



Higher feed costs to drive up meat prices in 2013

Nigel Hunt, Reuters | Updated: November 8, 2012

A surge in the cost of feed grain after the worst U.S. drought in more than half a century has stripped many livestock farmers of profit and set off a chain of events that threatens to drive up world meat prices in 2013.

The global economic downturn has made it difficult for farmers to pass on rising costs to cash-strapped consumers, and they have sought to scale back production plans in the face of mounting losses.

In the pork industry, this has meant slaughtering breeding sows, which in the short-term can actually increase meat supplies, with the eventual decline in production not felt until 2013.

"If you take a breeding pig out of the system now it takes around nine months before there is any impact on the level of slaughtering because of the lifespan of a pig," said Stephen Howarth, analyst for Britain's AHDB-BPEX.

Retail prices for pork and beef in the United States have remained stable so far, but analysts said retailers would eventually be forced to pass on rising costs to consumers when supplies get tighter.

"Because there is no immediate drop-off in production, you don't tend to get much of a price reaction in the short term. It can feed through into a bigger price reaction further down the line," he added.

Jim Robb, director of the Livestock Information Centre in Denver, Colorado, said as prices rise shoppers could switch from more expensive to cheaper meats.

"For 2013, we may see a little bit more substitution by consumers away from beef and towards chicken and pork because we'll see record high price levels across most categories, especially for beef," he said.

LMIC forecast 2013 U.S. beef production at 24.8 billion pounds, the lowest since 2005, and 23.6 billion for 2014, its lowest since 1993.

Livestock economist Chris Hurt of the University of Purdue said the U.S. hog industry should begin to see a reduction in pork supply about May or June next year.

Many cattle-fattening stations - known as feedlots - in the United States have been operating

at losses for several months. Hurt said he expected the numbers of cattle leaving feedlots should taper off noticeably in January or February next year.

EXPENSIVE FEED

The price of corn, the most widely used feed grain, rose to a record high of \$8.43-3/4 a bushel in August.

Prices have since fallen back slightly but remain stubbornly high at about \$7.40 a bushel, with the cost of the commodity roughly doubling in the last three years, due partly to surging demand from the U.S. biofuels industry.

A hog will eat the equivalent of about 14 bushels of corn to produce about 70 kg of meat.

Tim Koch, meat analyst at German agricultural markets consultancy AMI said a reduction in Germany's pig herd and high animal feed costs would make 2013 a "painful time for farmers and consumers alike".

ADHB-BPEX analyst Howarth said European Union pigmeat production should decline by at least 2 percent in 2013, while the pig industry in key exporter Canada was also contracting.

"The big unknown is China, which accounts for about half the global market for pigmeat. Any drop off in production will mean an increase in demand for imports, but there are conflicting stories coming out of China," he said.

"I think at the very least it won't expand as quickly as demand is increasing in China."

Last month Indonesia's poultry industry called on the government to scrap corn import tariffs and increase its efforts to build stocks to help the country's embattled poultry industry.

A rise in meat prices next year could make livestock farming profitable again, and shorter lifespans means the production of poultry is likely to be first to expand. It takes only about eight weeks to bring a chicken to maturity.

"In other words, look out. Especially in late 2013, chicken substituting for pork and beef is going to be pretty predominant," Purdue University's Hurt said.

One major meat sector has managed to avoid rising feed costs and looks set for expansion: lamb.

"Most sheep in the UK and the main global producers are grass-fed. It (rising animal feed costs) will make lamb a bit more competitive relative to other meats," Howarth said.

"Where it has been very expensive relative to other meats, it may be a bit less so," he added, noting most major producers planned to expand production in the next year or so. (Additional reporting by Theopolis Waters, Michael Hogan and Naveen Thukral; Editing by Veronica Brown, Will Waterman and Peter Graff)

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