2011 Cattle Situation and Outlook

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2010 In Review

Last year saw very small increases of less than 1 percent in the total production of meat, higher prices of livestock, good export demand and a small decline in the consumption of meat per capita in the U.S. However, producers continued to face relatively high and volatile feed costs making production decisions—particularly decisions to increase herds—more difficult.

Beef exports were strong in 2010, up by about 19 percent Following the very large decline in beef exports in 2004, just after the BSE event in the cattle sector in late 2003, total meat exports of beef, pork and poultry have nearly doubled in the last 6 years.

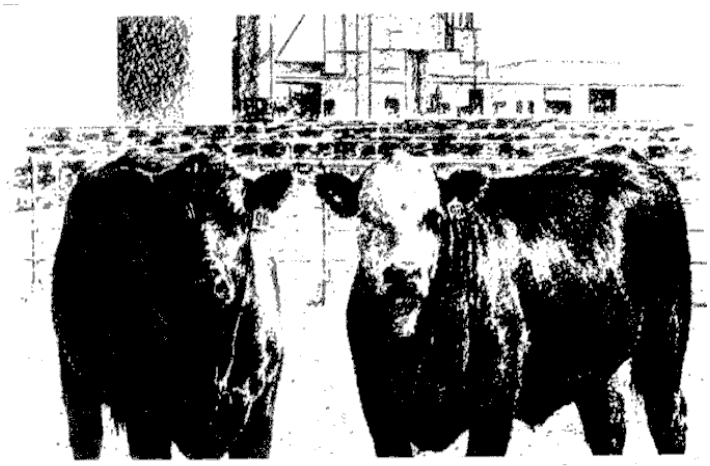
The strong export market in meat (and in the feed inputs) has been helped by the decade long decline in the value of the dollar. From an index high of 121 in 2001, it fell to an index low of 71 in 2008. It is currently about 80.

Livestock producers continued to face, for the fifth consecutive year, relatively higher and somewhat volatile feed prices in 2010. In the six calendar years from 1999 through 2005, corn prices averaged $2.06 per bushel. From 2006 through 2010, corn prices averaged $4.15 per bushel with monthly averages ranging from $3.03 per bushel to $6.56 per bushel. The rapid rise in feed prices during the last few years helped stop any increase in cow inventory.

Cattle prices fared reasonably well in 2010. Average choice cattle prices in 2010 were up more than 12 percent from 2009, exceeding the record high averages reached in 2007 and 2008. Several factors helped increase prices in 2010. Frozen stocks of beef, pork and turkey were well below those of 2009 most of the year. Also, the quality of the wet 2009 corn crop was below normal and resulted in slower gains of some livestock. Weather also played a part. The winter of 2009-2010 was colder and wetter than normal in the cattle feeding area in the Southern Plains, slowing weight gains and helping the surge in cattle prices from an average of $83.08 per hundredweight in December 2009 to $98.41 in April 2010.

Cow slaughter rose about 4 percent in 2010, up more than a third from its recent low five years ago. Dairy cow slaughter was down about 3 percent and slaughter of beef and other cows was up about 10 percent. Total cow slaughter in 2010 was the largest in 13 years.

Total slaughter of all cattle, including cows, was up about 2 percent from 2009. It has held in a sidewise trend between 31.8 and 33.8 million head for the last seven years. Cattle slaughter in 2010 was down more than 14 percent from the record high recorded in 1976. However, with increased productivity gains, total beef production in 2010 was slightly larger than in 1976. But, beef output in 2010 was still down 4 percent from the record in 2002.



2011 Forecast

Dairy cow slaughter for 2010 was down about 3 percent from 2009. However, after September, slaughter levels rose above the 2009 levels. In 2009, the CWT herd retirement program accounted for 8 percent of the annual dairy cow slaughter, whereas in 2010, CWT accounted for only 1 percent. This decrease in herd retirements may have contributed some to the decrease in dairy cow slaughter numbers. The increase in dairy cow slaughter numbers in the latter part of 2010 is likely due to higher feed costs and higher cow prices at slaughter. If these factors continue into 2011, expect annual dairy cow slaughter numbers to attain the same level as in 2010.

Beef cow slaughter through June 2010 was up from the same period of 2009 by 13 percent, whereas beef cow slaughter was up only 5 percent in the latter half of 2010. These numbers indicate that the rate of beef cow slaughter is decreasing and in 2011 will likely drop below last year.

If the cow slaughter slows down as expected, prices for slaughter cows will likely have their seasonal high in late spring, and could potentially be 5 percent higher than 2010 for the first several months in 2011. This increase in price would result from fewer cattle coming to slaughter and an

expected increase in demand for domestic lean beef.

Although their cost of production was higher, cattle feeders did have positive margins for much of 2010, due to high cattle prices. Increased profitability in the cattle sector is supportive of a reduction in cow slaughter. If the recent trend continues, herd expansion potentially may begin in late 2011.

Higher feed prices usually have a negative impact on feeder cattle prices. But surprisingly, feeder cattle prices in 2010 were higher than in 2009 despite higher feed prices. Feeder cattle prices will likely remain stable in early 2011, but show some weakness in the latter part of the year. Cattle feeding margins narrowed at the end of 2010 as there was little ability to continue to bid up feeder cattle prices, especially with high feed prices.

The fed cattle supply is decreasing. Cattle feeders have had to bid more aggressively in order to keep their lots full. There was an estimated 6 million head excess capacity in U.S. feedlots at the end of 2010. The industry will likely see some decline in feeding capacity in 2011. Nevertheless, cattle supplies will remain tight. Cattle slaughter will decrease, although cattle weights may increase slightly. Overall beef production will be down for 2011. If herd expansion does begin, overall cattle supplies will tighten further due to related heifer retention. Due to decreased per capita supply of beef, fed cattle prices will be higher in 2011, with the increase potentially reaching a $5/cwt increase over 2010.