



WEEKLY OUTLOOK



A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

JULY 24, 2000

CATTLE INDUSTRY: REPORT COOLS THE BULLS

The USDA's July *Cattle Inventory* report indicated that total cow numbers have continued to decline, but at a slow rate. Large numbers of cattle in feedlots, low grain prices, and a surprisingly large calf crop in 2000 all suggest that beef supplies will not be as small as previously thought and that cattle prices will not be as high over the next year. In addition, the red-hot beef demand seems to have moderated.

The total number of cows on July 1 was down a very modest 0.2 percent. The number of beef cows, at nearly 34 million head, was down .6 percent from year-ago numbers, but dairy cow numbers grew slightly over 1 percent.

The number of beef replacement heifers was down by 2 percent. This indicates that beef producers are still not inclined to increase the herd size. A larger portion of beef heifers have headed to the feedlot, as producers have chosen to sell high priced heifer calves rather than retain them for breeding. The beef cow herd has been in decline for 5 years. The total decline since 1995 has been 6 percent. Beef cow numbers are expected to begin to increase in 2001 as the next production cycle begins. This means that some additional heifer retention will begin either this fall or next spring.

It now appears that beef supplies for the year 2000 will actually rise rather than fall as most felt earlier in the year. At the beginning of this year, first-half beef supplies were expected to be down 4 to 5 percent. Now those supplies are expected to increase 0.5 percent. Total beef supplies are expected to be down about 2 percent in the last-half of this year, and down 3 to 4 percent for the first-half of 2001. These declines are based on the anticipation of a continued slowing of cow slaughter and a slower movement of calves through feedlots.

Prices during most of 1999 and the first-half of 2000 were stimulated by improved demand which allowed prices to move higher even though supplies were also higher. For example, in the third quarter of 1999, beef supplies were up by 3 percent and steer prices were up by more than 10 percent. This continued through the second quarter of 2000, but some of the demand magic faded this summer. My estimate is for beef supplies to **decline** by 2.5 percent, and for prices to be up 5 percent this summer. This more normal demand relationship is expected to persist.

Finished cattle prices should begin to recover toward the higher \$60s in late summer. Current price estimates are for Nebraska choice steers to average about \$68 for the third quarter. Further strength can be expected for the fourth quarter, with prices averaging near \$70. Smaller supplies will enhance prices in the first-half of 2001 with the first quarter average estimated near \$71 and the second quarter averaging near \$72. Daily highs in late March and April could reach the mid-\$70s. If demand were to be as strong as it was in 1999, prices of Nebraska choice steers could reach \$80. For now, those lofty prices appear to be out of reach, but remain a possibility if demand should be favorable.

How strong will calf prices be this fall? Supplies will be only slightly smaller than the fall of 1999. Corn prices will likely be modestly lower, but interest rates are sharply higher. This means that fall calf prices will not be substantially different that last fall when Oklahoma City 500 to 550 pound steers averaged \$93 per hundredweight. Prices are expected to be about \$3 higher this fall, averaging \$96 per hundredweight. Prices in Southern Illinois and Indiana tend to be \$3 to \$4 lower than these prices. Some added strength can be expected for eastern Corn Belt calf prices in the winter and next spring with winter prices in the higher \$90s and spring prices once more topping \$1 a pound.

Feeder cattle prices will be driven by the strength of fed cattle prices as well as by feed prices and interest rates. Prices of 750 to 800 pound steers this fall at Oklahoma City are expected to average about \$84, the same as last fall. Prices are expected to drop a couple of dollars in the winter and then return to the \$84 level in the spring. In general, these price levels are not as high as the feeder cattle futures market has recently been anticipating.

Profits from brood cow operations will be outstanding over the next 12 months. Prices for this year's calf crop are the best since 1993, and 2001 calf prices should also be very high. In general, cattle prices are expected to rise over the next 12 months, so this favors adding more weight to calves, especially with low grain prices and abundant forage supplies this fall. Retained ownership should also be considered if facilities, feed, and labor are available. Cattle feeding margins will be thinned by high priced feeder cattle and high interest rates.

Issued by Chris Hurt
Extension Economist
Purdue University

U of I Extension Newsletter Service
University of Illinois
at Urbana Champaign
1917 South Wright Street
Champaign IL 61820