

IS THE CATTLE CYCLE ON LIFE SUPPORT?

BY TOD KALOUS

The U.S. cattle inventory decreased 334,000 head in 2007, and totaled 96.7 million head on Jan. 1, 2008. The U.S. beef cow herd was down 338,000 head (-1%) as of Jan. 1 and totaled 32.6 million head. This should come as no surprise considering beef cow slaughter was up more than 6% in 2007 and the largest since 1998. The beef cow herd is now smaller than the last cycle low, set in 2004. During the typical 10-year inventory cycles experienced over the last century, five years past a cycle low, the beef cow herd

was usually at or near its next cycle peak. The bottom line is the cattle inventory cycle is on life support.

Beef cow numbers declined in Texas from 5.30 million head on Jan. 1, 2007 to 5.24 million head in 2008. Oklahoma and New Mexico both had increases in their beef cow inventories—Oklahoma increased 53,000 head to 2.05 million and New Mexico increased 20,000 head to 460,000 head. That said, the combined three-state TCFA area saw a small increase in beef cow numbers of approximately 10,000 head on Jan. 1, 2008.

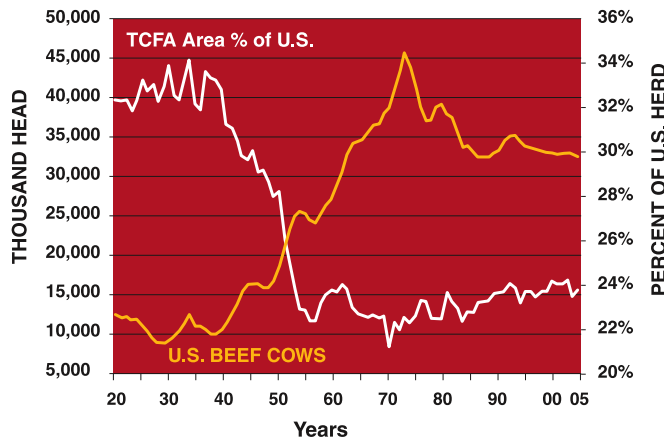


The one U.S. cattle inventory number that did grow was the dairy cow herd. The dairy cow herd grew by 92,000 head in 2007. Domestic and global demand for milk and milk products grew significantly in 2007 raising milk prices in response. Specifically in Texas, dairy cow numbers have increased four years in a row. In 2007, dairy cow numbers increased 13,000 head from the prior year and are now 43,000 head larger than four years ago. Only three other states have seen larger increases in dairy cow numbers since 2004—California, Idaho and Michigan. Dairy cow numbers in Oklahoma and New Mexico were both down in 2008 versus a year ago. However, the three-state TCFA area is still the second largest dairy cow inventory in more than 40 years.

The total number of heifers kept for replacement in the U.S. was down in 2007 with beef replacement heifers down 207,000 head—totaling 5.7 million head—and dairy replacement heifers up 147,000 head—totaling 4.4 million head. The lower beef replacement heifer number makes sense considering a higher percentage of heifers were placed into feedyards in 2007 and considering heifer slaughter was up 4% and at its largest level since 2004.

So why hasn't expansion occurred when cow-calf producers have had the opportunity to market their calves at or near historically high prices in each of the last four years? The answer is not brief, as there are a multitude of factors that have worked against herd expansion in the past several years, including drought, rising feed costs, increasing competition for land due to urban sprawl/alternative land uses, significantly higher land values, age of producer and declining profitability. Several of these factors are interrelated, but nonetheless they have all played a part in inhibiting expansion. (For more on the cattle inventory see *Cow Squeeze* on page 8.)

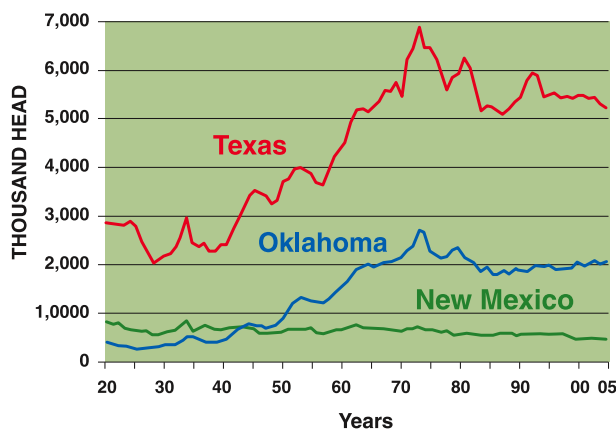
U.S. Beef Cows and TCFA Area as a Percent of the U.S.



Source: USDA & Cattle Fax

Drought - In 2006, drought gripped the South Plains region, forcing producers to reduce their herd sizes. This was evident in the regional cow slaughter data, which indicated beef cow slaughter in the South Plains region was up 38% (200,000 head) in 2006 versus the year prior. In 2007, moisture conditions were greatly improved in the South Plains region, and beef cow slaughter dropped nearly 18%. However, even with improved moisture conditions in the South Plains, Texas beef cow numbers have declined more than any other state in the past two years, on an actual basis—down 215,000 head versus 2006 resulting in the smallest Texas beef cow herd since 1990.

Texas, Oklahoma & New Mexico Beef Cow Inventory

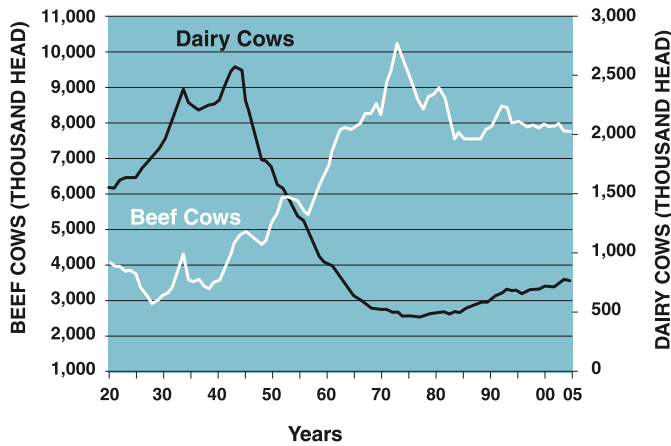


Source: USDA & Cattle Fax

In 2007, the Southeast region was also severely impacted by drought. Beef cow slaughter reflected the drought conditions, as over 100,000 more beef cows were slaughtered in 2007 versus 2006.

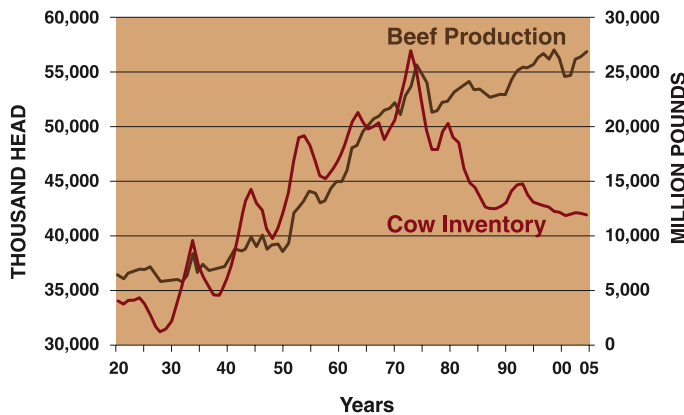
Feed Costs - Drought and the battle between crop acres continues to stretch feed resources, which has contributed to significantly higher feed costs for cow-calf producers. In 2007, alfalfa hay prices averaged a record high price of \$131 per ton, up 21% from the year prior. The increase in corn demand for ethanol production, along with growing global demand for grains, has fueled the battle for acres, which has con-

**Texas, Oklahoma & New Mexico
Beef & Dairy Cow Inventory**



Source: USDA & Cattle Fax

**Total Cow Inventory & Commercial
Beef Production**



Source: USDA
Projected 2008

tributed to the significantly higher grain prices.

Rising corn prices have a significant impact on the feeder cattle prices feedlots can pay in order to break even. For example, in May of last year July corn futures were trading near \$4/bu. At the start of May this year, July corn was slightly more than \$6/bu. If we assume today's fed cattle market is at \$90/cwt., in order for the cattle feeder to break even at that level, they should be paying about \$25/cwt less for a 750-lb. steer. If corn is at \$4/bu. and the fed market at \$90/cwt., cattle feeders can pay about \$96/cwt. for a 750-lb. steer and break even. If corn is at \$6/bu., cattle feeders can pay about \$69.50/cwt. for a feeder steer and still break even. The end result is lower feeder and calf prices for cow-calf producers, which will not encourage producers to increase the size of their herds.

Land Values - The most recent data indicates farm real estate values (the value of land and buildings on farms) were record high at the start of 2007 at \$2,160/acre, up 14% or \$260 from the year prior. Furthermore, farm real estate values have increased 70% since 2003. Pasture values have nearly doubled since 2003, up 92%.

Land Use - The most recent USDA report on farmland indicates that about 931 million acres were used by farms in 2006, which was more than 100 million acres fewer than in 1980. At the same time, urban sprawl continues as the population grows and rural land is developed—Census Bureau data indicates that over the 20-year period from 1970 to 1990, just the top 100 urbanized areas increased by more than 9 million acres. In a crude example, if we assume that rate continued through 2007, the number of acres converted to urbanization of the top 100 areas would increase to more than 17 million acres.

Producer Age - Less than 5% of producers in farming and livestock production are under the age of 34, compared to 23% in other U.S. self-employed positions. In addition, 27% of producers are over the age of 65, compared to just 8% for other U.S. self-employed.

Bottom Line: For now, expansion appears to be on hold. However, as the global economy continues to grow along with incomes and population, beef production will need to continue to increase in order to keep pace. Some of the increased production will continue to come from increased efficiencies and new technology, which we have seen up front with carcass weights. However, if we continue to grow our export market as rapidly as is currently forecast, per capita supplies will decline and retail prices will likely continue to rise. At some point, higher retail prices and other commodity prices will lead to higher cattle prices and increased profitability. Any relief from the roaming droughts along with increased profitability would likely be enough to encourage at least mild expansion, but the days of the large swings in cattle inventory numbers are likely behind us. 🐾

EDITOR'S NOTE—Tod Kalous is a market analyst with Cattle-Fax.