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The Changing U.S. Cattle Industry

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THE CHANGING U. S. CATTLE INDUSTRY

The previous issue of the Newsletter included a discussion of some of the factors which have affected the U.S. cattle industry from outside of the country. This issue will be devoted to selected internal factors.

PRODUCTION. The major production changes in the U.S. cattle industry have been in the size of feeding operations, feeding to lighter weights and an increased output of non-fed animals.

Cattle feedlots are fewer in number and bigger today than a few years ago. In 1962, there were approximately 235,000 feedlots of 1,000 head or smaller. At that time, these feedlots accounted for almost 75 percent of fed-cattle marketings. By 1974, there were only 136,000 small feedlots and they accounted for only 44 percent of fed-cattle marketings. Certainly, the operator of a large feedlot (often 16,000 or larger) views his operation much differently than does the farmer feeder. Major differences in the operation of a typical farm feedlot and a large feedlot include: (1) sources of capital - agricultural versus non-agricultural sources, (2) sources of inputs - at least partially raised versus almost entirely purchased, (3) tax advantages - tax shelters and deferrals against non-agricultural income and (4) market power and practices - a price taker vs. some control over price.

Slaughter weights have decreased from 650 pounds per carcass in 1974 to 570 pounds in 1975. This is largely a result of high prices for grains. The cost of gain above 1000 pounds is much higher than at lower weights. Lacking premiums for heavier weights, the feeder has no economic choice but to market at lighter weights. In addition, when costs of grain are high, the feeder bids down the price of the other major input, feeder cattle. This has caused severe hardships for the cow-calf operator who bears the brunt of lower feeder cattle prices. A price spread of $15 per hundred-weight between fed cattle and feeder cattle has been noted in 1975, with lighter feeder cattle and lower grades very severly discounted.

The increased importance of non-fed (grain) beef production can be easily noted in the following figures. In 1971 fed steers and heifers accounted for almost three-fourths of the total number of cattle slaughtered and 90 per cent of the steers and heifers. In the first three quarters of 1975, fed steers and heifers made up 54 percent of all cattle slaughtered and only 75 percent of the steers and heifers. The main impact here has been in the pricing structure, where price differentials amoung grades and classes have widened considerably. The higher grades are commanding premium prices while cows and others used for processed beef are discounted.

DEMAND. The demand for beef has increased somewhat in the last decade. This increase has been the result of both a slightly larger U. S. population and higher incomes. In 1965 the per capital expenditure for beef was approximately $59. This expenditure bought 99 pounds of beef and amounted to 2.42 percent of disposable income. In 1974, the expenditure had increased to $116 per person and bought 117 pounds of beef. The percent of income spent for beef remained relatively stable at 2.5 percent. Thus, the demand picture was favorable, that is, beef continued to represent a fixed part of the consumer's budget.

The favorable demand picture should not, however, be viewed as a permanent fixture. Changes in government programs, such as the food stamp or school lunch programs, shifts to non-meat proteins or the impacts of recessions or inflations could make the demand picture less favorable. The diets of many Americans probably have been upgraded more in the past few years than will likely be the case in the future.

MARKETING. A major change in the marketing of cattle has also occurred in recent years. In 1960, almost one-third of the calves marketed in the U.S. were marketed through auctions. In 1973 almost three-fifths were marketed using that method. Most of the increased marketings through auctions was at the expense of terminal markets.

A shift also occurred in the marketing pattern of slaughter cattle. In 1960, direct marketing accounted for only 39 percent of cattle marketings. By 1973, 72 percent of the cattle were marketed in this manner. Again, the shift was primarily at the expense of the terminal markets.

A major result here is that producers must be more knowledgeable in their marketing practices. Selling direct reduces the number of transactions involved, but also places the buyer and seller on a one-to-one basis. If the seller is not knowledgeable, he will be at a severe disadvantage.

In summary, only a few of the major factors have been discussed. Even then, it is easy to see that the industry has changed. Unless the producer continually updates his knowledge, he will soon fall behind. The days of keeping a cattle enterprise as a luxury or as an enterprise which doesn't require much planning are gone.

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