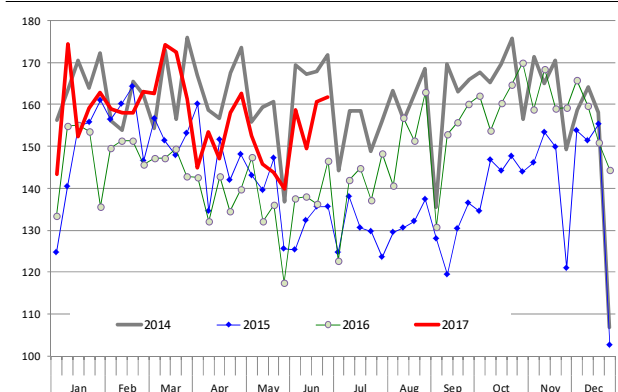


Some of you may have noticed that there have been no preliminary estimates of the upcoming USDA 'Cattle Inventory' report. While analysts have a fairly good process for estimating the cattle on feed numbers, it is quite difficult to come up with the July cattle inventory estimates with no data for the previous year. USDA conducts an industry survey and provides cattle inventory estimates for January 1 and July 1. But in 2013 and then again in 2016 USDA did not conduct a July survey due to budget constraints. Market participants and industry analysts utilize the July inventory data to recognize potential changes in the size of the breeding herd, update their estimates of cattle/beef availability in the next 12 months and incorporate the estimate of the calf crop in their long run projections. This year USDA has conducted a survey and the results will be published on Friday afternoon. There are concerns, however, that the lack of information for last July will negatively impact the current survey and may necessitate significant revisions in future reports, something that was the case the last time USDA skipped the July count. The July survey is not as comprehensive as the January count. Per USDA, "The January survey is the larger of the two surveys and includes nearly 50,000 cattle operations of all sizes. Estimates are made for all states. The July survey includes a list sample of nearly 10,000 of the larger cattle operations. Estimates are made at the U.S. level only."

Expansion/contraction is one of the key points of debate each year and the latest cattle survey should provide some additional data points with that regard. **Weekly female slaughter has been running substantially higher than a year ago.** In the last six weeks, heifer slaughter has averaged around 152,000 head/wk, up 13% compared to the same six week period a year ago. Beef and dairy cow slaughter has averaged around 107,500 head, 9% above a year ago. The increase in cow slaughter has come as a result of both more beef cows and more dairy cows coming to market. In the last six weeks beef cow slaughter is up 13% while dairy cow slaughter is up 6%. **Does this indicate that expansion in the US cattle industry has come to an end? Are producers starting to liquidate their herds, which would lead to fewer cattle/less beef in 2019 and 2020?** Not necessarily. The increase in slaughter should be placed in the context of a larger herd. As producers rapidly increased the number of beef cows and the calf crop in 2015 and 2016, this implies that there will be a net increase in the number of female calves. It also means that the number of cull animals will be larger. The bottom chart seeks to put the female slaughter numbers in the context of overall slaughter. It shows the ratio of female slaughter (cow slaughter + heifer slaughter) relative to total cattle slaughter. In the past this ratio has coincided quite well with cattle cycles. Despite the recent increase in female cattle slaughter, the ratio to overall slaughter still is one of the lows of the past 25 years. As you can see the ratio is quite seasonal but during liquidation years the ratio in the summer months has hovered around 45-46%. In 2015 and 2016 it hit 40%, big expansion years, and this year it has averaged around 42%. So while expansion may have slowed down from the torrid pace of the last two years, we would suggest that beef industry expansion continues and we should expect a larger beef herd both in the July 1 and then January 1, 2018 reports.

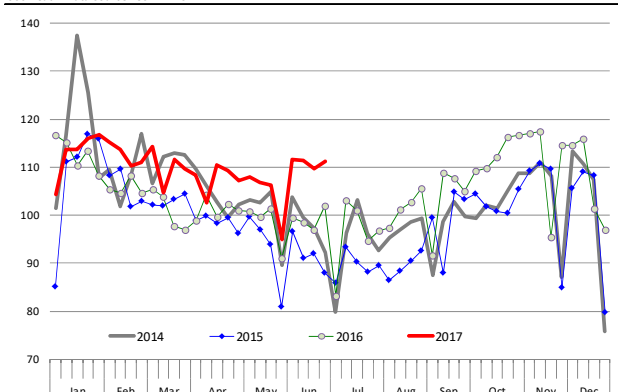
Weekly Heifer Slaughter

000 Head. Data Source: USDA AMS



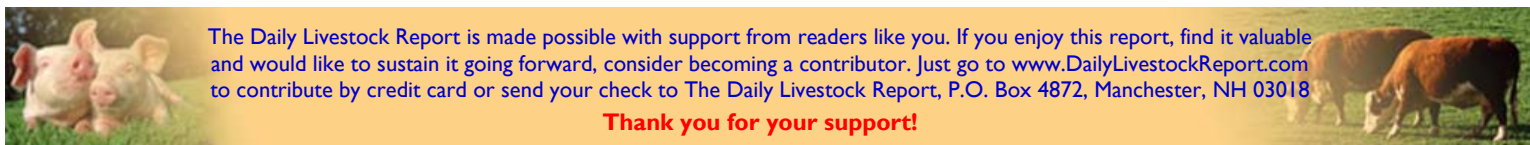
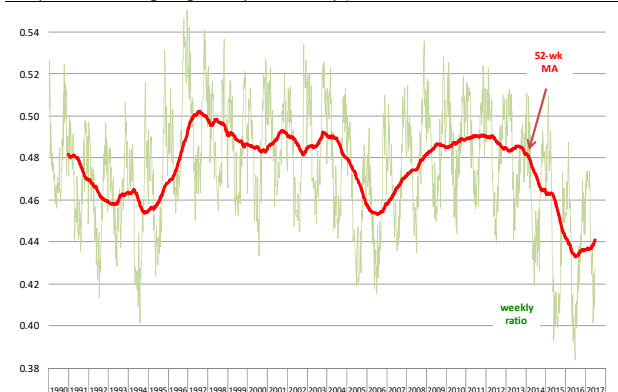
Weekly Beef & Dairy Cow Slaughter

000 Head. Data Source: USDA AMS



Ratio of Female Slaughter (Heifers + Cows) To Total US Cattle Slaughter

Weekly Data and 52wk Moving Average. Last Reported Week is July 1, 2017



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