



UNIVERSITY OF ILLINOIS
EXTENSION



WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

JULY 21, 2003

CATTLE PRICES REMAIN STRONG, BUT CANADA ADDS UNCERTAINTY

Declining beef and dairy cow herds will result in beef supplies being down at least 2 to 3 percent for the remainder of 2003 and throughout 2004. Some retention of beef heifers can be expected to begin in the next 12 months as drought in the Plains abates. While a strengthening U.S. economy should assist the strong price outlook, opening the border with Canada provides a threat that could dampen prices by \$2 to \$4 per live hundredweight for several months and also may be depressing deferred futures prices due to the uncertainty of when the border will be opened.

The long decline in beef cow numbers has been extended into the eighth year as numbers dropped to 33.6 million, a slight decrease from last year at this time, but 7 percent lower than the last peak in 1995. The brood cow cycle, which encompasses a period of rising then falling numbers, has now spanned 14 years dating back to 1989. Reductions in beef cow numbers have primarily been as a result of drought conditions in the Rocky Mountain and western Great Plains regions. This drought has been easing, however, this spring and summer, at least for the western Great Plains. As of July 1, producers were retaining the same number of beef replacement heifers as last year, indicating a fairly stable cow herd over the coming year.

Milk cow numbers were down one percent from last year after heavy dairy cow slaughter in the first five months of this year as a result of large financial losses in milk production. Producers are withholding 3 percent fewer replacement heifers, indicating a continued drop in dairy numbers in the last-half of 2003 and into 2004.

The 2003 calf crop is now estimated at 38 million, a reduction of 1 percent from last year's crop. The number of cattle on-feed in lots of 1,000 head or more was down a total of 5 percent. Marketings remained higher than expected, at 8 percent greater than last June.

Beef production so far this year has been down .4 percent, primarily as a result of lighter marketing weights. The lighter marketing weights have been stimulated by both high feed prices due to last's years reduced yields and advanced marketings as feedlot managers pulled cattle forward to take advantage of the strong spring and early summer prices.

STATE • COUNTY • LOCAL GROUPS • U.S. DEPARTMENT OF AGRICULTURE COOPERATING

University of Illinois Extension and Purdue University Cooperative Extension Service provide equal opportunities in programs and employment.

For the remainder of the year, beef production is expected to continue to be sharply reduced given the small inventories in feedlots. However, weights are likely to increase with cheaper feed this fall. In addition, some retention of heifers could begin in the next year, especially if the drought in the Plains abates. Additional heifer retention has the impact of further reducing the beef supply. In the last-half of this year, beef supplies are expected to drop by 3 to 4 percent. The larger decreases could come late in the year. For the first-half of 2004, supplies are expected to remain lower by about 3 percent.

In recent years, small changes in beef supplies have had large impacts on finished cattle prices. For example, in 2003, supplies are expected to be down about 2 percent, yet prices will be up about 13 percent, averaging near \$76 for the year. Also favoring strong cattle prices are expectations for faster growth rates in the U.S. and international economies which help stimulate additional beef consumption.

Finished cattle prices have remained quite strong this summer. Some decrease can be expected into the late summer, but that likely will only be into the low \$70's. Prices should rally back into the higher \$70s this fall, before moving above \$80 by very late 2003 or early in 2004. Spring highs are expected to be in the lower to mid-\$80s.

Feeder cattle and calf prices should be boosted by strong finished cattle prices, by low interest rates and by declining feed prices this fall. Feeder cattle prices in the higher \$80 to low \$90s are expected, \$6 to \$8 higher than last fall. Prices for 500 to 550 pound steer calves will likely move into the high \$90 to low \$100s, about \$8 to \$10 higher than last fall.

One of the bearish factors now overhanging the cattle market is the issue of when the Canadian beef import ban will be lifted. That date will be negotiated between the U.S. and Canadian governments, but given current information, it is likely that it will be lifted before the end of 2003. Large stocks of frozen beef have been stockpiled in Canada, and the release will be a price depressing factor, much as the restriction of trade has been a price enhancing factor this spring and summer.

Issued by Chris Hurt
Extension Economist
Purdue University