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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR LIVESTOCK AND MEAT

Talk by Robert L. Rizek
Economic and Statistical Analysis Division
at the 44th Annual Agricultural Outlook Conference
Washington, D. C., 3:10 P.M., Tuesday, November 15, 1966

The livestock situation is expected to continue favorable to producers next year. Prices of cattle and lambs are expected to continue strong and average above 1966. Although hog prices will be off from this year, they should continue above other recent years.

Two developments this year will have a significant influence on the livestock economy not only next year but for several years as well. Cattle producers reduced their inventories by heavy slaughter in 1965 and again this year in response to the low prices in 1963 and 1964. This brought beef production to record levels this year, both in the aggregate and per capita. Cattle prices, however, have been higher this year despite record production, mainly because of the improved demand for beef. Cattle prices will be higher again next year, and the improved outlook is apparently encouraging producers to again build up breeding herds.

The second major development has been the moderate--rather than excessive--expansion in hog production despite record high prices. As a result, the hog enterprise is expected to continue profitable and lead to a probable further expansion in output into 1968.

CATTLE

Cattle slaughter this year will total about 34 million head. Beef production will total around 19 billion pounds. At this level, beef output would be around 3 percent larger than last year and almost 8 percent above 1964 when prices were unusually low. Per capita beef consumption will average over 102 pounds in 1966, up from 99.3 pounds in 1965 and above the previous record of 100.1 pounds in 1964.

Cattlemen began sending considerably more cattle to slaughter after cattle prices dropped in 1963 and 1964. The increase in slaughter was accelerated by continued sharp liquidation of dairy animals. Slaughter rose 31 percent between 1962 and 1965, with gains of 56 percent and 37 percent in cow and heifer slaughter. The number of cattle and calves on farms declined from 107.2 million head on January 1, 1965, to 106.6 million head at the beginning of this year. A further decline of 1.5 to 2 percent is taking place this year.

Despite the record supply of beef, plus a near-record supply of total meat, cattle prices have been relatively strong this year. Prices received by farmers for beef cattle likely will average around \$22.00 per 100 pounds, compared with \$19.90 last year, and \$18.00 the year before.

Choice steer prices were sharply higher earlier in the year than in 1965. However, since midyear they have been around \$2.00 lower. The more notable advance has been in cow prices, which reached the highest level since 1959. Prices of Utility cows at Chicago likely will average about \$18.00, up from \$14.46 in 1965 and \$13.74 in 1964. Cow prices rose despite increased cow slaughter into June and sharply increased beef imports. The strength in slaughter cow prices this year in the face of large supplies of manufacturing type beef, indicates that the demand for this kind of beef is growing rapidly.

In addition to the price strength for cattle, another main feature of the situation this year has been the large increase in heifer slaughter. Larger slaughter of heifers has accounted for most of the increase over 1965 in total number of cattle slaughtered, steer slaughter will be up only slightly while calf and cow slaughter will be down. This year's rise in heifer slaughter, continuing a trend of the past few years, reflects in part the structural changes that have been occurring in the industry--moving more heifers through feedlots at the expense of calf slaughter.

Cow slaughter was also at a high level through the early part of this year. This partly resulted from the continued reduction in dairy herds. But it also represented, along with the high level of heifer slaughter, a downward adjustment in the size of beef breeding herds. This indicates that cow-calf operators, until only recently, have not been especially optimistic about future prospects and have preferred to reduce their operations somewhat. The cow herd, both dairy and beef, next January 1 will likely be down around a million head from a year earlier while the total inventory is likely to be down $1\frac{1}{2}$ to 2 million.

The reductions in the cattle herd in 1965 and 1966 have been moderate compared with liquidations in other cattle cycles. This reduction, however, has not been affected by widespread drought, as usually has been the case in past cycles. And even though a liquidation has been taking place, cattle prices have strengthened.

Several developments during this year point to a changing outlook on cattle and calf prices by cattlemen. There is evidence they are beginning to take steps to build up cattle numbers. The first indication was the drop in cow slaughter just before midyear. Cow slaughter has been below year-earlier levels since June and in the last quarter this year likely will be off 15 percent or more from a year earlier. Calf slaughter has been down all year and will average about 12 percent below a year earlier. The third indication is more recent and somewhat more tentative. More heifers are still being placed on

feed than a year ago but the margin has narrowed sharply. On October 1, there were only 4 percent more heifers on feed than a year earlier. This compares with increases of 19 percent on April 1, and 15 percent on July 1. Consequently, it appears that stockmen are beginning to shift from a reduction in herds to an expansion--the start of a new cattle cycle.

If the price outlook of cattlemen is indeed brightening, the liquidation of cattle numbers may be slowed considerably in 1967, if not stopped. As a result, cattle and calf slaughter will be somewhat smaller next year, as well as for several years to come, and beef and veal production likely will decline significantly for the first time since 1958. Slaughter of all classes of cattle is expected to be below 1966, with sharp reductions in cow and calf slaughter. However, the decline in fed cattle slaughter is expected to be slight.

The expected reduction in beef supplies and continued brisk demand points to strong cattle prices, with all classes of cattle benefiting.

Fed cattle prices in 1967 will be higher and the price pattern will be much different than this year when prices were highest in the winter and early spring. In early 1967, fed cattle prices are likely to strengthen from current levels but average below year-earlier levels. In the second half, they are expected to increase further and to average above year-earlier levels.

Feeder cattle prices also likely will be higher in 1967 and remain responsive to changes in fed cattle prices. Although the feeder calf supply at the beginning of the year will be about the same as a year earlier, the supply of yearlings is likely to be down; reducing the overall supply. Higher fed cattle prices and strong demand for feeders as well as for heifers to add to breeding herds will raise feeder prices. Because of the favorable market for feeder stock next year, imports from Canada and Mexico can be expected to be large again.

HOGS

Hog slaughter this year is down around 1 percent from 1965. Slaughter was off sharply in the early part of the year, but in the second half probably will be around 8 percent above the same period last year.

Hog slaughter was down early in 1966 because of the 6 percent reduction in the June-November 1965 pig crop and the withholding of gilts in order to increase late spring and early summer farrowings this year. The December 1965-May 1966 pig crop was up 10 percent from a year earlier. Hog slaughter began to approach year-earlier levels toward midyear as spring pigs reached market weights.

Hog prices have been higher than in many years because of smaller pork supplies, continued strong consumer demand, and higher prices of other meats.

Prices of barrows and gilts at 8 markets will average around \$24.00 per 100 pounds this year, about \$2.50 above 1965. This would be the highest since 1948.

Hog slaughter will be larger and prices lower in 1967 as the expansion in production continues. Increases in production, however, are not expected to be as large as the 10 percent rise in the December 1965-May 1966 pig crop. This was followed by a pig crop in June-August this year 7 percent larger than last year, and September-November farrowings are expected to be up about 6 percent in 10 Corn Belt States. Producers in these 10 States planned, as of September 1, to have 6 percent more sows farrow in December 1966-February 1967 than a year earlier. Farrowings outside the Corn Belt probably will be up a little more, making the total expansion somewhat larger than the 10-State figures indicate.

The seasonal pattern of hog production and prices probably will follow more normal courses in 1967 than they have this year. Prices in 1967 can be expected to rise from early in the year to a high during the summer and then decline to a low next fall. This will be in marked contrast to 1966, when hog prices were highest in February.

Smaller beef supplies, especially after midyear, will help strengthen hog prices; however, continued larger broiler production will be a weakening factor. On balance, hog prices are expected to average moderately below 1966. However, even with some price decline, they are expected to continue favorable and lead to further expansion in production into 1968.

SHEEP AND LAMBS

Sheep and lamb slaughter is down about 2 percent from 1965, offsetting the decline in the lamb crop. Little change is expected, therefore, in the January 1 inventory of sheep and lambs on farms. Also, the inventory likely will hold fairly stable during the next few years. Restocking probably will be limited largely to the Western and Southwestern States, but likely will be offset by reductions in the Native States.

The number of lambs on feed next January 1 is expected to be somewhat below a year earlier. However, slaughter during the early part of the year may be above 1966 levels, since lambs were held on feed an unusually long time last winter. Later in the year, slaughter is likely to average slightly below year-earlier levels.

Lamb prices early next year likely will be moderately below January-March 1966. Prices next spring, however, are expected to be stronger and to average above 1966 levels through the rest of the year.

CONSUMPTION AND RETAIL PRICES

Consumption of red meat will total almost 169 pounds per person this year. This would be over a pound more than in 1965, but about 6 pounds below the record level of 174.5 pounds in 1964.

Beef consumption will average over 102 pounds per person this year, more than 3 pounds more than in 1965 and a record. This increase reflects record domestic production and larger imports than in 1965. Consumption of beef and veal combined will average a little over 107 pounds per person, up more than 2 pounds from 1965 and a new record.

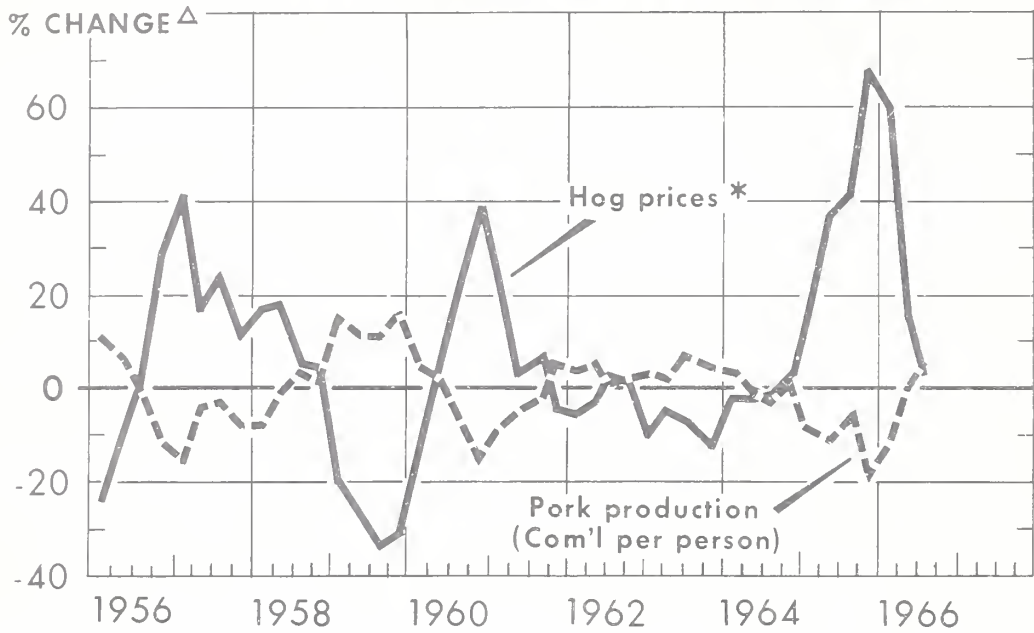
Pork consumption is expected to average around 57 pounds per person this year, down from 59 pounds in 1965 and 65 pounds in 1963 and 1964. Consumption of lamb and mutton will average around 4.1 pounds per person in 1966, almost a half pound more than in 1965. Domestic production was down slightly as a result of the smaller lamb crop, but larger imports more than filled the gap.

Retail meat prices will average almost 10 percent higher this year than in 1965. Pork prices have risen most, about 14 percent, while beef and veal prices have been up around 5 percent.

Red meat supplies in 1967 are expected to be down by as much as 3 percent from 1966. Declines in beef and veal supplies are likely to more than offset an expected increase in pork production and larger beef imports. However, supplies of broilers and turkeys will be larger and may largely offset the decline in red meat supplies.

With prospects for a further, but slower rise in demand, prospective supplies point to average retail meat prices somewhat higher in 1967. The increase likely will be moderate, however, compared to the rise of almost 10 percent in 1966. As in 1966, retail beef prices are expected to continue strong and increase through the year. Prices of processing beef probably will be up more than prices of higher grade beef. Pork prices, however, will be lower, largely offsetting the increase in beef prices

HOG PRICES AND PORK PRODUCTION



* BARROWS AND GILTS AT 8 MARKETS.

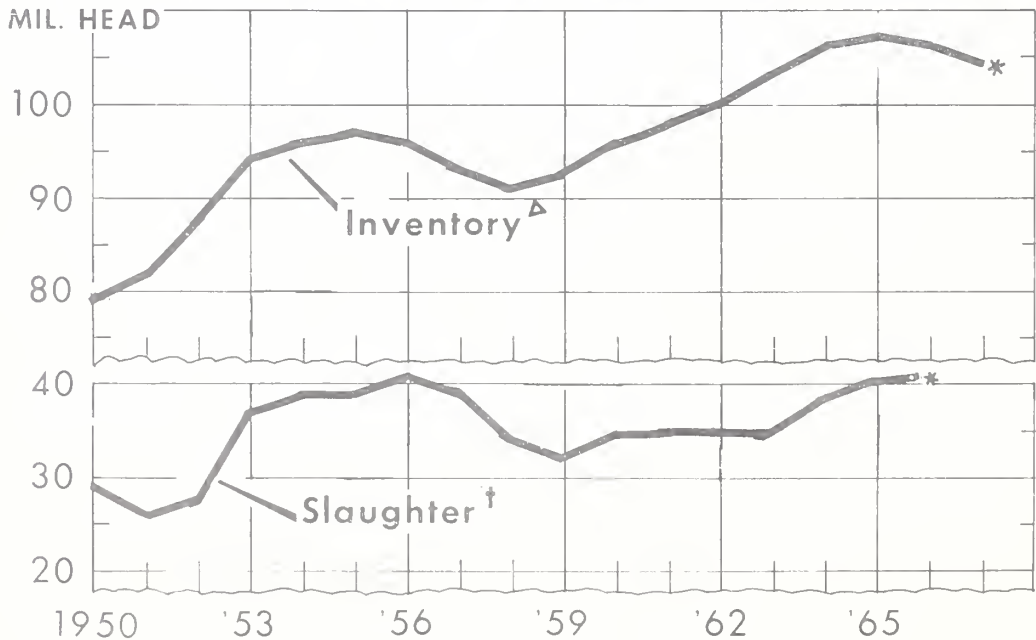
△ PERCENTAGE CHANGE FROM PREVIOUS YEAR.

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ECONOMIC RESEARCH SERVICE

CATTLE INVENTORY AND SLAUGHTER



CATTLE AND CALVES ON FARMS.

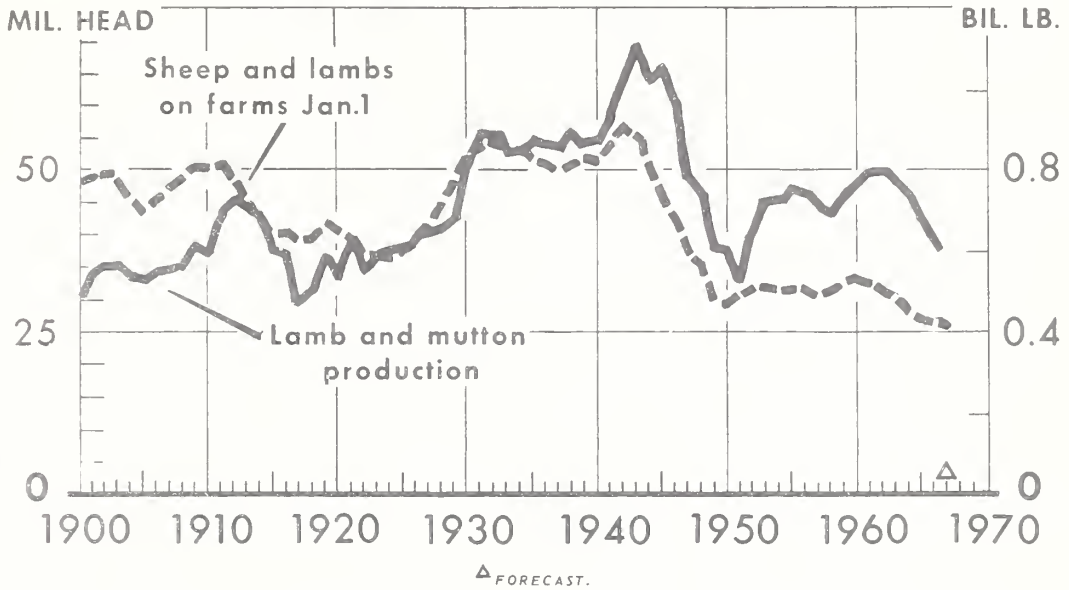
* FORECAST.

† TOTAL CATTLE AND CALF SLAUGHTER.

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SHEEP NUMBERS AND LAMB AND MUTTON PRODUCTION



PER CAPITA DISPOSABLE INCOME, CONSUMER PRICE ALL ITEMS, RETAIL PRICE OF BEEF, VEAL AND PORK

