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LONGER TERM CATTLE PROSPECTS STILL FAVORABLE

In the mid-year *Cattle* inventory report, USDA reported the nation's cattle herd at 109.8 million head, up 1.8 percent from last year. Beef cow numbers totaled 34.5 million head, also up 1.8 percent. Steers and heifers weighing over 500 pounds were up about 4 percent, while calves weighing less than 500 pounds were up only 1 percent. What do these inventory numbers mean for the immediate cattle outlook, and for the next several years?

The relatively large number of calves weighing over 500 pounds indicates that upcoming beef supplies will be large. Feedlot inventories are reported to include an abundance of cattle in the heavier weight categories. The number of steers and heifers in feedlots weighing over 900 pounds are 18 percent higher than last year, while those weighing less than 900 pounds are down about 5 percent. This will provide a large third quarter beef supply which I estimate to be up 4 percent. It will take August, September, and early October to work through the larger on-feed supply. Therefore, cattle prices will be slower to recover in the late summer this year compared to last year.

In the fourth quarter this year, the increase in supply should be around 2 percent. A 2 to 3 percent increase in supply is also expected in the first half of 1992. In addition to larger beef supplies over the next 12 months, increased pork and poultry production is anticipated. In fact, by the first half of 1992, pork production is expected to be up 6 to 8 percent. On a positive note, the recessionary economy is expected to end this summer and may provide some positive support to prices.

Choice steer prices at terminal markets are expected to recover slowly into the fall. Current price estimates are for the third quarter average price to be about $72.50 per hundredweight. From the high $60 in early August, modest recovery to the low $70s is expected into September and early October. However, by late October further improvement should take the fourth quarter average price back to the higher $70s. Early 1992 prices are expected to remain in the very high $70s, and move about $2 lower in the second quarter of 1992. This forecast averages about $77 on choice steers at terminals over the next 12 months, compared with $78.70 over the past 12 months.

While finished cattle prices will make a slow recovery, feeder cattle prices are expected to decline into the late summer and be under year-earlier prices in the fall. Feeder calf and cattle supplies are about 1 percent larger than last year at this time, but the real culprits in lower prices are the sluggish live cattle futures prices andhigher priced feed. Feed prices and feed availability in some areas will be a major market factor. If prices of feed continue upward, the cattle market can expect three impacts -- some liquidation of breeding stock, advanced marketings out of feedlots, and falling feeder cattle and calf prices.

What are the prospects for the next several years? With the beef cow herd now beginning to expand, beef supplies are going to be increasing. However, the expansion so far is very slow. The brood cow herd reached its lowest level in 1989, and has only expanded 2 percent since. Normally cattle expansion phases last about 6 to 7 years. This means that cow numbers would continue to grow into 1995 and 1996. In the meantime, additional expansion in the next several years will pull heifers from the slaughter mix. It is likely that cow-calf producers will continue to have profitable operations, perhaps through 1994. This provides prospects for about three more years of favorable returns, although not at the same level as in the past two years.

Beef demand has appeared steady to increasing since 1987. Beef exports are expected to grow somewhat in coming years, especially to Japan. Both of these factors imply a more stable demand structure than the industry faced after 1975 when per capita consumption dropped by over 30 percent. In summary, while prices are probably over the extreme top of this particular cattle cycle, we are still in the high price altitudes and several more years of profits can be envisioned.

Chris Hurt

Issued by Chris Hurt
Extension Specialist
Purdue University

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

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