

Cattle Inventory and Managing through the Next Cycle

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There is very little reason to get deep in the weeds on the January 1 Cattle Inventory report, but it is appropriate to hit the highlights and discuss the implications of this information. Focusing on the beef sector, beef cows that calved totaled 31.3 million head as of January 1 which is nearly 1.2 percent below the previous year. This is not a surprise given the strength in cow slaughter during 2019. Similarly, the 2019 calf crop was 0.7 lower than 2018 and totaled just under 36.1 million head (including dairy cattle) which is 253,100 head fewer than 2018. Heifers retained for beef cow replacement was at its lowest level since the 2014 report and totaled 5.77 million head.

From a Tennessee perspective, beef cows that calved totaled 909,000 head which is 5,000 fewer than the previous year but holding steady with where the state has been the past several years. The calf crop for 2019 was 10,000 head larger than 2018 and totaled 870,000 head while heifers held as beef cow replacements declined 20,000 head to 125,000 head.

One could go deeper into this information and talk about a lot more numbers, but at the end of the day, most people want to know what this means for beef prices and ultimately their cattle operation as it relates to prices. What this information means is that the cattle industry most likely hit the price bottom in 2019 for this production cycle. This sounds like excellent information, but there is little reason to expect cattle prices to witness a miraculous improvement this year. First off, the smaller calf crop means there are fewer cattle that can be placed on feed compared to a year ago, but that does not mean fewer cattle will be placed on feed since producers could send more heifers to feedlots. The smaller calf crop only relates to about a half week of fed cattle slaughter.

Speaking of cattle on feed, the number of cattle on feed as of January 1 was 300,000 head greater than the previous year and at the highest level since 2008. Thus, beef production the first half of 2020 is expected to be a bin buster in row crop producer terminology. If the number of heifers retained for beef cow replacement continues to decline in 2020 then there is a good chance that beef production the second half of 2020 will be strong.

With the expectation for 2020 beef production to exceed 2019 production, it will be tough to push wholesale and retail beef prices higher unless something creates a strong drawl on beef. Due to the inability to push prices higher at the beef level, it will be difficult to push cattle prices at any production phase much higher than where they were in 2019. The exception comes in the second half of the year, and it is largely due to the fall of 2019 being so depressed. Thus, prices in the second half of 2020 are expected to exceed 2019 prices only because 2019 was so weak.

One would be remiss to pretend that this was the only information influencing the markets. The lower tariff rates for beef going into Japan should be price supportive in 2020. Similarly, if anything at all materializes with China and exporting beef to the mainland occurs then that too would be supportive of prices. Another factor that could be supportive is if Australia finally has climatic conditions that allow them to begin rebuilding their herd which may mean the United States is able to export more beef to countries such as Japan, South Korea, and China.

There is a myriad of factors that could influence this market going forward. It could be our own weather, feed prices, animal health outbreak, or some other trade issue. Nevertheless, it would appear the market is well supported at current price levels and the risk of further price declines is small. Despite the thought that prices will improve compared to 2019, there is no guarantee of profitability. Producers should be actively searching for marketing opportunities that will produce a profit in the current marketing environment. If a profitable opportunity does not currently exist based on expected production practices then producers should be evaluating their alternatives to improve the likelihood of profitability.