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For the second consecutive autumn, the outlook for the red meats industry is clouded by the uncertain economic outlook. In addition, many livestock producers, particularly those on mixed crop-livestock enterprises, have had cash flow problems. Despite low grain prices, producers have been more interested in reducing debts and improving cash flow than in expanding herds. This trend continued through fall, as many farmers attempted to generate internal capital for harvest expenses. Gilts have been sold, rather than retained for the breeding herd. Cow herds in many areas are being closely culled or liquidated, particularly where cattle are a supplementary enterprise. Consequently, total red meat production will likely decline for the second consecutive year in 1983.

FACTORS AFFECTING THE RED MEATS INDUSTRY

The Economy

The economy continues to perform sluggishly despite the July 1 tax cut. The unemployment rate has risen above 10 percent and at the same time, the average length of work week for those who are employed continues to decline. The end result has been a dramatic slowdown in the rate of increase in real income. Real per capita incomes in 1982 (measured in 1972 dollars) are expected to have risen only about 1 percent from 1979. By mid-1983, though, the economy is expected to show signs of expansion. At this time, the length of work week should begin to rise, and with this rise should come higher incomes. If these developments occur, they should give consumers tangible evidence of a sustainable recovery. The July 1, 1983 tax cut should give consumers additional reason to loosen their purse strings.

Production Costs Decline

Lower prices for agricultural inputs and a slower rate of increase in nonagricultural costs have been favorable for producers over the last year. The prime interest rate has declined sharply from the 18.9 percent average in 1981 and the 16.5 percent average this spring to the present rate of 11.5 percent. The rate of increase in the Producer Price Index has been cut in half, with a 4 to 5 percent rate of increase expected this year, compared with 9.2 percent in 1981. Interest and inflation rates are likely to continue near present levels in 1983.

This fall's domestic harvests are again record large. In addition, reduced U.S. feed grain exports and only a small increase in feed use have resulted in feed grain carryover at the beginning of the 1982/83 feeding year more than double last year's total. Only modest increases in exports and feed use are expected in 1982/83. Consequently, the farm price of corn may average \$2.15 to \$2.35 per bushel, compared to \$2.45 in 1981/82 and \$3.11 in 1980/81. The mid-October farm prices of corn in Indiana, Iowa, Georgia, and Texas, were \$1.89, \$1.95, \$2.23, and \$2.62 per bushel, respectively, showing the sharp contrast in prices between the surplus Corn Belt and deficit feed grain areas. The farm price of grain sorghum may average \$3.85 to \$4.10 per cwt this year, compared to \$4.02 in 1981/82, and \$5.25 in 1980/81.

A record-large soybean harvest and a sharp increase in ending stocks have resulted in large soybean meal supplies at lower prices. Soybean meal prices at Decatur are projected to average \$150 to \$175 per ton in 1982/83, compared to \$182.50 last year and \$218.20 the year before last.

Forage supplies in most areas of the country are quite adequate for the smaller cattle inventory entering the winter feeding season. Pasture and range feed conditions on November 1 were even with last year's average but slightly above the 10-year average. Conditions in the Southeast were much improved over the drought situation of last year. However, parts of the Pacific Northwest may have problems because of a smaller crop of poorer quality hay harvested this past summer. Additional rains are needed in the Southern Plains, but conditions have improved. The main uncertainty at this time is wheat pasture development in the High Plains. Wheat pastures in mid-November provided limited grazing due to the poor moisture conditions throughout most of the High Plains wheat grazing area.

Hog production costs have declined sharply during 1982, with the largest year-to-year reductions occurring in the first half of this year. Feed costs have been cut \$5 to \$7 per 100 pounds of grain. Farrow-to-finish and feeder pig production operations have benefited the most from the lower costs. However, for those who buy feeder pigs for finishing, the price of feeder pigs has risen \$15 to \$20 a head in 1982. Costs of production for all hog producers in 1983 should rise only modestly as grain prices remain favorable.

Similarly, cattle feeding costs have declined about \$10 per 100 pounds of grain between 1981 and 1982. At the same time, feeder cattle prices have declined slightly, and interest rates have dropped. Production costs are expected to rise in 1983 as feeder cattle prices increase, because of reduced supplies. However, lower feed costs through at least spring, and little change in interest rates, will help offset feeder cattle price increases.

Costs of producing feeder cattle have been aided by the slowdown in the general inflation rate and much improved forage supplies in 1982. The rate of cost increases should continue to moderate in 1983 as most producers hold down inventories and thus have excess forage supplies.

Normally, large crops and lower prices favor expanded livestock production. However, the poor financial situation for many producers, particularly on mixed crop-livestock farms, has resulted in the selling of livestock to improve cash flow, which at the same time reduces feed use.

EXPANSION STALLS

The result of financial pressures and economic uncertainty has been a reluctance to expand. Producers have been concerned with reducing debts and improving cash flow, particularly in the mixed crop-livestock production areas. Selling the gilt or cow has been viewed by many producers as a better choice than the uncertain returns in the future.

Hogs

Some Hog Expansion Expected

Feeding margins have been positive since early this year, and are expected to remain positive in 1983. Although feeding margins improved in 1982, producers continued to liquidate their herds. The inventory of all hogs and pigs on June 1 was down 13 percent and was the lowest June 1 inventory since 1975. During the summer quarter, hog prices were record high. In addition, corn prices declined as export demand weakened, and the likelihood of a record-large corn crop increased. However, the September Hogs and Pigs report indicated that the breeding herd in the 10 quarterly reporting States was down 13 percent from a year earlier, and producers indicated intentions to have 10 percent fewer sows farrow during September-November. Producers also indicated intentions to farrow 4 percent fewer sows in December-February.

Actual farrowings may differ from these reported intentions. Although gilt retention has not started as might be expected, some producers are expected to rebuild breeding herds, especially after the corn harvest ends in late November. The end of the corn harvest will reduce the need for cash to cover current operating expenses.

Pork Production Continues Decline

Commercial pork production in the fourth quarter of this year is forecast to total 3,500 million pounds, down 16 percent from a year earlier. Fall hog slaughter is drawn from the inventory of market hogs weighing 60 to 179 pounds on September 1, and that figure was down 12 percent from a year earlier. In December 1981, producers were liquidating their breeding herds because of low hog prices. However, this fall, sow slaughter has declined, and gilt retention is expected to rise--both factors will hold down hog slaughter.

Hog slaughter in the first half of 1983 will be drawn from the June-November 1982 pig crop. The U.S. breeding hog inventory on June 1 suggested that the June-August pig crop in the nonquarterly reporting States probably declined more than in the 10 quarterly States. The

inventory was 10 percent below a year earlier in the 10 quarterly States, and was down 15 percent in the nonquarterly reporting States. On the same date, the producers in the 10 quarterly reporting States indicated intentions of having 9 percent fewer sows farrow during June-November, while producers in all States indicated intentions of reducing farrowings 10 percent.

Commercial pork production in the first quarter of 1983 is forecast to be down about 10 percent from a year earlier. Hog slaughter during the quarter is drawn primarily from the number of hogs weighing under 60 pounds on September 1 of the previous year. This weight group in the 10 quarterly reporting States was down 12 percent from a year earlier. Hog slaughter may not decline as much as suggested by the inventory change, though, because last year's harsh winter weather reduced barrow and gilt marketings.

Hog slaughter in the second quarter is drawn largely from the September-November pig crop. As indicated earlier, producers in the quarterly reporting States indicated intentions to have 10 percent fewer sows farrow during this past September-November. Hog slaughter in the second quarter is currently projected to be 6 to 8 percent below last year. But, the severe winter weather in January and February 1982 that slowed rates of gain caused some hogs that normally would have been marketed in the second quarter to be sold in the third quarter. Thus, slaughter in second-quarter 1983 is expected to decline 6 to 8 percent from this lower base.

Commercial hog slaughter in second-half 1983 may be 2 to 4 percent above a year earlier. Second half hog slaughter will come primarily from the December 1982-May 1983 pig crop. As of September 1, producers in the 10 quarterly States indicated intentions to reduce the number of sows farrowing during December 1982-February 1983 by 4 percent from a year earlier. The first farrowing intentions for March-May, as well as U.S. intentions for December 1982-May 1983, will be released in the December Hogs and Pigs report.

Given the relatively short supply of pork and an improving economy, hog prices may be in the mid-\$50's next fall. Corn at the farm will probably be near the loan rate of \$2.65 per bushel, if weather conditions are about average. Under these conditions, the hog-corn price ratio would be in excess of 20 to 1. Prospects of this ratio over 20 to 1 should encourage modest expansion by producers who already have facilities and are currently producing hogs. On balance, the December-May pig crop is expected to rise only modestly, instead of increasing sharply as in the past, following a period of high hog-corn ratios.

Total commercial pork production for 1983 may be 13.5 billion pounds, down 3 percent from 1982. This would be the third consecutive year of decline after the record-large 1980 output.

Cattle

Cattle Inventory Steady

All evidence indicates that expansion in the present cattle cycle has ceased in 1982. It began in 1979. The July 1 cattle inventory declined 1 percent from a year earlier, while the beef cow herd dropped 4 percent. The 1982 calf crop is expected to decline 3 percent--1 million head. Cow slaughter through September has been 10 percent above the relatively lower levels of a year ago. However, slaughter has been sharply higher in the Lake States-Corn Belt (19%), Southeast (16%), and Pacific Northwest (28%) regions. These three areas tend to have a larger number of mixed crop-livestock operations, where the cattle enterprise tends to be supplementary. Forage shortfalls in the Southeast and Pacific Northwest also undoubtedly contributed to the inventory reduction. Forage supplies have been rebuilt in the Southeast, but the Pacific Northwest may continue under pressure, particularly if this is a severe winter, requiring more supplemental feeding. In the remaining regions, cow slaughter has risen less than 5 percent over the relatively low levels of 1981. Cow slaughter in the Southern Great Plains declined 2 percent, while slaughter in the Central Great Plains rose 4 percent. However, slaughter has risen above seasonal levels in both of these areas this fall as the spring calf crop was weaned and grazing conditions deteriorated, particularly in the Southern Great Plains, due to dry weather.

Consequently, the inventory of cattle and calves on January 1, 1983 is likely to be unchanged to down 1 percent from this year's 115.7 million head. Total cow numbers are likely to be down about 4 percent from the 50.4 million head at the beginning of the year, with all the decline coming from the beef herd. While expansion of cattle numbers could resume in 1983, there is a greater possibility that cattle numbers will remain the same or, perhaps, show only a slight decline next year.

The primary reason for the sharp culling rate increase, or even herd liquidation, is the weak financial situation in the agricultural sector. Farms and ranches where income from the cattle enterprise is supplementary are reducing herd size to improve the cash flow or to reduce indebtedness, to save the primary source of income--the cropping enterprise. On farms and ranches where the cattle enterprise is a primary source of income, or the only source, cattle numbers are more likely to be maintained, with only cows which did not rebreed being marketed. With grain prices expected to remain relatively low until at least mid-1983, and only a sluggish economic recovery expected, cattle numbers are likely to show little change during 1983. However, the stage may be set in the second half of 1983 to encourage producers to expand in 1984.

Feeder Cattle Supplies Tighten

The supply of feeder cattle outside feedlots on October 1 was 1 percent smaller than a year ago. Calf numbers were unchanged, while yearling numbers declined 7 percent. However, more animals from the slaughter mix are being shifted to feedlots. Profits through much of this year have encouraged a shift away from nonfed steer and heifer slaughter to increased feedlot inventories, a trend which continues this fall. Nonfed steer and heifer slaughter declined about 200,000 head from a year ago during the summer quarter, and even larger declines are likely this fall. Calf slaughter is also likely to decline later this fall and into 1983. Consequently, feedlot placements this fall will remain large, increasing the number of cattle on feed on January 1.

However, with the 1982 calf crop 1 million head smaller, and fewer yearlings outside feedlots on October 1, the feeder cattle inventory is clearly moving down. With the smaller cow herd expected on January 1, an even smaller calf crop and, therefore, feeder cattle supply is likely in 1983. Evidence of a stronger economic recovery next spring could encourage retention of larger numbers of heifers, particularly where the cattle enterprise is a primary source of income, tightening feeder cattle supplies even more.

Beef Production

The number of cattle on feed in the 13 major feeding States was 7 percent above a year ago on October 1, and will likely remain above 1982 levels each quarter during 1983. However, because of reduced feeder cattle supplies and smaller feedlot inventory at the beginning of 1982, the year-to-year increase in the inventory will decline from the larger number expected at the beginning of 1983 to only slightly above a year earlier next fall. The general slowdown in inventory buildup occurs because the shift away from larger numbers of heavier yearling cattle outside feedlots to reduced slaughter of nonfed steers and heifers will be fairly well completed this fall. Further increases in placements will have to come from placing lighter cattle on feed. Marketings may rise 6 to 8 percent above a year earlier in first-half 1983. Feedlot placements may remain near to slightly above year-earlier levels through winter. However, placements through the remainder of the year may fall 1 to 4 percent below this year's large level. Consequently, marketings in the second half of 1983 may fall 1 to 3 percent.

For the year, fed cattle slaughter may rise only 1 to 2 percent, with all of the increase in first-half 1983. Nonfed steer and heifer slaughter is likely to decline another 15 to 20 percent from this year's 2.9 million head. Cow slaughter also is expected to decline, particularly beginning next spring. Slaughter is likely to decline 5 to 6 percent, with about 14 percent of the smaller January 1 cow inventory being slaughtered, compared to nearly 14.5 percent slaughtered in 1982.

Fed Beef Output Rises; Nonfed Declines

Cattle slaughter may fall 1 to 2 percent in 1983, with only about a 1-percent decline in production as slaughter weights rise modestly above the low 625-pound 1982 average. A larger proportion of beef production in 1983 will be fed beef, as all nonfed categories are expected to decline. Production may rise about 2 percent above 1982 levels in the winter and spring quarters. Third-quarter production will rise seasonally, holding down price gains, but it will likely decline about 1 to 2 percent from this summer's level. Sharpest year-to-year declines will occur next fall, when production may drop 4 to 5 percent below this year's level, and 2 to 3 percent below summer's. The drop will be because of both smaller numbers of cattle placed and the fact that a larger proportion of the placements in the spring and summer quarters will be calves, which take longer to reach slaughter weights than the heavier yearlings.

Veal

Calf slaughter rose 11 percent in 1982, but is expected to decline next year. Smaller calf crops in 1982 and likely in 1983 will continue to tighten feeder cattle supplies. Consequently, more of the calf crop will be shifted into stocker production or placed on feed. Veal production is likely to decline 8 to 10 percent.

Lamb and Mutton

Commercial lamb and mutton production is increasing for the third consecutive year, after many years of decline. For the first 9 months of 1982, production was up 10 percent. The largest year-to-year increases in slaughter were in the Pacific and eastern Corn Belt regions. Fourth-quarter lamb and mutton production is forecast to increase 2 to 4 percent over a year ago. For the year, lamb and mutton production may total 353 million pounds, up 8 percent from 1981. Production may rise another 5 percent in 1983.

Red Meat Consumption To Decline

Per capita 1983 red meat consumption on a retail weight basis is expected to be at the lowest level since the mid-1960's, as it was in 1982. Pork consumption may average slightly below 55 pounds, the lowest level since 1976, when 53.7 pounds were consumed. The only lower figure since 1970 was the 50.7 pounds consumed in 1975. This year marks the third consecutive one of reduced pork consumption, and about a 13-pound decline from the 68.3 pounds consumed in 1980. Pork imports may decline modestly from the 600 million pounds expected this year to about the 550-million-pound levels of 1980 and 1981. Pork exports may remain near this year's estimated 245 million pounds.

Beef consumption next year may average about 76 pounds per capita, 1 pound below this year's average and almost 20 pounds below the record 94.4 pounds consumed at the peak of the cattle cycle's liquidation

phase. This 1983 figure may well be the lowest beef consumption since 1965. Beef supplies will be lower not only because of reduced production, but also because of a decline in beef imports from the 1.9 billion pounds expected for 1982.

Beef exports are expected to increase in 1983. Exports have risen each year since 1976. However, they still represent only about 1 percent of commercial production, compared to 7 to 9 percent for imports. Imported beef is primarily lower quality processing meat, whereas exports tend to be higher quality fed beef for use in the international hotel and restaurant trade.

Per capita veal consumption on a retail weight basis may average about 1.5 pounds in 1983, the same as in 1982. Veal slaughter remains low, as it has since 1979, because of smaller calf crops at this stage of the cattle cycle. Lamb and mutton consumption is expected to continue the slow rise which began in 1979. Consumption has risen from 1.3 pounds per capita in 1979 to 1.5 pounds in 1982. It is expected to be 1.5 pounds again next year. Imports are expected to remain near this year's 20 million pounds, well below the 32 million average recorded in 1980 and 1981.

RED MEAT PRICES TO RISE MODESTLY IN 1983

Red meat prices may rise only modestly until the second half of next year. Sometime late next spring, the economy is expected to begin improving enough to allow unemployment to stabilize, and the length of work week for those employed to rise. These developments should give consumers tangible evidence of a sustainable recovery. The July 1, 1983 tax cut should give consumers additional reason to loosen their purse strings.

Hog and Pork Prices

Hog Prices Continue to Rise

During the first 9 months of 1982, barrow and gilt prices at the 7 major markets averaged \$55.54, up 23 percent from a year earlier. Hog prices averaged \$57 in October, and about \$53 per cwt in November. However, prices are expected to rise sharply as slaughter declines during December. Prices for the fourth quarter are expected to average \$56 to \$58 per cwt, up about 36 percent from a year earlier. Supplies of pork as well as of other meats are expected to tighten in the coming weeks. Frozen pork supplies as of September 30 were 13 percent below last year's relatively low 207 million pounds.

Hog prices in 1983 may average about \$59 per cwt, compared with \$56 in 1982. Prices in the first and second quarters are expected to average \$58 to \$62 per cwt. If the projected production of 6.65 billion pounds is realized, this would be the lowest first-half output since 1978 and the smallest per capita consumption since 1976. Low production will strengthen prices. However, continued high unemployment and short work weeks will reduce consumer purchasing power and limit price gains.

Hog prices in the second half of 1983 are expected to average in the high \$50's per cwt. Although pork production is expected to rise, the year and a half of sharply declining production will make pork supplies relatively tight. The economy is expected to start recovering in the second quarter, and another tax cut is scheduled for July. The two factors should increase consumer purchasing power, and thus strengthen hog prices.

Pork Price Gains to Moderate

In 1982, farm-to-retail price spreads may average in the mid 80-cent range, up about 5 percent from a year earlier. Most of the increase is due to higher wholesale-retail spreads. Farm-wholesale spreads may average about the same as last year because packers bid up hog prices earlier in the year to keep their plants running near full capacity. The major packers agreed to keep plants open in exchange for wage concessions. In 1983, the farm-retail price spread may rise modestly.

This year, retail pork prices rose about 15 percent from last year's \$1.52 per pound. Prices rose through the first 9 months, reaching \$1.91 a pound in October. Although pork supplies continue to be tight, retail prices are expected to moderate slightly in the fourth quarter from the October high.

Next year, retail pork prices may average 5 to 8 percent above 1982's \$1.75 per pound. Prices are expected to show little movement through the year.

Cattle and Beef Prices

Cattle Prices To Rise Through Spring

Prices of Choice fed steers at Omaha may average \$67 to \$68 in 1983, compared to about \$65 in 1982. Fed steer prices are expected to rise modestly through winter. A sluggish economy and continued uncertainty about job security will hold steer prices in the mid-\$60 range from late fall through winter, with prices rising modestly from present levels through the period. The present large farm-to-retail spread should allow for these modest live animal price increases through early spring, with little rise in retail prices. Seasonally declining meat supplies next spring, plus an expected improving economy and increased future job security, will likely allow prices to rise into the upper \$60's, with prices above \$70 quite possible. The extent of herd rebuilding and economic growth in the second half will play an important role in determining prices then. Prices are expected to peak by midsummer, with some modest declines expected next fall. A slow rate of economic growth, continued high unemployment, and a pent-up demand for replacement of durable goods will hold down beef price gains. Consequently, second-half fed steer prices may average \$65 to \$70.

Feeder Cattle Prices To Increase

Yearling feeder cattle prices at Kansas City will remain near fed cattle prices until next spring, as cattle feeders remain cautious buyers. Prices may average above \$70 next spring, particularly if grazing conditions are good and herd rebuilding becomes more evident. Feeder cattle prices may average in the upper \$60 range in second-half 1983. Prospects for larger pork and broiler production from next fall through 1984 are also likely to hold down bids. For the year, prices for yearling steers at Kansas City may average \$2 to \$4 per cwt above this year's \$65 average.

Feeder calf prices may be more volatile, with prices, particularly next spring, rising \$5 to \$10 per cwt above the yearling prices. Feeder calf prices this fall have averaged well below a year ago. Year-to-year discounts on heifer prices have been even larger. Poor wheat grazing prospects this fall have continued to hold down prices.

Utility cow prices may average in the low \$40's per cwt in 1983, only a couple of dollars above 1982. Cow slaughter is expected to decline, but continued relatively low feeder calf prices, as cattle feeders remain cautious, will hold down herd rebuilding and cow prices.

Retail Beef Prices To Moderate

Prices of Choice beef at retail will average about \$2.45 in 1982. However, despite expectations for higher fed cattle prices beginning later this fall and continuing through next spring, retail prices may rise only modestly. The farm-to-retail spread was record large in September, and remained large in October. However, the spread was narrow in the first half of 1982, and it is likely to narrow again through spring as fed cattle prices rise. Retail beef prices may average near \$2.50 in first-half 1983, with much of the year's increase occurring in late spring through midsummer. Second-half prices may average about \$2.57.

Lamb Prices

Choice slaughter lamb prices at San Angelo averaged \$58.66 per cwt in the first 3 quarters of 1982, down 3 percent from a year earlier. In the fourth quarter, prices are expected to average \$50 to \$53, about the same as last year. In 1983, prices may average \$55 to \$60--about the same as last year.