

James Mintert, Ph.D.
Professor, Department of Agricultural Economics, Kansas State University

Herd Liquidation Ends

USDA's *Cattle* inventory report last week revealed that, for the first time since 1996, the all cattle and calves inventory was larger than the prior year's. The increase was modest (1% or 960,000 head), but was significant because it marked the end of an eight-year herd liquidation. At the time of the last cattle inventory peak, the herd totaled 103.548 million head. From cycle top (January 1, 1996) to cycle bottom (January 1, 2004) U.S. producers reduced the herd's size by 8.66 million head, or 8.4%.

Positive returns in the cow-calf sector stimulated producer interest in herd rebuilding. Kansas Farm Management Association data indicates variable returns were well above costs for the last 6 years. But dry weather conditions, and concerns about forage supplies, likely held expansion back prior to 2004. According to USDA, U.S. pasture conditions at the end of the 2004 growing season were markedly better than the prior year and were also better than average. Although the February 1, 2005 drought monitor published by NOAA indicates that drought conditions persist in much of the West (except California) and Northern Plains, most of the Southern Plains, Corn Belt, and Southeast have emerged from drought. As a result, prospects for continued modest herd growth during 2005 are good.

During the last cattle cycle producers continued to expand the herd's size for 6 years before poor returns led to herd liquidation. Ultimately, the length of this cycle's expansion phase will depend on the U.S.'s ability to reenter key Pacific Rim beef export markets and the strength of U.S. consumer demand for beef.

In The Markets

Slaughter cattle prices last week (week ending 01.28.05) were lower in both Kansas and Nebraska. Collapsing boxed beef values were partly responsible. USDA's weekly average Choice boxed beef cutout value declined \$6.76/cwt. compared to the prior week. But the daily cutout values tell the real story. At the beginning of the week the Choice cutout was \$151.33/cwt. By week's end, the value had fallen all the way to \$143.65. Boxed beef values continued to drift lower this week as the Wednesday afternoon (2.2.05) Choice cutout estimate was \$142.59. Cash cattle trade this week (week ending 02.04.05) has been very light with a few cattle in Nebraska changing hands at \$140/cwt. (dressed). Heavy weight feeder cattle prices were softer last week as 700-800 steer prices declined about \$3.50 and \$3.00 per cwt. in Kansas and Nebraska, respectively. Prices for 500-600 pound steers in Kansas were weaker last week, whereas in Nebraska the same weight cattle were steady with the prior week.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$88.83	\$89.90	\$79.82
Nebraska Fed Steer Price, dressed weight	\$139.74	\$143.32	\$129.72
700-800 lb. Feeder Steer Price, KS 3 market average	\$102.73	\$106.18	\$87.98
500-600 lb. Feeder Steer Price, KS 3 market average	\$120.37	\$124.08	\$106.87
700-800 lb. Feeder Steer Price, NE 7 market average	\$105.99	\$108.88	\$90.15
500-600 lb. Feeder Steer Price, NE 7 market average	\$131.21	\$130.98	\$116.28
Choice Boxed Beef Price, 600-900 lb. carcass	\$148.12	\$154.88	\$139.01
Choice-Select Spread, 600-900 lb. carcass	\$6.05	\$4.98	\$7.31