Cooperative Extension Service

WEEKLY OUTLOOK

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CATTLE ON FEED INDICATE LARGER SLAUGHTER SUPPLIES

The USDA's 13 state quarterly *Cattle on Feed* report indicates that feedlots are full of heavy weight cattle ready to be marketed in coming weeks and months. Slaughter levels can be expected to rise in the first and second quarter of 1991 due to this larger inventory of fed cattle. A slow down in slaughter rates is not expected until early summer. Even with this expected increase in slaughter, per capita beef supplies will still be small by historical standards and sharp price declines are not expected.

The USDA reported that on January 1 there were 10.9 million head of cattle in the feedlots in the 13 major cattle feeding states, up 10 percent from last year, and the highest level since 1979. Marketings for the last quarter of 1990 were down 2 percent, while placements were up 2 percent.

The large number of cattle now in feedlots is largely a result of heavy placements last summer when feedlot managers placed 11 percent more cattle. Those placements contained a high percentage of light weight calves which are just now showing up in the near-market ready weight categories. For example, the January 1 inventory shows steers and heifers weighing over 1,100 pounds up 13 percent from last year. These cattle will be marketed in January. The steer and heifer count in the 900 and 1,099 pound category which will compose much of the February and March slaughter, we up 7 percent. The 700 to 899 pound weight range, which will contribute to second quarter marketings, were up 8 percent.

Low feed grain prices, including wheat prices, appear to be an important factor encouraging large feedlot inventories. Major wheat producing states seem to have the largest numbers on feed. For example, numbers on feed in Kansas are up 10 percent; Texas up 11 percent; and Nebraska up 13 percent. By contrast, the minor wheat producing states have low inventories: Arizona down 8 percent and California down 10 percent.

Heifers were also herded into feedlots in the last quarter of 1990. The previous quarterly report in October indicated that heifers were slower to move into feedlots than steers. October 1 inventories showed steer numbers up 13 percent, but heifer inventories up only 5 percent. One possible conclusion was that heifers were being retained for addition to the nation's breeding herd. However, the current report shows that heifer inventories are now up 11 percent over last year, with the steer inventory up 9 percent. This suggests that the February 4 *Cattle Inventory* report will show only a modestly expanding brood cow herd.

Feedlot managers indicate that they anticipate marketing 3 percent more cattle in the first quarter in comparison to last year's first quarter. Given that the number of cattle over 900 pounds were up nearly 9 percent, this appears to represent too small of a marketing number. Actual marketings will more likely be up 3 to 5 percent. In addition to the greater head count, average slaughter weights will likely continue to be nearly 1 percent larger than last year.

While fed slaughter will be higher in the first half of the year, low cow slaughter and non-fed slaughter will moderate the rate of increase in total beef production somewhat. At this point, increases in beef production in the range of 3 percent are expected for the first half of the year. I will make a more detailed estimate of yearly slaughter levels after the February 4th report.

Choice steers at Omaha are expected to average near $77 for the first quarter of 1991. This means that some sell off in current prices of $78 to $79 can be expected into February. However, by late March price levels could be near the current level in the high $70s. Spring quarter prices will likely average somewhat higher than the winter, with average prices in the very high $70s to $80. Some daily highs could return into the low $80s as was the case in the spring of 1990.

While this report shows more cattle than anticipated, two factors suggests that market prices will not drop sharply. First, during the second two weeks of January, cattle slaughter was over 7 percent higher than the same weeks last year, yet market prices only dropped to the $78 level. Second, futures markets have already had sharp discounts as they anticipated the "wall of cattle". Now that the wall is here, it may not be as high as the market expected.

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