

Cattle Prices Likely to Stay on their Upward Course

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The mid-year *Cattle* inventory report from USDA indicated that cattle numbers are continuing to drop modestly, by roughly 1% in many major categories. The declining inventory of cows means that the calf crop will edge lower as it has been doing since 1995. Beef cow operations indicated that they are holding back fewer heifers to rebuild their herds, and thus further reductions in beef cow numbers can be anticipated into 2000. On the other hand, the record milk prices of 1998 and low feed prices have dairy producers looking toward some expansion for 2000.

Slaughter supplies of steers and heifers will only drop modestly over the coming 12 months, but lower beef supplies will be driven by smaller cow and bull slaughter and by lighter weights compared to the records of 1998 and early 1999.

Beef supplies are expected to drop by about three percent in the last-half of 1999, and by 4% in the first-half of 2000. Smaller beef supplies however will be competing with record total meat and poultry supplies through the third quarter of 1999. Into the fourth quarter and throughout 2000, total meat and poultry supplies will ease somewhat. While both pork and beef supplies are likely to drop in 2000, the broiler industry appears poised to pick up most of the decline.

Prices for fed cattle are expected to remain in the low to mid \$60s this summer, but move modestly higher, into the mid\$60s this fall. A few dollar increase is expected into the winter. The highs for some daily prices in early spring are expected to be around \$70.

The potential for stronger upward price movement is expected for feeder cattle and especially calves. Feeder steers (750-800 pounds) are expected to trade in the mid-to higher \$70 per hundredweight this fall, with steer calves (500-550 pounds) in the higher \$80 to low \$90s. Further improvement in both can be expected in the spring of 2000.

The strength in feeder and calf prices will be stimulated by the tendency toward somewhat higher fed prices, but especially by low feed prices and smaller calf supplies.

Cattle feeding margins will be vulnerable due to high feeder cattle investment, and to higher interest rate. The advantage of low feed prices will be mostly bid into higher feeder and calf prices.

Returns for cow-calf operations should be very good, especially into the year 2000.

The Numbers

Numbers from the *Cattle* inventory are shown in Table 1. The total inventory of cattle and calves

is down slightly under 1%. Beef cow numbers were reported to be down 1% with dairy cow numbers down slightly. Beef cow numbers reached their peak for this decade in 1995 and are now down 6% from that peak. Dairy cow numbers were at a peak in the early part of the decade and continue to fall as productivity increases per cow exceed the increase in utilization (that is fewer cows are needed to supply the market).

Producers are not saving back enough beef heifers to keep the herd stable. The number of beef replacement heifers destined for replacements are down 4%, and thus likely means that the beef cow herd will drop another 1% in the January 2000 inventory report. Dairy cow numbers on the other hand will likely increase in the January 2000 report since the number of heifers being retained to go back into herds was up 2.8%.

Slaughter supplies of steers and heifers for the last-half of 1999 will only be down a small amount since non-replacement heifers over 500 pounds are unchanged from last year, and steers over 500 pounds are down only 1%. Calves under 500 pounds are the pool from which the slaughter for the first-half of 2000 will be drawn and those numbers were reported to be down only .3%. Since steer and heifer numbers are only slightly smaller than year-ago levels, this means that the reduction in beef production will come mainly from fewer cows and bulls in the slaughter mix, and due to lighter weights.

The 1999 calf crop is estimated at 38.3 million head which is down somewhat under 1% from 1998. At this early point, modest reduction in the 2000 calf crop can be expected since the smaller number of beef cows expected in 2000 will not be offset by the rise in dairy cow numbers.

Cattle feedlots continued to fill up as indicated by the 14% increase in placements during June. At the end of June, inventories in feedlots exceeding 1000 head were estimated to be up 4% compared to the same date one year ago. Cattle have been moving rapidly into feedlots due to low feed prices, and an improving tone in the finished cattle market

Beef Supplies to Drop

Beef supplies in 1998 were up about 1%. The increase was a result of heavier market weights as the number slaughtered dropped about 2%. The first-half of 1999 also saw beef supplies increase, but slaughter levels were higher in both quarters, and weights were sharply higher in the first quarter.

In the last-half of the year, beef supplies are expected to decline, with both lower slaughter totals and lower weights compared to the same periods one year earlier. Beef supplies are expected to drop about 4% this summer and 2% this fall.

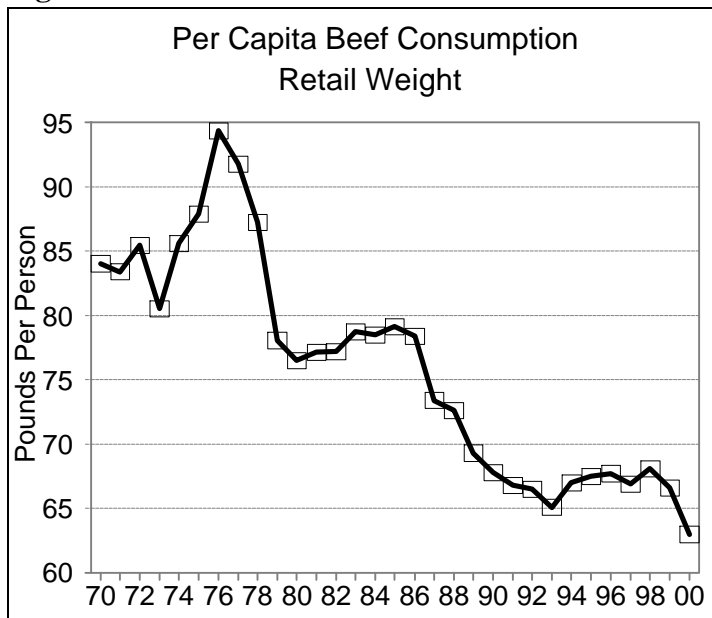
For the first-half of 2000, beef production is expected to be down in the range of 4% to 5%. The decline is related to fewer cows in the slaughter mix, to increased retention of heifers for replacement into the cow herd over the next year, and to lighter marketing weights.

Year	Quarter	Production Million lbs.	Percent Change Year-ago
1998	I	6,215	+1.7%
	II	6,461	+ .7%
	III	6,638	+ .5%
	IV	6,339	+1.3%
	Year	25,653	+1.0%
1999	I	6,397	+2.9%
	II	6,550	+1.4%
	III	6,395	-3.7%
	IV	6,224	-1.8%
	Year	25,566	- .3%
2000	I	6,085	-4.9%
	II	6,300	-3.8%

Prices to Show Some Improvement

Declining production in combination with rising population will mean that per capita beef supplies will reach their lowest level in decades for the year 2000. Current estimates are that per capita consumption will reach about 63 pounds, down from a record high of 94 pounds in 1976 (**Figure 1**).

Figure 1



Beef demand continues to erode as consumption is being lost primarily to increased chicken consumption. Consumers are eating more animal protein than ever, with per capita consumption of red meats and poultry reaching nearly 217 pounds this year. Beef however, has been unable to stem the losses which began in the mid-1970s.

Prices of fed cattle are expected to improve at the end of the summer moving into the \$65-\$66 range. Prices are expected to be in the \$64 to \$68 range for the fall and improve \$1 to \$2 in the winter. With spring prices expected to average in higher \$60s, some daily prices could reach, or

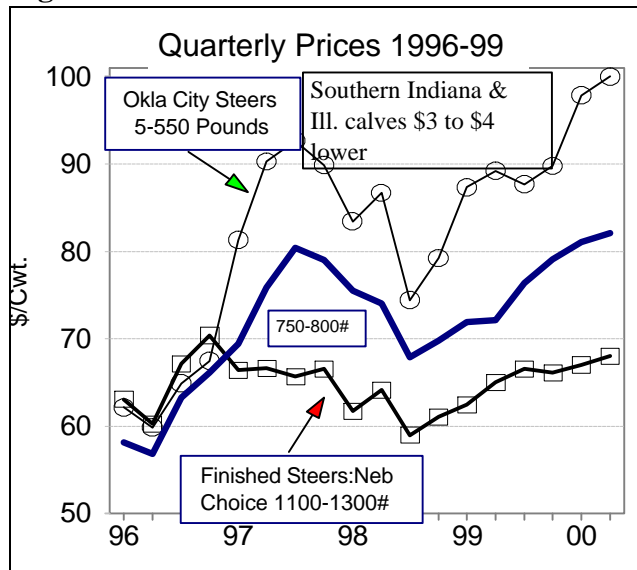
slightly exceed \$70 in March and early April.

What about the last-half of 2000? Fed prices could average in the very high \$60s or low \$70s in the last-half. This could be the result as both the beef and dairy herds begin to expand, and greater numbers of heifers are retained for the expansion.

<u>Year</u>	<u>Quarter</u>	<u>Choice steers Nebraska Price</u>	<u>% Change Vs. Year-ago</u>
1998	I	\$61.73	- 7.0%
	II	\$64.11	- 3.8%
	III	\$58.97	-10.2%
	IV	\$61.06	- 8.3%
1999	I	\$64.43	+ 4.4%
	II	\$65.03	+ 1.4%
	III	\$66.55	+12.9%
	IV	\$66.11	+ 8.3%
2000	I	\$67.01	+ 4.1%
	II	\$67.98	+ 5.5%

Calf Prices Could Increase the Most

Figure 2



While fed prices have a positive tone, calf prices could be very strong. The reasons are clear: a smaller calf crop, increasing fed prices and especially low feed prices. Higher interest rates will be a slight negative to calf prices.

Feeder cattle and calf prices are shown in Table 5, and graphically in **Figure 2**. Feeder cattle prices are expected to be in higher \$70s this fall and move above \$80s in the spring. The price series used here is Oklahoma City 750 to 800 pound steers, with Eastern Corn Belt cattle running \$2 to \$3 lower.

As shown in **Figure 2**, the most price strength will be in calf prices as illustrated by

Oklahoma City 500-550 pound steers. Prices are expected to be in the higher \$80 this fall and move into the \$90s early in 2000. Prices could move above \$1 per pound by next spring.

The major reason for increasing prices is the lower feed costs expected for the coming 12 months. The importance of feed prices is easily illustrated by looking at **Figure 2**. Note in 1996, the period of extremely high feed prices, that feeder cattle prices were below fed cattle prices, and that calf

prices were the same as fed prices. During the second quarter of 1996, the U.S. corn price was \$4.07 per bushel. For the 4th quarter of 1999, I have assumed a U.S. corn price of \$1.70 per bushel.

Another factor which will contribute to the higher calf prices in 2000 is the assumption that the calf crop will drop another 1% for next year. This tightens the supply at the same time low feed prices and higher fed prices are stimulating the demand for calves and feeder cattle.

Strong calf prices will move cow-calf operations into a solid profit position, the first-time since calves reached \$1 per pound in 1993. Brood cow operators have been through a long period of discouragement and are not likely to expand rapidly, but some movement in this direction can be expected in 2000.

Implications for the Cattle Industry

The cattle industry has a positive tone for the outlook after a difficult period in 1998 and early 1999 when heavy weights, as a result of excessive anticipation of better fed prices, depressed prices. Excessive weights could once again be a problem given the low feed prices expected in the next year. Keeping feedlot cattle current will be an important ingredient in maintaining an upward trajectory for prices in the next year.

Feeding returns will be squeezed by higher interest rates and by sharply higher calf prices. When such large amounts of money are invested in feeder cattle, the vulnerability of financial losses tends to rise. Therefore feeders should increase their consideration of hedging cattle through forward contracts, or by the use of futures or options.

The big financial winners over the next year will likely be cow-calf operations. Much higher calf prices will be highly related to lower feed prices. This not only will increase the value of the calves, but of the breeding stock as well.

Returns should be positive for several years as the cow herd is now reduced. This likely means a profitable enterprise for the 1999 to 2002 period. For those who are committed to brood cows for the longer-run this means consideration of a slower culling rate on cows over the next two years, and a tendency to keep some additional replacement heifers. However, those who may be considering leaving the industry in the next few years should be thinking about when this would be. The year 2000 may be opportune. The dramatically low feed prices possible over the next 12 months are not likely to exist in the longer-run. Higher feed prices in the last-half of 2000 could cut into calf prices (although this could be offset by higher fed prices), and the value of the breeding stock could also be negatively impact by higher feed prices.

With an upward bias to prices, cattle producers in general would be advised to hold cattle longer this fall. This includes putting more weight on calves before they are sold.

Table 1. Cattle Number, 1991 - 1999

	1991	1992	1993	1994	1995	1996	1997	1998	1999	% Change vs. 98
All cattle and calves										
January 1	98,896	99,559	99,176	100,988	102,755	103,487	101,656	99,744	98,522	-1.2
July 1	109,000	109,200	109,000	111,300	113,000	111,500	109,200	107,700	106,800	-0.8
Beef cows										
January 1	33,271	33,775	33,365	34,650	35,156	35,228	34,458	33,885	33,472	-1.2
July 1	34,400	34,550	34,900	35,600	36,100	35,600	34,800	34,400	34,050	-1.0
Milk cows										
January 1	10,156	9,913	9,658	9,528	9,487	9,416	9,318	9,199	9,143	-0.6
July 1	10,000	9,850	9,700	9,500	9,500	9,400	9,300	9,200	9,150	-0.5
Heifers 500 lbs. + Beef replacement										
January 1	5,605	5,761	6,092	6,365	6,475	6,179	6,042	5,764	5,550	-3.7
July 1	5,300	5,700	5,700	5,900	5,700	5,500	5,300	5,000	4,800	-4.0
Milk replacement										
January 1	4,220	4,202	4,176	4,144	4,141	4,104	4,058	3,986	4,060	1.9
July 1	4,200	4,200	4,000	4,000	3,900	3,700	3,600	3,600	3,700	2.8
Other heifers 500 lbs. +										
January 1	8,357	8,142	8,550	9,068	9,275	9,949	10,212	10,051	9,994	-0.6
July 1	7,400	7,100	7,300	7,500	8,000	8,100	8,200	8,100	8,100	0.0
Steers 500 lbs. +										
January 1	16,369	16,755	16,940	17,042	17,463	17,732	17,392	17,189	16,836	-2.1
July 1	15,100	15,100	14,900	15,200	15,400	15,100	14,800	14,600	14,400	-1.4
Bulls 500 lbs. +										
January 1	2,228	2,279	2,278	2,307	2,390	2,392	2,350	2,270	2,276	0.3
July 1	2,200	2,200	2,200	2,300	2,400	2,400	2,300	2,200	2,100	-4.5
All Calves < 500 lbs.										
January 1	18,691	18,733	18,117	17,884	18,369	18,488	17,826	17,401	17,190	-1.2
July 1	30,400	30,500	30,300	31,300	32,000	31,700	30,900	30,600	30,500	-0.3
Calf Crop										
	39,026	39,290	39,448	40,059	40,211	39,776	38,961	38,582	38,300	-0.7

Table 2: Ratios of Commercial Slaughter Steers and Heifers to Beginning Cattle Inventories, 1985 to 2000

	July 1 Inventory	Second Half	Ratio	Calves <	First Half	Ratio
	Steers and Heifers	Steer and Heifer		500 Pounds	Steer and Heifer	
	500+ ^b	Slaughter		July 1	Slaughter	
	thousand head			thousand head		
1985	24,200	14,056	58.1	33,600	14,219	42.3
1986	23,300	14,394	61.8	32,200	14,046	43.6
1987	22,400	14,304	63.9	31,100	13,989	45.0
1988	21,800	14,101	64.7	31,000	13,564	43.8
1989	21,600	13,470	62.4	30,600	13,425	43.9
1990	21,600	12,901	59.7	30,300	13,048	43.1
1991	22,500	13,397	59.5	30,400	13,137	43.2
1992	22,200	13,231	59.6	30,500	13,101	43.0
1993	22,200	13,472	60.7	30,300	13,576	44.8
1994	22,700	14,038	61.8	31,300	14,119	45.1
1995	23,400	14,554	62.2	32,000	14,748	46.1
1996	23,200	13,831	59.6	31,700	14,742	46.5
1997	23,000	14,861	64.6	30,900	14,465	46.8
1998	22,700	14,447	63.6	30,600	13,938	45.5
1999	22,500	14,090	62.6	30,500	14,030	46.0

^a Projected

^b Excluding replacement heifers

Table 3. Cow Inventory, July 1 and Cow and Bull Slaughter for the Following Year

	Cow Inventory	Cow Slaughter	Ratio Slaughter /Inventory	Bull Slaughter	Ratio Bull Slaughter to Cow Slaughter
	-----thousand head-----			thousand head	
1985	46,182	7,765	16.8	738	9.5
1986	45,000	7,319	16.3	710	9.7
1987	44,400	6,398	14.4	665	10.4
1988	44,300	6,400	14.4	650	10.2
1989	43,900	5,982	13.6	666	11.1
1990	44,000	5,720	13.0	634	11.1
1991	44,400	5,659	12.7	621	11.0
1992	44,400	5,964	13.4	656	11.0
1993	44,600	6,008	13.5	662	11.0
1994	45,100	6,052	13.4	661	10.9
1995	45,600	6,545	14.4	689	10.5
1996	45,000	7,007	15.6	715	10.2
1997	44,100	6,349	14.4	667	10.5
1998	43,600	6,279	14.4	659	10.5
1999	43,200	5,962	13.8	620	10.4

^a Projected

Table 4. Commercial Beef Slaughter, Production, and Dressed Weights, 1983-1999

Year	Slaughter (1,000 hd)	Weight (lb)	Production (lbs)	Slaughter (1,000 hd)	Weight (lb)	Production (lbs)
-----January-March-----			-----April-June-----			
1983	8,735	632	5,525	8,844	627	5,549
1984	9,169	623	5,708	9,341	623	5,819
1985	8,936	637	5,691	9,023	656	5,917
1986	8,884	649	5,769	9,574	652	6,247
1987	8,765	657	5,756	8,878	646	5,737
1988	8,575	664	5,696	8,759	660	5,784
1989	8,180	676	5,529	8,694	664	5,777
1990	8,117	678	5,507	8,541	671	5,733
1991	7,858	685	5,383	8,299	686	5,694
1992	8,032	697	5,597	8,255	693	5,726
1993	7,910	677	5,357	8,469	672	5,690
1994	8,162	704	5,745	8,615	702	6,042
1995	8,418	699	5,888	9,053	699	6,325
1996	8,971	703	6,303	9,589	693	6,642
1997	8,912	686	6,112	9,307	690	6,419
1998	8,681	716	6,215	8,995	719	6,461
1999	8,733	733	6,397	9,187	713	6,550
2000	8,439 ^a	721 ^a	6,085 ^a	8,823 ^a	714 ^a	6,300 ^a
-----July-September-----			-----October-December-----			
1983	9,547	630	6,012	9,537	626	5,974
1984	9,559	622	5,949	9,503	624	5,933
1985	9,352	659	6,166	8,978	643	5,774
1986	9,654	650	6,275	9,180	645	5,925
1987	9,222	657	6,063	8,783	666	5,852
1988	9,199	672	6,186	8,538	674	5,575
1989	8,612	684	5,892	8,430	686	5,785
1990	8,449	689	5,814	8,112	687	5,564
1991	8,453	711	6,012	8,074	707	5,710
1992	8,451	709	5,991	8,122	696	5,654
1993	8,673	700	6,076	8,268	704	5,819
1994	8,825	723	6,377	8,629	709	6,114
1995	9,279	714	6,625	8,890	706	6,277
1996	9,123	700	6,390	8,900	684	6,084
1997	9,300	710	6,603	8,879	704	6,258
1998	9,071	732	6,638	8,737	728	6,339
1999	8,809 ^a	726 ^a	6,395 ^a	8,632 ^a	721 ^a	6,224 ^a
2000						

^a Projected

Table 5. Beef, Pork, Poultry Production, Nebraska Steer Prices, and Oklahoma City Feeders by Quarter

	Beef Production	Pork Production million pounds	Poultry Production	Nebraska Choice Steer Price	Oklahoma City 5-550 Steers \$/cwt.	Oklahoma City 750-800 Steers	
1990	I	5,508	3,902	5,611	78.65	98.08	82.62
	II	5,736	3,645	5,904	78.97	102.36	88.98
	III	5,823	3,641	5,982	76.93	100.90	90.54
	IV	5,567	4,107	6,157	80.89	101.79	89.58
1991	I	5,383	3,901	5,821	80.89	109.37	91.16
	II	5,694	3,792	6,311	79.34	112.00	93.42
	III	6,012	3,821	6,415	70.29	101.91	87.66
	IV	5,710	4,434	6,338	70.60	94.76	81.88
1992	I	5,595	4,321	6,314	75.95	95.72	79.56
	II	5,723	4,033	6,624	77.18	93.44	80.71
	III	5,990	4,264	6,816	72.84	94.16	83.50
	IV	5,660	4,567	6,644	76.49	91.17	81.72
1993	I	5,357	4,204	6,542	80.65	99.51	85.76
	II	5,690	4,151	6,987	79.78	104.17	86.80
	III	6,076	4,140	7,027	73.77	100.08	87.99
	IV	5,819	4,535	6,970	71.23	94.83	85.27
1994	I	5,745	4,182	6,765	73.10	98.96	82.14
	II	6,042	4,240	7,238	68.79	94.16	77.63
	III	6,377	4,326	7,504	66.37	86.42	76.37
	IV	6,114	4,913	7,339	67.63	84.58	74.74
1995	I	5,888	4,488	7,343	71.51	86.81	72.62
	II	6,325	4,394	7,653	64.73	78.62	65.77
	III	6,625	4,240	7,472	62.65	68.29	65.44
	IV	6,277	4,690	7,683	66.10	64.45	67.55
1996	I	6,303	4,389	7,880	63.06	62.12	58.11
	II	6,642	4,104	7,949	60.26	59.83	56.79
	III	6,390	4,143	8,043	67.35	64.90	63.29
	IV	6,084	4,449	7,930	70.39	67.49	66.15
1997	I	6,112	4,194	7,875	66.40	81.28	69.44
	II	6,419	4,091	8,341	66.63	90.28	75.88
	III	6,603	4,194	8,275	65.65	92.65	80.44
	IV	6,258	4,767	8,259	66.56	89.90	78.98
1998	I	6,215	4,688	8,132	61.73	83.44	75.49
	II	6,461	4,429	8,316	64.11	86.71	74.00
	III	6,638	4,625	8,244	58.97	74.41	67.89
	IV	6,339	5,239	8,452	61.06	79.21	69.80
1999	I	6,397	4,865	8,493	62.43	87.35	71.93
	II	6550p	4575p	8725p	65.03p	89.21p	72.09p
	III	6,395	4,623	8,775	66.55	87.70	76.40
	IV	6,224	4,999	8,775	66.11	89.78	79.13
2000	I	6,085	4,794	9,025	67.01	97.88	81.08
	II	6,300	4,483	9,125	67.98	100.04	82.09

^p Preliminary