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U. S. Beef Cattle Situation and 2010 Price Outlook

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Highlights

Change from 1 year ago as of January 1, 2009

- The U.S. cattle and calves inventory decreased to a total of 94.5 million head, down about 1.54 million head (-1.6 percent) from a year ago.
 - The new cattle cycle, which began January 2004, exhibited modest growth for 3 years and began its decline in January 2008.
 - The inventory of cattle and calves for this cattle cycle is tracking below the previous cattle cycle inventory levels (1990-2004).
- The number of cows and heifers that have calved decreased to a total of 41.0 million head, down about 687,000 head (-1.7 percent) from a year ago.
- The inventory of heifers 500 pounds and over decreased to a total of 19.6 million head, down about 268,000 head (-1.4%) from a year ago.
 - The inventory of heifers 500 pounds and over held for beef cow replacements decreased to a total of 5.53 million head, down about 121,000 head (-2.14 percent) from a year ago.
 - Milk cow replacements increased to a total of 4.4 million head, down about 5,000 head (-0.1 percent) from a year ago.
 - The inventory of other heifers 500 pounds and over decreased to a total of 9.7 million head, down about 143,000 head (-1.46 percent) from a year ago.
- The 2008 U.S. calf crop was estimated to be 36.1 million head, a decrease of 646,000 head (-1.76 percent) from a year ago.
- The number of feeder cattle outside of feedlots was estimated to be 27.5 million head, an increase of 269,000 head (+1.0 percent) from a year ago.

Change from one year ago as of July 1, 2009

- The U.S. cattle and calves inventory decreased to a total of 101.8 million head, down about 1.5 million head (-1.45 percent) from a year ago.
- The number of cows and heifers that have calved decreased to a total of 41.4 million head, down about 600,000 head (-1.43 percent) from a year ago.
- The inventory of heifers 500 pounds and over decreased to a total of 16.1 million head, down 200,000 head (-1.23 percent) from a year ago.
 - The inventory of heifers 500 pounds and over held for beef cow replacements decreased to a total of 4.5 million head, down 100,000 head from last year (-2.17 percent).
 - The inventory of milk cow replacements was unchanged from a year ago with at a total of 3.9 million head.
 - The inventory of other heifers 500 pounds and over decreased to a total of 7.7 million head, down 100,000 head from last year (1.28 percent).
- The 2008 calf crop was estimated to be approximately 35.6 million head, down 513,000 head (-1.42 percent) from last year.
- The number of feeder cattle outside of feedlots was estimated to be 38.3 million head, a decrease of 200,000 head (-0.52 percent) from a year ago.

Expected Outlook

- 2009 U.S. beef production is expected to decrease to a total of 25.8 billion pounds, down about 0.74 billion pounds (-2.8 percent) from a year ago. U.S. beef production during 2010 is expected to be smaller than 2009 at approximately 25.34 billion pounds (down 0.48 billion pounds or -1.86 percent).
- Net beef supply (domestic beef production plus beef imports minus beef exports) during 2009 is expected to decrease to 26.9 billion pounds, down 0.305 billion pounds (-1.12 percent) from last year. The 2009 decrease is the result of a decrease of in domestic beef production (-0.74 billion pounds or -2.8 percent), an increase in beef imports (+0.278 billion pounds or +11 percent), and a decrease in beef exports (-0.16 billion pounds or -8.4percent). Beef and veal imports are expected to be about 2.54 and 2.83 billion pounds during 2008 and 2009, respectively. Beef and veal exports are expected to be about 1.89 and 1.73 billion pounds during 2008 and 2009, respectively. Thus, a beef trade deficit of about -0.65 and -1.09 billion pounds is expected to be realized during 2008 and 2009, respectively.
- Net beef supply during 2010 is expected to decrease to a total of 26.47 billion pounds, down 0.435 billion pounds (-1.62 percent) from 2009. The 2010 decrease is the result of a decrease in domestic production (-0.48 billion pounds), a slight increase in beef imports (+0.16 billion pounds), and an increase in beef exports (+0.12 billion pounds). Beef and veal imports are expected to be about 2.98 billion pounds, while beef and veal exports are expected to be about 1.85 billion pounds during 2010. Thus, a beef trade deficit of about -1.13 billion pounds is expected to be realized during 2010.
- Competing meat production (pork and poultry) during 2010 is expected to show mixed results. Pork

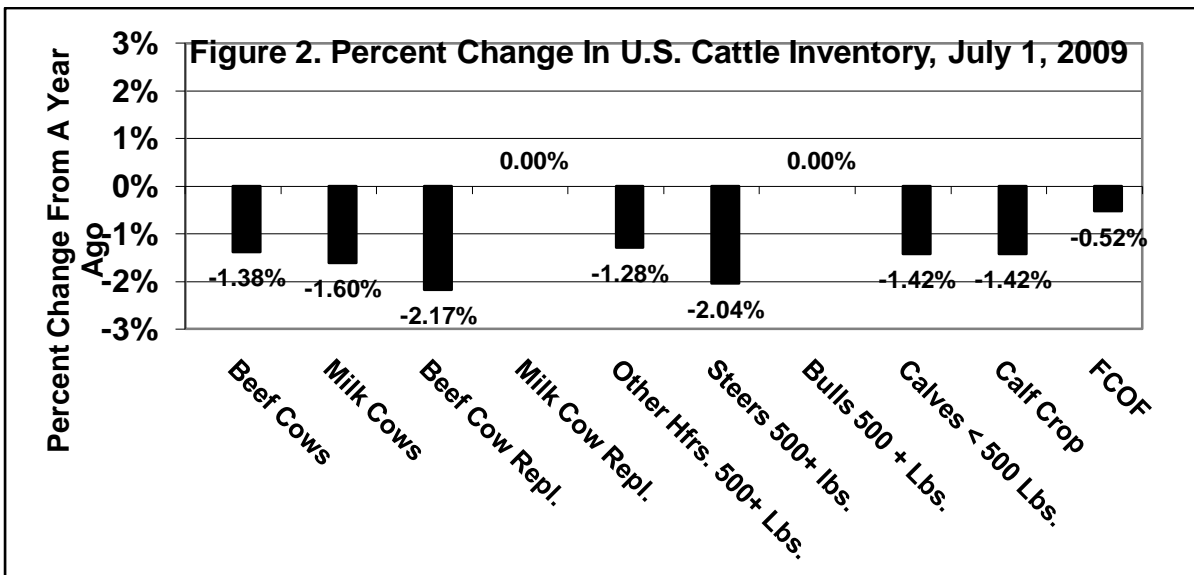
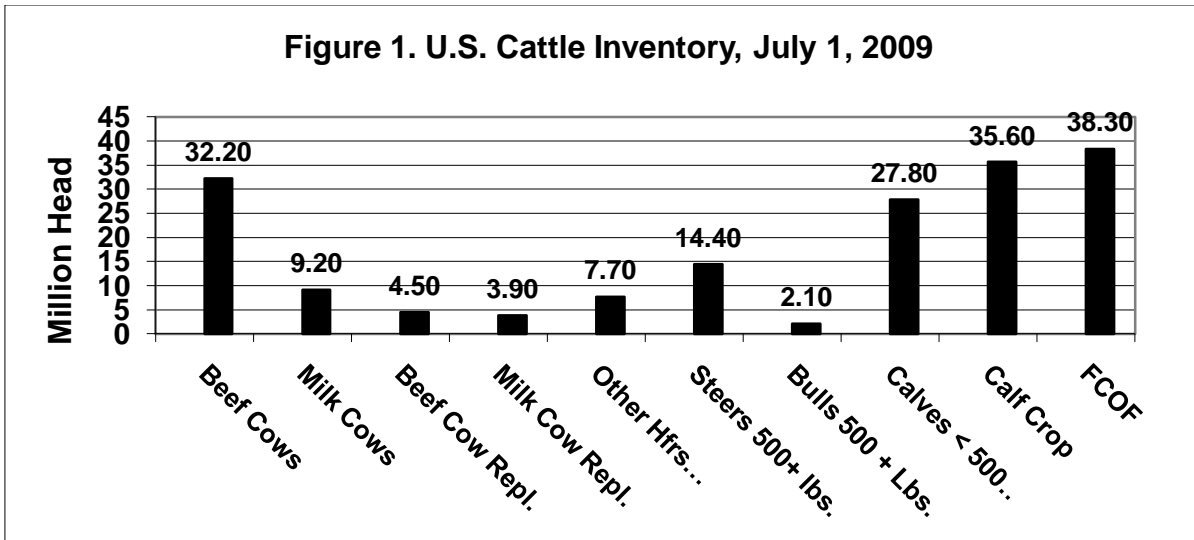
production during 2010 is expected to show a decrease of -0.44 billion pounds (-1.91 percent), while broiler production is expected to increase by about 0.64 billion pounds (+1.8 percent). Pork and broiler production are expected to total 22.5 and 36.2 billion pounds during 2010, respectively. Total beef, pork, and broiler production is expected to decrease to a total of 84.0 billion pounds, down about -0.279 billion pounds (-0.33 percent) from 2009.

- U.S. beef exports during 2009 are expected to decrease to 1.73 billion pounds (-8.4 percent) due to the world recession. However, U.S. beef exports are expected to show minimal growth during 2010 as world economies begin to recover. Beef trade with South Korea and expected growth in exports to Japan offer an opportunity to increase U.S. beef exports in 2010. Exports beyond 2010 are expected to be gradual as world economies recover from recessionary conditions. It may take an additional 3-5 years to reach pre-2003 U.S. beef export levels. Any increase in the levels of U.S. exports of beef and/or competing meats (pork and poultry) will likely have a significant impact on U.S. beef prices during the next couple of years.
- The combination of a slightly higher level of cow slaughter year-to-date and a decline in both the July 2009 estimates for beef cow inventory (-1.38 percent) and heifers held for beef replacement (-2.17 percent) from a year ago, suggests that the U.S. beef cow-herd will continue to decrease. Current expectations are that the January 1, 2010 cattle and calves inventory estimate will show a decrease of between 1 to 2 percent.

Beef Supply Situation

U.S. cattle farmers are continuing to decrease their inventory of cattle and calves (Figures 1 and 2). A combination of lower feeder calf and feeder cattle market prices (due to weak beef demand which was caused by the severe recession), high production costs (feed, fertilizer, fuel, labor, land rents, etc.), large levels of competing meats, dry weather in some states, and alternative uses of land (pasture acreage moving into grain production and/or conservation programs and other non-farm uses such as recreation and rural non-farm development) are thought to be the major factors responsible for causing cattle liquidation to occur during the last two years. Thus, given the current financial losses, cattle farmers will likely continue to liquidate cattle numbers until profitability can be achieved.

In the mid-year July 1, 2009 Cattle Report, cattle farmers told USDA they had about 450,000 fewer beef cows that had calved (-1.38 percent) than a year ago and beef cow replacements were down 100,000 head (-2.17 percent) from a year ago at 4.5 million head. A decrease in beef cow replacements and beef cows that have calved during 2009 suggests that herd liquidation will continue in 2010.



A smaller inventory of cattle and calves and smaller calf crop during 2009 will likely limit the growth in beef production during 2010. USDA projects U.S. beef production during 2010 to be about 25.34 billion pounds (-1.86 percent from a year-ago). This level of beef production will be influenced by any adjustments in average carcass weights and the level of feeder and live cattle imports (from Canada and Mexico).

Feed and Forage Conditions

The 2009 growing season of the major grain growing regions got off to a slow start. Adverse weather conditions caused planting to be delayed in most major grain growing areas. The majority of the crop is behind schedule and subject to some early frost risks in northern locations. However, above average growing conditions during the spring and summer months were realized and recent crop progress reports project larger corn and soybean yield estimates than last year. USDA's current corn and soybean production forecasts (Sept.

14th) are 13 billion bushels and 3.2 billion bushels, respectively, for 2009. If these production levels are realized, corn production will be about 0.9 billion bushels larger than a year ago (+7.0 percent) and soybean production will be about 0.3 billion bushels larger than a year ago (+9.7 percent). This could possibly be the largest corn and soybean crops on record.

2009 corn and soybean futures prices have fallen corresponding to the forecasted larger crops. December 09 corn is currently trading at \$3.18 per bushel (Chicago Board of Trade, 9/19), while November 09 soybeans is at \$9.41 per bushel. December 09 corn futures prices have declined \$1.50 per bushel, while November 09 soybeans declined \$1.60 per bushel during the 2009 summer months. However, these current futures prices represent a decrease in futures prices for corn and soybeans of -42 percent and -22 percent from a year-ago, respectively. Corn and soybean prices are expected to move higher in 2010 as economies recover from recession. Therefore, livestock farmers should seriously consider taking steps to manage their feed purchases during the 2009 crop harvest.

Another factor that can certainly affect feed prices and feeder calf and feeder cattle prices is the level of export demand for corn and soybeans. Any major changes in world export demand for these commodities could significantly move market prices. The strength of the U.S. dollar is certain to influence world export demand (a weaker dollar improves world export demand).

Fortunately, pasture and range conditions have been marginally better over many of the cow-calf states this year. However, dry conditions in some states, high input costs (feed, fertilizer, labor, land rent, etc.), lower feeder calf prices, and lower milk prices have resulted in a large number of cull cows moving to slaughter this year. Recent rainfall has been received in many areas which will permit continued grazing of feeders and market cows into October and November. The pasture and range conditions as of September 13th rated as poor or very poor was 23 percent of the U.S. acreage in pasture and rangeland.

Total 2009 U.S. hay production is expected to be marginally larger than a year ago. USDA's September Crop Production Report estimated total hay production at about 152 million tons. That is up 6 million tons (+4.3 percent) from last year. An increase in both harvested acreage and average yield were responsible for the increased level of hay production. Harvested acreage is estimated to be up almost 1 million acres from 2008. Most states in the Southeast will show an increase in hay production compared with 2008 due to improved moisture conditions. However, significantly higher inputs costs will likely result in much higher hay prices. Alternative winter feedstuffs and forages will be in much demand this winter as cattlemen seek to feed their cow herds.

Beef Demand and Trade

Beef demand during the first two quarters of 2009 weakened compared with a year ago (retail all fresh domestic beef demand index, www.agmanager.info). Beef demand has felt some challenges the last two years due to less interest in protein diets and tightening consumer grocery budgets due to the higher cost of living. Beef demand is expected to be further tested during 2009 as consumers continue to experience rising prices for most goods and services. If consumer disposable income does not rise proportionally, shopping habits and choices will shift as prices rise forcing consumers to substitute and/or reduce the bundle of goods and services they consume. The weakening U.S. economy during 2009 as expected has resulted in a decrease in domestic beef demand. Additionally, world beef demand also decreased due to weak economies.

Per capita consumption of beef is expected to decline during 2009 and 2010. Beef production during 2009 is expected to be 25.8 billion pounds, down 0.741 billion pounds or -2.8 percent from a year-ago. 2009 beef imports are estimated to be 2.8 billion pounds or about 278 million pounds more (+11 percent) than 2008. 2009 beef exports are expected to be 1.7 billion pounds or about 158 million pounds less (-8.4 percent) than in 2008.

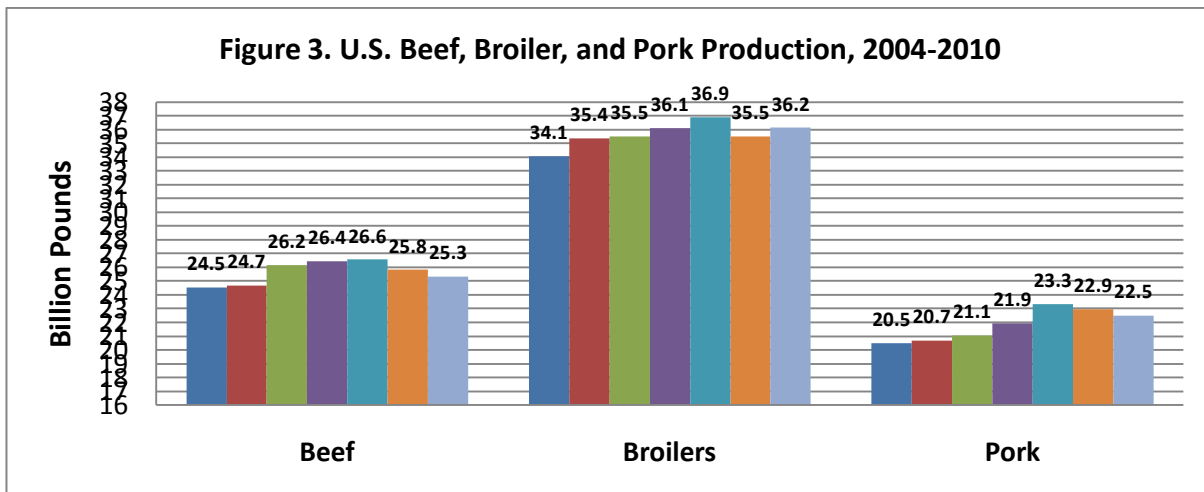
The combination of lower domestic beef production, higher imports, and smaller exports are expected to decrease domestic disappearance (net beef supply). As a result, overall domestic disappearance should decline somewhere around 305 million pounds. This reduction in domestic disappearance will result in a decrease in beef per capita consumption to around 61.6 pounds per person in 2009. A similar scenario is expected for 2009 and per capita consumption for 2010 is estimated to be about 60.2 pounds per person. Also, as the U.S. population increases in the future, per capita beef consumption will likely be lower.

Retail beef prices during the first two quarters of 2009 were marginally higher than a year ago. However, third quarter retail beef prices are expected to be slightly lower than a year-ago. 2009 retail beef prices should average near 2008 prices. However, the quantity of beef clearing the market is estimated to be 300 million pounds less. The 2010 retail beef prices will be tested if unemployment continues to rise, economic recovery is not realized, and consumers are pressured by the rising costs of goods and services.

Additionally, it is very important that the U.S. continues to keep open and grow beef export markets. These export markets could be worth \$4 to \$8 per hundredweight on the value of fed slaughter cattle. Growth in beef export markets will also help to moderate the price impacts of any weaknesses in U.S. broiler and pork exports.

Competing Meats

U.S. meat production in 2010 is expected to show mixed results. Beef and pork production estimate are expected to show decreases next year and broilers are expected to increase production (see Figure 3). Beef production in 2010 is expected to decrease about 480 million pounds (-1.9 percent). Pork production is expected to decrease about 439 million pounds (-1.9 percent) during 2010 compared with 2009, while broiler production is expected to increase about 640 million pounds (+1.8 percent).



Any changes in these production levels or export levels of pork and broilers could have a significant effect on U.S. beef prices. A watchful eye on the production and export levels of competing meats will help identify potential changes in beef prices.

2010 Beef Price Outlook

The 2010 cattle market will continue to operate with a great deal of uncertainty. Cattle farmers should

monitor several factors including changes in domestic beef demand (future strength/weakness of U.S. economic recovery), supplies of broilers and pork, export and import sales (beef, broilers, and pork), and adverse weather impacts (the length, extent, and severity of the droughts, floods, extreme temperatures, etc.). The cattle markets could experience some volatile movements with abrupt changes in any of these factors and/or combinations of factors.

The 2008-2010 U.S. net beef supply estimates are shown in Table 1. U.S. net beef supply is domestic beef production plus beef imports minus beef exports. The net beef supply is the amount of beef that is consumed in U.S. markets. The 2009 U.S. net beef supply is expected to show a decline of about 0.305 billion pounds (-1.12 percent) compared with 2008. The 2010 U.S. net beef supply is expected to show a decline by 0.435 billion pounds (-1.62 percent).

Table 1. U.S. Net Beef Supply (Billion Pounds), 2008-2010.

Item	2008	2009	2010
	(Billion Pounds)		
U.S. Domestic Beef Production	26.561	25.820	25.340
U.S. Beef & Veal Imports	2.537	2.815	2.975
U.S. Beef & Veal Exports	1.888	1.730	1.845
U.S. Net Beef Supply	27.210	26.905	26.470

Minor changes in future U.S. beef import and/or export levels (due to beef demand, food safety, politics, regulations, etc.) can significantly change the U.S. net beef supply and consequently domestic beef prices. Additionally, the strength of the U.S. dollar will have a major influence the levels of U.S. beef exports and imports during 2010.

U.S. net broiler supply and U.S. net pork supply during 2009 are expected to be marginally lower from 2008 estimates. Therefore, total 2009 U.S. net supply of beef, broilers, and pork is expected to be slightly lower (-1.67 percent) which should provide support for meat prices. However, in 2010 net beef and pork supplies are expected to decrease -1.6 and -3.5 percent, respectively, while the net broiler supply is expected to increase about 3.3 percent.

Supplies of beef, broilers, and pork are expected to respond quickly to changes in demand. Any significant changes in domestic demand and/or foreign demand of these three competing meats could cause major movements in beef prices. Each industry is very capable of significantly altering production levels and is subject to wide changes in export and import levels.

Given the above projections regarding the 2010 U.S. net beef supply, beef cattle price projections were estimated for 2010. Beef cattle price projections were estimated by quarter for choice slaughter steers (Nebraska basis), feeder steers, 750#, (Alabama basis), feeder steer calves, 550#, (Alabama basis), and boning utility cows (Alabama basis), as shown in Table 2. These prices represent the range over which the average price for the particular class of cattle would average for the indicated quarter. For example, Choice slaughter steers in Nebraska during the first quarter of 2010 are expected to average between \$83 and \$87 per hundredweight. The highest average prices for slaughter steers are expected during the fourth quarter of 2010 and the third quarter for feeder steers and calves. The lowest average prices are expected during the third quarter for choice slaughter steers and the first quarter for boning utility cows.

Table 2. Estimated average cattle market prices by quarter, Alabama and Nebraska, 2010.

Item	2010 1 st Qtr.	2010 2 nd Qtr.	2010 3 rd Qtr.	2010 4 th Qtr.	2010 Avg.
Choice slaughter steers, Neb. \$/cwt.	\$83-\$87	\$84-\$89	\$82-\$87	\$85-\$90	\$84-\$89
Feeder steers, 750#, AL, \$/cwt.	\$89-\$94	\$90-\$95	\$94-\$99	\$91-\$98	\$92-\$96
Feeder steer calves, 550#, AL, \$/cwt.	\$94-\$99	\$98-\$103	\$100-\$106	\$97-\$103	\$96-\$103
Boning utility cows, AL, \$/cwt.	\$44-\$49	\$47-\$53	\$47-\$52	\$47-\$52	\$45-\$50

For 2010, choice slaughter steers (Nebraska basis) are forecast to post an annual average price in the upper \$80s per hundredweight. Alabama feeder steers (750#) are expected to average between \$92 and \$96 per hundredweight, Alabama feeder steer calves (550#) between \$96 and \$103 per hundredweight, and Alabama boning utility cows in the mid to upper \$40s per hundredweight. Breeding heifer, cow, and bull prices are expected to be steady with potential modest increases as the demand for herd replacements gains in importance.

Additionally, a significant factor in the net beef supply during the next several years will be the beef balance of trade (beef exports minus beef imports). In 2010, U.S. beef exports are expected to total about 1.845 billion pounds, while U.S. beef imports are expected to total about 2.975 billion pounds. This difference in beef trade results in a beef trade deficit of -1.13 billion pounds. Thus, should U.S. beef production begin to grow over the next several years, it is extremely important that we realize significant improvements in U.S. beef exports if we want to avoid burdensome levels of net beef supplies. It would be highly advantageous to cattle farmers if we could grow our beef export levels, especially before any increases in domestic beef production are realized.

The current recession, information chaos on proposed legislation in the U.S. Congress (Cap and Trade, Health Care, Immigration, etc.), and future economic uncertainty is fresh in minds of U.S. citizens. The decisions made on these issues are believed to have an overwhelming affect on our future prosperity and consumer spending. Unfortunately, there is not convincing evidence about what works and what doesn't. Consumers, at least for right now, are spending less and saving more. Only time will tell if this may be the start of a longer term shift in consumer behavior. At present, the retail price data supports this change in consumer behavior as retail beef prices move lower. Assuming economic recovery takes place during 2010, look for increased product movement through beef market outlets at the lower prices before we realize higher beef market prices.

2010 cattle market prices should remain cyclically strong and average near or slightly higher than 2009. As should be expected, the 2010 cattle market has the potential for some big price swings. Abrupt changes in the levels of the factors mentioned above could add much volatility to 2010 cattle market prices. Cattle farmers will need to search for ways to lower their unit cost of production (what it costs to produce a pound of beef) and ways to enhance market prices in order to achieve profitability during 2010.