

Prices & Outlook: Cattle Outlook

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Cattle Market Information Regarding BSE

To: ANR Educators

From: Chris Hurt, Agricultural Economics

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Here are some thoughts on things we can tell producers and media about BSE USA. There of course will be many uncertainties in coming days and weeks, so we need to continue to emphasize the uncertainties as we are sensitive to our producers. These are my best opinions at this time.

1. **Will U.S. consumers dramatically reduce their interest in beef?** No, we do not believe this will have a substantially negative impact on beef demand in the U.S. When the BSE announcement was made in Canada on May 20, 2003, there was a brief hesitation of consumers in the U.S. but within a week we could observe that beef demand was little affected. We were buying about 9% of beef consumed in the U.S. at that time from Canada and it did not seem to have any negative impact within a week.
2. **Why aren't consumers more fearful of new health concerns from eating beef?** The scientific information suggests that there is no measurable increase in the risk from eating U.S. beef today versus the pre-December 23, 2003 BSE announcement.
3. **But is this really TRUE?** I think the answer is yes, there is not a measurably greater risk from eating beef. Multiple U.S. regulatory agencies have been looking for BSE for over a decade. In 1989, the USDA restricted imports of live animals or feed products that might contain BSE from infected countries. All cattle that exhibit physical signs of nervous order problems characteristic of BSE are tested for BSE. In the past two years alone this has been over 20,000 animals per year. In 1997, feed products from ruminants were banned by the FDA from being fed back to ruminants in both Canada and the U.S. The incubation period of BSE in cattle can vary considerably and I have seen that quoted from 3 years up to 8 years. Thus there remains some possibility that an animal could have been exposed prior to the feeding ban in 1997. All animals are physically inspected by either federal or state graders (USDA). The BSE organism resides primarily in the brain and spinal cord tissue which is not to be used for human food. Those products from cattle are rendered and used for swine, poultry, or pet food. In Europe where BSE was a major problem, over 180,000 cattle tested positive for BSE, but there have only been 153 total human deaths from the related human disease.
4. **How will markets respond?** The full extent of the story is of course not known in the early going. However, if we assume that U.S. consumers do not have a substantially negative beef demand impact, then the biggest price impact will come from the loss of most of our exports which are about 10% of U.S. production. This means that the beef that had been exported will now have to come back into the U.S. market. Given historic relationships a 10% increase in the amount of beef would drop live prices by about 15% on average.
5. **How much price drop on live cattle and calves?** Again assuming that U.S. consumption reasonable holds, and that we lose most of the export market for some period, a 15% drop in live cattle prices would put them back into the higher \$70s per live hundredweight, or a drop of maybe \$12 to \$15 per hundredweight. Calf prices would be somewhat more maybe more in the \$15 to \$18 range.
6. **How long might this impact last?** The length of impact will heavily depend on how quickly we can open foreign markets (as well as the unknown evolution of the BSE story in coming weeks).

Thus, the time frame is unknown. We do know that Canada has been in the process of trying to get the world to take their beef for over 7 months now. Perhaps the U.S. and Canada working together can encourage the world to move more quickly now. My personal guess is that it will be months and not weeks. For my estimates of impact I am using 6 months. This seems to be somewhat consistent with price action on live cattle futures at the Chicago Mercantile Exchange.

7. **Will BSE USA cause financial devastation for our producers in 2004?** Again, we do not know how this story will evolve, so we need to be sensitive to the uncertainty placed upon our producers, ranchers, processors, and meat industry firms. But, the early guess is that live cattle prices will be lower by perhaps \$7 to \$8 per live hundredweight for calendar year 2004 than we would have had in the absence of BSE USA. The USDA had been estimating that Nebraska finished steers would average \$84 to \$91 per live hundredweight for 2004. Subtracting \$8 from this level says they now drop to \$76 to \$83. The mean of this range is \$79.50 per live hundredweight. This compares with \$85 in 2003 (record high); \$67 in 2002; and \$72.70 in 2001. In fact the \$79.50 potential price for 2004 would be the second highest yearly price ever after the 2003 highs.
8. **What about calf prices?** In 2003, 500-550 pound steer calves at Oklahoma City averaged \$103 per live hundredweight. Given the decrease in fed cattle suggested in the preceding paragraph this would reduce calf prices into the high \$80 to very low \$90s for an average yearly price. Cost of production might be in about the \$80 range, and this includes pasture rental, all labor and depreciation on fences and facilities. So cow-calf operations would still be expected to have good profits in 2004.
9. **How big is the Indiana cattle industry?** Indiana Ag Statistics reports in 2002 there were 19,000 operations that had cattle. This included 2,600 farms with dairy cows and 12,000 farms with beef cows. The state had a calf crop in 2002 of 340,000 head. On January 1, 2003, the state had 145,000 milk cows. The value of cattle and calves on January 1, 2003 was \$619 million. Cash receipts from cattle and calves in 2002 in Indiana was \$204 million and an additional \$317 million from selling milk. In terms of total Indiana farm cash receipts in 2002, beef cattle and calves represented 4.2% and the milk sales were 6.6% of the \$4.8 billion total from crops and animals. Indiana is not a major processor of beef. In 2002, while 340,000 calves were born in the state, only 39,400 head of finished cattle, cows, and bulls were harvested, with an additional 29,200 head of young calves, primarily for the veal market.