Market Advisor: Beef herd expansion in high gear

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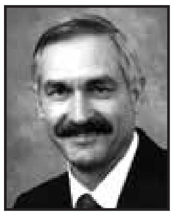

USDA's National Agricultural Statistics Service (NASS) released the much anticipated annual *Cattle* report Jan. 29, 2016. The report met most beef cattle market observers' expectations of an increasing beef cow herd. However, as is the case sometimes, there were also surprises. Probably the biggest surprise was that NASS revised several 2015 inventory categories that were previously released in the January 2015 *Cattle* report.

All cattle and calves in the United States as of Jan. 1, 2016, totaled 92.0 million head. That was 3.2% above the 89.1 million head on inventory Jan. 1, 2015. NASS had previously estimated total cattle numbers as of Jan. 1, 2015, at 89.8 million head.

At 30.3 million head, beef cows that have calved were up 3.5%, with just more than a 1-million-head increase. That was the magnitude of increase that many expected. However, the 2015 beef cow number was revised downward 391,000 head. So, beef cows only increased about 0.7% in 2014, rather than the earlier reported 2.1%. The robust beef cow herd expansion during 2015 was due both to a reduction in beef cow slaughter and an increase in replacement heifers that calved. Beef cow slaughter declined about 13% in 2015.

Most major beef cow states saw significant herd expansion, with the largest increases of 160,000 in Texas; 96,000 in Nebraska; 79,000 in South Dakota; 73,000 in Oklahoma; and 61,000 in both Kansas and Missouri. Those states accounted for about half of the total expansion.

Replacements

Beef replacement heifers, at 6.29 million head on Jan. 1, 2016, were up about 3.3%. NASS revised the 2015 number upward by 309,000 head, indicating that beef heifers kept for replacement on Jan. 1, 2015, were up 9.6% over 2014. That was the largest increase since 1974 and at least part of the reason why beef cow numbers increased so much during 2015. Beef heifers expected to calve in 2016, at 3.9 million head, were up 5.7%, which will likely lead to another increase in beef cows this year barring widespread drought conditions.

Beef cow replacement heifer numbers were almost 21% of the beef cow herd for both 2015 and 2016, which is the highest percentage since 1969. Increases of that magnitude suggest that the record-high prices for beef replacement heifers in late 2014 and early 2015 may have stimulated interest in breeding additional heifers for selling rather than just normal herd replacement. That may also be showing up in the fact that high-quality replacement heifers are selling well, but have declined with the lower fed- and feeder-cattle prices. However, some lower-quality bred heifers at times are seeing steeper discounts and unfavorable margins given the high prices when they were heifer calves.

State differences

As expected, major cow-calf states that experienced severe drought prior to 2014 showed the larger increase in beef replacement numbers. Oklahoma led the way with a 40,000-head increase, followed by Texas and Colorado — both expanding 30,000. Arkansas, Kentucky and Tennessee also recorded relatively large increases of 32,000, 20,000 and

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20,000, respectively. A moderation of Jan. 1, 2016, beef replacements was evident in the upper Great Plains, with Nebraska and South Dakota both declining 30,000 head; Montana down 15,000; Kansas losing 10,000; and Wyoming off 5,000 head.

The 2015 calf crop in the United States was estimated at 34.3 million head, up 2.3% from the previous year. The combined total of calves weighing less than 500 pounds (lb.) and other heifers (non-replacements) and steers weighing more than 500 lb. (outside of feedlots) was 25.9 million head, which is about 5.3% above one year ago.

Cattle and calves on feed for the slaughter market in the United States for all feedlots totaled 13.2 million head on Jan. 1, 2016. The inventory is up about 1.2% from the Jan. 1, 2015, total of 13.0 million head. Cattle on feed, in feedlots with capacity of 1,000 or more head, accounted for 80.2% of the total cattle on feed on Jan. 1, 2016. This is down 1% from the previous year. There are more cattle being fed in the smaller feedlots due to the relatively large corn crop and lower corn prices.

An even larger calf crop will be produced in 2016. Steer and heifer slaughter numbers will be posting year-over-year increases, with the largest percentage increases occurring in the second half of the calendar year. Beef production will likely increase about 2.5% to 3% in 2016, but may still be below the level produced in 2013.

From a price standpoint, increased cattle numbers and beef production, along with record production of pork and poultry, will likely pressure cattle prices in 2016. The record-high prices of 2014 and early 2015 are behind us, but cattle prices could still average above 2013's level, which at that time were record high.

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