

Darrell R. Mark, Ph.D.
Asst. Professor, Department of Agricultural Economics, University of Nebraska

Should We Hold Our Breath, Or Breathe A Sigh Of Relief?

The events of the past two weeks have many in the cattle business wondering whether they should dare enjoy the soaring live cattle and beef prices or be bracing for the next “boot” to fall. The expected seasonal decline in slaughter cattle prices, which would have put prices in the low to mid \$70s, has not yet materialized. In fact, fed cattle are likely to trade at or above \$80 this week. This is noteworthy in that fed cattle prices during the first week of June have only traded above \$75 five times in the last thirty years. Prices have never surpassed \$80 during the first week of June.

Both positive supply and demand factors are supporting current high price levels. Year-to-date beef production is about 1% lower than last year, carcass weights are 3% lighter than a year ago, and feeders are aggressively marketing cattle (year-to-date marketings as a percentage of the cattle on feed inventory are 5.6% higher than last year). The ban on Canadian beef imports for the past two weeks has also been supportive to U.S. cattle prices. On the demand side, retail choice and all fresh beef demand was up about 1.3% and 0.9%, respectively, in the first quarter of 2003 compared to first quarter 2002. Wholesale beef demand was also up 3.7% during the first three months of the year. Both have remained strong in recent months, and early indications are that the BSE case in Canada has not caused beef demand to falter in the last two weeks.

Will the bright supply and demand situation last through the summer? The May Cattle on Feed Report indicated that feeders’ net placements were up 32% during April, compared to the low placement pace of April 2002. Still, April 2003 net placements were about 20% higher than the 5 year average, suggesting an increase in market-ready cattle at the end of the summer. Marketings of the Canadian cattle herd, which were as current as the U.S., have slowed substantially with the loss of their export markets. This is effectively adding extra weight to Canadian cattle and will boost North American supplies when the import bans are lifted and marketings resume their normal pace. The extent to which this will pressure fed cattle prices depends directly on how lengthy the import bans end up being. Motivated as much by the short term positive effect on cattle prices as by animal and human health concerns, some have called for the U.S. ban on Canadian cattle to be continued for months or years, pending improvement of Canadian inspection/monitoring systems. However, current indications are that the ban will be lifted relatively soon. An industry or politically driven campaign to sustain the import ban could even have adverse effects on demand for U.S. (and Canadian) beef by 1) needlessly continuing to place the BSE issue in front of domestic consumers who might then lower consumption and 2) causing export customers to raise questions about whether the U.S. surveillance system for BSE is any better than Canada’s (early evidence of this has already occurred this week).

But, as long as cattle feeders continue to keep feedyards current and beef demand does not suddenly decline, it’s probably safe to breathe a sigh of relief, but do so cautiously.

The Markets

Last week, slaughter cattle prices were about \$1 higher on a live weight basis and \$3 higher on a dressed basis, with Kansas and Nebraska fed steer prices averaging \$80 and \$127.57, respectively. Choice boxed beef prices continued to surge higher to record levels. For the week, Choice boxed beef prices advanced \$4.89, with Select boxed beef prices gaining \$4.70. Last week, 700-800 lb. steer prices in Kansas were about \$1 than the previous week. Steers weighing 500-600 lbs. traded at steady to lower prices last week.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight (35-65% Choice)	\$80.00	\$78.47	\$63.60
Neb. Fed Steer Price, dressed weight (35-65% Choice)	\$127.57	\$124.89	\$101.80
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$87.67	\$86.69	\$77.46
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$99.80	\$101.66	\$89.66
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$91.92	\$84.35	\$80.08
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$106.80	\$107.37	\$94.51
Choice Boxed Beef Price, 600-750 lb. carcass	\$147.78	\$142.89	\$115.78
Choice-Select Spread, 600-750 lb. carcass	\$17.64	\$17.45	\$8.33