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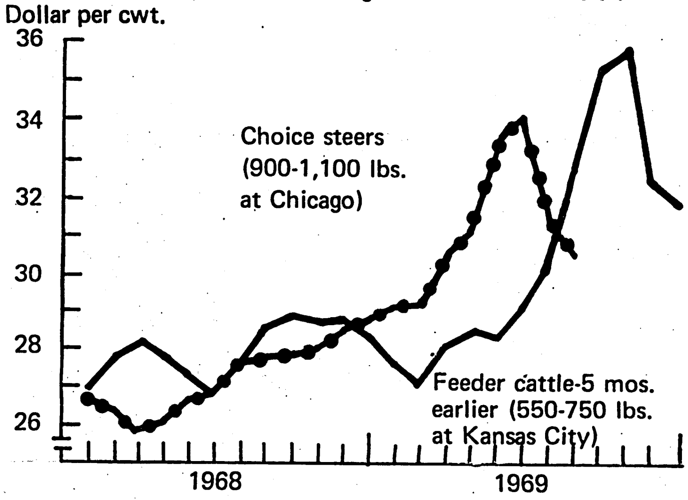
CATTLE FEEDING PROFITS this fall apparently will be squeezed by higher costs and lower selling prices. Slaughter steers at Chicago have averaged just over $30 per hundredweight in recent weeks—nearly $4 off their midyear peak. The number of cattle in feedlots at midyear was estimated 15 percent larger than the year before. With about half this increase expected to reach the market during September and October, prices are likely to decline still further in coming weeks.

During the first half of this year cattle feeders had a positive "margin." That is, slaughter cattle were selling for a higher price per pound than they had cost as feeder animals in earlier months. This situation assures relatively high profits.

But this fall many slaughter cattle will be animals that were purchased as feeders last April and May at a cost of about $32 to $35 per hundredweight—up $3 to $6 from the year-earlier prices for feeder cattle. Also, feed costs, although they are now declining seasonally, have averaged well above the year before.

Lower Slaughter Prices—Higher Feeder Cattle . . .



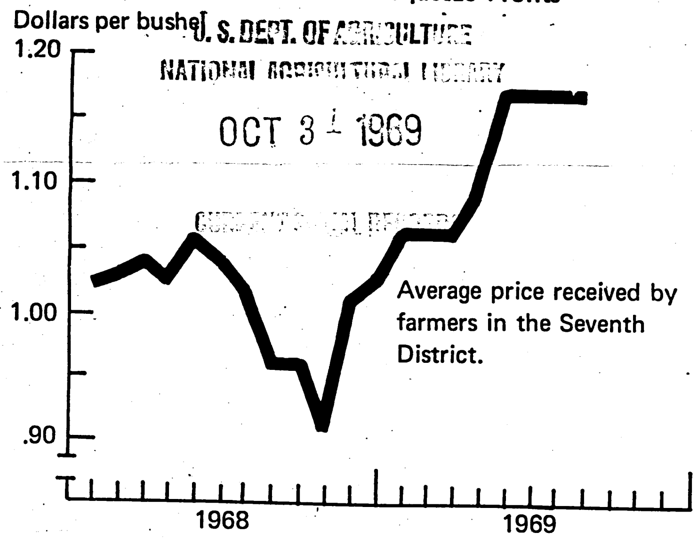
Fed cattle prices are expected to edge down further during the remainder of the year. However, barring a buildup in heavyweight cattle, prices should hold above those of the final quarter a year ago. If hog slaughter during the fourth quarter actually declines as sharply as indicated by the June 1 *Hogs and Pigs Report*—hogs for fall marketing were estimated down 7 percent—then the impact of increased cattle marketings will be lessened. Nevertheless, returns to cattle feeders are likely to be substantially below returns during the past several months.

With feedlots steadily expanding, especially in the Western states, the demand for feeder animals continues very strong. The latest *Cattle on Feed Report* showed nearly a fourth more cattle on feed than a year earlier in five major Western feeding states. Texas alone accounted for well over half the increase in number on feed. The demand by Corn Belt farmers has been strong also. The price of replacement feeder stock, therefore, has been high relative to the current outlook for slaughter cattle prices.

The September *Crop Report* still estimates corn production this year to be less than last year. Corn prices are therefore likely to hold above year-ago levels. Indeed, the increased cattle and hog feeding could lead to significantly higher corn prices next year. As a result, the prospects for any material improvement in cattle feeding profits in the near future will depend heavily on the price trend in feeder replacement animals.

Feeder cattle prices have shown a pattern similar to those for slaughter animals. Both moved to peaks at midyear, then declined. Choice 550 to 750-pound steers at Kansas City were a near record $35.75 per hundredweight in June and even though declining remain above slaughter steer prices. Recently, choice 550 to 750-pound feeder steers at Kansas City have averaged around $32 per hundredweight. At these prices and with current feed costs, the finished steer would need to sell for $29 to $30 per hundredweight to cover all costs. The break-even price varies of course depending on how highly the farmer values his labor and how efficient the feeding operation is in terms of such factors as pounds of gain per hundred pounds of feed fed and overhead expenses.

. . . and Corn Prices Squeeze Profits



Nonetheless, February futures contracts for choice cattle at Chicago are selling for less than $28 per hundredweight. This suggests that, unless consumer demand is unexpectedly vigorous (as it was the year before) and with no significant decline in feed cost expected, the squeeze on cattle feeding profits may be expected to continue into 1970.

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FARM BUSINESS CONDITIONS

ITEMS	1969 July	1969 June	1968 July
PRICES:			
Received by farmers (1957-59=100)	117	117	108
Paid by farmers (1957-59=100)	128	128	121
Parity price ratio (1910-14=100)	75	76	73
Wholesale, all commodities (1957-59=100)	113.3	113.2	109.1
Paid by consumers (1957-59=100)	128.2	127.6	121.5
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.30	1.28	1.28
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.29	1.31	1.13
Oats, No. 2 white, Chicago (dol. per bu.)	.64	.64	.67
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.70	2.69	2.71
Hogs, barrows and gilts, Chicago (dol. per cwt.)	26.19	25.47	21.78
Beef steers, choice grade, Chicago (dol. per cwt.)	31.49	34.22	27.61
Milk, wholesale, U. S. (dol. per cwt.)	5.21	5.09	5.06
Butterfat, local markets, U. S. (dol. per lb.)	.69	.69	.67
Chickens, local markets, U. S. (dol. per lb.)	.17	.15	.15
Eggs, local markets, U. S. (dol. per doz.)	.38	.31	.33
Milk cows, U. S. (dol. per head)	305	303	276
Farm labor, U. S. (dol. per week without board)	75.75	--	70.75
Factory labor, U. S. (dol. earned per week)	128.79[p]	129.65[p]	122.10
PRODUCTION:			
Industrial, physical volume (1957-59=100)	175.2[p]	173.9	165.3
Farm marketings, physical volume (1957-59=100)	127	108	123
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	752.3[p]	746.1	691.0
Cash farm income, U. S.[1] (annual rate, bil. of dol.)	51.1	50.1	45.8
EMPLOYMENT:			
Farm (millions)	4.2	4.4	4.4
Nonagricultural (millions)	75.5	74.6	73.3
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	133.3	136.5	124.2
Nonagricultural banks (1957-59=100)	128.2	129.7	125.9
Time deposits:			
Agricultural banks (1957-59=100)	334.0	332.0	297.4
Nonagricultural banks (1957-59=100)	311.1	318.0	312.3

[1] Based on estimated monthly income. [p] Preliminary.

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