Imports of Canadian and Mexican Feeder and Slaughter Cattle Trend Downward

Imports of Canadian and Mexican feeder and slaughter cattle are trending downward. This started following the July 15, 2008, country-of-origin labeling (COOL) grandfather date for cattle imports, which stipulated that product derived from animals in the United States on or before that date are designated as U.S. origin. Forecasting imports of live cattle to the United States is difficult due to exchange rate volatility.

After incurring record losses during the first six months of 2008, many cattle feeders improved placements in recent months, especially compared to the summer months. In October, placements of cattle in feedlots were at 89 percent of year-ago levels and as of Nov. 1, cattle on feed were at 93 percent of year-ago levels. These improvements are good signs and could become an inspiration to the market if the value of the U.S. dollar were to decline and some stability return to the global economy.

By keeping feedlot inventories current and taking advantage of the significant premiums in deferred cattle futures that were available earlier this year, feeders have kept the industry from economic ruin. In fact, the cattle futures chart saw the least steep descent of any commodity chart. However, record losses during the first six months of 2008 for cattle feeders continues to negatively impact the number of cattle being placed in feedlots. In October, placements of cattle in feedlots were at 89 percent of year-ago levels and as of Nov. 1, cattle on feed were at 93 percent of year-ago levels. This will result in smaller beef supplies in 2009.

Between July 19 and Nov. 1, the United States imported 192,058 fewer head of feeder cattle from Mexico than in 2007. This sharp decline is clearly due to the July 15, 2008, COOL grandfather date for Mexican and Canadian cattle imports. Imports arriving in the United States after July 15 must be labeled as product of Mexico and/or Canada , resulting in only 85,148 head of Mexican feeders imported since the regulation went into effect. As of Nov. 1, the United States had imported 464,916 head of Mexican feeder cattle in 2008, a decline of 365,831 head from 830,747 during the same period in 2007.
The general trend is similar for Canadian feeder cattle, although in the immediate weeks following July 15 feeder cattle imports from Canada continued to follow the seasonal trend. Through Nov. 1, the United States had imported 510,984 head of Canadian feeder cattle in 2008, a decline of 113,581 head from 397,403 during the same period in 2007. From July 19 through Nov. 1, the United States imported 138,970 of Canadian feeders, 36,696 head fewer than during the same period in 2007.

If this trend holds, the combined decline on an annualized basis could result in a reduction of 750,000 head in imports of Canadian and Mexican feeder cattle – enough to reduce the cattle run through one major U.S. beef processing plant by 50 percent on an annualized basis. Regardless, the demand for imported feeder cattle is dependent upon whether U.S. feedlots can turn a profit feeding cattle, despite their origin.

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Imports of Canadian fed cattle into the United States for immediate slaughter saw a similar trend after July 15. Through Nov. 1, the United States imported 543,294 head of Canadian fed cattle, a decline of 110,776 head from the 654,070 head imported during the same period in 2007. Between July 19 and Nov. 1, the United States imported 177,978 head of Canadian fed cattle, 72,119 fewer head than the 250,097 head imported during the same 16-week period in 2007.

Forecasting imports of Mexican and Canadian feeder cattle, Canadian fed cattle for immediate slaughter and Canadian cull cows and bulls is difficult due to exchange rate volatility. If the U.S. dollar stays strong against the Canadian dollar, it will negatively affect Canadian live cattle prices. A weaker grain export picture suggests Canadian feedlot placements could stay strong, but weak Canadian feeder cattle prices in Manitoba and Saskatchewan could lure many of these calves to U.S. feedlots. This is particularly true for Nebraska feedlots, where the cost of gain is likely to be lower than in other parts of the United States.

U.S. beef processors are beginning to segregate plants between those that harvest only steers and heifers of U.S. origin versus those that will process Mexican or Canadian born cattle. Depending upon the region, the discount for fed cattle of Mexican and Canadian origin is approximately $30-35 per head. This discount will almost immediately result in an identical discount for such feeder cattle. The discount is probably not enough incentive to eliminate interest in foreign origin feeders in many parts of cattle feeding country, and declining corn prices could begin to stimulate a much greater interest in placing cattle into feedlots. However, in a higher-priced corn scenario, the advantage would likely go to heavier-weight Canadian feeders over lighter-weight Mexican feeder cattle.

— Source - Gregg Doud, NCBA Chief Economist