



Smallest Cattle Herd in Eight Years: Will 2023 Set Record Prices?

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The USDA's January 1 cattle inventory report places the total number of cattle and calves at 89.3 million head, consistent with trade expectations for a 3% decline from a year ago, as the industry continues into a fourth consecutive year of contraction within the cattle cycle. That's approaching inventory lows last seen in 2014 and 2015, at the start of the current cycle, when producers began rebuilding following the drought in 2012. The report mostly confirms anticipated effects of current drought conditions, and with limited availability of pasture and hay, further contraction seems likely. As expected, all cows and heifers that have calved total 38.3 million head, also nearly 3% below last year, reflecting 4% fewer beef cows at 28.9 million head and just a slight uptick in milk cows at 9.4 million head. That's the smallest beef cow inventory since 1962. As further evidence of continued contraction, beef replacement heifers are down about 6% from a year ago, compared to an average pre-report estimate of 3% lower, while dairy replacement heifers and other heifers are down 2% and 3%, respectively. Overall, the inventory of all heifers weighing 500 pounds or more is down about 4%, compared to expectations for just a 2% decline. Steers and bulls weighing 500+ pounds are down 3% and 4% respectively, while the number of calves under 500 pounds is down about 3%.

With around 3% fewer cows and heifers calved, the USDA has revised downward the July estimate of the 2022 calf crop to 34.5 million head, so that it is now 2% below the 2021 level, which should help hold down the number of animals on feed and beef production in 2023 and 2024.

The USDA's most recent *Cattle on Feed* report indicates over 11.7 million head on-feed or just about 3% less than on January 1 of last year. Last December, feedlots also placed 1.8 million cattle on-feed or about 8% fewer than a year earlier and marketed 1.74 million or about 6% less. The mix of steers and heifers indicates that, compared to a year-ago, more heifers are being sent to the feedlots instead of staying on farm for breeding stock. Steers on-feed are down about 4.5% while heifers are down only 0.5% from a year ago, such that heifers now comprise 39.8% of animals in feedlots or 1% more than a year ago, compared to only 31%-33% during much of the last expansion. This is additional evidence that producers have no plans to expand the brood cow herd.

In light of smaller inventory and cattle on feed numbers, beef production is anticipated to be 6.5% lower in 2023 than last year. Lower availability of beef is expected to constrain U.S. per capita beef consumption

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to about 56.3 pounds per person in 2023, compared to more than 59 pounds in 2022, or around 5% lower. Meanwhile, exports are projected to be 13% lower this year, which also reflects lower anticipated beef production and strong beef exports in recent years.

All things considered, prices in 2023 are likely to exceed those of the last couple of years. In fact, current conditions are even bringing about speculation on the possibility of exceeding record prices last set in the 4th quarter of 2014. That seems feasible for fat cattle, which are already trading around \$156/cwt or about \$9/cwt more than in the 1st quarter of 2014. Here, quarterly prices for slaughter steers are forecast to average about \$157.39/cwt, \$160.81/cwt, \$161.81/cwt, and \$166.40/cwt, respectively. This forecast assumes lower quarterly price growth than in 2014, because a longer transition into herd expansion is anticipated due to the lack of potential replacement heifers, uncertainty about inflation and interest rates, and competition from pork, poultry, and imported beef.

Feeder prices also very well may spike above 2014 record levels once producers shift to retaining heifers for herd rebuilding, thereby limiting placements in feedlots. However, again, herd rebuilding is anticipated to be delayed compared to 2014. With the expectation that herd rebuilding is well more than a year off, and given that 600-700 pound feeders are currently trading around \$191/cwt, surpassing records, which averaged about \$257/cwt and ranged as high as the \$270s level in the 4th quarter of 2014, will likely have to wait for another year or maybe two. Here, 600-700 pound feeder steers are forecast to average about \$191.78/cwt in the 1st quarter and then rise to \$205.00/cwt and \$220.85/cwt in the 2nd and 3rd quarters, and reaching \$222.71/cwt in the 4th quarter of 2023. Of course, if improved weather and forage and hay prospects lead producers to retain more heifers earlier instead of sending them to feedlots, higher prices may be realized even sooner.

YouTube Video: Discussion and graphs associated with this article at <https://youtu.be/NWC9UDrQRaU>

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