



United States Mid-term Cattle Report

The United States Department of Agriculture (USDA) released two reports estimating July 1, 2006, cattle inventories: the mid-year cattle report and the July Cattle on Feed report. The estimates indicate a continuation of the slow expansion of cattle numbers. The total cattle inventory is one per cent higher than July 2005; however, the significant numbers were that the beef cow inventory is only 100,000 head (0.4 per cent) larger and the number of beef heifer replacements is unchanged from last year. In spite of record high calf prices in 2005 and an eight-year string of beef cow profits, dry pasture and range conditions are postponing wide-scale expansion of the beef breeding herd.

The total cattle-on-feed inventory is estimated at 12.5 million head, 4.2 per cent higher than a year ago. The number in feedlots with 1,000 head capacity or larger is estimated to be 10.87 million head, 4.6 per cent higher than July 1, 2005. This total is 478,000 more cattle than the year before and 740,000 (seven per cent) more than July 2004. The lack of growth in the beef breeding herd is showing up as more heifers in feedlots. The number of heifers on feed was 5.2 per cent, or 183,000 head, above levels from a year earlier. The inventory of steers on feed is 4.3 per cent higher. The dairy herd is showing modest growth. Milk cow numbers were approximately one per cent higher than a year ago and dairy replacement numbers are three per cent higher than July 2005.

Inventory Trend

The dry range and pasture conditions are a particular problem in the major beef cow regions of the Great

Plains and Southern Plains. Cow slaughter through the first 27 weeks of 2006 is up 5.9 per cent, due entirely to beef cow slaughter that is up 11.2 per cent, while dairy cow slaughter is unchanged from the same time in 2005. Like replacement numbers, heifer slaughter has been near 2005 levels, up only 0.7 per cent compared to a 6.2 per cent increase in steer slaughter. However, the short term increase of heifer feeding and slaughter will add to the supply of beef and may limit upward price potential this fall.

The poor feed conditions are slowing the breeding herd expansion and are expected to prolong the current stretch of profitable feeder cattle prices for beef cow herds. In spite of the slow expansion, it still appears that 2005 will be the high price year of this cattle cycle.

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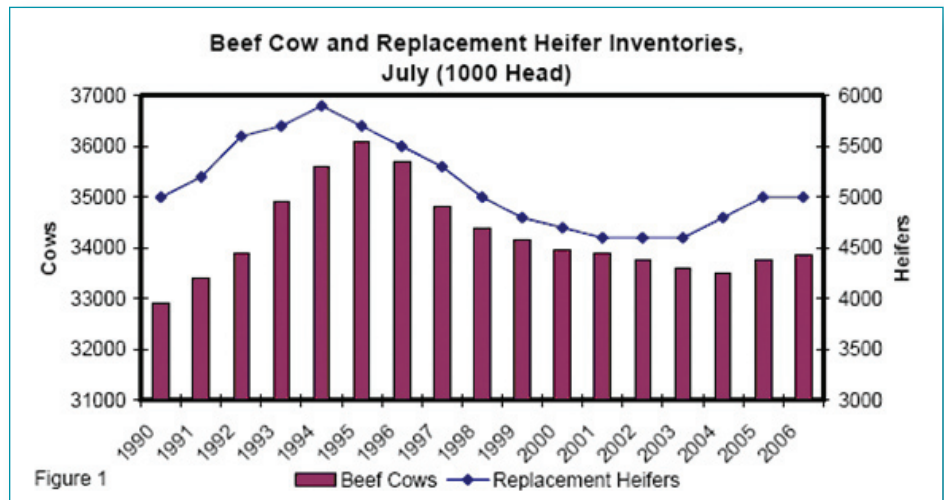
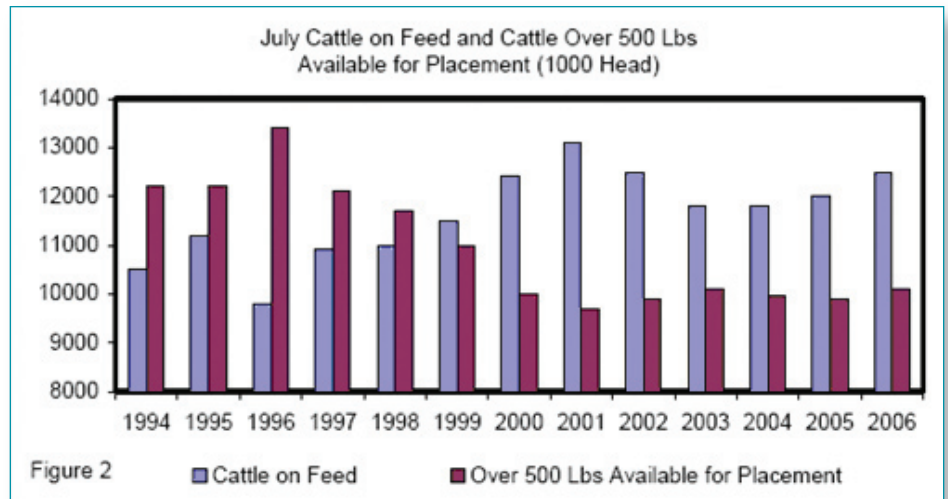


Figure 1 shows beef cow and replacement heifer inventories since 1990, the lowest July beef cow numbers since the USDA started the mid-year report in 1973. The beef replacement number has increased from its low in 2001 and 2002. Also, note that the heifer inventory does lead the cow inventory, suggesting slow to steady growth for beef cow numbers and the U.S. calf crop next year.



The feeder cattle supply outside feedlots is slightly larger than a year ago. Figure 2 shows the cattle on feed and feeder cattle over 500 pounds available for placement on July 1. The feedlot inventory has been slowly increasing since 2004 and equals its second highest level at 12.5 million head. The number of steers and heifers weighing over 500 pounds and not a beef replacement heifer is 10.1 million head, its highest level since 1999.

Long term, the slow-down in heifer retention indicates a prolonged cattle cycle. There is no indication that the expansion is over, but supplies will not grow as fast as they did in previous cycles. In the 1990-1995 expansion July heifer inventory increased almost two million head with four consecutive years of growth. Beef cow numbers increased over three million head and expanded for five years.

Two key factors make this cattle cycle different from the previous one. First, carcasses are heavier and a small increase in inventory could result in a big increase in beef tonnage. Second, beef demand is increasing after declining from 1980 to a low in 1998. The previous cycle was increasing supply in the face of weaker demand, but this time demand is increasing as supplies increase. While beef and cattle prices are still expected to decline, the pace of decline may be slower and the low prices not as low as the previous cycle.

The heifers retained for breeding were bred this summer, will drop a calf in spring 2007, and add it to the beef supply in 2008 and beyond. It is unlikely that the expansion is over with only two years of growth in cow numbers, but it does suggest that the price decline for fed cattle and feeder cattle expected from larger supplies will be less severe than may have been expected.

Feeder cattle prices this fall and longer term may be impacted more by the cost of gain than supply of feeders. Increased demand for corn from expanding ethanol production is driving demand for corn. The 2006 crop price has been volatile, but December 2006 corn is near \$2.56/bu at this writing. However, the December 2007 and December 2008 are at \$3.00 and \$3.25, respectively. If these prices hold, they may pressure feeder cattle prices.

Fed cattle prices face a challenge in the near term. The July report indicated over a four per cent increase in the number of cattle on feed and number of cattle on feed 120 days or more is 18 per cent higher than July 2005. In ad-

dition, steer carcass weights are increasing seasonally and are 16 pounds (1.9 per cent) heavier than the same week last year and within six pounds of the record weight. Thus, feedlots are not as current as they would like to be.

Beef cutout prices have fallen sharply since July 4 and cattle prices are expected to weaken seasonally into late summer. The higher June placements reported in the Cattle on Feed report will also limit late fall price potential, but may support prices after the first of the year if the higher placements were cattle pulled ahead due to drought conditions. ■