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Another BSE Case: What Does It Mean?

The ramifications of yesterday's announcement by USDA of another confirmed BSE case on slaughter cattle prices could be modest, if it turns out to be another isolated case. Based on previous experience in the U.S., the impact on domestic beef demand is likely to be minimal. After the first few weeks U.S. consumers paid little notice during 2004 to the announcement that a lone cow in Washington state tested positive for BSE in December 2003. In fact, domestic retail demand for Choice beef during the first half of 2004 was actually 10% stronger than during the prior year.

The most recent BSE case could, however, have some ramifications with respect to future exports. For example, South Korea indicated that plans to resume imports of U.S. beef could depend on the age of the Alabama cow that tested positive for BSE. In an announcement, South Korea indicated that, if the cow was born before April 1998 when feeding of meat and bone meal was banned by South Korea, it will not have any effect on the South Korea-U.S. beef import agreement. The implication is that if the cow turns out to have been born after that date, South Korea might reconsider plans to resume importation of U.S. beef. Some observers have questioned whether the latest U.S. BSE case might further delay reopening the Japanese market to U.S. beef. Although that's possible, the U.S.-Japan trade agreement signed earlier this year contained provisions for a limited number of additional BSE cases in the U.S. without suspension of trade. So, if the Japanese follow the spirit of the agreement it implies that the most recent BSE positive test should not slow down the resumption of U.S. beef exports to Japan.

A bigger issue with respect to exports could be adherence to existing trade protocols. News reports indicate that Hong Kong recently suspended beef imports from Swift because of a beef shipment that contained skeletal bones. Furthermore, Japan has apparently requested more details about the beef shipments to Hong Kong that prompted that country to suspend imports from Swift. Unfortunately, another error in beef export shipments does not bode well for a rapid resumption of beef exports to Japan. Clearly, to avoid additional problems in the international market in the near future, the U.S. will have to have to make sure that trade protocols are closely followed.

In The Markets

Cattle prices dropped again last week. Live weight prices in Kansas averaged \$86.25/cwt., 2% lower than the prior week. Slaughter cattle prices in Kansas have fallen \$10/cwt. since mid-January. Dressed weight prices in Nebraska averaged \$136.58/cwt., a decline of 4% compared to the prior week. Nebraska dressed weight prices have declined \$15/cwt. since mid-January. Feeder and calf prices declined sharply last week. Prices for 550 lb. steers averaged \$133/cwt., down from about \$140 the prior week. Prices for 750 lb. steers in Kansas declined \$5/cwt. to average \$103/cwt. A 750 pound steer placed on feed at last week's Kansas average price would likely require a sale price near \$85/cwt. in July to breakeven. In contrast, today's settlement price for August live cattle futures implies a mid-July Kansas cash price of about \$80/cwt.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$86.25	\$87.99	\$92.98
Nebraska Fed Steer Price, dressed weight	\$136.58	\$141.80	\$149.61
700-800 lb. Feeder Steer Price, KS 3 market average	\$103.19	\$108.38	\$108.77
500-600 lb. Feeder Steer Price, KS 3 market average	\$133.10	\$139.62	\$131.42
700-800 lb. Feeder Steer Price, NE 7 market average	\$108.92	\$113.98	\$110.63
500-600 lb. Feeder Steer Price, NE 7 market average	\$136.20	\$142.14	\$134.64
Choice Boxed Beef Price, 600-900 lb. carcass	\$148.22	\$152.64	\$152.07
Choice-Select Spread, 600-900 lb. carcass	\$10.64	\$10.76	\$4.78