

Cattle Industry Still in Expansion Mode, at Least for Now

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Once a year USDA releases its comprehensive cattle report, which includes survey-based estimates of the all cattle and calves inventory, the 2016 calf crop, beef and dairy cow inventories, in addition to a variety of other inventory estimates that provide clues regarding future cattle and beef supplies. This year's report, released on January 31st, was of particular interest because of the collapse in both fed and feeder cattle prices that took place during 2016. The dramatic price decline, and resulting falloff in profitability by cow-calf producers, led to questions about possible impacts on industry expansion. The report leaves little doubt that the industry is still in expansion mode, at least for now.

USDA estimated the January 1, 2017 all cattle and calves inventory to be 93.6 million head, 1.8% larger than a year earlier. The all cattle and calves inventory bottomed out on January 1, 2014 at 88.5 million head so this year's inventory estimate is nearly 6 percent larger than it was at the bottom of the inventory cycle. The total inventory increase was in-line with most trade observers pre-report expectations.

Unlike prior years, USDA did not provide a preliminary estimate of the 2016 calf crop back in July since the mid-year cattle report was dropped from USDA's line-up of inventory reports. As a result, last week's report provided the first estimate of the 2016 calf crop, estimated at 35.1 million head, 2.9 percent larger than in 2015. The smallest calf crop of this cycle occurred in 2013 and the 2016 calf crop was nearly 5 percent larger than in 2013.

Keys to future cattle and beef supplies are the beef cow inventory and the number of heifers being held for future replacement or entry into the herd. USDA estimated the beef cow herd to be up 3.5 percent compared to a year earlier and more than 7 percent larger than at inventory bottom in January 2014. Despite the fall-off in prices during 2016, cow-calf operators indicated they are holding back 1.2 percent more heifers for herd replacement this year than last year. That combination means the supply of cattle for slaughter will continue to increase not just in 2017, but also into 2018-2019.

Commercial cattle slaughter and beef production both increased just over 6 percent during 2016 compared to 2015. Cattle slaughter and beef production are both expected to increase again during 2017, although the year-over-year percentage changes are likely to be smaller, perhaps falling in a range of 3 to 4 percent.

Larger supplies imply lower prices are ahead. Prices for slaughter cattle in the Southern Plains averaged approximately \$121 per cwt. (live weight) during 2016, which was 19 percent lower than during 2015. During 2017, slaughter cattle prices could decline another 6 to 8 percent as a result of the expected supply increase.

The decline in calf prices during 2016 was even more severe than the decline in slaughter cattle prices. Prices for 500 to 600 pound steers in the Kentucky market averaged \$153 per cwt. during 2016, which was 36 percent lower than a year earlier. Lower slaughter cattle prices during 2017 are expected to exert more downward pressure on calf prices. Recent weekly average prices in Kentucky for 500 to 600 pound steers have been in the upper \$120's. The annual average for 500 to 600 pound steer calves in Kentucky could wind up in the low \$120's, 15 to 20 percent lower than 2016's annual average.