Cooperative Extension Service

WEEKLY OUTLOOK

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LIQUIDATION WILL REDUCE BEEF SUPPLIES IN 1998

The beef market will continue higher later this year and especially into 1998 as beef production drops. However, before we can get to higher prices, large numbers of cattle in feedlots will have to move to market this summer and early fall.

The USDA's semi-annual *Cattle Inventory* report indicated that the total number of animals in the beef herd on July 1 was down about 2 percent and that the number of cows in the beef herd had dropped 2.5 percent. These numbers were very close to what analyst expected prior to the report. The declining herd is a result of cow liquidation in late 1995 and 1996 following financial losses due to cyclically high cattle production and high feed prices. Milk cow numbers were down 1 percent.

Anticipation of a small calf crop due to the harsh weather on the Northern Plains this past winter and spring did not, however, materialize. The 1997 calf crop is estimated at 38.8 million head, is down just 2 percent from last year's numbers and consistent with the reduction in cow numbers. Many had expected considerable losses from the extemely cold winter and floods in the spring, especially in the Dakotas, Montana, and Minnesota. This report suggests that the losses may have not been as large as expected, or that the area of losses was not large enough to have a major impact on the national numbers.

The number of cattle on-feed is 14 percent larger than year-ago levels. Placements in June were up 11 percent, but marketings were only up 2 percent causing a jump in the total number on-feed. The large number on feed is a result of higher fed cattle prices and much lower feed costs relative to one year-ago. The smaller marketings likely reflects a movement to heavier weights as feed prices moved down in June. Corn prices in Central Illinois, for example, moved from near $3 per bushel in early April to under $2.50 per bushel by June. Keeping cattle in the feedlots for a longer period may be the reason marketings were lower than expected.

Beef supplies are expected to be about 2 percent higher this summer compared to last summer's beef production. The movement of many cattle back to feedlots last fall and winter with the sharply lower feed prices has resulted in a continued surplus of fed cattle. However, much of that supply will be worked through by early fall, so that fourth quarter supplies are expected to be near unchanged from the same period a year-ago. With the smaller calf crops over the past two years, supplies should begin to drop into 1998 when beef production could be down about 2 percent.

Market weights will also be an important factor determining beef supplies over the next year. In 1997, even with sharply lower corn and feed grain prices, feedlots have continue to sell cattle at weights that have averaged about 15 pounds lighter than in the first-half of 1996. This is surprising given the sharply lower corn prices. Perhaps most of this impact has been as a result of feedlot managers not wanting to push extra beef on a fragile, but recovering, fed cattle market. Others argue that the movement to more moderate frame sized cattle is helping to reduce weights. Regardless of the reasons for lower weights to date, one has to consider a reversal toward higher weights for the rest of the year and into 1998. This reversal will be stimulated by lower corn prices and expectations of improving fed beef prices.

Exports of beef are also expected to improve this summer and fall. USDA expects beef exports in the last-half of 1997 to be about 14 percent higher than in the last-half of 1996.

Fed steer prices are expected to remain under pressure this summer, trading in the mid-$60s, before moving higher into the fall as supplies begin to drop. Prices should average in the higher $60s this fall and move well into the $70s in the first quarter of 1998.

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