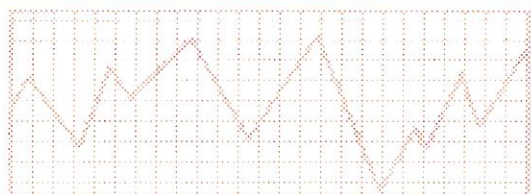




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WEEKLY OUTLOOK

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SLOW COW EXPANSION PROVIDES MARKET SURPRISE

The slow rate of expansion in the nation's cattle herd during 1991, as revealed in USDA's *Cattle* report released on February 7, provided a bullish surprise to the cattle market. Beef cow numbers expanded less than 2 percent from last year's level. In addition, last year's beef cow numbers as of January 1 were revised lower. From the lowest level of this cycle in 1989, beef cow numbers are only 2 percent higher, reflecting a general unwillingness of cattle producers to make major investments in cow herds. The slow expansion should provide the tone for stronger cattle and calf prices in 1992 than previously anticipated.

The number of beef replacement heifers, at 5.7 million head, was up 2.5 percent, which was less than anticipated. On the other hand, heifers weighing over 500 pounds and headed for slaughter were up about 4 percent. The higher proportion of heifers headed for slaughter rather than beef cow replacement implies beef cow herd managers are not optimistic about expansion. This hesitation to expand is likely related to the general pessimism in the cattle industry since last fall. The pessimism has been brought on by much lower cattle prices due to the slow economy and very heavy finished cattle. In addition, many producers have been concerned about beef demand and about a larger expansion which could drive the industry back into losses.

Expansion is slow enough to keep beef supplies relatively tight through 1993. Therefore, profits for brood cow producers should be favorable at least for the 1992 and 1993 calf crops and likely the 1994 crop. Further expansion can be expected, however, with the brood cow herd likely reaching its peak in 1995 and 1996.

Prices of finished cattle are expected to strengthen into the early spring, reaching levels in the very high \$70s. Prices are expected to return to the low \$70 and high \$60s briefly in late summer. The final quarter of 1992 is expected to provide prices in the \$72 to \$75 range. For the year, beef production will be about 1.5 percent higher than last year, with average prices about \$1 lower. Two important variables will be the strength of the economy and the willingness of the feeding industry not to over-finish cattle.

The size of both the 1990 and 1991 calf crops was also revised lower in this report. The last estimate of the size of the 1991 crop was made in July, and was 40.1 million head. This was revised downward to 39.3 million head, a surprising, and sharp reduction. Dropping the size of the calf crop will imply to the market a tighter supply of calves and feeder cattle than previously thought, with a potentially strong upward price reaction.

Calf and feeder cattle prices are still expected to be lower than last year's record high prices in the first half of the year. Beef calves in the 400-500 pound range are expected to have prices of about \$1.05 to \$1.10 per pound, while 600-700 pound feeder cattle will likely be priced in the low-to-mid \$80s. The price in each of these weight ranges will be \$8 to \$12 per hundredweight below last years' prices. Quoted prices are based on calf and feeder steer prices at the Oklahoma City market.

Late in the year, however, calf prices will likely be somewhat higher than in late 1991, perhaps in the \$1.00 to \$1.05 range. Feeder cattle (600-700 pounds) prices in the last half of the year are expected to be in the mid-to-higher \$80s.

The number of dairy cows in the nation's herd was down 2.5 percent. Replacement heifers for dairy herds were down about one-half of a percent. The low inventory of dairy cows reflects the poor returns for milk producers in 1991.

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