



# WEEKLY OUTLOOK



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## **RECORD CATTLE PRICES, BUT DROUGHT A THREAT**

The nation's beef cow herd has been on the decline since 1996, but there are signs that the industry may begin to shift to expansion later this year or in 2001. On the other hand, the number of dairy cows has already increased modestly as a result of record milk prices and profits in 1998 and early 1999. Beef supplies will drop modestly in the first-half of the year and sharply in the last-half of the year. With favorable demand due to a strong U.S. economy, fed cattle prices will likely average near-to-somewhat-above \$70 for choice steers this year. Feeder cattle and calf prices will also be very strong, perhaps at record highs by late in the year.

The number of cattle and calves on January 1, 2000 was estimated at 98 million in the USDA's January *Cattle Inventory* report, down 1 percent from last year's inventory. Beef cow numbers were down about 1 percent, while milk cow numbers were up 1 percent. Since the peak numbers on this cycle in 1996, the beef cow inventory is down 5 percent. The number of beef heifers being retained to return to herds was unchanged from year-previous levels. This means that producers have not yet shifted into an expansion mode, but can likely maintain the size of the herd this year. On-feed numbers currently show 11 percent more heifers in feedlots (7 states) in comparison to only 6 percent more steer calves. Apparently, producers have been more anxious to collect the high values for feeder heifers as opposed to retaining them for expansion.

The 1999 calf crop was estimated at 38.7 million head, only modestly smaller than the 1998 calf crop. Contributing to a somewhat larger than expected calf crop was the expansion in milk cows.

The number of steers and heifers available for slaughter in the first-half of 2000 is down about 2 percent, and cow slaughter is expected to remain low, so that first-half beef production is expected to be down a similar amount. Smaller supplies are expected in the second quarter relative to the first quarter. Beef supplies will drop by greater amounts in the last-half of the year. The number of calves weighing under 500 pounds that will compose the last half of the year slaughter is down 3 percent. Two additional factors are expected to contribute to even greater production declines – low cow slaughter and the possible beginning of heifer retention for expansion of the beef cow herd.

Several factors may still alter the start of the beef cow expansion. The first is the question of when producers will have sufficient incentive to begin retention. Brood cow operations had favorable returns in 1999, but 1998 returns were modest. Has there been a long enough period of profits to convince producers that there will be on-going profits? A second important factor is feed prices and interest rates. Low priced feed over the past two years has been bid into higher prices for calves and feeder cattle. Higher feed prices in 2000 would ease feeder prices and reduce incentives to expand. Interest rates are higher than last year and will likely move higher in 2000, further pressuring feeder cattle prices. Finally, the question of drought remains in the minds of producers from the East to the Southern Plains. Continuation of drought conditions into the summer would result in continued liquidation of cattle and calves.

Demand is also expected to be favorable in 2000, led by continued growth of incomes in the U.S. and favorable consumption tendencies due to the popularity of the high protein diet. On the negative side, however, will be weaker exports and more imports as a result of smaller U.S. supplies and higher prices.

Fed cattle prices are expected to remain in the very high \$60s in February, but move into the lower \$70s by early spring. The normal seasonal decline in fed cattle prices in the summer is expected to be modest this year as supplies continue to move downward. Prices could return to the very high \$60 for periods this summer. Late summer prices are expected to move back above \$70, with the last-quarter of 2000 finding prices in the \$70 to \$74 range. An exception to this price pattern could be as a result of continued dryness in the center portion of the country which would stimulate more liquidation and marketing of feedlot cattle at lower weights as feed prices rise. For the year, fed cattle prices are expected to average \$68 to \$73 per hundredweight.

Calf and feeder cattle prices will be sensitive to the potential for higher feed prices and higher interest rates. While fed prices are going to be stronger, this may not necessarily lead to higher calf and feeder prices. Calf and feeder cattle are expected to remain near late-1999 prices in the first-half of 2000. If a normal crop develops next summer and fed cattle prices rise as expected, calf and feeder cattle prices will likely move to record high levels in late 2000.

The cattle industry is set for what may be a record high price year. However, the industry may be vulnerable to drought conditions and to higher interest rates. Of these two, higher feed prices will be most damaging to the profit potential. Producers should have pricing strategies in mind to protect against higher feed prices.

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