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CATTLE PRICES have edged slightly higher, but prospects for a significant near-term uptrend have been suppressed by a large movement of cattle into feedlots. According to the U.S. Department of Agriculture, the number of cattle placed on feed in the 23 major states during the third quarter rose to a record high and surpassed the year-earlier level by 13.5 percent. During the same period fed cattle marketings edged nearly 1 percent below a year ago. These two developments left the October 1 inventory of cattle on feed at 9.8 million head, up 5 percent from last year and the highest for that date since 1973 when inventories totaled 12.1 million head. While prospects for substantially less nonfed slaughter in the months ahead appear reasonably good, cattle prices may be held in close check by large supplies of fed beef and pork.

In Seventh District states the number of cattle placed on feed exceeded the year-earlier level by 20 percent during the third quarter, while fed cattle marketings were down 10 percent. As of October 1, feedlots in Iowa—which account for well over one-half of all cattle on feed in District states—held 17 percent more cattle than a year ago. In Illinois and Indiana cattle on feed numbers were up 10 and 8 percent, respectively. Inventories in Wisconsin were up 3 percent, while those in Michigan—the only District state in which 1977 marketings have exceeded year-earlier levels—were down 3 percent from a year ago.

Cattle slaughter fell slightly below the high year-earlier level during the third quarter but exceeded the seasonally low second-quarter pace. Preliminary estimates indicate commercial cattle slaughter during the July-September period was down 2 percent from a year earlier. (Total beef production, however, was down about 4 percent due to lower dressed weights.) The decline reflected both a slight dip in fed cattle slaughter—as reflected by the nominal decline in third-quarter fed cattle marketings—and a surprisingly small decline in nonfed slaughter (including cows, bulls, and nonfed steers and heifers). Overall, it appears the year-to-year decline in nonfed cattle slaughter narrowed to about 4 or 5 percent during the third quarter.

Fed cattle slaughter during the current quarter will no doubt turn above the year-earlier level, although a decline from that experienced during the third quarter is probable. According to the USDA, cattle feeders in the 23 major states intend to market about 5.85 million head of fed cattle during the October-December period. Such a level would be about in line with expectations based on the historical relationship between the October 1 inventory of heavyweight cattle on feed and subsequent fourth-

quarter marketings. If cattle feeders carry out their intentions, fourth-quarter fed cattle slaughter would likely be up 3 percent from the year-earlier level, but down 5 percent from that registered during the third quarter of this year. Fed cattle slaughter during the early part of 1978 will rise seasonally and surpass the first-quarter high established in 1973. The large movement of cattle into feedlots during the middle part of this year suggests first-quarter 1978 fed cattle slaughter may exceed that of this year by 3 percent.

Nonfed slaughter continues to be exceedingly difficult to project. However, there are a number of encouraging signs that point toward substantially larger year-to-year declines than recently witnessed. Among other things, prospects for a record feed-grain harvest this year, vastly improved range and pasture conditions, a significantly larger hay crop, and rising feeder cattle prices all represent positive factors that would help stem the flow of nonfed cattle to slaughter markets. While the above conditions are not uniform throughout the country—for example, the feed-grain harvest in the Southeast is down markedly this year, while Texas has joined California in experiencing severe drought in pasture and range conditions—the developments may be sufficiently widespread to warrant the expectation that the decline in nonfed slaughter will more than offset the increase forthcoming in fed cattle slaughter.

Cattle prices during the current quarter may receive some limited stimulus from slight year-to-year declines in both beef and pork production. Hence, choice steer prices at Omaha might average \$41 to \$43 per hundredweight during the October-December period, up from the third-quarter average of around \$40.50 and the October-December 1976 average of \$39 per hundredweight. However, prospects for substantially larger supplies of both fed beef and pork in the early part of 1978 portend a downtrend in cattle prices. A substantial drop in nonfed slaughter might permit the first-quarter price to average around \$40 per hundredweight. However, if nonfed slaughter continues at unexpectedly high levels, first-quarter 1978 prices might approach their year-earlier level of about \$38 per hundredweight.

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