

# Feeder cattle prices to rise in coming months

WASHINGTON, D.C. — Although cattle feeders can expect some improvement in feeding margins this fall, the key word is caution. The uncertain outlook for interest rates, consumer demand for meat, cattle prices, and feed costs will require careful planning in making management decisions this fall.

## Economic Uncertainties Abound

A key unknown right now is the economy and its effect on consumer demand for beef. The economy has begun to slow again, returning to the stagnation that's kept consumer incomes little changed—despite high inflation—since 1979. Inflation has been easing lately, but real incomes (in 1972 dollars) may increase only marginally through next summer.

The income tax cut beginning October 1 will bolster consumers' disposable incomes. But its effect on meat demand will depend on how much of the additional income consumers save and how much they spend...and how much of the spending goes for food.

Overall, don't look for much help soon. Next summer's larger cut will likely be more beneficial for livestock producers, especially if the economy has begun to perk up by then as anticipated, according to USDA's Economic Research Service.

The interest rate outlook is even less certain. Rates continue at near record levels, and they're expected to remain high through year-end.

## Brighter Prospects for Feed and Forage

Forecasts indicate the second largest U.S. corn crop in history and perhaps only moderate growth in export demand. Therefore, corn prices over the coming year could fall to an average of \$2.70 to \$3.15 a bushel, compared with this year's estimated \$3.15.

A larger soybean crop is also in the works, pointing to soybean meal prices of \$180 to \$210 a ton in the coming season, down from this

year's average of \$220. These lower prices may help return cattle feeders to a breakeven situation later this fall, if feedlot placements or feeder cattle prices don't rise too much in late summer and fall.

Most areas report favorable forage and pasture conditions. Recent good rains in small-grain grazing areas and accumulated pasture may bolster stocker demand and hold the line on culling rates.

## Competing Meats:

### Less Pork, More Poultry

Pork producers cut output substantially in the past year. Although last winter's production was only 1 percent below the large level of the previous year, spring output declined 10 percent. For the second half of 1981, pork production will remain 7 to 9 percent below last year's levels.

In contrast, broiler supplies are large and increasing. Second-half output may rise 6 to 8 percent from last year's heat-stressed levels. And with beef supplies likely to remain plentiful, total red meat and poultry supplies will be large—especially considering the sluggish economy and resulting weak demand for beef.

## Smaller Feedlot Inventory

### Positive for Fall Prices

Cattle on feed on July 1 numbered 1 percent below a year ago, the least for this date since 1975. The fewest calves on feed since 1964 accounted for all of this decline. Cattle in the heaviest weight groups, those normally marketed during the summer quarter, were up sharply—reflecting increased placements of heavier cattle this spring.

With pork production down and feedlot marketings current, the larger number of cattle ready for slaughter shouldn't cause too much concern. Marketings were good in July and August, and dressed weights for steer carcasses in mid-July were down 30 pounds from last winter, when

overweight cattle depressed the market.

It's important that fed cattle marketings remain current. Otherwise, weights could rise enough to make the increase in slaughter numbers burdensome.

If cattle feeders keep marketings current, the situation should change by the fourth quarter. Smaller feedlot placements in June, July, and August suggest a decline in fourth-quarter fed cattle marketings, which could help strengthen prices. Nevertheless, margins for most feeders will likely stay negative until late fall; even then, only moderate improvements are anticipated.

## Feeding Margin Outlook Fair at Best

Your feeding costs are now almost certain to decline. However, interest rates and other production costs remain high. So, with only modest price gains projected for fed cattle, feeding margins won't improve much. In addition, feeder cattle prices may rise this fall, which could absorb much of the cost savings feeders would otherwise get.

On July 1, the number of feeder cattle outside feedlots was 1 percent above a year ago. Calf supplies were up 2 percent, yearling supplies down 3 percent. Improved grazing prospects for the fall and winter may boost stocker cattle demand, which, with the somewhat tighter supply, could lift feeder cattle prices.

Each 25-cent drop in the price of a bushel of corn reduces the cost of producing 100 pounds of fed beef by about \$1. The same price decline for corn means you could pay \$2 per cwt. more for feeder cattle and still break even. These breakeven levels will vary from feedlot to feedlot, but they should help as a guide for your actual situation.

## The Key Word: Caution

Most of the factors that have kept prices from advancing this year still apply, and cattle feeders

have virtually no control over them. Some things you can control, however—for example, keeping your marketings current.

Heavy slaughter weights last winter drove down cattle prices. At this point, the industry can't afford the additional production resulting from heavier animals, and feeders can't afford the higher feeding

costs and typically large price discounts that heavy cattle carry.

At best, look for only moderate gains in fed cattle prices this fall. Even then, improved demand for feeder cattle could wipe out any improvement in feeding margins resulting from higher fed cattle prices or lower feed costs.

## BREAKEVEN FEEDER STEER PRICES<sup>1</sup> IN THE CORN BELT ...

Corn price, \$ per bu.	Choice fed steers, \$ per cwt.					
	55	60	65	70	75	80
2.50	44.66	53.41	62.16	70.91	79.66	88.41
2.75	42.79	51.54	60.29	69.04	77.79	86.54
3.00	40.91	49.66	58.41	67.16	75.91	84.66
3.25	39.04	47.79	56.54	65.29	74.04	82.79
3.50	37.16	45.91	54.66	63.41	72.16	80.91
3.75	35.29	44.04	52.79	61.54	70.29	79.04
4.00	33.41	42.16	50.91	59.66	68.41	77.16

## ... AND IN THE HIGH PLAINS

2.50	40.32	49.12	57.92	66.72	75.52	84.32
2.75	38.15	46.95	55.75	64.55	73.35	82.15
3.00	35.97	44.77	53.57	62.37	71.17	79.97
3.25	33.79	42.60	51.40	60.20	69.00	77.80
3.50	31.62	40.42	49.22	58.02	66.82	75.62
3.75	29.44	38.24	47.04	55.84	64.64	73.44
4.00	27.27	36.07	44.87	53.67	62.47	71.27

<sup>1</sup> Feeder steer prices consistent with breakeven, given farm corn prices and prices for 600-lb. medium frame No. 1 (Choice) feeder steers and 1,050-lb. Choice fed steers. Assumes all other costs at June 1981 levels.

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