WEEKLY OUTLOOK

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CATTLE INDUSTRY FEELS THE WEIGHT OF THE WORLD ECONOMY

In the old days, cattle and beef prices were primarily correlated with beef supplies because demand tended to stay fairly constant. Well the “good old days” are over as demand is in the driver’s seat today. Cattle producers have been doing what they can by cutting the brood cow herd and slowly reducing production. The forces of weak demand, however, are out of their hands as it is now world economic conditions that have become the dominant driving force of cattle prices.

Cutting production is what producers can, and are, doing as economic incentives have been poor for the past two years. In USDA’s latest cattle inventory report, beef cow numbers were down 2 percent as were beef replacement heifers. This means the calf crop will drop in 2009 and probably again in 2010. Last year’s calf crop was down 2 percent as well, which means somewhat smaller beef supplies this year than had been anticipated.

Cow-calf producers in the Eastern Corn Belt followed the nation in sending more cows to market. The region had a 4 percent decline in beef cow numbers with Illinois cow numbers dropping by 19,000 head and Indiana numbers by 21,000 head. For the country as a whole, all regions had some decreases, but the smallest reductions were in the Great Plains regions.

Cattle on-feed numbers on January 1 were down near 7 percent, reflecting the continuing struggle of low finished cattle prices relative to feed and feeder cattle prices. Both Illinois and Indiana bucked the national trend by adding 10,000 head on-feed in each state. The added numbers heading to feed lots in the Eastern Corn Belt may be related to the large increase in distiller’s grains production with the rapid expansion of ethanol capacity in 2008.

Why is beef demand being hit so hard relative to other meats and poultry? The answer seems to lie in the higher price of beef at the retail counter and in the upscale restaurants that tend to feature beef. Simply said, more consumers are now substituting lower priced items for the higher priced ones. Or another way to say this is that more consumers are shopping for value as they try to reduce expenditures in their personal budgets.

As a result, Nebraska finished cattle prices averaged about $82 per hundredweight in January, which was $6 lower than in January of 2008, and the lowest monthly price since June of 2006. More startling was that these 7 percent lower prices came with beef production down about 7 percent, reflecting just how weak demand is with the U.S. recession and world financial crisis. Calf prices in January 2009 dropped about $10 per hundredweight, or 8 percent, versus year earlier levels. Over the past year, the positive impacts of lower feed prices have been more than offset by the lower cattle prices resulting from weak demand.

Smaller than expected cattle inventory numbers from the USDA report will increase cattle prices in the short-run, but more central to a price turn around will be the perceived progress of the general economy. On that front, consumers are not likely to feel better about their budgets for several more months as unemployment continues to rise into the spring and summer. Cattle prices should increase seasonally into the late-winter and spring. The improvement in the economy is still months away, and may well be late 2009 and 2010. This leaves the possibility that finished cattle prices only return to the mid-to higher $80s this spring with mid-$80s this summer. If so, prices might not move back above $90 until very late in 2009 and early 2010.

Feed prices and other costs will continue to adjust, perhaps lower in the next six months or so. Prospects for economic recovery in late 2009 or 2010 and for more rapid inflation in 2010 and later may help bolster cattle prices at that time.

The long-run looks promising for the cattle industry, but it is the days immediately coming that will contain the most gloom. What is needed now is a strong financial position and a long run commitment to the cattle industry. But for now, and several months to come, cattle producers will have to live with the economic circumstances they have been given.

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