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Federal Reserve Bank of Chicago - -

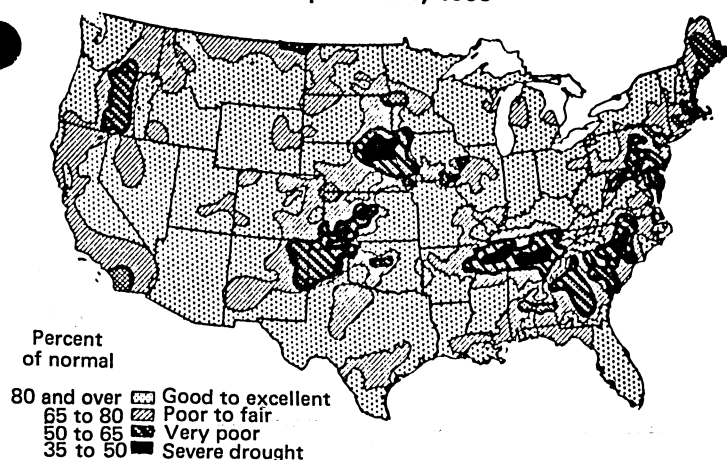
September 13, 1968

MIDWEST CATTLE FEEDERS are expected to increase their operations to take advantage of the low feed prices forecast for this feeding year. For the next several months, prices of feed grains and protein supplements will probably average well below those of the year before.

The nation's corn crop is expected to total only 2 percent less than the record 4.7 billion bushels produced last year. Soybean output is expected to be 11 percent higher than last year. Production of corn in the three Corn Belt states of the Seventh Federal Reserve District (Illinois, Iowa, and Indiana) is expected to about match last year's record output. If so, these states will account for more than half of the nation's total crop. Soybean production is estimated about 16 percent higher in the district Corn Belt states.

Returns from cattle feeding have remained favorable for the past several months, with slaughter cattle prices holding well above year-before levels, despite large increases in beef production. The result is a pressure for Corn Belt farmers to turn to cattle feeding this fall as an outlet for part of their large crops.

Pasture Feed Conditions*
September 1, 1968



*Indicates current supply of pasture feed for grazing relative to that expected from existing stands under very favorable weather conditions.

Cow and calf operators, however, may also be in an excellent bargaining position if range conditions continue favorable. Prospects for fall and winter grazing are good in most cattle raising areas of the nation. In many areas, recent rains have stimulated late growth of grass. Pasture conditions on September 1, at 81 percent of normal, were 9 points above average and the best since 1961. Hay production will probably also be greater than average. As a result of the big feed supplies and good prospects for feeder cattle prices, ranchers may hold back more young cattle than in most years, either for sale later or for breeding herd expansion.

For the last two years, feeder-cattle prices have declined from around midyear to year-end. In 1966 and in 1967, prices

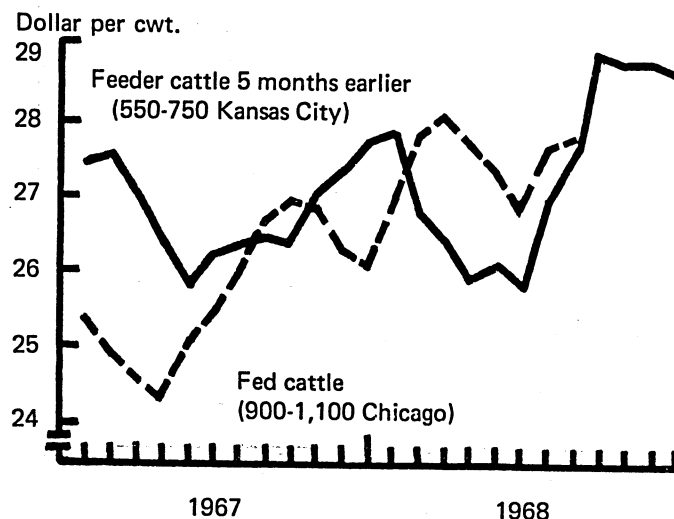


Number 978

of 550-to-750 pound choice feeder steers at Kansas City dropped from around \$28 per hundredweight to about \$26. Prices of 300-to-550 pound feeder calves declined by similar amounts. Experience may not always be the good guide, however. Each feeding year can be unique.

About the same number of young animals were available for feeding at the beginning of the year as a year before. However, because of the high slaughter rate and the increase in feedlot placements earlier in the year, feeder supplies are less than a year ago. This, with the strong demand from ranchers and Corn Belt feeders, could augur for continued strong prices for feeder cattle.

Margin between Feeder and Fed Cattle Prices Narrows



Because of the higher prices paid for feeder cattle earlier this year, cattle feeders' profits were already declining. During the first half of this year, prices of fed cattle were well above those paid for animals purchased five months earlier. But fed cattle marketed during the rest of the year will probably bring lower prices than those sold this spring and summer. Moreover, current feeder cattle prices are well above prices quoted for fed cattle futures contracts early next year. For example, February contracts for choice cattle at Chicago are trading at about \$25.50 per hundredweight—around \$3 less than the prices of 550-to-750 pound feeder cattle at Kansas City. Thus it appears that, unless there is a surge in the demand for beef at retail, cattle feeding profits may narrow further in spite of the anticipated lower feed cost.

Roby L. Sloan
Agricultural Economist

FARM BUSINESS CONDITIONS
July 1968 with Comparisons

I T E M S	1968		1967
	July	June	July
PRICES:			
Received by farmers (1957-59=100).....	108	107	106
Paid by farmers (1957-59=100).....	121	121	118
Parity price ratio (1910-14=100).....	73	73	74
Wholesale, all commodities (1957-59=100).....	109.1 ^P	108.7	107
Paid by consumers (1957-59=100).....	121.5	120.9	117
Wheat, No. 2 red winter, Chicago (dol. per bu.).....	1.28	1.30	1.50
Corn, No. 2 yellow, Chicago (dol. per bu.).....	1.13	1.15	1.31
Oats, No. 2 white, Chicago (dol. per bu.).....	.67	.76	.75
Soybeans, No. 1 yellow, Chicago (dol. per bu.).....	2.71	2.71	2.83
Hogs, barrows and gilts, Chicago (dol. per cwt.).....	21.78	20.66	22.90
Beef steers, choice grade, Chicago (dol. per cwt.)...	27.61	26.89	26.40
Milk, wholesale, U. S. (dol. per cwt.).....	5.06	4.90	4.80
Butterfat, local markets, U. S. (dol. per lb.).....	.67	.67	.66
Chickens, local markets, U. S. (dol. per lb.).....	.15	.14	.13
Eggs, local markets, U. S. (dol. per doz.).....	.33	.30	.30
Milk cows, U. S. (dol. per head).....	276	273	262
 Farm labor, U. S. (dol. per week without board).....	 70.50	 --	 65.0
Factory labor, U. S. (dol. earned per week).....	122.10	123.30	113.65
 PRODUCTION:			
Industrial, physical volume (1957-59=100).....	165.3 ^P	164.7	156.6
Farm marketings, physical volume (1957-59=100)....	120	114	130
 INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	689.2 ^P	683.7	629.8
Cash farm income, U. S. ¹ (annual rate, bil. of dol.) ..	41.9	45.8	44.6
 EMPLOYMENT:			
Farm (millions).....	4.4	4.5	4.5
Nonagricultural (millions).....	73.3	72.8	71.7
 FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100).....	124.2	126.7	119.6
Nonagricultural banks (1957-59=100).....	125.9	124.1	120.8
Time deposits:			
Agricultural banks (1957-59=100).....	297.4	294.4	263.7
Nonagricultural banks (1957-59=100).....	312.3	306.2	284.9
¹ Based on estimated monthly income. P Preliminary.			

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