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WEEKLY OUTLOOK

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SMALL FEED LOT INVENTORY SHOULD HOLD CATTLE PRICES

The latest USDA thirteen state *Cattle on Feed* report revealed a surprisingly low number of cattle on feed. At 10.1 million head, the number of cattle on feed on April 1 was down 10 percent from the year-ago inventory. Placements during the January to March quarter were down 5 percent, while marketings during the quarter were up 2 percent. Feed lot managers expect to market 3 percent fewer cattle in the April to June quarter than during last year's second quarter. The low inventory should be supportive to cattle prices into the summer.

The breakdown by weight category reveals smaller market supplies coming from feed lots this spring and summer. The number of steers and heifers weighing from 700 to 1,099 pounds on April 1 was down about 13 percent from last year. This low inventory will likely keep slaughter supplies this spring and summer at moderate levels. The number of steer and heifer calves in the 500 to 699 weight range was down about 5 percent.

The low inventory is related to a cautious stance taken by feed lot managers. In 1991, cattle placed on feed in the early part of the year resulted in large financial losses, as the finished cattle market dropped into the mid-and-lower $60s. This year it appears the concern over a repeat of last year's cattle feeding losses has made feeders cautious. The seven state report, as an example, indicated that the number of cattle placed into feed lots in March was down 12 percent from last year. In addition to the concern over a repeat of last year's cattle price stumble, has been the uncertainty of feed prices. Both new crop corn and soybean futures made contract highs in the month of March.

This report, in combination with the current bearish tone in the feed markets, may change the attitudes of feed lot managers. Moist spring weather and a more favorable cattle price outlook will likely result in growing placements into feed lots during this spring.

The declines in on feed numbers were greatest in states which are heavy corn feeders. Iowa, as an example, had a decline of 230,000 head, or 21 percent, from April 1 last year and Nebraska had a 410,000 head, or 17 percent decrease. Since Iowa and Nebraska corn yields were not drought shortened last year, the decline in feeding interest is most likely related to concerns over current feed prices and the falling cattle prices experienced last year.

Several states which watch the wheat crop for signs of feeding prospects had increases in on feed numbers. Kansas had feed lot inventories which were up 3 percent and inventories in Oklahoma were up 4 percent. These higher inventories may have been related to the improved conditions of the winter wheat crop in relation to it's condition a year ago.

Another feature which may be related to the lower numbers in Iowa and Nebraska is the fact that there are more farmer feed lots, especially in Iowa. Farmer feed lots are defined as those with under 1,000 head of capacity. Farmers tend to not hedge as frequently as commercial feed lot managers. Perhaps the losses of late 1991, from cattle placed in early 1991, were more severe for farmer feed lots than for the commercial feed lots which are more likely to have been in a hedged position.

Cattle supplies in the second and third quarters of 1992 are expected to be somewhat smaller than previously anticipated. Supplies may average about unchanged from last year in the second quarter, and perhaps 1 percent smaller in the third quarter. Prices of finished cattle are likely to remain fairly stable in the mid $70s into June. However, by late June, seasonal price decreases can be expected. Prices may move to near $70 by September. A sharp break into the lower $60s as occurred last year is not expected. By the fourth quarter, prices should improve back to the mid $70s.

Summer crop conditions will continue to be important to the cattle industry. While grain and soybean markets have had less concern about adverse growing season weather in the past months, any weather events which threaten to reduce yields of corn or wheat will be quickly reflected in higher feed prices. Any resulting liquidation of cattle which may result with higher feed prices could drive cattle prices lower.

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