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BEEF CATTLE PROSPECTS FAVORABLE

Prospects for the nation's cattle industry in the last half of 1970 are generally favorable. Although commercial cattle slaughter in January-April 1970 totaled almost 12 billion pounds — 2 percent more than in the same period last year — the USDA expects a steady market situation. Most of the gain in total slaughter was attributed to increases in average slaughter weights and the number of steers slaughtered, which more than offset a reduction in cow and calf slaughter.

Gains in Fed Cattle Marketings to Continue

The number of fed cattle continued to expand in the first quarter of this year, but the rate of expansion moderated. On April 1 there were 11.6 million cattle and calves on feed in 22 major feeding states — 5 percent over a year earlier. This rate of growth varied among sections of the country. For example, cattle feeders in the Corn Belt states had 2 percent more cattle on feed. Six Corn Belt states had larger numbers on feed than last year, five states had declines, and Missouri showed no change. Feeders in the Western states had 9 percent more cattle on feed, with all states except Idaho, Oregon, and Washington having increases. Texas showed the largest gain in the nation, more than 200,000 head.

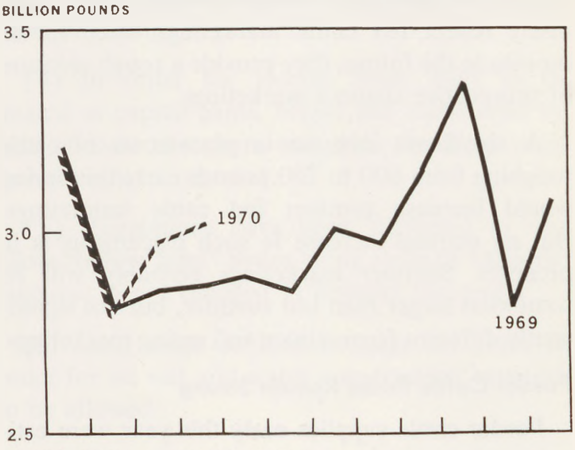
Cattle feeders marketed 4 percent more cattle during January-March than a year earlier. On April 1 they reported intentions to market 6 percent more cattle out of feedlots during April-June than in the second quarter of 1969. This level of marketings would be about the same as in the winter. Most of the spring increase will come from the West, where feeders intend to increase shipments by a quarter of a million head, or 12 percent. Feeders in the Corn Belt states plan to market 150,000 more, 3 percent over 1969.

Following more than six months of general decline, fed cattle prices strengthened during the first quarter. Prices of Choice grade steers, weighing from 900 to 1,100 pounds, at Chicago rose from $29 per hundredweight in early January to over $32 by early March and then steadied. In April they averaged well below $32 per hundredweight and slipped below $31 in May.

Weights to Continue Above a Year Earlier

Fed beef production in the winter advanced more than the 4-percent increase in the number of fed cattle shipped because heavier weights of cattle marketed added to the beef supply. Market weights of steers sold at seven markets averaged

COMMERCIAL CATTLE SLAUGHTER



SOURCE: U.S. Department of Agriculture.

1,160 pounds, up 48 pounds from a year earlier and well above averages in other recent years.

On April 1 the total of steers weighing over 900 pounds and heifers weighing over 700 pounds was up 13 percent from a year ago. Cattle in these weight groups supplied the bulk of spring marketings. Unless feeders moved more fed cattle this spring than they intended on April 1, some cattle were held in feedlots beyond their normal marketing time and weights will remain heavy.

A negative price margin (lower prices received for fed cattle than those paid five months previously for feeders) developed late last summer and became severe last fall. Average weights began to rise as some feeders started holding cattle slightly longer than usual, hoping for some price recovery. When fed cattle prices strengthened during the winter, the margin pressure eased. Also, fed cattle sold in that period were from cheaper fall-purchased feeder cattle. A tightening situation will likely develop again this summer as feeder cattle bought at the higher prices in the late winter-spring market reach slaughter finish.

Summer Marketings May Differ Little

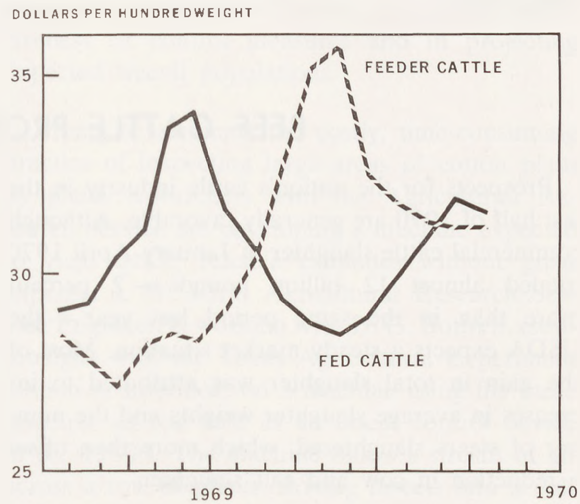
Summer shipments of fed cattle to slaughter may continue above 1969 but by a smaller margin than in the winter or spring. In the total of steers under 900 pounds and heifers under 700 pounds, about the same number of cattle were on feed on April 1 as a year earlier. A sharp increase of 19 percent in the number of steer calves in feedlots about offset declines in other weight classes. While cattle in these lighter weight groups do not precisely reflect fed cattle marketings three to six months in the future, they provide a rough measure of prospective summer marketings.

A significant increase in placements of cattle weighing from 600 to 700 pounds early this spring would increase summer fed cattle marketings. But no marked increase in such placements is in prospect. Summer marketings probably will be somewhat larger than last summer, but not significantly different from winter and spring marketings.

Feeder Cattle Prices Remain Strong

Feeder cattle supplies early this year were estimated to be somewhat larger than a year ago, with most of the increase occurring in feeder calf supplies. Placements in January-March were up only 2 percent from last year. Based on the January 1 inventory report and reports on cattle on feed, there is still a good supply of feeder cattle. They are, however, generally younger and lighter weight than a year ago.

FEEDER CATTLE AND FED CATTLE: PRICE MARGIN



SOURCE: U.S. Department of Agriculture

Feeder cattle prices typically rise in the winter and spring and decline throughout the summer and fall. The rise this year has been more typical than last year's unusually sharp March-May rise. Rapidly advancing fed cattle prices last spring added unusual momentum to the seasonal upswing in feeder cattle prices.

Starting from a higher price level in the winter and early spring, Choice grade 550-750 pound feeder steers at Kansas City averaged \$35 per hundredweight in April, about \$2.50 above April 1969. According to USDA reports, prices are expected to continue steady to strong into the summer.

Cow Slaughter Down; Prices Higher

Commercial cow slaughter totaled 1.5 million head during January-March — 10 percent below these months last year. The decline likely reflects a significant drop in the slaughter of dairy cows. Slaughter of dairy cows likely will continue downward, but culling of beef cows is expected to be near 1969 levels. The role of heifers in cattle feeding has changed relatively little in recent years, their numbers averaging 29 or 30 percent of total steers and heifers.

Calf Slaughter Drops

Calf slaughter dropped 11 percent in 1969. A smaller dairy calf crop and strong demands for more feeder cattle continue to limit the slaughter calf supply. Commercial calf slaughter in the first quarter was 19 percent smaller than a year earlier.

Long-Run Outlook

Projections by the USDA are for further but slower growth in the cattle population, in cattle feeding, and in beef consumption for the early 1970's than rates of the past decade. Later in the 1970's, gains in cattle feeding will further decelerate unless breeding herds are built up at a more rapid rate than now expected.

Increases in the number of cattle fed in the late 1970's are expected to be smaller than they have been in recent years and smaller than gains in the early 1970's. In the last half of 1970, expansion in cattle feeding will be closely tied to increases in the beef calf crop because cattle feeders will be feeding every suitable animal. A substantial part of the advance in beef production in the past decade has reflected the trend toward feeding an increasing percentage of the available feeder cattle supply each year. Also, to provide for the level of demand projected for 1980, the cattle inventory probably would have to total around 125 million to 130 million head, compared with 112 million on farms at the beginning of 1970, according to the USDA.

Soybean Demand Continues Strong

Unprecedented soybean demand this spring has whittled prospective carryover next fall below earlier expectations, according to a USDA report. Soybean crushings for the 1969-70 season are now expected to exceed 700 million bushels, compared with 606 million in 1968-69.

Exports of soybeans are around 35 percent larger this marketing year, probably leading to a season's record total of about 400 million bushels. This volume would be up from 287 million bushels last season. The expanding foreign demand stems from (1) slightly lower U.S. prices, (2) renewed growth in poultry and livestock production abroad, and (3) reduced world supplies of competitive fish and peanut meals and sunflower, fish, and peanut oils.

The Tax Reform Act of 1969

The Tax Reform Act of 1969 contains nine provisions that relate specifically to farming. A recent USDA publication gives a brief explanation of the ways in which these provisions affect farm tax returns. The publication also contains information on general tax reform, such as the repeal of the investment tax credit, and on relief provisions that affect farmers as well as other taxpayers.

Several provisions of the new act, according to the USDA's Economic Research Service, deal with "tax-loss" farming and became effective January 1, 1970. Previous tax rules allegedly favored high-bracket taxpayers with major interests off the farm over taxpayers concerned primarily with farming. Special provisions had allowed taxpayers to offset substantial nonfarm income with farm tax losses. Other rules had allowed certain gains from farming to be claimed as capital gains rather than ordinary income.

The Tax Reform Act of 1969 contains the following farm-related provisions.

(1) A limit has been placed on the dollar amount of farm losses which can be used to offset increases in nonfarm income.

(2) Gains from the sale of livestock used in the farming enterprise are now treated as ordinary income up to the full value of previous depreciation deductions.

(3) Exchanging tax-free male calves for female calves for the purpose of obtaining a capital-gains advantage is prohibited.

(4) In order for income from sales to be treated as capital gains, horses and cattle must be held at least two years and other livestock must be held at least one year.

(5) Regulations have been tightened to disallow "hobby farm" losses being claimed when the taxpayer is not engaged in farming for profit.

(6) Land must be held at least ten years in order for all soil and water conservation expenses to be allowed.

(7) Reporting of crop insurance payments for crop damage may be deferred until a year after the payments are received.

(8) Citrus grove planting and development costs cannot be charged off as current expenses.

(9) The date for filing farm income tax returns for those using a calendar tax year has been extended from February 15 to March 1.

Domestic Wool Prices Lower in 1970

Prices of shorn wool received by producers in 1970 probably will average moderately below last year because of large world supplies and lagging U.S. consumption. Domestic production will continue to decline in 1970 due to reduced sheep numbers, according to a recent USDA report.

In 1969, prices of U.S. shorn wool averaged 41.8 cents a pound (grease basis), up 3 percent from 1968. The advance came in the first half of last year. Late summer and fall prices weakened as mill use slowed in the United States and prices of imported apparel wools declined. By March 1970, prices of territory shorn wool at Boston were from 5 to 10 percent below a year earlier.

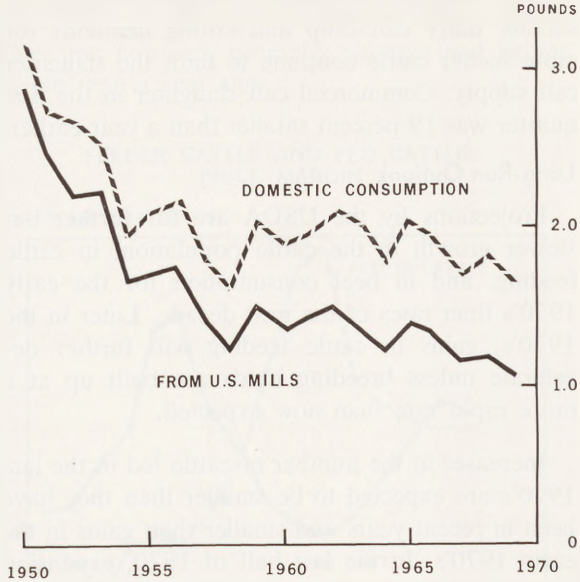
Under provisions of The National Wool Act, the incentive price of 1970 shorn wool is 72 cents a pound, up 3 cents from last year. If average market prices decline this year as expected, the incentive payment rate on 1970 sales will be above the 65.1 percent of returns now being paid to producers on 1969 sales.

Shorn wool output last year totaled 166 million pounds (grease basis), down 7 percent from 1968. Production was up moderately in Arizona, but declines were reported in most other states. U.S. wool output will drop further this year since January 1 sheep numbers were down 4 percent.

Domestic consumption of apparel wool (mill consumption plus wool equivalent of net imports of apparel wool textiles) in 1969, at 1.63 pounds per capita, was a tenth below 1968. Per capita use of carpet wool was 0.5 pound, the same as in 1968. In comparison, cotton consumption declined 6 percent, but use of man-made fibers rose 4 percent. Domestic consumption of fibers, on a per capita basis, declined 1 percent, to 50.5 pounds.

Weekly mill consumption of raw apparel wool dropped last summer, then leveled off around 204 million pounds (annual rate). Consumption during January-February 1970 averaged 11 percent below a year earlier. Moderating general economic

PER CAPITA CONSUMPTION OF APPAREL WOOL



SOURCE: U.S. Department of Agriculture

activity, relatively large wool fabric inventories, and increased use of man-made fibers were associated with decreased wool use. Prospects are for some pickup in the rate, perhaps in the second half of 1970. Reduced wool prices in the past several months and possible advances in demand conditions may bring about recovery in wool consumption despite continued strong competition from man-made fibers. Total wool use in 1970, however, may be a little under last year's 219 million pounds (scoured basis).

Agricultural Exports Decline

U.S. exports of farm products totaled $5.7 billion in 1968-69, down nearly $0.6 billion from 1967-68 and $1 billion less than in the peak year of 1966-67. The recent drop was equally divided between commercial and food-aid shipments.

A reduction of $386 million in sales for foreign currency was partly offset by a rise of more than $100 million in long-term credit sales. The reduction was accounted for primarily by the smaller volume of exports under Government-financed programs. The largest decreases were in wheat, feed grains, and cotton. Exports of animals and products, oilseeds and products, and dairy products were higher.

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