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2007 U. S. Beef Cattle Situation and Price Outlook

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Highlights

- < As of January 1, 2006, the U.S. cattle and calves inventory increased about 1.7 million head to 97.1 million head, up 1.7 percent from a year ago. The new cattle cycle, which began January 2004, is exhibiting modest growth. The inventory of cattle and calves for this cattle cycle is tracking very similar to the expansion years of the previous cattle cycle (1990-2004).
- < As of January 1, 2006, the number of cows and heifers that have calved increased about 391,000 head to 42.3 million head, up 0.9 percent from a year ago.
- < As of January 1, 2006, the inventory of heifers 500 pounds and over increased about 405,000 head (+2.1%) from a year ago to 20 million head. The inventory of heifers 500 pounds and over held for beef cow replacements increased about 214,000 head (+3.8 percent) from a year ago to 5.9 million head. Milk cow replacements increased about 160,000 head (+3.9 percent) to 4.3 million head. The inventory of other heifers 500 pounds and over increased about 32,000 head (+0.3 percent) to 9.8 million head.
- < As of January 1, 2006, the 2005 U.S. calf crop was estimated to be 37.8 million head, an increase of 155,000 head (+0.4 percent) from a year ago.
- < As of January 1, 2006, the number of feeder cattle outside of feedlots was estimated to be 28.2 million head, an increase of 468,000 head (+1.7 percent) from a year ago.
- < As of July 1, 2006, the U.S. cattle and calves inventory increased about 120,000 head to 105.7 million head, up 1.2 percent from a year ago.
- < As of July 1, 2006, the number of cows and heifers that have calved increased about 200,000 head to 43 million head, up 0.5 percent from a year ago.

- < As of July 1, 2006, the inventory of heifers 500 pounds and over increased approximately 300,000 head (+1.9 percent) from a year ago and totaled 16.5 million head. However, the inventory of heifers 500 pounds and over held for beef cow replacements recorded no change from last year at 5.0 million head. The inventory of milk cow replacements increased about 100,000 head (+3 percent) to 3.8 million head. The inventory of other heifers 500 pounds and over increased approximately 200,000 head (+0.7 percent) from a year ago to 7.7 million head.
- < As of July 1, 2006, the 2006 calf crop was estimated to be approximately 37.9 million head, up 100,000 head (+0.3 percent) from last year.
- < As of July 1, 2006, the number of feeder cattle outside of feedlots was estimated to be 39.3 million head, an increase of 400,000 head (+1 percent) from a year ago.
- < 2006 U.S. beef production is expected to increase about 1.3 billion pounds over a year-ago to 26.0 billion pounds (+5.5 percent). U.S. beef production during 2007 is expected to be approximately 26.8 billion pounds due to a slightly larger 2006 calf crop, heavier carcass weights, feeder imports from Mexico, and resumption of feeder and slaughter cattle imports from Canada.
- < Net beef supply (domestic beef production plus beef imports minus beef exports) during 2006 is expected to increase 0.5 billion pounds over last year and should total about 28.1 billion pounds. The 2006 increase is driven by a significant increase in domestic production (+1.3 billion pounds), a decrease in beef imports (-0.4 billion pounds), and an increase in beef exports (+0.4 billion pounds). Beef and veal imports are expected to be about 3.2 and 3.3 billion pounds during 2006 and 2007, respectively. Beef and veal exports are expected to be about 1.1 and 1.5 billion pounds during 2006 and 2007, respectively. Thus, a beef trade deficit of about 2.1 and 1.8 billion pounds is expected to be realized during 2006 and 2007, respectively.
- < Competing meat production (pork and poultry) during 2006 is expected to show some increase compared with 2005. Pork production during 2006 is expected to show an increase of 0.3 billion pounds (+1.6 percent), while broiler production is expected to increase by about 0.6 billion pounds (+1.8 percent). Pork and broiler production are expected to increase to 21.0 and 36.0 billion pounds during 2006, respectively. Total beef, pork, and broiler production is expected to increase 2.3 billion pounds to 83.1 billion pounds (+2.9 percent)
- < U.S. beef exports are expected to show significant growth during 2006 and 2007. The opening of beef trade with Japan and South Korea during 2006 offers added opportunity to increase U.S. beef exports in 2007. Future export growth is expected to be gradual. It may take 3-5 years to reach pre-2003 U.S. beef export levels. However, the increase in U.S. beef export levels should help provide price support during a time of expected increases in U.S. beef production. U.S. export levels of beef and 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 higher levels of cow slaughter year to date and no change in July 2006 beef replacement heifers compared with a year-ago, suggests that cow-herd expansion has begun to slow down. Assuming that weather, feed and forages, and cattle prices permit, the January 1, 2007 cattle and calves inventory estimate will likely show only a modest increase in U.S. herd expansion.

Beef Supply Situation

Despite record high feeder calf and feeder cattle prices and about eight years of cow-calf profits (returns over cash expenses), U.S. cattle farmers are not robustly increasing the inventory of cattle and calves as might be expected. The guarded increases in the inventory of cattle and calves have been constrained by very poor pasture and range conditions affecting more than half of the cow-calf states as well as rising production costs. In addition, the uncertainties associated with beef export trade, BSE, Animal ID, domestic and foreign consumer demand, alternative uses of land, and numerous other issues have likely also caused many cattle farmers to proceed with caution. In the mid-year July 1, 2006 Cattle report, cattle farmers told USDA they had about 100,000 more beef cows (+0.4 percent) than a year-ago and that their beef cow replacements were unchanged from a year-ago at 5 million head. Each of the previous two years beef cow replacements were increased by 200,000 head (+4 percent). No increase in beef cow replacements during 2006 suggest that herd expansion has slowed down for the reasons mentioned above. Therefore, the inventory of cattle and calves will not grow as fast as they did during the early stages of previous cattle cycles.

A slower growing inventory of cattle and calves, however, does not mean that beef production will grow slowly. A small increase in the calf crop, heavier carcass weights, and likely more feeder and live cattle imports (from Canada and Mexico) will result in an increase in U.S. beef production during 2006 to a level of about 26.0 billion pounds. USDA projects U.S. beef production during 2007 to be about 26.8 billion pounds.

Feed and Forage Conditions

The 2006 growing season of the major grain growing regions was mostly good during the spring, but declined during the summer months. However, recent rainfalls across the northern Great Plains and western Corn Belt during late August and September have resulted in much improved corn and soybean yield estimates. USDA's current corn and soybean production forecasts are 11.1 billion bushels and 3.1 billion bushels for 2006, respectively. If realized, each of these production levels would be the second largest crops on record.

Corn and soybean prices have fallen corresponding to the forecasted larger crops. December 06 Corn is currently trading at \$2.46 per bushel at the CBOT (Chicago Board of Trade), while November 06 Soybean is at \$5.44 per bushel. Furthermore, in years when the September yield projection is higher than the August yield projection it is often followed by further upward revisions in the final yield estimate. If this occurs, look for corn and/or soybean prices to decline further this fall.

Another wild card that can certainly affect feeder calf and feeder cattle prices is the price of corn next year. With all of the ethanol plants gearing up, we should see a demand shift-to-the-right for corn. Thus, corn prices are expected to be higher during 2007. December 07 corn futures at the CBOT are currently trading at \$2.89 per bushel. Analysts are projecting that a conservative estimate of an additional 300 million bushels of corn will be needed for ethanol production next year. This would require about an additional 5 million acres of corn next year. Some question whether the December 2007 CBOT corn price of \$2.89 per bushel is sufficient to bring that many additional acres into corn production. If it doesn't, corn prices will likely move much higher.

Additionally, pasture and range conditions have not been favorable over most of the cow-calf states this year. Particularly hard hit this year has been the northern and southern plains states, mid-west states, and southern Gulf Coast states. Recent rainfall has helped, but the pasture and range conditions are rated as poor or very poor on 47 percent of the acreage, compared to 36 percent at the same time last year.

Obviously, total U.S. hay production will be significantly reduced (7-10 percent) this year due to the drought. This will result in much higher hay prices in those areas affected by the drought. Both quantity and quality of hay have been adversely affected by the drought. Alternative winter feedstuffs will be in much demand this winter as cattlemen seek to feed their cowherds. Thus, the cost to winter cattle this year will be higher. The drought will no doubt have a significant effect on cattle production costs and the magnitude of herd expansion during 2007.

Beef Demand and Trade

Beef demand remained relatively strong during the first three quarters of 2006. Beef demand felt some challenges this year as some consumers experienced reduced grocery budgets due to higher energy prices and interest rates. Beef demand is expected to remain stable for the rest of 2006 and 2007. Per capita consumption of beef is expected to remain close to 66 pounds per person through the rest of the decade, assuming some growth continues in beef exports.

Retail beef prices during 2005 were close to the highest on record. 2006 retail beef prices will average slightly lower than 2005 due to reduced consumer food budgets. However, total beef spending, which was record large during 2005 at \$71.5 billion, is expected to increase slightly in 2006. The average total beef spending per capita during 2006 is expected to be about \$243 per person.

Additionally, it is very important that the U.S. continues to grow beef export markets (reopen Asian markets and expand into markets of other developing countries). This could be worth \$8 to \$10 per hundredweight on the value of fed slaughter cattle. Growth in beef export markets will also help to manage the increases in U.S. domestic beef production that is expected through the end of this decade.

Competing Meats

Both pork and broilers are expected to show increased production next year. Pork production is expected to increase about 0.6 billion pounds (+2.9 percent) during 2007 compared with a year-ago, while broilers are expected to increase about 0.5 billion pounds (+2.1 percent). There is a trade surplus for each of these competing meats, which means we export more than we import. Therefore, the net pork supply is expected to increase about 0.5 billion pounds (+2.5 percent) during 2007 compared with a year-ago, while the net broiler supply is expected to increase about 0.4 billion pounds (+1.5 percent) compared with a year-ago.

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

2007 Beef Price Outlook

The 2007 cattle market will continue to operate with a great deal of uncertainty. Cattle farmers should monitor several factors, including the length, extent and severity of the drought, growing supplies of broilers and pork, export and import sales (beef, broilers, and pork), and consumer beef demand. The cattle markets could experience some volatile movements with abrupt changes in any of these factors or combinations of these factors.

The U.S. net beef supply is expected to show some significant changes during 2007 compared with 2006, as shown in Table 1. Domestic beef production is forecast to increase 0.8 billion pounds (26.8-26.0 or +3.1 percent), beef and veal imports are expected to post a minor increase of 0.1 billion pounds (3.3-3.2 or +4.5 percent), beef and veal exports are expected to increase about 0.4 billion pounds (1.5-1.1 or +33.6 percent). Assuming these increases are realized, the U.S. net beef supply during 2007 will increase about 0.6 billion pounds (28.7-28.1 or +2 percent).

Table 1. U.S. Net Beef Supply (Billion Pounds), 2005-2007.

Item	2005	2006	2007
	(Billion Pounds)		
Domestic Beef Production	24.7	26.0	26.8
Beef & Veal Imports	3.6	3.2	3.3
Beef & Veal Exports	0.7	1.1	1.5
Net Beef Supply	27.6	28.1	28.7

Assuming stable domestic consumer beef demand, the combination of an increase in the U.S. net beef supply (+2 percent) coupled with increases in the net broiler supply (+1.5 percent) and the net pork supply (+2.5 percent) will pressure farm level beef cattle prices lower during 2007. Any changes in production and/or export and import levels of these three competing meats could cause major movements in beef prices. Each industry is very capable of significantly altering production levels and subject to wide changes in export and import levels.

Given the above projections regarding the 2007 U.S. net beef supply, beef cattle price projections were estimated for 2007. 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 2007 are expected to average between \$83 and \$88 per hundredweight. The highest average prices are expected during the first quarter of 2007 for all classes of cattle. The lowest average prices are expected during the third quarter for choice slaughter steers and the fourth quarter for all other classes of beef cattle.

Table 2. Estimated average beef market prices, by quarter, 2007.

Item	2007 1 st Qtr.	2007 2 nd Qtr.	2007 3 rd Qtr.	2007 4 th Qtr.	2007 Avg.
Choice slaughter steers, Neb. \$/cwt.	83-88	82-86	78-83	79-85	80-86
Feeder steers, 750#, AL, \$/cwt.	100-104	97-102	99-104	95-100	97-104
Feeder steer calves, 550#, AL, \$/cwt.	115-119	113-117	112-118	108-112	110-115
Boning utility cows, AL, \$/cwt.	45-49	44-48	42-46	40-45	43-47

For 2007, USDA has forecast that choice slaughter steers (Nebraska basis) will post an annual average in the low to mid \$80s per hundredweight. Alabama feeder steers (750#) are expected to average between \$98 and \$104 per hundredweight, Alabama feeder steer calves (550#) between \$110 and \$115 per hundredweight, and Alabama boning utility cows in the mid \$40s per hundredweight. Breeding heifer, cow, and bull prices are expected to show minor decreases of between 3-6 percent as herd rebuilding continues.

The simultaneous increases in the supplies of beef, broilers, and pork are expected to pressure meat prices lower during 2007. Driving the increase in net beef supply includes an increase in cattle inventory, heavier carcass weights, and larger levels of beef imports. U.S. cattle inventories are expected to increase from 2004 through 2010. The total cattle inventories are expected to increase between 5 to 7 million head. During this same time period, these increases are expected to increase domestic beef production about 3 to 4 billion pounds and reach about 28 billion pounds of beef production by the end of the decade. These higher levels of beef production will most certainly result in lower beef cattle prices.

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 2006, U.S. beef exports are expected to total about 1.1 billion pounds, while U.S. beef imports are expected to total about 3.2 billion pounds. This results in a beef trade deficit of about -2.1 billion pounds. Thus, as U.S. beef production totals 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 similarly to the expected increases in domestic beef production.

As should be expected, the 2007 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 2007 cattle market prices. However, cattle market prices should remain cyclically strong and average at 3 to 6 percent below 2006.