Research Department
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Optimistic Cattlemen

The nation's beef-cattle industry may be moving away from the brink of disaster into a period of sustained growth and profitable operations. For one reason, prices of cattle and calves have rebounded sharply in recent months after a near-record decline during the preceding 18-month period. For another reason, the cost squeeze on cattle feeders has eased, reflecting the prolonged downtrend in feed-grain prices and the prospect (helped along by good weather) for continued improvement in feed supplies. The situation still remains affected by the unstable market conditions and severe financial losses recorded in 1974 and early 1975, but in general, cattlemen across the nation are much more optimistic about the outlook than they were in late winter and early spring.

Beef-cattle prices rose 43 percent between February and June, largely as a result of a tightening of fed-cattle supplies as well as cutbacks in pork and poultry production. At that, prices are still about 25 percent lower than during the shortage period of 1973. Despite the turnaround in cattle prices, many observers believe that consumers need not become overly concerned, since plentiful beef supplies should help stabilize the situation at the supermarket counter after the recent price run-up. Cattle producers nonetheless should increase their share of the consumer meat budget this year, reflecting sharp production cutbacks by pork and poultry producers as well as the tendency for middlemen's profit margins to lag in a rising farm market.

Supply factors mixed

One basic supply factor, long-term in nature, involves the potential supply of beef. A second basic factor involves short-term marketing decisions, which depend largely upon such considerations as weather, feed-grain supply, and current prices and profits.

The potential beef supply is at record heights. The existing inventory—132 million head of cattle—may be large enough to meet projected production needs through 1980. In fact, the typical 10-12 year cattle cycle now appears to be close to its peak. The cattle inventory normally adjusts to its long-run equilibrium level through reductions in the size of herds, reductions in the feeding rate, and increased slaughter, but the net impact of all these adjustments shows up only gradually in the market. Although the cattle-liquidation process started about 18 months ago, herds continued to grow last year despite record levels of slaughter, and they may show little if any decline this year as new additions continue to match the slaughter rate.

The process of short-term supply adjustment is even more complex and uncertain because of the high degree of marketing flexibility in-

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herent in beef production. Uncertainty is probably more evident now than usual because of unstable prices, declining incomes, and a continued cost-price squeeze in feeding operations, reflecting all the market distortions of the past two years—consumer meat boycotts, government price controls, drought-induced feed-crop failures, and the problems of recession and inflation.

Despite continued uncertainties, cattlemen have responded to the recent market upturn by sharply boosting feedlot placements for three months in a row. (Placements during the second quarter were 17 percent above a year ago in the 23 major feeding states.) Moreover, with many feedlots still running at half-capacity and with few cattle in well-finished form, we are likely to see a continued heavy flow of animals into feedlots over the next several months. But the level of marketings of fed cattle is another question. Econometric studies indicate that the number of cattle on feed moves closely with price changes, but with a time lag distributed over a 12-quarter period. Given this lagged response pattern, fed-cattle marketings may not increase materially this summer and fall, so that any increases in beef production must come from range or pastureland.

Total beef production could rise 8 percent above year-ago levels in the second half of 1975, according to Agriculture Department projections, as a result of the record farm inventory of animals on the hoof and the prospects for continued heavy slaughter of range-fed cattle. On the other hand, total red-meat production could remain below a year ago because of a projected 16-percent cutback in pork supplies. Also, the official beef-supply estimates may be on the high side, since farmers tend to respond initially to higher cattle prices, rising feed-grain supplies and good range conditions by withholding animals for breeding and feeding purposes.

Demand factors strong

Demand factors meanwhile should remain quite strong. Beef is one of the principal components of the American diet, and consumption remains on a strong upward trend because of the generally strong trend in population, income and beef-eating preferences. Over the past two decades, per capita expenditure for beef increased 180 percent, matching the gain in per capita disposable income. In the same timespan, the average American expanded his consumption

of pork at only half that pace, and expanded his consumption of lamb hardly at all.

Despite the recession, per capita beef consumption rose to a new quarterly record in the January-March period, and annual consumption this year could reach 122 pounds per person for the first time in history. This upsurge reflects the strong increase in production and the still relatively low (albeit rising) level of prices, along with such key demand factors as a shift in relative prices favoring beef over pork and poultry, a sharp cutback in pork production to the lowest level in 40 years, and a recovery of consumer purchasing power at the end of a long and severe recession.

The supposed consumer resistance to high beef prices may have been over-played during the last several years. Some observers had pointed to the earlier decline in cattle prices and a backup in cold-storage stocks as evidence of a reduction in beef consumption. The data suggest otherwise, however, especially in view of the record level of beef consumption in both 1974 and early 1975. Moreover, beef consumption has risen significantly in recent months in the face of a turnaround in prices, while cold-storage stocks this spring were one-third below year-ago levels.

Brighter income outlook

The cattle-price outlook will be affected not only by the current rise in demand and expansion of supply, but also by the actual quantity of beef cattle sent to market and by the speed with which pork and broiler production recover from their present depressed levels. In view of all these factors, cattle prices may stabilize about recent levels but with possibly a normal seasonal decline next fall. A sharp drop in beef prices seems unlikely in view of the decline in total red-meat supplies.

Cash receipts from marketings of cattle and calves in the second half could increase significantly above depressed 1974 levels on the basis of expanded output and the recent improvement of prices. In fact, most cattlemen now feel that the traumatic period of sharply falling prices and sharply rising costs has come to an end. But the profit outlook for cattlemen—from range operators to feedlot owners—will depend upon a continuing improvement in the feeding situation and upon producers' ability to bring ample supplies of beef products to the consumer in an orderly marketing program.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 7/16/75	Change from 7/09/75	Change from year ago Dollar	Change from year ago Percent
Loans (gross, adjusted) and investments*	85,340	– 1,194	+ 1,381	+ 1.64
Loans (gross, adjusted)—total	64,140	– 1,403	– 1,820	– 2.76
Security loans	949	– 1,187	– 264	– 21.76
Commercial and industrial	23,334	– 95	– 226	– 0.96
Real estate	19,581	+ 5	– 52	– 0.26
Consumer instalment	9,861	+ 11	+ 397	+ 4.19
U.S. Treasury securities	8,595	+ 19	+ 3,769	+ 78.10
Other securities	12,605	+ 190	– 568	– 4.31
Deposits (less cash items)—total*	85,499	– 237	+ 6,094	+ 7.67
Demand deposits (adjusted)	23,796	– 166	+ 1,377	+ 6.14
U.S. Government deposits	327	– 11	– 103	– 23.95
Time deposits—total*	59,861	– 132	+ 4,736	+ 8.59
States and political subdivisions	6,514	+ 4	+ 266	+ 4.26
Savings deposits	20,610	+ 59	+ 2,627	+ 14.61
Other time deposits‡	28,885	– 159	+ 914	+ 3.27
Large negotiable CD's	15,629	– 263	+ 919	+ 6.25

Weekly Averages of Daily Figures	Week ended 7/16/75	Week ended 7/09/75	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves	35	38	– 43
Borrowings	5	16	177
Net free (+) / Net borrowed (–)	+ 30	+ 22	– 220
Federal Funds—Seven Large Banks			
Interbank Federal fund transactions			
Net purchases (+) / Net sales (–)	+ 1,779.8	+ 1,693.6	+ 1,454.2
Transactions of U.S. security dealers			
Net loans (+) / Net borrowings (–)	+ 798.8	+ 35.5	+ 54.9

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

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