

**Darrell R. Mark, Ph.D.****Asst. Professor, Department of Agricultural Economics, University of Nebraska****More Cattle To Ring In The New Year**

USDA's December Cattle on Feed report showed 11.7 million head of cattle on feed on December 1, up 3.5% from one year ago and about as the trade expected. The on feed inventory averaged 1.6% higher throughout 2005 compared to 2004. Cattle marketings during November were slightly more than anticipated: 1.7 million head, 4.7% higher than November 2004. Still, the number of cattle on feed for more than 120 days increased 3.4% year-over-year at an estimated 2.8 million head on December 1, 2005. Net placements during November were reported at 1.95 million head, up 19.5%, compared to a pre-release expectation of about a 15% increase. This is the largest net placements for November since 1999. November 2005 placements were higher due to relatively inexpensive corn in the Corn Belt, dryness in wheat pastures in the Southern Plains, and better than expected profits on November feedyard closeouts. The larger placements in November, combined with the 4% increase in October placements, will likely put additional pressure on fed cattle prices during the second quarter of 2006.

The December 1 cattle on feed inventory was also higher in Alberta and Saskatchewan. At 1.1 million head, the two-province inventory was up 6.5% over a year ago. This increase was caused by a 2.8% decrease in November marketings and a large 33.3% increase in net placements. As reported in a December issue of *In the Cattle Markets*, the number of Canadian feeder cattle exported to the U.S. was above the historical average while slaughter cattle exports were below average. The larger November placements may signal a gradual shift towards more slaughter cattle exports and fewer feeder cattle exports to the U.S. Still, that will depend on the effect of the large duty placed on U.S. corn imports into Canada that will increase Canadian corn prices by about US\$1.65/bu.

**What Will 2006 Bring?**

From the first days of 2005 to the last, and nearly all the time between, last year's cattle market news was seemingly influenced by great drama. The year began with a lengthy plan to re-establish live cattle trade with Canada, which was followed by an extended legal contest and the eventual reopening of the border in late July. Throughout the year, the industry and government worked to regain access to the Japanese and other Asian Rim countries' beef markets, with Japanese exports beginning in December. Further, 2005 saw BSE cases in the U.S. and Japan, foot-and-mouth disease in South America, and Asian Bird Influenza in several countries worldwide.

Will we see such dramatic events affecting cattle markets in 2006? Perhaps, there just is no way to forecast these kinds of events. However, it looks like in many respects we can anticipate a return to more "normal" events shaping the market in 2006: supply and demand. With the importation of live cattle from Canada in the last half of 2005 restored to near-average levels, live cattle imports from Mexico and boxed beef imports from Canada have also both dropped back to average levels. While foreign cattle and beef supplies are moderating to average levels, the U.S. cattle inventory is expected to grow. After two consecutive years of heifer retention, the

beef cow herd and 2006 calf crop will increase this year. Look for about a 1-1.5% increase in the all cattle and calf inventory in USDA's annual cattle inventory report released later this month. Further, with the increased placements of cattle on feed late in 2005, 2006 slaughter numbers are projected higher, leading to an expected 3-4% increase in commercial beef production.

On the demand side, slow but continual growth in beef exports to Japan can be expected for 2006. Still, most of the demand effect will be determined based on domestic consumption, which accounts for more than 90% of the U.S.'s total beef production. Domestic beef demand saw large increases in 2003 and 2004 that were sustained into the first half of 2005. While final numbers are not yet available, it appears that beef demand weakened during the second half of 2005. If we continue to see some leveling off of beef demand in 2006 due to the decrease in high protein diets (and other factors), retail, wholesale, and live cattle prices will eventually weaken as well. Even then, demand is likely to be markedly higher than before the demand surge that started in 2003.

The prospects for growing supplies and steady to weaker demand point to slightly lower fed cattle prices in 2006. In general, expect prices 1-2% lower in the first three quarters of 2006 compared to prices seen in 2005. While fed cattle prices around \$90/cwt are likely to persist for much of the first quarter, prices in the mid- to upper-\$80s are more likely for the second quarter. Expect a drop to the upper-\$70s to lower-\$80s in the third quarter.

## The Markets

The last week of the year brought lower slaughter cattle prices. Fed cattle prices were \$1-2 lower in Kansas, with live weight prices averaging \$94/cwt. Nebraska dressed trade was down \$3-6, averaging \$151.32/cwt for the week. Last week, Choice boxed beef prices declined \$1.50/cwt from the previous week, while the Choice-Select spread widened \$2.35 to \$14.49/cwt, nearly \$9 over last year. Feeder cattle sales were light last week in Kansas and Nebraska due to the holiday, but a light offering in Nebraska saw prices mostly steady for steer calves and about \$1/cwt for yearlings.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$94.01	\$95.49	\$88.00
Neb. Fed Steer Price, dressed weight	\$151.32	\$155.77	\$138.53
700-800 lb. Feeder Steer Price, Kansas 4 market average	--	\$114.45	--
500-600 lb. Feeder Steer Price, Kansas 4 market average	--	\$129.09	--
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$117.75	\$118.85	\$109.17
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$140.00	\$139.72	\$122.65
Choice Boxed Beef Price, 600-900 lb. carcass	\$158.19	\$159.69	\$141.45
Choice-Select Spread, 600-900 lb. carcass	\$14.49	\$12.14	\$5.82