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Federal Reserve Bank of Chicago - -

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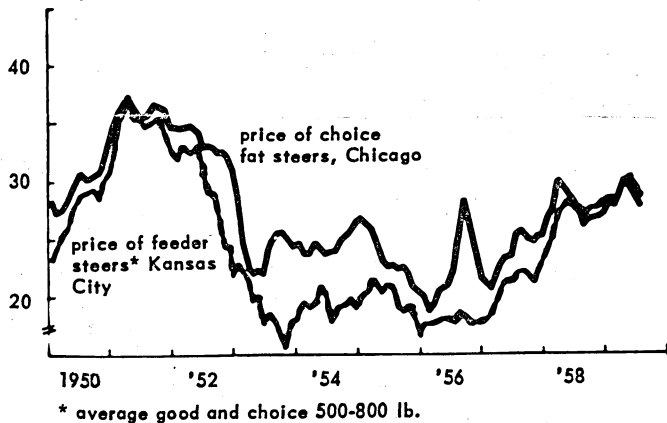
As summer fades into autumn and the harvesting of corn gets under way, the movement of calves and yearlings from the grassland of the West into the Corn Belt feedlots rises to a seasonal peak. This always brings large question marks for the cattle feeders. And whether the decisions made in the fall concerning the kind of cattle to purchase and the kind of feeding program to follow are wise or not will only be known as the coming year unfolds.

So far this year the cattle picture has shown several bright spots. Cattle prices have been 7 per cent above the comparable period last year and a third above the 1957 average. Reflecting these high prices, net returns from a typical cattle feeding program in the Corn Belt in 1958-59 were above average in spite of 22 per cent higher prices paid for feeders last fall, compared with 1957.

The dark spots come in the form of still higher prices for feeder cattle so far this year and in the growing threat to future cattle prices as a result of the rapid buildup in cattle numbers. Indeed, the key to the profitability of cattle feeding in the coming year is the course of the present cycle in cattle numbers.

When rains broke the drought in the Plains and Mountain states in 1957, ranchers began rebuilding their cattle breeding herds. This was done by withholding cows and calves normally slaughtered. Very favorable weather and grazing conditions in 1958 brought further withholding of breeding stock, resulting in further reductions in cow and calf slaughter to the low levels of 1951. The smaller total beef supplies have, in turn, been responsible for the climb in cattle prices.

dollars per cwt.



The fluctuations in slaughter and prices are closely related to the fluctuations in the cycle of cattle numbers. The year 1958 marked the beginning of the present upswing in cattle numbers and, by January 1, 1959, the inventory of cattle on farms and ranches exceeded the previous peak reached in 1956. After an increase of 3.5 million head in 1958, cattle numbers are expected to climb 5 million head in 1959. This rate of increase was exceeded only in 1951 and 1952 when cattle numbers rose 6 million head each year. The significant point is that those two years were the third and fourth years of



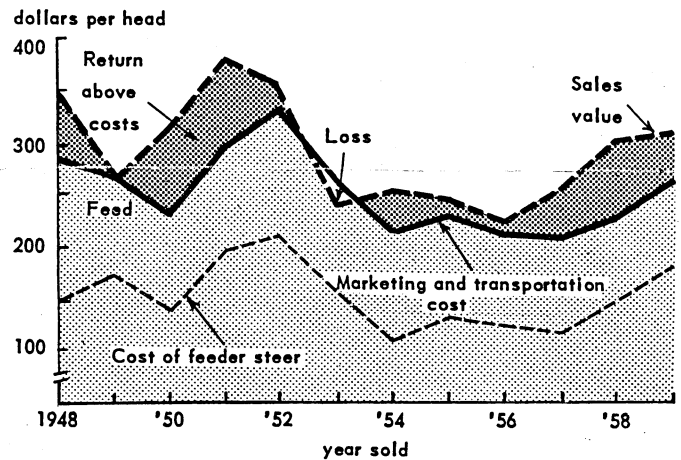
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the previous cycle which began in 1949.

In the previous cycle, prices of choice steers at Chicago stayed above \$30 per cwt. in 1951-52 and were above \$35 nearly half that time. However, when the increase in cattle numbers fell to less than 1.5 million in 1953, the number slaughtered increased and fat choice slaughter steer prices declined nearly \$9 per cwt. in four months. Corn Belt farmers carrying on a "typical" feeding program sold fat steers in the summer of 1953 for \$8 per cwt. below their cost as feeders in the fall of 1952. The result was substantial losses in cattle feeding in the 1952-53 feeding season.

The past two years have brought favorable returns to Corn Belt feeders. In the fall and winter of 1957-58, prices for fat steers rose over \$5, bringing large price gains on feeders purchased in the fall of 1957 and producing well-above-average returns. Continued above-average returns in 1959, together with record corn crops and feed grain supplies, have stimulated high levels of cattle feeding.

Yearling steers, purchased August to December, sold April to July



Higher prices for feeder cattle so far this year and indicated relatively stable feed costs in the coming year would seem to put total feeding costs higher in the coming season. Thus, net returns from the feeding of cattle will depend heavily on the future course of the present cycle in cattle numbers and its effect on prices of fat cattle. However, at this stage in the cycle, if severe drought does not slow the upswing of cattle numbers, a price break similar to that of 1952-53 would be unlikely in the coming year.

Research Department