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Federal Reserve Bank of Chicago . . .

March 19, 1976

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Agricultural Letter

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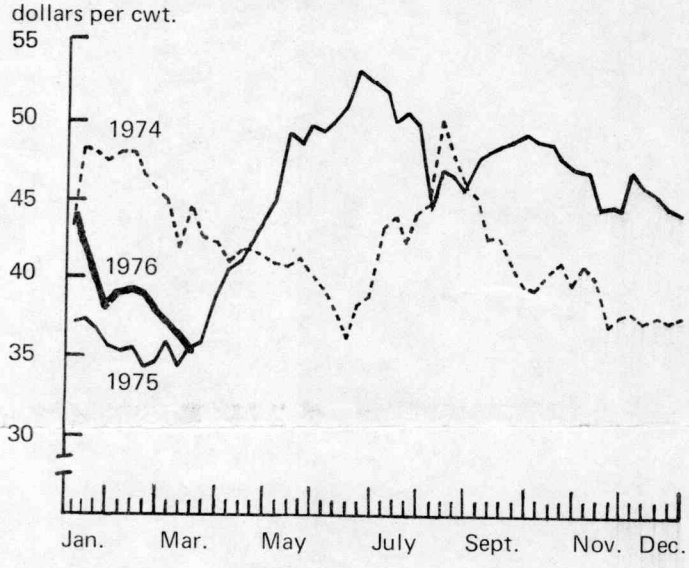
Number 1370

CATTLE PRICES have continued in a slump reflecting increased marketings of fed cattle and heavy slaughter of cows and nonfed steers and heifers. Choice steer prices slipped below $35 per hundredweight this week for the first time this year—and now are about equal to low year-earlier levels.

Although slaughter has declined seasonally since January, the numbers continue to exceed year-earlier levels. Fed cattle marketings in the seven major cattle-feeding states were 15 percent above year-earlier levels in February, according to the U.S. Department of Agriculture's March 1 *Cattle on Feed* report. Preliminary estimates suggest that the increase in total cattle slaughter during February may have exceeded the 7 percent year-to-year increase recorded during January. Estimates also appear to indicate that the number of cows marketed in February was unusually large when viewed as a percentage of total slaughter, suggesting that livestock producers continued to pare their cow herds either in response to relatively low prices or adverse pasture conditions.

Cattle prices drop dramatically



Feeder cattle placements in February in the seven states were 74 percent above the very low year-earlier level and 31 percent above the same period in 1974. Also notable is the fact that February placements exceeded January placements slightly, counter to the normal seasonal downward trend.

The number of cattle on feed in the seven states on March 1 was 48 percent greater than a year earlier. As with placements, the large percentage increase better reflects the shrinking feedlot inventories of a year earlier than any recent increase. The March 1, 1976 inventory was markedly lower than comparable inventories of the three years prior to 1975.

Margins from cattle feeding have been pushed below the break-even point in recent weeks. Assuming feeder cattle costs of around $35 per hundredweight, corn at $2.50 per bushel, and current fed cattle prices, feedlot operators would be incurring losses of about $5 per hundredweight. Looking ahead, and utilizing present feeder cattle prices, October fed cattle futures—around $43 per hundredweight—and corn at $2.50 per bushel would still leave feedlot operators slightly below the break-even point. At present it appears that in order to get above the break-even level, feedlot operators must count on a decline in corn prices, fed cattle prices in excess of current futures price levels, or some combination of both. Some cutbacks in future placement rates would seem likely under these circumstances. However, a number of farmer feeders have large stores of silage with limited marketability. The amount of silage cut last fall was up 3 percent from the previous year. Feeding cattle is about the only way in which silage can be marketed and, therefore, farmers holding significant quantities of silage may opt to continue feeding operations even in the face of lower returns.

Present indications point toward the possibility of lower corn prices in future months. If farmers' intentions to expand corn acreage are fulfilled, and relatively normal weather ensues, supplies of corn will be up markedly this fall. Such conditions could add further downward pressures on feed prices this spring and summer.

The inflow of cows and nonfed steers and heifers into markets will continue to be a major factor influencing fed cattle prices in the near future. The onset of spring and the prospect of increased availability of pasture suggest the rapid inflow of nonfed cattle to markets may abate rather abruptly. Another concern is the possibility that current low cattle prices, coupled with the recent change in grade standards, may cause a backlog of fat cattle marketings. Such a development might prolong the current depressed price situation. Nevertheless, many observers anticipate a turnaround in fed cattle prices sometime this spring. The above situation also suggests that when the upturn begins, fed cattle prices might rise rapidly, perhaps similar to the experience of 1975. However, in view of the prospects for increased supplies of fed cattle and hogs by midyear, it seems unlikely that fed cattle prices will soar to the heights of mid-1975. Choice steer prices around the mid-forties by summer seem more likely.

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