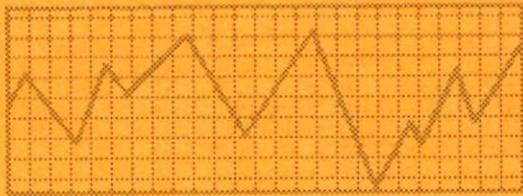




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# WEEKLY OUTLOOK

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## **CATTLE ON FEED AT HIGHEST LEVEL IN 12 YEARS**

The USDA's 13 state Cattle on Feed report indicated that the nation's major cattle feeding states had 9.1 million head of cattle on feed on October 1, the largest feedlot inventory since 1978. This total was 10 percent greater than year-ago inventory numbers, and was a surprise to the market. Most of the increase in inventory was due to managers buying younger calves for placement. This implies that these calves will reach market weights sooner, but it does not imply that total beef supplies over the next year will move sharply higher. Relatively tight supplies of beef will continue.

The large inventory was a result of heavy placements and small marketings during the quarter ended on September 30. Placements of cattle into feedlots, at 6.3 million head, were up 11 percent and marketings, at 5.7 million, were down 3 percent from a year ago.

The reasons for the large current inventory are likely related to expectations of profitable feeding margins this past summer. Low feed prices were especially critical to the high placement rate. The large U.S. and world wheat crops and low wheat prices stimulated increased wheat feeding. In addition, late summer improvement in the corn crop resulted in lower corn and sorghum prices. Abundant supplies of these three feeds probably convinced feedlot managers to move more cattle into feedlots.

The pattern of increased placements due to low wheat prices and abundant supplies is demonstrated by the heavy placements in major wheat producing states. Third quarter placements in Texas were up 23 percent over last year, while placements in Oklahoma were up 12 percent and placements in Kansas were up 18 percent. Placements in Illinois were up 15 percent, but were up only 5 percent in Iowa. The total number of cattle on feed in Illinois, at 280,000, was up 22 percent from last year.

In addition to cheap feed, high cattle prices acted as a stimulus to feed more cattle. Cash steer prices reached the \$80 mark several times during the third quarter, and futures prices had a bullish tone, with December futures achieving \$78 highs.

In evaluating price impacts of this report, it is important to note that the large increases in on-feed inventories are in the very lightweight, younger animals. The total number of calves weighing less than 500 pounds in feedlots was up 55 percent over last year, while

those in the 500 to 699 pound range were up 39 percent. Of the nearly 800,000 increase in the number of cattle on-feed this year, about three-fourths came in these two lightweight categories. While total numbers are much higher than last year, it is primarily because feedlot managers chose to buy much lighter calves to feed this summer, not because of a larger supply of cattle.

The marketing implications are that the younger calves now in the feedlot will finish more quickly than if they had remained in a backgrounding operation for a longer period of time. As a result, marketings will be advanced somewhat late in the fourth quarter, and especially in the first and second quarters of 1991. Advancement of marketings early in 1991 implies a reduction in third, and perhaps fourth quarter, marketings next year.

This report is expected to set a modestly bearish tone for cash cattle prices for the remainder of this year. From the \$80 top achieved recently, finished steer prices are expected to drop to the \$75 to \$77 range in late November and December. First quarter 1991 prices are expected to average in the mid \$70s before moving back to the higher \$70s in the spring. Feeder cattle and calf prices are also expected to drop modestly, as feedlot managers take a more cautious posture, waiting to see how feedlot marketings proceed over the next several months.

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