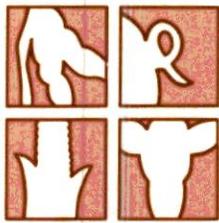




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

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

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CATTLE ON FEED UP SHARPLY

The USDA 13-state *Cattle on Feed* report released October 23 showed total cattle on feed up 10 percent, with the increases concentrated in lightweight steers. The increased number on feed is odd, given the small inventory of cattle. The intentions to market cattle indicate that marketings during the October-to-December quarter will be up 3 percent, which would lead to an increase of 3 percent in total beef supply. However, this estimate is very far from the estimate of a 4-percent decline in supply, based on the cattle inventory. Recently, actual slaughter has been larger than indicated by the inventory but still well below last year's level. Therefore, it is likely that actual fall-quarter slaughter will not be as large as indicated by the October 23 report. Furthermore, demand for beef has been strong during the last year. We expect cash cattle prices to remain in the mid-\$60s through the end of the year. As futures prices are already discounted relative to cash prices, and are likely to decline further in response to this report, they do not provide good pricing opportunities for producers.

There were nearly 9.0 million head of cattle on feed in the 13 states on October 1, up 10 percent from last year. Placements of 6.6 million head during the July-to-September quarter were up 3 percent, and marketings of 6.0 million head were up 2 percent. Most of the increase in numbers on feed is concentrated in lightweight steers. Total steers on feed increased 14 percent, while heifers on feed increased only 2 percent. The small increase in heifers on feed shows that herd liquidation is not the cause of the increased numbers on feed. Lightweight animals on feed were up 25 percent, while heavier animals were up only 4 percent. This might indicate larger numbers coming to slaughter in early 1988, but in the past the *Cattle on Feed* report has been a very poor indicator of supply beyond the quarter when it is released.

During the summer quarter of 1987, the cattle slaughter of 9.2 million head was down 4.5 percent from the previous year. Dressed weight was relatively high at 657 pounds per animal; thus the beef supply of 6.1 billion pounds was down only 3.4 percent. This decline in slaughter and production is not as large as the 10 percent decline predicted from the July USDA *Cattle* inventory. It is a much smaller supply, however, than the estimate from the July *Cattle on Feed* report.

The October report shows intentions to market 5.5 million fed cattle in the October-to-December quarter, which would be an increase of 3 percent over last year's fall marketings. If the normal relationship of fed cattle marketings to total supply holds, then total slaughter and beef supply in the fall quarter would be up 3 percent. This estimate is very far from the estimate of a 4-percent decline in beef supply, based on the July inventory. Actual slaughter will probably be somewhere in between -4 percent and +3 percent.

Cattle prices averaged \$66 per hundredweight of live steer during the summer quarter. During the past year, cattle prices have been much higher than predicted for the current supply of beef.

Demand for red meat seems to be stronger than it was during the early 1980s. Although the October report indicates that supply during the last quarter of 1987 will be higher than expected, it still seems unlikely that cattle prices will fall below the mid-\$60s. Futures prices are down in response to the report and are well below recent cash prices. As it is unlikely that actual prices will be lower than futures prices, the futures market does not currently offer good pricing opportunities.

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