CATTLE PRICE EXPECTATIONS LOWERED

Finished cattle prices will set new records this year, but those lofty expectations have been lowered a bit in recent weeks. Finished cattle prices will end up averaging about $92 this year compared with the previous annual high around $87 in 2005. Price expectations for the final quarter had been excessive as cash prices reached $95 in early September. However, prices have moderated to near $90 and averages in the final quarter now appear likely to be in the low-to-mid $90s rather than the higher $90s as anticipated at the end of the summer.

Heavy weight cattle have moved into feedlots more rapidly in recent weeks, increasing prospects for larger beef production this winter. In September, for example, placements of calves weighing over 800 pounds were up 15 percent while those weighing 700 pounds and more were up 20 percent. While on-feed numbers on October 1 were down 3 percent from year-ago levels, they were up from a 6 percent lower figure on September 1 and are signaling more rapid movement of cattle into feedlots in coming months.

The reason feedlot managers are more comfortable moving cattle into feedlots is likely related to the relatively strong finished cattle futures prices and the large corn crop. The corn crop, at 13.3 billion bushels, has given livestock producers increased confidence that sufficient corn supplies will be available for ethanol, export, and domestic animal feeding. While corn prices will be high by historical standards, the possibilities of extremely high corn prices seem to be reduced by the large crop and by moderating expectations for corn usage for ethanol. In addition, large increases in distiller's grains will become available as many new ethanol plants open in coming months.

Calf and feeder cattle prices have dropped more than finished cattle prices. Oklahoma City steer calves weighting 500 to 550 pounds dropped from about $128 per hundredweight in early September to $120 now. October feeder cattle futures experienced a similar drop, from $119 in early September to $112 currently. The demand for calves and feeder cattle
has weakened somewhat with the decline in finished cattle futures and with less demand for calves to be grazed on winter wheat pasture. With wheat prices so high this year, wheat producers in the southern plains have been less willing to reduce potential yields from grazing calves.

Cattle, in general, are going to remain very profitable to own. While price expectations have been lowered recently, they have been lowered from extremely high levels. The evidence for overall favorable cattle prices lies in the small inventories. This year’s calf crop is the smallest in years. Cow slaughter for 2007 has been up 6 percent and heifer slaughter has been up 3 percent, both indicators that the breeding herd will drop again in the January 1, 2008 inventory update.

So far in 2007, beef production is up just .9 percent. Fourth quarter supplies are expected to be down 1 percent and then up less than 1 percent in 2008. Recovering exports are helping demand as well. The USDA expects beef exports to grow by 27 percent in 2007 and by 29 percent in 2008. As a result, domestic per capita beef availability will be down by more than 1 percent.

While domestic supplies of beef will continue to be tight in 2008, there will be more competition from pork and chicken. Pork supplies are expected to grow by 3 percent and chicken by 2 percent. In addition, the beef sector outlook is clouded by an outlook for slow economic growth with consumers expected to watch their food budgets more carefully than in recent years.

Finished cattle prices are expected to average in the $92 to $95 range in the final quarter of 2007. For 2008, first quarter prices are expected to average in a range from $92 to $98 with second quarter prices about $1 higher. For the entire year of 2008, cattle prices are expected to make new record highs, averaging $1 or so above this year’s $92 average. High prices will eventually encourage expansion of the cow herd, but that is not expected until at least mid-2008 or even 2009.

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