

February 5, 2007

## **In The Cattle Markets**

**Darrell R. Mark, Ph.D.**

**Asst. Professor, Department of Agricultural Economics, University of Nebraska-Lincoln**

### **Cattle Inventory Report Confirms Herd Expansion Halted in 2006**

In its annual cattle inventory report released last Friday, USDA reported the total number of cattle and calves on January 1, 2007 at 97 million head, a 0.3% increase from last year's inventory estimate (which was revised downward by 400,000 head). Thus, total numbers are now lower than those reported last year. Nationally, inventory estimates for total cow numbers, heifers held for replacement, and the 2006 calf crop were close to pre-release estimates and within one percent of year-ago levels.

Despite beef cow slaughter being 18% higher in 2006, the number of beef cows on January 1, 2007 declined only 0.3% to 32.894 million head as a result of larger heifer retention in the previous two years. Beef cow numbers declined in several key states as a result of drought last year, including Texas (-2.8%), Oklahoma (-3.6%), Kansas (-3.2%), South Dakota (-2.9%), Montana (-3.4%), and Missouri (-2.7). This also resulted in fewer heifers held for beef cow replacements in many of those states. For example, Texas, Oklahoma, Kansas, Montana, and Missouri saw declines of 11.5%, 1.2%, 5.9%, 1.1%, and 2.9%, respectively, in beef replacements during 2006. Iowa and Nebraska led the top beef cow states in beef heifer retention in 2006, with 14.2% and 11.9% higher numbers than a year ago. South Dakota and Kentucky also saw modest increases in heifers held for beef cow replacements.

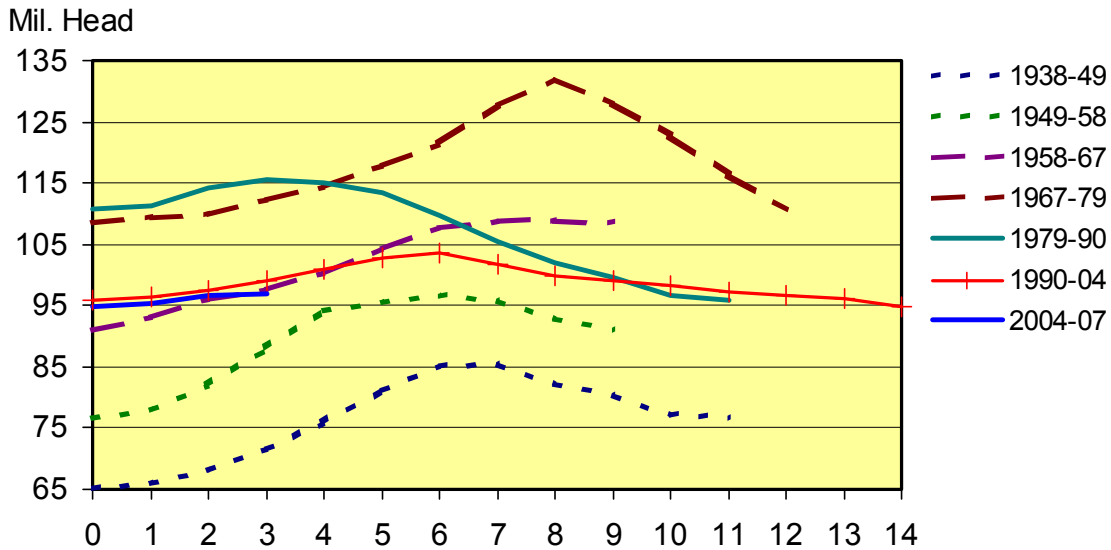
While the impact of the drought in the southern plains is evident in the beef cow and retention numbers, it appears that there may be some optimism for wheat and other small grain pasture this year. As of the first of the year, 2.6 million head of cattle were grazing small grain pastures in Kansas, Oklahoma, and Texas, 23.8% more than last year. Likely, the \$1.75/bu increase in corn prices has also encouraged stockers to graze cattle rather than place them on feed. Still, small grain pasture in the southern plains is likely limited, and current cattle inventories remain 16.1% lower than in 2005.

The cattle inventory report also provided an estimate of the 2006 calf crop. At 37.567 million calves, last year's calf crop was virtually unchanged from the 2005 calf crop (which was revised down to 37.575 million head last week, 205,000 head less than reported last year). With a small increase in calf numbers in 2006, supplies of feeder cattle will remain relatively tight in 2007, which should be supportive to feeder cattle prices. However, lower feedlot demand will suppress prices at current high corn prices.

The expansion phase of the current cattle cycle is one of the slowest in history. The past two years of herd expansion has been limited by drought conditions in the southern plains and western states. The continued slow to moderate pace in herd expansion is likely to continue for the next couple of years for two reasons. First, pasture and range availability will be limited from drought-stressed conditions that have lasted between two and eight years

depending on location, and could be worsened if dry conditions persist in 2007. Second, the rapid advance in corn prices has resulted in calf prices dropping precipitously (about \$20/cwt since September 1, 2006 for a 550 lb. steer in Nebraska). This will result in smaller returns for cow-calf producers in 2007 and beyond.

## TOTAL CATTLE INVENTORY BY CYCLE U.S., January 1



### The Markets

The fed cattle market traded \$1-2/cwt higher in Kansas last week on a live weight basis, with prices averaging \$88.53 for the week. Dressed sales were steady to slightly higher in Nebraska last week. Choice boxed beef dropped \$6.31/cwt last week and the Choice-Select spread declined nearly \$3/cwt last week. The corn market closed the week \$0.06/bu lower, providing some support to feeder cattle prices. Feeder calf prices in Kansas averaged \$6.78/cwt higher, but yearling steer prices were down about \$1/cwt. Yearling prices were down a little in Nebraska as well last week, but steer calf prices saw a bigger decline, averaging \$4.63/cwt less than the previous week.

	Last Week	Previous Week	Last Year
Kansas Fed Steer Price, live weight	\$88.53	\$86.58	\$91.96
Neb. Fed Steer Price, dressed weight	\$137.87	\$137.53	\$144.59
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$94.12	\$95.13	\$110.67
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$114.89	\$108.11	\$136.79
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$95.99	\$96.58	\$114.76
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$112.34	\$116.97	\$144.71
Choice Boxed Beef Price, 600-900 lb. carcass	\$143.06	\$149.37	\$151.25
Choice-Select Spread, 600-900 lb. carcass	\$8.15	\$11.10	\$12.25
Corn Price, Omaha Nebraska, \$/bu	\$3.72	\$3.78	\$1.94