

In The Cattle Markets*

August 13, 2002

Darrell Mark, Ph.D.

Asst. Professor, Department of Agricultural Economics, University of Nebraska

Higher Fed Cattle Prices Ahead

Last week fed cattle prices declined to \$62/cwt, the lowest price seen in 2002. Prices have traded in the mid- to low-\$60s throughout the summer due to higher placements in February and March and record large carcass weights. As a result of cattle slaughter exceeding 700,000 head per week and average dressed weights greater than 760 pounds, commercial beef production was up 13.4% in July compared to a year ago and up 5.5% year-to-date. With large supplies of beef available and the seasonal peak in carcass weights and beef production not expected until in September, fed cattle price advances will likely be limited to the mid-\$60s through September.

Prospects for about a 2% reduction in beef production by the end of the year are good, however. Net placements of cattle on feed from April to July (and finishing in the fourth quarter) were 9% lower than in 2001. Continued losses on cattle feeding and the possibility of higher feed prices this fall may continue to limit placements, further improving the likelihood of higher slaughter cattle prices later this year and next year.

Supply conditions currently point to higher fed cattle prices in the fourth quarter, possibly over \$70. Actually observing such a price rally before the end of the year depends on consumer demand for beef. Retail demand for choice beef during January-June 2002 remained constant with the same time period last year. This marks the first time since 1998 that beef demand for the first half of the year did not increase. For beef demand in the first half of 2002 to maintain pace with year-ago is viewed positively, however, due to large competing supplies of pork and poultry available to consumers. Improvements in beef demand later this year are not likely if consumer confidence in the economy continues to fall as it has in the last three months and losses in the stock market further erode consumer savings. Further, consumer reaction to continued media coverage of beef recalls resulting from *E. coli* O157:H7 and the reported case of a death resulting from vCJD in Canada last week could reduce beef purchases.

Despite possible reductions in beef demand in the fourth quarter, improved supply conditions should initiate a fed cattle price increase to near \$70 by the end of the year. Ample supplies of beef for the next several weeks will, however, cause fed cattle prices to remain in the mid-\$60s for the remainder of August and September.

The Markets

Slaughter cattle prices were about \$1 lower last week, with the bulk of the trade at \$62, live weight, or \$98-99, dressed weight. Nebraska slaughter steers (35-65% Choice) averaged \$98.86, dressed weight, down \$0.57 from last week. USDA's weekly weighted average price for Kansas slaughter steers (35-65% Choice) was \$61.78, nearly \$1 lower than the previous week. USDA's estimate of the light Choice boxed beef cutout was \$108.56, down \$0.56 from the previous week. The light Choice-Select spread averaged \$5.89, compared to \$5.10 the prior week. Average feeder cattle prices across seven markets in Nebraska last week were steady to \$2/cwt higher, with 700-800 pound steers averaging \$83.27 and 500-600 pound steers averaging \$91.19.

* A weekly newsletter jointly produced by Kansas State University and the University of Nebraska.