

Prices & Outlook: Cattle Outlook

October 2003

Beef Prices: When Will Consumers Say Ouch?

Cattle prices are searching for the top of the market, and what a spectacular run they have had. October futures were near \$70 in late June before rallying to near \$85 by late September. By October 15, they reached a high of \$103.60, a new record. Prior to this year, the previous futures high was \$84.30 established in March of 1993. The question now is where is the top?

While no one knows, a strong argument can be made that the top was made this past week, on October 15th. The final answer will depend upon the supply of market ready cattle this fall, how consumers react to record high beef prices, futures market performance, and in the short-run market psychology.

Market supplies are tight due to continued reductions in our U.S. calf crop; to restrictions on Canadian feeder cattle imports; and to a small number of placements last winter. On-feed numbers were down about eight percent in the first four months of this year as feedlot managers were hesitant to put cattle in the feedlot with high price corn. Placements picked-up in the spring and most recently were up 13 percent in October. The current on-feed number stands at only two percent lower than last year at this time

The biggest supply news however has been the tiny number of cattle available for slaughter in the past two weeks. Last week, the number of head marketed was down 13 percent from the same week last year and down nine percent the previous week. In combination with the light weights, beef supplies have been down 13 percent and 17 percent compared to the same weeks a year ago.

Part of the restricted marketings out of feedlots was due to the "locked-limit up" October futures for five consecutive days, which totaled five of the nine trading days in the past two weeks. Feedlot managers with short hedges in place were rightfully unwilling to sell live cattle when they could not lift their hedges by purchasing futures. When the Chicago Mercantile Exchange raised the daily limits on October 15, the futures market finally was able to trade and thus perform its critical function as a hedging mechanism.

With only two percent fewer cattle on-feed, and with the potential for a orderly hedging mechanism in futures, there is little reason to believe that cattle numbers won't return to a more realistic level which is down three to four percent. With weights continuing down three to four percent this mean about six to eight percent less beef this fall. In addition, the number of cattle put on-feed in September that weighed 800 pounds or more was up 22 percent. These cattle will reach slaughter this winter.

Another indicator of the cattle price top is when beef consumers begin to look for alternatives to escalated beef prices. “Sticker shock” will likely hit consumers in the next two weeks at grocery stores, but may take longer for fast food establishments and table service restaurants that are hesitant to change menu pricing until their margins are tightly squeezed. While consumers have seemingly been willing to pay the higher beef prices up to this point that will likely begin to change quickly. When packer margins erode, packer bids will drop.

Meat retailers will find plentiful supplies of pork at moderate retail prices for weekly specials this fall. Chicken supplies are also expected to be about two percent greater with turkey supplies about the same as a year-ago according to USDA estimates.

Concern about imports of beef from Canada from animals less than 30 months of age were raised in the past two weeks when Japan discovered their eighth BSE case in cattle. This one in a calf that was only 23 months of age. USDA will first be concerned about food safety as we begin to import Canadian beef, but once food safety can be secured, consumer groups may also call for an acceleration of Canadian imports.

What does all this mean for the cattle industry? Cattle prices are far above what we can reasonably expect in an orderly supply and demand situation for the fall. If this proves a correct statement, pricing as many cattle now as possible makes sense. This likely includes selling light weight animals as soon as possible, and the consideration to hedging cattle that will be marketed later this year and into the winter. Tremendous feeder cattle and calf prices mean that calves should be sold and not retained for feeding, and prices for animals that move into feedlots should be based upon current futures prices and likely should be hedged.

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October 20, 2003