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OUTLOOK FOR LIVESTOCK AND MEATS

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Some improvement in hog prices is in prospect in 1964, but little change is seen in cattle and lamb prices. Cattle marketings will increase again but likely no more than can be absorbed by the gain in population, increase in consumer incomes and continued preference for beef. With increased marketings and little change in price, cash receipts from cattle and calves will be up next year from the estimated $8.1 billion in 1963. Cash receipts from hogs will also be up but cash receipts from sheep and lambs are expected to be about the same as in 1963.

Consumers will eat 6 pounds more red meat in 1963 than they did a year earlier. Consumption of beef will set a new record of about 95 pounds per person, up 6 pounds from 1962. Pork consumption will be up about a pound, while consumption of veal, lamb and mutton will be down about a pound. Prospects are for a 2 pound increase in the supply of beef for 1964. However, this increase will be largely offset by some declines in the per capita supplies of pork, veal, and lamb and mutton. Therefore, per capita supplies of total red meat available for consumption in 1964 likely will continue at the high level of 170 pounds per person established in 1963.

CATTLE

Beef producers experienced price difficulties in 1961 and again in 1963. Prices for Choice steers at Chicago dropped to an average of $22.38 in July 1961 and were down again to $22.61 in May 1963 after reaching a high of $30.13 in November 1962. These price difficulties and sharp price movements occurred even though the demand for beef is rising and the cattle cycle is in its expansion phase. Sharp variations in fed cattle marketings in the past several years have been the major cause of these price gyrations. These variations may result from a sharper division of the cattle industry into 2 clearly defined stages of beef production: producing calves and converting feed concentrates into meat.

Cattle on farms and ranches on January 1, 1964, will be close to 107 million head--up 3 percent from the 103.8 million a year earlier. Since the number of cattle kept for milk production is expected to decrease by about 3 percent, the gain in beef cattle numbers may be up as high as 5 percent. The beginning inventory next year will provide the basis for a further increase in beef production during 1964. More important, a larger basic cow herd will furnish the source for future increases in the supply of feeder cattle suitable for feedlot fattening. Continued optimistic long-run outlook for the demand for beef likely will encourage further expansion and a build up of 2 to 3 percent is in prospect for next year.

Even with further expansion in cattle numbers, cattle slaughter will increase again in 1964. With reasonably normal weather conditions, prospects are for an increase in commercial cattle slaughter in 1964 of about 3 to 4 percent above the 27.3 million head expected in 1963.

The gain in beef production in 1964 may be a little smaller than the increase in number of cattle slaughtered because marketings likely will be at lighter weights. With consumer incomes likely to advance further in 1964 and with continued consumer preference for beef, prospects are that cattle prices for the year as a whole will not differ much from the expected average of $24.00 for 1963 (Choice steers at Chicago).

The number of cattle moving through feedlots will again increase in 1964. The number on feed on January 1, April 1, July 1, and October 1 of this year was up 11, 11, 12, and 10 percent above the respective dates a year earlier. Heavy marketings of fed cattle late this year will continue into early 1964 and prices probably will average $1.00-$2.00 below the January-March 1963 average of $25.28 (Choice steers at Chicago).

Placements of feeder cattle this fall and winter will determine marketings in the final 3 quarters of 1964. If the number of feeders placed is up 5 to 10 percent this fall and winter (the supply of feeders is sufficient to achieve this), prices of high-quality cattle in the second and third quarter would probably continue to average $23.00 to $24.00, followed by price improvement in the fourth quarter. However, the movement of feeder cattle thus far this fall has been slow, although feeder prices in October and early November were $2 to $3 a hundred pounds under a year earlier. Thus, if large numbers are roughed through this winter instead of going into feedlots, fed cattle prices would show some improvement by spring. In that case, however, serious price problems could develop toward the end of 1964 and early in 1965.

Prices of cows in 1964 will depend on imports of beef as well as on domestic cow slaughter. Cow prices have been relatively stable in the past 3 years. Substantial increases in imports of beef in 1962 and again in 1963 have offset the low level of domestic cow slaughter. Cow slaughter in 1964 is expected to be up but only by a moderate amount. Imports will likely be up again in 1964. Prices of cow beef, although expected to be somewhat lower, will not be down enough to curb beef imports.

What is the outlook for the cattle industry during the next 5 years? This analysis includes the following assumptions: (1) Continuation of current farm programs, including the 1964 program for wheat. (2) Population growth of 1.7 percent per year which is the same as in the past decade. Population in 1968 would then be 9 percent more than in 1963. (3) Consumer incomes are projected 11 percent above 1963 levels.

On the demand side, prospects for beef continue to be favorable. Experience in the past decade suggests that normal gains in population, income, and continued preference for beef make it possible for consumers to absorb annual increases in beef production in the neighborhood of 3 percent and still maintain relatively stable prices to cattle producers. In 1961-63, consumers bought 14 percent more beef per capita than they did in 1953-55. During the same period, the average price received at the farm for all beef cattle increased from $16.00 to $20.55, an increase of 28 percent. Consumer purchasing power also increased 13 percent. After allowing for changes in consumption due to larger population, higher levels of income, and changes in relative prices, per capita demand for beef appeared to increase at an annual average rate of about 1 percent per year. Consumers have registered a continued strong preference for beef in the last 3 years. For example, per capita consumption of beef in 1963 will be 95 pounds, about 7 pounds higher than in 1961. Prices in 1963 are little different from those in 1961.

Consumers likely will continue to show a preference for beef. On this assumption, per capita consumption of beef likely will exceed 100 pounds in 1968 compared to 95 pounds estimated for 1963 and 89 in 1962. And consumers will pay for this consumption at prices which would maintain cattle prices to farmers close to the average of $20.55 obtained in 1961-63.

Projecting the probable amount of beef consumption in 1968 and the corresponding cattle prices is risky business since it would require predicting the exact phase of the cattle cycle and the level of imports. Prices would be below the 1961-63 average if in the liquidating phase and above if herds are building up substantially.

The current "cattle cycle" began its expansion phase in 1958 and is now at the stage where supplies can provide increases in per capita production of beef as well as support continued expansion in the herd. For example, we can increase cattle slaughter in 1964 by 3 percent and still increase total inventories by another 3 percent. If this situation would develop to the point where the potential supply of beef and the annual increase in production would become greater than could be consumed at constant prices, prices would fall and downward adjustments in inventories would follow.

The present cattle cycle is in its sixth year, the previous cycle lasted 10 years, and the one before that 12 years. However, expansion of cattle feeding in recent years sets this cycle off from the rest. There are other factors too, but they are all related to the shift toward feedlot finishing. By the close of 1963, total cattle numbers on farms will have increased to 107 million head, almost 16 million above 1958. This is a slower buildup when compared with previous cycles. We are also slaughtering a smaller percentage of the calf crop as calves, yet the average age of cattle slaughtered is lower. This means that when cattlemen begin to liquidate herds, there will be a smaller backlog of steers over 2 years old to move to market. Thus, if the liquidation phase should begin in the next 2 years, it could be of shorter duration, in contrast to earlier cycles where this phase had always been longer than the buildup.

HOGS

Barrows and gilts at 8 major markets averaged $15.65 in January and declined monthly to a low of $13.78 in April. Hog prices quickly rose $4.66 to $18.44 in July only to make another rapid decline to an average of $15.56 in October (4-week average). Hog prices didn't hold constant in 1963 because slaughter rates also kept moving up and down. Slaughter was especially large during late winter and late summer compared with the same weeks a year earlier. During these 2 periods, hog prices fell below year-earlier levels by the widest margin.

Such high rates of slaughter in late summer precipitated lower prices. Barrows and gilts at 8 major markets dropped $1.44 from the last week in August to the first week in October.

Several factors affected the hog supply situation this fall. Good growing weather this year in many of the more important hog-producing areas tended to put hogs in market flesh a few weeks earlier than usual. During similar weeks of 1962 some hogs were withheld from the market, which tended to overstate the increase in supply this year. In addition, the number of sows farrowing from September 1963 through February 1964 is expected to be down from the same months last year. Fewer gilts may be going into the basic sow herds during this period, which would also add to the available supply of slaughter hogs.

However, the number of hogs slaughtered in summer and early fall was probably large enough to lower the supply of slaughter hogs to the point that slaughter rates will have to fall below year-earlier rates during some of the remaining weeks of 1963. Hog slaughter under Federal inspection so far in the second half of 1963 has been more than 1.4 million head higher than in the same period last year. Hog prices probably will not attain last year's fourth quarter average of $16.51, but their seasonal decline may be interrupted somewhat before the end of the year.

Large supplies of other meats and unusually large stocks of pork in cold storage are also affecting hog prices. Stocks this October were down 10 million pounds from a month earlier, but were 71 million above the October 1962 level of 139 million pounds.

The June-November 1963 pig crop likely will be down slightly from a year earlier. In the 10 Corn Belt States June-August farrowings were up about 2 percent, but September-November probably will be down about 3 percent. Breeding intentions reported in these same States in September indicate that farrowings may be down slightly in December-February from a year earlier; March-May litters may also be down. Therefore, slaughter supplies in 1964 are expected to fall below year-earlier levels before the beginning of the second quarter and then remain below the remainder of the year. Hog prices since March 1963 have not been favorable in relation to corn prices, but likely will become more favorable again next spring. On balance, the business of hog raising is expected to be a little more profitable in 1964 than it was this year and prices are expected to average a little higher than in 1963, in response to lower per capita supplies.

SHEEP AND LAMBS

Number of sheep and lambs on farms has continued to trend downward from the record-high 56.2 million head in 1942. On January 1, 1963, the inventory of all sheep and lambs on farms was 30.2 million head. Beginning 1964 inventory is expected to have declined further to between 29.3 and 29.7 million, the lowest since records were begun. And the size of the national sheep flock may shrink again next year although likely at a slower rate than in 1962 or 1963.

The 1963 lamb crop, 19.7 million head, was 3 percent smaller than a year earlier. A smaller volume of slaughter this year partly reflected the decline in the lamb crop. In the first 6 months of 1963, commercial slaughter of sheep and lambs was lower each month than in the corresponding month of 1962. Commercial slaughter in the first half was 9 percent below January-June 1962. Slaughter increased in July to 2 percent above a year earlier, but in August was 5 percent below. Through September, commercial slaughter was down 7 percent. In the first 3 weeks of October, slaughter under Federal inspection held about even with a year earlier.

Prices received by farmers for sheep were higher than a year earlier each month through the first 8 months of 1963 but were a little lower in September. They are expected to remain a little lower than last year during the rest of 1963. Feeder lamb prices in 1963 were substantially above those of 1962 until September. Denver prices were more than $3.00 higher early in the year. The difference narrowed to about $.50 in August, and prices in September were almost the same as a year earlier. In October, prices were between $.75 and $1.00 below October prices last year.

The outlook is for the number of sheep and lambs on feed January 1 to be down about 5 percent from a year earlier, when 4.0 million were on feed. The 1964 lamb crop probably will be down between 4 and 5 percent, because the number of ewes 1 year old and older at the beginning of 1964 likely will be down a little more than in the last 2 years. Slaughter probably will again be down a little next year. However, prices likely will average about the same as in 1963, reflecting stiff competition from beef.