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Market Comments

USDA will release on Friday, January 27 the results of its **semi-annual survey of US cattle operations, offering an estimate of the number of cattle and calves in the US as of January 1, 2012**. The table below presents the inventory survey numbers for the previous three years as well as analysts estimates ahead of the USDA report.

The report is expected to show further **reductions in the size of the US cattle herd**, with particularly sharp declines in the number of beef cows and further contraction in the number of heifers held back for beef cow herd rebuilding. Analysts on average expect the survey to show a **1.6% decline in the size of the cattle herd**. This implies a total inventory of 91.1 million head, the smallest since at least 1958 when the total cattle inventory was pegged at 91.176 million head. To be sure, beef production today is significantly larger than it was back in the 1950s, thanks to tremendous productivity gains. In 1958, US commercial beef production was pegged at 12.983 billion pounds, compared to 26.297 billion pounds in 2011. In addition to producing heavier animals, the feedlot system has allowed producers to significantly accelerate the time it takes calves to come to market. Consider that in 1958, US cattle slaughter was 23.555 million head while in 2011, overall slaughter is estimated at 34.2 million head. The average carcass weight of cattle that went to slaughter in 1958 was 575 pounds, compared to 773 pounds in 2011. So while the headlines after the inventory report will likely focus on the fact that cattle numbers are the lowest in some 50 years, keep in mind that cattle slaughter in 2011 was about 46% bigger than it was in 1958 and carcass weights were 34% larger than they were then. Today, we produce more than double the amount of beef from the same size herd (indeed the beef cow herd is smaller today that it was then).

The concern going forward is that much of the productivity growth in the future will be incremental. The low hanging fruit has already been taken and the industry is now running against biological barriers. It will be difficult to further increase beef production without increasing the size of the cattle herd. While there are plenty of signals for expansion in 2012 and 2013, the January survey will likely show that producers continued to liquidate the herd in 2011, largely due to escalating feed costs and limited pastures. The beef cow inventory on January 1, 2012 is expected to be down 2.5% while the number of heifers held back for beef cow herd replacement is expected to be down 2.1%. One thing to watch for in the upcoming report is how the distribution of the US cattle numbers changed in 2011. Drought stricken states, such as Texas and Oklahoma, likely saw a sharp decline in their beef cow herd, while other states probably saw notable gains from a year ago. The expectation is for producers to increase heifer retention in 2012 as calf prices hit record highs. In some areas, however, that may be limited by long term drought conditions and limited feed supplies. The overall expectation is for smaller beef supplies in 2012 and 2013, the inventory survey should tell us how big the decline will likely be.

PRE-REPORT ESTIMATES OF JANUARY 1st U. S. CATTLE INVENTORY

Source: Reuters Survey of 7 Livestock Analysts

	Previous 3 Years			Estimates, 000 Head				Estimates, % of 2011			
INVENTORY (000 OMITTED)	2009	2010	2011	Average	Range			Average	Range		
ALL CATTLE AND CALVES	94.52	93.88	92.58	91.10	90.14	-	91.50	98.40%	97.36%	-	98.83%
COW AND HEIFERS THAT HAVE CALVE	41.05	40.46	40.01	39.25	38.59	-	39.56	98.02%	96.40%	-	98.87%
BEEF COWS	31.71	31.37	30.86	30.08	29.49	-	30.40	97.46%	95.50%	-	98.50%
DAIRY COWS	9.33	9.09	9.15	9.19	9.10	-	9.23	100.22%	98.80%	-	100.90%
HEIFERS 500LBS. AND OVER	19.58	19.75	19.53	19.42	19.18	-	19.75	99.40%	98.20%	-	101.10%
BEEF COW REPLACEMENT	5.53	5.45	5.16	5.05	4.95	-	5.15	97.86%	96.00%	-	99.80%
DAIRY COW REPALCEMENT	4.41	4.53	4.56	4.63	4.59	-	4.70	101.50%	100.70%	-	103.10%
OTHER HEIFERS	9.64	9.77	9.82	9.74	9.50	-	10.00	99.21%	96.80%	-	101.80%
STEERS 500 LBS. AND OVER	16.77	16.51	16.38	16.14	16.00	-	16.25	98.62%	97.70%	-	99.40%
BULLS 500 LBS. AND OVER	2.18	2.19	2.15	2.11	2.05	-	2.14	97.97%	95.20%	-	99.40%
HFRS, STRS AND BULLS UNDER 500 LB	14.95	14.98	14.50	14.18	14.10	-	14.36	97.79%	97.20%	-	99.00%
ANNUAL CALF CROP **	35.94	35.68		35.33	35.10	-	35.50	99.01%	98.40%	-	99.50%

** Calf Crop Estimate is for year 2011

The Daily Livestock Report is published by Steve Meyer and Len Steiner. To subscribe/unsubscribe visit www.dailylivestockreport.com.