

2002 Perspective--Drought Resulted in Record Beef Supplies, Lower Prices

Drought conditions expanded in 2002 and marked the fourth consecutive year of dry conditions for many cattle producers. Many producers have had to contend with drought to some extent during 1999-2002. Grazing conditions deteriorated and forage supplies became increasingly dear for many producers. The industry entered 2003 with continued drought conditions through the winter in parts of the country and the eighth year of herd reductions.

Feed Costs Remain Favorable, Forage Supplies Decline

Weather in most of the country was unusually mild in 2002, but below-average precipitation led to worsening drought conditions for much of the country. Timely rains in July and August prevented the drought from becoming more widespread in the Corn Belt. Moisture conditions the Southern Plains improved in 2002 and conditions in the East Coast improved late in the year. However, drought conditions remained well entrenched in the Northern Plains and Western States throughout 2002.

Corn prices remained below year-earlier levels for much of 2002, but prices began to rise as drought conditions reduced yields. Total feed grain production fell by more than 4 percent, the second year of declining production. The farm price of corn in 2001/02 remained under \$2 a bushel, averaging \$1.97, up from \$1.85 in 2000/01. Prices moved above a year earlier in late summer and fall. Although grain prices remained relatively supportive for livestock producers, grazing/forage conditions continued to deteriorate for much of the year.

Grazing conditions were relatively poor in most areas in 2002, although conditions in the Southern Plains were much improved. Similarly, hay production declined 4 percent from 2001 to the smallest harvest since 1996. Hay disappearance in the May/November period was up sharply reflecting the dry spring and summer conditions limiting pasture and extending the hay feeding period in the Northern and Central Great

Plains, Southeast, and much of the West. Hay stocks on December 1 were down 6 percent from a year earlier. Forage conditions improved in the Southeast in early fall and remained good in the Southern Plains with the best fall small grain grazing conditions in several years. Rebuilding grazing conditions and hay stocks will be paramount to slowing the rate of herd reduction in 2003.

Herd Decline Continues

Cattle inventories continued to decline, but the rate of decline has been relatively moderate over the past 2 years. Periodic drought in some areas and continued drought in others has limited the industry's forage resources, forcing cow slaughter to remain relatively high. Consequently, the industry has had difficulty stabilizing, much less beginning to expand. Cattle and calves on January 1, 2003, totaled 96.1 million head, down less than 1 percent from a year earlier, but down over 7 percent from the 1996 cyclical peak of 103.5 million head. 2002 marked the seventh year of herd liquidation in this cycle, which began in 1990 at 95.8 million head. The present high cow slaughter and continued drought in many areas will almost certainly extend even the beginning stages of expansion beyond 2003. Forage supplies remain very tight and water supplies for livestock are uncertain in many regions. Rebuilding the forage base, and for many producers the financial base, even with stronger cattle prices, is likely to be slow.

Feeder Cattle Supplies Tighten, On-Feed Inventories Down

Cattle-on-feed inventories started 2002 down 2 percent from a year earlier and finished the year down over 8 percent from January 1, 2002. Although feedlot placements declined 2 percent, fed cattle marketings rose 1 percent as feeding conditions were extremely favorable for feedlot gains, particularly when compared to the very poor feeding conditions in the first half of 2001. Feeder cattle supplies were bolstered by continued low heifer retention for herd expansion and extremely dry conditions in Canada resulting in poor forage conditions and sharply reduced crop production. Fewer U.S. feeder cattle were exported to Canada

in 2002 due to their reduced feed grain supplies, and more feeder cattle were imported by the United States from Canada. Both factors helped hold up feeder cattle supplies, resulting in continued large feedlot placements. (See Beef and Cattle Trade Summary article, March issue)

Record Dressed Weights and Herd Liquidation Results in Record Production

Although cattle slaughter rose 1 percent in 2002, beef production was record large, up nearly 4 percent from a year earlier. Production was supported by heavier dressed commercial slaughter weights--up 20 pounds from the weather-stressed levels in 2001. Steer slaughter rose over 2 percent, aided by the increase in net imports of feeder cattle, primarily steers. Heifer slaughter was about unchanged from a year earlier, even as cattle inventories continued to decline. Cow slaughter remained large, about unchanged from a year earlier, with beef cow slaughter down 1 percent and dairy cow slaughter up 1 percent.

Veal production rose less than 1 percent. Calf slaughter increased nearly 4 percent. Production was held down by a 5-pound drop in commercial dressed carcass weights, due to the increased proportion of lighter bob veal calves in the mix. Stronger demand for stocker/feeder cattle would normally bid more of these calves out of the veal slaughter market.

Retail Beef Prices Under Pressure of Large Beef and Other Meat Supplies

Cattle and boxed beef prices, while below the record levels of 2001, remained strong. Retail prices for Choice beef averaged \$3.32 per pound, down from \$3.38 in 2001 when poor weather conditions held down production, but still the second highest on record. Beef consumption rose 1.5 pounds to 67.9 pounds per capita (retail weight) in 2002, while total red meat and poultry consumption rose 7 pounds to 221 pounds per capita. Although beef exports increased from the depressed 2001 levels of 2,269 million pounds,

they only rose to 2,447 million pounds, near the levels of 1999 and 2000.

Cattle Prices Decline

All cattle prices were under the pressure of weather uncertainties and large meat supplies in 2002. Fed cattle prices in Nebraska averaged \$67.04 per cwt in 2002, with the largest year-to-year declines occurring in the first half against the near record prices of 2001. Prices strengthened late in the year as feedlot inventories moved below year-earlier levels. Feedlot returns also turned positive in late summer.

Stocker/feeder cattle prices have remained under pressure of poor forage conditions and constraint due to large feedlot losses since late spring 2001. Prices for 750- to 800-pound feeder steers averaged \$80 per cwt in 2002, down over \$8 from a year earlier. Yearling prices averaged about \$13 per cwt over fed cattle prices, down from a \$16 spread in 2001 and about \$17 in 2000.

Utility cow prices averaged near \$39 per cwt, down about \$5 as drought continued to force more cows to slaughter. Drought in Australia and reduced demand for beef in Japan also resulted in continued larger imports of processing beef.

Future Implications

Cattle inventories are expected to continue declining in 2003. If forage conditions begin to improve this spring and summer, inventories may begin to stabilize in 2004. Inventories are not likely to begin to rise before 2005, with production beginning to rise in 2006. With production continuing to decline for the next couple of years cow-calf production should remain profitable as forage conditions improve and increased heifer retention begins. However profitability in the cattle-feeding sector will be under pressure of strong demand for feeder cattle and higher feeder cattle prices. Although beef demand, particularly for higher quality beef, is expected to remain strong, increased production from competing meats will hold down retail beef price gains.