



WEEKLY OUTLOOK



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LITTLE EXPANSION EXPECTED THIS YEAR IN BEEF HERD

The latest *Cattle* inventory report provides continued good news for owners of brood cow herds. Little expansion is under way, even after several profitable years. On January 1, the USDA estimated that the inventory of all cattle and calves was 99.3 million head, unchanged from last year. Also, a decrease in the number of younger cattle indicates that calf prices will be strong into the summer. However, the dairy herd is expected to expand in response to favorable milk production returns.

The beef herd is rebuilding very slowly. Beef cow numbers decreased from 1982 until 1988. In the two years since January 1988, there has been only a 1.5 percent increase in cow numbers. This is a slow expansion compared with previous cycles. For example, in the first two years of the last expansion phase from 1979 to 1981, the number of beef cows increased nearly 5 percent. In addition, the current number of beef cow replacement heifers is unchanged from last year. This is a further indication that producers are not going to expand in the next year.

More evidence of expansion is provided in the dairy herd. Current milk cow numbers are down 1 percent from last year. Cow numbers are on a long-term down trend, and a 1 percent reduction represents a slow down of the longer-term trend, which resulted in about 10 percent of the milk cows being liquidated between 1986 and 1989. The dairy herd buyout was a major part of this reduction. Milk cow numbers will probably rise in the coming year, however, because the number of dairy replacement heifers is up 2 percent from last year's level. Financial returns have improved sharply for dairy producers, with the smaller production base providing higher prices and with feed supplies and prices back at more favorable levels since the 1988 drought.

Feeder cattle should be in somewhat greater supply than previously thought. Steers over 500 pounds and heifers not retained for breeding are up 2 and 5 percent, respectively. These numbers, in combination with last quarter's *Cattle on Feed* report, indicate that feeder cattle supplies are about 4 percent higher than last year. With fed cattle prices expected to be lower into summer, this larger supply could mean flat to lower feeder prices for the next 90 days.

While feeder cattle supplies are somewhat higher than expected, the supply of lighter-weight calves is down. Calves under 500 pounds were reported at 19.3 million head, which is down 4 percent from last year. The 1989 calf crop is estimated at 40.1 million head, down 1 percent. This is a reduction from the 40.7 million head estimated last July, and indicates that the calf crop may have dropped sharply in the second half of 1989. This report will provide strength in prices for younger animals as well as for the more deferred live cattle futures. Prior to this report, I had anticipated little upward price movement on calves for the spring pasture season; however, now some increase should be expected because 400-500 pound steer calves may well be priced above \$1.00 per pound at times. The bidding up for calves to go on grass may come at a time when cattle prices are very strong in late March and early April. Remember, a fairly sharp drop in prices is expected into the summer. So, be cautious about overbidding for these calves.

In general, this report suggests no major changes in the beef business. Brood cow operators will continue to see strong returns, feedlot managers will continue to have large and risky investments in feeder cattle, and consumers will continue to pay near-record levels for retail beef. The long-term questions are: Will the erosion in beef demand finally stabilize? And will producers proceed with expansion before they know the answer to the first question?

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