Beef Market Update

by Steven C. Blank

What difference a year makes. A year ago in an *Update* article entitled, "The Beef Industry in Crisis," it was explained how profit margins for cattle ranchers were being squeezed by the cattle cycle's delayed shift to its increasing-prices phase. Now it appears that the cattle cycle has finally turned and prices to ranchers will rise for the next couple of years.

This article briefly updates changes in the cattle market since last fall that lead to the improved outlook for prices. It relies on data and forecasts from *Livestock Monitor* published by the Livestock Marketing Information Center, which is operated by state Extension Services in cooperation with the USDA.

Beef Trends

On July 7, 2000 *Livestock Monitor* reported data that signaled the beginning of the cattle cycle's long-awaited reversal. The *Monitor*'s report of current beef trends follows.

> "Beef production forecasts for 2000 and 2001 ratcheted higher in recent months due to the larger than expected placements of cattle on-feed and much heavier than anticipated carcass weights.
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> "U.S. beef production continues to be record large. Even with moderating cattle slaughter levels in the last few months of 2000, U.S. commercial beef production this calendar year is expected to be record large at about 26.5 billion pounds. Expectations just a few months ago were that U.S. beef output had cyclically peaked in 1999 at 26.4 billion pounds.
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> "Heavier than anticipated cattle slaughter weights were behind the bulk of recent upward revisions in beef production forecasts. In recent weeks, dressed steer weights increased more than seasonally. Typically slaughter steer weights peak in the late summer months (August or September). Steer weights are indicating that slaughter-ready cattle have begun to back-up in feedlots. So, fed-cattle marketings must become much more aggressive soon to preclude further deterioration in fed-cattle prices.
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> "On a quarterly average basis, U.S. beef production is not likely to post year-to-year declines until the fourth quarter of this year. Beginning in the fourth quarter of 2000 and continuing throughout 2001, U.S. beef production may decline mostly in the 3 to 5 percent range compared to a year earlier."

Cattle Cycle Turns for the Better

The significance of the forecast in the preceeding paragraph is that, finally, the cattle cycle is turning from its "herd liquidation" phase to its "herd build-up" phase. During the liquidation phase, the national herd was slowly decreasing in numbers as ranchers sent more animals to market in response to low and declining prices. The increased marketings put downward pressure on prices. That multi-year phase bottomed in 1996 when prices hit their lows of $58-60 / cwt. Since that time feeder cattle prices have slowly increased, as noted in Table 1. The result has been a gradual slowing of the liquidation process.

Hereford beef cattle grazing in pasture. Finally, the cattle cycle is turning from its "herd liquidation" phase to its "herd build-up" phase.

Cattle market analysts have expected the cattle cycle to swing to its build-up phase for almost two years and now, finally, it appears to have done so. During that phase, ranchers respond to early price increases and send fewer heifers to market as they plan to use those animals for breeding to expand herd size. The production data in Table 1 show signs of that occurring.

The significance of that turn in the cattle cycle is that, with fewer animals going to market, cattle prices begin to rise more steadily. Due to the length of the biological production process, it takes a few years for herds to expand such that significantly more animals can be sent to market. Thus, early in the build-up phase, cattle prices trend upward. Eventually, the increased number of animals produced and marketed will slow price increases and reverse the upward trend. Sometime after that price peak, the resulting decline in prices will trigger the cattle cycle's turn back to a new liquidation phase. However, that process will take at least 3-6 years to occur, based on historical cattle cycle behavior. That means the next 2-3 years should have an upward price trend for cattle.

Low Feed Costs will Help Cattle Prices

The prices ranchers receive for their cattle are related to the prices of feedgrains because feed costs affect what feedlots can afford to pay ranchers for feeder cattle. Thus, *Livestock Monitor*'s July 7 report on feed costs adds another positive piece to the cattle price outlook:

> "USDA's Acreage report (released June 30) held a surprise in the corn acreage planted. According to the report, U.S. farmers planted 79.6 million acres of corn in 2000. That was almost 2.2 million more acres planted than a year ago and was about 2 million more acres than some of the largest pre-report estimates. Farmers expect to harvest 73.1 million acres of corn in 2000, almost 2.6 million more acres than a year ago and, if realized, the largest harvested acreage since 1985. With the release of larger than expected corn plantings, feedgrain prices dropped quickly. Feeder cattle prices have increased with declining corn prices."

Livestock Monitor's updated report of August 18 confirms that feedgrain prices are likely to remain low for the next year.

> "The Crop Production report from the USDA (released August 11, 2000) estimated that U.S. corn production will be 10.4 billion bushels this year, 10 percent larger than 1999's. If realized, both U.S. corn production and yield will be record large."

The Bottom Line

All of this indicates that cattle prices are likely to improve over the next couple of years, but the cattle industry's crisis may not be over. Profits will improve with rising prices, yet there is still much uncertainty about what the average return on investment to ranchers will be when averaged over the long run. It is certain that the cattle cycle will continue to raise and lower prices over time. However, it is quite uncertain whether the "good years" will outweigh the "bad years" in this era of increasing global competition. Individual ranchers need to focus on their own long-run return on investment to judge whether cattle production remains sufficiently profitable for them.

Table 1. U.S. Market Indicators, September 15, 2000

Beef Production for Week	Current		Year Ago
Cattle Slaughter (1,000 Head)	712		724
Slaughter Cattle Weight, Avg. (lbs.)	1229		1215
Beef Production (Million lbs)	533.5		535.4
Previous 6 Week Moving Avg.			
Total Beef (Million lbs.)	528.7		513.1
Prices			
Weekly Weighted Average	Current	Week Ago	Year Ago
Live Fed Steer ($/Cwt)	64.67	63.95	66.05
Dressed Steer ($/Cwt)	101.91	101.10	104.60
Feeder Steer, in Georgia ($/Cwt)	81.00	80.00	70.88
USDA Hide/Offal ($/Cwt)	8.70	8.42	7.64
Corn, Omaha ($/Bu)	1.46	1.54	1.64
Wheat, Portland ($/Bu)	2.76	2.79	3.23
Wheat, Kansas City ($/Bu)	2.80	2.86	2.52
Soybeans, S. Iowa ($/Bu)	4.48	NA	4.62

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