



ANALYSIS AND COMMENTS

Livestock Marketing Information Center

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CATTLE SITUATION AND PRICE OUTLOOK

Cattle and beef markets operated under a cloud of international trade uncertainty during 2005, but cattle prices for the year posted record highs. For 2006, the markets still face uncertainty, but compared to a year ago the outlook seems clearer. The reopening of key Asian markets for U.S. beef has begun, still much work and uncertainty remains. Looking ahead, an overriding factor in the cattle market will be cyclically larger beef supplies mostly driven by U.S. cowherd rebuilding, which began in 2004.

As of January 1, 2006, the USDA's National Agricultural Statistics Service reported that the U.S. cattle and calf inventory was up essentially two percent from 2005's. Nationwide, cyclical growth in the U.S. cowherd has already begun. Of course, some areas of the U.S. may not be increasing cow numbers. The USDA reported a U.S. cowherd about one percent above a year ago as of January 1, 2006. The 2005 calf crop was above 2004's, which will provide for some growth in the U.S. beef production, as will imports of cattle from Canada.

U.S. cattle prices will likely remain strong by historical standards in 2006 and even 2007. Cyclically lower cattle prices may be most noticeable for lightweight animals (calves) during the second half of 2006. Still, in the fourth quarter of 2006, steer calf prices (500-to 600-pounds) could be the third highest on record. Through the fourth quarter of 2007, 500-to 600-pound steers in the Southern Plains could remain over \$100.00 per cwt.

A Review of 2005

In the first half of 2005, tighter beef supplies combined with rather stable consumer beef demand supported strong cattle prices and alleviated most of the impact of lost beef export markets. In the second half of 2005, U.S. consumer beef demand declined significantly from a year earlier. Still, beef demand looked rather good as consumers faced surges in energy costs and compared to demand levels of recent years (i.e. estimated to be second highest since 1991).

U.S. beef production in 2005 was up less than 1 percent from 2004's. All of that increase was due to heavier carcass weights, as U.S. commercial cattle slaughter in 2005 was down just over 1 percent from 2004's. That decline was due to large year-to-year declines in heifer and cow slaughter (steer slaughter was well above a year earlier). Importantly, U.S. per capita beef supply actually declined nearly 1 percent compared to 2004's due: 1) modest growth in U.S. beef exports; 2) a slight decline in U.S. beef imports; and 3) U.S. population growth.

In the summer of 2005, the U.S. opened up to Canadian slaughter cattle under 30 months of age, feeder cattle going only to feedlots, and to some other Canadian beef products. However, some of the price impacts of those changes were moderated by significant year-to-year reductions in U.S. beef imports, especially late in the year.

For the calendar year of 2005, slaughter steer, yearling and calf prices set new price records. On a quarterly basis, both calf and yearling prices in many markets peaked in the second quarter, with fourth quarter prices not far behind. Choice slaughter steers in the Southern Plains averaged \$89.13 per cwt. in the first two quarters of 2005 compared to \$84.11 per cwt. in 2004. Slaughter cattle prices weakened, falling about 2 percent below a year ago in the summer quarter in response to above year ago beef production and softer demand. However, slaughter cattle prices improved in last quarter surpassing 2004's, but remained below 2003's. For the calendar year, Choice slaughter steer prices averaged 4 percent above 2004's.

Calf and yearling prices in 2005 were considerably above a year earlier, breaking the previous record highs set in 2004. Very tight feeder cattle supplies, strong fed cattle prices and reduced feed grain prices supported feeder cattle prices in 2005. In the Southern Plains, feeder steer (700-to 800-pounds) averaged \$111.21 per cwt. in the first three quarters versus \$104.57 per cwt. in 2004. In the Southern Plains, steer calf prices (500-to 600-pounds) reached an all-time record price of \$134.56 per cwt. in the second quarter of 2005. For the year (2005), calf prices in the Southern Plains averaged about \$129 per cwt. On a weekly basis, Southern Plains average steer calf prices have not been below \$100 per cwt. since February 2004.

Slaughter cow prices also were stronger in the first half of 2005 due to a smaller number of both beef and dairy cows in the domestic slaughter mix as cow-calf producers continued to reduce cull rates and the absence of Canadian slaughter cow imports. For the first three quarters of 2005, slaughter cow prices in the Southern Plains averaged about 6 percent above 2004's and \$16 per cwt. over the prior five-year average. On a weekly basis, Southern Plains slaughter cow prices peaked in May at over \$60.00 per cwt. (live basis) but then fell below \$50 per cwt. in October. In the fourth quarter cull cow prices continued to erode, even as fed cattle prices strengthened and cow slaughter was mostly below a year earlier. Underlying the weakening slaughter cow market was erosion of wholesale cow-beef prices, which was attributed to significant declines in prices for chicken and some pork items.

Cattle feeders started off in 2005 posting red on closeouts, but were able to move back into the black during the spring months before falling back into the red during the summer. Strong fed cattle prices in late 2005 put cattle feeding returns back into the black in November. Still, for the calendar year, cattle feeding returns were in the red. Estimated cow-calf returns in 2005 were nearly as good as 2004's record. The slight decline from a year ago was due mostly to high fuel and utilities costs.

The sectors of the beef industry that had much lower estimated returns in 2005 compared to 2004 were beef packing and retailers. U.S. beef packers struggled in 2005, a trend that began in the second half of 2004. Reestablishing imports of Canadian cattle did not assist U.S. packer returns as much as many anticipated.

Outlook for 2006

Many of the factors that impacted the beef and cattle markets in 2005 will continue to influence the market in 2006. Supplies of pork and poultry will continue to grow. At the same time, U.S. beef production will rise. The key to cattle prices in 2006 will be international trade. That is, will foreign markets purchase enough beef, pork, and chicken to mitigate growing U.S. production levels?

U.S. commercial cattle slaughter in 2006 is expected to post a 4 percent annual increase. Much of that increase will be cattle imported from Canada. On a quarterly basis, cattle slaughter is forecast to post the largest year-to-year increase in the first half of 2006. U.S. cattle slaughter in the first quarter of 2006 is projected to be 3 to 4 percent above 2005's. The year-to-year increase in the second quarter of 2006 may also be in the same range. Larger cattle slaughter combined with further increases in cattle weights indicate that domestic beef

production would post a 4 to 5 percent annual gain in the first half of 2006. For the year, U.S. beef production could be 3 to 5 percent above 2005's.

U.S. beef imports and exports will be keys to cattle price levels in 2006. U.S. beef imports are forecast to decline some in 2006. In late 2005, U.S. beef imports were smaller than forecast as the U.S. imported more Canadian cattle and less beef. Also, in late 2005, U.S. beef imports from Australia were well below a year earlier. On the beef export side, in late 2005 U.S. beef exports to Mexico posted some strong increases compared to recent levels. In fact, U.S. beef exports to Mexico in November 2005 were the fifth highest of any month recorded.

U.S. beef exports will be a driver of cattle prices in 2006. Current forecasts call for U.S. beef exports to gain ground consistently in 2006. Still reaching 2003's level is several years off. But, if overall U.S. beef export tonnage returns to about 50 percent of pre-BSE (e.g. 2003's) level by the fourth quarter of 2006, much of the growth in U.S. beef production will be absorbed overseas, which will support beef and cattle prices.

In 2006, cattle prices are projected to be below 2005's. Preliminary forecasts put slaughter steer prices unchanged to down slightly in the first half of 2006 compared to 2005's. Larger year-to-year declines are forecast for the second half of 2006, with prices 2 to 5 percent below 2005's. Fed cattle prices are expected to post the largest yearly decline in the fourth quarter. On average, for calendar year 2006, slaughter steer are forecast to be 1 to 2 percent below a year ago.

In the Southern Plains, calf (500-to 600-pound steer) prices for 2006 will show a yearly decline but will average well above \$100 per cwt. Preliminary forecasts for 2006 put 500-to 600-pound steer prices in the first half of the year at nearly \$130.00 per cwt., but prices are expected to erode during the second half mostly due to a larger calf crop. For the year, calf prices are expected to average 5 to 10 percent below 2005's, but still very strong by any historical standard.

Prices for yearlings will generally be in the low \$100's per cwt. in the Southern Plains during 2006. Prices will likely be above 2005's for the first quarter of 2006. But, for the balance of the year annual price declines are anticipated. The annual average price for 700-to 800-pound steers in 2006 is projected to be about 5 percent lower than 2005's.

Prospects for 2007

Forces driving cattle prices in 2007 will mirror 2006. But continued growth in domestic production will make international trade a more important factor. U.S. beef production in 2007 is expected to be the largest since 2002. In 2002, U.S. slaughter steer prices averaged \$67.51 per cwt. in the Southern Plains and calves (500-to 600-pounds) were \$90.95 per cwt. Fortunately, combined with improved beef exports, U.S. consumer demand for beef in 2007 should remain well above 2002's.

In early 2007, expectations are that Canadian cull cows and cow beef will be allowed in the U.S. for the first time since May 2003. Also, slaughter of U.S. originated cows could also increase some. So, cull cow prices may be vulnerable to increasing supplies in 2007.

Overall, 2007 may bring rather normal international trade rules, but competition from other countries in beef export markets and from pork and chicken could be fierce. If U.S. beef export tonnage continues to rebound in 2007, the erosion of fed cattle prices on an annual basis will be slight. For the year (2007), slaughter steer prices could easily average \$85.00 per cwt. Preliminary forecasts put Southern Plains yearling steer prices (700-to 800-pounds) in 2007 mostly in the high 90's per cwt. Steer calves (500-to 600-pounds) may remain over \$100.00 per cwt. if normal feed gain prices prevail in 2007. Cow-calf returns over cash production costs plus pasture rent will still remain positive in 2007. But if energy and associated costs continue to escalate, cow-calf returns will be much smaller than in prior years.

