Cooperative
Extension
Service

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

OCTOBER 28, 1991

BULLS LEAVE THE CATTLE MARKET

The USDA's October *Cattle on Feed* report provided evidence that fed cattle marketings will begin to drop in November. The report numbers were friendly, but the futures market turned lower due to concerns about continued heavy weight cattle and large supplies of hogs and poultry. Cash prices of cattle, however, should improve into the mid-$70s for the last two months of the year.

The number of cattle on feed on October 1 in the 13 major cattle feeding states was estimated at 8.54 million head. Numbers are down 6 percent from last year and this is the first time in 1991 that on-feed numbers were below the previous year's level. Placements in the third quarter were off 15 percent. The low level of placements was the result of continued high feeder cattle prices, uncertain grain prices, and a very weak finished cattle market. Marketings for the past quarter were up 4 percent over the previous year, a number higher than the trade had expected. Anticipated marketings for the fourth quarter are down 2 percent. These report numbers were expected to provide a bullish reaction in the futures market.

If the numbers in the report were friendly, why did the futures market move lower after the report? The answer seems to lie in the great concern that the cattle market will be unable to recover from the bearishness which has engulfed it since August. Traders do not have to look far to find reinforcement for their bearish attitude.

Perhaps the greatest concern now is the problem of overweight cattle. For October, slaughter weights have averaged over 4 percent above last year's level. The number of cattle slaughtered has only been about 2 percent greater. Heavy weights have contributed more to excess beef production than has the number slaughtered. Managers have been finishing to heavier weights in anticipation of a recovery in finished cattle prices. Most analyst, as well as the futures market, had suggested that better times were coming if they would hold on, and hold they did. When will the weight problem clear-up? The weight breakdowns in the recent report provide some insight. The number of steers weighing over 1,100 pounds on October 1 was up a startling 36 percent from last year. Heifers over 900 pounds were up 11 percent. However, most of these cattle should be marketed in the month of October, or very early November. The weight categories behind these heavy weight groups indicate smaller inventories than last year.

The second concern to the beef market has been the larger than expected supply of pork in October. Pork supply for the month is going to be up over 8 percent, when the expectation was for about a 6 percent increase. Retail pork competition has been a greater concern to the beef industry than expected. In addition, featuring of abundant supplies of poultry for the Thanksgiving market is a concern.

A final problem for beef this fall has been the wide farm-to-retail price margin. With increasing beef supplies late this summer and fall, farm prices of cattle dropped sharply, but retail prices moved downward more slowly. As a result, the marketing margin was surprisingly large. This wide margin, kept retail prices too high and did not allow as much beef to move as would have been the case with lower retail prices. Over time, however, the margin should come back to more reasonable levels and provide more beef movement.

Most analyst have been forced to reduce their price estimates for the fourth quarter, and I am no exception. However, price supporting factors to occur in the next two months should include: lower fed cattle marketings, a return to more normal weights, and a return to a more normal marketing margin. In addition, pork supplies may not pressure prices downward as much after the middle of November.

Recovery in finished cattle prices are expected in November, with choice steers returning to the mid-$70s. Further strength can be expected in the first quarter of 1992, with some daily highs in March in the high $70s. But for now, the industry must work on returning weights back to more acceptable levels and toward reducing retail prices.

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

FIRST CLASS