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LONG RUN FEEDER CATTLE OUTLOOK*

Cattle - Feeding

Thank you Mr. Chairman, I am pleased to be asked to participate in your Summer Outlook Conference again.

We believe we are near the peak of a cattle numbers cycle. We have had some larger marketings during the past year due to the build-up in cattle herds and this has contributed to lower cattle prices. However, much of the losses in cattle feeding and the corresponding relatively low feeder cattle prices are due to other than low fed cattle prices.

The average price of choice steers at Omaha in 1974 was only about 5% less than the high year of 1973 and the 1975 average probably will equal or exceed 1974. During the past 2 cycles the annual average of choice steer prices dropped over 20% within a 2-year period from the high. Consequently most of the problems in the cattle business during the past two years are due to factors other than increased slaughter numbers and sharply lower fed cattle prices. Among these factors were: ceiling prices on meat, unlimited optimism about prosperity in the industry and outside capital that bid feeder calf prices to record high levels, and an unprecedented increase in feed costs. The important point is that we probably still have in front of us a substantial portion of the stress to the industry because of the buildup in cattle herds. We believe the cow-calf segment of the industry has problems for at least one more year and more likely 2 to 3. How severe these problems are depends on many variables and most of them are not in a stable or highly predictable condition at this time.

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*Prepared by Glenn Grimes, Professor of Agricultural Economics and Extension Economist, University of Missouri--Columbia, for presentation at the Great Plains and Western States Summer Outlook Conference, Durango, Colorado, July 30, 1975.

Among these are:

- 1---Feed grain prices
- 2---Consumer demand
- 3---Actual buildup in cattle herds
- 4---World demand for beef

Let's briefly look at each of the above factors.

Feed Grain

For this next feeding year we now have a pretty good feel for the potential supply and price but what about the next several years. With the strong world demand for grain, the potential for weather to deteriorate from the very desirable conditions of the 60's and early 70's, and relatively short supplies and high prices for fertilizers what will the prices for grain be for this period? We doubt the price will average as high for the next 5 years as it has been during the past 18 months. However, we doubt we will or can produce enough grain to develop the large stocks and stable prices of the 60's. The probability of fluctuating feed grain prices adds additional risk to the already risky business of cattle production.

Consumer Demand

We believe consumer demand for beef increased in 1974 from '73 based on current dollars. Beef supplies in 1974 were about 6 percent larger per person than a year earlier. Choice steer prices at Omaha for this period averaged about 5 percent less than in 1973 but the normal relationship would be for a reduction of 10-12 percent without growth in demand. The retail price for choice beef shows even stronger demand for '74; the retail price averaged some 2 percent above the '73 price. Retail and packer margins for this period averaged about 15 percent higher in 1974 than a year earlier according to U.S.D.A. This may be one of the big concerns facing the cattle industry. With increased costs for practically all production items and the competitive structure of the industry these margins probably will remain high as compared to the past. The USDA data on beef prices may overstate the average retail price of all beef in 1974 compared to '73 because the USDA data is only on choice beef. Certainly hamburger and some of the other grades of beef sold considerably lower during the last half of 1974 than a year earlier.

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For the first 6 months of 1975 demand appears to be holding strong. However, due to the wildly fluctuating prices this year which have been magnified by fluctuating marketing margins and other market imperfections it is very difficult if not impossible to accurately determine demand levels for a period of a few months.

We do not look for demand growth in the next few years at the levels of the late 60's and early 70's but do believe we will get at least some of the inflation bid into cattle prices during this period.

Cattle Numbers

A number of people believe the official USDA estimates of cattle inventories are too high. I believe there is a good probability that these people are correct. We believe the steer slaughter levels during the late 60's and early 70's were too low for the growth in herds indicated. We also question the substantial increase in calving rates during the late 60's that were necessary to develop the herd growth as reported for '67 to early 70's. Consequently we question the growth reported from '67 to '72. We do believe the rates of increase in the herd as reported for the last couple of years are very realistic. We also believe the rate of increase in the past 2 years has been at a level that will require considerable increase in slaughter from the 1974 level to stop the growth in herds. However, the 1975 slaughter rate may be large enough to stop herd growth if the USDA numbers are overestimated as much as I believe possible.

One word of caution about the inventories: the USDA estimates are developed by competent people using the best known techniques of sampling. A person probably would be taking considerable risk in assuming they are grossly overestimated. However, they are developed by sampling and are subject to the normal sampling error.

World Demand For Beef

This topic will be discussed later on the program by Ms. Early. However, I cannot resist expressing a relatively uninformed opinion. We see little opportunity for us to develop a significant export trade in our fed beef for at least 2 reasons. First very few countries have a developed demand for fed beef at this time and second the high price for energy especially oil probably will limit the development of demand for this type beef other than that used in the hotel and

restaurant trade.

Therefore, we believe the odds are high for beef from other countries to take as large a share of our domestic market as our import regulations will permit. So the domestic beef industry will be influenced negatively in the next few years by world demand and supply conditions.

With the above conditions, it is impossible to predict with any confidence how long it will take for the calf producer to reach the light at the end of the tunnel. We probably can develop estimates of the range in conditions that are most likely to happen in the next few years. Let's do this by making the following assumptions about feed supplies, cattle numbers and demand.

Situation I

- 1---Cattle herd near the official USDA estimate.
- 2---Feed grain supplies remain short and prices high (\$2.50-3.00 per bu. of corn for the next 4 years.) Forage supplies would be tight and prices relatively high. However, no severe drought.
- 3---Demand for beef show little or no growth.

With the assumed conditions in Situation I we believe the total cattle herd would have to be reduced substantially. Under these conditions we would continue to slaughter a relatively large number of steers and heifers off grass and calf slaughter would be high the next few years compared to 1973 and 1974.

The following table using the balance sheet approach indicates what slaughter levels, etc. may be under conditions for Situation I.

Table I

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Jan. 1 Inventory	127,670	131,826	132,526	128,726	122,426
Calf Crop	50,775	52,000	51,000	48,400	45,000
Imports	556	400	400	400	400
Cattle Slaughter	37,327	40,000	43,000	43,000	37,000
Calf Slaughter	3,172	4,500	5,500	5,500	4,000
Exports	204	200	200	200	200
Unexplained Loss	6,472	6,500	6,500	6,400	6,000

With the above slaughter levels, no growth in demand and corn price \$2.50 or more per bushel, feeder calf prices would be depressed

most of the time through 1978.

For conditions in Situation II let's make the following assumptions:

Situation II

- 1---U.S.D.A. cattle inventories overestimated.
- 2---Weather conditions equal to 60's. Corn prices near \$2.00 per bushel. Pastures and forages adequate.
- 3---Demand (8% annual increase in disposable income bid into prices at rate of past several years.)

Table II shows our estimates on inventories, slaughter, etc. with above assumptions.

Table II

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Jan. 1 Inventory	117,161	121,349	122,149	122,149	122,149
Calf Crop	48,535	49,500	49,750	49,250	49,250
Imports	556	400	400	400	400
Cattle Slaughter	37,327	40,000	41,000	41,000	40,000
Calf Slaughter	3,172	4,500	4,450	3,950	3,000
Exports	204	200	200	200	200
Unexplained Loss	4,200	4,400	4,500	4,500	4,500

With conditions in Situation II we believe the cow-calf producer will be getting on firm ground by late '76.

Now my guess for the most likely conditions for the next 3 years are in Situation III.

Situation III

- 1---Cattle inventories in between estimates shown in Situation I and II.
- 2---Weather conditions varying considerably with tight grain supplies and fluctuating prices. Forage supplies very short for some years.
- 3---Demand growth equal to 6% annual increase in disposable income bid into prices in 1976 and 4% in 1977 and '78.

For discussion purposes our projections for choice steer prices and feeder prices with the three above situations are shown in Table III.

Table III

<u>Year</u>	<u>Choice Steers Omaha</u> <u>Per Cwt.</u>	<u>Situation I</u>	
		<u>Choice Feeder Steers</u> <u>Per Cwt.</u>	<u>Kansas City</u> <u>Per Cwt.</u>
		<u>400-500# Calves</u>	<u>600-700# Yearlings</u>
1976	\$38.00	Low-Mid 20's	Mid-Upper 20's
1977	38.00	Low-Mid 20's	Mid-Upper 20's
1978	45.00	Near 40	Low 40's
		<u>Situation II</u>	
1976	41.00	Low 40's	Near 40
1977	45.00	Upper 40's	Mid 40's
1978	53.00	Mid 60's	Upper 50's
		<u>Situation III</u>	
1976	41.00	Low-Mid 30's	Mid-Upper 30's
1977	42.00	Mid 30's	Upper 30's
1978	46.00	Mid-Upper 40's	Mid 40's

Note that under the best conditions I believe we will have one more year that will be relatively rough for calf producers. With the conditions I believe most likely cow-calf producers are facing 2 more years of quite undesirable prices.

It is extremely difficult if not impossible to make a general recommendation that will apply to most individual calf producers as to what they should do. However, we can make one for the industry and that is to sell cows. The quicker we get the cow herd down the more likely most of these producers will survive.

Because I prepared this material in early July I am not including anything on the feeder cattle situation for the next few months due to the uncertainty about feed supplies and prices, cattle feeding equity, calf crop etc.

We will present our analysis of the near by situation at the conference.