

Outlook for the Cattle Industry in the Nineties

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Cattle producers continued to expand the U.S. cow herd in 1994, and the rate of expansion increased as well. The total cattle inventory on January 1, 1995 was 103.3 million head, up 2.3 percent from 1994, and the largest inventory since January 1986. The beef cow herd was the largest in 10 years.

Several years of cow/calf profitability are the cause of this widespread expansion. While returns were down in 1994, especially for operations that sold calves in early fall, estimates suggest that returns remained positive.

Early 1995 found the industry with abundant numbers of calves and feeder cattle. Estimates for 1994 indicated a 40.7 million head calf crop, the largest since 1986. Reduced feedlot placements in the latter half of 1994 and good wheat pasture conditions led to a large number of yearlings available in 1995. This trend of large numbers of calves and feeders will continue because 1995's calf crop is expected to be even larger than 1994's, following the cow herd expansion.

Cattle Feeding

Returns to cattle feeding moved back into the black in early 1995 after about 18 months of losses. Closeouts in February averaged over \$70 per head due mostly to lower feeder prices. But, stronger fed cattle prices and lower feed costs also contributed to profits. Feeding returns will come under more pressure as fed cattle prices decline as the year progresses. June breakevens are projected to be in the \$66–\$67 per cwt. range.

Feed Outlook

The winter of 1994–95 began with historically low hay stocks, but good weather moderated use. More important was the record corn crop that

boosted depleted stocks and lowered prices well below last year's level. But increased domestic use and exports have raised concerns for 1995–96. Combined with a 7.5 percent ARP, any adverse growing season weather will spur corn prices and cut into feeding returns, and feeder and calf prices.

Margins

The sharp drop in cattle prices in 1994 boosted the live-to-cutout price spread to historically high levels. Higher cattle prices, moderating wholesale (cutout) values, and moderating retail prices have combined to moderate the price spreads in recent months. Throughout this time period, beef byproduct values have remained strong.

Beef Production

A market key in 1994 was slaughter weights. Dressed weights in 1994 averaged 716 pounds, 22 pounds over 1993's level. Recently, feedlots have been aggressive sellers of finished cattle and rapidly increased turnover rates. That will continue to keep dressed weights lower in 1995. So far in 1995, production has remained slightly above a year ago, but it is projected to show about a 1 percent increase over 1994 production.

Imports and Exports

Until recent years beef export were not large enough, quantity-wise, to make much of a difference in analyzing the market. However, exports in 1994 were more than 6 percent of production for the first time. More beef was shipped to each major market: Japan, Canada, Mexico, and South Korea. At the same time, beef imports declined 1.3 percent from 1993.

The Canadian cattle issue in 1994 was largely a red herring. U.S. imports of live cattle fell in 1994, with feeder cattle down about 85 percent from the year before. Converting "the meat to the hoof" implies that the U.S. actually made trade gains with Canada. However, trade patterns are shifting. Meat and animal flows are becoming more North-South rather than East-West. That means changing how we think about traditional trade flows.

The Mexican peso and Canadian dollar devaluations, the earthquake in Japan, and the dollar devaluation against the yen have certainly muddied the export and import waters. But, the long term trend of increasing beef exports will continue in the future.

Competing Meats

Increasing beef production in 1995 will again have to contend with larger supplies of pork and poultry. Pork and poultry production are estimated to be about 2 and 6 percent above 1994's level, respectively. Ongoing structural changes in the pork industry will continue to pressure the beef industry as the decade plays out.

Price Outlook

Given all the issues described above, 1995 cattle prices will continue to be pressured below 1994's levels. Expectations of lower fed cattle prices, and abundant supplies of calves and yearlings will keep a lid on feeder cattle prices.

Feeders weighing 500-600 pounds may average in the \$78-\$82 per cwt. range in the third quarter and decline to average in the \$75-\$78

range in the fourth quarter. Third quarter 700-800 pound steers may average in the low-mid \$70's and decline to the low \$70's in the fourth quarter.

Southern Plains fed cattle prices are forecast to average in the \$65-\$67 and \$66-\$69 per cwt. range in the third and fourth quarters, respectively.

Beyond 1995

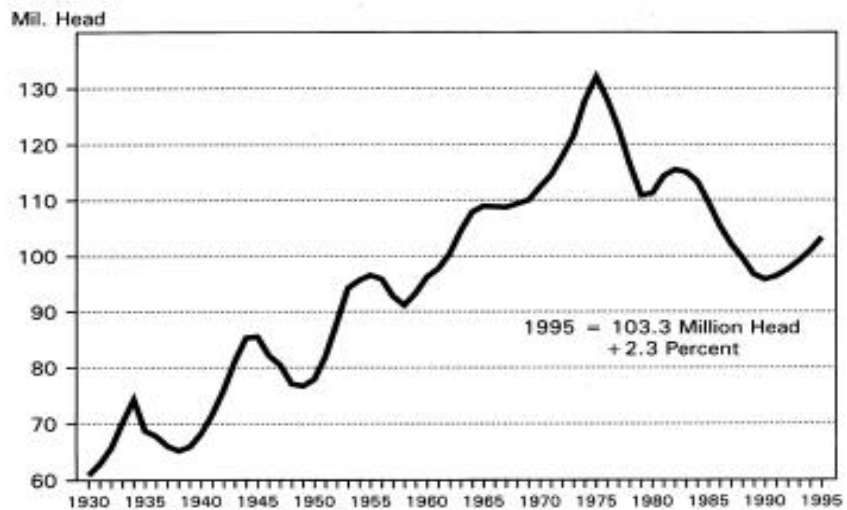
The evidence is that this current cattle expansion will continue through 1996 and into 1997. Data suggests that replacement heifer numbers on January 1, 1995 were 1.8 percent above 1994's replacements. Combined with projected 1995 calf prices around breakeven levels adds weight to the continued expansion argument.

Consequently, fed and feeder cattle and calf prices will continue lower in 1996 as the expansion pushes beef production higher.

Steers weighing 500-600 pounds may average \$76-\$77 per cwt. for the year, with the fourth quarter averaging in the \$71-\$74 range. Heavier feeders (700-800 pounds) may average in the high \$60's to low \$70's in the second, third, and fourth quarters. Fed cattle will continue to push lower with the third quarter averaging in the low \$60's, about 5 percent below the third quarter of 1995. For the year, fed cattle may average around \$66-\$67 per cwt.

The last half of the 1990's contains dark storm clouds. Producers can help weather the storm by constantly evaluating potentially profitable alternatives. That includes continuing to reduce costs and breakevens, as always. Cattle producers will have to keep a sharp pencil in the coming years.

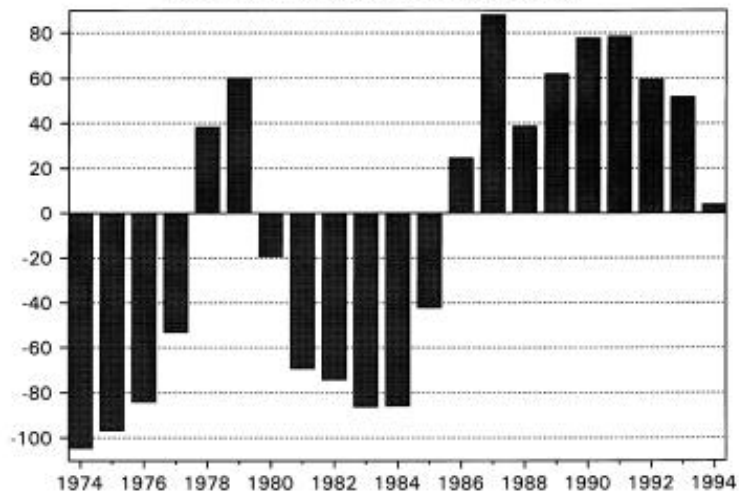
JANUARY 1 TOTAL CATTLE INVENTORY 50 States



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2-08-95

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ESTIMATED AVERAGE COW/CALF RETURNS DOLLARS PER HEAD OVER CASH COSTS

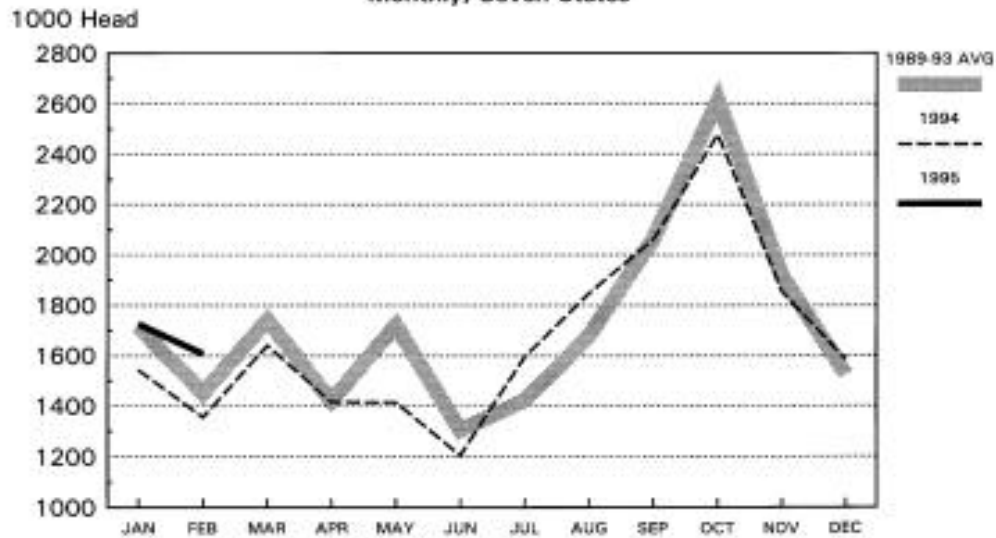


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3/15/95

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FEEDLOT PLACEMENTS

Monthly, Seven States

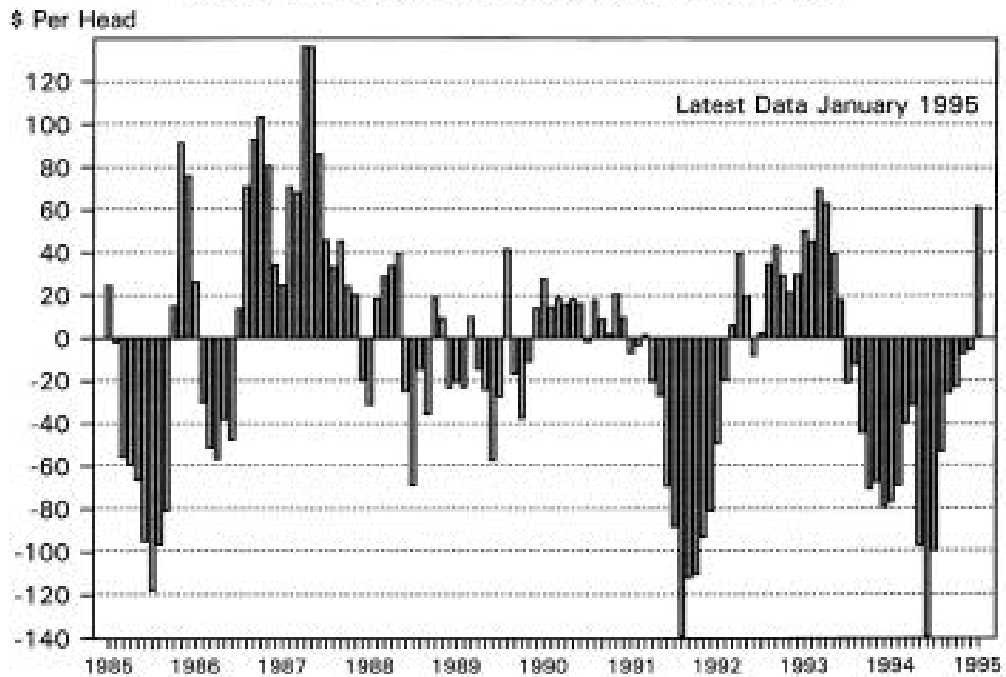


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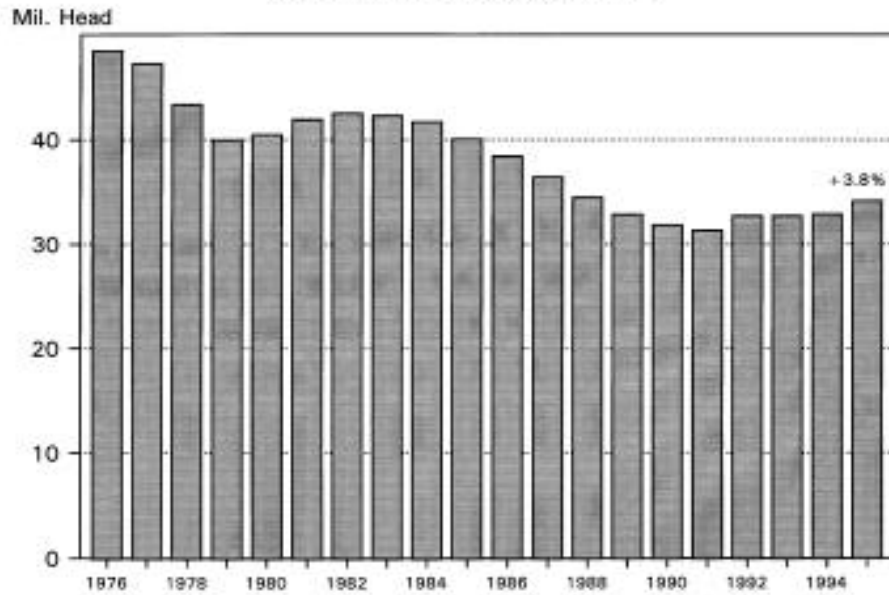
AVERAGE RETURNS TO CATTLE FEEDERS

Feeding 725 Lb. Feeder Steer, Southern Plains, Monthly



JANUARY 1 FEEDER CATTLE SUPPLIES

Residual Inventory Outside Feedlots

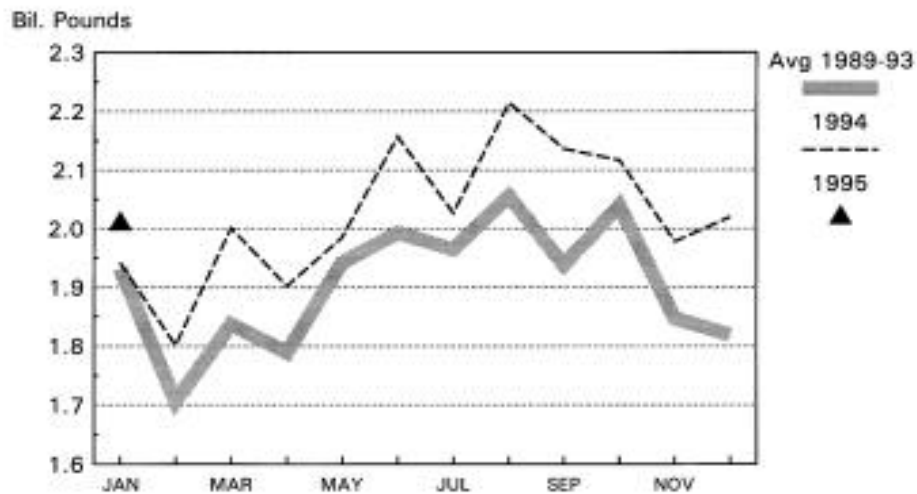


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COMMERCIAL BEEF PRODUCTION

Monthly

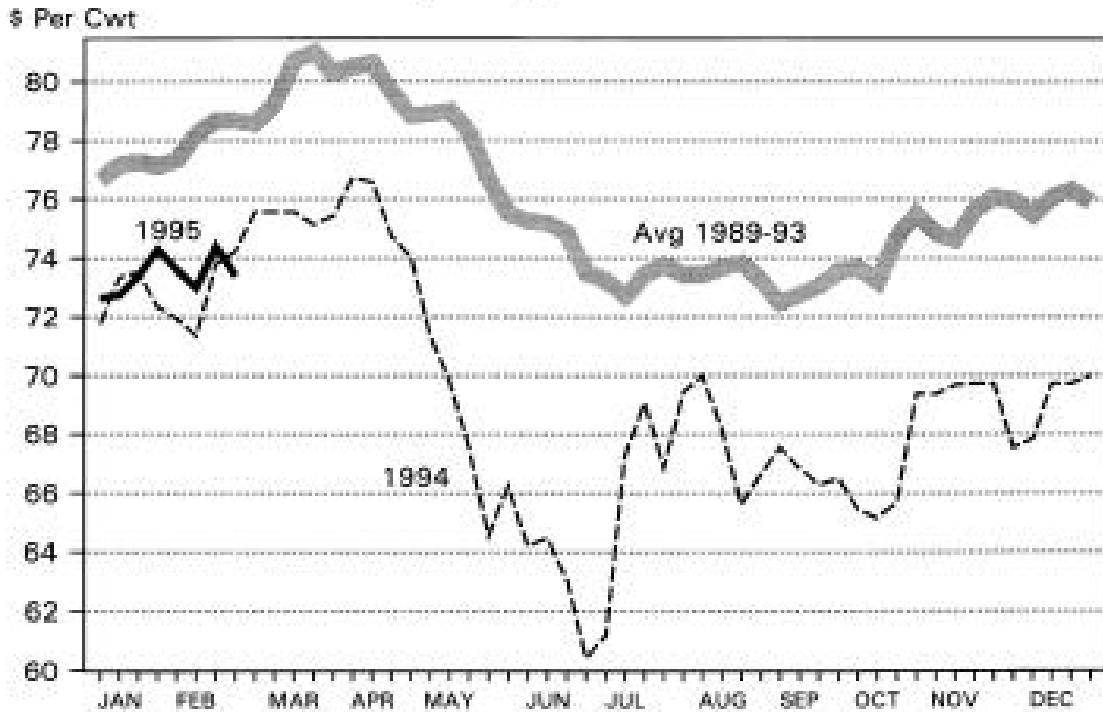


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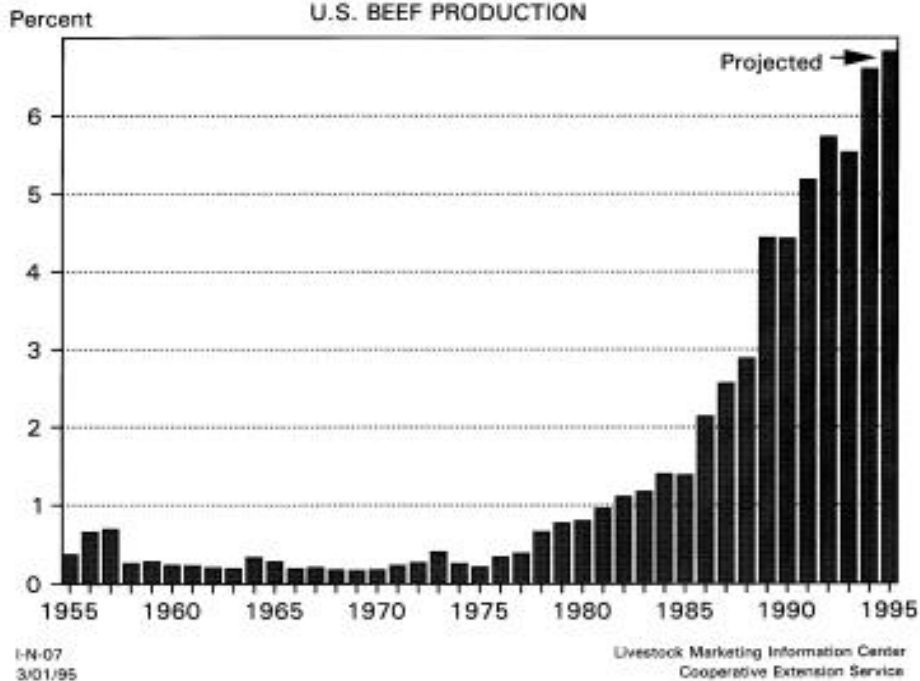
CHOICE SLAUGHTER STEER PRICES

Weekly Average, Southern Plains

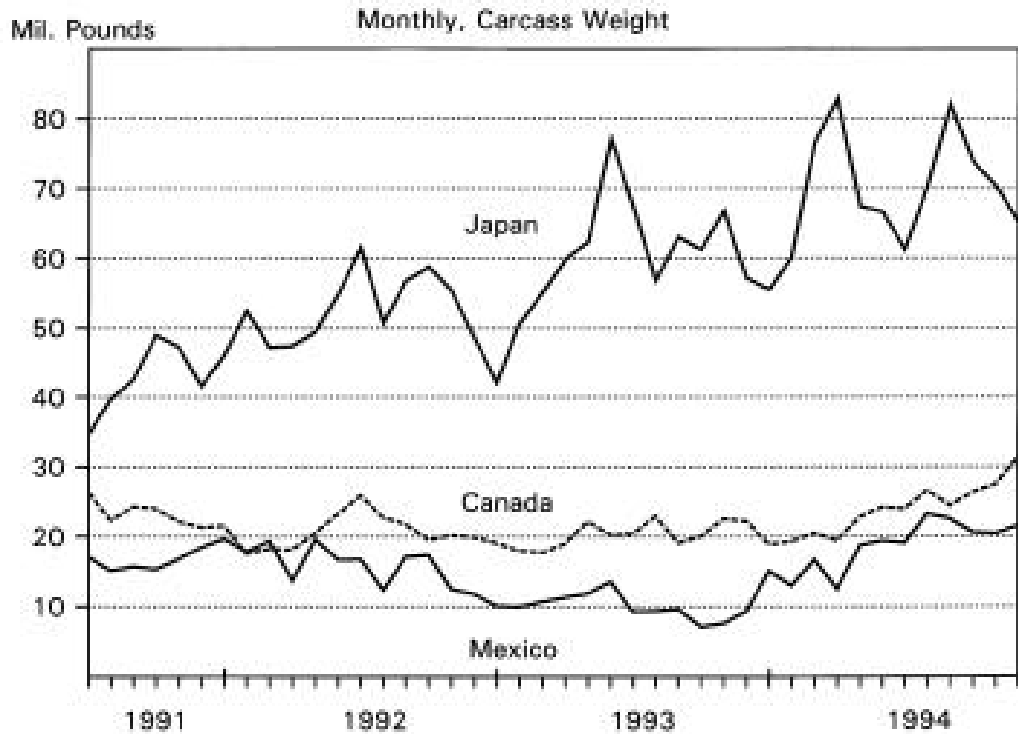


BEEF & VEAL EXPORTS AS A PERCENT

U.S. BEEF PRODUCTION



U.S. BEEF EXPORTS TO MAJOR MARKETS



LN-35
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