

Prices & Outlook: Cattle Outlook

February 2006

Cattle Prospects Still Look Favorable Despite Concerns

Another year of favorable returns are expected for brood cow producers. Larger beef and dairy herds mean growing beef supplies and lower prices for finished cattle and calves, especially with the unfortunate interruption of exports to Asia. Challenges for the year include the restoration of these exports as well as drought concerns in the Central and Southern Plains.

Beef producers continued to expand the breeding herd for a second year. Beef cow numbers increased by one percent during 2005 after a small rise in 2004. The total number of cows increased by 338,000 head and was concentrated in the Western Corn Belt where Missouri increased by 115,000 cows and Iowa by 40,000. Also noted increases were in the Southern Plains states of Oklahoma where producers increased by 60,000 head and in Texas with a 43,000 head increase as well as Central Plains states of Colorado, Nebraska and Kansas which increased by 97,000 cows.

Beef cow numbers in the Eastern Corn Belt remained stable as a region, however, Illinois dropped 14,000 cows, Indiana dropped 8,000 cows, and Ohio increased 3,000 cows. For Illinois, current cow numbers remain 20,000 ahead of three years ago, and Ohio has added 37,000 cows in the last three years. Indiana however has seen beef cow numbers decrease.

Even more expansion can be expected in 2006. The number of beef heifers being retained for replacements to go back into breeding herds was up by nearly four percent. This rate of retention should allow the beef cow herd to increase by near one percent over the coming year.

Dairy cow numbers increased by .6 percent in response to strong milk prices in 2005 when the U.S. all milk price averaged \$15.14 per hundredweight. Regionally, the largest increases in total cows were in the Pacific Northwest (+41,000); Southern Plains (+29,000); the West (+29,000); and the Eastern Corn Belt (+19,000). Individual states in the Eastern Corn Belt were: Ohio (+7,000); Michigan (+5,000); Wisconsin (+5,000); Indiana (+3,000); and only Illinois was down (-1,000). Much like the beef herd, heifer retention for herd replacements were up four percent and will allow an increase in the number of milk cows by nearly one percent this year.

The 2006 calf crop is expected to be higher by about .7 percent. This modest increase means that calves and feeder cattle will remain in short supply throughout the year.

Beef supplies last year were up only .5 percent with the head count down about one percent and weights nearly two percent greater. For 2006, slaughter numbers are expected to be up about two percent with weights one to two percent higher. This means beef supplies are expected to rise by about 3.5 percent for the year.

Can cattle prices maintain the record highs of 2005 when Nebraska finished steers averaged \$87.30 and Oklahoma City 500-550 pound steer calves reached \$132 per hundredweight? With

supplies growing by 3.5 percent this year, the answer should be NO! Finished steer prices should average closer to \$85 and steer calf prices around \$125. However, one unresolved question at this point is the Asian market. If the Asian markets could be reopened by the second quarter of 2006, it is possible for cattle and calf prices to approach last year's record levels.

Another factor for the cattle industry to watch closely this year will be the drought currently in the Southern Plains. In addition, the National Weather Service is calling for intensification in that area and a broadening of the drought into the Central Plains and Western Corn Belt by this spring.

The bottom line for the cattle industry is that 2006 will be another year of high prices. Cow calf producers will be well rewarded with very profitable calf price levels which are likely to continue to fan the desires for greater expansion. The current expansion is expected to extend until around 2010 with the largest beef production on this cycle coming in about 2010 to 2012. This likely means several more years of favorable prices as cow slaughter remains low and heifer retention high.

January 30, 2006
Chris Hurt
Purdue University