April 2010 Cattle Report

The Cattle Business is Back

Suddenly, owning cattle looks like a stroke of genius. In a few short months, cattle prices have staged a seemingly miraculous comeback. In December, finished cattle were $80 per hundredweight, now they are $100. Calves were $1.05 a pound, now they are over $1.30. The reasons are clear: the world economy continues to recover, feed prices are lower, red meat supplies are down, exports are strong, and retail beef prices have been low. Now the question is can it last?

Beef production in the U.S. so far this year has been down one percent. A somewhat higher rate of slaughter has been more than offset by lower cattle weights. But there are even more important reasons to explain why cattle prices are so strong.

U.S. and international consumers are feeling more confident and they are competing for reduced meat supplies around the globe. Foreign consumers want more beef from the U.S. and from other exporting countries. In the first two months of 2010 for which data is available, U.S. beef exports were up 24 percent. At the same time U.S. beef imports from our competitors like Australia, New Zealand, and Brazil were down 23 percent. The result of modestly smaller U.S. production with such strong exports and reduced imports is that first quarter available beef supplies per person in the U.S were down about five percent. Similar data for pork reveals a six percent reduction.

Retailers have kept beef prices low in early 2010 and this has kept consumers fighting for reduced beef supplies and assisted in the cattle price surge. Retail beef prices in the first quarter averaged $4.23 per pound which was down 10 cents a pound from a year earlier. Lower beef prices help to stimulate consumers to buy more beef. One of the reasons live cattle prices are so much stronger is because retailers had not yet moved their retail prices higher. In the first quarter, as retail prices were down 10 cents, retail margins dropped by 20 cents per pound. This means that retailers primarily absorbed the higher wholesale beef prices at the expense of their own margins. In essence, this creates a period of seemingly strong demand because retail prices did not move up as quickly as wholesale prices.

The positive demand benefits of narrow retail margins and lower retail prices will not continue as retailers will be moving consumer beef prices upward this spring and summer. We can expect to see retail prices move back to record high levels which were $4.46 per pound in the third quarter of 2008. In fact, it is likely consumer prices will set new high records this summer and fall. Given the still weakly recovering economy, consumer demand may not appear so robust this summer with record high beef prices in grocery stores and restaurants.

Calf prices have also moved upward about 25 percent since December as a result of much higher finished cattle prices and lower feed prices. Midwest cash corn prices near $4 per bushel late last fall, are now below $3.50. Soybean meal prices have been about $35 per ton cheaper this

April compared to last December. Bright production prospects for the 2010 crop have also strengthened the desire to buy calves and feeder cattle.

Most importantly is the question of can these strong prices continue? The answer is yes, but not at as strong of prices as we are experiencing this spring. Per capita beef production should be down about two to three percent for the rest of the year, but the smallest of those supplies is expected this spring. The economic recovery continues to grow momentum in the U.S. and that is likely to continue, although unemployment rates will be slow to drop. On the negative side of the ledger, higher retail beef prices will cut into consumption by this summer and fall.

Finished cattle prices are expected to be at their yearly highs this spring. Summer prices are expected to be in the low-to-mid $90s, with fall prices moving back upward several dollars. 2010 prices may average about $93, dramatically above the $83 of 2009. Prospects for 2011 should remain strong as well, perhaps moving upward close to $95 for the year.

More cattle will move into feedlots given the strong prospects for finished cattle prices and moderate feed prices. If the 2010 crops develop normally, calf prices should be 20 to 25 percent above last year's levels. Steer calves averaged about $1.05 a pound in the eastern Corn Belt in the fall of 2009. This means they could average $1.25 to $1.35 this fall. While these are the strongest prices since the fall of 2005, they still may not be high enough to encourage cow-calf producers to expand given the much higher costs of production today.

Once more, it's great to be able to say, "The cattle industry is back."

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