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9-22-2004

Cattle Market Outlook: Fall 2004 and Beyond

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September 22, 2004

Cornhusker Economics

Cooperative Extension

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

Cattle Market Outlook: Fall 2004 and Beyond

Market Report	Yr Ago	4 Wks Ago	9/17/04
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$92.03	$87.48	$84.12
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	110.97	138.99	127.52
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	103.54	121.54	119.17
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	161.87	140.51	133.95
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	59.47	73.30	76.97
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	31.33	45.91	46.77
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	67.99	76.83	73.69
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	89.87	95.50	93.00
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	217.31	217.15	217.06
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	3.35	3.22	3.46
Corn, No. 2, Yellow Omaha, bu	2.12	2.28	1.99
Soybeans, No. 1, Yellow Omaha, bu	6.07	6.67	5.07
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.38	3.27	2.95
Oats, No. 2, Heavy Minneapolis, MN , bu	1.62	1.62	1.84
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	115.00	117.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	65.00	62.50	62.50
Grass Hay, Sm. Square, Good Northeast Nebraska, ton	62.50	57.50	57.50

* No market.

This past year has certainly seen some ups and downs in the cattle market. One confirmed case of a BSE positive cow in Washington State last December, following an earlier discovery of a BSE cow in Canada in May of 2003 has changed the North American beef industry. Trade flows have been dramatically altered and producers have become frustrated with how political this issue has become. Other issues in the beef industry: animal identification, packer ownership of cattle, country of origin labeling and environmental regulations have generated considerable debate. Some of these issues have a more direct impact on markets than others. However, if one considers the underlying supply and demand fundamental in the cattle industry, much of the current and past price movements can be explained. Furthermore, these fundamentals give us some indication of the likely direction for cattle price in the future.

Since trade has been so disrupted in the last year, I will summarize that situation before looking at domestic supply and demand. Following the December discovery of the BSE positive cow in the U.S., all of our major trading partners closed their borders to U.S. beef. Most of those nations continue to exclude U.S. beef at this time. Mexico and Canada are the only major markets where we can presently ship beef. At the present time, our exports are only about one fourth of what they were prior to BSE in North America. Talks continue with Japan and other major trading partners to reopen our borders. Every news story on progress is followed by another story implying further delays. When those borders are reopened, it will likely be in incremental stages where only certain products will initially be allowed to be traded. I don't expect

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that exports will change enough in the fourth quarter of 2004 to have any impact on fall cattle prices. I am hopeful that trade with the Pacific Rim and other countries will resume early in 2005. As exports resume, that should add $5-7 per cwt. to the price of fed cattle. Imports into the U.S. have been somewhat surprising this year, as they are running above the previous years levels. Mexican feeder cattle have been drawn to the U.S. by our relative high price for feeders. No Canadian live animals are crossing the border, but box beef trade with Canada is back to pre-BSE levels. Australian and New Zealand imports are about equal with the previous year, and imports from South America are above year ago levels. The net on trade for the year is exports have been down and imports have been up relative to the prior year.

The trade flows have added additional beef to our domestic supply. It is fortunate that this has occurred in a time period of relatively short supply in the U.S. We started the year with a very current feedlot situation: the number of cattle on feed and cattle weights were below the prior year's levels. The rate of fed cattle marketings slowed this summer and fed cattle weights have increased rather dramatically. As a result, we will be starting the fourth quarter with more cattle on feed and heavier slaughter weights for those cattle. As a result, there will not be the same magnitude of price rally as we saw a year ago. In fact, if feedlots do not maintain a fairly aggressive marketing strategy, weights could increase to the point of putting a damper on a fall/winter fed cattle price rally.

Feeder cattle and calf supplies are in very tight supply. The nations beef cow herd declined for the eighth year in a row, and the calf crop for 2004 and the supply of feeder cattle outside of feedlots are all smaller than they have been in 40 years. This has resulted in very favorable calf and yearling prices. Indications are that more heifers will also be retained this year for replacement heifers, and this will further reduce the available supply of feeder cattle for stocker and feeding enterprises. Calf and yearling prices have been at record high levels this year. While there may be some softening of these prices with large fall calf runs, I expect fall prices to remain above year ago levels for both calves and yearlings. If herd rebuilding is underway this fall, then there typically is one to two more years of favorable calf prices before increased calf crop numbers start to reduce prices.

Through the 1980's and most of the 1990's demand (loss of demand) always was to blame for prices being lower than expected. This century demand (growth in demand) has resulted in price levels for beef and cattle that have generally been above expectations. It appears that beef demand has remained very strong through the first three quarters of 2004. While our domestic production of beef has been down, domestic consumption of beef has been above year ago levels. This is due to U.S. consumers eating most of the beef that was going into our export markets, and also consuming increased beef that is being imported into the U.S. This increased consumption has occurred at a higher price level than last year. To have consumption and price increase in the same time frame is a clear indication that demand has improved. Demand trends are generally fairly slow to change. Therefore, I would predict that beef demand will remain strong into 2005.

OK, here is where the rubber hits the road, or maybe I should say where the $&%$ hits the trail. My price outlook for Nebraska cattle: Fed cattle mid to upper $80's for the fourth quarter 2004; upper $80's low $90's for early 2005. If weights continue to increase, it might be difficult to see upper $80's this fall. However, if marketings can stay on tract we could still see $90 this year. Eight-weight steers will trade in a $110-$115 range this fall. The price for 550 pound steer calves will likely remain above $120 this fall, with many calves selling for over $130 per cwt. Feeder and calf prices should remain relatively strong in 2005.

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