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THE U.S. CATTLE INVENTORY declined in 1976 for the second straight year, marking the most pronounced turnaround in the cattle cycle since 1935. According to the U.S. Department of Agriculture, the inventory of all cattle and calves on hand January 1, 1977 declined to 122.9 million head, down 4 percent from a year earlier and 7 percent below the peak of two years ago. The report, which was surprising to many observers who were expecting a larger decline, suggests that near-term cattle prices may fall short of some recent projections.

Last year's decline in cattle numbers can be attributed to a 6 percent drop in the 1976 calf crop (resulting in the smallest calf crop in five years) and a 4 percent increase in the number of animals slaughtered. Partially offsetting factors included a substantial rise in imports, up 153 percent, and a precipitous drop in death losses, 2.5 million head below the 1975 level, reflecting last year's mild winter and the favorable calving season.

All cattle and calves on farms and ranches

	January 1			Percent
	1975	1976	1977	change
	(million head)			
All cattle and calves	131.8	128.0	122.9	- 4
Cows and heifers that have calved	56.7	54.8	52.4	- 4
Beef cows	45.5	43.7	41.4	- 5
Dairy cows	11.2	11.1	11.0	- 1
Heifers 500 pounds and over	19.5	18.6	18.5	- 1
For beef cow replacement	8.9	7.2	6.6	- 8
For milk cow replacement	4.1	4.0	3.9	- 2
Other	6.5	7.4	8.1	+ 9
Steers 500 pounds and over	16.4	17.2	16.9	- 2
Bulls 500 pounds and over	3.0	2.8	2.7	- 4
All calves under 500 pounds	36.3	34.6	32.4	- 6
Calf crop—past 12 months	50.7	50.4	47.4	- 6

Among major categories of the cattle inventory, beef cow numbers were down 5 percent, suggesting another substantial drop in the current year's calf crop. Somewhat surprising was the increase in heifers over 500 pounds in the "other" category, up 9 percent. Moreover, there was no proportional increase in the number of heifers in feedlots as of January 1; heifers on feed weighing over 500 pounds were up only 2 percent. Consequently, the potential supply of feeder stock over 500 pounds and not on feed January 1 was up about 1 million head. On the other hand, the potential supply of feeder stock under 500 pounds was down approximately 2.1 million head, suggesting some possible constraints on future feedlot activity.

Cattle on feed in the United States on January 1, 1977 totaled 12.3 million head according to the USDA, down 5 percent from a year ago. However, within the 23 major feeding states the January 1 number was only down 3 percent. Among Seventh District states Indiana and Michigan had small increases in the number of cattle being fed, which was offset by declines in the other three states. Altogether, the number of cattle on feed within the district states dropped about ½ percent.

Cattle placements in the 23 states during the fourth quarter of 1976 rose 5 percent above the same 1975 period. Placements in Illinois, Indiana, and Iowa were up 2 to 5 percent, while those in Michigan were unchanged. Wisconsin placements dropped 5 percent, no doubt a reflection of the lingering effect of last year's drought, which reduced feed production.

Although cattle feeders responding to the USDA survey indicated they planned to market 4 percent fewer fed cattle in the current quarter, the weight distribution of those on feed suggests marketings could match the first-quarter 1976 level. Nevertheless, the volume of non-fed slaughter could be down substantially from that of first-quarter 1976, although preliminary figures on federally inspected slaughter have been surprisingly high so far this year. While the figures remain subject to perhaps substantial revision, recent price levels seem to be in line with the preliminary numbers, which may reflect the abnormally dry conditions being experienced in the western half of the United States. Perhaps some of the heavier potential feeders have been going directly to slaughter and/or ranchers might be liquidating herds in some areas due to a shortage of roughage.

Fat cattle prices stabilized in January after slipping downward in December. Prices are expected to move to the low $40s as the second quarter draws near. Nevertheless, increased hog marketings along with steady to slightly higher broiler supplies will likely preclude any sharp price hikes in the next couple of months. Weather patterns remain a strong influencing factor. Continued dry weather would lead to further deterioration of pastures and ranges, which could hold non-fed cattle slaughter closer to year-ago levels than previously forecasted and could delay the expected rebound in cattle prices until midyear. By the same token a break in the dry weather and improved pastures could stem the flow of non-fed cattle to market, thereby markedly strengthening fat cattle prices in the second quarter. In either case, however, fed cattle prices are still expected to move to the mid-$40s in the second half.

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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
INDEX OF PRICES					
Received by farmers	1967=100	January	182	+ 1.7	- 2
Crops	1967=100	January	196	+ 2.1	+ 3
Livestock	1967=100	January	170	+ 1.2	- 7
Paid by farmers	1967=100	January	197	+ 2.1	+ 4
Production items	1967=100	January	197	+ 2.1	+ 4
Wholesale price index *(all commodities)*	1967=100	January	188	+ 0.5	+ 5
Foods	1967=100	January	189	+ 0.3	- 1
Processed foods and feeds	1967=100	January	179	+ 0.2	0
Agricultural chemicals	1967=100	January	182	- 0.5	- 9
Agricultural machinery and equipment	1967=100	January	192	+ 0.8	+ 9
Consumer price index *(all items)*	1967=100	December	174	+ 0.3	+ 5
Food at home	1967=100	December	179	+ 0.2	- 1
CASH PRICES					
Corn	dol. per bu.	January	2.34	+ 4.5	- 4
Soybeans	dol. per bu.	January	6.80	+ 3.7	+ 52
Wheat	dol. per bu.	January	2.43	+ 1.7	- 29
Sorghum	dol. per cwt.	January	3.59	+ 2.3	- 12
Oats	dol. per bu.	January	1.56	+ 3.3	+ 8
Steers and heifers	dol. per cwt.	January	35.10	- 2.2	- 6
Hogs	dol. per cwt.	January	38.00	+ 4.7	- 20
Milk, all sold to plants	dol. per cwt.	January	9.68	- 0.7	- 5
Broilers	cents per lb.	January	21.5	+11.4	- 12
Eggs	cents per doz.	January	65.1	- 6.3	+ 5
INCOME *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	93.8	- 7.9	- 3
Net realized farm income	bil. dol.	3rd Quarter	21.8	-23.8	- 23
Nonagricultural personal income	bil. dol.	December	1,405	+ 1.2	+ 11
FARM FINANCE					
Total deposits at agricultural banks[1]	1972-73=100	January	162	+ 0.6	+ 11
Time deposits	1972-73=100	January	191	+ 1.6	+ 18
Demand deposits	1972-73=100	January	126	- 0.9	+ 3
Total loans at agricultural banks[1]	1972-73=100	January	186	+ 2.3	+ 20
Production credit associations					
loans outstanding:					
United States	mil. dol.	December	12,196	+ 1.8	+ 14
Seventh District states	mil. dol.	December	2,302	+ 2.7	+ 20
loans made:					
United States	mil. dol.	December	2,147	+44.3	+ 6
Seventh District states	mil. dol.	December	408	+50.3	+ 14
Federal land banks					
loans outstanding:					
United States	mil. dol.	December	18,524	+ 1.1	+ 16
Seventh District states	mil. dol.	December	3,533	+ 1.2	+ 21
new money loaned:					
United States	mil. dol.	December	345	+23.9	+ 11
Seventh District states	mil. dol.	December	67	+32.6	+ 21
Interest rates					
Feeder cattle loans[2]	percent	4th Quarter	8.74	- 0.5	- 1
Farm real estate loans[2]	percent	4th Quarter	8.94	- 0.2	0
Three-month Treasury bills	percent	1/27-2/2	4.74	+ 1.3	- 2
Federal funds rate	percent	1/27-2/2	4.60	- 2.5	- 5
Government bonds *(long-term)*	percent	1/31-2/4	7.65	+ 1.3	- 5
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	November	2,121	- 5.8	- 3
Agricultural imports	mil. dol.	November	972	+19.8	+ 21
FARM MACHINERY SALES					
Farm tractors	units	December	11,318	+58.3	- 17
Combines	units	December	1,927	+56.5	- 14
Balers	units	December	567	+19.1	- 41

[1] Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

[2] Average of rates reported by district agricultural banks.