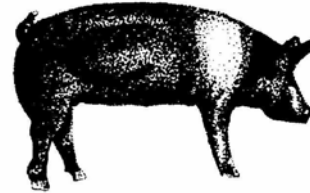


Livestock Market Update



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Cattle Update

Cattle Inventory

The total number of cattle and calves in the U.S. on July 1, 2006 was 105.7 million head, up 1.1% from July 2005 and 2% from July 2004. This is the second consecutive year of growth and reinforces the turn in the cattle cycle. The beef cow inventory has grown by 1000,000 head from 2005 and 300,000 head from the 2003 low. The calf crop for 2006 is predicted at 37.0 million, up 0.3% from the 2005 calf crop. The number of beef cows that have calved (43 million) is also steady with 2005. The number of dairy cows that have calved (9.1 million) is 1% larger than July 2005.

The number of beef replacement heifers (5 million) is steady with July 2005, while the number of dairy replacement heifers (9.2 million) is up 3% from a year ago. The trend indicates that expansion is still occurring, albeit the rate of growth has slowed. The number of steers weighing 500 pounds and over (14.9 million) is up 3%, as well as the number of 500 pound plus heifers that are not being kept for breeding (7.7 million). The number of calves less than 500 pounds is up 1% to 29.2 million head.

For January 1, 2007, the U.S. cattle inventory is expected to total 98.2 million, up about 1 million from January 1, 2006. The cowherd is expected at about 43 million head, while beef cow numbers are expected to total 33.8 million (up about 500,000 from January 1, 2006). Dairy cow inventories are expected to be up about 180,000 head.

Beef replacement heifer numbers are also expected to grow, thereby increasing the beef replacement heifer inventory by an additional 1%.

Cattle on Feed

USDA Cattle on Feed (COF) report issued Friday, July 21, 2006 was quite bearish with placements and on-feed numbers coming in well above pre-report estimates. The COF report stated that the on-feed inventory on July 1, 2006 in large feedyards with capacity of 1,000 or more head was up 4.6% (totaling 10.9 million) from July 1, 2005 and up 7% from 2004. This is the second highest July 1 inventory since the series began in 1996. The inventory included 7.09 million steers and steer calves (65% of total inventory), up 4% from 2005. Heifers and heifer calves accounted for 3.71 million head, up 5% from 2005.

Placements in feedlots during June totaled 1.95 million, 10% above 2005 and 18% above 2004. Net placements were 1.89 million. This is the second highest placements for the month of June since the series began in 1996. During June, placements of cattle and calves weighing less than 600 pounds were 565,000 (a 37% increase from 2005), 600-699 pounds were 430,000 (up 24% from 2005), 700-700 pounds were 456,000 (down 5% from 2005), and 800 pounds and greater were 500,000 (down 6% from 2005).

During June, marketings of fed cattle from feedyards with over 1,000 head capacity totaled 2.20 million, up 6% as compared to 2005 and 6% above 2004.

Cattle feeders in Alberta and Saskatchewan placed 879,600 head on feed during June, up 9% from 2005.

Cattle Slaughter

Commercial red meat production for the U.S. totaled 4.12 billion pounds in June, up 4% from June 2005. Beef production, at 2.43 billion pounds, was 9% above 2005. Cattle slaughter totaled 3.16 million head, up 8% from June 2005. June 2006 contained 22 weekdays and 4 Saturdays, the same as June 2005. The average U.S. live weight was up 14 pounds from 2005, at 1,259 pounds.

For Wisconsin, commercial red meat production totaled 119.1 million pounds, up 12% from 2005. The average live weight for Wisconsin is 1,354 pounds, down 1 pound from 2005.

January - June 2006, federally inspected slaughter totaled 16.37 million head in 2005. Steer slaughter was at 8.7 million head, up 6.8% from 2005. Heifer slaughter was up 1.3% at 4.9 million head. Similarly, total cow slaughter increased 6.4%. Beef cow slaughter was approximately 1.4 million head, up 12% whereas dairy cow slaughter was steady at 1.1 million head. The increase in cattle slaughter, especially beef cow slaughter, is most likely due to dry weather and short forage production in several beef cow areas of the country. This trend has decreased the growth in the cow herd, and if the trend continues into the latter part of 2006 the growth will stop. Hence, the cattle inventory expectations shown earlier in this report may be revised.

Trade

Beef exports have been increasing, up 80% for May, as compared to May 2005. For January-May, exports were up 78% from the same time period in 2005, but down 57% as compared to 2003, the last year prior to the Washington cow with BSE. Exports to Canada for January-May were up 152%, up 69% to Mexico, and 60% to other areas.

Beef imports for January-May were down 10.4% from 2005. We are importing 9.6% less from New Zealand, 24.2% less from Canada, and 28% less from Uruguay.

Live feeder cattle imports from Mexico for January-May were down 7.5%, but total live cattle imports from Canada and Mexico were up 71.9%. This number is inflated as the border to Canada was not open to live cattle imports until July 2005.

The big news though is that according to a news report on Friday, July 21, 2006, Japan is expected to approve a partial resumption of imports of U.S. beef this week. The government plans to officially approve the resumption on Thursday, the national Yomiuri newspaper said, without citing sources.

The Kyodo News agency report comes hours after Japan's farm minister said a cutback in the U.S. government's testing program for mad cow disease won't affect Tokyo's decision on whether to resume U.S. beef imports. Last Thursday, the U.S. Agriculture Department announced it is scaling back its testing program for mad cow disease to one-tenth of what it has been since the discovery of an infected cow in the U.S. That means a reduction from the current 1,000 tests to around 110 tests per day, beginning in late August.

Beef Prices

Boxed beef values for the week ending July 21, 2006 were down at \$141.94 for Choice, weakening \$5.65 from the previous day, and \$124.28 for Select, weakening \$2.26. The Choice-Select spread was at \$17.65. Volumes turned active late last week.

Beef Demand

Currently, there are conflicting reports as to whether beef demand is increasing or decreasing. Some argue that due to the decline of the Atkins diet, beef demand is on the decline. However, note that the supply of beef has greatly expanded so far in 2006. And although prices have declined around \$4 when compared to the first six months of 2005, this price decline could have been worse if not for the continued strength in beef demand. With the possible opening of the Japanese market this strength may increase. It is important to remember that our exports to Japan will be slow and may never equal the amount previously exported prior to the discovery of BSE.

Seasonally, beef demand should begin to slow until late August, when buyers begin to stock for Labor Day weekend. As a result, beef prices may decline slightly.

Fed Cattle Market

The Wisconsin fed cattle trade for the week of July 10 - 15 had weekly weighted average prices for Select and Choice Slaughter Steers on a live weight basis weighing 1000 - 1100 pounds at \$81.75, 1101-1300 was \$80.91, and 1300+ was \$80.91. For Choice Slaughter Steers on a live weight basis the weekly weighted average price was \$84.10. The weekly weighted average price for Choice Slaughter Holstein Steers on a live weight basis was \$78.46; for Select Slaughter Holstein Steers on a live weight basis, \$71.92.

For the 5 market average, fed cattle trade was slow to develop, with only 9.3 thousand head in negotiated trade as of Thursday, July 20, 2006. For the week of July 17-21 live fed cattle price were down \$0.62 per cwt at \$81.10 per cwt. Weighted average carcass prices were up \$0.10 per cwt to \$128.45.

