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Cattle Market Gives Us A Breath Taking Roller Coaster Ride

**Dr. Walt Prevatt
Extension Economist and Professor
Auburn University**

If you have been in the cattle business the last three years, you have no doubt witnessed the notorious roller coaster ride in cattle market prices. The widely fluctuating cattle price brings to mind images of a fierce, breath taking roller coaster ride. From the phenomenal rise in cattle market prices during the first half of 2001, followed by plummeting prices after 9/11 (terrorists attack Twin Towers in New York, Pentagon in Washington, D.C., etc.), followed by further price decline in the spring of 2002 (due to export market bans of competing meats), followed by the unprecedented rise in cattle market prices during 2003 (due largely to the Canadian BSE case where the U.S. banned Canadian slaughter imports and gained Canada's export market), followed by the cow that stole Christmas which resulted in the precipitous fall in cattle prices in late December 2003 (one BSE cow was found in the U.S.), followed by the remarkable recovery in early 2004 (strong domestic beef demand coupled with lower levels of beef production). Wow, what a breath taking roller coaster ride. There definitely has not been a lack of drama in the cattle business during the last three years.

Predicting cattle market prices given the events that took place above is impossible. About the best one can do is to try to identify the potential major cattle industry factors affecting cattle market prices, costs, and profitability.

Potential Strengths In 2004

Significant improvement in consumer demand since 1998 has continued to help support cattle prices. The U.S. demand for beef has increased 15.4 percent since 1998. The demand for beef has helped push retail beef prices higher which led to higher live cattle prices. U.S. consumer beef demand was also very impressive following the U.S. BSE case found in late December. Consumer analysts are projecting continued strength in U.S. beef demand because consumers view it as the preferred meat protein source. The health attributes of beef and emerging convenience oriented beef products also contribute to improving beef demand.

In addition, from the beef supply side, the U.S. cattle inventory, feeders outside of feedlots and the calf crop are expected to be smaller during 2004. This suggests that beef production should potentially be lower which should also support cattle prices, except during the third quarter where large cattle placements in the feedlot and possibly heavier slaughter weights may pressure cattle prices lower (unless the U.S. and Asian beef trade is resumed).

Potential Weaknesses In 2004

The rising costs of fertilizers, energy, and transportation costs will likely adversely affect beef industry profitability during 2004. Fertilizer, energy, and transportation costs have already risen sharply in early 2004 and are not expected to decline in the short-term.

In addition, feed prices (corn, soybeans, etc.) have also risen substantially in early 2004. These feed items are in limited supply in both domestic and foreign markets. Any demand or supply

changes in either market could significantly affect feed prices, breakevens, and profitability.

The weakest market price for slaughter cattle is expected to occur between June and August. A combination of the larger numbers of slaughter cattle harvested during this period and any increase in slaughter weights will pressure slaughter market prices lower. Many analyst expect slaughter cattle prices to approach the low 70s if the export trade does not materialize.

Potential Opportunities In 2004

Any progress with restoring the U.S. beef export trade with the 50+ countries that currently have banned U.S. beef exports will be very price supportive for all sectors of the beef industry. The three major U.S. beef export markets have been Mexico, Japan, and South Korea. Limited quantities of U.S. beef have begun to move to Mexico. Presently, talks are underway with Japan's technical and governmental representatives to gain access to this export market. Should beef exports be resumed this summer with Japan and South Korea, good improvement is expected in slaughter cattle prices.

Also, improved beef demand continues to be a strong contributor to supporting cattle prices. Despite the BSE case last December, consumers have demonstrated much confidence in a safe domestic beef supply and retail beef prices have remained strong (averaged near \$4.00 a pound in January and February 2004).

In addition, declining cattle inventories should result in smaller calf crops and lower levels of beef production. Correspondingly, lower levels of beef production should keep beef supplies tight and beef prices strong for the next couple of years.

Potential Threats In 2004

In today's global environment, food safety is a major threat anytime and anywhere. Should we have another BSE case or a major health related issue, it could severely depress cattle market prices. Thus, we need to aggressively exercise preventative measures and monitor the health of our cattle to ensure that we deliver a safe beef product to our consumers.

The weather affects all sectors of the U.S. cattle industry. Presently, much of the western U.S. is experiencing drought conditions. If this persists, fewer replacement heifers will be kept in this region and the U.S. cattle inventory will likely decrease next year. In addition, should the drought affect corn growing areas, we could see a substantial increase in corn prices next fall resulting in lower bid prices for feeder cattle.

The U.S-Canadian beef trade situation is still unpredictable. We are currently receiving limited quantities of Canadian boxed beef from cattle that are less than 30 months of age. As placements in their feedlots increase, we should expect more Canadian beef to be exported to the U.S. which will likely have a negative effect on U.S. cattle prices. Also, when the U.S. lifts the ban on Canadian live slaughter cattle, we should expect this action to adversely affect cattle prices.

Lastly, any oversupply of competing meats (pork and poultry) could adversely affect beef market prices. Currently, producers are expected to increase pork production by about 1 percent and poultry by about 3-4 percent over 2003 levels. Also, any weakness in the export market for either of these meats could adversely affect all domestic meat market prices.

The unfolding drama in the beef cattle industry during 2004 is surely as unpredictable as last year. Cattle price volatility during 2004 is more likely than not, due to a strong domestic beef demand, an uncertain export trade, unpredictable weather and grain prices, and fluctuating slaughter cattle supply conditions (domestic and Canadian imports). A watchful eye on the above potential strengths, weaknesses, opportunities, and threats should help us understand and plan for the roller coaster ride that lies ahead of us.

Cat
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