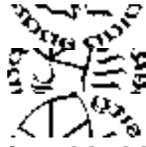
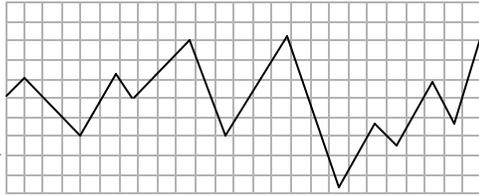




UNIVERSITY OF ILLINOIS
EXTENSION



JULY 22, 2002



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.

CATTLE MARKETS FACE PERILS, BUT SLOW RECOVERY EXPECTED

Finished cattle prices are expected to make a slow recovery in the last-half of 2002, following a disappointing performance since late 2001. On the other hand, feeder cattle are expected to experience little price increase as a larger calf crop and higher feed prices offset the potential modest gains in finished cattle prices. Calf prices are also expected to struggle, with this fall's prices being nearly \$10 per hundredweight below prices in the fall of 2001.

In the July *Cattle* report, the USDA reported that the total number of cattle and calves in the country was down only .6 percent. Even with much lower calf prices and drought conditions in much of the plains and mountain states, the total number of cows is down only fractionally and the anticipated calf crop this year is actually up by .3 percent. Beef cow numbers on July 1 were down .4 percent, but milk cow numbers were up .5 percent.

Milk producers indicated that they intend to expand the herd even more as the number of milk replacement heifers is up 2.8 percent. This reaction, especially among small and moderate sized producers, reflects the strong profits last year and, perhaps, the new government milk price supports. Beef producers, on the other hand, intend to keep the size of the breeding herd about the same as beef replacement heifer numbers were unchanged from last year at this time.

Beef production for 2002 is now expected to reach 26.6 billion pounds, a 2 percent increase from last year. The slaughter rate may finally taper off a bit in the final quarter of this year, as the number of market steers and heifers weighing over 500 pounds on July 1 was down about 2 percent.

High marketing weights have plagued the cattle market since last fall, and will be an important factor in price determination in the coming year. As an example, in the first-half of this year the number of cattle marketed was unchanged, but higher weights added 3.6 percent to the total beef supply. Low priced feed and unfulfilled hopes for a recovery in finished cattle prices seem to be the explanation. It is anticipated that weights will remain about 1 to 2 percent higher this summer, but then drop back closer to unchanged for the fall and winter as a result of sharply higher feed prices.

Some recovery in finished cattle prices is expected this fall. Nebraska 1100-1300 pound choice steers averaged only \$65.58 in the second quarter of 2002. The price is expected to improve only about \$1 for a summer average, with prices finally increasing in September. The fall quarter is expected to see prices recover into the higher \$60s. Some further modest recover can be expected into the first-half of 2003, with prices averaging near \$70 in the first quarter and in the

STATE • COUNTY • LOCAL GROUPS • U.S. DEPARTMENT OF AGRICULTURE COOPERATING

extremely low \$70s in the second quarter. Given normal seasonal price tendencies, this would mean that prices in late March or early April could reach the low-to-mid \$70s for some daily highs.

Feeder cattle prices are expected to be well below their previous year levels over the coming 12 months. Lower prices will be a result of a modestly larger 2002 calf crop, the sluggish recovery in finished cattle prices, and higher feed and forage prices. Prices for Oklahoma City steers weighing in the 750 to 800 pound range are expected to average in the low \$80 per hundredweight this summer, but drop to the very high \$70s for the fall. During the first-half of 2003, prices are expected to be in the mid-to-higher \$70s. Prices for the next 12 months are expected to be about \$5 per hundredweight lower than in the previous 12 months.

Lower priced feeder cattle will also likely result in lower priced calves over the next year. Prices for Oklahoma City 500 to 550 pound steers, as an example, are expected to be in the low \$90 per hundredweight this summer, but drop to the higher \$80s in the fall. Prices during the first-half of 2003 are expected to be in the lower \$90s. As an example of the changed price prospects for brood cow producers, these calves averaged \$98 per hundredweight last fall, but are expected to be only \$88 this fall. Prices for the next 12 months are expected to be about \$9 per hundredweight lower, on average, than in the previous 12 months. Prices for eastern corn belt calves at auction markets tend to be \$3 to \$5 lower than Oklahoma City.

The cattle industry has multiple concerns. Grain and protein prices are going to be sharply higher this fall, with the precise magnitude to be highly influenced by weather in the next several weeks. Poor pasture conditions and lack of forage crops in the western plains and mountain states may also result in further liquidation of cows and movement of calves to market more quickly than planned. In addition, there remains uncertainty about how consumers will respond to the decline in stock values. If they begin to watch their food budgets more closely, beef demand will be among the first to suffer.

Issued by Chris Hurt
Extension Economist
Purdue University