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In The Cattle Markets

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Large Decline in Cattle Inventory

The long-awaited Cattle Inventory was released on the afternoon of the 31st. The topline, cattle inventory number indicated 91.9 million cattle in the U.S., down 2 percent from last year. This report is particularly important this year as a longer-term indication of the direction of the cow herd, given drought conditions, pandemic market turmoil, and relative cattle prices and costs.

Of more interest to me is the cow herd and replacement numbers. Cows are the productive engine of the industry. The number of beef cows in the U.S. was estimated to be 30.125 million head, down almost 2.5 percent from last year. That's the fewest beef cows since 2015. The 718,500 head decline from 2021 was the largest year-to-year decline since the 860,000 head decline from 1996-97. It's interesting to note that the report included a significant revision to last year's beef cow inventory, reducing it by 314,000 head. Almost 1 percent fewer dairy cows were reported on January 1.

Regionally, most states in the West reported fewer cows, with California, Washington, and Oregon reporting increases. The Plains states from Texas to North Dakota all reported fewer cows. Texas' 4.475 million cows was the fewest since 2017. Only Louisiana and Virginia reported more beef cows in the South.

Beef heifers held back for replacements were down 3.3 percent from last year. That is the fewest replacement heifers held back since January 1, 2014. While fewer replacements would be needed with a smaller cow herd, a reduction this large indicates some expectations of more herd contraction.

Certainly, the drought contributed to falling beef cow numbers. Cow slaughter in 2021 was well above 2020. But, cow numbers declined in other regions not affected by drought. Calf prices relative to costs has forced some more culling. The inventory report indicates that we are headed towards less beef production and higher prices. A cow herd of this size should also lead to some expectations of calf prices approaching the rarified air of the years following the Texas 2010-2012 drought. The current drought and its development over the coming months will dictate a lot about cow herd over this year. But, good beef demand should also pull prices higher on top of available supplies.

The Markets

Local Texas auction markets reported, generally, higher calf prices last week. Calf prices in the Southern Plains are running about 15 percent higher in January than this time last year. So far this year, Prime beef production is about 1.6 percentage points below last year. That

translates to a 15 percent decline in Prime production. Choice and Select beef production are 0.5 and 1.5 percentage points higher than last year, respectively. These relative supplies will affect the price spreads between USDA quality grades.

<i>Data Source: USDA-AMS Market News</i>		Week of 1/28/22	Week of 1/21/22	Week of 1/29/21
5-Area Fed Steer	all grades, live weight, \$/cwt	\$136.95	\$137.50	\$112.44
	all grades, dressed weight, \$/cwt	\$218.00	\$217.92	\$177.56
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$290.97	\$290.87	\$230.28
	Choice-Select Spread, \$/cwt	\$8.91	\$10.79	\$11.06
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$161.72	\$162.97	\$138.87
	Nebraska 7-market, \$/cwt	\$166.13	\$167.81	\$143.88
	Oklahoma 8-market, \$/cwt	\$156.00	\$160.17	\$134.04
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$195.38	\$195.77	\$173.08
	Nebraska 7-market, \$/cwt	\$201.66	\$199.96	\$172.18
	Oklahoma 8-market, \$/cwt	\$187.54	\$185.60	\$164.41
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$6.27	\$6.12	\$5.15
	DDGS, Nebraska, \$/ton	\$240.00	\$229.00	\$226.00