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# Fed cattle market is guardedly optimistic, says K-State's Sands


## Abstract

Returns to cattle feeders should move back into the profit column during most of 1982. but feeding margins will remain narrow, says Mike Sands, extension economist specializing in livestock marketing at K-State. "Most of the improvement in profitability compared with last year will result from lower feed and feeder prices, rather than a dramatic rise in fed cattle prices." he points out. With Choice steer prices expected to average in the $64-66 cwt. range during January-June. feeding returns should average on the positive side, in sharp contrast to the average $95-per-head losses suffered during the first half of 1981. Sands believes. Total commercial cattle slaughter reached 34.9 million head in 1981. about 3% larger than a year earlier. Although fed cattle marketings dropped about 1% from 1980 levels, the decline was more than offset by a 14% rise in nonfed steer and heifer and cow slaughter. "Certainly, the lack of growth in consumers' inflation-adjusted incomes during the past year has contributed to the dismal economic performance of the cattle industry," Sands comments. "But, perhaps more importantly, total red meat and poultry supplies climbed to a record 53.1 billion lbs. in 1981. about 1.5% more than the year-earlier record.



## Keywords

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"Certainly, the lack of growth in consumers' inflation-adjusted incomes during the past year has contributed to the dismal economic performance of the cattle industry," Sands comments. "But, perhaps more importantly, total red meat and poultry supplies climbed to a record 53.1 billion lbs. in 1981, about 1.5% more than the year-earlier record.

### Cattle Inventory Down

The inventory of cattle on feed in the 23 major feeding states on Jan. 1 totaled 10.1 million head, down 9% from a year earlier and the lowest for that date since 1975. Most of the decline came on both lighter-weight steers and heifers, which reflected a large drop in summer and fall placements.

Sands expects first-quarter fed cattle marketings to be down 1% from a year earlier, as indicated by Jan. 1 marketing intentions. "Considering the severe winter weather, marketings could turn out somewhat smaller than intentions," he adds. However, larger nonfed cattle slaughter is likely to push total slaughter slightly above last year.

April-June marketings of fed cattle will probably be down 4-6% from 1981 levels, a substantially smaller decline than suggested by the inventory of lighter weight cattle on feed on Jan. 1. Sands says nonfed cattle slaughter will probably total about the same as a year ago.

Editor's Note: This series of articles is from the "Spring Insight '82" program conducted by Extension Economists at KSU.

"After dipping below year-earlier levels in the April-June quarter, commercial beef output will probably resume its upward trend in the second half of the year. Total beef production is expected to rise about 1% during 1982, following a 3% rise in 1981," the economist observes.

After breaking below the $60 cwt. mark in December, Choice steer prices in Southwest Kansas rebounded to around $63 by late January. Further declines in both beef and pork supplies during April-June should provide further support for fed cattle prices.

"On a quarterly basis, expect Choice steers to average $65-68 cwt. during the second quarter," the livestock marketing specialist says.

Cyclically declining pork production and a stronger economy are likely to offset part of the negative impact of larger beef supplies during the last half of 1982. Still, he says, Choice steer prices are likely to trade mainly in the lower $60's during the third quarter and even lower during the fourth quarter of this year.

"For the year, Choice steer prices should average around $63-65, but will trade in a range from the upper $50's to the upper $60's," Sands concludes.

## Feeder Cattle Prices Will Depend On What Happens in Market for Feds

Several factors will continue to influence feeder cattle prices in the year ahead. Bearing on these prices will be: (1) the profitability of cattle feeding, (2) feed and interest costs; and (3) the available supply of feeder cattle, says Sands.

"In spite of sharp declines in feed costs during the last half of 1981, more rapid declines in fed cattle prices resulted in continued losses for most cattle feeders," he observes. "Consequently, many cattle feeders have been increasingly reluctant bidders on feedlot replacements and feeder prices have weakened relative to fed cattle prices."

Feeder steers weighing 600-700 lbs. have trended lower at Kansas City since late last summer, declining to around $57 cwt. in early January, compared with the upper $60's last summer and the lower $70's a year earlier.

Sands points out that an increasing cow inventory and larger feeder supplies have put additional pressure on feeder prices. Choice yearling steer prices have traded at or below fed steer prices during much of 1981.

"A return to positive feeding margins will be necessary to provide support for feeder prices," he adds.

At the same time, total feeder cattle supplies on Jan. 1 were estimated at about 2% larger than a year earlier. This increase in feeder numbers, particularly the 5% larger yearlings supplies outside feedlots on Jan. 1, coupled with high interest rates, will partially offset the positive price impacts of lower feed costs and improved feeding margins this spring, the specialist notes.

Sands forecasts Choice 600-700-lb. feeder steer prices will move into the mid-$60's cwt. this spring as fed cattle prices strengthen. He believes feeder prices may move into the upper $60's for short periods in the late spring before slipping to the lower $60's cwt. in the second half of 1982.

"Prices for 400-500-lb. steer calves should follow a similar pattern," he observes, "rising from the lower $60's this winter to the lower $70's this spring. Grass demand, interest rates and feed prices will heavily influence price direction this summer."

He adds that current conditions suggest stocker prices could retreat into the upper $60's this summer and to the mid-$60's this fall.

"Steer calves have continued to sell at prices above fed cattle, but the premium has narrowed to about $2-4, compared with $13-15 a year ago," he says.

Abundant feed grain and protein supplies will probably prevent any dramatic rise in feeding costs during the year ahead, he adds. Corn and milo prices this winter were nearly $1 a bu. lower than a year ago in many areas.

## High Interest Hurts

"Historically high interest rates will continue to have negative effects on feeder prices, with backgrounders and cow-calf operators feeling the major impact because they have capital tied up for longer times."

Although interest rates will probably resume their modest downtrend this spring from current levels of 17-18%, no major drop is likely, Sands believes. Consequently, continued high interest rates will keep on dampening feeders' enthusiasm and at least partially offset the effect of lower feed costs on cattle feeding breakeven prices.

Recent declines in feeder prices and falling feed costs have pushed projected average breakevens to the lower $60's cwt. for the first time in more than two years, making profit prospects for cattle feeders appear more favorable for the late winter and spring months, the economist says.