



WEEKLY OUTLOOK



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CATTLE PRICES FACE CONTINUED UNCERTAINTIES

The cattle industry should see price benefits from two recent major announcements. The first is the agreement between Japan and the U.S. to begin moving toward opening the Japanese market to U.S. beef that has been closed since December 23, 2003. The second is the duty placed on Canadian live hogs being shipped to the U.S. These “price positive” events will be somewhat offset by higher numbers of cattle on-feed.

Japan and the U.S. have agreed to re-open beef shipments to Japan, but the details are still to be worked-out. For market prices, “the devil is in the details.” U.S. sources have been optimistic that beef could begin to flow in “a few weeks.” Japanese sources, however, are suggesting “maybe in the spring of 2005.” Regardless, Japan is a huge market. In 2003, Japan purchased 920 million pounds of beef, representing 36 percent of all U.S. beef exports. In addition, when Japan and the U.S. reach a final agreement, South Korea will most likely join in as well. In 2003, South Korea was the third largest buyer of U.S. beef, representing an additional 23 percent of beef exports.

A second major event was the recent decision to add a duty to live hog imports from Canada. This duty approaches 15 percent of the value of hogs and will have the impact of keeping more hogs in Canada for finishing and processing. This will tend to lower hog and cattle prices in Canada, but raise prices in the U.S. The longer-run impacts are less clear. If the duty stays in place, it may cause a shifting of finishing and processing of hogs to Canada.

Adding to the mix of uncertainties for cattle prices is the question of when the border might be opened to Canadian live cattle and the specific terms and timing of such an agreement. There has been a general feeling in the marketplace that a restricted opening of the Canadian border would occur prior to the opening of exports to Japan. For now, the timing and details of each remain uncertain.

A final piece of new information in the cattle market is the latest USDA quarterly *Cattle on Feed* report which showed on-feed numbers to be higher than expected, up 3 percent. The number of steer calves on feed was up 4 percent, but heifers on-feed were up only 1 percent. The number of cows and bulls on-feed were down 7 percent. The smaller number of females

on-feed reflects a growing interest in herd expansion as more cows are being retained in the breeding herd and more heifers are being held for potential breeding.

Placements were down only 4 percent and the number marketed in September was smaller than expected, down 11 percent. Placements of cattle weighing less than 800 pounds were down a surprising 11 percent, reflecting the limited number of young cattle available for feedlots.

What does this mixed set of events and numbers mean for beef supplies in coming months? While the announcement that the U.S. and Japan will open trade is initially positive, it is not likely to happen for several months as details are worked out. This leaves the immediate issue of higher than expected on-feed numbers. Added to larger numbers will be much heavier market weights due to low feed prices and abundant forage supplies. In October, cattle weights have been up over 4 percent and these heavy weights will continue into the winter. As a result, beef supplies will be higher by 2 to 4 percent in the last quarter of 2004 and the first quarter of 2005.

Finished cattle prices should move seasonally higher, however, and may approach the \$90 level by the end of the year. Prices are expected to average in the higher \$80's in the first quarter of 2005, but to peak in the late-March to early-April period in the low \$90's. Prices are then expected to move lower seasonally into the summer, with averages in the low-to-mid-\$80s.

The two large uncertainties revolve around trade. The issue is not just when trade between the U.S., Canada, and Asia can be restored, but the terms of these potential agreements. Opening beef exports to Asia could enhance finished cattle prices by \$5 per live hundredweight or more, while opening imports of live cattle from Canada, in the absence of opening exports to Asia, could depress prices by \$2 or more. Odds now seem to favor that BSE issues will be resolved in the next six months. This would allow the establishment of a framework under which limited beef trading between the U.S., Canada, and Asia can begin once again.

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