July 25, 2007

In The Cattle Markets

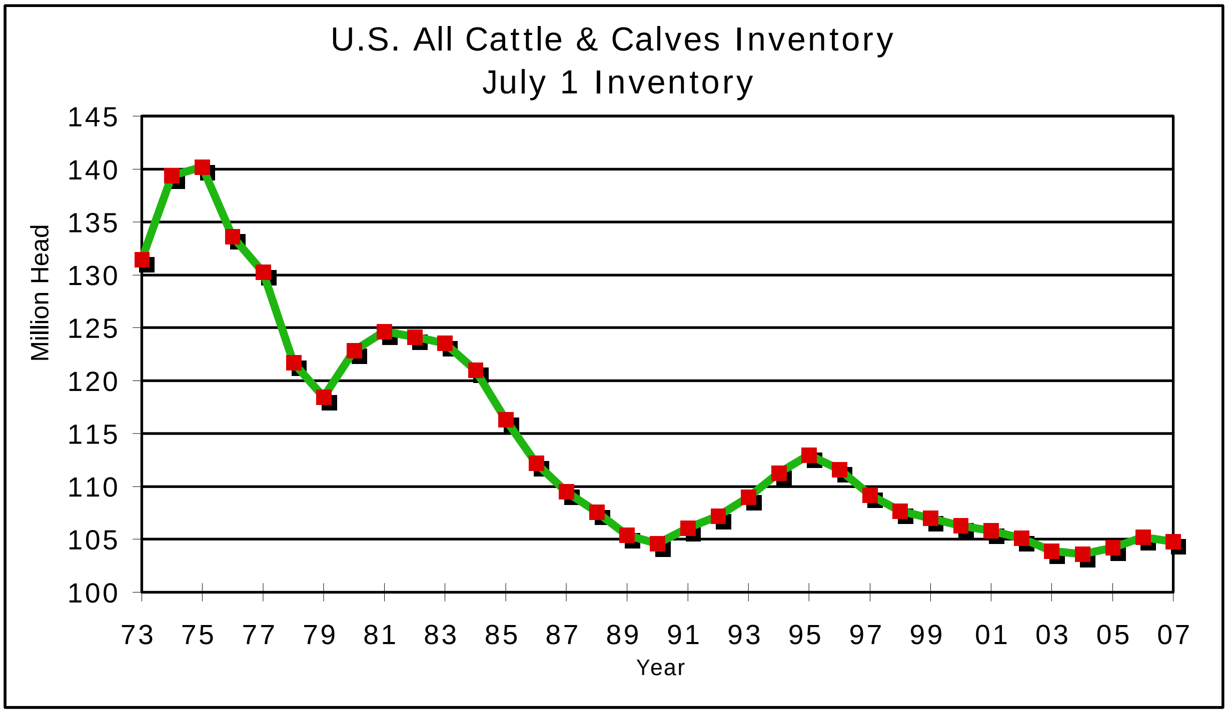
James Mintert, Ph.D.
Professor, Department of Agricultural Economics, Kansas State University

Cattle Inventory Report Confirms Expansion Is On Hold

USDA confirmed that no expansion is underway in the U.S. cattle herd as its estimate of the July 1 all cattle and calves inventory was 104.8 million head, which was actually 0.4% smaller than a year earlier. The July 1 beef cow inventory was 33.35 million head, 0.3% smaller than on July 1, 2006. Consistent with the smaller beef cow inventory, USDA's first estimate of the 2007 calf crop, 37.4 million head, was 0.4% smaller than in 2006. This will be the fourth year in a row that the U.S. calf crop has fallen below 37.6 million head. Moreover, it looks like expansion is not on the way anytime soon as producers indicated that heifers being held for beef cow replacement were actually 6% below a year ago.

USDA also released the July *Cattle on Feed* report last Friday, indicating that the U.S. on feed inventory was 1.2% smaller than a year ago. The biggest surprise on the report was the fact that feeders reduced their net placements (gross placements minus other disappearance) by nearly 15% compared to last year and 4% compared to the June five-year average. Almost the entire placement decline occurred because feeders reduced their placements of light weight cattle. Placements of cattle weighing less than 700 pounds declined 27% during June, whereas placements of cattle weighing more than 700 pounds declined by just 3%, both compared to June 2006. Compared to 2006, cattle feeders over the last four months have reduced placements of cattle weighing less than 700 pounds by 9%, whereas placements of cattle weighing over 700 pounds have actually increased by 8%. This shift in the placement weight pattern is a function of high feed costs and wet conditions in the Plains, both of which discouraged placements of light weight cattle on feed. Although the reduction in placements on feed during June was quite large, it's important to keep the weight distributions in mind when analyzing the impact of this large reduction. Feeders are expected to continue placing more heavy weight, and fewer light weight, cattle on feed during the rest of 2007. As a result, feeders have ample time to place heavier cattle on feed to fill any perceived gap in marketings that might occur in late 2007 and early 2008.

Looking ahead, with herd expansion on hold, it looks like cattle slaughter is not likely to increase any time soon. So far this year, federally inspected cattle slaughter has been 1.4% larger than in 2006. Dressed weights have averaged 1.2% below last year and, as a result, beef production so far in 2007 has been about equal to 2006's. During the last half of 2007, look for cattle slaughter to average about 1% below a year ago and weights to equal or even be slightly heavier than last year, resulting in a year-to-year decline in beef production of about 1% compared to 2006. Cattle slaughter next year is expected to be smaller than in 2007. Preliminary projections suggest that slaughter in 2008 could fall about 1% below 2007's, although heavier weights could hold the year-to-year reduction in beef production down to less than 1%.



The Markets

Slaughter cattle prices last week in Kansas and Nebraska weakened, compared to the prior week, declining about $0.60/cwt (live weight) in Kansas and nearly $2/cwt. in Nebraska (dressed weight). Despite last week's decline, slaughter cattle prices were still up 13% in Kansas and 11% in Nebraska, both compared to a year earlier. Boxed beef prices last week changed little from a week earlier, rising just $0.41/cwt. Despite the modest rise in wholesale values, Choice boxed beef values were still 1% lower than a year earlier, implying that processor margins are significantly narrower this year than in 2006. The Choice-Select spread was virtually unchanged last week, averaging $6.11/cwt. Corn prices declined over $0.30/bu. last week and DDG prices were unchanged from a week earlier. Weaker corn prices helped support feeder cattle values. Prices for 700-800 pound steers in Kansas increased about $2/cwt. in Kansas and about $0.50/cwt. in Nebraska last week.

	Last Week	**Previous Week**	**Last Year**
Kansas Fed Steer Price, live weight	$89.91	$90.55	$79.26
Neb. Fed Steer Price, dressed weight	$140.01	$141.94	$126.18
700-800 lb. Feeder Steer Price, Kansas 4 market average	$117.43	$115.59	$117.30
500-600 lb. Feeder Steer Price, Kansas 4 market average	$130.57	--	$131.10
700-800 lb. Feeder Steer Price, Neb. 7 market average	$120.22	$119.74	$121.37
500-600 lb. Feeder Steer Price, Neb. 7 market average	$129.16	$135.89	$138.83
Choice Boxed Beef Price, 600-900 lb. carcass	$142.83	$142.42	$144.12
Choice-Select Spread, 600-900 lb. carcass	$6.11	$6.00	$19.70
Corn Price, Omaha Nebraska, $/bu (Thursday quote)	$3.06	$3.39	$2.11
DDG Wholesale Price, Iowa, $/ton	$95.00	$95.00	$72.50