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Cattle Prices Are Record High, Aren't They?

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Cattle Prices Are Record High, Aren't They?

Market Report	Yr Ago	4 Wks Ago	9/12/03
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$64.40	$80.23	$90.16
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	*	99.17	106.00
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	87.00	*	106.33
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	98.27	126.53	144.67
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	31.50	41.00	42.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	14.50	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	84.57	107.33	113.70
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	71.87	*	90.12
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	164.92	180.04	180.16
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	4.69	3.85	3.41
Corn, No. 2, Yellow Omaha, bu	2.63	2.10	2.18
Soybeans, No. 1, Yellow Omaha, bu	4.43	5.55	6.07
Grain Sorghum, No. 2, Yellow Kansas City, cwt	4.94	4.02	4.07
Oats, No. 2, Heavy Minneapolis, MN , bu	2.11	1.55	1.53
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	135.00	117.50	130.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	92.50	62.50	61.25
Prairie, Sm. Square, Good Northeast Nebraska, ton	120.00	*	*

* No market.

Holy Cow! Can you believe the current cattle market? Fed cattle prices in Nebraska exceeded $90 per cwt. the week of September 7-13. The Chicago Mercantile Exchange September Feeder Cattle contract traded over $100 per cwt. A set of 5-weight steer calves sold for $120 per cwt. in North Platte on September 9. These are record high prices. But how high are these prices in relationship to other prices, or when you adjust them for inflation? Before answering that question, let's first consider what has brought the market to this point.

Scientists and science fiction writers have discussed the dramatic events that might occur if all the planets or galaxies were aligned in a certain manner. Sometimes events even exceed the imaginations of the fiction writers. In a similar manner, agricultural economists and cowboys have often discussed what could happen to the cattle market if certain conditions existed: there was a tight supply of cattle, consumers were demanding more beef and were willing to pay for it, and if we had a positive international trade in cattle and beef. Well, it just happened and the market likely exceeded all agricultural economists' predictions and probably exceeded all cowboys' dreams (although both economists and cowboys are quick to alter models and dreams).

The U.S. beef herd has been declining due to economic and environmental conditions for eight years, and the supply of feeder cattle outside of feedlots has declined for seven years. This year the number of cattle on feed is down 6.5 percent from last year, while the number of fed cattle marketed is up 0.4 percent. This very aggressive marketing of fed cattle has decreased fed cattle weights by 2 percent. The net

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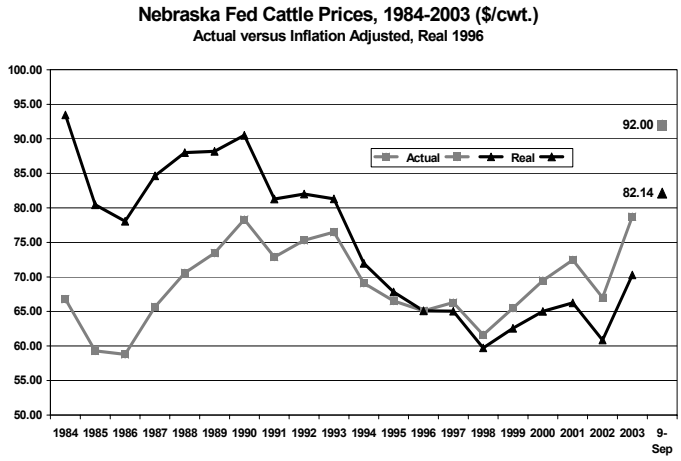
of all this is a decrease in beef production of about 2 percent this year and an expectation for another 1 percent decrease next year.

After years of declining beef demand, 1979-1997, beef demand has been increasing since 1998. Demand was stable in 2002 but it has been sensational in 2003. Consumers are wanting beef and they are willing to pay higher prices for it. The beef industry has made a concerted effort to market more consistent, more convenient and more choices in beef products. Educational efforts extolling the virtues of beef have been aimed at consumers, and the new popular protein diets feature beef in many recipes. It definitely looks like the consumer is back to buying beef.

Our exports to Japan are almost back to the level they were prior to Japan discovering BSE in their beef. Exports to Mexico and Korea are growing at very favorable rates. Imports of beef and cattle into the U.S. are down this year. Most of that reduction is a result of closing the border with Canada following the one cow that was identified with BSE there. The impact of all of this is that the U.S. is a net exporter of beef this year, when historically we have been a net importer of beef. So the trade situation has further reduced our available supply of beef and has increased the demand for U.S. beef.

A reduced supply of beef, an increased demand for beef, a reduction in imports and an increase in exports are all factors that should lead to higher cattle prices. Combine them all together, add in feedlots that are extremely current and you have the recipe for $90 fed cattle prices.

Now back to the original question – are these record high prices? Yes! Yes! I know we have never sold fed cattle for $90 per cwt. before. But how does $90 per cwt. compare to $80 per cwt. in the early 1990's when you think about inflation. Most people would agree that a dollar today will buy less than a dollar in 1996, and that a dollar in 1990 would buy more than a dollar in 1996. Actual prices can be adjusted for inflation and compared using some constant dollar value. These prices are referred to as inflation adjusted or real prices. In the accompanying graph, prices have been adjusted to the value of the dollar in 1996. Prices since 1996 will be worth less in 1996 real dollars while prices prior to 1996 will be worth more. As you can see from the graph, the September 9, 2003 price of $92 is only worth about $82 in real 1996 dollars. That price is equal to the annual average real prices for 1991, 1992 and 1993 when actual fed cattle prices averaged about $75 per cwt.



In summary, the current cattle and beef market conditions are such that relatively high beef, fed cattle, feeder cattle and calf prices should be expected. Those relative high prices should carry over into 2004. While $90 fed cattle prices would not have entered the discussion of most cattle producers three months ago, they are not as high relative to all other prices, as were $80 fed cattle prices in the early 1990's.

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A Correction to the Sept. 3, 2003 Cornhusker Economics: $25,000 was incorrectly printed as $15,000. The paragraph should have read as follows:

Section 179 Expense Election

The most widely advertised one in farming circles has been the increase in the limit for the Section 179 Expense Election. The 179 Election has allowed businesses to expense up to **$25,000** of current year capital purchases as long as their total capital purchases do not exceed $200,000. The new law raised the expense limit to $100,000 and the total purchases limit to $400,000.

I apologize to the readers and the author for any confusion or inconvenience this might have caused.