FEDERAL RESERVE BANK OF CHICAGO
AGRICULTURAL LETTER

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FED CATTLE MARKETINGS rose to a record level in the first quarter and (paradoxically) so did choice steer prices at Omaha. According to the USDA, marketings from feedlots in the 23 major cattle-feeding states approached 6.8 million head in the first quarter. This marked an increase of 5 percent over the same period a year earlier, established a new first-quarter record, and represented the largest volume of marketings for any quarter since late 1972.

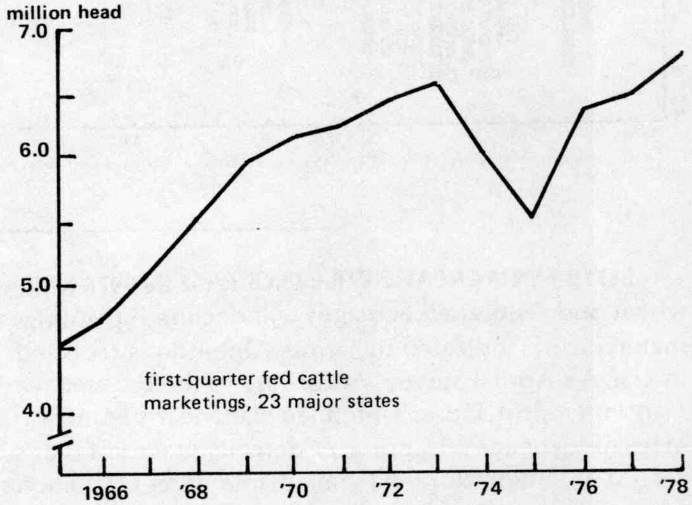
Despite the indicated increase in fed cattle slaughter, a sharp cutback in cow and nonfed steer and heifer slaughter combined with lighter carcass weights to hold first-quarter beef production 2 to 3 percent lower than a year before. Reduced supplies of beef and other red meats plus a strong consumer demand pushed cattle prices sharply higher in recent months. Choice steer prices at Omaha averaged $45.75 per hundredweight in the three months ended in March, one-fifth higher than in the same period a year earlier and the highest first-quarter average on record.

Feedlot inventories remain high as continued large increases in placements on feed have outstripped the pickup in marketings. The number of cattle placed on feed in the first quarter was 15 percent higher than a year before. The large volume of placements held the April 1 inventory of cattle on feed one-tenth higher than a year earlier. Heavyweight cattle—which will provide most of second-quarter marketings—numbered 9 percent more than last year.

Feedlot activities have varied widely from state to state in the Seventh District. First-quarter marketings were up sharply in Illinois, Indiana, and Iowa. But only in Iowa did cattle feeders make a comparable increase in placements. The April 1 inventory on feed in that state showed a year-to-year gain of 11 percent. In Illinois, inventories were up 2 percent, while those in Indiana and Wisconsin were unchanged from a year before. In Michigan, the number of cattle on feed was down 5 percent to the lowest level in three years.

Slaughter prospects for the next few months point to continued increases in fed cattle marketings. On April 1, cattle feeders in the 23 major states indicated their intentions of marketing nearly 6.6 million head in the second-quarter. Such intentions imply second-quarter marketings will be down slightly from the first quarter but still nearly 7 percent above the same period a year earlier. Based on historical relationships, moreover, the estimate of heavyweight cattle numbers supports prospects for a 10 percent boost in second-quarter marketings. That would be enough to surpass the 1972 record.

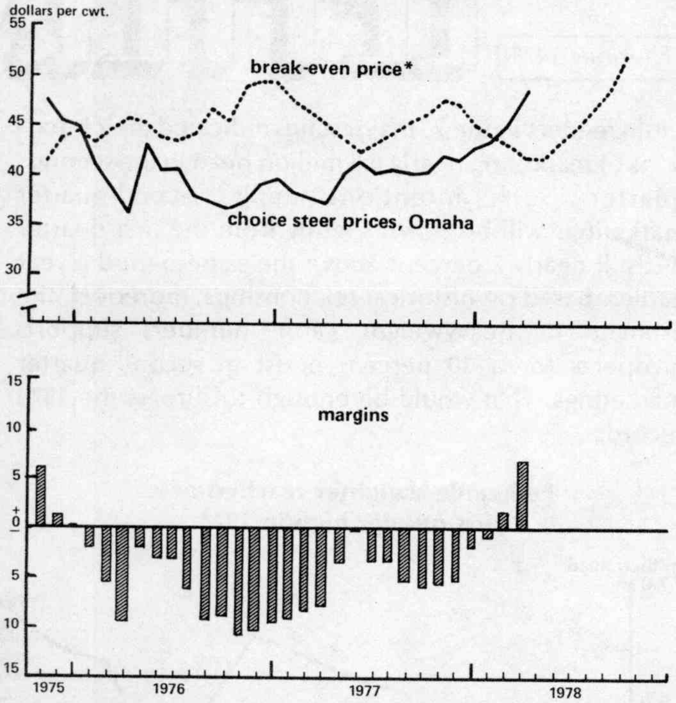
Fed cattle slaughter reached new first-quarter high in 1978



Despite the likelihood of continued large gains in fed cattle slaughter, most analysts expect lagging nonfed slaughter to hold total beef production under year-earlier levels throughout the rest of 1978. An abundance of feed grains coupled with the best overall pasture and grazing conditions in years has eliminated most concerns about forced marketings due to feed shortages. Moreover, the unprecedented rate of liquidation in the cattle inventory in recent years has now come to the point where two related trends will become increasingly important in holding back nonfed slaughter. Because of the resulting short supply of feeder stock, more grass-fed cattle will tend to move into feedlots. Simultaneously, high feeder cattle prices will tend to encourage the rebuilding of beef cow herds through reduced culling and the retention of replacement heifers.

If consumer demand stays strong, prospects for continued year-to-year declines in beef production augur well for future cattle prices. Although analysts generally expect some near-term declines, most expect choice steer prices to range in the high $40s to low $50s per hundredweight during the second and third quarter. Such levels however, imply record-high retail beef prices, which could weaken consumer demand. The full impact of the first-quarter upswing in beef prices is only just beginning to become apparent at grocery stores. Consumer's reaction to high beef prices will have an important bearing on the strength in cattle prices.

Uptrend in cattle prices ends prolonged losses to cattle feeders, but margins may narrow this summer



*Selling price required to cover all costs of raising 600 pound feeder steer to 1,050 pound slaughter weight. Based on USDA budgets.

For lenders, the largely unexpected strength in prices throughout the livestock complex this year depicts conditions vastly different from the last few years when losses to cattle feeders were of major concern. Clearly, 1978 prospects for livestock producers are the best in some time. Both cattle and hog producers had roughly a fifth more gross receipts during the first quarter than a year earlier. The optimism generated by this performance, however, should not obscure some caution signs. The sharp run up in feeder cattle prices, coupled with the concurrent uptrend in feed costs, points to the likelihood of lower operating margins on cattle marketed later this year. USDA budgets already indicate that to cover all costs of production on cattle marketed this summer, cattle prices will have to average close to $50 per hundredweight. That will be about $6 more than the breakeven price required on first-half 1978 marketings.

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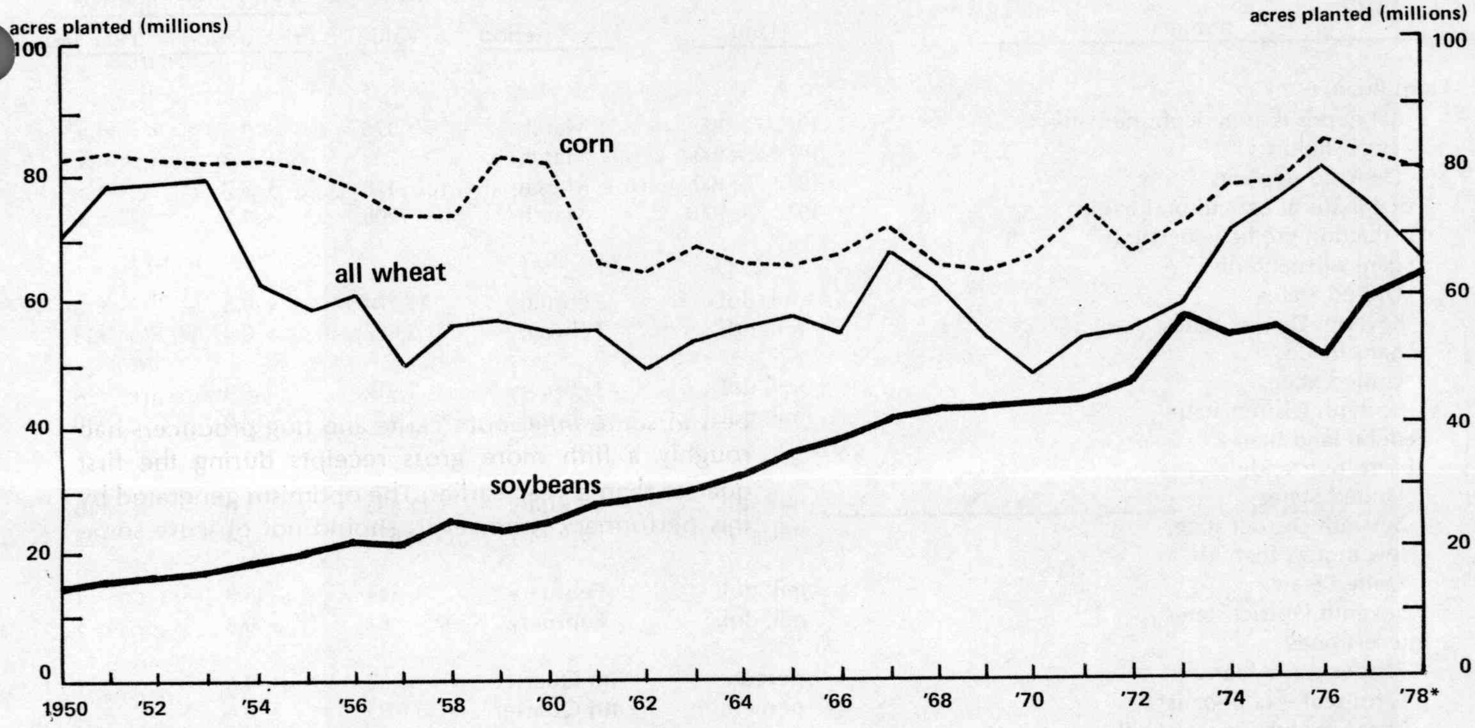
SOYBEAN ACREAGE WILL INCREASE IN 1978 while wheat and feed grain acreages will decline if plantings materialize as indicated by farmers' intentions reported in USDA's April 1 survey. According to the *Prospective Plantings* report, farmers intend to plant nearly 64 million acres of soybeans this spring—8 percent above last year's record. Intentions for feed grain plantings, at 123 million acres, imply a reduction of 4 percent. Last fall's winter wheat plantings plus the intentions for spring plantings point to a 12 percent reduction in total wheat acreage. While the reported planting intentions suggest 1978 participation in the farm program will be far from complete, farmers responding to the survey effectively had no opportunity to respond to the program changes set forth in the Administration's March 29 announcement. Moreover, the potential still exists for last-minute planting revisions necessitated by the weather.

One of the biggest questions concerning the reliability of this survey revolves around the acreage that may ultimately be set aside because of participation in this year's feed grain program. The recent changes in the program (see *Agricultural Letter* No. 1470) enhanced the benefits of participation substantially, which could result in final plantings that differ significantly from the reported April intentions. Even with the revisions, however, program participation is not expected to be universal. In some southern states where planting was already well underway, the revisions may have little impact on participation.

Corn plantings of 80 million acres were indicated by the survey. Down 3 percent from actual plantings in 1977, that was a 1 percent drop from the intentions indicated in the January report. Year-to-year acreage reductions for the other feed grains would be 8 percent for oats and 6 percent for both sorghum and barley. Though plantings could differ substantially from the April intentions—either from increased farm program participation or changes in weather—there is clearly the potential for another large harvest. For example, even if corn plantings this year decline to 77.5 million acres, and 85 percent of the acreage is then harvested for grain, (average over the last 3 years) a yield equal to last year's (91 bushels per acre) would still produce a 6 billion bushel corn crop.

Soybean planting intentions were only slightly above the January findings but substantially above the

Soybean plantings expected in 1978 would continue long-term uptrend



*April planting intentions.

record level of a year ago. Prospective plantings of nearly 64 million acres represent an increase of 8 percent over the 1977 actual acreage. The soybeans/corn price ratio has declined in recent weeks from 3.0 to roughly 2.75 which indicates soybean plantings in 1978 may be less than suggested by the USDA's planting intentions report. Moreover, any shift to additional set-aside acreage—due to increased participation in the feed grain program—could pull acreage out of intended soybean plantings. However, most observers still believe a large year-to-year increase is imminent. And the likelihood of a record production of soybeans in 1978 suggests that a buildup—perhaps of record proportions—in ending stocks is probable, barring any exceptionally large rises in utilization.

Among Seventh District states, farmers' April planting intentions differed somewhat from those for the country as a whole. Corn plantings this year may decline only 1 percent in the five-state area, while soybean acreage may increase only 6 percent. According to the April survey, Indiana farmers intend to plant roughly the same acreage to corn this year as last, while increasing their soybean plantings a tenth. Iowa and Illinois (first and second largest in U.S. corn plantings) could account for as much as 31 percent of the total corn acreage in the United States this year.

Crop prices will continue to be affected by year-to-year changes in production and demand, but also by changes in "free market" supplies. The long-term grain reserve program, enhanced by the Administration's March announcement, offers farmers an alternative to selling their grain outright. If a substantial quantity of grain moves into the reserve where it is shielded from free market supplies, grain purchasers are apt to bid up prices as they compete for the reduced grain supplies. Therefore, prospects for grain prices in 1978 reaching the reserve's release price would be heightened with a widespread use of the reserve by farmers.

Among the other developments credited with boosting crop prices in recent months have been reports of a smaller Brazilian soybean harvest. Grain purchases by the Peoples Republic of China have also helped bolster prices, as have reports of excessively wet planting conditions in many parts of the United States. If heavy rainfall in the Corn Belt continues to delay spring fieldwork, prospects for more soybean plantings will rise as the most opportune time for planting corn is missed. A weather-delayed planting season might also result in greater participation in the feed grain program.

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Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	March	176	+ 1.6	n.a.
Time deposits	1972-73=100	March	205	+ 0.8	n.a.
Demand deposits	1972-73=100	March	128	+ 3.7	n.a.
Total loans at agricultural banks†	1972-73=100	March	208	+ 1.7	n.a.
Production credit associations					
Loans outstanding					
United States	mil. dol.	February	13,274	+ 0.3	+ 8
Seventh District states	mil. dol.	February	2,617	+ 0.4	+13
Loans made					
United States	mil. dol.	February	1,912	− 6.9	+ 4
Seventh District states	mil. dol.	February	477	+17.0	+10
Federal land banks					
Loans outstanding					
United States	mil. dol.	February	21,896	+ 1.0	+16
Seventh District states	mil. dol.	February	4,479	+ 1.4	+22
New money loaned					
United States	mil. dol.	February	344	−16.0	− 1
Seventh District states	mil. dol.	February	84	− 0.8	− 5
Interest rates					
Feeder cattle loans††	percent	4th Quarter	8.82	+ 0.6	+ 1
Farm real estate loans††	percent	4th Quarter	8.99	+ 0.4	+ 1
Three-month Treasury bills	percent	3/30-4/5	6.39	+ 1.9	+40
Federal funds rate	percent	3/30-4/5	6.86	+ 0.6	+49
Government bonds *(long-term)*	percent	4/3-4/7	8.30	+ 0.4	+ 8
Agricultural trade					
Agricultural exports	mil. dol.	February	2,068	+ 6.7	+ 1
Agricultural imports	mil. dol.	February	1,222	− 2.0	+ 8
Farm machinery sales					
Farm tractors	units	February	7,709	−14.2	−12
Combines	units	February	840	−17.1	+48
Balers	units	February	389	−31.8	−27

†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.

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