Federal Reserve Bank of Chicago - -
August 1, 1958

Agricultural Letter

Number 467

AN UPSWING IN CATTLE INVENTORIES appears to be getting under way. The number of cattle and calves on farms at the end of 1958 is likely to be slightly larger than at the beginning of the year, according to recent Government estimates. If correct, this means that the current downswing will have been the shortest of any cattle cycle on record—lasting just two years. In addition, the reduction in cattle numbers from January 1, 1956, the previous peak, to January 1, 1958, is also the smallest on record—declining only 3 per cent.

By way of comparison, the previous downswing lasted four years, from 1945 to 1949, and herds were cut 10 per cent. In the rapid expansion which followed, cattle numbers jumped 23 per cent in just four years.

The evidence pointing to a beginning of cattle herd expansion is the current tendency to hold cattle longer. This is true not only for breeding stock but also for animals in feedlots destined for slaughter. However, fed stock can be held only a little longer than usual and then must be sold.

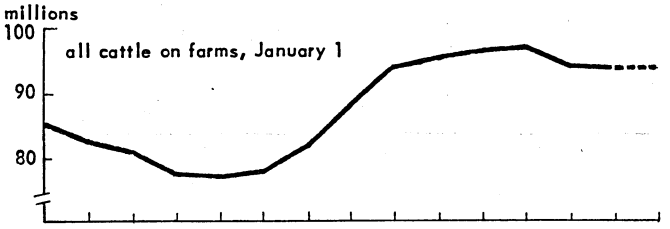
Cow slaughter has been cut 15 per cent and calf slaughter 18 per cent in the first five months of 1958, compared with the same period a year earlier. Heifer slaughter was down 5 per cent. About 12 per cent more heifers were in feedlots on July 1 than a year earlier which accounts, no doubt, for the small decline in heifer slaughter. In 1949, the upswing was characterized by reductions of 21 per cent in cow slaughter and 8 per cent in calf slaughter, compared with 1948.

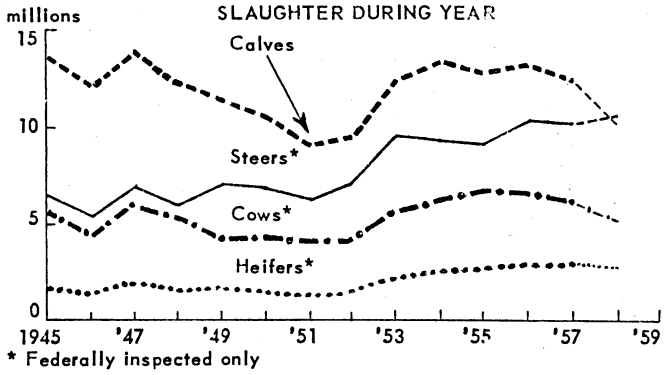
Once herd expansion gets under way, retention of breeding stock drives prices up and creates added confidence. Feeding margins narrow as prices of cows and stocker and feeder animals move up closer to finished cattle prices. For example, cows are currently selling about 70 per cent as high as choice steers, whereas in 1953 to 1956 they were only 50 per cent as high.

The big change in the cattle picture was triggered by drouth-breaking rains in 1957. A record crop of hay and feed grains resulted. Pasture and range conditions again this year are excellent.

Feeder animals moved into feedlots later than usual last fall and winter. With farmers holding cattle for a longer feed than usual, marketings of fed cattle in the first five months of 1958 were about 9 per cent below year-earlier. This, in conjunction with smaller supplies of hogs and the lower grades of cattle, resulted in sharp price increases.

The average price received by U. S. farmers for all beef animals stood at $23.10 as of mid-May, nearly 50 per cent higher than just two years before and the highest since 1952. However, the average declined to $22.30 in June as fed cattle began to move to market in larger numbers than a year earlier.





The length of the present upswing is difficult to predict. In the past, the time between the low and the high in cattle numbers has been five to seven years. However, there are reasons why the pattern of the previous cattle cycles may not, or cannot, be repeated.

First of all, expansion is starting from a relatively high level of beef consumption. Estimated supplies of beef for this year—78 pounds per person—are still well above average. An expansion similar to 1949-53 would push per capita supplies well above the previous record of 85 pounds in 1956. Second, the build-up in cattle numbers will come through an increase in beef-type cattle. Dairy cattle will likely continue to decline slowly. This means more beef per animal will be produced.

Third, limits to herd expansion may again become a problem. The vagaries of the weather can upset plans for a herd build-up, although stockmen could probably weather a year of drouth with the large feed supplies now on hand. However, the limit of pasture and range carrying capacity with average rainfall probably does not exceed 110 million head which would preclude an expansion of the same magnitude as occurred in the period 1949 to 1956.

Research Department

FARM BUSINESS CONDITIONS

JUNE 1958, WITH COMPARISONS

ITEMS	1958		1957
	June	May	June
PRICES:			
Received by farmers (1947 - 49 = 100)	94	97	90
Paid by farmers (1947 - 49 = 100)	122	122	118
Parity price ratio (1910 - 14 =100)	84	86	82
Wholesale, all commodities (1947 - 49 = 100)	119	120	117
Paid by consumers (1947 - 49 = 100)	124	124	120
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.93	2.22	2.06
Corn, No. 2 yellow, Chicago (dol. per bu.)	—	1.34	1.33
Oats, No. 2 white, Chicago (dol. per bu.)	.71	.72	.74
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	—	2.28	2.33
Hogs, barrows and gilts, Chicago (dol. per cwt.)	23.06	22.30	19.58
Beef steers, choice grade, Chicago (dol. per cwt.)	28.07	28.83	23.48
Milk, wholesale, U.S. (dol. per cwt.)	3.70	3.74	3.80
Butterfat, local markets, U.S. (dol. per lb.)	.57	.58	.59
Chickens, local markets, U.S. (dol. per lb.)	.20	.20	.20
Eggs, local markets, U.S. (dol. per doz.)	.34	.36	.29
Milk cows, U.S. (dol. per head)	210	208	163
Farm labor, U.S. (dol. per week without board)	—	41.25[a]	40.75[a]
Factory labor, U.S. (dol. earned per week)	83.10	81.83	82.80
PRODUCTION:			
Industrial, physical volume (1947 - 49 =100)	130	128	145
Farm marketings, physical volume (1947 - 49 =100)	104	96	101
INCOME PAYMENTS:			
Total personal income, U.S. (annual rate, bil. of dol.)	352	350	351
Cash farm income, U.S. [1] (annual rate, bil. of dol.)	—	34	34
EMPLOYMENT:			
Farm (millions)	6.9	6.3	7.5
Nonagricultural (millions)	58.1	57.8	59.0
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1955 monthly average = 100)	102.1	101.7	98.8
Nonagricultural banks (1955 monthly average =100)	105.4	102.0	101.1
Time deposits:			
Agricultural banks (1955 monthly average = 100)	119.2	118.2	108.9
Nonagricultural banks (1955 monthly average =100)	120.3	118.9	110.1

[1] Based on estimated monthly income.

a April

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago