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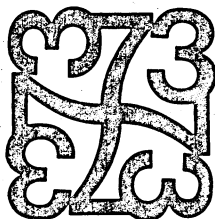
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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR LIVESTOCK AND MEATS

Talk by Donald Seaborg
Economic and Statistical Analysis Division
at the 1973 National Agricultural Outlook Conference
Washington, D.C., 1:15 P.M., Tuesday, February 20, 1973

Livestock prices are up and are encouraging producers to expand production. In 1972, cattlemen again produced more beef and hog farmers started to raise more hogs.

Beef output will be moderately larger again in 1973. Pork production still will be down a little in the first half of the year, but will be larger than in 1972 during the second half.

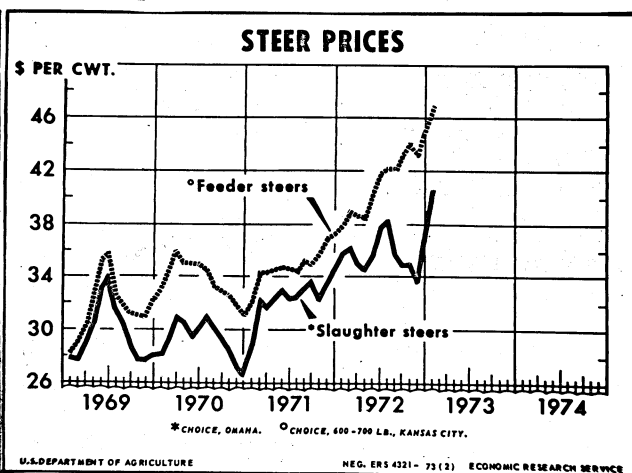
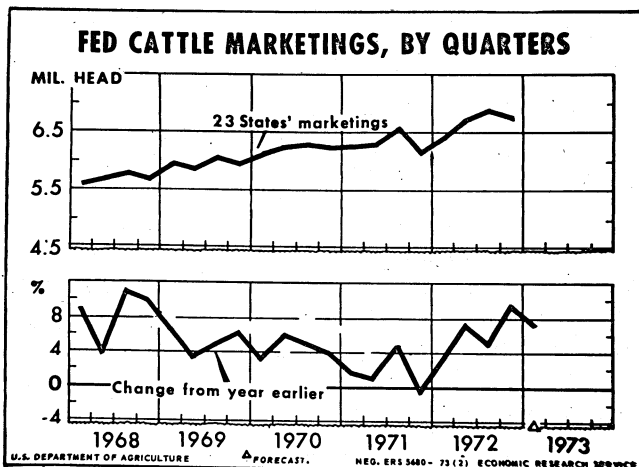
Livestock prices will continue strong through the first half of 1973 but will weaken some in the second half.

The accelerating growth of the cattle herd and the upcoming rise in pork production point toward even larger supplies of both beef and pork in 1974.

Cattle

Cattle feeders plan to market 7 percent more cattle this winter than last. Corn Belt feeders expect a 3 percent increase while feeders in the West intend a 13 percent boost. However, intentions may not be met. There were only 3 percent more cattle on feed in weight groups that normally supply the bulk of first quarter marketings. Also, adverse weather in some areas has slowed weight gains, causing delay in shipping some fed cattle to slaughter.

The ice and snow storms that hit the Southwest during November as well as December and early January will affect red cattle marketings in the months ahead. Slower gains are resulting in delayed marketings, and death losses were abnormally large. Some of these animals would have been marketed in the spring. These losses are devastating to the feeders involved and will certainly affect the number of cattle shipped out of some areas near midyear. However, this is a relatively small factor in the national supply picture.



There were 9 percent more cattle on feed on January 1 in weight groups that make up over half of spring marketings. Considering this increase together with some probable rise in winter placements, spring marketings likely will be larger than they were last spring and seasonally larger than winter marketings.

Heavier market weights added significantly to the beef supply in late 1972. However beef production this winter will be up only a little more than the number of cattle killed. In the fourth quarter of 1972 cattle slaughter was up 3 percent from a year earlier but beef production was up 6 percent primarily because of heavier market weights. High feed costs during the next several months will be a major factor encouraging cattle feeders to ship cattle to market as soon as the desired grade is reached. Thus, fed cattle marketed in the spring and summer are expected to be somewhat lighter than a year ago.

Choice steers at Omaha in early February were bringing nearly \$43 per 100 pounds, up over \$10 from November lows. Winter marketings are running above fall and year-earlier levels. However, pork output is still smaller than a year ago and consumer demand for meat is strong. Prices may not change substantially from current levels in the next few months, but some soft spots could develop.

Fed cattle marketings in the second half of 1973 likely will be moderately larger than a year earlier because cattle feeding will be relatively profitable in the first half of the year and the feeder cattle supply is large enough to accommodate some continued increase.

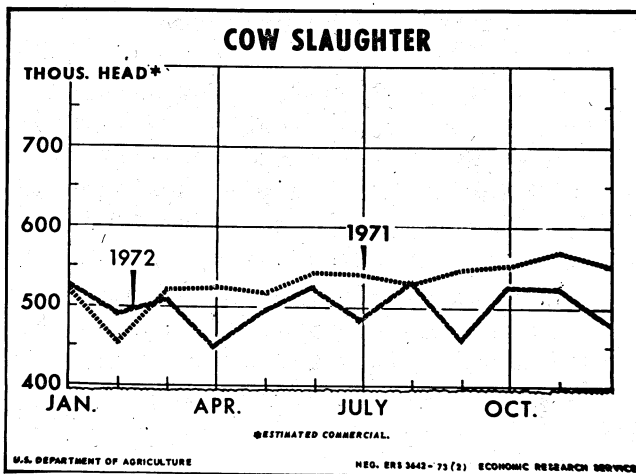
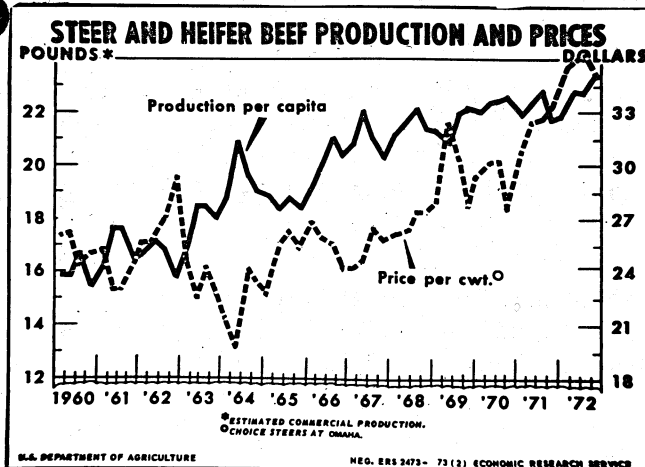
On the basis of the 1973 beginning inventory, slightly more cattle are available for feeding than in early 1972. Because of the strong market for fed cattle, producers likely will place more cattle on feed this winter and spring than a year ago. Most of the increase will be in Western feedlots where commercial feeders with expanding facilities tend to bid cattle away from Corn Belt feeders.

With more fed cattle coming to market in the summer, July-September marketings will be larger than during any season of this year or any previous year. However, cattle feeders are expected to ship cattle at lighter weights which will temper summer increases in fed beef production. Fall marketings likely will be larger than in the fourth quarter of 1972, but down from summer levels.

Choice steers at Omaha averaged a little less than \$36 per 100 pounds during the second half of 1972. This year, prices may decline some in the second half as beef production increases and the cyclical upswing in pork output gets underway. Toward the end of the year, fed cattle prices may be trailing late 1972 prices.

Feeder cattle prices have been unusually strong for the past 2 years. In 1972, as in 1971, they were stronger in the second half than in the first half. This contrasted with the usual decline in the second half of the year when movement from ranges and pastures to feedlots picks up seasonally. Choice steers at Kansas City, 600-700 pounds, averaged \$42 per 100 pounds last July. But by the end of 1972, feeder steers approached \$46.50, \$9 higher than a year earlier. In early February this year prices were \$49.

With little change in fed cattle prices this winter and spring and a larger supply of feeder cattle, there likely will be little further upward pressure on feeder cattle prices through the first half, even though movement will be seasonally low. However, prices are record high and will continue above January-June 1972 when Choice yearlings at Kansas City averaged \$39.35.



Commercial cow slaughter in 1972 was down 6 percent. Although the breeding herd was larger, culling rates continued low as record high feeder cattle prices encouraged cattlemen to hold older cows for one more season's production. Also, producers in some areas were able to cull lightly during 1972 to make up losses suffered during the 1971 drought. In general, cow slaughter in recent years has been low because of the buildup in the beef cow herd.

Cow slaughter this winter and spring is expected to run slightly under a year earlier. In the second half of 1973, cow slaughter may be about the same or a little larger than in July-December 1972. Culling rates in the second half may be a little heavier because of the advancing age of the cows added during the early stages of the current upswing in numbers. However, the strong feeder cattle market will encourage cattlemen with available feed to continue expanding their breeding herds.

Utility cow prices at Omaha averaged \$25.20 per 100 pounds in 1972, \$3.60 above 1971 and the highest on record. Cow beef production was moderately smaller, but beef imports were much larger. Utility cows in early February were \$28 to \$29, better than \$4 above a year ago. Cow prices likely will rise seasonally in the spring. With beef production the spring about the same as last spring, larger beef imports, and continued strong consumer demand, the seasonal price rise will be less than last January-June's \$4 advance.

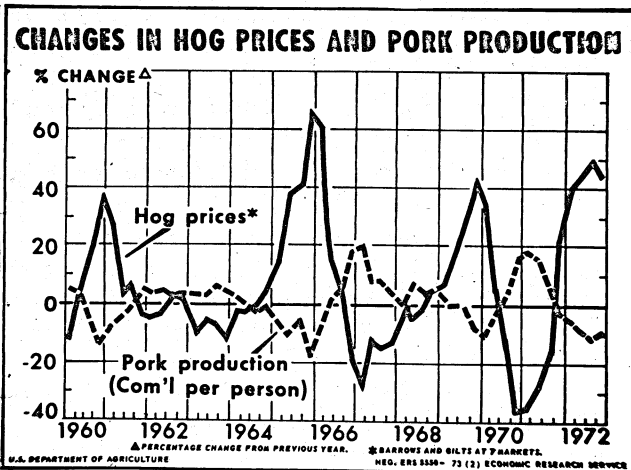
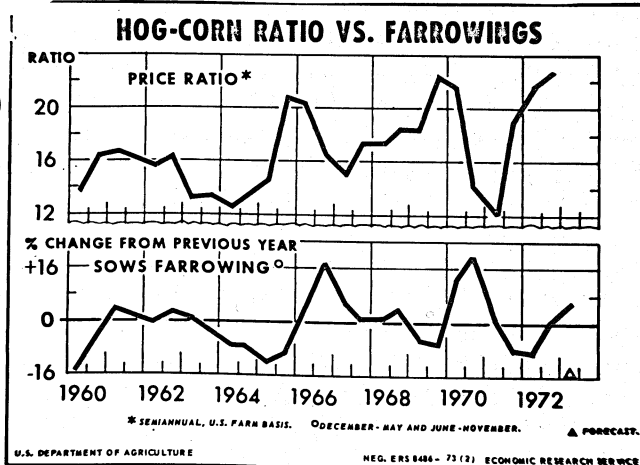
Higher cattle prices in recent years have encouraged stockmen to expand their herds. On January 1, 1973, there were 122 million cattle and calves on farms, up from 118 million a year before. The 1972 increase of 4 million head in the cattle inventory followed a 3 million head increase in 1971 and increases of just over 2 million head during 1969 and 1970. Thus, the buildup in the cattle herd is gaining momentum.

Most of the inventory increase in recent years has been in beef cows and calves. At the beginning of 1973, beef cow numbers were up 6 percent and replacement beef heifers were up 7 percent. The number of animals weighing less than 500 pounds was up about 2 percent. The dairy herd declined slightly again during 1972.

The expanding cow herd provides the potential for larger supplies of beef during the next several years. This year's calf crop will be up again and will permit larger fed cattle marketings in 1974 and 1975.

Hogs

The downswing in the hog production cycle in 1972 pulled hog slaughter 10 percent below 1971, with the sharpest reductions coming late in the year. The 1972 cutback reflected the poor profit situation for pork producers in late 1970 and most of 1971. However, higher hog prices in 1972 and so far this year are encouraging farmers to increase farrowings. And by summer, hog slaughter will be running larger than a year earlier, reflecting the planned increase in the 1973 spring pig crop.



The number of market hogs on farms on December 1, 1972 was down 3 percent from the year before. Hogs in heavier weight groups that are reaching slaughter weight this winter were off about 4 percent, while the number of lighter pigs which will be slaughtered in the spring was about the same as the year before. Hog slaughter so far this year is running about 5 percent less than in January and early February last year. Weekly kills likely will stay below 1972 peak fall levels into early spring, but late winter hog slaughter may only be slightly smaller than a year earlier.

Slaughter typically increases seasonally in March and April before beginning a decline to the usual summer low. This year, hog slaughter in the spring likely will be about the same as in the second quarter of 1972.

Hog slaughter in summer and fall likely will be considerably larger than in July-December 1972. The December 1972-May 1973 pig crop is estimated to be 7 percent larger than in these months a year earlier. Pigs farrowed during this time provide the bulk of second half slaughter hogs.

The prospective turnaround in hog slaughter reflects the much improved income situation for pork producers. The hog-corn price ratio (Omaha basis) averaged nearly 21 during 1972, up from less than 14 in 1971. The rise in hog prices last year outpaced gains in corn prices, so feeding hogs remained favorable to producers even late in the year. The hog-corn price ration still hovered near 21 in January. With hog and corn prices both substantially higher than a year earlier, the current relationship between hog and corn prices is more favorable to producers than with lower prices and the same ratio.

Corn Belt pork producers appear to be making a faster turnaround in production than producers in other areas. The uncertainty about availability and price of grain in areas outside the Corn Belt, because of bad weather and transportation difficulties, probably is limiting production gains in some areas.

Hog prices rose sharply in 1972. Barrows and gilts at 7 markets averaged \$26.75 per 100 pounds, up from \$18.45 the previous year and well above the 1967-71 average of \$20.50.

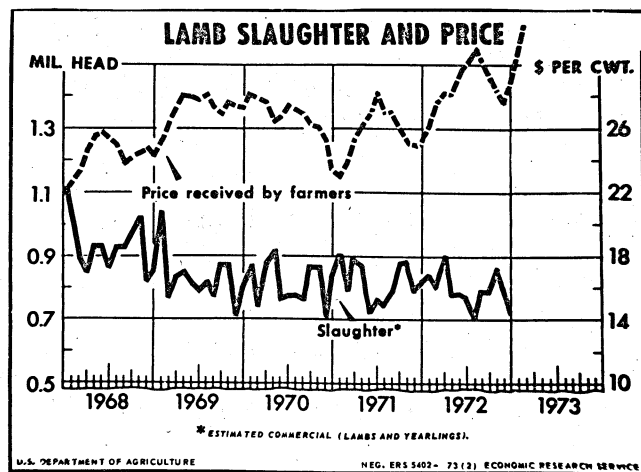
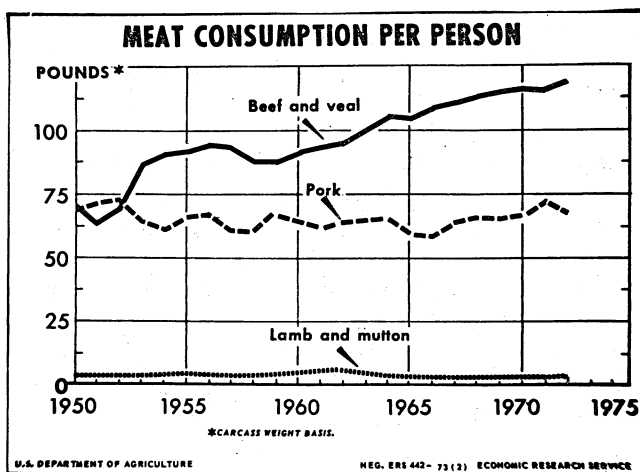
Barrows and gilts at 7 markets averaged \$32.50 in January 1973, about \$4.50 above 1972 fall lows. Early-year price rises reflect low hog slaughter levels, reduced veal and lamb production, less cow beef, and strong consumer demand for meat. A small increase in beef output in January was not enough to offset other price-boosting factors in the hog market. Hog prices likely will weaken in late winter as slaughter supplies increase seasonally, but prices will stay well above March-April 1972 when hogs averaged about \$23.25.

Barrows and gilts at 7 markets averaged nearly \$29 per 100 pounds in both the third and fourth quarters of 1972. With larger hog slaughter in the second half of 1973, prices are expected to drop below 1972 prices in late spring or summer and then continue below through fall. Moreover, hog prices are expected to decline seasonally next fall rather than increase, as they did in each of the last 2 years. But fall lows probably will still be substantially higher than October-December 1971 when they were about \$20.

Pork producers in second half of 1973 likely will continue the expansion now underway. Hog prices will soften during 1973, especially in the fall, but corn prices will also weaken later in the year, so a favorable feeding ratio will be maintained. Thus, producers are expected to step up farrowings throughout the year. This points to further expansion in pork supplies in 1974.

Sheep and Lambs

The inventory of sheep and lambs on farms and ranches has been falling each year since 1960. At the beginning of this year there were 17.7 million on hand, down 5 percent from a year earlier.



The lamb crop likely will decline another 4 to 6 percent in 1973, reflecting a reduction in the number of ewes. However, the early lamb crop was up 2 percent.

Lamb slaughter this winter likely will run a little under last winter. In January, weekly rates averaged 10 percent under a year earlier. Spring lamb supplies consist mostly of new crop lambs. With the slightly larger early crop this year, lamb slaughter supplies in the spring may be near a year earlier. In the second half, lamb slaughter is expected to be down about in line with the reduction in the late lamb crop. Strong lamb prices and an improved wool market in 1972 may encourage some producers to hold the line on culling rates. However, a reversal of the downtrend is unlikely in 1973.

Choice slaughter lamb in early February were selling for about \$36 per 100 pounds at San Angelo, \$7.50 above a year earlier. Fed lamb prices likely will continue steady to strong this winter and spring. However, the spring price advance will be less than last year's \$6.50 January-May increase. Prices of new crop lambs will be higher than fed lambs, as usual, but premiums may not be as large as last year. Second half prices this year are expected to decline seasonally and average near prices in the second half of 1972 when they averaged \$30.25.

Meat Consumption

Red meat consumption this year will rise a little above the 188 pounds per person consumed in 1972. Beef will account for all of the increase. Little change is likely in pork consumption while veal and lamb consumption will decline.

Red meat consumption dropped about 3 pounds per person in 1972 from 1971's record level. A 6 pound reduction in pork in 1972 was only partly offset by a 3 pound increase in beef. Lamb and mutton consumption increased slightly to more than 3 pounds per person, reflecting larger imports. Veal consumption declined to 2.2 pounds per person, down from 2.7 pounds in 1971.

Beef consumption in 1973 likely will rise 2 to 3 pounds per person above the 115.9 pounds consumed in 1972, reflecting increases in beef output and beef imports.

Pork consumption in 1973 will not differ much from the 67 pounds consumed per person last year. Consumption in the first half will be moderately smaller, but second half increases will be offsetting.

The Longer-Term Outlook

Meat consumption will rise in the years ahead, especially beef. The major reason is simply that people prefer meat over many other foods and that incomes will rise and allow consumer to spend more money for meat.

As a result, consumer demand for meat is rising. Population is increasing by about 1 percent a year and consumer incomes are rising rapidly. Projections of meat consumption in 1985 assume population growth to continue upward about 1 percent per year and consumer incomes increasing through the 1970's about as fast as in recent years.

Demand for beef has been increasing faster than demand for most other foods and accounts for most of the rise in the demand for meat. Although prices of cattle and beef are sensitive to changes in supply in the short-run, they are less so than prices of other meats and most other foods. Consumers now are eating a great deal more beef than in the past, and are paying more for it, even after allowing for the fact that all prices have risen.

A small change in pork production leads to a much sharper relative change in hog prices. Consumer demand for pork probably has not changed much in recent years, although the substantial increases in incomes have made a strong market for all meat. However, with improved quality and greater uniformity in pork production, the demand for pork during the 1970's and early 1980's may rise.

Beef consumption has risen rapidly since the early 1950's and further increases are likely in the years ahead. By 1985 beef consumption may average about 140 pounds per person. This compares with less than 116 pounds last year and 63 pounds in 1950. Gains in beef production during the 1970's and early 1980's are expected to be somewhat slower than they were during the 1950's and 1960's.

Growth in cattle feeding has dominated changes in the cattle industry during the past 10-15 years. Fed cattle marketings in major feeding States more than doubled, from less than 12 million head in 1958 to about 28 million last year. Total cattle slaughter rose less than 12 million head during the same period as grass fed marketings declined.

Looking ahead, increases in beef production will be largely geared to further expansion in the beef cow herd. During the late 1950's and in the 1960's the average annual increase in fed cattle marketings was about 7 percent--considerably faster than gains in the beef calf crop, which averaged just over 4 percent.

Rapid growth in cattle feeding was supported by moving an increasing percentage of all calves through feedlots and by slaughtering fewer calves for veal. In 1960, fed cattle marketings accounted for about half of all cattle slaughter. Last year about 77 percent of all slaughter cattle came through feedlots. While fed cattle marketings will continue to increase, they probably will not go much above 80-83 percent of total cattle slaughter because of the continuous supply of aging cows culled from the beef and dairy herds. Thus, future increases in cattle feeding will be tied more closely to increases in the calf crop.

Total cattle and calf slaughter was down slightly in 1972. Withholding of beef cows and heifers by cattlemen for expansion purposes limited 1972 slaughter. This is typical of the buildup phase of the cattle inventory cycle. When inventories are building, cattle slaughter holds steady or increases slowly. But when inventory gains pick up momentum, as in 1972, more rapid increases in cattle slaughter follow within a year or so. Such increases in slaughter reflect increases in calf crops in preceding years, which were large enough to provide more cattle for slaughter as well as more cows for breeding herds.

It takes considerable time for price changes to affect production decisions by cattlemen and for these decisions, in turn, to be reflected in slaughter supplies. This is one reason why cattlemen typically overadjust to higher feeder cattle prices and expand their herds to the point where slaughter supplies become larger than the market can support at current prices. At this point, prices decline. And as prices weaken, cattlemen become discouraged and no longer hold extra cattle for expansion. This adds more cattle to the slaughter market as cattlemen reduce their herds, and it further weakens cattle prices.

The current inventory buildup will continue during the next several years and by the mid-1970's growth in the inventory will be large enough to precipitate rather sizable year-to-year increases in slaughter. Large beef production will be accompanied by weaker cattle prices. However, hog slaughter probably will be on a downswing by then and consumer demand for meat will continue strong. Both of these factors will help shore up cattle prices in the mid-1970's.

In the late 1970's the increase in cattle slaughter may again slow. With this pattern of change in the beef producing potential, cattle slaughter in 1985 likely would be running between 50 and 52 million head and the inventory of all cattle and calves on farms may reach 140 million head.

Hog producers have been operating with large cyclical swings in production for as long as records have been kept. And swings in production today are about as large as ever. Seasonal variation within the year, however, has moderated. Cyclical swings in production reflect producers' overresponse to high or low prices. Even though hogmen are better informed than ever on the market outlook, continued ups and downs are likely in the years ahead.

In recent years, the market for pork appears to have expanded. The more favorable pork market situation probably is due both to the general rise in consumer demand for red meat and to the shift toward production of meat-type hogs. Pork producers are becoming more aware of the qualities preferred in pork and have made considerable progress in marketing hogs that yield a higher percentage of marketable pork and less lard. Pork quality will continue to improve, and consumer acceptance of pork will rise. However, these developments likely will be fairly slow.

Pork production has trended upward during the past 20 years, going from about 11 billion pounds in the early 1950's to about 13-15 billion pounds in recent years.

On a per capita basis, pork consumption averaged about 66 pounds during the 1950's and 63 pounds during the 1960's. In 1971 pork consumption rose to 73 pounds per person. This was the largest consumption since 1946. The smallest consumption in the past 20 years occurred in 1966 when only 58 pounds of pork were consumed. Last year averaged about 67 pounds per person. With improved profits in recent months, pork producers are expanding output, and consumption will increase later this year and will continue to increase in 1974.

Per capita pork consumption by 1985 is expected to average around 70 pounds per person. This would be above consumption levels of the 1950's and 1960's. Total pork production in 1985 likely will top 16 billion pounds, up from 12 billion pounds in 1965-70. Such an increase in pork production by 1985 would require a substantial increase in number of sows farrowings. Further increases in number of pigs saved per litter will probably also contribute to increasing pork output.

