PERSPECTIVES

Market Advisor

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Cyclical expansion continues

Rumors that the cattle cycle no longer exists were laid to rest with the most recent cattle inventory report released by the National Agricultural Statistics Service (NASS) Jan. 27.

USDA confirms growth

The U.S. Department of Agriculture (USDA) NASS confirmed that U.S. cattle numbers, as of Jan. 1, increased for the second straight year. The estimated number of cattle and calves in the U.S. totaled 97.1 million head, 1.7% more than last year — the highest since 2001.

The abnormal eight-year liquidation phase (1997-2004) of the last cycle, compared with a normal four-year liquidation phase, may have caused some to question the validity of the cycle. However, the added length was primarily due to drought in much of the western U.S. cattle-producing region. Prices were high enough in 2001 to encourage increasing cattle numbers after the normal four years of liquidation, but poor grazing conditions would not support additional cattle.

Cow herd expands

Beef cow numbers increased 1% more than last year to the highest level since 2001. Much improved pasture and range conditions in the Northern Plains and West, along with favorable cow-calf returns, helped fuel the increase.

Dry weather conditions in Texas and Oklahoma have been in the headlines recently, but beef cow numbers still increased 1% in Texas and 3% in Oklahoma. Evidently, the drought areas in those states — where some liquidation may have occurred — were offset by increasing numbers in areas of those states where rainfall was closer to normal. Even beef heifers kept for replacements increased by 70,000 head in Texas and 35,000 head in Oklahoma.

The Northern Plains states of Montana, Nebraska, South Dakota and Wyoming, which were severely affected by drought for several years, all recorded 1% increases in beef cow numbers.

Wet conditions in the Pacific Northwest were evident by the 22% increase in beef cows in the state of Washington.

The number of heifers held back for beef cow replacement was estimated at 5.9 million head, which is 3.8% above last year, and the highest number retained since 1997.

Double-digit percentage increases in beef heifer replacements were posted in Indiana, Iowa, Missouri, Montana, Vermont, Washington and Wyoming. A 5% to 9% increase occurred in Arizona, Illinois, Kentucky, North Dakota, Oklahoma and Texas.

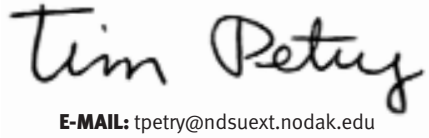
Continued rebuilding

Cattle cycle accumulation phases usually last six years. Beef cow numbers have increased about 392,000 head since the low in 2004, but are still more than 2 million head less than the last cyclical peak in 1996. Depending on weather conditions, continued rebuilding of the beef cow herd is likely for several more years.

Cattle herd expansion will have both short- and long-term price implications. In the short-term, historically low feeder cattle supplies will be supportive to feeder cattle prices this spring, especially lighter-weight cattle suitable for summer grazing. Prices for replacement-quality heifers and bred cows also will be strong, as herd rebuilding continues at robust levels.

Fall 2006 calf prices will be affected by a larger calf crop. Calf prices will likely be below those received in 2005, but still above historical levels. The size of the 2006 corn crop and resulting prices will be an important factor to watch for fall 2006 calf prices.

In the long-term, cattle numbers likely will increase through the end of the decade. As calf crops increase, so will beef production, and cyclically lower prices can be expected to occur.



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