

MARKET OUTLOOK - CATTLE

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Inventory - Cattle inventory numbers have reached record high levels due to BSE and border closures. July 1, 2005 saw 17.3 million head in Canada, up 3% from 2004, up 10% from 2003 and 11% larger than the 1975 peak. Beef cow numbers were up 3% as well to 5.5 million head. Heifers continue to be directed through the feedlot versus staying in the herd as indicated in a high heifer to steer slaughter ratio. US inventories as of July 1 started to show signs of expansion as total numbers and beef cow numbers were both up 1%. Contrary to Canada, US producers are sending fewer heifers to the feedlot.

Production - Slaughter rates in Canada are projected to be up 3% for the year. This will put total beef production (including live exports) up 7% to 3.58 billion lbs. Cow slaughter has witnessed the largest year over year increase, currently up 32% from 2004, and should see 625,000 cows processed in 2005. This will put the annual beef cow culling rate at 6.3%.

Prices - D1,2 cow prices have improved since the border opened to live under thirty month (UTM) cattle in July. More competition has been the key factor in strong prices. Both yearling and calf prices are up \$300 and \$100/head respectively since their lows for 2005 in April. Fed prices have finally surpassed the \$100/cwt mark for the first time since May 2003 meaning profitable margins at the finishing level. Exports of slaughter steers and heifers and feeder cattle to the US since July 23 have been active with a total of 500,000 head expected to have crossed by the end of the year.

Demand and Trade - Higher retail beef prices in 2005 and steady consumption should put demand steady for the year. Higher gas

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prices and energy costs mean eroding consumer disposable income. What impact might this have on beef demand? Beef imports from non-NAFTA countries are expected to be similar to 2004 and about half of the levels before BSE. Exports of beef in 2005 are up 5% over 2004, nearing the levels of 2002. Beef exports to the US could surpass the record in 2002.

World Scene - China and Brazil have seen large increases in the size of their beef cow herds. Until the recent FMD outbreak in Brazil, they were also the world's largest beef exporter. Australia is also expanding with two-thirds of their production now destined for export markets. The US is the largest beef producer in the world at 20-23% and is also the largest producer of grain-fed beef.
