

One of the topics that often gets brought up is structural change in the feeding industry and how that may impact pricing trends, especially during certain times of the year.

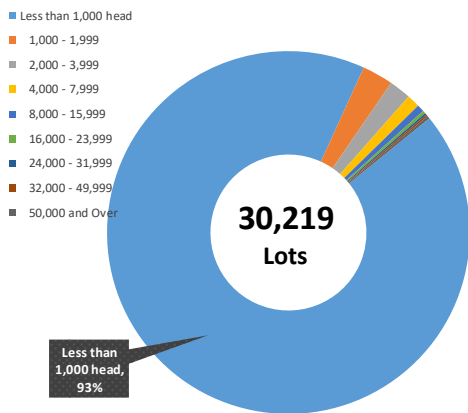
Once a year USDA provides an update on the feeding capacity and the inventory of cattle by operator size. For those that want to look at the raw data you will find them at the end of the 'Cattle on Feed' report published in February of each year. So what did this most recent report reveal? In our view it did not contain any major surprises and it also served to show that while the smaller feedlots marketed a few more cattle than the previous year, their overall impact still remains quite small and likely not sufficient to have a significant market impact. As has always been the case, the bulk of feeding operations (lots) tend to be small or very small. According to the latest survey, 93% of the 30,219 lots in 2016 had a capacity of fewer than 1000 head. Indeed, many of these operations are often consist of dozens rather than hundreds of animals. We will have to wait for the 2017 Census of Agriculture to get a better picture of how the various feeding operations are distributed by state. The 2012 Census included significantly more operations than the current count and we are not sure the data sets are comparable. Still, the point of the discussion is that while most lots in operation tend to be very small, they also account for a relatively small share of the overall inventory and marketings. On January 1, operations that had a capacity of less than 1000 head of cattle had an on feed inventory of 2.462 million head, 4.6% less than the previous year. This inventory represented about 18.8% of the 13.067 million head inventory on feed in all operations on January 1. The largest share of the on feed inventory continues to be in very large feedlots, those with a capacity of 50,000 head or more. The survey indicated that there were 73 such

feedlots (+50000 head capacity) in 2016 and on January 1, 2017 they had a combined on feed inventory of 4.260 million cattle, 4.1% more than the previous year. So while a year ago it was the smaller feedlots that showed a net increase in on feed numbers, it is now the large and very large lots that have gained ground. Which makes sense given the sharp deterioration in feeding margins during 2016 and the ability of the very large feedlots to withstand the financial pressures better than the small operators.

Small feedlots, i.e. those with capacity of less than 1000 head, marketed more cattle in 2016, largely because they had a larger inventory on January 1, 2016. Total marketings by small feedlots last year were 3.1 million head, 205,000 head (+7%) more than in 2015. It is possible that during certain times of the year (fall maybe) the increase in marketings from the smaller operators was quite a bit larger than normal. However, the reality is that in the big picture those marketings still are quite small relative to the 30.5 million head of cattle that were slaughtered in 2016. Indeed, marketings of cattle from small feedlots as a percentage of marketings in recent years have been quite stable. What is obvious (see chart) is that small feedlot marketings have declined following the spike in feed prices. Even with corn back in the \$3.50 range, we have yet to see a recovery in the marketing share from small operators. We expect the impact of marketings from smaller feedlots will be smaller in 2017 given the lower on feed inventory on January 1, 2017. On the other hand, we have seen very large operators consolidate and expand. In Jan 1, 2007, operations with +50,000 head capacity accounted for 24% of the on feed inventory. Ten years later, they accounted for over 32% of that inventory.

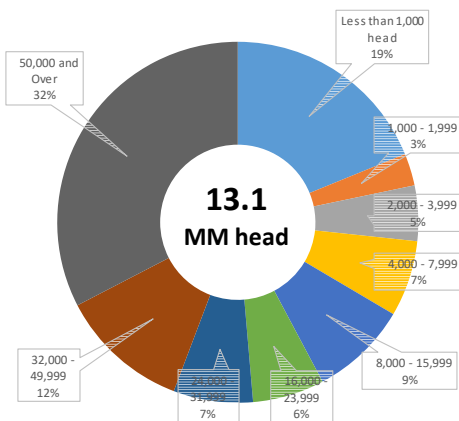
Number of Feedlots in Operation in 2016

Source: USDA



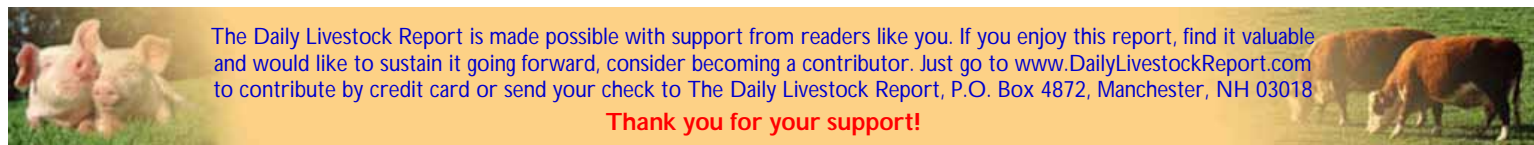
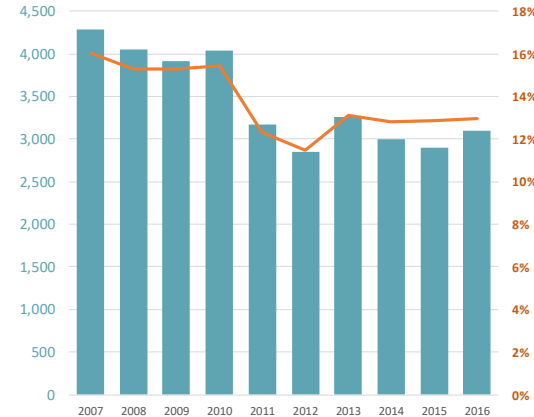
Inventory of Cattle in Feedlots on January 1, by Size

Source: USDA



Marketings of Feedlots with Less than 1000 Head Capacity

000 Head. Source: USDA



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