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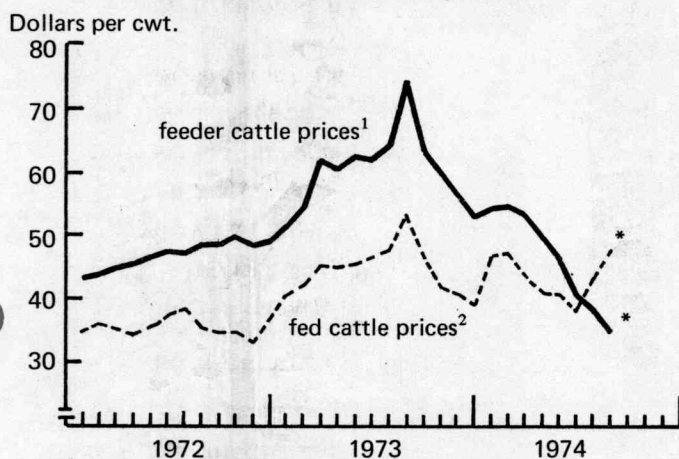
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August 23, 1974

CATTLE FEEDING ACTIVITY continues well under year-earlier levels. Although July placements of feeder cattle into feedlots in the seven major states surpassed the same year-ago period, the number of cattle on feed remains 23 percent below the year-previous level according to the U.S. Department of Agriculture. Marketings of fed cattle in July were 10 percent below the number marketed in July 1973. The decrease in fed cattle marketings along with preliminary indications that total cattle marketed in the same period increased suggest that a larger-than-usual seasonal increase in marketing of cattle from pastures and ranges may be taking place.

Feeder Prices Fall Below Fed Cattle



¹ Choice steers 400 to 500 lbs. at Kansas City.

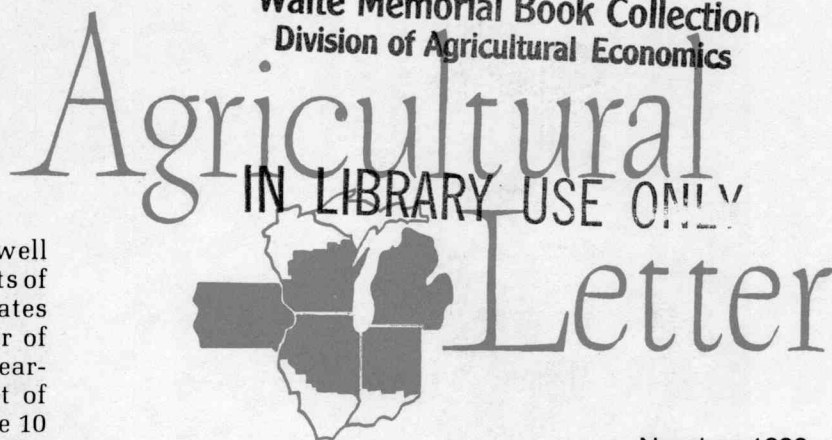
² Choice steers 900 to 1,100 lbs. at Omaha.

* August prices based on first two weeks of month.

The beef industry has been under stress since early 1973. Cattle producers and feeders have been buffeted by a consumer boycott, a prolonged freeze on retail beef prices, a truck strike, and a sharp increase in feed cost. Normal pricing signals were severely distorted and resulted in greater marketings of heavyweight fed cattle late in 1973 and again from March through June of 1974. Losses on cattle marketed averaged somewhere near \$100 per animal in the last quarter of 1973 and the first half of 1974.

The experience of the past several months has been a bitter lesson for the beef industry. While the risk of losses has always been a prevalent factor in the cattle-feeding business, rarely have they been so severe and of such an enduring nature. The severe losses eventually prompted congressional action which resulted in the Emergency Livestock Credit Act of 1974. The loan guarantee program is currently in the first stages of implementation.

The situation has been more recently exacerbated by the drought conditions in many of the Western and Great Plains states. These conditions and prospects for the smallest feedgrain supply since 1957-58 prevail at a time when the cattle numbers are at a record level.



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The USDA estimates that the country's cattle population totaled 138.3 million head on July 1, up 6 percent from a year earlier. And while fat cattle prices have increased since July, cattle feeders have, at best, just reached the breakeven point.

Present and projected future feeding margins offer little incentive for cattle feeders to expand production. One assessment of profitability can be made by utilizing USDA budgets for a typical Corn Belt feeding operation. Using current feeder cattle prices and futures prices for corn and fed cattle, assuming hedges are placed to assure both corn costs and the selling price for the fat cattle, a return of about \$20 per head over the cost of the feeder cattle and feed can be realized. However, if other costs are considered, a loss of approximately \$40 per head will be incurred. Either corn and feeder cattle costs will have to be reduced or fed cattle prices increased to make cattle feeding profitable.

The present cattle inventory coupled with the rather bleak outlook for future feed supplies indicate that cattle prices will probably trend downward during the next several months. Likewise, the chance of any substantial reduction in feed costs appears remote. There will probably be a drop in the number of fat cattle marketed at prime and choice grades but there is also likely to be an increasing number of good and below-grade cattle flowing to market due to poor range and pasture conditions. Increased marketings of lower-grade cattle will likely be the overbearing factor on cattle prices the rest of this year and on into 1975. This also points to further downward pressure on feeder cattle prices in the coming months.

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AGRICULTURAL CREDIT CONFERENCE.

The 28th annual Illinois Bankers Agricultural Credit Conference will be held at the Ramada Inn in Champaign on September 18 and 19. In addition to the regular program, there will be three workshop sessions on Thursday morning. For more information contact the Illinois Bankers Association, 188 West Randolph Street, Chicago, Illinois 60601, (312) 346-0770.