

# Cattle-Fax Presents Outlook for 2006

Market and weather forecast projections presented.

On Wednesday, Jan. 1, Cattle-Fax hosted an Outlook Seminar at the 2006 Cattle Industry Annual Convention in Denver, Colo. According to Cattle-Fax, "2005 will be viewed as a year of transition from historically high prices and profitability, to a period of rapid herd expansion, increasing supplies and, ultimately, a change in the cattle cycle."

When looking down the road in 2006, Cattle-Fax asks if the growing demand for beef will continue, if producers are

prepared for the effects of higher feed costs, and where the U.S. is positioned in the global beef market. These questions were explored during the seminar.

— by Micky Wilson

**Editor's Note:** Figs. 1-4 are reprinted with permission from the Outlook 2006 handout distributed at the seminar. For more information contact Cattle-Fax at (303) 694-0323.

## Market Outlook for 2006

Cattle-Fax market analysts presented their annual market outlook, forecasting increased cattle numbers and greater total beef production during 2006 and beyond.

The impact of several "wild card" factors — such as drought, rebounding exports, and competition from cheap pork and poultry — are unknown, but analysts predict a trend toward lower cattle prices.

Ample grain supplies are expected, with corn production near 11 billion bushels (bu.). Domestic demand is growing with increased ethanol production, but prices are expected to average near 2005 levels, at about \$2 per bu. Long-term, increased usage could push corn prices higher.

Reviewing cattle inventories, analysts say the nation's beef cow herd increased by about 340,000 head during 2005, totaling 33.25 million head in January 2006. Cow and heifer harvest has declined, further signaling the rebuilding of breeding herds. By 2009, total beef cow numbers are expected to increase by 1.5-1.8 million head.

On Jan. 1, U.S. feeder cattle and calf supplies totaled 28.2 million head — up 2% (470,000 head) from a year earlier. Imports of feeder cattle and calves from Canada are expected to total 350,000-400,000 head during 2006. Imports from Mexico should be slightly lower, at about 1.1 million.

During 2006, total steer and heifer harvest is predicted to total between 27.8 and 28.0 million head — up at least 800,000 head from the previous year. By 2010, steer and heifer harvest is expected to increase by about 2 million head due to cow herd expansion and growing feeder cattle and calf supplies.

In 2005, average carcass weights increased by 7.5 pounds (lb.) to 757 lb. — the second-heaviest on record. The wide spread between fed-cattle prices and the

cost of gain will encourage the trend toward heavier carcass weights in 2006, with the expected average nearing a new high of 762 lb. But, it's the increased steer and heifer harvest that prompts analysts to predict a nearly 1 billion-lb. increase in total U.S.

beef production in 2006. By 2010, they look for an additional increase of more than 2 billion lb.

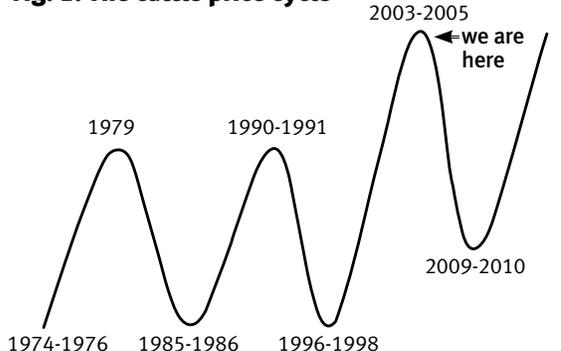
Beef supplies will be about 4% higher during the first quarter of 2006, according to Cattle-Fax, and up to 5% higher in the

second quarter, compared to the year before.

The price forecast shows 2006 fed-cattle prices averaging near \$86 per hundredweight (cwt.). However, market volatility seen during the last three years is expected to continue in the years ahead. Fed cattle could easily trade in a \$17 to \$20 range during the year.

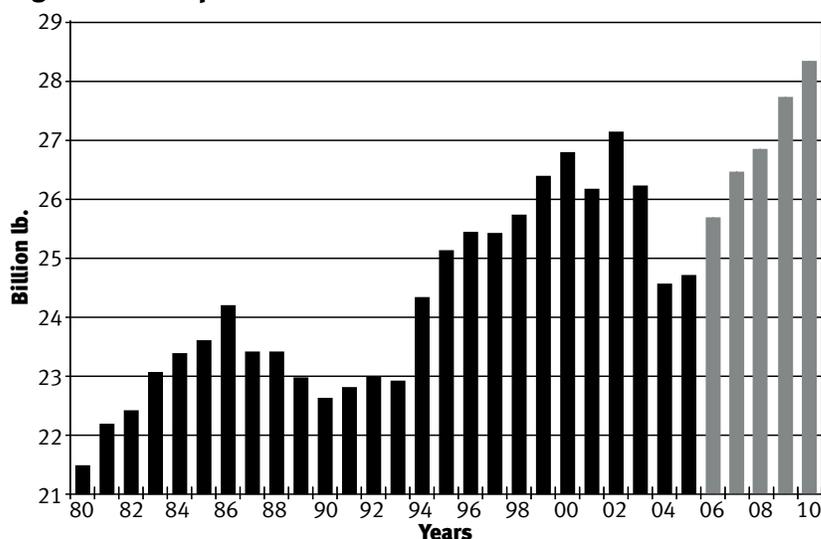
Feeder cattle prices are predicted to average

**Fig. 1: The cattle price cycle**



Source: Outlook 2006, Cattle-Fax, Feb. 1, 2006.

**Fig. 2: U.S. beef production**



Source: USDA & Cattle-Fax 2006-2010 Projected.



\$3-\$4 lower for the year, ranging around \$97-\$113 per cwt. Calf prices are expected to soften slightly, too, averaging near \$125 per cwt. during 2006.

Long term, Cattle-Fax analysts look for:

▶ increased fed and non-fed harvest;

▶ shifting margins — favoring packers, retail and foodservice — as domestic harvest and beef supplies grow;

▶ narrowing producer margins, likely turning negative for stockers and feeders during the next year; and

▶ positive cow-calf margins that will trend lower through the end of the decade.

— by Troy Smith

## Weather Forecast

The weather outlook for 2006 doesn't look much different from last year's outlook, long-range forecaster Arthur Douglas said. Drier-than-normal conditions and lower temperatures are likely to occur in most of North America this year.

The surface temperatures of the Atlantic and Pacific oceans have the greatest influence on North America's weather forecasts, Douglas explained before launching into forecasts for February, spring and summer.

### Sea temperature effects

Cold surface water along the equator west of South America and off the west coast of Mexico will limit the production of moisture near the west coast of North America, Douglas said.

Dry winter conditions will likely continue across the Southwest into the Plains as the Pacific Ocean continues in its cool phase. This cool phase will, however, jump-start winter precipitation in the Pacific Northwest, with rainfall diminishing by late winter and early spring.

The Atlantic Ocean, on the other hand, is now in a warm phase, which has largely been responsible for the recent increase in tropical cyclone activity, he explained. This year may have more moderate levels of tropical cyclone activity, but high water temperatures off western Africa threaten to be a breeding ground for storms. Although tropical cyclone activity may be above normal, drier-than-normal conditions will persist in North America, Douglas noted.

### Spring forecast

Moisture levels will continue to deteriorate in the Southwest. By mid- and late spring, temperatures in the Southern Plains will be above normal as a result of persistently dry soils, Douglas said.

Spring rainfall is likely to be near normal or above normal in the eastern one-third of the Corn Belt. Conditions are expected to be dry along the Eastern Seaboard, while the Tennessee Valley into the eastern Ohio Valley and along the Canadian border west of the Great Lakes should experience above-normal precipitation.

### Summer forecast

High-altitude winds along the equator should switch this summer from eastwardly to westwardly blowing, which will enhance monsoon systems in North America, Douglas explained. The desert Southwest should see higher-than-normal precipitation as a result of displaced monsoons in Mexico.

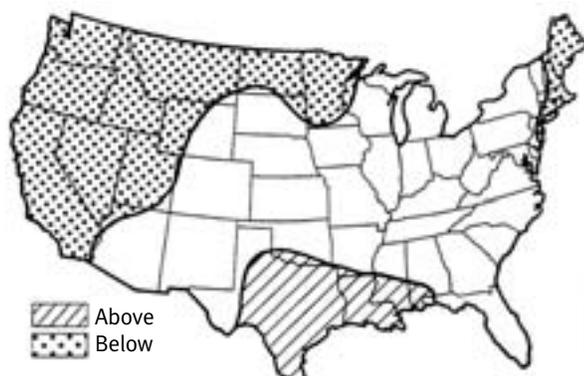
The Atlantic Ocean is likely to see another active hurricane year, though probably not as active as last year, he noted.

The warm, dry summer conditions seen across the central and eastern sections of the Corn Belt last summer should reappear this year. With spring rainfall expected to be at least normal, subsoil moisture conditions should be adequate, Douglas said.

He cautioned that if spring ends up drier than forecasted, the Midwest crop regions should be closely monitored. The Southwest and Southern Plains will see a poor grass season, while range conditions in the northwestern quarter of the country should be enhanced.

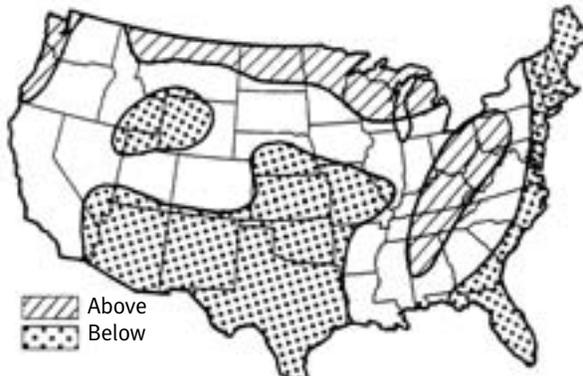
— by Meghan Soderstrom

**Fig. 3: Temperature outlook, March-May 2006**



Source: Outlook 2006, Cattle-Fax, Feb. 1, 2006.

**Fig. 4: Precipitation outlook, March-May 2006**



Source: Outlook 2006, Cattle-Fax, Feb. 1, 2006.