

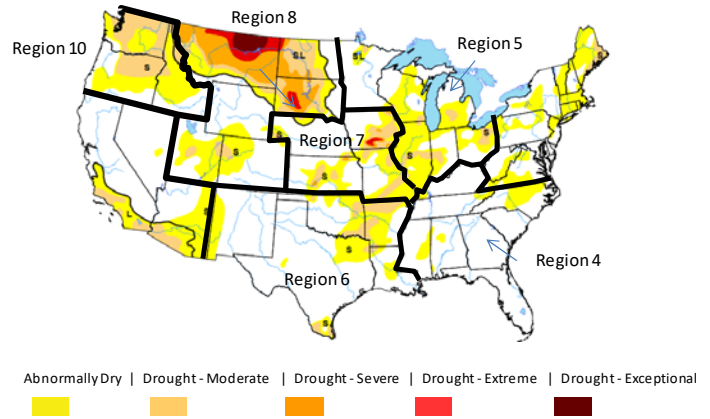
US cow slaughter has been trending higher for much of this year but the pace of slaughter increased notably this summer when drought conditions across the US Northern Plains forced producers to cull herds.

USDA provides each week a breakout of cow slaughter by region. Based on weekly slaughter statistics available through September 23, total cow slaughter for period June 3 - September 23 was 1.842 million head, 161,600 head (+10%) higher than the same period a year ago. While the number of beef and dairy cows slaughtered during this period was evenly divided, beef cows contributed almost 2/3 of the entire increase in US cow slaughter. Beef cow slaughter for this period was 903,100 head, 105,900 head (+13%) more than a year ago. Region 6 (AR, LA, NM, OK & TX) accounts for the largest share of the US beef cow herd. On January 1, there were 8.382 million cows in the five states that make up the region, 26.8% of the national total. Beef cow slaughter in region 6 during this reference period (Jun-Sep) was 246,800 head, 46,300 head (+23%) higher than the previous year. The increase in slaughter in this region likely reflects a deterioration in the profit outlook for cow-calf operators. Excellent profits in 2015 and 2016 likely induced to hold on some marginal cows and some of those animals likely came to market this year. As the top chart to the right shows, drought conditions in this part of the country have been fairly normal so that was not a factor this year. The second largest contributor to cow slaughter this year was region 10, which normally accounts only for a relatively small share of the national slaughter. Last year beef cow slaughter in region 10 was just 2.8% of the national beef cow slaughter. This year the region accounted for 6.3% of the total slaughter. Region 10 includes Washington State, Idaho and Oregon. However, we think that cows from surrounding states likely further bolstered the number of cows that were slaughtered in region 10. Total beef cow slaughter in this region during the reference period was 56,600 head, 34,400 head (+155%) compared to the same period a year ago. The increase is far outside the levels we saw in any of the other regions, implying that drought conditions likely pushed a little over 25,000 - 30,000 head of cattle to market than would have otherwise been the case. The drought pressures in this region and surrounding states likely bolstered beef cow slaughter for this reference period by 3.5% to 4.0%.

Dairy cow slaughter also increased over the summer months. A larger dairy cow herd implies a larger cull rate so some of the increase is normal. Dairy margins have so far been good, but not great. Class III milk prices were hovering around 17 cents per pound in June and July but the dropped to as low as 15.6 cents by mid September. Low feed costs and robust export demand, especially for butterfat continues to underpin dairy industry profitability and will likely keep dairy cow slaughter in the single digits in Q4.

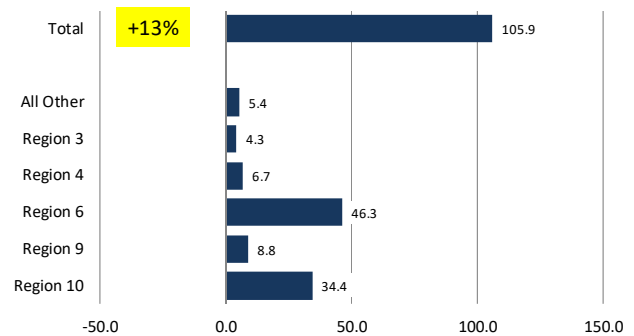
USDA Federal Regions & Current Drought Monitor

Cow Slaughter Region Definition from SJ LS714. Drought Monitor as of Oct 5, 2017



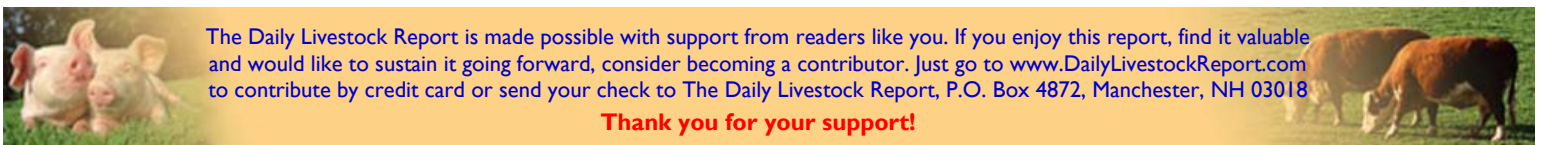
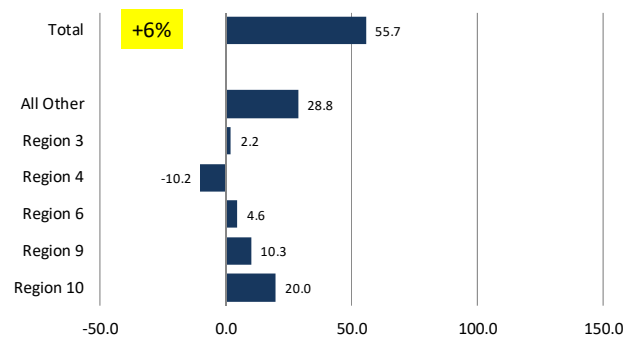
Y/Y Change in Beef Cow Sltr. Jun-Sep. 000 Head

Based on Weekly Slaughter First Week of June through September 23. USDA



Y/Y Change in Dairy Cow Sltr. Jun-Sep. 000 Head

Based on Weekly Slaughter First Week of June through September 23. USDA



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