



Analysis & Comments

Livestock Marketing Information Center
State Extension Services in Cooperation with USDA

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Cattle Situation and Outlook

Cattle and beef markets continued to suffer from both the domestic and global impacts of recession during the first half of 2009. An unexpected international financial crisis in late 2008 quickly turned a rather normal recession into the worst international economic contraction since 1929. As 2009 has progressed, signs of the recession ending have emerged. But, the economic improvement may be very slow and could dampen the recovery in cattle prices.

A year ago, LMIC forecast that fed cattle prices in 2009 would be record high, that situation does not appear likely now. Lower than anticipated fed cattle prices have also translated into lower than forecast calf and yearling prices. Demand issues for byproducts and for beef pulled U.S. fed cattle prices below a year ago. For the year of 2009, slaughter steer prices will likely average about \$7.00 to \$9.00 per cwt. below 2008's. Yearling steer and calf prices also will average below a year ago.

Across all weight groups, cattle prices are forecast to post increases in 2010 and again in 2011. Of course, those forecasts depend on improving economic conditions in the U.S. and worldwide. In the last few years cattle producers have become all too familiar with volatile input costs such as fuel and feedstuffs. They have also suffered through three unforeseen shocks this decade that have hammered cattle prices – the terrorist attacks on September 11, 2001, the late December 2003 case of a BSE cow, and then late last year the international financial crisis. Cattle prices are no longer built on a foundation of long-term cycles in cattle numbers. Today, cattle price changes are dominated by rather short-term factors that can be abrupt.

Mid-Year Cattle Inventory Declines

USDA-NASS recently reported that the mid-year U.S. cattle and calf inventory posted another year-to-year decline as of July 1, 2009. The report confirmed views that cow-calf producers over the last year have reduced their herds due to a variety of factors, including increases in production costs, lower calf prices and in some regions weather conditions. As of July 1st, the total number of all cattle and calves was reported at 1.5 percent (about 1.5 million head) below a year ago

At mid-year, the U.S. number of beef cows at 32.2 million head was down 1.4 percent (down about 450,000 head) from a year ago. According to the report, the number of beef heifers held as replacements was down a little over two percent; at 4.5 million head, by historical standards the number of replacement beef heifers implies some further cowherd reductions are ahead. Further, additional declines may occur in the drought-stressed areas including Texas as the year progresses. USDA estimated the calf crop at 35.6 million head about 500,000 head less than last year and the smallest since 1950.

A Look Back: Weak Cattle Prices but Lower Feedstuff Costs

During the first six months of 2009, slaughter steer prices were rather weak, averaging \$8.70 per cwt. (9 percent) below a year ago. About \$5.00 per cwt. of that year-to-year decline was due to lower byproduct values (hides, liver, tallow, etc.) items that are often overlooked when discussing cattle values. Byproduct values are largely driven by foreign markets, which collapsed almost immediately with the international financial crisis that emerged last fall. Demand issues for byproducts and for beef pulled U.S. fed cattle prices below a year ago even though U.S. beef production posted a year-to-year decline (down about 2 percent). As the second quarter of 2009 progressed, negative spillover on beef demand from large domestic supplies of pork became an issue.

In the first quarter of 2009, calf and yearling prices at major markets were well below a year ago. Southern Plains feeder steers (700-to 800-pounds) averaged slightly below \$94.00 per cwt., down nearly \$9.00 per cwt. compared to a year earlier. For the same quarter and location, steer calves (500-to 600-pounds) averaged around \$109.50 per cwt., which was about \$11.50 per cwt. below 2008's. During the second quarter of 2009, yearling and calf prices strengthened relative to the first quarter as second quarter Southern Plains feeder prices (both yearlings and calves) increased by about \$6.00 per cwt. compared to the first quarter.

Most feedstuff prices this summer have been well below the record highs of a year ago. The preliminary USDA-NASS corn price received by farmers in July was \$1.92 per bushel below a year ago and the national average hay price was down \$48.00 per ton. Those prices have begun to pull cattle feeding returns closer to breakeven levels. Still, through July of this year estimated cattle feeding returns in commercial Southern Plains feedlots had been in the red for 26 consecutive months. Thus, recent year-to-year declines in feedstuff costs have not fully translated into higher feeder cattle prices, especially for calves.

Outlook for the Remainder of '09

Commercial fed cattle slaughter is expected to be smaller than a year ago in the third and fourth quarters of 2009. Even with cattle dressed weights averaging above 2008's, U.S. beef production is expected to average 1 to 3 percent below a year ago. Cattle prices will continue to be challenged by year-to-year declines in byproduct values and low pork prices. Slaughter steer prices are expected to remain well below a year ago for several more

months. But, compared to the collapse in prices late last year, expect fed cattle prices to return to the mid to high \$80's in the fourth quarter. For the year, slaughter steer prices should be in the \$84.00 to \$85.00 per cwt. range, about 9 percent below 2008's.

Prices for yearlings broke below the \$100.00 per cwt. level in the Southern Plains last fall. Lower feedstuff costs than a year ago are expected to pull those yearling steer prices above the \$100.00 per cwt. mark again this summer quarter. Even with lower feedstuff costs, feedlots will likely continue to focus their buying on heavier weight cattle. For the second half of the year, Southern Plains yearling steer prices should average mostly in the \$100.00 to \$104.00 per cwt. range. For the full calendar year, 700-to 800-pound steer prices will be 5 to 6 percent below 2008's.

The dominant influence on yearling and calf prices this fall quarter may be corn prices. Feedlots continued to post red ink on closeouts well into the summer, so they will remain cautious buyers especially of calves for the remainder of the year. Based on recent corn prices and other factors, for the summer quarter, 500-to 600-pound steers are expected to average in the \$110.00 to \$114.00 per cwt. range in the Southern Plains. Besides the month of October, calf prices are forecast to be above a year ago this fall and should average above 2008's for the quarter. For the year, calf prices are expected to average about 3 to 4 percent below 2007's.

Looking Further Ahead: Higher Prices Higher Costs

Many of the factors that have influenced the beef and cattle markets in 2009 will continue to have an impact on the market in 2010. Any price surprises that may occur, whether positive or negative will most likely happen due to changes in the demand side of the market. For the beef and cattle markets, those demand aspects are rooted in the overall U.S. domestic economic conditions, foreign demand for beef and byproducts, and competing meats in the domestic market (especially pork).

Looking at the supply side of the market, further cowherd liquidation has set the stage for beef production to tighten again in 2010, which will be supportive of cattle prices. Cow-calf operations should keep an eye on feedstuff prices to set calf prices as industrial demand for corn will remain reasonably strong. If there is adequate rainfall, the number of calves grazing wheat and other pastures this fall and winter could be larger than in recent years. That could set the stage for yearling price volatility, especially in early 2010. If placements of cattle into feedlots bunch-up, that will translate into fed cattle price swings especially next summer.

The decline in U.S. production will be combined with the potential for increased beef exports and for continued rather modest levels of beef and cattle imports. Cattle numbers in most countries that have historically exported beef are expected to decline, including Canada and Mexico. Therefore, U.S. per capita availability of red meat and poultry is forecast to decline further in 2010. This factor will most certainly support cattle prices.

Looking ahead, the foremost factor influencing calf and yearling markets in 2010 and 2011 may be grain prices. Grain prices are expected to remain quite volatile, causing potentially large price swings in calf and yearling prices. Government mandates could continue to force more corn into ethanol production. Any shortfall in U.S. corn production due to weather conditions will have a noticeable and quick negative effect on calf prices.

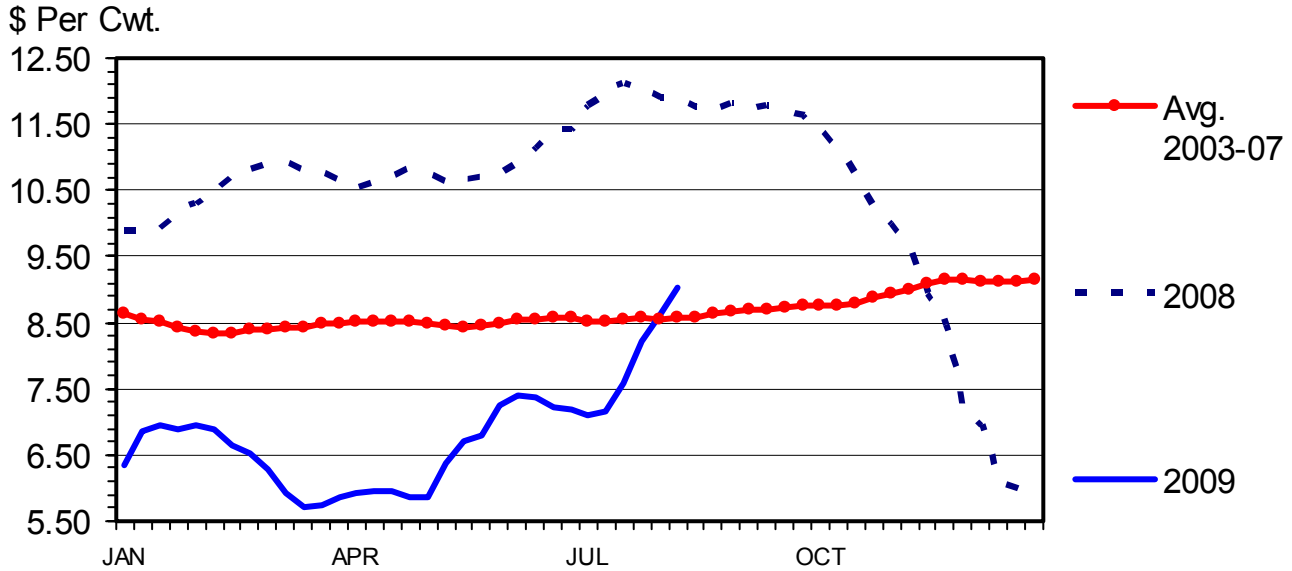
Cattle prices are forecast to follow a rather normal season pattern in the first half of 2010. Forecasts put slaughter steers prices about 6 percent higher than 2009's in the first quarter of 2010, with prices in the second quarter generally gaining strength (averaging in the upper to high \$90's per cwt.). In the summer quarter of 2009, slaughter steer prices are forecast to decline seasonally but are forecast to remain well above 2009's (up 5 to 8 percent from this year's). For the last quarter of 2010, fed cattle prices back into the upper \$90's per cwt. are forecast. For calendar year 2010, fed cattle prices are forecast at 5-10 percent above 2009's depending on the extent of U.S. and worldwide economic recovery.

For the Southern Plains, forecasts call for yearling and calf prices in 2010 to post annual increases throughout the year. On a calendar year basis, the weakest yearling prices are forecast for the first quarter of 2010; still they should be above 2009's. Calf prices could post year-to-year increases in the second half of next year if feedstuff costs do not surge and if fed cattle prices are near forecasts. In the second half of 2010, yearling calf prices should seasonally strengthen with annual prices for yearlings averaging 4 to 11 percent above 2009's, again depending on cost of feedlot gain.

There are lots of questions about 2011; importantly will the U.S. return to economic recession? How high will oil and corn prices be? Preliminary forecasts for 2011 assume modest economic growth in the U.S. and corn prices higher than 2010's. Cattle supplies will remain tight, but poultry production will likely be expanding significantly. Forecasts suggest annual average fed cattle prices in 2011 will eclipse the record set in 2008 (5-market average of \$92.78 per cwt. in 2008). Baring surging feedstuff cost, that level of fed cattle prices combined with tight feeder cattle supplies suggests additional year-to-year price increases for yearlings and calves. Record high yearling and calf prices in 2011 will likely require either better than anticipated U.S. beef exports or lower corn prices, or both. Unfortunately, besides planning on higher cattle prices in the next few years, cattle producers will also likely face further increases in production costs including feed, fuel and interest.

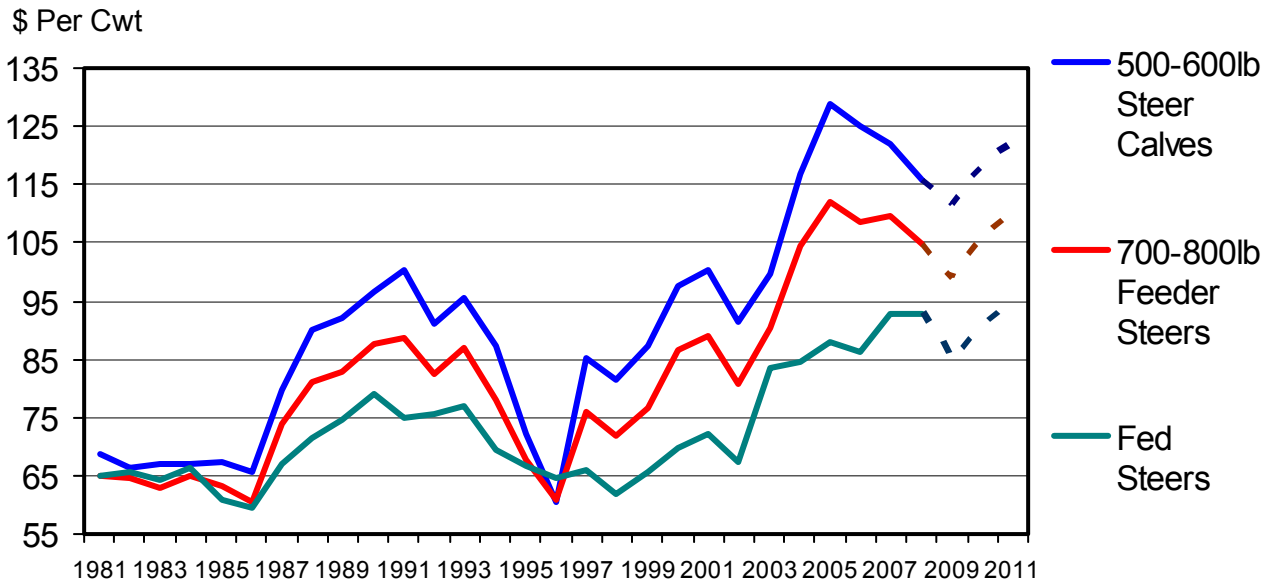
STEER HIDE AND OFFAL VALUE

Live Animal Basis, Weekly



ANNUAL AVERAGE CATTLE PRICES

Southern Plains



Data Source: USDA-AMS Market News, data compiled by LMIC, forecasts by LMIC