FEDERAL RESERVE BANK OF CHICAGO
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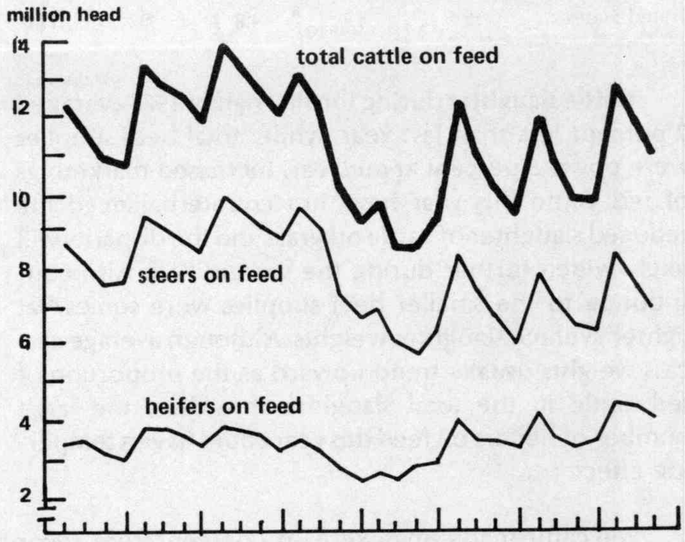
CATTLE ON FEED INVENTORIES increased still further over year-earlier levels in the second quarter of 1978. According to the USDA, cattle on feed in the 23 major feeding states numbered 10.9 million head on July 1. Up 12 percent from a year earlier, that was the largest number on feed for that date since 1973, and followed year-to-year increases in January and April of 7 and 10 percent, respectively. The heavy cattle feeding activity in the first half of the year in conjunction with the reduced slaughter of nonfed steers and heifers suggests that for the third consecutive year fed cattle will account for more of the commercial cattle slaughter in 1978.

Substantial increases in inventories were evident for most categories of cattle on feed, with the exception of a year-to-year decline in the inventory of steers weighing 900 pounds and over. The feedlot inventory of all steers on July 1 was 7 percent above a year earlier. The increase in the number of heifers and heifer calves in feedlots, however, was especially notable, up one-fifth from a year before. Following a year-to-year increase of 21 percent on April 1, the large number of heifers in feedlots at midyear no doubt reflected generally tight feeder cattle supplies and the corresponding sharp runup in feeder cattle prices in the first half of the year. These conditions induced cattlemen to market heifers rather than keep them for herd replacements.

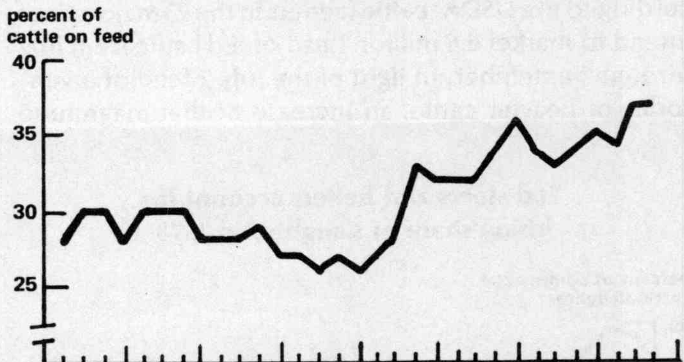
Placements of cattle on feed in the April-June quarter totaled 6.5 million head, up 9 percent from the corresponding period last year. Most of the increase can be attributed to a few major feeding states. Placements in the seven major feeding states for which monthly data are available set records in both May and June, averaging 28 and 21 percent above their respective year-earlier levels. Together with an 8 percent year-to-year decline in April, placements in these seven states numbered 5.3 million head in the second quarter, 13 percent more than a year before. More than half the rise was attributed to increases in Texas and Nebraska.

The number of cattle placed on feed in Seventh District states exceeded the year-earlier level by 11 percent in the second quarter. Fed cattle marketings rose only 7 percent. Iowa, which ranked fourth in the nation in July 1

1978 feedlot inventories of steers and heifers continue to register year-to-year increases in the second quarter . . .



. . . but heifers account for rising share of total



feedlot inventories, accounted for nearly three-fifths of the cattle feeding activity in the five-state area. Furthermore, during the first half of 1978, Iowa's dominance in the district as a cattle feeder increased. In contrast to the somewhat mixed but generally upward trending placements and fed cattle marketings in the other district states, Iowa has registered substantial increases above year-ago levels each month, and Iowa almost single-handedly accounted for the increased cattle feeding in district states during the first six months of this year.

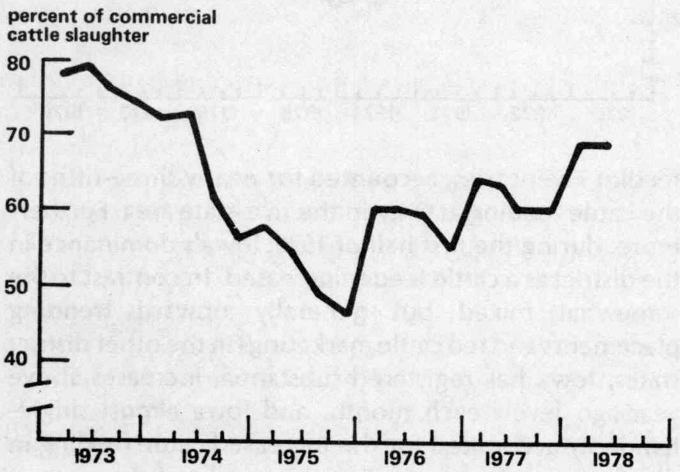
1978 cattle feeding activities in district states

	Placements on feed IQ	Placements on feed IIQ	Fed cattle marketings IQ	Fed cattle marketings IIQ	Inventory on feed July 1
	(percent change from year earlier)				
Illinois	4.7	−15.4	13.6	− 7.7	2.2
Indiana	− 6.7	25.0	14.5	9.5	2.5
Iowa	15.9	17.6	12.7	14.5	12.1
Michigan	9.3	6.7	0	− 2.6	− 3.0
Wisconsin	10.3	−15.4	4.7	−10.6	0
District states	11.2	10.7	12.1	7.0	7.2
United States	15.4	8.7	4.8	7.2	11.8

Cattle slaughter during the first half of 1978 averaged 2 percent less than last year, while total beef supplies were down 3 percent at midyear. Increased marketings of fed cattle this year have not counterbalanced the reduced slaughter of cattle off grass and the disparity will likely widen further during the second half. Also contributing to the smaller beef supplies were somewhat lighter average slaughter weights. Although average carcass weights usually trend upward as the proportion of fed cattle in the total slaughter mix rises, the large number of heifers on feed this year could have a tempering effect.

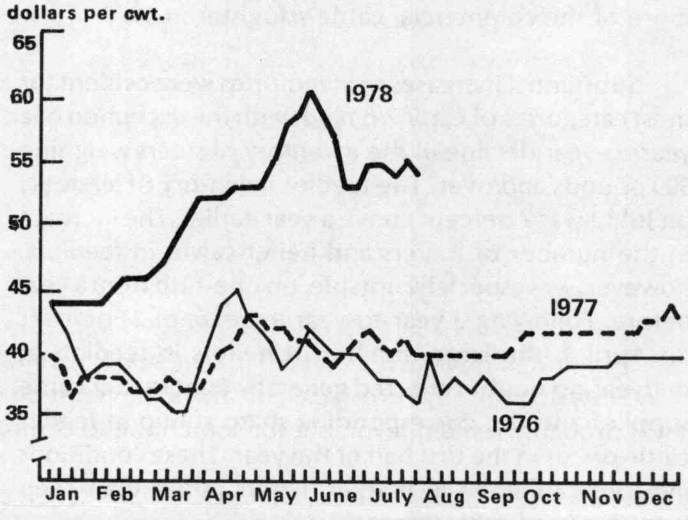
Fed cattle marketings were up 7 percent from a year before in the second quarter, and they could show a similar year-to-year increase in the third quarter. According to the USDA, cattle feeders in the 23 major states intend to market 6.6 million head of fed cattle from July through September. In light of the July 1 feedlot inventories of heavier cattle, an increase of that magnitude seems reasonable. Therefore, third-quarter fed cattle slaughter will likely be the largest for that period since 1972.

Fed steers and heifers account for rising share of slaughter in 1978



After a prolonged period of losses to cattle feeders, the rise in cattle prices this year brought with it a renewed surge of interest in cattle feeding. Large feed supplies at reasonable prices accentuated the abrupt turnaround in feeding margins. Interest built on itself, fueling higher prices and widening profit margins through May. Choice slaughter steers at Omaha averaged $57 per hundredweight in May, up more than one-third from a year before. Fed cattle prices peaked in early June, and the decline that followed—prices were down more than one-tenth in the first week of August—narrowed profit margins for June. Although feeding margins could be squeezed further in the next several months, fed cattle marketings are expected to continue posting year-to-year increases in the second half of 1978.

Choice Omaha steer prices



Beef production in the second half of the year could be 6 to 7 percent less than last year, according to USDA estimates, reducing total 1978 beef supplies about 4 percent below last year. Competing supplies of pork, broilers, and turkeys are expected to increase above year-ago levels in the July-December period, leaving total 1978 production of red meat and poultry within 1 percent of last year. High retail beef prices in the second half of this year could be met with increased consumer resistance as the larger supplies of other meats give shoppers the opportunity for ready substitutions. Current projections estimate per capita beef consumption in 1978 at 120 pounds, 5 percent less than last year and 7 percent below the 1976 record of 129 pounds.

CATTLE AND CALVES on farms and ranches across the country totaled 121.6 million head on July 1, according to a USDA report. The midyear inventory was 7 percent less than a year before and 13 percent below the 1975 record. Year-to-year declines were reported in all classes of cattle except heifers not held for herd replacement. Especially significant was an 8 percent reduction in the number of heifers intended for beef cow replacements. Coupled with the decline in cow numbers in the first half, the surprisingly large decline in breeding herd replacements suggests cattlemen had not yet begun to rebuild breeding herds through midyear.

Cattle and calf numbers have been declining for three years. The increase in slaughter cattle prices through the early-June peak induced cattlemen to continue culling breeding herds in the first half. Second-quarter cow slaughter was down less than 1 percent from a year before. The USDA estimated that, because of the severe winter, first-half cattle and calf death losses were one-tenth higher than in 1977. In conjunction with the larger-than-expected drop in heifers intended for herd replacement, the findings in the July report portend a further reduction in the cattle inventory in January.

Adjustments that would signal the end of the current cattle cycle have been slowed by the sharp runup in cattle prices this year. Price increases have encouraged cattlemen to sell cows and heifers rather than rebuild breeding herds. Prospective replacement heifers have been bid away by high feeder cattle prices. And at least through early June, when the uptrend in cattle prices broke, cow slaughter and placements of heifers on feed had been substantially larger than generally expected. This, in turn, was reflected in July 1 inventory figures and suggests that earnings prospects for cow/calf operations will probably remain favorable for some time to come.

There were 48.5 million beef cows on the nation's farms and ranches at midyear, down 9 percent from a year before and 20 percent from the July 1975 record. This year's decline equaled the 9 percent decrease in the year ended July 1, 1976. It further illustrates that the downturn in the current cattle cycle has been the most pronounced since at least the mid-1930s. (See *Agricultural Letter*, Nos. 1467 and 1417.) Utility cow prices averaged $38 per hundred pounds in July, nearly 40 percent above the January average and more than two-thirds above the July 1975 average. A runup of that magnitude could have probably produced the herd culling even though cattlemen were aware of developments suggesting favorable prospects for cow/calf operations.

The July report showed the USDA's preliminary estimate of the 1978 calf crop at 44.1 million head, 4 percent less than a year before and 13 percent less than the 1974 record. This figure includes the number of calves born in the first half of the year and an estimate of the number of expected calvings after midyear. Although subject to revision, the estimate of a reduced 1978 calf crop coupled with the likelihood of further increases in feedlot placements suggests feeder cattle prices will continue to benefit from the diminishing supplies of available feeders and the strong demand for feedlot replacements.

The outlook for cattle prices appears generally favorable over the longer run, although clouded by a number of uncertainties for the next several months. Tight supplies of feeder steers and heifers suggest that with a strong demand for feedlot replacements, feeder cattle prices could increase. On the other hand, it also implies a dependence on the pace of future placements on feed. The June decline in fed steer prices in conjunction with the first-half runup in feeder prices and feed costs have already begun to squeeze cattle feeding profit margins. And after a prolonged period of feeding losses, cattle feeders could be excused if they were skittish at the thought of contracting profit margins. Therefore, the outlook for feeder cattle prices hinges also on the outlook for fed cattle prices.

With total commercial cattle slaughter on the decline, consumer incomes rising, and employment high, a strong consumer beef demand could perhaps maintain high cattle prices despite larger fed cattle marketings. But, in light of the record retail beef prices this spring, evidence of mounting consumer resistance to high beef prices could be reflected in the second half through reduced per capita beef purchases and offsetting purchases of competing meats. Fed cattle prices in the third quarter, therefore, could hover at current levels in the low $50s per hundredweight or maybe edge even lower. The relaxed beef import quotas, allowing up to 200 million pounds of additional imports this year, would not likely have a significant impact on fed steer prices. Beef imports typically compete more directly with beef supplies from nonfed slaughter. Therefore, utility cow prices would more likely suffer from increased beef imports and a resulting decline could encourage the retention of cows to rebuild breeding herds in the second half of 1978.

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Selected 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	July	215	− 0.9	+19
Crops	1967=100	July	213	− 1.4	+18
Livestock	1967=100	July	217	− 0.9	+21
Index of prices paid by farmers	1967=100	July	220	0	+ 8
Production items	1967=100	July	218	0	+ 8
Producer price index* *(finished goods)*	1967=100	July	196	0.8	+ 8
Foods	1967=100	July	211	0.6	+10
Processed foods and feeds	1967=100	July	204	0	+ 9
Agricultural chemicals	1967=100	July	202	− 0.2	+ 7
Agricultural machinery and equipment	1967=100	July	212	+ 0.7	+11
Consumer price index** *(all items)*	1967=100	June	195	+ 1.0	+ 7
Food at home	1967=100	June	214	+ 2.0	+12
Cash prices received by farmers					
Corn	dol. per bu.	July	2.12	− 7.0	+13
Soybeans	dol. per bu.	July	6.37	+ 4.8	− 2
Wheat	dol. per bu.	July	2.78	− 1.4	+36
Sorghum	dol. per cwt.	July	3.58	− 1.6	+26
Oats	dol. per bu.	July	1.09	− 6.0	+ 7
Steers and heifers	dol. per cwt.	July	53.30	− 3.4	+41
Hogs	dol. per cwt.	July	45.20	− 5.2	+ 1
Milk, all sold to plants	dol. per cwt.	July	10.10	+ 1.0	+ 6
Broilers	cents per lb.	July	32.8	+ 8.6	+27
Eggs	cents per doz.	July	48.3	+10.8	− 5
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	110	+ 7.6	+15
Net realized farm income	bil. dol.	2nd Quarter	27	+21.1	+37
Nonagricultural personal income	bil. dol.	June	1,654	+ 0.7	+11

*Formerly called wholesale price index.

**For all urban consumers.

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