PERSPECTIVES

Market Advisor

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

The economic crisis and cattle prices

What began as a housing mortgage crisis in the U.S. during the first part of 2008 quickly turned into a credit market freeze and a major international recession during the fourth quarter of the year. The U.S. now faces the most difficult economic climate in at least a quarter of a century.

Situation

Cattle and beef markets have reacted in a similar manner to other severe events that we remember occurring earlier this decade — namely Sept. 11, 2001, and the discovery of a BSE (bovine spongiform encephalopathy) cow in late December 2003.

For the first three quarters of 2008, cattle prices held up rather well given the sour economic environment. However, as the international economic situation worsened in the fourth quarter, cattle prices plummeted.

For the calendar year 2008, fed-steer prices averaged about the same as in 2007 but were highly volatile. On a weekly basis, the U.S. Department of Agriculture (USDA) reported the five-market average fed-steer price peaked at more than $101 per hundredweight (cwt.) in July. During the price collapse in late 2008 the average fed-steer price fell to about $84 per cwt., the lowest level since summer 2006.

During the first quarter of 2008, calf and yearling prices at major markets were slightly above a year earlier. But prices declined compared to a year earlier in the second and third quarters of the year due to skyrocketing feed prices.

Although feed prices also plummeted in the fourth quarter, plunging fed-cattle prices caused the lowest quarterly yearling prices since 2004, and calves were the lowest since 2003. In the fourth quarter, 700- to 800-pound (lb.) feeder steers averaged about $96 per cwt., and steer calves averaged near $104.

Comparatively good

Although the declining prices were devastating to cattle producers, other industries fared even worse. While fed-cattle prices fell about 17% from high to low in 2008, crude oil prices declined about 75%, corn more than 60%, slaughter hogs more than 40% and wholesale chicken breast prices declined nearly 34%.

Bankruptcies were a noted business news feature for several restaurant and steakhouse chains, as well as important ethanol and chicken producers.

In general, restaurant sales continued to erode throughout 2008, but some lower-priced fast-food chains actually prospered as consumers sought out lower-priced food. At the same time, some specialty grocery stores struggled, while some big box store discounters did very well as consumers bought more food to prepare at home rather than dining out.

Byproduct values

Cattle byproduct values were another victim of the international economic crisis. Byproduct (tallow, hides, livers, etc.) values are very dependent on the export market and reached all-time record highs in summer 2008. High oil prices, high oilseed prices, a declining U.S. dollar and strengthening economies of export customers all contributed to high byproduct values. But the dramatic decline in the oil market coupled with the global economic crisis resulted in price declines for key byproducts, particularly tallow.

This past summer, about $12 per cwt. of the fed-steer price was due to the value of byproducts. By December, the value had plummeted to only about $6.

Looking forward

How long this recession lasts domestically and internationally is anyone's guess, but it is key to the recovery of cattle prices. U.S. unemployment is forecast to increase at least into summer 2009 and maybe longer. The new administration and Congress are expected to aggressively address the situation, and it is hoped recovery can begin by mid- to late 2009.

Volatility in cattle prices will likely continue in 2009, so price risk management will continue to be important. Tightening beef, poultry and pork supplies will be supportive to prices, but demand will continue to be the driver of prices.

A major uncertainty in feeder cattle prices will continue to be corn prices. As spring approaches and corn vs. soybean planting intentions surface, coupled with weather conditions, corn prices will be volatile.

If some modest economic recovery occurs, the prices of all classes of cattle could be higher in the fourth quarter of 2009 than in 2008. And with continued recovery, 2010 may be shaping up to be a very good year for cattle prices.

Tim Petry

Editor's Note: *Addressing marketing issues affecting the livestock industry, "Market Advisor" is a monthly column distributed by the NDSU Agricultural Communication office. Petry is a livestock economist with the NDSU Extension Service. In that role, he provides assistance to all livestock segments in the state, focusing on adding value to the livestock industry in the region. An archive of columns can be found at* www.ag.ndsu.nodak.edu/aginfo/lsmkt/news/archive.htm.