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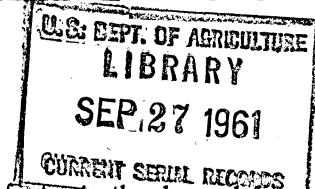
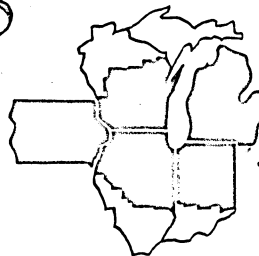
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Federal Reserve Bank of Chicago - -

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Agricultural Letter



Number 623

AT WHAT PRICES WILL FEEDER CATTLE be transferred from summer ranges to winter feed lots this fall? This question becomes important each year as crops begin to ripen. Past experience is an uncertain guide; feeder cattle prices in 1960 reached their low at the end of the summer and began climbing during the fall while in 1959 prices declined throughout the fall.

Three major factors must be considered in appraising the probable trend of feeder cattle prices this fall.

First, how strong is the demand for cattle by Corn Belt farmers? The low prices for fat cattle during June and July made farmers reluctant to purchase replacement animals at prices nearly equal, to those of last year. Prices of choice cattle at Chicago increased \$2.00 per hundredweight during the first two weeks of August as the number marketed fell below year-earlier levels for the first time since winter (except for holiday weeks). This led to expectations of continued price strength during the remainder of the year and tends to strengthen the demand for feeder cattle.

Many farmers are still unwilling to purchase feeder cattle at present prices, however, as their most recent experience in cattle feeding was not profitable. Average returns realized by Corn Belt farmers on short-term feeding programs where cattle were marketed during the spring and summer of 1961 have been the lowest since 1956. Many farmers sold fat cattle in June and July for less than the cost of feeder animals plus value of feed. The spread between prices of fat cattle and prices of feeder cattle purchased seven months earlier has been narrowing since February, and during June and July the margin was negative. Recently, choice feeder steers at Chicago have been about \$1.00 per hundredweight below choice slaughter steers, a spread that many farmers consider unattractive for current purchase of feeders.

A new influence in the picture is the Government's feed grain program. Farmers with over half the corn acreage and almost all of the grain sorghum acreage signed up in the program and will be eligible for price supports. Corn acreage was cut by 18 per cent and grain sorghum acreage by about one-fourth. Price supports for 1961 crops are \$1.20 per bushel for corn and \$1.93 per cwt. for grain sorghums, up 14 and 41 cents, respectively. The prospect for smaller supplies and higher prices of feed grains would tend to reduce the demand for feeder cattle this fall.

On the other hand, many livestock feeders did not participate in the feed grain program and apparently will have abundant supplies of feed. The August 1 crop production report estimated corn yields to be 6 per cent above and corn production to be only 14 per cent below the records set last year. While this size crop should moderate any reduction in cattle feeding in the coming year, the lower production of all feed grains probably means a cut back in over-all feeding activity.

~~The second factor is the demand for cattle for wheat pastures during the fall and winter.~~ The exceptionally lush growth of wheat last fall combined with a relatively open winter was an important factor in the steady rise in prices of stocker and feeder cattle last fall and into the winter.

Normally, repetition of the favorable pasture conditions of 1960 might not be expected but the Central and Southern Plains have had well above average moisture during the summer and if the weather continues to be favorable, last year's excellent experience could be repeated. A partial offset, however, is the new wheat program. To be eligible for price supports, farmers must retire at least 10 per cent of their wheat allotment and payments will also be made to wheat producers for retiring up to a total of 40 per cent. If wheat acreage is cut substantially, this would reduce the demand for cattle for grazing on wheat pastures.

The third factor is the supply of cattle to be marketed off the cattle ranches this fall. Drought in the Northern Plains and Intermountain states have been well publicized. However, rains during the last half of July brought partial relief to some of these areas. While this was too late to provide much help to this year's wheat crops, it did bring improvement in the prospect for hay and feed grain production as well as provide some stock water. Furthermore, the excellent conditions of the Southern Plains almost completely offset the poor conditions in the drought areas.

Effects of the drought have not shown up in the slaughter figures for cows and calves so far this year which have been 5 and 3 per cent, respectively, below a year earlier. This is evidence of a strong build-up in breeding herds (even after allowing for less culling of dairy herds) and indicates the supply of feeder cattle this year may not be larger than last. The downward revision of the USDA estimates of total number of cattle on farms improved the outlook for many cattle ranchers.

The net result of all these forces will determine prices of feeder cattle this fall. While the picture is not yet in sharp focus, those who expect the drought in the West to bring sharply lower feeder cattle prices may be disappointed.

Research Department

FARM BUSINESS CONDITIONS

July 1961, with comparisons

I T E M S	1961		1960
	July	June	July
PRICES:			
Received by farmers (1947 - 49 = 100)	87	86	87
Paid by farmers (1947 - 49 = 100)	120	120	119
Parity price ratio (1910 - 14 = 100)	79	78	79
Wholesale, all commodities (1947 - 49 = 100)	118	119	120
Paid by consumers (1947 - 49 = 100)	128	128	127
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.87	1.89	1.85
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.15	1.14	1.21
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.74	.69	.73
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.66	2.73	2.16
Hogs, barrows and gilts, Chicago (dol. per cwt.)	17.85	16.74	17.62
Beef steers, choice grade, Chicago (dol. per cwt.)	22.38	22.45	25.64
Milk, wholesale, U.S. (dol. per cwt.)	4.03	3.86	3.96
Butterfat, local markets, U.S. (dol. per lb.) . . . . .	.60	.60	.59
Chickens, local markets, U.S. (dol. per lb.) . . . . .	.12	.13	.17
Eggs, local markets, U.S. (dol. per doz.) . . . . .	.34	.31	.32
Milk cows, U.S. (dol. per head)	222	228	222
Farm labor, U.S. (dol. per week without board)	48.25	--	47.50
Factory labor, U.S. (dol. earned per week)	94.00	94.24	91.14
PRODUCTION:			
Industrial, physical volume (1947 - 49 = 100)	171	168	166
Farm marketings, physical volume (1947 - 49 = 100)	127	120	128
INCOME PAYMENTS:			
Total personal income, U.S. (annual rate, bil. of dol.)	422	417	405
Cash farm income, U.S. ¹ (annual rate, bil. of dol.)	--	37	36
EMPLOYMENT:			
Farm (millions)	6.5	6.7	6.9
Nonagricultural (millions)	62.0	62.0	61.8
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1955 monthly average = 100)	99.0	99.5	97.8
Nonagricultural banks (1955 monthly average = 100)	103.7	102.2	103.7
Time deposits:			
Agricultural banks (1955 monthly average = 100)	143.7	142.8	134.0
Nonagricultural banks (1955 monthly average = 100)	147.2	146.1	130.7
¹ Based on estimated monthly income.			

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