

2007 Cattle Industry Annual Convention & Trade Show

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Price Outlook: 2007 and Beyond

Analysts predict prices to trend lower, Choice-Select spread to average \$14 per hundredweight.

by Troy Smith

NASHVILLE, TENN. (Feb. 1, 2007) — Presenting the Cattle-Fax price outlook for 2007, analyst Kevin Good noted record large numbers of cattle on feed (11.9 million) as of Jan. 1. Good said he expects total feedyard tallies to decline through the first half of 2007, as higher grain prices discourage new placements. Due to higher costs of gain, cattle feeders are likely to place heavier cattle and turn them quicker than they have in recent years.

With higher fed beef production, sellers have less leverage over packers, prompting slightly softer prices compared to last year. Good predicted fed steers will average about \$85 per hundredweight (cwt.). The Choice-Select spread should range from \$8 to \$25, averaging \$14 per cwt. in 2007.

With feedlot operators facing negative margins and increased supplies of feeder cattle and calves, prices should trend lower. Calves weighing 550 lb. could average \$110 per cwt. in 2007, with heavier feeders averaging around \$98. Good said bred cow prices peaked in 2005, declined by nearly \$100 per head in 2006, and are projected to decline by more than \$100 in 2007. Cow-calf profitability will remain strong enough to fuel only moderate herd expansion.

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Looking farther into the future, Cattle-Fax Executive Vice President Randy Blach said ethanol-driven, sharply higher corn prices will be lasting. He urged cow-calf producers and stocker operators to take advantage of low-cost forages to add weight and meet feedlot demand for heavier cattle.

While some pundits predict the cattle-feeding industry is moving northward, Blach said a wholesale shift isn't likely. While northern cattle feeders enjoy an advantage in cost of gain, it is offset by a southern advantage in feeder-cattle purchase price and a marketing advantage due to close proximity to more packing plants.

And while beef export markets are rebounding, greater access to foreign markets is needed to reach export levels

achieved prior to the United States' first case of bovine spongiform encephalopathy (BSE). Reaching those 2003 levels could have a \$6- to \$7-per-cwt. effect on long-term fed-cattle prices and add \$12 to the price of calves.

Blach foresees demand for more high-quality beef, which will support a respectable Choice-Select spread. He called instrument grading of carcasses a positive change for the industry that will create more pricing points for both yield and quality grade.

"Nothing is going to stay the same. It never has," Blach stated. "Change is constant. Those who accept change and adapt will prosper."

Blach presented his comments Feb. 1 during the 38th Annual Cattle-Fax Outlook Seminar during the 2007 Cattle Industry Annual Convention and NCBA Trade Show in Nashville. The outlook seminar is sponsored by Pfizer Animal Health. Summaries of other presentations during the outlook are also posted to the www.4cattlemen.com newsroom.

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