UNIVERSITY OF ILLINOIS
EXTENSION

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

April 23, 2001

CATTLE MARKET HAS OVERCOME SOME BIG CONCERNS

Despite concerns over a slow growth economy and abundant media attention given to cattle diseases in Europe, cattle prices have had a good year so far. As the first third of the year is nearing completion, choice cattle prices have averaged $79.20 compared with About $70 for the same period last year. The primary reason for such a strong market price has been reduced beef supplies which are down over 7 percent. The reduction in supply is composed of 6 percent fewer head coming to market and 1 percent lower market weights.

Retail consumers have felt the impact of higher retail prices, and so far have not backed down from enjoying their beef. Retail prices in the first quarter were at record high levels of $3.30 per pound. This is in contrast with the average price in the first quarter a year ago of $2.95 a pound, and a 2000 yearly average of $3.06. Concerns about a slow growth economy and some reduction in consumer confidence seems to have had only small impacts on beef consumption. This is likely because employment levels are still high at 4.3 percent, and thus most consumers still have strong buying power.

Also the issue of Foot and Mouth Disease (FMD) has likely been somewhat positive for U.S. producers. While most of the media attention has been given to FMD in Europe, the U.S. has not been importing any beef from Europe since the outbreak of Mad Cow Disease. The larger uncertainties in the U.S. have been whether the media attention given to Mad Cow and FMD would have negative impacts on meat consumption here. Thankfully for beef producers, the answer seems to suggest that U.S. consumption, in general, has not been negatively impact, and that consumers have correctly received the message that the problem is “over there.”

In trade, FMD may have helped the U.S. industry somewhat. We have been importing a small amount of beef from Argentina, and thus their break with FMD means those imports have been curtailed. In the year 2000, we imported 131 million pounds of beef from Argentina. While this sounds like a huge amount, it is dwarfed by the 2.6 billion pounds imported from the combination of our three largest sources, Australia, Canada, and New Zealand. In fact, imports from Argentina represented only about .5 percent of our domestic production, and thus the enhancement in domestic prices due to reduced imports from Argentina would be less than $1 per live hundredweight. On the export side of trade, initial readings from early in the year, were still not showing much improvement. However, trade data releases lag about 2 months, and the FMD issue in Europe did not begin until late February. Thus, some evidence of improved exports is likely in coming months.

The latest *Cattle On Feed* report shows that the number of cattle on feed is 3 percent higher than last year. Placements during March were down 11 percent, and the number marketed during March was down 9 percent. Relative to expectations, placements were higher and marketings lower than expected. Cow slaughter has been high this year. It is interesting to note that the number of cows and bulls on feed were up 40 percent from last year at this time. The difficult winter weather, high priced hay on the plains, and high cull cow values resulted in a high rate of cow slaughter this past winter, as some of the cows were just too valuable to keep. In addition, beef producers are retaining about 2 percent more heifers for replacements, and the dairy industry 1 percent more, also decreasing the slaughter pool.

Cattle prices will be influenced by continued short supplies for the remained of 2001,as they are expected to be reduced by 4-5 percent for the remainder of the year. However, choice steer prices will likely weaken from their spring highs near $80s. Typically, prices weaken from mid-April through most of the summer. This means that choice steer prices could drop to the low $70 by the end of the summer. However, anticipated economic recovery in the last-half of the year and a 6 percent reduction in supplies in the final quarter of the year should bring a return of strong cattle prices, with prospects for choice steers to return to the mid-to-higher $70s.

Given a 1 percent smaller beef cow inventory and an unchanged dairy cow count, this year’s calf crop will likely be modestly smaller again. With prospects for a continuation of relatively low priced feed grains, and cheap soyprotein, calf and feeder cattle are expected to average $2 to $6 higher this year than last year. Oklahoma City 500-550 pound steer calves averaged $1.02 per pound last year, and 750 to 800 pound feeder steers averaged $86 per live hundredweight. Thus calves could average $1.04 to $1.08 this year, and feeder cattle in the higher $80 to low $90. Calf prices in the eastern corn belt tend to run 3-5 cents/lb. under those of Oklahoma City.

At this point in the year, the cattle market has demonstrated an ability to shrug off the slow growth economy, as well as Mad Cow and FMD in Europe. Each of these were large uncertainties. With a potential for an improving economy in the second-half of the year and no evidence of loss of U.S. consumer demand from media accounts of Mad Cow and FMD, the rest of the year appears to be bright for the cattle industry.

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