



UNIVERSITY OF ILLINOIS  
EXTENSION



# WEEKLY OUTLOOK



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## **DECLINING BEEF HERD MEANS CONTINUED STRONG PRICES**

High calf prices and robust profitability have not stimulated beef cow producers to initiate a breeding herd expansion, according to USDA's July *Cattle* report. The number of beef cows decreased slightly this year, continuing a slow liquidation, and now stand at the lowest level since 1995. Numbers are not likely to begin growing anytime soon, as the number of heifers being retained for the cow herd is down 2 percent. The calf crop and total beef production will continue to drop this year and through 2002. Current USDA projections are for per capita beef supplies to drop 4 percent this year and an additional 4 percent next year. At 64 pounds per person, beef supplies will be at the lowest level since the 1960s.

Beef cow producers have been more willing to send cows to slaughter than to retain heifers for herd replacement. In the first-half of 2001, cow slaughter was a surprising 6 percent higher than during the same period last year. The large cow slaughter partially offset a nearly 6 percent reduction in the number of steers and heifers slaughtered during the first-half of the year. With lighter weights, beef production in the first-half of the year was down 5 percent and fed cattle prices averaged a bit over \$77.

The number of milk cows at mid-year was down about 1 percent and the number of milk replacement heifers was down 3 percent. The milk cow herd will be dropping again in 2002 and will provide an even smaller supply of feeder steers.

While the long term price outlook remains very positive, the number of cattle placed on-feed during June was up a surprising 18 percent. With marketings down 2 percent, there were 6 percent more cattle in feedlots than on July 1 last year. With low-priced grain, there has been a tendency for calves to be placed in feedlots at lighter weights. However, June placements showed increases in all weight categories. For example, placements were up 8 percent for calves weighing over 800 pounds and up 21 percent for calves weighing less than 600 pounds. The increased placements of heavy cattle into feedlots will keep fall supplies somewhat higher than had been expected.

The harsh weather last winter was expected to reduce the size of the 2001 calf crop. However, that crop is now estimated at 38.4 million head, down only about 1 percent from the crop of 2000. The decrease in the calf crop is almost identical to the decrease in the cow herd, indicating no excessive calf losses during the early months of 2001.

Beef supplies will remain below year previous levels through 2002, declining by 2-3 percent this fall and continuing that rate of decline through next summer. At some point in the next 18 months, beef cow producers are likely to make a shift toward expansion. The result will be a reduction in the current high rate of cow slaughter and a greater heifer retention which will rapidly reduce slaughter supplies. At that time, prices are likely to reach the highest level on this cycle.

After reaching lows in the very low \$70's, finished cattle prices should begin to recover toward the mid-\$70's by late summer and fall. Fall prices are expected to average in the mid to higher \$70s. Prices could top the \$80 mark on some days in March and early April. Average prices in the winter and spring are expected to be in the higher \$70's.

With low grain prices, low interest rates, tight supplies of calves, and prospects for improving finished cattle prices, calf and feeder cattle prices can be expected to remain very strong this fall. Last fall, 500 to 550 pound steer calves at Oklahoma City averaged \$98 per hundredweight. If the corn and soybean crops develop normally this summer, calf prices will likely average around \$1.00 to \$1.03 per pound this fall. In the fall of 2000, 750 to 800 pound feeders steers at Oklahoma City averaged nearly \$89 per hundred weight. Prices may be in the higher \$80s to low \$90s this fall. Generally, eastern corn belt calves and feeder cattle are \$3 to \$5 lower than Oklahoma City.

When will cattle producers turn towards expansion? At this point they remain very cautious. Beef demand trended downward from the mid 1970s until the late 1990s. Additional concerns have been related to the devastating impacts that mad cow disease in Europe has had on beef demand there. Even Asian customers have reduced beef consumption as a result of concerns over European disease problems. Media attention given to foot and mouth disease has also kept producers cautious about expanding. However, beef demand has seemingly been improving since 1998 and it is likely that the U.S. economy will show more rapid recovery and growth in late 2001 and 2002. All of this adds up to the possibility of very high cattle prices in 2002 that will provide the stimulus for expansion.

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