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Cattle Outlook

by

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The short-term outlook for the cattle industry is optimistic while the longer term situation has a few clouds on the horizon. A few of the factors affecting the cattle outlook are discussed in this newsletter.

Short-term Outlook

Cattle prices were higher in 1987 than in 1986 and even higher in 1988 than in 1987. Many forecasters are predicting higher prices for 1989. And, there is good reason for that optimism.

The major positive factor is the lower supply of cattle. There are fewer cattle on feed and placements of cattle on feed have been below 1987 levels for most of the last half of 1988. The nation's calf crop is only 41 million head, approximately what it was in 1961.

The demand situation also is favorable. Beef is being promoted effectively and "good things" are being said about the product. Consumers seem to be "coming back to beef" rather than switching to other products as they were in the 1970's and early 1980's. Even foreign demand, especially Japanese purchases, has improved and is expected to become even stronger in 1989.

If there are negatives for cattle prices in 1989, they come mainly from the general economy, where some problems could develop and cause lower demand for beef. Increased competition also is likely from substitute meats. An increase in pork production and more poultry, both turkeys and broilers compared to 1988, may put a damper on beef prices.

The major unknowns from a profit standpoint are on the cost side. The drought has increased the prices of many inputs, especially roughages and grain. Much of what happens in this area will depend on rain, or the lack thereof, in the Spring of 1989. Also, higher feeder cattle prices mean a higher breakeven price to the feedlot operator.

In total, 1989 should be a good year for the cattle industry, at least in terms of prices. Prices for fed and feeder cattle should be close to or above 1988 levels. Profits may be smaller, however, because of increased costs.

Longer Term Outlook

The next three or four years could be positive ones for the cattle industry, at least from a price standpoint. The same factors which are favorable for the short-term should be favorable for the next few years.

Supplies of cattle will remain low. In fact, if there is any build-up in the nation's cattle inventory, market supplies will be even tighter. Some supply reducing impacts of the drought may be seen in 1990 or 1991. Lower conception rates, reduced calving percentages, and other production problems may be more evident two or three years rather than only one year after the drought.

The demand situation also appears to be favorable for the longer term. However, the beef industry must continue to promote its product and continue to provide the product the consumer wants. There are good substitutes out there and producers of those substitutes are willing and able to provide the product the consumer wants.

There are three other areas which should be mentioned. First, the cattle industry, like many others, is becoming more concentrated. That is especially true at the slaughtering and processing end of the business. That means fewer bidders for

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the product and probably more demands on selected quality specifications.

Second, the industry is becoming more "direct selling" in nature. That means more prices determined in private between the buyer and seller and less "open market discovery of prices". The result is not necessarily lower prices. However, less price information may be available to sellers.

Third, there are some signs that the cattle industry, especially the feedlot and slaughter industries, may be approaching a time when locational changes could be made.

Renewed interest in locating in the Cornbelt, as opposed to the Far West and Southwest, could occur. While that process, if it occurs, will take time, it does bear watching.

Conclusion

The next few years, especially 1989, likely will be good ones for the cattle industry. Weather still is a big unknown but both supply and demand seem favorable. And, while changes likely will occur in structure and location in the 1990's, the early 1990's may be too early to see drastic changes.