



Drought continues to push cattle sales

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Commercial cow slaughter— primarily drought-driven at this point in 2011— is set to exceed last year's high rate and numbers for the first half of the year. Despite the heavy slaughter levels and despite being down by almost 9 percent from an early-April weekly high, cow prices have held up reasonably well, and monthly average June prices were up almost 25 percent from June 2010. Reduced imports of processing beef and high demand for ground beef products have likely helped support cow prices.

The high rate of cow slaughter will likely limit calf crops for at least this year and next. Cow inventory and calf crop data will be presented in the July 1 Cattle inventory report to be released on July 22. The report is also expected to show the effects the drought has had on plans to retain replacement heifers. Many auction runs have included relatively large percentages of heifers, and it is likely that at least some of the heifers that had been retained for replacements have been sold in response to the drought-reduced forage supplies.

Like cow prices, feeder cattle prices have remained strong despite the lack of pasture and subsequent forced sales of feeder cattle from the southern part of the United States and Mexico. Drought-induced feedlot placements of cattle have been at weights lighter than if there had been adequate grazing conditions. Lighter placement weights, falling feed prices, and expectations of reduced supplies of feeder cattle for feedlot placement over the next 2 to 3 years are providing support for current or higher price levels for feeder cattle. June 2011 feeder cattle prices for 750-800-pound Medium and Large No. 1 feeder steers in Oklahoma City averaged 18 percent above June 2010 prices, and on a weekly basis were continuing their upward march through July 2.

While hedging opportunities exist at futures prices that would provide positive margins, cattle being fed on a cash-basis (unhedged and with no contracts for feed or cattle prices) could lose as much as \$140 per head during July. Lower grain prices will likely translate into lower feeding costs for the remainder of the year, especially after the new crop is in and if yields and acreages turn out as indicated in the latest WASDE report.

Weekly wholesale cutout values for Choice beef during June and early July have been at levels 13 percent higher than in June and early July 2010. These levels, combined with record and near-record byproduct values 28 percent higher than June-July 2010 levels, have provided packers with positive profit margins since late May 2011. However, these margins have declined from highs reached in early-June. Retail prices, already down 6 cents per pound (June \$4.80) from their May high of \$4.87 per pound, will likely decline from a second-quarter peak over the next quarter, as summer grilling demand has been affected by high temperatures and drought in the South. On the other hand, international demand for beef is increasing and U.S. beef exports have surpassed 2003 levels, in part due to a relatively weak dollar.

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