WEEKLY OUTLOOK

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WHERE DID THE CATTLE CYCLE GO?

THE JULY 1 INVENTORY OF CATTLE RELEASED ON JULY 26 indicated a change in direction for cattle numbers. After increasing for two years, cattle numbers appear to be moving downward. Cattle and calves on July 1 totaled 123.7 million, down 1 percent from July 1, 1981. The number of beef cows decreased 3.7 percent to 38.6 million, and the number of heifers for breeding declined by 1.8 percent. The 1982 calf crop was estimated at 43.6 million by the USDA, down 2.6 percent from 1981. The calf crop is small in relation to the number of cows in the January 1 inventory. The low calving rate is typical of years in which cow numbers are reduced.

On the other hand, dairy cows and dairy replacement heifers increased by 1.5 percent. This increase has occurred in spite of the current milk surplus that is receiving extensive congressional and media attention.

If the estimated reduction in cattle numbers materializes, the present cattle cycle will have been the shortest on record. In the last cycle, cattle numbers increased for eight years from 108.8 million head on January 1, 1967, to 132.0 million on January 1, 1975. The four-year liquidation to 110.9 million on January 1, 1979, was the fastest and largest on record. In the past, it has been generally accepted that a normal cattle cycle consists of a 7-year increase followed by a 7-year decrease. The events since the mid-1970s, however, suggest that a true cattle cycle no longer exists and that short-term market factors now control beef supplies.

Why is the beef cattle liquidation taking place? Forage supplies are large enough to support more than the current inventory of beef cattle. Grain supplies are also very large, and low-priced grain usually results in favorable feeder cattle prices. The answer must be that nonfeed costs are forcing cow-calf operators to liquidate. The main nonfeed cost is interest. Cow-calf operators have had to curtail expansion plans and reduce herd size to lessen interest costs. However, the favorable underlying circumstances suggest that cattle numbers will probably increase when interest rates go down.

The main implication of the July report is that beef production for the rest of 1982 will be larger than previously expected, and production in 1983 will be about the same as in 1982. Had the 1982 calf crop been as large as it would have been in the absence of liquidation, beef production in 1983 would have been about 3.5 percent above that of 1982.

More moderate beef supplies during the year ahead may result in moderately higher cattle prices. However, there are two offsetting forces. First, the abundance of cheap feed will sooner or later increase supplies of pork and broilers, and thus keep beef prices down. Second, consumer demand during a recession apparently does not support wholesale beef prices much above $1.00 to $1.10 per pound--the price range that has existed for about three years now. Smaller beef supplies in 1982, therefore, and continued, moderate inflation may push the wholesale beef prices toward the upper limit of the price range, though not much beyond it.

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