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Agricultural Letter

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THE CHICAGO STOCKYARDS will close February 1. The Yards stopped receiving hogs last May but remained open for cattle and sheep. During its peak half a century ago, the Chicago market received over 14 million head of livestock annually. Last year, volume dwindled to about 2 million head.

The closing of the Chicago stockyards reflects the evolutionary changes that have been occurring in the U. S. meat and livestock industry since World War I. The trend has been away from central city markets toward decentralized country markets and direct selling with no formal market.

Centralized city markets developed when transportation was primarily by rail, and production of livestock was widely dispersed on many small farms. Slaughtering plants were established in major terminal cities where rail systems converged, and near the large fresh meat consumption areas. With the advent of refrigeration, the need for slaughtering plants to be near the primary consumption areas was reduced. But it was not until after World War I that the greatest forces toward decentralization began to emerge.

The development of the motor truck and accompanying development of better roads and highways reduced dependence on the railroads. The telephone, teletype, and radio greatly improved the dissemination of market information, linking local buyers and sellers with other markets. Farms were mechanized and became much larger, more specialized, and fewer in number. This made large numbers of livestock available in a relatively small area. A striking example of this in recent years is the rapid growth of large cattle feeding operations. Over half of all the fed cattle in the nation are now marketed from feedlots with a capacity of 1,000 head or more.

New slaughter plants were built in rural areas close to livestock supplies. These new plants utilized modern facilities designed specifically for individual species--either cattle or hogs. Old slaughtering plants built in the central cities during the late 1800s and early 1900s generally could not compete with these new plants and were phased out of production.

New plants are highly mechanized and have a large capital investment in plant facilities. In order to operate most efficiently, a reliable source of animals is required to maintain high volume and reduce fixed capital costs per animal slaughtered. Procurement from public markets and auctions makes these plants subject to the daily, weekly, and even monthly variations in volume and quality. Thus, pressure exists for increased forward contracting of supplies directly from producers as a means of guaranteeing desired volume and quality. Vertical integration in which livestock raising and slaughtering are brought under one management is another method of co-ordinating production, marketing, and slaughter.

As livestock markets have decentralized and an increasing proportion of sales are negotiated privately between individual farmers and slaughter plants, assembly of accurate prices and other market information has become more difficult. Most market reporting services and regulatory agencies still focus on the old central city markets. The relevancy of these markets has become questionable as the proportion of livestock moving through them diminishes. Meat packers now purchase less than a fifth of their cattle and hog supplies through central or terminal markets.

Wholesale meat price quotations have also become less representative of true demand and supply conditions. When food retailing consisted mainly of many corner grocery stores, most meat was sold through wholesale brokers and then to retail grocery stores. In the 1950s, large foodstore chains became the predominant meat retailers, and packers began selling directly to chainstore buyers. As a result, about 85 percent of all meat now bypasses the wholesaler and is sold directly to retail chains and institutions such as restaurants, hospitals, and schools.

The pricing problems created by the emerging "closed" system of livestock and meat marketing channels is probably most serious for individual farmer-producers. Such operations are still numerous but usually quite small compared to the firms to which they sell. These individuals are in a relatively weak bargaining position because of their small influence on total supplies, and because accurate market information may be too costly for them to obtain.

Marketing cooperatives, such as already exist for fruit growers and milk producers, may become more important in the livestock sector as a means of negotiating the terms of trade and regulating production. Currently, however, the trend seems to be toward vertical integration and contracting by processors, with the farmer giving up more and more of his marketing functions and becoming a specialist in production.

New methods for determining prices and allocation of returns between producers and buyers are needed. Large western cattle feeders recently joined in a cooperative sales and price reporting service. Individual transactions are instantly reported via teletype. Producers may have their own teletype machines installed or may telephone designated offices to get the latest market information. This and other marketing innovations will be needed as the trend toward decentralized markets, contracting, and direct selling continues.

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