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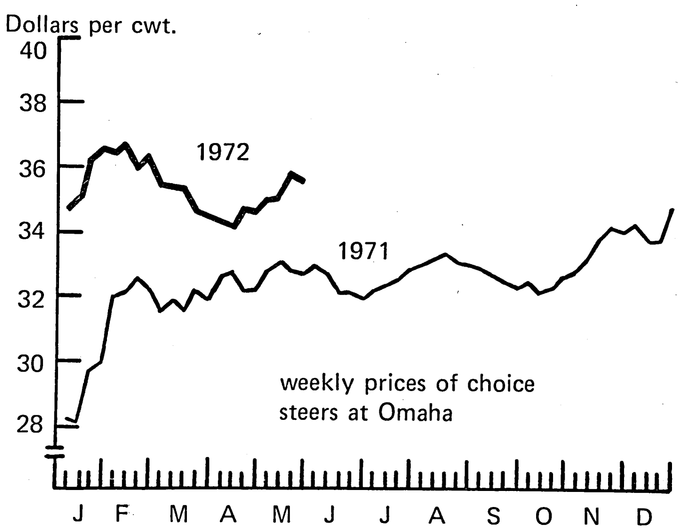
CATTLE PRICES have risen seasonally from their April lows. Slaughter steers at Omaha averaged around $36 per hundredweight in the past week, compared to an average of $34 in April and $32 a year earlier. Although fed cattle prices are rising, the gain in profits will be moderated by higher prices paid for feeder animals and seasonally higher feed prices this summer. Cattle feeders probably experienced their highest profits of the year during January and February, when they had a positive "margin." That is, fed cattle sold at a higher price per pound than the cost of feeder animals several months earlier—a situation which usually assures relatively high profits.

The outlook for fed cattle prices suggests prices may peak during June at close to their previous mid-February high of about $37 per hundredweight before declining as marketings increase. **Cattle on Feed** reports indicate marketings in the third quarter may rise by 4 percent over the second quarter and 5 percent or more over a year ago.

Fed Cattle Prices Higher



It is noteworthy that fed cattle marketings have been consistently overestimated so far in 1972. Most of the shortfall has been a result of fewer-than-expected marketings from midwestern feedlots. On January 1, midwestern marketings for the first quarter were projected to increase 6 percent over a year earlier, but actual marketings were about even with a year earlier. In the western states, projected marketings were for a 9 percent increase, and actual marketings increased 7 percent.

These developments may reflect a lengthening of the feeding period by midwestern cattle feeders, as they utilize their large and relatively cheap supplies of corn to "average down" the high cost of feeder stock purchased last fall and winter. Unlike the large western feedlot operators, who follow a fairly consistent five-month feeding program, midwestern farmers vary their feeding programs from three to 15 months, with the normal range between seven and nine months. If feeding periods have been lengthened this year, it may portend a larger bulge in third-quarter marketings than currently estimated. In addition, market weights would likely average higher, adding further to beef supplies.

Continued sharp declines in slaughter of cattle not going through feedlots, declining hog production, and rising consumer demand for meat will partially offset the expected increase in marketings from feedlots and help moderate any sharp declines in fed cattle prices in the third quarter. Declining slaughter of "nonfed" cattle in the first quarter held total beef slaughter to only a 1.5 percent increase, despite a 3 percent gain in fed cattle marketings. This trend undoubtedly will continue to hold beef supplies down but may have somewhat less effect as the increase in fed cattle marketings accelerates.

Hog slaughter will decline seasonally this summer and will likely be 6 percent below a year earlier, reflecting cyclical production declines. Declines in pork production in the third quarter are expected to about offset the rise in beef output, and total per capita red meat supplies may show little change from a year ago. At the same time, consumer demand will be increasing in the face of stable supplies. Rising employment, higher take-home pay, and high pork prices relative to beef prices should boost demand for beef.

Declining retail margins for beef could give an added boost to consumer demand in the latter half of the year. Retailers, under the close scrutiny of federal price regulators after increasing their prices and margins substantially this spring, are under pressure to reduce their prices. In April, cattle prices and wholesale carcass prices declined, but retail prices for beef dropped even more. As a result, retail margins narrowed by more than 2 cents per pound. As long as retailers are willing to hold retail beef prices down by paring their margins, consumers will be encouraged to buy more beef, causing pressure for higher prices for fed cattle and carcass beef than would otherwise be the case.

On balance, declining slaughter of nonfed cattle, much smaller pork supplies, and rising consumer demand are likely to hold fed cattle prices well above last year's level in the third quarter, despite a potentially large increase in fed cattle marketings. As a result, cattle feeding will remain relatively profitable although less so than in the first half of the year.

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