

MARKET ADVISOR



by Tim Petry, North Dakota State University Extension Service

Cattle cycle transition

The U.S. beef cattle sector is well into the cyclical adjustment phase transitioning from aggressive herd expansion to very modest growth.

After a cyclical low in beef cow numbers to begin 2014, due partly to several years of severe drought in the Southern Plains, numbers increased 217,000 head during 2014.

Beef cow numbers then increased 864,000 in 2015, surged 1,047,000 in 2016, and climbed another 510,000 during 2017. If recent production trends persist, much smaller growth will occur in 2018, and into 2019; and 2020 could mark the end of this cattle cycle accumulation phase.

Smaller herd growth rates should translate into more modest future increases in U.S. beef production. In 2016, commercial beef production was 25.2 billion pounds (lb.), up 6.4% from 2015's. In 2017 output rose to 26.2 billion, up 3.8%. USDA is predicting 2018 beef production at 27.094 billion lb., which, if attained, will be an all-time record high.

USDA is predicting another record level in 2019 at 27.7 billion lb. That would be the smallest percentage increase since 2015, which was the last year to show a decline. Preliminary private forecasts place beef output in 2020 unchanged to up 2%. USDA hasn't released 2020 forecasts yet.

The USDA-NASS July Cattle Inventory report pegged the July 1 U.S. beef cow herd at 32.5 million head, which was up slightly less than 1% from 2017.

There were other signs the pace of beef cow herd expansion may be waning somewhat. NASS reported 4.6 million U.S. beef replacement heifers on July 1, compared to 4.7 million on July 1, 2017, down a little more than 2%. The Cattle on Feed report issued by NASS as of July 1, 2018, pegged the number of heifers on feed up 7.7% from 2017.

Severe drought has developed in the Southwestern U.S. The worst conditions start in Northern Texas, parts of Oklahoma, Kansas and Missouri, and move through several states to the West. The U.S. Drought Monitor shows D4 (exceptional drought which is the worst category) in the four corners region, with 100% of Arizona, New Mexico and Utah experiencing drought conditions. In late August, 30% of the U.S. beef cow herd was located in an area with drought compared to 11% at the same time last year.

Drought conditions pose the threat of forced beef cow herd liquidation and fewer than originally intended beef heifer replacements. Both beef cow slaughter and heifer slaughter posted substantial increases for the first six months of 2018. Beef cow slaughter increased 148,000 head or 11%, while heifer harvest jumped 338,000 for an 8.3% gain. Both categories were the largest since 2013 which was the last year of the

cattle cycle liquidation phase. So the drought severity bears watching to see if that impacts beef cow numbers next year even more than expected.

Expected record-high beef production along with record pork, chicken, and total meat production have been headwinds for prices. But cattle prices have held up relatively well compared to the competing meats due to strong domestic beef demand and record-high exports.

Interestingly, as I write this column near the end of August, fed cattle, feeder cattle, and calf prices are almost identical to last year at this time. In 2017 prices increased into late fall. This year, fed cattle prices are more likely to stay near current levels, and calf prices are likely to decline in a normal seasonal fashion.

There is additional risk to fed cattle prices should U.S. beef, pork or chicken exports falter due to current trade agreement negotiations or tariff retaliations. Corn prices bear watching for feeder cattle and calf prices because the big corn crop that is anticipated is far from being in the bin. **AJ**

Editor's Note: Tim Petry is a livestock marketing economist with the North Dakota State University Extension Service.