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2005/2006 U. S. Cattle Situation and Price Outlook

Highlights

<As of January 1, 2005, the U.S. cattle and calves inventory increased about 1 million head to 95.8 million head, up one percent from a year ago. Thus, a new cattle cycle has begun. The previous cattle cycle lasted 15 years (1990-2004). The 2005 January cattle and calves inventory was about the same as the inventory at the beginning of the previous cattle cycle (1990).

<As of January 1, 2005, the number of cows and heifers that have calved increased about 209,000 head to 42.1 million head, up 0.5 percent from a year ago.

<As of January 1, 2005, the inventory of heifers 500 pounds and over held for beef cow replacements increased about 228,000 head (+4 percent) from a year ago to 5.7 million head. Milk cow replacements increased about 113,000 head (+3 percent) to 4.1 million head.

<As of January 1, 2005, the 2004 U.S. calf crop was estimated to be 37.6 million head, a decrease of 278,000 head (-1 percent) from a year ago.

<As of January 1, 2005, the number of feeder cattle outside of feedlots was estimated to be 27.9 million head, an increase of 400,000 head (+2 percent) from a year ago.

<As of July 1, 2005, the U.S. cattle and calves inventory increased about 900,000 head to 104.5 million head, up 1 percent from a year ago.

<As of July 1, 2005, the number of cows and heifers that have calved increased about 300,000 head to 42.8 million head, up 1 percent from a year ago.

< As of July 1, 2005, the inventory of heifers 500 pounds and over held for beef cow replacements increased approximately 200,000 head (+4 percent) from last year at 5.0 million head, while the inventory of milk cow replacements increased about 100,000 head (+3 percent) to 3.7 million head.

<As of July 1, 2005, the 2005 calf crop was estimated to be approximately 37.8 million head, up 175,000 head (+0.5 percent) from last year.

<As of July 1, 2005, the number of feeder cattle outside of feedlots was estimated to be 38.9 million head, an increase of 50,000 head (+0.1 percent) from a year ago.

<2005 U.S. beef production is expected to increase about 0.5 billion pounds to 25 billion pounds (+2 percent). U.S. beef production during 2006 is expected to be approximately 26 billion pounds due to a slightly larger 2005 calf crop, heavier carcass weights, and the resumption of live cattle trade with Canada.

< Net beef supply (domestic beef production plus beef imports minus beef exports) during 2005 is expected to increase about 0.4 billion pounds over last year and should total about 28 billion pounds. The increase in 2005 is driven by an increase in domestic production, beef imports and the lack of beef export markets. Beef and veal imports are expected to be about 3.6 and 3.8 billion pounds during 2005 and 2006, respectively. Beef and veal exports are expected to be about 0.46 and 0.64 billion pounds during 2005 and 2006, respectively. Thus, a net beef trade deficit of about 3 billion pounds will be realized each year.

<Competing meat production (pork and poultry) during 2005 is expected to show some increase compared with 2004. Pork production during 2005 is expected to show a minor increase of 0.25 billion pounds (+1 percent), while broiler production is expected to increase by about 0.4 billion pounds (+4 percent). Pork and broiler production is expected to increase to 21.1 and 36.5 billion pounds during 2006.

< U.S. beef exports are expected to be steady with some potential growth possible during 2006. Much uncertainty continues to exist about export trading policies (especially Asian markets). Any improvement in export trading policies (removal of export product bans, exchange rates, tariffs, disputes, etc.) will be key to foster 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 provide support for further U.S. herd expansion.

Cattle Herd Expansion Has Begun

The January 1, 2005 USDA Cattle report documented a one percent increase in the U.S. inventory of cattle and calves (+960,000 head). A slight increase in the number of cows and heifers that have calved (+209,000 head or +0.5 percent) was also reported. In addition, beef cow replacements (+228,000 head) and dairy cow replacements (+113,000 head) showed an increase of four and three percent, respectively, from a year-ago.

The July 1, 2005 USDA Cattle report also showed a one percent increase in the U.S. inventory of cattle and calves (+900,000 head). A one percent increase was reported for all cows and heifers that have calved (+300,000 head). Heifers 500 pounds and over kept for beef cow (+200,000 head) and dairy cow replacements (+100,000 head) were up four and three percent, respectively, from a year-ago.

Cow and heifer slaughter levels also provide evidence that cattle farmers are holding back females to rebuild their cow herds. Since the beginning of 2005 through mid-September, federally inspected cow slaughter has decreased about seven percent (-7%) compared with the same period for 2004. Likewise, heifer slaughter through mid-September 2005 has been down about four and one-half percent (-4.5%) from a year-ago.

Thus, cattle herd rebuilding has begun by reducing the cow slaughter rate (getting another calf from a mature cow) and retaining more replacement heifers (reducing the number of heifers placed in feedlots). Assuming that weather, feed and forages, and cattle prices permit, the U.S. cattle herd will continue to expand at a modest rate.

Feed and Forage Conditions

The 2005 growing season of the major grain growing regions has been erratic. Most of the growing regions did not receive adequate moisture to repeat last years record crops. Grain crops in Missouri, Illinois, Kansas and parts of Iowa were adversely affected by continued dry conditions during the growing season.

USDA released their revised estimate of corn yields on September 14th. Across the U.S. corn yields were forecasted lower than last year for most of the major corn producing states. However, last year was a record corn crop that averaged 160.4 bushels per acre and produced a record 11.8 billion bushels. USDA estimated an average 2005 corn harvest yield of 143.2 bushels per acre and a total U.S. corn production estimate at about 10.6 billion bushels. Corn farmers are expected to harvest about 74.3 million acres of corn for grain, up 1 percent from 2004.

Obviously, this is still a very large corn crop, perhaps the second largest on record. Because of the combination of a large corn crop, large supplies of competing feedstuffs, and the increases in energy costs (transportation costs), corn prices are expected to be weaker than last year. USDA has estimated the average farm level corn price for 2005/06 to range between $1.70 and $2.10 per bushel.

Likewise, USDA has estimated that the 2005 U.S. soybean crop will average 39.6 bushels per acre over an estimated 72.2 million acres to be harvested. The 2005 total U.S. soybean production forecast is for 2.85 billion bushels. This level of production would be about 10 percent below last year's large crop. 2005/06 market prices for soybeans and soybean meal are expected to range between $5.15-$6.05 per bushel and $165-$195 per ton, respectively.

Moisture and forage growing conditions were above average across much of the U.S. during the first half of 2005. In fact, pasture and range conditions at the start of summer grazing were much improved over last year with only 13 percent considered poor to very poor condition. However, by the end of summer (September 25th USDA report), 38 percent of the pasture and range were considered to be in poor to very poor condition. Last year, at this time, 26 percent of pasture and range were considered to be in poor to very poor condition.

Pasture and range conditions are worse than last year in all regions, except for the Great Plains and Western regions. Even though these regions have received some much needed rainfall, they are still marginally dry. Additional moisture is needed in all regions to improve pasture and range conditions.

Beef Trade Situation

The beef trade situation has been a topic of much interest and heated discussion during 2005. Beef trade discussions between the U.S. and Japan and South Korea have not been very productive during the last nine months and are expected to linger into 2006. Asian consumers and government officials continue to express food safety concerns associated with BSE. Correspondingly, beef demand in Japan has experienced substantial weakness since the identification of BSE in their cattle herds three years ago. Thus, even if this export market opens in 2006, it will probably take several years to rebuild beef demand there.

The only two major export markets to allow U.S. beef since December 23, 2003 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 current 2005 levels of U.S. beef exports are well below 2003. Again, it will probably take additional time to attain the 2003 beef export levels to these countries due to changing food safety requirements, consumer preferences, cheaper alternative meats, etc. In addition, excess cattle supplies and lower beef prices in Canada will continue to restrain imports of U.S. beef during the near-term.

According to USDA, total U.S. beef exports for 2005 are expected to be about 0.639 billion pounds, an increase of 0.178 billion pounds over last year. 2006 U.S. beef exports are projected to be similar at 0.640 billion pounds. However, significant beef export growth potential exists if Japan and/or South Korea markets open. Total U.S. beef exports for 2003 were 2.5 billion pounds. Thus, there is much room for improvement, but rebuilding beef export markets will likely take several years.

The 2004 U.S. beef imports were approximately 3.7 billion pounds. USDA has forecasted U.S. beef imports for 2005 to increase about four percent (+4%) to 3.82 billion pounds. Forecasted beef imports for 2006 are estimated to be about 3.78 billion pounds. A significant reduction in U.S. cow and bull slaughter is said to be driving the demand for processing beef in the United States. U.S. cow and bull slaughter is expected to decline about 7 percent during 2005 compared with a year ago. If U.S. herd rebuilding continues in earnest, cow and bull slaughter will likely continue to be below the five-year average thereby supporting improved market prices for imported lean beef trimmings. Thus, U.S. net beef supplies (domestic beef production plus beef imports minus beef exports) should be near 28 billion pounds for 2005 and 2006.

2005/2006 Cattle Price Outlook

The 2005 and 2006 cattle markets will continue to operate with a great deal of uncertainty. Thus, cattle markets could experience some volatile movements. Cattle farmers should monitor several factors, including the level of domestic beef production, growing supplies of pork and poultry, export beef sales (especially Asian markets), import beef levels, and the strength of domestic beef demand.

Slaughter cattle cash prices rallied during September to the mid and upper $80s per hundredweight. However, domestic beef production is expected to increase 3-4 percent this fall compared to last year. If these larger supplies of beef materialize, expect slaughter cattle prices to average in the low $80s per hundredweight this fall.

Slaughter cattle supplies during the first and second quarter of 2006 are expected to be larger than a year-ago. Slaughter cattle supplies are expected to increase 5-7 percent during the first two quarters of 2006 due to larger domestic supplies (a larger number harvested and potentially heavier carcass weights) and larger levels of slaughter cattle imported from Canada. The increase in slaughter beef supplies is expected to pressure slaughter cattle prices lower to average in the low to mid-$80s per hundredweight. Slaughter cattle prices during the fourth quarter of 2006 could reach 2005 price levels if the slaughter market stays reasonably current.

The uncertainty about when our Asian trading partners (Japan, South Korea, etc.) might resume importing beef is anybody's guess. When 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 U.S. beef products.

Significant improvements were realized in domestic beef demand during 2003 and 2004. Domestic beef demand during 2005 is expected to show a modest improvement. However, domestic beef demand during 2006 is expected to be tested as larger domestic meat supplies (beef, pork, and broilers) reach the marketplace and as consumers experience higher energy costs and interest rates.

For 2006, USDA has forecast that slaughter steers will average in the upper $70s to low $80s per hundredweight. Feeder cattle, 700-800 pounds, Southern Plains, are forecast to average in the mid $90s per hundredweight. Feeder calf prices, 500-600 pounds, Southern Plains, are forecast to average between $105 and $110 per hundredweight. Cull cow prices will likely show a minor decline from 2005 price levels, but should remain strong throughout 2006 due to cyclically smaller supplies. Breeding heifer, cow, and bull prices are expected to trade steady during 2006 as herd rebuilding continues.

The key to cattle price levels and week to week price swings will likely center around the level of domestic beef production, domestic beef demand, and the status of beef trade between the U.S. and its trading partners. Abrupt changes in these factors could potentially add much volatility to 2006 cattle markets. Cattle prices will likely dip below year earlier prices during the first three quarters of 2006. However, cattle prices should remain cyclically strong and average at 2-5 percent below 2005 cattle prices.

"2005/2006 U.S. Cattle Situation and Price Outlook" was prepared by Dr. Walt Prevatt, Extension Economist and Professor, Auburn University, October 3, 2005.