Surviving the Crunch: Cattle Outlook in 1996 and Beyond

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Cattle producers faced a tough year in 1995 and 1996 will be more of the same. The weather and corn market will, arguably, have more impact on the cattle market than any other factor during 1996. While surviving the tough years producers need to continue to watch for future opportunities as the industry changes.

Feeder Cattle and the Corn Market

The dominate short-term factor for calf and yearling prices remains weather and its impacts on feedgrain prices and pasture and(or) range conditions. Longer-term cow slaughter and heifer slaughter levels are indicating that cow–calf operations are beginning to adjust the size of the nations breeding herd.

Cattle producers are well aware of the negative impacts on feeder cattle prices due to high feedgrain prices. With pasture conditions greening-up in many areas of the U.S., summer grazing programs face both major risks and opportunities.

For the first quarter of 1996, feeder cattle prices in the Southern Plains averaged below fed cattle prices. High cost-of-gain, due to high corn prices, pulled 700- to 800-pound steer prices $4 to $5 per cwt below slaughter steer prices, for the first three months of 1996. And 500- to 600-pound steers had only a small price premium compared to heavier feeders.

During the first quarter of 1996 700- to 800-pound steers were projected to average about $58 per cwt (Southern Plains), that was almost $15 (20 percent) below 1995's first quarter average. Compared to a year earlier, 500- to 600-pound steers in the first three months of 1996 declined about 27 percent in the Southern Plains.

High corn prices and red ink for cattle closed out of feedlots in recent months have not helped feeder cattle prices in recent months. In fact, cattle feeding returns for February closeouts were about $60 per head and more red ink will flow on March sales.

By historical standards, feeder cattle prices have small price declines as weight increases. That general relationship will likely continue through the summer months. Normally, that might be viewed as a favorable buy/sell margin for summer grazing programs. This year, producers with summer grazing programs will need to keep a close eye on the corn market and try to maintain a degree of flexibility.

The bottom line for calf prices this fall is that a U.S. corn crop of 9.0 to 9.5 billion bushels could strengthen calf prices some this fall. However, if there is a feedgrain shortfall, calf prices will ratchet down with the corn crop.

Light weight calves placed on summer grazing programs will remain vulnerable to the corn market. Further, any major drought conditions will lower yearling prices even more, as large numbers of long-yearlings could come to market quickly. Even with a good summer grass season, producers with long-yearlings need to begin planning now. Long-yearling prices will be under pressure as they come to market, pencil-pushing on retained ownership will be important. Premiums late this summer on feeder cattle, relative to fed cattle, may be small or nonexistent.

Cow and Heifer Slaughter

Long-term cowherd adjustments are beginning to emerge in the beef industry. Beef cow slaughter has been above a year earlier for several months. That trend is expected to continue due to low calf prices. Major parts of the Southern Plains experienced little precipitation and very poor pasture conditions in early 1996. If poor pasture conditions persist in the Southern Plains, or emerge in other regions, larger year-over-year increases in beef cow slaughter could emerge.

For the first two months of 1996, total cattle slaughter was up about 600,000 head from 1995's. Much of the year-to-year increase in slaughter was due to increased heifer and cow slaughter. Compared to last year, heifer slaughter for January and February was up over 200,000 head and cow slaughter was up about 136,000 head.

Larger cow slaughter and intentions to hold back fewer heifers for replacement purposes, combine to suggest that growth in the beef cowherd may stop sometime in 1996. Still, low calf prices and further cowherd liquidation are likely for 1997.

Beef Production

Commercial beef production for the first quarter of 1996 is estimated to post a year-over-year increase of about 7 percent. Increased beef tonnage has dampened cattle prices. Year-over-year increases in U.S. beef production are forecast for the balance of the year, but the increases may moderate compared to the first quarter.

Three factors have bolstered beef tonnage in early 1996: large fed cattle marketings, increased cow slaughter, and heavier average slaughter weights. Commercial cattle slaughter for the first quarter of 1996 is estimated to be up 6 to 7 percent, compared to 1995. And average slaughter cattle weights were up about 3 pounds from 1995's.

Choice slaughter steer prices for 1996's first quarter may average just below $63 per cwt, or about $9.50 below 1995's first quarter. Fed cattle prices may remain mostly below a year earlier for the balance of 1996. But, if beef production increases moderate in coming months, as expected, price declines also will be more modest than in early 1996.

In the last few months of 1995 placements of cattle into feedlots were well above a year earlier. Large numbers of cattle were placed last fall as wheat was unusable for grazing in the Southern Plains. If spring and summer pasture conditions are dry in any cattle region, feeder cattle will be forced into feedlots again.

With normal spring and summer pasture conditions, high corn prices and cattle feeding losses in recent months will likely dampen interest in placing cattle. That may set the stage for moderating cattle slaughter and beef production increases this summer.

U.S. commercial beef production is forecast to increase just over 2 percent from 1995's in the second and third quarters of 1996. The fourth quarter of the year may post a 4 to 5 percent increase in beef production. A major uncertainty for the fourth quarter will be the amount of cow slaughter.

With the beef production increases described above, Choice slaughter steer prices may show somewhat smaller seasonal declines into the summer quarter than normal. Last year (1995) the decline in Choice slaughter steer prices from the first quarter to the second quarter was 10 percent and the decline from the second to third quarter was 4 percent. Over the previous 5-year period (1990–94), fed cattle prices declined 2 percent from first quarter to the second and declined another 5 percent from the second to third quarter, on average.

Still, fed cattle prices will likely be mostly below a year earlier. Projections are that Choice slaughter cattle will average in the lower to mid $60s for the second quarter of 1996. Then, prices may decline some seasonally, averaging $59 to $61 for the summer quarter. For the fall quarter (October–December) fed cattle prices are projected to be in the lower 60s.

Beef Cut Prices

Generally, different beef cuts are stronger at different times of the year. So, different cuts support the overall cutout value during different times of the year. For example, summer cook-out favorites, in general, are strongest during the summer.

This year, the high valued cuts, ribeyes, steaks, rib roasts, have continued to hold their value as cutout values have fallen. Lip on rib rolls were recently at $361 per cwt, only about $7 below the 1990–94 average. Rib roasts also have been only about $1 per cwt below their average price over the same period. Sirloins were trading at $179.80 per cwt, $3 above a year earlier and about $13 below the 1990–94 average.

While the high value cuts have tended to have rather strong prices, other cuts have not fared nearly as well. Still, what has hurt the cutout has helped the brisket BBQ lovers. Brisket prices have fallen 32 percent from the 1990–94 average of $129.37 per cwt. In fact, $87.80 per cwt brisket was the lowest price during early March on record—the February average brisket prices was the lowest since 1986.

Recently, top rounds were at their lowest price, $118.75 per cwt, since March 1978, the year the dataset began. The bottom round price data set began in 1980, early March prices were record low for that time of year.

Large cow slaughter dropped 90 percent lean ground beef to its lowest March level on record, $80.80 per cwt. The 50 percent lean product has been running about 30 percent cheaper than its 1990–94 average. For March, lean ground beef prices are slightly below 1995's and the 1986 price lows.

International Trade

Livestock producers are discovering international trade much as grain producers did in the early 1970s. Despite many bumps along the way, international markets are becoming an increasingly important and positive factor in the U.S. livestock industry.

The year (1995) began with much uncertainty from the economic problems in Mexico and the Japanese earthquake. Even with those events many expected exports to increase about 4 to 5 percent over 1994. Exports far exceeded expectations, up 13 percent (210 million pounds carcass weight) over 1994. Beef exports totaled 1.8 billion pounds in 1995.

Exports to Mexico, previously our third largest beef export market, fell 59 percent from the previous year in 1995. But, the export loss was more than made up for by increases of 54, 21, and 9 percent to South Korea, Japan, and Canada. Japan remained our largest market with 55 percent of total U.S. beef exports.

In a different light, putting beef exports on a per-head equivalent basis, the U.S. exported almost 2.6 million head in 1995. That was up an equivalent of 296,000 head over 1994.

Beef imports declined 11.3 percent to 2.1 billion pounds in 1995. Purchases declined from every major market except New Zealand and Argentina. Imports from these respective countries increased 10 and 22 percent. Imports from Australia, the major source of beef imported by the U.S., declined 23.5 percent.

The combination of increasing exports and falling imports made the U.S. a net beef exporter during the last four months of 1995, for the first time since WWII. This change in the net trade situation was equivalent to about 1.8 pounds (carcass weight) in U.S. per capita consumption.

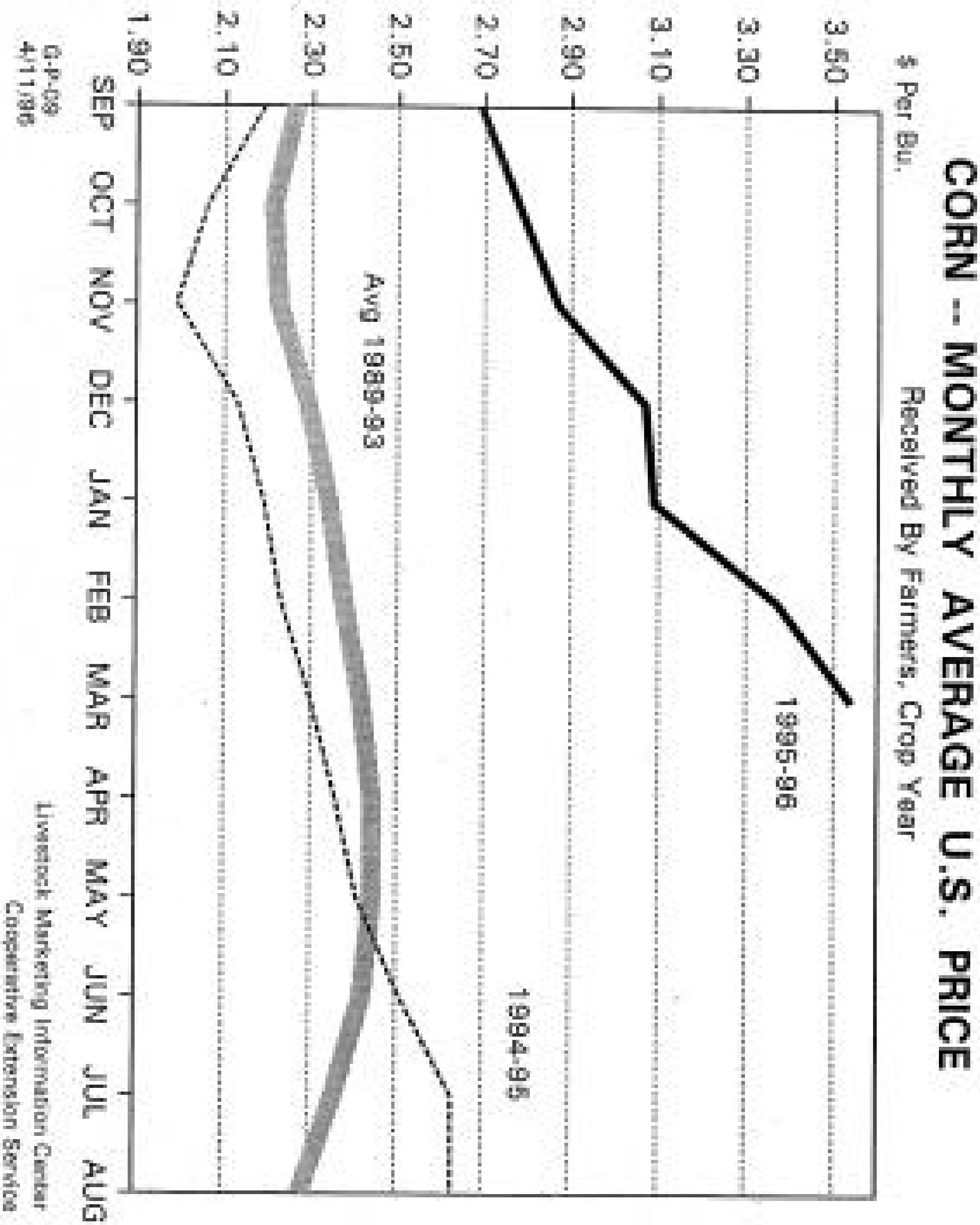
The year was known to many, misleadingly so, as the year the Mexican cattle killed the U.S. cattle industry. The peso devaluation and other economic problems forced large numbers of cattle to come North.

First quarter cattle imports from Mexico were the largest, 606,625 head, since 1988 when 635,955 came North. Imports in the second and third quarters were record large 480,573 and 195,937 head, respectively. While third quarter imports were record large for the quarter, they declined seasonally from earlier in the year. Imports typically decline during the summer and 1995 was no exception.

Fourth quarter cattle imports from Mexico, of 370,273 head, were only 219 head more than the same period in 1994. They were also well below the 508,505 and 426,792 head imported during the fourth quarters of 1993 and the 1989–93 average.

For the year, Mexican cattle imports were record large. But, they continued to show the normal seasonal pattern and in December were well below average. Imports totaled 1,653,408 head, not even close to the 2 million head plus projected by some earlier in the year.

Live cattle imports from Canada totaled 1,132,691 head, 12 percent above 1994, but below 1993's imports. While U.S. imports from Canada have increased, beef exports to Canada have increased and beef imports have decreased. To put this in perspective, U.S./Canadian beef imports and exports can be converted to a per-head equivalent. On a per-head equivalent basis, the U.S. imported about 24,000 head fewer and exported about 37,200 more to Canada than in 1994. In 1995, live cattle imports were 122,122 head above 1994. The net would suggest that the U.S. imported the equivalent of about 5,000 head per month more from Canada in 1995 than in 1994.


CORN -- MONTHLY AVERAGE U.S. PRICE
Received By Farmers, Crop Year
$ Per Bu.
3.50
3.30
3.10
2.90
2.70
2.50
2.30
2.10
1.90
SEP
OCT
NOV
DEC
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
1995-96
1994-95
Avg 1989-93
G-P-09
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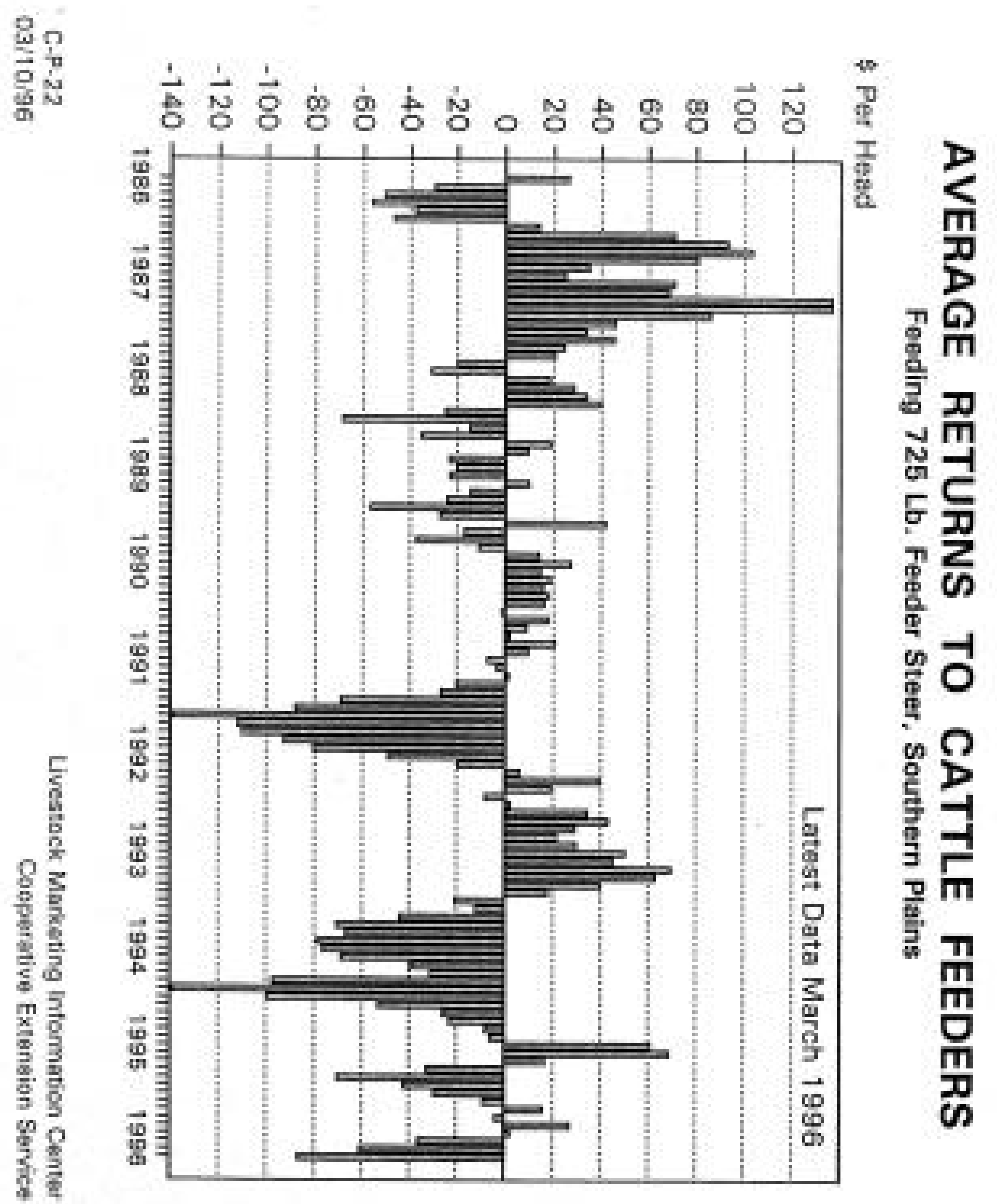
AVERAGE RETURNS TO CATTLE FEEDERS
Feeding 725 Lb. Feeder Steer, Southern Plains
Latest Data March 1996
$ Per Head
120
100
80
60
40
20
0
-20
-40
-60
-80
-100
-120
-140
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
C-P-22
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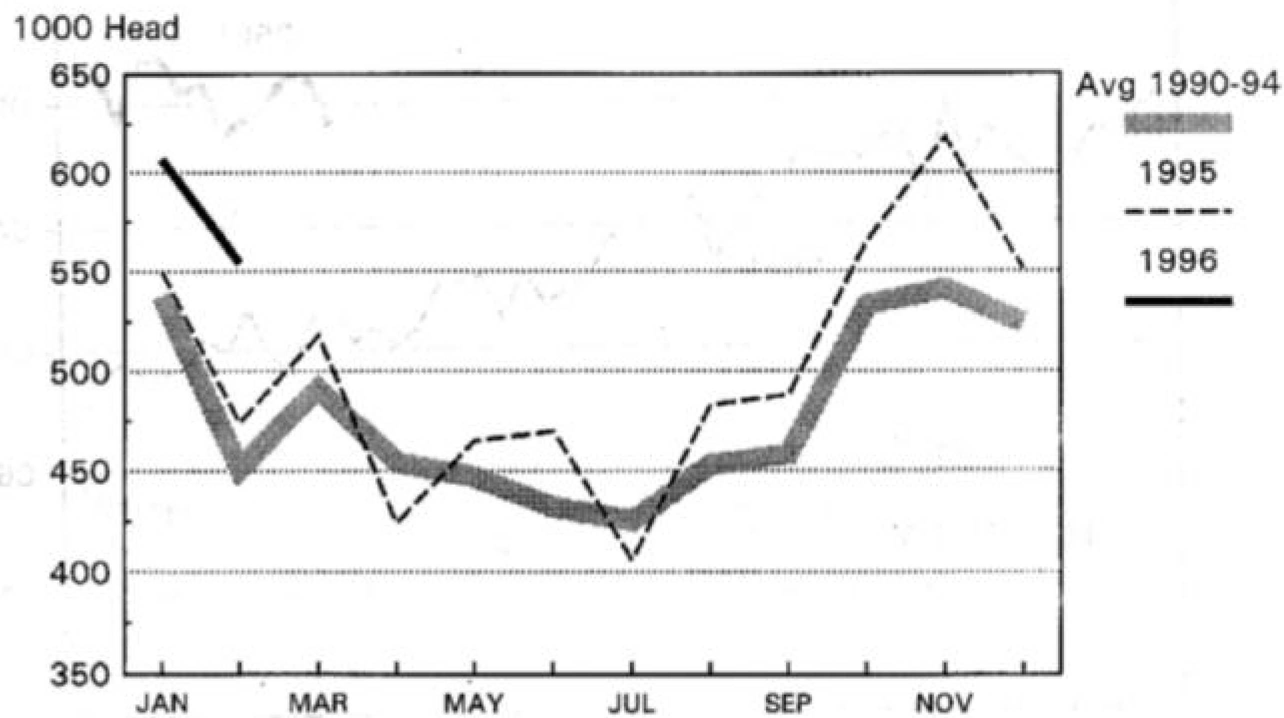
Surviving the Crunch

COW SLAUGHTER
UNDER FEDERAL INSPECTION
Monthly



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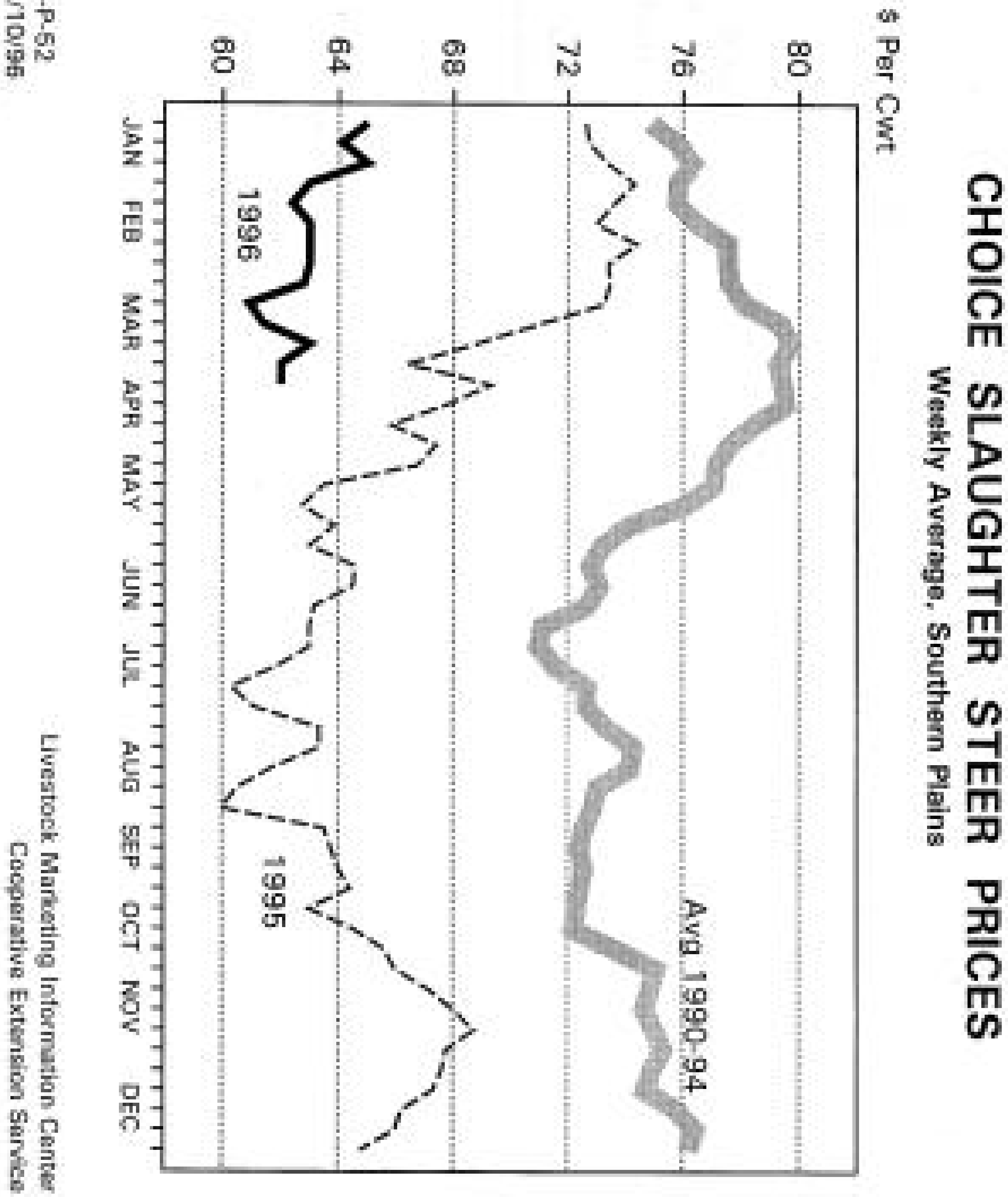
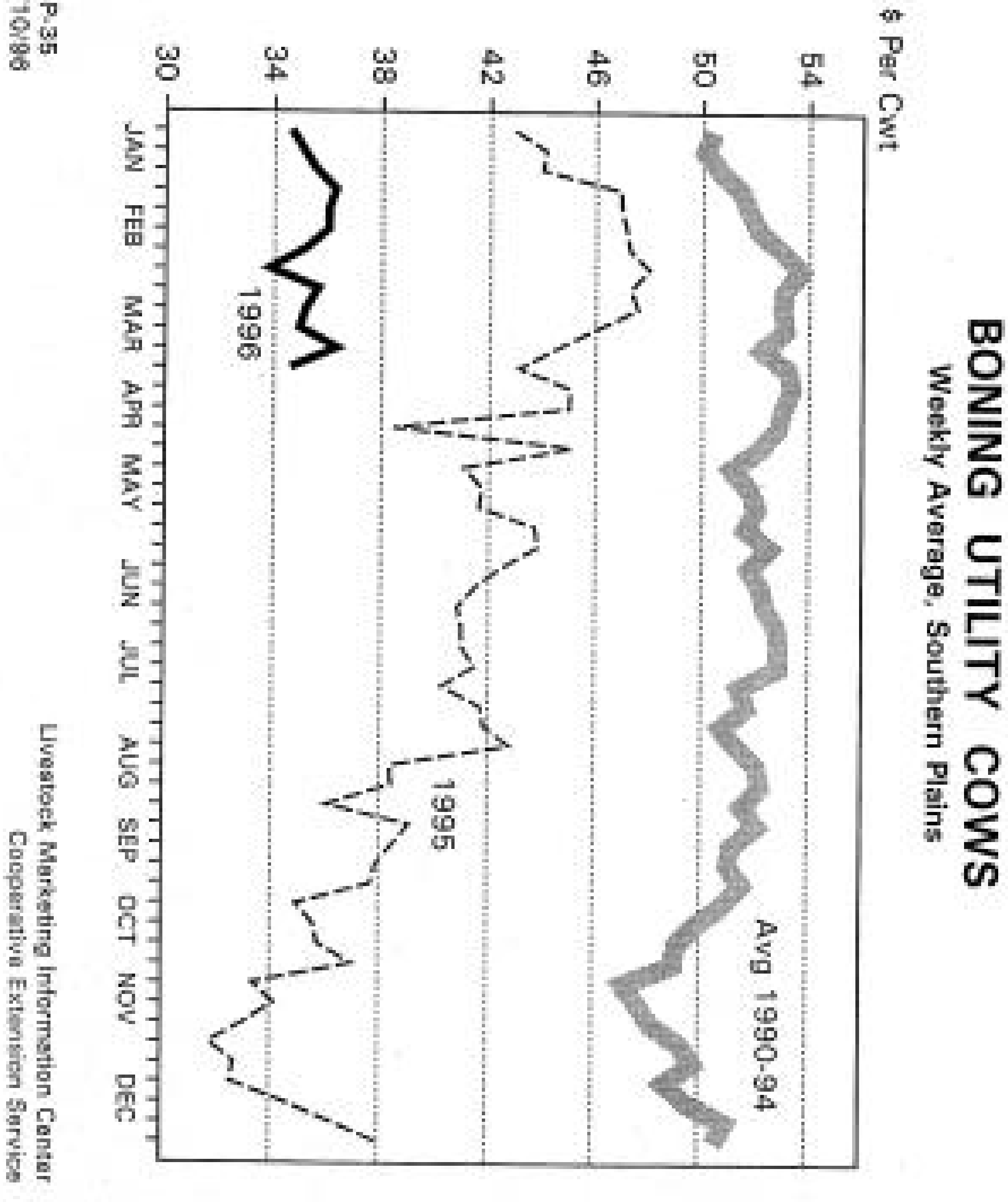

CHOICE SLAUGHTER STEER PRICES
Weekly Average, Southern Plains
$ Per Cwt
80
76
72
68
64
60
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
Avg 1990-94
1995
1996
Livestock Marketing Information Center
Cooperative Extension Service
C-P-52
03/10/96


BONING UTILITY COWS
Weekly Average, Southern Plains
$ Per Cwt
54
50
46
42
38
34
30
JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC
Avg 1990-94
1995
1996
C-P-35
03/10/96
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