Managing Our Future

Beef Outlook Information

Summer 1966 No. 3

SITUATION AND REVIEW

The downturn in the cattle cycle has continued more rapidly than we expected. Because of the heavy slaughter of cows and heifers, choice steer prices have declined more than was anticipated. The heavy slaughter of dairy cows, despite significant increases in milk prices, has been an important factor in holding up the level of nonfed beef production.

In light of the improved beef outlook, the unusually heavy cow and heifer slaughter probably has continued because of the:

- Farm labor shortage—especially important in the dairy cutback.
- Strong demand for cow beef with accompanying high prices.
- Financial needs of some cattlemen.
- Dry range conditions in some areas.
- Possible uncertainty of some producers, with subsequent attitude that a "bird in hand is worth two in the bush."

Some of these factors, such as dry weather and strong cow prices, may encourage the marketing of she-stock for some months to come.

As a result of the heavy 1966 slaughter, cattle numbers will be lower next January 1 than they were on January 1, 1966. The sharp reduction we expect in breeding herds will have important implications, as discussed later, for both the beef and dairy industries.

The large increase in fed cattle marketings (up 11 percent during the second quarter over a year ago), coupled with the heavier average weights, has resulted in increased supplies of well finished beef. Consequently, prime and choice steer prices have declined much more than prices on other grades and classes. In fact, canner cows are bringing $4 more per cwt. than they were a year ago, standard steers are selling at the same price, and prime steers are bringing $3 less (see table 1).

Table 1. July 1 cattle prices by grade and class, Chicago, 1965-66

Grade and class	1965	1966	Change from a year ago
Prime steers	$28.93	$25.99	−$2.94
Choice steers	27.54	24.98	−$2.56
Choice heifers	26.40	24.12	−$2.28
Good steers	25.65	24.21	−$1.44
Good heifers	23.78	22.58	−$1.20
Standard steers	22.92	22.91	−$0.01
Standard heifers	21.25	20.55	−$0.70
Utility steers	20.34	20.78	+$0.44
Commercial cows	14.95	18.30	+$3.35
Utility cows	14.88	18.25	+$3.27
Cutter cows	13.58	17.50	+$3.92
Canner cows	12.68	16.68	+$4.00

Source: *Livestock, Meat, Wool, Market News* 24(27): July 6, 1966.

The price difference between prime steers and canner cows has narrowed from $16.25 in 1965 to only $9.31 at present. Relative supplies of these cattle have not warranted such a large change. Consequently, some shift in demand—favoring processed meat over table-cut beef—probably has occurred. Factors contributing to the shift may include:

1. The long period of hot weather.
2. Low pork supplies.
3. The increased number of processed meat products available.
4. The increased number of working wives who demand "quick-serve" meats.
5. Suggestions made in Washington that consumers shop for low priced foods.

LONGRUN IMPLICATIONS

The continued high rate of cow and heifer slaughter during the first half of 1966 should result in a smaller cow herd and calf crops during the next few years. To satisfy the increasing demand for fed beef, feeders will bid strongly for the decreased supply of feeder cattle. High feeder prices will attract substantial additional feeder supplies from Canada and Mexico.

High feeder prices will make the cow herd a more favorable enterprise relative to cattle feeding than it has been in recent years. While the slaughter market moves up, cattle feeders also should realize good returns. These favorable returns will result in further expansion of feedlot capacities. Afterwards, every downward movement in fed cattle prices will bring losses to cattle feeders who bid too actively for feeder cattle.

Therefore, Minnesota feeders should watch their feedlot costs carefully. To avoid getting caught in temporary price breaks, they should also try to spread out purchases and sales.

When the holdback for cow herd expansion gets underway, there will be a shortage of beef for manufacturing purposes. The shortage probably will be intensified by a slowdown in the rate of decline of the national dairy herd. Recent milk price increases are expected to have this effect.

If, as suggested earlier, the demand for processed beef increases, this situation would aggravate the problem further. Although increased imports will partially fill the gap, there are legal limitations on this source. So, in the years ahead, manufacturers of processed meat products will face high raw material costs and will look for beef substitutes. Synthetic meat products may become increasingly competitive.

With the strong price prospects for low quality beef for the next few years, Minnesota cattlemen should divert additional dairy calves from slaughter. Some feeders should consider feeding programs that will help meet the demand for low grade cattle.

In summary, because of the continued liquidation of cattle, summer prices have dropped lower than was expected. But prices will move even higher during the next few years than we earlier anticipated. While cowmen will prosper under these conditions, some feeders may find margins quite narrow at times. A rapidly expanding feedlot sector may be plagued with overcapacity and excess competition; high cost operations may experience severe losses when prices turn down.

CATTLE ON FEED, JULY 1ST

The number of cattle on feed on July 1 was 11 percent over year-earlier numbers. The 5.8 million steers on feed

This article was prepared on August 1, 1966, by Paul R. Hasbargen and Kenneth E. Egertson, extension economists, University of Minnesota.

reflected a 10-percent increase; heifer numbers were up 15 percent to 2.5 million head. The distribution of these cattle by weight groups is shown in table 2.

Table 2. Number of steers and heifers on feed on July 1 by weight groups, 1964-66

Weight group	1964	1965	1966
	thousands of steers		
Under 500	126	146	170
500-699	742	939	1,054
700-899	2,091	2,318	2,434
900-1,099	1,544	1,552	1,767
Over 1,100	428	313	344
Total	4,931	5,268	5,769
	thousands of heifers		
Under 500	113	134	157
500-699	640	768	916
700-899	1,017	1,137	1,239
900-1,099	197	182	236
Over 1,100			
Total	1,967	2,221	2,548

Although more than twice as many steers than heifers are on feed, heifer feeding has shown a relatively larger increase during the past 2 years. There was a 30-percent increase in heifers on feed over the 1964 levels, compared with a 17-percent increase in steers.

Part of this rise in heifer feeding is due to large increases in the rapid growth feeding areas in the South. For example, heifer feeding has almost doubled in Texas (148,000 to 276,000),[1] while steer feeding has remained constant. In contrast, heifer feeding in Minnesota has expanded only 15 percent in the past 2 years (110,000 to 127,000). However, Minnesotans still feed more steers than do Texans—264,000 compared to 148,000.

Table 3. Cattle on feed in 32 states on July 1 by weight groups, 1964-66

Weight groups*	Number on feed 1964	1965	1966	Percent change 1965-66
	thousands			percent
S over 900 H over 700	3,186	3,184	3,586	13
S 700-899 H 500-699	2,731	3,086	3,350	9
S 500-699 H under 500	855	1,073	1,211	13
S under 500	126	146	170	16

* S = steers and H = heifers.

Table 3 shows the classification of cattle numbers into groups according to probable marketing quarters.

The grouping in table 3 suggests that fed cattle marketings will continue at high levels through the third quarter. The 13-percent increase in the heavy cattle group supports the reported intentions of cattle feeders to market 11 percent more cattle during July, August, and September than they did a year earlier.

Since the supply of feeder cattle not yet on feed is lower than a year ago, the number of short-feds should decrease in the months ahead. Consequently, total fed cattle marketings cannot continue to exceed year-ago levels as much as they do at present.

FED CATTLE PRICES

Table 4 shows past and projected fed cattle prices by quarters. Third quarter prices will be variable. But, if nonfed marketings are reduced, we expect some improvement from July levels. However, if average weights continue to increase, choice steer prices will decrease.

Prices probably will move up during the final quarter of the year. Moreover, in light of the reduced number of yearling feeders available and the probable holdback of heifers for herd replacements this fall, prices should continue up in 1967. The second quarter could see some $30 cattle.

Table 4. Past and projected choice steer prices at Chicago, 1965-67

Quarter	Choice steer prices* 1965	1966	1967
Jan.-Mar.	$24.04	$27.75	$28.00†
Apr.-June	26.24	26.67	29.00†
July-Sept.	26.42	26.00†	
Oct.-Dec.	26.23	27.00†	

* Chicago, 900-1,100 pounds.
† Estimated

FEEDER SITUATION

The supply of yearling heifers not yet on feed is estimated to be down by over half a million head compared to 1965 levels. However, the number of yearling steers apparently has increased by over 200,000.

The 1966 calf crop has been estimated to be about 900,000 less than the 1965 crop. Most of the decrease is in dairy calves.

Feeder cattle imports during 1966 will be up about 200,000 head over 1965 levels. U.S. calf slaughter will be down by more than 100,000.

The total available supply of both yearlings and calves will be under a year ago. Nevertheless, with the continued increased movement of cattle through feedlots and the low feed supplies in some range areas, placements are expected to remain high.

If heavy sales occur because of the feed situation, prices could weaken slightly in early fall. However, we expect prices to move upward by late fall.

MANAGEMENT IMPLICATIONS

1. Consider buying replacement cattle early this fall. Don't count on much decline from summer price levels unless the western feed supply situation continues to deteriorate.

2. Watch for opportunities to hedge on futures markets on both feeders and fed cattle. Feeder cattle futures have been traded since June 20.

3. Consider holding all cows that will produce calves. You might also hold back additional heifers for later sale as bred heifers. Cows will become valuable as breeding stock due to the declining cow herd.

4. Don't carry cattle to top finish during the third quarter because current price relationships usually will not justify added costs.

[1] A change in reporting procedures in Texas may account for some of this increase

Issued in furtherance of cooperative extension work in agriculture and home economics, acts of May 8 and June 30, 1914, in cooperation with the U. S. Department of Agriculture. Luther J. Pickrel, Director of Agricultural Extension Service, University of Minnesota, St. Paul, Minnesota 55101. 7.5M—8-66