

U.S. beef supply at 21-year low

By Elizabeth Campbell, Bloomberg

U.S. beef production is plunging to a 21-year low after surging feed costs spurred ranchers to cut herds, signaling record prices for consumers and higher costs for buyers from McDonald's Corp. to Ruth's Chris Steak House.

Production in the U.S. will decline 4.9 percent to 10.93 million metric tons in 2014, retreating for a fourth year, the government says. The herd on July 1 was the smallest for that date since at least 1973, according to the average of four analyst estimates compiled by Bloomberg. The most-active cattle futures will rise 6.1 percent to \$1.33 a pound next year, a level last seen in February, the median of nine forecasts shows.

McDonald's, the world's largest restaurant chain, probably will pay 2.5 percent to 3.5 percent more for beef this year, according to Jack Russo, a St. Louis-based analyst at Edward Jones & Co.

Global meat prices rose 2.1 percent in June, the most in nine months, while the overall cost of food dropped 0.9 percent to the lowest since February, United Nations data show.

Ranchers still haven't recovered from last year's drought that sent grain costs to a record and spurred them to slaughter more cattle. While feed costs are now slumping as U.S. farms prepare to reap the biggest corn crop ever, it takes more than two years to raise enough animals to expand supply. Retail ground-beef prices in June were up 13 percent from a year earlier and near a record set in January.

"The drought has really affected the cow herd," said Tucker

Hughes, a 65-year-old rancher in Stanford, Mont., who predicted the number of animals he retains for breeding may drop as much as 20 percent over the next two years. "Some people had to downsize their herds. When you get these droughts, you have to reduce your numbers."