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U.S. Cattle Situation and Price Outlook

Highlights

- < As of January 1, 2003, the U.S. cattle and calves inventory declined about 598,000 head to 96.1 million head, down one percent from a year ago.
- < As of January 1, 2003, the inventory of heifers 500 pounds and over held for beef cow replacements increased about 47,000 head from a year ago to 5.6 million head. Milk cow replacements increased about 44,000 head to 4.1 million head.
- < As of January 1, 2003, the 2002 U.S. calf crop was estimated to be 38.2 million head, a decrease of 87,000 head or less than one percent from a year ago.
- < As of January 1, 2003, U.S. cattle and calves inventory was slightly larger (290,000 head or 0.3 percent) than the inventory at the beginning of the current cattle cycle (1990).
- < As of January 1, 2003, the number of feeder cattle outside of feedlots was eleven percent larger than compared with January 1, 1990.
- < As of July 1, 2003, the U.S. cattle and calves inventory declined about 1.2 million head to 103.9 million head, down 1.2 percent from a year ago.
- < As of July 1, 2003, the number of cows and heifers that have calved declined about 200,000 head to 42.7 million head, down 0.5 percent from a year ago.
- < As of July 1, 2003, the inventory of heifers 500 pounds and over held for beef cow replacements was unchanged from last year at 4.6 million head (down about 1 million head from the mid-90's), while the inventory of milk cow replacements decreased about 100,000 head (-3 percent) to total 3.6 million head.
- < Look for total beef production to decline to around 26 billion pounds during 2004 due to aggressive marketings, lighter slaughter weights, and possibly less heifer slaughter.
- < Competing meat production (pork and poultry) during 2004 is expected to be little changed from 2003. Pork production during 2004 is expected to be about level with 2003, while broiler production may show a slight increase.

- < U.S. beef exports are poised for growth during 2004. However, uncertainties regarding foreign economic growth, food safety, and trade policies (exchange rates, tariffs, disputes, etc.) will be key to determine the level of growth in U.S. beef exports.
- < U.S. herd expansion is not likely to begin before mid-2005. Conditions necessary for herd expansion include a profitable cow-calf sector and adequate moisture on the majority of pastureland and rangeland. The current drought in the West and High Plains will likely encourage heavier culling of the cowherd and retaining fewer replacements. Conversely, in a number of Mid-West and Southern states increases in beef replacement heifers were realized last year and are expected to continue this year. Thus, limited preparation has already begun for a modest herd expansion.

The current strength in cattle market prices has restored profitability to all sectors of the cattle industry. Two of the major factors that have contributed to the strength in the cattle market are strong beef demand and market leverage. Continued improvements in beef demand (domestic and foreign) for the second quarter of 2003 recorded the highest average wholesale prices of all time. Also, an extremely current feeding inventory gave the feeding industry more leverage to keep beef meat supplies moderate during the spring and summer months.

The future direction of the cattle market is also showing some potential for future improvement. Great domestic and foreign beef demand, a manageable fed supply, a declining cattle inventory, lower levels of beef production, a smaller feeder cattle supply, and a large corn crop are all price supportive.

Beef Demand

The continued improvement in domestic beef demand during the last five years has been outstanding. U.S. retail beef prices have continued to move higher during the first and second quarters of 2003. All-fresh retail beef prices were almost 3 percent higher during the first 6 months of 2003 compared to a year ago. Also, U.S. choice beef prices have shown a significant increase this year (almost 7 percent year to date).

The U.S. economy is expected to maintain some growth during the rest of 2003 and 2004 and should support continued growth in domestic beef demand. Additional new products and brands are expected to be introduced that will be price supportive for beef. High retail and wholesale prices should continue to support market prices of all classes of cattle during 2004. Additionally, moderate growth is expected in U. S. beef exports. Also, beef imports are down due to higher domestic cow slaughter, food safety concerns, and limited supplies from Australia.

Cattle on Feed

The August Cattle on Feed report showed fewer cattle on-feed compared with a year ago for feedlots with capacity of 1,000 head or more. The August 1 estimate reported the number of cattle on-feed (9.59 million head) was about 5 percent below 2002 and 12 percent below 2001. However, note that cattle on-feed during August 2001 was among the largest on record (since 1992).

Placements in feedlots during July totaled 1.99 million head, 8 percent above July 2002 and about even with July 2001. Increased placements were realized in all weight categories.

Marketings of fed cattle during July 2003 totaled 2.27 million head. July 2003 fed cattle marketings were 4 percent above 2002 and 11 percent above 2001.

Cattle feeders are expected to continue to be aggressive in their marketings of fed cattle due to favorable market prices that are generating profits. Also, placements of cattle are expected to continue to be at or above the five year average due to favorable fed cattle market prices.

July 1 USDA Cattle Report

A modest reduction in the number of U.S. cattle and calves during the last 12 months was reported in the July 1 USDA Cattle Report. USDA estimated that all cattle and calves totaled 103.9 million head, down 1.2 million head (1 percent) from a year ago. The 103.9 million head is the smallest number reported in over three decades. As of July 1, 2003, beef cows totaled 33.6 million head down about 150,000 head, while dairy cow numbers were 9.1 million head down about 50,000 head from a year ago. The number of all cows that have calved was 42.7 million head, down about 200,000 head (1 percent) from a year ago. The number of replacement heifers held for beef cow replacements was unchanged from last year at 4.6 million head. Dairy replacement heifers were 3.6 million head, down about 100,000 head (3 percent) a year ago. Both the feeder supply and calf crop estimates were down about one percent from a year ago.

Looking ahead, current expectations about the January 1, 2004 Cattle survey are for it to report a modest decrease from a year ago. Thus, the present cattle cycle is well beyond the average 10-year time frame (1990-?). Some pertinent outlook questions may include 1) when, which, and where will cow-calf operations begin to hold back more replacement heifers, 2) what will the weather be in the coming months and how will it affect forage and grain crop conditions, and 3) what additional domestic or international factors might impact the U.S. cattle industry.

Cow Slaughter Remains High

U.S. cow slaughter during the first six months of 2003 was over 8 percent above the previous year levels and the largest cow slaughter since 1997. Beef cow and dairy cow slaughter levels were up 4 and 13 percent from a year ago, respectively. Higher cow slaughter levels during 2003 coupled with no increase in beef and dairy replacement heifers being retained as of July 2003 suggest that the longest cattle cycle on record will continue.

It seems almost certain that the U.S. cow herd will continue to decline as we approach 2004. Cattle inventories may increase in a few states (Mid-West and Southern), but overall cattle inventories at the end of 2003 are expected to show a slight decline.

Feed and Forage Conditions

The 2003 growing season in most major grain growing regions is shaping up to be about average. Thus, an average growing season coupled with a slightly larger acreage planted to corn should result in a large corn crop. However, many corn market analysts are revising their projections downward due to the hot and dry weather experienced

during August. Current corn crop projections are between 9.7-9.9 billion bushels with an expected total use estimate of 9.9 billion bushels. Thus, ending corn stocks could move lower. Expectations are for 2003/2004 corn prices to move higher which should limit feeder's ability to bid feeder cattle and calves higher this fall. In addition, world corn stocks are expected to be down 20 percent from a year ago and at the lowest levels since the 1980's. Therefore, as a result a tighter world stocks, any overseas demand for corn could significantly increase corn prices this next year. Hence, some risk management in corn seems necessary at this time.

Moisture and forage conditions this year vary by region of the country. Most of the southern region has been blessed with good moisture and grass growing conditions. However, due to above average rain-fall, hay-making conditions have been poor in many areas. Moisture conditions in the Western and High Plains states have been slightly better than last year but well below normal. Much of this region is experiencing moderate to severe drought conditions. The Mid-West region is also experiencing moderate dry conditions. USDA reported that approximately 42 percent of the domestic beef cow inventory is within an area experiencing a moderate or more intense drought. Rebuilding cowherds and/or retaining replacement heifers are doubtful unless more moisture is quickly received in these regions.

Canadian Import Ban

U.S. cattle prices have benefited from the ban on imports of Canadian beef and cattle following the May 20th identification of a Canadian dairy cow with BSE. Strong domestic beef demand coupled with lower beef supplies and lower beef and cattle imports have resulted in better than expected fed cattle prices. The stronger fed cattle prices have also resulted in pulling fed cattle forward to meet the strong demand. This has kept cattle marketings current and limited beef tonnage.

USDA announced on August 8th conditions for resuming imports of certain ruminant derived meat products from Canada. They include products from Canada for boneless sheep or goat meat from animals under 12 months of age; boneless bovine meat from cattle under 30 months of age; and boneless veal from calves that were 36 weeks of age or younger at slaughter. However, the import ban remains in place for live ruminants for immediate slaughter, stocker/feeder cattle, and breeding.

The ban on live fed, feeder and stocker cattle from Canada will continue to affect the near-term cattle outlook. Thus, U.S. cattle markets remain nervous about reopening live cattle trade with Canada due to food safety and export market concerns voiced by U.S. trading partners (Japan, South Korea, etc.). Negotiations are on-going to address the food-safety issues of Canadian beef, the potential to label Canadian beef, and possible procedures to reopen live cattle trade with Canada. U.S. beef producers should closely follow these negotiations and be prepared to use price risk management tools if necessary. A lifting of the ban on live cattle is not expected before the first quarter of 2004.

Cattle Price Outlook

The cattle market is clearly trading in uncharted territory. At the time this article is being written, fed cattle are trading at \$90 per hundredweight. This is an improvement of more than \$25 per hundredweight over a year ago. Several factors have contributed to

these higher prices. First, domestic beef demand has continued to improve (up about 1 percent during the first half of 2003 compared with a year ago). Second, the U.S. is now a net exporter of beef as a result of banning Canadian beef and gaining the export business lost by Canada. Third, slaughter dressed weights have declined (about 2 percent from a year ago). Fourth, in response to higher prices, cattle feeders have kept marketings current which limits beef tonnage.

Current expectations are for these higher slaughter prices to continue during the third and fourth quarters of 2003. Domestic and export demand are expected to remain strong. A growing shortage of market ready choice cattle has packers paying higher prices for fed cattle. Some analysts expect to see choice cattle reach the low \$90s per hundredweight before adequate supplies of choice are available.

The combination of tight supplies, currentness in marketings, and improvements in beef demand (domestic and foreign) will undoubtedly provide good price support for all classes of cattle during 2004. Fed cattle prices during 2004 are expected to average between \$78-\$83 per hundredweight (basis Omaha, NE). The highs (mid to high- \$80s) should occur during the first and second quarter and lows (mid-\$70s) during the summer months. Feeder cattle (700-800-lb.) prices are expected to average in the low-mid \$90s (basis Oklahoma City, OK). Feeder calf (550-lb.) prices are expected to average in the low-mid \$100s per hundredweight (basis Oklahoma City, OK).

Black Ink

This is truly a beef market to behold. All sectors of the U.S. cattle industry are expected to be profitable for 2003. Additionally, 2004 is showing much potential for the same. A watchful eye on beef demand, the level of beef production, beef and cattle imports (trade), the cattle inventory, and corn prices should provide a signal about how long these good times will last. Remember, that in even the best of times, it is wise to retain a little skepticism to help you manage the challenges that possibly lie ahead.

“U.S. Cattle Situation and Price Outlook” was prepared by Dr. J. Walter Prevatt, Extension Economist and Professor, Auburn University, September 15, 2003.