Interest rates strangle livestock

The new upward ratchet has jerked the noose around the $35 billion U.S. industry.

For more than a week now, livestock prices have registered limit declines on the Chicago commodity markets. Prices are pacing the across-the-boards fallout in other commodities because of the cattle industry's particularly dire straits and special vulnerability to usurious interest rates. Traders anticipate that the new spurt in interest rates will force a selloff of animals to feedlots or for slaughter at the same time that economic austerity is cutting markedly into consumer demand for meat.

Cattlemen have been losing money since 1974 when the oil hoax and monetary turmoil provoked a stampede of investment capital out of the industry. By now, the longest and most severe liquidation phase in the history of cattle cycles has reduced the U.S. cattle herd to its lowest level in 10 years—even below the trough of the previous cycle.

Ranchers hoped that the tight supply would start producing a profit, and got some encouraging indications in 1979. They began preparing to rebuild their herds. In 1980, they were greeted with the Volcker interest-rate program which shot rates up to the 20 percent range for the first time since the Civil War. With drought, high-priced feed, and slack consumer demand, instead of rebuilding herds, ranchers were forced to continue liquidating, where they weren't driven out of business altogether.

In the past year, according to the U.S. Department of Agriculture, at least 20,000 cattle ranchers and feedlot operators have been forced out of business. There are now about 1.27 million remaining, down *11 percent* from 1975.

So far, 1981 seems to be bringing more of the same. In some parts of the country, drought is combining with interest rates in the unprecedented 21 percent range to force ranchers to slaughter cattle or sell them to feedlots at a loss rather than hold them and feed them, risking even greater losses down the line.

Since March 1980, according to the National Cattlemen's Assocation, the index of prices cattle raisers paid for feed, interest, wages, and taxes rose 11 percent during the same time that the index of prices received for cattle *dropped* by 7 percent.

Producers today are losing at least $200 on every calf they raise. Dependent on adequate supplies of reasonably priced credit because the industry's capital investment is high, lead time long, and margins paper-thin, cattlemen are trying to survive by mortgaging their land, borrowing more than ever, switching more rangeland to crops, and further reducing their herds.

The glut of meat supplies in the market has fueled the price declines, exacerbating the crisis. Cunsumers experience this as a reduced cost of meat at the supemarket. But the further the price spiral descends, the closer we approach the point where bankruptcies will disrupt meat production altogether, sending prices into the stratosphere and disrupting supplies.

Before interest rates started zooming up again, the March 13 USDA cattle-on-feed status report pointed to the glut of meat supplies. At that time, fed cattle marketings were lagging 9 percent behind year-earlier levels at the same time that cattle being placed on feed was only down by 3 percent—a net gain at the feedlot. Meanwhile, larger than usual supplies of nonfed beef continued to pour into the market.

This week, interest-rate developments were compounded by anticipation that the May 14 USDA report of cattle-on-feed would again show an inceased rate of placement of animals on feed during April, this time by as much as 10 to 25 percent above the year-ago level.

Feedlot operators are no more fortunate than the cow-calf men who raise feeder cattle for them. Operators of the feedlots where young animals weighing about 600 pounds are fattened to slaughter weight of about 1,000 pounds are squeezed by the same high feed and financing costs. As Kenneth Monfort, president of Monfort of Colorado, Inc., a large cattle feeding and meatpacking company, told the *Wall Street Journal* recently, "A story about the beef industry belongs in the obituary column."

Monfort, which closed one of its beefpacking plants in December because, as the company said, high interest rates prevented the necessary capital spending, was also forced to shut down one of its two feedlots recently.