



WEEKLY OUTLOOK



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WEATHER MAY HAVE ALREADY AFFECTED CATTLE PLACEMENTS

While crop farmers watch the skies for any signs of moisture, cattle feedlot managers may have already responded to the 1991 weather. The response seen to date, however, is related to the wet spring weather and to the reduced 1991 wheat yields.

In the month of June, feedlot placements were down 19 percent in the seven major cattle feeding states. Leading the decline in placements was Iowa, where placements were off 52 percent from last year. Iowa has a high percentage of farmer feedlots as compared to commercial feedlots. Farmer feedlots are defined as those with under 1,000 head of capacity. The wet weather, which delayed corn planting, apparently created feed uncertainty among farmer feeders.

Other key cattle feeding states also experienced declining placements, but not as large as Iowa. Placements were down 19 percent in Nebraska, 15 percent in Texas and 6 percent in Kansas during June. These states fed large amounts of wheat in the past year. However, 35 bushel wheat yields this year compared to 39.5 bushel yields last year, in combination with smaller acreage, has moved wheat prices back above corn prices. Wheat-feeding will be sharply lower. The limited use of wheat as a feed-grain in the Plains this year may have contributed to the reduced placements.

Cattle prices are also important in understanding the sharp decline in June placements. Finished cattle prices moved to the very low \$70s in June. This was generally about \$2 to \$3 per hundredweight lower than many expected. In June of 1990, cash cattle prices made summer lows at \$74. With large on-feed inventories this year, and market prices dropping below the level of the previous year, cattle feeders had plenty of reason to be cautious. In addition, while finished cattle prices were weak, feeder cattle prices were stable to higher.

The quarterly cattle report also revealed some interesting changes in feedlot populations. With the low wheat and feed-grain prices of the past year, cattle feeders were putting calves on feed at early ages. Now, with reduced wheat supplies and increased uncertainty over corn and sorghum supplies, feedlot managers seem to be less anxious to place lightweight calves. Steers on feed weighing less than 900 pounds are down 4 percent, and heifers under 900 pounds are down 6.4 percent. This implies that a greater number of the young calves are staying in forage-based backgrounding programs, and entering the feedlots at heavier weights. If unfavorable weather drives feed prices higher this summer, expect to see a much greater amount of backgrounding in the coming year.

Feedlot numbers still remain high, at 8 percent above last year's level. Even though placements were down in June, heavy placements in the early spring mean that large inventories of heavyweight cattle remain in feedlots. The number of steers and heifers weighing 900 pounds or more are up 18 percent, according to the July estimates. This means that fed beef supplies will continue to be large for the rest of the summer. Feedlot managers intend to market 5 percent more cattle in the July to September quarter than in the same quarter last year. USDA cattle-on-feed inventory estimates, however, have been too high for some time. It is likely that marketings will not be as large as indicated.

On July 29, the USDA will release the semi-annual *Cattle* inventory report. With those numbers in hand, I will provide price estimates of both fed cattle and feeder cattle in next week's letter.

Weather is on everyone's mind, and many livestock producers' financial fortunes could be directly impacted by adverse weather. The domestic livestock sector is the great drought shock absorber, as it is the industry forced to make the greatest adjustments in use. In the droughts of 1980 and 1983, domestic corn use was down the same amount as total use (that means other use remained the same). In 1988, domestic corn use was down more than total use, as exports actually rose in the drought year. If this summer's weather drives feed prices sharply higher, the cattle feeding industry will be forced to adjust rapidly.

Chris Hurt

Issued by Chris Hurt
Extension Economist
Purdue University

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801