PERSPECTIVES

Market Advisor

by **Tim Petry,** North Dakota State University Extension Service

The beef herd rebuilding dilemma

Probably the most asked and debated question in the beef industry has been "When will beef herd rebuilding start?" After all, beef cow numbers in the United States have been declining for the last eight years. Cattle prices the last several years, and especially in 2014, have been at levels that historically would stimulate some expansion. However, a combination of factors have caused further liquidation to occur.

Two main factors

Two important factors include the historically high and volatile grain and feed prices with conversion of pasture- and hayland to crops; and severe droughts in important cow-calf producing regions.

Improving moisture conditions and declining grain and feed prices the last half of 2013 and in 2014 have produced signals of early stages of expansion, but expansion is difficult to quantify at this early stage.

The USDA National Agricultural Statistics Service (NASS) surveys producers and releases cattle inventory numbers as of Jan. 1 and July 1 in its *Cattle* report. The January report is more extensive, with both state and total U.S. numbers published. The July report only documents total U.S. cattle numbers. The most recent July 2014 *Cattle* report was released on July 24. Unfortunately, the July 2013 report was not released due to USDA budgetary constraints, so a year-over-year comparison is not available.

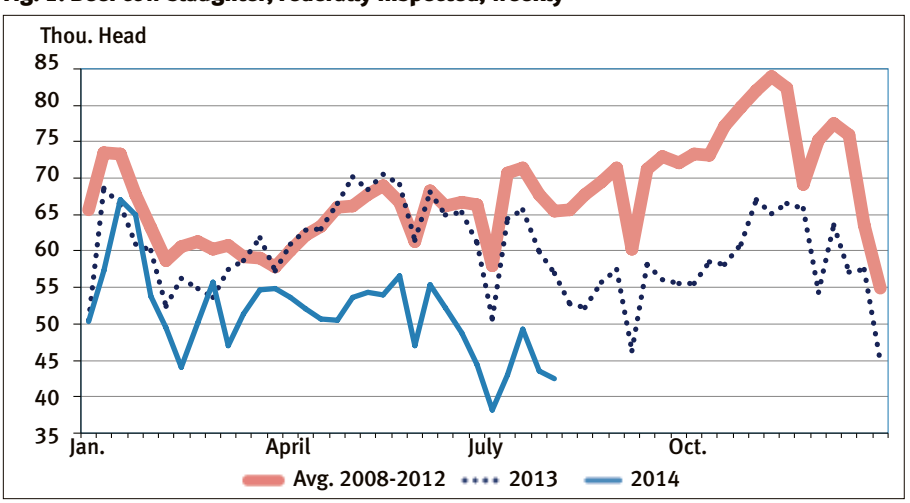
NASS reported 29.7 million beef cows in the United States on July 1 and 4.1 million beef replacement heifers, both down about 2½% from two years ago in 2012. Again, no comparison is available with 2013.

The Jan. 1 report showed the beef cow inventory at 29.3 million head, down just 0.9% below the previous year. Contrast that to the 3% decline on Jan. 1, 2013, and a more than 2% decline in 2012 when a severe drought in the Southern Plains expanded into much of the U.S. cattle-producing area. Beef cow slaughter declined significantly in the last half of 2013 as drought conditions in many areas improved and feed costs moderated.

The number of heifers kept for beef cow replacement on Jan. 1, at just less than 5.5 million head, was up 90,200 head or 1.7%. This was the third straight year of increasing beef cow replacements and the highest number since 2009. So herd rebuilding, or restocking may be a better word, likely began in areas where grazing conditions allowed it.

While the January report suggested expansion, the July report sent mixed signals.

Fig. 1: Beef cow slaughter, Federally inspected, weekly



Data Source: USDA-AMS, Livestock Marketing Information Center. 8/15/14.

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Usually, beef replacement heifers decline about 1 million head from January to July because some calve and are recorded as cows and some are culled and sold at feedlots. The 5.5 million replacements on Jan. 1 compared to the 4.1 million in July was a 1.4-million-head decline. The ratio of the July 1 beef replacement heifers to the January inventory of replacement heifers is the lowest since the July estimate began in 1973. This ratio typically rises during herd expansion and decreases during liquidation.

There are signs that herd expansion is starting to occur. Beef cow slaughter is down 16% for the year, with 25%-30% declines recorded in mid-summer. Heifer slaughter is down about 7% for the year, and the number of heifers on feed is down 5%. U.S. pasture and range conditions have improved, with 18% reported as poor or very poor compared to about 30% last year. These signs, along with record-high prices, are consistent with expansion, but we will have to wait until January 2015 for the official NASS numbers.

Expansion in the Northern Plains has already occurred. In North Dakota, where I am from, beef cow numbers have increased for two straight years and are at the highest level since 2005. The number of beef replacement heifers in North Dakota on Jan. 1, 2013, was the third highest on record and the highest since 1974 when cow size was much smaller than now. So, from a beef production standpoint, North Dakota may have had the most beef-producing potential

from any set of replacement heifers on record. Since expansion has already occurred, further expansion may be limited.

Contrast North Dakota to Texas, the largest beef cow state in the United States, which lost more than 1 million beef cows in the last several years due to severe drought. About 35% of the recent decline in U.S. cow numbers occurred there alone. Although moisture conditions have improved in some areas of Texas, other parts remain dry. Other areas in the Southwestern United States are also very dry, with California experiencing record drought.

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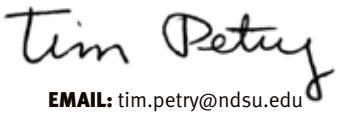
Only very modest expansion in the next year or so is possible, even under the best circumstances. Weather conditions, producer age, the high cost of replacements and other factors all come into play. The reproductive biology of cattle also limits how fast expansion can take place.



EMAIL: tim.petry@ndsu.edu

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