April 2011 Cattle Report

Cattle Prices Move Past Seasonal Highs

Cattle prices had a remarkable run to the upside with finished steers reaching the low $120s per hundredweight in early April. Now there are signs that those lofty prices will not be maintained into the spring and summer.
It is the strength of demand that has been the driver of higher cattle prices, not supply. So far in 2011, beef production has been one percent higher as result of both a few more head and higher weights. Exports have been an important demand stimulant. Since September 2010, the industry has been exporting a larger volume of beef than they import-a rare historical event. As an example in the calendar year 2009, the industry imported more than they exported accounting for three percent of domestic production. Imports being greater than exports mean more beef is flowing into the U.S. than out. This increases the domestic supply and lowers prices.

Since last September, exports have exceeded imports by an average of nearly three percent of domestic production. This means more beef is flowing out of the country as opposed to inflows from imports. The more recent situation of net exports means there is less beef in the domestic market and thus consumers have to pay higher prices for more limited supplies. So, while total beef production is up about one percent this year, the amount available for U.S. consumers is actually down about two percent because of the positive impacts of trade.

Domestic demand has been strong as well but consumers are expected to become more reluctant buyers of beef as the spring and summer progress. The continued slow recovery in the general economy has helped a few more people get back to work, and rising stock market prices have increased the net worth of some households making them feel a bit more comfortable.

However, there are troubling signs on the horizon for beef consumption. First is the continued rise of retail beef prices which averaged a record $4.64 a pound in the first quarter of the year. That compares with just $4.23 a pound for the same quarter a year earlier. The difficulty facing beef demand is that retail prices probably have substantial increase still to come this spring and summer. It is likely that retail beef prices will move upward toward $5.00 a pound at times in coming months as retailers pass along the much higher prices of wholesale beef from this spring. This will come at a time of severe pressure on household budgets as $4.00+ gasoline and $5.00 beef have the potential to force adjustments in consumer behavior. For the entire year, I expect beef retail prices to average $4.87 a pound up 11 percent from last year.

Feed remains another major potential driver of the beef industry this summer. We can start with the drought conditions in the central and southern plains. The drought impact states of Texas, Oklahoma, Kansas, Colorado, and New Mexico represent 32 percent of the U.S. beef cow herd. The drought is generally expected to continue for most of this area at least through July and thus cow liquidation could become a factor. Fortunately, it appears that much of the Northern Plains and Midwest will have abundant moisture and so some of these cows can be relocated further north and east. However, a number may move to slaughter, increasing the beef supply and edging cattle prices lower. Of course the greater any forced liquidation of cows this summer, the higher cattle prices will rise in 2012 and later years.

Corn is the second big feed issue as everyone knows. There is no sign that cattle feeders (or any other animal species) have backed down on corn consumption plans for this summer. Cattle on-feed as an example remain five percent higher on April 1, with seven percent more steers and 2 percent more heifers in feedlots. There remain major questions regarding just how much old crop corn is available; about how high gasoline prices could impact corn demand for ethanol; and how our foreign buyers will respond if corn availability becomes even tighter. Of course to these concerns we can now add a slow start to the 2011 planting season and escalating new-crop corn prices.

Finished cattle prices are expected to moderate from spring highs in the low $120s. Second quarter prices are expected to average near $117 with the third quarter a few dollars lower. End-of summer lows could be back down to the $110 to $112 range. If drought forces cow liquidation, then summer prices could even be lower. Fall prices should rally once more back into the $117 to $120 range, and continue to move upward into the early spring of 2012.

Overall, much higher cattle prices than historic norms are expected in coming years. However, producers should secure feed supplies for this summer and continue to manage margin risks very closely.

(The chart below is based on finished steer prices through the first-half of April 2011and then is based on live futures on the April 25, 2011 close and adjusted by a five year average basis)

April 25, 2011
Chris Hurt
Purdue University