

Extending the Cattle Cycle with Still Lower Inventories

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The USDA's cattle inventory report places the total number of cattle and calves on January 1 at 86.7 million head, consistent with pre-report expectations that it would be down 0.4% from a year ago, as the industry continues into a seventh consecutive year of contraction within the cattle cycle. Though near trade expectations, the report indicates smaller beef cow and beef replacement heifer inventories and a smaller calf crop than anticipated, as some analysts contemplated that some herd expansion could initiate a seemingly two-years past-due start of a new cattle cycle. Like last year, the report again confirms anticipated year over year drops across most inventory categories with fewer beef cows than any time since 1960 and the lowest total inventory since 1951.

All cows and heifers that have calved total 37.2 million head, just 0.3% below last year, balancing 2% more dairy cows at 9.7 million head with 1.0% fewer beef cows at 27.6 million head, compared to expectations the latter would be even-to-slightly-higher. Bulls over 500 pounds are up about 0.3%, while same weight steers and heifers not intended for replacements are both down 0.6% and 1.5%, respectively, and calves under 500 pounds are also down 0.1% from a year ago. Beef replacement heifers are up 0.9%, compared to pre-report estimates of 1.7% higher, while dairy replacements are down 0.3% from a year ago. The calf crop, at 32.9 million head, is 1.6% below a year ago, which remains bullish for feeder calf prices in the near-term and fed cattle prices down the line.

Among the seven states with over a million head of beef cows, Texas and Missouri, the top and third largest states, show about 0.7% and 3.1% year-over-year reductions in beef cows, while Oklahoma, the second biggest state, shows a slight increase of 0.4%. Kansas' 6.9% decline stands out among roughly 1% to 3% declines for Texas, Missouri, Nebraska, and Montana and little-to-no change in Oklahoma and South Dakota. Only Texas is substantially retaining beef replacement heifers, with an increase of 8.3%. Hence, any consideration of herd expansion does not appear to be widespread.

The inventory report puts cattle on feed at 13.8 million head as of January 1 or about 3.3% fewer than a year ago. About 82.7% of those animals or over 11.5 million head are in feedlots with capacity exceeding 1,000 head, according to the USDA's most recent Cattle on Feed report, which is again about 3.2% fewer than year ago. Last December, these feedlots placed 1.55 million cattle on-feed or about 5.4% fewer than a year earlier and marketed 1.77 million or about 1.8% more. With steers on feed down 3.2% and heifers

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on feed down 3.1%, the ratio of heifers to steers, at 38.7%, is nearly identical to a year ago and is not yet near the range of 31%-33% observed during much of the last period of herd expansion.

In light of the smaller inventory numbers, beef production is anticipated to be 1.0% lower in 2026 than last year. Lower availability of beef is expected to constrain U.S. per capita beef consumption to about 58.9 pounds per person in 2026, compared to 59.0 pounds in 2025, or around 0.2% lower. Meanwhile, exports are projected to decline again this year, reflecting lower anticipated beef production and the net effects of changes in trade policies by the U.S., Mexico, and China that could result in more South American and Australian beef blocked from entering China and reverting instead to traditional U.S. customers in Japan and South Korea and more U.S. beef going to Mexico. Based on recent data, the USDA lowered estimates of U.S. beef exports to 590 million pounds for the 4th quarter of 2025, bringing the annual total to 2.57 billion pounds or 14.6% below the prior year, and projects another 5.6% decline to 2.43 billion pounds for 2026. Due to resilient domestic demand and declining production, cold stocks of beef are already fairly low. While up seasonally by 3% from the prior month, stocks of beef on December 31 are down 4% from a year ago. Both poultry and pork stocks are down 2% from a year ago.

All things considered, cattle prices in 2026 should again exceed last years' records. Quarterly forecasts for slaughter steer prices average \$235.43/cwt, \$243.48/cwt, \$239.33/cwt, and \$235.82/cwt, respectively, for the coming year. For 600-700 pound feeder steers, prices are forecast to average about \$395.23/cwt and \$400.05/cwt in the 1st and 2nd quarters, respectively, holding at \$399.26/cwt in the 3rd quarter, and tailing off seasonally to \$390.74/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. However, if domestic demand falters or ever-evolving trade policies further inhibit the competitiveness of U.S. beef in the world market, then lower prices may be realized.

YouTube Video: Discussion and graphs associated with this article at: https://youtu.be/qjieC0rb_fQ

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