



Analysis & Comments

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Cattle Situation and Price Outlook

In 2009, cattle and beef markets continued to suffer from the impacts of the worst domestic and international economic recession experienced in decades. Domestic consumer demand for beef faced tough times in 2009, as consumer spending declined, large domestic supplies of pork were on sale at the retail level, and an ongoing decline in customer traffic in the restaurant industry combined to weigh heavily on beef prices. Export demand for beef and importantly for byproducts (hide, liver, etc.) remained problematic in 2009.

Throughout 2009, fed cattle prices struggled, which even with year-to-year declines in feedstuff costs, translated into lower calf and yearling prices. Fed cattle prices in 2009 averaged just over \$83.00 per cwt., the lowest annual average since 2002. In 2009, Southern Plains yearling steer (700 -to 800-pounds) prices averaged just over \$92.00 per cwt., and steer calf (500 -to-600 pounds) prices averaged just below \$110.00 per cwt.; both yearling and calf prices were the lowest annually since 2003. After the worst cattle feeding year on record in 2008, estimated returns for feedlots in 2009 posted the second worst year ever on record. In addition, many Southern Plains cow-calf operations did not cover their cash expenses again in 2009, the second year of losses due to low calf prices and high production costs.

Looking ahead, domestic and foreign consumer demand will be crucial to the recovery of cattle prices in 2010 and beyond. Continued tightening of beef and pork supplies in 2010 should provide some support for cattle prices; however modest expansion in the poultry sector is expected in 2010. Looking ahead, fed, calf and yearling cattle prices are forecast to post gains in 2010 and again in 2011, but prices could remain rather volatile.

A Look Back at 2009: Prices and Returns

Commercial cattle slaughter in 2009 totaled about 33.3 million head, three percent smaller than 2008 and the smallest annual slaughter level since 2005. Average cattle dressed weights posted a new record high in 2009 at just under one percent above 2008's, with the largest year-to-year weight increase posted in the first quarter of the year. So, commercial beef production declined only about two to three percent in 2009 due to heavier

dressed weights. Despite lower beef production in 2009, domestic and international demand issues negatively impacted cattle prices throughout the year.

Year-to-year declines in byproduct values contributed to lower cattle prices in most of 2009. The byproduct value is the total value of all the non-meat items gathered from the animal (i.e. hide, liver, and tongue). Byproduct values are an important factor in beef packer returns and thus influence live cattle prices during the year, anywhere from \$5.00 to \$10.00 per cwt. on a live steer basis. International markets drive the byproduct value and with the worldwide financial crisis in late 2008, byproduct values suffered. On an annual basis, the decline in the byproduct value in 2009 accounted for about a \$2.80 per cwt. decline in fed steer prices.

In 2009, slaughter steer prices (5-market) averaged about \$83.00 per cwt., about \$9.50 per cwt. below 2008's. On a weekly basis, fed cattle prices peaked in April at just over \$88.00 per cwt., but then seasonally declined to the low \$80's per cwt. during the summer months as domestic and international demand for beef struggled as consumers budgets remained under pressure. Slaughter steer prices remained well below a year earlier throughout 2009 and posted their lowest annual average since 2002.

In the first quarter of 2009, calf and yearling prices at major markets were below the prior year and remained so until the fourth quarter. Lower fed cattle prices and uncertainty regarding feedstuff prices dampened calf and yearling cattle prices as cattle feeders remained cautious in their buying decisions. Southern Plains feeder steer prices (700-to 800-pounds) struggled in the low to high \$90's per cwt. during the first half of the year, improved to just over \$101.00 per cwt. in the third quarter but fell again to the mid \$90's per cwt. during the fourth quarter of 2009. The last time feeder steer prices (700-to 800-pounds) on a quarterly basis were in the \$90's per cwt. was in the first quarter of 2004. Calf prices (500-to 600- pounds) in the Southern Plains climbed to over \$115.00 per cwt. in the second quarter of 2009, but then crumbled during the second half of the year, falling to a low of about \$105.00 per cwt. early in the fourth quarter. For the year, calf prices were the lowest reported since 2003.

Unlike 2008, feedstuff prices were more reasonable in 2009, but prices were still historically rather high. USDA-NASS reported the U.S. corn crop as the second largest on record. Overall, the large corn crop has provided some price relief for cattle feeders, while hay prices declined dramatically in 2009. Of note, delays in the harvest of the 2009 U.S. corn crop due to weather conditions caused volatile prices and resulted in a larger supply of off-type corn (low test weight, etc.), which could benefit some cattle operations.

In 2009, annualized estimated cattle feeding returns for the Southern Plains remained in the red as annual cash returns in 2009 were the second poorest on record. After the \$100.00 plus steer losses posted in the early months of 2009, the average per head loss on steers did moderate during the summer and fall months. LMIC estimates of average feedlot returns are based on feeding out a 750-pound steer placed in a Southern Plains commercial feedlot, including all production costs incurred by the feeding operation. On a monthly basis, the largest losses were for cattle marketed in the early part of 2009, as the estimated

feeding loss in January was nearly \$230.00 per steer, but by the fourth quarter the feeding losses were \$85.00 per steer. On a yearly basis, 2009 was the sixth consecutive year of estimated losses for the cattle feeding sector.

After posting negative returns over cash costs plus pasture rent in 2008, U.S. cow-calf producer returns remained under pressure again in 2009 as input costs remained rather high and calf prices struggled compared to prior years. For 2009, many cow-calf operations again failed to cover cash production costs if pasture rent was included, the second consecutive year. Estimated cow-calf returns over cash cost plus pasture rent for a typical Southern Plains operation for 2009 were around a negative \$20 per cow. Many cow-calf operations further reduced the number of heifers held for breeding herd purposes in 2009.

Cattle Numbers Continue to Decline

In July, USDA-NASS reported that as of July 1, 2009, the U.S. cattle and calf inventory had posted another year-to-year decline. The mid-year report in addition to a variety of factors such as lower calf prices, higher production costs relative to historical norms and in some regions weather conditions (e.g. Texas) in much of 2009, suggests that cow-calf producers continued to reduce herd numbers during 2009.

At mid-year, the total number of all cattle and calves as of July 1st, was reported at 1.5 percent (about 1.5 million head) below a year ago, with the number of beef cows at 32.2 million head or 1.4 percent (down about 450,000 head) less than mid-year in 2008. According to the report, the number of beef heifers held as replacements at 4.5 million head was down a little over two percent, while the number of heifers on feed was well above a year ago. USDA estimated the calf crop at 35.6 million head, about 500,000 head less than last year and the smallest since 1950.

Looking ahead, the U.S. cattle and calf inventory is expected to post another year-to-year decline as of January 1, 2010, even though nationwide pasture and range conditions were good in 2009 and improved from 2008's. The economic conditions have not yet provided incentives for cow-calf producers to expand cattle numbers. Although beef cow slaughter in 2009 averaged well below 2008, beef cow slaughter was still rather large compared to previous years. Combining beef cow slaughter with the lack of heifer retention clearly indicates that cow numbers will post a year-to-year decline as of January 1, 2010. U.S. cattle numbers will more than likely decline a little more in 2010 and may begin to stabilize in 2011.

A Look Forward to 2010

The U.S. cattle market is rather dynamic, continually changing and adapting. Many of the issues that influenced the beef and cattle markets during 2009 will continue to be a factor on the market in 2010. In addition, new challenges whether in the domestic or international market may arise, presenting additional challenges for the cattle and beef

markets. A key factor moving into 2010 will be the recovery of consumer demand for beef, which will require improved U.S. economic conditions; better foreign demand for beef and byproducts, and less competition from competing meats and poultry.

The continued decline in the U.S. cowherd in 2009 will result in tighter cattle and beef supplies in 2010. This tightening of the supply side should be supportive of cattle prices in 2010. However, feeder cattle prices will be pressured some by feedstuff prices, particularly if industrial demand (i.e. ethanol) for corn continues to expand based on government policies. In addition, placement patterns in late 2009 and early 2010 may result in rather large price swings for fed cattle in the spring and summer months. Overall, volatility of feeder and fed cattle prices will persist in 2010.

As the global economy improves, there is a potential for the demand for beef exports to increase in 2010 while U.S. beef production further declines. At the same time, beef and cattle imports are expected to continue the rather reserved levels seen in 2009 as cattle numbers in Canada and Mexico decline. Also, beef imports are not expected to increase in 2010 due to the relative value of the U.S. dollar and rather tight cattle numbers in countries that export beef to the U.S. Thus, the decline in beef production combined with larger exports and smaller imports translates into a further decline in the U.S. per capita availability of beef (retail basis) in 2010. In fact, the per capita availability of beef in 2010 will be the lowest amount since the late 1950's. This combined with a similar situation in the pork complex and some modest growth in the poultry sector, suggests the U.S. per capita availability of red meat and poultry in 2010 will be the lowest since 1997.

Looking ahead, the primary factors that will influence calf and yearling markets in 2010 are fed cattle prices and more than likely grain prices. Fed cattle prices will be supported by improvements in demand for beef which will in essence drag feeder cattle prices higher, however if demand conditions do not improve fed cattle prices will remain under pressure despite tighter beef supplies in 2010. In addition, grain prices will more than likely continue to be relatively volatile, which may have some downward pressure on calf and yearling prices. Still, U.S. cattle feeders lost enormous amounts of money in recent years and will be cautious buyers of feeder cattle.

Fed cattle prices are forecast to follow a relatively normal season pattern in the first half of 2010. Current forecasts place slaughter steer prices about five percent higher in the first quarter of 2010, with prices strengthening into the second quarter to the upper \$80's per cwt. Cattle prices are projected to seasonally decline in the summer quarter, but forecasts call for prices to remain around two percent above 2009's. For the fourth quarter of 2010, fed cattle prices are expected to rebound and could average in the high \$80's to low \$90's per cwt. Thus, for calendar year 2010, fed cattle prices are forecast to average four to five percent above 2009's.

For the Southern Plains, yearling and calf prices in 2010 are forecast to post year-to-year gains during the year. On an annual basis, yearling prices are projected to be the softest in the first quarter of 2010, but for the most part should average slightly higher than 2009's and continue to seasonally strengthen through the summer. Yearling prices should

average in the upper \$90's to low \$100's per cwt. for calendar year 2010. Calf prices will average steady to slightly higher during the first half of 2010, but could post a rather larger year-to-year increase during the latter half of the year assuming fed cattle prices remain strong and feedstuff prices do not skyrocket as in 2008. On an annual basis, Southern Plains calf prices should average in the \$110.00 to \$116.00 per cwt. range, about two to four percent above 2009's.

Cull cow prices are also forecast to post year-to-year gains in 2009 as the large slaughter levels of dairy and beef cows are not expected to continue. In 2009, U.S. Federally Inspected (FI) cow slaughter was only slightly below 2009's and exceeded 6 million head for only the fifth time in the last 15 years. Milk prices are forecast to be well above 2009's, but the U.S. dairy herd will likely shrink a little more for at least the first several months of 2010. If U.S. pasture and range conditions are normal in 2010, FI cow slaughter in 2010 is forecast to decline by 600,000 head compared to 2009's. That slaughter decline combined with continued good demand for relatively inexpensive beef items like hamburger could easily pull annual average cull cow prices 10 percent above a year ago in 2010.

Looking Further Ahead to 2011

Regarding 2011, there are lots of unknowns. Will the U.S. economic recovery continue or will another recession begin? What about international trade and factors that influence it including the value of the U.S. dollar relative to other currencies?

Preliminary forecasts for 2011 assume moderate economic growth in the U.S., up-trending oil and thus higher corn prices than in 2010. Cattle supplies will remain tight, while pork production will slowly decline, however poultry production will likely be expanding. For 2011, annual average fed cattle prices are forecast to surpass the record posted in 2008 (five-market average of \$92.78 in 2008). Assuming feedstuff prices do not skyrocket, that level of fed cattle prices coupled with tight feeder cattle supplies implies further year-to-year price increases for yearlings and calves in 2011. If yearling and calf prices are to set record highs in 2011, better than anticipated U.S. beef exports or lower corn prices, or both will be needed. Market prices could remain rather volatile. In terms of producer profitability, higher cattle prices will likely be at least partly offset by increases in production costs (feed, fuel, interest, etc.).

