Market Advisor

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Higher cattle-on-feed inventory

Feb. 18, the U.S. Department of Agriculture (USDA) released its monthly cattle-on-feed report, estimating the Feb. 1, 2011, on-feed number at 11.578 million head. A 5.6% increase over the Feb. 1, 2010, on-feed inventory, it marks the ninth consecutive month of higher year-over-year on-feed numbers.

This increase was slightly more than expected by analysts before the report's release. The increase in cattle-on-feed numbers has been driven by more placements in recent months. Placements in 2010 averaged 5.5% higher than in 2009, and fourth-quarter 2010 placements were 7.4% higher than the same quarter in 2009. These higher placements during the last several months of 2010 were somewhat usual given the rapidly increasing corn price during that time period, but increases in fed-cattle prices offset the higher cost of gain and still offered modest returns.

Though projected returns were closer to breakeven at best for most cattle feeders last month, net placements of cattle on feed in January were 1.752 million head, 5.1% higher than January 2010 and about 28,000 head more than the average expectation going into the report. However, USDA's placement figure was well within the range of expectations — primarily because the range was notably quite wide, ranging from a 2% decrease to a 9% increase.

The increase in January placements was led by higher placements of lightweight feeder calves. Placements weighing less than 600 pounds (lb.) and 600-699 lb. were up 17.7% and 6.7%, respectively, in January 2011 compared to last year. Placements of feeder cattle weighing more than 700 lb. were down about 2.5% in January. Thus, the average placement weight of feeder cattle in January was down nearly 10 lb. since last year. Generally, the last several months have seen a decrease in placement weights as feedyards placed cattle earlier in anticipation of even tighter supplies of feeder cattle to come later in 2011.

As expected, January marketings were about 1.8 million head, steady with last year. Marketings as a percentage of the cattle-on-feed inventory, at 15.4%, posted its largest year-over-year decline in the past year, indicating that feedyard supplies are increasing relative to marketings. While cattle feedyards are still relatively current, the extremely current conditions that prevailed last summer have likely passed, and feeders may need to be more cautious about holding cattle over to subsequent weeks' showlists.

Current high prices, however, have incentivized feedyards to keep marketing cattle. Still, steer carcass weights are running about 10 lb. heavier than a year ago. Further, as replacement supplies of feeder cattle grow increasingly tight later this year, feedyards will be more encouraged to leave cattle on feed longer.

The February Cattle-on-Feed report also provides an estimate of the total feeding capacity of the 1,000-head feedyards in the United States. For 2010, USDA estimated the total feeding capacity of these feedyards at 17.0 million head, about 200,000 head more than 2009. The largest growth in capacity occurred in the largest-size feedyards. In fact, capacity of 50,000-head-plus-capacity feedyards was 370,000 head more than last year and there were four more feedyards fitting in this category than in 2009.

The smallest feedyards — with less than 1,000-head capacity — saw a decline of 150,000 head in inventory in 2010, and there were 5,000 fewer of these smallest-size feedyards. The general trend toward fewer, larger feedyards not only continued last year, but accelerated somewhat.

Declining cattle supplies, coupled with higher feed costs, have encouraged smaller farmer-feeders to concentrate on crop production and less on cattle feeding. Larger feedyards, with higher fixed costs or higher costs to exit the business, have competed aggressively for feeder cattle, and in some cases merged or assumed other large feedyards. Nationally, the 1,000-head-plus-capacity feedyards were at about 68% capacity on Jan. 1, 2011, indicating there is substantial unused bunk space available.

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