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WEEKLY OUTLOOK

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CATTLE PRICES PEAK FOR NOW

Cattle prices above $80 were as welcome as the warm spring temperatures, but will be short-lived. Seasonal price declines will push cattle prices lower through the summer. Still, fed cattle prices are expected to remain well above last year prices, which averaged near $67 per live hundredweight. For 2003, the USDA projects the average price at $76.

In the first quarter of 2003, prices got off to a good start with finished cattle averaging $78 and highs over $80 in February and again in early April. For the quarter, beef supplies were down only 1 percent, yet prices were 11 percent higher. Contributing to a smaller beef supply has been limited numbers of cattle in feedlots and lighter marketing weights as managers "pulled" cattle forward in response to high fed cattle prices.

The primary reason for smaller beef production is the declining size of the cattle inventory. Beef cow numbers are in a seven year decline as a result of poor returns for brood cow operations in the early portion of that period and to drought conditions in much of the Plains and Western U.S. during the past four years which have limited forage availability.

The liquidation of cows has been active so far this year. In the first quarter, cow slaughter was up 9 percent from the same period last year. This included both beef cows (up 4 percent), and especially milk cows (up 14 percent). If it had not been for the large cow slaughter, beef production in the first quarter would have been down another 2 percent, with even higher prices.

What will happen to cow slaughter during the remained of the year? The key to beef cow slaughter will be range conditions and forage supplies on the Plains and in the Western U.S. Current forecasts are for improving moisture conditions for much of the Plains through July. Portions of the Rocky Mountain States however, may see only modest or no improvement. If this forecast holds, a substantial slow down in the beef cow slaughter should occur this summer.

The high rate of milk cow slaughter is related to low milk prices, increased feed prices, and large losses. Current projections from USDA are for milk prices to remain depressed through the summer, before some recovery in the fall. Also, a favorable growing season this summer will lower feed prices and encourage the high rate of milk cow slaughter to abate by this fall. Slowing beef and milk cow slaughter should ease total beef production further this fall.

Fed cattle supplies will also remain small for the rest of the year. Currently, USDA reports that cattle on-feed numbers remain down 8 percent. However, placements in March were up by 5 percent. This was the first time this year that placements have been above the year earlier level and is an indication that feedlot managers are feeling more confident about increasing numbers.

Fed cattle prices are expected to move lower seasonally to an average of about $75 in the second quarter, and make lows in the late summer in the very low $70s. By the fall, reduced cow slaughter and continued small fed supplies should result in a strong price recovery back into the higher $70s.

While fed cattle prices are much higher than at this time last year, the same is not true for calves and feeder cattle. Those prices averaged about 4 percent lower in the first quarter. Oklahoma City 500 to 550 pound calves, as an example, were $97 per hundredweight this year compared to $102 in the first quarter of 2002. The lower prices are a result of higher feed costs due to last summer's drought. Feedlot managers are also hesitant to bid given large losses in 2001-2002.

Calf and feeder cattle prices will likely follow a similar price pattern, with weaker prices this spring, but recovery in the late summer and fall, especially if the prospects for this year's crop yields are favorable. Returns for brood cow operations should remain favorable for several years as heifer retention may finally begin in 2004, but it will be 2006 before subsequent beef supplies will rise.

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