Beef Supply Shrinking, Prices Going Up

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Next time you bite into a big, juicy hamburger, don't be surprised if it bites back — at your bank account.

Unrelenting drought across large swaths of the Great Plains, Texas and California has led to the smallest U.S. cattle herd since 1951, shrinking the supply of beef. That has sent prices higher for everything from rump roasts to rib-eyes.

The U.S. Department of Agriculture said the average retail price per pound for fresh beef in January was $5.04, the highest price ever on records that date back to 1987.

From grocers to meat markets to restaurants, a whole lot of folks are watching the situation carefully.

"Everybody's kind of worried about it," said Matthew Bayer, president of the Wisconsin Association of Meat Processors and owner of Country Fresh Meats in Weston, Wis. "I don't see them (beef prices) going down."

This time of the year, beef prices often fall during what amounts to a lull between the holidays and the beginning of outdoor grilling season, said Chip Bunzel, third-generation co-owner of Bunzel's Old-Fashioned Meat Market in Milwaukee.

But this year, "Beef really didn't drop much since the holidays," Bunzel said, and that sent the price of everything from beef short ribs to ground chuck higher.

"Even the (beef) dog bones, those have gone up quite a bit," he said. "We used to give those away."

Like consumers, Bunzel said he feels the squeeze.

"It's hard because your income isn't going up as fast as the products are going up," he said. "Everybody complains about it. It's like gasoline. Gas goes up and everybody complains about it, but they still use it. You have to still put gas in your car, and you still have to eat."

So do cattle — and there's the rub.

When a calf is born on a ranch, it is usually put out to graze on grass and pastureland. When it doesn't rain, those pastures dry up. Without grass, the animals have to be fed something else.

"They can't eat wind, water and scenery," said John Freitag, executive director of the Wisconsin Beef Council in Madison.

But other feed types of late have been extremely expensive, as prices of feed grains — primarily corn — soared because of reduced supplies brought on by drought.

"Hay prices are just going through the roof," said Kevin Kester, a fifth-generation rancher whose operation covers 22,000 acres in central California.

As a result, cattle producers have been selling off their animals because they can't afford to feed them. In Texas and Oklahoma alone, "There's a million-plus head of cattle that aren't here anymore," Freitag said. "Some guys just decided it was easier to plant corn than it was to raise or feed cattle."

All the beef that hit the market when those herds were culled theoretically should have driven prices lower. Yet that didn't happen, USDA data show, as demand for beef and sources of protein around the world has soared.

"The growth of the middle class in developing countries probably has more to do with the increase in demand and related prices than anything else," said Jeff Sindelar, an associate professor who studies the meat industry at the University of Wisconsin-Madison.

In other words, more people around the world can now afford to have a steak or burger while there are fewer animals to meet that demand. The result has been predictable.

"The cost of meat has gone up significantly — 30-40 percent and in some cases 50 percent — in the past five to seven years," Sindelar said.

There are signs that the beef cattle herd may be coming back, Freitag said, and heavy rain fell recently in California.

"I'm scratching and clawing and trying to hang on and see what Mother Nature brings us over the next 60 days," Kester said. "It might be a very short-term relief for three or four weeks."

The U.S. Drought Monitor project at the University of Nebraska-Lincoln said that dry conditions have intensified in the Great Plains, from Nebraska to Texas.

According to the USDA, more than half the total value of U.S. sales of cattle comes from five states: Texas, Nebraska, Kansas, California and Oklahoma. Portions of each of those states are still experiencing severe to exceptional drought conditions.

"Roughly the southern half of the Great Plains region is facing a potential fourth consecutive summer of drought," according to the Drought Monitor report.

In Texas, more than half the state's range land and pastures were rated very poor to poor as of Feb. 23.

Complicating the situation: Even when conditions improve, it will take time to replenish beef cattle supplies. "From conception to plate is three years," Freitag said.

The situation is on the radar of Milwaukee-based grocer Roundy's Inc.

"We are watching the situation very closely," said James Hyland, vice president of investor relations for Roundy's. "If beef prices become a sticker shock to the customer, there will be a transfer to other proteins like chicken or pork," and that will further complicate the market.

"It can become a difficult balancing act," Hyland said.

Folks who want to keep their beef and still save some money might want to think about investing in a hindquarter or a side or half-side of beef, said Brian Pernat, owner of Pernat-Haase Meats in Wisconsin.

"The retail prices have really shot up on us," Pernat said. "Right now, if you've got a freezer, you would definitely be able to save some money over the full retail right-out-of-the-case rate."

Then again, it takes about $500 to get a quarter of beef, and $1,000 for a half or side.

Bunzel said his store is seeing customers who are spending their tax refunds on bulk beef purchases.

"People right around tax time will want to buy a hindquarter or side of beef," he said. "We're still busy with those."

So with beef prices still elevated, when can they reasonably be expected to level off?

"The main driver of what happens in the future," Kester said, "will be what Mother Nature does."