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FEEDER CATTLE: Feeder cattle prices tend to advance seasonally from now through fall. The feeder cattle market will be sensitive to how the 2017 corn crop develops, as well as whether profitability prospects return to cattle feeding.

More beef could pressure prices

Livestock Outlook: Total U.S. inventory of all cattle and calves for July 1 was 102.6 million head, the largest since 2008.

Lee Schulz | Aug 11, 2017

USDA recently released two reports estimating July 1 cattle inventories — the July Cattle report (also referred to as the midyear cattle inventory report) and the July

Cattle on Feed report. July is one of USDA's larger months for providing surveyed cattle numbers; the responses confirm that U.S. cattle inventories are growing.

Midyear cattle inventory data identify changes in size of the breeding herd, update cattle and beef availability expectations for the next 12 months, and provide the first estimate of the current year's calf crop. The July survey isn't as comprehensive as the one done in January. The January survey is the larger of the two surveys and includes about 38,000 cattle operations of all sizes. Estimates are made for all states. The July survey includes a list sample of about 10,000 of the larger cattle operations. Estimates are made at the U.S. level only.

The July survey asks producers to report the calf crop for the entire year of 2017. It came in at 36.3 million head, up 3.5% from 2016 (which was reported in the January report). The ratio of the July beef cow inventory to the January level was the highest since 1993, the last period of full-fledged expansion in the industry and a level that confirms expansion is continuing in 2017. The ratio of July beef replacement heifers to the January number was the lowest in the data series, suggesting that heifer retention is slowing. It almost certainly had to slow after several years of historically high heifers held for replacements. The total inventory of all cattle and calves for July 1 was 102.6 million head, the largest since 2008.

Feedlot placement puzzle

Cattle on feed for slaughter in all feedlots July 1 totaled 12.8 million head. The estimated July 1 feeder supply outside feedlots was 37 million head. In relation to the USDA July Cattle on Feed report, surveyed feedlots with capacity of 1,000 or more head indicated cattle on feed were up 4.5% from July 2016.

The most influential, and surprising, information from the Cattle on Feed report was June 2017 placements topped June 2016 placements by 16.1%, fully 10% higher than pre-report expectations. The important question is whether the placement surge resulted from pulling feeder cattle ahead or whether feeder supplies are larger than earlier thought. The answer is important for anticipating market impacts of larger

placements. The most likely scenario is that a few more cattle are out there than anticipated, but most of the surge came from feeders being pulled forward.

Feedlots have placed more lightweight cattle. In June, placements of feeders under 600 pounds were up 29.3% year over year. Placements at 600 to 699 pounds were up 23.5%, and placements 700 to 799 pounds were up 26.5%. Placements over 800 pounds were up only 1.6% in June.

Heifers on feed July 1 totaled 3.86 million, up 10.6% from 2016 and the largest since 2012. That rise supports the idea that cow-calf producers are retaining fewer heifers as replacements. Heifers not going into cow herds boost feeder cattle supply and placements.

Feeding profit prospects weaken

According to the Iowa State University Estimated Livestock Returns, yearling to finish returns averaged \$259 per head for the first six months of 2017. Profits enabled feedlots to aggressively buy feeders. Higher placements, especially lightweights as of late, have been encouraged by price differences between heavy and lightweight feeders. For example, combined Iowa auction calf prices peaked in late April and have trended gradually lower since then. Heavier-weight feeder cattle prices have continued a gradual climb.

The lightweight placements in June will not be on top of earlier heavyweight placements. Larger placements now from producers pulling feeders ahead imply relatively fewer cattle will be available to place later.

The considerably larger June placements in feedlots with capacity of 1,000 or more head are only part of the story. Iowa is the only state that conducts a monthly survey of less than 1,000-head-capacity feedlots and reports these estimates. Trends in cattle feeding become clearer when looking at this whole picture. In Iowa, June placements were up 33.3% year over year in 1,000-head or more capacity feedlots but were down 29.4% in less than 1,000-head-capacity feedlots. In total, Iowa placements were up only 2.9% in June compared to year ago levels.

Smaller feedlots may be responding to economic signals from the marketplace, as estimated yearling to finish returns are projected at a loss of \$119 per head in the fourth quarter of 2017, with continued negative returns projected for 2018. Farmer feeders are more flexible. They tend to feed cattle when the market conditions are favorable. When conditions are less favorable, they leave lots empty and sell calves and corn.

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Budget cuts complicate analysis

Missing from the data are the July 2013 and 2016 Cattle reports. USDA suspended the midyear survey and subsequent report in these years after reviewing available fiscal and program resources.

Pre-report estimates of the 2017 midyear report were not readily available this year. Analysts rely heavily on previous reports, especially the most recent one, to make projections. Missing data make projecting difficult. Also, not having the most recent report complicates making year-over-year comparisons, a standard measuring stick for quantifying changes.

Continuity in reports is critical for conducting market analysis and evaluation. With the dramatic adjustments in cattle prices in recent years, producers are understandably very interested in the status of herd rebuilding as they make decisions that will position them for production in 2018 and beyond. USDA conducted the survey this year, and the results were published on July 21. Let's hope this starts another run in continuity of the report, which dates back to 1973.

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