USDA predicts cattle prices to rise

WASHINGTON, D.C. — Dominating the cattle situation this summer are the rapid — but not too rapid — rebuilding of the cattle herd, concern about deteriorating pastures and ranges, and improved price prospects for 1981.

The midyear cattle inventory showed herd rebuilding to be underway, stimulated by strong cattle prices in early 1979, very favorable grazing conditions, and reduced herd culling due to mild weather last winter.

There were an estimated 123 million cattle and calves on U.S. farms and ranches on July 1, 4 percent more than a year earlier. Other inventory highlights:

Beef cows numbers were up even more — 6 percent.

Only Illinois, and the drought-stricken States of Montana, North Dakota, and South Dakota showed a decline in total cattle numbers.

After declining for 5 straight years, the U.S. calf crop may rise to 45.5 million head this year, up 6 percent.

With the memory of the last long herd liquidation fresh in mind, some cattlemen may view that rebuilding is coming too quickly, too soon — once again leading to overexpansion.

Beef supply and demand tend to be favorably balanced when the ratio is about 24.5. A value above this average usually signals an oversupply; a value below, an under supply relative to demand.

The number of cows per 100 people is still below the 24.5 ratio — by more than 4 million head. Furthermore, lower prices this spring and drought this summer and into fall will likely slow expansion in 1981.

The cows-per-people ratio is expected to be about 22.0 to 22.5 next January 1.

Remember, however, that this ratio is only one of many measures of a favorable supply/demand balance. Numerous other factors, such as supplies of competing meats, the general economy, and grain supplies and prices can affect this balance.

Farms and ranches on which the cattle enterprise is the only, or a primary, source of farm income have responded to the higher cattle prices since 1978, which has helped them rebuild their financial base.

Due to the reduced cattle numbers and generally favorable pasture conditions prior to this summer, many of these operations had not been fully using their forage resources.

To date, the present expansion appears to have largely occurred on these operations. They will probably continue expanding their herds till pasture use apprаches full capacity. Further expansion will depend on the building of new herds in the eastern half of the country.

But increased production costs in the North Central and Southeastern regions and much stronger grain prices have caused many producers to expand crop acreage and reduce or drop their cattle operations. This is borne out in the midyear increased in both regions, they rose less then the national average.

In the Southeast, in particular, where pastures need heavy fertilizer rates for favorable grass stands and good grazing conditions, higher fertilizer costs have forced some feeder cattle producers to shift some of their land to other uses. Others have reduced fertilizer usage and consequently pasture carrying capacity.

Producers who sold off their beef herd during the mid 70's–particularly on farms where much land has shifted back to crop production and livestock represents a small share of farm income–are not likely to return to feeder cattle production under current crop/livestock price relationships.

Between 1975 and 1979, over 200,000 farms and ranches dropped their cattle operations, as the number of cattle declined by 21 million head.

Higher prices for replacement beef cows expected over the next couple of years and continued strong grain and soybeans prices that draw additional acreage into crop production will further deter reentry.

Despite the drought in many areas, the cattle industry is now entering a period of more favorable supply and demand factors.

Large year-to-year increases in total red meat and poultry supplies began late in the second quarter of 1979, forcing meat prices lower. Supplies started to ease this summer and will continue to ease throughout 1981.

The major shocks of the current recession occurred prior to and during the second quarter of this year. Some economic indicators will remain negative, but consumer incomes--a primary factor determining meat demand--slowed markedly in the second quarter and are expected to increase during the second half of this year and throughout 1981.

Large financial losses during the last half of 1979 and throughout the first half of 1980 reduced feedlot placements and caused hog and poultry producers to cut back production plans. Poultry production has already dropped below year-earlier levels, where it's expected to remain until next spring.

Pork production is slowing and while it may reach record levels in early fall, it's expected to be below year-earlier levels late in the year and throughout 1981.

Sharply higher grain prices, which have reduced the uncertainty of selling grain in the cash market, are expected to contribute to lower total meat production in 1981, especially pork produced on smaller crop-livestock farms.

Reduced meat production from last year's levels and stronger demand factors suggest livestock, poultry, and meat prices will increase during the second half of this year and into 1981.

However, meat price gains could be held down this summer and fall if the drought continues and additional livestock are slaughtered this fall and winter. Increased slaughter this year, however, would further reduce total meat supplies in 1981, and increase livestock prices more than currently anticipated.

Fed cattle are expected to average in the low $70's for the rest of 1980, with prices strengthening late in the year. Further strength is expected in 1981 as meat supplies decline and incomes rise. Prices in the upper $70's to low $80's are likely by next summer.

Yearling feeder steers are expected to average in the upper $70's in second-half 1980. Feeder cattle prices are expected to strengthen during 1981, particularly as the spring grazing season begins. Next spring, feeder cattle prices could return to the record levels of the spring of 1979.

Producers in many areas will face the question of overwintering breeding herds at higher costs or increasing herd culling. Northern Great Plains producers have been hurt by drought for some time. Conditions in much of the South have also deteriorated, particularly in the Southern Plains.

Conditions in the South and Central Plains could still improve if late summer and early fall rains improve fall and winter grazing prospects. Improved prospects for wheat and small grain. Pasture production would particularly improve the situation in these areas.

Last winter was mild, and many older cows that normally would have gone to slaughter likely were kept for an additional year. As you assess your situation for 1981 you may want to sell some of these older, less productive cows particularly if an average to hard winter would force their sale anyway. If grazing prospects in your area are declining and you face a growing feed bill, this may be the time to sell the poorer cows in your breeding inventory.

Despite a reduced hay harvest this summer, hay stocks–which were records large on May 1--are adequate in most areas to prevent any large scale herd liquidations. Some areas, however, may have problems because of this summer's severe drought and supplemental feeding requirements.

If hay stocks in your area don't appear adequate to carry your herd through the winter, consider other forage supplies that, when supplemented with small amounts of grian, can provide a maintenance level of nutrition.

Crops that were ruined by the drought— corn, milo, and small grains— can be used for this purpose. Also, cattle operations in designated drought disaster areas may be eligible for emergency feed payment to supplement purchases of grain or hay.

All in all, the outlook for cattlemen is improving and prospects look good over the next few years. To the extent possible, try to maintain brood-cow and replacement heifer inventories in light of improved 1981 price prospects.

Expansion will slow as farmers and ranchers who are dependent on the cattle enterprise as a chief source of income approach normal stocking rates. At this early stage of herd rebuilding, overexpansion does not appear to be a problem. Furthermore, overexpansion is not now expected to begin until the mid-1980's. However, producers should begin to monitor retention rates of heifers as early as 1983.

As of August 1, this year's drought-reduced feed grain crop is expected to be down 16 percent from last year's record. Corn production could be off 14 percent, while extreme drought in the Plains has reduced the grain sorghum crop an estimated 32 percent.

Corn prices at the farm are expected to average $2.90 to $3.40 a bushel in 1980/81, compared with an average of about $2.50 in 1979/80.

Soybean production may drop 17 percent. However, substantially larger U.S. and world carry in stocks of soybeans and other oilseeds, coupled with some slowing in the demand for soybean products, particularly in the United States, will temper price increases in the new season.

Soybean meal prices are expected to average $185 to $255 a ton in 1980/81, up from around $180 a year earlier.