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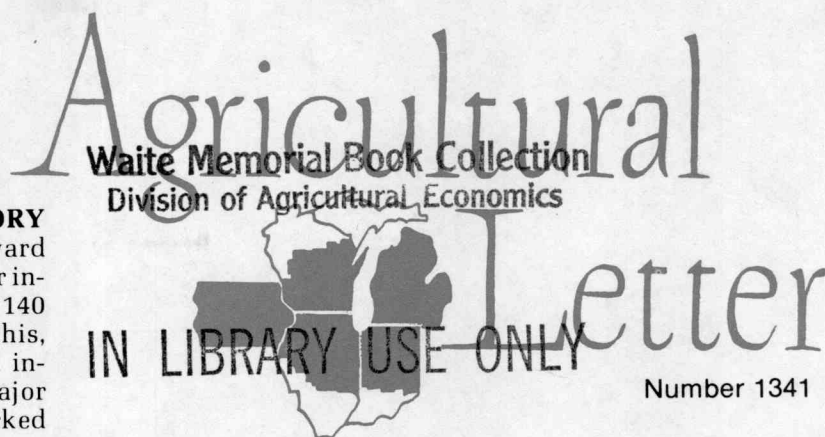
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THE CATTLE AND CALVES INVENTORY report of the USDA continued to show an upward climb for the year ending July 1, 1975. The midyear inventory of cattle and calves on farms was a record 140 million head, up 1.1 million from July 1, 1974. This, however, was far less than the 7.9 million head increase recorded during the 1973/74 period. The major factor responsible for the slowdown was the marked increase in beef cow and calf slaughter over the past year. Nevertheless, the beef cow inventory climbed 3 percent by midyear, while the number of calves—animals under 500 pounds—rose 2 percent.

Cattle and calf numbers have been increasing since the industry embarked on an expansion phase in 1967. There are signs that this phase is about complete. The current year's calf crop—estimated at 51.8 million head—will likely push the year-end inventory to another record. However, if the current rate of cow and calf slaughter is maintained, the July 1, 1976 inventory may be below the mid-1975 record.

Adjustments at the top of the current expansion phase have been hastened by high feed prices during the last two and one-half years. For nearly 20 years prior to 1973 feed grain prices were stable and relatively cheap. Since 1972, however, feed prices have tripled the level of the 1960s. While cattle prices moved up correspondingly for a period in 1973, these prices have been subject to large and relatively abrupt movements in either direction ever since.

Cow/calf operators continued to expand their portion of the inventory (about three-quarters of the nation's total herd) at a relatively rapid pace until the second half of 1974. Beef cows were up 3 percent in the 1974/75 period, sharply under the 7 percent growth rate recorded the previous year. Furthermore, the number of beef cow replacements as of July 1, 1975 was 7 percent below the July 1, 1974 number; in the 1973/74 comparison beef cow replacements increased by 9 percent. Current estimates suggest that the 1975 calf crop will increase by 1 million head, down from the 2.7 million head increase in 1974. The rapid increase in calf slaughter, up 84 percent in the first half of 1975, is just one more indicator that the expansion phase is about complete.

Feeder cattle placements in July in the seven major cattle feeding states dropped below year-earlier levels for the first time in five months. July 1975 feeder cattle placements were 13 percent below the year-earlier level, leaving the number of cattle on feed on August 1 about 15 percent below the depressed year-ago level, and 35 percent below the level of two years earlier. July fed cattle marketings were 14 percent below a year ago, and 22 percent under the July 1973 rate. Uncertainty about the 1975 feed grain crop and rumors of pending grain production problems in the USSR began

pushing feed grain prices up in July, a sharp turnaround from the trend that had prevailed since fall.

Ironically, this decline in feeder cattle placements comes at a time when a degree of profitability has returned to the feeding sector. Lower feeder cattle prices, slightly lower feed costs, and higher fat cattle prices had combined to push feeders into the black starting about in April. Prior to April, cattle feeders had operated below the breakeven point for over one and one-half years according to the USDA figures. By July, returns were in the \$9 per hundredweight range, according to USDA estimates.

Cattle slaughter during the first half of 1975 was 11 percent above the comparable 1974 period, but commercial beef production rose only 3 percent. This reflected the continued reduction in average slaughter weights. In the first half the slaughter of fed cattle was down over 13 percent from a year earlier and accounted for only 56 percent of total commercial cattle slaughter. During the first half of 1974, fed cattle slaughter accounted for 72 percent of all animals slaughtered. Cow slaughter was up 51 percent in the first half of 1975, while nonfed steer and heifer slaughter rose 139 percent.

The outlook remains clouded at this juncture. Slaughter prices are under pressure but choice grade fed cattle supplies are and will continue to be scarce. In the short term it appears that feedlot operators will postpone placements until the feed grain production situation is clarified and the question of additional exports to the USSR is resolved. This suggests that a higher percentage of cattle coming off summer pastures may be diverted to slaughter in the next few weeks. Feed grain prices will be a crucial factor in feedlot operators' decisions. If feed grain prices rise from current levels in late September, feeders may delay or postpone placements of feeder cattle. This suggests a larger number of pasture cattle going to slaughter in the fourth quarter than previously indicated. Such action could push choice prices to the lower \$40s per hundredweight. On the other hand, if events lead to prospects for lower feed prices, more cattle would be diverted to feedlots and this could hold choice prices in the mid- to upper-\$40s.

Terry Franci
Agricultural Economist