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 19, 2004

FALLING FEEDLOT NUMBERS WILL SUPPORT CATTLE PRICES

Cattle on-feed numbers on April 1 dropped to unchanged from year-earlier levels after having been up by 4 or 5 percent since last November. The reduction was a result of aggressive marketings, up 9 percent in March, and a small level of placements, down 11 percent for the month.

The decline in placements appears to be related to continued lack of feeder cattle supplies and rising feed prices. The price of 750-800 pound feeder steers at Oklahoma City was up 12 percent in the first quarter of the year compared to a year-earlier. In March, increases where accelerating, as prices reached 90 cents per pound, 18 percent higher than the previous March.

Feed price increases are also well documented, with corn prices in central Illinois and Indiana reaching about $2.90 per bushel in March compared to about $2.40 in December. Meal prices in central Illinois increased from about $230 per ton in December to over $300 in March. If feed prices remain high, low placements can be expected to continue in the spring and summer, with on-feed numbers dropping to as low as 90 percent of last year's level. This will help ration the short supply of corn and protein.

So far this year, smaller domestic beef supplies are about equal to the loss of beef exports from BSE. Beef supplies in the first quarter of the year were surprisingly small at just 5.9 billion pounds, a 7 percent reduction from the first quarter of 2003. This was just about evenly offset by the loss of exports which represented a decline of 9 percent of production.

Domestic beef demand appears to be the explanation for higher cattle prices in the first quarter of this year compared to year-earlier prices. Nebraska 1100-1300 pound choice steers averaged about $82 in the first quarter compared to $78 in the previous year. The two components of the strong demand for beef are the popular high protein diets and personal income growth that has been near a 5 percent inflation adjusted rate. Demand is expected to remain strong throughout the year.

Beef supplies will be limited this spring and summer, and now, declining placements imply smaller numbers coming from feedlots this fall. Trade issues will also be a factor for supply. It appears that an agreement with Canada will soon be struck to allow live cattle under 30 months of age into the U.S. While on-feed numbers are down 21 percent in Canada at this point, prices there are sharply lower compared to the U.S. With U.S. finished cattle prices in the higher $80s, similar quality cattle in Canada are near $60 per hundredweight. Opening the border to cattle under 30 months of age means that these two prices must come close together, with sharp increases in Canada and modest declines in the U.S.

Beef supplies are expected to down 4 to 5 percent in the spring and summer quarters and nearly unchanged in the last quarter. This means that commercial production will be near 25 billion pounds, a reduction of approximately 5 percent.

Prices of finished steers are expected to decline into the spring and summer from their current high $80s. Prices by the end of the summer are expected to be in the higher $70s. Fall prices should stage another significant rally, with prices reaching back into the mid-to-higher $80 by the end of the year.

Calf prices have been very strong this spring as 500-550 pound steer calves have averaged $111 per hundred at Oklahoma City. With the limited supply of calves, high feed prices have not depressed prices. Continued uncertainty surrounding feed prices could make calf prices vulnerable. However, if normal crops develop this summer, calf prices are expected to be in the mid-to-higher $90s this fall. This would be about $5 less than bids for calves in the fall of 2003, but still provide favorable returns for producers.

The vulnerabilities for the cattle industry in coming months appear to be the opening of the Canadian border to cattle under 30 months of age which will increase slaughter supplies. The opportunities are the opening of trade with Mexico and movement toward restoration of the Asian market. Regardless, U.S. beef supplies are going to remain limited and prices are going to be strong. Finished cattle prices could average in the low $80 for the year, and be the second highest price, ever after last-year's average near $85.

Issued by Chris Hurt
Extension Economist
Purdue University