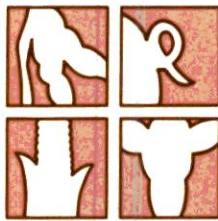


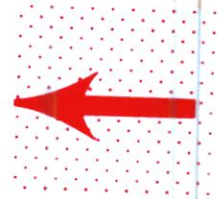


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WEEKLY OUTLOOK

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



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April 9, 1986

DAIRY HERD BUYOUT TO INCREASE BEEF SUPPLY IN 1986

DETAILS OF THE DAIRY HERD BUYOUT PROGRAM announced on March 28 took the futures market by surprise. The USDA accepted bids that would result in the slaughter of 1.3 million cows and heifers. With two-thirds of this liquidation taking place before August 30, 1986, projected beef supplies should increase by about 4 percent during the next two quarters. Futures prices for distant months have declined sharply. The increase in supply will reduce average prices below previous projections, and remaining uncertainty in the market about when this supply will appear may cause prices to fluctuate.

Accepted dairy liquidation bids will result in the slaughter of 951,619 cows, 347,789 heifers, and 257,995 calves. Dairy producers submitted bids to the USDA that specified the timing of dairy herd slaughter during one of three periods: April 1 to August 30, 1986; September 1, 1986 to February 28, 1987; and March 1 to August 31, 1987. During the next six months, 633,176 cows will be slaughtered. There is more flexibility in the timing of the slaughter for unbred heifers and calves. The 215,970 heifers and 165,900 calves included in first-period bids must be slaughtered by September 30, 1986. The totals for the next two periods are much smaller. For the second period--from September to February, 103,984 cows, 41,899 heifers, and 3,737 calves will be slaughtered. In the final period next year, 214,459 cows, 89,920 heifers, and 61,358 calves will be slaughtered.

To offset these additional supplies, the USDA will purchase a total of 400 million pounds of beef--half for domestic food programs and half for export. During the next 6 months, 300 million pounds will be purchased. The impact of these purchases on the market depends on whether they replace or add to private exports and consumer purchases.

A very rough estimate of the additional supply provided by the program shows 464 million pounds of beef entering the market in the next 6 months, 80 million pounds in the second period next fall and winter, and 164 million pounds next spring and summer. The first-period slaughter will increase supply by 4 percent above our earlier estimate. In the worst case scenario, in which USDA purchases would have little effect, projections indicate that spring and summer prices would range between \$50 and \$56 per hundredweight live steers at Omaha. Prices should

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recover somewhat in the fourth quarter, when the additional supply should only increase by about 1 percent. These price projections are very uncertain because the timing of the dairy herd slaughter within the period is still unclear. For example, if dairy farmers delay liquidation until late summer, prices in the third quarter could be quite low.

Cattle prices were weak during the first quarter of 1986 because slaughter weights were high and the supply of beef was larger than that of the first quarter of 1985. Continued high dressed weights of over 650 pounds and the dairy herd buyout eliminate the prospects for a recovery of prices in the second quarter. There is still considerable uncertainty in the market about future supply and prices. The National Cattle Association has moved to file an injunction against the dairy herd buyout program. If successful, it would alter near-term supply once again. Cattle producers should watch market information closely in the next few months.

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