

High Cattle Prices Stimulate Expansion Itch

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Chris Hurt

It now appears that the old cattle price records are going to be replaced in the next 12 months. The outlook is for finished cattle prices to establish new calendar year highs in 2004 near \$86 per cwt. Feeder cattle and calf prices are expected to set new highs as well. The highest price for calves is also expected to be coming this fall.

Leading the charge to new records are tiny supplies of domestic cattle and the anticipation that imports of live cattle from Canada will not be allowed in the short-run. It may be more likely that the U.S., Canada, and Japan will need to work together to open both import and export trade. If imports and exports are opened together, the price implications are generally positive for cattle prices as the U.S. has tended to export more beef than we import live cattle from Canada.

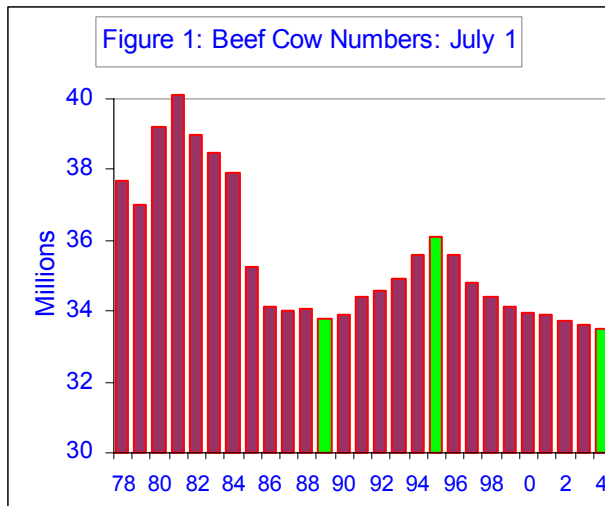
There is a bit of complacency growing in the cattle industry that no piece of information will be negative to prices. We all must continue to remember that large and dramatic price changes are possible with the uncertainties that still surround BSE and trade issues. The cattle price outlook should be viewed as having the potential to be much different than the expectations shown in this report.

Beef supplies are expected to be up modestly in the coming 12 months led by resurgence in cattle weights. While the number of animals available for slaughter is expected to be down 1.6 percent, weights may increase by 2.2 percent. Weights are expected to grow as time passes and exceed three percent greater than year-previous levels by the spring of 2005.

Finished cattle prices are expected to increase in the fall into the higher \$80s and then reach perhaps the mid-\$90s for highs next spring. Record high calf prices this fall could send 500 to 550 steer calves into the \$1.20 to \$1.40 range. There however could be wide ranges on calf prices depending on location and quality. Beef producers are expected to begin expansion plans over the next several years.

The Numbers

U.S. cattle numbers continue to drop as mid-year inventories were set at 103.6 million head, the lowest since July 1st data was started in 1973. Total numbers of cattle are down eight percent from the last cycle high level in 1995. Beef cow numbers dropped to 33.5 million head, a reduction of just .3 percent, but down seven percent from 1995 as shown in **Figure 1**. Milk cows were down about one percent.



The first signs of expansion of the beef herd may be beginning as beef heifer retention is up, especially in Plains states recovering from years of drought. 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. Milk producers reported unchanged numbers of retained heifers.

Heifers under 500 pounds that were not being retained for returning to herds as breeding stock were down nearly two percent from last year at this time, and steers 500 pounds and heavier were unchanged from last year. The size of the 2004 calf crop is now estimated at 37.7 million head, a .5 percent reduction from last year.

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 over 600 pound placements down eight percent.

Supplies Rise due to Weights

Beef production is expected to expand somewhat in the coming 12 months as a result of a more rapid movement of cattle into feedlots with lower feed prices and as a result of sharply heavier weights. Beef production is expected to rise by .6 percent. This is expected to be composed of a 1.6 percent decrease in slaughter numbers but a 2.2 percent increase in marketing weights. Tables 2, 3, and 4 show these relationships in numeric format.

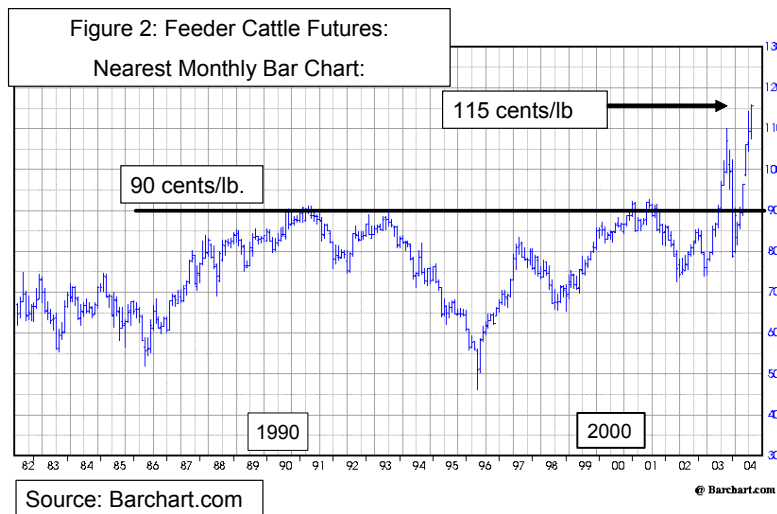
Several assumptions are built into this evaluation. The most important is that restrictions banning live animal imports from Canada stay in place for the next 12 months. It has now been 14 months since the May 20, 2003 announcement of the BSE cow in Canada. Efforts to restore trade with Canada have been surprisingly slow and have been complicated by trade concerns from Japan. Keep in mind that Canadian finished steers are currently trading at \$54 per live hundredweight with U.S. prices at \$85. If the border is opened (without restrictions) prices will equate between the two countries. Canada will rise to about \$77 and U.S. prices will fall to about \$79. The \$2 difference will reflect transportation costs from western prairie provinces to U.S. packing plants.

A second assumption is that feed prices will be reflective of prices trading in late July 2004. These much lower feed prices with extremely strong live cattle futures prices imply that weights will be rising over the next 12 months. My estimates are that weights will be up relative to year-previous quarters by the following percentages: 2004 (III) up 1.6%; 2004 (IV) up 1.9%; 2005 (I) up 2.3%; and 2005 (II) up 3.2%.

Prices to Set New Records

It appears new record high prices will be set this calendar year for finished cattle prices and calf and feeder cattle prices are expected to reach records this fall and winter as shown in Table 5. Calendar year 2004 prices are expected to average \$86, breaking last year's record of \$84.69. In the January to July period, prices of Nebraska steers have averaged \$85.07 and the general tone of prices is expected to be higher for the rest of the year. This summer, Nebraska steers are expected to average about \$85 but move upward to \$88 in last quarter. The highest prices in the current forecast are in the first quarter of 2005 with an average expected to be in the higher \$80s or low \$90s. This could mean some absolute highs next spring in the mid \$90s.

Beef demand has been improving since 1998 and appears to be the key reason for such strong cattle prices. In 1998, at the low point of consumer demand, per capita beef supplies in the U.S. were 68.1 pounds and Nebraska live steers averaged just \$61.50. By 2001, supplies had dropped modestly to 66.2 pounds per person and live steer prices had risen to \$72.43. This year, the per capita supplies are nearly the same at 66.3 pounds per person and live steers are expected to average near \$86. The cause is related to at least three factors: 1.) The number of articles suggesting the consumption of beef may have negative health impacts have been reduced; 2.) High protein diets have become extremely popular; and 3.) Personal incomes are strong after emerging from the 2001 recession and slow growth period in 2002/03.



Feeder cattle and calf prices will likely be at all time highs as well. Feeder cattle futures have established new highs above 115 cents per pound as shown in **Figure 2**. Not only have prices made new records in the past nine months, but they have sharply exceed the previous highs around 90 cents per pound in 1990/91 and again in 2000/01. Continued drops in grain, protein, and

forages prices could continue the march to even higher calf prices into the fall.

My price estimates for feeder cattle and calf prices are shown in Table 5. I have to admit that my computer models failed to reveal prices this high. These models are based on history and thus dramatic new record high prices such as these are not within the model's ability to predict. In fact, I have added about \$8 per live hundredweight to my models forecast. It is also important to say that the amount of error in these forecasts could be much larger than the historical errors mentioned in the footnotes of Table 5.

I am expecting Oklahoma 500 to 550 pound steers to average \$125 to \$130 per hundredweight this fall. While this sounds like a bold forecast, these calves were selling for \$126 during the week ending July 24, 2004. Lower feed prices and/or stronger finished cattle futures would push those prices even higher. Feeder cattle in the 750 to 800 pound range are expected to be in the \$100 to \$110 range this fall, again at Oklahoma City. Somewhat lower prices are anticipated in the winter and next spring, but they should continue to be very high by historical standards. Generally calves in the Eastern Corn Belt are \$3 to \$5 lower than quotes from Oklahoma City. Those spreads however could be wider in the next 12 months.

Implications for the Cattle Industry

Record high cattle prices mean record profits for the cattle industry this year, and will sustain U.S. farm incomes perhaps near record high levels as well. The bulk of the income will accrue to the brood cow sector who will sell the 2004 calf crop at record high levels.

Cattle feeders may see highly volatile incomes, as is often the case. Dramatic shifts in finished cattle prices have been a characteristic of the year and the possibility of more large shifts remains possible with the potential for new BSE announcements and for alterations in trade agreements either on imports or exports. Added to these is the dynamics of feed prices which have made feeder cattle and calf prices even more volatile than finished cattle. The year is full of risks, and where there are risks there are opportunities. However, those who are not in financial positions to take the potential wide swings should be considering hedging alternatives with futures and options.

I was surprised to see beef producers edging toward expansion with the four percent higher beef heifer retention. I had felt that the uncertainties associated with the markets this year would stem any movement toward expansion. At this point that appears to be wrong. If the cattle outlook got producers moving toward expansion in the past six months, then conditions may be ripe for further movement in that direction over the next year. Finished cattle prices will be strong, feed prices are going to be moderate, interest rates may not rise as much as had been feared, and the longer we live with BSE concerns, the more we are convinced that consumers will stay with beef. Additional heifer retention means even smaller beef supplies and further supports prices in the beginning of the expansion phase of the cycle. Finally the Plains drought is retreating on the eastern side, and will provide greater incentives for more expansion of brood cows there.

Although the uncertainties are well known for beef producers, there is a growing optimism that prices will be profitable for several years to come.

Cow-calf producers will want to examine their costs carefully before committing to expansion. While many may believe they can raise 500-600 pound calves for 70 to 80 cents per pound. Most University budgets suggest that is closer to \$1.00 per pound if all costs of production are taken into consideration including a return for buildings, fencing, and especially the family's time. While calves will exceed the \$1.00 a pound level this year, historic prices have not achieved a similar threshold.

Table 1. Cattle Number, 1991 - 2004: Data in 1,000s

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	% Change vs. 2003
All cattle and calves															
January 1	96,393	97,556	99,176	100,974	102,785	103,548	101,656	99,744	99,115	98,198	97,277	96,704	96,100	94,882	-1.3
July 1	106,100	107,200	109,000	111,300	113,000	111,600	109,200	107,700	107,000	106,300	105,800	105,100	103,900	103,600	-0.3
Beef cows															
January 1	32,520	33,007	33,365	34,603	35,190	35,319	34,458	33,885	33,745	33,569	33,397	33,118	32,983	32,860	-0.4
July 1	33,400	33,900	34,900	35,600	36,100	35,700	34,800	34,400	34,150	33,950	33,900	33,750	33,600	33,500	-0.3
Milk cows															
January 1	9,966	9,728	9,658	9,507	9,482	9,420	9,318	9,199	9,133	9,190	9,183	9,112	9,142	8,991	-1.7
July 1	9,800	9,700	9,700	9,500	9,500	9,400	9,300	9,200	9,150	9,250	9,100	9,150	9,100	9,000	-1.1
Heifers 500 lbs. + Beef replacement															
January 1	5,443	5,643	6,092	6,364	6,452	6,189	6,042	5,764	5,535	5,503	5,588	5,561	5,624	5,517	-1.9
July 1	5,200	5,600	5,700	5,900	5,700	5,500	5,300	5,000	4,800	4,700	4,600	4,600	4,600	4,800	4.3
Milk replacement															
January 1	4,093	4,131	4,176	4,125	4,121	4,090	4,058	3,986	4,069	4,000	4,057	4,060	4,114	4,020	-2.3
July 1	4,100	4,100	4,000	4,000	3,900	3,700	3,600	3,600	3,700	3,700	3,600	3,700	3,600	3,600	0.0
Other heifers 500 lbs. +															
January 1	8,102	8,048	8,550	9,104	9,302	9,948	10,212	10,051	10,170	10,147	10,131	10,057	9,891	9,804	-0.9
July 1	7,200	7,000	7,300	7,500	8,000	8,100	8,200	8,100	8,100	8,100	8,200	7,900	7,700	7,550	-1.9
Steers 500 lbs. +															
January 1	15,967	16,424	16,940	17,086	17,513	17,815	17,392	17,189	16,891	16,682	16,441	16,790	16,554	16,280	-1.7
July 1	14,600	14,800	14,900	15,200	15,400	15,100	14,800	14,600	14,400	14,300	14,600	14,500	14,200	14,200	0.0
Bulls 500 lbs. +															
January 1	2,196	2,239	2,278	2,312	2,385	2,384	2,350	2,270	2,281	2,293	2,274	2,244	2,248	2,206	-1.9
July 1	2,200	2,200	2,200	2,300	2,400	2,400	2,300	2,200	2,200	2,100	2,100	2,100	2,100	2,050	-2.4
All Calves < 500 lbs.															
January 1	18,107	18,336	18,118	17,873	18,341	18,384	17,826	17,401	17,290	16,815	16,206	15,763	15,545	15,204	-2.2
July 1	29,600	29,900	30,300	31,300	32,000	31,700	30,900	30,600	30,500	30,200	29,700	29,400	29,000	28,900	-0.3
Calf Crop	38,583	38,933	39,369	40,105	40,264	39,823	38,961	38,812	38,796	38,631	38,280	38,224	37,903	37,700	-0.5

Source: USDA, NASS *Cattle* reports

Table 2: Ratios of Commercial Slaughter Steers and Heifers to Beginning Cattle Inventories, 1985 to 2004

	July 1 Inventory	Second Half	Ratio ^c	Calves <	First Half	Ratio ^c
	Steers and Heifers	Steer and Heifer		500 Pounds	Steer and Heifer	
	500+ ^b	Slaughter		July 1	Slaughter Next	
	-----thousand head-----			----- thousand head-----		
1985	24,200	14,056	58.1	33,600	14,219	42.3
1986	23,300	14,394	61.8	32,200	14,046	43.6
1987	22,400	14,304	63.9	31,100	13,989	45.0
1988	21,800	14,101	64.7	31,000	13,564	43.8
1989	21,600	13,470	62.4	30,600	13,425	43.9
1990	21,600	12,901	59.7	30,300	13,048	43.1
1991	22,500	13,397	59.5	30,400	13,137	43.2
1992	22,200	13,231	59.6	30,500	13,101	43.0
1993	22,200	13,472	60.7	30,300	13,576	44.8
1994	22,700	14,038	61.8	31,300	14,119	45.1
1995	23,400	14,554	62.2	32,000	14,742	46.1
1996	23,200	13,831	59.6	31,700	14,680	46.3
1997	23,000	14,861	64.6	30,900	14,446	46.8
1998	22,700	14,447	63.6	30,600	14,794	48.3
1999	22,500	15,001	66.7	30,500	15,159	49.7
2000	22,400	14,942	66.7	30,200	14,351	47.5
2001	22,800	14,607	64.1	29,700	14,502	48.8
2002	22,400	14,859	66.3	29,400	14,526	49.4
2003	21,900	14,207	64.9	29,000	13,695	47.2
2004 ^a	21,750	13,964	64.2	28,900	13,554	46.9

^a Projected for next 12 months

^b Excluding replacement heifers

^c Projections based upon estimates

Table 3: Cow Inventory, July 1 and Cow and Bull Slaughter for the Following 12 Months

	Cow	Cow	Ratio	Bull	Ratio Bull Slaughter
	Inventory	Slaughter	Slaughter /Inventory	Slaughter	to Cow Slaughter
	-----thousand head-----			thousand head	
1985	46,182	7,765	16.8	738	9.5
1986	45,000	7,319	16.3	710	9.7
1987	44,400	6,398	14.4	665	10.4
1988	44,300	6,400	14.4	650	10.2
1989	43,900	5,982	13.6	666	11.1
1990	44,000	5,720	13.0	634	11.1
1991	44,400	5,659	12.7	621	11.0
1992	44,400	5,964	13.4	656	11.0
1993	44,600	6,008	13.5	662	11.0
1994	45,100	6,052	13.4	661	10.9
1995	45,600	6,545	14.4	689	10.5
1996	45,000	7,007	15.6	715	10.2
1997	44,100	6,351	14.4	666	10.5
1998	43,600	5,846	13.4	615	10.5
1999	43,300	5,643	13.0	648	11.5
2000	43,200	5,667	13.1	620	10.9
2001	43,000	5,660	13.2	627	11.1
2002	42,900	5,984	13.9	611	10.2
2003	42,700	5,662	13.3	599	10.6
2004 ^a	42,500	5,525	13.0	580	10.5

^a Projected for next 12 months

Table 4. Commercial Beef Slaughter, Production, and Dressed Weights, 1983-2005

Year	Slaughter (1,000 hd)	Weight (lb)	Production (lbs)	Slaughter (1,000 hd)	Weight (lb)	Production (lbs)
	-----January-March-----			-----April-June-----		
1983	8,735	633	5,525	8,844	627	5,549
1984	9,169	623	5,708	9,341	623	5,819
1985	8,936	637	5,691	9,023	656	5,917
1986	8,884	649	5,769	9,574	652	6,247
1987	8,765	657	5,756	8,878	646	5,737
1988	8,575	664	5,696	8,759	660	5,784
1989	8,180	676	5,529	8,694	664	5,777
1990	8,117	678	5,507	8,541	671	5,733
1991	7,858	685	5,383	8,299	686	5,694
1992	8,032	697	5,597	8,255	694	5,726
1993	7,910	677	5,357	8,469	672	5,690
1994	8,162	704	5,745	8,615	701	6,042
1995	8,418	699	5,888	9,053	699	6,325
1996	8,971	703	6,303	9,589	693	6,642
1997	8,912	686	6,112	9,307	690	6,419
1998	8,681	716	6,215	8,995	718	6,461
1999	8,733	733	6,397	9,176	722	6,627
2000	9,005	739	6,653	9,195	729	6,699
2001	8,500	727	6,182	9,033	720	6,501
2002	8,408	758	6,376	9,158	746	6,833
2003	8,352	752	6,282	9,463	729	6,902
2004	7,873	741	5,834	8,651	724	6,260
2005 ^A	7,847	758	5,948	8,685	747	6,488
	-----July-September-----			-----October-December-----		
1983	9,547	630	6,012	9,537	626	5,974
1984	9,559	622	5,949	9,503	624	5,933
1985	9,352	659	6,166	8,978	643	5,774
1986	9,654	650	6,275	9,180	645	5,925
1987	9,222	657	6,063	8,783	666	5,852
1988	9,199	672	6,186	8,538	653	5,575
1989	8,612	684	5,892	8,430	686	5,785
1990	8,449	688	5,814	8,112	686	5,564
1991	8,453	711	6,012	8,074	707	5,710
1992	8,451	709	5,991	8,122	696	5,654
1993	8,673	701	6,076	8,268	704	5,819
1994	8,825	723	6,377	8,629	709	6,114
1995	9,279	714	6,625	8,890	706	6,277
1996	9,123	700	6,390	8,900	684	6,084
1997	9,300	710	6,603	8,879	705	6,258
1998	9,071	732	6,638	8,737	726	6,339
1999	9,337	733	6,841	8,915	732	6,525
2000	9,256	747	6,914	8,791	741	6,511
2001	8,987	748	6,720	8,844	758	6,700
2002	9,265	766	7,097	8,900	762	6,783
2003	9,542	742	7,081	8,097	738	5,973
2004 ^A	8,862	754	6,682	8,229	752	6,188

^A Projected for next 12 months

Table 5. Beef, Pork, Poultry Production, Nebraska Steer Prices, and Oklahoma City Feeders by Quarter

		Beef Production	Pork Production	Poultry Production	Nebraska Choice Steer Price	Oklahoma City 450-500 Heifers	Oklahoma City 5-550 Steers	Oklahoma City 750-800 Steers
		-----million pounds-----			-----\$/cwt-----			
1994	I	5,745	4,182	6,765	\$73.10	\$90.66	\$98.96	\$82.14
	II	6,042	4,240	7,238	\$68.79	\$87.79	\$94.16	\$77.63
	III	6,377	4,326	7,504	\$66.37	\$79.28	\$86.42	\$76.37
	IV	6,114	4,913	7,339	\$67.63	\$77.96	\$84.58	\$74.74
1995	I	5,888	4,488	7,343	\$71.51	\$78.30	\$86.81	\$72.62
	II	6,325	4,394	7,653	\$64.73	\$71.23	\$78.62	\$65.77
	III	6,625	4,240	7,472	\$62.65	\$63.50	\$68.29	\$65.44
	IV	6,277	4,690	7,683	\$66.10	\$56.20	\$64.45	\$67.55
1996	I	6,303	4,389	7,880	\$63.06	\$53.54	\$62.12	\$58.11
	II	6,642	4,104	7,949	\$60.26	\$50.24	\$59.83	\$56.79
	III	6,390	4,143	8,043	\$67.35	\$56.18	\$64.90	\$63.29
	IV	6,084	4,449	7,930	\$70.39	\$57.55	\$67.49	\$66.15
1997	I	6,107	4,194	7,875	\$66.40	\$70.64	\$81.28	\$69.44
	II	6,416	4,091	8,341	\$66.63	\$81.28	\$90.28	\$75.88
	III	6,603	4,194	8,275	\$65.65	\$83.97	\$92.65	\$80.44
	IV	6,258	4,767	8,259	\$66.56	\$78.81	\$89.90	\$78.98
1998	I	6,215	4,687	8,135	\$61.73	\$81.43	\$83.44	\$75.49
	II	6,461	4,429	8,316	\$64.11	\$81.54	\$86.71	\$74.00
	III	6,638	4,625	8,244	\$58.97	\$69.11	\$74.41	\$67.89
	IV	6,339	5,239	8,452	\$61.06	\$72.67	\$79.21	\$69.80
1999	I	6,397	4,865	8,501	\$62.43	\$78.03	\$87.35	\$71.93
	II	6,627	4,630	8,928	\$65.04	\$80.49	\$89.12	\$72.17
	III	6,838	4,672	8,848	\$65.12	\$82.36	\$87.12	\$77.57
	IV	6,522	5,110	8,760	\$69.65	\$85.28	\$93.20	\$83.87
2000	I	6,653	4,824	8,887	\$69.32	\$96.90	\$106.13	\$84.91
	II	6,699	4,478	9,146	\$71.59	\$96.16	\$101.64	\$84.76
	III	6,914	4,606	8,934	\$65.43	\$93.46	\$101.80	\$86.25
	IV	6,511	5,010	8,929	\$72.26	\$93.57	\$97.97	\$88.76
2001	I	6,182	4,805	8,879	\$79.11	\$100.39	\$107.78	\$86.82
	II	6,501	4,546	9,369	\$76.41	\$102.17	\$107.22	\$89.47
	III	6,723	4,548	9,276	\$70.19	\$97.06	\$103.00	\$91.13
	IV	6,700	5,239	9,317	\$65.13	\$90.75	\$98.21	\$85.37
2002	I	6,376	4,779	9,240	\$70.19	\$94.87	\$102.35	\$81.24
	II	6,833	4,800	9,697	\$65.58	\$87.47	\$91.76	\$77.16
	III	7,097	4,832	9,670	\$63.29	\$81.49	\$88.38	\$78.87
	IV	6,783	5,255	9,418	\$69.10	\$84.30	\$93.02	\$83.08
2003	I	6,282	4,898	9,149	\$77.82	\$89.79	\$97.68	\$78.48
	II	6,902	4,741	9,575	\$78.49	\$92.81	\$99.18	\$82.49
	III	7,081	4,807	9,600	\$83.07	\$95.97	\$104.33	\$94.90
	IV ^P	5,973	5,499	9,575	\$99.38	\$102.37	\$111.23	\$103.51
2004	I	5,834	5,130	9,510	\$82.16	\$103.57	\$111.50	\$87.98
	II	6,260	4,900	9,885	\$88.15	\$116.47	\$122.45	\$104.58
	III	6,682	4,975	10,075	\$85.42	\$115.65	\$123.14	\$104.50
	IV	6,188	5,434	9,850	\$88.26	\$115.20	\$127.70	\$105.11
2005	I	5,948	5,056	9,715	\$89.60	\$113.99	\$123.10	\$103.34
	II	6,488	4,940	10,235	\$86.38	\$111.23	\$118.90	\$102.16

^P Preliminary

*Prices are point estimates, but users should look at a range of possible prices at least in a band that both adds and subtracts the following \$/cwt. These are the estimation errors:

Nebraska steers: \$2.00/cwt.; 450 to 500# heifers and 500 to 550 # steers: \$2.50/cwt.; 750 to 800 # steers: \$3.00/cwt.

This range has included about 67% of the prices from the historical price estimates.