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CATTLE ON FEED inventories rose above the year-earlier level during the third quarter. According to the U.S. Department of Agriculture, the October 1 inventory of cattle on feed in the 23 major feeding states totaled 9.3 million head, up 2 percent from a year earlier but otherwise the smallest number on feed since 1968. This is the first time in two years that there has been any year-to-year increase in the quarterly inventory; and the upward movement also represents a departure from the normal July-October downtrend. (The July 1 cattle on feed inventory stood at 8.5 million head.) Despite the increase in inventories, fed cattle marketings will most likely continue to lag the year-earlier level during the fourth quarter.

Seventh District states followed widely divergent trends with respect to inventories of cattle on feed. Cattle on feed inventories in Illinois on October 1 were up 20 percent from a year earlier. Inventories in Indiana were identical to a year ago, but inventories in Wisconsin, Michigan, and Iowa were down 2, 5, and 8 percent, respectively, from year-earlier levels. The wide difference between the Illinois and Iowa experiences probably reflects the contrasting crop outlook that developed over the course of the summer. Illinois farmers were contemplating record yields—particularly for corn—as a result of ideal growing conditions, whereas Iowa farmers, suffering from an abnormally dry summer, expected yields substantially below the trendline.

Total cattle slaughter exceeded 10 million head during the third quarter, up nearly 11 percent from a year ago. The increase, however, was due entirely to the expanded slaughter of cows and non-fed steers and heifers. Fed cattle slaughter declined 9 percent and accounted for only one-half of total commercial slaughter during the third quarter, the lowest percentage for any quarter in more than a decade. Despite the large increase in total slaughter, however, beef production rose only 1 percent during the third quarter as average market weights remained well below year-ago levels.

Feeder cattle placements in the 23 states were up 22 percent during the July-September period. There are indications that most of the increase in placement activity came late in the quarter. For example, placements in the seven states that report monthly rose 85 percent above one year earlier during September. The increase no doubt reflects the higher returns from cattle feeding operations. According to USDA figures, net margins on a Corn Belt feeding operation have been positive since May—after over one and one-half years of deficit—with the monthly average return ranging from $6.50 to $9.40 per hundredweight of choice animal marketed.

Cattle feeders in the 23 major producing states expect to market slightly over 5 million head of fed cattle in the fourth quarter, almost identical to their third-quarter marketings but down 9 percent from a year earlier. The weight groups on feed on October 1 tend to confirm these intentions. The number of heavyweight animals that will obviously be coming to market in the fourth quarter—those weighing 900 pounds or more—is down 30 percent from a year ago. Conversely, the inventory of animals under 900 pounds is up slightly more than 30 percent with most of the increase coming in the two lightest weight categories. The inventories of cattle in the less-than-500 pound group and the 500 to 699 pound group are up 35 and 45 percent, respectively. These figures suggest that cattle feeders are placing more lighter weight animals than has been the experience for a number of months.

The mix of cattle coming to market during the fourth quarter will probably not vary substantially from the third-quarter experience. The trend towards lower feed cost, as reflected in declining feed grain prices, will most likely provide an additional incentive for feeders to place significantly larger numbers of cattle on feed in future months. This probably will divert a higher percentage of the nonfed animals coming off pastures and ranges from slaughter to feedlots. Cow and non-fed slaughter, however, will still remain high by past criteria.

The price outlook for fed cattle in the fourth quarter appears strong. While choice cattle prices may be subject to some seasonal downward pressure, the decline most likely will be moderate. The year-to-year decrease in fed cattle marketing intentions, the diversion of more non-fed cattle to feedlots, and a continued substantial decline in year-to-year pork production are the major factors that will hold fed cattle prices near the middle to upper $40s during most of the remainder of the fourth quarter. It now appears that fourth-quarter beef production will be up slightly from a year ago but below earlier expectations, as was the case in the third quarter. Fed cattle prices will probably experience their usual seasonal rise early in the first quarter but may come under increasing downward pressure late in the first quarter as recent placements begin coming to market.

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