



# WEEKLY OUTLOOK

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## **CATTLE INVENTORY ASSURES CONTINUED LARGE BEEF SUPPLIES**

The U.S. inventory of cattle and calves was up 2.2 percent on July 1, assuring that beef supplies will be large through the remainder of 1995 and in 1996. The number of cattle in feedlots in the U.S. was up almost 5 percent, again assuring a large flow of fed cattle for the rest of the year. The estimated calf crop for 1995 was also up about 2 percent, which will tend to keep calf prices under pressure this fall. The larger 1995 calf crop means that beef production will likely continue to increase into 1996.

The number of beef cows that have calved continued to rise to 37.2 million head, up 3.3 percent from year-ago levels. Beef cow numbers have been rising since 1989, but the rate of increase has been greatest in the past three years. Since 1992, the beef cow herd has grown about 8 percent. Dairy cow numbers dropped 1 percent, to 9.5 million head.

The first signs that the expansion phase of the beef cycle will come to a close also showed up in the latest inventory report. The number of heifers being retained for replacements in the beef herd is down by 3 percent. If heifers are not retained for replacement, the size of the cow herd will begin to drop as cull cows go to slaughter. The reduction in replacement heifers is a likely indicator that the calf crop will begin to drop, perhaps in 1996, or 1997. While this information is positive to prices, its impact is very long-run.

Before the calf crop begins to drop in 1996 or 1997 the heifers that will not be retained for the breeding herd will go to the slaughter market, causing further increases in beef supplies in late 1995 and early 1996. This is shown in the report by the number of heifers weighing over 500 pounds. These heifers will be available for slaughter in the last-half of 1995, and the number was up 8 percent from year-ago levels. The number of steers weighing over 500 pounds, on the other hand, were unchanged from year-ago numbers. Combining the number of steers over 500 pounds and heifers over 500 pounds which are destined for slaughter, yields about 3 percent more steers and heifers available for slaughter later this year and into early 1996.

Slaughter supplies will likely be up about 3 to 4 percent this fall and winter. This is a result of the greater number of heifers, and from an anticipation of some liquidation of the cow herd. Higher cow slaughter numbers can be expected because of the low values of calves and higher prices of some feed inputs this fall and winter.

The USDA's *Cattle on Feed* report also suggest an increased supply of beef this fall and winter. In the 13 major cattle feeding states, the number of cattle in feedlots on July 1 was up 5 percent. Placements during



the spring quarter were up 12 percent and marketings were up only 3 percent. A similar pattern is seen in the 7 major state's report, where the on-feed number is at the highest level since 1973.

Placements during April had moderated due to low fed cattle prices and a dismal price outlook. However, cattle prices did not dip as low as expected in the spring and early summer and placements surged in May and June. The latest report indicates that placements were up 17 percent in June after being 23 percent higher in May. These high placement levels will be somewhat bearish to fed cattle prices near the end of the year.

Critical to determining beef supplies will be market weights. Weights have been down 1 to 2 percent in recent weeks. Higher priced feed will likely keep weights moderate, keeping total beef supplies only 2 percent higher this fall and winter.

Another indicator from the latest round of reports is that cow-calf producers continue to concentrate calving toward the early part of the year. In 1995, it is estimated that over 73 percent of the year's calf crop will be born in the first-half of the year. Another long-term trend is the movement toward large commercial feedlots. The latest information suggests that 88 percent of the cattle on feed in the 13 major cattle feeding states are in commercial feedlots, defined as having 1,000 head or more of capacity. Farmer feedlots with less than 1,000 head of capacity contain only 12 percent of the cattle on feed in these major states.

Choice steer prices are expected to follow the seasonal trend for the remainder of the year. This means that prices will likely dip to around the \$60 mark by the end of the summer, but show some recovery into the fourth quarter, perhaps back into the middle \$60s by year-end. Calf and feeder cattle prices will continue to be pressured by large supplies and by much higher feed prices than last fall. Prices could be \$8 to \$10 lower than last fall's levels. Feed prices can still fluctuate widely, which will be a strong influence on younger cattle prices.

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