

April 2003 Beef Cattle Price Comments

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The current (April 2003) supply and demand fundamentals are providing indications of support for good calf prices this fall.

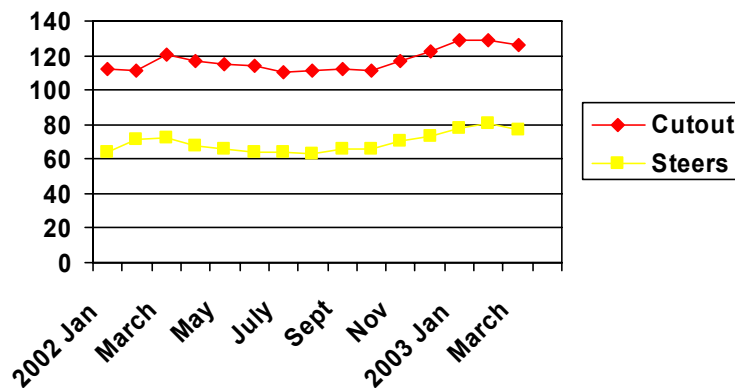
Fundamental Analysis

Basic demand for beef appears to be improving based upon the large amounts of beef taken in recent years and the relatively high prices paid for it. This is based in part on the development of value added uses for the “end meats” (chuck and round). Improved demand for these cuts results in high prices for these cuts which raises the overall value of the carcass. In addition, the parade of negative health news concerning beef seems to be lessening. As a result, beef prices have held up well given the current economic conditions

The supply fundamentals that currently are working for good prices are as follow:

1. Negotiated boxed beef cutout values for the week ending 11 April 2003 are \$133.40 and \$133.21 per cwt for choice carcasses (600 to 750 lbs and 750 to 900 lbs, respectively) and \$123.07 and \$123.32 range for select carcasses (600 to 750 lbs and 750 to 900 lbs, respectively). This is up from \$113.04 for December 2001 and \$122.35 for December 2002 for similar carcass weights.
2. Offal values have increased from a March 2002 price of \$7.35 per cwt liveweight to \$8.19 per cwt liveweight.

Typically, the carcass constitutes 62 to 65% of the weight of slaughter beef animal while the offal makes up the balance, 35 to 38%. Therefore, increases in the value of meat and offals imply an increase in the prices that can be paid for a slaughter animal. There is a very close relationship between the price of choice steers and the choice carcass boxed beef cutout value as illustrated in the chart below.



3. There is an expected reduction in beef production to 26,135 million pounds for 2003 from the record production of 27,090 million pounds in 2002. The expected 2003 beef production is the lowest production since 1998 with the exception of the 2001 production of 16,107 million pounds.

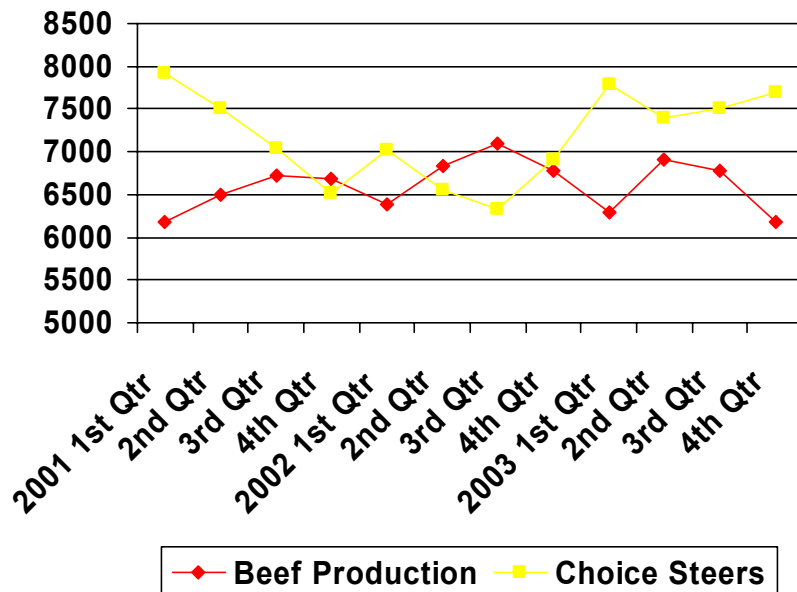
4. Commercial pork production is expected to decline to 19,500 million pounds from the record 2002 production of 19,666 million pounds. 2003 will be the second highest commercial pork production on record. Imports for 2003 are expected to be up very slightly to 1,080 million pounds from 1,071 million pounds in 2002 while exports are expected to increase to 1,660 million pounds from 1,614 in 2002. Ending pork stocks for 2003 are expected to be up slightly to 540 million pounds.

5. Federally inspected broiler production is expected to decline to 32,175 million pounds from 32,240 million pounds in 2002. This is the first reduction in federally inspected broiler production in 18 years. Exports are expected to increase to 5,125 million pounds for 2003, up from 4,800 million pounds in 2002 but still below the 2001 level of 5,555 million pounds.

6. As a result of the expected red meat and poultry production changes, total red meat and poultry production is estimated to be 38,360 million pounds for 2003, down from 38,500 million pounds in 2002 (a record year).

There is an inverse relationship between beef production and choice steer prices. As a result of the expected reduction in beef production, choice steer prices are expected to increase.

2001-03 Quarterly Beef Production and Choice Steers Prices



The April USDA World Agriculture Board Supply and Demand Estimates are projecting the following 2003 prices: 1st Qtr-\$77.82; 2nd Qtr-\$73-75 with midpoint of \$74; 3rd Qtr-\$72-78 with midpoint of \$75 and 4th Qtr-\$74-80 with midpoint of \$77.

Beef exports are expected to continue to increase since the great beef scare of 2001. Exports for 2003 are estimated at 2,500 million pounds, a record, and up from 2,269 million pounds in 2001 and 2,447 million pounds in 2002.

Cattle on Feed numbers for January 2003 at 10,593 million head, February at 10,660 million head and March at 10,521 million head are below the same months for 2002 and 2001. This should result in lower beef production in the coming months.

Average dress weights for all slaughter cattle and for steers are declining seasonally and probably absolutely. Steer carcass weights peaked in October 2002 at 841 pounds and have declined to 820 for February 2003 and are expected to continue to decline.

Declining numbers on feed and declining slaughter weights suggest declining beef production.

Feeding margins have been positive since September 2002. Feeders have been able to recoup some of their losses and have money in their pockets to buy more cattle. Positive returns on cattle feeding will encourage feeders to continue to buy stockers and feeders, thus supporting calf prices. However, a return to negative feeding margins would dampen enthusiasm for feeding cattle with a lessening of support for calf price.

Cost of feeding is important to calf producers. Corn ending stock levels are very indicative of corn prices. The 10 April Supply and Demand estimates forecast 02/03 corn marketing year ending stocks at 1,009 million bushels, down from 1,718 million bushels in 99/00, 1,899 million bushels for 00/01 and 1,596 million bushels for 01/02. The estimated US corn farm price is \$2.30 per bushel. The 03/04 crop is yet to be completely planted but current information suggests an average price of \$2.50 per bushel. This would not hurt calf prices too much. However, there is still a long way to go before the crop is in the bins and as corn prices fluctuate over the summer, expect calf prices to respond in an inverse fashion (corn prices up, calf prices down and vice versa). Please see Dr. Kurt Guidry's Feed Grain Market Outlook for a complete grain market analysis.

The 1 January 2003 cattle and calf inventory at 96,106 million head is down slightly from 96,704 million head for 2002. In addition, the beef and dairy cows that have calved are down slightly to 42,099 million head for 2003 from 42,229 million head for 2002. Also, the 2002 calf crop at 38,193 million head is down from the 2001 calf crop of 38,280 million head. This supports declining numbers of cattle available for feeding, thus supporting calf prices.

Heifers retained as beef replacements as of 1 January 2003 at 5,608 million head are up slightly from 5,561 million head for January 2002 and are at the highest level since 5,535 million head of 1999. More heifers retained as replacements will reduce the number of

animals available for feeding and hence support higher calf prices in the short run. Over time as the cow herd increases, more retained heifers will result in a larger cow herd with a larger calf crop.

Also, heifers as a percent of total slaughter are lower than last year. Fewer heifers in the slaughter mix are another indication of more heifers being retained to rebuild the cow herd.

Drought conditions (8 April 2003) still remain in the Northern Plains and Western states. Drought could continue to force sale of breeding age cows and force early sale of the calf crop in this area. Abnormally dry weather conditions have developed in the wheat pasture areas of western Oklahoma and northwest Texas. Calf prices may have somewhat less support, if these dry conditions persist into Fall and reduce the prospects for winter wheat grazing.

The normal seasonal pattern for calf prices in Louisiana is for a peak in March, followed by a decline to May with a small rise in June-July, followed by a decline to the yearly low in September-October. The fundamental supply conditions may result in a “flatter” than normal seasonal price pattern with relatively higher prices in the Fall.

Price Outlook and Considerations

The above listed factors indicate that the fundamentals are currently in place for a good price for calves this Fall.

However, there are still several months to go before the normal fall sale of Louisiana calves. The uncertainty of the world political situation, the economy (which is expected to grow slowly), weather and the corn crop should not be discounted.

What should a cattleman do, given that there are good current price fundamentals, but some general uncertainty?

1. Early sale of calves for Fall delivery might be one method of reducing price risk through an uncertain summer. Early pricing of calves would eliminate the negative effect of bad news (poor corn crop, stalled national economy, terrorist activity) later in the summer. It also would eliminate the positive price effect of favorable news (good corn crop, growing economy, world peace), but a price would be set.
2. Waiting to price and deliver in the Fall would result in allowing all of the positive and negatives information to play out and prices would reflect the situation at that time.
3. A combination of pricing some cattle early and some later would allow for income certainty on a portion of the production, but allow for a higher price in the Fall if everything goes well. Remember the un-priced portion of production could have a lower price if conditions turn sour.

4. Cattlemen should start talking with potential buyers early to establish the necessary relationships and develop a “feel for the market” that is important to getting the appropriate price for their cattle.

5. A careful comparison of different conditions of sale (slide, shrink, delivery method, health program, documentation of management practices, etc) and the sale techniques (auction, video, direct, etc) that are available to the cattleman should also be made. Past sale conditions and techniques may not appropriate as market conditions change and the industry evolves.

6. In addition, cattlemen should start to document the production practices (especially, health practices) used with their calves. The idea is to maintain access to all potential buyers, not gain a premium price.