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Still Cutting the Cowherd

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The USDA's July cattle inventory report estimates the total inventory on July 1 at 95.9 million head, down 2.7% from a year ago, making this the fifth consecutive year of decline. All cows and heifers that have calved total 38.8 million head, also about 2% below last year, which entirely reflects 2.9% fewer beef cows at 29.4 million head with dairy cows unchanged at 9.45 million head. This report indicates the lowest mid-year cattle inventory since 2014, when producers started rebuilding following the drought in 2012. The beef cowherd, in comparison, is the smallest on record.

Most of the USDA estimates come in close to pre-report expectations, with the exception that the USDA indicates more beef and fewer dairy replacement heifers and fewer in the other heifers category, as well as fewer bulls over 500 pounds than anticipated. Beef and dairy replacement heifers are down about 2.4% and 2.7%, respectively, relative to last year, while other heifers are also down 5.2%. Overall, the inventory of all heifers weighing 500 pounds or more is down nearly 3.9%. Within that weight class, steers are down 3.7% and bulls are down 5% from last year. The number of calves under 500 pounds is down about 2.6%. With around 2% fewer cows and heifers calved, the 2023 calf crop, at 33.8 million head, is 1.93% lower compared to expectations of 2.40% lower. Still, a smaller calf crop 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 that feedlots placed 1.68 million head on-feed and marketed 1.96 million last June or about 3% more placements and 5% fewer marketings than in the prior June, bringing the July 1 total number of cattle on feed to 11.2 million head or just about 1.76% less than last July. 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. The 1.76% decline in cattle on feed is due to a 2.9% decline in steers on-feed, as the number of heifers on feed remains unchanged. That means heifers comprise nearly 40% of the cattle in feedlots, as compared to only 31%-33% during much of the last expansion. This is consistent with the reduction in replacement heifers and reflects producers' disinterest in expanding the breeding herd.

With lower inventory and cattle on feed numbers, beef production in 2023 is anticipated to be 4% below the record volume set last year and then drop another 9% in 2024. Accordingly, per capita beef consumption is expected to drop about 2.5% to 57.6 pounds per person in 2023 and then decrease another 8.5% to 52.7 pounds per person in 2024. Meanwhile, exports are projected to decrease 9.3% this year and 8.2% next. Such decreases from record beef exports in 2021 and again in 2022 still reflect relatively strong export demand. Beef exports through May, while 11% lower than last year, are still the third highest on record after 2022 and 2021, with the 2023 total projected to exceed 2020 levels by almost 1%. As a result of such strong demand and declining production, cold stocks of beef are already fairly low. According to the USDA's June *Cold Storage* Report beef stocks on May 31 are down 6% from a month earlier and 20% from last year.

All things considered, high prices are likely to persist for quite a while. Quarterly prices for slaughter steers are forecast to average about $181.66/cwt and $182.12/cwt for the last two quarters of 2023, and $188.95/cwt and $191.91/cwt for the first two quarters of 2024. For 600-700 pound feeder steers, prices are forecast to average about $256.96/cwt and $255.04/cwt for the last two quarters of 2023, and $263.47/cwt and $268.60/cwt for the first two quarters of 2024. These projections reflect tighter supplies and declining but still strong domestic consumption and export demand. With reported inventory levels and the amount of time it takes to expand the cattle herd, whenever producers decide to do so, the downside potential for prices lies mostly with demand uncertainty. That is, if unanticipated events hinder domestic demand or disrupt trade, lower prices may result.

YouTube Video: Discussion and graphs associated with this article at https://youtu.be/U2-ifoPwPOg

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