The movement of Texas live cattle prices over the last half of 1983 will be determined, as always, by the number and weight of cattle brought to market and by consumers' willingness to buy beef. Affecting cattle supplies are short-run seasonal factors and longer term decisions on breeding herd size.

As the economy recovers from the recession, consumers' incomes will rise. Larger incomes lead to greater retail beef sales which filter back to strengthen live cattle prices.

Supply: Seasonal and Longer Run Forces

Over the course of a calendar year, the supply of cattle reaching the market is fairly predictable. Fewer cattle are marketed in the spring. Relatively more cattle are slaughtered in the fall. Thus prices peak in the spring and bottom out in the fall. The reasons for these within-year variations in supply are largely biological.

Beneath the seasonal variation is a long and powerful economic cattle cycle. This cycle traditionally has a period of between 9 and 17 years. It is caused primarily by cattle producers overreacting to price signals: overbuilding breeding herds in times of good prices and overcutting them as prices fall. Currently the Texas cattle market is in the seasonal high price, low supply period and is stranded on a plateau on the upward side of the latest cattle cycle that started in 1979.

Demand for Beef

A United States Department of Agriculture (USDA) study shows that the most important determinants of consumer beef demand are retail beef prices and consumers' incomes. The depressed consumer incomes during the recessions of 1980 and 1981-82 meant lower beef consumption. Reduced beef consumption is reflected in cattle markets as lower prices for live cattle.

Now the economy and consumers' incomes appear to be growing. According to the USDA, a 10-percent increase in consumers' income will increase retail beef and veal purchases 6.5 percent. As retail sales increase, retail beef prices begin to rise. This price signal is transmitted back to live cattle prices which, in turn, begin to move upwards.

Farm Failures Decline

The number of farmers going out of business in the Eleventh District appears to have fallen. According to the April 1 Agricultural Credit Survey, 1.7 percent of the farmers with loans from commercial banks went out of business during the six months ending March 31, 1983. This is down from an estimated 3.6 percent for the last six months of 1982 and is well below the expectations expressed by bankers in the January 1 survey. These results indicate that there were fewer farm failures in the first quarter of 1983 than in the third quarter of 1982.

Respondents indicate that heavy participation in the payment-in-kind (PIK) program and recent increases in some crop and livestock prices account for the improvement in farmers' financial positions. A farmer's participation in the PIK program reduces his need for operating funds for the crop year by cutting input usage and eliminating harvesting costs for the set-aside acreage. (Some planting and maintenance costs will still be incurred on the retired acres because of program requirements.) PIK has also improved farm income prospects by guaranteeing yields on the set-aside acres, effectively reducing production uncertainty. The reduced need for operating funds and improved farm income prospects have allowed bankers to carry marginal farmers for at least another year.

Expectations of future farm failures have also fallen. In the January 1 survey, bankers expected that an average of 6.6 percent of the farmers in their trade area would completely or partially liquidate farm capital assets during the first quarter of 1983. During the second quarter, only 2.6 percent of the farmers with loans from commercial banks are expected to liquidate some or all of their farm capital assets.

—Brian Galuardi
AGRICULTURAL CREDIT CONDITIONS
APRIL 1, 1983

<table>
<thead>
<tr>
<th>Item</th>
<th>Compared with one year ago</th>
<th>Percent of respondents 1982</th>
<th>Apr. 1</th>
<th>July 1</th>
<th>Oct. 1</th>
<th>Jan. 1</th>
<th>Apr. 1</th>
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<tbody>
<tr>
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<td>27</td>
<td>26</td>
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<td>13</td>
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<td>Renewals or extensions</td>
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<tr>
<td>Rate of loan repayment</td>
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<td>7</td>
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<tr>
<td>Amount of collateral required</td>
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<td>1</td>
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<td>1</td>
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</table>

Number of referrals to:
Correspondent banks
Greater 11 13 12 8 9
Less 11 23 12 12 17
Nonbank credit agencies
Greater 26 28 19 28 20
Less 7 11 12 8 11

Source: Federal Reserve Bank of Dallas.

RURAL REAL ESTATE VALUES
APRIL 1, 1983

<table>
<thead>
<tr>
<th>Item</th>
<th>Average Dollars Per Acre</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Dryland</td>
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<tr>
<td>Eleventh District Average</td>
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</tr>
<tr>
<td>Texas Average</td>
<td>708</td>
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</table>

Percent change in District average

From January 1, 1983 -2.3 3.5 1.4
From April 1, 1982 -6.0 0.9 -2.0

1. Percent changes calculated from data adjusted for sample variation.

Source: Federal Reserve Bank of Dallas.

COMMERCIAL SLAUGHTER: TEXAS (LIVEWEIGHT)

SOURCES: U.S. Department of Agriculture.
Federal Reserve Bank of Dallas.

TEXAS MID-MONTH PRICES: LIVESTOCK

SOURCES: U.S. Department of Agriculture.
AGRICULTURAL BRIEFS

Higher commodity prices and lower interest rates bode well for farmers

• The number of new cattle placed on feed in Texas during the first quarter was 25 percent below a year ago, while national placements were 9 percent less. Firmer prices in the third quarter should result as the lower placements this past winter translate into a lower beef supply during the summer compared to last year.

• The success of the payment-in-kind (PIK) program—idling acreage in return for commodities—means that farmers will use less seed and agricultural chemicals. Estimates range from 64.4 percent fewer sales of pesticides in the Northern High Plains to a 12.5 percent decline in seed sales in the Southern Low Plains.

• Interest rates on farm operating loans fell in the first quarter of 1983, the fourth consecutive quarterly decline. Rates dropped 0.8 percentage point to 13.3 percent, the lowest rate recorded since October 1980. Agricultural loan rates, however, have not fallen as fast as the cost of funds to banks. The Federal funds rate, for example, fell 5.9 percentage points from March 1982 to March 1983; farm loan rates fell only 4.6 percentage points during this same period.

• Texas crop prices have generally moved upwards in the last four months for several reasons: tight supplies caused by stocks being tied up in Government programs, improved export and domestic demand, and positive expectations about PIK. Texas cotton prices in April were up 16 percent since December, sorghum 17 percent, wheat 6 percent and corn 2 percent.

**INDEX OF PRICES RECEIVED: TEXAS**

**TEXAS MID-MONTH PRICES: CROPS**

**CASH RECEIPTS FROM AGRICULTURE: TEXAS**

**INTEREST RATES ON AGRICULTURAL LOANS**
current economic recovery on 1983 cattle prices is to compare prices during the recovery with prices that would prevail if economic growth were zero. An econometric model was used to generate two sets of monthly cattle prices for all of 1983. One set reflected economic recovery, the other, zero economic growth.

A typical forecast of the economy for the rest of this year predicts slow growth. One such forecast, by Chase Econometrics, calls for a 1.6-percent increase in real consumer expenditures for food in the third quarter and a 2.7-percent increase in the fourth. This forecast was used as a model input to derive estimates for cattle prices in the case of recovery. For the continued recession case, consumer expenditures were kept at their December 1982 level for all of 1983. In both cases, the historical monthly distribution of cattle marketings was used to forecast monthly cattle slaughter for 1983, based on a projected yearly production of 5.8 million pounds.

Under these conditions, it was estimated that the economic recovery has slowly boosted monthly cattle prices over levels that would have prevailed if the economy had remained mired in recession. With the assumed recovery, May cattle prices are 4 to 5 percent higher than if the recession had continued. The effect of the recovery on cattle prices will become stronger as the recovery picks up steam. By December, 8 to 9 percent of the live cattle price will represent the impact of the recovery. In terms of revenue, the assumed economic growth in 1983 will add around 5 percent to gross cattle marketing receipts. The economic recovery, as projected, seems to provide strong market support for Texas cattlemen.

—Hilary Smith

The payment-in-kind (PIK) program has been an overwhelming success in terms of farmer participation, in Texas and nationally. The USDA had predicted that in the entire United States, 23 million acres would be retired under PIK. The actual number turned out to be 82 million, 350 percent more.

For the five PIK crops, the retired acres in Texas totaled 9.3 million out of a 23.1 million acre base. Texas wheat farmers idled 44 percent of their 7.4 million base acres, while corn and sorghum farmers put 35 percent of their 6.9 million acres into conservation uses. Cotton farmers will not plant cotton to 43 percent of their 8.1 million acres, and rice farmers have set aside 46 percent of their 625 thousand acres. Corn, sorghum and rice farmers face the best prospects for price increases. Texas wheat and cotton farmers should expect little price improvement.

—Hilary Smith