WEEKLY OUTLOOK

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CATTLE HERD DROPS FROM DROUGHT AND ATTITUDE OF "CORN OVER COWS"

Beef producers responded to drought and high feed prices by cutting the size of the breeding herd last year. Severe drought in the Southeast was the primary reason for the 338,000 cow liquidation. There is also some evidence that cow-calf producers in the Western Corn Belt are choosing corn over beef cows. The results of fewer cows and high feed prices will be record high finished cattle prices and depressed calf and feeder cattle prices in 2008.

Beef cow numbers on January 1 dropped to 32.6 million head, the lowest number of cows since 1991. Beef cow numbers reached a cycle low in 2004 and started to expand in 2005 and 2006. However, that has reversed with lower numbers in 2007 and again this year. Producers say they have reduced the number of replacement heifers by 4 percent, which means the cow herd will continue to drop in 2008.

The Southeast, hard hit by drought, accounted for 74 percent of the total herd reduction. The other region that accounted for the greatest liquidation of cows was the Western Corn Belt, where Iowa cow numbers dropped by 5 percent (55,000 head) and Missouri by 3 percent (66,000 head). These states may be seeing producers shift their enterprises toward corn rather than cows. Cow numbers remained stable in the Eastern Corn Belt, with Illinois at 427,000 head and Indiana at 234,000 head.

The decline of 338,000 beef cows was somewhat offset by an increase of 92,000 milk cows. Strong export and domestic demand enabled milk prices to rise more rapidly than feed costs in 2007. The result was a 1 percent increase in the number of milk cows. Three percent more milk replacement heifers are being retained suggesting, the milk cow herd will continue to expand in 2008.

Biofuels have started competing with the beef sector for land and that competition is likely to grow. Interest in shifting some pasture land back into crops in the Midwest will likely continue. On the Southern Plains, the number of calves utilizing winter wheat pasture is down as wheat producers want to avoid any potential damage to the extremely valuable wheat plants. This makes backgrounding of calves more expensive when utilizing alternative forages. In the Southeast and parts of the Plains states, interest in switchgrass, or other fuel crops, is expected to begin to become viable in another two to four years. The recently passed energy bill encourages rapid development of cellulosic ethanol after 2012.

About 1 percent smaller beef supplies are expected this year. Exports of beef are also expected to recover to 68 percent of pre-BSE levels of 2003. The U.S. economy is expected to be very slow growing, at least in the first-half of the year, and this will temper cattle prices somewhat. Finished cattle prices are expected to average about $93 this year compared with $91.82 for Nebraska steers last year. The live cattle futures market currently reflects even higher cattle prices. Prices in both 2007 and 2008 will be new record highs. Prices are expected to move from about $90 currently to the mid-$90s in the early-spring. Prices are expected to drop back to the very low $90s in the summer and finish the year in the mid-$90s. Prices in 2009 are expected to set records for a third consecutive year.

Cattle feeders have been "whipped about" by volatile feed prices. During the months of July and August last year, corn prices averaged near $3.25 per bushel, causing a false sense of calm. Cattle moved rapidly into feedlots from August to November, averaging an increase of 11 percent in September, October, and November. However, the more recent escalation in corn and protein meal prices resulted in placements dropping 1 percent in December. Given continued high feed prices, feedlot placements are expected to remain low this winter and spring.

Calves and feeder cattle will be in shorter supply this year as the nation's calf crop is estimated to have dropped again to about 37.3 million head. However, even with smaller supplies, prices are expected to be lower due to the extremely high feed costs. For this year, feed prices may be the primary driver of calf prices, along with finished cattle prices. Last year, 500 to 550 pound steer calves at Oklahoma City averaged $1.24 per pound. This year the average price is expected to drop to $1.16 per pound. Prices of 750 to 800 pound feeder steers at Oklahoma City averaged $1.08 per pound and are expected to drop to $1.04 per pound for an average in 2008. Eastern Corn Belt calves tend to be about three to five cents per pound lower than those at Oklahoma City.

The impact of higher feed prices has the most adverse impact on cow-calf operations in the form of lower calf prices. Record calf prices occurred in 2005, but have decreased about $.16 per pound since as feed costs increased. This represents a decrease of about $80 per head on a 500 pound calf, or around a $3 billion annual decrease to the cow-calf sector. Over time, continued beef cow liquidation will help calf prices recover, but a turbulent and risky period from 2008 to 2010 is expected to be in store for the entire beef sector.

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