Milk cows	9,350	9,200	-1.6%
Beef repl. heifers	4,600	4,500	-2.2%
Milk repl. heifers	3,900	3,900	0.0%
Other heifers	7,800	7,700	-1.3%
Steers (> 500 lb.)	14,700	14,400	-2.0%
Bulls (> 500 lb.)	2,100	2,100	0.0%
Calves (< 500 lb.)	28,200	27,800	-1.4%
Calf crop	36,113	35,600	-1.4%
Cattle on feed	12,200	11,600	-4.9%

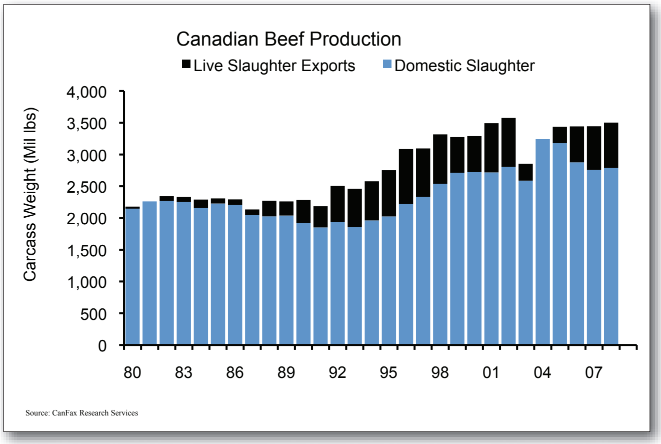
THE CATTLE CYCLE

Where are we in the cattle cycle? Of the 10 to 12 year cycle Canada's latest cycle ran from 1996 to 2005 (peak to peak). The current cycle is has seen four years of liquidation since peaking in 2005. Typically the liquidation phase is three to five years. However some cycles are longer due to external factors such as recessions depressing consumer demand and drought, which may encourage further liquidation. So how long will the Canadian herd continue to shrink? As the primary production unit, the cow-calf producer will need to see profitability before stabilizing the herd size. Factors to watch for which would signal consolidation and movement into another expansion phase include higher calf prices, lower and stable prices for inputs. Calf prices are expected to be softer this fall (due to the appreciating dollar, large pork supplies and weak consumer demand) and therefore any stabilization of the herd would not take place until after the 2010 calf run. Therefore, the beef cow herd is not expected to stabilize for another one to two years, depending on market conditions.

BEEF PRODUCTION STARTING TO DECLINE

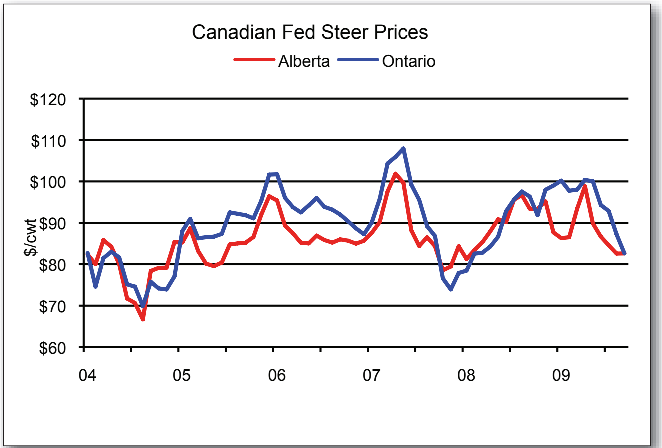
Canadian beef production (including domestic slaughter and live slaughter exports) is expected to be down 12.7 per cent in 2009; with domestic production down 6.3 per cent to 1.18 million tonnes, while production accounted for by live cattle slaughter exports is down 20 per cent. Most of the decline in beef production is reflective of smaller domestic cow kill and reduced fed cattle exports, while domestic fed cattle slaughter and production is steady with 2008 levels. Cow slaughter is down 23 per cent year to date with the proportion of beef production made up by non-fed cattle down to 19 per cent from 23 per cent in 2008. While cow slaughter is down, the beef cow culling rate in 2009 is projected at 12 per cent, which is still at liquidation levels and above the historic average of 10 per cent.

High non-fed production continues to cover the fact that fed beef production is expected to be down seven per cent in 2009, with all of the reduction coming from a 24 per cent reduction in fed exports. Beef production is projected to continue to decline over the next two years as smaller calf crops come to market and cow slaughter declines with increasingly tight supplies. Furthermore when the time comes to rebuild beef cow inventories, beef production will see additional reductions as cow and heifer slaughter declines to allow for the retention of more animals within the herd.



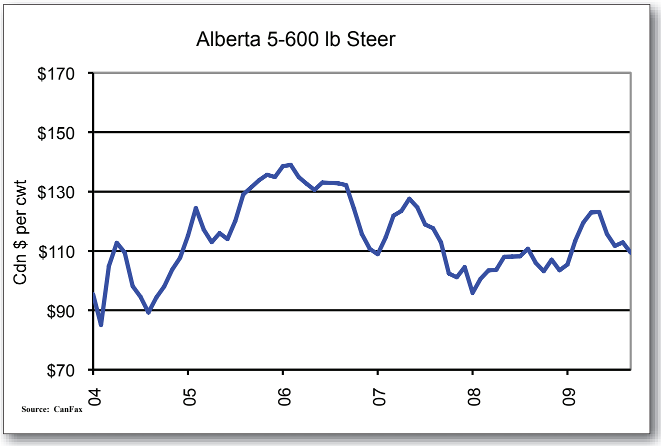
FED CATTLE PRICES

Alberta fed steer prices averaged $82.62/cwt in September, down 12 per cent from last September. The futures board was expecting tight supplies in North America in September/October as recently as early August. This hole has turned into a glut south of the border, as marketings have been delayed in response to lower prices. Delays have only made matters worse as carcass weights have increased, pushing production up. Canadian fed cattle prices this fall have been influenced by the stronger dollar, large supplies of pork and continued soft consumer demand. Seasonally fed prices are expected to move $2 lower going into October then stay fairly steady through the end of the year. Live cattle futures for February at $84.55, with a March dollar of 0.9350 and seasonal basis of $12 put the Canadian price at $78.50/cwt. This is well below breakeven of $88-89/cwt estimated by the CanFax Trends program. Negative expected returns at the feedlot level will be reflected in lower feeder prices this fall.



REPLACEMENT PRICE RATIOS

The replacement price ratio illustrates the relationship between feeder and fed cattle prices. Feeder prices have been increasing in relation to fed prices since the beginning of the year moving from a ratio of 1.12 in the first quarter to 1.27 in the third quarter for 550-lb. steers in the west. Similar trends are present in the east. Feeder cattle prices are being supported by a lower cost of gain with cheaper feed grains. Barley prices have fallen from $192/tonne ($4.18/bu.) in July to $152/tonne ($3.30/bu.) in September. Lower feed costs tend to support replacement ratios at higher levels. However as this ratio moves higher feedlot margins are pushed down and typically this results in feedlots bidding feeder cattle prices lower. Alberta 550-lb. steers averaged $109.50/cwt, up three per cent from last September but down from $112.88/cwt in August. Feeder cattle prices will be pressured this fall by the appreciating dollar and lower fed cattle prices.



INTERNATIONAL MARKETS

With it being projected that 49 per cent of Canadian beef production will be exported in 2009, export demand and the international consumer are very important to the beef industry. The long-term global trends of growing consumer incomes and increased beef consumption are still evident, but in the short term the global economic recession has resulted in things being put on hold.

The U.S. is Canada's largest beef trade partner and a sustained economic recovery there will be crucial to Canadian beef demand. In 2008 Canada exported 358,449 tonnes (carcass weight) of beef and cattle valued at $998 million to the U.S. with a net beef trade balance of $260 million. Beef and cattle exports to the U.S. represented 42 per cent of total Canadian beef production. Year-to-date in 2009 both beef and live cattle exports to the U.S. are down significantly as a result of the implementation of mandatory country-of-origin labelling and economic conditions. Canadian beef exports to the U.S. from January to July were down eight per cent in volume, while they are up two per cent due to the difference in the exchange rate from the first part of 2008 as compared to 2009.

Mexico is Canada's second largest export market, with 12 per cent of Canadian exports. Mexico with its large tourist sector has been hit hard by the recession and also H1N1 concerns. In addition the depreciation of the peso

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Replacement Price Ratio
(Replacement cattle price divided by slaughter price)

Year	Quarter	Heifer calves (400-500 lb.)	Steer calves (500-600 lb.)	Yearling heifers (600-700 lb.)	Yearling steers (700-800 lb.)	Shortkeep steers (800-900 lb.)
2004	Q3 EAST	1.01	1.11	1.01	1.03	1.06
	WEST	1.19	1.29	1.13	1.21	1.14
	Q4 EAST	1.15	1.30	1.09	1.14	1.13
	WEST	1.20	1.27	1.06	1.14	1.11
2005	Q1 EAST	1.13	1.30	1.10	1.16	1.10
	WEST	1.29	1.39	1.16	1.19	1.13
	Q2 EAST	1.15	1.28	1.14	1.17	1.13
	WEST	1.30	1.43	1.20	1.25	1.15
	Q3 EAST	1.23	1.30	1.18	1.23	1.20
	WEST	1.42	1.49	1.33	1.40	1.33
	Q4 EAST	1.17	1.33	1.13	1.18	1.17
	WEST	1.42	1.48	1.27	1.32	1.28
2006	Q1 EAST	1.19	1.32	1.15	1.19	1.14
	WEST	1.45	1.52	1.28	1.27	1.19
	Q2 EAST	1.31	1.39	1.23	1.23	1.16
	WEST	1.45	1.54	1.31	1.31	1.20
	Q3 EAST	1.38*	1.43*	1.27*	1.28*	1.22*
	WEST	1.49*	1.55*	1.37*	1.41*	1.34*
	Q4 EAST	1.31	1.36	1.20	1.21	1.18
	WEST	1.32	1.37	1.16	1.21	1.18
2007	Q1 EAST	1.12	1.23	1.06	1.10	1.06
	WEST	1.17	1.26	1.07	1.13	1.06
	Q2 EAST	1.12	1.19	1.08	1.09	1.04
	WEST	1.20	1.30	1.11	1.25	1.06
	Q3 EAST	1.27	1.29	1.16	1.16	1.17
	WEST	1.28	1.37	1.21	1.31	1.21
	Q4 EAST	1.28	1.38	1.16	1.21	1.20
	WEST	1.16	1.27	1.05	1.13	1.11
2008	Q1 EAST	1.10	1.25	1.03	1.10	1.07
	WEST	1.07	1.20	0.99	1.08	1.03
	Q2 EAST	1.05	1.15	1.02	1.07	1.03
	WEST	1.05	1.19	1.00	1.09	1.02
	Q3 EAST	1.13	1.19	1.06	1.11	1.09
	WEST	1.05	1.14	1.02	1.09	1.07
	Q4 EAST	1.03	1.12	0.97	1.01	1.01
	WEST	1.02	1.14	0.96	1.05	1.02
2009	Q1 EAST	1.04	1.15	1.02	1.04	1.01
	WEST	1.12	1.27	1.06	1.13	1.08
	Q2 EAST	1.14	1.21	1.10	1.12	1.07
	WEST	1.22	1.32	1.13	1.18	1.10
	Q3 EAST	1.23	1.27	1.13	1.16	1.15
	WEST	1.27	1.34	1.18	1.24	1.18

*Record highs, east and west

Beef Watch is prepared by the staff of CanFax and CanFax Research Services, divisions of the Canadian Cattlemen's Association

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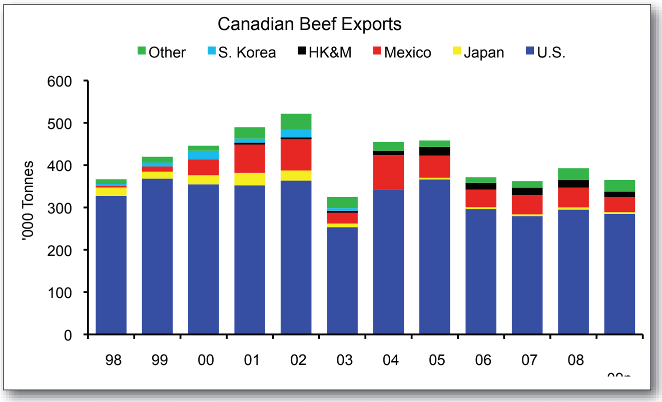
has impacted the value of beef imports from both the U.S. and Canada. With reduced incomes, consumers have been switching to other protein sources and away from beef. Canadian beef exports to Mexico from January to July were down 16 per cent in volume and 8.5 per cent in value.



Hong Kong and Macau represent Canada's third-largest export market with 4.5 per cent of exports. Year to date exports are down five per cent in volume and value. In 2008, exports reached 17,675 tonnes valued at $73 million. Taiwan is a major market with 7,971 tonnes exported in 2002 valued at $41.5 million. Taiwan depends on imports for 99 per cent of its oil and the lower price of oil has helped stabilize demand there. Historically the U.S. was Taiwan's largest trading partner but in 2009 China will take that position as it has not been as affected by the global recession. Beef exports to Taiwan have been strong in 2009 and are up 57 per cent in volume and up 30 per cent in value. In Japan consumers are moving to cheaper imported product with Canadian exports to Japan up 42 per cent in volume and 70 per cent in value. Total beef exports are down eight per cent in volumes and steady in value from January to July.

Long term, stronger demand domestically and internationally will push beef and cattle prices up, stabilize the cow herd and encourage expansion. Overall as countries rebound, consumer spending increases, and Canada as achieves further gains in market access opportunities for Canadian beef will continue to grow.

Answer our survey — and have a go at winning one of our caps

We have a goal to be the best beef cattle magazine in the business. But we need your help. If you could just fill in this survey and return it to me, you would be helping us set the future editorial direction for CANADIAN CATTLEMEN. All you have to do is tell me what you like about the magazine, and what you don't like. There's also some space for you to tell us what you would like to see in future issues. CLIP AND ENCLOSE YOUR MAILING LABEL. Each month, we will draw one name from all the surveys sent in and send that person a CATTLEMEN cap. It could be you!

On a scale of 1 to 5, how do you and your family like these features? (Fill in the blank with your choice)

- **5** – I *always* watch for it; let's *see more* of it
- **4** – I *regularly* read it and *like* it
- **3** – I *usually* read it
- **2** – There are things I'd *rather* read
- **1** – I *don't want* it; get *rid* of it

WHAT DO YOU THINK OF:

Regular Columns:

Comment ________
Newsmakers ________
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News Roundup ________
Purely Purebred ________
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Market Talk ________
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Special Features:

Calving Issue (Jan.) ______
Forage Special (April) ______
Custom Feedlot Guide (April) ______
Stock Buyers' Guide (Aug.) ______
Animal Health Special (Sep.) ______
Beef Watch (May/Nov.) ______

I'd appreciate it if you could tell us a little about yourself. It makes it easier for us to keep your main interests in focus.

❑ I'm ranching or farming.

Enterprise	**# of head**
Total beef cattle	______
Yearlings on feed/pasture	______
Registered cows	______
Fed cattle (sold yearly)	______
Commercial cows	______
Horses	______
Calves on feed/pasture	______
Other livestock	______

❑ I no longer take an active part in farming.

If not an owner/operator of a farm, are you:

❑ In agri-business (bank, elevator, ag. supplies, etc.)

❑ Other (please specify) ____________

My approximate age is:

a) Under 35 ❑ b) 36 to 44 ❑
c) 45 to 54 ❑ d) 55 to 64 ❑
e) 65 or over ❑

How much time do you and your family spend reading CANADIAN CATTLEMEN?

Under 2 hours ______
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WHAT WOULD YOU LIKE TO SEE?

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