
MARKET OUTLOOK - CATTLE

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Inventory - Cattle inventory numbers saw a significant decline in the summer of 2006 as large exports of under 30 month cattle were sent to the US after the border opened in July 2005. The national cattle herd was down 4.7% to 16.25 million head. Beef cow numbers were down 4.2% to 5.2 million head, after peaking in 2004 and 2005. Heifer numbers continued to be diverted into the feeding sector rather than the breeding sector as large cow numbers continue to limit how many heifers can be kept in the herd.

Production – Domestic slaughter levels have been lower in 2006 as negative packer margins and labour shortages continue to cause havoc in the sector. As a result, Canadian slaughter will be down 10% compared to 2005. Steer and heifer slaughter has witnessed an 18% reduction while cow slaughter continues to higher than 2005 at a 30% increase. Although fed slaughter is down, fed cattle exports are up with total fed exports to the US for slaughter expected to reach 650,000 head. A combination of smaller domestic slaughter and larger slaughter cattle exports will result in Canadian beef production being down 6% in 2006 compared to 2005.

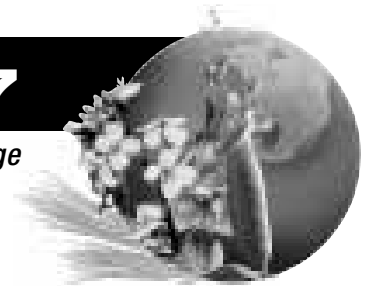
Prices – Annual averages will generally be higher in 2006 than 2005 simply because for the first seven months of 2005, the border was still closed. Feeder cattle and calf prices peaked for the year in January and February (500-600 lb steer calves topped at \$139 in February and 800-900 lb steers topped at \$116 in January). Year to date 2006 averages show calves to be \$133.90, 8% higher than last year's average of \$123.80 while yearlings are sitting at \$108.75 in 2006, up 4% from 2005. The fed steer average is \$87.20, up 3% from 2005 while the D1,2 Alberta cow average is \$36.77, up 26% from 2005's \$29.13 and the D3's are \$29.34, up 31% from 2005.

Feed Grain Prices – Feed grain prices have moved considerably higher late in 2006 both in the US and Canada. Barley prices have witnessed a 40% climb in less than 10 weeks and forward prices are suggesting even more price increases are on their way. This has resulted in feedlot costs of gain jumping by 50% over where they were through most of 2004, 2005 and the first half of 2006. Since

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this is the largest single input for cattle feeders other than the cost of the feeder itself, it has had a dramatic impact on the price of feeder cattle during the fall of 2006. US corn prices during the fall of 2005 were \$1.65/bushel compared to the \$3 at present and \$3.50 projected by the summer of 2007. Today's corn prices are 80% higher than a year ago.

Trade – Since Canada has processed fewer cattle here this year, it only stands to reason that there is less beef to export. Beef exports to date in 2006 are down 25% with the US and Mexico still taking about 92% of total beef exports. Exports into Japan are slow at present due to the under 21 month restriction for exports there. Imports into Canada are up 25% with US imports running more than double those of a year ago. Non-NAFTA imports are actually lower than in 2005 and may only reach 50,000 tonnes (compared to the tariff rate quota of 76,409 tonnes).
