



## Cattle on feed numbers become less of a shock

Record-breaking cattle on feed numbers out of the U.S. in 2006 have become less of a shock as eight of the past 11 months have seen the totals on feed reach record levels.

The first five months of 2006 recorded record-breaking cattle on feed numbers and although the numbers were still high through the summer they dipped below the record pace. However, September through November saw numbers increase again, as the on feed numbers reported by the USDA again reached record levels. November 1 cattle on feed in the U.S. totaled 11.959 million head, up four per cent from the total in 2005 and almost six per cent higher than the five-year average on feed for November 1.

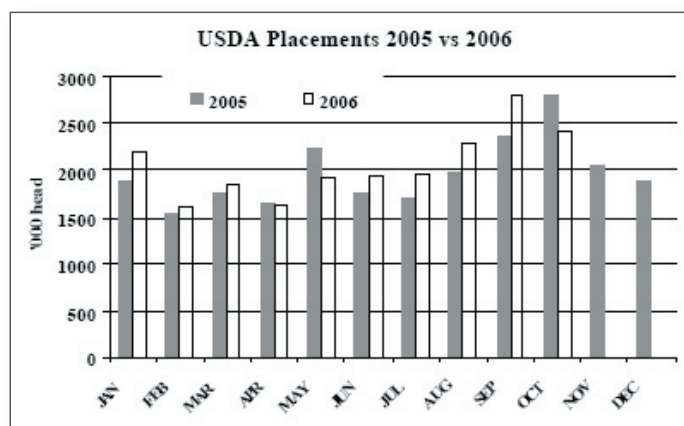
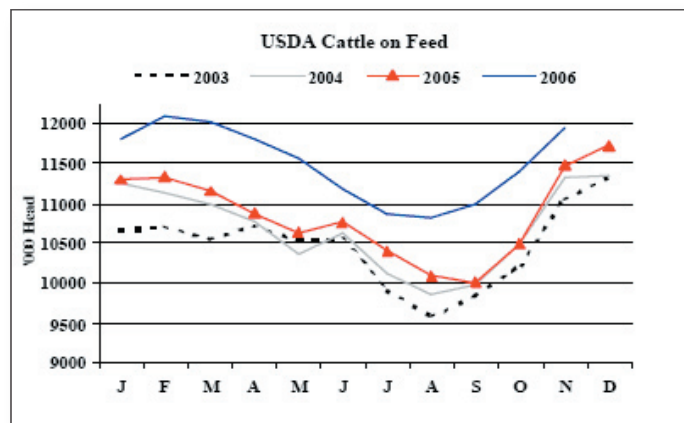
Placements in the U.S. were large through the summer months and the start of the fall. June placements were 10 per cent above June 2005, July was up 17 per cent, August placements were 15 per cent higher and September saw 18 per cent more feeders placed.

However, along with the larger amount of early movement due to drought, the significant increase in feed costs due to the rising corn prices had an impact on October placements. October placements were 13 per cent smaller than last year and 10 per cent under the number placed in October 2004. October placements were the second smallest seen in October since the start of the report in 1996.

All weight classes showed a decrease in the number of feeders placed in October. Calves placed under 600 lbs. were eight per cent smaller than the same month last year, feeders 600–799 lbs. were down 18 per cent while heavier feeders over 800 lbs. were down 13 per cent.

Marketings in October were two per cent larger than last year. Although the total on feed has been record

large through most of the year, marketings have not always been as large as anticipated. Total marketings to the end of October were about two per cent larger than the same period in 2005 and only about one per cent larger than the same time period in 2004. Broken down quarterly, the first quarter of 2006 saw marketings virtually unchanged from 2005. Second quarter marketings were five per cent larger than 2005 and the third quarter was unchanged from last year as well. Higher feed costs in the U.S. should help marketings to keep pace in the coming months, as willing sellers size up increased break-even points. ■

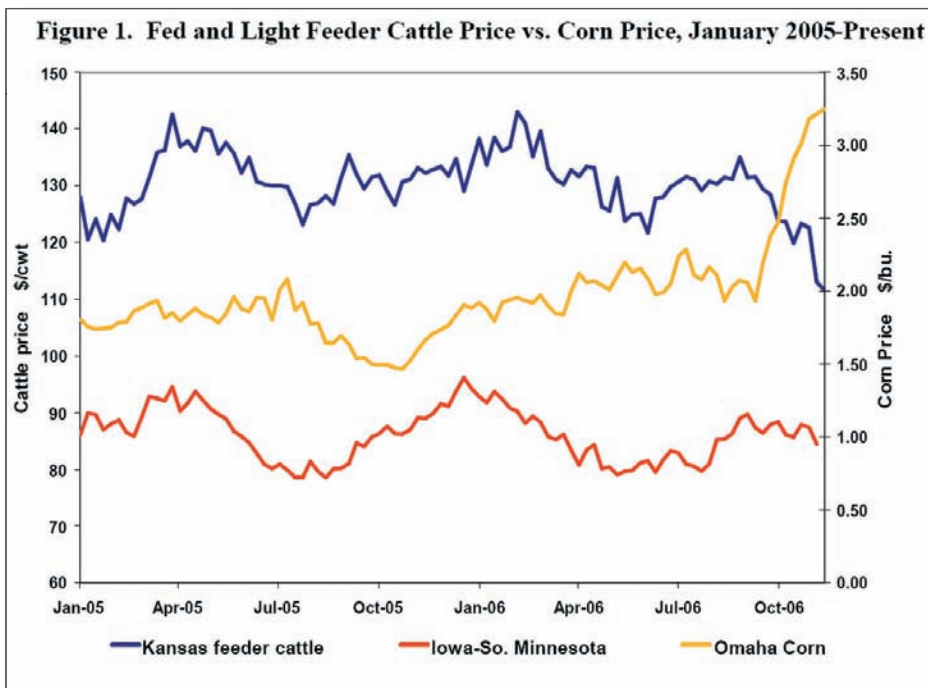


## U.S. Beef Situation

The beef industry is facing a situation that many have been predicting. Additional demand for corn — created by both more livestock production and a growing ethanol fuel industry — has led to a recent jump in the price of corn. The additional cost of purchasing corn for feed has affected not only the profitability of cattle finishers but also dampened the market for feeder cattle. Figure 1 is a graph of the price of 500–600 lbs. Kansas feeder cattle, Iowa-Southern Minnesota-fed cattle and Omaha corn. Light feeder cattle prices were following a price trend similar to that of fed cattle until September of this year. Although the market value of fed cattle dropped by six per cent between early September and mid-November, Kansas feeder cattle prices slipped by 15 per cent in the same period. The cash corn price steadily increased during the same period, up 58 per cent from early September. The effects of corn price on the feeder cattle market are painfully obvious.

The degree of impact increased corn prices will have on producers' short-run profitability will depend upon the quantity of feed stored or under contract and the availability of alternative feedstuffs such as co-products.

Cattle feeders are not strangers to tight margins. Feed costs are likely to continue increasing before we see prices taper off. Cattle feeders who are currently purchasing feeder calves for \$110/cwt and can lock in corn at \$3.25 per bushel are estimated to need \$88–90/cwt to break even next summer. If dried distillers grains are used, the break even price may be \$1–3/cwt lower, depending upon cost and quantity in ration. The feeder cattle market will continue to soften as corn becomes more expensive.



Fed cattle prices have also softened in recent months. The Iowa-Southern Minnesota fed steer price has fallen \$5/cwt since early September. Historically, fed cattle prices usually improve going into December. There is not a clear reason for why prices have slipped. Some possible explanations are that competing poultry meat has been considerably cheaper, or that year-to-date U.S. beef production is up 5.7 per cent from this time last year. However, domestic demand has been fairly supportive, with average per capita consumption at around 16 pounds.

Foreign demand is actually increasing as U.S. exports have increased to all major foreign markets. Total exports are up over 80 per cent from this time last year, with most of the additional export volume going to Canada

and Mexico. Mexico remains the United States' largest market, while Canadian exports have nearly tripled from last year. Canadian cattle slaughter volume is down 10 per cent from last year, as more live feeder and fed cattle are shipped to the U.S. for finishing and/or processing. Beef markets in Asian nations continue to be slow to develop amid consumer distrust and wrangling over trade regulations and violations. ■