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In The Cattle Markets

James Mintert, Ph.D.
Professor, Department of Agricultural Economics, Kansas State University

Looking Back Before We Look Ahead

It's been an interesting year in the cattle markets. So far this year, Kansas slaughter cattle prices have averaged $86.01/cwt., about 1% below a year ago. At the same time, Choice boxed beef prices have averaged $147.52.cwt., 2.4% above 2005. Wholesale Choice beef prices averaged higher than last year in spite of the fact that cattle slaughter from January through October was 4% above a year ago and beef production was actually 5.6% larger than a year earlier. Although production levels were up, imports were down and exports above last year. As a result, per capita beef supplies faced by U.S. consumers during January-September were virtually unchanged from a year earlier.

Ranchers and stocker operators this past summer moved cattle off grass earlier than normal and at lighter than normal weights, primarily because of drought and poor pasture and range conditions. Early cattle movement helped push placements of cattle on feed in the U.S. during June-September about 9% above the same period in 2005. The big increase in placements resulted in an October 1 on feed inventory that was 8.6% larger than last year and 7.0% larger than the five-year average for October. But the placement increase was heavily skewed towards light weight cattle. During the June-September time frame feeders placed 641 thousand more cattle on feed than last year. However placements of cattle weighing over 700 pounds were actually down 204 thousand (-5%) head, whereas placements of cattle weighing less than 700 pounds increased 845 thousand (28%) head. So all of the placement increase was attributable to feeders placing more light weight cattle on feed and a large portion of the year-over-year increase in the on feed inventory was composed of cattle placed on feed at light weights. That's significant because cattle placed on feed at light weights tend to be marketed at somewhat lighter weights than heavy weight placements and because their marketing dates tend to more spread out than for heavy weight placements.

At the start of 2006 it looked like U.S. ranchers were poised to expand the size of the U.S. herd by holding back females from slaughter. But drought conditions, especially in the central U.S. changed many people's plans. Lack of forage supplies stimulated ranchers to cull their herds aggressively during 2006. Beef cow slaughter from January through early October was 17% larger than in 2005. The biggest jump in beef cow slaughter occurred this past summer, when it averaged 30% larger than last year.

Despite the dramatic increase in cow slaughter, it does not appear that U.S. producers are actually reducing the size of the U.S. herd. Instead, it's starting to look like they've put expansion plans on hold. Evidence for this line of reasoning is the fact that heifer slaughter this year (through mid-October) did not increase. In fact, heifer slaughter from January through mid-October was actually about 1% smaller than last year. And this past summer heifer slaughter was actually 3% smaller than in 2005. But the heifer slaughter pace could pick up steam this fall. The reason is USDA's October *Cattle On Feed* report indicated that there were 16% more heifers on feed this fall than last year. In contrast, at the beginning of 2006 there were only 2% more heifers on feed than a year earlier.

Retail beef price and beef disappearance data published by USDA indicate that U.S. consumer's demand for Choice beef at retail weakened appreciably during the first three quarters of 2006. Beef demand index calculations indicate that domestic retail demand for Choice beef during the first three quarters of 2006 declined about 5%, 10%, and 5%, respectively, compared to a year earlier. Domestic beef demand also declined significantly during the last half of 2005, so beef demand has weakened appreciably during the last five quarters. The beef demand index does not provide any direct information regarding why beef demand declined, it is simply a measurement tool. It's likely that several factors are responsible for recent demand weakness. A key factor, however, was probably consumers' waning interest in low carbohydrate diets that were quite popular during the late 1990s and early part of this decade. Increasing competition from the poultry sector in the form of larger supplies likely also contributed to beef demand weakness. Finally, the sharp rise in energy prices reduced consumers' discretionary income, which could have contributed to weakness in beef demand.

Prospects for the Rest of 2006 and 2007

Looking ahead, we are faced with prospects for declining placements on feed this fall and winter, following the large placements of this past summer. Year-to-year percentage increases in the on feed inventory are expected to grow smaller the rest of the fall and winter and approach the prior year's level by late winter or early spring. High feed costs could also start to put some pressure on cattle weights this winter and spring, helping to hold down beef tonnage.

Cattle slaughter this fall is expected to average 3 to 4% larger than last year and beef production will likely exceed a year ago by 4% or more. During 2007 cattle slaughter is likely to increase above 2006's, but the increase is expected to be small, totaling no more than about 1%. Beef production next year will mirror changes in cattle slaughter as weights are expected to be near the prior year's level. Despite a modest increase in domestic beef production, an improving foreign trade picture means that beef supplies facing domestic consumers could actually decline slightly (about 1%) compared to 2006, which will help support U.S. prices.

Kansas slaughter cattle prices during 2006 are likely to average between $86 and $87 per cwt. for the year. During 2007 the annual average is again expected to be in the upper $80's. Despite relatively strong slaughter cattle prices, higher feed costs are expected to put pressure on feeder and calf prices. In fact, in the long-run, feeder cattle and calf prices will bear all the burden of higher feed prices as feeders ratchet down prices they are able to pay for replacements. The annual average price for 700-800 pound steers in Kansas during 2006 is expected to fall between $109 and 110 per cwt. Prices for the same weight steers next year are likely to average several dollars lower, perhaps in a range of about $103 to $107. Finally, prices for 500-600 pound steers in Kansas during 2006 are expected to average about $125 to $126 per cwt. Next year's annual average is expected to drop into the low to mid teens, averaging from about $113 to $118 per cwt.

The Markets

Slaughter cattle prices strengthened last week, averaging $90/cwt. (live weight) in Kansas and $139.97/cwt. (dressed weight) in Nebraska. Prices for Choice boxed beef changed little compared to a week earlier, averaging $147.66/cwt. The weekly average Choice-Select spread increased modestly to $10.57/cwt., $0.55 above a week earlier. Feeder cattle and calf rose moderately in Kansas last week whereas prices in Nebraska were weaker. Rising corn prices have helped push calf and feeder cattle prices well below year ago levels. Omaha corn prices last week were more than double the year ago level.

	Last Week	**Previous Week**	**Last Year**
Kansas Fed Steer Price, live weight	$90.00	$88.00	$87.85
Neb. Fed Steer Price, dressed weight	$139.98	$136.43	$136.54
700-800 lb. Feeder Steer Price, Kansas 4 market average	$108.26	$106.82	$115.27
500-600 lb. Feeder Steer Price, Kansas 4 market average	$123.32	$119.88	$130.71
700-800 lb. Feeder Steer Price, Neb. 7 market average	$108.90	$109.10	$119.07
500-600 lb. Feeder Steer Price, Neb. 7 market average	$119.07	$122.04	$134.81
Choice Boxed Beef Price, 600-900 lb. carcass	$147.66	$146.11	$145.66
Choice-Select Spread, 600-900 lb. carcass	$10.57	$10.02	$13.83
Corn Price, Omaha, NE, $/bu (Thursday quote)	$3.01	$2.91	$1.47