CATTLE NUMBERS KEEP DROPPING: PRICES HEADED BACK UP

Better days are likely ahead for the cattle industry as numbers keep dropping as producers adjust inventories downward in the face of high feed and forage prices. At mid-year the number of all cattle and calves was modestly lower than the two previous years, with total inventories near the lows of 2004. Beef cow numbers have dropped about 1 percent this year, reflecting continued discouragement from calf prices below the cost of production.

It is somewhat surprising that beef cow numbers did not decrease even more given the 5 percent higher cow slaughter rates in the first-half of the year. Producers indicate they will continue to modestly decrease the size of the beef cow herd in the last-half of 2008 as beef heifer replacements are down 2 percent. In addition, the rate of heifer slaughter outpaced steer slaughter in the first-half of 2008, indicating a greater tendency to send heifers to slaughter this year compared to last year. The 2008 calf crop is estimated to be down slightly, so that the number of calves weighing less than 500 pounds are also down slightly. There is more optimism in the dairy sector. Milk cow numbers were up 1 percent and replacement heifer numbers were unchanged from last year at this time.

The high corn prices in June helped cattle feedlot managers elect to reduce placements, which were down 9 percent. The number of cattle on feed is 4 percent below year-previous levels. Small placements in the months of March to June will cause beef supplies to drop sharply in the September to December period this fall.

Beef production in the first-half of the year was up almost 3 percent with prices below year-previous levels. Finished cattle prices averaged $91 in the first-half, $1 lower than a year earlier. Prices for 500 to 550 pound steer calves at Oklahoma City averaged $121 in the first-half compared to $124 a year earlier as surging feed prices made calves less desirable this year.

Cattle prices would have been lower in the first-half of 2008 if not for improvements in trade. The low value of the U.S. dollar is discouraging imports and encouraging U.S. beef exports. During the January to May period, beef imports dropped by 22 percent and beef exports surged.
by 34 percent. These are dramatic changes and account for about 3 percent of U.S. production. Even though beef production in the U.S. has been up this year, improved trade has taken all of that increase with continued population growth, per capita availability moved below year ago levels in the second quarter of 2008 and will move even lower in late 2008 and 2009. This means higher cattle prices are likely on the way.

Given the expected continued weakness of the U.S. dollar, it is likely that USDA will have to revise the current forecasts of beef trade for 2008. USDA currently expects exports to rise by only 18 percent for the year compared with a 34 percent actual increase in the first five months. USDA forecasts 2008 imports to be down by 12 percent for the year compared with a 22 percent reduction in the first-five months.

Where do cattle prices head? The answer is higher, but how much? Futures markets are well aware of the anticipated decreasing per capita supplies that U.S. beef consumers will face for the next two to three years. Futures prices got ahead of the actual supply reductions in June as Midwest flooding drove corn prices to record highs. Improving crop production prospects have helped temper cattle futures prices as well. As an example, August live cattle futures have dropped $8 from June 20th and cash prices of finished cattle have dropped about $5, to the mid-$90's.

Generally, finished cattle prices make their summer lows late in the summer and begin to move higher in late-August or September. This year, beef supplies are expected to be about 2 percent higher in the summer quarter, and then drop by 5 percent in the final quarter. This is when cash cattle prices will have strong fundamentals to establish record high prices. Assuming third quarter prices average about $97 and the fourth quarter is near $100, then 2008 choice steers will average about $95, which is $3 above the 2007 record. We can expect to see new record high cattle prices in 2008, 2009, and 2010.

Calf prices will improve as well. Last fall, 500-550 pound steer calves averaged $120 per hundredweight at Oklahoma City. This fall, with stronger fed cattle prices and with somewhat more moderate feed prices, steer calves will probably be in the $120 to $130 range. In the Eastern Corn Belt, calves tend to be about $3 to $5 lower.

Those cow-calf producers who have held on until now should see the fruits of their patience. In 2009, there may be more acres return to crop production from the CRP. Hopefully more haying and grazing will be allowed from CRP acres as well. The massive surge in corn ethanol demand will begin to level off, especially for the 2009 corn crop. World grain production may move higher and beef trade should continue to improve dramatically. Cattle prices should be trending higher over the next several years with some potential for relief from extreme feed prices.

Issued by Chris Hurt
Extension Economist
Purdue University