Stocker Cattle Outlook: A Good News/Bad News Story

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Summary

The key driving forces are oil prices and biofuels policy.

Higher oil prices lead to higher gasoline prices, higher ethanol prices, higher corn prices and red ink for the livestock industry.
Spot Crude Oil Prices 1995-2008
WTI, Monthly Average Price, Cushing, Oklahoma

$/barrel

Source: U.S. Energy Information Administration
U.S. Retail Gasoline Prices,
All Grades, All Formulations, 1996-2008

Source: U.S. Energy Information Administration
September Crude Oil Futures Prices

$126/barrel = $3.00/gal

Source: New York Mercantile Exchange on 7/30/08
Ethanol-Gasoline Price Relationship

Last week: Gasoline $4.01/gal  Ethanol $2.59/gal

Source: Ron Plain
Corn Milled for Ethanol

% corn for ethanol:
2000-01: 6%
2005-06: 14%
2006-07: 20%
2007-08: 23%
2008-09: 34%

Forecast
2007 Ethanol-Corn Price Relationship

Source: Ron Plain
Northwest Iowa Prices, 2006-08

$ Per Ton

Source: LMIC
DDGS Price as % of Corn Price, Northwest Iowa, 2006-08

Source: LMIC
2007 Renewable Fuels Mandate

Billion Gallons


Corn ethanol  Cellulosic  Bio-diesel  More non-grain
Beginning in 2015, the U.S. will annually use more corn to make ethanol than the U.S. produced in any year before 1971.
U.S. Corn Usage

Corn usage is up 30% since 2000
U.S. Feeding of Corn, 2005-06

Source: PRX ProExporter Network
Cost of Slaughter Hog Production

Iowa State University Calculations, 1987-2008

$ Per Live Cwt

Marketing Month

Source: John Lawrence, Iowa State University
Choice Steer Price & Breakeven

S. Plains Cattle Feedlots, Monthly

$ Per Cwt

Breakeven

Projected Breakeven
A dime increase in the price of corn reduces the value of feeder cattle by $6-9 per head.
U.S. CATTLE INVENTORY, January 1

2008: 96.7 million head, Down 0.3%
Choice 1100-1300 Lb. Steers
Yield Grade 2-4, Nebraska Direct

2008 is expected to set another price record
## July 2008 Cattle Inventory

### percent of year earlier

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Cattle &amp; Calves</td>
<td>99.5</td>
</tr>
<tr>
<td>Beef Cows</td>
<td>99.4</td>
</tr>
<tr>
<td>Dairy Cows</td>
<td>101.1</td>
</tr>
<tr>
<td>Beef Replace. Heifers</td>
<td>97.9</td>
</tr>
<tr>
<td>Dairy Replace. Heifers</td>
<td>100.0</td>
</tr>
<tr>
<td>Other Heifers</td>
<td>100.0</td>
</tr>
<tr>
<td>Steers 500 lbs &amp; up</td>
<td>98.7</td>
</tr>
<tr>
<td>Calves under 500 lbs</td>
<td>99.7</td>
</tr>
</tbody>
</table>
U.S. Calf Crop, 1950-2008

2008: 37.25 million head, Down 0.3%
2006 Drought Slowed Herd Growth

U.S. Drought Monitor
August 1, 2006
Valid 8 a.m. EDT

Intensity:
- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:
- Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://drought.unl.edu/dm

Released Thursday, August 3, 2006
Author: David Miskus, JAWF/CPC/NCEP/NOAA
The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://drought.unl.edu/dm
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http://drought.unl.edu/dm

Released Thursday, July 31, 2008
Authors: Brian Fuchs, NDMC/Laura Edwards, WRCC
Through mid July, beef cow slaughter was up 10.5%
July Cattle on Feed Report

• Steers on feed down 4.6%
• Heifers on feed down 2.7%
<table>
<thead>
<tr>
<th></th>
<th>Jan-May 2007</th>
<th>Jan-May 2008</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. beef production</td>
<td>12,885.3</td>
<td>13,268.6</td>
<td>+ 3.0%</td>
</tr>
<tr>
<td>U.S. beef exports</td>
<td>499.8</td>
<td>662.9</td>
<td>+ 32.6%</td>
</tr>
<tr>
<td>U.S. beef imports</td>
<td>1,374.0</td>
<td>1,076.4</td>
<td>- 21.7%</td>
</tr>
<tr>
<td>Production-exports + imports</td>
<td>13,759.5</td>
<td>13,682.1</td>
<td>- 0.6%</td>
</tr>
</tbody>
</table>
U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly

Mil. Pounds


Japan
Canada
Mexico
South Korea
Change in Domestic Beef Demand
Base Elasticity = -0.75
CHOICE MINUS SELECT BEEF PRICES
Carcass Cutout Value 600-900 Lbs., Weekly

$ Per Cwt.

JAN  APR  JUL  OCT

Livestock Marketing Information Center

C-P-68
07/22/08
Retail Price of Choice Beef

<table>
<thead>
<tr>
<th>Month</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>380</td>
<td>390</td>
</tr>
<tr>
<td>Feb</td>
<td>390</td>
<td>400</td>
</tr>
<tr>
<td>Mar</td>
<td>400</td>
<td>410</td>
</tr>
<tr>
<td>Apr</td>
<td>410</td>
<td>420</td>
</tr>
<tr>
<td>May</td>
<td>420</td>
<td>430</td>
</tr>
<tr>
<td>Jun</td>
<td>430</td>
<td>440</td>
</tr>
<tr>
<td>Jul</td>
<td>440</td>
<td>430</td>
</tr>
<tr>
<td>Aug</td>
<td>430</td>
<td>420</td>
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<tr>
<td>Sep</td>
<td>420</td>
<td>410</td>
</tr>
<tr>
<td>Oct</td>
<td>410</td>
<td>400</td>
</tr>
<tr>
<td>Nov</td>
<td>400</td>
<td>390</td>
</tr>
<tr>
<td>Dec</td>
<td>390</td>
<td>380</td>
</tr>
</tbody>
</table>
Steer Slaughter Weight
Federally Inspected, Weekly

Thou. Head

- 2007
- 2008

JAN  APR  JUL  OCT
CATTLE ON FEED
Large U.S. Feedlots, Monthly

July 1 cattle on feed: dn 4.1%
SLAUGHTER COW PRICES
Southern Plains, 85-90% Lean, Weekly

$ Per Cwt.

Avg.
2002-06

2007

2008

Livestock Marketing Information Center

C-P-35
07/22/08
Wider Price Spread, East-West

- Higher trucking costs
  - $4.50 diesel
- DDGS in the west
- Fertilizer costs
### U.S. Commercial Beef Production

**Million Pounds**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Change 07-08</th>
<th>Change 08-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qtr 1</td>
<td>6,237</td>
<td>6,371</td>
<td>6,250*</td>
<td>+2.1%</td>
<td>- 1.9%</td>
</tr>
<tr>
<td>Qtr 2</td>
<td>6,649</td>
<td>6,897</td>
<td>6,750*</td>
<td>+3.7%</td>
<td>- 2.1%</td>
</tr>
<tr>
<td>Qtr 3</td>
<td>6,802</td>
<td>6,900*</td>
<td>6,800*</td>
<td>+1.4%</td>
<td>- 1.4%</td>
</tr>
<tr>
<td>Qtr 4</td>
<td>6,733</td>
<td>6,400*</td>
<td>6,600*</td>
<td>-4.9%</td>
<td>+3.1%</td>
</tr>
<tr>
<td>Year</td>
<td>26,421</td>
<td>26,568*</td>
<td>26,400*</td>
<td>+0.6%</td>
<td>- 0.6%</td>
</tr>
</tbody>
</table>

Note: Q3 2008 has 1 more slaughter day

*forecast*
# Nebraska Slaughter Steer Prices

Choice Steers Per Live Hundredweight

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qtr 1</td>
<td>$89.24</td>
<td>$90.61</td>
<td>$89.59</td>
<td>95-101*</td>
</tr>
<tr>
<td>Qtr 2</td>
<td>$80.39</td>
<td>$93.45</td>
<td>$92.82</td>
<td>93-100*</td>
</tr>
<tr>
<td>Qtr 3</td>
<td>$85.40</td>
<td>$91.36</td>
<td>$93-98*</td>
<td>95-102*</td>
</tr>
<tr>
<td>Qtr 4</td>
<td>$86.61</td>
<td>$91.85</td>
<td>$96-101*</td>
<td>96-103*</td>
</tr>
<tr>
<td>Year</td>
<td>$85.41</td>
<td>$91.82</td>
<td>$91-94*</td>
<td>$95-102*</td>
</tr>
</tbody>
</table>

*forecast
## Cattle Price Forecast, 2008-09

<table>
<thead>
<tr>
<th>Yr. -- Qtr.</th>
<th>11-1300# Nebraska</th>
<th>750-800# Okla. City</th>
<th>500-550# Okla. City</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 – 1</td>
<td>89.59</td>
<td>99.88</td>
<td>121.75</td>
</tr>
<tr>
<td>2008 – 2</td>
<td>92.82</td>
<td>106.60</td>
<td>122.19</td>
</tr>
<tr>
<td>2008 – 3*</td>
<td>93-98</td>
<td>104-109</td>
<td>110-115</td>
</tr>
<tr>
<td>2008 – 4*</td>
<td>96-101</td>
<td>104-110</td>
<td>112-118</td>
</tr>
<tr>
<td>2009 – 1*</td>
<td>95-101</td>
<td>102-108</td>
<td>114-122</td>
</tr>
<tr>
<td>2009 – 2*</td>
<td>93-100</td>
<td>99-107</td>
<td>115-123</td>
</tr>
<tr>
<td>2009 – 3*</td>
<td>95-102</td>
<td>100-110</td>
<td>112-120</td>
</tr>
<tr>
<td>2009 – 4*</td>
<td>96-103</td>
<td>102-111</td>
<td>110-118</td>
</tr>
</tbody>
</table>

*Forecast
Major Uncertainties

• Corn prices & cost of gain
• Pasture conditions
  – Fertilizer prices
• Beef exports
  – Exchange rates
  – Japan & South Korea
• Domestic demand
• Country of Origin Labeling

Strategy: decrease cow numbers, graze calves longer, increase placement weights
Forecast Summary

- Cow herd is trending down
- Increase in beef exports
- Weak domestic demand
- High feed cost
- Red ink for cattle producers
Any Questions?