



Market Advisor

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Are higher cattle prices ahead?

2009 was certainly a disappointing year for cattle prices. The question many cattle producers are asking is: Will cattle prices increase and, if so, when?

The simple answer to that question is yes, cattle prices will increase. However, the actual timing and magnitude of the increase is difficult to answer with any degree of certainty.

Although it may seem like cattle prices have been low for a long time, actually, fed cattle, cull cow and bull prices were all record high on an annual basis in 2008. And the previous record-high year was 2007. So, we are not that far away from previous record prices for those market classes.

On the feeder-cattle side, the last annual record high was in 2005, when 500- to 600-pound (lb.) steer calves in the U.S. averaged about \$130 per hundredweight (cwt.) and 700- to 800-lb. steers averaged \$113. The 500- to 600-weight steer prices declined to \$115 per cwt. and 700- to 800-weight steers averaged \$105 in 2008, in spite of record

fed-cattle prices because of high feed prices, especially corn.

The national average corn price received by farmers doubled from about \$2 per bushel (bu.) in 2005 to slightly greater than \$4 in 2008. Although 2009 averages were not available when this was written, both classes of feeder steers were likely about \$5 lower in 2009.

Historically, increasing cattle numbers and beef supplies have been the major cause of lower prices. However, supplies are not the problem now. The size of the U.S. calf crop declined a million head from 37.1 million in 2005 to 36.1 million in 2008. And lower calf crops are likely again in 2009 and 2010. Producers reduced cow numbers in response to lower prices, higher costs and drought in several important cattle-producing regions in the country.

Beef production was down 2.5% in 2009, and is likely to decline another 1.5% in 2010 and 1% in 2011. So beef supplies will not be a problem and should be supportive to prices in the future.

Demand concerns

Of course, it is demand and not supply that adversely affected fed-cattle and cow prices in 2009, and that will be the case again in 2010.

Some get tired of hearing the nightly news programs continue to report how bad the economy is, but the fact of the matter is poor economic conditions in the U.S. and world have a big effect on cattle prices.

Historically, almost half the beef consumed in the U.S. is consumed away from home, and the restaurant business has been struggling. The U.S. unemployment rate is above 10%, and in some cities it is much higher than that. The savings rate for those still working has increased substantially compared to levels of the past decade. So, consumers have much less to spend on beef.

Beef exports, which were still being affected by the lingering effects of the bovine spongiform encephalopathy (BSE) issues that began in 2003, are now being affected by world economic conditions. U.S. beef exports for January through October 2009 were down about 5.5% from 2008.

So, for beef and cattle prices to improve both U.S. and world economic conditions need to improve. When that will occur is a hotly debated topic, but there are signs that improvement should occur in 2010. The stock market has made a nice recovery from an early 2009 low, but unemployment is expected to stay high for some time.

Modest improvement in cattle prices is likely in the second half of 2010. But record prices for any market class will be difficult to achieve.

Both beef and dairy cow harvest will likely be lower in 2010, and hamburger tends to sell well even in a weak economy, so cull cow and bull prices may have the most potential to show improvement. Improving economic conditions the second half of 2010 should support fed-cattle prices.

Pasture and range conditions in much of the cattle-producing area of the U.S. are the best they have been in a number of years. If good moisture continues, prices for lighter-weight feeders suitable for grazing should increase nicely into spring. Prices for the heavier-weight feeder cattle destined for feedlots will be dependent on improving fed-cattle prices with no additional spikes in corn prices.

Fall 2010 corn prices are the big wild card in fall calf prices. We will need another very good corn crop to keep prices at levels that support calf prices.

2011 has the potential to be a much better year for prices of all classes of cattle. Consumers still like beef, and when they regain purchasing power they will buy.

Cow-calf and seedstock producers should make plans for better prices. Replacement heifers may be in strong demand in 2011.

