

USDA will publish its semi-annual estimates of the US cattle herd and various inventory subgroupings on Friday, January 31. Analysts polled by Urner Barry ahead of the report expect y/y declines for almost all categories but the key numbers, in our view, are **the size of the cow herd, heifer retention and the revisions to the calf crop estimates for both 2018 and 2019**. On average analysts expect the breeding herd to decline about 0.8% from the previous year. The expected decline should not be a surprise since the July survey already showed a contraction in the cow herd. Since then we have continued to see producers send more cows to market. Statistics for the second half of 2019 put total cow slaughter at 3.251 million head, 137k head or 4.5% higher than the same six month period a year ago. More heifers were also sent to feedlots in 2019 and heifer slaughter in the second half of the year was 5.096 million head, 334k head or 7% higher than the previous year (see our report on 1/28 for a full breakdown of 2019 production statistics).

The US cow herd had been increasing since 2014, a function of robust demand in domestic and export channels, improving cow-calf profitability and good pasture conditions. However, as we have noted in previous issues of this report, **cow-calf profitability has been slowly eroding and the last two years have been particularly difficult**. Limited cattle processing capacity meant that even though wholesale/retail beef prices have been relatively strong, much of those gains have not filtered through back to the farm. Like any business producers need to see consistent strong returns otherwise there is little incentive for them to maintain the current production rate, let alone continue to expand. Analysts think that on January 1 the number of **heifers retained for beef cow herd replacement will be 3.5% lower than the previous year**. If they are correct, this will be the **smallest replacement number since 2014**. The dairy cow herd has also declined in the last 12 months although liquidation appears to have bottomed out at this time. On average analysts think the dairy cow herd will be down 1.2% or 112k head from a year ago. It is interesting to note that **the monthly USDA milk production report pegged the dairy cow inventory in December at 9.339 million head, only slightly lower than last year. The analyst average appears oddly low on this count.**

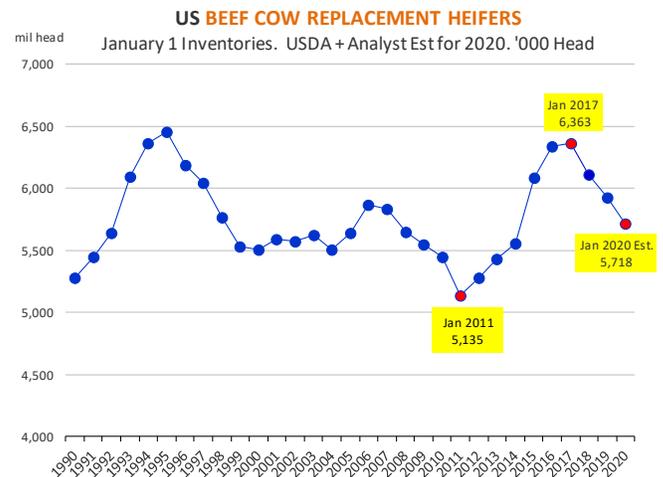
The average of estimates currently puts the calf crop for 2019 down 0.4% from a year ago, a bit lower than the 0.3% estimate that USDA calculated in the July survey. Given the current rate of slaughter, especially steer slaughter, it will be interesting to see how much USDA changes some of its previous estimates. A smaller calf crop in 2019 should result in tighter cattle/beef supplies in the second half of 2020 and in 2021. And with the cow herd at the start of this year, a smaller calf crop for 2020 appears to be a foregone conclusion and with that a

Analyst Estimates of the January 1 USDA 'Cattle Inventory Survey'

Survey of Analysts Conducted and Reported by Urner Barry

	Average of Estimates	Range of Estimates	Jan 1, 2019	Jan 1, 2020 Analyst Est.	Implied Change
All cattle & calves Jan. 1	99.5	99.3 - 99.7	94,760	94,286	-474
Annual calf crop **	99.6	99.5 - 99.7	36,403	36,257	-146
Total cows/heifers calved	99.2	98.6 - 99.8	41,119	40,790	-329
Beef cows / heifers	99.4	99.1 - 99.8	31,766	31,575	-191
Milk cows / heifers	98.8	96.9 - 99.8	9,353	9,241	-112
Heifers 500 lbs+	99.8	99.3 - 100.2	20,230	20,190	-40
Beef replacement heifers	96.5	96.2 - 96.8	5,925	5,718	-207
Milk replacement heifers	99	97.5 - 100.5	4,702	4,655	-47
Other heifers	102.3	101.2 - 103.1	9,604	9,825	221
Steers 500 lbs+	100.3	99.5 - 101.1	16,633	16,683	50
Bulls 500 lbs +	99.6	99.4 - 100.0	2,263	2,254	-9
Calves under 500 lbs	99.2	98.2 - 99.8	14,515	14,399	-116

** Calf crop is for the preceding year



continued reduction in beef supplies in 2021. Please note that **USDA will also issue an estimate of the cattle on feed on January 1**. This estimate is a bit different than what's in the monthly report as it captures on feed supplies in all operations not just in those with +1000 head capacity. The data helps us recognize structural shifts over time. The feedlot data is also needed to calculate the supply of cattle outside feedlots as of January 1 and may influence how participants approach the feeder cattle market this spring.



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