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CATTLE ON FEED UP 6 PERCENT

The USDA thirteen-state *Cattle on Feed* report was released on January 22. The number of cattle on feed January 1 was up 6 percent from last year. Fall 1987 placements were down 1 percent from fall 1986, and fall marketings were up 3 percent. Intentions to market fed cattle in the January-March quarter are up 3 percent. Normally this would also indicate a 2 to 3 percent increase in total beef supply. However, the *C-o-F* reports have been misleading indicators of beef supply during the last six months, and weekly slaughter levels have been only slightly higher than last year. We estimate that beef supply during this winter quarter of 1988 will be just about equal to last year. Prices should average $65 per hundredweight live steers at Omaha. The *Cattle* inventory will be released on February 5, and this should give a better indication of future supply and prices in 1988. Futures market prices for the spring months are expected to decline in response to this report, and will be low in relation to current cash prices. As the *Cattle* inventory is likely to provide a friendlier outlook for prices, producers may want to wait to consider placing hedges until after the inventory is released.

There were 9.8 million head of cattle on feed in the thirteen principal producing states on January 1, 1988; up 6 percent from a year earlier. Placements of 6.7 million head in October-December 1987 were down 1 percent from 1986. There were 5.6 million head marketed in fall 1987, up 3 percent from a year earlier, and up 1 percent from the intentions to market that were reported on October 1.

Most of the increase in numbers on feed was in steers and heavier cattle. Heavy cattle were up 7 percent, and light cattle were up only 3 percent. The decline in total placements and the smaller numbers of lightweight cattle indicate a slowdown in the very heavy rate of placements seen during late 1987. Steers were up 7 percent while heifers were up only 3 percent. Heifers were only 34 percent of total cattle on feed, down from a high of 37 percent in 1986. However, this proportion of heifers is still large enough to indicate that herd rebuilding has not yet started.

During the fall quarter of 1987, cattle slaughter was down 4 percent from a year earlier, and beef production was down 1 percent. Dressed weights were very high at 666 pounds per head, in comparison to 645 pounds in 1986. Choice steer prices at Omaha averaged $67 per hundredweight in fall 1987. This is a robust price, considering the large total supply of meat and poultry available and the rather modest reduction in beef supply. Demand for red meat was stronger in 1987 than during the early 1980s.

The January *C-o-F* report shows intentions to market 5.9 million fed cattle in the thirteen states during the January-March 1988 quarter. This is a 2 percent increase over last year, and would normally indicate a 2 to 3 percent increase in total commercial cattle slaughter. However, the last two 13-state *C-o-F* reports have overstated potential supply. Actual beef supply has been closer to the smaller estimates based on total cattle inventory. The inventory estimate predicts winter 1988 slaughter 3 percent lower and the fed marketings estimate shows slaughter 3 percent higher. We estimate that slaughter will be 1 to 2 percent below last year, and beef production may be about equal to last year due to higher slaughter weights.

If beef production is about equal to last year and demand for red meat continues to be strong, cattle prices should average $65 during this January-March quarter. However, better indicators of future supply and prices for 1988 will be available after the *Cattle* inventory is released on February 5. Cattle futures prices for the spring months are expected to decline in response to the *Cattle* report, because fall placements were higher than expected. Spring prices would then be low in relation to current cash prices. As the *Cattle* report is likely to be friendlier to prices, producers may want to wait until after the report is released to consider placing hedges.

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