

\$ Market Advisor

► by **Tim Petry**, livestock marketing economist, North Dakota State University

The cattle price roller coaster of 2006

Another interesting year for cattle prices is behind us. It seems like each year the September to December time period usually spawns an unexpected event that causes dramatic swings in prices.

Factors at work

In 2001 it was the tragic events of Sept. 11 that caused prices to plummet. Just as prices were recovering in October 2002, a strike by West Coast dockworkers slowed exports and depressed prices again. Most cattle producers remember December 2003 because it brought the dreaded discovery of bovine spongiform encephalopathy (BSE) in the U.S. Continued drought in the western cattle-producing regions in 2004 caused beef cow herd liquidation for the eighth consecutive year, four years longer than normal.

In the fall of 2005, a larger-than-expected corn crop materialized. This second-largest-ever corn crop caused corn prices to decline more than 60¢ per bushel (bu.), and feeder-cattle prices increased contra-seasonally to record-high levels.

Not to be outdone, 2006 had its share of surprises. Topping the list was the amazing contra-seasonal increase in corn prices from mid-September to mid-December and the resulting decline in feeder-cattle prices. Soaring corn prices were fueled by a lower-than-forecasted crop, surprisingly strong exports and a skyrocketing demand for corn for ethanol plants.

Other factors that affected prices for each market class of cattle were also at play.

Weight effects

Feeder calves weighing 550 to 600 pounds (lb.) started 2006 at record-high levels. The typical seasonal price pattern in the Northern Plains is for calf prices to increase into April, when peak demand for grass cattle occurs. However, after increasing into February, calf prices

declined contra-seasonally into March, April and May because drought conditions engulfed the Southern Plains and moved northward into the Central and Northern Plains, which stalled the demand for grass cattle.

Calves had to be marketed early as they moved off wheat and grass pastures, which further depressed prices. Cattle-on-feed numbers approached 9% above levels achieved a year earlier in April and May. In June, fewer feeder cattle were available at markets, so tight supplies and moderating corn prices

caused calf prices to rally. By early September, prices for 550- to 650-lb. calves in the Northern Plains were the same as in 2004 and 2005. Then, from mid-September to mid-December, corn prices increased about \$1.50 per bu., and calf prices declined \$15 per hundredweight (cwt.), with even larger discounts for some lots.

The heavier-weight 750- to 800-lb. feeder cattle also started the year at lofty levels and then followed a typical declining seasonal pattern into March. However, instead of prices increasing into April and May, prices continued downward because of the dry conditions and contra-seasonally declining fed-steer prices. A nice rally occurred from June to September, when prices reached 2005 levels, but ultimately feeder cattle prices succumbed to the corn price rally.

Prices decline

Fed-cattle prices began the year near \$95 per cwt., with strong domestic demand and increasing beef exports. However, on Jan. 20, Japan announced that it was again closing its borders to U.S. beef. That started a contra-seasonal price decline that continued until

May, when prices fell to less than \$79 per cwt. Prices usually increase from January into April.

Other reasons fueling the decline include the discovery of Asian avian influenza overseas, which greatly reduced the demand for chicken in those countries. The U.S. is the second-leading exporter of chicken in the world, so U.S. chicken prices fell dramatically. Cheap chicken, ample supplies of pork and skyrocketing gasoline prices further dampened the demand for beef.

The May lows near \$80 per cwt. continued through July. Prices rallied about \$10 per cwt. in August with seasonally declining beef, pork and chicken production; the reopening of the Japanese market; and moderating gasoline prices. Prices ranged from \$86 to \$90 for the rest of the year.

Beef cull cow prices in the Northern Plains started the year at levels near the record highs of 2005. The return to more normal weather in 2005 renewed interest in beef herd rebuilding and caused much lower cow culling.

Prices increased seasonally into March, but instead of continuing to increase into early summer as they usually do, prices declined into August. Dry weather in the Plains again forced beef cow liquidation. In August, beef cow slaughter averaged almost 40% more than the previous year. Fall prices have averaged near 2005 seasonal lows.

What's next?

Why dwell on 2006 prices that are now history? One reason is to show the many fundamental factors that can affect prices and to set the stage for looking ahead.

What will happen to prices in 2007? Will an unexpected event occur again, especially in the fall? Both are good questions, and weather probably will be an important factor in both.

Those questions require answers that are too long for this column, so a future "Market Advisor" will address 2007 beef cattle price prospects.

Tim Petry

E-MAIL: tim.petry@ndsu.edu

Why dwell on 2006 prices that are now history? One reason is to show the many fundamental factors that can affect prices and to set the stage for looking ahead.