July 31, 2018

In The Cattle Markets

Josh Maples, Assistant Professor & Extension Economist
Department of Agricultural Economics, Mississippi State University

Cattle vs. Beef Cycles

The latest USDA Cattle report provided the most recent pieces of information to the ever-evolving cattle inventory picture. The big news was the number of heifers held for replacement declined year-over-year and the 2018 calf crop is estimated to be about two percent larger than 2017. The calf crop number tells a story of continued larger beef production for 2019 while the lower heifer retention rate suggests herd growth is slowing. Combine the retention rate with cow and heifer slaughter data and they collectively points to a significantly slowing herd growth rate.

Taken at face value, these two pieces of information can seem a little contradictory. One suggests larger supplies while the other suggests lower supplies. Of course, timing is key. The calf crop number is a pretty definitive indicator of larger beef supplies in 2019 because those calves will be going through the beef production system next year. The heifer retention number is an indication that we are probably approaching the next cattle inventory peak over the next few years. Which is more important? The easy answer is both. But the dynamics of the two have changed over time as cycles move from lows (troughs) to peaks and back.

Cattle inventory cycles are getting flatter. By flatter, I mean the difference between the low point and high point has shrunk. The average trough to peak growth for the four cycles that occurred between 1938 and 1979 was about 20.3 million head. The same average for the three cycles that occurred between 1979 and 2014 was just 4.8 million head. For 2018, we are about 5.9 million head above the starting low point in 2014 for the current cycle.

The largest total cattle inventory on record was in 1975 at 132 million head of cattle – nearly 38 million more than the January 2018 report showed. The resulting beef production in 1976 was 25.7 billion pounds. In 2018 – with 38 million fewer total cattle than 1975 – beef production forecasts are around 27.3 billion pounds. Cattle inventory cycles are getting flatter because we are getting more beef from fewer cattle. It doesn’t take a 20 million head increase to trigger enough beef supply pressure on prices to signal producers to retain fewer heifers.

Beef production and demand are drivers for cattle prices. The lower heifer retention rate is certainly welcome news for those looking for an end to the pressure of larger supplies on cattle prices. But a better measure will be the estimated beef production over the next few years.

The Markets

Data Source: USDA-AMS Market News		**Week of 7/27/18**	**Week of 7/20/18**	**Week of 7/28/17**
5-Area Fed Steer	all grades, live weight, $/cwt	$111.73	$112.61	$117.16
	all grades, dressed weight, $/cwt	$176.22	$179.00	$187.48
Boxed Beef	Choice Price, 600-900 lb., $/cwt	$204.83	$204.32	$206.96
	Choice-Select Spread, $/cwt	$6.81	$7.61	$9.33
700-800 lb. Feeder Steer	Montana 3-market, $/cwt	--	--	$151.00
	Nebraska 7-market, $/cwt	$167.35	$162.05	$164.68
	Oklahoma 8-market, $/cwt	$152.59	$152.17	$150.07
500-600 lb. Feeder Steer	Montana 3-market, $/cwt	--	--	--
	Nebraska 7-market, $/cwt	$197.38	$168.50	$181.91
	Oklahoma 8-market, $/cwt	$164.88	$164.76	$163.13
Feed Grains	Corn, Omaha, NE, $/bu (Thursday)	$3.45	$3.35	$3.38
	DDGS, Nebraska, $/ton	$105.00	$100.00	$105.50