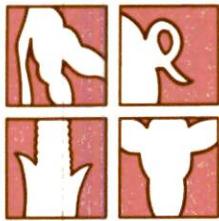




Cooperative  
Extension Service  
University of Illinois  
at Urbana-Champaign



# WEEKLY OUTLOOK

Department of Agricultural Economics  
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University of Illinois at Urbana-Champaign

November 6, 1985

## WHICH DIRECTION ARE LIVESTOCK PRICES TAKING?

THE CURRENT STRUCTURE OF LIVESTOCK PRICES is unusual. In both the cattle and hog markets, the price of the nearby futures contract (December) is well above the cash price, but deferred contracts in cattle show progressively lower prices, and deferred hog contracts are generally lower, with seasonal variations.

On November 1, the average price of choice steers at the Omaha market was \$60.90 per hundredweight. December futures closed at \$67.25, or \$6.35 above the cash price. February futures closed at \$63.57, April at \$62.25, June at \$61.75, August at \$60.10, and October at \$58.82.

In the case of hogs, the average price at Omaha was \$44.10 per hundredweight. December futures closed at \$47.02, February at \$45.60, and April at \$40.85. Closing prices on the summer contracts ranged from \$42.37 to \$43.52, and October closed at \$39.77.

The premium of December futures to current cash prices apparently reflects the anticipation of reduced supplies of red meat by the end of the year. As pointed out in the letter last week, beef production during the last quarter of the year is expected to be two to six percent less than beef production a year ago and five to nine percent less than that of last quarter, depending on average slaughter weights. Pork production during the fourth quarter is expected to be three to four percent less than pork production a year ago. Increased broiler production will not make up for the reduction in the supplies of red meat.

The discount in futures prices beyond the December contract is somewhat surprising, particularly in the case of cattle. The structure of hog prices probably reflects the belief of the market that hog producers will expand production above the intended level reported in the September *Hogs and Pigs* survey. That survey of producers in the ten major hog producing states indicated that fall farrowings would be about two percent less than farrowings a year ago and that winter farrowings (December 1985 through February 1986) would be relatively unchanged from farrowings during the previous winter.

The low price of feed grains may cause both the fall and winter farrowings to exceed those intentions. The hog-corn price ratio, for example, now exceeds 20 to 1 in many areas. Historically, a ratio that high has led to some expansion.

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The discount in cattle prices beyond the December contract is probably not related to supply concerns. Again, as pointed out last week, the number of light weight cattle on feed as of October 1 was down 20 percent from October 1, 1984. Although placements into the feedlot may increase, the liquidation of the cattle herd over the past four years has reduced the potential production of beef. Unless liquidation continues at a high rate during 1986, the production of beef will decline, probably quite sharply.

The lower prices on deferred cattle futures contracts probably reflect concerns about consumer demand for red meat in general and for beef in particular. The apparent weakness in consumer demand for beef has received much publicity over the past two years. Everyone is now aware of that weakness. Could it be that this discovery is occurring after the major impact has already occurred? If so, cattle prices during 1986 could be well above current futures prices.

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