Prices & Outlook: Cattle Outlook

April 2008

Cattle Industry Feels Heat of High Feed Prices

The cattle industry is in a period of adjustment to the new realities of hyper feed prices, lingering drought, shortage of forages, and the biofuels era.

First quarter beef production was up a surprising three percent and continues to rise by an even more troubling seven percent so far in April. The sharp rise in production is probably attributable to heavy placements of feedlot cattle last fall, which were up nine percent from August through November. Why such heavy placements at that time? We have tended to forget that corn and other feed prices were much lower late last summer and into the fall. The average price received by farmers for corn in the August through November period was a mere $3.32 per bushel. High protein soybean meal at Decatur Illinois averaged $253 per ton.

The second reason placements were so high was that live cattle futures were overly optimistic. As an example during the August to November 2007 period, the February 2008 live cattle futures averaged near $100 per hundredweight while the contract expiration price was about $93.

The beef cow herd has been getting smaller due to drought and poor returns to cow-calf operations. That trend is likely to continue. Drought in the Southeast U.S. is easing and predictions from the National Weather Service are for continued improvement this spring. The question will be whether producers decide to restock cows this year or wait to see what happens with drought and cattle markets. Dry conditions are developing again on the western fringe of the Great Plains and continue in some of the regions of the Rocky Mountain States.

The beef cow herd is continuing to get smaller. Female slaughter has remained high in 2008 both for cows and heifers. For the first two months of the year for which data is available, cow slaughter was up seven percent and heifer slaughter was up four percent. In addition, the number of heifers in 1,000 head and larger feedlots was up three percent on April 1 according to USDA.

Despite a discouraging outlook, placements in January and February were up five percent. Fewer calves were wintered on wheat pasture, and those that went on wheat were taken off sooner to protect wheat yields. Another reason for continued high placements was that forages were in short supply and high priced, thus pushing calves away from backgrounding and toward feedlots. However that trend has now changed as a result of high feed costs, disappointing fed cattle prices, and large feedlot losses. In the quarterly *Cattle on Feed* report, USDA says feedlots reduced placements by 11 percent in March. Those placements were the second lowest for March since the current data series was started in 1996.

Cattle prices in general have been disappointing so far this year. First quarter finished steer prices averaged about $90 per hundredweight which was down $1 from the same quarter in 2007. Despite smaller supplies, calves and feeder cattle prices in the first quarter were the same as the similar period in 2007. Oklahoma City feeder steers weighing 500 to 550 pounds averaged $122 per hundredweight and 750 to 800 pound feeder steers were $100.

Looking forward, beef supplies in the second and third quarter are expected to rise by two to three percent. Smaller placements this spring are expected to begin to drop beef production by four percent in the final quarter of the year. Unfortunately, pork supplies will be large in the second and third quarters as well, before dropping in the final quarter. Once the smaller beef supplies arrive by the fall of 2008 they will continue to drop for several years. Current expectations are for a two to three percent reduction in beef production for 2009.

Finished cattle prices will remain under pressure for much of the summer with prices averaging in the lower $90s. The rally in the fall should move cattle prices up into the $94 to $98 range. It is well worth noting that futures for late 2008 are trading above $100 and may be stronger than currently supported by anticipated fundamentals. Prices should continue to rise into the first quarter of 2009 with possible highs in March and April of 2009 reaching $105.

Calf prices will be highly influenced by volatile feed prices as well as bullish finished cattle prices. As we all know, much is riding on the size of grain, soybean, and forage crops this spring and summer. Eastern Corn Belt steer calf prices are expected to trade in a range of $100 to $115 this spring, with fall prices $5 to $10 higher at $105 to $120. The costs for cow-calf producers are now much higher and many producers may require prices that are $115 to $130 just to cover all costs. Expect the potential for wide swings in calf prices, and the cattle outlook in general, as weather unfolds in 2008.

April 21, 2008
Chris Hurt
Purdue University