Cooperative Extension Service

WEEKLY OUTLOOK

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CATTLE TO EAT THEIR SHARE OF ABUNDANT CORN CROP

The USDA's October *Cattle-On-Feed* report indicates that cattle feeders plan to put the abundant corn crop to good use, as they increased placements by 13 percent in the third quarter. The pace of placements accelerated through the summer, as the large crop became obvious. In July, as an example, placements were up 8 percent, but jumped to a 19 percent increase by September. Moderate feed prices and high fed cattle prices will likely keep the placement rate strong for the rest of the fall.

The number of cattle on feed, at 8.9 million head, was up 3 percent as of October 1. While this number exceeds last year's inventory, it is still 2 percent below the number on feed two years ago. Last year's inventory was very low as a result of large losses suffered by cattle feeders due to surprisingly low fed cattle prices.

The increased number of cattle on feed was led by the western states of California, Washington, Colorado, and Idaho, all of which were up 8 to 10 percent. Numbers on feed in the plains states were mixed, with Kansas up 10 percent, but Nebraska and Oklahoma down 2 percent. In the Corn Belt, the numbers were also mixed, with Iowa on feed numbers up 5 percent, Minnesota up 2 percent, but Illinois down 15 percent.

The numbers in Illinois are a particular surprise, since the corn crop is large. The low numbers there may reflect two factors. The first may have been an unwillingness to put cattle into the feedlot until the corn crop was safe from frost. If this is the case, placements will likely rise later in the fall. The second possibility is that Illinois is trending toward less cattle feeding. This appears to be the case. As an example, five years ago, in October of 1987, Illinois feedlots had 310,000 head of cattle on feed. This fall, that number is down to 235,000 head, nearly a 25 percent drop. Even in the fall of 1988, when corn prices were high from that year's drought, Illinois had 280,000 head in feedlots.

The weight breakdowns indicate that beef supplies coming from feedlots will begin to increase somewhat into late November and December. The number of steers and heifers weighing between 900 and 1,099 pounds on October 1 were up 1.7 percent, and those weighing between 700 and 899 pounds were up 7.7 percent. This means that slaughter supplies from feedlots will begin to move higher by mid-November and continue to be higher into the first quarter of 1993. Managers have also been more willing to put calves weighing under 500 pounds in the feedlots this summer, as those numbers on October 1 were up 23 percent from last year.

Feedlot managers intend to market 1 percent fewer cattle in the fourth quarter than one year ago. Higher cow and bull slaughter will likely result in about a 1 percent increase in the total number of cattle slaughtered in the fourth quarter. Feedlot managers are expected to market cattle at lighter weights this fall, so total beef production is expected to be about unchanged from the fourth quarter of last year.

Cattle prices have been higher this summer and fall than many expected. In the third quarter, beef supplies were down only 0.4 percent, yet choice cattle prices were almost 7 percent, or about $5 per hundredweight, higher than during the summer of 1991. The higher live cattle prices, with little change in supply, resulted from two factors. First, retail beef prices were about 5 cents per pound lower this summer, and second, the marketing margin was about 10 cents per pound less. A greater percentage of the retail price got back to the cattle producer.

It is assumed that retail prices and marketing margins will remain low through the fall and continue to support choice steer prices at terminals in the $74 to $77 range. Increased marketings from feedlots after mid-November may cause a moderate drop in finished cattle prices, but prices are not likely to drop below the $74 level by the end of the year.

Futures prices are expected to increase, especially for the nearby contracts with further bull spreading (buying the nearby and selling the deferred contracts). This will cause the December futures to be a greater premium to the deferred contracts. This pattern is likely to occur throughout the fall and winter, as one contract matures the next contract must rally to meet the higher than expected cash prices. In this type of market, hedging is not advised except for animals which will soon go to market. Those needing price protection on deferred contracts should consider the purchase of put options which will leave the upside price potential in place.

Chris Hurt

Issued by Chris Hurt
Extension Economist
University of Illinois

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

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