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No Herd Expansion, Yet

Cow-calf producers have earned a positive return above estimated cash costs in six of the last seven years. With the New Year on the horizon, it's a good time to estimate whether the positive returns of recent years might generate an increase in the size of the U.S. herd, as measure by USDA's January inventory report.

One way to estimate whether the nation's cow herd is expanding, contracting, or holding steady is to examine female slaughter relative to steer slaughter. So far this year, total cow slaughter in the U.S. has been 6.6% larger than last year. Most of the increase has actually been in the dairy sector as dairy cow slaughter was 11% larger than in 2002, whereas beef cow slaughter was just 2.7% above a year ago. Total female slaughter (i.e., cows and heifers) this year has been 4.6% larger than a year ago. And total female slaughter so far this year has averaged about 99% of steer slaughter. In comparison, last year at this time female slaughter averaged about 96% of steer slaughter. For herd expansion to take place, female slaughter has to fall relative to steer slaughter. So, it looks like U.S. producers reduced the size of the nation's cow herd again during 2003, despite the positive returns of recent years. And the earliest any cow herd expansion could take place is 2004.

The Markets

Cash slaughter cattle prices were steady last week, averaging near \$100/cwt. (live) in Kansas and about \$162/cwt. (dressed) in Nebraska. The fall quarter averages (through early December) are \$100 (live) in Kansas and \$162 (dressed) in Nebraska. This year's averages are 45% and 51% higher, respectively, than a year ago. Although cattle prices have weakened since hitting their peak in mid-October, the decline has been very modest. In contrast, wholesale beef values have fallen much farther than cattle prices. For example, last weeks light Choice cutout average was 17% below its mid-October peak, whereas last week's Kansas slaughter cattle price average was just 6% lower than in mid-October. The decline in wholesale prices over the last two months suggests some resistance to higher prices is starting to show up in the trade.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$99.94	\$99.91	\$73.32
Nebraska Fed Steer Price, dressed weight	\$162.17	\$161.39	\$115.60
700-800 lb. Feeder Steer Price, Kansas 4 market avg.	\$103.65	NA	\$86.11
500-600 lb. Feeder Steer Price, Kansas 4 market avg.	\$109.84	\$109.75	\$96.91
700-800 lb. Feeder Steer Price, Neb. 7 market avg.	\$108.45	\$107.50	\$89.64
500-600 lb. Feeder Steer Price, Neb. 7 market avg.	\$117.39	\$115.94	\$91.17
Choice Boxed Beef Price, 600-750 lb. carcass	\$160.60	\$162.06	\$120.97
Choice-Select Spread, 600-750 lb. carcass	\$15.70	\$16.00	\$6.65