Market Closeout

Report Stirs Things Up

Nov. 1 cattle-on-feed inventory fourth-highest in history.

by Troy Marshall, American Angus Association

The Nov. 1 *Cattle on Feed* report was much-anticipated by the industry, as the Oct. 1 report surprised analysts with a much larger-than-anticipated placement number.

The latest *Cattle on Feed* report was not as bearish. Placements were up 3.8% compared to a year ago, but last October's placement numbers were extremely low. This placement number came in dramatically below the pre-report estimate of 106.1%. Marketings were expected to decline 2% and ended up down 2.5%, pretty much in line with industry expectations.

The number that has garnered all the attention is the November cattle-on-feed inventory, which came in at 101.7%. This is the fourth-highest cattle-on-feed number in history. The only years we saw a higher November cattle-on-feed number were during the backlog COVID years (2020 and 2021) and 2006. None of these years were banner years for the cattle industry.

Short-term reaction

The latest cattle-on-feed number, coupled with the uncertainties of the U.S. and global economies, and with concerns about additional geopolitical considerations, has taken the bloom off of the U.S. cattle market in the short term. We have seen the average fed price for the next six months of the fed contract decline by nearly $20. That is one of the most significant adjustments in price expectations we have ever witnessed.

Of course, one needs to take a more in-depth look at the numbers to get the full picture. At first glance, the size of the cattle-on-feed number is not surprising. Decreased marketings and increased placements lead to more cattle on feed. The marketing number was expected. It was the placement number that the industry was not expecting.

Why larger placements

There are essentially two explanations for increased placements. Either there are simply more cattle available to be placed than what the experts were expecting, or we have seen the placement pattern be altered. Relative to the first scenario, increased cow slaughter numbers due to drought and increased heifer placements in the feedyard leave little doubt the industry's cow herd has contracted. While the nation's calf crop may be slightly larger than anticipated, most would agree that the last two cattle-on-feed placement numbers are more reflective of unanticipated behavioral changes.

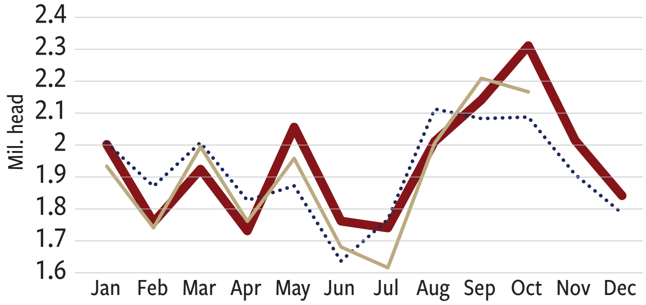
The increased placements in September and October can partially be explained by economics. Cattle feeders were expecting prices to increase into the spring and summer, and have been aggressively placing cattle. Cow-calf producers have been willing sellers, enjoying higher prices and wanting to put the money in the bank considering the high level of uncertainty about macroeconomic conditions.

Most experts also expected heifer

Continued on page 92

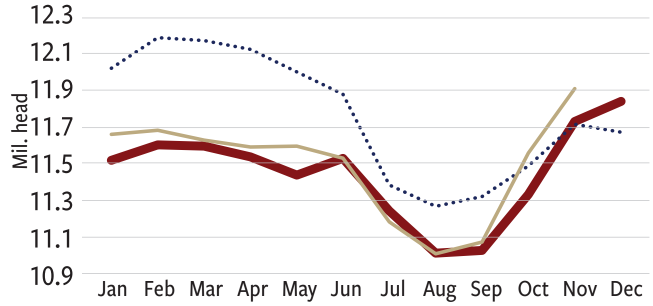
retention and herd expansion to begin in response to higher calf prices. The percentage of heifers in the placement mix has remained steady, indicating producers have not started to enter an expansion phase. Additionally, improved moisture conditions led to more cattle going into grazing programs than in the last several years.

Fig. 1: Feedlot placements, U.S. total, monthly



Data Source: USDA-NASS C-N-08 11/17/23, Livestock Marketing Information Center.

Fig. 2: Cattle on feed, U.S. total, monthly



Data Source: USDA-NASS C-N-10 11/17/23, Livestock Marketing Information Center.

The one thing we know for certain is that fed-cattle marketings will not decline as much as anticipated in the first half of 2024. Conversely, we have pulled cattle forward into the pipeline as much as we could. Smaller calf crops eventually lead to smaller placements. By responding to market signals and anticipated price projections, the industry has largely filled the expected decline in production in the nearby months. This may also mean the shift in available supplies will be more dramatic in the second half of the year.

Finally, the last two *Cattle on Feed* reports have helped the industry to lose some of its swagger and confidence. I would argue that the slowing economy, continuing inflation concerns, and the wars in Israel and Ukraine are the most significant factors adding fear and uncertainty to the market. In the long run, market fundamentals (supply and demand) always win out. In the short term, psychological factors (fear and greed) always dominate.

The last two *Cattle on Feed* reports are more reflective of the industry responding to strong economic signals rather than the industry significantly miscalculating the underlying fundamentals. With that said, the industry has largely eliminated the expected decline in production in the short term. ABB

Editor's note: Troy Marshall is director of commercial industry relations for the American Angus Association.