

## Prices & Outlook: Cattle Outlook

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### Cattle Producers Begin Expansion

Let the expansion begin! Those seem to be the words the cattle industry received as numbers are on the rise. The stimulus has been record cattle prices led by strong demand even in the face of distorted trade due to BSE.

Finished cattle prices set a record in 2004 with Nebraska steers registering an average of \$84.75. More importantly for brood cow operations, prices of calves were much above their previous records. As an example, Oklahoma City 500 to 550 pounds steer calves averaged \$122 per hundredweight in 2005 compared to their previous record of \$104 in 2001. Heifer calves weighing 450 to 500 pounds averaged \$114 in 2005, with a previous record of \$98 per hundredweight.

Secondary factors contributing to the expansion have been the abating drought for Plains states, and cheap feed with abundant forages, and low priced corn, sorghum, and soybean meal.

The total inventory of cattle stood at 95.8 million head, one percent higher than last year. Beef cow numbers were up .6 percent and milk cow numbers were up .2 percent. The expanding herd means that a new cattle cycle is underway. The previous cycle was a very long one at 14 years, spanning from 1990 through 2004. The seven cattle cycles since 1928 have averaged 11 years.

The expansion of beef cows is especially noteworthy in the central and southern Plains which added 139,000 cows, and in the Corn Belt which added 136,000 cows in the last year. The eastern Corn Belt in particular had a large increase which amounted to a six percent expansion led by 32,000 more cows in Ohio , 28,000 more in Illinois , and smaller increases in both Indiana and Michigan .

Further increases in the breeding herd can be expected throughout the year as well. The number of heifers being retained for addition to the breeding herd is up four percent for the beef herd and up three percent for the dairy herd. Since the expansion is just getting underway, the increase in the size of the 2005 calf crop is expected to rise a modest .7 percent. This rate of increase will likely rise in 2006 and 2007.

Beef supplies will be much larger in 2005. The number of cattle raised in the U.S. is expected to rise by about one percent. Live imports from Canada, scheduled to begin in March, are expected to add an additional four percent. Finally, weights are expected to move higher by more than one percent. Thus total beef supplies will increase by six to seven percent.

Will this large supply surge greatly depress prices in 2005? The answer is closely tied to the still evolving issue of, if and when, we can restore beef exports to Japan and most other countries that have not been buying U.S. beef since the December 23, 2003 announcement of a BSE positive cow. The anticipation continues that these markets will be opened some time in the late spring or early summer. If so, there will be a home for most, if not all, of the larger beef supplies. In 2003, the U.S. exported about 10 percent of domestic beef production. Initially, we will not get that entire market share back. My estimate is we will export about six percent of domestic production in the first full year of lifting the ban. If so, this means that prices for 2005 may only be \$2 to \$3 lower than the \$84.75 record finished steer price from 2004.

However, the timing of the opening of live cattle imports from Canada and the opening of our beef exports may cause more distortion in cattle prices than most cattle producers would like. In the March to June period, prices could be particularly vulnerable to opening of live cattle from Canada, especially in the absence of a clear date for the opening of exports to much of the world.

Finished cattle prices in the first quarter are expected to average in the mid-to-higher \$80s, but drop in the second quarter to the low \$80s. If exports are restored by mid-year, summer prices are expected to be in the high \$70 or low \$80s, with the last quarter prices rising to the low-to-mid \$80s.

Moderate priced feed and forages, and a reasonably strong finished cattle market will help maintain profitable prices on calves. However, those \$122 steer calves and \$114 heifer calves from last year may be \$8 to \$12 lower.

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