

MONTHLY MARKET PROFILE: MARCH, 2009
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The fed market spent the month of February dancing around \$81-2. Unfortunately, within that range downside risk caught up with cattle feeders: the third week of the month officially finished below \$80 - the first time since late July, 2006. On a more positive note, February's live cattle trade averaged \$81.41 – only about a buck behind January's pace despite lots of grim economic news. Looking ahead, broader economic concern has manifested itself at the CME. June Live Cattle peaked at \$88+ in early-January; the contract is currently parked at \$81. Notwithstanding some easing in the corn market, bearish sentiment within the deferred contracts has pressured feeder cattle: CME's Feeder Cattle Index ended February at \$91.63; that's \$5 off from January's peak early in the month.

From a broader perspective it's important to remember that total dollars coming into the industry stem from four major factors: 1) throughput, 2) domestic beef sales, 3) drop value and 4) exports. That said, the beef complex is especially vulnerable to the general economic slowdown. No matter how you measure it – real estate values, unemployment claims, consumer confidence, etc... - there's not much good news out there. That spells less consumer spending meaning weaker wholesale activity. Consumers at all income levels are tightening their belts, shoring up their balance sheets and being increasingly judicious about all types of expenditures including food. That's forced an unfriendly-to-beef rotation from restaurant to retail while trading down to pork and poultry. The outcome is less beef being purchased at lower prices. The first graph below depicts average monthly wholesale cutout values; February's action witnessed the trade break through an important support level of \$140 – the last time that occurred was September, 2005.

A slowdown in consumer spending for the beef sector creates weakness in boxed beef prices. That translates to a softer fed market which serves as the gateway for money entering the production sector. Lower fed cattle coupled with reduced marketings means less revenue for producers throughout the value chain. Cumulative revenue for November, December and January is sharply below the previous three-year average (see second graph below) – to the tune of \$500+ million (that equates to \$2 billion annually).

Total dollars available to the beef complex is directly related to consumer expenditures – both domestically and abroad – and currently trending in the wrong direction. I outlined the importance of revenue in January as one of the three key factors influencing the industry during the coming year:

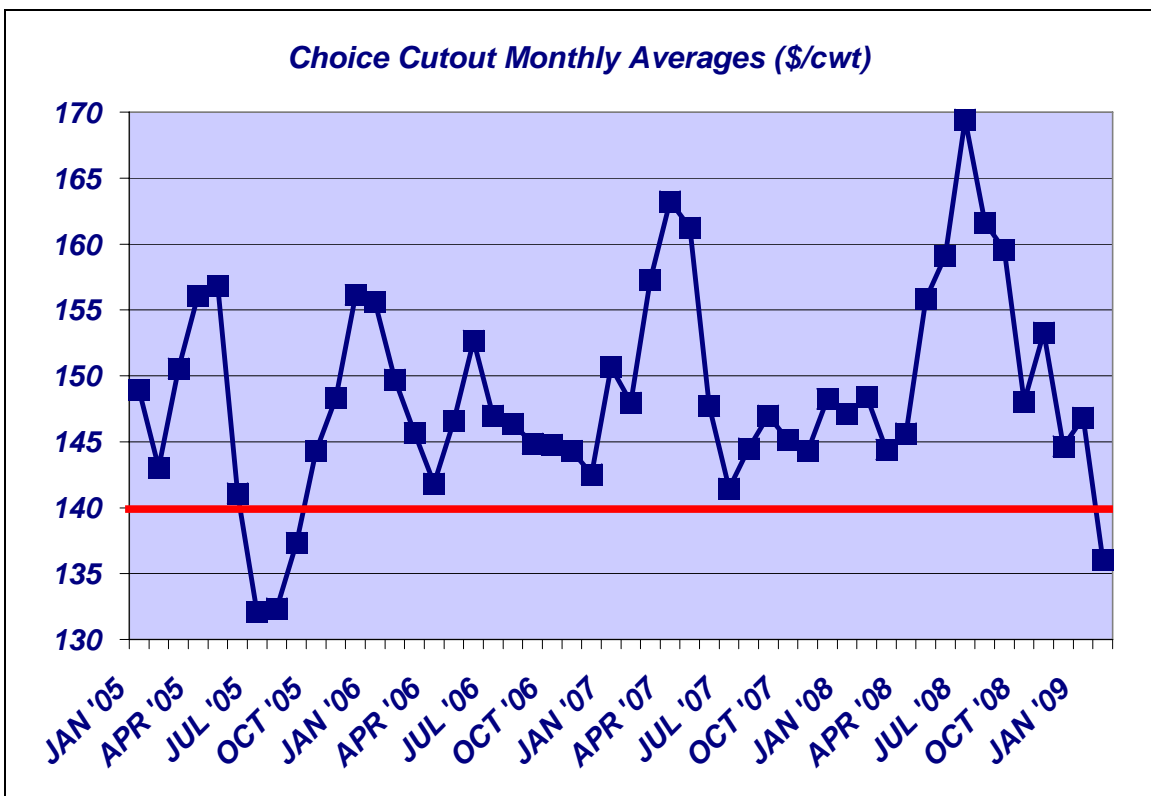
That's a troubling trend and portends an industry which will have to contract. At the very least, less revenue coupled with tightened cattle supply will further tighten the noose around the feeding and packing sectors already burdened by overcapacity.

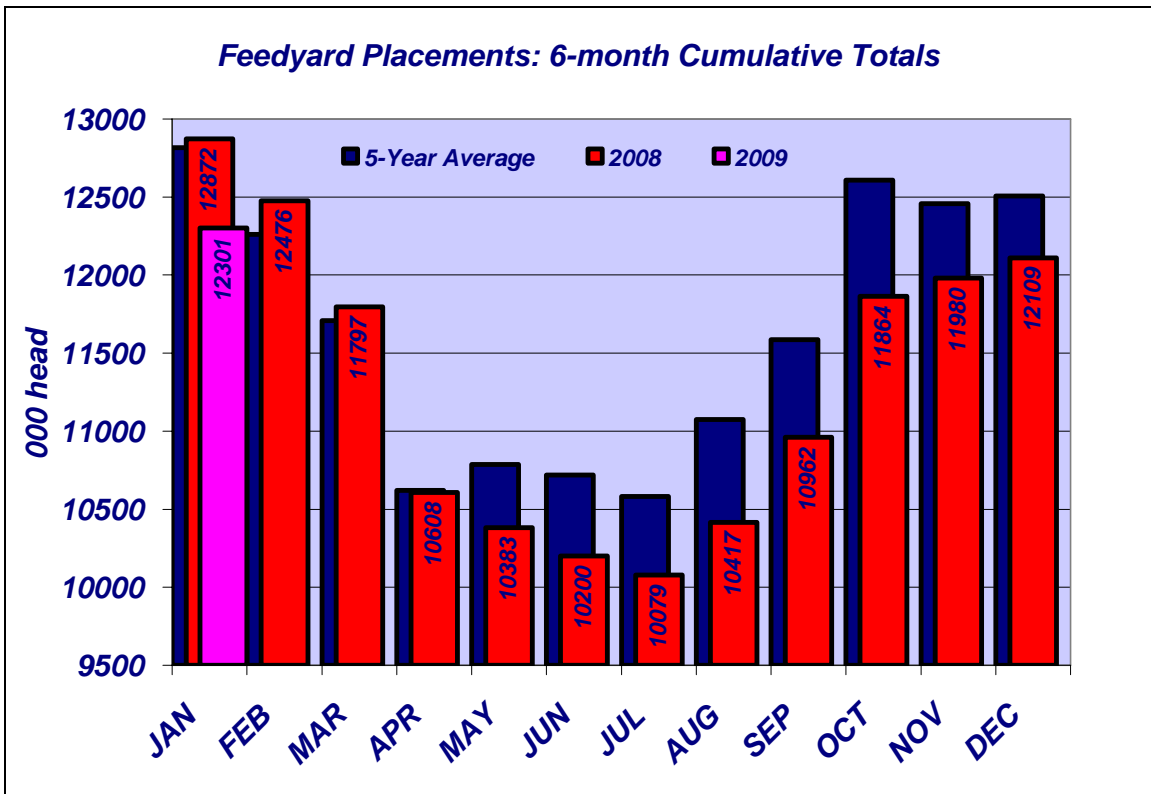
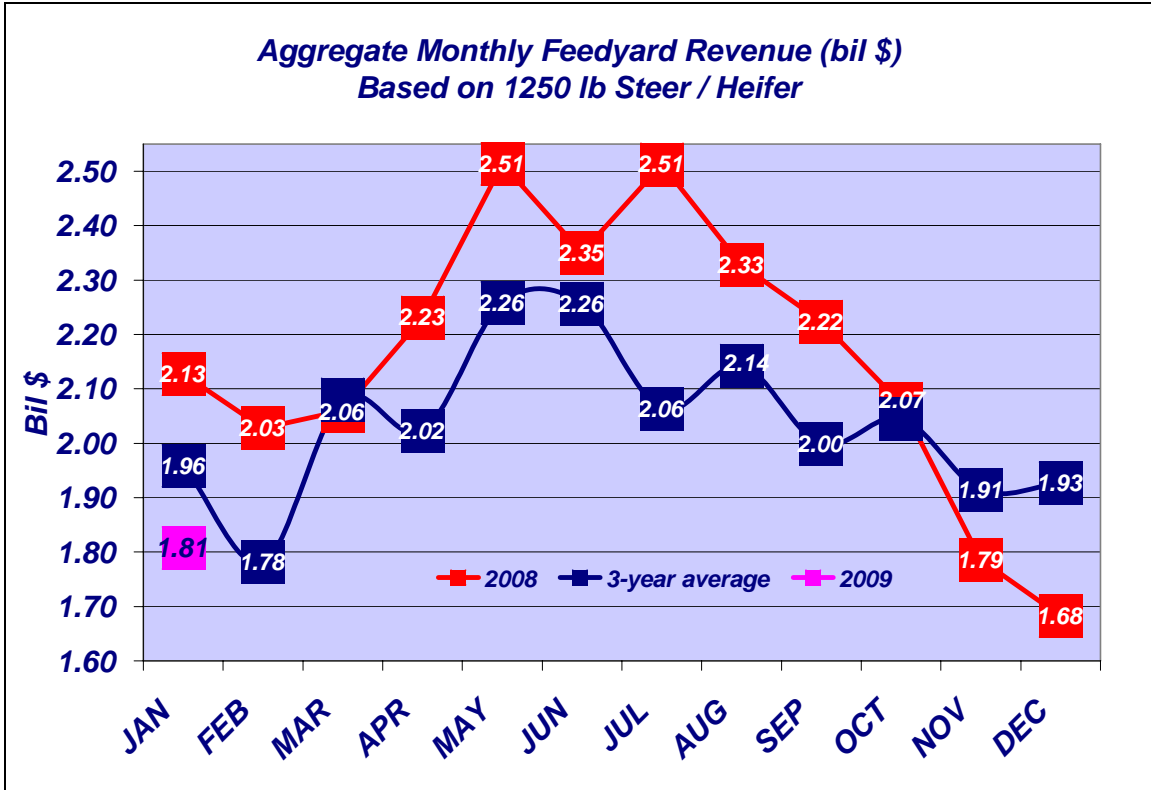
That reality has implications throughout the industry. The most obvious play of lower fed cattle values equate to negative closeouts. Feedyards are getting hammered and they're no different than some larger companies in the news – they're now forced to monitor their cash burn rate. Meanwhile, as alluded to above, slower marketings and less cattle on feed equates to the feedyard sector operating at less than optimal capacity (see the third graph below outlining slower cumulative placement rate beginning in mid-2008). That subsequently forces proportionally higher fixed costs per unit of production.

What about the less obvious connotations? Less revenue, derived from fewer cattle sold at lower prices, translates to reduced cash flow available for all other aspects of business operations. The result being operational decisions such as deferred maintenance, cutback on various inputs, suspension of new hires, etc... Lastly, it means pushing back feeder prices - and those operational aspects just mentioned begin to also occur at the stocker and cow/calf level.

Perhaps the most important outcome of this scenario plays out at the ranch level and further-reaching implication for beef's support industries. Lower prices may serve as the catalyst for even further cutbacks in the nation's cowherd. Fewer cows means fewer calves and subsequently less spending by producers throughout the value chain: industries such as animal health, nutrition, ag credit, livestock markets, etc... will all begin to feel the effects. If that occurs, ultimately the industry reaches a critical mass in which it can no longer sustain current levels of infrastructure. And once infrastructure disappears it's very difficult to replace. That potentially signifies a very business structure going forward.

Will all that come into play? That remains to be seen. But the take-home message here is the current economic slowdown isn't something that's happening "out there" or "doesn't really matter" over the long run. Granted, agriculture is in relatively good financial shape but there are important ripples of the current recession all the way up the value chain and out to support industries. And as such, ongoing policy decisions relative to the broader economy remain critically important to the beef industry and important to monitor.





PRICE SUMMARY

	6-Mar	27-Feb	20-Feb	13-Feb	6-Feb
Slaughter Steers (\$/cwt)	81.47	81.56	79.46	82.19	81.18
Choice Cutout (\$/cwt)	134.87	133.30	134.76	136.32	139.72
Select Cutout (\$/cwt)	133.30	132.00	134.27	134.81	136.35
Hide and Offal (\$/cwt)	6.29	6.54	6.64	6.89	6.95
USDA Slaughter Weights (lb)	1314	1313	1312	1310	1308
USDA Steer Carcass Weights (lb)	854	853	855	855	852
CME Feeder Cattle Index (\$/cwt)	91.77	91.63	91.79	95.23	94.13
Cow Cutout (\$/cwt)	104.59	105.51	106.42	108.27	110.36
Corn (basis Omaha: \$/BU)	3.50	3.43	3.42	3.55	3.65
Cattle Harvest (000 head)	603	618	615	614	622
Beef Production (million lb)	475.0	486.1	483.2	480.8	484.9