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WEEKLY OUTLOOK

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RECOVERING CATTLE PRICES BRIGHTEN OUTLOOK

Cattle price prospects are shining a bit brighter after the USDA's September *Cattle on Feed* report which indicated that the number of cattle in feedlots was down 6 percent on October 1. After a year of larger cattle slaughter and heavy weights, some moderation in slaughter runs can be anticipated by early 2003. Monthly cattle on feed numbers have been 5 percent to 7 percent below year-earlier levels since July. This means that supplies of slaughter cattle will likely begin to drop in early 2003 and will continue to be smaller through next year.

Prior to the report, there was an anticipation that the number of cattle placed in September would be up by 11 percent. However, placements were only up 2 percent. In addition, September marketings, at 2 percent higher than last year, were greater than pre-report anticipations. Other encouraging information from the report was that placements of heavy weight cattle were down. As an example, September placements of 800 pound and heavier cattle were down 16 percent, indicating a potential gap in fed supplies in the first quarter of 2003.

The number on feed is lower in areas more severely impacted by drought and higher in areas with normal or high corn yields. Drought impact states with fewer cattle on feed include Idaho, Kansas, Oklahoma, and Texas. Iowa, with an excellent corn crop, has more cattle on feed.

So far this year beef production has been up 3.8 percent. This is composed of about 1 percent more marketings and nearly 3 percent greater weights. In the third quarter, total production was up by 5.6 percent, with the head count up about 3.1 percent and weights up by 2.5 percent. In the third quarter, dairy cow slaughter was up about 11 percent, indicating a relatively quick reaction by the dairy industry to rising feed prices and low milk prices. This means that dairy cow numbers will likely be down a few percentage points in the January inventory report. Beef cow slaughter was up only 1 percent in the summer as cows from drought areas in the western plains and mountain states were primarily moved further east to pasture rather than heading to slaughter.

Weights remain the thorn in the side of the industry. After September 11, 2001 the rapid drop in finished cattle prices caused feedlot managers to withhold cattle in the first seven weeks after the event. By the end of 2001, weights had risen by about 3 percent and continued to rise into March 2002, when they were up 5 percent. During the coming year, weights are expected to moderate due to higher feed prices and higher fed cattle prices. However, weights may not come down to year-earlier levels until next spring.

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With the large beef supplies this year, prices have been disappointing. In the first three quarters of 2002, prices for Nebraska choice steers averaged \$66.35 per hundredweight, compared with \$74.83 for the first three quarters of 2001. Prices have dropped about 3 percent for each 1 percent increase in beef supplies, a large reaction of prices to changes in supply.

Live cattle futures prices are currently several dollars above cash prices. This report will provide incentives for futures to move even higher and cash prices are likely to follow, at least in the short-run. Finished cattle prices should push into the higher \$60s in November and perhaps to near \$70 by the end of the year. Further strength is now expected early in 2003, as beef production finally begins to decline. Prices are expected to reach the mid-\$70s by late March or early April. Supplies are expected to remain about 2 percent to 3 percent below year earlier levels for the remainder of 2003 with prices continuing to average in the low to mid-\$70s in the summer.

For the year of 2003, beef supplies are expected to drop by about 3 percent, pork supplies are expected to be down by 2 percent, and total poultry supplies may rise by less than 2 percent. As a result, 2003 appears to be a year of recovering prices and much better profit prospects for livestock producers.

The depressed live cattle market and higher feed costs also took a toll on feeder and calf prices. In the first three quarters of 2002, 750 to 800 pound feeder steers at Oklahoma City averaged only \$79, a full \$10 below the average in the same period in 2001. For calves, the decline was even more severe. The price of 500 to 550 pound steer calves averaged \$94 per hundredweight, \$12 below the average in the same period in 2001. Improved finished cattle prices are expected to be supportive to feeder cattle prices, averaging in the low \$80s in the last quarter of 2002 in Oklahoma City, and improving to the mid-to-higher \$80s by spring. Steer calf prices are expected to average in the higher \$90s in late 2002, before moving up to the \$103 to \$105 range in the spring at Oklahoma City. Prices in the Eastern Corn Belt tend to be about \$3 to \$5 below Oklahoma City.

By the fall of 2003, strong finished cattle prices and the potential for moderating feed costs point to even stronger calf and feeder prices. Maintaining brood cow numbers, or even moderate expansion, seems to be the most favorable management strategy.

Issued by Chris Hurt
Extension Economist
Purdue University