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WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture
of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

OCTOBER 23, 1995

CATTLE IN FEEDLOTS RISE WITH SURGE IN SEPTEMBER PLACEMENTS

The number of cattle in feedlots was up by nearly 2 percent on October 1 according to the latest USDA inventory report from the 13 major cattle feeding states. Placements during the summer quarter were down 1 percent, and marketings were up 3 percent. The number in feedlots was somewhat higher than expected. Most of the rise in placements apparently came in September. These numbers come from the 7-state report which provides monthly data on those key states. In July placements were down 13 percent and down again in August by 9 percent. But in September, feedlot managers decided to more aggressively place cattle into feedlots, with placements up 10 percent. This magnitude of increase was a surprise.

The states which increased the number on-feed most dramatically in September were California, Kansas, and Texas. Why did managers decide to move so many cattle into feedlots in September? First, the fed cattle market improved sharply during the month. At the start of September, fed cattle prices were near their yearly lows of $60 per hundredweight. By the end of September, prices had recovered to the mid-$60s. In a similar manner, futures prices for early next spring also recovered providing opportunities for potential hedge profits. A second important factor was the low price of calves and feeder cattle. Even though fed prices were not strong, the uncertainty of this years cattle markets was getting pushed back to lower prices of younger cattle. Finally, the extent of the limited 1995 corn crop was not fully understood in September. Cash corn prices in central Illinois, as an example were about $2.72 per bushel at the start of September. These factors convinced enough managers that cattle feeding could be profitable this year. However, those who did not lock-in feed prices may have already seen this profit potential vanish.

Nearly all of the increase in the number of cattle in feedlots is due to the increased number of females. On October 1, the number of steers compared to a year-ago was unchanged. However, the number of heifers was up by 5 percent, and the number of cows and bulls was up 39 percent. In the latter category most of the animals on-feed are cows although no breakdown is provided in the report. The increased number of females in feedlots is likely an indication that cow numbers will be dropping sometime in 1996, as fewer heifers are retained for the breeding herd and more cows are put into feedlots for weight gain rather than into the breeding pasture.

Cattle weights are also expected to continue to come in below year- previous levels given the high price of feed. Weights have been running about one to two percent lower since last June and could drop further if feed prices stay strong. Moderation on weights will help to moderate total beef supplies over the next year and also encourage somewhat higher finished cattle prices.

Prices of fed cattle are expected to continue to improve moderately over the next five months. Prices should move close to spring highs around $70 by late March of 1996. However, large supplies of pork and poultry, as well as beef will make it difficult to move much higher.

Feed prices will be a primary concern to cattle finishers. Corn prices are likely to be the strongest during this fall and winter as the market convinces users to cut-back on consumption. However, once the market can see that consumption has been curtailed enough, prices often moderate. This means that corn and feedgrain prices may be at their peak this fall and winter, but moderate somewhat by next spring, and could move sharply lower by next summer. If this price pattern occurs, cattle finishers would not want to book feed for more than the next three to five months. Many would choose to stay "hand-to-mouth" as they just buy current feeding needs.

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