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FARM and RANCH BULLETIN

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CATTLE FEEDING ADJUSTS TO MARKET FORCES

Confronted with weakening prices for fed cattle and high costs for both feed grains and feeder animals, livestock operators sharply reduced placements of cattle on feed this spring. At midyear, the number of cattle on feed was down more than a fifth from a year earlier.

In recent months, demand for feeder calves has slowed, forcing prices for these animals to drop dramatically. This decline in calf prices is likely to spur increased feeding of cattle this fall—even with high costs for feed.

Cattle feeding will likely increase primarily because the market for fed cattle is expected to improve relative to the price for feeder animals. For one thing, this will give cow-calf operators a financial incentive for retaining ownership through the feeding phase of beef production. Cattle feeders and their financiers will, however, be extremely cautious in placing cattle on feed until the market for fed cattle shows more stability than it did in the past year.

Feedlots handle most cattle

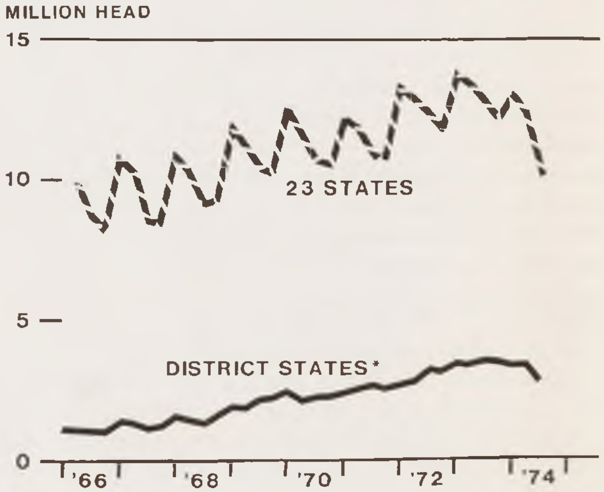
The structure of the cattle industry is such that feeding holds a dominant position in the production of beef. With the rapid development of commercial cattle feeding in recent years, the process of producing beef of the quality preferred by most consumers has been increasingly channeled through feedlots. In 1973, marketings of fed cattle accounted for more than two-thirds of the U.S. commercial cattle and calf slaughter, where in 1966, the share was less than half.

But where the market for feeder calves is generally limited to domestic needs, the grain market is worldwide in scope. And heavy demand for grains, together with prospective shortfalls in production, has forced prices up, increasing feeding costs. Consequently, cow-calf producers have felt most of the impact of the weakened prices for fed cattle. With high feeding costs pushing the cost per pound of gain in the feedlot above the price per pound for fed cattle, operators have seen the price they receive for feeder cattle driven downward.

Feedlots seek heavier feeder cattle

One result of the current cost-price relationship is that cow-calf operators generally find buyers for feedlots preferring a heavier type of feeder cattle. In other words, market prices begin to

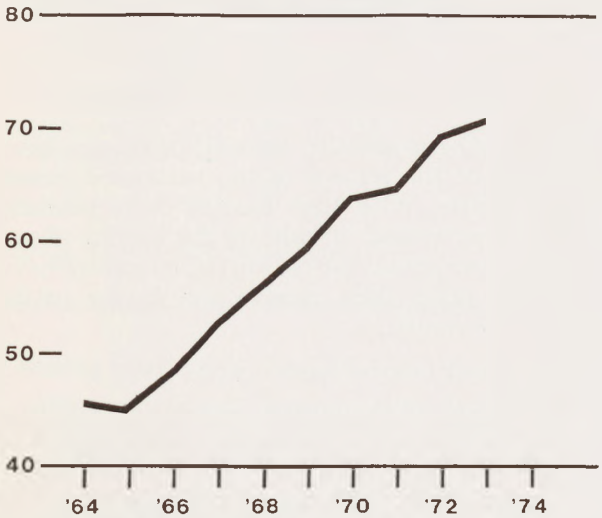
CATTLE AND CALVES ON FEED



* Arizona, New Mexico, Oklahoma, and Texas
SOURCE: U.S. Department of Agriculture

FED CATTLE MARKETINGS OF 23 STATES

PERCENT OF U.S. COMMERCIAL SLAUGHTER



SOURCE: U.S. Department of Agriculture

encourage more beef production on pasture and range forage—and less in the feedlots on grain.

Since animals are allowed to graze longer, they are placed in feedlots at heavier weights for shorter periods of grain feeding. This, in turn, weakens the market for lightweight calves and encourages managers of cow-calf operations to sell heavier feeder cattle. Moreover, the returns to cow-calf operations are dampened, removing much of the incentive to expand cow herds.

Supply of feeder cattle large

For the past several years—especially last year —favorable price levels for feeder calves encouraged farmers and ranchers to rapidly expand herds of beef cows. Where the average price for calves in Texas was 33 cents a pound in 1970, it was 44 cents in 1972 and 57 cents in 1973.

Accordingly, beef herds increased. Midyear estimates by the U.S. Department of Agriculture indicated the number of cattle on U.S. farms and ranches was slightly more than 138 million head. That was 6 percent more than at mid-1973 and 14 percent more than at the beginning of that year.

As a rule, cattlemen overadjust to higher feeder calf prices. They tend to expand their herds until supplies glut the market, which depresses prices. Then, as prices weaken, cattlemen usually reduce their herds, which adds more cattle to the slaughter market and depresses prices still further. This downward pressure continues until supplies readjust to demand and prices begin to strengthen again.

With adequate supply and heavy demand for beef, production in 1974 is expected to increase 5 percent over last year. And with increased production, per capita beef consumption could reach 114 pounds—4 pounds above 1973 and just below the record 116 pounds in 1972. Consumer demand may, however, be dampened slightly from earlier levels since growth in personal income this year is expected to lag 1973.

In any given year, it is unlikely that demand and supply will grow by equal amounts. As a result, cattle prices are likely to fluctuate over a wide range in response to these market adjustments. For example, the average price received for calves in Texas in July was nearly 30 cents a pound, compared with 58 cents a year earlier.

In the near term, ample supplies of feeder calves, combined with high grain prices, will likely sustain a weak market for feeder cattle in the last half of 1974. A substantial improvement in fed cattle prices and a subsequent increase in earnings from feeding cattle would, however, increase demand for feeders.

FERTILIZER SITUATION TIGHT; DEMAND UP SHARPLY

The value of using chemical fertilizers to improve the growth potential of soil has long been recognized. And, in most recent years, improved methods of producing fertilizer kept supplies in excess of demand. Lately, however, demand for plant nutrients has risen sharply, with the result that the world fertilizer industry appears unable to supply sufficient materials over the next several years.

Consumption of nutrients burgeoned in the past few decades. Between 1940 and 1970, domestic use increased 17 times for nitrogen, five times for phosphates, and nine times for potash. Meanwhile, worldwide use of fertilizer also rose.

As demand for fertilizer increased, the number of firms manufacturing fertilizer expanded rapidly. In time, technological breakthroughs reduced the cost of production, fostering new plants. But by the late 1960's, the production and distribution capacity of this nation's fertilizer industry far exceeded consumption.

The excess supply of plant nutrients drove fertilizer prices down, and, consequently, plans for expanding production capacities were dropped. Then, just last year, strong demand for fertilizer resurfaced.

The resurgent demand for fertilizer in both foreign and domestic markets can be linked primarily with favorable prices for crops and increases in planted acreages. Too, widespread drouth and aberrations in climate have critically affected the need to bolster agricultural production. But, despite the pressing need for intensifying world food production, some less developed countries are being hindered in their use of fertilizer by tight supplies and rising prices.

The world does not lack the basic resources for producing nitrogen fertilizers. In the past year, in fact, a determined effort by more developed countries to make full use of their production capacity has increased nitrogen output.

Rather, the supply problem stems from difficulties related to the manufacturing plants themselves. Shortages of natural gas and some environmental problems have hindered expansion efforts. And direct investment in manufacturing facilities has lagged. Moreover, according to the Economic Research Service of the U.S. Department of Agriculture, a lead time of two to four years is required to get plants on stream.

Apparently, in response to the upswing in fertilizer prices since last fall, many new plants have been announced. So, while shortages of nitrogen can be expected for some time, expanded emphasis on production and past trends of fertilizer use suggest world supplies could overtake demand by 1978.

New plant capacities could also put phosphate production ahead of consumption in the late 1970's. While there is no foreseeable shortage of raw materials for phosphate production, more investment in phosphate rock mines and transportation is needed. As with nitrogen, short supplies and high prices dominate the short-term outlook. The supply of potash, however, appears adequate to meet projected levels of use.

FARMERS HOME ADMINISTRATION OFFERS EMERGENCY LIVESTOCK LOANS

Livestock producers, presently caught in a cost-price squeeze, can now get emergency credit assistance in the form of loan guarantees from the Farmers Home Administration.

As provided by a new law signed in late July, the agency—a rural credit service of the U.S. Department of Agriculture—can guarantee up to 80 percent of losses on loans made by private lending institutions to farmers and ranchers that raise, fatten, or market beef and dairy cattle, hogs, sheep, goats, chickens, and turkeys. These guarantees are available only to farmers and ranchers that are U.S. citizens, that cannot obtain financing without a guarantee, and that would be unable to operate without such credit.

Included in the program are the stipulations that most of the borrower's time must be devoted to the operation and most of his income must be derived from it. Too, where corporations or partnerships apply for credit, assistance will be extended only if major stockholders or partners are primarily engaged in livestock operations.

The program is designed to have private funds, rather than Government funds, support the loans. This will reduce governmental administrative costs, as private lenders will make and service the loans.

Initially, the administration has been authorized to guarantee up to $2 billion in loans to livestock producers, with a maximum of $250,000 available to a single borrower. Loans are to be repaid within three years, although a two-year renewal may be authorized. Interest rates will be determined between lender and borrower.

Applicants for emergency funds should arrange for a loan with a legally organized lending agency. It, in turn, will ask the administration for a guarantee. The lender will process the application, close the loan, and service the loan to final settlement. Requests for guarantees and information about applications will be supplied by county FmHA offices serving areas where livestock operations are conducted.

RED MEAT IMPORTS, EXPORTS DOWN

In the first five months of this year, 6 percent of the red meat consumed in the United States came from a foreign source, according to a recent U.S. Department of Agriculture report. A breakdown by commodity showed imports accounted for 7 percent of the beef consumed, 10 percent of the veal, 8 percent of the lamb and mutton, and 4 percent of the pork.

On a carcass-weight basis, total meat imports for January-May were 2 percent smaller than in the same period a year earlier, with all the decrease coming in April and May. Meanwhile, meat exports were also down, totaling less than half of those a year earlier.

The meat industry was critically concerned when import restrictions on beef were announced earlier this year by Japan and some European countries—a move that left the United States the only major world market remaining open to foreign trade. But beef imports from the two largest foreign sources—Australia and New Zealand—were curtailed, easing the industry's fear of an overabundance of foreign beef.

A combination of unattractive beef prices and excellent grazing conditions has caused producers in Australia and New Zealand to withhold animals from slaughter. Consequently, beef imports from those countries were down 11 percent in April and 26 percent in May. Pork imports, however, were 4 percent larger than in the January-May period, primarily due to an increase in canned hams and shoulders from Poland.

Fresh, frozen, and chilled beef, veal, mutton, and goat meat imports subject to quota in the five-month period totaled 477 million pounds, down 5 percent from a year earlier. Recent estimates of 1,210 million pounds for the calendar year 1974 suggest imports of these meats subject to quota will decline substantially in the last half of 1974.

On the export side, all the decline has been in pork. Beef and veal exports have risen substantially, with all the increase going to Japan. The effects of the Japanese beef embargo were evident in April and May, however, as U.S. shipments of beef and pork were sharply reduced in those months.

Prepared by Carl G. Anderson, Jr.