Prices & Outlook: Cattle Outlook

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Cattle Industry Faces Vulnerable Period

Cattle producers are continuing a slow expansion of brood cow numbers, but rapid movement of calves into feedlots due to depleted pastures means lower finished cattle prices are likely. Late 2006 and early 2007 remains a vulnerable period for the cattle industry as higher beef supplies are interfacing with delays in restoring beef exports to Asia, and slowing U.S. economic growth in the face of rising energy costs may also reduce beef expenditures.

The cattle expansion remains slow. In the mid-year *Cattle* report, USDA indicates that the total inventory was 105.7 million head, just one percent greater than last year at this time. The calf crop for 2006 is estimated at 37.9 million head fractionally higher than last year.

The beef industry is in the second year of a brood cow expansion, but so far the growth is very moderate. Beef cow numbers reached their cycle low level in July 2004 at 33.4 million head. This summer's inventory of 33.8 million head is just slightly over one percent expansion in the past two years. So clearly, there is no rush to grow brood cow numbers. In addition, producer's report they do not intended to increase cow numbers in the near future sense they are retaining the same number of beef replacement heifers as last year. This means they are replacing cull cows, but not likely to expand in the coming year.

Dairy cow numbers were up one percent and replacement milk heifers were also up nearly three percent. This seems to be signaling interest in growing the dairy herd in the coming year, even in the face of $12 to $13 milk prices for this year and into 2007.

The bearish surprise came as a much higher level of June placements than expected. Given the dismal financial performance for feedlot cattle so far this summer, there was an anticipation that placements would be down about one percent. However, USDA reports June placements rising ten percent above year-previous figures.

The large placement surge was made on lightweight calves. Placements less than 700 pounds were up 31 percent (under 600 pounds up 37%, and 600 to 699 pounds up 24%). On the other hand, calves over 700 pounds were actually down five percent. The location of the large lightweight calf placements is related to ongoing dry weather in the central and northern plains. Colorado placements were up 35 percent, those in Nebraska were up 28 percent and Kansas was up 11 percent. Of the largest four cattle feeding states, only Texas had lower placements which were off four percent.

Pastures have just been too dry to support calves, and thus have moved to feedlots earlier than intended. In USDA's *Crop Progress* report released July 17, Colorado pastures were rated 65 percent in “poor” or “very poor” condition. These numbers stood at 61 percent for Oklahoma , 58 percent in Nebraska , and 52 percent in South Dakota .

So far this year, beef supplies have been up almost seven percent on four percent higher slaughter and three percent higher weights. Choice steer prices have averaged about $84.50, roughly $2.50 lower than during the same period in 2005. Overall, demand has held well this year with supplies seven percent higher and prices only down three percent.

Finished cattle prices will likely trade lower into the higher $70s for the end of the summer. Fall prices are expected to recover into the lower-to-mid-$80s, with prices somewhat above the mid-$80s by the end of the year. For 2007, beef production is expected to be higher by one to three percent. While this year's calf crop is estimated as only fractionally higher, weights will likely be up some for next year, however not as much as this year due to higher feed costs and higher interest rates.

Feeder cattle and calf prices may feel some downward price pressure this fall and in 2007 as well. Calf prices this year have been only about $1 per hundredweight lower compared to the same period last year. The downward direction in calf prices is expected to result from lower finished cattle prices, higher feed costs over the next year, and higher interest rates. Given an environment of slowing U.S. economic growth with high energy prices, this makes the rest of 2006 and early 2007 a vulnerable period for cattle finishers, and adds new importance to getting “back on-track” with the Japanese.

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