

8-8-2019

Has the cattle cycle peaked?

Lee Schulz

Iowa State University, lschulz@iastate.edu

Follow this and additional works at: https://lib.dr.iastate.edu/econ_las_pubs



Part of the [Agricultural and Resource Economics Commons](#), and the [Agriculture Commons](#)

The complete bibliographic information for this item can be found at https://lib.dr.iastate.edu/econ_las_pubs/721. For information on how to cite this item, please visit <http://lib.dr.iastate.edu/howtocite.html>.

This Article is brought to you for free and open access by the Economics at Iowa State University Digital Repository. It has been accepted for inclusion in Economics Publications by an authorized administrator of Iowa State University Digital Repository. For more information, please contact digirep@iastate.edu.

Has the cattle cycle peaked?

Abstract

The price highs of the current cattle inventory cycle are likely behind us.

Disciplines

Agricultural and Resource Economics | Agriculture

Comments

This article is published as Schulz, Lee. Has the cattle cycle peaked? *Wallaces Farmer*, August 8, 2019. Posted with permission.



EXPANSION OVER: USDA's midyear survey of cattle numbers indicates the expansion phase of the nation's beef herd is over, as all cows and heifers that have calves totaled 41.7 million head, down slightly from a year ago.

Has the cattle cycle peaked?

The price highs of the current cattle inventory cycle are likely behind us.

Lee Schulz | Aug 08, 2019

The history of the cattle business has been one of cycles. Cow-calf producers expand inventories in response to profits. Producing more beef pressures prices, which brings losses. Producers liquidate herds to trim losses. Less beef brings profits, fueling the next expansion. Cattle cycles are measured from one inventory trough to the next trough.

Knowledge of cattle cycles is important. National cattle supplies influence cattle prices at the local level. The focus is on playing the long game. The stage of the cattle cycle won't help predict next week's prices.

However, studying how cyclical beef supply changes may impact prices over the next several years can aid your long-run planning as you evaluate the direction your business should take in the future.

The current cycle began in 2014, when the Jan. 1 U.S. cattle and calf inventory bottomed at 88.2 million head. That was the smallest total cattle inventory since 1952. The current cycle entered its sixth year in 2019. Most past cycles ranged from nine to 14 years.

Prices for all market classes of cattle were record-high in 2014 and were the price highs for this cycle. Tight cattle and beef supplies buoyed prices. Producers held more heifers for breeding and culled fewer beef cows to rebuild herds. Both bolstered prices. Furthermore, strong domestic and export demand for beef helped drive prices to their cyclical peak. Strong prices triggered expansion that upped the Jan. 1, 2015, total cattle inventory.

Higher production flattens cycle

No two cattle inventory cycles have been exactly the same. In fact, cycles are getting flatter. The reason? Producers are producing more beef from fewer cattle. The market no longer needs the large cattle inventory increases of yesteryear to boost beef supply enough to pressure prices and signal producers to contract herds. The worldwide market environment the beef industry now operates in also causes more price volatility than in past cycles, which boosts risk for retaining more heifers and/or investing in additional cows.

USDA released its semiannual cattle report on July 19, with estimated July 1 national inventories of all classes of cattle and calves. This report provides the most recent insights into the ever-evolving cattle inventory picture and current state of

the cattle cycle. The inventory estimates suggest that expansion of the U.S. beef herd may have plateaued.

The July 1, 2019, U.S. all cattle and calves inventory was unchanged from July 1, 2018, at 103.0 million head. That's 7.3 million more cattle than the 95.7-million-head cyclical midyear inventory low on July 1, 2014. Commercial beef production in 2019 is projected at 27.2 billion pounds, up 2.9 billion pounds, or 12.1%, since 2014.

The beef cow herd is the foundation of the total cattle inventory; at 32.4 million head, it was also unchanged from a year ago. The big news was the number of heifers held for beef cow replacement, at 4.4 million head, was 200,000 head, or 4.3% smaller, than last year. Combine this retention rate with beef cow slaughter up 2.2% in the year to date, and the data collectively point to a nationally stable-to-lower beef cow herd. Cow-calf producers had a good string of profitable years in this cycle. Their balance sheet strength may delay further breeding stock declines, particularly in regions where drought and poor pasture conditions are not limiting factors.

Calf crop may dip slightly in 2019

USDA projects the 2019 calf crop near 36.3 million head. First-half 2019 live births totaled 26.5 million, with about 9.8 million more calves to be born in the second half. Compared to 2018, 102,700 fewer calves are expected to be born this year, which is a 0.3% decrease.

Milk cow numbers were about 1.1% lower than July 1, 2018. Dairy replacement numbers were 2.4% lower. The declining dairy cow herd certainly contributes to the lower-estimated 2019 calf crop; eventually, that will put fewer dairy cattle into feedlots.

The number of cattle outside feedlots available for placement is approximately 100,000 head, or 0.3%, more than a year ago. This slightly larger supply should not cause a bear market (lower prices) on the horizon. Corn and fed cattle prices will help guide the feeder cattle market. Expectations of higher corn prices this fall and

winter will temper interest in bidding up feeder cattle. Similarly, sluggish live cattle futures prices will weigh on feeder cattle prices into the fall marketing period.

Cattle on feed are at the record-large levels that would be expected at the peak of a cattle cycle. The 13.6 million head as of July 1 is a figure 300,000 head, or 2.3%, larger than last year. However, dressed weights have moderated over the past few years, and especially in the past few months, which has softened some of the impacts of larger cattle inventories on total beef production. USDA grading data show that the percent of cattle grading Choice and Prime dropped below the last two years for this time frame. This all indicates cattle feedlots are very current on marketings.

Managing more market volatility

Few people predicted cattle prices would rise as quickly as they did during 2014, or tumble as rapidly as they did in the years to follow. These price swings represented significant dollars in cattle revenue and meant the difference between profit and loss for many producers. This has been a unique cattle cycle, to say the least.

Some market participants believe the cattle cycle is dead or no longer exists. I'm not ready to bid farewell to the notion of the cattle cycle. The extreme market swings of recent years add to our understanding of the implications of fluctuating herd inventories in a global and ever-dynamic marketplace.

At this point in the cattle cycle, we should expect relatively lower markets and tighter margins, compared to a couple years ago. Challenging times typically show who the better managers are, and this will likely play out in the next several years. A whole host of unexpected and unpredictable events will affect the beef industry and cause cattle producers to manage from one event to the next. Such changes could be positive or negative.

Producers should consider ways to limit potential downside risk in their marketing plans. They should also leave open the possibility of benefiting from potential upside price movements. Such strategies may leave money on the table at times, but should

also help avoid huge losses at other times that could cripple the financial well-being of their operations.

Cattle inventories lower statewide

County-level estimates for cattle inventories are published by USDA National Agricultural Statistics Service (NASS) field offices. The county-level inventory estimates are for all cattle and calves, beef cows and milk cows. The latest estimates are for Jan. 1, 2018-19, and were released June 13. These county estimates are much more current than those of the only other source of county data, the Census of Agriculture, with 2017 being the most recent one. That makes the NASS estimates more useful for knowing current inventories and any changes underway.

As of Jan. 1, 2019, Iowa had the eighth-largest cattle inventory in the U.S. at 3.95 million head, or 4.2%, of the nation's cattle. Iowa's top cattle county, Sioux, accounts for 420,000 head, or 10.6%, of the state's total cattle numbers. Other top counties include (in ranking order): Lyon (190,000 cattle and calves), Dubuque (130,000), Delaware (120,000), Plymouth (110,000), Jackson (98,000), Winneshiek (94,000), Woodbury (77,000), Clayton (73,000), Pottawattamie (73,000) and Clinton (70,000). All Iowa counties saw constant or inventories decline from 2018 to 2019. The largest total cattle inventory declines occurred in Delaware, Dubuque, Lyon, Plymouth and Sioux counties, each losing 5,000 head of cattle and calves.

Iowa ranks No. 10 in beef cows in U.S.

Iowa is the 10th leading beef cow state in the U.S., with 950,000 beef cows as of Jan. 1, 2019. While cow-calf production occurs in every Iowa county, greater numbers of beef cows tend to be concentrated in southern Iowa and along the eastern and western sides of the state, where more forage and grassland production occurs. Several counties in Iowa have beef cow inventories greater than 16,000 head in 2019. These include: Ringgold (27,000 beef cows), Jackson (24,500), Union (19,600), Allamakee (19,500), Clayton (19,100), Crawford (18,900), Lucas (18,200), Clarke (17,000) and Jones (16,500).

Nationally, Iowa ranks 12th in dairy cow inventory, with 220,000 head on Jan. 1, 2019. Dairy operations of various sizes and structure are located throughout the state, with the heaviest concentrations of production located in northwest and northeast Iowa. Sioux County has the largest milk cow inventory at 35,500 head, with Dubuque (22,000 milk cows), Winneshiek (16,500), Allamakee (13,100) and Clayton (11,700) rounding out the top five.

It should be noted that just as with the Census of Agriculture, several county beef cow and milk cow inventory estimates are not reported due to confidentiality restrictions. These are then published in a “combined counties” category.

County estimates for cattle inventories are developed using county-level livestock information from the Census of Agriculture; administrative data; and current-year, state-level Agricultural Statistics Board (ASB) inventory and production estimates. Cattle inventory estimates for 2018-19 for Iowa counties are available at NASS cattle inventory estimates 2018-19 by Iowa county . Historical and current estimates are also available in USDA’s Quick Stats database and can be viewed or downloaded in a spreadsheet.

Schulz is the Iowa State University Extension livestock economist. Email lschulz@iastate.edu.

Source URL: <https://www.farmprogress.com/marketing/has-cattle-cycle-peaked>