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CATTLE SITUATION AND OUTLOOK FOR 1978

(By Bruce A. Ginn, Project Leader, Western Livestock Marketing Information Project, ERS, USDA)

Higher prices for all classes of cattle and beef are expected in 1978. The large inventory reduction since 1975 will impact on prices at both the producer and consumer levels. Rising consumer income and population should bolster demand. However, price increases, especially for slaughter cattle and beef, could be tempered by more marketings from feedlots, larger production of pork and poultry, and continued consumer allocations to nonfood purchases. The dominant factors in the 1978 Outlook are:

(1) *Lower beef production.*—Reduced slaughter of cattle directly from pastures should more than offset larger marketings from feedlots.

(2) *Relatively depressed grain prices.*—Partially in response to lower costs of grain, placements of cattle in feedlots have been substantial and will lead to higher fed cattle supplies.

(3) *Large production of competing meats.*—Abundant pork and poultry supplies will make prices of those meats more attractive to consumers in comparison to beef.

(4) *Higher consumer income.*—Historically a positive factor, increases in consumer income may not bolster cattle prices as in the past.

(5) *Inflationary pressures.*—Marketing spreads may not expand as rapidly as in recent years, but a limit exists as to the extent the farm-to-retail price spread can narrow.

(6) *Changes in market structure.*—The affect of verticle integration and institutional demand may contribute to a different price effect than in past years.

CATTLE SLAUGHTER

Commercial cattle slaughter for 1978 is forecast at 40 million head, down 3 percent from the 41.5 million in 1977. All of the decline will be in nongrain-fed cattle slaughtered directly from pasture. This represents an important change in the composition of beef supply—more fed cattle from feedlots and fewer nonfed types. In 1978, about 66 percent of total cattle slaughter may be from feedlots compared with 52 percent in 1975.

Most of the conditions sufficient for increased placements of cattle on feed and marketings from feedlots exist. Grain prices are low relative to levels of past years. Slaughter cattle prices have been stable and shown limited strength.

Some cattle feeders have realized profits in recent months. Feeder cattle supplies are adequate to accommodate a rise in placements. Feedlot capacity is available to handle more cattle on feed.

CATTLE INVENTORIES AND PASTURE CONDITIONS, 1977

[Percent of all cattle on each pasture condition]

Condition	January	April	July	October
Severe drought.....	9.5	8.8	8.4	2.8
Very poor.....	25.9	16.6	20.4	14.6
Poor to fair.....	38.3	51.1	48.3	28.2

With feed grain prices low, many farmer-feeders in the Midwest are considering feeding cattle. In recent months, placements in the Northern Plains and Western Corn Belt exceeded year earlier levels by more than 20 percent. The shift toward more feeding in the Midwest increases the possibility of heavier weights and backlogs. Farmer-feeders usually feed cattle longer and when marketing problems arose in the past, much of the problem centered on the Midwest.

Fed cattle marketings for 1978 may be 4-5 percent larger than this year. Large supplies for much of the first half of the year are already programed. Unless placement rates subside, the same fate awaits the latter half of 1978. Almost as important, heavier weights are a real possibility. Eternally optimistic cattle feeders, low feed grain prices, and more midwestern-fed cattle greatly enhance the probability of heavier weights.

Lower nonfed slaughter is anticipated. Stronger calf prices have enticed some cow-calf producers to retain replacement heifers and cull fewer old cows. With the large cow slaughter of past years, many old, less productive cows have already been culled. Although some areas of drought still exist, fewer cattle are on dry ranges and pastures than any time this year.

In terms of cattle numbers and pasture conditions, the industry is in good shape at this time. Regionally, most of the cattle that are on pastures in poor-to-fair condition or worse, are in the West and Plains. Some States in the Southeast also have experienced problems with lack of moisture. Cow slaughter for the first 9 months was 13 percent above the same period last year in the West and slightly higher in the Southeast. Slaughter of cows in all other regions was down and is expected to be down 10 percent for the United States. It appears dryness in the West and Southeast has been a major factor in keeping cow slaughter relatively high. Regionally, the July 1 distribution of the beef cow herd was: West 17 percent, Plains 38 percent, Corn Belt 18 percent, and Southeast 26 percent.

FEEDER SUPPLY

Total combined inventories of yearlings and calves outside feedlots are down. However, the decline consists completely of calves. Yearling inventories are actually about the same as last year. The drop from the previous year's level in numbers of calves outside feedlots that has prevailed since January 1976, has yet to be reflected in yearling inventories. In spite of areas of dry pastures, producers nationwide have been able to increase yearling inventories outside feedlots. In view of declining cow and replacement heifer numbers, the inference is that producers have been selling cows, keeping fewer heifers for breeding stock replacements, while holding more yearlings on pasture.

FEEDER CATTLE SUPPLY, OCT. 1

[In thousands of heads]

Item	1975	1976	1977	Change, 1976-77
Yearlings.....	9,421	10,845	10,762	-83
Calves.....	40,774	37,513	36,401	-1,112
Total.....	50,195	48,358	47,163	-1,195

Since the total feeder cattle supply actually consists of many yearlings, ample supplies to meet demand for cattle to place on feed will be available. Nonfed slaughter should be less than last year, which leaves larger numbers available for placement on feed. With substantial numbers of yearling cattle on hand, higher prices than last fall probably have resulted from stronger demand. Over the longer term, past cutbacks in calf crops, the cow herd, and replacement heifers will probably limit supplies and boost feeder cattle prices.

REPLACEMENT HEIFERS

In the past, the change in numbers of replacement heifers on hand January 1 has been a good indicator of actual additions to the herd. This year, producers intended to add 6 percent fewer heifers on January 1 and again on July 1 than the same dates a year earlier. However, a January-June balance sheet for cows points to more additions than the same period last year. Most likely, slightly more heifers will be added to the herd than last year.

As the liquidation phase of this cattle cycle ends and inventories start to build, replacement stock will become more valuable. The exact timing of price rises may depend on weather (range and pasture conditions) more than anything else.

COW INVENTORIES

Since the peak in cow numbers of July 1, 1975 at 58 million head, the national cow herd has been trimmed about 5.7 million or 10 percent. Adjustments in cow numbers originate primarily from two sources—cow slaughter and cow replacements. Over the past 2 years, cow slaughter has remained historically large while cow replacements dropped. U.S. cow numbers will likely decrease to the 50.5-51.5 million head area next year and then begin to increase by 1979. If so, the stage will be set for increases in total cattle numbers which could take place by 1980.

CATTLE HERD

The Nation's cattle herd probably shrank another 4-6 percent this year as disappearance (slaughter and death losses) remained relatively large. If anticipated levels of slaughter materialize in 1978, a more moderate drop is likely next year (assuming no major revisions in data). However, changes may already be underway that would result in the end to the liquidation phase of this cattle cycle and the beginning of an inventory expansion. Although cow-calf operators

indicated intentions to retain fewer replacement heifers this year, some evidence for the first half of 1977 suggests that more heifers entered the cow herd than the same period a year earlier. Increasing the breeding herd by retaining more heifers and reducing cow slaughter is fundamental to an expansion in total inventories.

By the outset of 1979, total inventories may be at their low point. Assuming some heifer hold-back, cow numbers will show the first year-to-year gain by 1979. This point in the cattle cycle is very important in terms of the following implications:

- Higher prices simultaneously stimulate demand for breeding stock;
- Normally, calf prices exceed yearling prices which, in turn, are greater than slaughter cattle prices;
- Supplies of ground and processed beef may be tighter than other cuts; and
- General market direction is upward.

MEAT PRODUCTION, CONSUMPTION

Combining the anticipated lower nonfed slaughter with increasing fed cattle marketings, 1978 cattle slaughter will likely decline. But heavier weights are expected to partially offset the drop in cattle slaughter. So, on a percentage basis, beef production may not drop as much as cattle slaughter. At present, beef production at 24.6 billion pounds, 2 percent less than 25 billion for the year, looks very probable.

Beef consumption for 1977 was about 125 pounds per person (carcass weight) and could decline to 122 pounds next year. However, all of this drop in beef supply will be more than offset by larger pork production. Red meat consumption in 1978 could be record large at 195 pounds per person. In addition, poultry meat will increase, possibly by 5-6 percent.

MEAT CONSUMPTION, CARCASS WEIGHT

[Pounds per person]

Year	Beef	Pork	Veal	Lamb	Red meat
1976.....	129	58	4	2	193
1977.....	125	61	4	2	192
1978.....	122	68	3	2	195

Large supplies of pork and poultry infer lower prices for those meats and intensified competition for beef. It may be that the relationships between substitutability between beef and pork or poultry have changed in recent years. Consumers probably are more willing to purchase other meats when beef is priced significantly above pork or poultry than was the case in the 1950's or 1960's. If this is true, then we can expect large supplies of pork and poultry to have a greater negative effect on beef prices than in the past.

DEMAND

Increases in population and consumer income over time have been very positive influences on beef prices. Beef is considered to be the

type of product that, as income rises, expenditures for beef also rise. However, since the end of the economic recession in 1975, durable goods have held a high priority in the consumer budget. The portion of total expenditures spent on food has declined over most of the last 2 years. Through 1978, consumers may tend to emphasize other portions of their budget besides food.

Cattle and beef prices have not exhibited the historical response to rising consumer income in this post-recession period perhaps because of increasing competition for the consumer's dollar. Spending for housing and automobiles has been especially strong. Large supplies of other meats provided more direct competition for beef. As a result, a change in beef supply did not provide the price response that was anticipated. There is little reason to expect the price response from lower beef supplies in 1978 will be substantially different from that in 1977.

This does not mean prices of cattle and beef will not rise. Inflationary pressures on costs will persist. Because of the structure of the cattle industry, producers cannot pass their costs on, but much of the increased cost between the producer and consumer is passed on. Subsequently, the price spread between the farm and retail level is very much effected by cost pressures.

Through the years, some of the increase in the farm-to-retail price spread has resulted from greater demand for services and convenience. This is to be expected as incomes and affluency increase. These services are added after cattle leave the farm, therefore, middlemen recoup most of the revenue from the added value. As consumers become accustomed to these changes and costs are passed on, it is not reasonable to expect a substantial decline in the costs of getting beef to the consumer.

Evolution of a fast food, convenience oriented sector in the beef industry has increased demand for specific types of beef, especially hamburger. Sources of ground and processed beef (nonfed cattle slaughter) are expected to wane in upcoming years. Less beef to meet the expanded demand infers that hamburger prices must rise, probably more rapidly than prices of more expensive cuts of beef. The price spread between hamburger and sirloin steaks has already begun to narrow and will continue to do so through the remainder of this decade.

CATTLE PRICES

For most of 1978, cattle feeders may be disappointed in slaughter cattle prices and cattle feeding profits. The effects of a moderate drop in beef consumption and rising consumer income may be largely offset by lower prices for pork and poultry and strong consumer purchasing of nonfood goods. If so, Choice slaughter steer prices could average \$41-\$43 per hundredweight. Very likely, returns to cattle feeding enterprises will be squeezed by higher costs for feeder cattle. Many times in the past, cattle feeders responded to lower feed grain costs by bidding replacement cattle prices upward. To some extent, this has already occurred and is expected to persist at least through early 1978.

Demand for feeder yearlings should be strong, mostly as low feed grain costs entice more placements of cattle on feed. Range conditions have improved so that lack of forage is not as critical as last year, giving people the option of retaining cattle for breeding purposes. Yet large yearling supplies will be sufficient to meet needs, and prices of 600-700 pound Choice steers could average in the mid-\$40's in 1978.

Calf prices are the brightest aspect of the cattle outlook. Reflecting lower calf crops since 1975, numbers of calves on farms have dropped substantially. Higher calf prices generate interest in increasing cattle numbers. Strong demand for yearlings also filters down to calf prices. Choice 300-400 pound calves are expected to average in the upper \$40's per hundredweight in 1978, with many sales in the low \$50's.

AVERAGE PRICES FOR CHOICE STEERS, UNITED STATES

[Dollars per hundredweight]

Year	Slaughter cattle, 900-1,100 lb	Yearlings, 600-700 lb	Calves, 400-500 lb
1975.....	45	34	33
1976.....	39	39	41
1977.....	40	40	44
1978.....	Low 40's	Mid 40's	Upper 40's

BEEF PRODUCTION AND CHOICE SLAUGHTER STEER PRICES (OMAHA)

	Billion pounds	Price per hundredweight
1977:		
I.....	6.3	\$38
II.....	6.2	41
III.....	6.3	40
IV.....	6.3	41
Year total.....	25.0	40
1978:		
I.....	6.1	40-42
II.....	5.9	42-44
III.....	6.4	41-43
IV.....	6.2	42-44
Year total.....	24.6	41-43

Source: Western Livestock Marketing Information Project, November 7, 1977.

AVERAGE PRICES FOR CHOICE STEERS, UNITED STATES

[Dollars per hundredweight]

	600-700 lb yearlings	400-500 lb calves
1975.....	34	33
1976.....	39	41
1977.....	40	44
1978.....	Mid 40's	Upper 40's

Source: Western Livestock Marketing Information Project, November 7, 1977.