



## Records are Made to be Broken!

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The USDA’s January 1 cattle inventory report places the total number of cattle and calves at 87.2 million head, consistent with trade expectations for a 1.90% decline from a year ago, as the industry continues into a fifth consecutive year of contraction within the cattle cycle. The report mostly confirms anticipated year over year drops across all inventory categories with fewer beef cows than any time since 1961 and the lowest total inventory since 1951.

As expected, all cows and heifers that have calved total 37.6 million head, also nearly 2% below last year, reflecting 2% fewer beef cows at 28.2 million head and just a slight drop in dairy cows at 9.4 million head. Similarly, beef replacement heifers are down about 1.45% from a year ago, while dairy replacement heifers are just fractionally lower. Overall, the inventory of all heifers weighing 500 pounds or more is down about 1.48%, compared to expectations for just a 0.9% decline. Bulls and steers weighing over 500 pounds are down 0.41% and 1.66%, respectively. Only calves under 500 pounds at 2.73% lower really surprised analysts, coming in below the range of pre-report estimates. Lesser but still notable deviations from expectations include bulls over 500 pounds and the same weight other heifers category, which are both down by 0.41% and 1.97%, respectively, placing them near the upper end of pre-report estimates. While some of the other heifers may yet be bred as replacements, depending on rains and forage development as the year moves onward, a number of these animals are feasibly destined for feedlots. Correspondingly, the 1.45% drop in beef replacement heifers falls within widely ranging pre-report estimates but is nearly twice as low as the average expectation of just 0.75% lower, supporting continued industry contraction. The calf crop at 33.6 million head or 2% below the prior year is, as expected, the lowest since 1940, which should be bullish for feeder calf prices in the near-term and fed cattle prices down the line.

This inventory report puts cattle on feed at 14.4 million head as of January 1 or about 2% more than a year ago. About 82.7% of those animals or over 11.9 million head are in feedlots with capacity in excess of 1,000 head, according to the USDA’s most recent Cattle on Feed report, which is again about 2% more than year ago. Last December, these feedlots placed 1.70 million cattle on-feed or about 4% fewer than a year earlier and marketed 1.73 million or about 1% less. With steers and heifers on feed up 2.3% and 1.8%, respectively, the ratio of heifers to steers, at 39.7%, remains nearly as high as year ago, compared to only 31%-33% during much of the last expansion. This is again evidence that producers have yet to initiate expansion of the brood cow herd.

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In light of the smaller inventory numbers, beef production is anticipated to be 3.2% lower in 2024 than last year. Lower availability of beef is expected to constrain U.S. per capita beef consumption to about 56.5 pounds per person in 2024, compared to more than 58.1 pounds in 2023, or around 2.75% lower. Meanwhile, exports are projected to be 7.6% lower this year, which also reflects lower anticipated beef production and strong beef exports in recent years. Due to relatively strong demand and declining production, cold stocks of beef are already fairly low. While up 6% from the prior month, stocks of beef on December 31 are down 11% from a year ago.

All things considered, cattle prices in 2024 will likely surpass last years' records. Feedlot and packing capacity relative to the availability of cattle to place on feed support quarterly forecasts for steady to rising slaughter steer prices, averaging \$179.77/cwt, \$185.75/cwt, \$183.01/cwt, and \$196.36/cwt, respectively, for the coming year. Given the especially low calf crop and the greater than expected drop in calves under 500 pounds, feeder prices may see a more immediate boost. Here, 600-700 pound feeder steer prices are forecast to average about \$269.65/cwt and \$268.02/cwt in the 1<sup>st</sup> and 2<sup>nd</sup> quarters, respectively, before rising to \$282.57/cwt in the 3<sup>rd</sup> quarter and tailing off seasonally to \$274.22/cwt in the 4<sup>th</sup> quarter. These forecasts reflect current estimates of low cattle supply and a likely prolonged return to industry expansion compared to the last cycle, as heifer retention has not yet begun nationwide. With the supply side seemingly set for higher prices in the coming year, much of the downside uncertainty hinges on maintaining demand and underlying concerns for the economy, inflation, and interest rates. Hence, if domestic or export demand falter, lower prices may be observed.

**YouTube Video:** Discussion and graphs associated with this article at <https://youtu.be/LX5vKP2lewc>

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