

# TIMELY INFORMATION

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### U. S. Beef Cattle Situation and 2011 Price Outlook

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#### Highlights

#### Change from 1 year ago as of January 1, 2010

- The U.S. cattle and calves inventory decreased to a total of 93.7 million head, down about 820,000 head (-0.9 percent) from a year ago.
  - The new cattle cycle, which began January 2004, exhibited modest growth for 3 years and began its decline in January 2008.
  - The inventory of cattle and calves for this cattle cycle is tracking below the previous cattle cycle inventory levels (1990-2004).
- The number of cows and heifers that have calved decreased to a total of 40.5 million head, down about 589,000 head (-1.4 percent) from a year ago.
- The inventory of heifers 500 pounds and over increased to a total of 19.7 million head, up about 90,000 head (0.5%) from a year ago.
  - The inventory of heifers 500 pounds and over held for beef cow replacements decreased to a total of 5.4 million head, down about 95,000 head (-1.7 percent) from a year ago.
  - Milk cow replacements increased to a total of 4.5 million head, up about 106,000 head (2.4 percent) from a year ago.
  - The inventory of other heifers 500 pounds and over increased to a total of 9.7 million head, up about 79,000 head (0.8 percent) from a year ago.
- The 2009 U.S. calf crop was estimated to be 35.8 million head, a decrease of 334,000 head (-0.9 percent) from a year ago.
- The number of feeder cattle outside of feedlots was estimated to be 27.5 million head, a decrease of 35,000 head (-0.1 percent) from a year ago.

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### Change from one year ago as of July 1, 2010

- The U.S. cattle and calves inventory decreased to a total of 100.8 million head, down about 1.2 million head (-1.2 percent) from a year ago.
- The number of cows and heifers that have calved decreased to a total of 40.8 million head, down about 600,000 head (-1.5 percent) from a year ago.
- The inventory of heifers 500 pounds and over decreased to a total of 16.1 million head, down 100,000 head (-0.6 percent) from a year ago.
  - The inventory of heifers 500 pounds and over held for beef cow replacements decreased to a total of 4.4 million head, down 100,000 head from last year (-2.2 percent).
  - The inventory of milk cow replacements increased to a total of 4.05 million head, up 100,000 head (2.5 percent) from a year ago.
  - The inventory of other heifers 500 pounds and over decreased to a total of 7.7 million head, down 100,000 head from last year (-1.3 percent).
- The 2010 calf crop was estimated to be approximately 35.4 million head, down 419,000 head (-1.2 percent) from last year.
- The number of feeder cattle outside of feedlots was estimated to be 37.5 million head, a decrease of 1.0 million head (-2.6 percent) from a year ago.

### Expected Outlook

- 2010 U.S. beef production is expected to decrease to a total of 25.7 billion pounds, down about 0.3 billion pounds (-1.0 percent) from a year ago. U.S. beef production during 2011 is expected to be smaller than 2010 at approximately 25.1 billion pounds, down 0.6 billion pounds (-2.3 percent).
- Net beef supply (domestic beef production plus beef imports minus beef exports) during 2010 is expected to decrease to 26.0 billion pounds, down 0.7 billion pounds (-2.7 percent) from last year. The 2010 decrease is the result of a decrease in domestic beef production (-0.3 billion pounds or -1.0 percent), a decrease in beef imports (-0.08 billion pounds or -2.9 percent), and an increase in beef exports (0.4 billion pounds or 21.1 percent). Beef and veal imports are expected to be about 2.6 billion pounds during 2010. Beef and veal exports are expected to be about 2.3 billion pounds during 2010. Thus, a beef trade deficit of about -0.3 billion pounds is expected to be realized during 2010.
- Net beef supply during 2011 is expected to decrease to a total of 25.7 billion pounds, down 0.3 billion pounds (-1.1 percent) from 2010. The 2011 decrease is the result of a decrease in domestic production (-0.6 billion pounds), a slight increase in beef imports (+0.2 billion pounds), and a decrease in beef exports (-0.1 billion pounds). Beef and veal imports are expected to be about 2.8 billion pounds, while beef and veal exports are expected to be about 2.2 billion pounds during 2011. Thus, a beef trade deficit of about -0.6 billion pounds is expected to be realized during 2011.
- Competing meat production (pork and poultry) during 2010 is expected to show mixed results. Pork production during 2010 is expected to show a decrease of -0.8 billion pounds (-3.3 percent), while

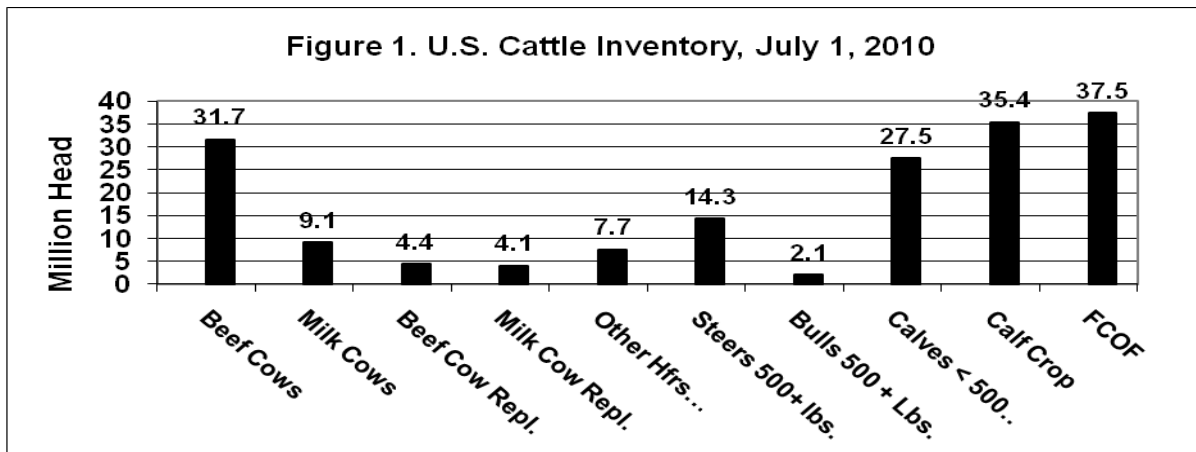
broiler production is expected to increase by about 1.4 billion pounds (+3.9 percent). Pork and broiler production are expected to total 22.2 and 36.1 billion pounds during 2010, respectively. Total beef, pork, and broiler production is expected to decrease to a total of 84.0 billion pounds, down about -0.6 billion pounds (-0.7 percent) from 2009.

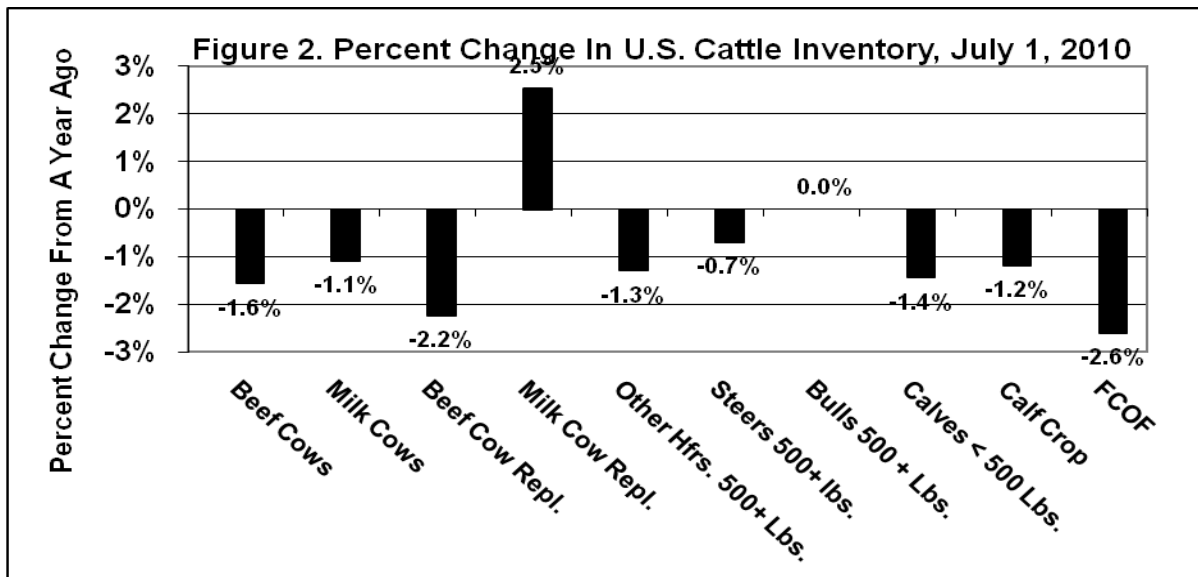
- U.S. beef exports during 2010 are expected to increase to 2.3 billion pounds (+21.1 percent) due to a significant recovery by the majority of our trading partners and a weak U.S. dollar. However, U.S. beef exports during 2011 are expected to decline slightly due to financial market weaknesses among several trading partners. Exports beyond 2011 are expected to be gradual as world economies recover from recessionary conditions. Any increase in the levels of U.S. exports of beef and/or 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 a slightly higher level of cow slaughter last year and this year and a decline in both the July 2010 estimates for beef cow inventory (-1.6 percent) and heifers held for beef replacement (-2.2 percent) from a year ago, suggests that the U.S. beef cow-herd will continue to decrease. Current expectations are that the January 1, 2011 cattle and calves inventory estimate will show a decrease of between 1 to 2 percent.

### Beef Supply Situation

U.S. cattle farmers are continuing to decrease their inventory of cattle and calves (Figures 1 and 2). The major factors responsible for causing cattle inventory declines include a combination of a lack of profitability by the majority of cow-calf farmers (due to weak beef demand which was caused by the severe recession), high production costs (feed, fertilizer, fuel, labor, land rents, etc.), large levels of competing meats, and alternative uses of land (pasture acreage moving into grain production and/or conservation programs and other non-farm uses such as recreation and rural non-farm development). Thus, given the current lackluster level of profits and immense uncertainty in the U.S. general economy, cattle farmers will likely continue to liquidate cattle numbers until profitability can be achieved.

In the mid-year July 1, 2010 Cattle Report, cattle farmers told USDA they had about 500,000 fewer beef cows that had calved (-1.6 percent) than a year ago. Beef cow replacements were down 100,000 head (-2.2 percent) from a year ago at 4.4 million head. A decrease in beef cow replacements and beef cows that have calved during 2010 suggests that herd liquidation will continue in 2011.





A smaller inventory of cattle and calves and smaller calf crop during 2010 will likely limit the growth in beef production during 2011. USDA projects U.S. beef production during 2011 to be about 25.1 billion pounds (-2.0 percent from a year-ago). This level of beef production will be influenced by any adjustments in average carcass weights and the level of feeder and live cattle imports (from Canada and Mexico).

#### Feed and Forage Conditions

The 2010 growing season of the major grain growing regions got off to a fast start. Adequate weather conditions allowed planting to be completed in most major grain growing areas earlier than normal. The majority of the crop received favorable growing conditions most of the season. Harvest weather is currently adequate in most areas for a timely harvest. USDA's current corn and soybean production forecasts (Sept. 10<sup>th</sup>) are 13.2 billion bushels and 3.5 billion bushels, respectively, for 2010. If these production levels are realized, corn production will be about 0.05 billion bushels larger than a year ago (+0.4 percent) and soybean production will be about 0.12 billion bushels larger than a year ago (+3.7 percent).

2010 corn and soybean futures prices have increased corresponding to the forecasted smaller crops than was projected earlier this season and improved export markets. December 2010 corn is currently trading at \$5.02 per bushel (Chicago Board of Trade, 9/22), while November 2010 soybeans is at \$10.85 per bushel. December 2010 corn futures prices have increased about \$1.50 per bushel, while November 2010 soybeans increased \$1.85 per bushel during the 2010 summer months. These current futures prices represent an increase in futures prices for corn and soybeans of 43 percent and 21 percent from early June 2010, respectively. Corn and soybean prices are expected to move higher in 2011 due to tight supplies worldwide and as economies recover from recession. Therefore, livestock farmers should seriously consider taking steps to manage their feed purchases during the 2010 crop harvest.

Another factor that can certainly affect feed prices and feeder calf and feeder cattle prices is the level of export demand for corn and soybeans. Any major changes in world export demand for these commodities could significantly move market prices. The recent crop failures in Russia and Western Europe due to the drought will significantly reduce grain supplies and increase world grain prices. Additionally, the strength of the U.S. dollar

is certain to influence world export demand (a weaker dollar improves world export demand).

Fortunately, pasture and range conditions have been better over many of the cow-calf states this year. However, high input costs (feed, fertilizer, labor, land rent, etc.), moderate feeder calf prices, and marginal milk prices have resulted in a large number of cull cows moving to slaughter this year. Recent rainfall has been received in many areas which will permit continued grazing of feeders and market cows into October and November. The pasture and range conditions as of September 7<sup>th</sup> rated as poor or very poor was 23 percent of the U.S. acreage in pasture and rangeland.

Total 2010 U.S. hay production is expected to be marginally larger than a year ago. USDA's September Crop Production Report (9/10/10) estimated total hay production at about 154 million tons. That is up 6.5 million tons (+4.4 percent) from last year. An increase in average yield is expected to be responsible for the increased level of hay production (2.58 tons per acre or +4.5 percent from a year ago). Harvested acreage is estimated to be down slightly, about 99,000 acres from 2009. Most states in the Southeast will show comparable levels of hay production compared with 2009. However, high inputs costs will likely result in continued high hay prices. Thus, alternative winter forages and feedstuffs will be in much demand this winter as cattlemen seek to feed their cow herds.

## Beef Demand and Trade

Beef demand has felt some challenges the last two years due to less interest in protein diets, higher unemployment, and tightening consumer grocery budgets due to the higher cost of living. Beef demand is expected to be further tested during 2011 as consumers continue to experience rising prices for most goods and services. If consumer disposable income does not rise proportionally, shopping habits and choices will shift as prices rise forcing consumers to substitute and/or reduce the bundle of goods and services they consume. The weak U.S. economy during 2010 resulted in a decrease in domestic beef demand. Fortunately, world beef demand increased as world economies recovered from the recession and a weaker U.S. dollar contributed to increased exports.

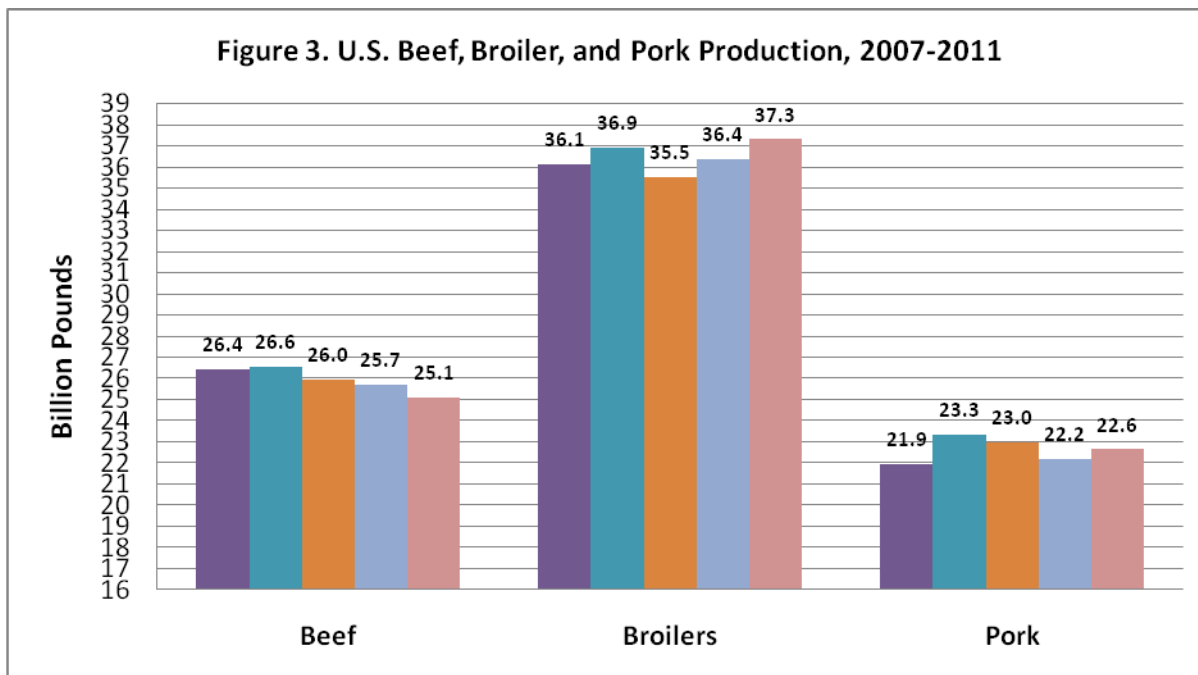
Per capita consumption of beef is expected to decline during 2010 and 2011. Beef production during 2010 is expected to be 25.7 billion pounds, down 0.3 billion pounds or -1.0 percent from a year-ago. 2010 beef imports are estimated to be 2.6 billion pounds or down about 78 million pounds more (-2.9 percent) from 2010. 2010 beef exports are expected to be 2.3 billion pounds, up about 394 million pounds (21 percent) compared with 2009. The combination of lower domestic beef production, lower imports, and higher exports are expected to decrease domestic disappearance (net beef supply). As a result, overall domestic disappearance should decline somewhere around 727 million pounds. This reduction in domestic disappearance will result in a decrease in beef per capita consumption to around 59.0 pounds per person in 2010. Per capita consumption for 2011 is estimated to be about 57.8 pounds per person. Also, as the U.S. population increases in the future, per capita beef consumption will likely be lower unless U.S. beef production increases and/or imports increase.

The average retail beef price for 2009 was \$4.26 per pound. Retail beef prices during the first quarter of 2010 were marginally lower than a year ago. However, second and third quarter retail beef prices were slightly higher than a year-ago. The 2010 retail beef prices should average above 2009 prices. The quantity of beef clearing the market is estimated to be 700 million pounds less during 2010. The 2011 retail beef prices are expected to be similar to 2010. However, retail beef prices will be tested if unemployment continues to rise, economic recovery is not realized, and consumers are pressured by the rising costs of goods and services.

Additionally, it is very important that the U.S. continues to grow beef export markets. These export markets could be worth \$5 to \$10 per hundredweight on the value of fed slaughter cattle. Growth in beef export markets will also help to moderate the price impacts of any weaknesses in U.S. broiler and pork exports.

## Competing Meats

U.S. meat production in 2011 is expected to show mixed results. Beef production is expected to show a decrease, while pork and broiler production are expected to show increases next year (see Figure 3). Beef production in 2011 is expected to decrease about 590 million pounds (-2.3 percent). Pork production is expected to increase about 430 million pounds (2.0 percent) during 2011 compared with 2010, while broiler production is expected to increase about 945 million pounds (+2.6 percent).



Any changes in these production levels or export levels of pork and broilers could have a significant effect on U.S. beef prices. Additionally, any further increases in feedstuff prices will likely alter these 2011 production projections. A watchful eye on the production and export levels of competing meats and feed prices will help identify potential changes in beef prices.

## 2010 Beef Price Outlook

The 2011 cattle market will continue to operate with a great deal of uncertainty. Cattle farmers should monitor several factors including changes in domestic beef demand (future strength/weakness of U.S. economic recovery), supplies of broilers and pork, export and import sales (beef, broilers, and pork), feedstuff prices, monetary exchange rates, and adverse weather impacts (the length, extent, and severity of the droughts, floods, extreme temperatures, etc.). The cattle markets could experience some volatile movements with abrupt changes in any of these factors and/or combinations of factors.

The 2009-2011 U.S. net beef supply estimates are shown in Table 1. U.S. net beef supply is domestic beef production plus beef imports minus beef exports. The net beef supply is the amount of beef that is consumed in U.S. markets. The 2010 U.S. net beef supply is expected to show a decline of about 0.727 billion pounds (-2.7 percent) compared with 2009. The 2011 U.S. net beef supply is expected to show a decline by 0.285 billion pounds (-1.1 percent).

Table 1. U.S. Net Beef Supply (Billion Pounds), 2009-2011.

Item	2009	2010	2011
	(Billion Pounds)		
U.S. Domestic Beef Production	25.963	25.705	25.115
U.S. Beef & Veal Imports	2.628	2.553	2.745
U.S. Beef & Veal Exports	1.869	2.263	2.150
U.S. Net Beef Supply	26.722	25.995	25.710

Minor changes in future U.S. beef import and/or export levels (due to beef demand, food safety, exchange rates, politics, regulations, etc.) can significantly change the U.S. net beef supply and consequently domestic beef prices. Additionally, the strength of the U.S. dollar will have a major influence on the levels of U.S. beef exports and imports during 2011.

U.S. net broiler supply is expected to be larger during 2010 as compared with 2009 estimates, while U.S. net pork supply is expected to be smaller as compared with 2009 estimates. Total 2010 U.S. net supply of beef, broilers, and pork is expected to be 0.6 billion pounds lower (-0.8 percent) compared with 2009. However, 2011 net beef, broilers, and pork supplies are expected to increase 0.7 billion pounds (+1.0 percent) compared with 2010. U.S. net broiler and pork supplies are expected to increase 0.8 (+2.6 percent) and 0.3 (+1.3 percent) billion pounds, respectively. U.S. net beef supply is expected to decline 0.3 billion pounds (-1.1 percent).

Supplies of beef, broilers, and pork are expected to respond quickly to changes in demand. Any significant changes in domestic demand and/or foreign demand of these three competing meats could cause major movements in beef prices. Each industry is very capable of significantly altering production levels and is subject to wide changes in export and import levels.

Given the above projections regarding the 2011 U.S. net beef supply, beef cattle price projections were estimated for 2011. 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 2011 are expected to average between \$96 and \$101 per hundredweight. The highest average prices for slaughter steers are expected during the fourth quarter of 2011 and the third quarter for feeder steers and calves. The lowest average prices are expected during the third quarter for choice slaughter steers and the first quarter for boning utility cows.

Table 2. Estimated average cattle market prices by quarter, Alabama and Nebraska, 2011.

Item	2011 1 <sup>st</sup> Qtr.	2011 2 <sup>nd</sup> Otr.	2011 3 <sup>rd</sup> Otr.	2011 4 <sup>th</sup> Qtr.	2011 Avg.
Choice slaughter steers, Neb. \$/cwt.	\$96-\$101	\$97-\$101	\$95-\$100	\$97-\$102	\$96-\$101
Feeder steers, 750#, AL, \$/cwt.	\$104-\$110	\$104-\$110	\$105-\$112	\$105-\$111	\$105-\$110
Feeder steer calves, 550#, AL, \$/cwt.	\$110--\$115	\$111-\$116	\$112-\$117	\$112-\$116	\$111-\$116
Boning utility cows, AL, \$/cwt.	\$50-\$53	\$51-\$55	\$50-\$54	\$50-\$54	\$50-\$54

For 2011, choice slaughter steers (Nebraska basis) are forecast to post an annual average price in the upper \$90s per hundredweight. Alabama feeder steers (750#) are expected to average between \$105 and \$110 per hundredweight, Alabama feeder steer calves (550#) between \$111 and \$116 per hundredweight, and Alabama boning utility cows in the low to mid \$50s per hundredweight. Breeding heifer, cow, and bull prices are expected to be steady with potential modest increases as the demand for herd replacements gains in importance.

The current weak U.S. economy, lack of consumer confidence, political gridlock, information chaos on proposed legislation in the U.S. Congress (Health Care, Immigration, Cap & Trade, Stimulus Funding, etc.), and future economic uncertainty is fresh in minds of U.S. citizens. The decisions made on these issues are believed to have an overwhelming affect on our future prosperity and consumer spending. Unfortunately, there is not convincing evidence about what works and what doesn't. Consumers, at least for right now, are spending less and saving more. Only time will tell if this may be the start of a longer term shift in consumer behavior. Assuming economic recovery takes place during 2011, look for increased product movement through beef market outlets before we realize higher beef market prices.

2011 cattle market prices should remain cyclically strong and average near or slightly higher than 2010. As should be expected, the 2011 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 2011 cattle market prices. Cattle farmers will need to search for ways to lower their unit cost of production (what it costs to produce a pound of beef) and ways to enhance market prices in order to achieve profitability during 2011.