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Weekly Outlook: Beef Herd Expansion Near End?

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Looking back a decade or so, the high feed price era from 2007 to 2013 caused downsizing of the beef industry. Beef cow numbers reached a low in 2014 which resulted in record high finished cattle prices near $148 per live hundredweight in 2015. Record high calf prices then stimulated expansion of the breeding herd. As an example, Kentucky 500 to 550 pound calves were $236 per hundredweight in 2015.

From the low point in 2014, beef cow numbers have expanded by nine percent. Total cow numbers including dairy cows are up seven percent. Commercial beef production has increased by 11 percent a combination of seven percent more cows and a four percent increase in beef output per cow.

The mid-year *Cattle* inventory from USDA tends to support the idea that the five-year herd expansion rate has leveled off, perhaps signaling an end to the expansion. The total number of cattle and calves was unchanged in the July survey of producers. Beef cow numbers were unchanged from a year-ago, and milk cow numbers dropped one percent. USDA also reported that the 2019 calf crop may actually be down modestly which will slow beef production increases for 2020 and 2021.

Another sign of producers' unwillingness to continue expansion are fewer replacement heifers going back into the breeding herd. Beef replacement heifers were down four percent and dairy replacement heifers were down two percent. In addition, weaker calf prices are not providing financial incentives to expand. Kentucky steer calf prices so far this year are $7 lower than for the same period last year.

Trade has been a negative factor for cattle prices so far this year, but that may improve. Beef exports in the first five months were down three percent. However, current sales indicate a more rapid export pace for the rest of the year, and USDA analysts suggest annual exports may be unchanged for the year. China remains the biggest concern as their volumes were down 39 percent in the five months for which we have official census data. China purchased around one billion dollars of U.S. beef per year prior to our trade conflicts. So, prospects of negotiations with China on trade will likely have impacts on the cattle markets as well as a number of other important agricultural products.

In the *Cattle on Feed* report, USDA indicated a two percent increase in the numbers on-feed which was a record large inventory for July dating back to 1996 when they started just reporting on feedlots with 1,000 head of capacity or larger. While a record, the numbers were in line with expectations prior to the report.

While there are more animals on-feed the mix of steers and heifers provides further evidence that brood cow producers are sending more heifers to the feedlots rather than holding them back for breeding stock compared to a year-ago. While total numbers on-feed are up two percent, the number of steers are down two percent but heifers are up eight percent from last year. This lends additional support to the idea of leveling off of the brood cow expansion.

Domestic beef production so far this year has been near unchanged with one percent more animals being offset by one percent lighter market weights. For the remainder of the year, numbers are expected to rise about two percent, but with a continuation of lighter marketing weights, beef supplies may only rise by a modest one percent.

Higher feed prices will generally support lighter marketing weights for the rest of this year and into 2020. Reduced production of corn and soybeans will increase the costs of energy and protein in diets, but cattle also utilize grazing and forages. The adverse 2019 planting season has opened opportunities to graze and harvest cover crops on prevented plant acres including corn silage starting September 1. In some areas this may increase feedstocks substantially and keep forage prices from rising. But in other regions, spring crop planting was not as delayed and cattle concentrations may be low in areas where prevented plant acres are high. Forages by their nature are bulky and expensive to transport. So, matching the locations of cattle and excess forages is imperfect. Regardless, opening cover crops to grazing and harvest on these qualified acres in September will be a benefit to the beef and dairy sectors.

Prices for finished cattle have been about $1 lower so far this year compared to the same period last year based on USDA's five area direct cattle prices. In 2018 those prices averaged near $117. USDA's current forecast is for a 2019 average of $115.50. Using futures prices after the report and a historic basis has the annual average near $116 for the year.

Some strength in prices can be anticipated for 2020 with the small increase in beef production and potential strength in exports. USDA's July forecast is for finished steer prices to rise to near $119 in 2020. The futures market forecasts (using historic basis) was not as optimistic immediately following the report at $117.

Kentucky steer calves weighing 500 to 550 pounds averaged in the mid-$150 in 2018 and are expected to average in the higher $140's this year as a result of slightly weaker finished cattle prices and higher feed costs. For 2020, calf prices are expected to rise into the lower $150's for these same Kentucky calves. These price levels are unlikely to provide brood cow producers with the financial incentives to continue the recent five-year expansion.

Two additional reasons for brood cow producers to not make major changes in herd size now are the ongoing trade uncertainties and the impact of 2019 weather on feed and forage supplies and prices.

References

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