

**FEDERAL RESERVE BANK
OF DALLAS**

Dallas, Texas, November 16, 1943

**To All Banking Institutions in the
Eleventh Federal Reserve District:**

I am pleased to present on the following pages a special article on the Beef Cattle Situation, prepared by Mr. R. M. Evans, Member of the Board of Governors of the Federal Reserve System, Washington, D. C. In view of the importance of the cattle industry in this district and the timeliness of the discussion relating to the outstanding features of the beef cattle situation, I feel that bankers and cattlemen will be interested in reviewing trends in the industry during the war period and studying their implications for the post-war period on the basis of developments after World War I. If you should desire to distribute the article to your directors and to some of your customers who are engaged in the production of livestock, a limited number of extra copies will be furnished upon request.

I trust that you will find this article of interest and value.

Yours very truly,

R. R. GILBERT

President



BEEF CATTLE SITUATION

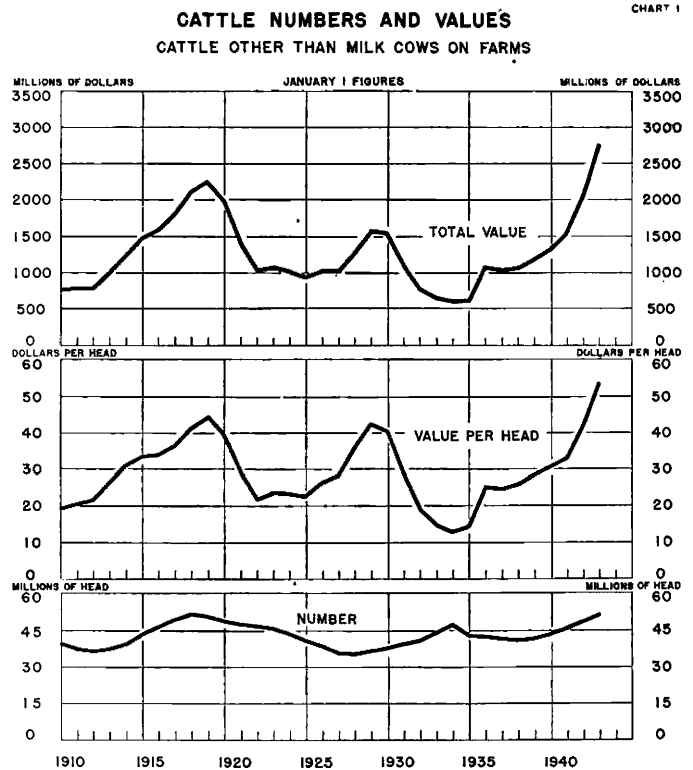
(By R. M. Evans, Member of Board of Governors,
Federal Reserve System, Washington, D. C.)

The outstanding features of the current beef cattle situation are: (1) a continuing increase in the number of cattle on farms and ranches to record heights, notwithstanding some decline from last year in the number in feed lots; (2) a prevailing level of beef cattle prices generally about 50 per cent above 1939 in wholesale markets and considerably more than that at the farm; (3) a volume of slaughter for the year to date larger than in 1939, but not above last year; (4) a potential consumer demand for beef greatly in excess of current supplies left after military needs are met; (5) a growing shortage of feeds brought about by a general rapid expansion in livestock numbers without a corresponding increase in feed supplies; (6) a total value of beef cattle on farms probably above \$2.8 billion, as compared with \$1.2 billion in 1939 and an earlier peak of \$2.3 billion in 1919; (7) sharply rising land values in the range country.

Examination of the current position and also of past developments indicates a need for consideration by cattle growers and others of possible action to increase slaughter, thereby meeting more fully the current demand for beef and at the same time improving the basic position of the cattle industry. Adjustment in cattle numbers is necessarily a slow process and it appears that unless special wartime demands are to be replaced by special peacetime demands there should be some downward adjustment in cattle numbers, beginning in the near future. Increased marketings, within limits set by available transport and packing facilities, would certainly help to meet the food requirements of the war period and would not reduce numbers on farms enough to jeopardize meat supplies after the war. At a later date new developments could be taken into account in deciding how far the readjustment should go for the long-time good of the industry and of the consuming public.

The total number of cattle on farms has risen from 66.0 million in 1939 to 78 million in January this year and, according to a Department of Agriculture estimate, may show a further increase to 80.8 million by the beginning of next year. For cattle other than milk cows the number on farms last January was 51.2 million head, an increase of 10 million, or 24 per cent, over 1939. This increase

was nearly as large as the expansion from 1914 to 1918, as indicated in the Table and in Chart 1. Since January there has been further growth in numbers in contrast with 1918 when there was some decline. The number in feed lots August 1, however, was 11 per cent smaller than a year earlier, as feed conditions and price relationships have become less favorable for feeding operations.



BEEF CATTLE ON FARMS, FIRST AND SECOND WORLD WARS

	January				Per Cent Change	
	1939	1943	1914	1918	1939-1943	1914-1918
Number (millions)	41.4	51.2	39.6	51.5	+ 24	+30
Average Value (dollars per head)	28.18	53.90	31.50	41.39	+ 91	+31
Total Value (billions of dollars)	1.2	2.8	1.2	2.1	+136	+71

Note: To make later data comparable with 1914 figures, dairy heifers and calves are included. From 1939 to 1943 the number of beef cattle, excluding dairy heifers and calves, rose by 26 per cent, from 30.4 million head to 38.4 million head.

The volume of cattle slaughter, including non-inspected slaughter, so far this year has been small, considering the number of beef cattle on farms and the strong demand for beef. Despite an increase in recent months, total slaughter for 1943 is estimated to be at a level which will permit an increase this year of 2.7 million head in number of all cattle on farms. Currently prices of cattle are somewhat under the peak reached in the spring but are roughly 50 per cent above those of 1939 at wholesale and 70 per cent higher than in 1939 at the farm.

Supplies of grain available in the coming year will be about 7 to 10 per cent less than the amount available for feeding last year, while the number of animal units (including hogs, chickens, sheep, horses and dairy cattle, as well as beef cattle) will be about 10 per cent larger. Cattle growers will be more dependent than this year on pastures to maintain their herds.

Demand for beef, as for other meats, in the current period is much higher than ever before. The armed forces are taking large amounts of beef—30 per cent in Federally inspected plants—and civilian demand is exceptionally strong; incomes are much higher than usual, even after allowance for increased personal taxes, and people generally are working harder. Consumers are eating considerably less beef than they would if larger supplies were available on the market and if, as a result, the

number of ration points required for the purchase of beef could be reduced.

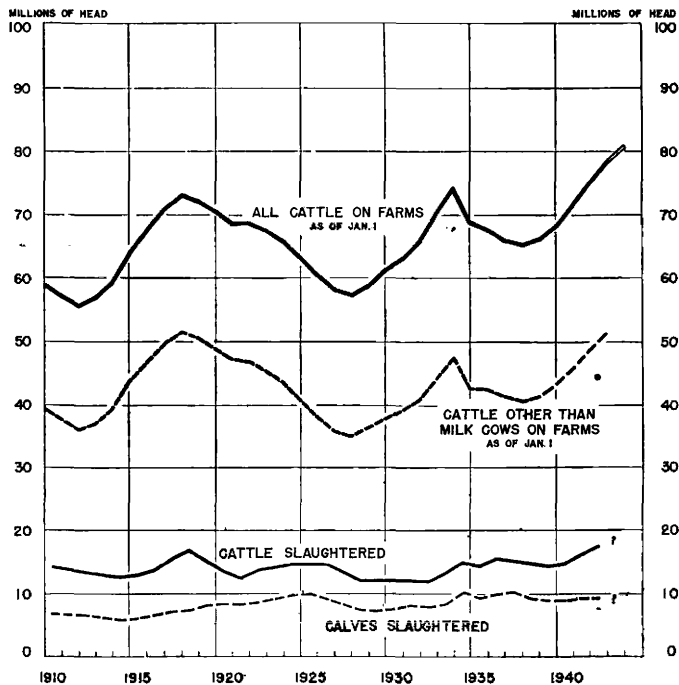
With a rise of one-fourth in beef cattle numbers from January, 1939, to January this year and a doubling of average value per head in this same period, total value was up from \$1.2 billion to \$2.8 billion. This level, as indicated in Chart 1, was substantially above that of any previous January, including the peak year 1919. The increase from 1939 to 1943 was \$1.6 billion, nearly twice as much as from 1914 to 1918.

These higher values, together with higher current incomes, have contributed greatly to a rise in land values, which recently has been rapid in many areas. For the Mountain States as a group, farm land values in July averaged 10 per cent higher than a year earlier and a fourth higher than in 1939. In the Southwest, values have gone up 10 per cent during the past year and 20 per cent since 1939. These increases have been similar, in percentage terms, to those in the 1914 to 1918 period, although more of the purchases have been on a cash basis this time.

In view of these developments in recent years, what is the prospect for the cattle industry in the years ahead? How long will demand be sustained at current levels? How will numbers on farms change and what will the volume of slaughter be? What is the probable course of cattle prices and values? How much will farm land in the range country be worth in the market?

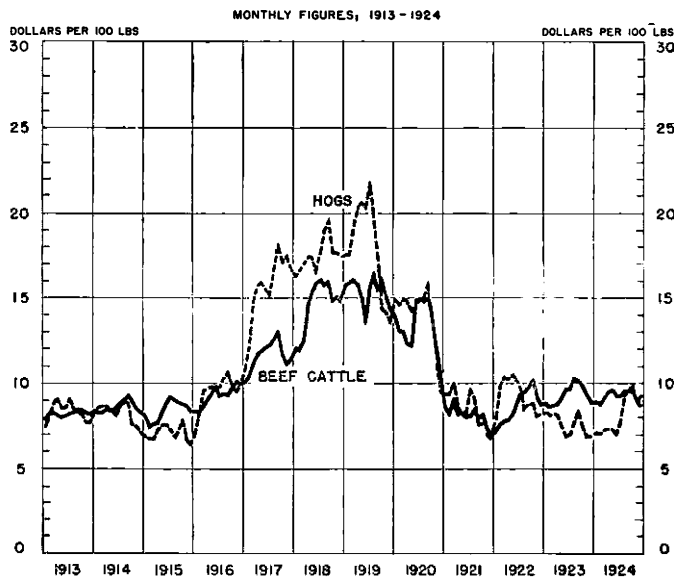
CATTLE NUMBERS AND SLAUGHTER

CHART 2



These important questions cannot be answered with any precision, but it is possible to review what has happened after previous periods of expansion in cattle numbers and values, and to consider how new conditions may lead to different developments—and what it all means for current marketing decisions. The first conclusion from such a review is that the situation of the cattle industry will depend in considerable part on demand conditions largely beyond the control of cattle growers. The biggest decline in prices after the last war came in the autumn and winter of 1920-21, when demand was sharply curtailed, and while slaughter was substantially below the wartime peak. The other important, although temporary, decline occurred in late 1919, following a break of \$7 a hundred in hog prices when export demand for pork products was cut in half. The record clearly suggests the desirability, from the point of view of cattle growers, of marketing substantial numbers in a period of strong demand such as the present.

PRICES OF CATTLE AND HOGS AT CHICAGO



Another conclusion is that expansion in numbers and values beyond levels that can be reasonably maintained greatly intensifies the effects of any slackening of demand. The collapse in the industry in 1920-21 reflected not only reduced urban incomes, but large herds on farms and high valuations previously placed on cattle and on land.

Price declines at that time were drastic and their effects spread throughout the range country, resulting in heavy losses to growers, lending institutions and the community generally. Value per head declined 50 per cent, from \$44 to \$22, between January, 1919, and January, 1922. With a 7 per cent decline in cattle numbers in this period total value was down from \$2.3 billion to \$1.0 billion, a level lower than in 1914. Land values in the Mountain States and the Southwest declined a fourth from January, 1920, to January, 1923, and an important part of this decline was due to the decline in cattle prices.

Current receipts from sale of cattle were sharply reduced and cattle growers generally were hard

pressed to meet payments due on debts incurred when prices were much higher. Many old loans were extended and new loans were made to help growers through this period. But even so the immediate and ultimate losses were large and conditions were depressed in the range country for years. Bank failures, which had been few during the period of rising cattle and land prices, increased sharply. In a group of eight states, including the Mountain States, Texas, Nebraska and Oklahoma, the rate of bank suspensions was more than twice that for the United States as a whole from 1921 through 1923 and continued at a high level for years afterward. The widespread effects of this rapid lowering of values extended through the whole decade—and beyond. The housewife at the meat counter as well as the cattle grower would have benefited by more orderly developments in the cattle industry.

In considering what this experience means for present planning, it is important to note that there has been real improvement in the banking situation in the cattle country. Assets are now more diversified, with a larger proportion in Government securities and a smaller proportion in loans to customers. Loans are more adequately secured and supervision is generally on a higher plane. In addition, whereas at the end of the last war banks were heavily in debt, they now hold reserves in excess of their needs.

Furthermore, the Federal Reserve System now gives greater liquidity to Government securities and other assets in the portfolios of banks. All of these factors will help to prevent excessive and untimely pressure on borrowers for repayment of loans. In case of difficulty, the Federal Deposit Insurance Corporation would provide protection for many depositors.

Improvement in the banking situation, however, does not alter the basic facts with respect to cattle numbers, demand for beef, cattle prices and land values or their implications for cattle growers, lending institutions and the community generally in the years ahead.