

## Prices & Outlook: Cattle Outlook

October 2007

### Cattle Price Expectations Lowered

Finished cattle prices will set new records this year, but those lofty expectations have been lowered a bit in recent weeks. Finished cattle prices will end up averaging about \$92 this year compared with the previous annual high at around \$87 back in 2005. Expectations for the final quarter had been excessive as cash cattle reached \$95 in early September. However since that time, prices have moderated back closer to \$90 and averages in the final quarter now appear to be in the low-to-mid \$90s rather than the higher \$90s as anticipated at the end of the summer.

Heavy weight cattle have moved into feedlots more rapidly in recent weeks increasing prospects for larger beef production this winter. In September as an example, placements of calves over 800 pounds were up 15 percent while those 700 pounds and larger were up 20 percent. While on-feed numbers on October 1 were down three percent from year-ago levels, this is up from a six percent lower figure on September 1 and is signaling more rapid movement of cattle into feedlots in coming months.

The reason feedlot managers are more comfortable moving cattle into feedlots is likely related to the relatively strong finished cattle futures and the large corn crop. The corn crop at 13.3 billion bushels has given livestock producers increased confidence that sufficient corn supplies will be available for ethanol, export, and domestic animal feeding. While corn prices will be high by historical standards, the possibilities of extremely high corn prices seem to be reduced by the large crop and by moderating expectations for corn usage for ethanol. In addition, large increases in distiller's grains will become available as many new ethanol plants open in coming months.

Calf and feeder cattle prices have dropped more than finished cattle. Oklahoma City steer calves weighting 500 to 550 pounds dropped from about \$128 per hundredweight in early September to \$120 now. October feeder cattle futures experienced a similar drop from \$119 in early September to \$112 currently. The demand for calves and feeder cattle has weakened somewhat with both the decline in finished cattle futures, but also with less demand for calves to be grazed on winter wheat pasture. With wheat prices so high this year, wheat producers in the southern plains have been less willing to reduce potential yields from grazing calves.

Cattle in general are going to remain very profitable to own. While price expectations have been lowered recently, they have been lowered from extremely high levels. The evidence for overall favorable cattle prices lies in the small inventories. This year's calf crop is the smallest in years. Cow slaughter for 2007 has been up six percent and heifer slaughter has been up

three percent, both indicators that the breeding herd will drop again in the January 1, 2008 inventory update.

So far for 2007, beef production is up just .9 percent. Fourth quarter supplies are expected to be down one percent and then up less than one percent for 2008. Recovering exports are helping demand as well. USDA expects 2007 beef exports to grow by 27 percent and again by 29 percent for 2008. As a result domestic beef availability will be down, and domestic per capita availability will be down by more than one percent.

While domestic supplies of beef will continue to be tight in 2008, there will be more competition from pork and chicken. Pork supplies are expected to grow by three percent and chicken by two percent. In addition, the beef sector outlook is clouded by an outlook for slow economic growth in which consumers are expected to watch their food budgets more carefully than in recent years.

Finished cattle prices are expected to average in the \$92 to \$95 range in the final quarter of 2007. For 2008, first quarter prices are expected to average in a range from \$92 to \$98 with second quarter about \$1 higher. For the entire year of 2008, cattle prices are expected to make new record highs by achieving an average \$1 or so above this year's \$92.

High prices will eventually encourage expansion of the cow herd, but that is not expected until at least mid-2008 or even 2009.

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**Chris Hurt**  
**Purdue University**