



WEEKLY OUTLOOK



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CATTLE INDUSTRY CELEBRATES WHILE LOOKING OVER THEIR SHOULDER

The cattle industry may spend much of the year celebrating the highest prices since 1990, led by shrinking supplies and favorable demand. However, two issues lurking in the shadows could derail the party. These are the slowdown in the general economy and media attention being given to mad cow disease in Europe and questions of whether it could happen here.

Total cattle inventory on January 1 was down 1 percent from last year and down 6 percent from 1996 when the liquidation phase of the current cycle began. Beef cow numbers dropped 0.5 percent, while milk cow numbers were unchanged. There are indications that beef producers are now ready to shift into expansion. The number of beef heifers being retained to return to the cow herd was up 1.5 percent and milk replacement heifers were up 1.2 percent.

The number of steers and heifers weighing over 500 pounds was down 1 percent, which means a smaller number of cattle coming out of feedlots in the first-half of the year. The number of calves weighing less than 500 pounds, which will supply last-half slaughter, was down 3.5 percent. Added to a smaller steer and heifer slaughter will be a 3 percent reduction in cow and bull slaughter.

Beef cow numbers continued to decline in the eastern corn belt. Indiana and Michigan saw numbers drop by 11 percent, Illinois by 6 percent, and Ohio by 2 percent. Only Wisconsin had an increase (5 percent). An increase in milk cow numbers occurred in Indiana (9 percent) and in Ohio (3 percent). Both of these states had new investments in large scale milk production in 2000. Milk cow numbers in Michigan were unchanged, while those in Illinois and Wisconsin were down 2 percent.

Commercial beef production is expected to drop by 3.5 percent in 2001, to 25.8 billion pounds. First-half supplies are expected to be down 3 percent, with second-half supplies down 4 percent. Market weights will be critical to final supplies. Last year cheap feed and rising cattle prices encouraged weights to move up by 1.4 percent. However, since early December, weights have been down about 0.5 percent. This is thought to be a result of cold weather in December and high cattle prices in January, which have encouraged feedlot managers to move cattle to market somewhat earlier. Lighter weights contributed to higher than expected prices in December and January.

For 2000, Nebraska finished steer prices averaged \$69.65, an increase of 6 percent with supplies up 1.5 percent. An increase in price when supplies are also larger is generally considered to reflect increasing demand. The same was true in 1999, when prices were up 7 percent with supplies up 3 percent. If demand continues to improve this year, it is hard to imagine how high cattle prices could be.

Prices of finished steers are expected to average in the very high \$70s for the first quarter of 2001. Early spring highs could reach the lower \$80s. Prices are expected to drop from early April, reaching the lower \$70 by the end of summer. Prices are expected to recover in the fall and average in the \$75 to \$79 range for the last quarter of the year.

Steer calves at Oklahoma City weighing 500 to 550 pounds averaged \$1.02 per pound in 2000 and are expected to be about \$.04 a pound higher this year. Feeder steers weighing 750 to 800 pounds averaged \$.86 per pound last year and should be \$.03 to \$.04 higher this year. Prices in the eastern corn belt tend to be \$.03 to \$.05 lower.

Cow/calf enterprises have been profitable since 1997 and should be again this year. Expansion can be expected and retained heifers will draw down slaughter supplies and keep prices strong. One threat to high priced cattle is the slowing general economy. My current estimates suggest that each 1 percent growth in the economy relates to \$1 higher cattle prices. If the economy were to slow down to a zero-to-one percent growth, this could reduce cattle prices by \$2 to \$4. The counter argument is that the economy already slowed in December and January, yet cattle prices were higher. The impact on consumer demand likely lags the slowing economy somewhat, especially as higher energy costs are just being realized by many households.

The other major concern is media attention being given to mad cow disease in Europe and whether it can happen in the U.S. Even without an outbreak, media attention could dilute the heightened demand for beef. The industry is justified in working closely with the FDA and USDA in monitoring and regulation.

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