



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.

OCTOBER 22, 2001

CATTLE INDUSTRY SUFFERS FROM FALL EVENTS

The cattle industry has perhaps felt the most severe impact of the events of the late summer and fall. At the beginning of September, finished steer prices had dropped to \$70, a level that most felt would be the low for 2001. It was expected that prices would rise into the fall. But the events of September 11 and mad cow disease in Japan have changed those expectations. By early October, prices had dropped to the mid-\$60s, as confidence in beef demand was shaken. Demand for high valued beef cuts for the hotel and restaurant trade dropped as business and vacation travel declined. Concerns about slowing economic growth has dampened demand for high value cuts in the at-home market as well. In addition, declining beef demand in Japan has also hit the high valued cuts. In sum, each of these events has pushed more of the high end cuts back into the grocery store market where a cautious consumer has been hesitant to buy.

Not only are consumers cautious, but cattle feeders are as well. In September, feedlot managers in the U.S. placed only 2.1 million head of cattle, a 20 percent reduction from placements of last year. Their caution is understandable given the massive uncertainties which developed after September 11 and contributed to a decline of \$7 per hundredweight in the December futures price. This is the smallest number placed in September since the modern report period began, and means that beef supplies late next winter and early spring may be down somewhat. This anticipated reduction could help support futures prices for that time period.

Unfortunately, as cash and futures price expectations declined in September, feedlot managers may also have been holding cattle back, hoping for some price recovery. One indication of this is that the number of marketings were off sharply in September, down nine percent from marketings of one year ago. The number marketed was smaller than had been anticipated and will provide a bearish tone for cattle prices this fall. A second indication is that marketing weights increased starting in late September. During most of the summer, marketing weights were below year earlier levels. However, in the past four weeks, market weights have been about one percent higher than last year. These factors mean that beef supplies will be somewhat higher this fall than had been anticipated.

This fall, beef supplies will be over two percent higher than last year's fourth quarter supply. Winter supplies are expected to be up about three percent. Supplies may finally begin to decline in the spring quarter, when they could be down about one percent. Summer supplies may be down about three percent.

Perhaps the most immediate concern is the nature of demand. Grocery stores are being asked to move more of the higher quality beef cuts that had been going to the restaurant trade. Expect them to respond with greater featuring of these high value cuts in coming months. Recovery in beef exports to Japan does not look promising, as consumers there will likely make sharp reductions in total beef consumption. Reports this fall are that beef consumption is off 20 to 30 percent for domestically produced beef, and down 10 to 20 percent for imported beef. To some extent, much damage has already been done to beef demand there, but whether additional cases of mad cow are found will also be of significance.

Demand in the U.S. is expected to be slow to recover as consumers wait to see just how much slowdown occurs in the U.S. economy, and the implications for unemployment. Business and vacation travel will also recover over time, the rate of which will depend on the unfolding events of the war on terrorism and further terrorist acts in the U.S.

Cattle markets always have the element of uncertainty, but that uncertainty is heightened this fall. From current prices, the trend is expected to be upward. Live steer prices may average in the higher \$60 this fall, before moving into the low \$70's for the first quarter of 2002. With falling beef supplies, and perhaps a more confident consumer, live steer prices could average in the mid to higher \$70 for the spring quarter of 2002.

Feeder cattle prices have also been rattled. In early September, 600 to 700 pound Oklahoma feeder steers were trading in the mid to higher \$90s. This past week, those prices were in the mid \$80s to low \$90s. But, feeder cattle and calf prices may recover more quickly than finished cattle prices. Not only will the upward trend in finished cattle prices be positive for feeder cattle, but low interest rates and cheap feed will be as well. Cattle feeders will be more risk averse than usual, meaning that they will be more likely to hedge cattle placed on feed. Therefore, strength in the futures contracts for the late winter and spring will be quickly bid into younger cattle prices.

Issued by Chris Hurt
Extension Economist
Purdue University

U of I Extension Newsletter Service
University of Illinois
at Urbana Champaign
1917 South Wright Street
Champaign IL 61820