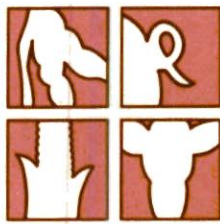




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
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CATTLE INVENTORY DECLINE NOT QUITE AS LARGE AS EXPECTED

On July 29, the USDA released the *Cattle* inventory for July 1. The total number of cattle in the United States is 107.9 million, down 1.5 percent from the total last year. Beef replacement heifers and the calf crop were equal to last year's, an indication that a very slight expansion of the herd is under way. Whether the drought will cause some cutbacks and herd liquidation still remains to be seen. The total number of "other" (nonreplacement) heifers and heavy steers indicates a slightly larger slaughter in the second half of 1988 than we had predicted in February. However, even if current high slaughter weights continue, the beef supply will probably decline by 3 percent in the summer quarter, and by 4 percent in the fall quarter of 1988. This decline means continued strength in cattle prices. Currently, live steer prices at Omaha have fallen seasonally to around \$67 per hundredweight. Prices should recover to at least \$70 in the fall quarter.

The total number of cattle in the United States on July 1 was 107.9 million, down 1.5 percent from last year's total. Cows were down 1 percent, compared to last year's figure. The number of beef replacement heifers was equal to that number last year, while "other" heifers--those not going to milk or beef replacement--were down 4 percent. Most of the calf crop is born in the spring, so the report includes an estimate of the 1988 calf crop. This estimate is just about equal to last year's calf crop. These numbers would normally indicate that the herd liquidation of the last 9 years was over and that some small herd rebuilding had begun. The current drought and increased cost of feed, however, may increase cow and heifer slaughter more than these numbers indicate.

The total number of heavy steers and other heifers indicates slaughter supply for the second half of 1988. There are 3 percent fewer of these animals this year than there were last year. During the last few years, commercial slaughter in the second half of the year has been 80 percent of the July 1 slaughter supply. If this continues in 1988, then slaughter in the second half of this year will be down 3 percent. Recently slaughter weights have been very high, even though feed costs are high. If these high weights continue, then beef production in the third quarter should still be 3 percent below last year's beef production; and in the fourth quarter of 1988, it should be 4 percent below last year's production.

The market for cattle and beef continues to benefit from strong demand. Prices have been high relative to the amount of beef coming to market. If the aforementioned production estimates hold, then cattle prices could easily be above \$70 again in the fall of 1988. However, there is uncertainty about what effect the drought will have on slaughter. The available evidence is conflicting. Cattle slaughter in June was up sharply over that of last year. Yet the inventory indicates no herd liquidation, and slaughter weights are very high for a year of high-cost feed. If

there is some return to herd liquidation, the small inventory should still keep total slaughter levels below those of last year. This reduced slaughter, in combination with strong beef demand, should ensure that prices reach at least \$70 during the fall quarter. Futures prices before the report were not far from our price projections and probably do not offer good pricing opportunities.



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