Cattle Prices Face Downward Pressure

August 2005 Chris Hurt

Expanding supply is the expected theme of the cattle industry in the coming year. Supplies will expand as a result of a larger calf crop, more live imports from Canada, more cattle in the feedlot pipeline, and heavier weights. Cattle producers are aggressively retaining both beef and dairy heifers to apparently expand the breeding herd even more in coming years.

Beef supplies are expected to rise by about six to seven percent over the next 12 months compared to the previous 12 months. Finished steer prices are expected to average about $82 compared to over $86 in the past 12 months. Calf prices are expected to be lower as well.

Opening of the Canadian border to live animal shipments is expected to contribute to about one-half the increase in beef supply. The expected Canadian supply increase, in the absence of opening our Asian export markets, is the primary reason for price decreases. Movement toward opening the Asian markets appears to be at a standstill now until one, or both, sides are willing to make fundamental changes in their current position on BSE testing.

Beef cow expansion is expected for the rest of the decade with brood cow numbers peaking in the 2010 to 2012 period. Calf prices should be profitable over the next several years, but with margins reaching their lowest returns around the cyclical peak of the brood cow herd.

The Numbers

Total U.S. cattle inventory numbers on June 1 were up about one percent as reported in USDA's July *Cattle* report. The cattle herd continues to expand with nearly one percent more beef cows and a similar increase in dairy cows. 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. The 2005 calf crop is estimated to be 37.8 million head which is up .5 percent. The mid-year inventory update does not provide individual state inventory numbers.

The beef cow expansion has just started. After peaking in 1995 at 36.1 million head, the herd declined to 33.5 million in the July 2004 inventory count. Thus, the last beef cow cycle was 14 years, spanning five years of expansion from 1990 to 1995 and nine years of decline from 1995 to 2004.

On-feed numbers at the start of July were up three percent. This was higher than expected as June placements expanded by seven percent and marketings dropped by one percent.

More Cattle From Canada!

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.

The year 2002 was the last full calendar year of live imports from Canada when 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 also grew by 900,000 head. So, this may mean that just under a million head of cattle could flow to the U.S. annually. This would increase U.S. beef supplies about three percent.

The border re-opened on July 18, 2005. In the first three weeks, the flow is gaining momentum. For perspective, if we import about 900,000 head a year from Canada, this would be an average of 17,300 per week. The rates in the first three weeks have been 6,300; 8,900; and 11,900. With nearly 12,000 head per week already, you can see that the adjustment will not take long.

How many of these are slaughter animals? In the first three weeks, 61% have been slaughter animals and 39% have been feeder animals destined for U.S. feedlots. The 61/39 split is the same ratio of slaughter-to-feeder as occurred in 2002, the last full calendar year of Canadian live imports.

So in the short-run, U.S. slaughter supplies will only increase by about 1.7 percent as a result of Canadian imports for slaughter, but Canadian live imports will rise to around three percent of slaughter once current feeder imports reach slaughter weights in early 2006.

The opening of the border would be expected to result in an equating of U.S. and Canadian prices adjusted for quality and transportation costs to U.S. packers. That is precisely the way the market has behaved, as Canadian prices came up sharply and U.S. prices dropped. In the last week of June, U.S. slaughter steers in the Midwest were $11.64 per hundredweight higher than similar Ontario auction steers as reported by USDA in U.S. dollars. In the first two weeks of the border opening the U.S. premium closed to just $1.70 per live hundredweight premium. During this short period, Ontario steers rose by $6.19 and Midwest prices fell by $3.75

Beef Production Up, Prices Down

Beef production is expected to rise substantially over the next year given the large number of cattle in feedlots, the increase in live cattle from Canada, a larger calf crop, and heavier marketing weights. As shown below, and in Table 4, beef production in the last-half of 2005 is expected to be up by nearly seven percent which would be composed of about a six percent greater head count and one percent heavier weights. Beef supplies in the first-half of 2006 are expected to rise by about the same amount.

As a result of these large supply increases, cattle prices are expected to be lower over the coming year. The price estimates are based upon the assumption that beef exports to Asia will not be restored. If these markets are re-opened prices would be higher assuming other factors remained the same.

Finished steer prices (Nebraska based) are expected to average near $80 in the third quarter of 2005 and move to an average a few dollars higher in the fall. If so, the average 2005 yearly price of finished Nebraska steers would be near $85, very close to the same level as both 2003 and 2004. First quarter 2006 prices are expected to average around the mid-$80s and drop to the low $80s for the second quarter.

Calf prices would be lower as well. This fall, Oklahoma City 500-550 pound steers are expected to trade in the $110 to $125 range. This would be about $8 per hundredweight lower than last year. Eastern Corn Belt calves are often $3 to $5 lower than these benchmark prices on the Plains. Estimated prices for heifers are also shown below and in Table 5.

Beef Production				Cattle Prices ($/cwt.)			
Year	Qtr.	Mill. #'s	%Change Year-Ago	Finished Steers	450-500# Heifers	500-550# Steers	750-800# FeederSteers
2003	I	6,282	-1.5%	$77.82	$89.79	$97.68	$78.48
	II	6,902	1.0%	$78.49	$92.81	$99.18	$82.49
	III	7,081	-0.2%	$83.07	$95.97	$104.33	$94.90
	IV	5,973	-11.9%	$99.38	$102.37	$111.23	$103.51
	Year	**26,238**	**-3.1%**	**$84.69**	**$95.24**	**$103.11**	**$89.85**
2004	I	5,838	-7.1%	$82.16	$103.57	$111.50	$87.98
	II	6,253	-9.4%	$88.15	$116.47	$122.45	$104.58
	III	6,360	-10.2%	$83.58	$123.51	$129.12	$116.27
	IV	6,097	2.1%	$85.09	$112.94	$125.13	$110.19
	Year	**24,548**	**-6.4%**	**$84.75**	**$114.12**	**$122.05**	**$104.76**
2005	I	5,727	-1.9%	$89.09	$122.70	$129.75	$104.09
	II	6,195	-0.9%	$87.96	$124.70	$136.05	$113.36
	III	6,953	9.3%	$79.54	$112.42	$120.40	$107.94
	IV	6,392	4.8%	$82.55	$107.74	$117.11	$105.62
	Year	**25,267**	**2.9%**	**$84.79**	**$116.89**	**$125.83**	**$107.75**
2006	I	6,134	7.1%	$84.84	$116.09	$124.77	$101.89
	II	6,686	7.9%	$80.73	$109.14	$115.75	$98.06

More detail can be found in Table 5

Implications for the Industry

Beef producers are expected to feel the pinch of rising supplies in the coming year as prices edge lower. Over the past 12 months, prices for finished steers averaged $86.43 per live hundredweight. In the next 12 months however, finished steer prices are expected to average closer to $82. While these are very strong cattle prices by historic standards,

the record high prices paid for feeder calves over the past several months will put some feedlot budgets in jeopardy.

Moderating cattle prices and feedlot financial losses may cause producers to put more pressure on USDA to find an acceptable solution to BSE testing that will enable the reinstatement of our beef exports to Asia. At this writing, opening of the Asian market in 2005 does not appear optimistic. Clearly, the U.S. and Japan both have much to gain by working toward a solution, but one or both sides will need to demonstrate a willingness to change their current positions.

Brood cow producers can look forward to another profitable year in 2005 even with calf prices $5 to $10 lower this fall compared to last fall. The buildup of the beef herd will likely continue for another four to six years. This means that calf prices should be profitable for a few more years, but margins would be expected to narrow late this decade with a maximum cow herd size on this cycle around 2010 to 2012. While the old cattle cycle is expected to remain in place into the future, its impact on cattle prices may not be as dominant as in the past. This is especially true given such major influences as demand shifts and trade distortions as the industry has witnessed in recent years.

Given this summer's weather patterns, there will be some differential impacts on the cattle industry. Favorable corn, soybean, and forage yields in the western Corn Belt will result in even lower regional prices for these important feed ingredients relative to Illinois, Missouri, and the eastern Corn Belt. This will mean somewhat more stimulus for cattle feeding and brood cows in the western Corn Belt and central Plains. Easing of the long-term drought for the western Plains and the Mountain States is also stimulative to cattle numbers in those regions.

Table 1. Cattle Number, 1991 - 2005: Data in 1,000s

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	% Change vs. 2004
All cattle and calves															
January 1	97,556	99,176	100,974	102,785	103,548	101,656	99,744	99,115	98,199	97,298	96,723	96,100	94,888	95,848	1.0
July 1	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	104,500	0.9
Beef cows															
January 1	33,007	33,365	34,603	35,190	35,319	34,458	33,885	33,745	33,569	33,397	33,118	32,983	32,861	33,055	0.6
July 1	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	33,750	0.7
Milk cows															
January 1	9,728	9,658	9,507	9,482	9,420	9,318	9,199	9,133	9,190	9,183	9,112	9,142	8,990	9,005	0.2
July 1	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	9,050	0.6
Heifers 500 lbs. +															
Beef replacement															
January 1	5,643	6,092	6,364	6,452	6,189	6,042	5,764	5,535	5,503	5,588	5,561	5,624	5,518	5,746	4.1
July 1	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	5,000	4.2
Milk replacement															
January 1	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	4,133	2.8
July 1	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	3,700	2.8
Other heifers 500 lbs. +															
January 1	8,048	8,550	9,104	9,302	9,948	10,212	10,051	10,170	10,147	10,131	10,057	9,891	9,806	9,793	-0.1
July 1	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	7,500	-0.7
Steers 500 lbs. +															
January 1	16,424	16,940	17,086	17,513	17,815	17,392	17,189	16,891	16,682	16,441	16,790	16,554	16,277	16,511	1.4
July 1	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	14,400	1.4
Bulls 500 lbs. +															
January 1	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	2,219	0.6
July 1	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	2,100	2.4
All Calves < 500 lbs.															
January 1	18,336	18,118	17,873	18,341	18,384	17,826	17,401	17,290	16,815	16,206	15,763	15,545	15,210	15,385	1.2
July 1	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	29,000	0.3
Calf Crop	38,933	39,369	40,105	40,264	39,823	38,961	38,812	38,796	38,631	38,280	38,224	37,903	37,625	37,800	0.5

Source: USDA, NASS *Cattle* reports

Table 4. Commercial Beef Slaughter, Production, and Dressed Weights

Year	Slaughter (1,000 hd)	Weight (lb)	Production (lbs)	Slaughter (1,000 hd)	Weight (lb)	Production (lbs)
	----------January-March----------			**----------April-June----------**		
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	8,529	733	6,253
2005	7,593	754	5,727	8,276	749	6,195
2006 [A]	7,905	776	6,134	8,706	768	6,686
	----------July-September----------			**----------October-December--------**		
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	8,343	762	6,360	7,977	764	6,097
2005 [A]	9,007	772	6,953	8,288	771	6,392

[A] Projected for next 12 months

		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	9,166	$77.82	$89.79	$97.68	$78.48
	II	6,902	4,741	9,714	$78.49	$92.81	$99.18	$82.49
	III	7,081	4,807	9,857	$83.07	$95.97	$104.33	$94.90
	IV	5,973	5,499	9,663	$99.38	$102.37	$111.23	$103.51
2004	I	5,838	5,130	9,504	$82.16	$103.57	$111.50	$87.98
	II	6,253	4,897	9,858	$88.15	$116.47	$122.45	$104.58
	III	6,360	5,047	10,229	$83.58	$123.51	$129.12	$116.27
	IV	6,097	5,435	9,926	$85.09	$112.94	$125.13	$110.19
2005	I	5,727	5,136	9,891	$89.09	$122.70	$129.75	$104.09
	II[P]	6,195	5,025	10,250	$87.96	$124.70	$136.05	$113.36
	III	6,953	5,089	10,550	$79.54	$112.42	$120.40	$107.94
	IV	6,392	5,501	10,250	$82.55	$107.74	$117.11	$105.62
2006	I	6,134	5,190	10,135	$84.84	$116.09	$124.77	$101.89
	II	6,686	5,045	10,515	$80.73	$109.14	$115.75	$98.06

[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.
2005/06 prices have more uncertainty due to when trade with Asia will begin.