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In The Cattle Markets
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Darrell R. Mark, Ph.D.
Asst. Professor, Department of Agricultural Economics, University of Nebraska

BSE in U.S.A.

The December 23, 2003 announcement of a positive test for Bovine Spongiform Encephalopathy (BSE) in a 6½ year old dairy cow in Washington state shocked U.S. cattle markets and world beef trade. Within hours of the 5:30 pm (EST) announcement by USDA, several major U.S. beef export customers (including #1 buyer Japan) halted imports of U.S. beef and Livestock Risk Protection Insurance was taken off the market. All live cattle futures were down the limit the following two market days (December 24 and 26), and nearby futures months continued limit lower on December 29 and 30. By Friday, January 2, 2004, live cattle and feeder cattle futures posted their first increases since the BSE news, but the nearby live and feeder contracts were still 19% and 15% lower, respectively, than on December 23 prior to the BSE announcement. In limited cash fed cattle trade since December 23, prices were about $74-76/cwt, 16-17% lower than the $91/cwt trade in the week before the BSE announcement.

The immediate price impact observed in the past two weeks has been largely a function of the loss of export business. At this point, over forty countries have banned imports of U.S. beef. In 2002, U.S. beef exports of 2.45 billion pounds, valued at more than $2.5 billion, accounted for approximately 9% of U.S. commercial beef production. This translates to 9% increase in domestic supplies. Assuming that a 1% increase in supply results in a 1.6% decrease in fed cattle prices, a 15% decline in fed cattle prices would be expected from the loss of the export markets. Therefore, it appears that the price decline as a result of the export markets is roughly equivalent to the actual price decrease observed in the past two weeks. This indicates the market has not significantly discounted beef and cattle prices in expectation of a decline in domestic beef demand. Based on early anecdotal evidence, U.S. beef demand does not appear to have slowed over the holidays as a result of a loss of consumer confidence in the safety of U.S. beef. This is relatively good news since domestic demand accounts for nearly 90% of U.S. beef production.

The question on every cattle producer's mind at this point is "Where do prices go from here?" First, maintaining (and strengthening) domestic consumer demand for beef is critical to preventing further drops in cattle and beef prices. Thus far, consumer confidence and beef demand has been supported by the 1) proactive beef industry efforts to provide science-based information to consumers, 2) USDA's swift action in providing information and initiating a trace-back and trace-forward process to locate herd mates of the infected cow, and 3) balanced mass media coverage of BSE in the U.S. Second, regaining export business will be supportive to deferred prices. Unfortunately, the restoration of beef export markets may not fully occur for months. Third, a quick and definitive end to USDA's trace-back and trace-forward search for other cattle infected with BSE will support consumer confidence in beef safety. If the Washington state case is not isolated and additional case(s) of BSE are located, domestic consumer demand is more likely to falter, especially if the case(s) are unrelated or do not originate from Canadian cattle. Fourth, a modest price decline in the first and second quarter of 2004 (from the pre-BSE price levels) was likely to occur based on increasing slaughter numbers projected for the first and second quarter and heavier carcass weights. This projected increase in beef production has not changed as a result of the BSE case, at this point, so this pressure on prices could still be expected. This impact could be worsened in the short run if cattle sales slow and carcass weights grow as a result of producers holding back cattle in anticipation of a recovery (or just to wait and see what develops).

Barring decreases in domestic consumer demand and no additional BSE cases, fed cattle prices are likely to trade in the mid- to upper-$70s during the first quarter of 2004. Depending upon the status of regaining export business, second quarter fed cattle prices are expected to be in the upper $60s to lower $70s.

The Markets

Last week slaughter cattle prices continued to decline, with Kansas live weight prices down $1-2 and Nebraska dressed prices steady with the previous Friday's trade, but $28 lower than the previous week's average (some trade in the previous week was prior to the BSE announcement). Choice boxed beef prices were more than $8 lower last week, and the Choice-Select spread was steady with the previous week. No feeder cattle trade was reported in Nebraska and Kansas last week. A few feeder cattle sales in South Dakota generated considerable interest from "on lookers." At those sales, feeder steer prices were about $10-14 lower at $99-103 and yearling steers $8-10 lower.

	Last Week	**Previous Week**	**Last Year**
Kansas Fed Steer Price, live weight (35-65% Choice)	$74.53	$76.63	$74.91
Neb. Fed Steer Price, dressed weight (35-65% Choice)	$118.88	$146.98	$117.93
700-800 lb. Feeder Steer Price, Kansas 4 market average	no trade	no trade	$85.07
500-600 lb. Feeder Steer Price, Kansas 4 market average	no trade	no trade	$95.82
700-800 lb. Feeder Steer Price, Neb. 7 market average	no trade	no trade	$86.52
500-600 lb. Feeder Steer Price, Neb. 7 market average	no trade	no trade	$97.13
Choice Boxed Beef Price, 600-750 lb. carcass	$142.92	$151.30	$121.73
Choice-Select Spread, 600-750 lb. carcass	$9.21	$9.22	$4.62