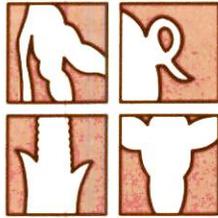




Cooperative
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University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
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July 31, 1985

CATTLE: SURPLUS SUPPLIES NOW BUT SHORTAGE LATER

THE JULY 1 CATTLE INVENTORY AND 13 STATES CATTLE ON FEED reports issued July 22 indicate continued reduction in the cattle herd and moderate numbers of cattle on feed, but a large surplus of heavyweight cattle in feedyards. The cattle market is in a state of total disarray. The price of choice steers at Omaha decreased from an average of \$64.87 in January to \$56.96 in June, and to \$52.00 in late July. Part of the debacle is the result of poor forecasting by analysts and the cattle futures market. Market supplies of cattle have been larger than anticipated. Part of the debacle has been caused by a poor job of speculation by cattle feeders. They have held cattle to excessive weights as prices have declined, pushing prices even lower.

The July 1 inventory of all cattle was 116.3 million, down 4.6 percent from a year ago, down 6.8 percent from the recent high in 1981 and down 17.0 percent from the record high of 1975. The number of beef cows was 35.3 million, down 7.5 percent from last year and 12.1 percent less than in 1981. Beef replacement heifers were down 12.5 percent from last year and down 21.4 percent from 1981. The size of the production herd (beef cows plus replacement heifers) was 40.2 million compared to 43.7 a year ago and 46.3 million in 1981. These reductions must eventually result in less beef production. In the meantime, the result is more cattle on feed. There were 8.3 million heifers not intended for herd replacement, compared to 8.0 million a year ago and only 7.5 million in 1981.

The 1985 calf crop is estimated at 41.1 million, down 3.3 percent from 1984 and down 8.2 percent from 1981. These are the calves that will furnish the bulk of the beef supply in 1986.

In contrast, dairy cow numbers were up 1.8 percent and dairy replacement heifers were up 1.0 percent. The dairy herd liquidation program of 1984 was a failure.

There were 8.66 million cattle on feed, down slightly from 8.7 a year ago, but down significantly from 9.1 million on July 1, 1983. The number of steers on feed was down 4.5 percent, but the number of heifers was up 6.6 percent.

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The number of heavyweight animals on feed (those that should come to market during July-September) was up 3.7 percent from a year ago and was the largest number of heavyweight cattle on feed as of July 1 on record. If we subtract out the steers over 1100 pounds and heifers over 900 pounds, the remaining number of heavyweight cattle was down 2.2 percent from a year ago and down 6.1 percent from July 1, 1983.

The number of cattle by weight distribution indicates that when the heavyweight cattle are gone, the beef supply will go down. Prices will then have a chance to recover. But will feedyards get current in their marketings or will the current overfed cattle be replaced by overfeeding the current middleweight cattle? The dressed weight of cattle slaughtered in May and June was 658 pounds, the highest slaughter weight on record. It compares with 624 pounds during the same months in 1984, 627 pounds in 1983, and 621 pounds in 1982. Had cattle been sold when they were market ready the worst of the debacle would have been avoided.

It is difficult for a cattle feeder to read reports of impending shortage and rising cattle prices, to look at futures prices for later delivery higher than those for current delivery, and to take losses of as much as \$100 per head. So he fails to bite the bullet and extends his loss to as much as \$200 per head by overfeeding. There is an alternative-sell cattle when they are market ready and buy cattle futures. This may not recoup the losses but it will not compound the error.

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