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USDA REPORT INDICATES SHARP DROP IN BEEF SUPPLY

THE 13-STATE CATTLE ON FEED REPORT SHOWED A SHARP DROP in cattle placed on feed last quarter and intentions to market next quarter. The long awaited reduction in beef supply seems certain to arrive in the final quarter of 1985, even if heavy slaughter weights continue. Wholesale beef prices should increase at least 94¢/lb., which would mean live steer prices of about \$61. If slaughter weights drop to normal levels, live steer prices could rise to \$66.

Cattle on feed in the 13 principal producing states were 7,914,000 head, down 12 percent from October 1, 1984 and down 9% from last quarter. The number on feed is the smallest ever since records for 13 states originated in 1970. Steers on feed were down 13 percent, heifers were down 11 percent, and cows were down 22 percent from last year. The smaller decline in heifers and cows indicates that herd liquidation has stopped.

Heavier cattle that should be marketed during the next three months are down 7 percent from a year ago and down 12 percent from last quarter. Intentions to market are also down 12 percent from last quarter's marketings. The number of lighter weight cattle has declined by 20 percent from last year. Supplies should thus continue to tighten in the first quarter of 1986.

Last quarter marketings of 5,967,000 head in the 13 states were very close to intentions stated July 1. Slaughter weights continued to rise to new record levels and reached 662 pounds per animal in September. Total beef supply July-September was 6,166,000 lbs., above our August 1 estimate of 5,930,000. Wholesale beef prices averaged 81¢/lb. and choice steers at Omaha averaged \$52 cwt. during the July-September quarter. These prices are substantially below our August 1 estimates due to the high slaughter weights.

Even if record slaughter weights continue, however, the reduction in heavy cattle on feed and in intentions to market indicate sharply reduced beef supply next quarter and in 1986. If the record high slaughter weight of 660 lbs./animal continues, we estimate beef production of 5,840,000 lbs. This would be 2 percent less than a year ago and 5 percent less than last

quarter. We have revised our price projections for the fourth quarter to 94¢/lb. wholesale and \$61/cwt for choice steers. If slaughter weights return to normal levels of 630 lbs. per animal, prices could increase sharply to 102¢/lb. wholesale beef and \$66/cwt. for choice steers.

The main force depressing cattle prices during 1985 has been the record weights to which cattle have been fed. There have been severe discounts on yield grade for cattle. When cattle on feed reach choice grade they should be sold. If the cattle feeder wants to retain ownership while waiting for higher prices he should replace the cattle sold with futures. Deferred delivery months are currently at sharp discounts which makes such a program more attractive than it has been in the past.

Hog producers should note that tighter beef supplies will give further strength to the current recovery in hog prices.

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