Outlook '74

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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR LIVESTOCK AND MEATS

Talk by John Larsen

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A year ago, we were looking to 1973 as a year of some expansion in meat production with only modest changes in price. But we soon found ourselves among the several analysts who were dead wrong about 1973. Red meat production in 1973 is down 6 percent and prices are up about 35 percent.

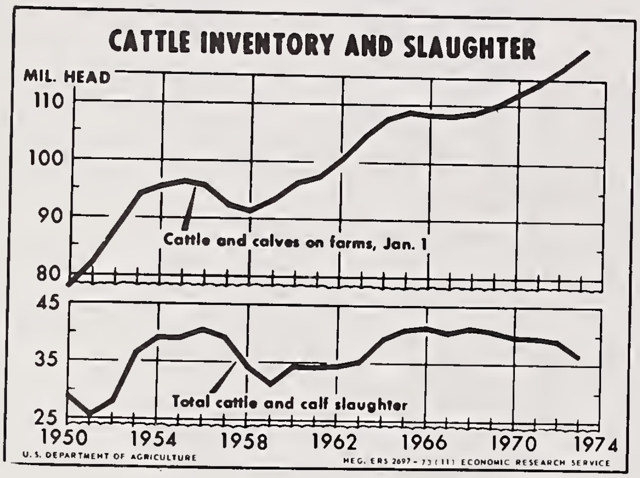
The year has been marked by a series of unprecedented conditions that disrupted and confused the livestock scene with consistent regularity. Unusually severe winter weather slowed weight gains of livestock being fed for slaughter and the ban on DES also slowed cattle weight gains, perhaps more than was anticipated. Feed prices rose sharply and discouraged hog producers from carrying out expansion plans they reported late in 1972. Devaluation of the dollar made our meat and feed products more competitive on world markets and foreign buyers helped push prices up. While meat exports this year amounted to only a very small proportion of total production, they were up sharply from a year earlier and the pressure of foreign buyers in the U.S. market probably had some impact on prices early in the year. Also, stronger demand for meat was worldwide, thus raising the price of meat imported from abroad. Price controls on meat caused disruptions in the livestock markets, particularly in the summer, that resulted in smaller supplies of meat and sharply higher prices.

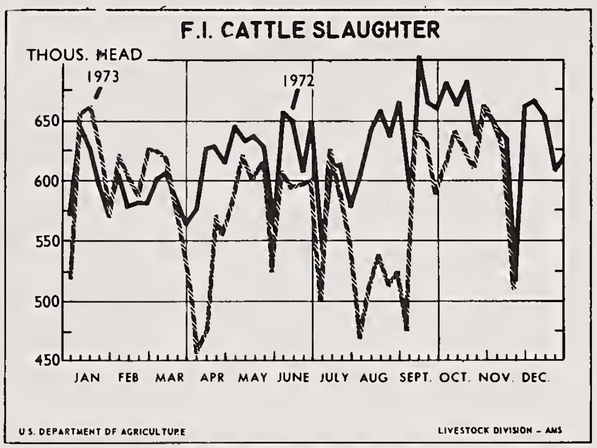
The uncertainties facing forecasters this year seem to be as numerous as ever. For example, there are many questions relating to meat supply forecasts for the year ahead. Also, there are uncertainties regarding the impact of the fuel crisis on the general economy as well as on agriculture. However, based on what is currently known, the fuel crisis is not expected to have a significant effect on the demand or supply of meat.

Let's first consider the prospects for demand for meat in 1974. In 1973, the economy expanded at a rapid rate. Consumer incomes rose sharply and unemployment dropped to a fairly low rate. Also, world supplies were down, demand was strong, and prices were higher. Consequently, there was strong competition for a smaller supply of meat, resulting in sharply higher prices. High prices for meat in 1973 gave a real boost to meat substitutes as consumers sought ways to keep meat expenditures at a minimum.

The economy in 1974 is expected to continue expanding, but at a much slower rate. Consumer incomes are expected to be up from 1973, but by a smaller margin than they were this year. World supplies of meat are expected to be up in importing countries and demand for additional supplies may be less than in 1973. Meat substitutes, though still relatively small, will continue to attract increasing attention in the meat economy. On balance, it would appear that consumer demand will continue strong but its upward thrust will be less dramatic than in 1973.

In reviewing past trends in the livestock industry, we are all familiar with the general expansion of the cattle herd and the cyclical nature of inventory changes. Hog production, while fluctuating from year to year, has shown no strong trend. Sheep and lamb numbers declined sharply through the 1940's, stabilized during the 1950's, and have deen declining since 1960.





The cattle inventory has been on the upswing since 1967 and the expansion rate has accelerated in recent years. On January 1, 1973 there were 122 million cattle and calves on farms and ranches. This was 4 million head, or 4 percent, more than a year earlier. With a 4 percent larger calf crop this year, increased imports of live cattle, and reduced slaughter of cattle and calves, and despite higher death losses, the inventory growth during 1973 could double last year's considerable expansion. All of the increase will be in beef cows and young beef animals because the dairy herd is continuing to decline. This means a good potential for substantial increases in cattle slaughter in the next few years.

Feeder Cattle Supply - October 1

	1970	1971	1972	1973	Percent change
Steers, heifers and calves, January 1	51.0	52.0	54.1	55.4	+ 2
Jan.-Sept. calf slaughter	3.0	2.8	2.3	1.7	- 28
Jan.-Sept. steer and heifer slaughter	21.2	21.6	21.8	19.7	- 9
Cattle on Feed, October 1	10.7	11.0	12.1	12.4	+ 3
Residual yearlings	16.1	16.6	17.9	21.6	+ 21
New calf crop	45.9	46.7	47.9	50.0	+ 4
Total	62.0	63.3	65.8	71.6	+ 9

For example, feeder cattle supplies on October 1 were up an estimated 9 percent from a year earlier. This large increase was the result both of sharply lower placements in the spring and summer (down 13 percent from a year earlier) and a larger 1973 calf crop. Beginning with the January 1, 1973, inventory of young cattle (heifers 500 pounds and over not for replacements, steers 500 pounds and over, and calves) and subtracting January-September steer and heifers and calf slaughter, and cattle on feed October 1, we come up with a net estimated increase of about 20 percent in the supply of yearlings. These would be mostly 1972 calves. Then adding this year's 4 percent larger calf crop makes a total increase of 9 percent. October placements in seven States were 20 percent below a year earlier, thus adding to the backup of feeder supplies. This supply of feeder cattle is the key to 1974 slaughter supplies and should provide a significant boost to slaughter next year.

Fed cattle shipments in the first half of 1974 are expected to total above January-June 1973 shipments with all of the increase in the spring. First, consider prospects for winter. On October 1 there were 5 percent fewer cattle in weight groups (steers 700-900 pounds and heifers 500-700 pounds) that make up the bulk of fed cattle normally marketed in the winter. Unless weather continues favorable for good gains, marketings of cattle from these weight groups may be down more than indicated by the change in their number. Gains may be slower this winter than last as a result of some change in rations due to high feed costs. Also, feeding efficiency will reflect the full impact on the banning of DES in contrast to last winter when only the initial effects of its restricted use were noted. Reductions may be somewhat offset by some carryover of cattle from those normally slaughtered in the fall. The lower cattle prices of the last several weeks have also slowed marketings as feeders have been reluctant to sell on a down market, considering what they paid for the cattle as feeders and feed costs. On balance, fed cattle marketings this winter could be down perhaps 4-6 percent from a year ago and 4 to 6 percent fewer than in the fall.

The picture should change in the spring. Second quarter marketings could be up 7-9 percent from a year ago and 6-8 percent above winter shipments. To achieve this kind of increase, producers will have to step up late fall and early winter placements rather sharply. Considering the large numbers of 1972 calves that are still around, it would appear that high placement rates are possible. If placements continue to be delayed, then heavier marketing rates will be delayed until later in 1974.

Severe weather conditions and effects of the January 1 ban on DES implants, were major factors that contributed to slower feedlot gains this past spring, resulting in a 6 percent drop in fed cattle marketings rather than the intended 5 percent increase.

Fed cattle marketings in the second half of 1974 will depend largely on placements in the first half of the year. Based on inventory data, feeder cattle supplies will be adequate to provide a substantial increase. Summer marketings could more than remake the 14 percent drop in July-September 1973. Fall marketings next year may not change much from summer but still may be larger than this fall.

Thus, fed cattle marketings next year could exceed 1973 marketings by a fairly sizeable margin, but would be only a little above 1972 marketings.

Cow slaughter probably will be up again in 1974 with increases associated more with the beef cow herd than in 1973. This year, 3 percent more cows were slaughtered through October than last year. The total cow herd has been increasing very rapidly in recent years and slaughter has been low in relation to the number of cows on farms and ranches. Since the breeding herd began expanding more rapidly, cow slaughter as a percentage of the breeding herd has declined to levels near the early 1960's when the herd buildup was also in full swing. In 1972 total cow slaughter was only 12 percent of the January 1 inventory. This was the same as in 1963, which was a year prior to substantial increases in slaughter. This year, cow slaughter is as small, relative to the January 1 inventory, as last year. Rapid expansion of the breeding herd in recent years, together with low culling rates, means the average age of the cow herd is advancing. Increased culling rates in 1974 and later would be consistent with past experience.

First half 1974 hog slaughter and pork production will continue to lag year-earlier levels. The bulk of marketings in that period will come from the 1973 fall pig crop. The 10 States June-August pig crop has been reported at 4 percent below last year. These pigs will be marketed mostly in the winter. Intentions for farrowings during September-November showed no change from a year earlier. Thus if litters average near year-earlier levels in that period, the number of pigs produced during September-November totaled about the same as a year earlier. These pigs will provide the bulk of spring slaughter supplies. We will have more information about production plans when the Hogs and Pigs report is released December 21.

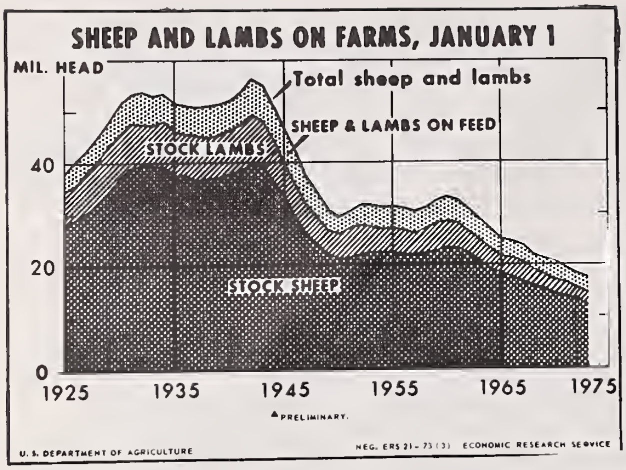
Although delayed marketings resulting from changes in feeding rations may not be as important this fall and winter as they were in the summer, they will still be a factor in slowing marketings and reducing slaughter rates in the first half of 1974. Corn and protein feed prices are down from summer. Protein use may pick up and gains improve as the year progresses. However, gains are not expected to reach previously normal levels until later in 1974. Farmers probably will change gradually back to more normal feeding schedules as they shifted slowly into those they now are using. On balance, a 3-5 percent reduction in slaughter this winter may be followed by a smaller decline of 2-4 percent in the spring.

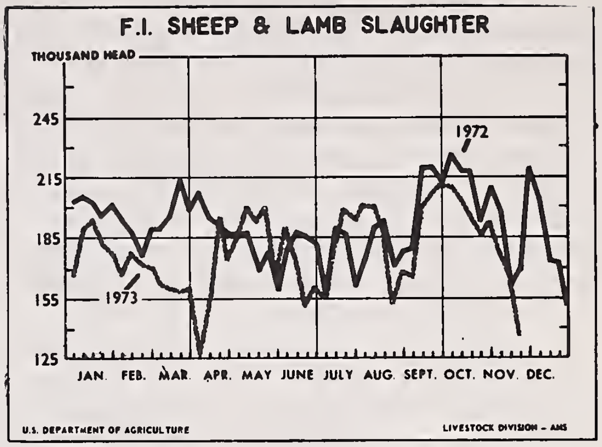
Reports of farrowing intentions in the 10 Corn Belt States indicate no increases are planned for the December-February pig crop. These hogs will reach market weights in the summer. But by then, producers may be back to feeding more normal rations if feed prices are lower. Consequently, slaughter rates could increase some because of a shortened feeding period.

Producers have been unwilling to expand production in the face of high feed costs and other increasing expenses even though hog prices have risen sharply in 1973. Corn prices increased 80 percent from January to August. Just as significant, high protein hog feed rose more than 60 percent during the same period. Also, building new facilities for hog production would increase production costs more than last year. In August, farmers paid nearly 20 percent more for all production items than in January and 30 percent more than a year earlier. By November, protein feed costs had dropped back to near January levels with soybean meal costing $11.20 per 100 pounds at the farm compared with $10.50 in January.

Hog producers this winter may be encouraged to increase slightly the number of sows bred since hog prices have been fairly stable for the past few months and feed prices will probably be lower than this summer and fall. This would result in a small increase in March-May farrowings. Such an increase, together with a shorter feeding period, could mean a moderate increase in 1974 fall slaughter.

Thus, we are looking for little net change in hog slaughter in 1974, with some further reduction in the first half about offset by an increase in the second half.





This is the 13th consecutive year that sheep and lamb numbers have dropped. The sheep inventory declined an average of 4 percent annually from 1960 to 1970. Since then, the annual loss has accelerated, and last year slipped 1 million head, or 6 percent. The beginning inventory this year totaled 17.7 million, down 5 percent from a year earlier and only half the number that were reported in 1960. The inventory decline will probably be about as large this year as last.

Some slowing of the downtrend in sheep numbers may be in prospect. Lamb prices in 1973 reached the highest levels on record, despite the failure of the lamb market to fully mirror advances shown by other classes of slaughter livestock. Also, wool prices have more than doubled 1972's annual average of 35 cents per pound and are the highest since 1951. If lamb and wool prices stay up next year, producers may be encouraged to slow the liquidation rate. A lower cattle market may induce some producers to stay in the sheep business, particularly in the West.

Sheep and lamb slaughter in 1974 will continue lower. Smaller winter supplies will be the result of fewer lambs available for feeding this fall. Summer slaughter was near year-earlier levels principally because a larger proportion of lambs were going direct to slaughter from grass, thereby reducing fall feeding supplies. April-December slaughter next year will continue below a year earlier because the 1974 lamb crop will be down from 1973.

Commercial Meat Production

	1972				1973				1974[1]	
	I	II	III	IV	I	II	III	IV[1]	I	II
Beef (Mil. lbs.)	5,370	5,566	5,559	5,723	5,386	5,041	4,992	(5,550)	(5,225)	(5,500)
Percent change from year earlier	+1	+2	0	+6	0	-9	-10	-3	-3	+9
Previous quarter	0	+4	0	+3	-6	-6	-1	+11	-6	+5
Pork (Mil. lbs.)	3,503	3,386	3,064	3,507	3,262	3,178	2,792	(3,295)	(3,130)	(3,080)
Percent change from year earlier	-5	-8	-11	-8	-7	-6	-9	-6	-4	-3
Previous quarter	-8	-3	-10	+14	-7	-3	-12	+18	-5	-2
Lamb and Mutton (Mil. lbs.)	142	130	124	137	125	126	128	(130)	(119)	(120)
Percent change from year earlier	-2	-2	-4	0	-12	-3	+3	-5	-5	-5
Previous quarter	+4	-8	-5	+10	-9	+1	+2	+2	-8	+1

Before examining the prices for 1974, let's briefly summarize anticipated supplies of red meats. Winter beef output may be down 2 to 4 percent from a year ago and 5 to 7 percent from this fall. A drop in fed beef output is expected to more than offset a small prospective increase in cow slaughter. In the spring quarter, a small increase in cow slaughter will be joined by a substantial increase in fed beef output, for an 8-10 percent increase from a year earlier and 4-6 percent larger than in the winter. Summer output may be substantially above the lower output this past summer, with a large increase in fed beef and a little more cow beef. Fed beef production probably will continue large next fall and, together with seasonally larger cow slaughter, total beef supplies could moderately exceed October-December 1973.

If these quarterly estimates are reasonably correct, then 1974 total beef production would exceed 1973 about 6 to 7 percent. However, that would only about match 1972 output and be around 4 percent above 1970.

Pork output next year is expected to about equal this year's production, with smaller supplies in the first half about offset by increases in the second half. Lamb and mutton production could be down about as much as the drop in the 1974 lamb crop. Veal output probably will be down again but by a smaller margin than in 1973.

These estimates point to a modest increase in total per capita supplies, with more beef more than offsetting reduced supplies of lamb and mutton and veal. Little change in pork output is anticipated in 1974.

Livestock Prices

	1972				1973				1974[1]	
	I	II	III	IV	I	II	III	IV[1]	I	II
	Dollars per 100 pounds	*Dollars per 100 pounds*	*Dollars per 100 pounds*	*Dollars per 100 pounds*	*Dollars per 100 pounds*	*Dollars per 100 pounds*	*Dollars per 100 pounds*	*Dollars per 100 pounds*	*Dollars per 100 pounds*	*Dollars per 100 pounds*
Choice Steers, Omaha ..	35.69	36.02	36.24	35.06	43.17	46.00	49.04	(40-42)	(44-46)	(41-43)
Barrows and gilts, 7 markets	24.67	24.98	28.85	28.89	35.62	36.67	49.04	(41-43)	(42-44)	(42-44)
Slaughter lambs, 5-markets	28.70	31.85	31.00	27.90	38.25	36.00	36.63	(33-35)	(38-40)	(37-39)

[1] Forecast.

The larger meat supplies will mean generally lower livestock prices. However, in the winter, if beef output drops as expected, fed cattle prices will strengthen and may average near $44 to $46 for Choice grade steers at Omaha. This would be up around $4-$5 from fall and $2-$3 above a year earlier.

In the spring, with a substantial increase in production from winter and a year earlier, prices will drop but probably stay above fall prices. Continued larger output in the second half would sustain downward pressure on prices.

Smaller pork and beef supplies in the winter will also probably lift hog prices. In the spring quarter, hog prices may not change much despite a seasonal decline in hog slaughter, if beef supplies increase at that time as expected. With second half slaughter rising above a year earlier and beef output up substantially during that period, hog prices will trend lower during July-December and average below July-December 1973 levels when barrows and gilts at 7 markets averaged about $45.

Lamb prices probably will strengthen through the winter and decline in the spring as they did a year ago, averaging above 1973's January-June average of $37 at 5 major markets (San Angelo, South St. Paul, Sioux Falls, Wichita, West Fargo). In the second half, with supplies of beef and pork running above a year earlier, lamb prices will be under pressure.

Feeding Costs 1/

Item 2/	1972				1973			
	I	II	III	IV	I	II	III	Oct-Nov.
	Dollars per head							
Feeder steer	230	240	250	270	300	320	350	310
Feed	80	85	90	95	105	125	160	150
Non-feed	60	55	60	55	75	75	70	60
Total	370	380	400	420	480	520	580	520
Break even prices to cover costs for fed cattle marketed in: 3/	JULY-SEPT 1972	OCT-DEC 1972	JAN-MAR 1973	APRIL-JUNE 1973	JULY-SEPT 1973	OCT-DEC 1973	JAN-MAR 1974	APRIL-JUNE 1974
	Dollars per 100 pounds							
To cover cost of:								
Feed and feeder	30	31	32	35	39	42	49	44
All costs 4/	35	36	38	30	46	50	55	50

1/ Selected expenses on con-current basis.
2/ For detailed breakdown of costs see feeding table in Livestock and Meat Situtation 194, issued December 7, 1973.
3/ Assumes 180 day feeding period.
4/ Includes return to management.

Some cattle feeders have been selling fed cattle at a loss since late September. Although costs of both feeder cattle and feed have declined from summer levels, cattle feeders will require a much higher market next winter and spring in order to cover costs of production. If supply forecasts for the first half are reasonably accurate, and fed cattle prices do not advance more than currently anticipated, then losses in the feeding industry are likely to continue well into 1974.

In looking beyond 1974, cattle inventories suggest the strong possibility of further increases in beef production. Pork output could rise slowly while lamb and mutton and veal continue slipping.