



ANALYSIS AND COMMENTS

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

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CATTLE MARKET: SITUATION AND OUTLOOK

Introduction

A relatively tight beef supply and strong beef demand combined to support very high cattle prices in recent quarters. In fact, for calendar year 2004, slaughter steer, yearling and calf prices will be record high. Looking ahead, a great amount of uncertainty surrounds the current cattle and beef market. Three major unknown factors include: 1) when and to what extent the U.S. border will be reopened to Canadian cattle; 2) when will U.S. beef trade with Japan and Korea resume; 3) will beef demand continue to be strong by historical standards; and 4) if further disruptions in the domestic or international market occur due to animal disease or political situations.

However, despite the many unknowns, forecasts call for relatively high cattle prices and on an annual average basis at least well into 2006. Those forecasts are based in large part on the cyclically small size of the U.S. cowherd and stable consumer demand for beef.

Mid-Year Cattle Inventory: U.S. and Canada

As of July 1, USDA reported that U.S. cattle numbers were slightly below a year ago while the number of heifers held for breeding herd replacement purposes was above a year ago. This would suggest, nationwide the breeding herd has begun to stabilize, however any fundamental herd growth will depend on holding-back a larger proportion of heifers born this year.

At mid-year, the number of beef cows in the U.S. totaled 33.5 million head, which was the smallest since 1991. The calculated feeder cattle supply outside feedlots of 38.9 million head was the smallest since comparable data began (1973).

Drought has been a factor keeping U.S. cow-calf operations from expanding their breeding herds in recent years. Still, it appears that other factors have kept producers cautious about breeding herd expansion. But that trend may be changing and should be apparent in USDA's next cattle inventory report (as of January 1, 2005).

In contrast to the U.S., the Canadian mid-year cattle inventory grew as foreign exports of live animals remained blocked and their slaughter capacity is limited. Clearly, Canada has a backlog of feeder cattle outside feedlots. On a combined basis, the key U.S. and Canadian cattle numbers as of July 1, 2004 were all 1 percent above a year ago (all cattle and calves and beef cows). However, the combined 2003 calf crop was estimated at 0.5 percent (240,000 head) below 2002's.

A Brief Look Back: The First Nine Months OF 2004

The discovery of one BSE cow of Canadian origin in the U.S. on December 23, 2003, initially raised concerns on how domestic consumers and foreign governments would respond. Generally, U.S. consumers did not have a negative response, but beef exports suffered. Compared to the fourth quarter of 2003, cattle prices were under pressure in early 2004. But, as the first quarter progressed, the domestic beef supply remained tight. By the third quarter of 2004, new all time record high calf and yearling prices were being posted.

For the first half of 2004, lower domestic beef production essentially compensated for lost beef export markets. That is, on a per capita basis beef availability was equal to or below the prior year. That decline in per capita supply combined with strong year-to-year increases in apparent consumer beef demand resulted in fed cattle prices well above 2003's. Fed cattle prices were significantly higher compared to the same period a year ago. Choice slaughter steers in the Southern Plains averaged over \$84.33 per cwt. during the first two quarters. On a weekly basis, average prices remained above \$80 per cwt. since late February and peaked at just over \$90 per cwt. in early May. Weekly average fed cattle prices have moderated some since May, but have remained above \$80 per cwt. into August.

During the first six months, calf and yearling prices were significantly higher than a year earlier, supported by tight feeder cattle supplies and higher fed cattle prices. Reports for another record large corn crop should help to sustain feeder cattle prices this year. Southern Plains feeder steers (700 to 800 pounds) averaged over \$98.51 per cwt. during the first half of 2004, while steer calves (500 to 600 pounds) averaged \$112.55 per cwt. Excluding two weeks in February, prices for steer calves have not fallen below \$100 per cwt. yet this year.

Lean slaughter cow prices during the first and second quarters were well above a year ago. Slaughter cow prices have been supported mainly by considerably smaller number of slaughter cows available in the slaughter mix. For the first two quarters, lean slaughter cow prices averaged \$50.78 per cwt. compared to \$41.35 per cwt. in 2003 and nearly \$12 per cwt. higher than the prior five-year average.

Compared to a year ago, U.S. total cattle slaughter has been well below a year ago. Cattle slaughter was down 5.7 percent in the first quarter and about 10 percent below a year ago in the second quarter. For the first six months, total cow slaughter averaged 15 percent below last year compared to steer and heifer slaughter, which was down about 6 percent. For calendar year 2004, total cattle slaughter is expected to show a year-to-year decline of about 8 percent.

Total commercial beef production has been below a year ago due to smaller numbers of slaughter cattle. Beef production in the first and second quarters of this year was 7 and 9.4 percent below 2003's, respectively. In addition to less slaughter cattle, cattle dressed weights during the first quarter averaged 741 pounds, 11 pounds below last year that further impacted beef production. Weights seasonally declined in the second quarter and were actually a few pounds heavier than a year ago. Prior to late May, cattle dressed weights averaged below or just even with last year but since then have surged to above a year earlier. In July, cattle dressed weights averaged 760 pounds, 12 pounds heavier than 2002's and the prior five-year average. On a weekly basis, weights increased dramatically throughout the summer quarter.

Although U.S. beef exports with many major trading partners has been non-existent or minimal this year, strong U.S. beef prices pulled beef from overseas into the U.S. market. In fact, U.S. beef imports (carcass weight basis) for the first quarter of 2004 were larger than reported in any other first quarter reported. U.S. beef imports for the second quarter were 25 percent above last year and was the second largest quarter reported since 1988 when the trade series began.

Strong prices put cattle feeding returns well into the black during the first several months of 2004. But the balance of 2004, does not look very good for cattle feeders and that situation suggests that calf and yearling prices will be moderating at least through the fall quarter.

Outlook for Balance of 2004

International trade will continue to dominate the near-term outlook. But, compared to the first six months of 2004, supplies of pork and poultry may have a dampening impact on beef prices for the balance of the year. U.S. pork production and chicken production will both set new records in 2004.

For the summer quarter (July-September), U.S. beef production is projected to be well below a year ago (down fully 9 percent from 2003's). For the quarter, cash fed cattle prices are expected to average 3 percent above a year ago when in the Southern Plains slaughter steers averaged \$81.23 per cwt. Calf and yearling prices for the quarter will set new all time highs.

Slower fed cattle marketing rates than a year ago for the summer quarter will set the stage for a rather large year-to-year increase in slaughter cattle weights this fall. Forecasts call for cattle slaughter to be slightly below a year ago this fall quarter (October-December). But heavier slaughter weights coupled with low marketing rates will likely translate into a slight year-to-year increase in U.S. beef production for the last quarter of the year.

Further, the domestic beef supply will feel the pressure of increased beef imports and still no exports to Japan or Korea. In addition, to increasing imports and limited exports, domestic supplies will also be impacted by growing stocks of beef in cold storage. So, on a per capita basis, U.S. beef consumption could be 8-9 percent above a year ago this fall.

The U.S. economy had a rather lackluster early summer and that has raised questions about beef demand. If beef demand does not erode this fall, look for fed cattle prices to average in the mid to upper \$80's (\$85 to \$87 per cwt.). That would be the second highest fourth quarter ever, but well below (down about 10 percent) from the all time record of a year earlier.

Another large corn crop and strong slaughter cattle prices will continue to support rather strong calf and yearling prices for the remainder of this year. Steers weighing 700 to 800 pounds are expected to average about 20 percent above last year for the third quarter and 3 to 5 percent above a year ago for the fourth quarter of this year.

Compared to a year ago, calves sold this summer will likely be 20 percent above a year ago before weakening to about 7 percent above 2003's for the fall quarter. That would put third quarter Southern Plains steer calf (500 to 600 pounds) prices over \$120 per cwt., which would establish a new record. In the fourth quarter expect calf prices to erode more than seasonally. For the quarter, calf prices are forecast to average \$5.00 to \$9.00 per cwt. above 2003's. By late in the fourth quarter, calf prices could be similar to 2003's.

After being in the red during early 2004, cattle feeding returns turned positive in May and remained in the black throughout July. But, feeders will more than likely face a flow of red ink for the balance of 2004 as estimated breakevens far exceed projected fed cattle prices. Steers placed as yearlings (700 to 800 pounds) in commercial feedlots in the Southern Plains region and sold in 2004 will average in the negative \$-48.00 to \$-50.00 per head range.

On the other hand, cow-calf producers have benefited from well above year ago calf prices. Estimated cash returns (cash income less cash costs plus pasture rent) for cow calf producers in the Southern Plains for calendar year 2004 in the \$91.00 to \$92.00 per head range. This would be an all time record since the LMIC series began (1974).

Perspective on 2005 and Beyond

The first few months of 2005, could be a time of transition back to more normal international trade flows. Still, regaining foreign beef markets will take time. Competition from pork and chicken may become more and more obvious within the beef complex. But as the year progresses, the impact of heifer calves held back for breeding purposes may become an important factor tightening feeder cattle and fed cattle supply.

Should normalization of international trade occur in 2005, U.S. beef production is expected to post a year-to-year gain (up 1 to 3 percent from 2003's). Still, U.S. beef production is

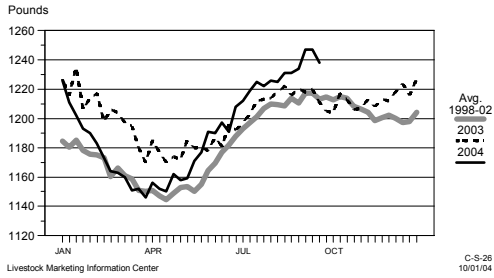
forecast to be the second smallest since 1997. If U.S. beef exports begin to ratchet-up in 2005, per capita beef supply will decline in 2005 and per capita beef consumption could be below 65 pounds (retail weight) for only the fourth time since 1960.

At this time, forecasts call for beef demand to be mostly steady in 2005, after very large year-to-year increases in late 2003 and early 2004. Steady demand with tighter per capita supply suggests mostly year-to-year increases in fed cattle prices in 2005. For the year, slaughter steer prices in 2005 are forecast to average in the mid to high \$80's, about 4 percent above 2004's.

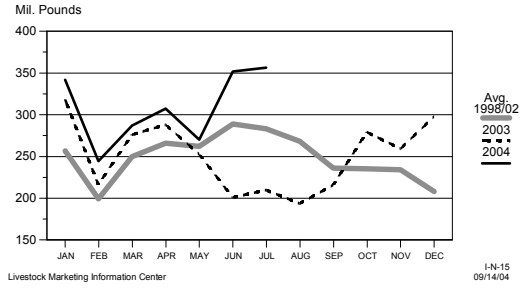
Calf and yearling prices may erode some in 2005 from the lofty levels of 2004. Red ink in late 2004 may keep cattle feeders somewhat in check when bidding on feeder cattle. And the backlog of Canadian feeder cattle must be worked-off sometime. Yet, if feedstuff costs don't soar, yearling and calf prices in 2005 will likely be the second highest ever. Forecasts put Southern Plains 700 to 800 pound steers in the mid to high \$90's for most of 2005. Calf (500 to 600 pound steers) prices for calendar year 2005 are forecast to be in the \$106 to \$115 per cwt. range in the Southern Plains. Cull cow prices will likely remain strong throughout 2005. Bred heifer, cow and bull prices will likely continue to post year-to-year gains as rebuilding of breeding herds becomes commonplace in 2005.

Detailed cattle forecasts are available to LMIC members on website (www.lmic.info) and are summarized in Tables option (table 1.111). Note that there is one less slaughter day in the fourth quarter of 2005 versus 2004, which impacts year-to-year slaughter and production comparisons.

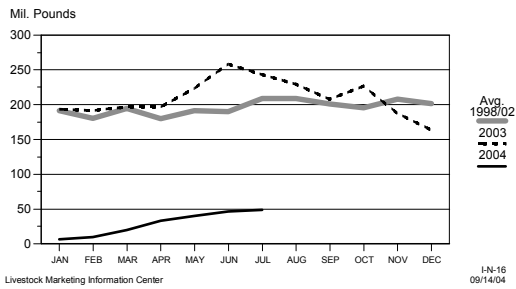
LIVE WEIGHT - STEER AND HEIFER
Texas/Oklahoma Panhandle Area, Weekly



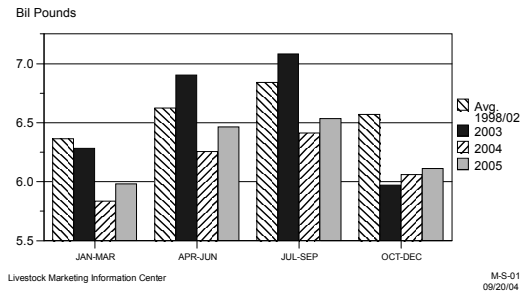
U S BEEF AND VEAL IMPORTS
Monthly, Carcass Weight



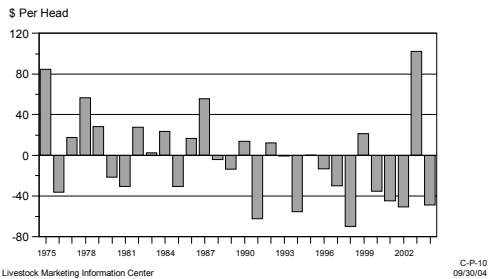
U S BEEF AND VEAL EXPORTS
Monthly, Carcass Weight



COMMERCIAL BEEF PRODUCTION
Quarterly



AVERAGE RETURNS TO CATTLE FEEDERS
Feeding 725 Lb. Steers, S. Plains, Annual



ANNUAL AVERAGE CATTLE PRICES

