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LIVESTOCK PRICES fell to unexpectedly low levels in the first quarter, but a significant rebound appears likely this spring and summer. The low prices reflected large meat production and a less-than-robust consumer demand, particularly for red meats. Low prices and high feed costs have led to large financial losses among cattle and hog farmers and triggered a cutback in production by hog farmers. Analysts believe the cutback will support an upturn in livestock prices this spring. The upturn could be significantly enhanced if rainfall is adequate to replenish spring and summer pastures and stem the heavy flow of cow and forage-fed steer and heifer slaughter.

The declines in recent months pushed first quarter average prices to about $62 per hundredweight for choice steers at Omaha and $41 per hundredweight for barrows and gilts at seven major markets. Current prices are even lower. The average price for choice steers in the first quarter was about $9 per hundredweight below last summer's peak and nearly $5 less than in the first quarter of last year. For barrows and gilts, the average price in the first quarter was more than $5 per hundredweight below the third quarter average, but nearly $5 higher than the extremely depressed prices of early 1980.

The low prices largely reflect an unexpectedly large volume of meat production. Preliminary reports suggest red meat production in the first quarter was 3 percent higher than in the same period the year before. Red meat supplies, particularly for pork, were further bolstered by an unusually large volume held in cold storage. And total first-quarter meat supplies were also supported by a year-to-year gain of about 2 percent in broiler and turkey production. The increases in red meat and poultry production contrast markedly with the projections made in late 1980 suggesting total meat production in the first-quarter would be unchanged to 1 percent below the year before.

The larger-than-expected output of red meat in the first quarter can be tied to heavier slaughter weights and faster rates of gain. The faster rates of gain, in turn, contributed to an unexpectedly high number of animals moving to slaughter. Numerous reports suggest the mild winter weather resulted in much faster average daily weight gains, particularly among cattle in feedlots. In some cases, cattle were reaching slaughter weights two to three weeks sooner than normal.

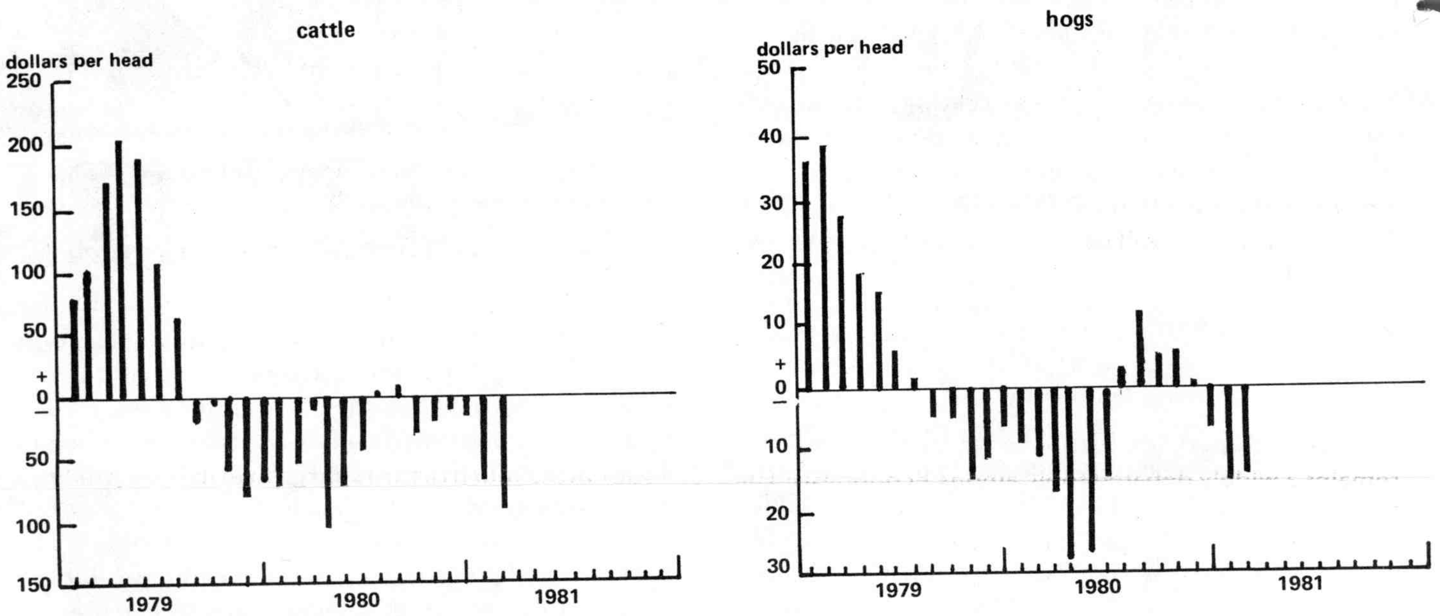
Faster weight gains and, in some cases, producer's tendency to delay marketings when prices are depressed and expected to recover, led to higher average carcass weights. In January and February, dressed weights of all federally inspected cattle averaged 655 pounds, nominally higher than the year before and 5 percent above the average of the 1970s. Dressed weights of hogs averaged 1.5 percent higher than the year before and the highest since 1976.

Livestock slaughter, despite the faster weight gains, still proved higher than expected in the first quarter. Preliminary reports suggest commercial cattle slaughter in the first quarter exceeded the year-earlier level by 6 percent. Hog slaughter—in contrast to the evidence of a sharply smaller pig crop last summer—was down only 2 percent.

In 1980, grain-fed steers and heifers accounted for over 70 percent of commercial cattle slaughter. But, as has been the case since 1978, the available evidence suggests the number of grain-fed cattle moving to slaughter in the first quarter continued to lag the year-earlier level. Offsetting this, cow slaughter—which had been trending sharply lower until the onset of the drought last spring—was up well over a tenth. The rise in the residually-calculated forage-fed steer and heifer slaughter has been far more dramatic, reflecting the lingering impact of last year's drought on winter forage supplies in the important forage feeding areas of the country.

The higher-than-expected volume of hog slaughter is associated with faster weight gains. In addition, it now appears that a proportionately large share of gilts were slaughtered in the first quarter rather than held for retention in the breeding herd.

Net losses on cattle and hog marketings have generally prevailed since mid-1979



SOURCE: Iowa State University.

Financial losses among hog farmers and cattle feeders have been substantial in recent months. Iowa State University budgets suggest returns from hogs marketed from a typical farrow-to-finish operation in the first two months of this year fell short of total costs by $14 to $15 per head. The losses no doubt continued in March, marking the 15 month out of the last 20 in which hogs have been marketed at a loss. Budgets for a typical Iowa farmer who feeds yearling steers paint an even bleaker picture. In January and February, choice fed steers were marketed at an average net loss of nearly $80 per head. The large losses continued, with March representing the 18 month out of the last 20 in which cattle marketings have generated net losses. These large losses, not surprisingly, have caused livestock farmers to scale-down their production.

Hog inventories are down significantly from year-earlier levels in response to the financial losses. According to the USDA's latest *Hogs and Pigs* report, the March 1 inventory of hogs intended for market in the 14 major states was down 8 percent from a year ago. The inventory of hogs held for breeding purposes was down 11 percent. The declines were considerably greater than the 4 percent smaller inventories reported in December. Moreover, the declines were considerably greater than had been expected in light of producers farrowing intentions last December and in light of the 9 percent year-to-year decline in sow slaughter in the December-February period. The latter implies that, although hog farmers were not liquidating sows, they were still depleting their breeding stock by shipping an unusually high proportion of gilts to slaughter markets.

The bigger decline in the number of market hogs reflects a large cutback in sow farrowings this winter. Although intentions last December were to farrow 6 percent fewer sows in the December-February period, it now appears the cutback was 11 percent. Moreover, producer's intentions last December pointed to a 5 percent decline in farrowings during the March-May quarter. The updated measure indicates producers intend to cut spring farrowings by a tenth. And the first measure of producer's intentions for the June-August quarter suggests farrowings may be down 8 percent from the summer of last year and the lowest for that period since 1977.

The latest measure of hog inventories and producers farrowing intentions, if verified in subsequent developments, portends considerable potential for a recovery in hog prices. Although near-term marketings will continue relatively large, albeit less than a year ago, total hog slaughter in the second and third quarters may range 6 to 9 percent less than the year before. The fourth quarter decline could be even greater if producers follow through with their spring farrowing intentions.

While prospects for lower pork production will add support to livestock prices, additional support could be provided by the greening up of spring pastures. Many analysts believe the availability of spring pastures will significantly stem the flow of cows and forage-fed cattle to slaughter markets. Moreover, if rainfall is adequate to recharge the carrying capacity of pasture, the downturn in forage-fed slaughter would likely continue in the summer months. Under these conditions, total cattle slaughter this spring and summer would more nearly *parallel* the lagging movement of feeder cattle into feedlots that has been evident since last August.

The smaller inventory of market hogs and the cutback in cow and forage-fed cattle slaughter—if it materializes—portends a significant reversal in red meat production in the current quarter. Red meat production in the second-quarter will not only decline seasonally, but may fall short of year-earlier level by 3 or 4 percent. And if adequate rains fall, third quarter production of red meats might remain below the relatively low level of last summer.

The strength of consumer demand for meats remains a widely debated topic among economists. The overall economy, as measured by real gross national product, has trended higher since mid-1980 but may have only equalled the year-ago peak in the first quarter. Year-to-year gains in disposable personal income in recent months have been offset by higher prices, affording consumers no increase in real purchasing power. Total employment has been trending higher since mid-1980, but is only slightly higher than the peak of a year ago. The unemployment rate has leveled off in recent months, but remains well above a year ago. These developments suggest that consumer demand for meat lacks the robustness that has been evident at times in the past. But in terms of explaining the low livestock prices of recent months, the increase in supplies, rather than a decline in consumer demand, probably accounts for the bulk of the lower prices.

From a longer-term perspective, it is clear that the rise in per capita consumption of meats slowed substantially in the past decade. In 1980, per capita consumption of all meats surpassed 212 pounds (retail weight basis). Although a new high, per capita consumption of meats last year was only 6 percent higher than ten years earlier, marking the smallest rise since the 1940s. By comparison, per capita consumption of meats rose 12 percent in the 1950s and 19 percent in the 1960s.

Consumption of beef in the 1970s registered the most notable deviation from past trends. In the 1950s and the 1960s, per capita consumption of beef rose about 30 percent. But since peaking in 1976, per capita consumption of beef has declined to the lowest levels since the late 1960s. Continued growth in poultry consumption and—in the past couple of years—a cyclical peak in pork consumption have offset the decline in beef, leaving a considerably different mix to the overall pattern of meat consumption. Beef accounted for about 37 percent of per capita consumption of all meats in 1980, while pork accounted for 32 percent and poultry accounted for 29 percent. Ten years earlier beef accounted for 42 percent of per capita meat consumption and pork and poultry accounted for 31 and 24 percent, respectively.

Trends in per capita meat consumption largely mirror trends in production, since net meat imports represent a small fraction of consumption. As such, shifts in per capita consumption reflect both changes in demand and in production. On the production side, the major difference between the 1970s and earlier decades was the growing world demand for grains that eliminated earlier surpluses. There is little doubt that the huge surpluses of grains in the 1950s and the 1960s indirectly subsidized much of the rapid growth in meat production and per capita consumption in those two decades. On the demand side, the major difference of the 1970s was the escalating prices for energy, transportation, housing, and all food which tended to undermine consumer budgets for meat. Dietary concerns, rightly or wrongly probably also impacted consumer demand during the 1970s. The upshot of all these developments was that consumers were not willing to send livestock producers the necessary pricing signals to maintain the growth in production—and thus consumption—at a level comparable to earlier decades.

The outlook for livestock prices has been enhanced considerably by the indicated cutback in hog production this winter and prospects for further significant declines this spring and summer. Moreover, the greening up of spring pastures offers hope that the heavy flow of cow and forage-fed cattle slaughter will slow appreciably this spring and—rains permitting—this summer. Projections of the extent of the price recovery vary widely. But many analysts believe second and third quarter average prices for barrows and gilts will range from the mid \$40s per hundredweight to the mid \$50s. Price projections for choice, grain-fed steers for the second and third quarter range from the upper \$60s per hundredweight to the mid \$70s per hundredweight.

The anticipated livestock prices for this spring and summer, if realized, would greatly reduce the financial squeeze that has plagued producers for the better part of the past two years. But if feed costs stay high, as expected, prices would have to reach the upper end of the projected ranges before farmers will be able to realize a profit.

Gary L. Benjamin

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	March	232	+ 0.7	+14
Total loans at agricultural banks†	1972-73=100	March	258	+ 1.9	0
Production credit associations					
Loans outstanding					
United States	mil. dol.	February	20,381	+ 3.8	+11
Seventh District states	mil. dol.	February	4,092	+ 2.0	+ 6
Loans made					
United States	mil. dol.	February	3,225	− 9.5	+ 8
Seventh District states	mil. dol.	February	751	+ 1.2	+ 1
Federal land banks					
Loans outstanding					
United States	mil. dol.	February	37,188	+ 1.6	+21
Seventh District states	mil. dol.	February	8,726	+ 1.6	+24
New money loaned					
United States	mil. dol.	February	719	− 9.3	+ 2
Seventh Distict states	mil. dol.	February	161	−11.2	− 5
Interest rates					
Feeder cattle loans††	percent	4th Quarter	15.80	+11.9	+25
Farm real estate loans††	percent	4th Quarter	14.72	+ 8.3	+20
Three-month Treasury bills	percent	3/26-4/1	12.70	−11.5	−19
Federal funds rate	percent	3/26-4/1	14.93	− 5.1	−16
Government bonds *(long-term)*	percent	3/19-3/25	12.59	− 1.3	+ 4
Agricultural trade					
Agricultural exports	mil. dol.	January	4,067	− 5.0	+24
Agricultural imports	mil. dol.	January	1,560	+ 1.5	− 6
Farm machinery sales[P]					
Farm tractors	units	February	6,119	−22.3	−20
Combines	units	February	1,016	−39.4	+ 4
Balers	units	February	416	− 5.9	+29

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

††Average of rates reported by District agricultural banks at beginning and end of quarter.

[P]Preliminary.

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