ANALYSIS AND COMMENTS

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

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CATTLE SITUATION AND OUTLOOK

Deteriorating macroeconomic conditions (U.S. and worldwide) and the added uncertainty resulting from the terrorist attacks on the U.S. cloud the beef demand picture and the cattle price outlook. The general beef supply outlook over the next two years is for rather consistent year-to-year declines.

For the U.S. industry as a whole, the mid-year cattle statistics were a mixed bag. Smaller calf crops, no sign of breeding herd expansion yet, and large numbers of cattle in feedlots continues to summarize the underlying supply statistics. Over the next few years, cattle supplies will be cyclically smaller.

Major questions in the cattle/beef sector are: 1) will U.S. domestic beef demand continue to be “better than anticipated” given the slowing economy; 2) will weather patterns impact forage (grassland and hay) conditions in the U.S. and continue to limit cyclical beef cowherd rebuilding; and 3) how will international conditions impact U.S. beef imports, beef exports and by-product values.

A LOOK AT 2001

On a calendar year basis, the Western Kansas fed cattle price peaked during the last cattle cycle in 1990 at $78.88 per cwt. The mid point of the projected fed cattle price range ($73.00 to $74.00) for calendar year 2001 is the highest since 1993. Feeder cattle and calf prices will likely exceed the record calendar year highs this year. The Southern Plains feeder steer (700- to 800-pounds) price is projected to be in the $89.00 to $90.00 per cwt. range, near the previous record of $88.77 set in 1991. Although the critical fourth quarter is still ahead, the 2001 Southern Plains steer calf (500- to 600-pound) price may exceed $100.00 per cwt. for only the second time on-record (500-to 600-pound steers in the Southern Plains averaged $100.48 per cwt. in 1991).

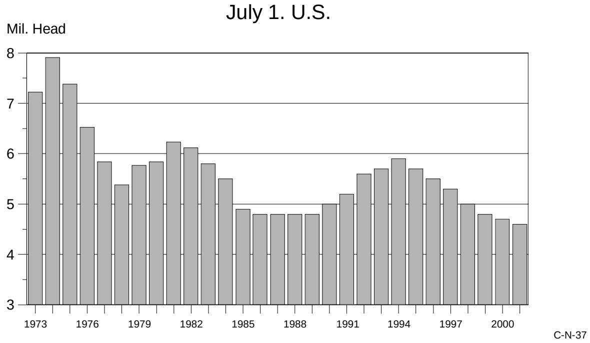
Fed Cattle prices in early 2001 were higher than anticipated as winter weather limited feedlot animal performance and caused a rather unusual year-to-year decline in slaughter cattle weights. On a quarterly average basis, U.S. beef production was 7.1 percent below 2000’s for the first quarter of this year. Year-to-year reductions in beef output moderated in the second and third quarters declining 3.0 and 2.7 percent, respectively. Fourth quarter U.S. beef production will be about 2 percent above 2000’s, supported by large numbers of steers and heifers on-feed and heavier carcass weights. At just over 26 billion pounds, U.S. beef output in 2001 will be about 2.7 percent below 2000’s and the smallest since 1998.

The U.S. Statistics

At mid-year (July 1, 2001), the USDA estimated that all cattle and calves in the U.S. totaled 105.8 million head, down less than 1 percent from a year earlier. That was the smallest July 1 count since 1990 and was a reduction of 7.2 million head from the cyclical peak posted in 1995. This cattle cycle has already extended beyond the normal 10-year time frame. As of January 1, 2002, the U.S. cattle and cowherd will likely post another year-to-year decline, making the current cattle cycle 13 years long and counting.

As of July 1, UDSA reported that the number of cows and heifers that have calved was down 200,000 head (less than 1 percent) from a year earlier. Both beef and dairy cow numbers were below 2000's, each declined by about 100,000 head. The number of beef cows reported in the U.S. was the smallest since 1991. USDA provided, for the second year, additional state level data in the July 1 Cattle report. In the 11 individually reported states, only two states (California and South Dakota) reported more beef cows than a year ago. Due to drought, two states (Montana and Colorado) that reported a year-to-year increase in beef cows last year now have fewer beef cows than two years ago.

HEIFERS HELD AS BEEF COW REPLACEMENTS
July 1. U.S.



The number of heifers held for beef cow replacement purposes (500 lbs. and over) declined. The July 1, 2000 beef cow replacement estimate was 4.6 million head, down 2 percent from a year ago. As of January 1, 2001, USDA estimated a year-to-year increase in the number of heifers held for the breeding herd. Drought, high winter-feeding costs, and front-page news stories about disease problems in Europe caused producers to re-evaluate their heifer calf retention plans during the first half of 2001.

The 2001 calf crop was estimated to be 38.4 million head, down about 200,000 head from the 2000 calf crop. Aggressive placements of cattle into feedlots during the first five months of 2001 continued to pull the estimated feeder cattle supply outside feedlots down. As of July 1, 2001 the estimated total feeder cattle supply was 866,000 head smaller than 2000's (down 2 percent).

As of September 1, the number of cattle on-feed remained record large compared to a year earlier (since 1996 when the USDA began reporting comparable data). As of September 1, the monthly feedlot inventory was 5 percent above a year ago or 685,000 head more than a year ago in U.S. feedlots with 1,000 or more head capacity.

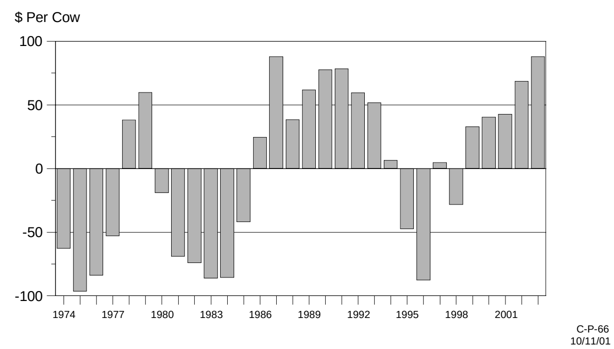
Drought bolstered placements of cattle into feedlots in June and July. On a nationwide basis, drought conditions during mid-summer of 2001 were similar to 2000's. From January through August, placements of cattle into feedlots were below 2000's (down 387,000 head in the U.S.). But, lackluster fed cattle marketings in recent months were the major factor causing the build-up in the number of cattle in U.S. feedlots. During January through August, U.S. feedlot marketings were 587,000 head below 2000's. On a daily average basis, fed cattle marketings for the first eight months of this year were above 2000's only twice (May and June).

Red ink for cattle feeders, and small feeder cattle supplies began to dramatically pull back placements of cattle into feedlots in August (9 percent below a year ago in the historically reported 7-states and 10 percent below 2000's in the U.S.). Year-to-year declines in feedlot placements are expected for most the balance of 2001. For September, a double-digit year-to-year decline in feedlot placements is expected. As of November 1, 2001, the USDA's Cattle on Feed data may show the first year-to-year decline in the number of cattle on-feed since February 1999.

U.S. Producer Returns

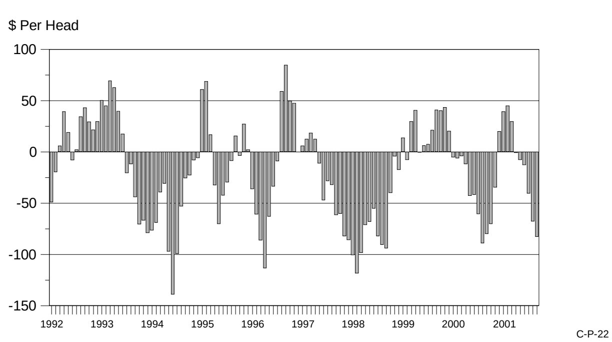
Drought and high hay prices have impacted many U.S. cow-calf and stocker operations during the last two years. Still, for most cow-calf operations strong calf prices have meant profitability. Projections are for cow-calf returns in 2001 to be the highest since 1993.

ESTIMATED AVERAGE COW-CALF RETURNS
Returns Over Cash Costs (Includes Pasture Rent), Annual



In contrast to good cow-calf returns, U.S. feedlots have struggled. After some good profits during the first quarter of this year and breakeven returns in the second quarter, a flood of feedlot red ink started in July. Slaughter steers sold in July, which were purchased at about 750 pounds, posted estimated losses of about $40.00 per head. By September, closeouts posted estimated losses of over $85.00 per head.

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



Beef Demand is Key

U.S. consumer beef demand remains a key to the cattle price situation and outlook. The U.S. economy, and those of several important foreign beef buyers, has weakened significantly in recent months, raising questions about beef demand prospects. Through the second quarter of this year, U.S. consumer beef demand continued to post year-to-year gains. Several factors have contributed to increased U.S. consumer beef demand in recent years, including development of new consumer friendly products. The major factor has been the strong U.S. economy. But that picture has changed.

Recently, the U.S. Department of Commerce estimated that U.S. GDP grew less than 1 percent during second quarter. By all accounts, the U.S. is now posting negative growth rates and the formal recession definition (two consecutive quarters of declining GDP) will apply after the numbers are in for the fourth quarter of 2001. The last U.S. recession was rather modest and occurred in 1990-91.

The international economic picture also has deteriorated resulting in slow or, in several important countries (e.g. Japan), negative growth economic growth. Even with and effective interest rate of 0 percent, Japan's economy remains very weak and seems to be deteriorating. Much of Asia is following Japan. U.S. meat and poultry exports to Japan and other important Asian countries are expected to mirror their economic trends. Spurred by a weakening U.S. economy, the Mexican economy also has entered into recession.

Cattle & Beef Trade 2001

Compared to expectations in 2000, U.S. beef imports have been slightly larger than anticipated, but export prospects have been continuously lowered. As of mid September, actual trade data for 2001 were only available through July. But, the recent trends will likely continue throughout 2001 due to economic conditions in Asia and Mexico.

For the first seven months of 2001, U.S. beef imports were up 5 percent on a carcass weight basis. But, export tonnage posted a 15 percent year-to-year decline. Compared to a year ago, U.S. beef exports from January-July were down 9 percent to Japan, down 38 percent to Korea, declined 11 percent to Canada, and were down 1 percent to Mexico.

Live cattle imports by the U.S. increased during the first seven months of 2001. Overall, during January-July of this year, U.S. cattle imports were up 21 percent. Cattle imports were above 2000's from both Canada and Mexico, up 30 and 12 percent, respectively.

Weakness in foreign markets was the major factor contributing to deteriorating hide and offal values. After a surge in hide values in early 2001 due to FMD and BSE in Europe, prices have moderated. In recent years, hide and offal values have often added $1 to $2 per cwt. to the value of a live slaughter steer above the year earlier price. As of mid September 2001, hide and offal values were well below a year ago.

Short-Term Outlook (2001)

Even though placements of cattle into feedlots started to moderate in August and the on-feed inventory will be below a year ago yet this fall, fed cattle marketings will not decline significantly compared to a year ago during the balance of 2001. And increased average dressed weights will contribute to beef production. U.S. Commercial beef production this fall quarter is now forecast to be up about 2 percent from 2000's. In the fourth quarter of 2000, fed cattle prices in the Southern Plains averaged $72.17 per cwt. Fed cattle prices for the fourth quarter of 2001 may average 3 to 4 percent below 2000's ($69.00 to $70.00 per cwt.).

As of mid September, U.S. pasture and feed grain conditions were better than a month ago. U.S. corn production is forecast to be 9.24 billion bushels, down about 7 percent from 2000's. By historical standards they remain rather favorable for calf and yearling prices. Prices for feeder steers (700- to 800-pounds) in the Southern Plains this fall are forecast to average a little below 2000's. In major U.S. production areas, steer calf prices this fall may average near 2000's.

LOOKING AHEAD TO 2002 AND '03

On a quarterly average basis, U.S. beef production is forecast to post year-to-year declines throughout 2003. On a national basis, U.S. cow-calf operations have not begun the process of holding back heifers for their breeding herds. If normal weather materializes next year, the process of holding back heifers will begin with 2002 born calves. High fed cattle prices next year will not necessarily translate into cattle feeding profits due to cyclically high feeder cattle prices. If feeder cattle prices moderate some this fall, the best chances for profits may be for closeouts in March-June. Cow-calf producer profits are forecast to continue to increase in 2002 and 2003.

U.S. beef demand is the major uncertainty for 2002. Income growth has been behind most of the year-to-year increase in U.S. consumer beef demand in recent years. Both fiscal and monetary policies are now being used to stimulate the economy. A key for beef and cattle markets will be when the U.S. economy starts to grow again.

Forage, Corn and Other Key Factors

Forage conditions can have a major impact on cattle producers. For example, drought in 2000 precluded many cow-calf producers from holding back heifers for their cowherds. Drought this past summer continued to push heifers into feedlots. Another forage factor that influences cow-calf producer decisions about holding heifers is the cost of hay. In regional markets, hay prices usually mirror pasture conditions and carry-over stocks. Because of the drought in recent years, many regions of the U.S. have rather small carry-over (old crop) hay stocks. Hay prices nationally are well above 2000's. Improved pasture and hay production in 2002 will change cow-calf producer attitudes rather quickly, increasing heifer retention and pulling back beef cow slaughter.

A significant shortfall in U.S. corn production remains a major longer-term risk for U.S. livestock and poultry producers. Due to low prices in recent years, U.S. corn acreage planted in 2001 was the lowest since 1995. Currently, the forecast is for the national average corn yield this year to be just over 133 bushels per acre, compared to 137.1 bushels last year.

Based on the forecast yield, the national average corn price received by farmers will be up in 2001/02, averaging about $2.10 per bushel. For the 2000/01 crop-year, the national average corn price was $1.85 per bushel. Increased corn prices will help cap feeder cattle and calf price increases. For example, if all other factors are unchanged, and corn increases by 10 cents per bushel from a year earlier, 500- to 600-pound steer calf prices will tend to decline by $1.00 per cwt. Still, corn prices well into 2002 look to remain rather low by historical standards and mostly favorable for livestock producers. Cattle price forecasts reported here assume the 2002 and 2003 U.S. feed grain production will occur with "normal" weather.

Besides feedstuff uncertainty, other factors also will influence cattle prices. Both U.S. pork and poultry production will likely be record large for the next two years. On a per capita basis, U.S. total meat and poultry consumption declined (2 to 3 pounds) in 2001, but will likely increase about 1 pound per person in 2002. Overall, declining U.S. beef consumption during the next two years will be offset by more pork and poultry.

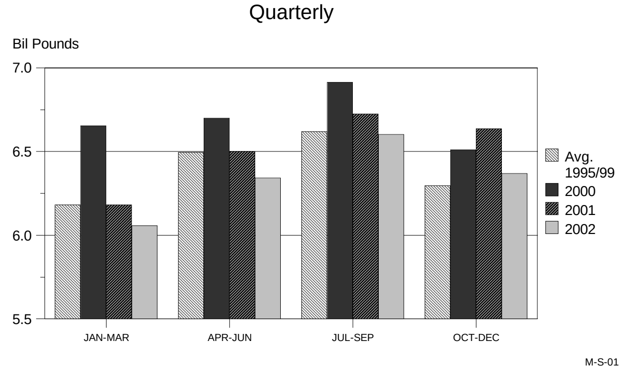
U.S. beef exports in 2002 are expected to remain on the defensive. In fact, modest year-to-year declines are forecast for U.S. beef exports in 2002 and 2003. The preliminary forecast for U.S. beef exports in 2003 is just over 1.9 billion pounds (carcass weight basis). That would be the lowest U.S. beef export tonnage since 1996. U.S. imports of beef from Canada may increase if Asian demand for beef continues to moderate.

Outlook for 2002

Placements of cattle into feedlots are expected to mostly be below a year ago for the balance of 2001. That will set the stage for year-to-year declines in steer and heifer slaughter beginning in the first quarter of 2002. Cow slaughter will also decline compared to the rather large slaughter levels posted in 2001. As of January 1, 2002, the U.S. cattle inventory and cowherd will continue to shrink.

For the first three quarters of 2002, U.S. beef production is forecast to decline in the range of 1 to 3 percent compared to 2001's. During the fourth quarter of 2002, the year-to-year decline in U.S. beef output may be 3 to 5 percent. Commercial beef output for the year is forecast to be about 25.4 billion pounds, the smallest since 1997.

COMMERCIAL BEEF PRODUCTION
Quarterly



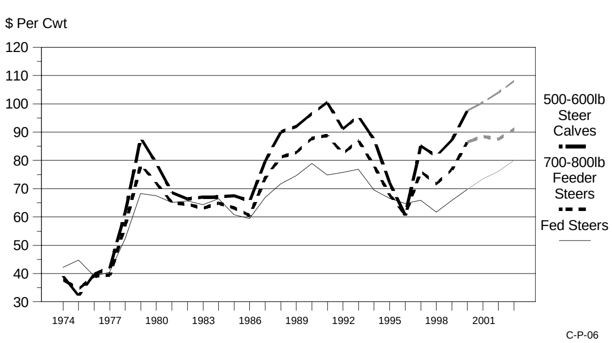
Even though beef production will likely decline, fed cattle prices in the first quarter of 2002 may be below (down 3 to 5 percent) 2001's. Fed cattle prices in early 2000 were bolstered by harsh winter conditions in feedlots. Further, lower beef demand and by-product values are expected to contribute to prices below 2001's. But, fed cattle prices are forecast to average above the 2001 level during the last three quarters of 2002. Year-to-year increases in fed cattle prices could be 5 to 10 percent in the second half of 2002 if, as currently forecast, the U.S. economy climbs out of recession. For the year, fed cattle prices are forecast to average in the upper $70's per cwt., 3 to 4 percent above 2001's.

The major factor influencing calf and yearling prices in the year ahead could be corn prices. If corn moves higher as forecast, 700- to 800-pound steer prices may increase only slightly in 2002. Calf prices are likely to move higher in 2002, if corn price increases are not above current forecasts. With normal weather, calf prices in 2002 will average over $100.00 per cwt. in the Southern Plains.

Preliminary Outlook for '03

Preliminary forecasts are for U.S. beef production to decline in 2003 reflecting an increase in heifers held back for breeding purposes in 2002, slightly smaller calf crops, and declining cow slaughter. U.S. beef production is forecast to be about 24.8 billion pounds, down 2 to 3 percent from 2002's and the lowest output since 1994. Preliminary forecasts are for cattle prices in 2003 to increase 2 to 7 percent from 2002's.

ANNUAL AVERAGE CATTLE PRICES



The cyclical peak in calf and yearling prices could be 2003. If heifer holdback for breeding purposes in less than anticipated in 2002 and U.S. beef demand does not decline, cattle prices may not peak until 2004.