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.

FEBRUARY 2, 2004

CATTLE: 2004 NOT AS BAD AS FEARED!

BSE brought much uncertainty to the 2004 cattle outlook, but current inventory numbers suggest even smaller domestic beef production. The size of the nation's beef cattle herd continues to decline, even in the face of record high prices in 2003 clearly showing that producers' initial reaction to high prices was to sell breeding stock and heifers rather than retain them for herd growth. As of January 1, the total number of cattle and calves had dropped to 94.9 million, 1 percent below last year's inventory, and the lowest number in the herd since1959.

Beef cow numbers dropped by about one-half of a percent, to the lowest number since 1991. The continuing drought in the west central plains appears to be one of the important reasons why national beef cow numbers continue to drop. Beef cow numbers were down 13 percent in Colorado and down 4 percent in Nebraska, Oklahoma, and North Dakota. Further east, Missouri's herd was about unchanged, Illinois was up 1 percent, and Iowa and Indiana were each down about 1 percent. Producers are expected to be hesitant to increase herds in 2004 with the uncertainty of implications surrounding BSE. Producers indicate they are holding back 2 percent fewer heifers, which will mean continued smaller beef cow numbers in the July mid-year update.

Low milk prices and strong cull cow prices also encouraged dairies to reduce the number of milk cows by 2 percent in 2003. At 9 million head, milk cow numbers are at the lowest since 1868 (yes, three years after the Civil War). Continued reductions in the size of the milk herd is anticipated this year as the number of heifers being retained to go back into the herd is down 2 percent.

How will BSE impact trade in 2004? No one knows the answer with a high degree of confidence, so a set of assumptions need to be made. For this analysis, it is assumed that domestic demand is not affected by BSE and that U.S. exports are lost for the first-half of 2004, but restored in the last-half. In addition, it is assumed that imports are reduced by 15 percent in the first-half and restored in the last-half of 2004. The net effect of these trade impacts is that an additional 8.5 percent of our domestic production will need to be consumed in the U.S. in the first-half of the year. With the loss of 8.5 percent of net trade in the first-half of the year, domestic beef supplies are expected to be up by 5 percent in the first-quarter and by 3 percent in the second quarter. Assuming trade is resumed in the last-half of the year, domestic supplies will drop by about 4 percent. It is important to realize that differences in these flows can have dramatic impacts of $5 to $10 on cattle prices. Volatility and rapidly changing prices could be an expected characteristic of 2004 cattle prices.

Prices of Nebraska choice steers averaged a record $84.69 per hundredweight in 2003, capped by an average of $99 in the last quarter. Given the assumptions for trade above. Finished steer prices are expected to average in the very high $70s or low $80s for the first quarter, drop to an average in the mid-$70s in the second quarter, recover a couple of dollars in the third quarter, and be in the low $80s in the final quarter. While finished cattle prices will be sharply lower than last-year's record, these price forecasts provide a yearly average price in the higher $70s, and would be the second or third highest annual price on record (1990 was $78.56 and 2003 was $84.69).

Feeder cattle and calf prices will be lower than last years prices, as the double hit of lower fed cattle prices and higher feed costs cut into bids. In 2003, steer calves at Oklahoma City weighing 500 to 550 pounds averaged $103 per hundredweight. This year, the same calves are expected to average in the mid-$90s. Heifer calves at the same location in the 450 to 500 pound range averaged $95 per hundred last year and are expected to be near $90 for an average this year, with prices in the low $90 early in the year and dropping to the high $80s in the summer and fall. Feeder steers at 750 to 800 pounds at Oklahoma City averaged $90 in 2003 and are expected to average in the low to mid $80s this year.

The best news is that BSE (so far) has not had the devastating impacts some feared. Loss of exports and higher feed prices are offsetting still smaller cattle production in 2004 and likely moving cattle prices lower. However, brood cow operations should still be able to cover all costs of production and finished cattle prices could be surprisingly strong. Obviously, some cattle feeders that were unhedged on December 23rd may have suffered large financial losses.

Cattle prices could be extremely volatile in 2004 (both with higher and lower price movements) and feed prices could also have wide swings. This is an environment in which producers need to consider price risk management including the use of futures or options for hedging corn, soybean meal, feeder cattle, and finished cattle prices.

Issued by Chris Hurt
Extension Economist
Purdue University