

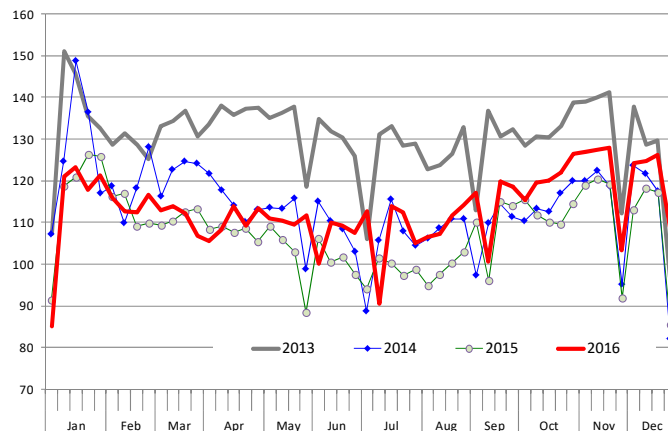
Beef supplies have been increasing for the last two years and the cattle inventory survey, which will be published on January 31, will provide an indication as to what kind of supply growth we should expect in the next 12-18 months.

It has been almost a year (there was no July survey conducted) since the last comprehensive accounting of US cattle supplies and, needless to say, there is a lot of anticipation/speculation as to what it will reveal. We will cover this topic in a bit more detail as we get closer to the release date but today we will address one simple question - is the US cow herd increasing? While this is ultimately a balance sheet question (how many animals entered the herd vs. how many were removed), during the course of the year we only get incomplete information. Hence the need for the inventory survey. One piece of data we get with regularity is the number of animals that goes to slaughter each week. And since we care about the size of the breeding stock, the number of female animals going to slaughter, be this cows or heifers, is quite important. The data in the last six months indicates that producers have increased the number of female animals they have sent to market relative to the previous year. Since July (26 weeks), total cow slaughter based on weekly data has been 2.760 million head, about 210,000 head (8.3%) higher than the comparable period a year ago. Almost all of this increase has been due to more beef cows coming to market. Dairy cow slaughter during this period has averaged 0.8% under the previous year while beef cow slaughter has averaged 10.7% above last year. But an increase in the cow slaughter numbers alone does not indicate that producers are liquidating their herds. Record high calf prices in 2015 caused producers to try and retain even the most marginal animals in order to maximize calf production so comparisons to 2015 alone tend to skew the overall picture. Also, it is important to remember that the cow herd has increased substantially in the last few years. On January 1, 2016 the overall cow herd was 39.6 million head, about 1.4 million head larger than it was in 2014. A larger cow herd also implies there will be more cull cows available and thus a natural growth in the number of cows coming to market. We noted that dairy cow slaughter has been flat to slightly lower and in part this is because we have not seen the kind of supply growth in dairy cow inventories that we have seen in the beef complex. The beef cow herd in the past two years increased by a little over 100,000 head (9.2MM to 9.3MM). The beef cow herd, on the other hand, on January 1, 2016 was 1.2 million head larger than in 2014 for a total inventory of 30.3 MM head.

The component that is a bit harder to pin down is the number of heifers that have joined the beef cow herd and will produce a calf in the following year. Trends in heifer slaughter offer some insights but as with cow slaughter it is important to view heifer slaughter numbers relative to the overall stock. Heifer slaughter since July (26 weeks) has been a total 3.987 million head, 447,000 head (+12.6%) larger than the

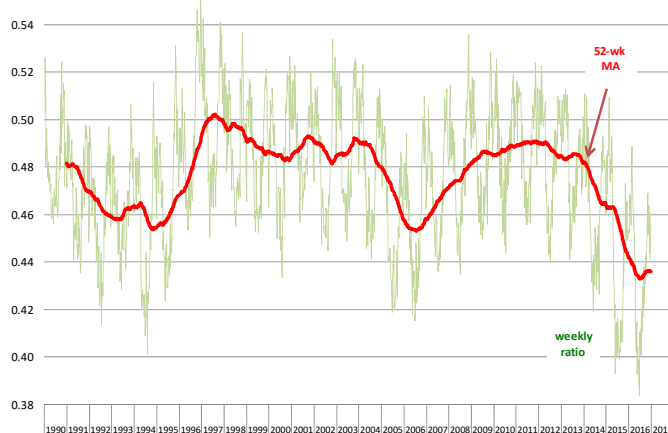
Weekly Cow and Bull Slaughter

000 Head. Data Source: USDA

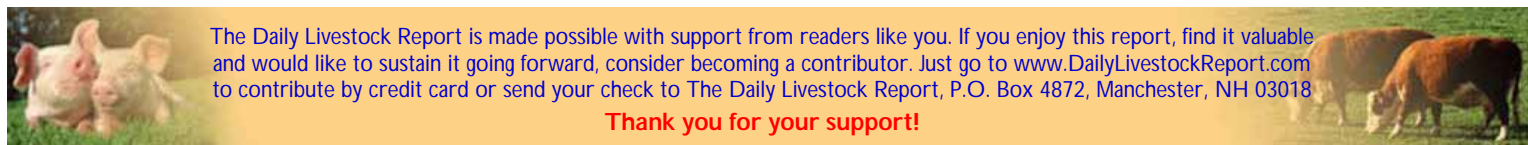


Ratio of Female Slaughter (Heifers + Cows) To Total US Cattle Slaughter

Weekly Data and 52wk Moving Average. Last Reported Week is December 24, 2016



previous year. Combined female slaughter (cows and heifers) during the past six months is up 657,000 head (+10.8%). The chart above places some of these numbers in the broader context of overall cattle supplies. The chart shows the ratio of female slaughter (cows and heifers) relative to overall cattle slaughter in the US. In the past, a ratio between 46% and 48% has indicated a stable cow herd. In 2015 and 2016 we saw the ratio drop to the low 40s, hence the rapid herd expansion. The current ratio is hovering around 45% although the 52wk average trend still is quite low by historical standards, implying we are still far from shifting to a liquidation phase.



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