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Continued Contraction Supports Record Prices

Jason Franken

Division of Applied Social Sciences
University of Missouri

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The USDA's January 1 *Cattle Inventory* report places the total number of cattle and calves at 86.7 million head, near the upper range of pre-report expectations and down 0.6% from a year ago, as the industry continues into a sixth consecutive year of contraction within the cattle cycle. In general, the report confirms anticipated year over year drops across most 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 37.2 million head, just 0.4% below last year, reflecting 0.5% fewer beef cows at 27.9 million head and slightly more dairy cows at 9.3 million head. Bulls and steers weighing over 500 pounds are both down about 1%, while same weight heifers not intended for replacements are down 0.6%, and calves under 500 pounds are down about 0.2% from a year ago. Both beef and dairy replacement heifers are down nearly 1% from a year ago, each falling below anticipated ranges that had implied increases on average. The calf crop at 33.5 million head, while not matching the average expected decline of 1.5%, is just below a year ago, which remains bullish for feeder calf prices in the near-term and fed cattle prices down the line.

The inventory report puts cattle on feed at 14.3 million head as of January 1 or about 1% fewer than a year ago. About 82.7% of those animals or over 11.8 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 1% fewer than year ago. Last December, these feedlots placed 1.64 million cattle on-feed or about 3% fewer than a year earlier and marketed 1.74 million or about 1% more. With steers on feed up 0.7% and heifers on feed down 3.4%, the ratio of heifers to steers, at 38.7%, is just 1% below a year ago. While this indicates lower rates of heifer placements than a year ago, the ratio is not yet near the range of 31%-33% observed during much of the last period of herd expansion, suggesting that most producers are not yet retaining enough heifers to grow the brood cow herd.

In light of the smaller inventory numbers, beef production is anticipated to be 4.4% lower in 2025 than last year. Lower availability of beef is expected to constrain U.S. per capita beef consumption to about 58.0 pounds per person in 2025, compared to more than 59.6 pounds in 2024, or around 2.68% lower. Meanwhile, exports are projected to be 13.4% lower this year, which again reflects lower anticipated beef production and strong beef exports in recent years but also that the USDA recently revised 2024 values upward due to continued strong beef exports in the 4th quarter, despite high U.S. beef prices and a strong U.S. dollar, while leaving 2025 projections unchanged. Last year at this time, the USDA projected a 7.6%

decline in beef exports from 2023 to 2024, with closer to a 1.4% drop realized based on current estimates. Recent export demand resilience offers some optimism even with prospects for further tariffs and retaliatory actions by trade partners. Due to relatively strong demand overall and declining production, cold stocks of beef are already fairly low. While up seasonally by 4% from the prior month, stocks of beef on December 31 are down 5% from a year ago.

Following a ban on Mexican cattle entering the U.S. in late November due to detection of a screwworm parasite, cattle prices, particularly for feeders, have risen greater than normal to current levels well above last quarter’s average, raising additional questions for the outlook going forward. Still, all things considered, cattle prices in 2025 should again exceed last years’ records. Quarterly forecasts for slaughter steer prices average $200.69/cwt, $203.75/cwt, $200.92/cwt, and $202.63/cwt, respectively, for the coming year. For 600-700 pound feeder steers, prices are forecast to average about $296.88/cwt and $300.84/cwt in the 1st and 2nd quarters, respectively, rising to $304.37/cwt in the 3rd quarter, and tailing off seasonally to $298.49/cwt in the 4th quarter. These forecasts reflect currently low cattle supply and a likely prolonged return to industry expansion compared to the last cycle, as heifer retention still has not started nationwide. Based on USDA information, this forecast reflects current restrictions on cattle from Mexico. While it is anticipated that the ban will be lifted soon, flow of cattle may increase gradually as the industry becomes accustomed to new inspection protocols for cattle from afflicted areas. Whenever normal flow of cattle from Mexico resumes, prices could decrease substantially. Similarly, if tariffs levied by the new administration and in-kind responses by U.S. trade partners respectively reduce export demand and domestic consumer discretionary spending, even lower prices may be realized.

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

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