HIGH BEEF PRICES WILL MEAN HERD EXPANSION

Cattle numbers continue to drop, but there are signs that herd expansion may begin later this year. The beef cow herd inventory was reported as smaller in the January 2003 USDA Cattle report. Now at 32.9 million head, the beef cow herd has dropped 7 percent since 1996. The current beef cow cycle is now 14 years old, with the previous low on beef cow numbers occurring in 1989. This very long cycle will likely come to a close later this year as producers have retained about 1 percent more heifers for replacements, with the number of replacements that will calve in 2003 up 3 percent.

The number of beef cows on January 1, 2003 was down a modest 0.5 percent. In the Eastern Corn Belt, numbers were down 1 percent led by declines in Illinois (down 19,000 cows) and Ohio (down 20,000 cows). Indiana, Wisconsin, and Michigan each reported some increase in beef cow numbers. Around the country, small increases in cow numbers occurred in the Western Corn Belt, the Southern Plains, and the Southeast, all other regions had decreases. The Northern and Central Plains as well as the western U.S. all had decreases due to the pervasive drought that limited pastures and forage supplies in 2002. Current drought indicators show no signs of improvement in most of those regions. For the dairy herd, cow numbers were up by 0.4 percent. Unfortunately, there is still no sign that producers are reducing cow numbers in response to the dismal milk prices in 2002, which were the lowest since 1980. In addition to a slightly higher number of cows in production, heifers being retained for breeding stock were up 1 percent. The continuation of higher milk cow numbers is a sign of even larger milk supplies this year.

With declining beef cow numbers and increasing milk cow numbers, the total number of cows is only down a modest 0.3 percent. The 2002 calf crop was down only 0.2 percent.

Cattle on-feed numbers were down 8 percent as of the beginning of the year. While placements in both November and December were moving back upward, the number of market ready cattle coming out of feedlots will be small in coming months. Carcass weights in 2002 were up 2.8 percent, and accounted for most of the 3.8 percent increase in total beef production for the year.

So far this year, beef supplies have been down nearly 3 percent, providing the primary reason for finished cattle price strength. First-half supplies will be drawn from the number of steers weighing over 500 pounds (down 1.2 percent) and heifers weighing over 500 pounds not headed back for replacements (down 1.7 percent). Second-half supplies will be drawn from the number of calves weighing under 500 pounds on January 1 (down 1.3 percent). Beef supplies for the rest of the year will also be influenced by marketing weights, by weather and drought conditions, and the resulting rate of cow slaughter.
Cold weather limited gains this winter and resulted in some delays of cattle coming out of feedlots, contributing to the 3 percent drop in January beef production. In the last-half of the winter, there will be some “catching-up” of marketings which will contribute to larger supplies. Beef production may be down about 1 percent in the first quarter and down 2 percent in the second quarter. Heifer retention could begin to accelerate in the second-half of the year, and combined with declining cow slaughter may also reduce total beef supplies by as much as 3 percent to 4 percent.

Choice cattle prices are expected to dim somewhat in the next few weeks as slaughter supplies increase from the cold-weather delays. However, prices could still reach new highs in the very low $80s in late March and early April. The decline in prices in the summer is not expected to be as severe as normal, with prices dropping back into the lower $70s by the end of the summer. Prices in the fall are expected to move into the mid-to-higher $70s.

Calf prices in the fall of 2003 are expected to recover substantially compared to last fall. As an example, Oklahoma City 500-550 pound steers averaged $88.38 last fall. If finished cattle prices remain strong, and if feed prices moderate with “normal” weather this summer, calf prices could return to the very high $90 to low $100’s per hundredweight.

The cattle market is trading at lofty levels, which makes it even more vulnerable to uncertainties, including a potential armed conflict and a still shaky recovery in the general economy. In addition, continued drought in the Mountain States, as well as the Central and Northern Plains, could keep cow slaughter much larger than anticipated and reduce the number of heifers retained for replacements.

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