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WEEKLY OUTLOOK

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CATTLE ON FEED REPORT IS BULLISH

The thirteen-state USDA Cattle on Feed Report, released January 23, shows a drop in cattle on feed or placed on feed. The drop in October to December placements was larger than expected, so the supply during the next few months will be smaller than expected. Smaller placements and intentions to market both indicate that slaughter during the first quarter of 1987 may be down as much as 4 percent over last year. If so, live cattle prices should average \$60 per hundredweight this quarter. The smaller placements may also be a sign that the unusually high rate of slaughter seen in the second half of 1986 is finally slowing down. Futures prices, especially for deferred contracts, are expected to increase sharply in response to the report. When the cattle inventory is released on February 4, a clearer picture will be provided of what the beef supply will be during the rest of 1987.

A total of 9.2 million cattle were on feed in the thirteen states on January 1, 1987. This number is 5 percent lower than the total on feed last year. Marketings during October to December of 1986 were 5.4 million head, up 3 percent from the previous year. Placements during the October to December quarter were 6.7 million head, down 9 percent from the previous year. The large marketings reflect sales of the unusually large number of cattle placed on feed in the summer of 1986. The fall quarter is normally the quarter when the largest number of cattle are placed on feed. The smaller placements during the past fall quarter mean that the supply will be smaller in the next few months.

The number of heifers on feed declined more than the number of steers. Steers and steer calves on feed totaled 6.0 million head, down 2 percent from last year. Heifers and heifer calves totaled 3.2 million head, down 10 percent from last year. Heifers were 35 percent of the total cattle on feed, a lower proportion than last year's 37 percent. Herd liquidation is continuing to slow down, but the proportion is not low enough to indicate that herd liquidation has stopped.

The distribution of cattle by weight groups shows a drop in heavy cattle numbers and an increase in light cattle numbers. A total of 6.1 million head were heavy cattle, down 8 percent from last year. Light cattle numbered 3.1 million head, up 4 percent. In this report, cattle feeders in the 13 states indicated intentions to market 5.5 million head of cattle during this January to March 1987 quarter. These intentions are 3 percent less than actual marketings last year. Marketings in the thirteen states generally are about two-thirds of total commercial slaughter. Based on intentions to market, estimated slaughter for the first quarter of 1987 is 8.5 million head. Beef production would then be 5.5 billion pounds. If these supply estimates are correct, live cattle prices should average \$60 per hundredweight during this quarter. Slaughter during the first 3 weeks of the quarter was running at higher levels than these projections, so cash prices were lower.

The Cattle on Feed Report provides an estimate of the supply for the current quarter, but it is not a very good indicator of what the supply will be in future quarters. The Cattle Inventory to be released on February 4 will provide information to estimate beef supply and prices for the rest of 1987.

The smaller placements in this Cattle on Feed Report may indicate that the unusually high rate of cattle slaughter experienced in 1986 is finally coming to an end. Futures prices for deferred contracts have been very low in recent months, given the very small count of cattle expected in the cattle

inventory. This Cattle on Feed report should cause a price rally in futures contracts. However, producers may wish to wait until after the cattle inventory report before evaluating pricing opportunities.

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