

Prices & Outlook: Cattle Outlook

October 2000

Cattle Prices Will Continue to Move Upward

Even with a less than bullish October Cattle On Feed report, finished cattle prices are expected to continue to improve this fall and into next spring.

The October report said that the number of cattle in feedlots was 7% above last year's level, which would indicate that beef supplies will likely remain at, or slightly above year-ago levels for the rest of this year. After months of large losses it was anticipated that cattle finishers would place considerably fewer cattle into feedlots during the month of September. In addition, improvements in some pastures were felt to encourage more calves to stay on grass rather than moving to feedlots.

Placements were down by 3%, not nearly as much as was anticipated. Marketings on the other hand were up 2% which was larger than pre-report guesses.

In terms of gender, steer calves on-feed were up 6% from last year, but heifer calves were up 9%. The higher percentage of increase of heifer calves continues to provide evidence that brood cow producers are not yet making a move to expand the cow herd through heifer retention, but rather are selling them to backgrounders or feeders.

There was some regional difference in placements. Western states such as California, Colorado, and Arizona all had sharp increases. However some of the Plains states saw declining placements such as Iowa, Kansas, and Nebraska. Improvements in pasture conditions in the central portion of the country has likely caused more calves to stay on pasture rather than move to feedlots.

One of the most important points to glean from the report was that placements of heavier weight cattle were off sharply. For example the number of cattle weighting 800 pounds or more was down 24% from September of 1999, and those weighting 700 to 799 pounds was down 10% from last year. This is a strong indication that there are sharply fewer yearling cattle available for feedlot placement. The reduced number is because many of these animals were already placed in feedlots earlier in the year at lighter weights. The lack of heavy weight placements means somewhat smaller supplies of fed cattle in the first-quarter of 2001.

Weights have remained the thorn in the side of even higher cattle prices as the number of cattle headed to slaughter began to drop in August. Weights crept higher through the late summer and into this fall. In mid-summer the average liveweight was about 1210 pounds, but has moved up to 1235 pounds this fall.

Increasing weights are often a sign that cattle marketings have been delayed. The cleaning-up of front-end supplies will be necessary for further price improvement. The small number of placements in the 800 pound plus range is an indication that the large supplies of heavyweight cattle could be cleared up by the end of the year.

Cattle supplies in the final quarter of 2000 are expected to be close to unchanged from the same period last year. However in the first quarter, supplies are expected to drop 2% to 3% with a similar decrease in the second quarter.

Beef supplies in October have been running about 1% above year-previous levels with choice steer prices about \$2 lower. Assuming supplies are near unchanged for the final quarter, this means that choice steer prices would strengthen to near \$70 by the end of the year. With some reduction in first quarter supplies, prices would be expected to move upward to an average in the very low \$70 for the quarter, with late March and April spring highs perhaps reaching the \$75 to \$77 level.

Talk of the potential for \$80 cattle next spring is premature. On-feed numbers and placements of young cattle that will come to market next spring remain high. In addition, moderate priced feed will continue to stimulate heavy weights through this winter and next spring, plus pork supplies are expected to begin expanding by the second quarter of 2001.

The possibility of reaching the \$80 level next spring would be greatly enhanced if brood cow operators begin to retain heifers for the expansion of the herd. At this point, the cattle on-feed report continues to suggest that heifers are headed to the feedlot rather than to the breeding lot. However, by this winter, improvement in pastures and in calf prices could move producers toward a modest expansion.

Strengthening fed cattle prices will likely provide the tone toward higher prices for feeder cattle and calves over the next six months. The three factors that would seem to have the highest odds of derailing higher calf prices would be: stronger than expected feed prices, higher interest rates, and a less confident consumer due to slowing economic growth.

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