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In The Cattle Markets

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Black October?

Various analysts, market commentators, and media have tried to apply terms like “Black Monday” and “Black Friday” to some of the days with dramatic losses in the financial markets that we’ve seen recently. Given the past couple of weeks and a net drop of 2,000 points in the Dow Jones Industrial Average and several investment bank failures, maybe this period will be termed “Black October” in the history books. Far from any mainstream discussion of the recent financial conditions is how the cattle market is being affected—so let’s consider some of those factors this week.

December live cattle futures have dropped more than \$7/cwt and November feeder cattle futures have dropped more than \$8/cwt since October 1. Last week’s \$7/cwt crash in dressed steer prices in Nebraska was the largest week-to-week decline since the December 2003 BSE incident. In trying to understand the reasons for changes in market prices, it’s always helpful to determine whether supply or demand conditions are driving the change. Usually, it’s both, and often one drives prices up and the other causes price decreases.

First, let’s consider the demand-side effects on the cattle market from the financial uncertainty and losses on Wall Street. Both domestic and international demand are impacted from the financial situation. Not only has the U.S. suffered losses in equity markets and had the stability of its financial institutions shaken, but other countries around the world have as well. This could lead to fewer purchases of high-valued, imported protein products as foreign consumers’ disposable incomes are stretched and net worth is eroded. Further, other world currencies have depreciated relative to the U.S. dollar, making the value of the U.S. dollar increase and importing countries’ purchasing power decline. The other demand-side effect impacts the domestic beef market, where nearly 90% of U.S. commercial beef production is sold. With the huge losses in retirement accounts and job security and financial stability in question by many, restaurant sales have slowed dramatically over the past year, particularly for white-tablecloth and fast-causal establishments. Trends in retail demand for beef products at supermarkets are harder to determine. Some consumers, pinched by the financial markets and high energy prices, may have tightened their belts and are shifting away from higher valued proteins (i.e., beef and pork) to less expensive products (i.e., poultry and possibly rice and pasta). Other consumers who have reduced expenditures on other goods (e.g., dining out, vacations, etc.) may find at-home dining to be one of their few remaining “luxuries” and, therefore, be more willing to purchase beef for those occasions. Overall, though, there is likely to be some shift from high value products (e.g., steaks) to lower value products (e.g., hamburger). Still, the recent decrease in gas and other energy prices should be supportive to beef demand.

The financial situation is not likely to have huge supply-side impacts in the short run. While the economic uncertainty and recent large drop in cattle prices may slow marketings and add weight to slaughter animals, the larger effect (if any) may be longer run. And, there are both bullish and bearish supply arguments to make there too. The corresponding drop in corn prices has mostly offset the drop in fed cattle prices and improved the profit margin for cattle feeders. This should help encourage more feeding this winter and thereby support feeder cattle prices. However, the general economic uncertainty will keep cattle feeders cautious. Further, the availability of credit is likely to impact cattle feeders and investors. Already, reports that lending institutions have as much as doubled their customers' equity requirements in cattle on feed create a disincentive to feed cattle. Plus, if credit availability becomes a larger issue in the agricultural sector, cow-calf producers may be increasingly strained to maintain production in the upcoming years and therefore may not expand the cow herd.

In conclusion, there are several demand and supply effects that will shape the cattle market in the months to come. Some could have positive impacts on cattle prices, while others are likely to be negative. Time will tell which factors dominate. Monday's strength in the financial markets provides some reason to be optimistic.

The Markets

Weakening economic conditions in the U.S. and around the world weighed heavily on all markets the week ending October 10th. Slaughter cattle in Kansas traded near \$92/cwt (live weight) compared to \$96 a week earlier while dressed weight trade in Nebraska averaged about \$140/cwt, down \$6-9 from the previous week. Choice boxed beef prices also weakened, averaging near \$152/cwt compared to \$154 the prior week. Limited feeder cattle trade developed last week at mostly lower prices, partly because of uncertainty. Yearling steer prices were about \$9/cwt lower in Kansas while calf prices were about \$2/cwt lower. Feeder prices in Nebraska were mostly steady. The corn market lost another \$0.12/bu through Thursday of last week while dried distillers grains prices dropped \$7.50/ton.

	Week of 10/10/08	Week of 10/03/08	Week of 10/12/07
Kansas Fed Steer Price, live weight	\$91.89	\$96.12	\$92.32
Nebraska Fed Steer Price, dressed weight	\$139.70	\$147.17	\$140.72
700-800 lb. Feeder Steer Price, KS 3 market average	\$93.98	\$103.10	\$113.68
500-600 lb. Feeder Steer Price, KS 3 market average	\$102.81	\$105.07	\$121.44
700-800 lb. Feeder Steer Price, NE 7 market average	\$106.88	\$106.88	\$119.35
500-600 lb. Feeder Steer Price, NE 7 market average	\$111.99	\$110.00	\$123.24
Choice Boxed Beef Price, 600-900 lb. carcass	\$152.27	\$154.40	\$145.08
Choice-Select Spread, 600-900 lb. carcass	\$7.20	\$6.50	\$10.10
Corn Price, Omaha, NE, \$/bu (Thursday quote)	\$4.27	\$4.39	\$3.02
DDG Wholesale Price, Iowa, \$/ton	\$135.00	\$142.50	\$110.00