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Economist expects robust improvement of cattle prices

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WEST LAFAYETTE, Ind. — The beef industry has suffered one of the most dramatic negative impacts from the general economy but could experience an equally dramatic recovery when the economy rebounds, said a Purdue University agricultural economist.

“As beef cow numbers continue to drop, beef exports continue to improve and the world economy begins to heal, the magnitude of price improvement may be robust by sometime in 2010,” said Chris Hurt.

“A return to finished cattle prices of \$1 per pound or higher seems probable as per capita beef supplies will be low and competitive meat supplies will drop, as well.”

Last summer, finished steers were expected to average about \$94 per hundredweight in the first quarter of 2009, Hurt said.

As the economy weakened, cattle prices fell and averaged only \$81.50 in the January to March quarter. That’s \$12.50 per hundredweight less than expected.

This represents a reduction in potential revenue of \$750 million just in the first quarter,” Hurt said.

The Purdue Extension agricultural economist said that finished cattle prices are moving almost in lock step with the U.S. stock market.

“Using weekly data since September, the Dow Jones Industrial Average index and finished cattle prices have had a correlation of nearly 90 percent,” Hurt said.

“Of course, the stock market doesn’t determine cattle prices, but they have both been influenced by macro economic conditions, which reflect weak demand.

“And finished cattle prices, like the stock market, had a big recovery in the past six weeks -moving from near \$80 to \$89.”

Because of seasonal tendencies, Hurt’s not sure these higher prices are here to stay. He expects finished cattle prices to average somewhere in the mid-\$80 range during the second quarter and then during the summer months increase a couple of dollars.

“Assuming the economy has bottomed out by late 2009, I expect finished cattle prices to

return to the high \$80s to the very low \$90s," he said. "If this happens, steer calf prices should average \$100 to \$110 this fall, compared with \$95 to \$105 last fall."

As to why cattle prices are low, Hurt said supply is not the reason.

"In the first quarter of 2009, per capita beef supplies were down about 3 percent," he said.

He expects beef supplies to remain about 3 percent below 2008 levels during the second quarter, but said they will be up about 2 percent in the third quarter and unchanged in the final quarter for this year.

A smaller beef cow herd and fewer cattle in feedlots have provided generally smaller beef supplies, he said.

Hurt points out that retail beef prices have been slower to drop than the price producers receive.

"For example, in the first quarter of 2009, retail beef prices averaged \$4.33 per pound compared to \$4.16 a year earlier," he said. "In contrast, Nebraska finished steer prices were about \$81.50 in the first quarter this year compared to \$89.60 a year earlier.

"While live cattle prices were down \$8.10 per hundredweight, consumers had to pay 17 cents more per pound for beef. This means beef marketing margins increased, with the largest portion going to the retailers' margins, which were 13 percent higher than in early 2008."

It's normal to see farm prices change more rapidly than retail price, Hurt said. He also said there are signs that retail prices and margins are on the decline.

"Retail beef prices peaked at \$4.53 per pound last August and fell to \$4.30 in March," Hurt pointed out. "Retail margins also have been narrowing in recent months. These are both indicators that retail beef prices can further moderate and allow producers to receive a larger portion of consumer beef expenditures in the coming months."

Hurt said a key variable for finished cattle prices is the direction of the general economy. Feeder cattle and calf prices also will be influenced by the direction of feed prices and pasture availability, he said.