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OUTLOOK FOR CATTLE AND SHEEP

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Beef production is expected to increase slightly in 1990, but still remain below production levels of 1983-1988. Larger fed steer and heifer slaughter in 1990 will offset expected declines in cow slaughter. Higher fed slaughter and further increases in slaughter weights should push 1990 beef production about 1 percent above 1989's level. However, this rise will not offset population and beef export increases. In addition, larger supplies of poultry plus a small increase in pork output will push total red meat and poultry consumption near 222 pounds on a per capita basis, the fourth consecutive year of record consumption. Consequently, retail Choice beef prices may rise only 1 to 2 percent in 1990, with similar increases in fed cattle prices.

Factors Affecting the Cattle and Sheep Industry

Economic Growth Continues to Slow

Growth in the general economy is expected to moderate further next year, although there appears to be little risk of an impending recession as the current expansion enters the eighth year. Consumer incomes should continue rising in real terms and high employment rates are expected to remain intact. Both these factors should provide continued support for meat prices. Risk of inflation rising above 4-5 percent seems unlikely in 1990. With near term inflationary pressures subsiding the Federal Reserve likely will allow easing of interest rates which are expected to remain steady to slightly lower to prevent the economy from slowing too much. The prime rate may fall slightly in 1990 after averaging near 11 percent in 1989.

Production Costs to Decline in 1989/90

Already lower feed costs and prospects for higher cattle receipts should improve producer net returns in 1990. Feed grain prices remain historically high but are averaging well below a year earlier and should maintain this year-over-year decline well into 1990. Sharply lower carry- over stocks from the 1988/89 marketing year, and higher feed use and exports in the coming months are expected to result in ending stocks next fall only modestly above current low levels.

Stocks of all feed grains at the end of the 1988/89 marketing year were down nearly 50 percent from the previous year, and are forecast to drop another 7 percent by the end of 1989/90. However, near normal production in the 1990/91 crop year would replenish inventories and pressure prices lower over the longer term.

The farm price of corn in October averaged $2.20 per bushel, 38 cents below last year, but still well above the $1.65 loan rate. Additional price changes will be modest through next spring when movement will depend on 1990/91 crop prospects. For 1989/90, corn prices are expected to average from $2.00 to $2.40 a bushel, remaining below this past year's $2.54 average, but above the $1.94 average in 1987/88.

Hay production, as of November 1, was forecast at 150.5 million tons, 19 percent above the 1988 harvest. The area harvested in 1989 declined 2.8 million acres from a year ago, but average yields rose 24 percent. As in 1988, long-term Conservation Reserve Acreage was made available for haying in drought areas this past summer. This additional acreage helped offset regional shortages, and pushed production of grass hay to record levels. Alfalfa hay production is expected to rise 15 percent from a year earlier, while production of other hay is up nearly 23 percent.

In spite of the higher production, low carry-over hay stocks have kept supplies relatively tight and prices near year-earlier levels. The average price received by farmers for all hay in October was $85.70 per ton compared with $86.80 last year. The farm price of alfalfa hay averaged $92.20 in October, nearly unchanged from a year earlier. Other hay prices averaged $64.30, down $5.50 from last year. Additional price strength can be expected this winter in areas most affected by the drought and dependent on off-farm sources for additional purchases.

Continued poor pasture conditions in several of the Plains and Western States still could force additional culling from cow herds if winter weather conditions force additional feeding and supplemental hay must be purchased. Pasture and range feed conditions deteriorated somewhat in October, as parts of the Southern Plains and Southwest received little moisture in early fall. U.S. pasture conditions on November 1 were rated at 70 percent, 11 points above a year ago but 6 points below the 1978-87 average for the date. North Dakota and Texas were the only States remaining in the severe drought range. Minnesota, Nebraska, South Dakota, Utah and Wyoming were rated very poor.

Cattle

Net returns to cow/calf producers likely will average near $40 per head this year and could reach $45-$50 per head in 1990. This would be the fifth straight year of positive returns, and should strengthen incentives to rebuild herds. Forage supplies in most areas have remained adequate in spite of regional droughts that have kept cattle numbers from expanding. These factors eventually should lead to larger cattle inventories and higher beef production although it could be 1991 before larger calf crops translate into increased slaughter levels.

Inventory Expansion Begins

The U.S. cattle inventory on January 1, 1989 was about unchanged from the previous year, remaining below 100 million head. Little change in the inventory is expected this year. Heifers calving and entering breeding herds during the first half of the year fell 9 percent from a year earlier. On January 1, beef and dairy replacement heifers were up 5 and 2 percent, respectively. The 1988 calf crop rose 2 percent over the 1987 crop, but remains the smallest calf crop since the early 1960's. The July 1 inventory report estimated the 1989 calf crop to be slightly lower than a year earlier at 40.7 million head.

Beef and dairy replacement heifers on July 1 increased 4 and 2 percent, respectively from a year earlier. Many of these replacement heifers came from the 1988 calf crop and would not have been bred until this past summer. Thus, there remains some likelihood that herds could begin to expand in 1990, but they will not show up in breeding herd statistics until the midyear report is released next July.

The impact of last years drought and this year's poor hay quality appears to have had the greatest impact on the dairy sector where culling rates have been relatively high. Cumulative dairy cow slaughter through the end of October was running nearly 50,000 head above a year ago, with most of this increase coming during the first half of the year. Slaughter rates since June generally have remained below 1988 levels. Beef cow culling in 1989 also ran slightly above earlier expectations due to drought conditions in the Central Plains this past spring. Cumulative beef cow slaughter through the end of October was 3 percent below a year earlier. Total beef and dairy cow slaughter is expected to decline to 6.2 million head for the year, about 2 percent below 1988 levels.

Further decline in beef cow slaughter is expected in 1990 as well as some moderation in dairy cow culling rates due to recent advances in milk prices. Total commercial cow slaughter could drop below 6 million head next year, the lowest level since 1979.

Feeder Cattle Supplies Increase

Yearling stocker cattle prices continued trading in the low to mid $80's per cwt. this fall despite weak to negative returns from cattle feeding. Strong demand for stocker cattle to go back to grass likely supported recent price levels, since feedlot losses have averaged near $20 per head this year. Yearling feeder cattle supplies outside feedlots rose nearly 17 percent from a year earlier on October 1, while the inventory of lighter calves was about unchanged. Lower feedlot placements over the past two quarters and sharply lower calf slaughter both added to available feeder cattle supplies. The 1989 calf crop is expected to decline slightly from a year ago and could result in lower yearling supplies in 1990. Also increased heifer retention may restrict feeder cattle supplies. Recent retention rates, however, have been modest compared to previous expansion years. This reflects lower returns per cow compared with the $60 to $120 returns above cash costs in 1978 to 1980.

Larger supplies of stocker-feeder cattle will be available as increased imports of steers from Mexico began in mid November. Imports this fall are likely to rise well above the 112,000 head imported last fall, possibly reaching near the 293,000 head imported in 1987. Forecasts for continued tight margins and seasonally higher feed costs likely will keep cattle feeders from bidding too aggressively for replacement cattle. However, if current dry conditions in wheat grazing country of the Central Plains persists similar to last year, there may be fewer cattle moving onto and remaining on wheat pasture this fall. This could result in a contra-seasonal decline in yearling prices this winter and generally would support higher placements on feed in late fall-early winter.

Larger Fed Cattle Marketings Expected

Fed cattle marketings in 1989 were 3 percent or nearly 750 thousand head below 1988 levels. Higher feeder cattle prices and dismal profit prospects have led to lower feedlot placements since last spring and in turn reduced fed cattle marketings. Cattle feeders have suffered through an extended string of losses, and current prospects do not look much better into the spring of 1990. Lower processing beef supplies during the second half of 1989 generally were supportive of cattle prices. But the lower processing beef supplies were partially offset by record heavy fed cattle weights and in some instances cattle weighting over 1300 pounds were discounted. Dressed slaughter weights may average 677 pounds in 1989, up nearly 10 pounds from last year.

Lower feedlot placements this past summer, and expectations that fall quarter placements may remain near a year earlier, should ensure a seasonal price rise into the spring quarter. Current inventories of heavy weight cattle may hold down near term prices. If heavy weights carry into the new year, they will weaken prospects for higher prices. But, beyond these numbers lies a drop in medium weight cattle inventories which will supply the bulk of marketings into February. Beyond the spring quarter, seasonally higher marketing rates likely will keep beef supplies above year-earlier levels and pressure prices into the lower $70's per cwt during the second half of the year.

Additional declines in cow and bull slaughter are forecast for 1990, but will be offset by higher fed steer and heifer slaughter. U.S. feedlot marketings are expected to rise 1 to 2 percent in 1990, with the magnitude of the increase dependent on future price levels and profit prospects. Dressed slaughter weights will remain record large in 1990 as cattle continue to be placed on feed at heavy weights. Thus, beef production in 1990 may rise about 1 percent.

Price Increases to Slow in 1990

A favorable economic environment will be important over the coming year as total red meat and poultry consumption is expected to rise nearly 5 pounds per capita following little change in 1989. Beef production increases in 1990 offset population and export increases. Thus, per capita beef consumption is likely to decline, slightly, following a nearly 3 pound decline in 1989. All of the decline will be in nonfed processing beef.

Retail beef prices have set new records each year since 1987. Prices increased as the cattle herd liquidation ended and nonfed beef supplies declined. Consequently, beef consumption levels are dropping from the fairly static range of 76 to 79 pounds in 1979 through 1986 to an expected 68 pounds in 1990. Per capita fed beef supplies have remained fairly static throughout the decade of the '80's. With per capita beef supplies beginning to stabilize in 1990, the higher price of beef compared to competing meats could become a bigger issue in the coming months, particularly given the outlook for expanded poultry supplies at 10 to 15 percent lower prices. These large poultry supplies and continued large pork supplies could hold down beef price gains. After rising 5 percent in both 1988 and 1989, retail beef prices may rise only 1 to 2 percent in the coming year.

For 1990, fed steer prices at Omaha are expected to average $71 to $77, up from this year's $72.50 and $69.50 in 1988. Continued lower year-to-year grain prices, assuming normal weather patterns during the 1990 growing season, generally will support yearling stocker-feeder cattle prices about $1 above this year's $86. Prices for lighter grass type cattle are expected to range near this year's average price in the mid $80's per cwt, and weaned calves could again bring prices near $100 per cwt.

U.S. Cattle and Beef Trade

U.S. imports of live cattle are forecast to remain large at about 1.3 million head in 1989, down 2 percent from a year ago. Live cattle imports from Mexico through September were down 30 percent to 512,580 head, while imports from Canada over this period rose 21 percent to 421,489 head.

Mexico's export year for feeder steers runs from September-August. Last year the Mexican government abolished the Export Quota System and instituted a system which set an export tariff of 20 percent per head (minimum of US$60) for exports up to 500,000 head. This tax has been reduced to 10 percent or $30 per head. The export quota has also been increased to about 700,000 head. As a result, the flow of cattle from Mexico to the United States is likely to be quite heavy in the last quarter of this year and early 1990. The tariff is scheduled to be reduced in September 1990 to 5 percent and reduced again in September 1991 to 1.67 percent. In September 1992 the tariff is scheduled to be eliminated.

An extended dry period in Mexico this past summer reduced the carrying capacity of pastures and rangeland and increased the number of distressed marketings. Inventories are down this year and are expected to decline further because the official price for beef has been set low to help consumers and provides little incentive for producers to expand. This makes sales of feeder steers to the United States an even more attractive alternative.

U.S. imports of Canadian cattle have been unusually high this year. Most of the increase has been slaughter cows and heifers. In eastern Canada, dairy producers are liquidating herds to decrease manufacturing milk production, while dry weather in Western Canada, added to the cow disposal.

U.S. cattle imports are forecast to decline next year, mainly because of declines in imports from Canada. The new slaughter facility in Alberta should draw fed cattle that might otherwise have been exported to U.S. plants, and dairy herd liquidation also should slow.

U.S. Beef and Veal Exports to Rise

During January-August 1989, U.S. exports of beef and veal rose 58 percent to 767 million pounds, carcass weight. About 75 percent of the beef and veal was destined for Japanese markets. It has been reported that the Japanese have taken about two-thirds of the 344,000 metric tons agreed to under the quota in the first half of their fiscal year 1990. However, storage facilities in Japan, mainly for frozen beef, are strained. At present, a substantial amount of the meat sent from the United States is frozen. This contrasts with a larger share of the Australian beef which is fresh chilled. Some beef stockpiling in Japan likely occurred at the beginning of the year under the expectation of strong consumer demand. Retail beef prices do not yet reflect the lower prices for imported beef under the new system. Also, the infrastructure to handle the additional beef from both the United States and Australia must be developed, and there apparently is some difficulty developing outlets for frozen U.S. beef.

The United States as the major supplier of high quality fed beef has been able to increase its market share in the growing Japanese market. Although grass fed beef from Australia still is expected to provide the largest share of the beef exports to Pacific Rim countries, Australia is increasing feedlot capacity. Their fed cattle may be less high finish but it may eventually compete more directly with U.S. products.

U.S. beef and veal exports are forecast to increase 46 percent, reaching about 1 billion pounds carcass weight in 1989. Another 12 to 15 percent increase is likely in 1990. The Japanese have agreed to increase the beef quota next year by another 60,000 metric tons. The U.S. will have to share this market with the Australians which are expected to price their beef very competitively. Even with domestic output in Australia down this year because of herd rebuilding, exports to Japan increased. Australian beef is forecast to increase in 1990 and a large share of this increase likely is destined for Japanese markets.

U.S. exports to Korea increased to 38 million pounds during the first nine months of 1989, up from 6 million pounds during the same period last year. On November 9, the South Korean government agreed to accept a ruling by the General Agreements on Tariffs and Trade (GATT) against beef import restrictions. Over the next 90 days negotiations will be conducted concerning the timetable for liberalizing the Korean beef market.

U.S. Beef and Veal Imports Decline

U.S. beef and veal imports declined 18 percent during January-August 1989 to 1,624 million pounds, carcass weight. Australian exports to the U.S. were down 38 percent due to higher prices and improved demand in domestic markets as well as from Japan and Korea.

Beef imports from New Zealand made up for some of the declines from Australia early in the year, but were only 5 percent over a year earlier through January-September. Dry weather through the end of May forced more cattle to slaughter, and about three-fourths of this beef was headed to export markets. Of this amount, fully three-fourths ended up in the United States. Exports are expected to decline during the remainder of 1989 and next year due to reduced available supplies.

Total beef imports for the year are forecast to decline 8 percent to 2,180 million pounds. In 1990 imports are forecast to increase from Australia but decline from New Zealand. As a result, total imports are likely to be about 2,140 million pounds.

Sheep and Lambs

Stock sheep returns have remained positive since 1983, and producers have responded by slowly rebuilding flocks. The number of replacement lambs on hand last January was up 4 percent from a year earlier, but many of these lambs may serve as replacements for older ewes being culled from breeding flocks. Dry weather this summer and fall in major sheep producing regions may have forced additional culling and dampened this build-up. Stock sheep slaughter through the end of October was running 19 percent above 1988 levels and exports of live sheep to Mexico were 207,000 head through August of this year compared with 67,000 last year.

Prices for sheep and lambs will average several dollars below a year ago as commercial lamb production rose a little over 1 percent above 1988 levels. Slaughter lamb prices have ranged from the low $80's last spring to the low $50's this fall and are expected to average in the mid-to upper-$60's for the year.

For 1990, prices should again peak in the late winter early spring during the Easter-Passover holidays. However, beyond this peak demand period, seasonally higher slaughter rates during the summer and fall quarters could result in prices once again trading in the lower $60 range. Returns above cash costs to stock ewe operators declined this year to $11 per head, compared with a $20 return last year. Modest gains seem likely in 1990.

Lamb production next year should remain even with 1989 level. Production for the year is estimated at 330 million pounds. Production levels will depend on the stress placed on ewes in major production areas and the impact on lambing.

Feeder Lamb Imports

Imports of lambs and sheep during Jan-Aug 1989 reached 106,676 head, up from 24,775 head last year. Sheep imports traditionally have come mainly from Canada, however, 82,389 head were imported from New Zealand this year. Most of these animals were feeder lambs shipped into Portland, Oregon where they are put into quarantine for about a month then moved into feedlots for finishing.

U.S. Lamb and Mutton Imports

Total U.S. lamb and mutton imports were up 11 percent during the first 8 months of 1989. Fresh or frozen lamb imports jumped 17 percent to 25 million pounds, carcass weight. Lamb is supplied primarily by Australia and New Zealand with most of the mutton coming from Australia.