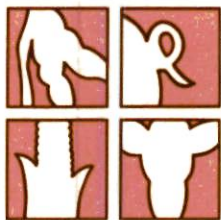




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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CATTLE INVENTORY SHOWS MORE SUPPLY THAN EXPECTED

The USDA released the *Cattle* inventory on February 8. The U.S. total of 99.5 million head on January 1, 1989, is down only slightly from the total last year. Beef cow numbers and beef replacement heifers are up, indicating that herd rebuilding has begun. Herd rebuilding reduces the number of heifers available for slaughter, and the total supply of steers and heifers available for slaughter is down by 2 percent. Total slaughter during 1989 is projected to be down 1 percent from 1988. But slaughter weights keep increasing as improvements in cutability yield more meat from each animal. If slaughter weights keep increasing during 1989, beef production will be very close to 1988 levels. During 1988, cattle and beef prices were very strong relative to supply. An unusually small margin between cattle and beef prices also contributed to good prices for live animals. If strong demand continues during 1989, prices are likely to stay in the high \$60s to mid-\$70s.

The January total of 99.48 million head is down only slightly from last year's total of 99.52 million head. The beef cow herd was up 2 percent from that of last year, and beef cow replacement heifers were up 5 percent. Bulls were up 3 percent. These increases in breeding animals indicate that herd rebuilding has begun.

Herd rebuilding reduces the number of heifers available for slaughter, so "other" heifers are down 2 percent. The number of steers available for slaughter is equal to that of last year. These animals will provide slaughter supply during the first half of the year. Calves under 500 pounds will provide slaughter supply during the second half of the year. It is curious that these smaller animals are down 4 percent, yet the calf crop is reported to be up 2 percent. It seems likely that more calves are available than the number reported in the inventory.

The inventory numbers provide a basis for estimating slaughter during 1989. We estimate that 1989 slaughter will be down 1 percent from slaughter in 1988, but beef production will be only slightly below 1988 if slaughter weights continue to increase. Over the last 10 years, a growing percentage of cattle has been yield grade 2, and the amount of meat obtained from the average animal has increased. For example, the average dressed weight in 1988 was 668 pounds, up sharply from 657 pounds in 1987. If weights continue to increase in 1989, there will be virtually no reduction in beef supply compared to 1988.

Ordinarily this supply projection would be a bearish one for prices, but beef and cattle prices have been very strong relative to supply during 1988 and early 1989. Wholesale prices for beef during 1988 were about 10 percent higher than those predicted from consumer behavior in the early 1980s. In addition, the margin between cattle and beef prices was smaller than usual during the entire year. If demand continues to be strong and supply is equal to that of last year,

live cattle prices should be about the same as they were last year--varying during the year from the high \$60s to the mid-\$70s per hundredweight for live steers at Omaha. Specifically, 1989 cattle prices are forecast to average \$69 in the first quarter, \$72 in the second, \$68 in the third, and \$70 in the last quarter.

Futures prices for live cattle dropped sharply in response to the inventory report. Although cash cattle prices may continue to be surprisingly strong, it seems more likely that prices will be lower because margins may widen or demand may weaken. Therefore any futures prices in the mid-\$70s that may be offered after the market recovers from this report would provide pricing opportunities. Feed cattle producers should take advantage of them.



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