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Weekly Outlook: Few Surprises in USDA Cattle Reports

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The U.S. cattle herd is known to cycle through periods of expansion and contraction roughly every 10 years or so. High feed prices from 2007 through 2013 contributed to one of those contraction phases with beef cow numbers reaching a low in 2014. Of course, low supplies translate into higher prices, motivating producers to expand. Currently, there are over 7% more beef cows in the U.S. than during the low point in 2014. Last January showed signs that the expansion of the beef herd was leveling off, and recent reports suggest that appears to remain the case.

The USDA's Cattle Inventory report pegs the total number of cattle and calves on July 1 at 103 million head, just slightly above last July's inventory of 102.9 million head, and fairly in-line with pre-report expectations. All cows and heifers that have calved total 41.4 million head, just 0.5% below last July, which is driven by 1% fewer beef cows at 32.1 million head, as milk cows at 9.35 million head are about 0.5% higher than last July. Beef replacement heifers, at 4.40 million head, and milk replacement heifers, at 4.10 million head, remain essentially unchanged from last year, while the category of other heifers weighing over 500 pounds is up 1% compared to expectations of 3.2%, which suggests producers are not really expanding their herds but also may not be cutting back as much as anticipated. For the same weight category, steers are 2% higher and bulls are even with last July. The number of calves under 500 pounds, at 28 million head, is down slightly.

With somewhat fewer cows and heifers calved, the USDA has revised downward its January estimate of the 2020 calf crop to 35.8 million head, so that, consistent with pre-report expectations, it is now 1% below the 2019 level. This may help hold down the number of animals on feed and beef production for the remainder of 2020 and into 2021.

The USDA's July Cattle-on-Feed report, indicates 11.4 million head on-feed or just 0.4% less than July 2019, consistent with expectations that it would be on par. In June, feedlots placed 2% more cattle than a year ago and marketed 1% more animals. Each of those numbers was within the expected ranges but somewhat lower than the ranges' midpoints. The slightly lower number of cattle-on-feed reflects 1.5% fewer heifers and 0.3% more steers than a year ago. Even so, heifers still comprise over 38% of the cattle currently in feedlots, as compared to only 31%-33% during much of the last expansion. This is additional evidence that the breeding herd is leveling off or at least not expanding.

Given the inventory and cattle-on-feed numbers, beef production is anticipated to be no more than 1% higher in 2020 than last year and then drop 2% next year. In terms of domestic demand, per capita beef consumption is expected to remain at about 58 pounds per person in 2020 and drop to 56 pounds per person in 2021. Meanwhile, given limitations due to packer closures, exports have taken a hit this year at 2.5% lower, but are expected to rebound 6% in 2021. U.S. trade agreements with China, Mexico and Canada over the last year should help to bolster exports, provided containment of the coronavirus limits packer closures and adverse effects on economic growth.

All things considered, prices for the next four quarters are likely to follow similar seasonal patterns as in prior years, albeit at lower levels. Slaughter steer prices are forecast to average, respectively, about $99/cwt and $110/cwt for the last two quarters of 2020, and $114/cwt and $101/cwt for the first two quarters of 2021. For 600-to-700-pound feeder steers, prices are forecast to average about $146/cwt and $148/cwt for the last two quarters of this year and $141/cwt and $137/cwt in the first two quarters of next year. Again, the major factors that could result in notably lower prices are uncertainties surrounding trade and the coronavirus. If the virus continues to have negative effects on economic growth, that could depress both domestic and export beef demand, putting further downward pressure on prices.

YouTube Video: Discussion and graphs associated with this article at https://youtu.be/pUBeIumZppU