ALABAMA COOPERATIVE Extension SYSTEM
Your Experts for Life

AG ECONOMIC SERIES
TIMELY INFORMATION
Agriculture & Natural Resources

AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY, AUBURN UNIVERSITY, AL 36849-5639

October 2004 DAERS 04-18

U. S. Cattle Situation and Price Outlook

Highlights

< As of January 1, 2004, the U.S. cattle and calves inventory declined about 1.2 million head to 94.9 million head, down one percent from a year ago. The January cattle and calves inventory was also estimated to be 934,000 head smaller (-1 percent) than the inventory at the beginning of the current cattle cycle (1990).

< As of January 1, 2004, the number of cows and heifers that have calved declined about 274,000 head to 41.9 million head, down 0.7 percent from a year ago. The January number of cows and heifers that have calved was estimated to be 618,000 head smaller (-1.5 percent) than the inventory at the beginning of the current cattle cycle (1990).

< As of January 1, 2004, the inventory of heifers 500 pounds and over held for beef cow replacements decreased about 107,000 head (-2 percent) from a year ago to 5.5 million head. Milk cow replacements decreased about 94,000 head (-2 percent) to 4.0 million head.

< As of January 1, 2004, the 2003 U.S. calf crop was estimated to be 37.9 million head, a decrease of 321,000 head (-1 percent) from a year ago. The 2003 calf crop compared with the 1990 calf crop (the beginning of the current cattle cycle) was 710,000 head smaller (-2 percent).

< As of January 1, 2004, the number of feeder cattle outside of feedlots was estimated to be 27.5 million head, a decrease of 1.3 million head (-4 percent) from a year ago. The 2004 number of feeder cattle outside of feedlots was nine percent smaller than compared with January 1, 1990.

< As of July 1, 2004, the U.S. cattle and calves inventory declined about 300,000 head to 103.6 million head, down 0.3 percent from a year ago. The July cattle and calves inventory was also estimated to be 1 million head smaller (-1 percent) than the inventory at the beginning of the current cattle cycle (1990).

< As of July 1, 2004, the number of cows and heifers that have calved declined about 200,000 head to 42.5 million head, down 0.5 percent from a year ago. The July number of cows and heifers that have calved was estimated to be 400,000 head smaller (-1 percent) than the inventory at the beginning of the current cattle cycle (1990).

< As of July 1, 2004, the inventory of heifers 500 pounds and over held for beef cow replacements increased approximately 200,000 head (4 percent) from last year at 4.8 million head, while the inventory of milk cow replacements was unchanged from last year at about 3.6 million head.

- As of July 1, 2004, the 2004 calf crop was estimated to be approximately 37.7 million head, down 203,000 head (-0.5 percent) from last year. This is the smallest calf crop since 1951.

- As of July 1, 2004, the number of feeder cattle outside of feedlots was estimated to be 38.9 million head, a decrease of 240,000 head (-0.6 percent) from a year ago.

- 2004 U.S. beef production is expected to decline about 1.5 billion pounds to 24.7 billion pounds (-6 percent) due to fewer numbers being placed and harvested from feedlots (as a result of a smaller calf crop, a positive BSE test of a U.S. cow, export bans, replacement heifer retention, etc.) and a lower level of cull cow slaughter. U.S. beef production during 2005 is expected to be approximately 24.7 billion pounds, but could increase if live cattle trade is resumed with Canada.

- Net beef supply (domestic beef production plus beef imports minus beef exports) is expected to increase about 0.5 billion pounds and should exceed 27 billion pounds. The increase in 2004 is driven by an increase in beef imports and the lack of beef export markets, which is expected to leave nearly 2 billion pounds of beef in the domestic market.

- Competing meat production (pork and poultry) during 2005 is expected to show some increase compared with 2004. Pork production during 2005 is expected to be about level with 2004, while broiler production is expected to increase by about 3 percent.

- U.S. beef exports are expected to realize significant growth during 2005. However, uncertainties regarding food safety and trade policies (export product bans, exchange rates, tariffs, disputes, etc.) will be key to determine the level of growth in U.S. beef exports.

- The combination of lower levels of cow slaughter and the larger numbers of replacement heifers retained from this year's calf crop will be the next real opportunity to begin U.S. herd expansion. Most of these heifers will be bred in 2005, calve in late 2005 or early 2006, wean a calf in 2006, and this calf will be harvested from the feedlot in 2007. Thus, domestic beef production is not expected to rise significantly until after 2007. If additional heifer retention occurs during late 2004, it will further tighten feeder cattle supplies and decrease domestic beef production expectations during 2005.

- Limited herd expansion is not expected until larger levels of replacement heifers are retained. 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 will likely constrain the retention of replacement heifers. However, elsewhere serious consideration is being given to retaining beef replacement heifers.

Mid-Year USDA Cattle Report

Another 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 103.6 million head, down 300,000 head (-0.3 percent) from a year ago. The 103.6 million head is the smallest number reported in over three decades. As of July 1, 2004, beef cows totaled 33.5 million head, down about 100,000 head, while dairy cow numbers were 9.0 million head, down about 100,000 head from a year ago. The number of all cows that have calved was 42.5 million head, down about 200,000 head (-0.5 percent) from a year ago. The number of replacement heifers held for beef cow replacements was 4.8 million head, an increase of 200,000 head (4.35 percent). Dairy replacement heifers were 3.6 million head, unchanged from a year ago. Both the calf crop (37.7 million head) and feeder supply outside of feedlots (38.9 million head) estimates were down from a year ago at -0.5 and -0.6 percent, respectively. The U.S. calf crop estimates have shown decreases each year since 1996 (9 years). Cattle on feed was about even with last year at approximately 11.8 million head.

This July Cattle report does not suggest a strong indication that herd expansion is underway. The only increase documented was for beef replacement heifers, +200,000 head. This level of an increase is an indication that herd rebuilding may start this year, however it is not a substantial increase. Drought in the West has no doubt been a major factor keeping many U.S. cow-calf operations from expanding their breeding herds in recent years. However, other factors (terrorist incidents, food safety, import and export bans, animal identification, etc.) are also believed to have kept many cow-calf producers cautious about breeding herd expansion. The January 1, 2005 Cattle report will help document if further herd rebuilding is underway.

Cow and Heifer Slaughter

Like total cattle slaughter numbers, cow slaughter numbers (beef and dairy) have been below a year ago levels virtually all year. Through June 2004, federally inspected cow slaughter was down 15 percent compared to 2003. The decline in dairy cow slaughter has been larger than the decrease in beef cow slaughter. Dairy cow slaughter was 17 percent lower than last year, while beef cow slaughter was 13.5 percent below 2003. However, these large decreases are a little overstated since total cow slaughter during 2003 ran 6 percent higher than in 2002. Regardless, 2004 cow slaughter is running between 8-10 percent below the 5-year average. This suggests that many beef and dairy producers might be keeping the best of the cows they otherwise might have culled to collect the profits from the current higher commodity prices.

Heifer placements as a percentage of feedlot placements were down nearly six percent from last year during the first six months of 2004 and averaged about 30 percent. The five-year average is about 35 percent. This lower percentage of feedlot placements is similar to the early 90s during the last cowherd expansion. However, heifer placements as a percent of feedlot placements during June and July inched up to 34 and 33 percent, respectively. Thus, the decisions made by cow-calf producers during the last four months of 2004 will help determine potential cattle slaughter numbers and the level of herd expansion during 2005.

Feed and Forage Conditions

The 2004 growing season in most major grain growing regions is shaping up to be above average. Thus, an above average growing season coupled with a slightly larger acreage planted to corn should result in a record breaking corn crop. USDA recently projected that 2004 U.S. corn production is expected to exceed 10.9 billion bushels, up about 8 percent from a year ago and 22 percent above 2002. Weather is still a wildcard since many acres in the upper Midwest and northern Great Plains have been slow to develop due to cooler weather. An early frost could reduce crop production in those areas. Barring this situation, a record large corn crop will be made.

Likewise, USDA has estimated that the 2004 U.S. soybean crop will likely be the second largest on record. U.S. soybean production is projected to be over 2.8 billion bushels. This level of production would be 22 percent above the drought affected soybean crop of 2003.

Moisture and forage growing conditions during 2004 in the eastern two-thirds of the U.S. are much improved over 2003. However, much of the Western region remains dry, and forage supplies are limited. This year’s total hay production is expected to be record large. Acreage harvested and crop yield are expected to exceed last year’s levels. Although, the quality of hay may be an important issue this year as favorable moisture conditions also produced poor harvesting conditions. Hence, a forage analysis of hay will help producers formulate better rations for livestock and/or shop around for the best buy.

Beef Demand

U.S. consumers are voting with their dollars. U.S. consumer spending on beef items continues to increase and is expected to exceed $70 billion during 2004. Total U.S. consumer beef spending during 2004 is forecast to be about $8 billion larger (13 percent) than a year ago and up almost $24 billion (50 percent) from 1998 when beef demand began to grow.

U.S. per capita beef spending during 2004 is estimated to be $239 per person, a new record and up $25 per person from a year ago. U.S. per capita beef spending has increased for seven consecutive years beginning in 1998. Low carbohydrate/high protein diets, improving beef quality, convenience oriented beef products, and many other reasons have been cited for the significant increase in per capita beef spending.

The U.S. economy is expected to maintain growth during the rest of 2004 and 2005 and should support current domestic beef prices. Retail prices for choice beef, although below the record average price set in November of 2003 at $4.32 per pound, remain significantly higher than retail prices prior to last fall. Retail choice beef prices during July 2004 averaged $4.18 per pound, well above the $3.99 and $4.10 per pound average price estimates recorded during the first and second quarter, respectively. Future increases in beef prices will likely be constrained by cheaper competing meat supplies and the rising cost of other consumer goods (energy, food, durable goods, etc.).

Beef Trade Situation

International trade will likely continue to dominate the beef outlook during the rest of 2004 and into 2005. Beef trade discussions between the U.S. and Japan have not been very productive during the last nine months and are expected to linger into 2005. Likewise, the ban on live fed, feeder, and stocker cattle from Canada will continue to affect the near term beef outlook. U.S. cattle markets remain nervous about reopening live cattle trade with Canada due to food safety, animal identification, country of origin labeling, and export market concerns voiced by U.S. trading partners (Japan, South Korea, etc.). A lifting of the ban on Canadian live cattle is not expected before the beginning of 2005 and will likely coincide with or occur just after trade discussions have been completed with Japan. Japanese consumers and government officials are apparently very concerned about the food safety issues associated with BSE. Beef demand in Japan has experienced substantial weakness since the identification of BSE in their cattle herds two years ago. Hence, even if this export market opens in 2005, it will probably take several years to rebuild beef demand there.

The only two major markets to allow U.S. beef have been Canada and Mexico. Canada began allowing beef imports of U.S. boneless beef from animals less than 30 months of age in January 2004 and Mexico followed in early March. However, the levels of beef exports are well below 2003 levels. Again, it will probably take a long time to attain the 2003 beef export levels to these countries due to changing food safety requirements, consumer preferences, cheaper alternative meat prices, etc. In addition, excess cattle supplies and low beef prices in Canada will continue to restrain imports of U.S. beef during the near-term.

Total U.S. beef exports for the first 7 months of 2004 were only about 14 percent of last year’s level. 2004 U.S. beef exports during the first seven months totaled 204 million pounds, which was 86 percent below the 1.5 billion pounds exported during the first seven months of 2003. USDA has forecast total U.S. beef exports to all countries for 2004 and 2005 to be 446 and 600 million pounds, respectively. Total U.S. beef exports for 2003 were 2.5 billion pounds. Thus, rebuilding beef export markets will likely take several years.

2003 U.S. beef imports were approximately 3 billion pounds. USDA has forecast U.S. beef imports for 2004 to increase about 17percent to 3.5 billion pounds. Forecast beef imports for 2005 are estimated to be about 3.52 billion pounds. A significant reduction in U.S. cow slaughter is said to be driving the demand for processing beef in the United States. U.S. cow slaughter is expected to decline about 15 percent during 2004 compared with a year ago. If U.S. herd rebuilding gets underway in earnest, cow slaughter will likely continue to be below the five-year average thereby creating improved market prices for imported lean beef trimming. Thus, U.S. net beef supplies (domestic beef production plus beef imports minus beef exports) should be near 27 billion pounds for 2004 and 2005.

2005 Cattle Price Outlook

The current uncertainty about exactly when Asian trading partners (Japan, South Korea, etc.) might resume importing U.S. beef, and/or when the U.S. and Canada will allow two-way live cattle trade, should provide for a wild ride during the rest of 2004 and 2005. Assuming these trade issues are resolved, U.S. beef exports should begin to increase which will reduce the U.S. per capita beef supply and provide good price support for retail beef prices. However, any improvements in U.S. beef exports will likely be gradual as trading partners establish new procedures of trade and as consumers build their confidence in the safety and value of beef products.

Beef demand is expected to be mostly steady in 2005, after significant improvements in 2003 and early 2004. Steady beef demand coupled with an expected reduction in per capita beef supply should provide good price support for all sectors of the cattle industry. For 2005, USDA has forecast that slaughter steers will average in the mid to high 80s. Feeder cattle, 700-800 pounds, Southern Plains, are forecast to be in the mid to high 90s for most of 2005. Calf prices, 500-600 pounds, Southern Plains, are forecast to average between $110 to $115 per hundredweight. Cull cow prices should remain strong throughout 2005. Breeding heifer, cow, and bull prices are expected to post gains during 2005 and should increase correspondingly to rate of herd rebuilding.

The key to cattle price levels and week to week price swings will likely center around the status of beef trade between the U.S. and it trading partners. When will Japan and South Korea resume beef trade and under what conditions? Also, when and at what level will Canadian cattle shipments to the U.S. resume? The resolution of these trade issues will no doubt add much volatility to the beef market. 2005 cattle prices will likely dip below year earlier prices at times, but should remain cyclically strong and average at or above 2004 cattle prices.

“U.S. Cattle Situation and Price Outlook” was prepared by Dr. Walt Prevatt, Extension Economist and Professor, Auburn University, October 1, 2004.