

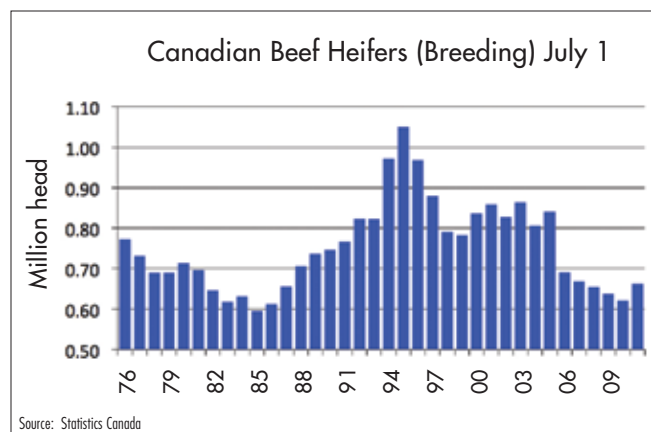
A service for cattle producers from the Canadian Cattlemen's Association and CATTLEMEN magazine

CATTLE INVENTORIES

Canadian herd stabilizing

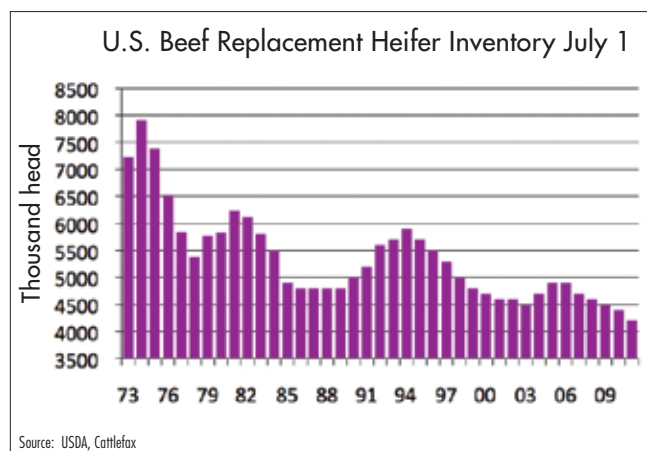
Statistics Canada reported July 1 cattle inventories down 0.8 per cent at 13.87 million head. This is the smallest year over year decline since the herd began shrinking in 2006. Inventories are just below 1994 levels. The smaller inventories came from declines in beef cows (-2.1 per cent), yearlings (-1 per cent) and the calf crop (-0.5 per cent). Canadian beef cow inventories at 4.2 million head saw similar declines in most provinces; British Columbia (-3 per cent), Alberta (-2.6 per cent), Manitoba (-2.9 per cent), Ontario (-2.7 per cent) and Quebec (-2.7 per cent), with the exception of Saskatchewan (-0.8 per cent). Cow marketings for 2011 are projected to be 621,000 head, down 22 per cent from 2010 to be the smallest in history (excluding the record lows of '03 and '04). This puts the beef cow culling rate at 9.5 per cent just below the long-term average of 10 per cent indicating the industry is stabilizing the national herd and thinking about expansion. The question becomes how serious will that expansion be?

Beef replacement heifers were up 6.7 per cent at 662,200 head as higher calf prices last fall has encouraged retention. While beef replacement numbers continue to be down in the East there was a significant increase in the West with B.C. up 0.6 per cent, Manitoba up 2.8 per cent, Alberta up 7.8 per cent and Saskatchewan up 12.3 per cent. The difference in optimism reflects feed availability and relative cost as barley continues to be significantly cheaper than corn. Any serious expansion moving forward will depend upon feed availability, credit availability, and producer appetite for risk. While the Canadian number is up from year ago, it is still 12 per cent below the historic average of 752,000 head. Therefore, the increase does not indicate expansion but stabilization of the cow herd. It should also be remembered that the replacement heifer number is always soft at this point as some of these heifers will be open and therefore marketed. While the upward trend is encouraging producers continue to be cautious compared to other turns in the cattle cycle when heifer retention was much higher.



U.S. herd still contracting

The U.S. herd continued to shrink with the July total inventories down 0.8 per cent and beef cow inventories down 0.9 per cent while the dairy cow inventories were up 1.1 per cent. Profitability in the dairy herd has been positive but not significant enough to encourage large expansion. Hay and grain costs are expected to keep any expansion plans in check. On the beef front higher prices have not been enough to encourage expansion as drought has been the main driver of the liquidation in the south. Beef cow slaughter in the extremely dry south around Texas is up 23 per cent year to date despite several years of dry weather which has already shrunk the herd there. U.S. beef producers are in no condition to expand with beef replacement heifers down 4.5 per cent.



THE CATTLE CYCLE

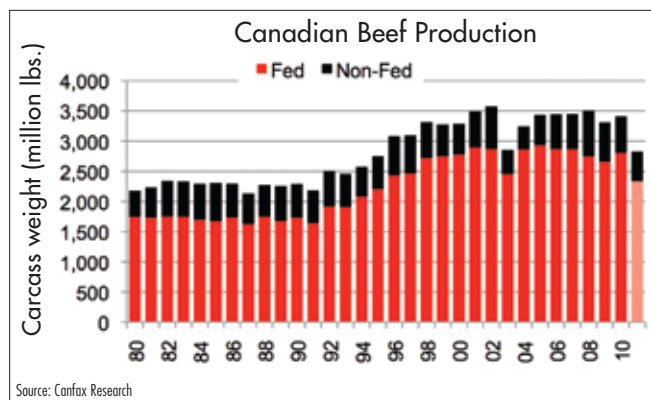
Beef Production DOWN

With the fifth consecutive year of downsizing winding down, high cow marketings and reductions in feeder cattle exports can no longer mask the decline in the calf crop. Beef supplies have declined dramatically over the last year. Total beef production (including slaughter cattle exports) is projected to be down 17 per cent in 2011 with fed production down 16.5 per cent and non-fed production (from cows and bulls) down 21 per cent. This is well below the dip seen in 2009. A smaller production base combined with higher heifer retention has already set the stage for smaller fed production over the next two years. As beef cow culling rates drop non-fed beef production will also contract.

Larger declines have occurred in live exports (-36.5 per cent) compared to domestic production (-13 per cent) as local packers are able to keep cattle in Canada for processing. Maintaining this trend will be critical moving forward in order to sustain plant utilization at levels competitive with U.S. counterparts.

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The cattle cycle is usually 10-12 years and since the Canadian herd has been contracting since 2005, expansion should occur over the next two to three years. The end of the consolidation phase (where inventories bottom) and move into expansion will be triggered by a combination of factors: higher cattle prices, lower cost of production, and growth in competing meats. Current indicators suggest cattle inventories will continue to shrink in the U.S. over the next year.

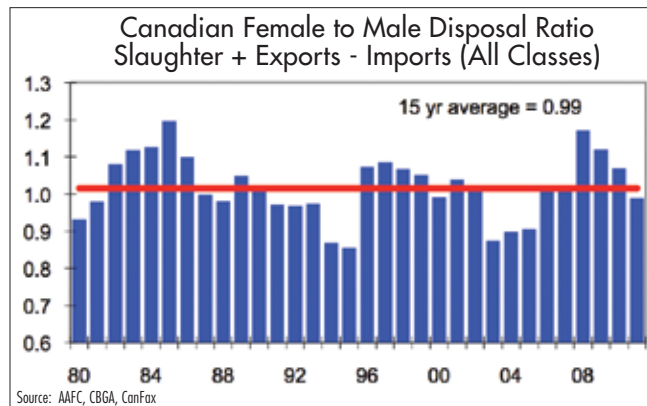
North American Herd Expansion?

In Canada we have seen one good year of prices and are already seeing higher heifer retention. In contrast the U.S. has seen no response even after several years of higher prices encouraging expansion. Why is that the case? Approximately 50 per cent of beef cow inventories are on smaller operations (<100 herd) with limited land base to expand and are dependent on other income sources. Along with prolonged drought and feed issues, this has limited the U.S. beef industries response to market signals for expansion. Therefore, Canada with its large land base is expected to turn the corner before the U.S.

CYCLE INDICATORS

Slaughter ratios drifting slowly lower

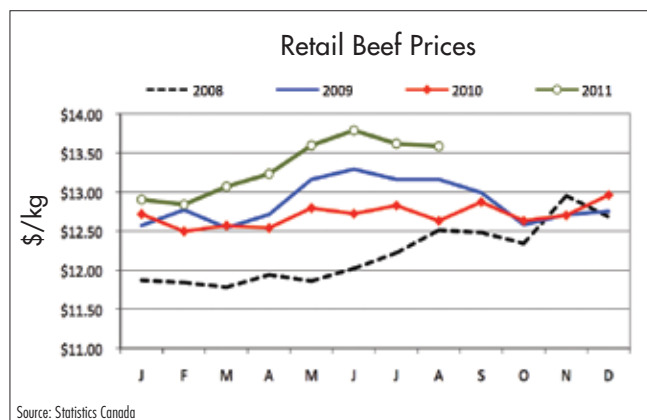
We use several tools to monitor the cattle cycle. The number of heifers disposed of (slaughtered or exported) per 100 steers is an excellent indicator of what producers are doing as a whole with their heifer crop. A small percentage of heifers in the slaughter mix indicate more are being held back in the herd for replacement and herd growth. The long-term annual average heifer to steer ratio is 66 per cent. Since 1996 the ratio has been above the long-term average every year except 2003, with the peak occurring in 2008 at 77 per cent. In 2011, the ratio has dropped back to the long-term average and is projected to be 67 per cent, similar to 2005. A smaller proportion of heifers indicate producers are retaining more heifers to maintain herd size after five years of reducing the national herd.



Another cycle indicator is the female-to-male disposal ratio. This ratio includes cows and bulls not just steers and heifers. The projected ratio of 0.99 females to one male in 2011 indicates a static herd. In order for expansion to occur this ratio needs to fall lower with smaller cow slaughter and larger heifer retention.

CONSUMPTION AND DEMAND

Beef consumption is lower in North America with U.S. per-capita consumption at 27 kg. down eight per cent from 2006 while Canadian per capita consumption at 20.2 kg is down 7.3 per cent. Retail beef prices reached a high of \$13.79/kg in June up 8.4 per cent from a year ago. Prices have since declined to \$13.58/kg in August, up 7.6 per cent from a year ago. In August pork prices were 11.5 per cent higher than year ago while poultry prices were only two per cent higher. Higher retail prices are testing domestic consumer resilience. However, consumers are holding up well with food-service sales in Canada moving higher. Total food-service sales increased by five per cent from June to July. Year to date sales are up three per cent. Early indications are that August and September have continued to see strong growth. Contrary to most growth since 2008 the leader in sales was in full service restaurants, which were up four per cent while limited service outlets only increased three per cent. Overall this lends support to the view that Canadian consumers are in a better financial position than U.S. consumers.



PRICES

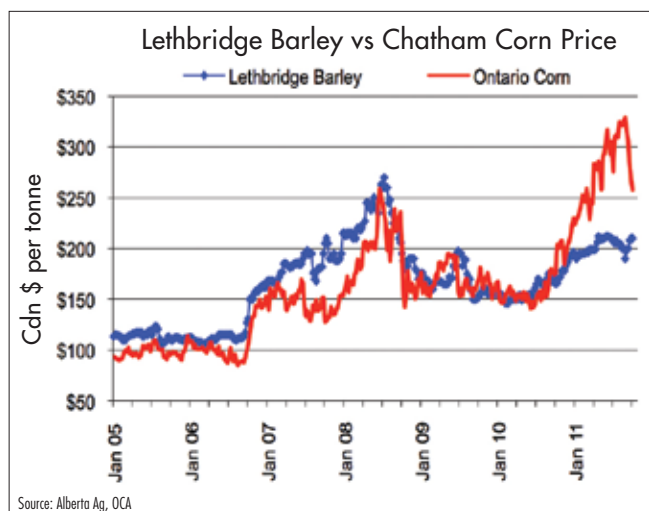
During the last price peak in 2001 the average price for 500-600 lb. steer calves reached \$169/cwt in August 2001. Yearling steers 800-900 lb. also peaked in August 2001 at \$139/cwt. This was after fed steer prices had topped out at \$118/cwt in March 2001, with seasonal highs of \$110/cwt and \$115/cwt over the next two springs. Even though fed prices reached \$110/cwt in April of this year all cattle prices are still below the highs seen in 2001.

The annual high for 500-600 lb. steers in 2011 was \$155/cwt in March and has fallen back to \$151/cwt in September. Yearling prices reached a high of \$128/cwt in September. One could expect prices to surpass those in the last price peak considering the increase in the cost of production over the last decade. Look for prices to move higher over the next two years as heifer retention increases, limiting production.

FEED GRAINS

The corn market was on a roller-coaster ride this summer. Concerns about poor weather resulting in smaller yields and overall production pushed prices higher since last summer. Ontario corn prices increased from CDN\$150/tonne in June 2010 to a peak of CDN\$330/tonne the end of August 2011. The September USDA report showed higher prices resulted in rationing of supplies over the summer leaving the 10/11 crop year ending stocks well above the pre-report estimates at 920 million bushels. This increased the ending stocks to use ratio to eight per cent. Rationing predominantly came from reduced feed demand which was replaced with alternatives such as feed wheat.

Higher corn prices gave Western Canada a cost of gain advantage with barley increasing from CDN\$165/tonne to CDN\$212/tonne over the same time period. While Western Canada still has a feeding advantage it has shrunk from over \$100/tonne in August to \$60/tonne in October and is likely to shrink more in coming months as Brazil is expected to have a large corn harvest further easing world supplies.



REPLACEMENT RATIOS

The yearling steer replacement ratio in Western Canada was 1.28:1 in the third quarter up from 1.23:1 in the second quarter and up from 1.25:1 in Q3 2010. The yearling ratio is typically the strongest in the third quarter and 2011 was no exception. This simply means yearling prices were 1¼ times higher than the fed steer price.

Third quarter calf price ratios are gaining ground with steer calves at 1.45:1 in the third quarter while heifer calves are at 1.39:1. This is up from 1.37:1 for steers and 1.30:1 for heifers in Q3 2010. These are the highest third quarter replacement ratios for calves since 2006 when they were 1.55:1 for steers and 1.49:1 for heifers.

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.)	
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
	Q4	EAST	1.26	1.33	1.13	1.17	1.14
		WEST	1.22	1.34	1.12	1.21	1.16
2010	Q1	EAST	1.20	1.32	1.11	1.15	1.11
		WEST	1.24	1.38	1.14	1.21	1.15
	Q2	EAST	1.16	1.27	1.12	1.15	1.10
		WEST	1.21	1.33	1.13	1.16	1.09
	Q3	EAST	1.23	1.29	1.16	1.18	1.14
		WEST	1.30	1.37	1.20	1.25	1.18
	Q4	EAST	1.35*	1.39	1.20*	1.21	1.15
		WEST	1.35	1.39	1.18	1.23	1.17
2011	Q1	EAST	1.32	1.40*	1.20*	1.22*	1.16
		WEST	1.36	1.43	1.19	1.20	1.14
	Q2	EAST	1.22	1.31	1.15	1.18	1.11
		WEST	1.35	1.44	1.22	1.23	1.13
	Q3	EAST	1.26	1.31	1.17	1.18	1.16
		WEST	1.39*	1.45*	1.24*	1.28	1.21*

*Record highs, East and West