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**Beef backgrounders should be prepared for changing market**

**By DUANE DAILEY**

MISSOURI feeder-calf producers should look ahead to fall marketing time now. This may be the year to hang on to calves a little bit longer and sell later in the fourth quarter.

"Keep an eye on the lighter cattle moving into the severe drought area in the southern Plains," says Scott Brown, livestock analyst at the University of Missouri Food and Agricultural Policy Research Institute.

Brown sees a "bubble" of southern stockers moving into feedlots well ahead of their normal movement. "We are seeing strong signs of the problems the drought area has had on wintering of calves."

The cattle-on-feed report highlights the situation. In February, for the feedlots of 1,000 head or more, an additional 306,000 cattle were on feed compared with a month earlier.

"There is a whopping 768,000 head, or 7%, more than a year ago," Brown says. Feedlots in nearly all states are showing large inventories, but Texas shows the largest increase, with 110,000 head. Kansas has an extra 81,000 head, and Nebraska has an extra 60,000.

A closer look at the USDA report tells the story of what is happening, Brown says. Calves weighing less than 600 pounds make up a large part of the new placements. "It appears the lack of wheat pasture or other forage in the dry areas has forced the lightweight cattle into feedlots earlier than usual."

In January, the Texas placements of light cattle went above 90,000 head for the first time. Texas ranchers moved an extra 115,000 head to feedlots. Other states see the same trend, but not as big as the early Texas marketing.

"Bubble" moving through feedlots

A big bubble of cattle is moving through U.S. feedlots. Keep in mind that more cattle are coming down from Canada, as well. "We're in the second year of receiving Canadian cattle less than 30 months of age headed to U.S. feedlots," Brown says.

The size of this combined pace of placements has surprised many analysts. What's this got to do with the Missouri feeder-calf market?

"A whole lot," Brown says. Those extra placements will be ready for slaughter in the third quarter of 2006. "We're going to see a supply of slaughter-ready cattle that we have not seen in years," he says. "We may see pressure on late-summer and early-fall calf prices as feedlots deal with lower slaughter-cattle prices."

That supply could dampen the price outlook for fed cattle in that third quarter — the very time when Missouri cattle begin moving to market.

How bad is the situation? FAPRI currently projects third-quarter fed-cattle prices at below $80 per cwt. for the first time since the second quarter of 2003.

When feedlots are receiving lower prices, they will bid less for cattle coming into their lots at that time.

"A price below $80 will put feedlots on the negative side of the ledger, considering what they've been paying for calves so far this year," Brown says.

**Good news**

The good news is that with many cattle going through the feedlots early, there could be a shortage of slaughter-ready cattle in the fourth quarter of this year, Brown says. "There will be a hole in the supplies. This hole in marketing seems more likely given that last year's calf crop was only 275,000 head above the 2004 level," he adds.

There is more good news. The lighter cattle going into feedlots will finish lighter. This will hold down total beef production for the year, helping the price.

**Take-home message**

Cow-calf producers with grass and/or access to byproduct feeds can hold on to their calves this fall, keeping them until feedlot buyers are looking for more replacements.

Better prices on fed cattle coming out of the lots in the fourth quarter should put feedlots in a mood to pay more than they will in September.

On the other hand, Brown adds, "This all depends on no unforeseen events, such as a short corn crop. The favorable outlook also depends on Missouri getting some rain and growing some grass to keep the cattle at home a bit longer."