

## Prices & Outlook: Cattle Outlook

February 2007

### Beef Sector Still Adjusting to Higher Feed Prices

The most prominent feature of the cattle outlook for 2007 is the painful adjustment to much higher feed prices. This will include sharply lower calf and feeder prices, perhaps some further trimming of the beef cow herd, more backgrounding of calves before they enter feedlots at higher weights, and pouring the distillers grains into rations.

Beef production in 2006 was up 5.6 percent with slaughter up 4.0 percent and weights up 1.6 percent. Higher feed prices in the last quarter of the year, caused cattle to be marketed at weights which were only up about .8 percent. Nebraska choice steers averaged \$85.40 per cwt. compared to \$87.28 in 2005. Steer calf prices at Oklahoma City averaged \$128 versus \$132 for the previous year.

For 2007, beef production is expected to increase by about two percent. Nebraska finished steer prices are expected to average in the \$85 to \$89 range. This will likely be about one to two dollars higher than last year. Beef exports are expected to increase by nearly 25 percent and rise to their highest level since BSE induced restrictions at the end of 2003. USDA is currently estimating beef exports at 1.4 billion pounds for the year which is still just 57 percent of the 2003 level.

Beef producers had started to increase the breeding herd in 2004 and 2005 when cow numbers increased by 132,000, but this was a very modest .4 percent increase. Cow-calf producers reduced the cow herd by nearly 100,000 cows in 2006 representing most of the increases of the previous two years. The largest decreases were in Texas (-152,000); Oklahoma (-75,000); and in Missouri (-60,000). The largest increases were in Kentucky (+89,000); Colorado (+50,000); and Tennessee (+43,000). Eastern Corn Belt numbers rose by 20,000 head with Indiana (+17,000) and Wisconsin (+15,000). However, Illinois numbers were down 19,000.

Milk cow numbers were up by .7 percent, more than anticipated given the low milk prices in 2006 and high feed costs. Leading expansion states were Idaho (+29,000); Iowa (+23,000); Texas (+22,000); and California (+20,000). In the Eastern Corn Belt, numbers were up by 25,000 head led by Michigan (+12,000); Indiana (+8,000); and Wisconsin (+5,000).

The 2006 calf crop was unchanged from 2005 at 37.6 million head. The number of cattle in feedlots is currently up one percent, so this leaves somewhat fewer calves outside of feedlots than one year ago.

High feed prices have resulted in a sharp drop in feedlot placements in recent months. Placements started downward in September and in the last four months of 2006 averaged about nine percent lower. On September 1, the number of cattle on feed was up about ten percent, and by January that number was up only one percent. The largest reductions in placements in the last

quarter of 2006 was on lighter weight calves where placements of calves under 700 pounds were down 13 percent.

High feed prices have deeply depressed calf and feeder cattle prices. Steer calves at Oklahoma City were \$11.77 per cwt. lower in the final quarter of 2006 compared to a year earlier. Heifer calves were \$14.32 per cwt. lower. Feeder steers were down \$11.63, while feeder heifers were down \$11.19 per cwt. During January of 2007, those prices were continuing to run \$11 to \$15 per cwt. lower.

For 2007, finished cattle prices are expected to average about \$2 higher than in 2006. By quarter, prices for Nebraska steers are expected to average about \$87 in the first quarter, \$90 in the second quarter, \$85 in the third quarter and \$88 in the third quarter. Highs in late March and early April may extend into the low \$90s. These price estimates are several dollars under what futures market prices were suggesting as of February 2<sup>nd</sup> and thus may be providing favorable hedging opportunities.

Calf prices are expected to be about \$10 to \$12 lower than last year. This would put Oklahoma City steer calves in a range of \$115 to \$120 for the year, and feeder steers at \$95 to \$100 per hundredweight. Eastern Corn Belt prices tend to be \$2 to \$4 lower.

Some contraction in the breeding herd may also continue in 2007 as calf prices remain under pressure and forage prices rise along with corn and soybean meal prices. Forage prices will rise because more land is being diverted toward crops that produce liquid fuels, thus reducing hay and forage acreage. Weather in 2007 will also be a major factor in the direction of the beef industry. Weather will affect not only pasture and forage output, but also prices for corn and soybean meal. Harmful weather would seem to have only one direction on calf and feeder prices and that is downward.

In the next two years, the industry will have to adjust production downward somewhat and thus push retail beef prices upward. In this manner, calf and feeder prices can eventually recover.

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