



Cattle Prices: How High Is High?

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Feeder and fed cattle prices are at or near all time highs and are poised to keep moving higher. Both Feeder and Live cattle futures suggest that higher prices are yet to come. In several recent meetings and conversations with producers, I am seeing a couple of reactions to the current situation. There seems to be an overall feeling of disbelief or a sense that there is another shoe to fall. The basic question seems to be one of "Is this for real?". Given everything we have been through in recent years and the amount of volatility in most input and output markets, such hesitancy is understandable. It is easy to remember corn and wheat markets in 2008 which soared to astronomical heights for a brief period of time. Are cattle markets in the same situation: set for a wild but short-lived ride into the stratosphere?

The real answer is, of course, is that no one can be sure how this will play out. We have never been in a situation like this before. However, when the factors that put us in this situation are considered, there is good reason to believe this is not a flash in the pan that will fizzle quickly. Unlike grain markets in 2008, cattle markets are not reacting merely to the short run impacts of market shocks. There are numerous factors at work, most of which are longer run in nature and will persist for the foreseeable future. Although the phrase "perfect storm" is overused, it may apply to the 2011 cattle market situation.

The underlying supply situation that is the major driving factor has been developing since the early 2000s, when roving droughts across the U.S. extended the last major cyclical herd liquidation. The BSE shocks in 2003 pushed the industry to new levels of intensity with tight feeder supplies offset by placing ever younger and lighter cattle into feedlots. This reaction worked well as long as corn was cheap. By 2004, prices had reached a level that resulted in limited herd expansion in 2004 and 2005. In 2006, the world changed with grain prices jumping to new levels which have continued fundamentally higher and provoke long term beef industry adjustments that continue to this day. The loss of profitability due to high and volatile input prices since late 2006 also prompted additional liquidation which led to the extremely tight numbers we see today.

The point is that there are some very solid reasons why we are seeing record cattle prices and still have expectations for even higher prices. Limited cattle numbers, high grain prices that temper carcass weights, and the need to reduce heifer and cow slaughter all suggest that supplies will tighten significantly in 2011 compared to recent years. A continuation of strong export demand and indications of recovery in domestic beef demand will allow cattle and beef prices to move higher. Just how high? No one knows...the key is demand and just how much higher prices can be supported. As is typical, the market will probably overshoot at some point and pull back a bit to reveal what the top really is. It does not appear we are close to that level yet and even when we do, we will likely stay at historically high levels for some time. The situation that led us to this point has been a decade in the making and will not unravel very quickly.

Source: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist