THE BLOOM IS OFF THE CATTLE MARKET

Large meat supplies coupled with difficulties exporting beef and broilers has led to record large domestic meat supplies in the early part of 2006. Feedlot managers remained optimistic in the face of prospects for weakening finished cattle prices and new concerns about corn and sorghum prices. This optimism was reflected in a large increase in cattle headed to feedlots in March. In fact the 11.8 million head now in feedlots with capacity of 1,000 head or more is estimated by USDA to be the largest April 1 number since the current report began in 1996.

First quarter 2006 beef, pork, and poultry supplies reached a record of 21.6 billion pounds, 4 percent higher than last year. Beef production led the increases in the first quarter, with a 6 percent surge, followed by both pork and broiler supplies up by nearly 4 percent. For beef, the composition of the 6 percent increase came from a bit over a 3 percent greater head count which left almost 3 percent due to heavier marketing weights. Export problems for beef and broilers also meant more meat for domestic consumers. Beef exports to Japan were cut off again after an improper shipment of veal in January. In addition, Avian Influenza in parts of Europe and Asia lowered demand for chicken and resulted in 9 percent less broiler exports from the U.S. in the first quarter. As a result, there was nearly 5 percent more chicken in the domestic market, which was composed of the 4 percent increase in production and an additional 1 percent for lost exports. Given all the supply pressure, demand for beef held well and prices were not as depressed as for pork and chicken. Finished steer prices in the first quarter averaged near $89, about the same as in the first quarter of 2005. However, by March and April, these prices moved about $5 to $7 lower than last year as supply pressures have mounted.

Large beef supplies remain in store for coming months. In the March USDA Cattle on Feed report, on-feed numbers were reported to by up by 9 percent compared to last year at the same time. There were 939,000 more cattle in the feedlots on April 1 compared to the same date last year. Texas led the way with 320,000 more cattle, followed by Kansas with 250,000 more, and Nebraska with 140,000 additional animals. All of the 12 major reporting states increased feedlot inventories, except for Washington State. Placements were up by 5 percent, which was more than the 3 percent increase that was expected prior to the report. Total March placements were
up 87,000 head, led by both Kansas and Nebraska which each increased 35,000 head more than March of 2005. Lighter weight calves were popular placements in March as calves weighing less than 600 pounds were up 81,000 head, or 27 percent. With some heifers still being retained to head back to brood cow herds, the portion of steer and steer calves was very high, at 66 percent of all the cattle in feedlots.

Meat supplies will remain large for the remainder of the year. Beef production is expected to be up about 5 percent for the rest of 2006, while pork production may rise by 3 percent and broiler production by 2 percent. These supply pressures are expected to keep finished steer prices about $5 per hundredweight lower than during the same period last year.

Prices for finished Nebraska steers in the second quarter are expected to average in the lower $80s compared to about $88 last year. Third quarter prices may drop to an average in the mid-to-high $70s. Last quarter prices should improve some, with prices moving back into the low $80s.

Cattle feeders are also watching the corn and sorghum markets closely. Concerns about the low planted acreage to these crops, growing utilization of corn and sorghum for ethanol, and uneasiness regarding summer weather are all contributing to increased anxiety about the potential for higher feed costs from the 2006 crop.

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