For Immediate Release:

Uncertain Year Ahead for Alberta Cattle Producers

Producers Look to CPIP to Limit Losses

As Alberta beef producers struggle with low cattle prices and high feed costs, Alberta's shrinking beef herd has many who remain in the industry hoping tighter cattle supplies might offer some relief this year, and push prices higher.

"If it doesn't happen this year, I would expect to see prices move closer to profitable levels by 2011 or 2012 as cattle supplies tighten further," says beef industry specialist Anne Dunford, noting recently released Statistics Canada data shows Alberta's beef cow herd is at 16-year-lows – down 6.5 per cent from last year – due to poor profitability and losses in 2009.

Better Prices May Not Be Enough

But Dunford warns even if cattle prices do improve in 2010, "better prices may not translate into immediate profits." Many of the same factors that triggered significant losses for producers in 2009 continue to be a problem this year, she explains. As general manager at Gateway Livestock Exchange in Taber, Dunford works with cattle producers across Alberta to market their finished cattle. She was the senior cattle market analyst at Canfax for more than two decades.

"Supply is only one side of the story," she says. "Beef demand is still way down after being seriously impacted by the global recession. As we look ahead in 2010, there are many unknowns. We're hoping export demand for beef rebounds as the economy improves but nobody knows when that will happen. It could be a slow and fragile recovery."

Volatile Dollar

The biggest challenge facing producers is the Canadian dollar, she adds, explaining every increase in the dollar pushes cattle prices lower. "Over the last year, we've had a strong dollar, a weak dollar, and then a strong dollar again. It's impossible to predict what it will do this year." Dunford says many producers experienced losses after placing cattle on feed last year hoping for a lower dollar in 2010, but that didn't happen.

The cattle business is inherently risky, she says, but the risks have become more volatile and unpredictable. "The recession showed us how volatile markets can be as they become more global. As producers who want to remain in this business a very long time, we have to look for ways to manage our risk and eliminate some of the wild volatility we've seen over the past 12 to 18 months."

Dunford says the province's new Cattle Price Insurance Program (CPIP) unveiled last fall has become an important tool many of her clients are now using to manage their price risk on fed cattle.

CPIP Locks In Floor Price

"CPIP allows us to limit our losses by locking in a floor price on our cattle," says Dunford, explaining it offers producers a minimum Alberta price for slaughter cattle. "It also leaves our upside open so we can still go out and sell our cattle at the highest price possible."

Whenever CPIP coverage levels approach a producer's break even price on cattle, "that's when we buy coverage," says Dunford. She explains CPIP premiums and coverage levels fluctuate daily because they're based on what's happening with the live cattle futures market, the Canadian dollar, and the basis, which is the difference between U.S. and Canadian cattle prices.

When there's opportunity in such a volatile market to lock in price protection close to your break even point on cattle, "that's something we need to look at seriously," says Dunford, adding her clients still use other tools for managing risk when it makes sense, such as futures, options and packer contracts.

Limiting Extreme Losses

While producers are quick to purchase coverage when it's near break even prices on cattle, many are also buying CPIP price protection below their break evens, says CPIP program coordinator Jennifer Wood. "We've seen extreme losses in the marketplace lately – up to $300 a head in some cases. Producers tell us they'd much rather use CPIP to limit that kind of loss to $50 per head for example, than risk losing considerably more. It depends on their risk tolerance and how much of a loss they can afford," says Wood, who works with Agricultural Financial Services Corporation (AFSC), the provincial Crown Corporation that administers CPIP.

CPIP appeals to smaller producers for the same reason it appeals to larger feedlots, says Wood. "It rolls all of their price risk – the live cattle futures price, the basis and the volatile exchange rate on the Canadian dollar - into one package with one up-front price." She adds a basis-only CPIP product is also available.

Yearling and Calf Product Coming

While CPIP currently covers only slaughter cattle, AFSC is working with the beef industry to expand the Alberta-only program to include a yearling product later this year, and a calf product next year, says Wood. More information on CPIP is available at www.afsc.ca.