WEEKLY OUTLOOK

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CATTLE INDUSTRY FEELS HEAT OF HIGH FEED PRICES

The cattle industry is in a period of adjustment to the new realities of higher feed prices, lingering drought, shortage of forages, and the biofuels era.

Beef production in the first quarter of 2008 was up a surprising 3 percent and continues to rise by an even more troubling 7 percent so far in April. The sharp rise in production is probably attributable to heavy placements of feedlot cattle last fall. Those placements were up 9 percent from August through November. Why such heavy placements at that time? First, corn and other feed prices were much lower late last summer and into the fall. The average price received by farmers for corn in the August through November period was a mere $3.32 per bushel. High protein soybean meal at Decatur, Illinois averaged $253 per ton. Second, live cattle futures were overly optimistic. As an example, during the August to November 2007 period, the February 2008 live cattle futures averaged near $100 per hundredweight while the contract expiration price was about $93.

The beef cow herd has been getting smaller due to drought and poor returns to cow-calf operations. That trend is likely to continue. Drought in the Southeast U.S. is easing and predictions from the National Weather Service are for continued improvement this spring. The question will be whether producers decide to restock cows this year or wait to see what happens with drought and with cattle markets. Dry conditions are developing again on the western fringe of the Great Plains and continue in some of the regions of the Rocky Mountain states.

The beef cow herd is continuing to get smaller. Slaughter of both cows and heifers has remained high in 2008. For the first two months of the year, cow slaughter was up 7 percent and heifer slaughter was up 4 percent. In addition, the number of heifers in 1,000 head and larger feedlots was up 3 percent on April 1, according to USDA.

Despite a discouraging outlook, placements in January and February were up 5 percent. Fewer calves were wintered on wheat pasture, and those that went on wheat were taken off sooner to protect wheat yields. Another reason for continued high placements was that forages were in short supply and high priced, thus pushing calves away from backgrounding and toward feedlots. However, that trend has now changed as a result of high feed costs, disappointing fed cattle prices, and large feedlot losses. In the quarterly *Cattle on Feed* report, USDA reported that feedlots reduced placements by 11 percent in March. Those placements were the second lowest for March since the current data series was started in 1996.

Cattle prices in general have been disappointing so far this year. First quarter finished steer prices averaged about $90 per hundredweight, down $1 from the same quarter in 2007. Despite smaller supplies, calves and feeder cattle prices in the first quarter were the same as in the similar period in 2007. Oklahoma City feeder steers weighing 500 to 550 pounds averaged $122 per hundredweight and 750 to 800 pound feeder steers averaged $100.

Looking forward, beef supplies in the second and third quarters are expected to rise by 2 to 3 percent. Smaller placements this spring are expected to reduce beef production by 4 percent in the final quarter of the year. Unfortunately, pork supplies will also be large in the second and third quarters , before dropping in the final quarter. Once the smaller beef supplies arrive by the fall of 2008 they will continue to drop for several years. Current expectations are for a 2 to 3 percent reduction in beef production in 2009.

Finished cattle prices will remain under pressure for much of the summer with prices averaging in the lower $90s. The rally in the fall should move cattle prices into the $94 to $98 range. It is well worth noting that futures for late 2008 are trading above $100 and may be stronger than supported by anticipated fundamentals. Prices should continue to rise into the first quarter of 2009 with highs in March and April possibly reaching $105.

Calf prices will be highly influenced by volatile feed prices as well as bullish finished cattle prices. Much is riding on the size of grain, soybean, and forage crops this spring and summer. Eastern Corn Belt steer calf prices are expected to trade in a range of $100 to $115 this spring, with fall prices $5 to $10 higher at $105 to $120. The costs for cow-calf producers are now much higher and many producers may require prices that are $115 to $130 just to cover all costs. Expect the potential for wide swings in calf prices, and the cattle outlook in general, as weather unfolds in 2008.

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