

Prospects for PNW Beef Producers - 1979

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Some dramatic events have occurred in the livestock and meat industries since the fall of 1977. Some of these were anticipated last year but many were not. Beef production has declined about as expected, but pork production failed to increase as anticipated. Both live animal and meat prices rose sharply during the first quarter and had reached unexpectedly high levels by mid-May. Broiler prices rose on the strength of higher red meat prices and production expanded rapidly. A stronger than expected consumer demand for meat supported these elevated prices. Consumers appear to have resigned themselves to the inflationary spiral and are more willing to accept higher food and especially meat prices in 1978.

Total red meat production for 1978 is expected to be 1.1 billion pounds, or about 3 percent below the 38.7 billion pounds of 1977. Much of this decline in red meat is being offset by larger supplies of broilers and turkeys. Even so, the combined red meat and poultry production will still be 1 percent less than 1977, for a total of about 400 million pounds. This year's meat production has consisted of considerably more fed beef and poultry, a little more pork, and much less non-fed beef, veal and lamb.

Prospects for 1979 point to a continued strong demand for meat and lower supplies of red meats. This suggests a rather optimistic outlook for livestock producers since livestock prices are expected to rise moderately during 1979.

Livestock Production Costs

Record large feed grain and soybean crops were produced in 1978. Harvest has been on time except in local areas. This will keep feed supplies plentiful and costs are expected to remain favorable for livestock feeding. Corn prices have inched up from their early fall 1978 level and are expected to average, for the 1978/79 year, near the 1977/78 farm level price of \$2.03/bu.

Pacific Northwest feed grain prices have been materially affected by the supply of sprout damaged wheat available for feeding purposes. Locally, barley prices have been depressed as feed-lot operators and hog producers have the option to substitute wheat. As the supply of feed wheat declines barley prices are expected to move up to the corn price equivalent early in 1979. Feed costs

are expected to remain considerably below those of the 1974-77 period.

Feeder livestock prices are expected to be near or above their year earlier levels during 1979. Feeder cattle prices are expected to continue upward as supplies dwindle throughout the first half of 1979. Feeder pig prices will probably remain relatively high, especially during the first half of 1979.

Most other input prices are expected to rise in 1979. Labor costs will increase as new minimum wage rates and higher social security withholdings go into affect next year. Interest rates are rising and capital costs will continue upward. Fuel and energy and machinery and building costs are all expected to rise in 1979. These increases will be closely tied to the rate of inflation.

Cattle Inventory

The inventory of cattle and calves on U.S. farms has been sharply reduced from the record high 132 million head of January 1, 1975. The inventory continues to decline and will probably total around 111 million head on January 1, 1979, a 16 percent decline from the peak of 1975 (see Table I).

The beef cow inventory has been cut back from a high of 56.9 million head in 1975 to 49.7 million head at the beginning of 1978. The apparent movement of heifers into the cow herd has been slow this year. This, combined with the continued high level of cow slaughter, will likely result in a 2 million head decline in the cow herd in 1978 to about 48 million head January 1, 1979. This suggests the 1979 calf crop will be lower than the 44.1 million head estimated for 1978.

The 1978 cattle and calf slaughter is estimated at about 44½ million head, slightly above the 1978 calf crop. It is likely the 1979 calf crop could be 42 to 43 million head and exceed the combined cattle and calf slaughter for the first time since the herd reduction started in 1975.

Holding of heifers for herd replacements has been slow through most of 1978. Producers are likely to begin holding more heifers for replacements with the higher feeder cattle prices. Retention of additional heifers will probably gain momentum during 1979, but most of these heifers will not calve before 1980.

Improved feeder cattle prices will likely cause producers to cull fewer cows next year. Cow slaughter during 1979 may drop 20 to 25 percent below

Table I Cattle on Farms, January 1

	1975	1976	1977	1978 ¹
	MILLION HEAD			
Cattle and calves ²	132.0	128.0	122.8	116.3
Beef cows	45.7	43.9	41.4	38.8
Other beef animals	66.9	65.1	62.6	58.8
Dairy cows	11.2	11.1	11.0	10.9
Other dairy stock ³	8.2	7.9	7.8	7.8

¹Preliminary. ²The 1979 forecast is 111-112 million head. ³Includes estimate of replacement heifer calves.

Table II Cattle on Feed October 1, 1978, 23 states
 Category¹ % change from a year earlier

All cattle and calves	+16
Steer and steer calves	+18
Heifer and heifer calves	+11
Under 500 pounds	+68
500-699 pounds	+ 9
700-899 pounds	+ 5
900-1099 pounds	+15
1100 pounds and up	+51

¹Heifers in each weight category are 200 pounds less than the steers. For example the 700-899 pound weight category has steers of weights indicated and heifers weighing 500-699 pounds.

the 1978 slaughter, thereby halting the decline in the cow herd. The January 1, 1980 cow herd could be slightly above the 1979 level, but this is highly dependent on the actions of cattlemen in the next few months.

The decline in total inventory is expected to be slowed considerably in 1979. Combined cattle and calf slaughter may drop to the 38 to 40 million head level next year, down 10 to 15 percent from 1978. Depending on the size of the calf crop, death losses and cattle imports and exports, the total inventory of January 1, 1980, could be around 111 million head, the same as the estimate for January 1, 1979.

Feeder Cattle Supplies and Prices

The massive reduction of the cattle herd since 1975 has brought a dwindling supply of feeder cattle. On July 1, 1978 there were about 10 percent fewer feeder cattle outside feedlots than a year earlier (see Table II).

The expected reduced calf crop for 1979 suggests a continued shrinking of the feeder cattle supply. As herd rebuilding gets under way, probably in late 1979 and 1980, and more heifers are kept for replacements, available feeder cattle supplies will be further reduced. However a couple of offsetting factors, sharply reduced calf slaughter and non fed steer and heifer slaughter, are expected to help supplement the shrinking supply of feeder cattle. A greatly increased proportion of young cattle will spend some time in feedlots before going to slaughter.

The smaller supply of feeder cattle, combined with lower feed grain prices and abundant pasture growth, has pushed feeder yearling and stocker calf prices sharply higher since the winter of 1977-78. Choice yearling feeder steers at Kansas City have averaged near the \$60 mark, about 45 percent higher in 1978 than the previous year. Mid-November prices were in the \$65 level for 6 to 700 pound steers, and heifers were moving at \$5-7 lower figures. Prices are expected to hold near current levels through the first quarter of 1979 and then rise slowly into the upper \$60 per cwt range during the second and third quarter. Prices in the low \$70 are possible if fed cattle prices move back up to the \$60 levels.

These higher feeder cattle prices are improving the financial condition of cow-calf producers. With the declining supply of feeder cattle, cow-calf producers are likely to remain in the improved bargaining position for several years.

Table III Estimated Commercial Cattle Slaughter by Class and Price Choice Steers (in thousands)

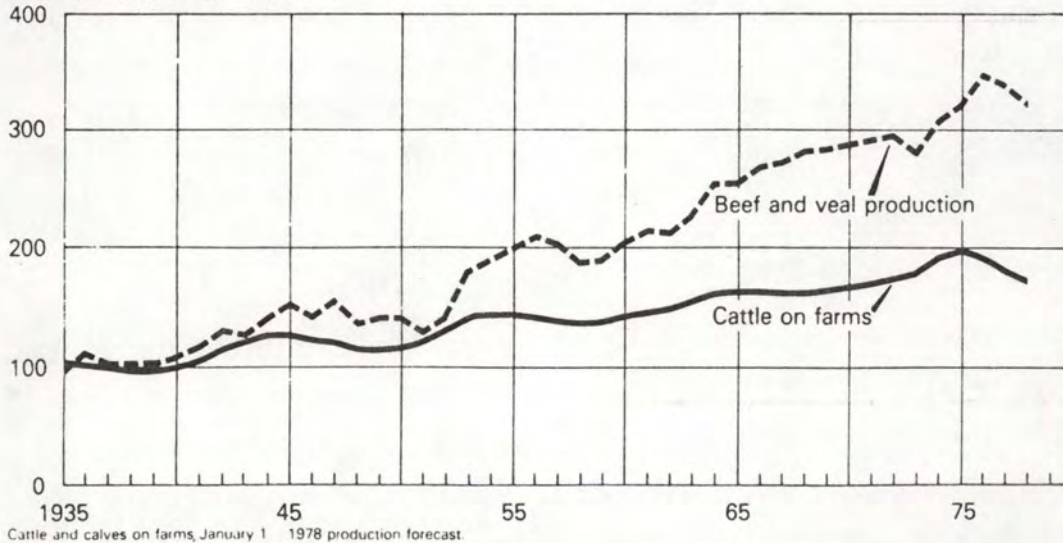
Year and Quarter	Total Commercial	Fed Steers & Heifers	Non-fed Steers & Heifers	Cows	Total Non-fed	Price Choice Steers, Omaha \$/cwt.
1977 1	10,466	6,656	1,067	2,534	3,810	37.89
2	10,193	6,331	1,476	2,162	3,862	40.77
3	10,629	6,344	1,642	2,399	4,285	40.38
4	10,568	6,275	1,298	2,769	4,293	42.42
Year	41,856	25,606	5,483	9,864	16,250	40.39
1978 1	10,203	6,975	728	2,316	3,228	45.77
2	9,872	6,788	726	2,148	3,084	55.05
3 ¹	9,738	6,732	805	1,992	3,006	53.74
4 ²	9,750	6,800	650	2,100	2,950	51-54
Year ¹	39,563	27,295	2,909	8,556	12,268	52.00
1979 1 ²	9,650	7,250	450	1,800	2,400	51-54

¹Partially estimated. ²Projection.

FIGURE I

CHANGE IN CATTLE NUMBERS AND BEEF PRODUCTION

PERCENT (1930-39 = 100)



Cattle and calves on farms, January 1 1978 production forecast.

Beef Production Prospects - 1979-80

Despite the higher level of fed cattle slaughtered this year, beef production will have declined about 4 percent from the 1977 level. All of the decline has been from non-fed beef. Fed steer and heifer slaughter during 1978 will be up about 7 percent from last year. However, this has not been enough to offset a decline of about 50 percent in the slaughter of steers and heifers directly off grass and cow slaughter, which has been down about 13 percent (see Table III).

The levels of placements of cattle on feed has been very large during 1978. The October 1, 1978 Cattle On Feed Report indicated there were 16 percent more cattle on feed in the 23 major cattle feeding states than the year before. Placements are expected to continue near, or above, the year earlier levels through the first half of 1979. This would keep fed cattle slaughter above the year earlier levels through most of 1979.

During 1979 fed steers and heifer slaughter may rise 2 to 4 percent above the 1978 level. But the slaughter of non-fed steers and heifers will probably decline by one-half to two-thirds as these animals continue to bid out of the reach of packers by feedlot operators. The 1979 cow slaughter may be down 20 to 25 percent from the current year's level. These likely developments suggest much lower supplies of lean beef next year.

Average dressed weights will rise in 1979, as fed cattle account for a higher percentage of the slaughter and as feeders feed steers and heifers to heavier weights. Thus, beef production may decline only 4 to 6 percent while total cattle slaughter drops 6 to 8 percent (see Figure I).

Further declines in beef production are in store for 1980. As herd rebuilding gets underway more heifers will go into the breeding herd rather than to slaughter. This will further restrict beef production. Combined with less production potential caused by lower cattle inventory, cattle slaughter may decline as much (6-8 percent), if not more, than it will in 1979.

World Beef Supplies and Beef Imports

It appears that world beef supplies have been well maintained through 1978, in part because of continued reduction in inventory. In most major beef exporting regions, as well as in the U.S. and Canada, cattle numbers have declined in recent years. Although this maintains current production of beef, the decline portends less beef in coming years (see Tables IV, V).

TABLE IV--BEEF AND VEAL: IMPORTS BY SELECTED COUNTRIES AND TOTAL FOR ALL COUNTRIES, 1974-78 (CARCASS WEIGHT EQUIVALENT)
(In thousands of metric tons)

Country	1974	1975	1976	Estimated 1977	Forecast 1978 1/
United States	747	808	953	890	1040
EC 2/	429	286	458	431	417
Canada	84	87	143	89	92
Japan	77	64	130	121	135
Spain	14	27	44	50	35
Greece	26	37	79	65	80
Switzerland	20	11	15	15	17
German Democratic Rep.	10	9	9	9	10
USSR	293	372	275	350	100
Brazil	53	29	27	35	150
Portugal	36	24	36	53	26
Other countries	253	626	778	825	850
Total	2,042	2,380	2,945	2,933	2,952

1/ FAS estimates. 2/ Excludes intra-trade.

TABLE V--BEEF AND VEAL: EXPORTS BY SELECTED COUNTRIES AND TOTAL FOR ALL COUNTRIES, 1974-78 (CARCASS WEIGHT EQUIVALENT)
(In thousands of metric tons)

Country	1974	1975	1976	Estimated 1977	Forecast 1978 1/
P.L. 88-482: 2/					
Australia	486	744	860	1,087	1,065
New Zealand 3/	258	305	373	392	405
Canada	27	21	59	51	53
Mexico	19	14	23	26	26
Central America 4/	115	124	145	126	153
Subtotal	905	1,208	1,460	1,682	1,702
EC 5/	207	234	195	142	127
Argentina	289	266	534	605	860
Uruguay	120	113	195	129	134
Other countries	530	525	560	560	495
Subtotal	1,146	1,138	1,484	1,436	1,616
Grand total	2,051	2,346	2,944	3,122	3,322

1/ FAS forecast. 2/ Excludes Ireland. 3/ Year ending September. 4/ Includes Dominican Republic and Haiti. 5/ Excludes intra-trade

SOURCE: Reports of U.S. Agricultural Attaches and related information

Commodity Programs, FAS, USDA

With projected cattle inventories in most producing countries reduced to the 1972 levels and increased world demand for meat because of higher incomes and greater population, a sharp tightening of world beef supplies is expected for the next few years. Higher cattle and beef prices are expected in most producing and consuming countries as a result. Higher pork and poultry production could dampen price increases in some nations, but it is doubtful that this will offset the price effect of reduced beef output.

Both Australia and New Zealand have reduced the cattle inventory over the past four years due to adverse economic and weather conditions. Beef production has been maintained through slaughter to reduce the herds. Stocks of frozen beef have been maintained and are expected to be at the high 1977 level at the end of 1978.

However, due to efforts to maintain export quotas to the U.S. and Japan, the consumption of beef in these two exporting countries has been reduced. It is questionable that Australia and New Zealand can continue to fill export quotas over the next two to four year period as cattle numbers and the calf crop decline. Stocks of frozen beef will likely be reduced during 1979, and if herd rebuilding starts in 1979 or early 1980, slaughter will be reduced drastically. Shipments of fresh frozen beef to the U.S. will likely be reduced materially in 1980.

Slaughter Cattle Price Prospects

Prices for fed cattle have increased substantially since a year ago and further increases are expected in 1979. Choice 900-1100 pound steers at Omaha will probably average about \$52 per cwt this year, up almost 30 percent from the 1977 average of \$40.38 (see Table III).

Fed Cattle prices are expected to continue to rise in 1979. For the year, they will probably average in the upper-\$50 range and have an outside chance of reaching the \$60 level. The rise in fed cattle prices, however, will be highly dependent on supplies of competing meats, consumer demand for meats and governmental price control activities.

Prices of slaughter cows are also expected to rise still further in 1979, as reduced offerings of cows force packers to bid more aggressively. Utility and Commercial grade cows that have been selling in the low \$40 range are expected to move up in price to the mid-\$40 levels in the first half of 1979. Reduced competition from imported beef and continued strong demand for ground

and processing grade beef could cause Utility cow prices to approach the \$50 mark in 1980.

The lower supplies of beef in prospect for 1980 suggest that there will be continued upward pressure on cattle prices. Cattle prices are expected to rise again in 1980, but the amount of the rise will be greatly influenced by consumer demand and supplies of competing meats.

Cattle Feeder's Profit Margins

Profit margins on many fed cattle sold during 1979 have been good. Large feed supplies have helped keep feed costs down. Also many fed cattle sold during 1978 were put in feedlots before feeder cattle prices advanced very much. This helped cattle feeders turn a good profit when fed cattle prices rose during the year.

However the situation is changing some now. Feeder cattle prices have increased substantially since the fall of 1977. This has squeezed profits on cattle being sold currently. Unless fed cattle prices rise more than currently expected, profit margins in 1979 will probably be very slim given the expected level of feeder cattle prices. In fact, losses are likely on some lots of cattle sold in the next year.

Consumption and Retail Prices

Per capita consumption of red meats and poultry will total about 243 pounds (carcass weight) in 1978, down 4 pounds from 1977. Per capital beef consumption will be down almost 6 pounds from 126 pounds while pork will remain near the same level as in 1977. Total per capita red meat consumption in 1978 will total about 186 pounds, down almost 7 pounds from 1977. Per capita consumption of poultry will be up almost three pounds.

In 1979 per capita beef consumption will probably drop another 5 to 9 pounds below the 1978 level of about 120 pounds. Supported by an expected continued strong consumer demand, retail beef prices will likely rise 10 to 14 percent above the 1978 level (Bureau of Labor Statistic indicates retail beef prices rose about 23 percent during 1978) Supplies of lean beef will be much lower next year and this could cause prices of ground beef and processing beef to rise more than cuts such as choice steaks and roasts.

