



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Cattle on feed numbers drop sharply

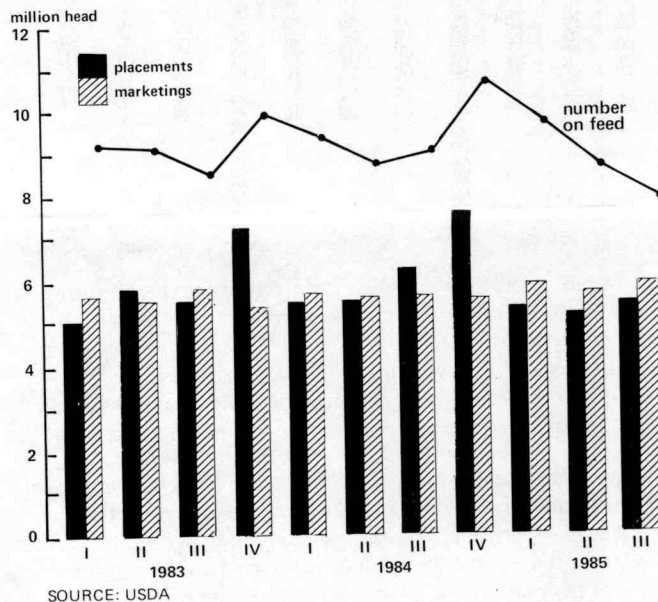
The backlog of heavy-weight cattle that accumulated during the second quarter, when low feed costs and anticipation of higher prices prompted many producers to hold cattle, largely worked its way through the market during the third quarter. After pressuring prices below \$50 per hundred-weight in mid-September, the flood of cattle onto the market ebbed and prices began to recover. Thereafter, cattle prices rose during a period traditionally marked by declines, reaching the low \$60 per hundredweight range by the end of October. USDA's latest quarterly *Cattle on Feed* report shows cattle numbers down sharply from a year ago, foreshadowing continued support for prices through the rest of the year and into early 1986.

According to USDA's October 1 survey of feedlots in the thirteen major cattle feeding states, the number of cattle in feedlots was down 12 percent from last year, and at the lowest level for that date since 1968. The thirteen states generally account for about 85 percent of all cattle in feedlots nationwide. Comparisons with year-earlier inventories show declines across weight categories and types of cattle. Heavy-weight cattle—those likely to be marketed during the final three months of 1985—were down more than 5 percent from a year ago, while the inventory of all lighter weight cattle was down almost 19 percent. In addition, heifers on feed were down almost 11 percent from last year, while steer inventories, which accounted for about 62 percent of the cattle on feed, were down almost 13 percent.

The drop in inventories on feed was spread across most of the thirteen quarterly states. Arizona and California reported declines of 36 and 27 percent, respectively, showing the largest drops from last year. Iowa, the largest cattle feeding state in the District and fifth nationwide, reported the next largest drop, down 20 percent from a year earlier. Illinois, the only other District state reporting on a quarterly basis, had 10.5 percent fewer cattle on feed than last October. Only two states in the quarterly reporting group, Nebraska and South Dakota, recorded year-to-year gains in the inventory of cattle on feed.

The net movement of cattle into feedlots this summer, at 5.22 million head, was almost 13 percent below the year-ago level. Data from the seven states that are surveyed monthly suggest that, although net placements fell throughout the period, the largest proportional decline occurred early in the third quarter. Net placements in the seven states fell more than 18 percent in July. During the next two months net placements continued to fall by 11 and 12.5 percent, respectively, as the large backlog of heavy-weight cattle and depressed prices continued to discourage placements.

Cattle on feed, placements and marketings for the thirteen major feeding states

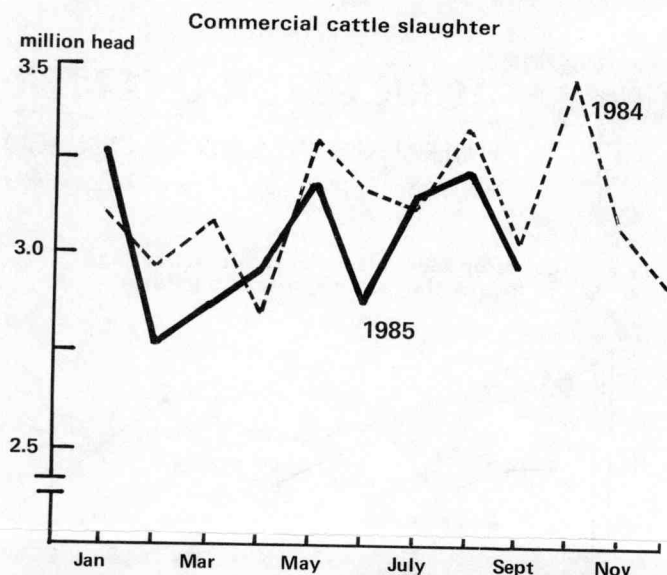


SOURCE: USDA

Cattle marketings from feedlots in the thirteen major states during the third quarter, at 5.97 million head, were up 5 percent from the comparable period last year and consistent with operators' marketing intentions in June. Commercial slaughter of all cattle during the three-month period, however, was down about 2 percent. The drop reflects a sharp slowdown in the movement of forage-fed cattle to market compared to a year ago.

Despite the year-to-year drop in commercial cattle slaughter, beef production during the third quarter was up 3.5 percent from the previous year's level. The rise in output is attributable to the substantially higher weights of the cattle marketed. Third quarter slaughter weights were up more than 4 percent from a year earlier as lower feed costs and the anticipation of stronger cattle prices encouraged longer feeding periods. In addition, the mix of slaughter animals changed, with a higher proportion of steers and heifers and fewer cows than during the same period last year.

Operators in the thirteen major cattle feeding states expect marketings during the final three months of the year, including an allowance for fourth quarter placements that will be marketed during the period, to be down about 4 percent from last year. Inventories of heavy-weight cattle that will likely be marketed this fall, down about 5 percent from a year ago on October 1, are roughly consistent with the intended drop in marketings. In addition, cow and forage-fed cattle



slaughter will likely continue below year-ago levels during the fourth quarter, holding commercial cattle slaughter 5 to 6 percent lower than last year. But continued year-to-year gains in slaughter weights will likely limit the drop in beef production. The USDA estimate of fourth quarter beef output points to a drop of about 3.6 percent from last year.

During the early months of 1985, cattle slaughter and beef production are expected to show continued year-to-year declines. October 1 inventories of light weight cattle on feed were down almost 19 percent from a year earlier, implying a sharp drop in first quarter fed-cattle slaughter. However, low feed costs and improving cattle price expectations will likely spur placements of heavier feeder cattle that may be marketed early next year. But overall, it appears that commercial slaughter will be below the previous year during the first three months of 1985. If slaughter weights remain above year-earlier levels, however, the decline in beef production will be limited. USDA beef production estimates for the first quarter of 1986 point to a 3.4 percent year-to-year decline.

Cattle slaughter and beef production are expected to hold below year-earlier levels through the rest of 1986. Mid-1985 readings of the U.S. cattle herd pointed to a second consecutive annual decline in the calf crop along with extensive culling of the beef cow herd and replacement heifers. While these numbers will be updated in January, they are indicative of a substantial drop in the productive capacity of the U.S. cattle industry. Reflecting this decline in capacity, USDA estimates of beef production point to a 7.5 percent drop from a year ago during the second quarter and a 5.8 percent decline during the last half of 1986.

After the backlog of heavy cattle was marketed and slaughter dropped below year-earlier levels, cattle prices began to strengthen from the mid-September low of \$49.75 per hundredweight. Through the first half of the fourth quarter, when cattle prices typically decline, choice steer prices at Omaha rose steadily, gaining more than \$14 per hundredweight. In the months ahead, declines in beef and pork production will be partially offset by increased poultry output. However, total meat supplies are expected to drop below year-earlier levels, suggesting that the recent recovery in

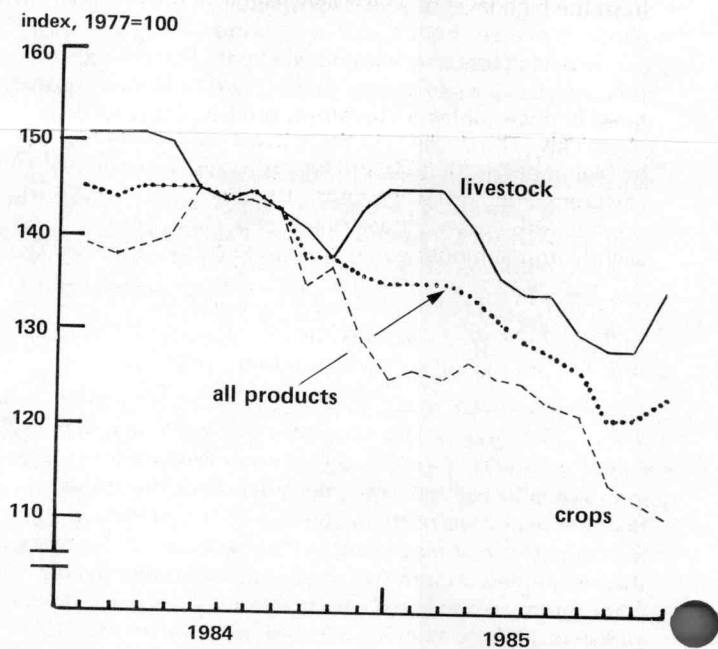
cattle prices will hold. For the entire fourth quarter, choice steer prices at Omaha will likely average between \$62 and \$63 per hundredweight compared to \$63.49 per hundredweight last year. Additional price strength may be forthcoming during the first three months of 1986, with prices expected to average in the \$60 to \$64 per hundredweight range compared to \$62.24 during the first quarter of 1985.

Prices received and paid by farmers lower in 1985

Prices received by farmers, after declining much of the year, reached a seven-year low in September. Since then, prices have turned up, with the October index of prices received for all farm products at 123 percent of the 1977 base, up 1.7 percent from a month earlier. Despite the recent upturn, the index of prices received by farmers during the first ten months of 1985 averaged more than 10 percent lower than during the comparable period a year earlier. The index of prices paid by farmers in October, at 162 percent of the 1977 base, was unchanged from last month and down 1 percentage point from last year's level. As a result, the ratio of the indexes of prices received to prices paid edged up slightly to 76 percent, but remained well below last year's level of 85 percent.

Both crop and livestock prices have contributed to this year's downtrend in the index of prices received by farmers. The index of prices received for crops, after holding fairly steady through the first three months of the year, declined continuously between April and October. So far this year, crop prices have averaged 14 percent below the 1984 record highs. The sharpest drops have been registered in feed grain and oilseed crop prices where the declines so far this year have averaged 18 and 24 percent, respectively. Food grain prices have fallen from a year ago as well, but by a substantially

Prices received by farmers have trended down



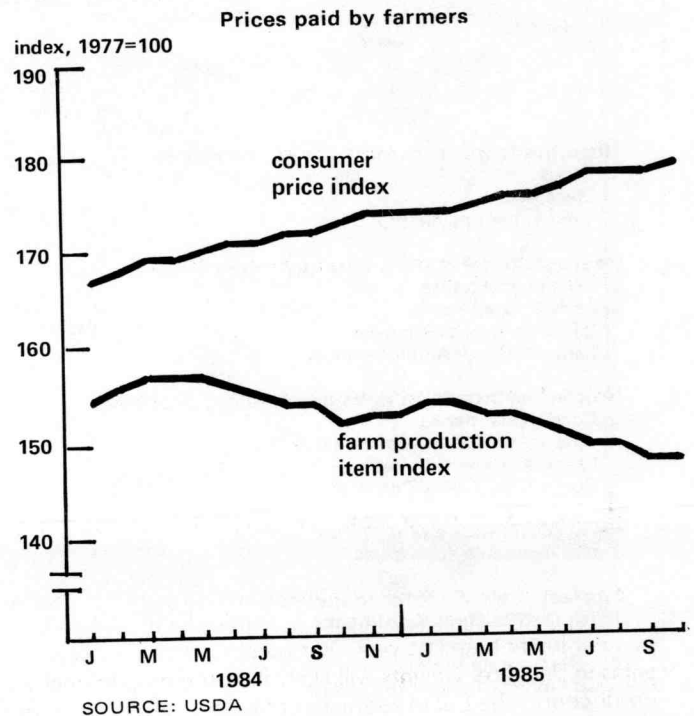
SOURCE: USDA

smaller amount. Through October, the index of prices received for food grains, which include rice, rye and wheat, had averaged 8 percent lower than last year. Declines from the previous month in food grains, feed grains and hay, oilcrops, and vegetables, although partially offset by higher prices received for cotton, largely accounted for the drop in the October all crop index.

Prices of livestock and livestock products, although down sharply in a dismal summer quarter, have fared somewhat better than crop prices. Following a course similar to that of crops, livestock and livestock product prices trended down through the first three quarters of 1985 before jumping almost 5 percent in October to 134 percent of its 1977 base. For the entire ten-month period, prices for livestock and livestock products averaged about 7 percent below the comparable period of last year. Prices for meat animals over the ten-month period averaged 6.5 percent lower than last year. Much of the decline is accounted for by the sharp drop in the third quarter when prices fell more than 12 percent below the year-earlier level. The October index of meat animal prices, however, jumped almost 8 percent from September as cattle and hog prices rebounded. Prices for dairy products in October were up slightly from September, but down more than 10 percent from a year ago. However, stronger prices earlier in the year limited the drop in dairy product prices over the first ten months of 1985 to about 4 percent. Although registering year-to-year gains in the last two months, the index of poultry and egg prices averaged more than 15.5 percent below a year earlier through October as production recovered from the avian influenza outbreak that sharply curtailed output in late 1983 and earlier 1984.

The index of prices paid by farmers for commodities, services, interest, taxes, and wages has edged downward since May to 162 percent of its 1977 base. Prices paid for farm production items, although unchanged from September, were down 2.6 percent from October 1984. Feed prices in October, down slightly from a month earlier, had dropped almost 14 percent from the high level of a year ago. Fertilizer prices were down almost 8 percent from a year ago during October, while prices for tractors and self-propelled machinery dropped 4.4 percent. Declines from year-earlier levels were also registered in prices of feeder livestock, seed, and agricultural chemicals. The declines in these items were partially offset by higher prices for fuels and energy, taxes, farm services and cash rent, and farm wage rates. The family living cost component of the overall index of prices paid by farmers, up slightly from a month earlier, recorded an increase of about 3.5 percent from the year-ago level. If prices paid by farmers continue to hold at or below the year-ago level for the remainder of 1985, it will mark the first annual decline in the index of prices paid by farmers in thirty years.

With input prices moderating, acreage planted down slightly, red meat production unchanged, and some cutback in input usage by farmers experiencing financial stress, farm production expenses may register a decline in 1985. Cash expenses are forecast by USDA to range between \$110 billion and \$114 billion this year, unchanged to down 3.5 percent from 1984. Total expenses, including depreciation and perquisites to hired labor, are expected to range from \$134 billion to \$138 billion in 1985, compared to \$139.4 billion last year.



Declines in cash receipts, reflecting lower prices received, are expected to offset the drop in expenses and result in lower farm cash income. Current estimates suggest that net cash income will range from \$34 billion to \$39 billion this year, unchanged to down almost 13 percent from last year. The low end of the forecast range points to the possibility that net cash income in 1985 may fall to an eight-year low. In addition, total net farm income—a conceptual measure of the value of farm sector production in a given year—is forecast by USDA to drop to a range of \$22 billion to \$26 billion in 1985, down from the record high of \$34.6 billion last year. The sharp drop in this measure of income is mostly attributable to expectations that the value of the change in farm inventories will result in a much smaller adjustment to gross income this year than last year. However, with the crop production revised upward, the actual adjustment may exceed the current estimate, contributing to a somewhat higher measure of total net farm income.

Peter J. Heffernan

AGRICULTURAL LETTER (ISSN 0002-1512) is published bi-weekly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice-president, Peter J. Heffernan, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

To subscribe, please write or telephone:
 Public Information Center
 Federal Reserve Bank of Chicago
 P.O. Box 834
 Chicago, IL 60690
 Tel.no. (312) 322-5111

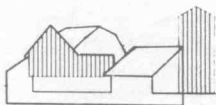
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops	N/A*				
Livestock	N/A*				
Government payments	N/A*				
Real estate farm debt outstanding (\$ billions)					
Commercial banks	June 30	10.6	3.4 [†]	7	20
Federal Land Banks	June 30	48.1	-2.0 [†]	-3	-1
Life insurance companies	August 31	12.0	-0.2 [†]	-5	-5
Farmers Home Administration	June 30	10.7	1.8 [†]	6	11
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	June 30	40.1	4.6 [†]	-3	4
Production Credit Associations	June 30	16.7	0.1 [†]	-15	-19
Farmers Home Administration	June 30	18.5	11.3 [†]	11	16
Commodity Credit Corporation	June 30	8.70	-14.7 [†]	33	-46
Farm loans made (\$ millions)					
Life insurance companies	August	65	-10.5	-64	-62
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	October 1	12.81	-0.9 [†]	-11	-7
Real estate loans	October 1	12.48	-1.0 [†]	-11	-7
Commodity Credit Corporation	November	8.00	0	-29	-19
Agricultural exports (\$ millions)					
Corn (mil. bu.)	September	1,885	-4.9	-35	-37
Soybeans (mil. bu.)	September	81	-12.1	-25	-44
Wheat (mil. bu.)	September	31	19.7	66	-42
	September	78	-13.6	-68	-40
Farm machinery sales^D (units)					
Tractors, over 40 HP					
40 to 139 HP	October	5,052	28.0	-25	-45
140 HP or more	October	4,030	39.5	-13	-34
Combines					
	October	1,022	-3.4	-51	-67
	October	1,340	22.6	-39	-36

*Monthly data no longer available.

[†]Prior period is three months earlier.

^DPreliminary



AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
 Public Information Center
 P.O. Box 834
 Chicago, Illinois 60690
 (312) 322-5112



AG001
 LOUISE LETNER, LIBRARIAN
 DEPT. OF AGRIC. & APPLIED ECON.
 2ND CLASSROOM OFFICE BUILDING
 1244 BUFORD AVENUE
 ST. PAUL, MN 55108