BEEF PRODUCERS SLAUGHTERED BY ECONOMY

Much of agriculture is taking a big hit from the recessionary economy, and the beef sector is no exception as weak retail demand has lowered finished cattle prices. The magnitude of the hit is hard to measure precisely, but consider that late last summer the price outlook for the first quarter of 2009 was for finished steers to average about $94 per hundredweight. As the economy weakened, cattle prices fell and only averaged $81.50 in the January to March quarter. A reduced price of $12.50 per hundredweight represents a revenue reduction of $750 million in the first quarter alone.

Cattle prices have paralleled the decline, and more recent recovery, in the U.S. stock market. Since September, the Dow Jones Industrial Average index and finished cattle prices have been nearly 90 percent correlated using weekly data. Of course the stock market does not determine cattle prices, but since last September they have both been highly influenced by macro economic conditions that reflect weak demand.

Supply is not the reason for low cattle prices. In the first quarter of the year, per capita beef supplies were down about three percent, and gave rise last summer to the anticipation of mid-$90 finished cattle prices in the first quarter. Beef supplies will remain about three percent below previous year levels into the second quarter of 2009, but will be up about two percent in the third quarter and unchanged in the final quarter of the year. A smaller beef cow herd and fewer cattle in feedlots have provided generally smaller beef supplies.

Another concern for the cattle industry is that retail beef prices have been slower to drop than have producer prices. As an example, in the first quarter of 2009, retail beef prices averaged $4.33 per pound compared to $4.16 a year earlier. In contrast, Nebraska finished steer prices were about $81.50 in the first quarter this year compared to $89.60 a year earlier. So, while live cattle prices were down $8.10 per hundredweight, consumers had to pay $0.17 per pound more for beef. This means beef processing margins increased, with the largest portion coming in retailer margins which were 13 percent higher than in early 2008.
The pattern of farm level prices changing more rapidly than retail prices is normal and there are signs that retail prices and margins are on the decline. Retail beef prices peaked at $4.53 per pound last August and fell to $4.30 in March. Retail margins have also been narrowing in recent months. These are both indicators that retail beef prices can moderate further and enable producers to receive a larger portion of the consumer beef expenditures in coming months. The direction of the general economy, however, remains the key variable for the direction of finished cattle prices for the rest of this year and next. Feeder cattle and calf prices will also be influenced by the direction of feed prices and by pasture availability.

Finished cattle prices, like the stock market, had a big recovery in the past six weeks, moving from near $80 to $89. These higher prices may be hard to maintain as we move toward warmer weather when cattle prices have seasonal tendencies to decrease. Expect finished cattle prices to average in the mid-$80s in the second quarter and then increase a couple of dollars in the summer. Assuming the economy has bottomed by late 2009, finished cattle prices are expected to return to the high $80s to very low $90s. If so, steer calf prices should average $100 to $110 this coming fall, compared with $95 to $105 last fall.

The general tone will likely be for cattle prices to increase over time. The magnitude of the price improvement may be robust by sometime in 2010 as beef cow numbers continue to drop, beef exports continue to improve, and the world economy begins to heal. A return to finished cattle prices of $1 per pound or higher seems probable as per capita beef supplies will be low and competitive meat supplies will drop as well. While the beef production sector has suffered one of the most dramatic negative impacts from the general economy, it also has the potential to have one of the most dramatic positive responses when the world returns to greater normalcy. The question, as always in markets, is when will the turn to higher prices get convincingly under way?

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