

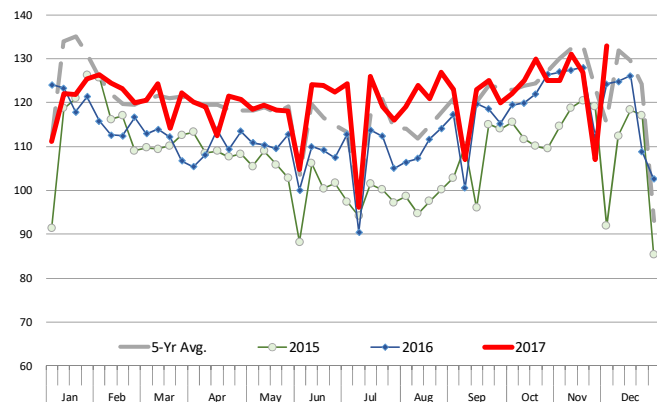
Cow slaughter has increased this year and we should see more cows come to market next year as well. In part this is a function of having a larger beef and dairy cow herd but also due to the decline in cow-calf profitability. Weather conditions always play a key role for beef cow slaughter and dairy prices are the primary factor dictating the number of dairy cows that go into slaughter. So even as the projection is for a larger non-fed slaughter next year, there is still plenty of uncertainty as to the actual numbers depending on weather events and milk demand.

Total US federally inspected cow slaughter through October was 4.783 million head, 7.3% higher than the previous year. Beef cow slaughter during this period was 2.286 million head, 10.5% higher than last year while dairy cow slaughter was 2.497 million head, 4.5% above year ago. There was a notable increase in beef cow slaughter numbers during the summer months, in part due to the normal deterioration in pasture conditions but also a deterioration in the profit outlook for producers. Fed cattle prices declined sharply in July and August, which likely impacted producer culling decisions. Beef cow slaughter during Jun-Aug was up some 92,000 head, accounting for over 40% of the increase in beef cow slaughter this year (also see weekly top chart). Non fed cattle slaughter in recent weeks has been near year ago levels and we would expect total cow slaughter this year to be a little under 7% y/y for all of 2017.

The second chart to the right shows the ratio of annual cow slaughter relative to the inventory of all cows at the start of the year. During times when producers are liquidating their herds the ratio of cows to inventory will increase, and vice-versa. The ratio was extremely high during 2011-13 when a combination of droughts and high feed costs forced producers to send more breeding animals to slaughter. In the last two years the ratio dipped under the long run average but, if our slaughter projections for this year are correct, they will be slightly above the long run ratio this year. As for next year, we think the ratio will once again be higher than a year ago, which is based in part on forecasts for flat to negative cow-calf operator margins. But if producers have plenty of grass then we could see another year where the culling rate stays near the long run average. Another way to look at the whole issue of herd liquidation/expansion in beef is to take stock not just of the number of cows going to slaughter but account for all female animals. The bottom chart shows just that and illustrates directionally where we see the ratio going in 2018. Combined heifer and cow slaughter for the week ending November 11 was 297,250 head, representing 48% of the total slaughter for that week (623k). And the ratio has been at around 48% since September. The 12 month moving average of the female slaughter ratio has not edged past 45%, more than a point higher than it was a year ago. Does this mean the US cattle herd has stopped expanding? Not yet and much will depend on weather conditions in 2018. While pace of growth has declined dramatically, there is still a good chance we may see a larger calf crop in 2018 and thus higher slaughter/production in 2019.

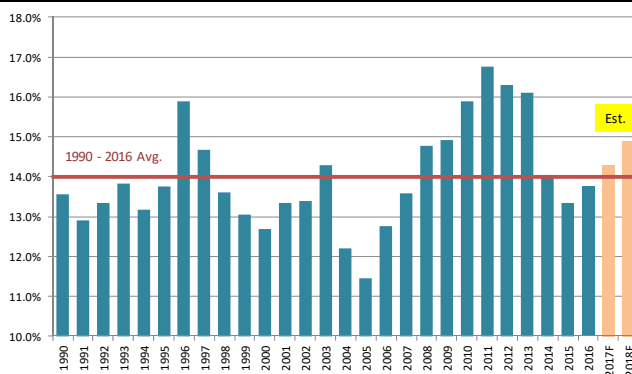
WEEKLY COW & BULL SLAUGHTER. '000 HEAD

Source: USDA



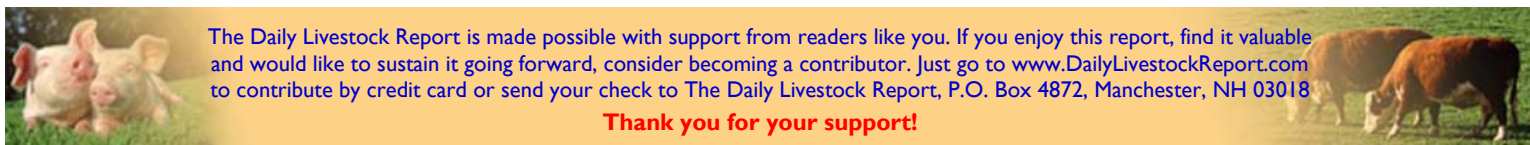
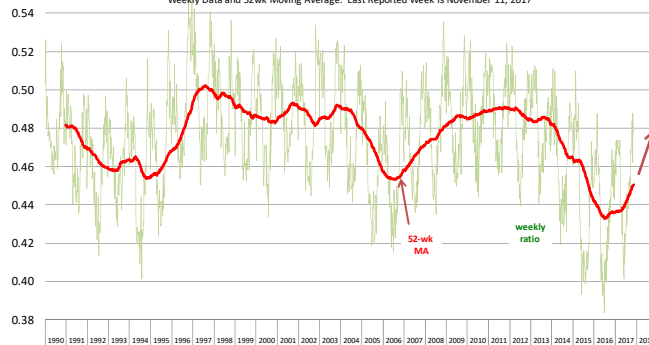
Ratio of Cow Slaughter vs. January 1 All Cow Inventory

Annual Data. Source: USDA



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

Weekly Data and 52wk Moving Average. Last Reported Week is November 11, 2017



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