

## Prices & Outlook: Cattle Outlook

February 2003

### High Beef Prices Will Mean Herd Expansion

Cattle numbers continue to drop, but there are signs that herd expansion may begin later this year. The beef cow herd inventory moved lower in the January 2003 USDA Cattle report. Now at 32.9 million head, the beef cow herd has dropped 7% since 1996. The current beef cow cycle is now 14 years old with the previous low on beef cow numbers occurring in 1989. This very long cycle will likely come to a close later this year as producers have retained about 1% more heifers for replacements, with the number of replacements that will calve in 2003 up 3%.

The number of beef cows was down modestly by .5%. In the Eastern Corn Belt numbers were down 1% led by declines in Illinois (down 19,000 cows); and Ohio (down 20,000 cows). Indiana, Wisconsin, and Michigan each had some increase in beef cow numbers. Around the country, small increases in cow numbers occurred in the Western Corn Belt, the Southern Plains, and the Southeast, all other regions had decreases. The Northern and Central Plains as well as the western U.S. all had decreases due to the pervasive drought that limited pastures and forage supplies in 2002. Current drought indicators show no signs of improvement in most of those regions.

For the milk herd, cow numbers were up slightly by .4%. Unfortunately, there is still no sign that producers are adjusting cow numbers downward in response to the dismal milk prices in 2002, which were the lowest since 1980. In addition to a slightly higher number of cows in production, heifers being retained for breeding stock were up 1%. The continuation of higher milk cow numbers is a discouraging sign of the potential for even larger milk supplies this year.

With declining beef cow numbers and increasing milk cow numbers, the total number of cows is only down a modest .3%. Consequently the final 2002 calf crop was down only .2%.

Cattle on-feed numbers were down 8% as of the beginning of the year. While placements in both November and December were starting to move back upward, the number of market ready cattle coming out of feedlots will be small in coming months. Carcass weights in 2002 were up 2.8%, and accounted for most of the 3.8% increase in total beef production for the year.

So far this year, beef supplies have been down nearly 3% providing the primary reason for finished cattle price strength. First-half supplies will be drawn from the number of steers over 500 pounds which were down 1.2% and heifers over 500 pounds not headed back for replacements which were down 1.7%. Second-half supplies will be drawn from the number of calves under 500 pounds on January 1 which were down 1.3%. Beef supplies for the rest of

the year will also be influenced by marketing weights, by weather and drought conditions, and thus the rate of cow slaughter.

Cold weather limited gains this winter and resulted in some delays of cattle coming out of feedlots, contributing to the drop of 3% in January beef production. In the last-half of the winter, there will be some “catching-up” of marketings which will contribute to larger supplies. For the first quarter, beef production may be down about 1%, and off 2% in the second quarter. Greater heifer retention could begin to accelerate in the second-half of the year, and dropping cow slaughter will also reduce total beef supplies, perhaps as much as 3% to 4%.

Choice cattle prices are expected to dim somewhat in the next few weeks as slaughter supplies increase from their cold-weather delays. However, spring highs could still reach new highs in the very low \$80s in late March and early April. The decline in summer prices is not expected to be as severe as normally with prices dropping back into the lower \$70s by the end of the summer. Prices in the fall are expected to move back upward into the mid-to-higher \$70s.

Calf prices in the fall of 2003 are expected to recover substantially compared to last fall. As an example, Oklahoma City 500-550 pound steers averaged \$88.38 last fall. If finished cattle prices remain strong, and if feed prices moderate with “normal” weather this summer, calf prices could return to the very high \$90 to low \$100’s per hundredweight.

The cattle market is trading at lofty levels which make it even more vulnerable to uncertainties which include a potential armed conflict and a still shaky recovery in the general economy. In addition, continued drought in the Mountain States as well as the Central and Northern Plains could keep cow slaughter much heavier than anticipated, and reduce the number of heifers retained for replacements.

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