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December 2005

## State of the Beef Industry and Cattle Market Situation and Outlook

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# **State of the Beef Industry And Cattle Market Situation And Outlook**

*Prepared for:*

***The Range Beef Cow  
Symposium XIX***

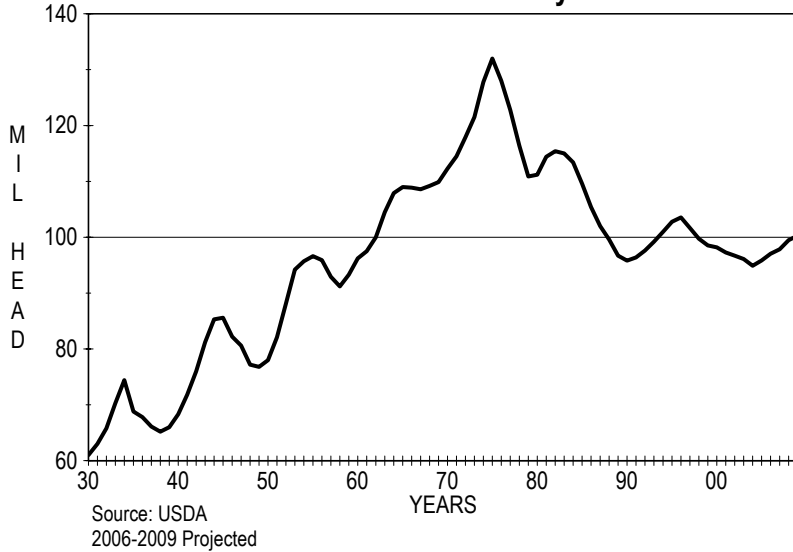
***December, 2005***

*Presented by:*



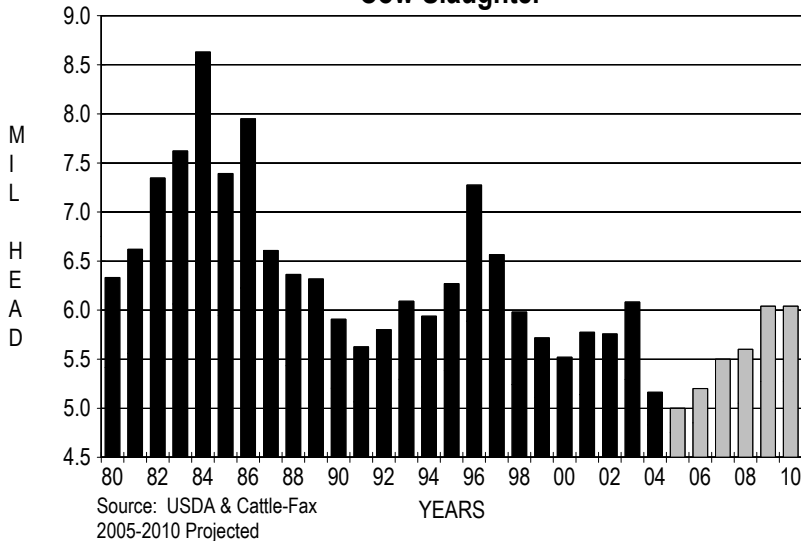
Randy Blach  
9110 E. Nichols Ave.  
Centennial, CO 80112  
1-800-825-7525  
website [www.cattle-fax.com](http://www.cattle-fax.com)

### Total Cattle Inventory



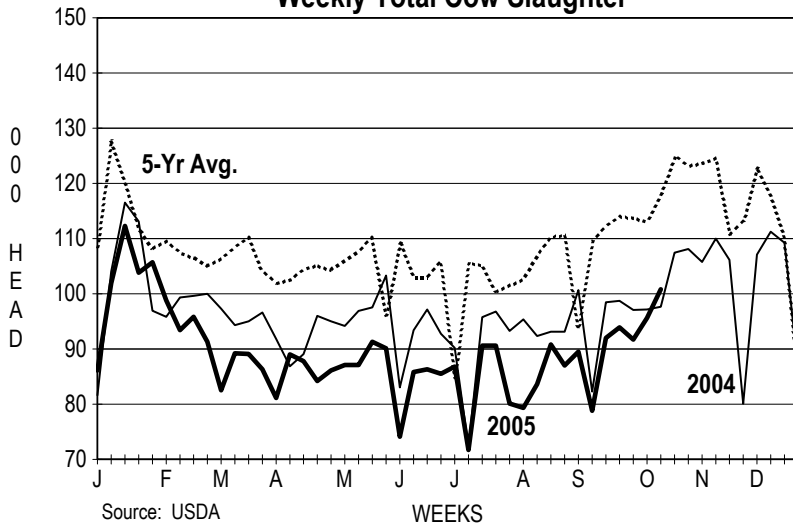
Total cattle numbers recorded their cycle lows in 2004 at 94.88 million head and were 8.4 percent smaller than at the cycle peak that occurred in 1996. Total cattle numbers are expected to increase by more than 5 million head by 2009 as herd expansion unfolds. U.S. cattle numbers are expected to total 97.3 million head on January 1, 2006 – up more than 1.5% compared to a year earlier.

### Cow Slaughter



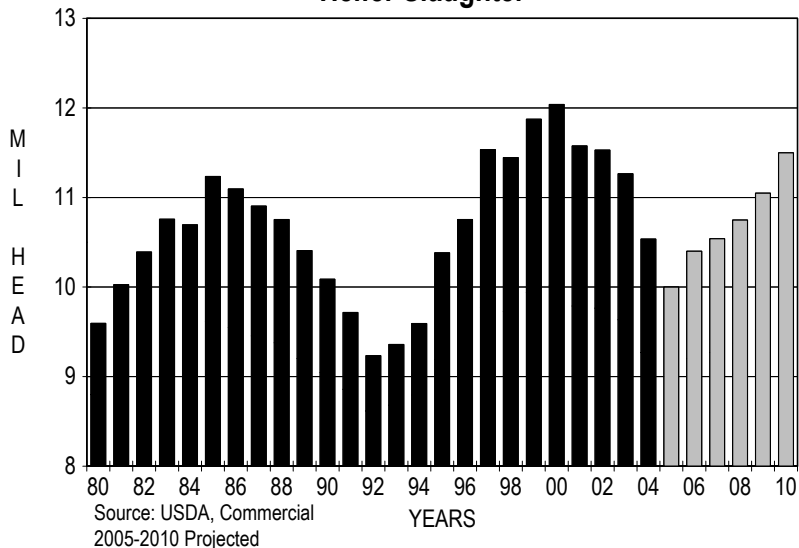
During 2005, cow slaughter was down about 5% or 200,000 head and totaled 4.95 million. The decline in cow slaughter was nearly equally split between beef cows and dairy cows. Higher calf prices and higher milk prices have been major factors for the change in the slaughter totals for the two classes of cows.

### Weekly Total Cow Slaughter



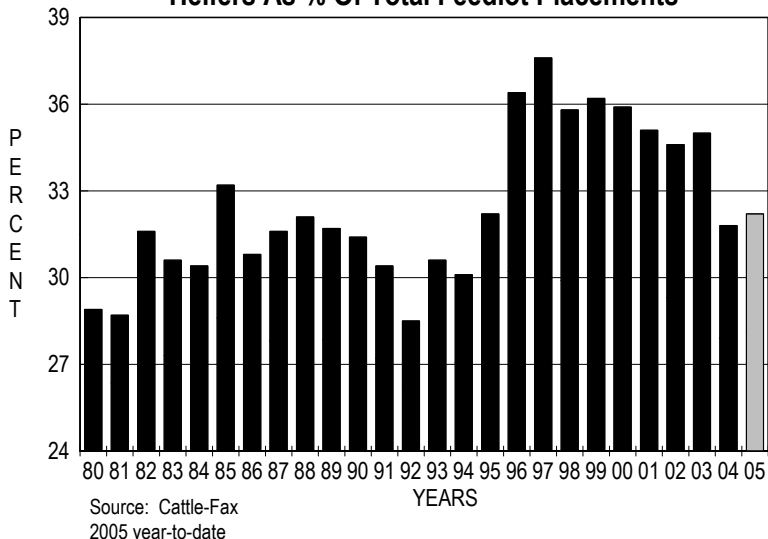
Year-to-date, weekly average cow slaughter has been about 6,000 head per week smaller than a year ago. Cow slaughter totals have increased seasonally from September into November. Cow slaughter is expected to run near year earlier levels during the first half of 2006 and then increase during the second half of the year.

### Heifer Slaughter



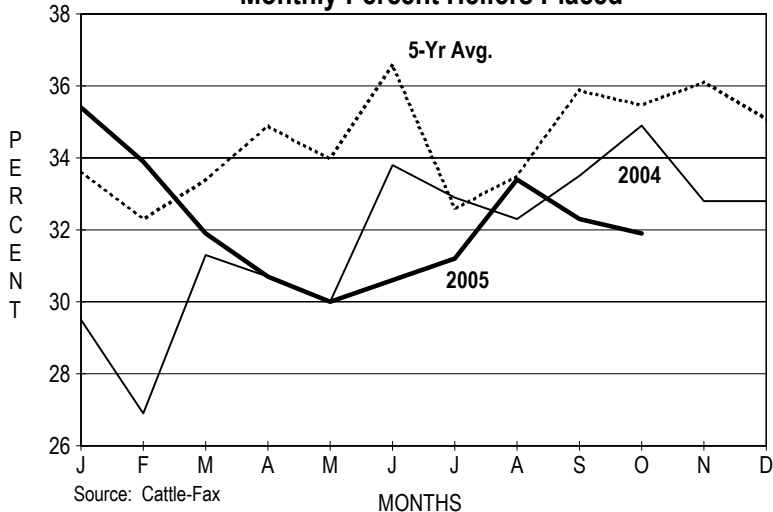
During 2005, heifer slaughter will be down about 550,000 head at 9.8 million head and be 2 million head smaller than during the cycle peak in 2000. Heifer slaughter totals are expected to grow during the next several years.

### Heifers As % Of Total Feedlot Placements



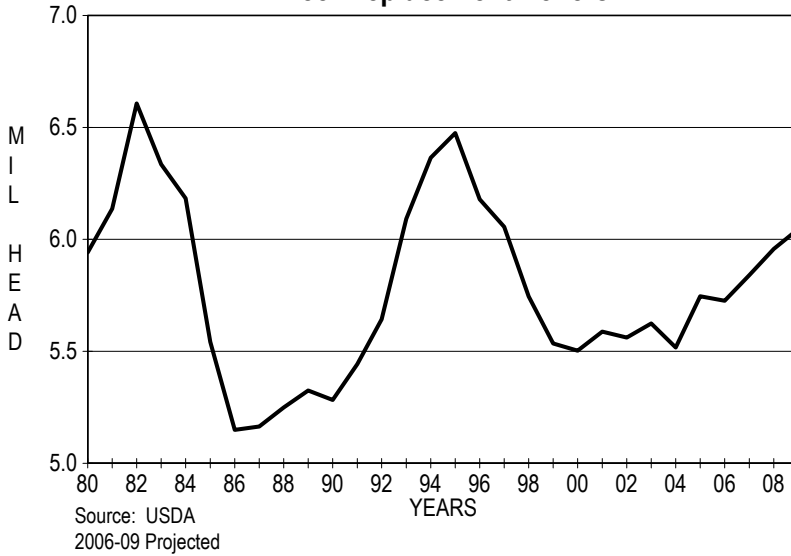
Through October, heifers as a percentage of feedlot placements have increased just slightly compared to a year ago and have averaged 32.1% for the year. As herd expansion continues during the next several years heifers are expected to be 30% to 32% of total feedlot placements.

### Monthly Percent Heifers Placed



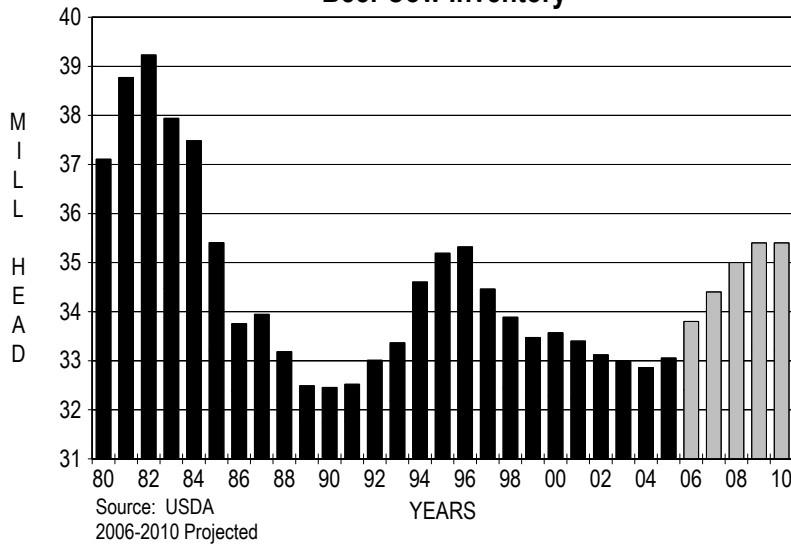
Heifers as a percentage of feedlot placements have fallen well below year ago levels during the fall of 2005. The average during August, September and October was the smallest average since 1994 and was more than 2 percent smaller than the 3-year average. The breeding herd is expanding.

### Beef Replacement Heifers



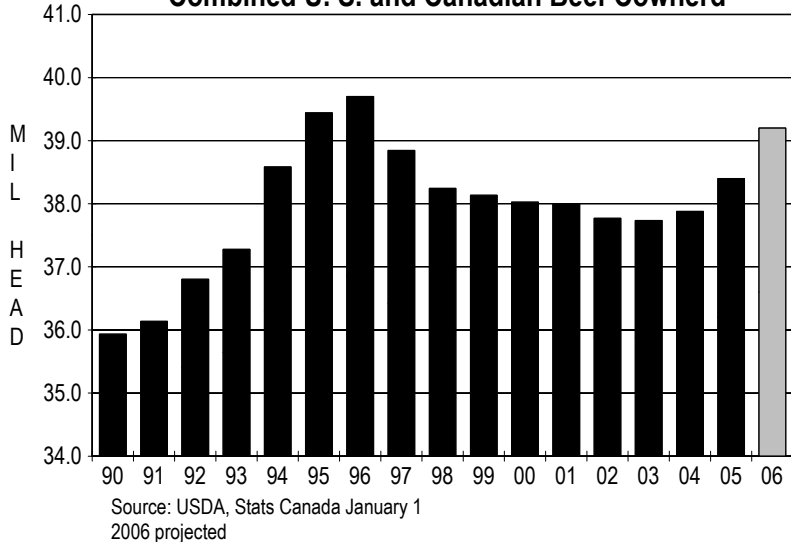
Higher calf prices, better profitability for cow-calf producers and improved forage and water conditions through many areas have stimulated increased interest in beef replacement heifer retention. Beef replacement heifer numbers are expected to be 500,000 head larger by 2009 than current levels.

### Beef Cow Inventory

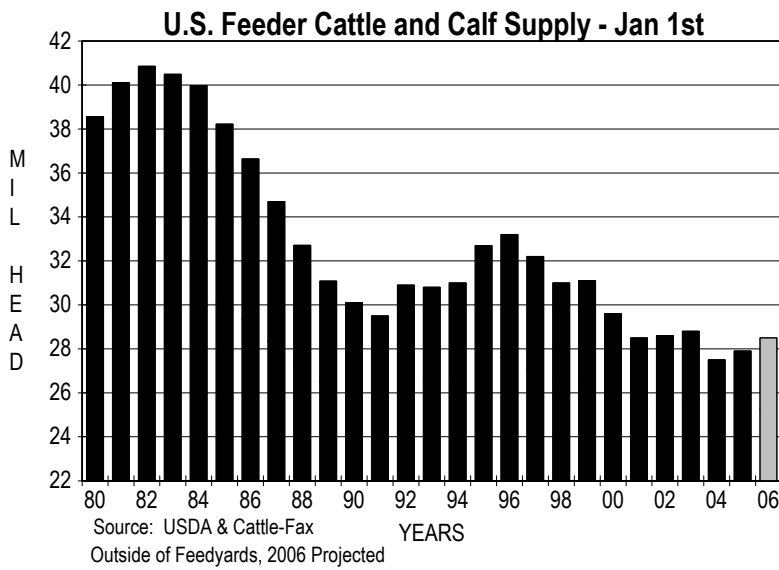


Beef cow numbers will have increased about 800,000 head during 2005 and on Jan. 1, 2006 are expected to total 33.8 million head – the largest beef cow herd since 1999. Beef cow numbers were 1.5 million head larger than current levels at the cycle peak in 1996. U.S. beef cow numbers are expected to increase an additional 1.5 to 1.8 million head by 2009.

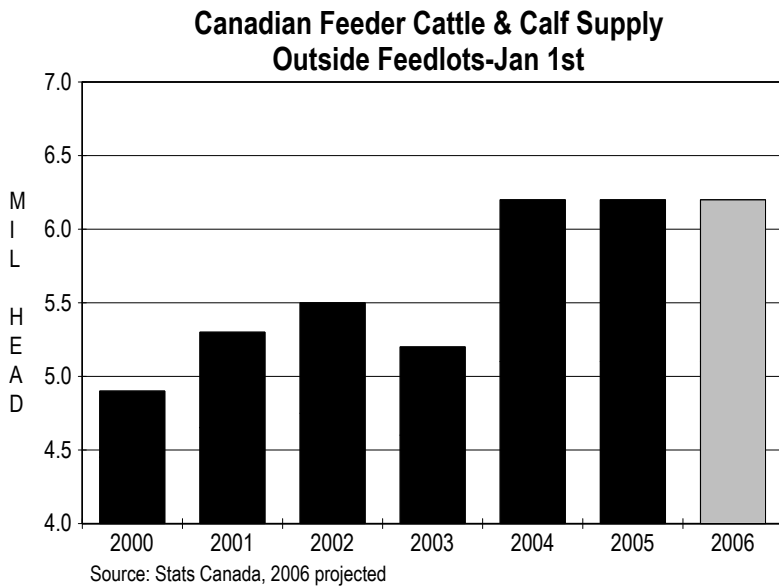
### Combined U. S. and Canadian Beef Cowherd



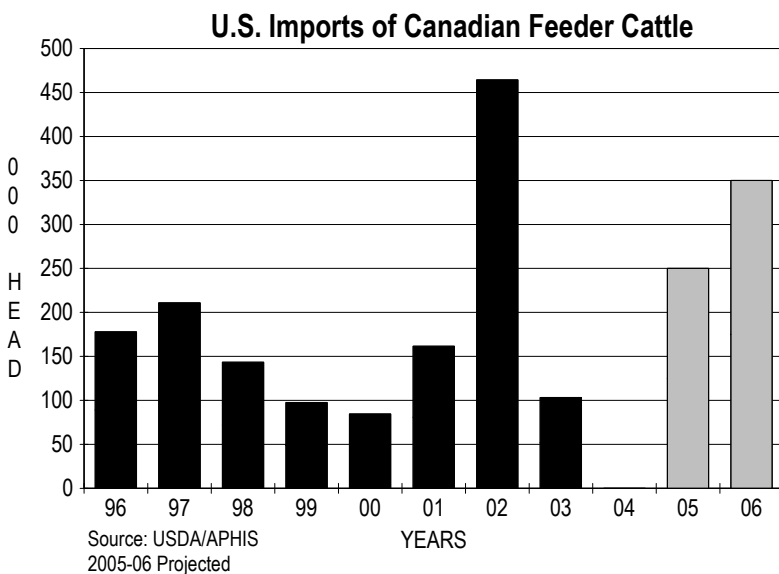
Combined U.S. and Canadian beef cow numbers are expected to total 39.2 million head on Jan. 1, 2006 and will be nearly 2% larger than a year earlier. The increases in combined beef cow numbers since the discovery of BSE in Canada have resulted in the largest combined beef cow herd since 1997, and have replaced all the cows removed from the herd during six years of U.S. beef cow liquidation.



U.S. feeder cattle and calf supplies outside of feedlots are expected to total 28.4 million head on Jan. 1, 2006 – up about 2% (500,000 head) from a year earlier. Feeder cattle and calf supplies outside of feedlots in the U.S. declined 17% (5.7 million head) from 1996 to Jan. 1, 2004.

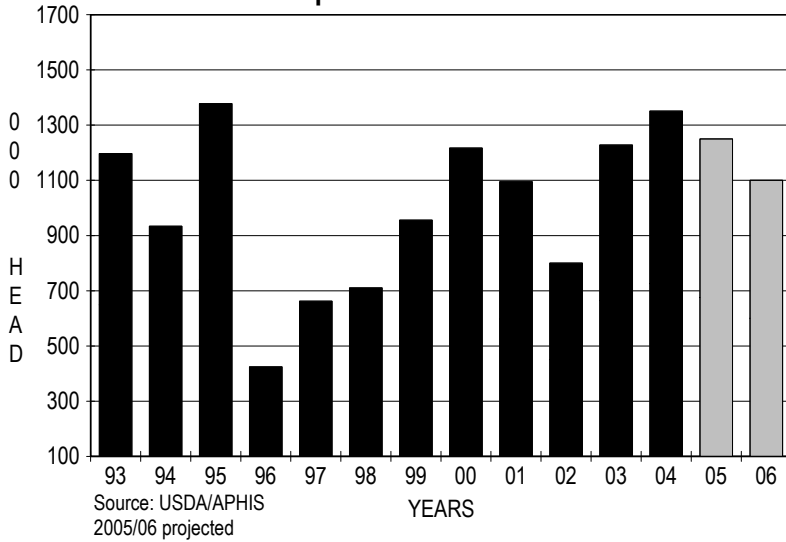


Canadian feeder cattle and calf supplies have grown substantially since Jan. 1, 2003. On Jan. 1, 2006, feeder cattle and calf supplies in Canada are expected to total between 6.1 and 6.2 million head.



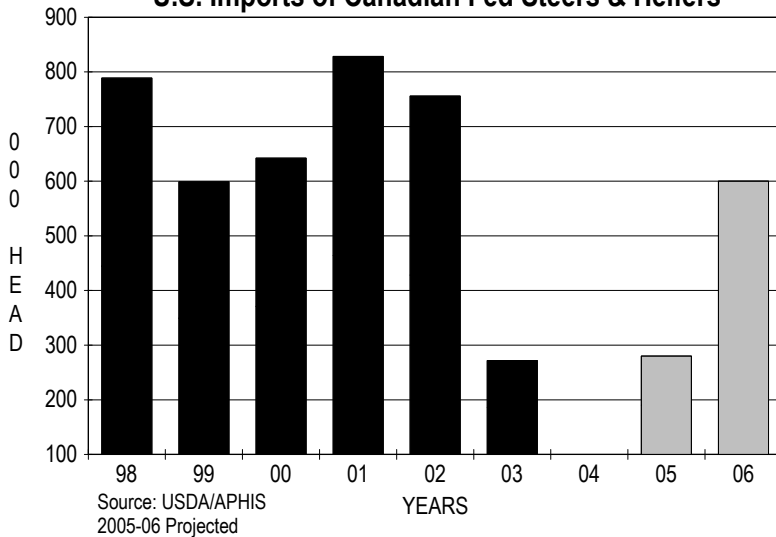
Since the mid-1990's excluding 2002, feeder cattle and calf imports from Canada have averaged about 140,000 head per year. During 2002, more than 450,000 feeder cattle and calves were shipped to the U.S. because of high feeding costs in Canada due to drought. U.S. feeder cattle and calf imports from Canada are expected to total 350,000 to 400,000 head during 2006. The U.S. exported an average of 131,000 head of feeder cattle and calves per year to Canada from 1998 through 2002, but exports are expected to be small during 2006.

### U.S. Imports of Mexican Feeder Cattle



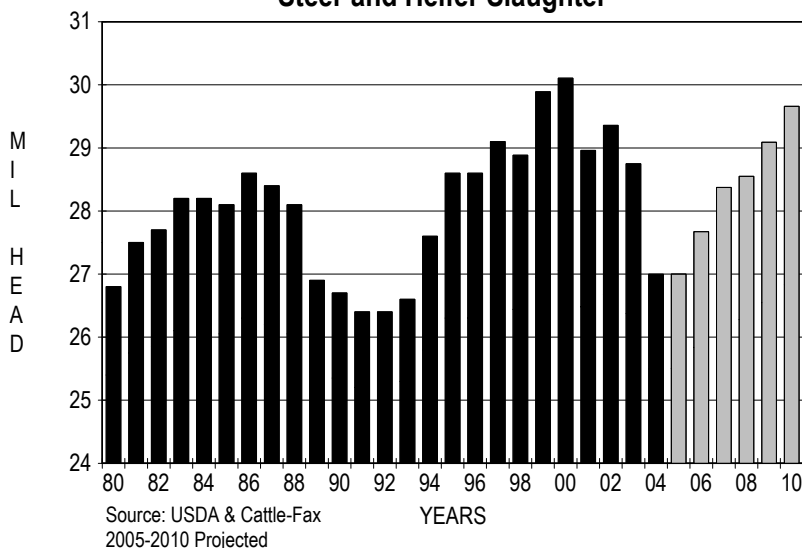
The U.S. is expected to import about 1.3 million head of feeder cattle and calves from Mexico during 2005. High U.S. cattle prices and no feeder imports during much of the year from Canada prompted the imports. Imports are expected to moderate to about 1.1 million head during 2006.

### U.S. Imports of Canadian Fed Steers & Heifers



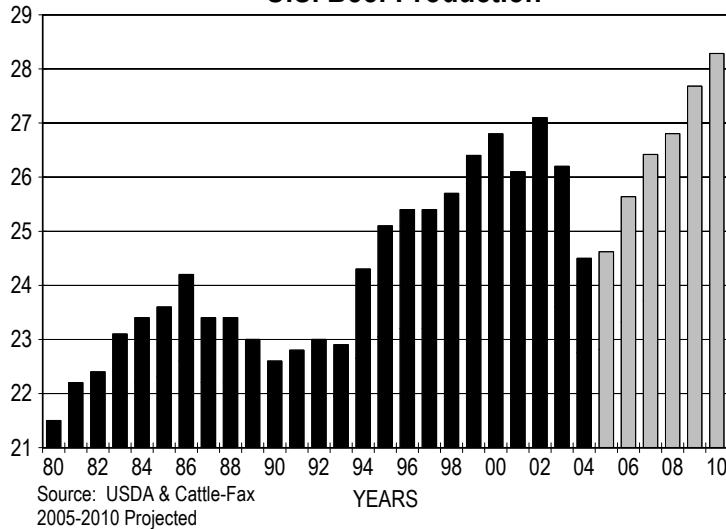
Fed cattle imports from Canada averaged about 723,000 head from 1998 through 2002. Imports are expected to rebound during 2006 and total about 650,000 head for the year.

### Steer and Heifer Slaughter



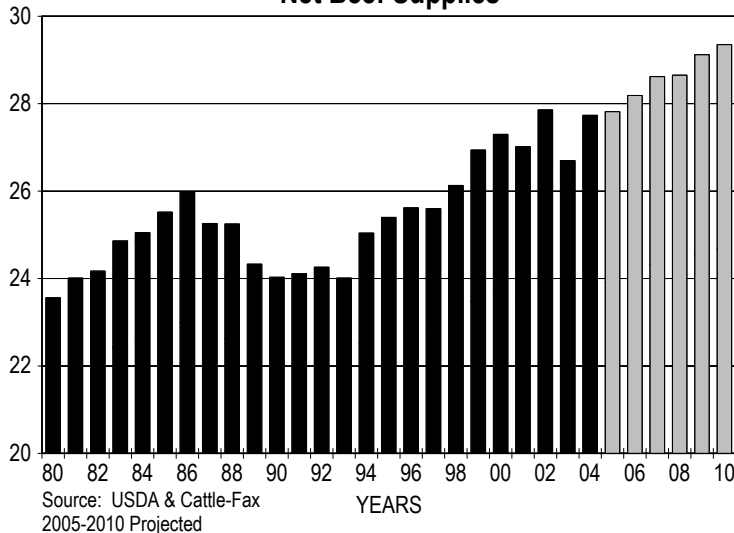
Steer and heifer slaughter during 2005 was basically flat with year earlier levels. The cycle peak in steer and heifer slaughter occurred in 2000 and totaled 30.1 million head. During 2006, steer and heifer slaughter is expected to total between 27.5 and 28.0 million head – up at least 500,000 head from 2005 levels. From 2006 to 2010, steer and heifer slaughter is expected to increase by about two-million head due to cow herd expansion and growing feeder cattle and calf supplies.

### U.S. Beef Production



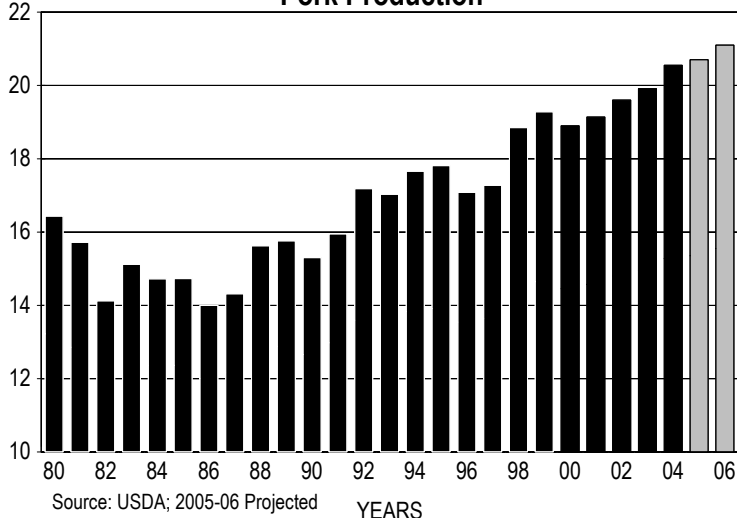
U.S. beef production totals were relatively flat during 2005 and will total 24.6 billion pounds. Production is expected to increase by nearly one-billion pounds during 2006 due primarily to larger steer and heifer slaughter. From 2006 through 2010, beef production is projected to increase more than two-billion pounds and is expected to be record large in 2008 and 2009.

### Net Beef Supplies



The 2005 U.S. net beef supply was nearly the largest on record and is expected increase by 200 to 300 million pounds during 2006. U.S. net beef supplies are projected to grow through the end of the decade. Regaining key beef export markets will be critical to moderating the expected increases in net beef supplies during the next several years.

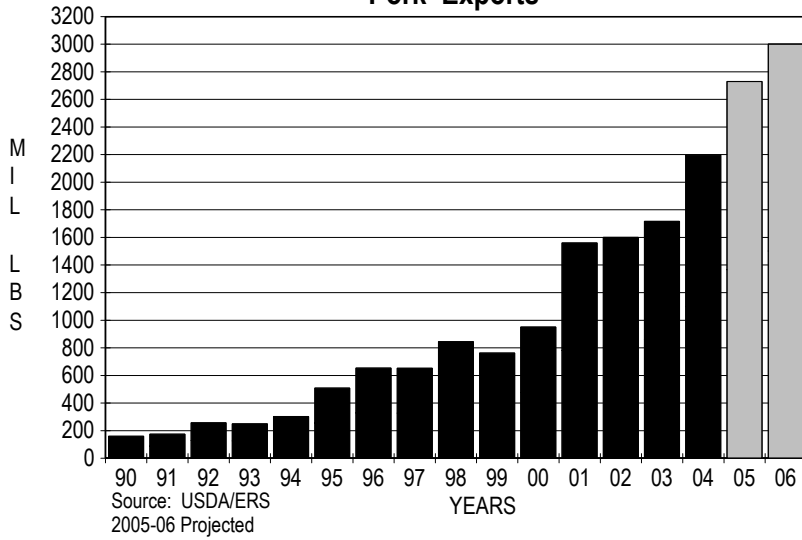
### Pork Production



Pork production during 2005 is expected to be record large and total 20.7 billion pounds – up about 1% from a year earlier. Production during 2006 is expected to be about 2% larger and total near 21.0 billion pounds.

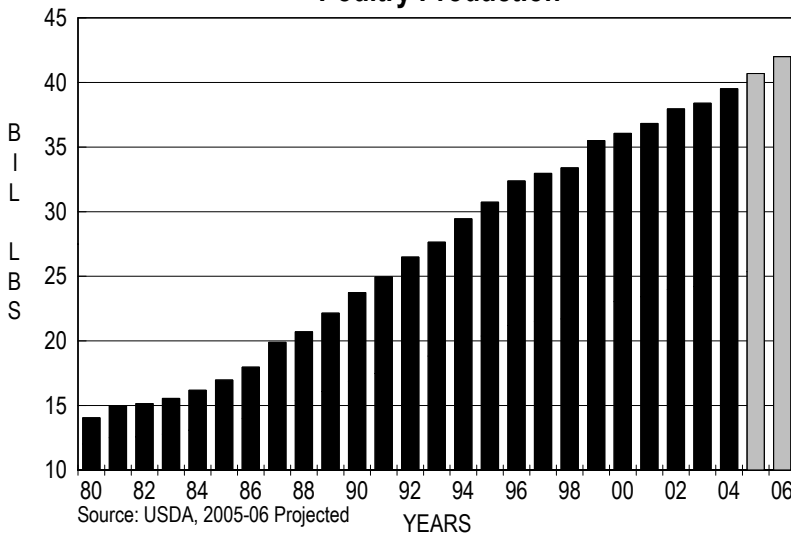


### Pork Exports



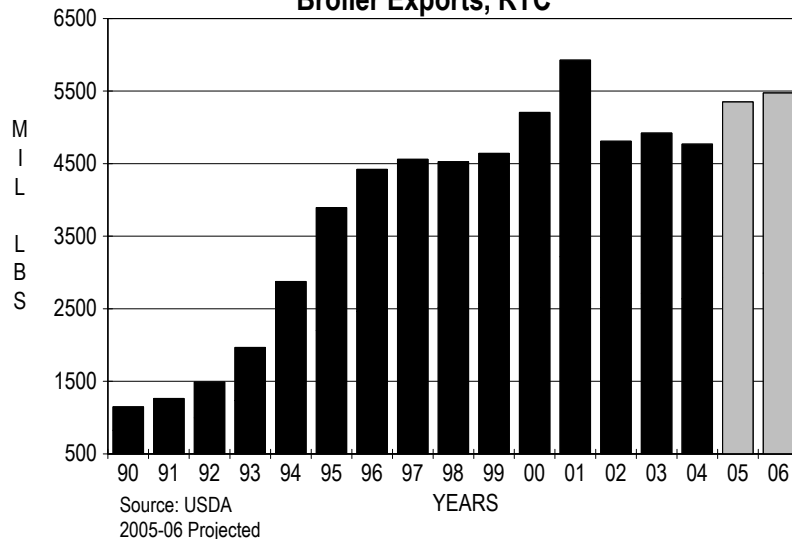
Pork exports grew more than 25% during 2005 and were record large, totaling more than 2.7 billion pounds. Japan remains the largest export destination for U.S. pork and accounted for about 40% of U.S. pork exports during the year. Pork exports to Japan were up nearly 20% during 2005. Mexico is the second largest purchaser of U.S. pork, accounting for 22% of pork exports.

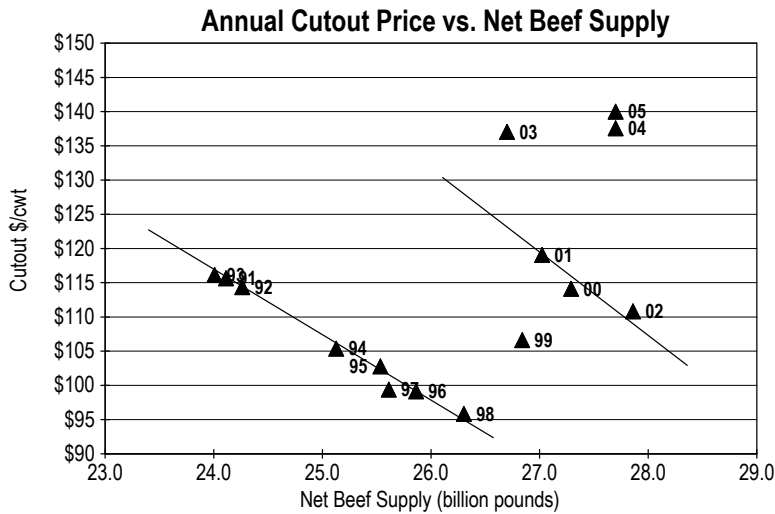
### Poultry Production



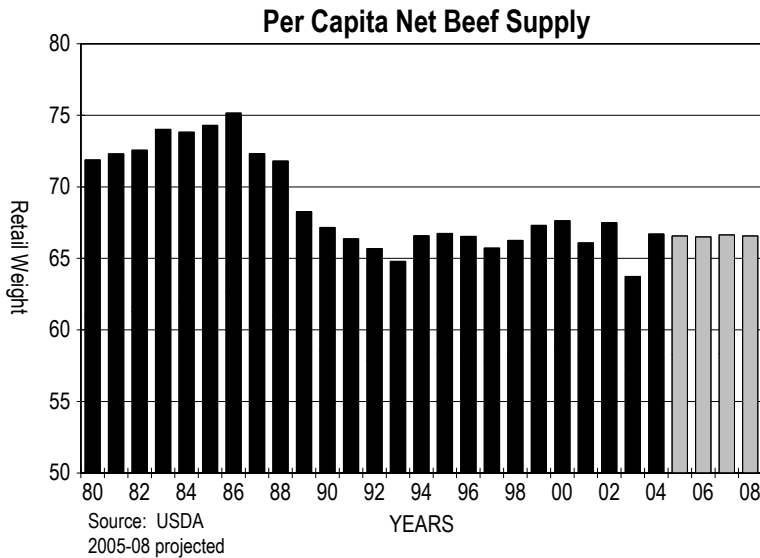
During 2005, broiler and turkey production grew by more than 1.3 billion pounds compared to 2004 and totaled a record 40.6 billion pounds. Poultry production is expected to grow about 3% during 2005 and total 42 billion pounds. During the past 10 years poultry production has increased over 30%.

### Broiler Exports, RTC

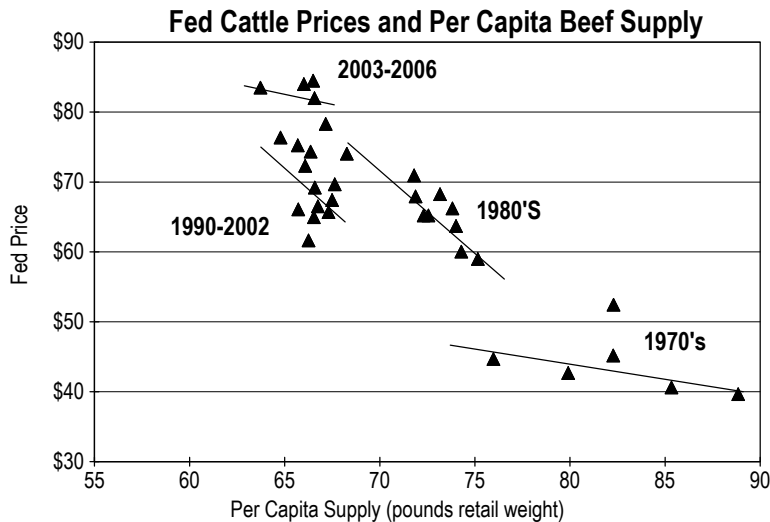




Beef demand held most of the recent gains during 2005. The net beef supply was basically equal with 2004 levels and wholesale beef prices averaged just slightly higher. 2006 beef demand levels are anticipated to be close to 2004 and 2005 levels.

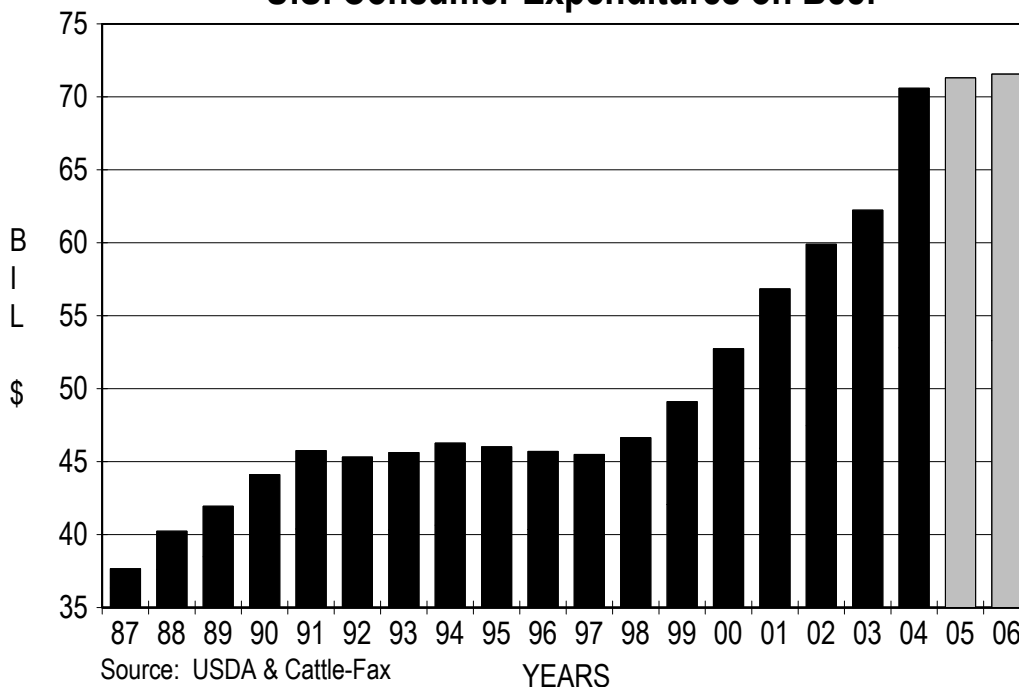


The net beef supply on a retail weight basis was steady in 2005 with 2004 levels. Per capita supplies are expected to be slightly larger in 2006 and then remain basically flat through the end of the decade. Note that this measure has basically averaged 66 pounds for the past 15 years.



Per capita beef supplies have been on the decline since the 1970's. At the same time, pricing has moved to new and higher plateaus in response to the smaller supplies and improving demand. Supplies are expected to increase slightly over the next several years and if the new range holds, fed cattle prices should be well supported in the upper \$70's for annual averages.

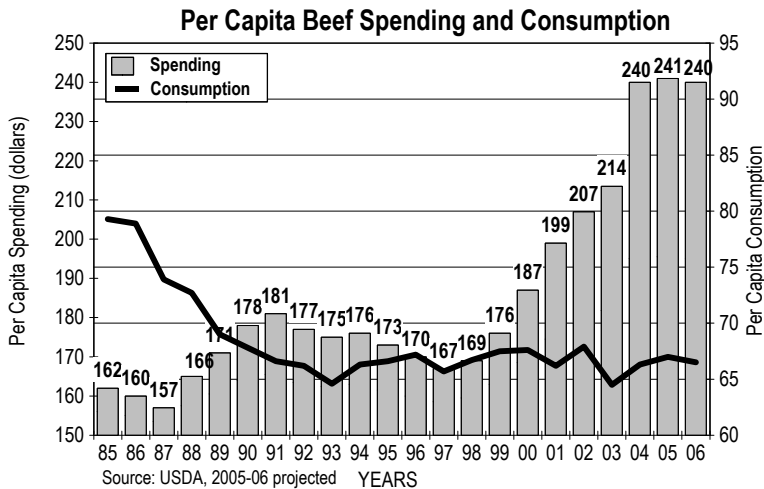
## U.S. Consumer Expenditures on Beef



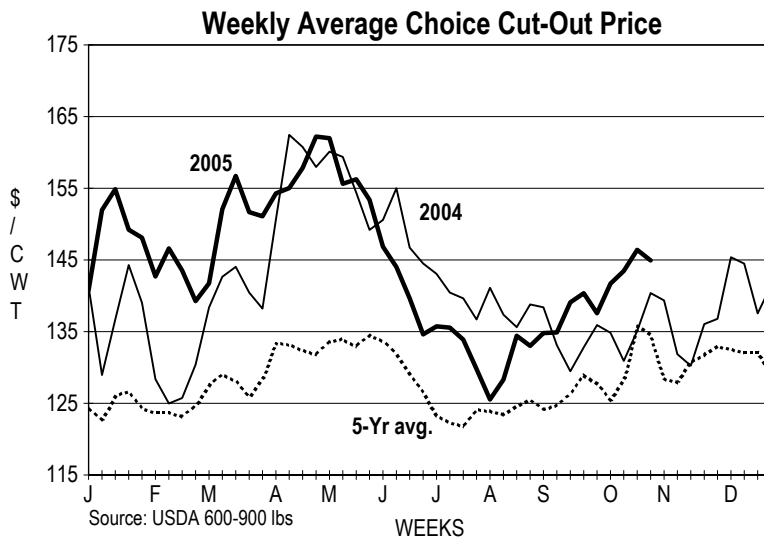
Source: USDA & Cattle-Fax  
 Domestic disappearance valued at all-fresh retail price, 2005-06 projected

## Total Consumer Spending (bil \$)

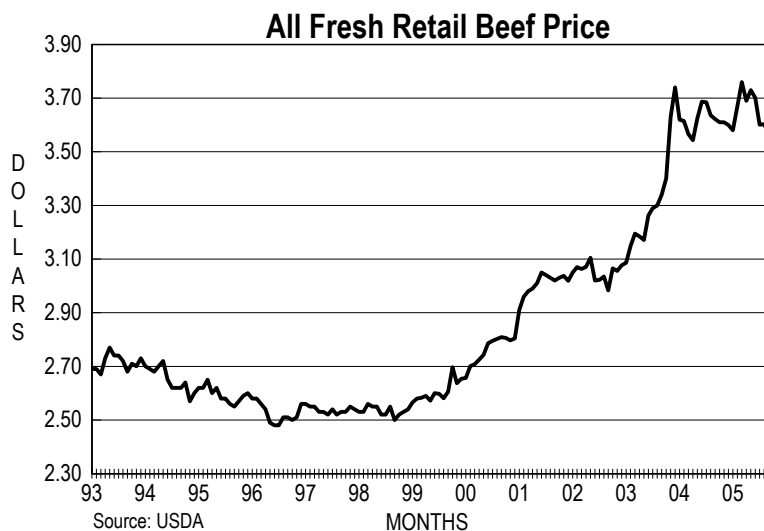
| YEAR  | BEEF  | PORK  | CHICKEN | TURKEY | TOTAL  |
|-------|-------|-------|---------|--------|--------|
| 1987  | 37.66 | 22.52 | 16.53   | 3.76   | 80.47  |
| 1988  | 40.23 | 23.56 | 18.17   | 3.76   | 85.72  |
| 1989  | 41.94 | 23.52 | 20.74   | 4.22   | 90.42  |
| 1990  | 44.11 | 26.46 | 21.66   | 4.36   | 96.59  |
| 1991  | 45.75 | 26.93 | 22.52   | 4.53   | 99.72  |
| 1992  | 45.31 | 26.83 | 23.86   | 4.46   | 100.46 |
| 1993  | 45.62 | 26.71 | 25.45   | 4.61   | 102.39 |
| 1994  | 46.27 | 27.35 | 26.30   | 4.65   | 104.58 |
| 1995  | 46.02 | 26.87 | 26.08   | 4.82   | 103.80 |
| 1996  | 45.70 | 28.81 | 28.31   | 5.12   | 107.94 |
| 1997  | 45.49 | 30.23 | 29.40   | 4.97   | 110.09 |
| 1998  | 46.64 | 34.48 | 30.51   | 5.13   | 116.76 |
| 1999  | 49.11 | 35.52 | 32.85   | 5.15   | 122.63 |
| 2000  | 52.74 | 37.32 | 33.28   | 5.20   | 128.54 |
| 2001  | 56.84 | 38.68 | 34.10   | 5.20   | 134.82 |
| 2002  | 59.90 | 39.59 | 38.78   | 5.20   | 143.47 |
| 2003  | 62.24 | 40.01 | 38.82   | 5.20   | 146.27 |
| 2004  | 70.59 | 42.44 | 43.12   | 5.20   | 161.35 |
| 2005* | 71.30 | 42.48 | 42.04   | 5.30   | 161.12 |
| 2006* | 71.56 | 43.14 | 44.52   | 5.40   | 164.62 |



Per capita beef spending increased just slightly during the year. Expectations are for per capita consumption to level out over the next several years and for retail prices to remain relatively flat.

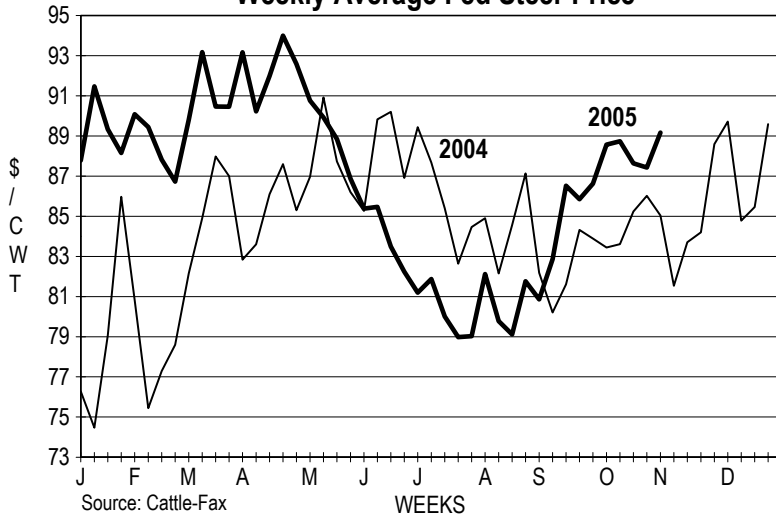


Wholesale beef prices were slightly higher during 2005 when compared to 2004 levels. The Choice cutout averaged \$144 during the year versus a \$142 a year ago.



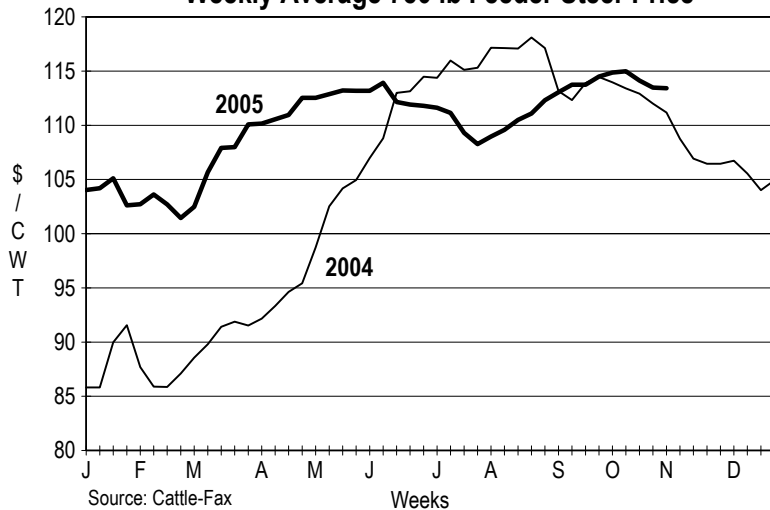
Retail beef prices were relatively flat during 2005. This price series averaged over 9 percent higher during 2004 and has increased over 20 percent in the past four years. Expect retail beef prices to be mostly steady in 2006.

**Weekly Average Fed Steer Price**



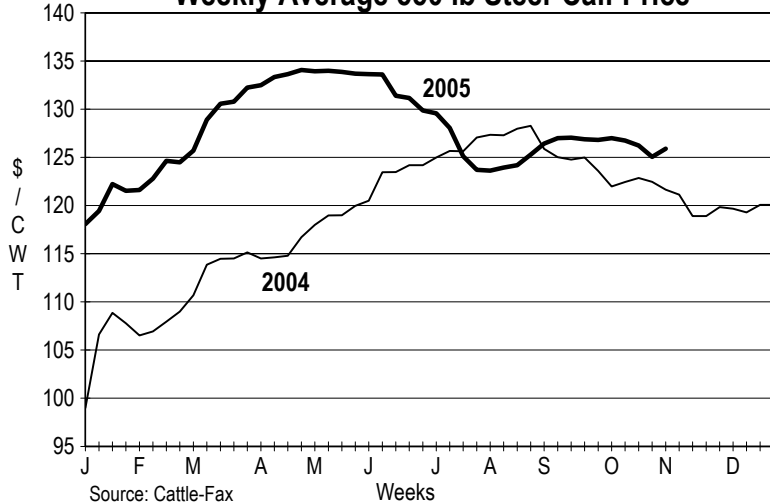
Fed cattle prices ranged from \$94 at this year's highs to \$78 at the lows. The annual average will be close to \$86.50; a new record high for a year. Net beef supplies are at or very near record high levels while prices have made new annual average highs and beef demand remains on solid footing. Cattle feeding margins were positive by an average of \$10-\$15 per head for the year.

**Weekly Average 750 lb Feeder Steer Price**



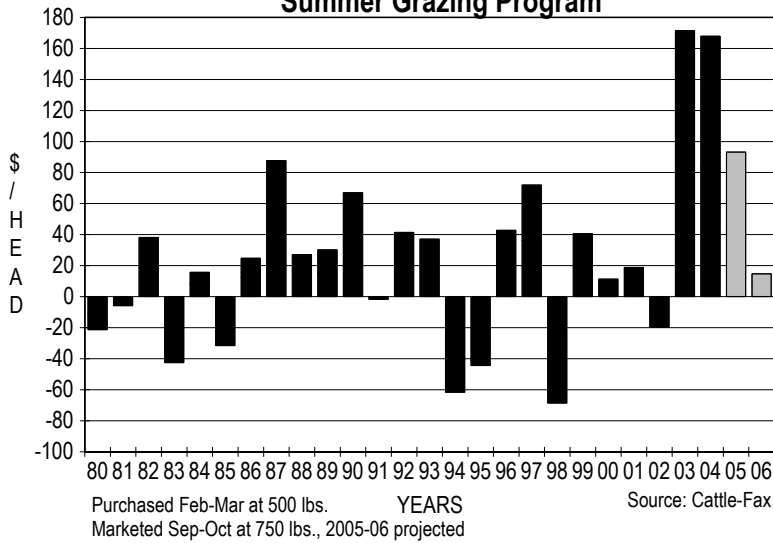
Feeder cattle price (750 lb) averages were record high during 2005. Prices ranged from about \$102 at the lows to \$115 at the highs. Stocker operators and backgrounders were highly profitable again this year. Prices have been well supported during most of the last 18 months near \$105. Low cost of gain remains supportive to prices.

**Weekly Average 550 lb Steer Calf Price**



550 lb steer calf prices spent most of 2005 trading between \$120 and \$135. Prices were sharply higher during the first half of 2005 compared to 2004 but during the August-November time frame prices have been very similar to year earlier levels. Cow/calf producers are generating the most positive returns of any of the production segments and as a result the herd is expanding.

### Stocker Cattle Profit (Loss) Summer Grazing Program



Cattle that have been bought this fall have an excellent chance of being profitable for next summer's grazing programs. Based on Cattle-Fax's current projections cattle bought this spring to be marketed in the fall should be just above a breakeven. Risk to the feeder market in the fall; due to grain prices, negative feeding margins, and larger supplies all could drive the margins for summer grazing programs to the negative side. Risk Management most likely will need to be incorporated for the summer stocker program.

### Cattle-Fax 750 lb Steer Price



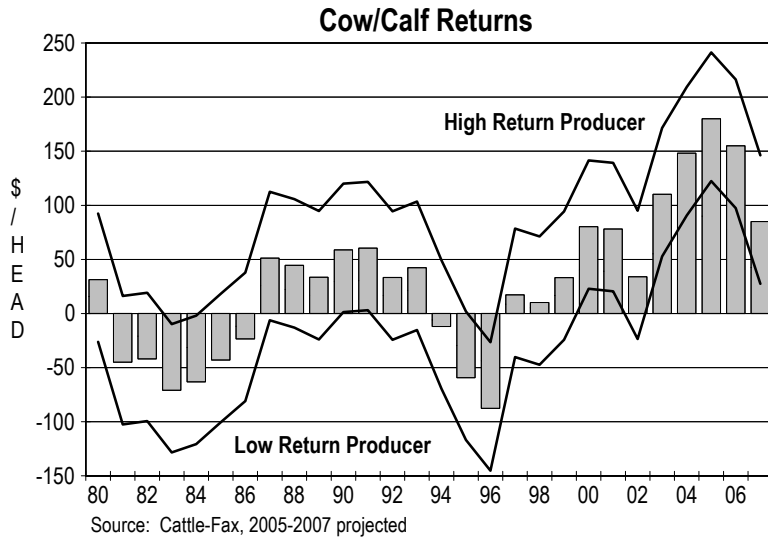
Long-term market trend is lower with cycle highs occurring in August 2004 and the annual highs in 2005 near \$115. Historical resistance in the low \$90's will now be strong support for the next couple of years. Every dollar change in corn prices per bushel is worth \$7.50 change in feeder prices, long-term corn could be a factor to the feeder market.

### Breakeven Purchase Price

#### 750 lb Steer

#### Corn Price \$/bu

| Fed Price | 1.80   | 2.00   | 2.20   | 2.40   | 2.60   | 2.80   |
|-----------|--------|--------|--------|--------|--------|--------|
| 74.00     | 88.63  | 86.98  | 85.33  | 83.68  | 82.03  | 80.38  |
| 78.00     | 94.53  | 92.88  | 91.23  | 89.58  | 87.93  | 86.28  |
| 82.00     | 100.43 | 98.78  | 97.13  | 95.48  | 93.83  | 92.18  |
| 86.00     | 106.33 | 104.68 | 103.03 | 101.38 | 99.73  | 98.08  |
| 90.00     | 112.23 | 110.58 | 108.93 | 107.28 | 105.63 | 103.98 |
| 94.00     | 118.13 | 116.48 | 114.83 | 113.18 | 111.53 | 109.88 |
| 98.00     | 124.03 | 122.38 | 120.73 | 119.08 | 117.43 | 115.78 |



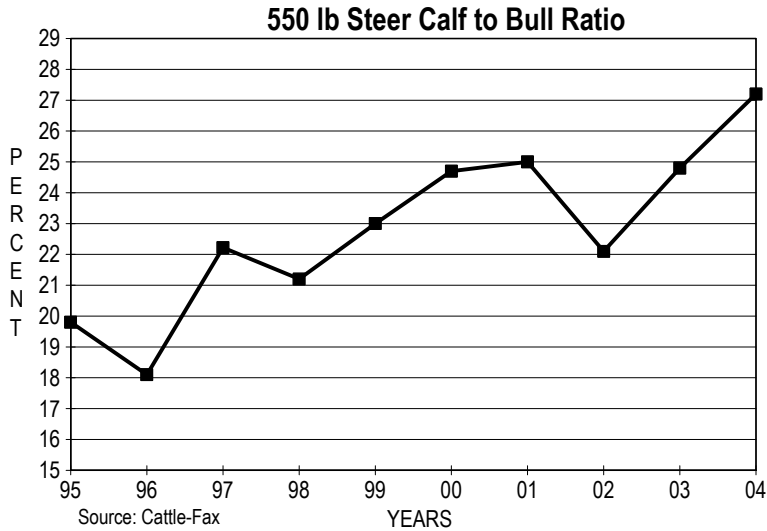
Cow-calf producers are expected to remain profitable for the next several years. However, this is not the time for complacency as producers should focus on minimizing costs and maximizing returns.

| HIGH-RETURN vs. LOW-RETURN PRODUCERS |             |            |
|--------------------------------------|-------------|------------|
|                                      | <u>HIGH</u> | <u>LOW</u> |
| Percent Weaned                       | 90%         | 88%        |

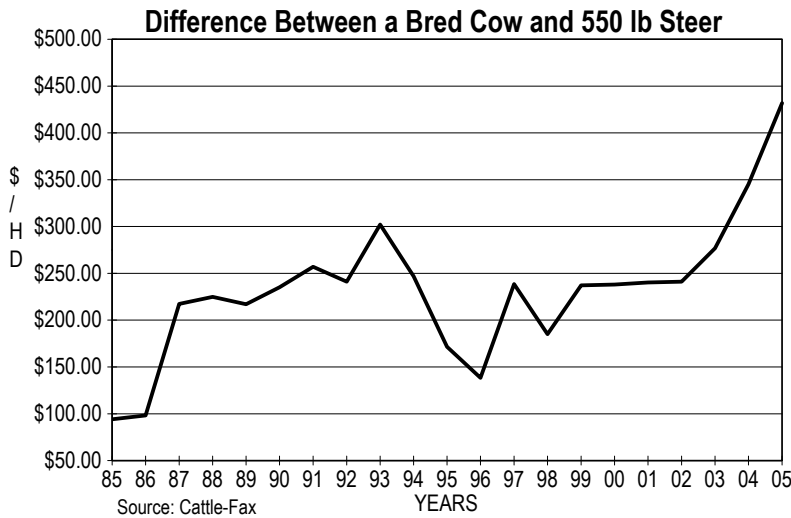
There are a couple of key components when evaluating the difference between a high return and low return producer. The percent of calves weaned is one factor. Strong herd health and nutrition programs are also mainstays of the high return producers.

| HIGH-RETURN vs. LOW-RETURN PRODUCERS |             |            |
|--------------------------------------|-------------|------------|
|                                      | <u>HIGH</u> | <u>LOW</u> |
| Weaning Weights                      | 569 lbs     | 528 lbs    |
| Pounds Weaned Per Cow Exposed        | 509 lbs     | 454 lbs    |

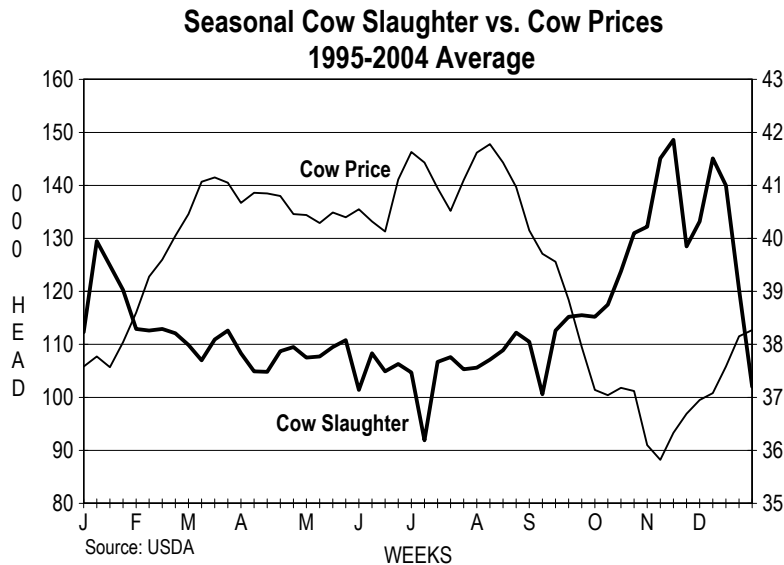
Efficient females are the foundation of high return producers. Superior genetics for both the sire and dam are also important. Weaned pounds per cow exposed are variables that high return producers work diligently at improving each year.



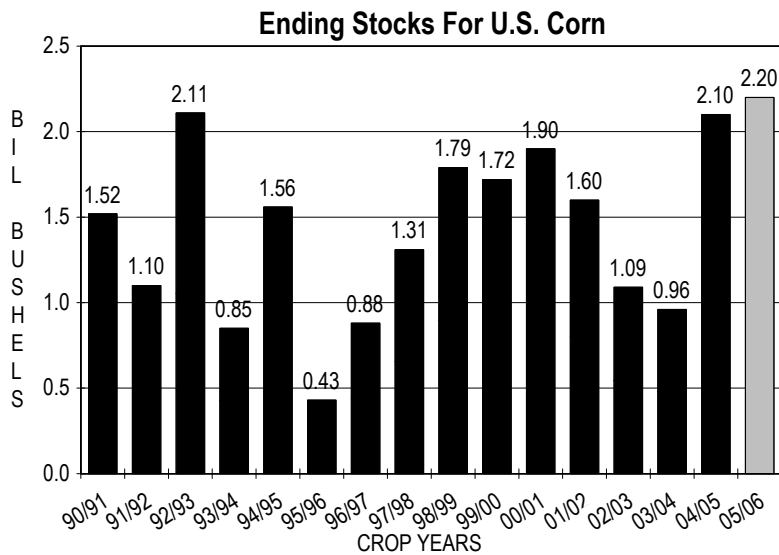
Given the 550 lb steer price for 2005 is to average near \$127, and taking into account the ratio between calf and bull values, the historical relationship suggest bull values will be at higher levels during the bull sales of late this fall and into the first half of 2006. Record high levels are expected, but these values should decline during the next several years.



Cow values as compared to calf values are in line with the cycle, as beef cow supplies are at their tightest point, the premium is being paid on the cows. This spread will narrow going into the downtrend of the cycle during the next few years.

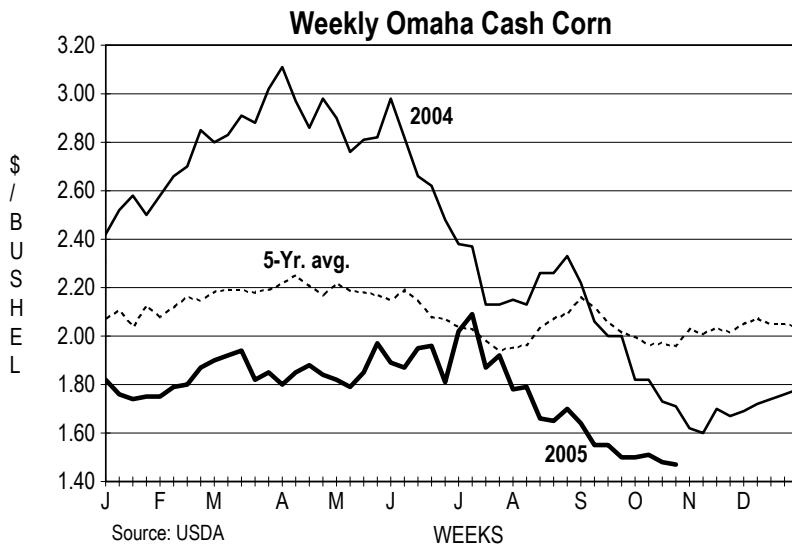






Source: USDA, 2005/06 Oct. projection

Current USDA projections have U.S. corn stocks growing 5% in 2005/06. Higher ending stocks in 2005/06 are primarily attributed to the large carryover from 2004/05. As demand continues to increase, ending stocks need to grow to maintain a comfortable level of supply.



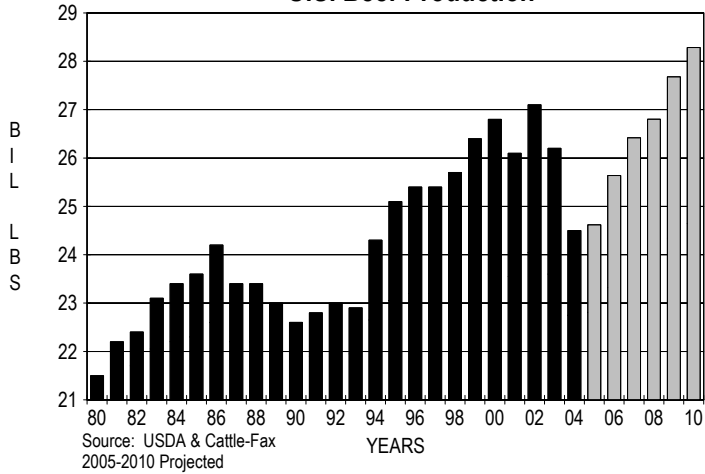
Source: USDA

Omaha cash corn prices are expected to find support near \$1.45 this fall. Spring values could approach \$1.80 and possibly \$1.90-\$2.00 if there are planting concerns. If production equals demand and there are record supplies of nearly 13 billion bushels, the annual average could range from \$1.75-\$1.85.

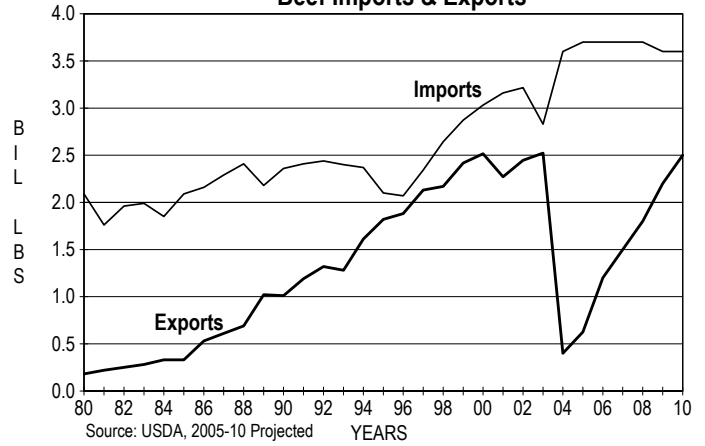
## Summary

- Limited impact on fed cattle profitability, feeders and calves in 2006.
- Although corn yields continue to improve, total corn acres planted will be very critical in 2006 if demand is anywhere near 11 billion bushels.
- Large supplies to limit rallies near term.
- Demand will continue to grow.
- 11 billion crop necessary to maintain stocks.
- Such large demand + poor crop = higher prices.

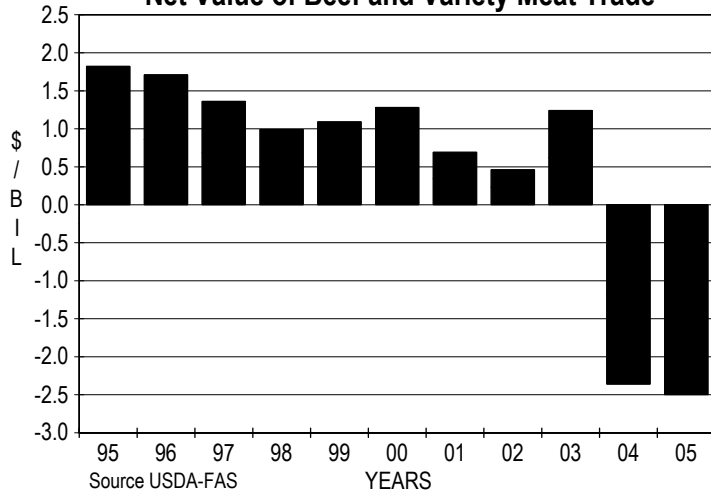
**U.S. Beef Production**



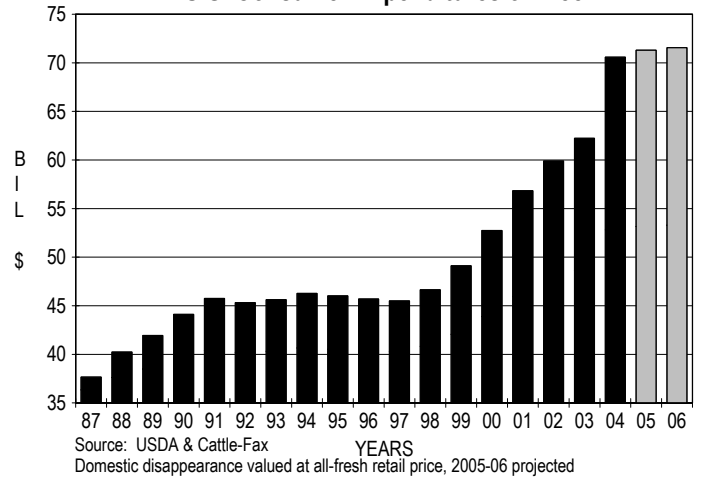
**Beef Imports & Exports**



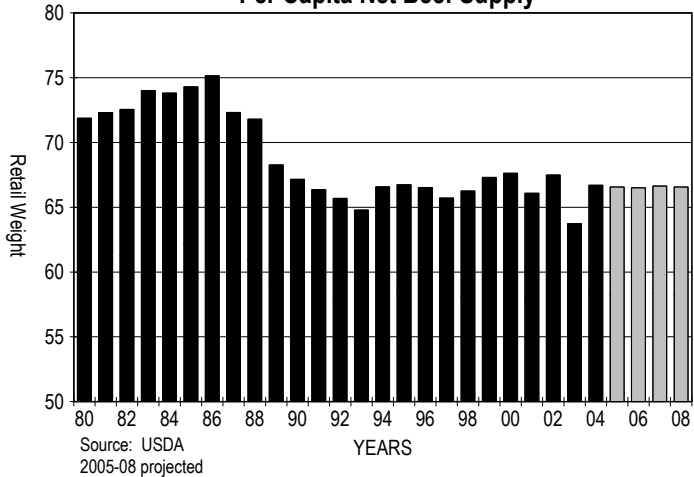
**Net Value of Beef and Variety Meat Trade**



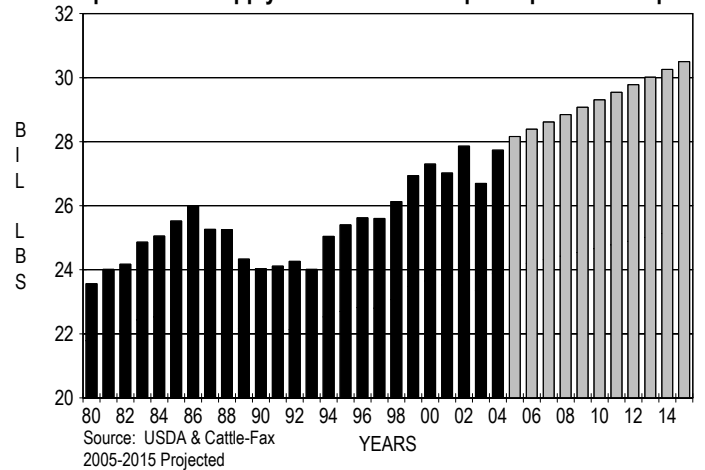
**U.S. Consumer Expenditures on Beef**



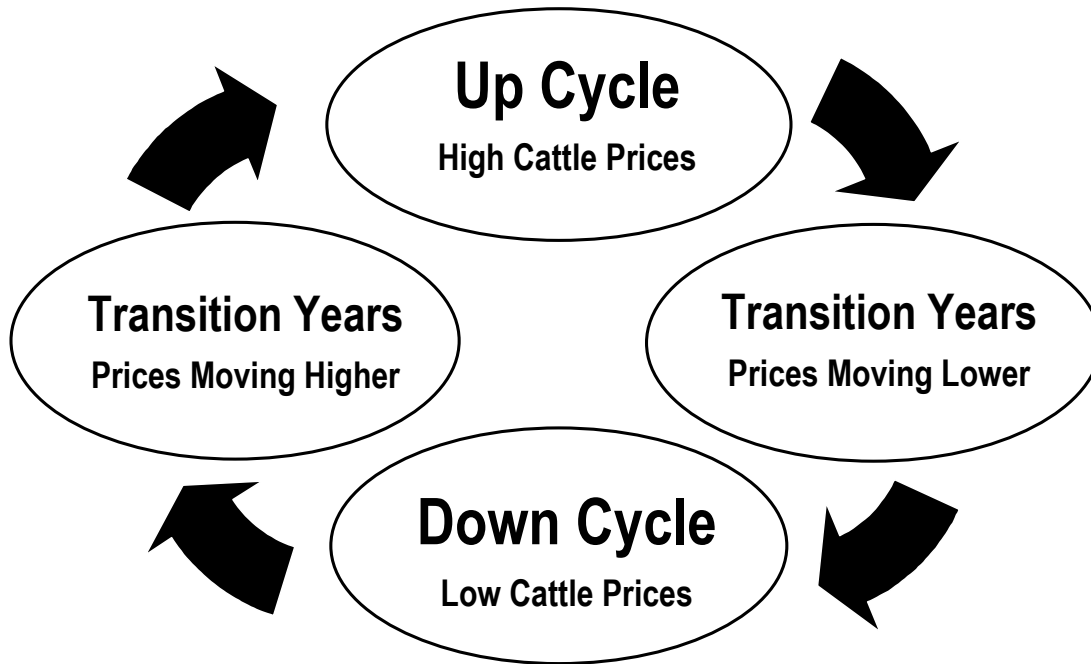
**Per Capita Net Beef Supply**



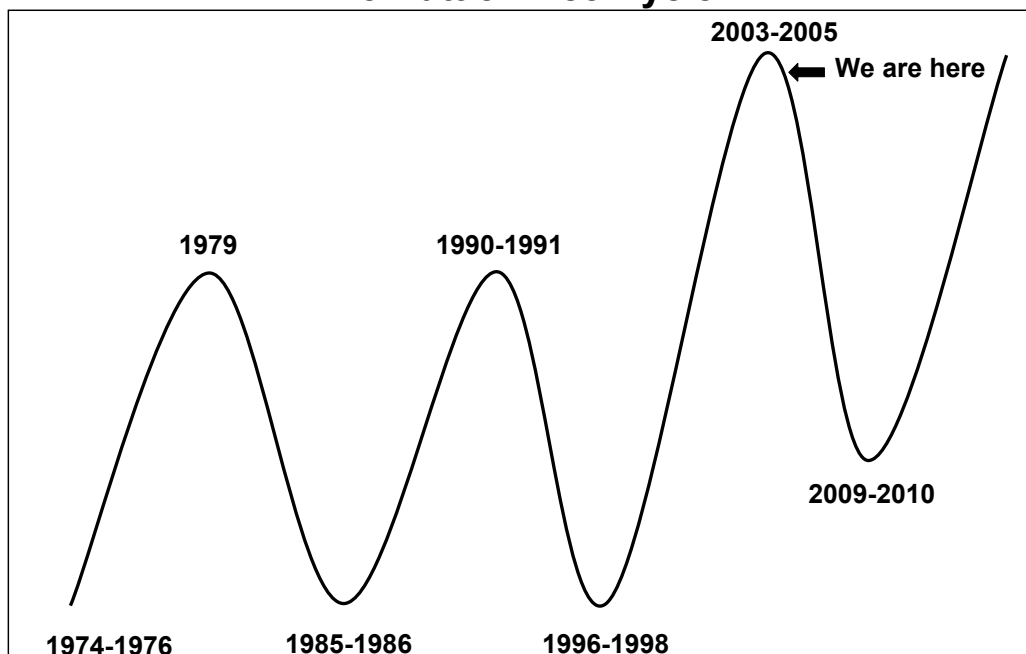
**Required Beef Supply to Maintain 67 lbs per Capita Consumption**








# FOUR PHASES OF THE CATTLE CYCLE



## The Cattle Price Cycle



## Beef Industry Concentration

- Cow/Calf            800,000 producers  
average herd size  
42 head
- Feedlot            50 largest companies  
have 240 feedyards  
65% market share
- Packer            5 major packers  
85% market share
- Retail            Big 10 retail chain  
55% market share
- Consumer            290 million domestic  
9% export