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CATTLE PRICES WILL CONTINUE TO MOVE UPWARD

Even with a less than bullish October *Cattle On Feed* report, finished cattle prices are expected to continue to increase this fall and into next spring. The October report indicated that the number of cattle in feedlots was 7 percent above last year's level, which indicates that beef supplies will remain at, or slightly above, year-ago levels for the rest of this year. After months of large losses, it was anticipated that cattle finishers would place considerably fewer cattle into feedlots during the month of September. In addition, improvement in some pastures was expected to result in more calves retained on grass rather than moved to feedlots. Placements were down by 3 percent, not nearly as much as was anticipated. Marketings, on the other hand, were up 2 percent, which was larger than pre-report guesses.

In terms of gender, the number of steer calves on-feed was up 6 percent from last year, but heifer calves were up 9 percent. The higher percentage increase in heifer calves continues to provide evidence that brood cow producers are not yet expanding the cow herd through heifer retention, but rather are selling them to backgrounders or feeders.

There was some regional difference in September placements. Western states such as California, Colorado, and Arizona all had sharp increases. However, some of the Plains states such as Iowa, Kansas, and Nebraska had declining placements. Improved pasture conditions in the central portion of the country have likely caused more calves be retained on pasture rather than moved to feedlots.

One of the most important points to glean from the report was that placements of heavier weight cattle were off sharply. For example, the number of cattle weighing 800 pounds or more was down 24 percent from September of 1999, and those weighing 700 to 799 pounds was down 10 percent from last year. This is a strong indication that there are sharply fewer yearling cattle available for feedlot placement. The reduced number is because many of those animals were already placed in feedlots earlier in the year at lighter weights. The lack of heavy weight placements means somewhat smaller supplies of fed cattle in the first-quarter of 2001.

The number of cattle headed to slaughter began to drop in August, but weights have remained the thorn in the side of even higher cattle prices. Weights crept higher through late summer and into this fall. The average liveweight was about 1210 pounds in mid-summer, but has moved up to 1,235 pounds this fall. Increasing weights are often a sign that cattle marketings have been delayed. The cleaning-up of front-end supplies will be necessary for further price improvement. The small number of placements in the 800 pound plus range is an indication that the large supplies of heavyweight cattle could be cleared up by the end of the year.

Beef supplies in October have been running about 1 percent above year-previous levels, with choice steer prices about \$2 lower. Assuming supplies are near unchanged for the final quarter, choice steer prices should strengthen to near \$70 by the end of the year. With some reduction in first quarter supplies, prices would be expected to move to an average in the very low \$70 for the quarter, with late March and April spring highs perhaps reaching the \$75 to \$77 level.

Talk of the potential for \$80 cattle next spring is premature. On-feed numbers and placements of young cattle that will come to market next spring remain high. In addition, moderate priced feed will continue to stimulate heavy weights through this winter and next spring and pork supplies are expected to begin expanding by the second quarter of 2001.

The possibility of reaching the \$80 level next spring would be greatly enhanced if brood cow operators begin to retain heifers for the expansion of the herd. The cattle on-feed report suggests that heifers are headed to the feedlot rather than to the breeding lot. However, by this winter, improvement in pastures and in calf prices could move producers toward a modest expansion.

Strengthening fed cattle prices will likely result in higher prices for feeder cattle and calves over the next six months. The three factors that would seem to have the highest odds of derailing higher calf prices would be: stronger than expected feed prices, higher interest rates, and a less confident consumer due to slowing economic growth.

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