



SPIRITED VIEW

2010 – good, bad, and the ugly



CHRISTOPH WEDER

So it's a new year and the optimists that still have cattle are thinking this will be the year!!! Last I checked, there were still a few cows in our back-40 — so I guess we must be one of those optimists. Not that I am a market analyst, but here are my two bits for 2010 outlook — “Weder's — The Good the Bad and the Ugly.”

THE GOOD:

The Herd Size: The whole world is liquidating/reducing breeding cow numbers because returns have not kept par with expenses (isn't that an interesting phenomena?). From Australia to New Zealand to Brazil to Argentina and even our neighbors to the south, they all are retiring their spurs and replacing them with flip flops and enjoying the good life. Even my four-year-old can figure out with fewer cows you get fewer calves, which would eventually mean less beef. True, for the most part, but Big Pharma is mitigating this with TBA Implants, Beta Agonists and other tools of the trade, so even though we have fewer cattle, they all die at a heavier weight, or at least they will do in North America.

This said, there is only so much Big Pharma can do to grow carcasses, so eventually beef supply will go down. However, countering the effect of the economics 101 supply/demand curve is the fact that the demand curve is slumping as well — or at least there is a slow down in demand for the high valued cuts. It's now minute steaks, quick roasts and hamburgers instead of NY strips, ribs and filet mignon. To raise the value of fed cattle we need the middles to rally. Until now that simply has not happened. Or another way to look at it, simply the retailers should just share more of the pie. If you remove the argument that cattle prices are in the tank because there are too many animals, it comes down to the fact that everyone is too cheap and some aren't sharing the wealth.

THE BAD:

The Canadian Dollar: If our dollar at present value was equivalent to the April 2003 value, our fats would be worth \$1.30/lb. on the hoof. Is the dollar value going to change anytime soon? I doubt it. It's bad news because the impact of the high dollar by far overshadows any gains made by reductions in herd sizes.

Not only does a high dollar make exports more expensive, but it also makes imports cheaper to buy. The George Morris Centre reported last October beef exports were down by nearly five per cent on a year-to-date basis. Total beef imports were up by more than 11 per cent and Australia and New Zealand exports increased by a whopping 40 and 50 per cent, respectively. The main reason given, was that Canada's domestic production of lean manufacturing beef has steadily declined as cows headed to grass heaven. At the same time, the domestic market

for manufacturing and grinding beef has gained ground as a recession-induced diet of Hamburger Helper fuels the fire. In fact, right now this supply/demand curve on cull cows is actually working. There are fewer of them, the packers have a good demand for the products that come from culls, and rail prices for culls have grown by 20 cents since Christmas.

Will cull cows continue gaining value? I believe to a point, but after spending a bit of time researching it, I think they will eventually hit a limit where it will be cheaper to import more grinding material than to pay more to kill Canadian cows. That is unless global demand shorts the global supplies of grinding-type products.

The other bad (news) on the horizon, is for those who like feeding excessive amounts of grain to cattle for extended periods of time. The U.S. ethanol industry has not lost its shine yet and, in fact, the mandatory inclusion rate of ethanol into the U.S. fuel industry is about to increase. Likewise, oil is hovering around \$80/barrel and so all of the fundamentals will work at keeping the demand for corn strong, which of course will keep barley up there. The wild card, as always, will be the weather. In a nutshell, I don't see any bargain basement feeding costs.

THE UGLY:

Canadian Retail: As I mentioned in my last column, our primary beef producers, both at the cow-calf and feeder level, have been completely naïve when it comes to the disproportionate revenues generated at retail levels and what is reflected or earned at the farm gate. Last week I checked out, “my home town advantage” local retailer. Lean ground beef was \$8.45/kg, while packer values for 85 lean trimmings were \$3.25/kg. Does it cost \$5.25/kg to truck, grind, stock and make a small profit on ground beef? Likewise bone-in ribeyes had a retail price of \$22.49/kg, while the packer price was \$8.35/kg!!!! Retailers complain about shoplifters, but I would like to ask who is calling the kettle black? Our equity is being robbed, not by packers but by retailers!!!

Making the matter worse, again, is the high Canadian dollar. Estimates are, this year, well over 150,000 tons of U.S. beef will hit the Canadian market. Much of that is destined for Canadian retail. Now, I don't want to sound hypocritical, and I know we export to the U.S., but in the U.S. we face COOL costs and discounts, while U.S. product heads north easier than migrating geese. Exacerbating the situation, are retailers who spin-doctor the product message, so it makes the consumer feel they are buying Canadian. I shake my head every time Erika and I walk into the Save On Foods store in Grande Prairie. Splashed all over the beef section are smiling pictures of B.C. and Alberta ranchers and the idea that by buying this beef the consumer is supporting western ranchers. The truth is far from it.

So who are the retailers without a maple leaf heart? Across Canada it starts with Loblaws (Superstores), in Quebec and Ontario it is Metro and in the west, as I had mentioned, it's the Overwaitea Foods group (Save on Foods). Now with the high dollar, the advantages of



PHOTO BY CHRISTOPH WEDER

Beef producers need to get vocal with Canadian retailers marketing US beef, and worse yet, misleading consumers by calling U.S. product “made in Canada.”

bringing in U.S. beef are stronger than ever and I think the trend will get worse. This will undermine opportunities for our industry on this side of the border. The Beef Information Centre is trying to do its part, however the biggest way to make an impact is by hitting these guys in the pocket books, and by making a little noise. I had to laugh at the last *Canadian Cattleman* magazine. The front cover story was about, “Bringing wolves out into the open.” Get real guys. If you think you are losing money to four-legged predators, figure out what you are losing to the two-legged ones. We need mandatory COOL here and our industry organizations need to learn how to quit volunteering

photo ops and do a little more lobbying to swing the pendulum back in favor of Canadian products.

Since your industry is not making a whole lot of noise about this, maybe you as producer should. Let retailers know how much you appreciate their support and their unselfish sharing of the consumer pie. Here is some contact information: Loblaw's — Rodney Koning 905-459-2500, email: rodney.koning@loblaw.ca or Dan Rosscup — 403-291-7748, email dan.rosscup@loblaw.ca ; Metro — Claude Jauvin 514-328-8000, email: cjauvin@metro.ca or Marcel Boulianne 416-234-6120, email: mboulianne@metro.ca ; Overwaitea Food Group — Ken Clark -604-888-2079, email: ken_clark@owfg.com ext 2317 or

Norm Gill 604-881-3452, email: norm_gill@owfg.com.

The positive is that there are less cattle and eventually people will want to eat steak. The negatives are the high dollar, feed grains costs and retailer attitudes. I know there are some things we have control over and other things we don't.

My New Year's resolution — to rob from the rich and give back to the poor. In other words increase the amount of jingle, coming from consumers, in my pockets rather than leaving it at the retail level. What's your resolution? ✍

Dr. Christoph E. Weder is a purebred Angus breeder in the Peace region of Alberta and also runs SVR Ranch Consulting. He is also a founding member of Prairie Heritage Beef Producers For additional info check out www.spiritviewranch.com

www.olefarms.com 780-675-4664



**5th Annual Family Day Sale
February 15, 2010
1:00 p.m. at the farm at Athabasca, AB
Lunch at 11:30 a.m.**

**SELLING:
120 TOP RED & BLACK ANGUS 2 YEAR OLD BULLS
STRONG SET OF 50 COMMERCIAL BLACK ANGUS
BRED HEIFERS**

At Ole Farms our herd of 1600 mother cows has taught us that in order to be profitable a cow must feed herself on forages for as many days as possible with a minimum of mechanical intervention. She must calve by herself because difficult calving eats at profits and is not tolerated. Cows must be able to hold condition and rebreed without being pampered. Cows must be deep, thick and easy fleshing, with solid feet and udders. We raise our purebred Angus bulls with these qualities in mind. Our sale bulls are 22 months of age. They are moderate, forage developed and ready to make your operation more profitable.



**Kelly & Anna Olson
Phone: 780-675-4664
Cell: 780-689-7822
email: olefarms@mcsnet.ca
Travis: 780-689-8324
Graham: 780-675-0112**



**Sale Managed by:
Djg Douglas J. Henderson
1-403-782-3888**