

Managing Our Future

Winter 1966 No. 1

Beef Outlook Information



REVIEW OF 1965

Fed Beef

The fourth quarter of 1965 developed as expected. Fed marketings went up 6 percent and choice steer prices eased down to a \$26.50 average for November and December.

The choice steer price averaged \$26.19 at Chicago during 1965—more than \$3 over the \$23.12 average of 1964. The large decrease in total steer slaughter (about 800,000 head) in 1965 must be credited for this price increase. If heifer slaughter had stayed the same rather than increasing by a million head, fed cattle prices would have been much higher.

Lighter average weights, coupled with the higher proportion of heifers, resulted in a 1-percent reduction in total steer and heifer beef production from the high 1964 level.

The demand for fed beef was up about 6 percent in 1965. According to the relationship we have found between supply-demand and price changes in recent years, this combination of supply and demand change could be **expected** to increase prices from 10 to 14 percent. Actually, average 1965 steer prices at seven markets were up 13 percent while average heifer prices were up 11 percent over 1964 (see table 1).

Table 1. Average price per cwt., steers and heifers sold out of first hands at seven markets, 1964-65

Grade	Steers		Heifers	
	1964	1965	1964	1965
	price per cwt.			
Prime	\$23.99	\$27.32	\$22.82	\$25.19
Choice	22.50	25.53	21.95	24.10
Good	21.04	23.47	20.40	22.17
Standard	17.88	20.17	17.70	18.91
Utility	16.50	18.39	16.00	17.19
All grades	21.90	24.78	21.24	23.33

Cow Beef

Cow slaughter was up sharply in 1965. The 25-percent increase pushed

up total commercial beef production in the United States by almost 2 percent despite the decrease in fed beef production. However, this increase in cow beef substituted for beef imports which declined substantially. The net result was a small change in cow prices compared to 1964.

As 1966 began, cow slaughter dropped off rapidly relative to year ago levels. One of the most rapid increases in cow beef prices ever recorded then resulted. In late January, top beef cow prices soared to \$19 at South St. Paul—a high since June 1960. At most markets in January, cow prices were generally about \$3 above year ago levels.

During 1965, cow and heifer slaughter was up enough to decrease total cow numbers by over 1 million head. Current optimism and strong feeder prices will sharply curtail cow slaughter during 1966. Therefore, beef cow numbers probably will increase, despite continued heavy heifer slaughter during the first half of the year.

Decreased cow slaughter in 1966 will hold beef consumption per person below 1965 levels. Consumption in 1965 was about 1 pound per person lower than the record 100.6 pounds in 1964.

Calves

The slaughter and price history on calves is almost identical to that for cows, except that percentage changes were not quite as large. For the first three quarters of 1965, calf slaughter exceeded year earlier levels. As the year closed, calf slaughter dropped below year ago levels; in January 1966, a sharp drop was recorded.

Price movements were in the opposite direction of supply changes. Calves were worth less in 1965 than in 1964 for most of the first three quarters but were worth more after October. In fact, the national 17-percent drop from year ago levels in federally inspected calf slaughter during the last week in January drove veal prices to a record high of \$42 in South St. Paul.

Again, as with cows, the calf slaughter situation in 1966 should reverse from 1965 by dropping sharply. This drop partially will compensate for the smaller calf crop expected in 1966, thereby bolstering the supply of feeders later in the year.

OUTLOOK FOR 1966

The 1966 outlook is excellent for all types of livestock producers. Lower production and resulting higher prices for dairy products, pork, lamb, and cow beef will strengthen the demand for fed beef.

Demand for steer and heifer beef also will be increased by the continued growth in consumer incomes, population changes, low unemployment levels, and high military expenditures. Therefore, we estimate that total demand for fed beef during January-June will be 8 percent above the demand during the first half of 1965. Demand changes for the last half of the year may be somewhat lower.

On the supply side, the increase in fed beef marketings probably will not be as large as the increase in demand. So prices should remain above 1965 levels throughout the year except, possibly, in late May. However, the extent and variation of supply increases by periods may be quite variable and difficult to predict.

Three factors point to somewhat higher fed beef marketings at midyear than were projected earlier.

1. Most important is the continued high levels of heifer placements. On January 1, 12 percent more heifers were on feed in contrast to only 2 percent more steers. Over 1 million heifers in the 500-699 pound weight group were on feed—an increase of 200,000 or 24 percent over January 1, 1965.

Moreover, figures on feeder sales in January indicate that the heifer movement still was running over year ago levels despite reduced available supplies in inventory. Consequently, increased marketings of fed heifers will account for most of the increased marketings out of feedlots through mid-year.

2. With the increased publicity on the emerging favorable beef situation, more "two-way" cattle have been returning to feedlots. The delay in slaughter of these cattle will have two effects on price patterns. It will increase beef prices during the next few months. But, it will hold prices down in the second quarter as these cattle come back to market at considerably heavier weights.

This article was prepared by Paul R. Hasbargen and Kenneth E. Egerton, extension economists, University of Minnesota, on February 14, 1966.

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3. The trend toward heavier market weights may move faster than expected. We anticipate a 20 to 25-pound increase in average steer weights in the first half of the year. In January, weights were already up 10 pounds over a year ago; by May, they could be up by 40 pounds. If so, a significant price decline could occur during April and May.

Table 2 shows our breakdown of cattle on feed, grouped into weight combinations according to probable marketing period. Cattle in the heaviest weight group will be marketed during the first quarter, causing a 4 to 5-percent increase over year earlier marketings.

However, the 15-percent increase in the second group overstates the probable increase in fed cattle marketings during the second quarter. (Remember, this weight group was up by 11 percent in the October cattle on feed report but was reduced to a 4-percent increase in the heavier weight group on January 1.) Actual marketings in the second quarter could be up by 5 to 10 percent, depending in part upon the disposition of "two-way" cattle during the next few months.

Table 2. Cattle on feed in 32 states on January 1 by weight groups, 1965-66

Weight group*	Number on feed		Percent change
	1965	1966	
thousands			
S over 900			
H over 700	3,097	3,251	+4
S 700-899			
H 500-699	2,826	3,239	+15
S 500-699			
H under 500	2,293	2,257	-2
S under 500	1,053	1,013	-4

*S=steers and H=heifers.

Marketings during the last half of 1966 probably will be up slightly over 1965 levels as feedlot operators attempt to put every available feeder on feed. However, calf movements and placements should remain below year ago levels because present owners are in a "holding mood." Unless increased feeder prices entice larger movements of lightweight feeders into feedlots, fall sales out of feedlots cannot increase greatly.

Table 3 shows the marketings we expect out of feedlots in 32 states for each quarter of 1966 compared to 1964 and 1965.

Price predictions hinge greatly on projections made concerning average

Table 3. Marketings and projected marketings of fed cattle in 32 states by quarters, 1964-66

Quarter	1964	1965	1966
	millions		
Jan.-Mar.	4.2	4.4	4.6
Apr.-June	4.5	4.3	4.5
July-Sept.	4.2	4.4	4.4
Oct.-Dec.	4.2	4.4	4.5
Total	17.1	17.5	18.0

Table 4. Expected change in fed beef production and in choice steer prices at Chicago, 1966

Period	Percent change in fed cattle marketings	Percent change in fed beef production	Choice steer prices	
			1965	1966
Jan.-Feb.	+4	+3	\$24.15	\$27.25
Mar.-Apr.	+5	+5	24.90	28.00
May-June	+5	+7	27.25	28.00
July-Aug.	+2	+4	27.05	29.00
Sept.-Oct.	0	+3	26.90	30.00
Nov.-Dec.	+2	+4	26.50	29.00

weights as well as numbers. In 1965, average steer weights decreased 3 percent from 1964. In 1966, weights probably will be up by about 2 percent. If weights increase by 4 percent instead, this extra beef would hold prices \$1 lower than projected. This situation could occur in the second quarter.

Table 4 shows our price predictions based on the projected changes in fed beef production shown. Since most of the increase in marketings will be in heifer numbers, total fed beef production will not increase as rapidly as marketings during the next few months despite higher average weights.

The pattern indicated is one of increasing prices through February and into March. Some weakness could develop in April and May. However, forthcoming predictions of a probable price drop at that time should discourage feeding to heavier weights, thereby preventing any serious price break. After midyear, prices should move up again. Of course, how high they go depends on the level of placements in the months ahead as well as changes in demand conditions.

FEEDER SITUATION AND OUTLOOK

Since steer slaughter was down during 1965, more steers were available for

going into feedlots on January 1st. Heifers were in the opposite position after the high slaughter level of 1965.

Prices on these heavier feeders will move up strongly so long as fed prices show strength. Some good buy opportunities could develop in the spring for heavier feeders.

Movements of lightweight feeders appear to be at a slow pace relative to the increased numbers which should be available. The 1966 calf crop will be down by over a million head—with almost all of the decrease in dairy calves. Subsequently, supplies of feeder calves will be relatively tight this fall, with choice calves bringing over \$30.

MANAGEMENT IMPLICATIONS

1. Avoid buying heavy "two-way" cattle.

2. The price margin per cwt. between steers and heifers narrowed more rapidly than expected, dropping to less than \$1 in January. Nevertheless, unless demand for lightweight carcasses shifts significantly, heifer beef prices will be under more pressure in April and May than steer prices. Consequently, you might move heifers out of feedlots as rapidly as possible during the next 2 months.

3. Cattle futures in late January ranged upward from about \$27 for February futures to about \$29 for December futures. The January 1 cattle on feed report brought prices down from earlier highs—especially the April and June contract months.

We expect that futures prices will strengthen again with cash prices in February. Watch the futures market. If prices move above your expectations for some months in the year ahead, consider hedging some of your cattle by selling on the futures market.

4. Replacement feeders will be expensive all year. If the predicted high fall price on fed cattle develops, yearling feeder prices may be "out-of-line" next fall. Therefore, if facilities permit, consider buying lightweight feeders as opportunities for good buys arise this spring.

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