

Forecasting the Numbers

Cattle-Fax analysts overview cattle numbers, beef supply and demand.

“Prices on all classes of cattle are past the cycle high,” Kevin Good, senior market analyst, said Feb. 1 during the 38th Annual Cattle-Fax Outlook Seminar during the 2007 Cattle Industry Annual Convention and NCBA Trade Show in Nashville, Tenn. Price trends are expected to decrease over the next three to four years as production expands.

This, Good said, is a time to focus on opportunities.

Total cattle numbers have increased 2.7 million head in the last three years, Good said. The total inventory as of Jan. 1 was expected to be at 97.6 million head, up 5% compared to a year earlier.

Also in 2006, cow slaughter was up 12%, totaling 5.43 million head. “The largest increases in beef cow slaughter occurred in the Southern Plains due to drought conditions,” he expounded. Beef cow slaughter is expected to be up in 2007, but just slightly.

Feeder-cattle and calf supplies are expected to be up 2% in 2007, totaling 28.75 million. Good projected higher grain costs will result in cattle staying out of feedyards longer. Feeders will realize lower costs of gain on grazing and backgrounding programs.

Imports of Mexican and Canadian feeder cattle are projected to decrease this year, primarily due to higher costs of gain in the U.S. and lower feeder-cattle and calf values. Good said he doesn’t expect much change in imports from these countries in the five-year average.

At 774 pounds (lb.), average carcass weights increased by 12 lb. in 2006, Good reported. Cattle are expected to



► Opportunities are available in the export market, Cattle-Fax analyst Brett Stuart said, pointing out China’s population and the EU’s affluence.

be on feed for fewer days, again due to expected high costs of gain, resulting in slightly lighter carcass weights.

Beef production totaled 26.053 billion lb. in 2006 and is expected to increase slightly more than 1% in 2007. Net beef supplies were 28.059 billion lb. in 2006 and are expected to increase less than 0.5% in 2007.

This will result in a slight

Cattle price trends are expected to decrease over the next three to four years as production expands.

decline in beef consumption for the year. Looking a couple of years down the road, Good said, “Per capita supplies are expected to be flat in 2008 and 2009 as population growth will offset the growth in net beef supplies.”

— by Micky Wilson

Global market, trade

Analyst Brett Stuart gave a short geography lesson to begin Cattle-Fax’s global market and trade outlook. He began by looking at simple things, like worldwide population densities and areas categorized by income. Stuart explained that large populations don’t always equate to large incomes, which are typically associated with larger per capita consumption of beef. Still, small percentage increases among large populations can add up fast.

A look at global beef production showed that in the past four years, beef production has been on the rise, led by increases in most of the largest beef-producing countries, including the U.S., Brazil, China and India. Global beef production is predicted to continue to increase in 2007.

Where will that beef go? Stuart predicted beef consumption to increase 2.58 billion pounds in 2007, with countries including China, Brazil, the U.S., India, Japan, South Korea, Mexico, the European Union (EU), Australia



► The shift in higher corn prices is expected to be a long-term shift, Cattle-Fax analyst Mike Murphy said. Beef producers must learn to use ethanol coproducts to their advantage.

and New Zealand leading growth. On the other hand, beef consumption is expected to decrease in Argentina, the Ukraine, Russia, Canada, Bulgaria and Egypt.

While the U.S. is the largest consumer of beef in the world, it is also the largest producer of beef and depends on exports to maintain fed-cattle prices. The U.S. has been regaining some of the exports that were lost after the December 2003 incidence of bovine spongiform encephalopathy (BSE). Considering only open markets (excluding Japan, South Korea, China and Russia), 2006 export volumes were 7% above pre-BSE levels, Stuart reported. But continued export growth will require additional market access in those markets.

South Korea is an important area of concern. It remains at a political stalemate with the U.S. regarding beef trade and free trade agreement (FTA) talks.

The U.S. also needs to work with Japan regarding the 30-month-of-age rule, Stuart commented. Current World Organization for Animal Health (OIE) discussions may affect the trade picture. In Paris, scientists are going to determine safety levels of cattle-exporting countries, and U.S. beef is expected to move to either controlled or negative-risk status. Either one will increase the marketability for U.S. beef internationally.

Japan isn't forced to accept or change its policies based on the new risk level

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assigned to U.S. cattle; however, Japanese officials tend to be influenced by OIE standards, Stuart said.

There are still some wildcards, Stuart said. A foreign disease could cause a loss of confidence among trading partners and consumers. And trade policies and foreign exchange policies could change rapidly.

But opportunities are still very much there, Stuart said. China has a huge population that could continue to open a bigger market, and the EU has a lot of high-income people to buy high-quality beef. There are also growing high-quality global niche markets. Wherever there are resorts or hotels across the world, there is a demand for high-quality meat.

The opportunities are out there, Stuart said. The beef industry must go get them.

— by Mathew Elliott

Corn, ethanol situation

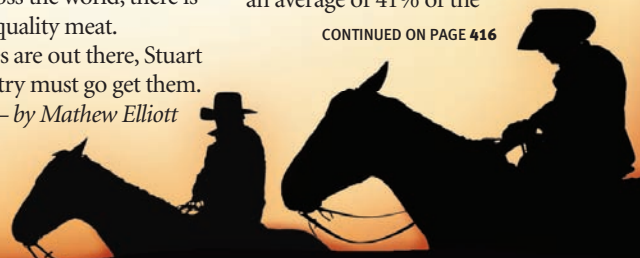
Demand for corn is up 50% since the 1990s, Cattle-Fax analyst Mike Murphy told attendees as he presented Cattle-Fax's corn and ethanol situation and outlook. Corn acreage is expected to expand by 7-9 million acres to 85-87 million in 2007.

Ethanol production capacity is increasing rapidly. The Renewable Fuels Association states that there are 111 plants in operation today, with 75 plants being built, Murphy reported. The combined capacity of these plants could utilize 4.1 billion bushels (bu.) of corn during the 2007-2008 marketing year.

With this increase in corn demand for ethanol uses, the price of corn will go up, Murphy predicted. Beef producers must learn to use ethanol coproducts to their advantage. Wet distillers' grains (WDG) are going to become very important. For every bushel of corn [56 pounds (lb.)], 17-18 lb. of distillers' grains can be produced. Coproduct feeding could displace 25%-30% of corn used for livestock feeding, he added.

World corn consumption is also steadily increasing, while production has leveled off. The U.S. has produced an average of 41% of the

CONTINUED ON PAGE 416



Forecasting the Numbers CONTINUED FROM PAGE 415

world's corn. China is second with 21%, but it has been exporting less corn due to increased domestic demand. Due to the increased consumption and leveling production, corn prices could trade from \$3 to \$4, Murphy predicted.

This shift in higher corn prices is expected to reflect a long-term shift, Murphy said. The basis levels are expected to remain stronger than ever. This could cause a shift in the beef industry — a subtle shift to feeding cattle further north.

Another factor to look at is how the weather will affect the corn crop. As reported in the Cattle-Fax weather report, a drought could affect the 2007 growing season. This will provide a very volatile corn market that needs to be watched carefully.

Murphy concluded by saying that ethanol is here to stay; it's not going away. Higher corn prices will have a negative effect on calf and feeder-cattle prices. This can provide opportunities for some, and others will have to adjust. Higher corn prices are expected to affect the pork and poultry industries more than the beef industry.

— by Mathew Elliott

Price Outlook: 2007 and Beyond

Presenting the Cattle-Fax price outlook for 2007, analyst Kevin Good noted recent large numbers of cattle on feed (11.9 million) as of Jan. 1. Good said he expects total feedyard tallies to decline through the first half of 2007, as higher grain prices discourage new placements. Due to higher costs of gain, cattle feeders are likely to place heavier cattle and turn them quicker than they have in recent years.

With higher fed beef production, sellers have less leverage over packers, prompting slightly softer prices compared to last year. Good predicted fed steers will average about \$85 per hundredweight (cwt.). The Choice-Select spread should range from \$8 to \$25, averaging \$14 per cwt. in 2007.

With feedlot operators facing negative margins and increased supplies of feeder cattle



► Bred cow prices peaked in 2005, declined by nearly \$100 per head in 2006, and are projected to decline by an additional \$100 in 2007, said Cattle-Fax Senior Market Analyst Kevin Good.

“Nothing is going to stay the same. It never has. Change is constant. Those who accept change and adapt will prosper.”

— Randy Blach

and calves, prices should trend lower. Calves weighing 550 lb. could average \$110 per cwt. in 2007, with heavier feeders averaging around \$98. Good said bred cow prices peaked in 2005, declined by nearly \$100 per head in 2006, and are projected to decline by more than \$100 in 2007. Cow-calf profitability will remain strong enough to fuel only moderate herd expansion.

Looking farther into the future, Cattle-Fax Executive Vice President Randy Blach said ethanol-driven, sharply higher corn prices will be lasting. He urged cow-calf producers and stocker operators to take advantage of low-cost forages to add weight and meet feedlot demand for heavier cattle.

While some pundits predict the cattle-feeding industry is moving northward, Blach said a wholesale shift isn't likely. While northern cattle feeders enjoy an advantage in cost of gain, it is offset by a southern advantage in feeder-cattle purchase price and a marketing advantage due to close proximity to more packing plants.

And while beef export markets are rebounding, greater access to foreign markets is needed to reach export levels achieved prior to the United States' first case of bovine spongiform encephalopathy (BSE). Reaching those 2003 levels could have a \$6- to \$7-per-cwt. effect on long-term fed-cattle prices and add \$12 to the price of calves.

Blach foresees demand for more high-quality beef, which will support a respectable Choice-Select spread. He called instrument grading of carcasses a positive change for the industry that will create more pricing points for both yield and quality grade.

“Nothing is going to stay the same. It never has,” Blach stated. “Change is constant. Those who accept change and adapt will prosper.”

— by Troy Smith



Weather Outlook

Cold winter, hot summer predicted for the remainder of the year.

Art Douglas, Creighton University, presented a weather outlook during the 38th Annual Cattle-Fax Outlook Seminar at the 2007 Cattle Industry Annual Convention and NCBA Trade Show in Nashville, Tenn. Well-outlined topics of discussion included current drought conditions, world weather conditions, the current El Niño status, and the spring and summer outlook.

The temperature patterns the U.S. has been experiencing have been prominent since 1998, and have been responsible for widespread drought in the U.S., along with strong hurricane years in the Gulf and Atlantic states.

Regional droughts continue, especially in the North and West. However, a

moderate El Niño effect in the equatorial Pacific has fueled a strong subtropical jet across northern Mexico and the southern Plains, easing drought conditions in these areas.

El Niño years, Douglas defined, are generally associated with warm waters along the West coast and cold waters in the central Pacific. However, 2007 had the opposite pattern.

Douglas explained cold water doesn't yield enough energy to produce storms, thus leaving land lax on precipitation. A strong ridge of high pressure formed, preventing Pacific storms from moving into California; therefore, much of California will miss out on a wet winter tied to El Niño.

Moving into world weather conditions, Douglas predicted the Northern Hemisphere weather patterns to be shaped by the influence of warm waters in the North Atlantic and cold waters in the East Pacific.

Parts of the Southern Hemisphere are experiencing extreme drought, especially Australia. Other parts, South America in particular, are experiencing conditions bordering on too wet, but allowing for optimum crop conditions.

With so many changes taking place, Douglas predicted the end of El Niño in March or April of this year, bringing with it a hot summer.

But before summer arrives, the U.S. will experience more cold weather. A high-pressure pattern along the West and East coasts has protected the country from cold air, Douglas said. That pattern has changed, allowing cold air into much of the country. This pattern, peaking in the first half of February, will continue, allowing cold temperatures in much of the country.

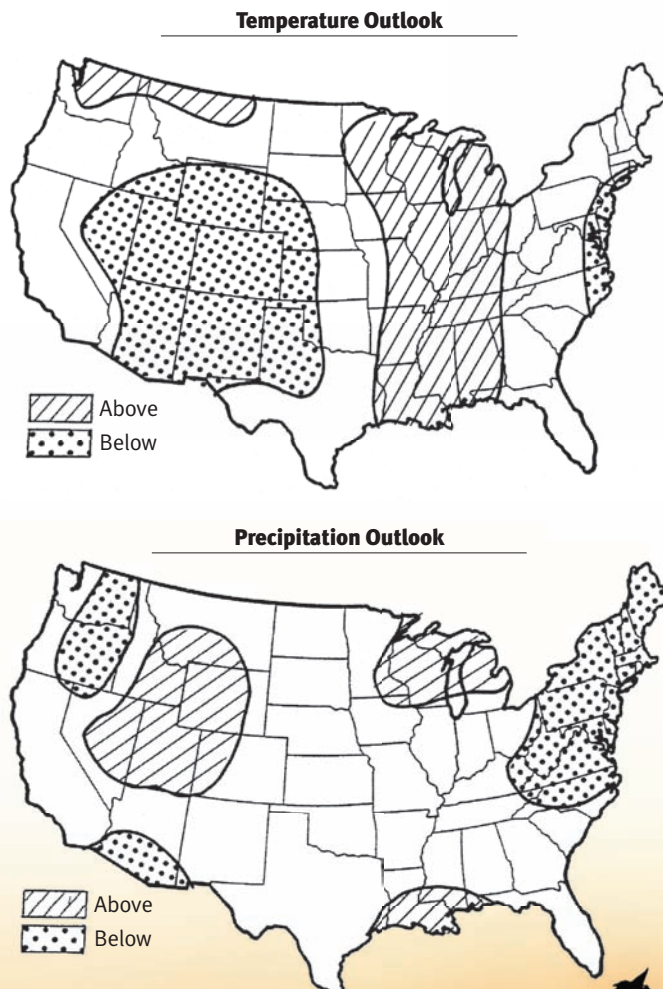
The western and northern half of the country will be drier than normal in February, with only moderate accumulations of snow, Douglas said. But March should bring higher temperatures in the east-central U.S.

The summer weather pattern will bring a stronger upper-level high-pressure system in the Great Lakes region, bringing with it a warm, dry summer across the crop areas of the north central U.S., while the Pacific Northwest will be slightly cooler than normal under a weak upper-level trough. A weak trough of low pressure is also forecast to form in the Southeast and will probably become a focal point for tropical storm tracks in the summer, Douglas said.

The cold-water pool in the eastern Pacific also favors drought in the Southwest. This unfavorable sea surface temperature pattern will probably dominate weather patterns in the winter of 2007-2008.

— Micky Wilson

Fig. 1: March-May 2007 Cattle-Fax Weather Outlook



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