05/29/2002 Entry: "Irrational Cattle Markets With Near Record Retail Beef Prices"

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Irrational cattle markets with near record retail beef prices
In June of 2001 the retail beef price set a record high of $3.48/lb. Since then, the retail beef prices have leveled off to a current $3.30/lb. USDA's ERS (Economic Research Service) reported that retail beef prices are expected to decline into the $3.20s range this summer but should rally 3-4% in 2003.

Contrary to what some analysts had predicted to be a dismal summer for the cattle markets, USDA has projected fed steer prices to average $68 in 2002. While the $68 market may not appear satisfactory, it is substantially better than some estimates that suggested the fed market may slip into the $50s this year. April and May fed cattle prices have averaged in the mid $60s with more recent prices in the low $60s, all the while the packers' operating margins have reached record levels.

US beef producers have been reminded repeatedly of reasons for the lower cattle prices. Among those popularly cited are decreased exports to Japan and heavy carcass weights. However, beef exports are currently ahead of 2001 record levels by 0.6%. While exports to Japan have decreased since the BSE discovery, US exports to South Korea have offset this loss and enabled the increase.

The increase in beef production has continued to place pressure on the cattle market. Despite the fact the US cow inventory is lower than before due to drought, beef production figures have remained high due to heavier carcass weights. This may be a result of packer's use of captive supply to hold out of the market until the prices are low, thereby forcing feeders to feed the cattle longer.

Regardless of the reasoning behind the volatility in the cattle market, comparing current prices to the record-breaking beef production year of 2000 certainly validates the irrationality of the current market structure.

Compared to April – May 2000, beef production for the same period in 2002 is down 2%. According to ERS statistics, in 2000 (April – May), fed cattle prices were $72, Choice retail beef prices were $3.07/lb. and boxed beef prices were $123.50. In April – May 2002, fed cattle prices are in the mid-$60s, Choice retail beef prices are $3.30/lb. and boxed beef prices are fluctuating around the $120 level. In addition, beef demand has been increasing, beef exports are higher, and there is a growing consuming US public. Furthermore, according to a report released last year, cattle producers have improved the value of the beef carcass an additional $50 by controlling carcass defects using the Beef Quality Assurance (BQA) methods.

Adding all these pieces to the equation, a 7% increase in the Choice retail beef price is easily justifiable, however a low to mid-$60s price for fed cattle doesn't fit the equation. There can be no doubt that those traditional market fundamentals, which historically have rewarded US cattle producers with higher prices, are being suppressed.

While there may not be one single factor that has caused the price differential between the retail and production sectors, more than likely it is the cumulative result of several factors. Some factors that may contribute include: captive supply impacts, distortions in the futures market, record high increase in packer concentration levels (as reported by the US General Accounting Office), and increase in market power at retail level. In addition, imports have had an impact on the US cattle markets. In fact, the Chairman of the International Trade Commission reported that packers are using imports to suppress domestic live cattle prices.

Whatever the cause or causes may be, let there be no mistake that until these issues are addressed, US cattle producers will continue to face irrational markets even while USDA forecasts "near record retail beef prices likely."

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R-CALF USA is a national cattle association representing U.S. cattle producers in trade and marketing issues. It represents independent cattle producers in 42 states and has 28 state and local cattle association affiliates. For more information, visit www.rcalf.com.