



# ANALYSIS AND COMMENTS

Livestock Marketing Information Center

State Extension Services in Cooperation with USDA

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## CATTLE MARKET REVIEW AND OUTLOOK

Stronger cattle prices and a second consecutive year of improved beef demand were prominent features of the 2000 cattle market. But, many cattle producers will remember 2000 for drought and cattle feeders will remember significant red ink. Late 2000 also ended with weather-induced strength in beef and cattle prices, after two very mild winters in the High Plains.

Cyclically strong cattle prices are forecast for the next two years. How strong prices will be depends on two major factors. First, will domestic beef demand continue to post year-to-year increases? Second, how aggressively will cow-calf producers begin to holdback heifers for their breeding herds? Other factors that will likely affect slaughter and feeder cattle prices are: 1) feedlot cost of gain (mostly as a result of corn prices); 2) international trade; and 3) the spillover from competing meat and poultry supplies, especially the potential for a large increase in pork production by late 2001.

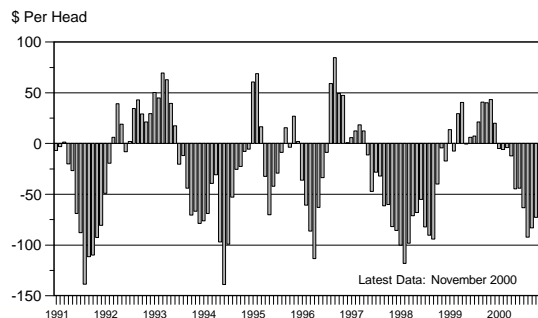
The rally in cash slaughter cattle prices that got underway in late September 2000 continued onto December, as harsh winter weather impacted feedlots and meat movements. Fed cattle price strength will continue in 2001, and the year-to-year increase may be similar to 2000's (up 3 to 6 percent). Tightening feeder cattle supplies and stronger fed cattle prices will support calf and yearling prices in 2001. But, year-to-year gains in calf and yearling prices may moderate compared to 2000's large

percentage increase. On average, 2001 calf and yearling prices could increase less than 5 percent, compared to the 13 percent gain posted in 2000.

### Review of 2000

Despite drought in much of the West, Plains and South, 2000 was a rather good year for cow-calf operations due to higher prices. Cattle feeders on the other hand posted considerable red ink (mostly May through November closeouts) as feeder cattle prices more than compensated for historically low cost of gain.

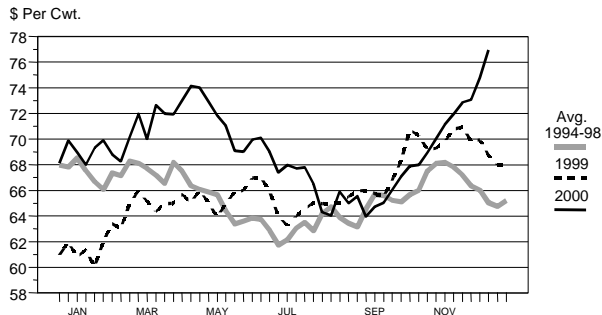
**AVERAGE RETURNS TO CATTLE FEEDERS**  
Feeding 725 Lb. Steers, S. Plains, Monthly



On a quarterly average basis, fed cattle prices actually peaked in the fourth quarter of 2000 at slightly above the \$71.06 posted for the second quarter in the Southern Plains. Fourth quarter fed cattle prices were bolstered by winter weather in December.

For the year, fed cattle prices averaged over \$69 per cwt., the highest annual average since 1994. During calendar year 2000, Southern Plains calf (500-to 600-pounds) and yearling prices (700- to 800-pounds) averaged over \$95 per cwt. and \$85 per cwt., respectively. Both were the highest since 1993.

**CHOICE SLAUGHTER STEER PRICES**  
Southern Plains, Weekly



Stronger cattle and beef prices in 2000 were achieved in the face of record large U.S. beef production. That level of output was achieved with large feedlot placements and record heavy slaughter weights (commercial dressed weight increased about 9 pounds or 1.3 percent from the previous record established in 1999). Increased cattle dressed weight followed the long-term trend. In the decade of the 1990's, commercial dressed weight of cattle slaughtered in the U.S. increased 58 pounds (8.5 percent). U.S. commercial beef production in 2000 was about 26.8 billion pounds.

**Beef Demand Growth Increases Cattle Prices**

Strong consumer demand for beef has supported beef prices over the last two years. That increased demand has fed through the system proportionally to support higher cattle prices.

Preliminary consumption figures for 2000 indicate domestic per capita beef consumption increased nearly 1 percent at the same time that inflation adjusted retail beef prices rose about 3 percent. When the price and consumption data are combined

into a demand index that accounts for changes in price and consumption, it indicates retail Choice beef demand during 2000 increased about 4 percent compared to 1999's. This marked the second year in a row that beef demand increased substantively.

U.S. beef demand declined continuously from the late 1970's through 1998. In 1998, when retail Choice beef demand hit its low point, domestic beef demand was nearly 50 percent below its 1980 level. However, since bottoming out in 1998, retail Choice beef demand has increased a total of about 7 percent, to a level last seen in the mid-1990s. Despite the recent demand strength, domestic retail beef demand still lost ground during the decade of the 1990s (demand in 2000 was still nearly 15 percent below the 1990 level).

Demand growth during 1999 and 2000 was tied to strength in the U.S. economy. Low unemployment, strong growth in disposable income and consumers' willingness to spend a growing proportion of their incomes all contributed to recent beef demand growth. There is some evidence that consumer friendly beef items that use relatively low value cuts had a modest impact on beef demand during 2000. And some of the demand growth was also likely tied to an improvement in consumer attitudes about beef, although the magnitude of this impact is unclear.

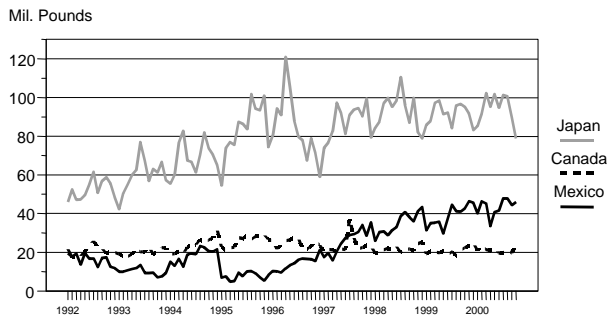
**Exports and Imports Increase**

USDA released the trade statistics for the month of September on November 22<sup>nd</sup>. This report included revisions (made by the U.S. Department of Commerce) to late 1999 and early 2000 export data to better reflect Food Aid shipments (donations) from the U.S. to Russia. The revisions reduced early 2000 U.S. beef exports by 88.7 million pounds and reallocated it to August through December 1999. Even with the revisions, year-to-date U.S. beef exports were above 1999's, but so were imports.

The revised trade data along with subsequent October data indicated that U.S. beef shipments for the first ten months of

2000 totaled 2.1 billion pounds (carcass weight), 6 percent above 1999's. U.S. beef export tonnage was up to all major destinations with exports to Japan up 2 percent, Canada up 6 percent, Mexico up 16 percent and Korea up 33 percent from a year ago.

**U S BEEF EXPORTS TO MAJOR MARKETS**  
Monthly, Carcass Weight



Imports of beef also were higher than 1999's during the first ten months of 2000. January-October U.S. beef imports totaled 2.6 billion pounds (carcass weight), 6 percent more than a year ago. Most of the increase consisted of beef from Australia and New Zealand.

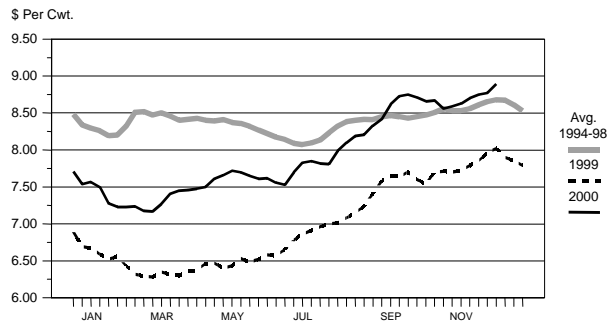
Comparing the first ten months of 2000 to a year earlier, imported beef tonnage increased more than the rise in exports. The year-to-date net beef imports were 7 percent greater than 1999's.

On the live animal trade front, rising prices for U.S. feeder cattle have stimulated feeder cattle shipments from Mexico to the U.S. At the same time, U.S. cattle imports from Canada declined. Feeder cattle imports from Mexico will likely range from 1.1 to 1.4 million head during 2000, an increase of over 40 percent compared to 1999's. Even with the large increase, Mexican cattle imports this year will still fall well below 1995's (the peak import year of the 1990s) when 1.65 million head of Mexican cattle were imported into the U.S. U.S. exports of cattle to both Mexico and Canada posted large year-to-year increases from January-October (up about 63 percent).

**By-Products Values Up**

Non-meat items or by-products are a major contributor to the overall value of U.S. cattle product exports. Improved overseas markets, especially for hides, bolstered steer by-product values in 2000. Compared to a year earlier, by-products increased the value of a fed steer by about \$1.00 per cwt. (live basis) in 2000.

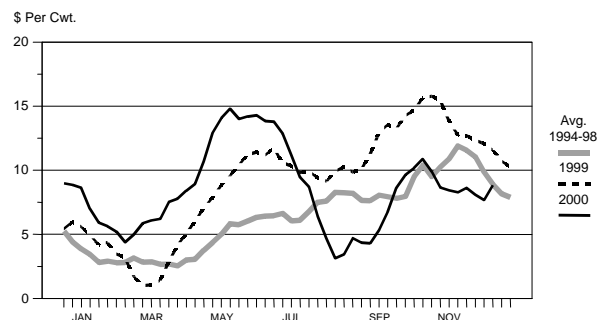
**STEER HIDE AND OFFAL VALUE**  
Live Animal Basis, Weekly



**Volatile Choice/Select Price Spread**

The spread between Choice and Select beef cutout values (wholesale prices) was volatile in 2000 and was indicative of developments in the cattle-feeding sector. The Choice/Select price spread has a rather strong seasonal pattern. In 2000 that pattern was more pronounced than recent history.

**CHOICE MINUS SELECT BEEF PRICES**  
Carcass Cutout Value 550-700 Lbs., Weekly



During the first several months of 2000, Choice beef prices relative to Select prices were much higher than historically expected. The premium for Choice increased dramatically in April and May to almost \$15 per cwt. above Select in May. In July, as cattle were backed-up in feedlots and weights

ratcheted up, Choice prices declined to a much smaller than historic premium. By August, Choice beef was less than \$5 per cwt above Select. As cattle feeders worked through market ready supplies, the Choice/Select price spread began to increase again in September. Still, in late 2000 the Choice/Select price spread remained below 1999's and below levels observed in recent years.

Slaughter steers and heifers sold on price grids often have premiums based on the Choice/Select wholesale price relationship. Several months in 2000 proved disappointing for cattle feeders attempting to capture Choice premiums. Those premiums eroded quickly as the supply of Choice cattle increased during the Summer 2000 market collapse.

### Competing Meats—Pork and Poultry

On an annual basis, growth in competing meat supplies during 2000 was modest. For the year, pork production declined and poultry production increased at a rate well below recent years.

U.S. pork production during 2000 was about 1.5 percent smaller than 1999's. On a per capita basis, 2000 U.S. pork consumption declined about 1.3 pounds from 1999's.

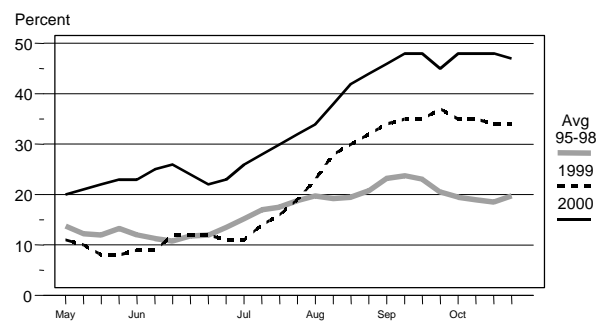
Poultry production continued to grow in 2000. But the increase in U.S. poultry production (chicken and turkey) was only 2.0 percent, a modest growth rate compared to recent history. For example, during the 1990s, U.S. poultry production increased about 4.9 percent annually. Low chicken part prices, especially breast meat, squeezed broiler firm returns and began to slow production growth during 2000.

### Drought Impacts Cow-Calf Decisions

Drought was a major fact of life for many U.S. cattle producers in 2000. Drought impacts directly reduced pasture and range conditions in the West, Plains and parts of the Southeast. Fortunately for calf and yearling producers, the U.S. feed grain crop was not affected by drought. In fact, USDA estimated that, for just the second time on record, U.S. corn production reached 10 billion bushels.

On a national basis, pasture and range conditions deteriorated dramatically by mid-summer and remained poor for the balance of the growing season. From August through October over 45 percent of the U.S. pasture and range was rated as poor or very poor (the two lowest condition categories). Many stocker cattle on summer grass were sold much earlier than normal and placed into feedlots. Many producers in the West and Plains weaned and sold their calves earlier than normal this past year.

**U S RANGE AND PASTURE CONDITION**  
Percent Poor and Very Poor, Weekly



The drought also impacted cow-calf producers' herd expansion decisions. USDA's July 1 Cattle report indicated that producers in some Central and Northern Plains states had already begun to increase their breeding herds. But the drought probably slowed down their expansion plans. And in several other states, the process of holding back heifers to expand herd size was possibly delayed a year by drought. However, despite the drought, slaughter data for 2000 indicated that cow-calf operations did not cull extra beef cows. That is, many operations were able to take extra measures to maintaining their breeding cow numbers.

### **Outlook—2001 and '02**

Longer term, the dominant factor in the cattle outlook is expected to be shrinking supplies. In fact, year-to-year declines in cattle slaughter and beef production are expected throughout 2001 and 2002. Exactly how strong slaughter cattle prices will be is in the hands of U.S. cow-calf producers and consumers.

Cow-calf producers will decide how many females are in the slaughter mix. Holding back heifers from slaughter to expand herd size will reduce short run slaughter supplies, reduce beef production and push beef and cattle prices higher. Odds are high that beef cow producers will start to expand their herds during 2001. How aggressively cow-calf producers decide to expand their herds will determine how sharply slaughter supplies actually decline next year and, ultimately, have a big impact on how much slaughter and feeder cattle prices increase.

How strong beef demand will be during 2001 is a difficult question to answer. Demand growth during 1999 and 2000 was tied to strength in the U.S. economy. Low unemployment, strong growth in disposable income and consumers' willingness to spend a growing proportion of their incomes all contributed to recent beef demand growth. Some of the demand growth was also likely tied to an improvement in consumer attitudes about beef, although it's not clear just how large a role changing consumer attitudes played in the beef demand rebound.

Looking ahead, evidence is growing that the U.S. economy will continue to slow down during 2001. Since part of the beef demand improvement was tied to strong economic growth, it could cause beef demand growth to slow down. As a result, look for domestic beef demand to keep on growing, but at a slower pace than in either 1999 or 2000.

Rising U.S. prices over the next year mean that importers will shift some of their purchases from the U.S. to other countries and to competing meats, such as pork and chicken. As a result, beef exports could remain soft throughout much of 2001. That means U.S. beef and cattle prices will not receive much support from export growth, but instead will have to rely on domestic demand growth and reductions in domestic supplies.

U.S. beef import tonnage will also be influenced by developments overseas. The worldwide economy and BSE problems spilling over into beef demand in Europe and other regions may redirect more beef to the

U.S., especially from the Southern Hemisphere.

Competing meats and poultry supplies will likely be more important during the next two years than they were in 2000. U.S. pork production in 2001 is forecast to be record large at about 19.7 billion pounds (up about 3.6 percent from 2000's). So, pork prices will become increasingly price competitive with beef. Broiler output will likely increase only modestly for much of 2001 as lingering impacts of financial struggles of 1999 and 2000 keep expansion in check. Still, poultry prices will be increasingly attractive given rising beef prices.

Feed grain prices pose a great risk to calf and yearling prices. Low feed grain prices were bid into calf and yearling prices in 2000. Any negative impacts will emerge with the new crop year. So at least until corn planting season in 2001, feeder cattle prices will remain strong. Still, corn prices may have already posted their lows for the next two years and could move somewhat higher even without a significant crop failure.

### Price Rally Continues in '01

From January through August 2000, cattle feeders were able to place more cattle on feed than in 1999 partly by borrowing against future supplies of feeder cattle. As a result, supplies of heavy weight feeders tightened up in the fall of 2000, which partly explains the year-to-year placement declines during the last four months of the year. Feeder cattle supplies will remain tight this winter and, as a result, the odds of placements falling below a year ago the rest of the winter are high. Reductions in placements on feed will lead to a gradual tightening of fed cattle supplies this coming winter and next spring.

On a quarterly average basis, U.S. beef production is expected to be below a year earlier throughout 2001. Some of the year-to-year decline in slaughter will likely be made up for by heavier average slaughter weights. For the year, U.S. beef production is forecast to be 2 to 3 percent below 2000's.

As a result, look for cash prices to stay in the mid-\$70's during 2001's first

quarter. Daily and weekly average prices could actually reach the high \$70s or even \$80s during the first half of 2001, particularly if any severe weather moves through the Plains states this winter. For the year, fed cattle prices are expected to average in the low to mid \$70s per cwt.

At current price levels, it appears that much of the rally in feeder cattle prices is over. Still, downside risk in feeder prices appears to be minimal unless corn prices ratchet up significantly. And expectations for strengthening fed cattle prices during 2001 will continue to support feeder cattle prices. As a result, look for yearling steer (700- to 800-pound) prices to be mostly in the high \$80s to low \$90s per cwt. Calf prices next spring are expected to exceed the highs established in the spring of 2000 when the mid-point of the weekly price range at Dodge City topped out near \$103 per cwt. It would not be surprising to see Dodge City weekly average prices for 500-to 600-pound steers trade above \$110 during the March – April spring price peak.

For calendar year 2001, yearling steers (700- to 800-pound) in the Southern Plains may average near \$90 per cwt., slightly above 2000's. Steer calf prices could average in the high \$90's or possibly as high as \$100. Overall, a 1 to 4 percent year-to-

year increase in yearling and calf prices is forecast.

### What About '02

The stage for cattle prices in 2002 will be set by developments in 2001. Preliminary forecasts for 2002 suggest another modest year-to-year decline in U.S. beef production (down 1 to 3 percent), large pork production through at least the first half of 2002 and continued modest to trend growth in poultry output.

Without reversal of beef demand trends of recent years or some other shock, fed cattle prices will likely continue to post year-to-year gains in 2002. For the year, fed cattle prices could easily average in the mid to upper \$70's per cwt. On a percentage basis, that represents an annual increase of 2 to 4 percent above the expected 2001 average.

As was the case in the second half of 2000, calf and yearling prices will face significant uncertainty from feed grains. Higher fed cattle prices, a normal U.S. corn crop, and cyclically tighter feeder cattle supplies suggest some modest additional annual increases in calf and yearling prices. 2002 could bring the highest calf prices for the current cattle price cycle.