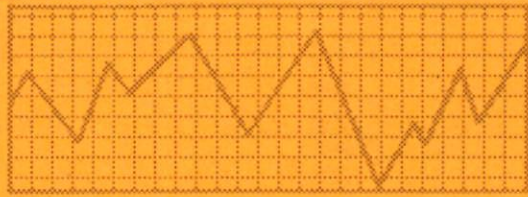




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WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

February 5, 1991

MODEST BEEF COW EXPANSION: SMALL CALF CROP

The USDA's *Cattle Inventory* report released February 4 showed a slow buildup in beef cow numbers. Beef cow numbers, at 33.6 million head, were up about 1 percent over last year. Revised numbers in this report now show that the lowest cow numbers of this cycle occurred in early 1989. Since that time, brood cow numbers have increased only 1.5 percent. The 1990 calf crop, at about 40 million head, is down nearly 1 percent, with all of the decrease occurring in the last half of 1990. This report suggests that beef supplies will be 2 to 3 percent higher for 1991. However, first half supplies will be up 3 to 5 percent, with last half supplies nearly unchanged to slightly lower than previous year levels.

The slow expansion in the beef breeding herd continues. The magnitude of the expansion is very modest considering the strong profits brood cow owners have generated over the past four years. Producers did indicate that they were retaining 3 percent more beef replacement heifers. If these heifers do go into the breeding herd in 1991, greater expansion will be noted. However, many of these replacement heifers may well end up back in the slaughter supply rather than as replacements in the breeding herd.

Dairy cow numbers, at 10.1 million head, were unchanged from year-ago levels, while the number of dairy replacement heifers were down 7 percent. The low level of replacement heifers in combination with low returns for milk production in 1991 suggests that dairy cow numbers will be returning to their longer-term downward trend this year. This also implies that dairy cow slaughter will rise throughout 1991 and add some tonnage to beef supplies.

The recent thirteen *State Cattle on Feed* report indicated that feed lot inventories were up 10 percent. This report confirms that there are a large number of cattle weighing over 500 pounds in the inventory. The number of steers weighing over 500 pounds, as well as non-replacement heifers over 500 pounds, were each 4 percent higher than last year. Most of these cattle will be slaughtered in the first half of 1991. It appears that first half beef production will be 3 to 5 percent higher than last year.

Beef production in the second half of 1991 is likely to be unchanged to down slightly from the last half of 1990. This is because of the low number of calves born in the last half of 1990. The number of calves weighing under 500 pounds, at 18.7 million head, is down about

2 percent from a year ago. This smaller pool of calves suggests that calf prices will continue at their high level, and will likely exceed last year's prices through this winter and into the spring. Profit prospects for beef cow owners will continue to be very favorable throughout 1991 and into 1992, as prospects for rapid growth in the herd does not appear likely.

Prices of fed cattle are expected to be somewhat lower in the first half of 1991 than corresponding prices in 1990. To date, this has yet to be the case. In 1990, Omaha prices during the first two quarters averaged about \$77.50 per hundredweight. With prospects for beef production to be 3 to 5 percent higher this year, an average near \$77 seems to be in prospect for 1991. This would mean that winter lows could reach to the mid-70s with spring seasonal highs in the low \$80s.

In the last half of 1991, fed prices are expected to be higher than last year with supplies modestly lower. Average prices in the very high \$70s appear to be most likely with absolute daily highs back above \$80.

At this point, nearby February and April futures appear to be fairly priced, however, discounts for the June and later contracts appear to be too large, with prospects for cash cattle prices to be higher in the last half of the year. Cattle finishers would not want to forward contract or hedge at this time. Those needing price protection should use options.

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