FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

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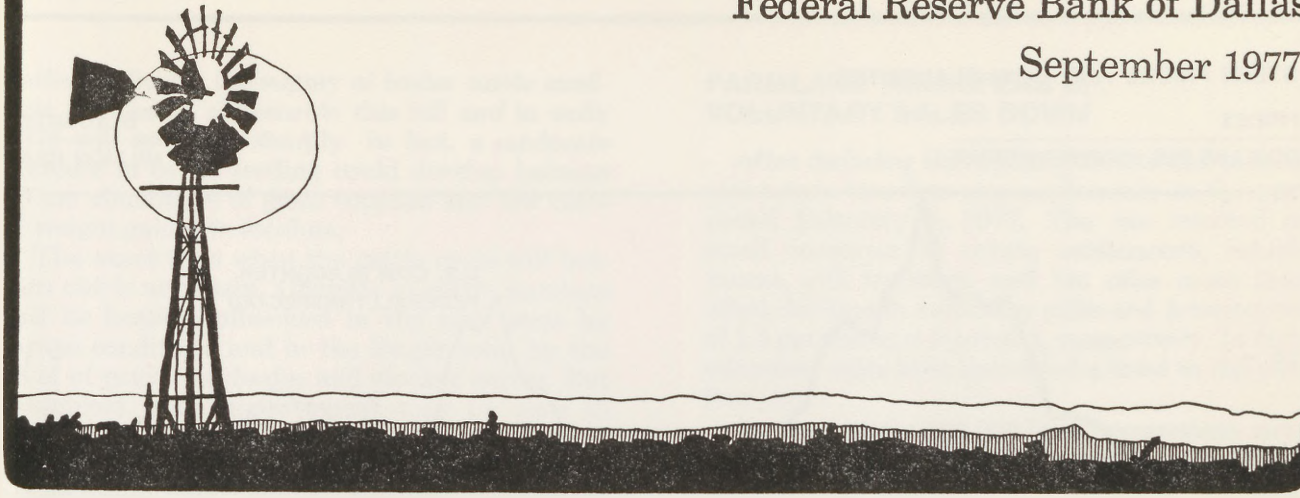


U.S. COW HERD DECLINES AGAIN, FURTHER REDUCTION LIKELY

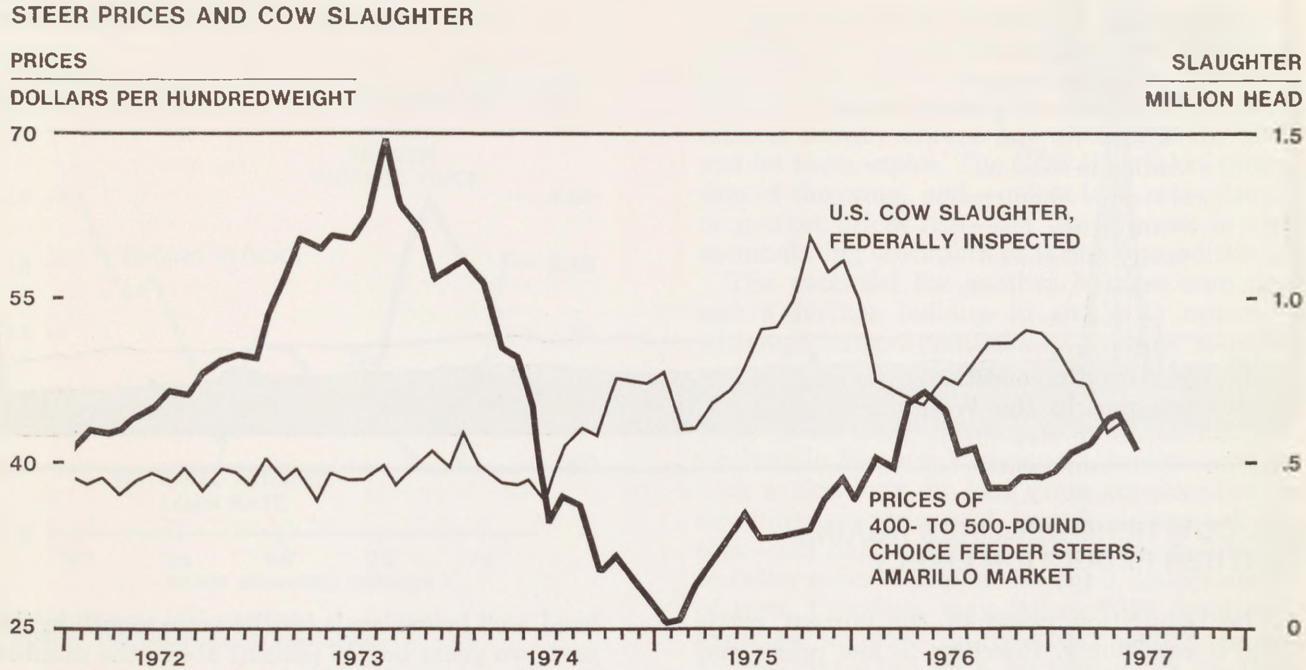
The liquidation phase of the current cattle cycle is continuing. Reacting to low prices and financial distress resulting from not only an oversupply of beef relative to demand but also rising production costs, producers are reducing the size of the nation's cattle herd. And the drawdown in cattle numbers will likely continue for another 12 months.

The July 1 cattle count—130.6 million—indicated total numbers in the United States declined 2 percent from a year earlier, a much slower rate than the 6-percent decrease between July 1975 and July 1976. A larger than expected number of feeder steers and heifers 500 pounds and over partly offset smaller inventories of cows, bulls, and replacement heifers.

Beef cows in the United States numbered 41.3 million on July 1, 1977, down 4 percent from a year earlier. And pointing to further reductions in cow herds next year, beef heifer replacements declined 10 percent. While slaughter rates have fallen from the record levels of late 1975 and early 1976, the number of cows marketed in the next 12 months will likely remain above the levels before the liquidation cycle began. Federally inspected cow slaughter in May totaled 654,000 head, well below levels for the same month in the past two years but 46 percent above the number slaughtered in May 1974.

Inventories of feeder steers and heifers were not as low as had been expected. The number of steers, heifers, and bulls under 500 pounds declined slightly over 2 percent to 38.5 million. One reason this category was not smaller is that the number of calves born per 100 cows in the first half of 1977 was larger than a year earlier. Even with fewer cows, the calf crop this year was indicated, as of July 1, to be only 3 percent smaller than a year before. A 6-percent decline was recorded in the previous 12-month period.

A large number of feeder steers and nonreplacement heifers weighing over 500 pounds are still on farms and ranches in the United States. Inventories of these heavyweight feeder cattle on July 1 were just under 27.3 million, compared with 27.1 million a year earlier and 24.9 million two years before. The increase in heavyweight feeder cattle has resulted from a slowdown in grass-fed heifer and steer slaughter in the past two years. The number slaughtered in 1975 was large, accounting for about 17 percent of total cattle slaughter. However, the rate fell to around



SOURCE: U.S. Department of Agriculture.

13 percent in 1976, and it is currently less than 12 percent. The number of heavyweight feeder cattle increased even though there was a slight rise in yearlings placed on feed between the first half of 1976 and the same period in 1977.

While cattle inventories during the past 12 months declined nationwide, three of the four states in the Eleventh District had small increases in cattle numbers. The herd numbers rose 3 percent in New Mexico and Texas and 7 percent in Oklahoma. Conversely, the cattle count in Louisiana fell a fifth.

Because of an increase in feeder and stocker calves, the inventory of cattle in New Mexico, Oklahoma, and Texas rose 4 percent to total 25.6 million on July 1. While beef cow numbers and the number of cattle on feed in the three states were lower, the number of steers, bulls, and nonreplacement heifers over 500 pounds was up 12 percent over a year earlier. Heifers for herd replacement increased somewhat in Texas but declined in the other two states. With 16.8 million head of cattle, Texas is the largest beef-producing state in the nation.

Moreover, the supply of lightweight calves—500 pounds and less—in the three southwestern states has also increased in the past 12 months. In the latest inventory report, 8.2 million lightweight cattle and calves were counted, 5 percent more than a year earlier. The 1977 southwestern calf crop is expected to be near last year's level, reflecting a somewhat larger calf crop in Oklahoma. A steady supply of lightweight feeder and stocker calves will be available in the next 12 months.

The smaller cow herd and the reduced inventory of heifers for herd replacement point to a continuing decline in total cattle numbers in the United States, at least through next year. And the large number of steers and nonreplacement heifers indicates the supply of feeder cattle available for feedlot placements this fall and in early 1978 will not drop sharply. In fact, a moderate increase in cattle feeding could develop because of the abundance of grain supplies and low costs of weight gained in feedlots.

The exact time when the cattle cycle will bottom out is uncertain. Changes in cattle numbers will be heavily influenced in the near term by forage conditions and in the longer term by the level of prices for feeder and stocker calves. But prolonged price improvement may be slow in developing. Drouth conditions affecting forage and hay supplies in the West and South may cause producers to step up livestock marketings this fall, increasing cattle slaughter and beef supplies somewhat. Alternatively, more cattle could be placed on feed, increasing beef supplies and pressuring cattle prices even more later this year and in early 1978.

Although beef supplies in 1977 are currently expected to be 3 to 5 percent below last year, increased production of pork and broilers may partly check any significant gains in cattle prices in the next few months. Altogether, profitability in cow-calf operations and the turnaround in the cattle cycle will take place only when cattle numbers have been adjusted sufficiently so that market prices increase, allowing the bottom line of income and expense statements to be inked in black.

INVENTORIES OF ALL CATTLE AND CALVES

Area	Thousand head, July 1			1977 as percent of 1976
	1975	1976	1977	
Louisiana	2,100	2,000	1,600	80
New Mexico	1,900	1,800	1,860	103
Oklahoma	6,550	6,450	6,900	107
Texas	17,000	16,300	16,800	103
Four states	27,550	26,550	27,160	102
United States	140,056	133,559	130,565	98

SOURCE: U.S. Department of Agriculture.

FARMLAND TRANSFERS UP, VOLUNTARY SALES DOWN

After declining three years, the number of farm real estate transfers rose moderately in the year ended February 1, 1977. The rise resulted as small increases in estate settlements, inheritances, gift transfers, and tax sales more than offset declines in voluntary sales and foreclosures of 1.5 percent and 5 percent, respectively. In fact, voluntary sales have decreased a third in the past four years.

Approximately 109,000 land transactions were made during the latest reporting period, 900 more than in the previous 12 months. A similar increase in transfers occurred between March 1970 and February 1971. The number of farm tracts changing ownership rose less than 1 percent during that period, following many years of decline. Subsequently, in the 1971-74 period, transfers jumped 35 percent.

The change in the number of transfers in the next few years, however, will likely not duplicate this sharp increase. As with the number of farms in the United States, the long-term trend in total transfers has been a general downturn, particularly in voluntary sales. Furthermore, the events that spurred the sharp increase in transfers during 1971-74 will likely not occur again in the near term.

A substantial rise in farm prices and incomes, mainly because of a large increase in export demand for U.S. grains and other crops, triggered the growth in land transfers during those three years. Real estate market activity increased significantly, with the number of inquiries for land purchases doubling. Many of the inquiries were from farmers wanting more land to expand their operations. Enlargement was encouraged not only by higher commodity prices and farm incomes but also by the need to make more efficient use of new and bigger farm equipment.

At the same time, the number of farms offered for sale changed little. With inquiries far outpacing available tracts, land values were bid up markedly by prospective buyers. Although land values have continued to rise since 1974, transfers have declined as grain prices have fallen and production costs have increased.

Another major factor also contributed to the 1971-74 surge in real estate market activity. As land prices have climbed, both farmers and nonfarmers seeking investment opportunities have purchased land as a hedge against inflation. Returns from alternative investments—savings accounts, certificates of deposit, stocks, and bonds—have not kept pace with the high rates of inflation in the past few years. And although returns to land—cash leases and crop share rents—generally have fallen short of returns from alternative investments, the appreciation in land values has outpaced inflation.

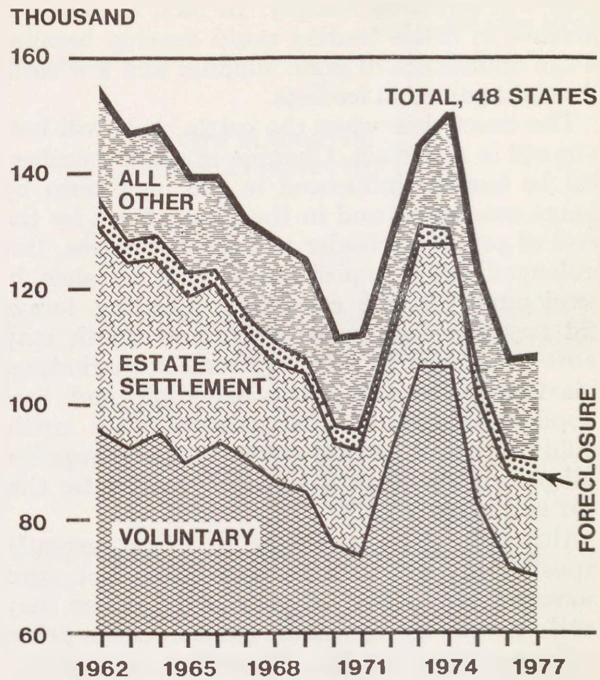
Land values in the United States, on average, increased 132 percent from March 1971 to February 1977. Over the same span, the consumer price index for all items—a measure of inflation—rose 48 percent. Deflating the change in land values by the consumer price index shows the purchasing power of a dollar invested in land rose 57 percent—that is, the annual rate of appreciation in land values exceeded the rate of inflation by 7.8 percent.

Farm real estate has been a good investment, particularly in the large grain-producing areas of the Corn Belt, Lake States, and Northern Plains. Since 1971, land values have more than tripled in Iowa, Illinois, and Minnesota and nearly tripled in Indiana, North Dakota, and Nebraska. The lowest gains between early 1971 and early 1977 were in California, Oregon, Nevada, and Arizona. The smallest was in California, which had a gain of 26 percent. Sluggish growth in land values has largely been the result of drouth, depressed cattle markets, preferential assessment according to California's Williamson Act, and lower prices for some specialty crops.

Another sharp increase in land transfers, such as in the 1971-74 period, is not expected. However, land prices will likely continue to be pressured as potential buyers outnumber sellers by a wide margin. Individuals seeking an investment opportunity in land in hopes that land prices will continue to rise are expected to remain an important factor in the farm real estate market. Cattle and grain prices that are at or below total costs of production could temper farmers' purchases to enlarge farm units, but land transfers for farm enlargement in cotton and soybean areas may rise somewhat.

Alan M. Young

U.S. FARM REAL ESTATE TRANSFERS



1962-75 based on March 1 estimates; 1976-77 based on February 1 estimates.

SOURCE: U.S. Department of Agriculture.