

Closing the Door on 2010 and A Look Ahead to 2011 Stocker Cents

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To reiterate my discussion in the June/July Stocker Cents article, I opened with:

"I doubt many can argue that the prices they have seen or realized are a vast improvement compared to those in 2009 (although, I do know some cattlemen who are eternally pessimistic that might dispute this point!). Still, it is no secret that prices in 2010 have been on the rise."

This sentiment remained true for the remainder of the 2010. Taking a few moments to reflect on Mississippi cattle prices reveals that 2010 was an improvement from 2009. Prices started the year on the rise and continued a strong run until the summer when a typical flat-to-downward price move begins. Fall prices are often the lowest of the year, however this year Mississippi producers saw the typical move lower into October before moving unusually stronger to round out the year. This is shown in figure 1 which provides a historical perspective of calf prices sold in Mississippi auction barns. As can be seen, 2010 prices were on par with those experienced in 2007. Mississippi prices showed a marked improvement not just against those of 2009 but also from a national perspective as basis for Mississippi cattle improved during the year. Figure 2 reveals that, compared to the nearest CME Feeder Cattle Futures contract, Mississippi prices were stronger throughout most of the year and especially in early and late summer as well as in the fall.

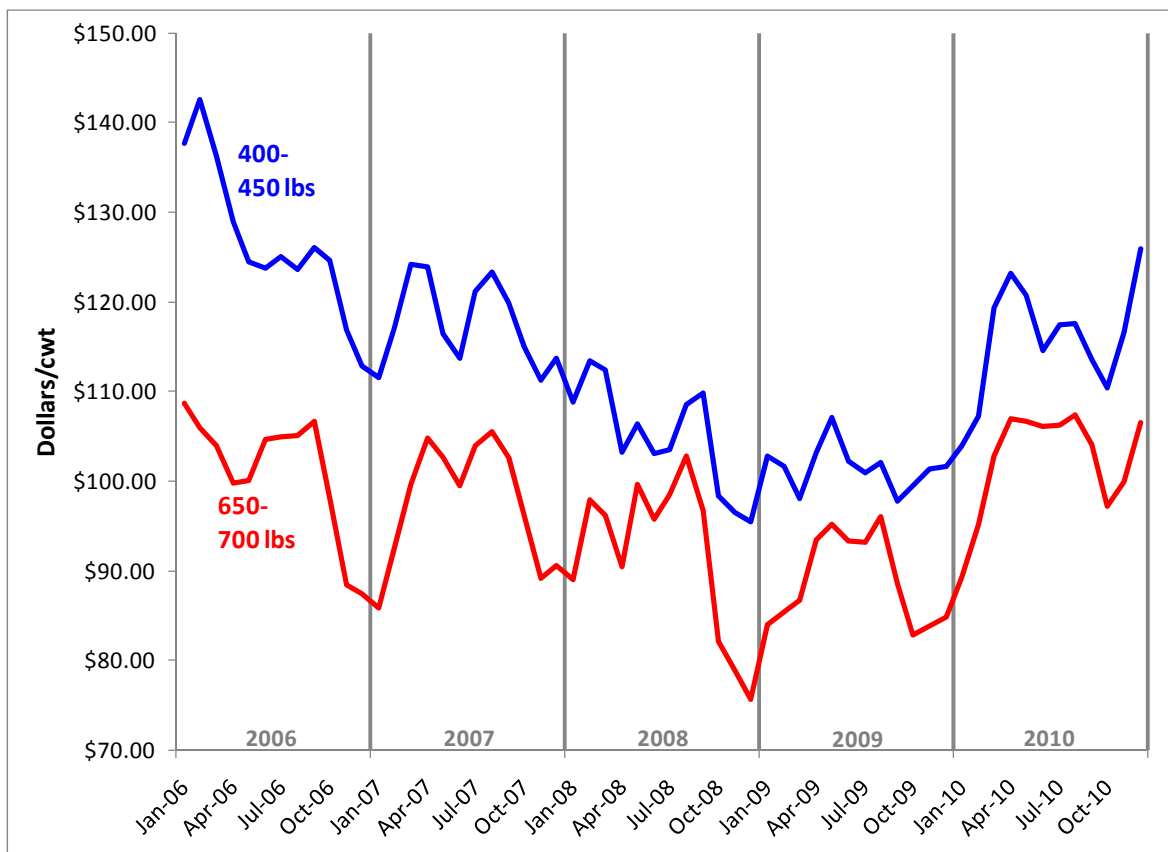


Figure 1. Weekly Mississippi Auction Market Price for M&L #1-2 Steers

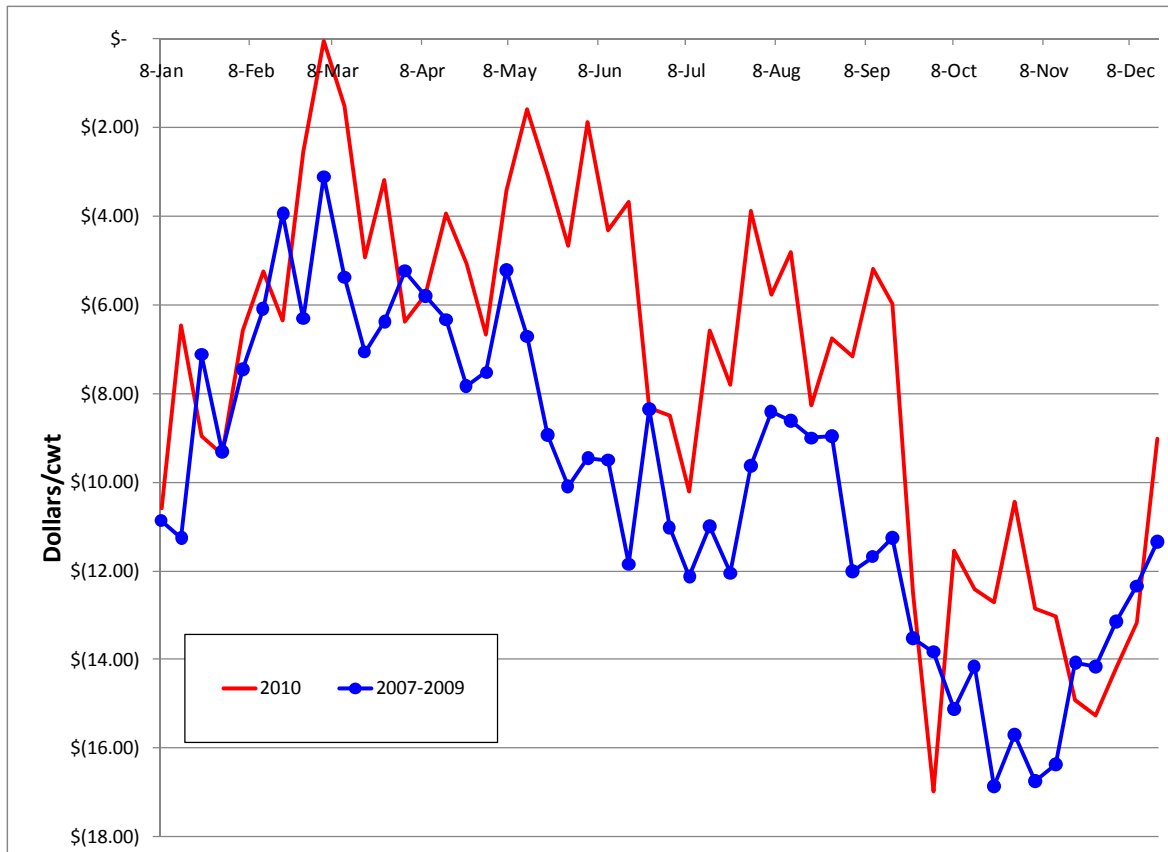


Figure 2. Mississippi Basis (Cash minus Futures) for 650-700 lb M&L #1-2 Steers

The exceptional year for Mississippi prices obviously is not the whole story as backgrounders consistently had to contend with higher feed prices, most notably corn and soybeans. Despite starting 2010 on a down note and remaining flat into the early summer months these commodity prices soared as the year progressed beyond July. Figure 3 depicts the rise in both corn and soybean prices. To keep these prices in check both corn and soybeans will need every available acre but there are only so many acres out there. Expect these prices to remain high – and volatile – in 2011. As if the feed prices increases were not enough producers had to deal with higher fuel and fertilizer prices further pinching their already tight margins.

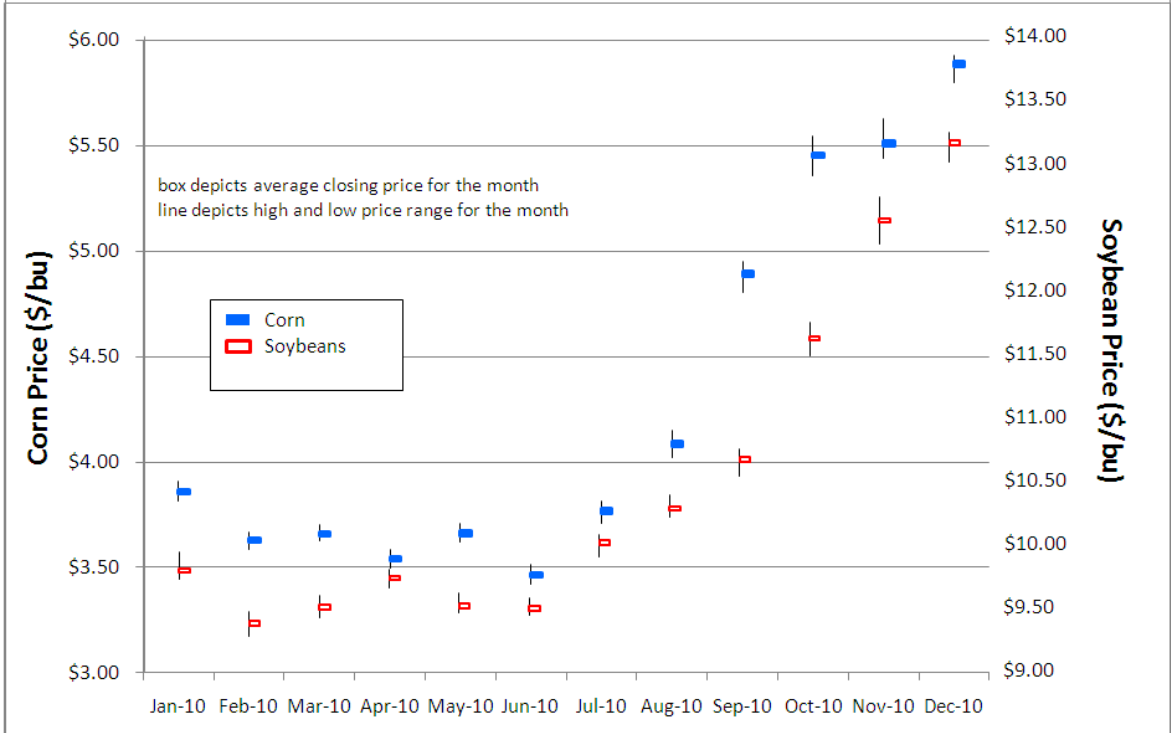


Figure 3. CBOT Corn and Soybean Futures Prices, by month

As a result of the strong prices for cattle in 2010 – along with extreme drought conditions – many cattlemen in the state sold a significantly large number of cows. The total number of calf sales were higher as well due to the price incentives and dry weather. Figure 4 depicts the total volume of sales for calves under 600 pounds, calves over 600 pounds, and slaughter cows as compared to the 2007 through 2009 average. Of the 48 weeks that sales took place in Mississippi markets, 43 saw a larger number of kill cows sold versus the prior three year average. Slaughter cow volume was up 35% in 2010 compared to 2009. There were 4.4% more calves weighing less than 600 pounds sold in 2010 compared to 2009 while calves weighing more than 600 pounds were down 5.2%. This was likely a result of the dry weather across much of the state as producers were forced to liquidate cattle due to a lack of forage and feed resources. When both weight groups are combined the total volume of calf sales was mostly even with last year and the prior three year average.

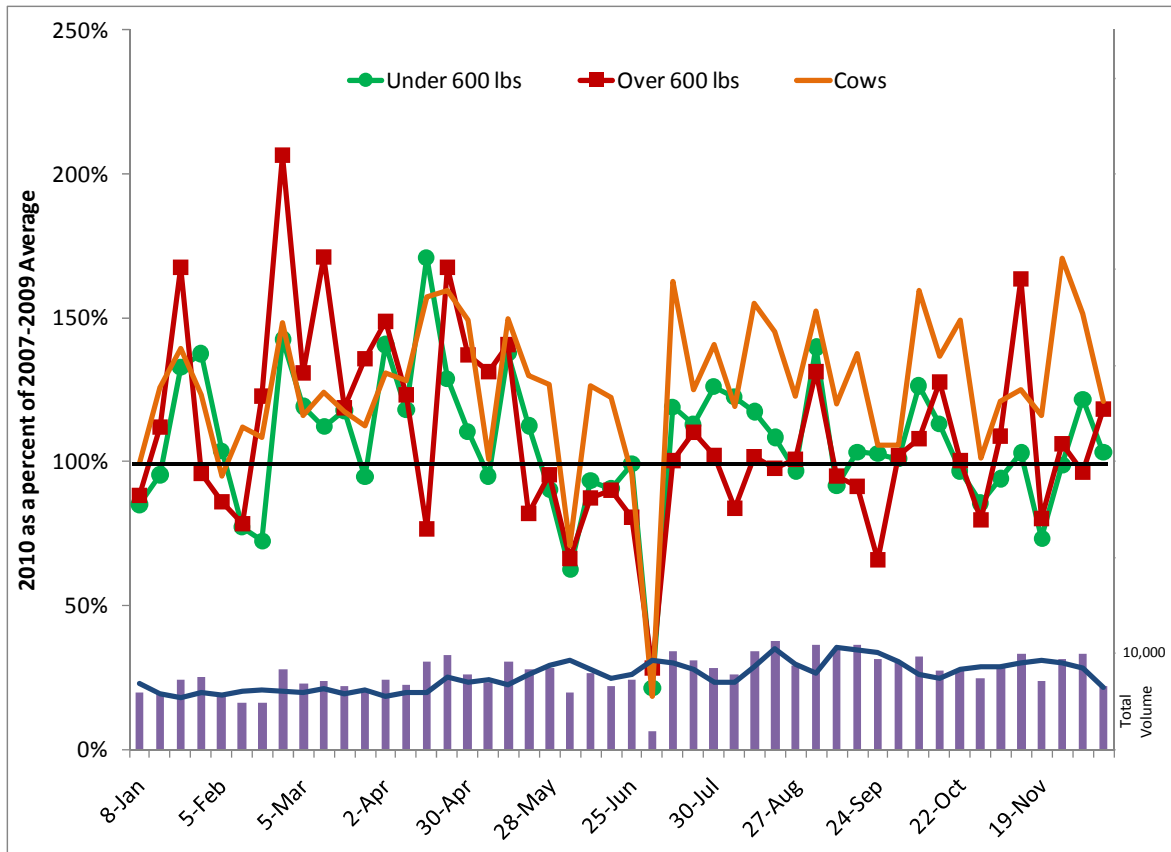


Figure 4. Volume of Head Sold in Mississippi Auction Markets, 2010 versus Average from 2007-2009

As a result of the increased volume of head sold in 2010, cow inventories in the state should fall. More will be known after the January 28 *Cattle Inventory* report from USDA with early projections from Cattle-Fax are calling for a reduction of 2% in the U.S. beef cow herd. The shrinking number of cows in the state and the nation should bode well for prices in 2011 and beyond given the delay in bringing more cattle into production. From a national perspective, the higher than normal volume of calves sold in 2010 coupled with an increase in heifers entering feedlots most likely will reduce the number of calves available in 2011 – thus another signal for stronger prices. However, as has been discussed previously, the beef industry will rely heavily on consumer demand in the coming months. Analysts have already begun to raise their expectations on U.S. economic growth for 2011 based on strong consumer spending and manufacturing data to close out 2010. On the other hand, lackluster unemployment and consumer sentiment continue to plague the economy and will most likely not ease up in 2011. Still, after a frustrating 2009 and a strong but dry 2010, those stockers and cattlemen that are still viable in 2011 should experience a year of favorable calf prices. The elephant in the room though – how much will it cost to add pounds to stocker cattle and will calf prices keep up the pace?

Note: Source for data in text and figures regarding Mississippi price and sales volume are from the *Mississippi Weekly Livestock Summary*, USDA report JK_LS145.