

# ECONOMIC RECOVERY IS KEY TO CATTLE PRICES

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A housing mortgage crisis in the US during the first part of 2008 quickly turned into a credit market freeze-up and a major international recession during the fourth quarter of the year. The US now faces the most difficult economic climate in at least a quarter of a century.



*Petry*



*Mattern*

Cattle and beef markets have reacted in a similar manner to other catastrophic events that we remember occurring earlier in this decade, namely the terrorist acts of September 11, 2001, and the discovery of a cow with bovine spongiform encephalopathy in late December of 2003.

For the first three quarters of 2008, cattle prices held up rather well, even though the economic environment was not good. However, as the international economic situation worsened in the fourth quarter, cattle prices plummeted.

For the calendar year 2008, fed-steer prices averaged about the same as in 2007, but were highly volatile. On a weekly basis, the USDA reported the five-market average fed-steer price peaked at more than \$101 per hundredweight (cwt) in July. However, during the price collapse in late 2008, prices fell to about \$84, which was the lowest level since the summer of 2006.

During the first quarter of 2008, calf and yearling prices at major markets were slightly above a year earlier. However, prices declined, compared with a year earlier, in the second and third quarters due to skyrocketing feed prices. Although feed prices also plummeted in the fourth quarter, plunging fed-cattle prices caused the lowest quarterly yearling prices since 2004 and calves were the lowest since 2003. In the fourth quarter, 700-to 800-pound feeder steers averaged about \$96 per cwt and steer calves averaged near \$104.

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Although the declining prices were devastating to cattle producers, other industries fare even worse. While fed-cattle prices fell about 17% from high to low in 2008, crude oil prices declined about 75%, corn crashed more than 60%, slaughter hog prices drove more than 40%, and wholesale chicken breast prices nearly 34%.

Bankruptcies were a noted business news feature for several restaurants and steakhouse chains, as well as important ethanol and chicken producers. In general, restaurant sales continued to erode throughout 2008, but some lower-priced, fast-food chains actually prospered as consumers sought less expensive dining alternatives. At the same time, some specialty grocery stores struggled, while discount supermarkets did very well as consumers bought more food to prepare at home rather than dining out.

Cattle byproduct values were another victim of the international economic crisis. Byproduct (tallow, hides, liver, etc.) values are very dependent on the export market and reached all-time record highs in the summer of 2008. High oil and oil-seed prices, a declining US dollar, and the strengthening economies of export customers all contributed to high byproduct values. However, the dramatic decline in the oil market, coupled with the global economic crisis, resulted in price declines for key byproducts, particularly tallow.

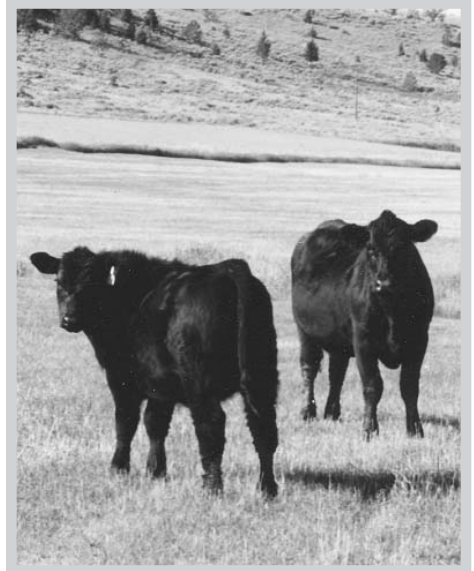
This past summer, about \$12 per cwt of the fed-steer price was due to the value of byproducts. By December, that value had plummeted to about \$6 per cwt.

How long this recession lasts domestically and internationally is anyone's guess, but a recovery is key to higher cattle prices. US employment rates are forecasted to increase at least into the summer of 2009 and maybe longer. The new administration and Congress are expected to address the situation aggressively, so we hope a recovery can begin by mid-year.

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Volatility in cattle prices likely will continue in 2009, so price risk management will continue to be important. Tightening beef, poultry and pork supplies will be supportive to cattle prices, but demand will continue to be the main driver of prices.

A major uncertainty in feeder cattle and calf prices will continue to be corn prices. As spring approaches and corn versus soybean planting intentions surface, couple with weather conditions, corn prices likely will be volatile.

If a modest economic recovery occurs, the prices of all classes of cattle could be higher in the fourth quarter of 2009 than in 2008. With a continued recovery, 2010 may be shaping up to be a very good year for cattle prices.

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