Daily Livestock Report

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The duration of a cattle inventory cycles tend to be about 10 years long. That is, from the lowest herd count through the build-up and draw-down to the next low point. But, some cycles are not typical and extensive drought has truncated or extended them. Although economic research has shown several factors influence the length of inventory cycles, the overriding factor once a cycle is kicked into expansion is biological. Once a cycle starts by adding a bulge of breeding females to the herd, it's about 10 years until those animals are removed. That biological fact also tends to perpetuate one cycle to follow the last. Currently, the U.S. has completed three years of herd growth in the current inventory cycle (see associated graphic).

A rather common misconception, and one we have heard recently, is that since cattle inventory cycles are 10 years long the U.S. industry faces about 10 years of lower prices. That is incorrect. If all demand factors are held constant (no small assumption), calf prices tend to decline year-over-year only when calf crops are growing significantly, not for the full 10 year up-and-down in the national herd. Typically, the herd grows for a few years and then lower cattle prices truncate the expansion. A graphic using Western Kansas calf prices and calf crops is provided.

So, looking ahead what does the recent USDA National Agricultural Statistics Service inventory as of January 1st (released Tuesday January 31st) indicate? For this cattle inventory cycle, 2017 is a critical year and is likely to be one of transition to slower growth of the U.S. herd. Lack of cow-calf operation profitability is quickly slowing producer's interest in increasing the size of their cowherds. Forage conditions this spring and summer could also influence producer decisions. Cow-calf producers reported to NASS they were holding about 1% more heifers for beef cows replacement purposes than a year ago as of January 1st, leaving the stage set for the national cattle population to be a bit larger, as of January 1, 2018. How large cow and heifer slaughter levels are above 2016's, will be important.

Recently, the Livestock Marketing Information Center (LMIC) updated their cyclical forecasts based largely on the recent data from USDA. The accompanying graphic includes their range, which on the high end gets to the previous cyclical high in total U.S. cattle numbers and on the lower end shows slight herd growth by the beginning of 2018, but more likely a small herd decline by the January 1, 2019 NASS report. LMIC suggests, based on the supply side of the cattle market, that year-over-year increases in cattle prices could begin in 2019.