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## Factors Affecting the Outlook for Beef Cattle

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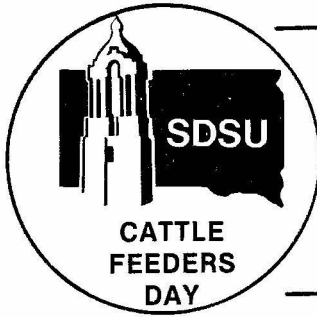
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## FACTORS AFFECTING THE OUTLOOK FOR BEEF CATTLE

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### Supply

During the past two or three years, large supplies of feeder cattle, fed beef and non-fed beef dominated the outlook picture, forcing prices to very low levels. The supply side still dominates the picture but, at least for some aspects of the industry, the affect is a positive one.

The number of cattle on feed is the most significant supply factor, at least for the short-term. While not a strong negative factor, fed beef supplies are at least adequate for the next few months. Encouraged by prices higher than were experienced in most of the past two or three years, cattle feeders placed almost all available feeder cattle in the feedlot. This situation has continued in spite of relatively high costs of feeder cattle, tight and costly credit and somewhat stronger grain prices than some had expected.

Because of the high cost of feeder cattle and fed cattle prices above the cost of gain, another aspect of supply has appeared. Cattle feeders are holding cattle to heavier weights before selling. The combination of large numbers on feed and heavier selling weights should produce a relatively large supply of fed beef, at least for the next few months. Somewhat smaller fed beef supplies are likely later in 1979.

If the above aspects of beef supply were the only ones considered, the result would not be very optimistic. However, other aspects of supply are somewhat more optimistic. And, the other supply factors are strong enough to offset the downward pressure of fed beef supplies. The supply of processing beef is reduced. Cow slaughter is expected to be down considerably. Also, the supply of non-fed steers and heifers should be down as most animals went or will go into the feedlot. Reductions in supply of the processing beef categories will likely offset any increases in the supply of the fed beef categories, especially by mid-1979 or maybe even earlier.

In addition to the internal supply, imports are not expected to have a major impact. The major beef exporting countries are in somewhat the same position as is the U.S. -- a reduced cattle inventory, one ready for some rebuilding.

The net result of the supply factors noted above should be a supply of beef large enough to limit price improvement to only modest increases early in 1979. However, the supply factors are not likely to hold back price increases later in the year.

### Demand

The demand picture is a little cloudy. Talk of a possible slow-down in the economy, a continued high rate of inflation, or both has cause some concern about consumer demand. While beef is still a "good buy", it is an item that is purchased often. And, when the price of a product which is purchased often goes up, the buyer notices quicker than for a product that is purchased less often. Just what action the consumer will take is not clear. Since beef is a good buy, the consumer may continue to buy. Or, some reduction in beef purchases may occur as shifts are made to other protein foods, both meat and vegetable. Or, complaints from consumer groups may cause governmental intervention. Regardless, the price impact of even a lower demand is not expected to offset the impacts from the supply side which were noted earlier.

### Other Factors

One other area, possible governmental intervention, should be noted. Most of the uncertainty about beef prices appears to be in an upward direction. That is, more factors point to higher prices (maybe even extremely higher prices) than there are that point to lower prices. If higher beef prices are noted, especially if an inflationary trend continues, there is the possibility that there will be governmental intervention. This could be either a relaxation of import quotas or imposition of price ceilings. If import quotas were changed, the psychological impact would likely be greater than the actual impact. However, as noted in mid-1978, this could be significant. A price ceiling would have both a psychological and actual impact on prices. While neither of the possible governmental actions is desired by the industry, they certainly must be considered as possibilities.

### Summary

The outlook for beef cattle has more positive aspects than it has negative ones. The net impact of supply is positive. While demand is not easily predicted, it is not expected to have strong negative influences. The major cloud appears to be possible government action.