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U. S. Beef Cattle Situation and 2009 Price Outlook

Walt Prevatt, Ph.D.
Extension Economist and Professor
Auburn University

Highlights

- As of January 1, 2008, the U.S. cattle and calves inventory decreased to a total of 96.7 million head, down about 334,000 head (-0.34 percent) from a year ago. The new cattle cycle, which began January 2004, exhibited modest growth for 3 years and began its decline in January 2008. The inventory of cattle and calves for this cattle cycle is tracking below the previous cattle cycle inventory levels (1990-2004).

- As of January 1, 2008, the number of cows and heifers that have calved decreased to a total of 41.8 million head, down about 246,000 head (-0.59 percent) from a year ago.

- As of January 1, 2008, the inventory of heifers 500 pounds and over decreased to a total of 20.0 million head, down about 83,000 head (-0.41%) from a year ago. The inventory of heifers 500 pounds and over held for beef cow replacements decreased to a total of 5.67 million head, down about 207,000 head (-3.52 percent) from a year ago. Milk cow replacements increased to a total of 4.5 million head, up about 147,000 head (+3.41 percent) from a year ago. The inventory of other heifers 500 pounds and over decreased to a total of 9.9 million head, down about 23,000 head (-0.23 percent) from a year ago.

- As of January 1, 2008, the 2007 U.S. calf crop was estimated to be 37.4 million head, a decrease of 158,000 head (-0.42 percent) from a year ago.

- As of January 1, 2008, the number of feeder cattle outside of feedlots was estimated to be 28.2 million head, a decrease of 66,000 head (-0.23 percent) from a year ago.

- As of July 1, 2008, the U.S. cattle and calves inventory decreased to a total of 104.3 million head, down about 500,000 head (-0.48 percent) from a year ago.

- As of July 1, 2008, the number of cows and heifers that have calved decreased to a total of 42.4 million head, down about 100,000 head (-0.24 percent) from a year ago.

- As of July 1, 2008, the inventory of heifers 500 pounds and over decreased to a total of 16.5 million head, down 100,000 head (-0.60 percent) from a year ago. The inventory of heifers 500 pounds and over held for beef cow replacements decreased to a total of 4.6 million head, down 100,000 head from last year (-2.13 percent). The inventory of milk cow replacements was unchanged from a year ago with at a total of 3.9 million head. The inventory of other heifers 500 pounds and over was unchanged from a year ago at 8.0 million head.

- As of July 1, 2008, the 2008 calf crop was estimated to be approximately 37.3 million head, down 111,000 head (-0.30 percent) from last year.

- As of July 1, 2008, the number of feeder cattle outside of feedlots was estimated to be 39.6 million head, an increase of 300,000 head (+0.76 percent) from a year ago.

- 2008 U.S. beef production is expected to increase to a total of 26.69 billion pounds, up about 0.27 billion pounds (1.0 percent) from a year ago. U.S. beef production during 2009 is expected to be smaller than 2008 at approximately 26.55 billion pounds (down 0.14 billion pounds or -0.52 percent).

- Net beef supply (domestic beef production plus beef imports minus beef exports) during 2008 is expected to decrease to 27.52 billion pounds, down 0.53 billion pounds (-1.88 percent) from last year. The 2008 decrease is the result of a decrease in beef imports (-0.50 billion pounds), and an increase in beef exports (+0.29 billion pounds). Beef and veal imports are expected to be about 3.05 and 2.55 billion pounds during 2007 and 2008, respectively. Beef and veal exports are expected to be about 1.43 and 1.73 billion pounds during 2007 and 2008, respectively. Thus, a beef trade deficit of about -1.62 and -0.83 billion pounds is expected to be realized during 2007 and 2008, respectively.

- Net beef supply during 2009 is expected to decrease to a total of 27.47 billion pounds, down 0.05 billion pounds (-0.16 percent) from 2008. The 2009 decrease is the result of a slight decrease in domestic production (-0.14 billion pounds), a slight increase in beef imports (+0.28 billion pounds), and an increase in beef exports (+0.19 billion pounds). Beef and veal imports are expected to be about 2.84 billion pounds, while beef and veal exports are expected to be about 1.92 billion pounds during 2009. Thus, a beef trade deficit of about -0.92 billion pounds is expected to be realized during 2009.

- Competing meat production (pork and poultry) during 2009 is expected to show an decrease compared with 2008. Pork production during 2009 is expected to show an decrease of 0.50 billion pounds (-2.11 percent), while broiler production is expected to decrease by about 0.30 billion pounds (-0.81 percent). Pork and broiler production are expected to total 22.98 and 36.74 billion pounds during 2009, respectively. Total beef, pork, and broiler production is expected to decrease to a total of 86.27 billion pounds, down about -0.93 billion pounds (-1.07 percent) from a year ago.

- U.S. beef exports are expected to show growth during 2008 and 2009. The opening of beef trade with South Korea during 2008 offers added opportunity to increase U.S. beef exports in 2009. Future export growth is expected to be gradual. It may take an additional 2-3 years to reach pre-2003 U.S. beef export levels. However, the increase in U.S. beef export levels should help provide price support to the U.S. beef industry. The levels of U.S. exports of beef and competing meats (pork and poultry) will likely have a significant impact on U.S. beef prices during the next couple of years.

- The combination of higher levels of cow slaughter year-to-date and a decline in both the July 2008 estimates for beef cow inventory (-0.60 percent) and heifers held for beef replacement (-2.13 percent) from a year ago, suggests that the U.S. beef cow-herd will continue to decrease. Current expectations for the January 1, 2009 cattle and calves inventory estimate will show a decrease of about 1 percent. A combination of lower feeder calf and feeder cattle market prices, substantially higher production costs, large levels of competing meats, and dry weather are thought to be the major factors responsible for causing cattle liquidation to occur during the last two years.

Beef Supply Situation

U.S. cattle farmers are not increasing the inventory of cattle and calves as once was expected. The expected increases in the inventory of cattle and calves have been negated by lower calf market prices, substantially higher productions costs (feed, fertilizer, fuel, labor, land rents, etc.), poor pasture and range conditions affecting many cow-calf states as well as large levels of competing meats. In addition, the uncertainties associated with beef export trade, food safety, Country of Origin Labeling, domestic and foreign consumer demand, alternative uses of land (pasture acreage moving into grain production and/or conservation programs and other non-farm uses such as recreation and rural non-farm development), and numerous other issues have likely also caused many cattle farmers to reduce their cattle inventory. Thus, the current cattle cycle will likely continue to liquidate cattle numbers until profitability can be achieved.

In the mid-year July 1, 2008 Cattle Report, cattle farmers told USDA they had about 200,000 fewer beef cows that had calved (-0.60 percent) than a year ago and beef cow replacements were down 100,000 head (-2.1 percent) from a year ago at 4.6 million head. A decrease in beef cow replacements and beef cows that have calved during 2008 suggests that herd expansion has halted for the reasons mentioned above.

A smaller inventory of cattle and calves and smaller calf crop during 2008 will likely limit the growth in beef production during 2009. USDA projects U.S. beef production during 2009 to be about 26.55 billion pounds. This level of beef production will be influenced by any adjustments in average carcass weights and the level of feeder and live cattle imports (from Canada and Mexico).

Feed and Forage Conditions

The 2008 growing season of the major grain growing regions got off to a slow start, but showed significant improvement during the summer months. The majority of the crop is behind schedule and subject to some early frosts in northern locations. An excess of rainfall and some wind damage was realized during September from the tropical disturbances in several states.

Regardless, recent crop progress reports continue to project larger than average corn and soybean yield estimates than last year. USDA's current corn and soybean production forecasts (Sept. 12^{th}) are 12.1 billion bushels and 2.93 billion bushels, respectively, for 2008. If these production levels are realized, corn production will be about 1billion bushels smaller than a year ago (-8 percent) and soybean production will be about 0.4 billion bushels larger than a year ago (+13 percent). This would be the second largest corn crop and fourth largest soybean crop on record.

2008 corn and soybean futures prices have fallen corresponding to the forecasted larger crops. December 08 corn is currently trading at $5.42 per bushel (Chicago Board of Trade, 9/19), while November 08 soybeans is at $11.43 per bushel. December 08 corn futures prices have declined $2+ per bushel, while November 08 soybeans declined $4+ per bushel during the 2008 summer months. However, these current futures prices represent an increase in futures prices for corn and soybeans of +56 percent and +21 percent from a year-ago, respectively. Additionally, 2008 corn ending stocks are expected to tighten compared with last year. An increase in corn usage during 2008/2009 is estimated to reach 12.6 billion bushels which exceeds corn production by 500+ million bushels. This should set the stage for some serious competition between corn and soybeans for crop acreage during early 2009. Hence, corn and soybean prices are expected to move higher in 2009. Therefore, livestock farmers should seriously consider taking steps to manage their feed purchases during the 2008 crop harvest.

Another factor that can certainly affect feed prices and feeder calf and feeder cattle prices is the level of export demand for corn and soybeans. Any major changes in world export demand for these commodities could significantly move market prices. The strength of the U.S. dollar is certain to influence world export demand (a weaker dollar improves world export demand).

Fortunately, pasture and range conditions have been marginally better over many of the cow-calf states this year. However, these marginal pasture and range conditions coupled with substantially higher input costs and lower feeder calf prices have resulted in a larger number of cull cows moving to slaughter this year. Recent rainfall has been received in many areas which will permit continued grazing of feeders and market cows into October and November. The pasture and range conditions as of September 14^{th} rated as poor or very poor was 27 percent of the U.S. acreage in pasture and rangeland. Substantially more rainfall is needed in many states to restore water tables and normal forage production.

Total 2008 U.S. hay production is expected to be marginally smaller than a year ago. USDA's September Crop Production Report estimated total hay production at about 148 million tons. That is down 2 million tons (-1 percent) from last year. A decline in harvested acreage was the primary reason for the decreased hay production. Harvested acreage is estimated to be down 1.2 million acres from 2007. Most states in the Southeast will show an increase in hay production compared with 2007 (drought year in most of the SE). However, significantly higher inputs costs will result in much higher hay prices. Alternative winter feedstuffs and forages will be in much demand this winter as cattlemen seek to feed their cow herds. The 2009 cash production costs per brood cow will likely be significantly higher for most cattle farmers (say +10 to +20 percent due to higher feed, fertilizer, and fuel costs).

Beef Demand and Trade

Beef demand during the first two quarters of 2008 weakened compared with a year ago (retail all fresh domestic beef demand index, **www.agmanager.info**). Beef demand has felt some challenges the last two years due to less interest in protein diets and tightening consumer grocery budgets due to the higher cost of living. Beef demand is expected to be further tested during 2009 as consumers continue to experience rising prices for most goods and services. If consumer disposable income does not rise proportionally, shopping habits and choices will shift as prices rise forcing consumers to substitute and/or reduce the bundle of goods and services they consume. The weakening U.S. economy during 2009 is expected result in a decrease in domestic beef demand. Additionally, world beef demand may also decrease due to weak economies.

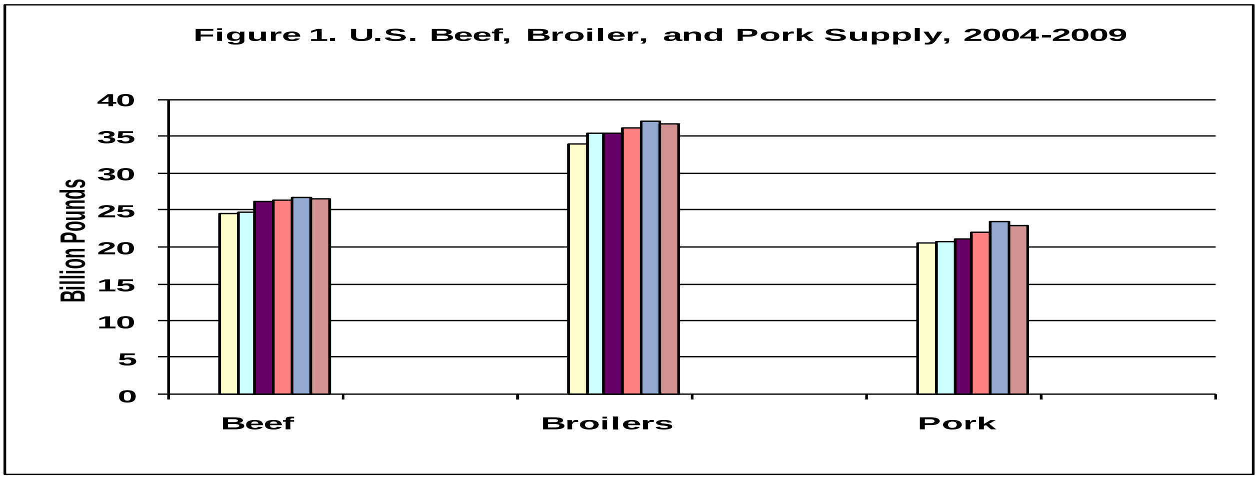
Per capita consumption of beef is expected to decline during 2008 and 2009. Beef production during 2008 is expected to be 26.688 billion pounds, up 267 million pounds or 1 percent more than a year-ago. 2008 beef imports are estimated to be 2.552 billion pounds or about 500 million pounds less (-16 percent) than 2007. 2008 beef exports are expected to be 1.725 billion pounds or about 294 million pounds more (+21 percent) than in 2007. The combination of higher exports and smaller imports are expected to more than offset the increase in beef production. As a result, overall domestic disappearance should decline somewhere around 527 million pounds. This reduction in domestic disappearance will result in a decrease in beef per capita consumption to around 63.5 pounds per person. A similar scenario is expected for 2009 and per capita consumption for 2009 is estimated to be about 62.5 pounds per person. Also, as the U.S. population increases in the future, per capita beef consumption will likely be lower.

Retail beef prices during 2008 were marginally higher than a year ago. 2008 retail beef prices will average slightly above 2007 prices. The 2009 retail beef prices will be tested if consumers are pressured by the rising costs of goods and services.

Additionally, it is very important that the U.S. continues to keep open and grow beef export markets. These export markets could be worth $3 to $7 per hundredweight on the value of fed slaughter cattle. Growth in beef export markets will also help to moderate the price impacts of any weaknesses in U.S. broiler and pork exports.

Competing Meats

Beef, pork, and broilers are expected to show decreased production next year (see Figure 1). Beef production is expected to decrease about 0.14 billion pounds (-0.05 percent). Pork production is expected to decrease about 0.5 billion pounds (-2 percent) during 2009 compared with 2008, while broilers are expected to decrease about 0.3 billion pounds (-0.8 percent). There is a trade surplus for each of these competing meats, which means we export more than we import. However, weakening export demand and rising input costs for these commodities are expected to force U.S. farmers to reduce supplies.



Any changes in these production levels or export levels of pork and broilers could have a significant effect on U.S. beef prices. A watchful eye on the production and export levels of competing meats will help identify potential changes in beef prices.

2008 Beef Price Outlook

The 2008 cattle market will continue to operate with a great deal of uncertainty. Cattle farmers should monitor several factors: including the length, extent, and severity of the drought, supplies of broilers and pork, export and import sales (beef, broilers, and pork), and consumer beef demand. The cattle markets could experience some volatile movements with abrupt changes in any of these factors and/or combinations of factors.

The 2007-2009 U.S. net beef supply estimates are shown in Table 1. U.S. net beef supply is domestic beef production plus beef imports minus beef exports. The net beef supply is the amount of beef that is consumed in U.S. markets. The 2008 U.S. net beef supply is expected to show a decline of about 0.527 billion pounds (28.042-27.515 or -1.88 percent) compared with 2007. The 2009 U.S. net beef supply is expected to be 27.47 billion pounds, almost no change from 2008 (-0.16 percent)

Table 1. U.S. Net Beef Supply (Billion Pounds), 2007-2009.

Item	2007	2008	2009
	(Billion Pounds)		
U.S. Domestic Beef Production	26.421	26.688	26.550
U.S. Beef & Veal Imports	3.052	2.552	2.835
U.S. Beef & Veal Exports	1.431	1.725	1.915
U.S. Net Beef Supply	28.042	27.515	27.470

Minor changes in future U.S. beef import and/or export levels (due to beef demand, food safety, politics, regulations, etc.) can significantly change the U.S. net beef supply and consequently domestic beef prices. Additionally, the strength of the U.S. dollar will have a major influence the levels of U.S. beef exports and imports during 2009.

U.S. net broiler supply and U.S. net pork supply during 2009 are expected to be marginally lower from 2008 estimates. Therefore, total U.S. net supply of beef, broilers, and pork is expected to be slightly lower which should provide support for meat prices.

Supplies of beef, broilers, and pork are expected to respond quickly to changes in demand. Any significant changes in domestic demand and/or foreign demand of these three competing meats could cause major movements in beef prices. Each industry is very capable of significantly altering production levels and is subject to wide changes in export and import levels.

Given the above projections regarding the 2009 U.S. net beef supply, beef cattle price projections were estimated for 2009. Beef cattle price projections were estimated by quarter for choice slaughter steers (Nebraska basis), feeder steers, 750#, (Alabama basis), feeder steer calves, 550#, (Alabama basis), and boning utility cows (Alabama basis), as shown in Table 2. These prices represent the range over which the average price for the particular class of cattle would average for the indicated quarter. For example, Choice slaughter steers in Nebraska during the first quarter of 2009 are expected to average between $95 and $100 per hundredweight. The highest average prices are expected during the fourth quarter of 2009 for slaughter steers and the third quarter for feeder steers and calves. The lowest average prices are expected during the third quarter for choice slaughter steers and the fourth quarter for boning utility cows.

Table 2. Estimated average cattle market prices by quarter, Alabama and Nebraska, 2009.

Item	2009 1st Qtr.	2009 2nd Otr.	2009 3rd Otr.	2009 4th Qtr.	2009 Avg.
Choice slaughter steers, Neb. $/cwt.	$95-$100	$96-$101	$92-$98	$96-$102	$96-$100
Feeder steers, 750#, AL, $/cwt.	$98-$104	$100-$105	$102-$106	$101-$106	$100-$105
Feeder steer calves, 550#, AL, $/cwt.	$103-$109	$105-$110	$106-$112	$105-$110	$105-$110
Boning utility cows, AL, $/cwt.	$51-$55	$53-$56	$52-$55	$51-$55	$51-$55

For 2009, choice slaughter steers (Nebraska basis) are forecast to post an annual average price in the upper $90s per hundredweight. Alabama feeder steers (750#) are expected to average between $100 and $105 per hundredweight, Alabama feeder steer calves (550#) between $105 and $110 per hundredweight, and Alabama boning utility cows in the low to mid- $50s per hundredweight. Breeding heifer, cow, and bull prices are expected to be steady with potential modest increases as the demand for herd replacements gains in importance.

Additionally, a significant factor in the net beef supply during the next several years will be the beef balance of trade (beef exports minus beef imports). In 2009, U.S. beef exports are expected to total about 1.915 billion pounds, while U.S. beef imports are expected to total about 2.835 billion pounds. This difference in beef trade results in a beef trade deficit of about -0.920 billion pounds. Thus, should U.S. beef production begin to grow over the next several years, it is extremely important that we realize significant improvements in U.S. beef exports if we want to avoid burdensome levels of net beef supplies. It would be highly advantageous to cattle farmers if we could grow our beef export levels, especially before any increases in domestic beef production are realized.

2009 cattle market prices should remain cyclically strong and average higher than 2008. As should be expected, the 2009 cattle market has the potential for some big price swings. Abrupt changes in the levels of the factors mentioned above could add much volatility to 2009 cattle market prices. Cattle farmers will need to search for ways to lower their unit cost of production (what it costs to produce a pound of beef) in order to achieve profitability during 2009.