

## Prices & Outlook: Cattle Outlook

April 2000

### Livestock Markets Heat Up

One of the mysteries of markets is that you never get them totally figured out. Just when you think they are behaving in the "proper manner" they move to unexpected and unexplained levels. Current livestock markets can seemingly be added to the "unexplained" category.

A year-ago, fed cattle prices were \$65 per hundred, and steer calves were selling in the Eastern Corn Belt for 90 cents a pound. This spring beef supplies are nearly 5% higher and fed cattle have hit \$74, and steer calves are as high as \$1.20 per pound.

The spring is even more remarkable for hogs. Pork supplies are down only 3%, yet hog prices are at \$50 per hundred compared to about \$29 a year ago. The feeder pig price spread is even more dramatic, \$38 per head a year-ago, and near \$60 this year.

What's going on? Livestock producers respond, "I don't know, but whatever it is I hope it continues for a long time." The answers however are not as simple. First, demand is white-hot, as demonstrated by cutout values for both hogs and cattle. A year-ago pork carcass values were under 50 cents per pound, this year they are at 70 cents. Simply said, consumers seem to be enjoying red meat once more, and without quilt. Two factors are the most likely cause.

One is the popular Atkins or high protein diet. Recently I heard the TV testimony of a movie star suggest that after trying every diet in the book he had lost 30 pounds on the high protein/low carbohydrate diet....and felt great. While the medical community has not come out in favor of this dietary shift, the power of the highly visible stars seems to be enough proof for many Americans.

More interest in red meats is not enough however, consumers also must have money in their pockets. Here we have the general economy to thank as we extend the longest period of positive economic growth in American history. A combination of money in the pocket, and an enhanced image of red meats, is about the best explanation that can be provided. In addition, a warm March got the grilling season off to an early start this year.

The impact of strong livestock prices will be reflected in sharply higher farm and ranch incomes than has been anticipated by USDA. Clearly, both the cattle and hog sectors have emerged from the farm recession of 1997 to 1999, but what of the future?

The recent Cattle on Feed report indicated that the number on feed was up 8% from last year. This means that the number of fed cattle will likely increase as we move into the late-spring and summer. Total placements in March dropped by 1% as the pool of young cattle to go into feedlots dwindles, but the number of cattle over 800 pounds placed in feedlots were up 22%

from last year. This sets up a potential for increasing supplies of fed cattle this summer, but with sharply smaller supplies by the fall.

Fed cattle prices are expected to be at their spring highs at the current time, and begin to drop shortly. Summer prices are expected to drop back into the higher \$60, with lows likely in July or August. Then, as smaller fed supplies come to market in the fall, prices are expected to rebound, and may very well make new yearly highs in the mid-\$70s. The favorable price period will likely continue into 2001 as new heifer retention drops beef supplies further.

Hog prices should continue to improve this spring and summer. Prices have risen more quickly than anticipated, but the odds of further strength going into June remain high. This means that summer highs in June could reach the \$53 to \$55 range, a level of huge profitability for hog producers. Fall prices may be able to hold near the \$45 level, with the likelihood for profitable prices extended well in to 2001.

While the outlook for the livestock sector has turned from dismal to daunting in the past year, there remain several threats that will be watched closely. The first is dry weather in the Midwest. If drought conditions continue into the summer, yield prospects will diminish and feed prices will escalate further. Drought also reduces forage supplies and forces increased cow slaughter along with lighter weight cattle coming off feed. Initially, higher feed prices result in larger beef and pork supplies and lower prices.

The second concern is with the strong demand. The two components are improved consumer attitudes about red meat consumption and high personal incomes. Interest rates will continue to rise this summer, inflation is warming up, and the extreme volatility in the stock market reflects increasing economic uncertainty. These factors may result in consumers which will be more cautious with their free spending of the recent past. A final question is whether the high protein diet reflects a fundamental change of consumer attitudes toward red meats, or is simply another fad that fades with time.

The future is always clouded with uncertainty, but at least the livestock industry is financially recovering from the last two years when prices seemed unjustifiably low, reflecting another period in which market prices were hard to explain.