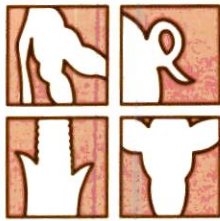




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

January 29, 1986

CATTLE SUPPLIES DROP IN 1986

THE USDA THIRTEEN-STATE *CATTLE ON FEED* REPORT for January 1, 1986, shows a sharp decline in the number of cattle placed on feed but a relatively small drop in marketing intentions for the first quarter of 1986. Slaughter numbers were very high in the first three weeks of January and slaughter weights declined, confirming the intention of producers to market cattle quickly in this quarter. The small number of cattle on feed, however, means that available supply is limited and slaughter numbers should drop sharply by the end of the quarter. Prices should be in the low \$60s per hundredweight live steer in the beginning of this quarter, and should increase to the high \$60s toward the end of the quarter.

The number of cattle on feed in the thirteen principal producing states, a total of 9,694 thousand head, is down 9 percent from January 1985. It is up from the number on feed October 1, 1985, because of the usual pattern of larger placements in the fall quarter. Placements in October to December 1985 were down 4 percent from 1984.

Steers on feed were down 11 percent while heifers were down only 6 percent from last year. Heifers on feed are 37 percent of total, which is a larger-than-average proportion. This large proportion of heifers indicates that herd liquidation is continuing for the moment, this liquidation may be occurring at a faster rate than in 1985. As the herd was reduced in both 1984 and 1985, there are fewer cattle available to feed and market. In spite of continued herd liquidation in 1986, beef supply will decline.

The weight breakdown of cattle on feed shows sharply fewer lightweight cattle than heavyweight cattle on feed. Lightweight cattle are down 9 percent from last year, while heavyweight cattle are up 3 percent. The large number of heavy cattle explains the small drop in intentions to market for the coming January to March quarter. Intentions to market in first quarter 1986 are only 2 percent less than actual marketings in first quarter 1985, in spite of the larger drop in numbers on feed. While the heavy cattle will keep marketed supply large in the coming quarter, the small number of lightweight cattle indicate a smaller supply in the second quarter of 1986.

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In 1985, from October to December, 8,978 thousand head of cattle were slaughtered, yielding a beef supply of 5,774 million pounds. Beef production was below our October estimate as slaughter weights finally started to fall. Average dressed weight per animal was 643 pounds for the quarter, down from the record high of 659 pounds in July to September 1985. As supply tightened during the quarter, prices rose from \$59 in October to \$64 in December. The average price of \$62 for the quarter was slightly greater than our October prediction of \$61 because slaughter weights started to decline.

In spite of smaller numbers on feed, during the first three weeks of January slaughter numbers have exceeded those of last year. Average dressed weights of around 640 pounds are still high, but continue to fall each week. Prices have fallen around \$59 to \$60 per hundredweight live steer. It seems that supply will be large in the beginning of the quarter as heavy cattle move through the system. The supply will drop sharply later in the quarter as the small number on feed constrains supply, however. Prices should be in the low \$60s during the beginning of the quarter and should rise to the high \$60s by the end of the quarter. Current futures prices for April are in the low \$60s but may increase following the USDA report. Producers who wish to hedge may want to wait for price increases later in the quarter. Producers who wish to speculate on price increases should keep marketings current and replace cattle marketed early this year by buying futures contracts.

Further information regarding beef supply and price projections will be available in the February 10 weekly update following release of the cattle inventory.

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