

# Livestock Market Update

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January 25, 2008

Volume 4 Issue 1

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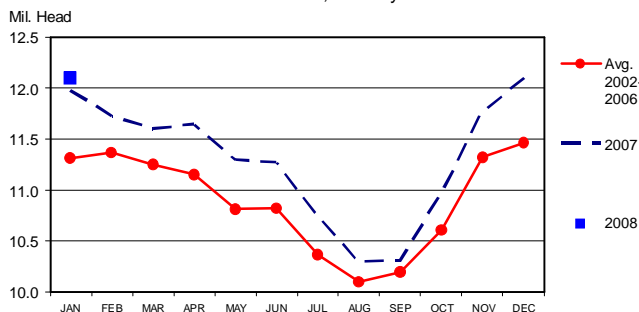
## Cattle on Feed is Up

USDA Cattle on Feed report issued Friday, January 25, 2008 was slightly bearish. The on-feed inventory in large feedyards was up 1% from January 2007 and up 2% from January 2006. This is the highest January 1 inventory since the series began in 1996. The inventory included 7.65 million steers and steer calves, up 1% from the previous year. This group accounted for 63% of the total inventory. Heifers and heifer calves accounted for 4.38 million head, up 2% from 2007.

Placements in feedlots during December totaled 1.70 million, 1% below 2007 and 10% below 2006. Trade estimates had expected placements to be up 2.6%. Net placements were 1.64 million head. During December, placements of cattle and calves weighing less than 600 pounds were 480,000, 600-699 pounds were 505,000, 700-799 pounds were 420,000 and 800 pounds and greater were 296,000. Seasonally large imports of Canadian feeder cattle and placements of lightweight feeders because of poor winter forage conditions contributed to the strong placement figure.

During December, marketings of fed cattle from feedyards with over 1000 head capacity totaled 1.65 million, 1% above 2007 but 4% below 2006. This is the second lowest fed cattle marketings for the month of December since the series began in 1996. Pre-trade estimates had assumed marketings at 100.3%.

**CATTLE ON FEED**  
US Total, Monthly



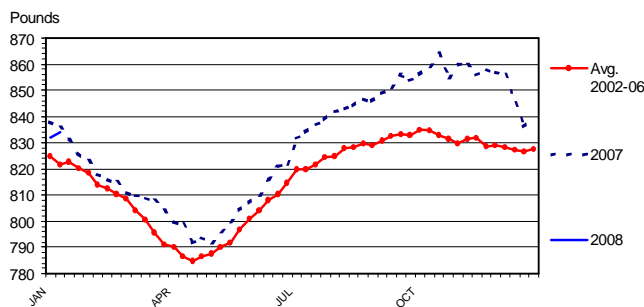
## ***Cattle Slaughter is Up***

Cattle slaughter totaled 2.65 million head, up 1 % from December 2006. Federally inspected steer slaughter was down 0.7%, while heifer slaughter was up 0.7%.

According to the *Livestock Slaughter* report average live weight in December 2007 was up 2 pounds from the previous year, at 1,302 pounds. The average live weight for Wisconsin is 1,348 pounds. Although weights in this monthly report are up, weekly reports from the Texas/Oklahoma panhandle indicate that weights began decreasing relative to a year earlier in mid-December, and are continuing to do so. This situation likely is the result of higher feedstuff costs and to a lesser extent some winter weather impacts on cattle in feedlots. It no longer makes economic sense to feed to heavier weights.

Beef production, at 2.06 billion pounds, was slightly above the previous year. Commercial red meat production for the U.S. totaled 4.06 billion pounds in December, up 5 % from the 3.87 billion pounds produced in December 2006.

**STEER DRESSED WEIGHT**  
Federally Inspected, Weekly



## ***Beef Cow Numbers Decline***

In 2007, drought in the southeast states and record high national average hay prices resulted in larger cow slaughter numbers, which has likely resulted in a contraction of the cowherd. USDA-NASS will release the *Cattle* report on February 1, 2008.

Assuming no revisions to the numbers reported for previous years, one could expect the USDA to report a small year-to-year decline in the number of all cattle and calves as of January 1, 2008 (down 0.2 %). Largely due to imported of feeder cattle, a modest year-to-year increase in some categories (e.g. steers and heifers over 500 pounds) is expected. Importantly, some key numbers are expected to be below last year. Beef cows are expected to be down 0.4%, while heifers held over for beef cow replacements over 500 pounds are expected to be down 5%. The number of dairy cows in the U.S. is up.

The low number of beef cows will translate into another small calf crop in 2008. USDA estimated the 2007 U.S. calf crop at slightly less than the prior year. Thus, feeder cattle supplies will remain tight. In fact, to stabilize the size of the U.S. beef cowherd more heifers will need to be retained by cow-calf operations for breeding purposes.

Besides cowherd declines in the U.S., the same situation is occurring in other important countries. Importantly, the Canadian beef cowherd declined in 2007 and did so at a faster pace than in the U.S. In key South American countries, cowherd numbers are under pressure as pastureland continues to be converted into cropland due to high crop prices. Finally, Australia has suffered from ongoing severe drought as well.

### ***Byproduct Values Up by LMIC***

Byproduct values represent the total value for all non-carcass items collected from a slaughter animal such as the hide/skin, liver, and tallow. Total values in addition to individual non-meat items are reported by USDA-AMS on a weekly basis for steers, cows and hogs. The majority of these byproduct items are exported thus; the market for byproduct values relies heavily upon foreign markets. This year steer and hog byproduct values have benefited greatly from spillover demand from the oil markets particularly for edible and inedible tallow.

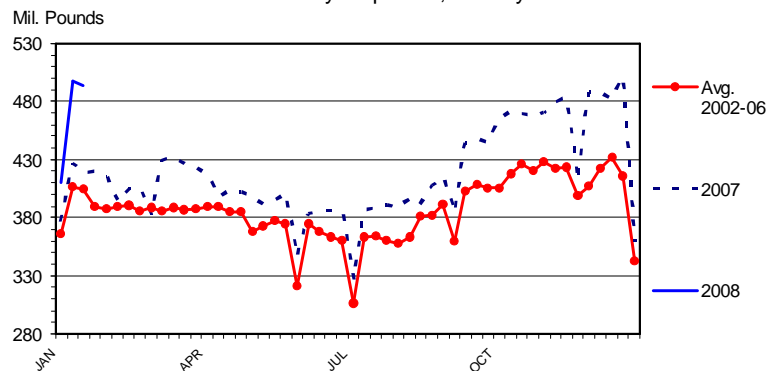
At the onset of 2007, the steer byproduct value was at \$9.55 per cwt. (live steer weight) in January, by June it had peaked at average of \$10.27 per cwt., the highest monthly value reported since December 2003. Despite some softness in the third quarter, the byproduct value on a weekly basis averaged \$9.94 per cwt. in 2007 compared to \$8.33 per cwt. for calendar year 2006. On a per item basis, the January through December value for edible tallow was 66 % higher than a year earlier, followed by inedible tallow (65 %), bonemeal (49 %), and livers (23 %). At the same time, stronger demand from China for hides has been supportive as well, which are up nearly 5 % from 2006.

### ***Pork and Poultry Production Increasing***

One of the biggest factors influencing beef and therefore cattle prices in the next two years may be competing meat prices. Production of pork and poultry ramped-up dramatically in the fourth quarter of 2007 and those trends will continue well into 2008. U.S. pork production in the fourth quarter of 2007 was nearly 10 % above a year earlier and January production is on track to be 19% above January 2007. These

are astronomically high production numbers for the hog sector and they go back until last summer. Additionally, preliminary calculations put fourth quarter 2007 U.S. poultry (chicken and turkey) production more than a 5 % above 2006. Ordinarily small changes to production numbers of pork and chicken do not have large impact on beef but these numbers are too high, and will present difficulties for the boxed beef cutout value to increase.

**PORK PRODUCTION**  
Federally Inspected, Weekly



### ***Box Beef Prices are Down/Retail Beef Prices are Up***

The choice carcass cutout value was \$1.4274/pound on January 25, down \$2.79 from the previous week and down 5% from 2006. The select cutout was down \$2.22 to \$1.3647 per pound. The Choice-Select spread plummeted to approach the very low levels of last summer and was \$6.27 on January 25, down from \$10.30 a year ago. This sharp decline would indicate there is plenty of Choice supply or dismal Choice demand.

Choice beef prices at retail averaged \$4.113 per pound in December, up 4.9% compared to 12 months earlier. Adjusted for inflation beef was up 0.8%. This is a good lead-in to 2008.

## US Beef Exports are Increasing

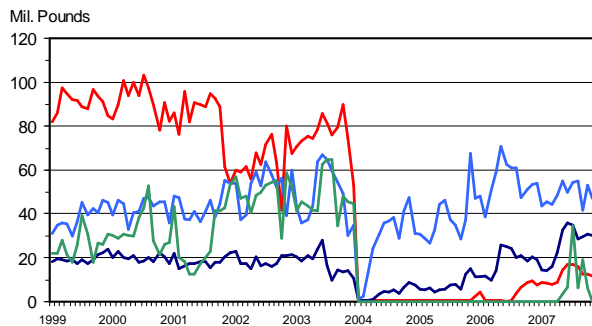
In late 2001, USDA-FAS launched the Weekly Beef Export report under the directive of Mandatory Price Reporting (MPR) legislation. The weekly beef export report provides data for U.S. exports and outstanding export sales of fresh, chilled, and frozen beef muscle cuts. All trading partners are included in the weekly report, with the export data reported on a metric ton basis. Those data are important because they are timelier than the monthly data – the monthly data for November were released on Friday, January 11<sup>th</sup>, while the weekly data are complete through January 10, 2008. However the weekly versus monthly data are not strictly comparable.

In November 2007, U.S. beef export tonnage was just over 116 million tons (carcass weight), up about 15 million tons or 15% from 2006. Weekly data indicated that further increases compared to a year ago were posted in December and the first half of January. On a weekly average basis, the preliminary USDA-FAS data showed U.S. whole muscle beef exports during December were about 10% above a year earlier, while the first half of January is about 14% above January 2007. Still, compared to pre-BSE levels U.S. beef exports remain down. For example, in December 2003, weekly average whole muscle beef cut export tonnage was reported by USDA-FAS at 12.6 million metric tons compared to only 7.8 million metric tons in December 2007.

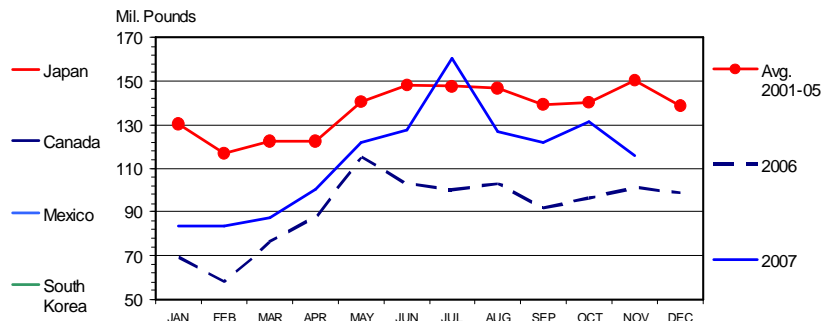
U.S. beef exports are forecast to continue to grow in 2008. The estimate for U.S. beef exports in 2007 is 1.42 billion pounds (carcass weight). In 2008, the forecast is for nearly 1.7 billion pounds. The record U.S. beef export level set in 2003 was just over 2.5 billion pounds.

The key markets for U.S. beef since the discovery of BSE in late 2003 have been Mexico, Canada and Japan. South Korea reemerged as a key market in 2007, however due to ongoing difficulties with shipments last year that market was again closed to U.S. beef in October. In December, the USDA-FAS data showed weekly average U.S. exports of beef to Mexico were down 16% but exports to Canada and Japan were up 44% and 57%, respectively.

**U S BEEF EXPORTS TO MAJOR MARKETS**  
Carcass Weight, Monthly



**U S BEEF AND VEAL EXPORTS**  
Carcass Weight, Monthly



***Beef Demand Limited by Competing Meats and Macroeconomic Concerns*** by Derrell S. Peel, OSU Extension Livestock Marketing Specialist

Through most of 2007 strong beef supply fundamentals kept bumping into a demand ceiling that resulted in a crushing squeeze on feedlot and packer margins. Current indications are that demand concerns will increase in 2008 and industry margins may worsen or, at best, fail to improve. Poor macroeconomic news continues to weigh on beef demand with accumulating indications of general weakness in the U.S. economy. It is not so much that any one indicator represents a definite problem but rather the expanding set of indications in various sectors of the economy that suggest looming dark clouds. Many economists agree that the threat of a recession is higher and growing.

Consumer morale and discretionary consumer spending has been impacted by the home mortgage crisis, slumping housing values, high fuel costs, and a weaker dollar (which makes imported products more expensive). Disappointing holiday sales and poor housing sales data indicate that consumers are less inclined or able to compensate for a generally weak business sector in recent months. This week's news only contributes to the problem. Early in the week crude oil touched \$100 a barrel for the first time; sending chills through markets. On Friday, the latest jobs report indicated that unemployment rose to 5 % in December, not bad by historical standards, but a concern now and the highest rate in two years.

Beef demand is also a function of the availability and price of competing meats. The December Hog and Pig report confirmed that the pork industry in the U.S.

continues to expand, following rapid increases in pork production in the last half of 2007. Broiler production is expected to increase in 2008 as well. Increased pork and poultry production will keep competing meat prices down and temper beef prices as well. There are indications that consumers have responded, not so much by eating less beef, but by "trading down", that is, buying less expensive beef cuts and by reducing away from home consumption. Several restaurants reported weak sales in late 2007 and a recent survey by the National Restaurant Association indicates that only 16 % of restaurant operators expect business conditions to improve in the first half of 2008 while 41 % expect conditions to worsen.

Economists define demand for a product as the willingness and ability of consumers to purchase different quantities of the product at various prices. At the current high prices, there is already a limit on the quantity of beef that people will purchase. Beyond that, there are significant and probably growing factors that will further limit both the ability and willingness of consumers to buy beef. High fuel prices and rising unemployment reduce discretionary incomes and the ability of consumers to purchase beef. Willingness to purchase is influenced by several factors. Overall, beef is still popular and there is no indication that people do not want to eat beef. However, increasing supplies of cheaper alternative meats means that consumers will be more willing to substitute other meats for beef. In 2007, beef demand was probably best characterized as a ceiling that limited beef and cattle price increases. As we begin 2008, increasingly ominous beef demand factors could cause the ceiling to begin dropping, thereby making industry margins even worse and impacting cattle prices to a greater extent.

***USDA amends regulations on imports from BSE minimal-risk countries by LMIC***

USDA's Animal and Plant Health Inspection Service has amended its regulations for the importation of animals and animal products, removing several restrictions regarding animal identification and ruminant-materials processing from regions that present a minimal risk of introducing bovine spongiform encephalopathy into the U.S.

This amended rule makes final several minor changes from a proposed rule published in the Aug. 9, 2006, Federal Register. Under this amended rule, APHIS is allowing: The unique individual identification of animals by means other than ear tags, provided the APHIS administrator has approved the manner of identification for the type of animal intended for importation and the identification is traceable to the premises of origin of the animal.

The importation of hide-derived — in addition to bone-derived — gelatin for any use, provided certain conditions are met; and non-ruminant material that is processed in BSE minimal-risk regions to be processed in facilities that also process material derived from ruminants from the minimal-risk region. APHIS said it is updating this rule to remove these restrictions because they provide no additional safeguards against the introduction of BSE into the United States.

These changes update a March 7, 2005, rule that established regions with effective BSE prevention and detection measures, termed minimal-risk regions, and conditions for safely importing live ruminants and ruminant products from such regions. Canada is currently the only country that USDA has concluded meets the requirements for a minimal-risk region.

Related to this, on Nov. 19, 2007, APHIS established conditions for the importation of certain bovines and bovine commodities from BSE minimal-risk regions that had not been made eligible for importation by the first rule.

"Human health in the United States is protected by a system of interlocking safeguards that ensure the safety of U.S. beef. The most important of these safeguards is the ban on specified risk materials from the food supply," APHIS said, noting Canada has similar safeguards in place.

Notice of this action was published in the Jan. 18 Federal Register. The final rule becomes effective Feb. 18, 2008.

***Energy Bill discussion by Glenn Grimes and Ron Plain***

The 2007 broad-based energy bill has the potential to impact farm markets and crop production decisions for years to come. Congress' ultimate goal is for the nation to use 36 billion gallons of renewable fuels by the year 2022. According to plans in the bill, corn-based ethanol production will peak at 15 billion gallons per year in 2015 and stay at that level. This will mean roughly doubling the current corn-based production capacity. Building that much more corn-based production facilities is not the most challenging aspect of reaching the goal. It will be producing enough corn to keep these plants supplied without shortchanging other corn users such as the cattle industry and supplying acres to other crops. In fact, the current mid-\$4.00 per bushel corn futures price is not due to the current supply of corn based on 2007-2008 marketing year needs, but the battle for acres with soybeans for the 2008 crop year.

### ***Fed Cattle Market***

The Wisconsin weekly weighted average fed cattle trade for the week of January 19 had higher numbers as compared to a week earlier. Prices were up from the previous week. The Wisconsin weekly weighted average price for Choice 2-3 slaughter steers averaged \$89.76, which was up from the previous week's thinly traded average of \$86.45. Wisconsin Select and Choice Slaughter Steers on a live weight basis weighing 1200 – 1295 pounds was \$85.48, 1303-1455 was \$85.25. The weekly weighted average price for Choice Slaughter Holstein Steers on a live weight basis was \$79.43.

The weekly weighted average price of live fed cattle through January 19 showed the five-market at \$90.09 per cwt down \$1.31 per cwt for the week. The 5-area daily weighted average price for slaughter steers sold through Thursday January 24 was \$89.30/cwt on a live weight basis, down \$0.79 from a week earlier. The normal seasonal price pattern favors a higher trend in cattle prices until March.

### ***Feeder Cattle Market***

Feeder cattle and calves at Oklahoma City this week were \$1-2 per cwt higher following the substantially lower prices last week. The price range by weight groups for medium and large frame No. 1 steers were: 400-500 pounds \$119.50 per cwt, 500-600 pounds \$106.50-122 per cwt, 600-700 pounds \$99.35-109 per cwt, 700-800 pounds \$94.50-101.50 per cwt and 800-1,000 pounds \$90-98 per cwt.

Although there was a week-to-week increase, feeder cattle prices are still experiencing weakness compared to early December when prices for 700-800 pound

calves were around \$106, and prices for 500-600 was \$119.

Cost of feed is negatively correlated with feeder cattle prices. Thus, when corn price increases, feeder cattle prices decrease. The spread between light and heavy weight calves will continue to narrow as long as the cost of feed continues to rise.

### ***Outlook for 2008***

Cattle and beef markets face a number of challenges in 2008; demand aspects will likely dominate prices producers receive for cattle over the next two years. Consumer demand for red meats languished at times in 2007 due to sluggish economic conditions and high production of competing meat products. That situation could become an important headwind for cattle prices in 2008, especially if the U.S. economy falters. Overseas demand for U.S. beef improved some in 2007 even though several Asian countries continued to throw-up barriers and mishaps occurred with U.S. shipments, especially to South Korea. Further growth in exports and rather modest levels of beef imports are forecast for 2008.

Drought has become a major issue for many U.S. cattle producers and the impacts on the cattle market could continue to linger. Expectations are for a small decline in the U.S. beef cowherd. Cowherd numbers in Canada, Australia, and some South American countries are on the decline as well, which could assist U.S. beef exports.

Fed cattle slaughter in the US is expected to increase by less than 1% during 2008, some of this increase is from increased fed cattle imports from Canada. Average carcass weights will continue to decrease due to the high costs of gain. The reduced weights will be helpful in holding beef production down. The combined increase in slaughter but

reduced weights will lead to an increase of 1% in domestic beef production.

Overall, a major uncertainty for 2008 is the macroeconomic environment. It is looking more likely that the U.S. economy will enter a recession. In 2008, beef market participants should carefully watch several factors, including: 1) the extent of U.S. beef sales to foreign markets, especially in Asia; 2) increases in competing meat supplies (pork and poultry); and 3) feed grain and forage production conditions and prices. The major uncertainty for calf and yearling prices, just as in 2007, will be feedstuff costs, especially corn prices. U.S. ethanol production will demand even more corn in 2008 and 2009.

The slight increase in beef production should be offset by the increase in demand for beef due to increased exports. For 2008 U.S. slaughter cattle prices are projected to be stable to slightly weaker compared to a year earlier, with the exception of the third quarter. The only yearly decline on a quarterly basis is forecast for the summer quarter, by that time beef packer margins should move toward more historical levels rather than the depressed situation of 2007. The 5-market annual live steer slaughter price for 2008 is forecast at \$90-\$94.

The seasonal spring price rally for fed cattle is essential for feeder cattle prices. According to Cattle –Fax the spread between the CME feeder cattle index and the Cattle-fax fed steer price is typically narrowest in March and April. Thus, with a spread of 105% in March, fed cattle trading at \$96 puts feeders at approximately \$101.

The importing of Canadian feeder cattle, driven by terrible Canadian feeding returns and fears of COOL impacts in 2008, will diminish in the coming months. Feedlot placements should pull back in the first

quarter of 2008 and feedlot inventories will decrease somewhat. A small year-to-year decline in U.S. imports of Mexican feeder cattle may also happen in 2008. Feeder cattle numbers will be relatively tight in the first half of 2008 and feeder markets should stabilize and probably strengthen through the first quarter, albeit with a nervous eye on the rollercoaster corn market.

Overall, yearling prices will be lower than 2007. High corn prices will persist and calf prices will be impacted relatively more than yearling prices. Preliminary forecasts, assuming normal moisture conditions and significant drought relief nationwide put 500-to 600-pound steer calf prices in the Southern Plains \$1.00 to \$8.00 per cwt. below 2007's. Any yearly decline will in large part be attributable to high corn prices.

Feedlots and beef packers will likely continue to struggle at least into the second quarter of 2008. Many operators in those segments of the beef industry will need to make some difficult decisions in 2008.

<b>U.S. Average Live Cattle Prices and Forecast (per cwt)</b>			
<b>Live Slaughter Steer Price - 5 market average</b>			
<b>Quarter</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>1</b>	90.06	91.24	90-92
<b>2</b>	81.11	94.47	93-96
<b>3</b>	85.34	92.06	88-92
<b>4</b>	87.26	92.67	90-93
<b>Year</b>	85.94	92.61	90-94
<b>Feeder Steer Price - 700-800 pound</b>			
<b>Quarter</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>1</b>	108.91	100.42	97-100
<b>2</b>	106.77	110.20	100-103
<b>3</b>	117.19	118.33	103-107
<b>4</b>	103.84	109.97	98-103
<b>Year</b>	109.18	109.73	100-103
<b>Feeder Steer Price - 700-800 pound</b>			
<b>Quarter</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>1</b>	131.62	118.68	108-111
<b>2</b>	124.01	127.15	113-118
<b>3</b>	130.81	128.69	112-117
<b>4</b>	115.18	117.73	105-112
<b>Year</b>	125.41	123.06	109-115