

WEEKLY OUTLOOK

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JULY 20, 1998

HIGHER CATTLE PRICES COMING OR MORE FALSE HOPE?

"Improvement in cattle prices is just around the corner!" This statement has been made many times over the past year, but maybe it will happen this time. A further decline in the size of the cattle herd means fewer calves will be coming to market this fall. The increase in slaughter weights is also expected to level off, resulting in lower beef supplies starting later this summer. Poor trade prospects, heavy cow slaughter from the weather stressed southwest, and large pork supplies will limit price enthusiasm.

The size of the cattle herd continues to decline under financial pressure, adverse weather conditions, and discouraging beef demand. The July USDA *Cattle Inventory* report showed the number of beef cows to be down nearly 2 percent from last year and down about 6 percent from the cycle peak in 1995. The number of dairy cows was down 1 percent, reflecting the long-term trend to fewer cows as productivity increases.

Not only is the beef cow herd decreasing, but larger declines can be expected in the future. The number of heifers being retained for herd replacement was down 6 percent. This means an additional decline in the number of cows can be expected in the January 1999 inventory report, perhaps in the range of 2 to 3 percent. Hot and dry weather conditions are also contributing to an increased rate of cow slaughter. Since early June, the rate of cow slaughter has increased as herds in the southwest have experienced severe feed shortage. The rate of cow slaughter will likely remain high through this summer and into the fall as depleted feed stocks reduce the ability to hold cows through the winter.

The declining number of cows also means fewer calves. The number of calves weighing under 500 pounds on July 1 was down about 2 percent, similar to the decline in the number of cows. The estimated calf crop for 1998 is 37.9 million head, down 2 percent from the crop of 1997.

In the short-run, however, cattle prices will be influenced more by the July *Cattle On Feed* report. Lower feedgrain, protein, and feeder cattle prices resulted in placements increasing by 7 percent in June in the 7 major cattle feeding states. The number of cattle on feed on both June 1 and July 1 were larger than on the same date last year, indicating a continuation of large fed cattle supplies. These supplies, in combination with elevated cow slaughter, mean abundant beef supplies this summer.

Finished cattle prices have been disappointing this year. Fed cattle prices on the Plains averaged about \$66 per live hundredweight in the last-half of 1997. With fewer cattle expected to come to market in 1998, cattle producers were optimistic as the year began. While the number slaughtered did decline by over 3 percent in the first-half of 1998, record weights resulted in a 1 percent increase in beef

production. In the second quarter, for example, carcass weights averaged 718 pounds, up more than 4 percent from the same period in 1997. The increase continues this summer. Over the past two weeks, average carcass weights have reached 730 pounds, with live weights averaging slightly over 1200 pounds.

Large pork supplies and weakening beef trade contributed to the poor cattle price performance in the first half of 1998. In the January through April period, beef exports grew by 7 percent over the previous year, but imports expanded by 13 percent. In addition, the number of feeder cattle imported from Mexico and finished cattle imported from Canada increased by an average of 6 percent.

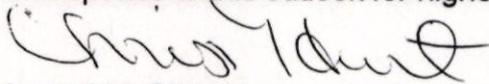
Last year, an abundance of cattle kept prices low. This year it has been heavy weights. The direction of weights will be an important determinant of cattle prices in the next year. At mid-summer, declining feed prices and prospects for some improvement in finished cattle prices encourage the continuation of heavy weights. However, by this fall and winter, recovery in finished cattle prices may encourage feedlot managers to keep cattle more current. In the first-half of 1999, weights may be about unchanged from the record weights in 1998.

The number of cattle available for slaughter will drop by 2 to 3 percent over the next year. Even with higher weights this summer and fall, total beef supplies should finally begin to decline in comparison with year-ago numbers. Beef supplies will be down 1 to 2 percent over the next year, providing for price recovery.

Finished cattle prices are thought to be near their yearly lows at the current time. Recovery can be expected over the rest of the year. Summer prices for finished steers on the Plains are expected to average about \$63 in the third quarter and near \$67 in the fourth quarter. Some daily highs could reach into the higher \$60s near the end of the year. Prospects for 1999 are for prices to average near \$66 in the first quarter, and about \$1 less in the spring quarter.

Recovery in calf and feeder cattle prices can also be expected under the current economic environment of improving fed cattle prices, low feed prices, and low interest rates. From current levels, calf prices are expected to increase by \$7 to \$10 and feeder cattle by \$5 to \$7 per hundredweight into the fall.

In response to this outlook for higher cattle prices, some will say, "I've heard that before!"



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