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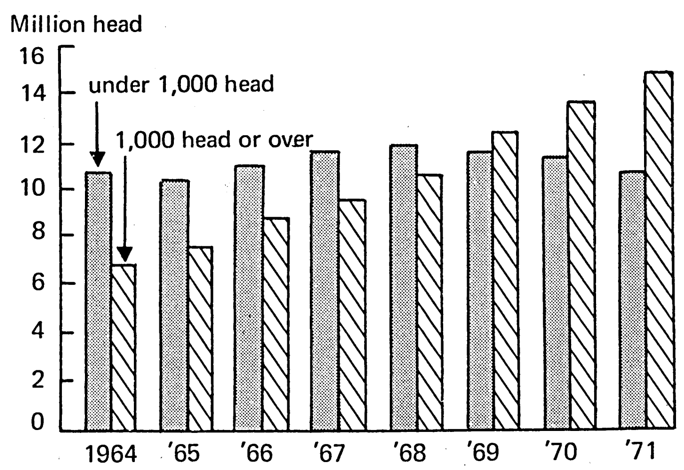
CATTLE PRICES spurted to a 21-year high recently in the wake of reduced marketings. Choice steers averaged better than $37 per hundredweight at Omaha during the latter half of January—up more than $2 from the December average. However, an expected increase in fed cattle marketings coupled with possible market bunchings and heavier slaughter weights will tend to lower prices. On the other hand, lower-than-year-ago pork supplies and rising levels of employment and income should moderate the decline.

Cattle feeding continued to expand during the latter part of 1971. Cattle and calves placed on feed during the October-December period rose 10 percent from the year-earlier level, while marketings moved up only slightly. This resulted in a January 1 inventory of 13.2 million head of cattle on feed in the 23 major cattle-feeding states—up 9 percent from a year ago.

Farmers expect to market 6.7 million head of cattle during the first quarter—up 7 percent from actual marketings in the same period a year ago. This reflects a 14 percent increase in inventory of steers weighing 900 to 1,100 pounds and heifers in the 700- to 900-pound range. Normally, heifers are marketed at about 200 pounds less than steers. The bulk of the increase in marketings is expected in the latter part of the quarter. Marketings in January were somewhat lower than expected and could cause market bunchings in February and March.

Commercial feedlots continued to expand during 1971 but at a slower pace than in recent years. The number of commercial feedlots—those having the capacity to feed 1,000 head or more at one time—in the 23 major cattle-feeding states now totals 2,204—up 53 percent since 1962. The number of cattle marketed out of such lots has jumped 165 percent, to 14.8 million head, since 1962. Commercial feedlot marketings accounted for 58 percent of all fed marketings in 1971, compared to 55 percent in 1970 and less than 39 percent in 1964.

Fed Cattle Marketed By Lot Capacity



Commercial feedlot numbers in Seventh District states have more than tripled since 1962, but expansion has been concentrated to lots of 1,000- to 2,000-head capacity. Lots in the ten western states increased by only one-fifth since 1962, but practically all of this gain reflects the expansion of commercial lots with 8,000-head or more capacity. Such large lots now account for over one-fourth of all commercial lots in the western states but only about 3 percent in district states.

Changes in lending arrangements have accompanied the growth of commercial feedlots. As opposed to farmer-feeder operations in which rural banks typically supply local cattle feeders with financing on the full purchase price of feeder stock, commercial lots need additional financing to purchase feed inventories and capital equipment. And although large lots economize on per-head fixed costs, feeder stock costs plus other costs of production remain at about $300 per head regardless of lot capacity. As a result, financial needs of commercial lots are large whether the lot feeds its own cattle or custom feeds for other farmers and investors.

The large credit requirements of commercial feedlots in many cases exceed legal lending limits of rural banks. Moreover, commercial feedlots have drawn cattle away from locally known producers and feeders into concentrated areas where the integrity of the feedlot operator is unknown. This has expanded servicing and policing costs, thereby reducing the rural banker's willingness to make cattle loans. As a result, large city banks have expanded their direct lending and overline accommodations to commercial feedlots.

The increased role of large banks has brought into play lending practices that were relatively unknown in agricultural lending. For example, to cut costs of servicing loans and policing collateral, some banks have required the borrower to hire a warehousing agent who provides the lender with periodic reports on the number and value of cattle on feed owned by the borrower. In some cases, these warehousing receipts have completely altered cattle financing from conventional loans to acceptance financing. This practice has particular appeal in periods of tight money since the lender, after accepting the note, can hold it as an investment or sell it in the acceptance market.

Another practice which some lenders have experimented with requires the borrower to insure the cattle against death losses. This practice transfers the risk of death loss—which lowers the value of the supporting collateral—into an additional cost to the borrower.

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