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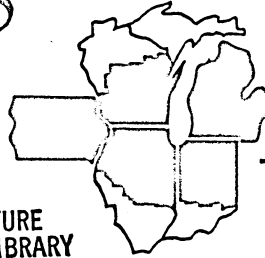
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Agricultural Letter

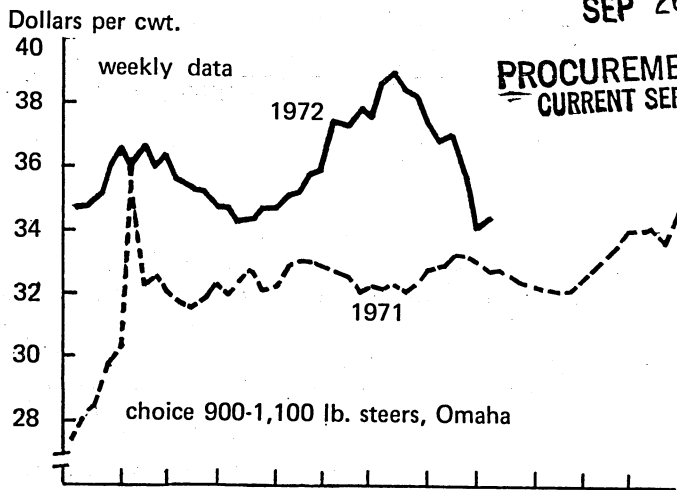
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CATTLE PRICES have declined from their midsummer peaks. Prices of choice steers at Omaha averaged \$34.50 per hundredweight during the past week—nearly \$5 per hundredweight below early July prices but still over \$1 per hundredweight above a year earlier. An even more precipitous drop in wholesale beef prices accompanied the decline in live cattle prices. Choice steer beef in Chicago reached a 1972 low of \$52 per hundredweight during the last week of August, \$8 per hundredweight below the July peak and more than \$10 per hundredweight below the July peak and more than \$10 per hundredweight a year ago.

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Cattle Prices Decline. . .



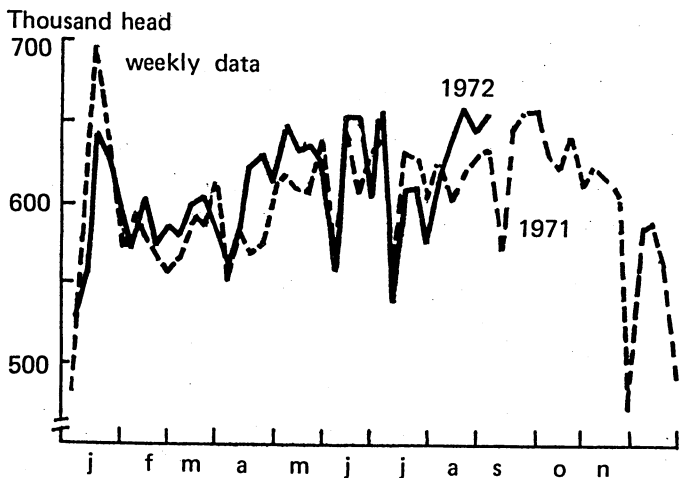
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PROCUREMENT SECTION
CURRENT SERIAL RECORDS

The outlook for fed cattle prices during the remainder of the year will be influenced by a number of factors. Perhaps most important will be the level and distribution of fed cattle marketings during the next few months. Marketings during the fourth quarter are expected to continue to average above year-ago levels, but the rate of increase will probably not be as great as during the summer months. Furthermore, cow slaughter and slaughter of cattle from sources other than feedlots likely will be lower than a year ago, moderating the increase in fed cattle slaughter. Large unknowns are how many heavyweight cattle have been placed on feed in recent weeks and the extent of deferred marketings as farmers wait out the recent price declines. If a large backlog of heavyweight cattle has built up, prices, which have just begun to strengthen slightly, could drop again when these cattle are finally sold.

Seasonally larger competing supplies of pork will add to total meat supplies in the fourth quarter. Pork output is expected to rise by more than 11 percent from third-quarter levels but remain below year-ago levels.

. . . as Slaughter Increases



The drop in prices during the past several weeks partly reflected a surge in marketings. Cattle slaughter during the last week of August was over one-fifth larger than during the first week of July, when prices were at their summer peak, and the August average was about 6 percent higher than a year ago. Lower farm and wholesale prices were probably related also to the continued rise in retail beef prices during the period, and the attendant sharp increase in the "spread" between wholesale and retail prices, which may have curbed demand in the face of larger supplies. Preliminary estimates indicate the spread jumped to over 37 cents per pound in August—up from 33 cents in July and 28 cents in June.

On the positive side, the recent vigorous efforts by federal price regulators to persuade retailers to lower beef prices and mark-ups, if successful, could boost consumer demand and allow larger quantities of beef to be sold without further declines in prices at the farm and wholesale levels. As a result, prices could hold near current levels or rise temporarily. But ample supplies of cattle in feedlots suggest any rise in price will be short-lived as it will meet with stepped-up marketings. On balance, prices are likely to trend irregularly lower this fall, perhaps dropping below last year's \$33.40 per hundredweight average for choice steers at Omaha, especially if there is a bulge in marketings of heavyweight cattle.

Cattle feeding profits, which have been the highest in several years, will likely be markedly lower in the months ahead, reflecting lower slaughter cattle prices and sharply higher costs of replacement feeder stock purchased earlier this year. Choice 600 to 700 pound feeder steers at Kansas City were selling for over \$42 per hundredweight this summer—about \$8 per hundredweight above a year earlier and \$7 above last fall. Many of these cattle will reach market weight during the fourth quarter. Allowing for variation in feeding efficiency and assuming current levels of feed costs, these cattle will have to sell for between \$34 and \$35 per hundredweight just for farmers to "break even." This is about the level at which October and December futures contracts for cattle are trading.

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