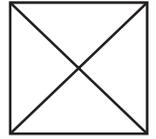


WEEKLY OUTLOOK



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SMALLER BEEF CATTLE HERD AND DECLINING SUPPLIES THROUGH 2002

Beef cow inventories continue to slip. In the January *Cattle Inventory* report from USDA, beef cow numbers dropped to 33.1 million head, a decline of 1 percent during the last year. Beef cow numbers are now the lowest since 1989, and have dropped by more than 6 percent since 1996. Also reported was a decline of 1 percent in milk cow numbers, to 9.1 million head.

The continued decline in beef cow numbers was largely a result of lingering drought conditions for much of the western regions of the country. The largest decline in cow numbers, about 2.4 percent, came in western states. Northern and central plains states averaged a decline of about 2.3 percent. In the eastern corn belt, beef cow numbers were down about 1 percent, near the national average, led by declines of 14 percent in Michigan, 2 percent in Illinois, and 1 percent in Indiana. Rounding out the eastern corn belt were increases of 2 percent in both Wisconsin and Ohio.

Some signals that beef cow owners may soon begin to think about expansion came from the report. The number of beef heifers being retained for herd replacements was down only 0.5 percent. In the previous report from July 2001, the retention rate had been down 2 percent. This is at least an indication that producers may not let the herd fall much lower before rebuilding begins.

The question of beef herd rebuilding will be strongly influenced by the level of calf prices and the longer-run outlook for cattle prices. Both of these tumbled after September 11, and with the discovery of BSE in Japanese cattle in late September. In the final quarter of 2001, the price of Oklahoma City steer calves weighing 500-550 pounds dropped to an average of \$.98 per pound, compared to \$1.06 for the first three quarters of 2001. A recovering U.S. economy, and some restoration of the travel business will be necessary to improve beef demand in the coming year. Therefore, it is not likely that herd expansion will begin in earnest until at least the last-half of 2002.

In contrast to the dairy herd and the swine industry, the beef herd is not undergoing a structural revolution in size or location. Instead, the beef cow sector is in a relatively slow change. As an example, the average size of beef herd is currently at 41.3 cows. This compares with an average size of 35.6 in 1990. At the current trend, the average size of herd will reach only 44 cows by 2010.

Small herds are still vitally important to the beef industry. Beef cow operations with less than 100 cows still represent 48 percent of the total inventory, In fact herds with less than 50 cows are a sizeable 29 percent of the total inventory. There is some movement toward larger herds, with 15 percent of the inventory in herds of 500 or more cows, but there is still a reasonably slow expansion of this size group. At current trends, there will be about 44 percent of the cows on farms and ranches with less than 100 cows and 56 percent on operations with over 100 cows by 2010. These projections suggest that the structure of the beef cow industry will change slowly, providing most current operators an opportunity to adjust, unlike the changes in the swine industry of the 1990's.

Slaughter for the first-half of the year will be drawn from steers weighing over 500 pounds and non-replacement heifers weighing over 500 pounds on January 1. The combination of these two classes are up 1 percent. Record high marketing weights will continue to add to the supply problem, at least for the first quarter of 2002. With higher weights, first quarter beef supplies will likely be up 3 to 4 percent. Moderation in weights and declining feedlot supplies in the first quarter are expected to result in beef supplies being unchanged to down slightly in the second quarter.

The number of calves weighing under 500 pounds on January 1 will provide the pool of finished cattle for the second-half of 2002. Those numbers are down 2.7 percent, suggesting that slaughter will continue to erode as the year progresses. Third quarter beef supplies are expected to be down 2 to 3 percent. Beef supplies should drop even further in the final quarter. Not only will fed-slaughter supplies be down, but weights will also likely drop, and the increase in heifer retention could further reduce supplies. Beef supplies are expected to drop by 4 to 7 percent at that time.

Beef prices are expected to be in recovery this winter and spring. Finished cattle prices should continue to move higher into the spring reaching, the mid-to-higher \$70s by late-March or early April. The normal seasonal price drop from April to the end of the summer is expected to be mild, or even non-existent, if beef demand continues to recover and supplies drop as anticipated. Fall prices are also expected to be strong with the potential for daily highs by the end of the year in the lower \$80s, especially if heifer retention begins.

Calf prices are expected to recover along with finished cattle as the year progresses. Factors that could help strengthen calf prices include a 1 percent smaller 2002 calf crop and a \$3 to \$4 increase from 2001 in finished cattle prices. Negative price factors may include higher interest rates and the potential for continued drought in the west, which would force more cows to market. With expected heifer retention in 2003 and 2004, calf prices should remain strong, and profitable, into the middle portion of the decade.

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