

Tight Feeder Cattle Supplies will Support Feeder Prices in 2007

By Derrell S. Peel, OSU Extension Livestock Marketing Specialist

Having made the adjustment to higher corn prices, feeder cattle prices should find underlying support through the first half of 2007. However, prices may be volatile, especially as we move towards the growing season next spring. Timing had a big impact on cattle markets in 2006 and I believe the situation will be somewhat different in 2007.

Oklahoma is heading into the second dry winter in a row. The fall of 2005 was characterized by more or less typical feeder cattle marketing and, early on, considerable expectations for good wheat pasture. By December of 2005, drought conditions were rapidly spreading from the southeastern part of the state through the wheat growing regions of the central and western parts of the state. Conditions continued to deteriorate through the winter.

As a result, by January, wheat pasture cattle were being marketed early. Feeder auction totals were above average for the first 10 weeks of 2006. By the time of the normal "wheat pasture run" in March many of the cattle had already moved to feedlots and auction totals were well below normal from mid-March through May. This contributed to the dramatic decrease in feedlot placements in May 2006 that marked the end of the first drought-bulge of feedlot cattle in 2006. By July, drought conditions were widespread across all of Oklahoma and early marketing of the 2006 calf crop began. Feeder auction runs were above normal from mid-July through mid-September and contributed again to large feedlot placements that produced the second drought-bulge of feedlot cattle.

By the time of the normal October-November calf runs, many of the calves had already moved out of the country contributing to the dramatic decrease in feedlot placements in October and anticipated reduction in placements in November and December. October and November auctions feeder cattle totals in Oklahoma were down roughly 25 percent from the previous year. Despite all the ups and downs through the year, the cumulative auction total at the end of 2006 is almost unchanged from 2005 levels.



And thus, going into 2007, the drought has switched places compared to last year with the worst conditions currently north and west of a diagonal line from the northeast to the southwest corner of the Oklahoma. Conditions south and east of this diagonal are somewhat improved compared to earlier. Among the worst drought conditions in the nation are the counties in the north central and northwest part of Oklahoma, which represent most of the biggest wheat producing counties in the state. There are some wheat pasture cattle to be found in the south central part of the state.

I mention all of this history to try to assess the situation for feeder cattle supplies in 2007. I believe there are less cattle in total on wheat this year than last. At this time, the drought is most firmly entrenched in the heart of the wheat belt, whereas last year at this time it was only just moving into the major wheat areas. I don't believe there will be much of a "wheat run" of feeder in 2007 and what there is will certainly be done by early March. It appears that feeder cattle supplies will be every bit as tight as last year in the southern plains and perhaps even tighter. 2006 feeder supplies were almost surely augmented by some heifers that started the year as replacement heifers and were redirected into feeder markets. If forage prospects improve going into 2007, feeder supplies may tighten even more as heifer retention gets back on track. Additionally, I do not expect Mexican cattle imports in 2007 to maintain 2006 levels. The bottom line is that I don't expect to see another drought-bulge of feedlot cattle, certainly not in the first half of 2007. Beef demand may limit the upside potential for cattle prices generally, but limited feeder supplies will surely support prices as well. There may be a heck of a squeeze in the middle. ■