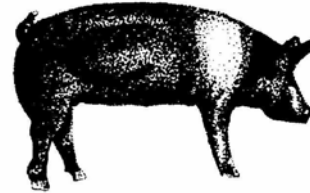


Livestock Market Update



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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.

Year-to-date fed cattle prices have averaged \$85.69. Feeding losses, and the feeder – to –fed cattle spread indicate the industry may lose currentness by end of summer. Cattle on feed numbers are higher, placements are higher (especially when considering the lighter weight categories), and trade imports are still imbalanced due to BSE. All this indicates that supplies will continue to be up by about 2%.

What does this mean for prices? Fed cattle prices should remain in the low \$80s for the remainder of the summer, with a seasonal increase into the mid \$80s for the fourth quarter. The trend for the next few years will be lower prices, due to the increased supply and steady demand.

Feeder Cattle Market

The most recent Wisconsin feeder cattle prices I have are from June 23, 2006. The average weighted price for medium and large frame No. 1 and 2 steers were 400-500 lbs. \$138.42, 500-600 lbs. \$132.26, 600-700 lbs. \$117.46, 700-800 lbs. \$116.20, and 800-900 pounds \$102.78.

The feeder cattle prices for the week ending July 21, 2006 at Oklahoma City were \$1-4 per cwt lower than a week prior. Steer and heifer calves were \$4-8 per cwt lower. The price ranges by weight groups for medium and large frame No. 1 steers at Oklahoma City were 400-500 lbs. \$120.00-138.50, 500-600 lbs. \$112.00-134.25, 600-700 lbs. \$116.75-123.00, 700-800 lbs. \$112.50-119.00, and 800-900 pounds \$106.50 - \$111.00.

The feeder cattle market seasonally finds its high in the summer months, usually July or August. This suggests that feeder market prices could be at their high for the year, or if not at the high, have very limited upside potential remaining.

Extreme conditions due to drought however, may force calves to market weeks ahead of normal delivery. These conditions will continue to pressure the calf market and create discounts.

Hog Update

Hog Slaughter – U.S.

According to the USDA report released July 21, pork production for June totaled 1.66 billion pounds, up slightly from 2005. Hog kill totaled 8.34 million head, down 2% from June 2005. The average live weight was 268 pounds.

Hog slaughter for the weeks of July 10 – 21 show a 4.5% increase and a 5.4% increase, respectively, from the previous year.

Sow slaughter is up from 2005. Glenn Grimes and Ron Plain speculate that two possibilities for the increase in sow slaughter exist. The first potential explanation they give is that producers could have decided now is a good time to depopulate-repopulate because of disease problems. Secondly, producers who are about ready to retire or at least exit the hog business may have decided now is a good time to execute these plans.

This increase in slaughter bodes potential bad news if there is to be a larger than expected slaughter as compared to the June Hogs and Pigs report.

Pork and Hog Trade

Pork exports for May were up 11.3% from 2005. For January – May, pork exports were up 15.3%, as compared to the same period in 2005.

Pork imports by the U.S. for May were down 4.3%, but for January – May were up 3.5%. Net pork exports as a percent of production were at 10.23%.

Pork Prices

Pork product prices were down by \$3.52 per cwt, compared to a week earlier.

Hog Market

Live cash hog prices on July 24, 2006 were about \$0.25 to \$3.00 higher than a week earlier, but are down about \$1.50 from Friday, July 21, 2006. The top live prices were: Peoria \$45.50 per cwt, St. Paul \$48.00 per cwt, Sioux Falls, \$49.50 per cwt and interior Missouri \$48.25 per cwt. Regional weighted average carcass base prices on July 24 were: western corn belt \$68.16, eastern corn belt \$68.58, and Iowa-Minnesota \$68.22/cwt. The national weighted average carcass price for negotiated hogs was \$52.08.

Unless demand grows to accommodate the increase in production, hog profits the next couple of years will turn to red, especially if corn costs increase substantially.

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