



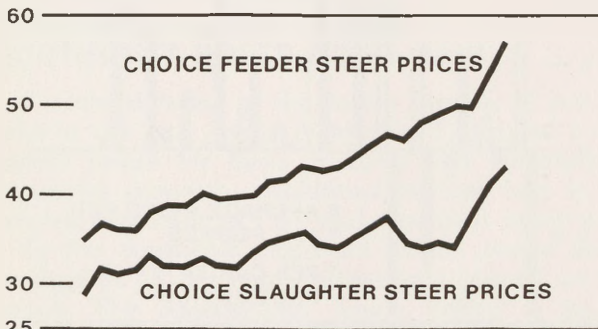
April 1973

BUILDUP IN COW HERDS MAY BOOST BEEF PRODUCTION SOON

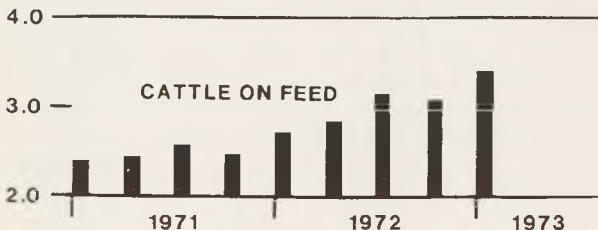
Beef cows in the United States numbered slightly more than 41 million at the start of this year, 6 percent more than a year before. The rate of growth in 1972 was well over twice that in 1971. In addition, beef heifer replacements were up 7 percent, pointing toward another substantial increase in herds this year.

FEEDER AND SLAUGHTER STEER PRICES AND CATTLE ON FEED IN DISTRICT STATES

DOLLARS PER HUNDREDWEIGHT



MILLION HEAD



SOURCE: U.S. Department of Agriculture

The expansion in beef cow herds brought the total inventory of all cattle and calves in the nation to nearly 122 million head, an increase of 3.5 percent over the start of 1972. This advance is the largest since 1963 and the sixth consecutive yearly increase.

The states of the Eleventh District posted an impressive 10-percent increase in cattle herds. Texas gained 14 percent, Arizona 10 percent, and New Mexico 7 percent. Oklahoma and Louisiana had smaller increases. Growth in these five states should continue, as indicated by the 13-percent increase in beef heifer replacements in 1972. Texas, with more than 15 million head of cattle, retains its position as the number-one cattle-producing state.

Supply pattern

Such a buildup in herds is a response to strengthening prices and is part of a bigger pattern of market adjustments. The typical consequence to a buildup in herds is a slowdown in beef slaughter. As cows are held and more heifers retained for herd expansion, the supply of these animals moving into feedlots and to slaughter is reduced. But, eventually, increased herd numbers mean more animals available for slaughter. It usually takes several years, however, for price changes to stimulate cattlemen to step up production and several more years for the increase to be reflected in slaughter supplies.

In line with the herd buildup, the gain in beef production in the nation since 1969 was less than half the 11-percent gain in cattle numbers. However, increases in the annual calf crop have been on the upswing since 1970, indicating that slaughter increases should be gaining momentum by late this year.

Because of the delayed response, cattlemen typically overadjust to higher feeder cattle prices and expand their herds until supplies glut the market, depressing prices. As prices weaken, cattlemen reduce their herds, which adds more cattle to the slaughter market and depresses prices still further. This process continues until supplies readjust to demand and prices begin to strengthen again.

With production following such a sluggish and cyclical pattern, it is unlikely that demand and supply will grow by equal amounts each year. Beef prices, therefore, will probably fluctuate as successive market adjustments are made.

Growing consumer demand

Although supplies are building toward a point that would be expected to bring more beef onto the consumer market and, perhaps, dampen prices, demand is, meanwhile, continuing to grow. Beef consumption is expected to reach 130 pounds per person by 1980, a gain of 12 percent over the 116 pounds consumed in 1972. And since population is also expected to grow by about 12 percent in the same period, beef supplies will need to increase by about a fourth by 1980 to meet demand. Beef production, then, will need to increase slightly faster than it has in the past eight years.

It has been suggested that these projections may have underestimated growth in demand that is based on a strong preference for beef over other meats. In such a case, an even larger increase in beef production would be needed to meet domestic demand. World demand, too, is on the increase and could become especially significant if and when U.S. supply again outpaces domestic demand.

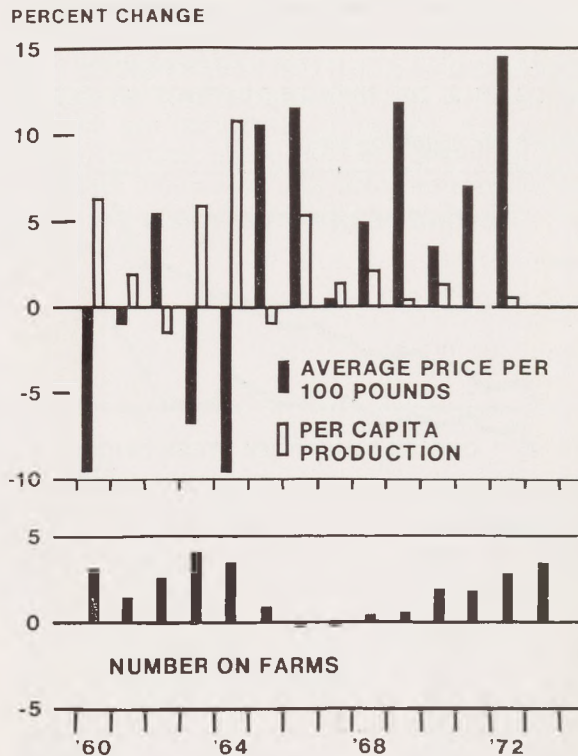
Demand for feeder calves

In recent years, a large share of the remarkable expansion in beef production has resulted from an increasingly larger share of the calf crop being placed in feedlots. Although this has been a nationwide trend, it has special significance

for Texas cattlemen, who have been big suppliers of feeder calves to cattle feeders in other states. In 1968, feedlot marketings in Texas were only 2 million head from a calf crop of 5 million. In 1972, Texas had a calf crop of 5.4 million head and feedlots marketed 4.3 million head. Today, then, nearly all calves are placed on feed except those held for herd replacement.

Large feedlots in the Southwest and elsewhere have generated year-round requirements for

ANNUAL CHANGES IN U.S. CATTLE PRICES, PRODUCTION, AND INVENTORY



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

large numbers of calves for feeding. To operate efficiently, large feedlots need to operate as near capacity as possible throughout the year. Progress in nutritional knowledge and management techniques at feedlots has made it profitable to feed cattle over a broader age and quality spectrum. Thus, the demand for feeder calves has soared, and the market remains strong.

Any further increase in beef production must come from increased numbers of beef cows that can, in turn, produce more feeder calves. As a result, the rapid increase in beef numbers in the present situation may not have the same impact on beef supplies and prices as that in the past. Beef demand in the 1970's probably will require a faster rate of growth in cow numbers than was needed in the 1960's. Nevertheless, it is difficult to see how cattlemen can sustain the present rate of growth in beef herds without supply outpacing demand sometime in the mid-seventies.

FARMLAND VALUES CLIMB; SOUTHWEST POSTS GOOD GAIN

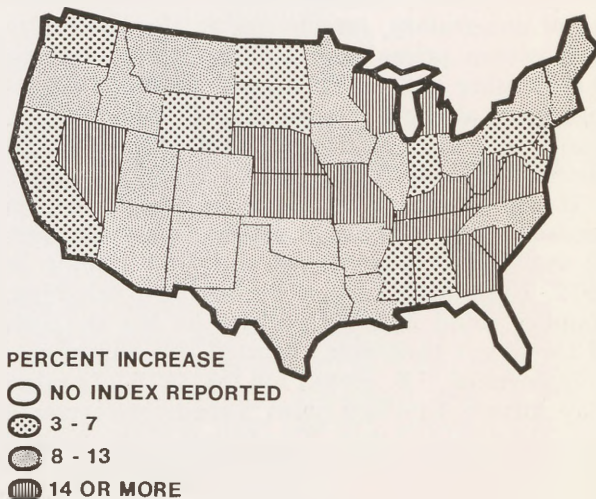
Farmland values in the nation jumped 10 percent in the year ended November 1, spurred by higher prices for farm products and generally improved economic conditions. Values had increased 5 percent in 1971 and 3 percent in 1970.

In the Southeast, farmland values gained an average of 16 percent, the nation's biggest advance. The Appalachian region posted a 14-percent increase. The Pacific region lagged far behind with an average increase of only 4 percent. In the states of the Eleventh Federal Reserve District, Louisiana had the largest gain—13 percent. Texas farmland increased 10 percent in value. Arizona posted a 9-percent gain, and New Mexico and Oklahoma both had increases of 8 percent.

This upward trend in farm real estate prices is expected to continue in 1973 in response to favorable farm income and a strong nonfarm demand for farmland. The actual rate of increase will depend largely on credit availability and

INCREASE IN AVERAGE PER-ACRE VALUE OF FARMLAND

November 1971 - November 1972



SOURCE: U.S. Department of Agriculture

FARM REAL ESTATE VALUES

(1967 = 100)

Area	November 1972	March 1972	Percent change
Arizona	115	105	9.5%
Louisiana	147	144	2.1
New Mexico	126	116	8.6
Oklahoma	142	137	3.6
Texas	143	136	5.1
48 contiguous states	137	130	5.4%

SOURCE: U.S. Department of Agriculture

interest rates on long-term credit. But if crop and livestock prices remain favorable to farmers—as they are expected to do—the rate of increase in farmland values should hold above the 6-percent annual rate averaged since 1960.

COTTON PRODUCTION COULD DECLINE BUT ACREAGE REMAINS UNCERTAIN

Upland cotton acreage for 1973 is still a matter of uncertainty, largely due to the possibility that cotton prices may remain strong through the planting season. In March, intended plantings stood at slightly more than 13 million acres, nearly a million less than acreage in 1972 but almost 2 million more than the 1967-71 average.

If this acreage is not exceeded, upland cotton production in 1973 could decline to slightly over 12 million bales, compared with 13.6 million in 1972. Even with such a decline in production, supplies could increase slightly on the strength of the larger carryover expected this summer.

Exports of U.S. cotton for the 1972-73 season may surpass 4 million bales, a moderate increase over the season before. The fact that the United States has large cotton supplies available at com-

petitive prices is significant in the face of expectations for large cotton use abroad and the rebuilding of cotton stocks in many countries.

Cotton's share of the domestic fiber market has continued to slip. Mill consumption of U.S. cotton for 1972-73 may fall about 5 percent from last season's 8.2 million bales to the lowest level of use in over two decades. The relatively high price of cotton and consumer demand for characteristics offered mainly by synthetics have contributed to the decline in use.

Competition from man-made fibers is not expected to abate in the near future. Production capacity for man-made fibers is expected to reach 9.7 billion pounds by November 1974—about 13 percent more than last November's capacity. This rate of gain would be slightly slower than in recent years.

FARMERS BETTER OFF FINANCIALLY

The general financial condition of U.S. farmers showed much improvement last year, mainly on the strength of record incomes. It is expected that farm asset values will continue to rise this year as farmland values increase still further.

But the farm debt-asset ratio is likely to resume its upward trend after last year's brief respite, the first since 1957. Increased farm loans will be called for by increased investments in land, machinery and equipment, and other capital improvements.

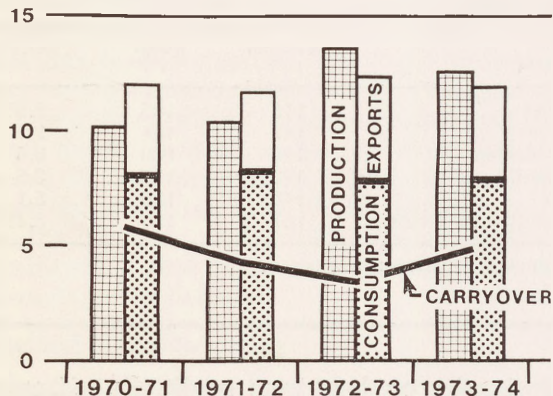
Farm program changes releasing additional acreage for farming also may contribute to increased production costs and additional needs for loans. Lenders are confident, however, that ample funds will be available to meet these needs.

It is expected that the gain in farm production expenses this year will exceed last year's 7-percent increase and perhaps exceed the increase in realized gross income. The expansion in farm output in response to unusually heavy demand at home and abroad will call for more and higher-priced inputs.

Prepared by Carl G. Anderson, Jr.

U.S. COTTON PRODUCTION, USE, AND CARRYOVER

MILLION BALES



Data preliminary and estimated for 1972-73 and 1973-74

SOURCE: U.S. Department of Agriculture