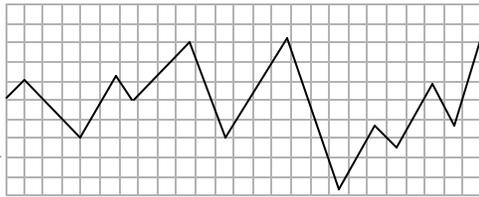




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# WEEKLY OUTLOOK

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 22, 2002**

## **CATTLE PRICES MAULED BY GLUT OF MEAT AND POULTRY**

The nation's beef producers may think there is a jinx on the industry as one bad news story after another has emerged over the last eight months. Expectations for a decent price year are largely gone, so now it's a matter of picking up the pieces and salvaging what remains.

The loss of beef demand after September 11, 2001 is well documented. With a weak economy, cautious consumers slowed their business, vacation, and convention travel. The discovery of Mad Cow Disease in Japan and the subsequent 19 percent drop in U.S. beef exports in the final quarter of 2001 resulted in more beef remaining in the domestic market. Feedlot managers delayed marketings in the four weeks after September 11. As a consequence, heavy cattle weights became a problem that still remains a thorn in the side of price bulls.

The new year brought more bad news for cattle producers. The Russian's refused U.S. broiler imports in a trade dispute. Russia is the largest importer of U.S. chicken meat, accounting for 37 percent of total exports last year. Those supplies have either been moved into domestic grocery stores at discount prices or have gone into cold storage. Poultry stocks are now 23 percent above stocks of last year.

The pork market has not helped cattle prices. Wholesale pork loin prices dropped 11 percent in the last month and ham prices dropped 30 percent. Live hog prices fell to the mid-\$20's, the lowest level since 1999. Cold storage stocks of pork are now 22 percent above those of a year-ago.

Even rumors have played into the bearish tone in an already edgy cattle market. On March 13, 2002, rumors of suspected Foot and Mouth Disease in Kansas leaked to the market before test results could be released. April live cattle futures were trading near \$76 prior to these rumors. The negative test results quickly quieted the rumors, but other bearish forces set in. Most recently, a British woman traveling in Florida was found to have the human form of Mad Cow Disease. Beef cold storage stocks are also 24 percent larger than stocks at the same time last year. April live cattle futures declined to a low of \$64.

Nebraska choice steers averaged \$72.43 per hundredweight in 2001. In the first three quarters, prices averaged \$74.86, but declined to \$65.13 in the final quarter. At the start of 2002, the average price for the year was expected to be near \$77. That expectation has been lowered to about \$70.

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The USDA's April *Cattle On Feed* report shows that the total number on-feed on April 1 was up .5 percent from last year as a result of a 6 percent increase in placements in March and a 5 percent drop in marketings. The number of placements weighing 700 pounds and over were up 15 percent in March, while the number weighing under 700 pounds were down 8 percent from a year ago. Heavyweight placements means that animals will reach market more rapidly, providing a weaker price tone for summer, but stronger for this fall and winter.

The 5 percent decline in marketings during March is another bad sign for prices this spring and summer. Feedlot managers have been slow to adjust to lowered price expectations and they continue to hold cattle to heavier weights. In the most recent four week period, carcass weights have been up more than 4 percent from last year. Excess weight problems began about a month after 9-11-01 as managers withheld some cattle in anticipation of a turnaround in prices. While live weights peaked in the final week of January at 1265 pounds, the seasonal decrease in weights has not been as large as usual, and the weight problem has not been solved.

Lower cattle prices are most likely in store for the next several months. While not long ago, I thought \$65 would hold the summer lows, that now has to be lowered to the \$62 to \$63 range with the glut of meat and poultry that the market has to work through in the short run. And these lows could come more at the start of the summer rather than at the end of the summer as is more traditional.

Demand should have some positive features in coming months as the Russians will apparently reopen imports of chicken meat, the grilling begins, and the recovery of the U.S. and world economy continues. By late summer, the supplies of cattle should also begin to dwindle. Even so, a price recovery the lower \$70s may be all that can be expected. Even this is in stark contrast to the mid-\$60 suggested by current live cattle futures markets.

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