

Prices & Outlook: Cattle Outlook

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Cattle Numbers Dwindle and Prices Rise

U.S. cattle numbers continue to drop as mid-year inventories were set at 103.6 million head, the lowest since July 1 st data was started in 1973. However Prices of calves and feeder cattle are expected to be at record highs with strong live cattle futures and moderate grain and forage costs.

Very small U.S. cattle inventories continue to be one of the main features driving high cattle prices, and those supplies are going to be quit small over the coming year. Beef cow numbers have reached the lowest mid-year level. At 33.5 million head, the cow inventory is down slightly from last year and is seven percent lower than the last cycle peak in 1995. However, for the first time in many years there are signs of expansion fever as the number of beef heifers being retained for replacement in herds is up four percent.

The expansion fever may be strongest for several of the Plains states where drought conditions are easing this year. Missouri leads the way with an eight percent increase in beef cow numbers, while Nebraska 's herd is up five percent, Kansas is up four percent and Oklahoma is up three percent. State data is limited in USDA's mid-year report to only 11 individual states. The number of milk cows is down one percent.

The number of cattle in feedlots was up two percent which was lower than expected due to a small number of placements in June. With falling grain prices there had been anticipation that placements would be on the rise last month. However, the reported placements were actually down two percent likely as a result of the small numbers of available calves, and a still uncertain feed price situation in June. Feed lot managers appeared more willing to purchase young animals with placements of calves under 600 pounds up 24 percent, but stayed away from older animals with the over 600 pound placements down eight percent.

Beef supplies have been down ten percent so far this year. Not only are the number of steers and heifers down sharply, but producers have been slow to cull cows resulting in 14 percent lower cow slaughter. Marketing weights have been lower than last year by .3 percent as well.

In the coming 12 months, beef supplies are expected to be lower by about one percent. Available domestic steer and heifer numbers are expected to be down .5 percent with cow slaughter down three percent. Weights on the other hand are expected to rise with extremely high finished cattle prices and moderate feed prices.

Prices for finished steers are expected to strengthen this fall and average in the very high \$80 to the low \$90s. Seasonal highs could be reached in late winter/early spring approaching the low to mid-\$90s. Spring prices for the second quarter of 2005 are expected to be in the mid-to- higher \$80s.

Cow-calf producers will reap the highest returns of all this fall as high live cattle futures prices are complemented by a tiny calf crop which is nearly one a percent smaller than last year and the potential retention of additional heifers. In the fall of 2003, 500-550 pound steer calves at Oklahoma City averaged \$1.11 per pound. This fall those prices are expected to establish new records of \$1.25 to \$1.40 per pound.

The biggest threat to continued strong prices is the possibility that imports of live animals from Canada would be allowed before beef export restrictions are lifted. No one knows how this will evolve, but it appears increasingly likely that they may come at the same time. It is likely in the best interest of both Canada and the U.S. to negotiate BSE testing standards jointly with the Japanese. Getting the major players on the same page is the best hope for restoring international beef trade. While these negotiations are ongoing, no short-term breakthrough is expected.

Over the last seven months, beef producers have witnessed one of the widest swings ever in the outlook for their industry. From the emotional depths of the BSE announcement on December 23, 2003 to the current bright outlook, they could hardly have written a better turnaround.

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