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# Economics Newsletter

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## Livestock Outlook

by

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A few years ago if someone had said that hog prices would be around \$50, fed cattle prices between \$65-70, and feeder calves in a range between \$70-80, producers would have been happy. Today, when we look at that set of price forecasts for late 1981 and early 1982, the average producer isn't elated. In fact, for most, the prices noted are close to breakeven levels and for some producers losses are likely to occur.

In the discussion below, two factors should be kept in mind. First, much of what will happen to livestock prices will depend on the status of the economy in general. It is assumed that there will be little improvement in the economy in the next few months and that upward demand-type pressures will be minimal. Second, while the corn crop is somewhat assured for much of the corn belt, an early frost, harvesting problems, and changes in the export picture could have an impact on grain prices. It is assumed that there will not be drastic changes there and feed prices will not change appreciably.

### Outlook for 1981-82

Hogs - The outlook for hogs, while not highly optimistic, is somewhat better than for most other livestock categories. Supplies of hogs for slaughter, at least through mid-1982, are expected to be below year earlier levels. That, coupled with an aggressive promotion program by the hog industry and movement of pork into previously "other meat" markets, provides

an outlook for prices comparable or slightly above year ago levels.

Current price forecasts are for slaughter hog prices to be in the upper \$40's to low \$50's for this fall, some improvement to the low to mid-\$50's for the first half of 1982 and then the low \$50's for later in 1982. Even then, with high interest rates and increases in most other production expenses, with the possible exception of grain, \$50 is about what is needed to cover costs and still allow some return to labor and investment.

Fed Cattle - Prices in the mid to upper \$60's appear to be in line for the feedlot operator this fall. While some improvement is possible by early 1982, the general state of the economy probably will prevent large price increases.

Supplies of fed beef are not expected to be much different than those of one year ago. The supply of non-grainfed beef (cows and grass fed cattle) will depend on weather, cow-calf profits and feedlot profits. However, supplies of beef from that source are not expected to change drastically from last year. All this really means is that any major price improvement above the levels noted above will have to come from the demand side. As noted earlier, that is unlikely. Even if it did occur, the mid-\$70 area seems to be a ceiling that will be tough to penetrate, just as the situation has been for the last two years.

While a large supply of grain at somewhat lower prices may help the feedlot operator, other costs of production are still high. In order to maintain even close to a breakeven situation, feedlot operators will probably lower their bids for the feeder cattle they buy.

Feeder Cattle - Feeder cattle prices will depend on fed cattle prices, grain prices, interest rates and feeder cattle supplies. A large corn crop and somewhat depressed prices should give feeder cattle prices a slight boost. On the other hand, generally non-optimistic fed cattle price forecasts and high interest rates also are definite negative factors. Finally, feeder cattle supplies, while not oppressive, are at least equal to year ago levels.

The above factors lead to a price forecast for feeder cattle below last year's levels, probably by \$10 or more. Heavy feeder cattle, those above 700 pounds, probably will sell below fed cattle prices or somewhere in the mid-\$60 area. Light-weight calves, 400 pounds, will sell at a premium to fed cattle prices, but not as much of a premium as was true in 1979 and 1980. A range of \$70-80 seems likely.

Sheep - The sheep and lamb market is very difficult to forecast. Both the supply and demand side are subject to rapid and wide fluctuations. Prices should improve from Summer-1981 levels and could move up to the high \$60's by early 1982. Since large price fluctuations are possible, not only on a month-to-month basis but also on a

day-to-day basis, this is one market that producers should watch closely.

### Implications for South Dakota

Income from the livestock industry in South Dakota will continue to be a leading contributor to the state's economy. Beef cattle income will lead the way. However, because prices are not expected to move up drastically, and because costs seem to have a way of continuing their increase, net income from livestock may be down.

In addition to the relatively pessimistic price outlook for most livestock categories, at least through mid-1982, many areas of the state have been hit hard by unfavorable weather. This has both reduced numbers of some categories of livestock and has increased production costs.

There is more optimism for the period beyond mid-1982. The supply side for most livestock categories is favorable. Demand will remain as the unanswered question. And, consumers will pay more even if farm-level prices don't go up. That is because the costs of processing, transporting and storing livestock and livestock products will go up.

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