American cattle herds are being cut back to a dangerous level

by Cynthia Parsons

The cattle industry, the largest segment of American agriculture, is undergoing changes of which even the keenest lobbyist for the industry is unaware. Sharp herd reductions, increased feedlot placement, and lower meat prices relative to other foods in the supermarket, coupled with reduced consumption, have created a conjuncture which has disoriented the usual progression of the cattle cycle. Such a situation does not bode well for either the producers or the consumer because, once herds are depleted, a very long time is needed to rebuild them. Thus the American population must consider a future where red meat will be considered a luxury item [see Figure 1].

The National Cattleman's Association (NCA), the cattle industry's umbrella organization, has been misleading the industry into believing that the future is looking hopeful and that there is an economic upswing on the way, in the hope that farmers will not rush to liquidate their herds, and that the bankers providing credit to producers will continue to assist. Also, livestock market analysts are using the upswing hoax to predict that cattle prices will rise during this year, with the peak to occur in late March, followed by another decline. But how can there be any recovery in the livestock industry, let alone the general economy, when herds are already being liquidated? Is this the rosy hope for the industry?

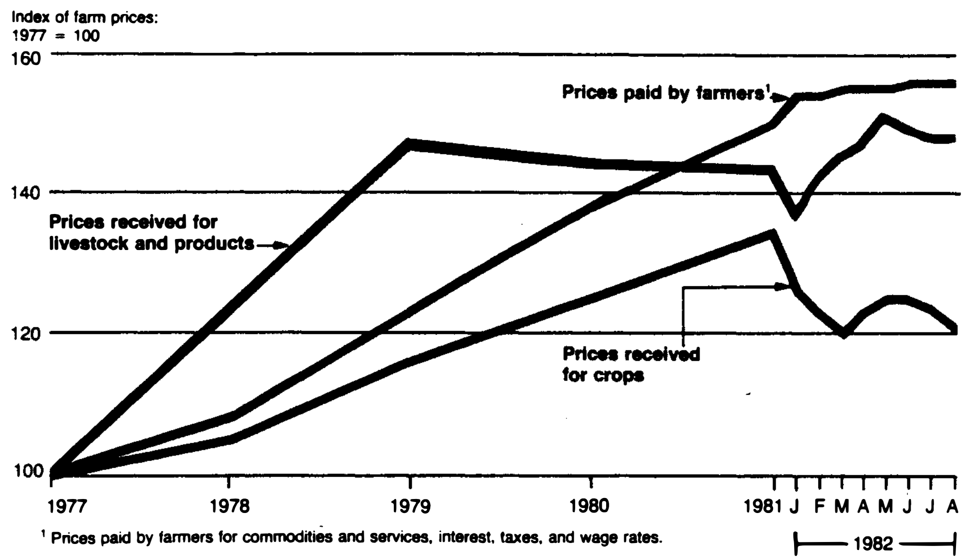
Herd liquidation

The reality is far from rosy or hopeful. Farmers throughout the country are reporting that cattle numbers are down significantly, especially cow calves, and that reductions are far in excess of those reported by the Department of Agriculture.

The small- and middle-sized farmer who combines cattle raising with field crops has carried the dominant share of the cow calf production. This is exactly the same group of farmers most affected by the economic depression, those who are being forced to leave their land. These farmers generally carry affected by the economic depression, those who are being forced to leave their land. These farmers generally carry about 50 percent of U.S. cattle. As they give up farming they give up their cattle. Actually, they have been selling off their cattle for some time, in order to raise ready cash.

Cattlemen are the most heavily financed of all farmers

Figure 1
Fundamental problem: The failure of farm prices—particularly for crops—to keep pace with rising production expenses.

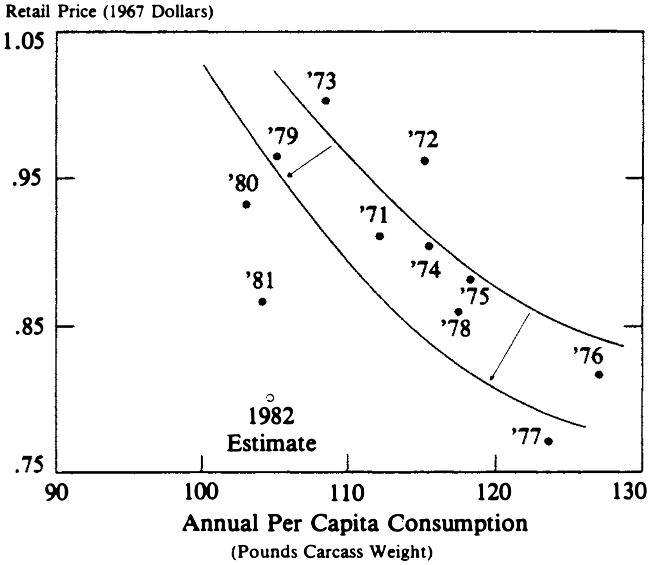


¹ Prices paid by farmers for commodities and services, interest, taxes, and wage rates.

Source: *Farmline*, October 1982, USDA.

Figure 2

Illustrative demand curves for beef in the United States, 1971-81.



Source: Federal Reserve Bank of Kansas City, 1980

and, like the grain farmer, have had to bear the cost of three years of high interest rates and reduced incomes. But there is only so much loss they can absorb. Cattle prices have been lower than the real cost of production during this period and the average farmer can no longer afford to raise cattle. This leaves the industry primarily in the hands of the larger ranchers, conglomerate real estate speculators, and oil companies like Arco, the latter group having very little interest in maintaining herds if they become unprofitable.

Many farmers have voiced a fear that what is happening here is what occurred in Canada during the 1970s. Fifteen years ago, they say, Canada was a large cattle breeding country. Today, feeder cattle are no longer produced, and what remains are in the hands of foreign companies.

The cattle cycle

The cattle industry is characterized by cyclical inventory accumulation and liquidation, and has been since the late 1800s. These cycles have typically taken from 8 to 12 years to complete, and are greatly influenced by prevailing economic conditions.

Since 1975, the cattle cycle has not followed a normal pattern. The onset of the mid-1970s depression, plus the oil price rises, and the 1979 interest rate hike, dampened the normal expansion of herds. Thus inventory numbers remain well below the peak of 131 million head of 1975. The most recent USDA statistics show that U.S. herds as of Jan. 1, 1983 were at 115 million head, and cattle experts predict further reductions this year. The same USDA report shows a 3 percent decline in the beef breeding herd, and a 4 percent decline in the number of heifers being saved for beef herd replacement. Thus the seven to nine year breeding cycle has been drastically changed for this, the fifth year in the cycle. In addition, the 1982 calf crop was 44.4 million head, the second consecutive year of decline.

The sharpest reductions occurred in Oregon, California, and Nevada, where beef cow inventories declined 8, 10, and 11 percent respectively. Reductions also occurred in the southeastern states, primarily Georgia, Florida, and Alabama. One Georgia farmer claimed that cow calf numbers in Georgia were down 80 percent from the mid-1960s.

Feedlots overflow

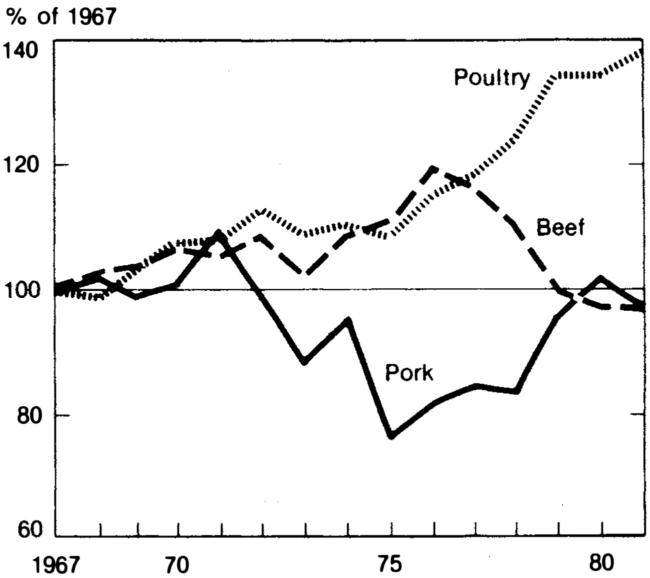
The February USDA *Livestock and Poultry Outlook* report shows that marketings and placements were close to target until December 1982, when 7 state placements ran 18 percent over the previous year. The number of heifers on feed was up 28 percent over last year, and is at the highest level since 1978. The number of cows on feed was up 26 percent, the highest level since 1979, the end of the last cycle. These inventory figures confirm that herd liquidation is still underway.

Feedlots are large eating factories. Approximately 1 percent of the operations, those with units of 1,000 head or more, account for about two-thirds of the fed-cattle marketings. Operations with less than 100 head account for almost 90 percent of the farms with cattle on feed, but they sell less than 15 percent of the fed-cattle marketed.

Feedlots have been going out of business, declining 6

Figure 3

Per capita consumption of meat



Source: USDA, *Agricultural Charts,* 1982 percent during 1982. The number of cattle feedlots in the 13 major feeding states declined 5 percent in 1982, from 70,892 to 66,743. Feedlots with capacities to feed 1,000 head and more dropped by 67, while the number of smaller lots declined by 4,082.

Since 1980, the marketing pace of cattle has slowed, creating overflowing situations in feedlots. Last fall, feedlot placements rose 16 percent. Increased numbers mean more expense for the feedlot owner. These numbers have swelled because prices for cattle have been falling. However, feedlot marketings for the first quarter of 1983 are up by 11 percent, the largest in three years, yet still below those reached in 1978-79.

The "spread," or difference between prices paid to cattle farmers and what processors and retailers receive, has fallen from a stable $1 in the recent period. The spread between these prices, considered an indicator of economic health by the cattle industry, is as low as 90 cents.

Commercial production of beef rose only 1 percent during 1982, while feedlots tried holding out for higher prices. Now the slaughterers are not buying, in an attempt to create a slight shortage to push prices up. During 1983, the fed-cattle proportion of total slaughter is likely to rise about 70 percent.

Demand down

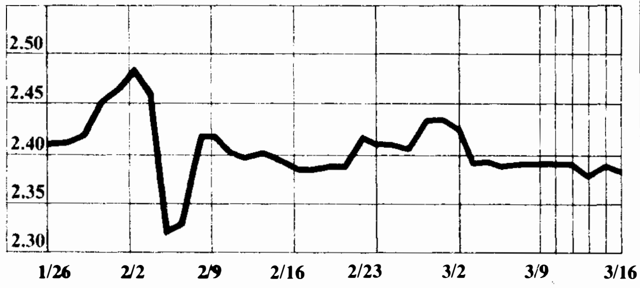
Despite the fact that meat prices are relatively low, consumption is continuing to fall. A Texas A&M University cattle economist explained that historically supply has always kept pace with demand—as if there were no reality outside of the economic balance sheet. But the plain truth is that most families have already removed the higher cost cuts of meat from their budget. Quite startling is the statistic that 35 percent of all meat consumed per capita is consumed outside of the house, in the form of hamburger and other fast food (see Figures 2 and 3).

Red meat consumption declined 4 percent in 1982, while all meat consumption was down 2 percent, the largest decline appearing among the "blue collar" worker users. According to statistics gathered by the NCA, the heaviest users of beef traditionally are the industrial "blue collar" workers in the medium- to upper-income levels for their type of work. The heavy users of red meat represent only 30 percent of the population, but consume 53 percent of the meat. The LaRouche-Riemann data base shows that the productive workforce has declined from 33 percent in 1977 to 28 percent in 1982, which accounts in part for the decline in meat consumption. On the other hand, the white collar workers, representing now about 71 percent of the workforce, have been rejecting meat for other reasons. They have been the victim of the "cholesterol is dangerous for the health" line, and have rejected red meat in favor of foods which they perceive as being "lighter." Consumer disposable income spent on all meats dropped from about 5 percent during the 1960s and early 1970s to slightly more than 4 percent today.

Currency Rates

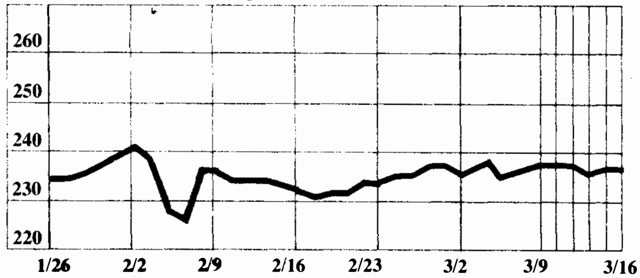
The dollar in deutschemarks

New York late afternoon fixing



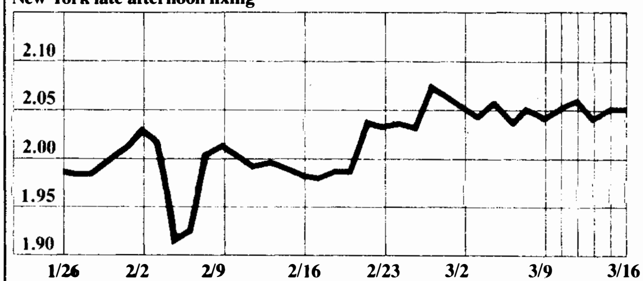
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing