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WILL THE PRICE OF CATTLE EVER GO UP?

THE PRICE OF CHOICE STEERS AT OMAHA AVERAGED $57 during June, which was the lowest monthly average price since December 1978. The highest monthly average since 1978 was $75 in April of 1979. In October and November, 1983, the price was $59.50 and in January 1984 the average was $65.08. In general, the price of cattle has had a range of $60 to $70 for the past six and one-half years.

Last January, most livestock price analysts expected rising prices of cattle in 1985, with a move from $65 to the low $70 range. The price has gone down $10 instead. Why? Supplies have substantially exceeded expectations. Beef production the first half of 1985 was slightly larger than last year in spite of a 3.5 percent decrease in the beginning cattle inventory. Part was the result of feeding cattle to unusually heavy weights. The average weight of commercial slaughter in May 1985 was 1,103 pounds, up 3.8 percent from May 1984. Cattle feeders apparently expected higher prices and held cattle to excessive weights. They have defeated their own expectations. Part of the reason is further herd liquidation. On April 1, the number of steers on feed was just equal to April 1, 1984, but the number of heifers was up 10 percent. Beef production per animal in beginning inventory averaged 194.5 pounds from 1979-83. In 1984, it was 205 pounds and the annual rate during the first half of 1985 was 212 pounds.

A second major factor causing low cattle prices has been increasing marketing margins. The live cattle to wholesale beef margin has been near normal, with cattle prices averaging about 65 percent as much as wholesale beef prices during the first half of 1985. However, the wholesale to retail margin during May was 5.6 percent greater than during May 1984, 9 percent greater than during May 1983, and 25.5 percent greater than during May 1982. Had the margin in May 1985 been equal to that of May 1983, the price of live cattle would have been about $5 higher than it was. Retail prices of beef have not decreased as rapidly as wholesale prices. The retail price in May was down 3.1 percent from May 1984 and 5 percent from May 1983. Part of the reason for the slower decrease in retail prices is a normal lag in price adjustment. Part has been a reluctance by retailers to reduce beef prices because they have expected smaller supplies and upward pressure on prices. They dislike having to raise retail prices and have kept prices up. They, too, have been victims of expectations of subsequent shortage.

When does all of this end? It will eventually end because inventory liquidation will eventually end, and cattle feeders will not indefinitely feed cattle to unprofitable weights. The timing is uncertain, but placements on feed were down 3.5 percent during January-March and were probably down even more during April-June. Smaller calf crops in 1984 and 1985 will keep future placements on feed down.

When the downturn in supplies occurs the margin leverage will be on the side of the cattle and wholesale beef sellers. Retailers will be forced to bid up for supplies to fill the market that has been developed by reduced retail prices. How high cattle prices eventually go will depend on how consumers react to rising retail prices. When the supply turn comes, cattle prices may become quite volatile.

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