

Prices & Outlook: Cattle Outlook

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More Beef Coming Soon

Consumers rejoice. More beef is coming to your supermarket and retail prices may actually moderate soon. However, producers will not be as pleased. Why more beef? The Canadian door has been opened to live animals; there are more cattle in the feedlot pipelines; and more heifers are being saved back to increase the size of the brood cow herd.

Cattle markets are questioning how many cattle may come from Canada now that the border has been opened? It will likely take some time for flows to adjust, but prices have been depressed in Canada and animals will quickly flow to the U.S. unless additional constraints are placed on their movement. As an example, at the start of July, Ontario finished steers were about \$9 per hundredweight lower than similar cattle in the U.S. while Alberta steers were \$16 lower. Canadian and U.S. prices should equate with an open border but with Canadian cattle being several dollars lower to cover transportation costs to U.S. packers.

The year 2002 was the last full calendar year of live imports from Canada and we imported 1.7 million head, approaching five percent of U.S. slaughter. Since that time, the size of the Canadian calf crop has increased by 300,000 head, but their slaughter capacity grew by 900,000 head. So this may mean that something close to a million head of cattle could flow to the U.S. annually. This would increase U.S. beef supplies about three percent.

Total U.S. cattle inventory numbers on June 1 were up about one percent as well. The cattle herd continues to expand with nearly one percent more beef and dairy cows in the herd. And, even more growth appears to be on the way with an increase of four percent in beef heifers being retained to go back to the brood herd and three percent more dairy heifers. Finally, on-feed numbers at the start of July were up three percent.

These events mean that beef supplies could rise by seven percent in the last-half of 2005 and be up by six to seven percent in the first-half of 2006. Even though beef demand has been solid in the past year, supply increases of this magnitude will likely depress prices. Consumers are the ones who may be happy as retail beef prices have been at record high prices of \$4.19 per pound so far this year.

Finished steer prices have currently dropped to about \$79 and may have a few more dollars to go to reach their lows by the end of the summer. Fall and winter prices should recover into the lower \$80s, and perhaps the mid-\$80s by early spring.

Reduced price expectations for finished cattle and higher feed prices will continue to put downward pressure on feeder calf and calf prices this fall as well.

Some would say it looks like the party is over for high cattle prices. In the last 12 months finished steers averaged \$86.44 per hundredweight. That number may be closer to the high \$70s in the next 12 months.

However, there remains one unresolved BSE issue that could change these potentially lower prices, and that is the opportunity to open beef export markets. In 2003, beef exports were nearly 10 percent of our domestic production. While we would not be able to initially regain all of our export business, the clearest solution to our beef supply woes is to move toward a resolution with the Japanese on BSE testing.

Prospects for settling these differences do not currently look promising. But, lower cattle prices will mean that the U.S. cattle industry will put increasing pressure on USDA to accept testing protocols that will meet Japanese standards. Opening world beef markets to our exports will be the final leg of a long BSE journey. Unfortunately, we cannot yet see when the last leg of the journey will be completed.

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