



WEEKLY OUTLOOK



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CATTLE MARKET ABSORBS CANADIAN CATTLE

The cattle market has outperformed expectations this fall. Prices for choice finished steers dropped to the high \$70s in July and August as Canadian live cattle were allowed to move south. There was a general concern that these added supplies would result in weak fall prices. That has not occurred as cattle prices have moved to the higher \$80s and futures markets remain optimistic that prices they will push into the low \$90s this winter.

So far this year, finished steer prices have averaged near \$86, about \$1.50 higher than for the same period last year. Prices for 500-550 pound steers on the Plains have averaged a record \$1.32 per pound, compared to \$1.21 per pound during the same period last year. While finished cattle prices are about 2 percent higher than last year, calf prices are 9 percent higher, reflecting the lower feed costs. Beef supplies so far this year have been slightly below the same period in 2004. Modestly lower supplies with somewhat higher prices suggest that beef demand continues to remain about as strong as it was last year.

There remain several foggy issues for the cattle market in coming months. The first is the still growing imports of Canadian cattle. In September, the number of live cattle imported from Canada was about 3 percent of slaughter. However, the October numbers are closer to 4 percent of slaughter. In the last year before the restrictions beginning in May 2003, the U.S. imported nearly 5 percent of its slaughter as Canadian live animals. A second point is that the feeder animals that have been imported since mid-July have not come to slaughter yet. These feeder animals have represented 45 percent of the total Canadian live imports so far.

Clearly, feeder animals from Canada are just beginning to show up in feedlot numbers. The latest USDA on-feed inventory showed that 10.5 million head of cattle were in feedlots, virtually unchanged from a year-ago, but more than expectations prior to the report. The number of heifers that were on-feed, which were down 11 percent, continues to reveal a preference for retaining females for breeding herd replacements. The number of steers, on the other hand, was up 6 percent. Placements at 99 percent were at the high end of expectations, and marketings were also somewhat lower than expected.

Some of the recent price optimism is related to the potential to open U.S. beef exports. The Japanese have mentioned the possibility of opening their market yet this year. Thailand, a small market, has apparently ended its restrictions on our beef imports which had been in place since the first case of BSE in December 2003. Optimism is friendly to cattle prices, but the beef industry has had other optimistic moments in the past two years just to see hope fade.

Prices for finished steers are expected to be in the mid-to-higher \$80s this fall and in the lower \$90s this winter. Calf and feeder cattle prices are expected to be near record high this fall as well. Steer calves weighing 500 to 550 pounds are expected to average \$125 to \$135 per hundredweight this fall, while feeder cattle are expected to average \$110 to \$115 per hundredweight.

The U.S. cattle market seems to have quickly integrated Canadian live cattle back into the feedlots and into the slaughter mix without major bearish implications. Returns for brood cow operations remain strong and are causing additional interest in heifer retention. Potential for opening the world's markets to U.S. beef appears more likely than at any time since late 2003. Cheap corn and soybean meal, especially in the western Corn Belt, are making cattle feeding, and heavier weights, an added attraction.

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