

# Cattle Price Trend is Upward in 1999-2000

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Cattle numbers continue to decline slowly as both beef and dairy cow numbers declined about 1% in 1998. Indications are that the beef cow herd will continue to drop in 1999, but dairy cow numbers may rise modestly. Beef supplies are expected to fall 2% to 3% for the year to around 25 billion pounds. Supplies in the first-half are expected to be down 1%, but nearly 4% in the second-half.

Cattle prices will be supported by declining beef production, by declining pork production (in the last-half of the year), by improvements in exports, and by population and income growth. Fed steers are expected to average in the \$64 to \$65 range in the first-half of the year, and \$67 to \$68 in the last-half of 1999. Further improvement can be anticipated into the low \$70s by early spring of the year 2000. Feeder cattle and calf prices will also be strengthened by stronger fed cattle prices and by low prices for feed and interest.

The upward trend in cattle prices means that brood cow operations should add weight to calves, retain ownership for longer periods, and maintain, or increase the size of their herds. For finishers it means keeping the feedlots full, and delaying pricing of finished animals until prices recover.

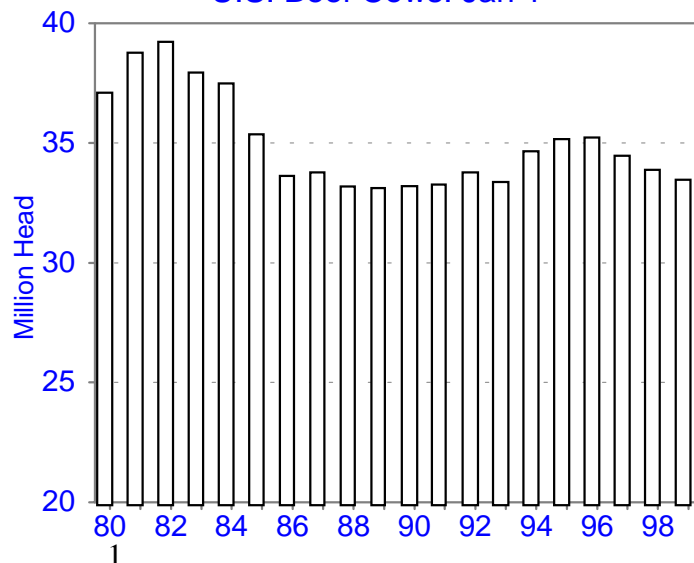
## The Numbers

The latest *Cattle* inventory report from USDA shows the number of beef cows to be down 1% from last year and about 5% from the peak inventory number on this cycle in 1996(**Figure 1**). The number of dairy cows was down 1% also, about the average annual decrease during this decade.

Not only is the beef cow herd decreasing, but greater declines can be expected in the future. The number of heifers being retained for replacement was down 4%. This means continued reduction in the number of cows can be expected in next July's inventory report. The number of dairy heifers being retained for replacement however was up 2% indicating the potential for a small increase in dairy cow

**Figure 1**

U.S. Beef Cows: Jan 1



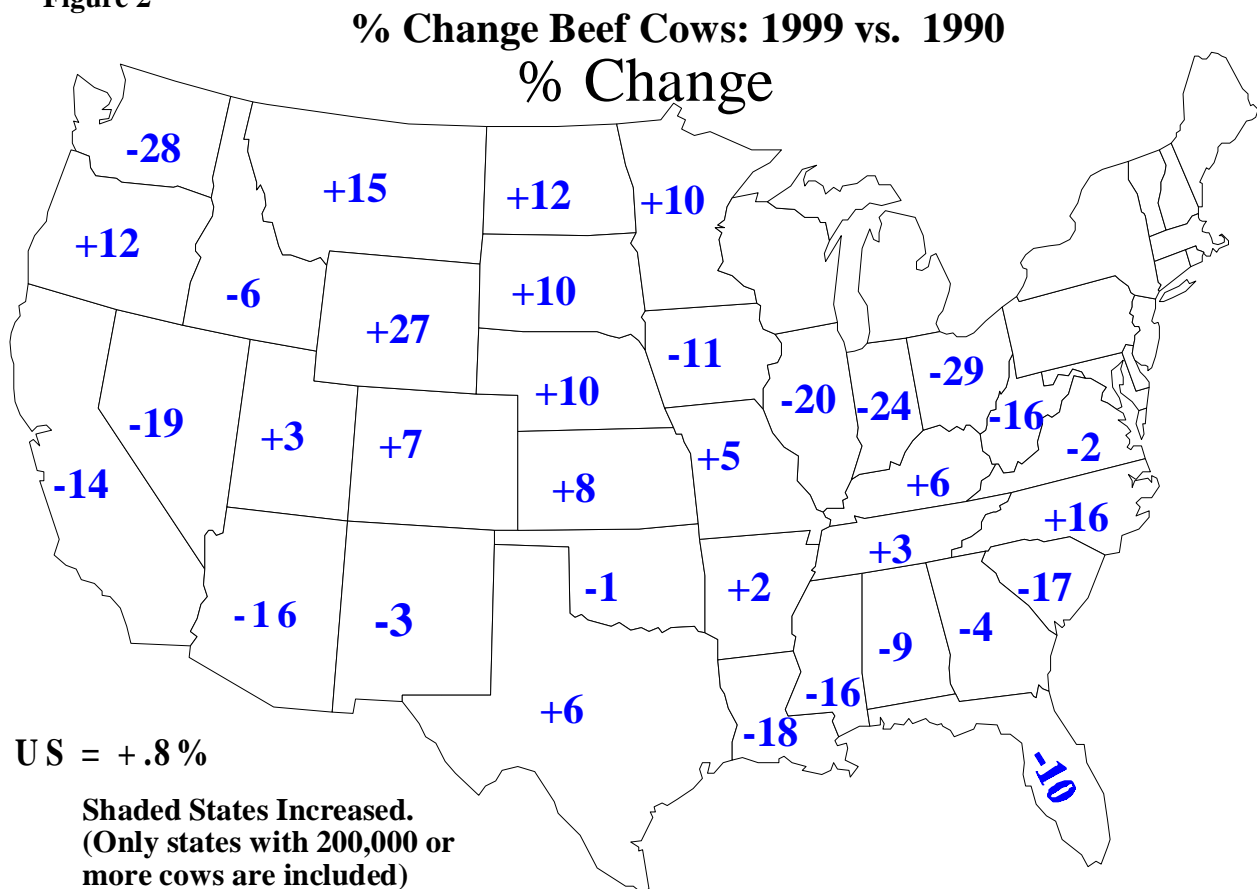
numbers during the year as milk producers respond to record high milk prices. The number of calves over 500 pounds were down nearly 2%. This was composed of the steers over 500 pounds which were down 2%, and the heifers destined for slaughter which were down 1%.

Calf crop numbers were revised upward from previous estimates without similar upward revisions in the number of cows. Apparently, USDA is suggesting that the calving rate was higher than previously indicated. The 1998 calf crop was estimated at 40 million head which was down 2% from the previous year, while the 1999 crop is expected to be down an additional 1%. Data from the report is shown in Table 1.

### Changing Beef Cow Location

Beef cows are shifting toward the middle of the country as shown in **Figure 2**. These numbers show the percentage change in the individual state's beef cow herds since 1990. There are several prominent areas that reduced the size of their herds. In the Corn Belt, Ohio's beef cow herd dropped by 29% in the 1990s; Indiana by 24%; Illinois by 20%; and Iowa by 11%. In the

**Figure 2**



deep south, the herd has decreased as much as 17% and 18% in South Carolina and Louisiana respectively. Finally, several of the West Coast States have experienced declines such as 28% in Washington, 16% in Arizona, and 14% in California.

Increases in beef cow numbers during this decade have been concentrated in the Great Plains states. These include Wyoming +27%, Montana +15%, North Dakota +12%, South Dakota and Nebraska +10%, Kansas +8%, Colorado +7%, and Texas up 6%. In terms of percentage increases, the expansion has been more robust in the Northern Great Plains as compared to the Southern Plains.

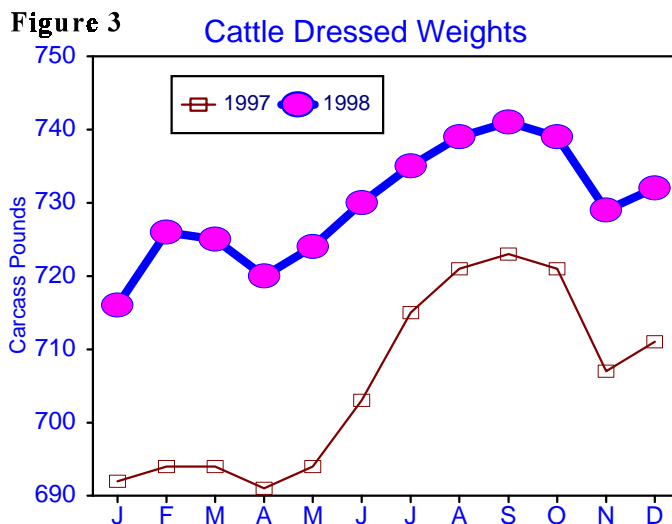
The redistribution of beef cows is related to the competition for land resources, especially competition from people. Greater urbanization in the Northeast, Eastern Corn Belt, Southeast, and West Coast have all tended to increase the values of grass land as some city residents seek a rural residents within driving distance of their employment. In addition, rural residents within driving distance of off-farm employment are in some cases choosing that alternative to reliance on brood cows as a source of family income. In addition, the conflicts with environmental conflicts of cattle and people are simply reduced in the center of the county where population density is more sparse.

There are a few exceptions. North Carolina as an example has seen a sharp increase in the number of beef cows. This however is related to the enormous growth of the hog industry. Hog waste is spread on Bermuda grass and cattle utilize the grass. Kentucky and Tennessee also remain an exception. They are both feeling greater population pressures, but have expanded their beef cow herd.

In the next decade, the trend toward a growing percentage of the cattle on the Plains is expected to continue, and even accelerate, as herd sizes grow larger, as environmental conflicts grow, and as more regulations are put into place.

### Beef Supplies to Decline in 99!

The year of 1998 was another disappointment for cattle producers. There were several reasons. First, slaughter supplies did drop by 2.4%, but weights increased sharply as shown in **Figure 3**. Carcass weights increased from about 706 pounds in 1997 to about 725 pounds in 1998. This was a new record high weight, passing the 1994 record of about 715 pounds. The heavy weights were related to sharply reduced feed prices and to an anticipation that fed cattle prices would be rising and thus encouraging feedlot managers to keep cattle longer. A second factor was the drought in the Southwest which resulted in more cow slaughter than was expected, and the final factor was the huge pork supplies, especially in the fourth quarter, which depressed beef prices.



For 1999, weights are expected to be only slightly higher than in 1998, and this assumes that feed prices remain low as anticipated in the early part of the year, (Table 4). Higher feed prices which could result from weather difficulty in either the Southern Hemisphere this winter or the U.S. next summer would result in a decrease in weights and even stronger cattle prices.

First-half beef supplies are expected to be down about 1%, with a steeper drop of 4% in the last-half of this year. Not only will beef production begin a more dramatic drop in the last-half, but pork supplies will begin dropping at the same time. This will make the last-half of the year a much more acceptable period for red meat producers. For the year in total, beef supplies are expected to drop by 2.4% as shown here and in Table 4.

Year	Quarter	Production Million lbs.	Percent Change Year-ago
1997	I	6,117	-3.0%
	II	6,416	-3.4%
	III	6,603	+3.4%
	<u>IV</u>	<u>6,258</u>	<u>+2.7%</u>
	Year	25,394	-1.1%
1998	I	6,215	+1.6%
	II	6,463	+ .7%
	III	6,638	+ .5%
	<u>IV</u>	<u>6,350</u>	<u>+1.5%</u>
	Year	25,666	+1.1%
1999	I	6,141	-1.2%
	II	6,402	- .9%
	III	6,341	-4.5%
	<u>IV</u>	<u>6,165</u>	<u>-2.9%</u>
	Year	25,049	-2.4%

### Prices Will Strengthen

Cattle prices were a huge disappointment in the last-half of 1998. Expectations were for fed cattle prices to move back into the mid-to-higher \$60s, rather than the \$60 that they averaged.

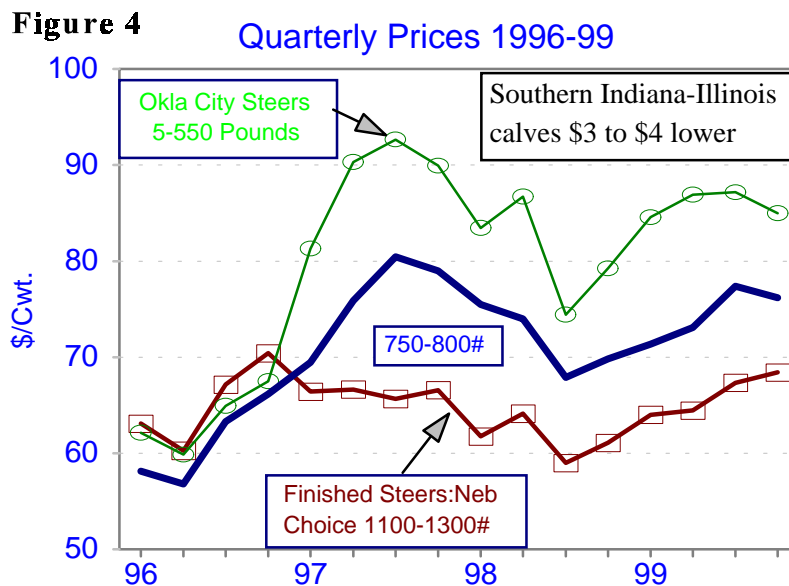
Declining production continues to favor stronger prices for 1999. First quarter prices are expected to average \$64 for choice Nebraska steers, with second quarter prices rising about another \$1. If so, this means that spring highs could reach about \$66 in late March or April. The normal seasonal decline through the late spring and summer should be less pronounced this year. In fact, after a short bearish period in late April and May, prices are expected to move higher into the late summer. Third quarter prices are expected to average around \$67 with fall prices another \$1 higher.

While not part of the forecast made in this report, first-quarter 2000 prices should continue to improve into the lower \$70s. Prices will be supported by the continuation toward smaller beef supplies, by sharply lower pork supplies, and by improvement in beef exports.

Stronger fed cattle prices and cheap feed mean that feeder cattle and calf prices will also improve over the next year and one-half. Using Oklahoma City 750 to 800 pound feeder steers as a base, feeder cattle prices are expected to move upward from the lower \$70s at the start of the year to the \$77 level during the last-half of the year. In a similar fashion, calf prices, using 500 to 550 steer calves at Oklahoma City as a base, are expected to move from around \$80 in the last quarter of 1998 to the mid-\$80 for a 1999 average. Peak prices in the fall of 1999 could reach the higher \$80s or even lower \$90s.

Prices for calves in Southern Indiana and Illinois tend to be about \$3 to \$4 below those of Oklahoma City.

**Figure 4** provides a picture of the prices forecast for cattle. Finished cattle prices and forecast are shown below, and calf and feeder cattle price forecast are shown in Table 5.



Year	Quarter	Choice Steers Nebraska Price	% Change Vs. Year- Ago
1995	Year	\$66.25	-3.9%
1996	Year	\$65.21	-1.6%
1997	I	\$66.40	+5.3%
	II	\$66.63	+10.6%
	III	\$65.65	-2.5%
	<u>IV</u>	<u>\$66.56</u>	<u>-5.4%</u>
	Year	\$66.31	+1.7%
1998	I	\$61.73	-7.0%
	II	\$64.11	-3.8%
	III	\$58.97	-10.2%
	<u>IV</u>	<u>\$61.06</u>	<u>-8.3%</u>
	Year	\$61.47	-7.3%
1999	I	\$64.00	+ 3.7%
	II	\$64.45	+ .5%
	III	\$67.31	+14.1%
	<u>IV</u>	<u>\$68.41</u>	<u>+12.0%</u>
	Year	\$66.04	+ 7.4%

## Implications

The direction in cattle prices is expected to be to the upside over the coming year. This means that producers should continue to maintain ownership of cattle. For brood cow operations, this means consideration of adding more weight to calves on-hand, to retained ownership, and to maintaining the number of cows in the herd. For feedlots, this means keeping lots full of feeder cattle, and considering delaying the pricing of the finished cattle.

The cattle industry has waited several years for improvement in prices which have not materialized. Part of the concern has been the continued erosion of beef demand, an issue which puts a dimmer outlook on the long-run future for the industry. However, for the period of 1999 to 2002, the cattle industry should be near its low production levels and therefore will likely attain the best prices of the cycle.

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	190,000	107,000		
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	34,700	34,100		
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		
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		
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		
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		
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	14,500		
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		
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	30,800	30,300		
Calf Crop										
	39,026	39,290	39,448	40,059	40,211	39,776	39,823	38,961	38,582	-1.0%

Table 2a.

Ratios of Commercial Slaughter Steers and Heifers to Beginning Cattle Inventories, 1985 to 1999

	January 1 <sup>a</sup> Slaughter Supply	Total Commercial Steer and Heifer Slaughter	Ratio of Slaughter to Supply
	-----Thousand Head -----		-----Percent-----
1985	50,885	28,139	55.3%
1986	48,488	28,613	59.0%
1987	45,881	28,350	61.8%
1988	44,299	28,087	63.4%
1989	43,673	26,970	61.8%
1990	42,970	26,664	62.1%
1991	43,417	26,445	60.9%
1992	43,630	26,368	60.4%
1993	43,607	26,573	60.9%
1994	43,994	27,614	62.8%
1995	45,107	28,667	63.5%
1996	46,169	28,573	61.9%
1997	45,430	29,541	65.0%
1998	44,641	28,880	64.7%
1999	44,021	28,115	63.9% <sup>b</sup>

a Steers 500 pounds and over, other heifers, and all under 500 pounds

b Projected

Table 2b. Ratios of Commercial Slaughter Steers and Heifers to Beginning Cattle Inventories, 1985 to 1999

	January 1 Inventory	First Half	Ratio	Calves <	First Half	Ratio
	Steers and Heifers	Steer and Heifer		500 Pounds	Steer and Heifer	
	500+ <sup>b</sup>	Slaughter		January 1	Slaughter	
	thousand head			thousand head		
1985	24,435	14,083	57.6	26,450	14,056	53.1
1986	24,057	14,219	59.1	24,431	14,394	58.9
1987	22,797	14,046	61.6	23,084	14,304	62.0
1988	23,404	13,986	59.8	20,895	14,101	67.5
1989	23,100	13,477	58.3	19,899	13,493	67.8
1990	23,939	13,425	56.1	19,031	13,239	69.6
1991	24,726	13,048	52.8	18,691	13,397	71.7
1992	24,897	13,137	52.8	18,733	13,231	70.6
1993	25,490	13,101	51.4	18,117	13,472	74.4
1994	26,110	13,576	52.0	17,884	14,038	78.5
1995	26,738	14,119	52.8	18,369	14,533	79.2
1996	27,681	14,742	53.3	18,488	13,831	74.8
1997	27,604	14,680	53.2	17,826	14,861	83.0
1998	27,240	14,446	53.0	17,401	14,434	82.9
1999	26,830	14,166	52.8b	17,190	13,949	81.1b

a Projected

b Excluding replacement heifers

Table 3. Cow Inventory, January 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	
1980	47,865	6,334	13.2	724	11.4
1981	49,586	6,634	13.4	775	11.7
1982	50,331	7,354	14.6	818	11.1
1983	48,987	7,606	15.5	808	10.6
1984	48,603	8,617	17.7	788	9.1
1985	46,212	7,391	16.0	758	10.3
1986	44,811	7,958	17.8	715	9.0
1987	44,457	6,604	14.9	691	10.5
1988	43,494	6,331	14.6	642	10.2
1989	43,337	6,294	14.4	668	10.6
1990	43,353	5,969	13.8	658	11.0
1991	43,427	5,624	13.0	615	11.0
1992	43,688	5,839	13.4	653	11.2
1993	43,023	6,088	14.2	659	10.8
1994	44,178	5,974	13.5	643	10.8
1995	44,643	6,144	13.8	675	11.0
1996	44,644	7,172	16.1	723	10.1
1997	43,776	6,619	15.1	707	10.7
1998	43,084	5,985	13.9	606	10.1
1999	42,615	5,753	13.5 <sup>a</sup>	587	10.2 <sup>a</sup>

<sup>a</sup> 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	6,463
1999	8,412	730 <sup>a</sup>	6,141	8,819	726 <sup>a</sup>	6,402
	-----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	8,724	728	6,350
1999	8,710	728 <sup>a</sup>	6,341	8,515	724 <sup>a</sup>	6,165

<sup>a</sup> Projected

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

		Beef Production	Pork Production	Poultry Production	Nebraska Choice Steer Price	Oklahoma City 5-550 Steers	Oklahoma City 750-800 Steers
		million pounds				\$/cwt.	
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	6,107	4,194	7,875	66.40	81.28	69.44
	II	6,416	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	4,687	8,135	61.73	83.44	75.49
	II	6,463	4,430	8,321	64.11	86.71	74.00
	III	6,638	4,625	8,244	58.97	74.41	67.89
	IV	6,350	5,250	8,400	61.06 <sub>p</sub>	79.21 <sub>p</sub>	69.80
1999	I	6,141	4,815	8,350	64.00	84.54	71.34
	II	6,402	4,575	8,725	64.45	86.90	73.05
	III	6,341	4,625	8,775	67.31	87.15	77.18
	IV	6,165	4,796	8,775	68.41	84.96	76.18

For 1999 (I) forward, production numbers and prices are projected.

p Preliminary