

USDA will release today at 3PM ET the results of its 'Cattle' inventory report. The US cattle industry has been expanding for the last three years, with more beef coming to market but also lower prices and dwindling profits for producers at various stages. The big debate percolating in the industry these days is **whether the expansion has come to an end, allowing producers to finally bring a margin back in their business.** While there is some debate among industry participants as to how well USDA surveys are capturing the state of the industry, with some pointing to dwindling response rates as a major negative, the reality is that this is the best resource we have at this time. Below are some of the things we will be watching for when the survey results will be released. The table to the right includes some analyst ideas but keep in mind that Urner Barry was able to only get **estimates from three analysts.**

- **Beef cow herd and heifers retained for beef cow replacement.** Analysts polled by UB think that the total cow herd as of January 1 will be 1% larger than the previous year, with beef cow numbers up 1.1% and dairy cow numbers up 0.4%. US cow slaughter in 2016 was higher than the year before. Beef cow slaughter increased by 307,000 head from 2015 levels but dairy cow slaughter actually was 30,000 head smaller. Keep in mind, however, that as of January 1 2016 there were 1.037 million more cows than the year before. Also excellent calf prices in 2015 induced producers to hold on to even the most marginal animal. Therefore there were plenty of cull cows that had to come and did come to market in 2016. We have seen a few more heifers in the slaughter mix this year than we did a year ago, which normally implies continued increases in the cow herd. Analysts, however, think that the expansion is coming to an end, expecting the number of heifers retained for beef cow replacement to be down 1.2% from the previous year. Fewer beef cow replacement heifers and higher cow slaughter will likely caused the beef cow herd to contract in 2017 and implies lower calf supplies in 2018 and 2019.

- **What is the supply of feeders outside feedlots?** This is not a number that is reported but can be easily calculated by adding up the inventory of steers, bulls, non-replacement beef and dairy heifers and calves under 500 lb and then removing from this total the supply of cattle already on feed. If you want to be really precise one also needs to adjust for cows on feed but this is a good first approximation. Using the estimates above we calculate the feeder supply as of January 1 to be 2.3% higher than it was the year before, implying continued increases in feedlot inflows through the spring and early summer. But that supply will depend greatly on the calf crop in 2016 and therefore the supply of calves under 500 pounds. Analysts expect the calf crop in 2016 to be 1.7% higher but also think the supply of calves under 500 lb. to be just 0.4% larger than a year ago. Another factor that will impact this number is the supply of non-replacement heifers available. If producers really have decided to back from the expansion trajectory, this means more non-replacement heifers and, in the short term, larger feeder supplies

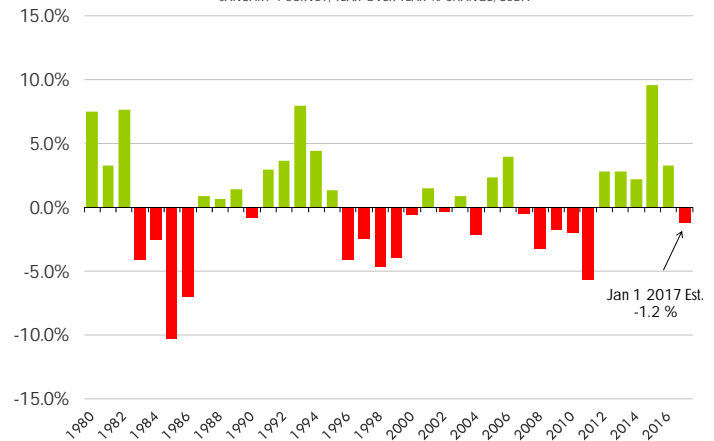
- The survey also will provide an **update on the supply of cattle on feed in ALL feedlots,** not just the big ones. Keep an eye on this number and contrast with the numbers in the monthly 'Cattle on Feed' report

Analyst Pre-Report Estimates of USDA 'Cattle' Report

Source: Urner Barry

	Average	Range
	% of year ago levels	
All Cattle/Calves on Jan 1	100.8	99.9 - 101.3
Calf Crop	101.7	101.4 - 102.0
Total Cow Inventory	101.0	99.5 - 102.0
Beef cows	101.1	99.2 - 102.1
Dairy cows	100.4	99.8 - 101.0
All Heifers +500lb.	100.8	100.4 - 101.4
Beef replacement	98.8	98.0 - 99.4
Dairy replacement	100.0	98.5 - 101.2
Other heifers	102.7	101.5 - 104.4
Steers +500 lb.	101.1	100.5 - 102.0
Bulls +500 lb.	99.7	99.2 - 100.4
Calves under 500lb	100.4	99.6 - 101.4
On Feed January 1	99.0	98.8 - 99.4

HEIFERS HELD BACK FOR BEEF COW HERD REBUILDING
JANUARY 1 SURVEY, YEAR OVER YEAR % CHANGE, USDA



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