



# WEEKLY OUTLOOK



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## **IF THEY BUY CARS, THEY WILL BUY BEEF**

Consumers are beginning to feel a little better about their household budgets. If they will buy more cars, then surely they will also be willing to buy more beef. Granted, the “cash for clunkers” program added large incentives to buy new cars, but the willingness of consumers to pay for big ticket purchases probably means the bite of recession is beginning to ease.

The recession has cut deeply into cattle producer finances as loss of beef demand has ravaged cattle prices. So far this year, beef production has been down three percent, but finished cattle prices have been down by ten percent. Nebraska finished steers averaged only \$82.70 per hundredweight so far this year compared with \$92.30 for the same period in 2008. That is nearly \$10 per hundredweight lower prices with a smaller supply. Calf prices have been about \$9 per hundredweight lower this year compared to last.

Unfortunately, retailers have been slow to reflect these much lower farm level prices to consumers. For the first half of the year, consumers were actually asked to pay more for beef. Retail prices averaged \$4.31 per pound this year compared to just \$4.20 for the first half of 2008. However by June, retailers were finally lowering prices below year earlier levels, a move which should help increase purchases and begin to restore better farm prices.

While most of the lost demand is in the domestic market, the foreign sector is a modest contributor as well. Through May of this year, exports of beef have been up about three percent, but imports have risen by 12 percent. More imports relative to exports means the impacts of trade have contributed an additional nearly one percent to beef supplies in the U.S.

Cattle producers have responded to the depressed cattle market by continuing to slowly reduce the size of the cow herd. Beef cow numbers in USDA’s mid-year inventory report

stood at 32.2 million, a decline of one percent. Dairy cow numbers were down closer to two percent. Over the past three years, the beef cow herd has dropped by four percent.

Cheap cattle and high feed prices have discouraged cattle feeders. Placements into feedlots in May and June were down five percent for calves weighing under 700 pounds and down 15 percent for cattle 700 pounds and heavier. This has left the number of cattle on-feed at the start of July down five percent.

Help for cattle prices should be on the way for several reasons. Finished cattle prices tend to move upward as the weather cools late in the summer. Retail prices are coming down which will encourage more consumption. Cattle slaughter will remain moderate with small supplies coming out of feedlots this fall. Competitive pork and poultry supplies will be down three percent in the last-half of 2009, and most importantly consumers are beginning to see signs of improvement in the general economy and therefore the beginning of better domestic beef demand.

Finished steer prices averaged \$84.50 in the second quarter and are expected to increase to the mid-to-higher \$80's into the late summer. The final quarter is expected to see prices that are in the higher \$80s to very low \$90s. If the general economy continues to improve into the spring of 2010 as expected, prices could rise to the low-to-mid \$90s.

Calf and feeder cattle prices will be higher as well along with higher finished cattle prices but with feed price uncertainty. In the fall of 2008, prices for steer calves averaged \$105 per hundredweight and should rise to \$110 to \$120 this fall. Feeder steers weighing 750 to 800 pounds averaged \$94.60 last year at Oklahoma City. This year those same cattle may be \$100 to \$110. A more rewarding 2009 calf crop is in store for cow/calf producers, yet many will still not cover full costs of production.

Maybe the worst is over, but the cattle industry like the general economy will be slow to recover. Losses have accumulated, and even though losses won't be as large this fall, profits may remain elusive until the spring of 2010. Then, maybe the cattle industry can start to make some hay.

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