



## Commodity Outlook 2003: U.S. Cattle Livestock Market<sup>1</sup>

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### Overview

The downward trend in cattle inventory continues. As of July 1, 2002, cattle-and-calves inventory was down 0.6 percent from the previous year, and the number of cows and heifers that had calved fell 0.2 percent. On the other hand, the number of heifers being held for beef-cow replacements was steady, while milk-cow replacements increased by three percent. The 2001 U.S. calf crop was down one percent from the previous year, and a further decline in the 2002 calf crop is also expected.

Early 2002 beef production was at near record levels, reaching record levels in June, but the pace slowed by Fall. Beef production is expected to continue to slow down and be lower in 2003 than in 2002 due to fewer placements and decreased slaughter weights. The beef-cow liquidation that was anticipated in the drought-stricken states of the West has not occurred because total cow slaughter is still below 2001 levels. However, the Summer 2002 cow slaughter was 3.5 percent above Summer 2001.

The projected corn crop is looking favorable for the cattle industry. Yields are up enough to compensate for decreased plantings. The USDA has increased the projected ending stocks of corn and decreased their projected price range.

While price recovery in 2003 will be limited somewhat by competing meat production, other factors are in place for favorable conditions into 2003. Dwindling supplies, reasonable feed costs, favorable export markets, and strong demand will all help strengthen prices in 2003. With no sign of herd expansion in the coming year, favorable market conditions are likely to continue.

### Supply

A limiting factor in supply is the size of the cow herd. The USDA's January and July 2002 inventory reports provide a sense of production potential and the direction of change in herd numbers. As in Florida, the U.S. cow herd has been on a decline since the mid-1970s (Figure 1). During this time there have been periods of growth in the cow herd that define the cattle cycles. The current cattle cycle began in 1990 with a moderate growth in the cow herd, which continued through 1996 when the current downward trend began. Current indications are that herd expansion is not likely to occur in 2003, and therefore overall beef production will be limited and may even decline.

The January 1, 2002 U.S. cattle-and-calves inventory was down 600,000 head (-1%) from 2001. Beef-cow inventory declined 300,000 head (-1%), to

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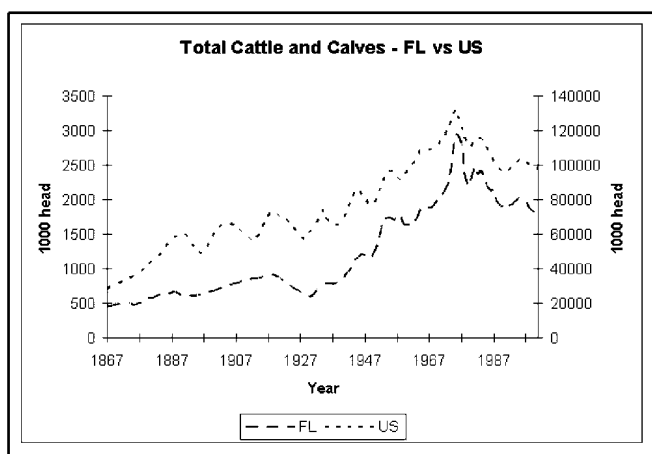


Figure 1. Cattle and calves inventory.

33.1 million head, and milk-cow inventory declined 73,000 head (-1%), to 9.1 million head. Beef-cow replacements and milk-cow replacements were unchanged from 2001 (5.6 and 4.1 million head, respectively). Other heifers over 500 pounds totaled 10.1 million head. Cattle on feed totaled 13.9 million head, down 341,000 head (-2%) from 2001. Feeder cattle outside feedlots were up 200,000 head (+1%), to 28.8 million, compared to 2001. The 2001 calf crop was estimated at 38.3 million head, down 351,000 head (-1%) from the 2000 calf crop.

The numbers for Florida followed a very similar pattern with the national trend. The January 1, 2002 Florida cattle-and-calves inventory was down 20,000 head (-1%), to 1.78 million head (ranked 18th nationally). Beef-cow inventory declined 18,000 head (-2%), to 958,000 head, and milk-cow inventory declined 2,000 head (-2%), to 152,000 head. These numbers put Florida 12th in total beef-cow numbers and 15th in milk-cow numbers nationally. Beef-cow replacements were down 5,000 head (-2%), to 140,000 head, while milk-cow replacements were steady at 40,000 head. Other heifers over 500 pounds totaled 25,000 head. The 2001 Florida calf crop was estimated at 940,000, down 10,000 head (-1%) from the 2000 calf crop.

The July 1, 2002 U.S. cattle-and-calves inventory was estimated at 105.2 million head, down one percent from 2001 and down seven percent from the cycle peak in 1995. The beef-cow inventory was slightly lower at 33.75 million head, and the milk-cow inventory was up one percent to 9.15 million head. Beef-cow replacements were steady at

4.6 million head, and milk-cow replacements increased three percent, to 3.7 million head.

In examining the potential for herd expansion, the number of beef-cow and milk-cow replacements is the key indicator. This may be directly correlated with a change in the number of heifers as percentage of total feedlot placements. Current levels of replacement heifer inventory are down 0.4 million from those at the beginning of the current cycle (1990). This, along with 2001, is the lowest level in the cycle. Coupled with levels of feedlot placements of heifers in the 35 percent range, there is little evidence for herd expansion before 2004. The current levels will be sufficient to replace cull cows but not for herd rebuilding. Additionally, there will be a two-year delay in increasing inventories after replacement heifer inventory increases.

Total cattle operations have steadily declined since 1975. Approximately 816,000 operations have ceased to exist in this time span. Over the course of the current cattle cycle, about 269,000 cattle operations have discontinued nationwide. In Florida, there has been a loss of about 15,000 cattle operations over the current cycle. These numbers include declines in both beef and dairy operations. In contrast, there has been a slight increase in the number of larger operations (500 head and above). This translates to a larger percentage of cattle inventory being held by a smaller number of operators. In 2002, operations of 500 or more cows accounted for 6.5 percent of all Florida cattle operations while accounting for 58.2 percent of Florida's cattle inventory (Figures 2 and 3).

The year 2002 has the potential to be a record year for beef production. While slaughter cattle numbers were down, slaughter weights were at record levels for much of the year (production is expected to reach 27 billion pounds, with weather, feed prices, and heifer placements increasing or decreasing this number).

Throughout most of Spring and Summer 2002, placements were low, which led to a tightening of the supply of fed cattle for slaughter. While placements did rise in August 2002, the tight supply should keep slaughter below the previous year levels well into 2003. Additionally, there has been a slow-down in the

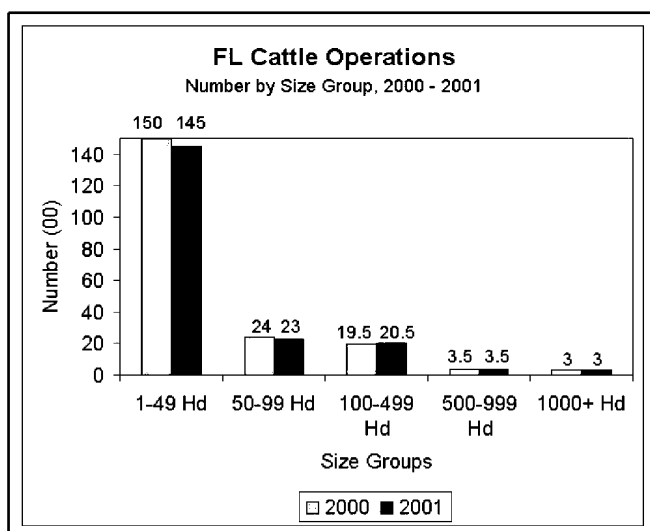


Figure 2. Number of Florida cattle operations.

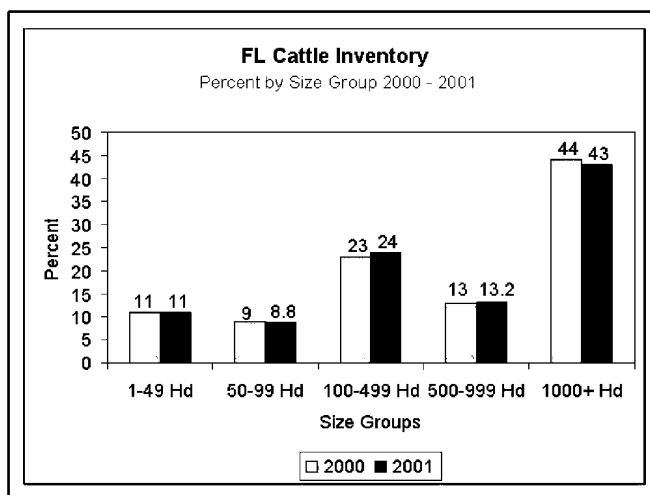


Figure 3. Florida cattle inventory per operation size.

movement of cull cows from drought-stricken regions. Once calves are weaned, there will be a clearer indication of whether there will be further constriction of the herds in those areas.

## Demand

Since 1999, beef demand has been strong and is improving. Demand has allowed record levels of beef production to continue moving through the system without further damage to the market value of cattle. It is expected that per-capita consumption of beef will approach 68 pounds per person. With record retail price levels being set in 2001 and the increase in the retail beef demand index over the same period, there is plenty of evidence that beef demand has indeed improved. Therefore, strength in demand and the

declining supplies of cattle on feed are likely to produce new retail price highs in 2003.

## Exports

The beef export market was challenged in 2002. The Bovine Spongiform Encephalopathy (BSE) scare in Japan caused a significant decline in the amount of exports to that country. However, increases in exports to Mexico and Korea were able to offset those declines. Additionally, there were increases in exports to China, Russia, and a few other countries. Exports to Japan recovered somewhat during the second half of 2002.

The wild card in the export market was the longshoreman's strike on the west coast. While the strike could have done more damage had it lasted longer, there are still reports of significant inefficiencies at the ports where the lockout occurred. With over 50 percent of beef exports heading through those ports, a watchful eye should be kept on the situation for further developments.

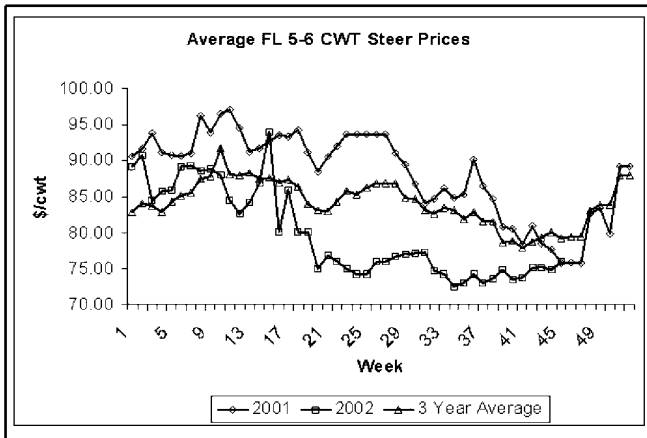
## Imports

Imports of cattle from Canada are expected to increase as drought in cattle producing areas of the country and favorable U.S. market conditions create incentive for Canadian producers to export cattle to the United States. Likewise, there is an expected increase in imports coming from Mexico.

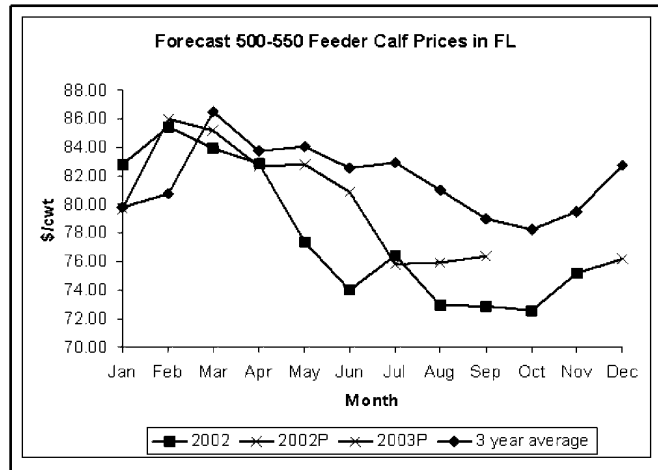
## Prices

Market psychology overrode market fundamentals in early 2002. The 2002 market highs occurred from mid-February to early March while the market low occurred in mid-June (Figure 4). This is rather abnormal since market highs usually last until May and market lows usually occur after September. The fact that current prices have not exceeded the mid-June levels provides some evidence of price recovery. The 2002 average slaughter cattle prices are estimated to be around \$65, which is below the \$72.25 average slaughter cattle price from 2001.

The psychology of the market in Spring 2002 was rather negative since the Russian ban on U.S. poultry imports, the BSE scare in Japan, and rumors of FMD were nearly simultaneous. As markets began



**Figure 4.** 500-600 pound feeder steer prices in Florida through 11-08-2002.



**Figure 5.** Futures-based price forecast, 500-550 pound feeder calves.

to slowly climb in May 2002, the drought conditions in the plains and west caused an increase in the number of marketings, thereby pushing prices down further.

Fundamentals of the market are in place for price recovery to continue as long as demand remains strong (evidence of beginning recovery is readily available). Cattle futures have been on a steady rise. While the feeder cattle futures have been showing seasonal price increases for 2003, do not expect a quick return to the high prices of 2000 and 2001. Grain futures continue to fall after the sharp rise in early Summer 2002 and the high volatility in late Summer 2002. For example, December corn was \$2.41 a bushel.

Basis-adjusted feeder cattle futures for Florida show February and March 2003 prices should be in the \$80 range on 500-550 pound feeder steers. This is still below the same time period in 2002. The basis-adjusted numbers for May 2003 show an improvement over 2002 (Figure 5).

### Summary

The current cattle cycle is heading into its 14th year, which makes it the longest on record. Cattle inventory continues to decline while demand remains strong. As supplies decline look for prices to rebound. Strong prices into 2003 and 2004 will provide profit opportunities for cow-calf producers who carefully manage and market their calves. With herd expansion at least a couple of years away, supply is not likely to be a limiting factor to market strength.