



Market Outlook for 2006

by **Troy Smith**

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DENVER, CO (Feb. 1, 2006) — Cattle-Fax market analysts presented their annual market outlook Wednesday during the Cattle Industry Convention, forecasting increased cattle numbers and greater total beef production during 2006 and beyond.

The impact of several “wild card” factors — such as drought, rebounding exports and competition from cheap pork and poultry — are unknown, but analysts predict a trend toward lower cattle prices.

Ample grain supplies are expected, with corn production near 11 billion bushels. Domestic demand is growing with increased ethanol production, but prices are expected to average near 2005 levels, at about \$2 per bushel. Long-term, increased usage could push corn prices higher.

Reviewing cattle inventories, analysts say the nation’s beef cow herd increased by about 340,000 head during 2005, totaling 33.25 million head by January 2006. Cow and heifer slaughter has declined, further signaling the rebuilding of breeding herds. By 2009, total beef cow numbers are expected to increase by 1.5-1.8 million head.

On Jan. 1, U.S. feeder cattle and calf supplies totaled 28.2 million head — up by 2% (470,000 head) from a year earlier. Imports of feeder cattle and calves from Canada are expected to total 350,000-400,000 head during 2006. Imports from Mexico should be slightly lower at about 1.1 million.

During 2006, total steer and heifer slaughter is predicted to total between 27.8 and 28.0 million head — up at least 800,000 head from the previous year. By 2010, steer and heifer slaughter is expected to increase by about 2 million head due to cow herd expansion and growing feeder cattle and calf supplies.

In 2005, average carcass weights increased [by 7.5 pounds (lb.)] to 757 lb. — the second heaviest on record. The wide spread between fed-cattle prices and the cost of gain will encourage the trend toward heavier carcass weights in 2006, with the expected average nearing a new high of 762 lb. But it’s the increased steer and heifer slaughter that prompts analysts to predict a nearly 1 billion-lb. increase in total U.S. beef production in 2006. By 2010, they look for an additional increase of more than 2 billion lb.

Beef supplies will be about 4%

higher during the first quarter of 2006, and up to 5% higher in the second quarter, compared to the year before.

The price forecast shows 2006 fed-cattle prices averaging near \$86 per hundredweight (cwt.). However, market volatility seen during the last three years is expected to continue in the years ahead. Fed cattle could easily trade in a \$17 to \$20 range during the year.

Feeder cattle prices are predicted to average \$3-\$4 lower for the year, ranging from around \$97 to \$113 per cwt. Calf prices are expected to soften slightly, too, averaging near

\$125 per cwt. during 2006.

Long term, Cattle-Fax analysts look for:

- Fed and non-fed slaughter will increase;
- Margins will shift — favoring packers, retail and foodservice — as domestic slaughter and beef supplies grow;
- Producer margins will narrow and likely will turn negative for stockers and feeders during the next year; and
- Cow-calf margins will be positive but trend lower through the end of the decade.



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