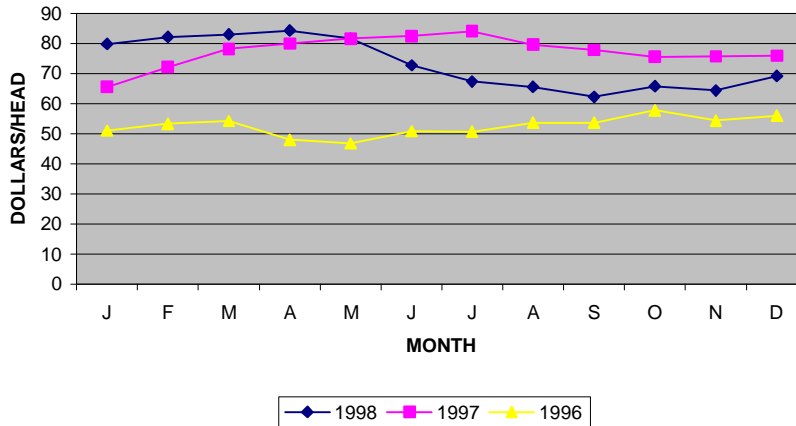


1999 CATTLE SITUATION AND OUTLOOK
P. James Rathwell, PhD
Clemson University

What happened to the cattle market? We were told that 1998 would be the turn around year. It didn't happen. Calf prices in South Carolina were actually below 1997 prices for much of the year (Figure 1). Prices for 500-pound calves in the Carolina's started the year at \$73 per cwt. rising to the high \$80's by April. Then the bottom fell out of the market. Prices fell to \$60 per cwt. in August before rebounding to close the year near \$70. Is this pattern likely to be repeated in 1999?

FIGURE 1: S.C. 500-POUND STEER PRICE



What was going on in the cattle industry in 1998? Maybe we can see some reasons for the market's bleak performance in 1998 and project what it might do in 1999. There are several key factors to consider. Let's concentrate our efforts on analyzing the variables that affect South Carolina's lightweight cattle prices.

CATTLE NUMBERS

Cattle numbers are projected to decline for the third straight year. The total U.S. cattle inventory is expected to be near 98 million head on January 1, 1999 (Table 1). This is down 2 percent from a year earlier and about 5.5 million head below the cycle peak in 1996 of 103.5 million. The total number of beef cows is projected to be 33.4 million head. This is down one percent from 1997's level and 5 percent from the high in 1996. This trend is expected to continue, but at a smaller rate for the next two to three years.

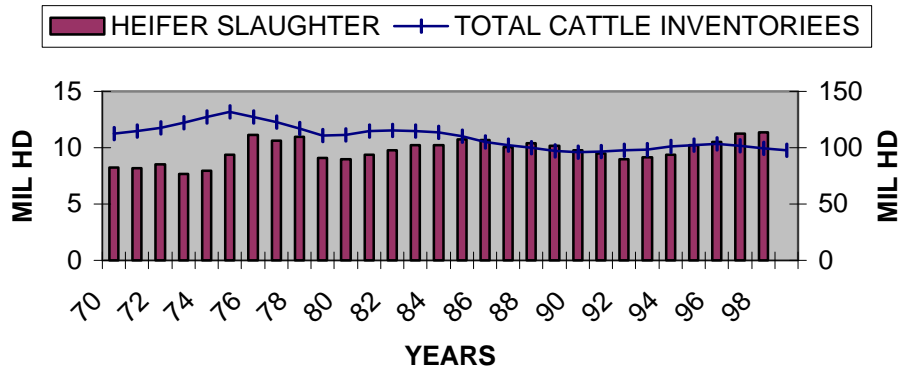
Table 1. January 1, 1999 Cattle Inventory Estimates (million head)

| YEAR | TOTAL CATTLE | TOTAL COWS | BEEF COWS | CALF CROP |
|-------|--------------|------------|-----------|-----------|
| 1991 | 96.4 | 42.5 | 32.5 | 38.6 |
| 1992 | 97.6 | 42.7 | 33.0 | 38.9 |
| 1993 | 99.2 | 43.0 | 33.4 | 39.4 |
| 1994 | 101.0 | 44.2 | 34.7 | 40.1 |
| 1995 | 102.8 | 44.6 | 35.2 | 40.3 |
| 1996 | 103.5 | 44.6 | 35.2 | 39.8 |
| 1997 | 101.5 | 43.6 | 34.3 | 38.7 |
| 1998 | 99.5 | 42.9 | 33.7 | 38.4 |
| 1999* | 97.9 | 42.6 | 33.4 | 38.0 |
| 2000* | 96.3 | 42.4 | 33.3 | 37.8 |
| 2001* | 95.9 | 42.4 | 33.3 | 37.9 |
| 2002* | 97.3 | 42.8 | 33.8 | 38.2 |

*1999-2002 Cattle-Fax projections

Feeder-cattle and calf supplies are also expected to be smaller. Estimates suggest that calf supplies are nearly three million head below 1996 peak levels. The 1998 calf crop is estimated to be 38.4 million head. Much of the decline in calf production is a direct result of fewer heifers being retained in the breeding herd. Heifer slaughter has steadily increased from 1992 to the present (Figure 2).

FIGURE 2: HEIFER SLAUGHTER VS CATTLE INVENTORIES



Heifer slaughter in 1998 was about 11.35 million head. The last time heifer slaughter levels reached this high was back in the 1970s when total cattle numbers were 30 million head more than today. This is an important point. The liquidation phase of the present cattle cycle is fueled not from the culling the existing cowherd but by feeding and slaughtering the heifer crop. This suggests that the average age of the current cowherd is growing older and this fact alone will have significant impact on the industry's abilities to produce future calf crops.

The impact of these reduced heifer supplies on the breeding herd is expected to continue to decrease the size of the calf crop until 2000 with only minor increases starting back in the year 2002. Table 1 shows Cattle-Fax's calf crop estimate for the next three years.

THE MEAT SUPPLY

The domestic consumer will see record supplies of all meat and poultry in 1999.

Beef

Beef production has increased steadily in the decade of the nineties (Figure 3). (NOTE: In 1996 we produced 25.4 billion pounds on 5.5 million more head of cattle). Production levels are expected to peak in 1999 and then decline for the next two to three years. Increased heifer slaughter and lower total cow numbers dictate this decline.

The reason beef production continued to increase as total cattle numbers declined was that average carcass weights steadily increased (Figure 4). Since 1975 average carcass weights have increased an average of 5.26 pounds per year or a total of 121 pounds per carcass. Record-heavy carcass weights pressured the fed-cattle market in 1998. Heavy carcasses inflated beef production totals by nearly 800 million pounds. This increase in beef production more than offsetting the 2.5 percent decline in 1998 slaughter numbers. Lower slaughter rates and lighter feedlot out-weights are an absolute necessity if we are to significantly reduce production in 1999.

FIGURE 3: BEEF PRODUCTION

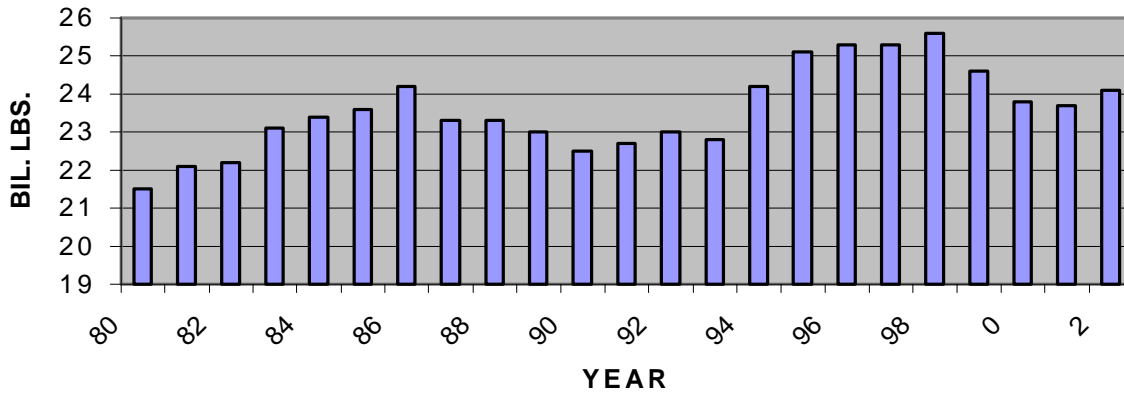
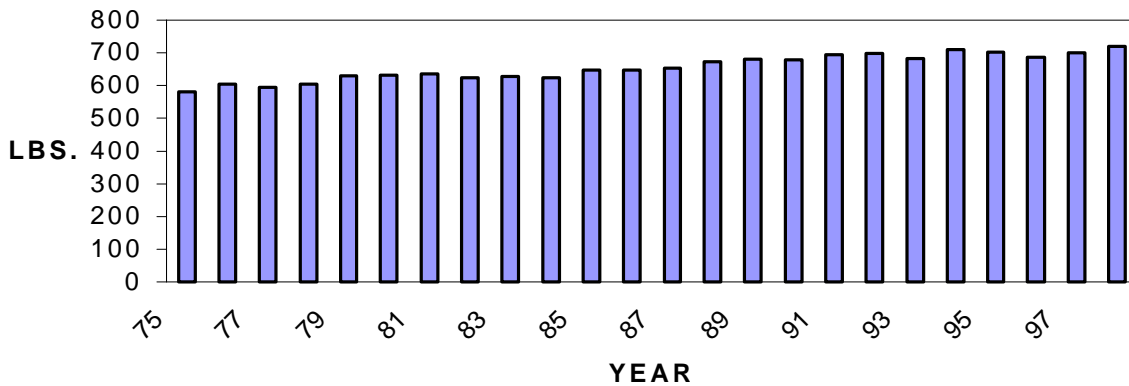


FIGURE 4: AVERAGE CARCASS WEIGHTS



Beef Imports and Exports

Canadian and Mexican beef exports into the U.S. are expected to remain near 1998 levels or decline slightly. Drought and economic problems will limit Mexican feeder cattle shipments. Mexican shipments are forecast to be near 750,000 head in 1999. Increased Canadian slaughter capacity and a smaller herd will lower their live cattle shipments to about one million head.

Beef imports are expected to increase to 2.7 billion pounds as U.S. cow slaughter declines. Beef exports are projected to total 2.35 billion pounds, an increase of four percent over 1998 levels. If foreign currencies continue to strengthen against the dollar the volume and value of U.S. exports should increase even more in 1999. Any improvement in offal and hide prices (currently \$25 per head below 1997 level) would significantly improve net beef export picture. Without further export strength the impact of foreign trade on U.S. beef prices in 1999 is expected to be relatively small.

Pork

Pork production is expected to increase by one to two percent in 1999. Aggressive pork expansion plans have slowed due poor prices. But low corn prices will tend to moderate this reduction in supplies. Don't expect to see supplies significantly lower until the second half of 1999. Exports are still a major driving force in the level of pork produced. Overseas markets will likely continue to guide exports over the next few years.

Poultry

Broiler production is estimated to be up 3 to four percent in 1999 after a modest one-percent rise in 1998. Higher prices, cheap corn and better profit margins are the reason for the increase. Poultry exports are projected to decline about ten percent in 1999, due to the Asian and Russian financial crises. Russian (the largest importer of U.S. poultry) problems had the most affect on exports.

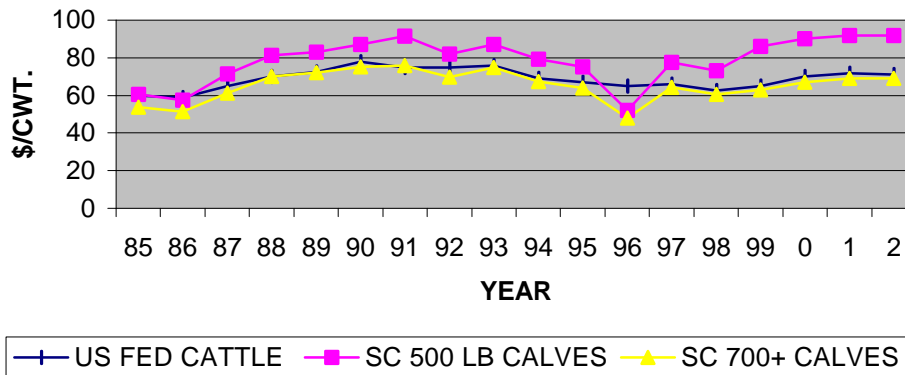
CORN SUPPLIES

Corn prices are expected to be fairly stable in 1999. Current projections call for U.S. acreage to fall slightly to about 80 million acres planted. Given normal weather conditions and yields 1999 production will be near 9.4 billion bushels. If this forecast holds South Carolina corn producers are likely to see corn prices between \$2.20 and \$2.50 per bushel. Carolina cattle producers should be able to purchase corn at an average price of \$3 to \$3.25 per bushel. With a large part of 1998 corn stocks still in farmer hands these prices not likely to increase significantly.

PRICE OUTLOOK

Fed-cattle prices are expected to average in the mid \$60's in 1999 (Figure 5). This is about a \$3 to \$4 dollar improvement over 1998 levels. The price will improve throughout the year with the first quarter average in the low \$60's and the last quarter average in the high \$60's. The potential of lower feedlot numbers and possibly lighter out-weights suggest this is plausible.

FIGURE 5: US FED CATTLE AND SC 500 AND 700+ POUND CALVE PRICES



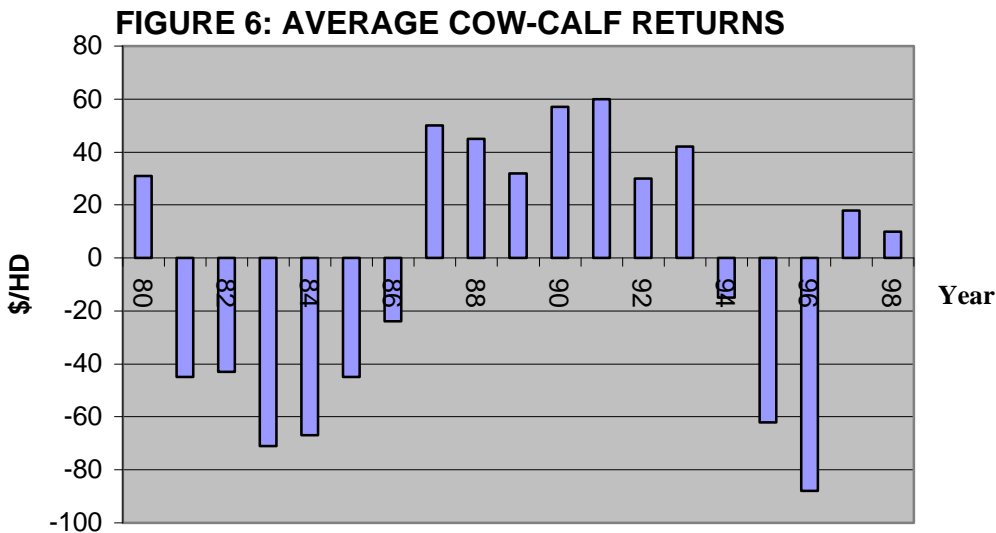
Feeder-cattle prices (750 pounds) are projected to average \$2 to \$3 per cwt. above 1998's level. This weight animal in the Carolinas should be priced at \$58 to \$60 in the early months of 1999 and close to \$65 by the fall.

Steer-calf prices (500-pound) are expected to average \$75 to \$77 in the first quarter of 1999 and increase by \$5 to \$10 per cwt. by the fall. A smaller calf crop, fewer placements and cheap corn should help feedlot profit margins and bid lightweight calf prices up in 1999.

Cow prices, which have averaged about \$165 per head above the cycle low in 1996 should improve appreciably over the next two to three years. This increase should occur as a result of higher calf and salvage-cow prices.

PROFITABILITY

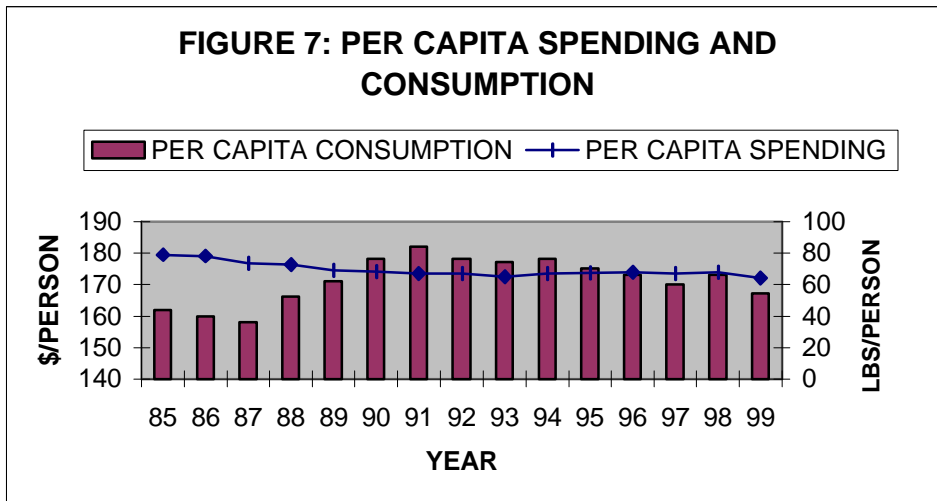
Since 1980, the average U.S. cow-calf producer has lost about \$4 per head per year. During the 1980's, annual losses were about \$13 per calf sold. Since 1990, the average U.S. cow-calf producer has seen profits of about \$6 per head per year. The period of best profitability was between 1987 and 1993, with average annual profits of \$46 per head (Figure 6). On average, cow-calf operators have lost about \$22 per head over the last three years (1996-1998). Some South Carolina producers made money in 1998 but the majority did well to break-even. Profits will likely be the rule in 1999 for most producers.



THE CHALLENGE

After posting an increase in 1998 to 68 pounds, domestic per-capita beef consumption is expected to decline in 1999 to about 65 pounds (Figure 7). The decrease is due to the anticipated smaller domestic beef supplies. During the same time period annual dollar expenditures on beef products decreased by \$10 per person. Spending in 1985 averaged \$180 per person per year. Per capita spending on beef products is projected to be near \$170 per person in 1999.

Both pork and poultry producers will benefit from the decline in beef supplies. Reduced beef supplies will allow



pork and poultry products to expand their market share. This is a real problem for beef producers. Cattle prices, in the short-run, will benefit from lower cattle numbers but reduced supplies of cattle mean less beef and more pork and poultry on retail counters.

Historically, the cattle business has been one with periods of good profits followed by periods of losses (this is better known as the cattle cycle). Cattlemen who are successful in the future will need to develop and implement management and marketing strategies that help to extend the periods of profit and minimize the extent of their losses. We are entering a time of profit that should last two to three years. We need to make the best of it.