

Another Year of Record Fed Cattle Prices

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The beef supply is declining and cattle prices are rising. Fed cattle prices averaged \$95/cwt in 2010, up \$12.30 compared to the year before and up \$2.75 from the previous record set in 2008. Feeder cattle prices were close to record high last year. Yearling prices were the second highest ever with 750-800 pound steers averaging \$108.71/cwt at Oklahoma City, up \$12.58 from the year before and only \$2.23/cwt short of the 2005 record. Steer calves weighing 500-550 at Oklahoma City averaged \$124.54/cwt in 2010, the third highest annual average behind 2005 and 2006.

Why record prices for fed cattle in 2010 and not for feeder cattle? Corn prices averaged only \$1.96 per bushel in 2005 when feeder cattle prices were record high. Last year, corn averaged \$3.84 per bushel, nearly double that of five years earlier. High cost of gain kept cattle feeders from bidding up 2010 feeder cattle prices to match fed cattle prices.

The 2010 fed cattle price record is not expected to last long. The futures market is predicting new records this year. In late January, every futures contract for slaughter steers was trading above \$107/cwt and every feeder cattle contract was over \$125/cwt.

Why all the optimism in the futures market? Although the U.S. population is growing, the meat supply is not. The U.S. per capita meat supply is expected to be down 1.2% this year with beef down 2.7%. At 58.1 pounds per person, the beef supply is expected to be down for the fifth consecutive year to the lowest level since 1952. The supply of other meats is also expected to be tight. The per capita pork supply is forecast to be the smallest since 1978 and the per capita turkey supply the lowest since 1988. Only chicken is expected to keep up with population growth in the coming year. The total per person supply of red meat and poultry this year is expected to be the lowest since 1997.

USDA Survey. USDA's semi-annual cattle inventory report for January 2011 revealed a continuation in the herd reduction which began in 2007. This was expected given that slaughter of cull cows was 4.8% higher during 2010 than in 2009. Although cattle prices were strong in 2010, feed prices are high and the weak U.S. economy impacts negatively on cow-calf producers, many of whom have off-farm employment.

Revisions. There were several upward revisions of data from the January 2010 inventory survey. The size of the 2009 calf crop was revised upward by 120,000 head (0.34%) and the January 2010 cattle inventory increased by 0.19%. This upward adjustment brings the calf crop more in line with the placements and marketings from the monthly cattle on feed data.

Total Inventory. The total number of cattle and calves in the U.S. on January 1, 2011, was 92.6 million head, down 1.4% from 2010 and 4.1% lower than at the last cyclical peak in 2007. This is the lowest January cattle inventory since 1958.

Calf Crop. The 2010 calf crop is estimated to be 35.7 million head, down by 0.7% from a year earlier and the smallest calf crop since 1950. The size of the calf crop has declined each year since 1995.

Cow Herd. The inventory report shows that the number of beef cows that have calved (30.9 million) was 1.6% smaller than on the same date last year. The number of dairy cows that have calved (9.1 million head) was up 0.7% from a year ago. The combined cow herd is 1.1% smaller than in January 2010.

Replacement Heifers. There were 5.2 million beef heifers being held on January 1 to add to the cow herd, 5.4% fewer than January 2010. The number of beef heifers expected to calve in 2011 was down 7.2%. The number of dairy replacement heifers, 4.6 million head, was up 0.7% from 12 months earlier. The number of dairy heifers expected to calve this year is up 2.9%. The combined number of replacement heifers is down 2.6% from a year-ago. When added to the inventory of cows that have calved, these data imply the 2011 calf crop should be roughly 1.3% smaller than last year's crop.

Feeder Cattle Supply. At the start of the year, the number of steers weighing 500 pounds and over was down 0.8%; the number of 500 pound plus heifers not being held for cow replacements was up 0.5%; and the number of calves weighing less than 500 pounds was down 3.2% from a year ago. In total, the inventory of feeder cattle was 1.4% smaller than 12 months earlier.

Cattle Slaughter. For 2011, fed slaughter is expected to be slightly lower than a year ago. The number of cattle on feed January 1 was up 2.8% in total, with the number on feed in feedlots with one-time capacity of 1,000 head or more up 4.6%. Slaughter of cull dairy cows is expected to be higher in 2011. A modest decline in beef cow slaughter is expected.

Summary. Breeding animal numbers imply the January 2012 inventory will be 1% to 1.5% smaller than the 2011 number. Lower inventories should mean stronger prices. It appears that 2011 fed cattle prices will average over \$100/cwt with 2012 prices higher still. High corn prices should hold down feeder cattle prices in coming months. U.S. beef exports are expanding. Through November, beef exports were 17.7% above year-ago levels. As expected during a worldwide recession, meat demand was soft in 2009 and early 2010. If the economy grows, then beef demand should improve. Demand for slaughter steers and heifers was up over 10% during the fourth quarter of 2010 compared to a year earlier. The strengthening income picture for cow-calf operations should slow beef cow slaughter and eventually lead to herd expansion.

The data from USDA's January 2011 cattle inventory report is in the table below.

Inventory of Cattle and Calves, January 1, 2009-2011				
	2009	2010	2011	11 as % of 2010
	-----	1,000 head	-----	
Cattle & Calves	94,521	93,881.2	92,582.4	98.6
Cows & Heifers that Have Calved	41,045	40,456.4	40,014.2	98.9
Beef Cows	31,712	31,370.9	30,864.6	98.4
Milk Cows	9,333	9,085.5	9,149.6	100.7

Heifers 500 Lbs. & Over	19,576	19,745.8	19,532.8	98.9
For Beef Cow Replacement	5,531	5,451.0	5,157.6	94.6
Expected to calve in 2011	3,367	3,410.5	3,165.0	92.8
For Milk Cow Replacement	4,410	4,526.2	4,557.2	100.7
Expected to calve in 2011	2,909	2,954.1	3,039.3	102.9
Other Heifers	9,635	9,768.6	9,818.0	100.5
Steers 500 Lbs. & Over	16,769	16,510.4	16,382.0	99.2
Bulls 500 Lbs. & Over	2,184	2,190.1	2,153.1	98.3
Calves Under 500 Lbs.	14,948	14,978.5	14,500.3	96.8
Calf Crop	35,939	35,684.8		
Cattle on Feed	13,856	13,642.2	14,022.9	102.8

Actual federally inspected cattle slaughter and prices for 2008, 2009 and 2010 along with our forecasts of slaughter levels and prices in 2011 are given in the table below. My price forecasts for 2011 are low relative to the CME futures contracts for cattle. I attribute my lower forecasts to being less optimistic about the U.S. economy and consumers' willingness to pay record prices for meat. I also fear that feed prices will remain close to record levels for the foreseeable future.

Quarter	Federally Inspected Slaughter			Nebraska --Oklahoma City--		
	Steers& Heifers	Beef Cows	Dairy Cows	Slaughter Steers	750-800# --Feeder	500-550# Steers--
	-----thousand head-----			-----dollars/cwt-----		
Q1 08	6514.0	817.7	665.1	89.59	99.88	121.75
Q2 08	7265.7	901.8	594.7	92.83	106.60	122.19
Q3 08	6982.6	908.8	658.2	98.45	110.81	122.85
Q4 08	6277.5	940.9	673.3	88.22	94.62	105.22
2008	27040.0	3569.3	2591.2	92.27	102.98	118.00
Q1 09	6159.7	781.9	762.5	80.98	92.83	110.03
Q2 09	6866.5	770.2	682.8	84.53	98.63	116.09
Q3 09	6704.4	818.6	703.2	82.78	99.40	107.87
Q4 09	6324.1	954.3	667.0	82.43	93.67	109.31
2009	26054.8	3325.0	2815.3	82.68	96.13	110.83
Q1 10	6330.0	848.0	711.0	87.93	98.73	118.01
Q2 10	6812.1	910.8	658.3	96.59	112.65	130.93
Q3 10	6886.8	871.1	699.9	95.59	112.29	124.04
Q4 10	6615.0	1001.0	737.0	100.01	111.15	125.16
2010	26644.4	3630.9	2806.2	95.03	108.71	124.54
Q1 11*	6340.0	840.0	790.0	103-107	107-112	121-127
Q2 11*	6690.0	870.0	680.0	104-108	109-114	124-130
Q3 11*	6740.0	830.0	710.0	103-107	110-115	120-126
Q4 11*	6240.0	920.0	730.0	105-109	109-114	118-124
2011*	26010.0	3460.0	2910.0	104-108	109-114	121-127

* forecast