



WEEKLY OUTLOOK

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GROWTH IN COW HERD HAS STOPPED AND LIQUIDATION TO BEGIN

Cow numbers have about stopped increasing, according to the USDA Cattle inventory report. After being in expansion since the late 1980's, the January cow herd is about unchanged from year-previous levels. However, beef production in 1996 will still be about three percent higher due to higher inventories of steers and heifers, weighing over 500 pounds and to an expected increase in cow and bull slaughter as liquidation begins. It will be another difficult year for the beef industry, with lower finished cattle prices, although recovery can be expected in calf and feeder cattle prices once spring pasture is available.

The report indicated that the total number of cattle and calves on January 1 was up 1 percent. While total cow numbers were nearly unchanged from last year, beef cow numbers remained up by 1 percent, while dairy cow numbers were down about 1 percent. Replacement heifers destined for cow herds were down about 5 percent, which signals a continued movement to a smaller cow herd in coming years. In the last half of 1995, heifer slaughter was very high, indicating that many producers were not replacing cows in their herds. Heifer slaughter is expected to remain above year-earlier levels at least for the first half of 1996.

The beginnings of cow liquidation started in November 1995, as cow slaughter moved sharply above year-previous levels. Returns to cow-calf operators have been dismal. Costs are in the \$70 to \$100 per hundredweight range for 500 pound calves. In the last quarter of 1995, Oklahoma City steers weighing 500-550 pounds averaged about \$64. In the Eastern Corn Belt, many steers of this weight traded in the \$50's, with heifers in the \$40's. Large losses and general discouragement are expected to cause more beef cows and bulls to be sent to slaughter. It is expected that cow and bull slaughter could be up 6 to 8 percent in 1996.

Adding to the supply problems is a large pool of steers and heifers weighing over 500 pounds on January 1 which will come to market in the first half of the year. Steers weighing over 500 pounds were up about 4 percent and heifers over 500 pounds not destined for cow replacement were up 5 percent. This large pool of calves, and added cow slaughter, will keep first half supplies larger by at least 2 to 4 percent. Another piece of data supporting larger cattle slaughter is the number of cattle in the nation's feedlots which are estimated to be up 3 percent. Beef production in 1995 was 25 billion pounds and is expected to expand to 25.8 billion pound this year, or an increase of about 3 percent. The beef industry will also face record large poultry supplies and the USDA is forecasting record large pork supplies.

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Given the anticipation of huge stocks of meat and poultry, concern arises regarding the availability of feed grains, particularly through August 1996. An additional disruption in feeding cattle this year has been the inability to graze winter wheat in the Southern Plains due to poor wheat conditions. This forced more calves into feedlots. With the green-up of grass this spring, an important feed source will become more readily available. It is expected that more calves will be backgrounded on grass, so that cattle placements into feedlots could drop sharply by April. This will provide some relief to the heavy demand for feed grains by feedlots. In addition, it remains possible that wheat will be priced at sufficiently low levels to come into rations at wheat harvest this summer, particularly on the Plains. For this to occur, however, favorable wheat yields will be needed.

Choice steer and heifer prices are expected to average \$2 to \$3 lower this year than in 1995. Choice Nebraska steers averaged \$66.25 last year, and may only average about \$64 this year. Steer prices are anticipated to average around \$66 for the first quarter of the year. If so, the spring highs in late March may only reach the high \$60s. Second quarter prices are expected to average about \$63, before moving to lows at the end of the summer in the very high \$50's. Some seasonal recovery into the low \$60s can be expected for the last quarter of 1996.

Calf prices have been under enormous pressure with the low finished cattle prices, the lack of wheat grazing, and the high feed grain prices. Price recovery can be anticipated with the green-up of grass this spring. While supplies of calves will remain abundant, the added demand for calves to go on pasture should turn around the dismal prices experienced in the past few months. If feed supplies are more abundant this fall, calf and feeder prices are expected to be \$8 to \$12 per hundredweight higher than this past fall.

Old crop feed grain stocks remain very tight, and it remains possible that another major increase in feed prices will have to occur to further cut use. Livestock feeders should have a plan to cover feeding needs if grain prices move sharply higher.

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