Cooperative Extension Service

WEEKLY OUTLOOK

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CATTLE NUMBERS CONTINUE TO DROP, PRICES WILL IMPROVE

Cattle numbers continued to drop in 1997 as the impacts of high feed prices and low cattle prices in both 1995 and 1996 impacted producers. In most categories, January 1, 1998 numbers were down about 2 percent from last year. The total number of cattle and calves was down 2 percent as was the number of beef cows. Milk cows, on the other hand, were down only 1 percent. The 1997 calf crop was estimated to be down a somewhat greater amount, at 3 percent. The reduction in the calf crop being greater than the decline in the cow herd was likely related to the adverse weather conditions in the upper great plains last winter which caused a higher death rate. In general, these numbers were in line with expectations prior to the report.

The number of heifers being retained for beef cow replacements, however, was lower than anticipated. Producers said they were retaining 5 percent fewer heifers to replace the beef cow herd. This low replacement rate means that producers will not be moving toward expansion in the first-half of 1998. Further declines in the beef herd can be anticipated in the July 1, 1998 inventory update. While calf prices have recovered enough to return most operations back to at least a breakeven financial situation, there remains little enthusiasm for adding to the herd. In addition, the number of heifers being retained for dairy cow replacements was down 2 percent, indicating modest continued declines in that herd. Even with more improvement in calf prices in 1998, it is unlikely that the cow herd will begin to increase in 1998. This is because investments in a cow herd are generally viewed as long-term and producers want an extended period of profitability before they are willing to commit to expansion.

As with many livestock species, there are fewer cattle producers. The number of operations with cattle decreased by 2 percent in 1997. Since 1990, the number of farms with cattle has dropped by 12 percent. The rate of decrease is much greater in dairy than in beef. For example since 1986, the number of farms with beef cows has decreased by 13 percent, but the number with dairy cows has decreased by an astounding 54 percent. The rate of decrease in dairy farms is only exceeded by the decrease in hog farms, which have had a 60 percent decrease since 1986.

The beef herd is changing much more slowly than the dairy herd. As an example, 80 percent of the farms and ranches with beef cows are still small, having from 1 to 49 cows. These farms still produce about 30 percent of the calves. On the other hand, farms that have 100 or more cows represent only 7 percent of all cows, but produce 50 percent of the calves.

The beef cow herd is also slowly shifting away from the northeast and the corn belt into the great plains and the western states. Since 1990, as an example, the Ohio beef cow herd is down 13 percent, Illinois and Iowa are down 14 percent, and Indiana has seen numbers drop by 19 percent. On the other hand, the number of beef cows is up by 6 percent in Texas, 5 percent in both Oklahoma and Kansas, up 10 percent in Nebraska, and up by 4 percent in South Dakota. The southeast remains an important region for beef cows, with nearly 25 percent of the nation's total. This position has been stable during the 1990s. Movement away from the corn belt seems to be related to the improved returns from crop production in the past three years, better employment opportunities for family labor, environmental concerns, and a decline in the number of markets for both calves and fed cattle.

The outlook for prices is one of continuing improvement throughout 1998. Large supplies of beef are expected in the early portion of the year, as fed numbers remain relatively large and weights exceed year-earlier levels. Production for the first quarter is expected to be up 2 percent to 3 percent. Additional concerns in the early part of the year will be the record levels of pork production, the strong U.S. dollar which will stimulate more beef imports, and of course the Asian financial crisis.

By the second quarter, the number of animals coming from feedlots will decline further, with a continued reduction in female slaughter. By the second quarter, supplies should be down about 2 percent and continue to decline for much of the year. Finished cattle prices are expected to average near $67 for the first quarter, with prices moving to $70 in late March and early-April. If supplies continue to drop as expected through the summer, prices may move only modestly lower during that time period. By fall, finished cattle prices should be in the low $70s.

The small calf crop in 1997 means that supplies will be tight this spring. Further increases in price can be expected as the demand for calves to move to pasture develops early this spring. If the mild winter weather continues, the spring grass market could come earlier than normal this year. Calf prices will likely move $3 to $5 higher this spring. By fall, a smaller 1998 calf crop will be in place, finished cattle prices should be much stronger, and the Asian concerns may be reduced. Therefore, calf prices should show sharp improvement over those of last fall. The prospects for several years of tight beef supplies from the last-half of 1998 into 2001 now seems assured.

Brood cow producers should face a very positive year financially with rising calf prices throughout the year. Cattle finishers will also have prospects for considerable improvement. However, finishers will pay dearly for calves and feeder cattle. It is a year for finishers to closely manage their price risks, including consideration of hedging finished cattle and locking in a portion of feed input costs.

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