Cooperative Extension Service

WEEKLY OUTLOOK

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LOWER CATTLE INVENTORY FINALLY BRINGS GOOD NEWS

The cattle industry appears to have finally turned the corner toward better financial prospects. The USDA, in the mid-year cattle inventory report, revised last year's inventories lower while also reducing numbers for this year. The bottom line is that beef production will likely be down over the next 12 months and cattle prices, in general, will be on the rise.

Some of the key data from the recent mid-year *Cattle* report and *Cattle-on-Feed* reports are summarized here. The number of all cattle and calves in the country declined by .9 percent from mid-1995 levels, and stood at 112 million head. Last year's inventory was revised lower by an additional 1 percent. As a result, this year's inventory is about 2 percent lower than numbers reported last year.

The number of beef cows declined to 35.6 million head, down 1.4 percent for the year. Beef cow slaughter has been large since last November and has been of sufficient magnitude to result in a smaller cow herd. Continued liquidation through the summer and fall will result in further declines in the size of the herd. Herd size may not reach its lowest level on this cycle until near the turn of the century, at 5 to 8 percent lower.

The number of milk cows was estimated at 9.4 million, which was down 1 percent from year-previous levels. Milk cow numbers are down by about 7 percent since 1990. Liquidation has been more rapid in the past 9 months, as high feed prices were not compensated fully by higher milk prices.

The rate of retention of beef replacement heifers remained 3.5 percent below year-previous levels. Beef heifer retention first began to drop in mid-1995, and this continuation means that the beef cow herd will likely continue to decrease in 1997. The number of milk replacement heifers is down about 5 percent, indicating the milk cow herd will decrease more sharply in 1997, and perhaps be down 2 percent by January 1.

The number of calves weighing under 500 pounds dropped .3 percent, which means feeder supplies will be tighter this fall. The calf crop for 1996 was estimated at 39.8 million head, down 1.1 percent from 1995. The 1997 calf crop could be about 2 percent below that of 1996.

The number of cattle on feed has dropped sharply this spring and summer. On-feed numbers in large feedlots for the 7 major feeding states are currently down about 15 percent. This means that the number of cattle coming from feedlots will be down during the last-half of 1996, and will help keep beef supplies on the decline. Recovery in finished cattle prices and lower feed prices will likely encourage feedlots to begin to fill once again this fall. Beef production in the last-half of 1996 is expected to be down about 2 percent, and off 3 percent in the first-half of 1997.

Prices of finished cattle have moved up counter seasonally this summer from lows in the spring and are expected to continue recovering into the spring of 1997. The lowest daily prices were at the end of April and were in the mid-$50s. The market was hampered at that time by large supplies, drought induced cattle liquidations, exploding feed prices, and "mad cow" attention in the media.

Finished cattle prices are expected to continue to improve into the fall, through the winter, and into next spring when highs should reach $70 or higher once again. Feeder cattle prices and calf prices should also recover nicely from their extreme lows this spring, but much will still depend upon the price of feed grains for the upcoming crop year. Prices for 500 pound steer calves at Oklahoma City could return to the $65 to $70 range if corn prices moderate sufficiently. Eastern corn belt prices are usually $2 to $3 lower.

Another favorable factor over the next 12 months will be a return to stronger demand. This will result from the continuing recovery from the damage over the mad cow situation, as well as continued growth in export demand. A final factor that will be supportive to cattle prices is the narrowing of marketing margins. As cattle supplies tighten, marketing margins will shrink and a greater portion of consumers' expenditures will return to the cattle industry.

The drought in the southwest has not yet been broken and will continue to play a vital role in cattle price prospects over the next year. If better conditions are available for grazing winter wheat, calf prices could be sharply higher this fall, at least compared to last fall.

The cattle cycle would suggest that the industry is now on a movement toward better times. The industry will continue to struggle for profits over the next year, until the beef supply can be reduced further. The peak of prices may come around the turn of the century and profits could extend into the early years of the next century. The question for some will be whether they can "hold on" until robust profits return. Since it may be another year or so before strong profits are back in the picture for cow-calf producers, cash flow budgeting will be important to consider. For those in a strong financial position, now may be the time to consider aggressively retaining heifers, or buying cows for expansion.

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