

In The Cattle Markets

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Top Ten List For 2008

As we begin a new year, we always see a lot of predictions for the upcoming year, whether it be for the most popular movies, the most glamorous people, the hottest cars, etc. To stick with the theme of new year's predictions this week, here are my best guesses for the biggest trends in the cattle market for 2008:

10. Slow growth in beef cow herd. The current cattle inventory cycle that began in 2004 has seen some of the slowest overall growth as any cycle in history. Since 2004, the beef cow herd grew by only a fraction of a percent in the first two years, and in 2006 actually shrunk slightly. With beef cow slaughter up 6% in 2007 and the number of heifers held for beef cow replacements down 6% in the July 2007 cattle inventory report, all indications are for a nearly steady beef cow inventory on January 1, 2008. Further, with expectations for higher corn and feeding costs, feeder cattle price decreases are likely to dampen enthusiasm about expanding cow herds.

9. Adaption to COOL. The Farm Bill that will be passed in early 2008 will quite likely contain additional language for the Country of Origin Labeling law that was created in the 2002 Farm Bill. Subsequent revisions to that original law that have already been passed delayed implementation of COOL until October 1, 2008. Further delays in implementation are unlikely at this point, but the proposed language in the current farm bill should ease compliance for livestock producers, meat processors, and retailers. The changes in the rules will make segregation, labeling, and record-keeping easier and changes to the audit verification and enforcement rules further specify what business records may suffice for country of origin labeling. Perhaps most important among the changes for cattle producers is a grandfather clause that considers all animals in the U.S. on January 1, 2008 to be of U.S. origin. Still, cattle producers will need to maintain documentation of origin (using their existing business records) from birth to slaughter from this point forward.

8. Trade Growth. Since the loss of beef export markets in 2003, the U.S. has regained just over half of that level of beef export business (by volume). For the first ten months of 2007, beef exports were 27% higher than the same time in 2006. While exports are expected to grow, the pace of that growth will likely continue to be modest. Not only are political negotiations slow, but also the quantity of beef eligible for export and that has the proper verifications is limited. In order to increase exports of beef under current restrictions that requires it to originate from cattle less than 30 months old (20 months for Japan), cattle producers will need to document and verify age and source of their cattle and share that information throughout the market channel. In order to verify age, source, and other product attributes, producers will need to participate in a Process Verified Program (PVP) or Quality Systems Assessment (QSA) program. As PVP and QSA programs become more commonplace and producers

become more familiar with the program requirements and how they would impact their operation, more participation in these programs can be expected.

7. Debate on Packer Ownership Bans. The Senate passed its version of the 2007 farm bill in December 2007 with language that bans packers from owning, feeding, or controlling livestock. The House version of the 2007 farm bill, passed in July 2007, does not contain such a provision. As the conference committee reconciles the differences between the two bills, discussion on the merit of restricting packer ownership of livestock will heighten. If the packer ownership ban is maintained in the final version of the farm bill, cattle producers will need to reassess their risk management/contracting alternatives and vertical alliances to determine if they are permitted under the new regulation.

6. Growing Pork Production. The December 2007 Hogs and Pigs Report showed an increase of 4.2% in the number of all hogs and pigs as of December 1, 2007. The very slow, steady growth in breeding hog numbers over the past two years has accelerated somewhat in the past two quarters, with the December 1, 2007 breeding herd 1.1% larger than last year. Further, farrowing intentions for the first half of 2008 are up 4%. As a result, commercial pork production will be 2-3% higher in 2008. With the potential for cheaper pork at retail, retail demand for beef may have a hard time increasing in 2008.

5. High cattle prices. Fed cattle prices averaged near \$93/cwt in 2007, marking a record high annual average fed cattle price. Prices in 2008 are projected to be at least that high due to relatively good demand and the overall slow growth in cattle inventory numbers. Feeder cattle prices have declined since their high in 2005 and are likely to continue to decrease over the next year as feeding cost of gain remains high. However, 2008 price levels for yearlings are likely to average close to those in 2007 while calf prices will be about \$3-5 lower in 2008.

4. Profits. The decline in feeder cattle prices over the past two years has resulted in lower returns for cow-calf producers each year since the record-setting years of 2004 and 2005. However, feeder cattle prices should remain high enough for cow-calf producers to realize around a \$21/head return in 2008. The drop in feeder cattle prices this fall, however, should result in some profits for cattle feeders later in the second quarter of 2008. Depending upon corn prices, these profits could continue into the summer. However, the year will start with large feeding losses, just as 2007 ended. For the first eleven months of 2007, returns to feeding averaged -\$32/head, and only March, April, and May had positive closeouts.

3. Distillers Grains. With increasing corn prices and more availability of distillers grains resulting from ethanol production, cattle feeders will increasingly add distillers grains to their rations. Despite the extra logistics and transaction costs associated with these feeds, feeders are realizing improved cattle performance and a marginal increase in profits from feeding these products. In fact, it is often the difference between projecting a profit and loss (see the December 12, 2007 *In the Cattle Markets*). As the value of distillers grains becomes increasingly evident and ethanol crush margins decline due to higher corn prices, it is possible that ethanol plants will price these byproduct feeds higher.

2. Cattle Feeding Shifting to Northern Plains. The growth of the ethanol industry in the Northern Plains resulted in both higher corn prices and production of distillers grains. This has resulted in a competitive advantage in feeding cost of gain in the Northern Plains (around

\$10-15/cwt this past year) and a shift in cattle placements. For example, Texas, Oklahoma, and Kansas combined placements of the fall calf crop (from October through June) has declined from 53% of the national total two years ago to 48% of the total so far this year. During that same time, the combined placements in Nebraska, Iowa, and South Dakota has increased from 26% to 30% of the total cattle placed on feed. The projected high energy and transportation costs (for feedstuffs to the Southern Plains) along with the long-term increase in the price of corn and feeding cost of gain in the Southern Plains relative to the Northern Plains will promote additional cattle feeding in the Northern Plains.

1. Feed Price Volatility. The trend towards higher, more variable feed prices is likely to be the most significant event in 2008 for cattle producers. USDA currently projects the price of corn to average \$3.65/bu for the 2007/08 marketing year, up from \$3.04/bu for the 2006/07 marketing year. Much of this price increase has been due to the increasing use of corn for ethanol production. About one-fourth of the national corn crop will be used for ethanol this year. The large price increases resulted in significant increases in planted acres last year. While corn will certainly garner a larger share of total planted acreage than it has in recent history, corn acres may decline some in 2008 due to high input prices and very high prices for soybeans, wheat, and hay. All three of these commodities will compete for acreage in 2008. As they do, price levels will rise, but the variability in price levels will increase as well due to the uncertainty of production and relative tightness in domestic supplies of all these commodities.

The Markets

The fed cattle market ended the year on a positive note. Dressed prices in Nebraska were \$2-4 higher last week and ranged from \$145 early in the week to \$149 later in the week. Live cattle prices also improved during the week in Kansas, with the weekly average price about \$1/cwt higher than the previous week. Choice boxed beef averaged \$147.69 last week, \$1.60/cwt lower than the previous week, while the spread between Choice and Select narrowed \$1.19/cwt. Corn prices, basis Omaha, NE, rallied \$0.17/bu through last Thursday. Feeder cattle receipts were generally light in the holiday week.

	Week of 12/28/07	Week of 12/21/07	Week of 12/29/06
Kansas Fed Steer Price, live weight	\$92.09	\$91.22	\$88.01
Nebraska Fed Steer Price, dressed weight	\$146.59	\$143.84	\$139.44
700-800 lb. Feeder Steer Price, KS 3 market average	--	\$101.86	--
500-600 lb. Feeder Steer Price, KS 3 market average	--	\$112.49	--
700-800 lb. Feeder Steer Price, NE 7 market average	\$106.71	--	\$105.32
500-600 lb. Feeder Steer Price, NE 7 market average	\$121.23	--	\$116.76
Choice Boxed Beef Price, 600-900 lb. carcass	\$147.69	\$149.29	\$143.45
Choice-Select Spread, 600-900 lb. carcass	\$11.58	\$12.77	\$15.67
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$4.38	\$4.21	\$3.56
DDG Wholesale Price, Iowa, \$/ton	--	\$149.50	\$125.00