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WEEKLY OUTLOOK

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CONTINUED LOW CATTLE PLACEMENTS SHOULD SUPPORT CATTLE PRICES

Placements of cattle into feedlots dropped again in September, continuing a string of declines that started in May of this year. These declines mean that the supply of slaughter cattle should ease somewhat late this fall, and result in stronger finished cattle prices.

The USDA's quarterly on-feed report showed that the number of cattle in feedlots in the 13 major states on October 1 was down about 5 percent from year-ago levels. Placements of cattle in feed lots during the July-September quarter were down only 1 percent, but marketings were up 2 percent.

The reduction in placements is due primarily to the large losses experienced by cattle feeders during the last six months, which at times exceeded $150 per head. The largest drop in the number placed was in Texas, where placements were down 9 percent. Placements were down about 5 percent in Illinois and Minnesota. The number of cattle placed in Iowa was up by 10 percent, reflecting the optimism about yields of the 1994 corn crop and the very low level of placements in 1993 during the flooding period.

Losses for feedlot operators have been reduced sharply by a combination of lower calf prices, lower feed costs, and some recovery in the finished cattle market. Calf prices have dropped by as much as $20 per hundredweight since spring and feeder cattle prices have declined by about $12 to $14. The large 1994 corn and soybean crops will also help to continue to moderate costs of finishing.

Breakeven prices had been in the mid-to-higher $70s for much of the summer, but with declines in calf and feed prices are near $70-$71 for cattle being marketed now. Breakevens are expected to continue to moderate into the higher $60 for winter marketings.

The final factor needed to return cattle finishing to profitability is some further recovery in finished cattle prices. This appears likely in coming months. Placements began dropping last May, which implies that some reduction in slaughter cattle marketings could be occurring by November. With reduced placements occurring from May through September, this should provide an easing in slaughter through this fall and winter.

Since the sharp drop in cattle prices last spring, retail prices of beef have dropped from about $2.90 per retail pound to around $2.78. In addition, marketing margins have dropped from nearly $1.50 per retail pound to about $1.35 per pound. The drop in retail prices has helped to encourage consumers to buy the larger beef supply, and the smaller margin means that more of the retail beef dollar is returned to the beef producer in the form of higher live cattle prices. Cattle prices have recovered from the very low $60s to the $66-$70 range currently.

The normal seasonal tendency is for live cattle prices to improve about $3 per hundredweight during the last quarter of the year, and this appears likely this year. Beef supplies are expected to be up by about 1 percent during the last quarter of this year, with prices moving upward to the $68 to $71 range by the end of the year. During the first half of 1995, beef supplies are also expected to be about 1 percent larger. Winter prices are expected to average in the $68 to $70 range. Spring highs in late March and early April are expected to reach into the very low $70s.

With the reduction in costs, and potential for finished cattle prices to increase somewhat in coming months, cattle finishers are expected to see their margins turn back to profits by early 1995. This will be a welcome sight after 15 consecutive months of losses.

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