

## **The First Guess of the Year 2001\***

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The New Year is here and it looks like the cattle business is going to have another good year. And, it appears that this optimism is going to continue for several years to come. Record beef production levels will finally be down for the first time in four years. Winter-spring quarter fed cattle supplies will be large but by the late spring quarter heavy carcass weights will have fallen and the number of animals on feed will be smaller. These factors will lead the industry into smaller overall beef supplies for 2001.

Spring and summer 2000 feedlot placements were 5 to 10 percent above 1999 placement levels. Fall 2000 saw feedlot placement slightly lower than in 1999. Total placements by quarter show that during this time period a significant number of the placements were at weights lighter than the historic average.

Given these smaller fall placement numbers it is quite likely that beef production will decline substantially in 2001. Smaller available supplies from a smaller national calf crop and lighter out-weights (from lighter placed cattle and higher priced corn) should help moderate overall beef supplies. **Cattle-Fax** is projecting beef production in 2001 to be near 25 billion pounds - about 1 billion pounds below 2000's level.

The fed cattle market has also affected feeder cattle and stocker cattle prices. Feeder and calf prices increase nicely during all of 2000. Carolina 400-500 pound calf prices increased \$10-\$15 per cwt over the 1999 price level. Our calf prices were strongly affected by positive feedlot margins during a large part of 2000. Feedlots bid up the price of calves because corn prices were low and lots needed to be filled. The fed cattle to feeder cattle margin (the difference between the price for live cattle and feeder cattle) reached over \$15 per cwt. This margin declined to near \$10 dollars per cwt as cash fed cattle prices lingered in the high 60's and feedlot profit levels declined.

Fed cattle prices finally moved into the \$70's late in 2000. Live cattle futures are today suggesting prices in the mid to high \$70's for most of 2001. This is a very positive sign. Feedlots will need to have higher fed cattle prices to generate positive returns thus minimizing any decline in feeder cattle prices while offsetting higher corn prices.

Feeder cattle and calf price levels are expected to remain strong over the winter and through the spring of 2001. **Cattle-Fax** predicts that feeder cattle prices will average 110% to 115% of fed prices in 2001. This is an \$8 to \$10 per cwt average

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margin above fed-steer prices. During the last cycle peak in 1991 feeder-steer prices averaged \$12 per cwt or 116% above fed-cattle prices. This margin between fed cattle and feeder cattle prices reached \$17 per cwt in 2000 but has declined, as feedlot losses required a reduction in feeder prices. The old run of thumb is that a strong “negative price margin” between fed and feeder price is about \$10 per cwt. Even though this margin has slipped during the last few months it signals good prices for 2001.

Why worry about the feeder to fed cattle margin? Most producers in the Carolinas don't produce 750-pound cattle nor do they retain ownership of the calves through the feedlot. But this feeder to fed cattle margin still strongly influences calf prices. There is also a relationship between feeder cattle and 500-pound calves (you might call this the calf to feeder margin). In the Carolinas 500-pound calves are typically priced between \$8 and \$10 above feeder cattle.

Late December 2000 prices from South Carolina auctions indicate that lightweight calves averaged \$93 for 400-500 pound calves. The new year started out with prices nearly \$10 above this year-end close. The Chicago Mercantile feeder cattle futures contract for April 2001 is trading at \$86.00; the October contract is \$87.90. If the typical feeder-lightweight calf relationship occurs this year it suggests that the spring price for 500 weight calves will have a substantial support at the mid to high \$90's. And, if USDA's inventory numbers are correct lightweight calf prices could reach \$110 per hundredweight in 2001.

The January 1, 2001 cattle inventory report estimates a one percent reduction in cattle and calves. In the United States as of January 1, 2001, total cattle and calves were estimated to be 97.3 million head, 1 percent below the 98.2 million estimated on January 1, 2000 and 2 percent below the 1999 estimated.

All cows and heifers that have calved were estimated to be 42.6 million head, down slightly from the 42.8 million head estimated in 2000. Beef cows were estimated at 33.4 million head, down 1 percent and milk cows, at 9.2 million head were up slightly.

All heifers 500-pounds and over were estimated at 19.8 million head up 1 percent. Beef replacement heifers were placed at 5.59 million head, up 2 percent. Milk replacement heifers were estimated at 4.05 million head up 1 percent. Other heifers (destined for feedlot placement) were estimated at 10.1, slightly lower than the 2000 level.

The combined total of calves under 500-pounds and other heifers and steers over 500-pounds outside of feedlots was estimated at 28.6 million head, down 4 percent from 2000. The 2000 calf crop was estimated at 38.6 million head, down slightly from both 1999 and 1998. Calves born during the first half of the year are estimated at 28.4 million head or about 74 percent of the annual calf crop.

This reduction in the cow and subsequent calf crop is significant for Carolina cattle producers. It plainly suggests that there are less beef animals and that means less beef available to the consuming public. Given smaller estimated increases in pork and poultry

supplies in 2001 beef prices should have the ability to increase at the retail level and not significantly affect prices at the producer level.

Another important point to consider in the inventory numbers released by USDA is that this is the first year in the last four that beef replacement heifer numbers were expected to increase. This signals the end of the last cattle cycle and the start of the next. Beef cattle numbers will likely increase for the next few years.

This increase while signaling an increase in beef production in the long term also suggests profitable shorter-term profits for beef producers. The expansion of the beef herd will occur through producers saving heifers and not sending these animals to the feed yard. In the short run feed lots will have smaller numbers of animals to feed thus curtailing beef production.

On the other hand, heifer retention means more calves and increases in future beef production. This suggests lower producer prices and returns. When will this occur? The production cycle of the beef animal gives us some indication of when we can expect prices to turn lower. If a producer saved a spring heifer from the 2000 calf crop she would be bred at about 15 to 18 months of age. A cow's gestation period is about 9.5 months. It will take another 14 to 20 months for this calf to grow, be finished and slaughtered. In total the impact of the producer's decision to save a 2000 heifer and expand his herd will not likely be felt until some time in 2003 to early 2004.

Cattle producers have decided to rebuild the cattle herd. The cattle cycle is starting anew. Set your clocks, cattle producers should have good prices and returns for the next three years.