Federal Reserve Bank of Chicago . . .

Agricultural Letter

August 6, 1976

Number 1390

CATTLE PRICES have droppped to $36 per hundredweight this week, prolonging the unexpectedly low levels of the past few months. Lingering prospects for a move to substantially higher prices, moreover, were diminished by indications of a large volume of fed cattle marketings during the current quarter. Long-range prospects, however, were buoyed by a midyear assessment that indicated further declines in the inventory of all cattle and calves. According to the U.S. Department of Agriculture, the nation's cattle inventory numbered 133.5 million head on July 1, down nearly 5 percent from the year-ago level.

Large declines in both the inventory of lightweight cattle and the beef cow herd accounted for all the reduction in cattle numbers. The beef cow herd—including replacement heifers—at 49.3 million head was down 9 percent from the mid-1975 level. Lightweight cattle—those weighing less than 500 pounds—numbered 39.3 million head, 8 percent less than a year ago. The 15.0 million head of milk cows—including replacement heifers—was less than 1 percent under a year ago. These declines were partially offset by the 9 percent increase that boosted steers and "other" heifers—those not intended for beef or dairy cow replacements—weighing 500 pounds or more to 27.1 million head.

The factors behind the decline in the beef cow herd and lightweight cattle are partially related. Beef cow herds have been trimmed by heavy culling rates and a slower inflow of replacement heifers. The reduction in lightweight animals reflects high rates of calf slaughter and increased feedlot placements which resulted in faster weight gains. But the biggest factor behind the reduced lightweight inventories is the smaller beef cow herd, which is producing substantially fewer calves this year. Current estimates peg the 1976 calf crop at 46.9 million head, down 7 percent from last year and the smallest since 1971. Such a level, however, is unusually low relative to the inventory of cows at the start of this year.

The adjustments in the cattle inventory portend lower slaughter rates and a financially healthier cattle industry in the years ahead. The near-term outlook, however, is characterized by prospective large increases in fed cattle marketings and a great deal of uncertainty about the rate of decline in nonfed slaughter. Cattle on feed in the 23 major states numbered 10.0 million head on July 1, 17 percent more than a year earlier. Moreover, heavyweight cattle accounted for a high proportion of all those on feed, supporting the reported intentions of cattle feeders to boost fed cattle marketings to 6 million head during the current quarter. Such a level would slightly exceed second-quarter marketings and surpass the year-earlier level by 19 percent. Although high feed prices and low fed cattle prices may hold marketings close to the intended level, the historical relationship between July 1 heavyweight inventories and third-quarter marketings would support prospects for an increase of up to 25 percent.

If cattle prices in the next few weeks improve much above the second-quarter average of $41.40 for choice steers at Omaha, a marked reduction in nonfed slaughter and/or lower marketing margins will be needed in light of the increase in fed cattle marketings. Since April the carcass-to-retail margin for beef has averaged about 50 cents per pound, well above last year's level. All other things equal, a penny increase in the carcass-to-retail margin is equivalent to about 45 cents per hundredweight in live cattle prices.

An even more important factor in cattle prices, however, will be the volume of nonfed slaughter. Nonfed slaughter has trended markedly downward from the exceptionally high second-half 1975 levels, and at 4 million head in the second quarter was 7 percent under a year earlier. The bulk of the decline was in nonfed steer and heifer slaughter with cow slaughter down only 2 percent. While it is expected third-quarter nonfed slaughter will be down from the second quarter—and sharply under year-earlier levels—the decline may not be too significant. Certainly current price relationships are not a strong encouragement to place cattle in feedlots. Old crop corn supplies are exceptionally tight. And weather conditions have left reduced supplies of roughage and pasture in some important areas of the country. These conditions, in conjunction with the larger inventories of heavyweight stockers and feeders—steers and "other" heifers over 500 pounds, could result in continued high rates of slaughter in the near term.

At present, prospects for higher cattle prices look most promising for late summer and fall. If third-quarter fed cattle slaughter reaches anticipated levels, fed cattle marketings in the fourth quarter would be down seasonally. Moreover, a record corn harvest would likely lower feed prices substantially, which in turn would divert stockers and feeders from slaughter to feedlots. These conditions could result in fourth-quarter prices averaging the highest for 1976.

Gary L. Benjamin
Agricultural Economist