



Beef Outlook Information

SITUATION AND REVIEW

After a steady decline from spring highs, choice steer prices advanced by about \$1 from early July to September. However, this gain was more than lost in October.

Large marketings of heavy steers are keeping the pressures on prices of well finished cattle. From the demand side, consumer resistance to higher priced meat products adds to this pressure. Therefore, the usual price differential between wholesale choice and good beef carcasses has almost been wiped out.

This situation is, in turn, reflected in live cattle prices. The September price difference between choice and good steers at Chicago was only \$1 compared to \$2.02 a year earlier. October quotations were even less.

Average steer weights have continued to increase relative to a year ago (see table 1). In January the average market weight of all steers at 15 markets was 15 pounds higher than in January 1965. By September the difference was 27 pounds. This increase has resulted because more of the steers marketed have been from feedlots and because of increased marketing weights of fed cattle (choice steers averaged 21 pounds heavier in September 1966 than in September 1965).

Table 1. Average market weight of all steers sold at 15 markets

| Period | 1964 | 1965 | 1966 |
|------------|-------|-------|-------|
| Jan.-Mar. | 1,161 | 1,109 | 1,126 |
| Apr.-June | 1,135 | 1,096 | 1,118 |
| July-Sept. | 1,095 | 1,078 | 1,105 |
| Oct.-Dec. | 1,104 | 1,099 | |

Cattle slaughter during the first 8 months of this year was 3 to 5 percent greater than in 1965; USDA reported a 5-percent increase in **federally inspected** slaughter. Fed cattle marketings were 12 percent higher in the third quarter than in the same period a year ago.

However, total cattle slaughter has been below year-earlier levels since August, due mainly to the large dropoff

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

in cow slaughter relative to a year ago. Although the margin of increase is declining, heifer slaughter is still above 1965 levels.

This long-awaited reduction in slaughter of she-stock, coupled with the reduction in calf slaughter, signals the beginning of the end of the downturn in the cattle cycle. However, even if cow slaughter averages 25 percent lower than in the third quarter for the last quarter of 1966, the national herd still will be sizably smaller on January 1, 1967 compared to a year earlier. Total cattle numbers should level off in 1967 and begin to increase in 1968. Some longrun implications of this trend were discussed in the summer report.

CATTLE ON FEED, OCTOBER 1

Compared to October 1, 1965, steers on feed were up 9 percent to 5.6 million head while heifers were up 4 percent to 2.3 million head. Heifer numbers were down 9 percent from the July 1 level while steers were down only 3 percent. The slight reduction in placements of lightweight heifers on feed also indicates the beginning of a holdback for herd rebuilding (see table 2).

Minnesota showed a larger increase than any other state in the number of lightweight heifers on feed. On October 1, Minnesota had 45,000 heifers under 700 pounds on feed in contrast to 24,000 a year ago. This **88-percent increase** stands in sharp contrast to the **8-percent decrease** in this weight group in the other 11 north-central states. On the other hand, Minnesota had one-third fewer light steers on feed while the other states had increases.

In view of current trends toward heavier marketing weights and fewer

Table 3. Cattle on feed in 32 states on October 1 by weight groups, 1965-66

| Weight groups (pounds)* | Number on feed | | Percent change, 1965-66 |
|------------------------------|----------------|-------|-------------------------|
| | 1965 | 1966 | |
| thousands | | | |
| S over 900 } H over 700 } | 3,491 | 3,798 | + 9 |
| S 700-899 } H 500-699 } | 2,545 | 2,664 | + 5 |
| S 500-699 } H under 500 } | 1,039 | 1,159 | + 11 |
| S under 500 | 274 | 307 | + 12 |

* S=steer; H=heifer.

heifer placements, this "trend-bucking" on the part of Minnesota feeders should prove rewarding. Lightweight carcasses should become relatively higher priced as heifer slaughter drops off in early 1967. The September price differential of \$1.65 between choice heifers and choice steers at Chicago could drop to 50 cents by early spring.

Table 3 shows the classification of cattle numbers on feed into weight groups on October 1. Although fed cattle marketings probably will continue at high levels during this fourth quarter, a decrease should occur compared to the past quarter.

Cattle feeders reported intentions to market 7 percent more cattle during the October-December period than they marketed in that period last year. These intentions agree with the 9-percent increase in heavyweight cattle on feed and the tendency to market at heavier weights. However, these figures do not include cattle that are placed and marketed during the quarter (short-feds). A probable decrease in short-feds should hold the overall increase to about 7 percent.

At about the first of 1967, marketings

Table 2. Number of steers and heifers on feed on October 1 by weight groups, 32 states, 1965-66

| Weight group (pounds) | Steers | | Percent change | Heifers | | Percent change |
|-----------------------|--------|-------|----------------|---------|-------|----------------|
| | 1965 | 1966 | | 1965 | 1966 | |
| thousands | | | | | | |
| Under 500 | 274 | 307 | +12 | 229 | 221 | - 3 |
| 500-699 | 810 | 930 | +15 | 720 | 718 | 0 |
| 700-899 | 1,825 | 1,945 | + 7 | 979 | 1,017 | + 4 |
| 900-1,099 | 1,900 | 2,030 | + 6 | 288 | 359 | +25 |
| 1,100 and over | 324 | 392 | +21 | | | |
| Total | 5,133 | 5,604 | + 9 | 2,216 | 2,315 | + 4 |

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of heifers out of feedlots will drop below year-earlier levels. However, steer marketings will continue 5 to 7 percent higher during the first quarter. Consequently, total fed cattle marketings should average 3 to 5 percent over the first quarter of 1966.

Table 3 shows a substantial percentage increase in the lightweight groups headed for markets in the second and third quarters of 1967. But the actual number increase is not very large—120,000 head in the third group and 33,000 in the steer calf groups in contrast to an increase of 307,000 head in the heaviest group.

Moreover, changes in these lightweight groups often only indicate the rate at which lightweight cattle are put into feedlots. With a given supply of feeders, earlier placement simply reduces the supply available for later placement on feed.

Considering the estimated supply of steers, marketings of fed steers in the second quarter probably will about equal this year's second quarter marketings. Hence, total fed cattle marketings will be lower by an amount equal to the reduction in fed heifer marketings.

Third quarter marketings will largely depend upon the rate of calf placements in the next few months. With lower placements of heifer calves, total calf placements probably will not be any higher than last year.

PRICE PROSPECTS

Table 4 shows past and projected cattle prices by quarters. The only thing in the picture that might change projections from last quarter is some added pressure on both the supply and demand sides on prices for highly finished cattle. Much publicity has been given to housewives who have organized to "fight inflation." Unfortunately, food prices receive the brunt of their attacks because people are most conscious of

prices on the goods they purchase most frequently. Attempts by consumers to lower food costs may adversely affect the demand for high grade beef. Consequently, unless producers decrease the relative supply of choice and prime beef, these products will not command enough of a price margin to justify the added production costs.

Average market weights usually increase in the late fall and winter months. The danger is that they may now increase more than usual, thereby prohibiting any gains in the price of choice steers. Many feeders apparently have forgotten their heavy losses in 1963-64 and are again holding back in hopes of a better market. Therefore, we are reducing our price projection for the fourth quarter.

October prices on choice cattle were below year-ago levels. Significant improvement from current levels may be delayed until December. Therefore, average prices for choice steers in the fourth quarter may be little different than a year earlier. **However, prices on all lower quality cattle will be above year-earlier levels.**

Given an overall consumer demand that remains strong during the first half of 1967, beef prices will have to move up in order to ration out a limited supply. But since the production mixture of grades apparently is moving in the opposite direction of demand, lower grades of beef may show relatively more price strength than higher grades. Nevertheless, choice beef prices should

increase in the first quarter and may jump more in the second quarter as total fed cattle marketings drop below year-earlier levels.

MANAGEMENT IMPLICATIONS

1. When buying feeders, remember that light cattle usually have an advantage in periods of increasing cattle prices.

2. When comparing profit prospects between heifers and steers, realize that price differentials will be smaller in 1967 than in 1966.

3. When comparing profit prospects from different grades of feeders, remember that price margins on slaughter grades usually narrow as an increased proportion of the cattle sell at heavy weights. Consider also the growing pressures on grocery stores to cut prices. Finally, remember that higher grade feeders do not perform any better than lower grade feeders in the feedlot. In fact, choice beef breeds usually perform less efficiently than cattle of mixed breeding.

4. Continue to sell cattle before they put on excess finish because:

- The price differential will be small.
- Feed costs will be high.
- Cost of replacement feeders will increase.
- The excess beef production will continue to hold all beef prices down.

5. With grain prices moving up, consider utilizing added roughage in the ration. Liberal roughage programs become relatively cheaper as grain prices increase.

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 | \$27.50† |
| Apr.-June | 26.24 | 26.67 | 29.00† |
| July-Sept. | 26.42 | 25.52 | 29.00† |
| Oct.-Dec. | 26.23 | 26.25† | |

* Chicago, 900-1,100 pounds.

† Estimated.

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