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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
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UNIVERSITY FARM, ST. PAUL

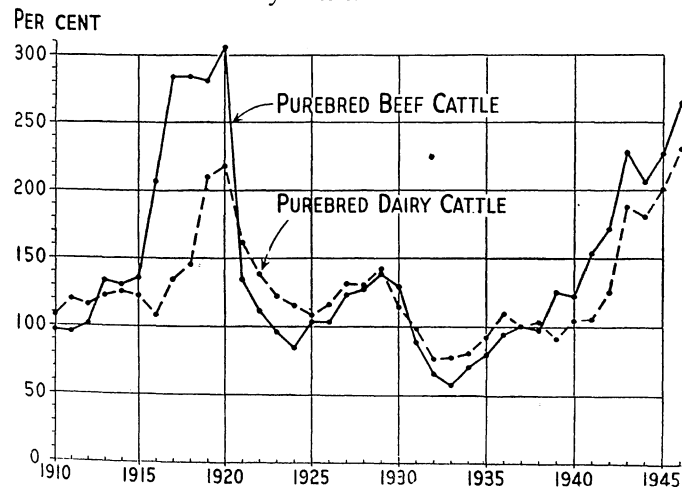
SEPTEMBER 30, 1947

Prices of Purebred Cattle

AUSTIN A. DOWELL and ARNOLD BREKKE

The purebred cattle boom which began during the early part of the recent war is still under way. Within recent months a dairy bull is reported to have sold for \$45,000, and a dairy female for \$23,500. A lot of 50 purebred dairy cattle were sold at auction by one breeder at an average of \$3,082 per head. A beef female brought \$25,000, and one beef bull sold for \$51,000 while another sold for \$52,000. A breeder of purebred beef cattle sold 50 head of males and females at auction for an average of \$5,614. Prices comparable to those of the last few years have not been reported since the boom during and immediately following World War I. Although these are extreme rather than typical cases, they are mentioned because they suggest what is taking place in the purebred cattle market.

Index numbers of prices received at auction for purebred beef cattle and dairy cattle for the period 1910-1946 are shown in the accompanying chart. The basic data from which the index numbers were calculated were obtained from breed associations and breed journals. The figures represent weighted averages for two breeds of beef cattle and four breeds of dairy cattle.



Prices received for purebred beef and dairy cattle sold at auction, 1910-1946. Index numbers, 1935-1939=100.

University Farm Radio Programs

HIGHLIGHTS IN HOMEMAKING
10:45 a.m.

UNIVERSITY FARM HOUR—12:30 p.m.

Station KUOM—770 on the dial

The general price trend appears to be much the same for both classes of cattle. A pronounced boom occurred during and immediately following World War I. This was followed by a decline which returned prices to about prewar levels by 1923. Prices strengthened during the next few years, but another decline which began late in 1929 carried prices far below the prewar level by 1932. Prices advanced considerably from 1933 to 1936, fluctuated within fairly narrow limits from 1936 through 1940, and thereafter moved upward at a rapid rate.

While the general trend of prices for each class of cattle appears to be much the same, some significant differences will be observed. First, purebred beef cattle prices have been subject to much greater fluctuations than purebred dairy cattle prices, rising much higher during the World War I boom, and falling farther during the subsequent depression. Purebred beef cattle prices also fell farther in the depression of the early 1930's and advanced more sharply during the recent upswing. Second, at the beginning of a marked price upswing there appears to be some tendency for purebred beef cattle prices to rise one year in advance of purebred dairy cattle prices. Major price declines occurred simultaneously although the rate of decline varied.

Many factors have influenced the recent trends of purebred beef and dairy cattle prices. Some tended to limit the boom while others contributed to it. Among those which tended to limit the boom during and following the war were: (1) price ceilings on dairy products, slaughter cattle, and beef; (2) price ceilings on many other agricultural products (except feed) and on nonagricultural products; (3) income tax payments; (4) purchase of government bonds by individuals; (5) farm labor shortage; (6) reduced feed supplies; and (7) memory of the preceding boom and subsequent crash.

Even under price controls, prices including various subsidies received by farmers for dairy products, slaughter cattle, and many other farm products continued to advance from early in the war through 1946. The gradual rise in prices for these products was due to frequent increases in

ceiling prices or in subsidy payments or both. However, the net effect of price controls was to hold prices at lower levels than would otherwise have been the case. This was clearly indicated by the sharp rise in prices both of farm and nonfarm products when controls were lifted in 1946. Income taxes were raised sharply during the war and this tended to limit the net incomes of prospective farm and nonfarm purchasers of purebred cattle. The purchase of government bonds likewise drew off some of the surplus cash. Labor shortage and the liquidation of surplus stocks of grain following the sharp increase in number of hogs to an all-time peak in 1943 no doubt contributed to the temporary decline in purebred cattle prices in 1944. Some people were influenced by what happened during and following the previous boom, but the memory of that unfortunate experience has grown dimmer with each passing year.

Factors which tended to contribute to the purebred cattle boom include: (1) the sharp increase in net farm income; (2) the absence of ceilings or other restrictions on the purchase or sale of purebred livestock; and (3) the purchase of breeding stock by individuals with large non-farm incomes.

High net farm income was due to a combination of unusually favorable yields, high prices for farm products, and production costs which lagged behind prices received. The net income of farmers reached a new all-time peak in 1942 and continued to rise each year thereafter.

No restrictions were placed on the transfer or price of breeding animals during or following the war. At the same time, building restrictions and the shortage of farm machinery limited expenditures for such items and left a larger proportion of the available income for other investments. Some of the surplus cash no doubt found its way into the purebred cattle market.

The maintenance of livestock breeding establishments by outside investors is not new. Under existing federal income tax laws and regulations, those with large incomes are encouraged to make such investments. Prices paid for such items are of relatively much less concern to those with large than those with small incomes, because they are able to recover a higher proportion of major capital losses and depreciation through income tax deductions.

The extent of the purebred cattle boom clearly shows that the price-stimulating factors were much more effective during and since the war than those which tended to check it. Of the various contributing factors, net farm income appears to be especially important, pulling purebred cattle prices upward as net farm income rises and forcing purebred cattle prices downward as net farm income declines.

Although net farm income showed further rise during the first half of 1947, the combination of unusually favorable yields, high prices for farm products, and relatively low production costs is not likely to remain as favorable to farmers as during recent years. There is some indication that production costs have begun to rise relative to prices of farm products, and that effective foreign demand may have reached its peak at least for the present. Unfavorable weather in many important areas this summer has served notice that the uniformly large crops of the

last few years are not to be expected indefinitely. In view of these considerations a word of caution may be appropriate.

Thus far during this boom most farmers have done a good job of keeping both their short- and long-term debts within reasonable bounds. This is highly desirable. Short-term debts, including purebred cattle notes, were especially troublesome following the World War I boom. Indications are that thus far during this boom the purchases of purebred cattle have been largely for cash. As long as surplus funds rather than borrowed capital are used for this purpose, some of the disastrous effects of the preceding boom will be avoided. But funds spent on purebred cattle at inflated prices will not be available later to repair or improve the farmstead, to replace worn-out or obsolete farm machinery, or to raise farm living standards generally.

Farmers and others with moderate incomes should keep constantly in mind the fact that a purebred beef or dairy animal is worth what it will earn over its productive life, together with its slaughter value at time of disposal. Its true value is likely to differ greatly from its sale price either during a boom or during a depression. Furthermore, as they listen to the chant of the auctioneer, those in the moderate income class should realize that the real cost of a high-priced purebred animal under existing income tax rates and regulations will be much less for those with large than for those with small incomes.

Past experience suggests that those who are already engaged in the breeding of purebred livestock may do well to avoid the temptation to expand operations during the boom or to buy or sell on credit. Farmers and others with modest incomes who look forward to joining the ranks of the purebred cattle-breeding fraternity probably will find it to their advantage to conserve surplus cash during the boom and await a more favorable time to embark upon such a career. Booms have a habit of ending at most unexpected times, and this one is not likely to be an exception.

What Happened

In the grain crop

According to crop prospects on September 1, feed grains will be short. On the first analysis total supply seems adequate—1.01 tons per animal unit compared with 1.03 in 1937-1941 and 1.06 in 1942-1946. Farmers, however, have stepped up the quantity fed per animal unit in the last 10 years.¹ Also, an unusually large proportion of the corn crop may be soft, with low feeding value. Fortunately the supply of high protein feeds is fully as large as last year. The over-all supply of hay is sufficient, although local areas may be short.

In the livestock situation

A slightly smaller spring pig crop, and probably somewhat larger fall farrowing.

Good grass on the range, meaning a later run of feeder stock in better finish.

Lowest sheep numbers in 80 years.

¹ *The Feed Situation*, June-July 1947, FDS-91, page 5. Mimeographed by the Bureau of Agricultural Economics, U.S.D.A.

WHAT YOU CAN EXPECT

Feed—S. A. Engene

The feed situation in Minnesota is better than that of the nation as a whole. The production and use of feed grains in the state are shown in table 1. On the basis of crop prospects late in August the production of corn, oats, and barley will be much less than in recent years. The quantity needed for the livestock now on farms will be greater than that used last year since a large proportion of the corn is likely to be soft. The livestock now on farms will need practically all the feed that was produced this year. Some corn, oats, and barley will also be sold for human consumption, for industrial uses, and for shipment to farmers in other states. Even if all available reserves are used farmers may have to reduce their grain requirements 5 per cent or more below the level they would like.

These estimates are based upon crop prospects on September 1. Most of the corn may mature with favorable weather in September and a late frost. The farmers in the state may then be able to feed at about the usual rates. It is possible, however, that the crop may be less favorable than present prospects indicate. Many other factors, such as the demand for crops for export, may change the feed picture. It will be necessary to study the feed situation very closely this winter. Developments in the program to aid foreign nations will be important. If shipments of wheat and grains continue high, feed prices will climb. If herds and flocks are culled closely this fall and many early hogs are marketed light, the feed may be adequate.

Farmers must take stock of their feed situation as soon as possible. Is there enough feed on the farm to carry the livestock through the years? If not, it will be wise to buy feed or sell livestock before the bins are empty. Feed may be hard to find and high in price by spring. Since farmers in Minnesota use half of their grain for hogs, much feed can be saved by selling hogs at weights lighter than usual. Of course, the man with soft corn must keep enough hogs and other stock to use that corn before warm weather next spring. Looking farther ahead, it seems wise to plan for late farrowing next year; less feed will then be needed before next year's crop is harvested. Feed can also be saved by culling the poultry flock closely. Good poultry will still be profitable, but feed should not be wasted on poor hens or by overcrowding houses.

Table 1. Feed Grain Production and Requirements in Minnesota

Crop	Average 1930-1941	Average 1941-1946	1946-1947	1947-1948
PRODUCTION MINUS SEED				
Corn (for grain)	3,529	5,137	5,623	4,321*
Oats	2,111	2,468	2,888	2,463
Barley	1,081	632	451	626
Total available	6,721	8,237	8,962	7,410
Needed for livestock	5,024	7,178	6,747	7,351†
Available for other uses	1,697	1,059	2,215	59
Sales off farms	1,517	1,307	1,998	?
Changes in feed reserves.....	+180	-248	+217	?

* September 1 estimate. No adjustment has been made for low quality of soft corn.

† Adjustment for soft corn has been made in the estimate of feed needed.

Livestock—Gerald Engelman

Reduced feed grain prospects probably will not decrease marketings of livestock the rest of this year, but will very likely reduce meat production during 1948.

A little over 51 million spring pigs were saved this year. Although about 7 per cent more sows farrowed, a sharp drop in pigs saved per litter cut the increase in the total number of pigs saved to a little over 1 per cent above last year's crop. This spring pig crop was also farrowed a little earlier this year.

Last June farmers indicated that they would have about 9 per cent more sows farrowing this fall than last, but that would be about 2 per cent below the 10-year average. If these farrowings materialize and the 10-year average of pigs per litter is saved, the fall crop would be about 32.5 million pigs, thus making a combined spring and fall pig crop of a little under 86 million head. This would be 3 per cent above last year, or about 1 per cent above the 10-year average. However, it may be that prospects of lower corn yields have induced farmers to market more pregnant sows this summer than they usually do. If such is the case, fall farrowings will be less than the intentions indicated last June.

The pattern of marketings during the remainder of this year and next will be greatly affected by the condition of the corn crop this fall. Earlier pigs this spring should indicate earlier marketings this fall and winter. A short feed supply tends to intensify the earlier marketings, and would also indicate that hogs will be sold at lighter weights. This should mean more hogs marketed this fall but, because of the lighter weight, probably no great increase in the production of pork. On the other hand, fewer pounds of pork than seasonally expected would be produced during the winter, spring, and summer of 1948.

If we have unusually large quantities of soft corn, however, farmers may market their hogs later and at heavier weights this coming fall and winter. Since more feed would be utilized, carrying spring pigs to heavier weights, less would be available for finishing the fall pigs. The tendency toward marketing at lighter weights next spring and summer would thus be further intensified.

Cattle slaughter has been large and will continue so for the remainder of the year. Grass has been good on most of the range country. Heavier feeders are now coming to market in good condition. As a result, packers are offering strong competition for them. Calves and yearlings should be plentiful later on this fall.

Unless there is a soft corn crop, grain-fed slaughter cattle should be on the market in relatively smaller numbers during the winter, spring, and summer than seasonally expected, and well-finished animals should command a more than usual premium over the lower grades. A soft corn crop would tend to concentrate marketings during the winter months and perhaps reduce premiums at that time, but it would also tend to make premiums more pronounced during the spring and summer.

If, because of the current low in sheep numbers, more ewe lambs are saved for breeding, fewer lambs will be marketed this fall and winter than last year.

Minnesota Farm Prices For August, 1947

Prepared by W. C. WAITE and H. W. HALVORSON

The index number of Minnesota farm prices for August, 1947, is 295.6. This index expresses the average of the increases and decreases in farm product prices in August, 1947, over the average of August, 1935-1939, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, August 15, 1947, with Comparisons*

	Aug. 15, 1947	July 15, 1947	Aug. 15, 1946		Aug. 15, 1947	July 15, 1947	Aug. 15, 1946
Wheat	\$2.20	\$2.46	\$1.84	Hogs	\$24.00	\$23.10	\$20.50
Corn	2.16	1.87	1.71	Cattle	20.50	19.50	18.70
Oats	.92	.91	.67	Calves	21.90	21.10	16.80
Barley	1.99	1.88	1.38	Lambs-sheep	19.99	19.50	15.84
Rye	2.19	2.72	1.63	Chickens	.205	.228	.244
Flax	5.75	5.75	3.65	Eggs	.404	.400	.324
Potatoes	1.50	1.45	1.55	Butterfat	.790	.730	.770
Hay	11.90	11.50	9.30	Milk	3.050	3.100	3.550
				Wool†	.390	.380	.450

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

† Not included in the price index number.

The August index of Minnesota farm prices is the highest on record, with prices this August nearly three times the average August prices for the base period 1935-1939. The decrease in the prospective corn crop was in large part responsible for a 29-cent rise in corn prices between July 15 and August 15. Rye and wheat declined from their July levels, and wheat and corn were approximately equal in farm price. This, of course, is a very unusual situation. If this price relationship continues into next summer and if a substantial part of the corn crop is soft we might expect an unusually large quantity of wheat to be fed to livestock.

Indexes and Ratios for Minnesota Agriculture*

	Aug. 15, 1947	Aug. 15, 1946	Aug. Average 1945 1935-1939	
U. S. farm price index	261.4	235.8	193.2	100
Minnesota farm price index	295.6	241.4	183.2	100
Minn. crop price index	333.3	241.7	190.9	100
Minn. livestock price index	280.1	244.2	164.9	100
Minn. livestock product price index	244.2	238.2	187.1	100
U. S. purchasing power of farm products	139.0	144.5	134.2	100
Minn. purchasing power of farm products	157.2	147.9	127.2	100
Minn. farmers' share of consumers' food dollar	60.9†	65.1		48.4
U. S. hog-corn ratio	11.1	11.6	12.4	12.3
Minnesota hog-corn ratio	11.1	12.0	13.9	14.6
Minnesota beef-corn ratio	9.5	10.9	11.9	12.0
Minnesota egg-grain ratio	11.3	11.4	18.5	15.9
Minnesota butterfat-farm-grain ratio	23.0	30.4	29.4	33.5

* Explanation of the computation of these data may be had upon request.

† Figure for May, 1947.

Farm Labor Requirements

The product of Minnesota farms in 1944 required an estimated 843 million man-hours of labor for its production, according to a recent study of farm labor requirements by the Bureau of Agricultural Economics, United States Department of Agriculture. Table 1 indicates the per cent of the total number of man-hours devoted directly to each enterprise by Minnesota farmers in 1944.

Table 1. Distribution of Man-Labor Required for Minnesota Farm Work by Enterprise, 1944

Enterprise	Per cent of total man-hours
Corn	14.8
Oats	3.7
Wheat	1.4
Other feed and food grains	1.0
Hay	5.5
Potatoes	1.2
Farm gardens	3.3
Other crops	2.9
All crops	33.8
Milk cows	27.2
Other cattle	3.8
Hogs	5.3
Chickens	8.0
Other livestock	6.6
Livestock	50.9
Farm maintenance	15.3
Total	100.0

Milk cows require more labor than any other single farm enterprise in Minnesota and take more than half of the direct livestock labor requirements. Chicken enterprises directly absorb 8 per cent of the man-hours expended and hogs only 5.3 per cent of the total. Much of the labor cost of such enterprises as hogs and other cattle consists of labor devoted to the production of feedstuffs for these enterprises. Thus corn production absorbed almost 15 per cent of the man-labor while hay production took 5.5 per cent of the total. Any comparison of labor-time and enterprise returns should be based on a proper allocation of the indirect as well as the direct man-hours of labor involved in production.

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