

Herd Rebuilding on Hold

Prices are high but apparently not high enough.

by *Wes Ishmael*

Although historically high, cattle prices have yet to yield enough profit to trigger national herd expansion, according to James Mitchell, Extension livestock economist at the University of Arkansas in an issue of *Cattle Market Notes Weekly*.

Mitchell explains relative profitability is one of the key differences between low cattle numbers currently and the similar situation in 2014-15.

“The Livestock Marketing Information Center (LMIC) estimates 2023 cash costs at \$1,088 per cow, which implies a breakeven price of \$218 per hundredweight (cwt.) for a 500-pound steer. In 2014, cow costs were \$879,

resulting in a breakeven price of \$176 per cwt.,” Mitchell explains. “Enterprise budgets and cattle markets in 2023 are projecting a profit for cow-calf producers. However, relative profitability still needs to improve before seeing herd expansion on a noticeable scale.”

Mitchell points to drought as perhaps the most important difference between today and 2014-2015. Back then, 20% of the nation’s cattle inventory were in drought areas at the end of October.

This year, he notes 37% were impacted by drought (see *Looking Ahead*, Page 73).

“Other differences are due to a cattle industry that has undergone significant structural change since 2014,” Mitchell says.

Based on beef cow slaughter so far this year, the beef cow inventory at the beginning of next year is likely to be at least 2.5% less year over year, explains Derrell Peel, Oklahoma State University Extension livestock marketing specialist, in his late-November market comments.

Peel points out the beef cow inventory of 28.9 million head at the beginning of 2023 was 3.6% less than the previous year and the fewest since 1962. More importantly, he says the inventory of beef replacement heifers at the time — 5.16 million head — was 5.8% less year over year. Replacement heifers and heifers expected to calve were the fewest since 2011.

As well, Peel notes the inventory of heifers available for breeding (total replacement heifer inventory minus heifers

expected to calve) at the beginning of last year was the fewest in 23 years of available data.

“It seems likely that the available supply of bred heifers will remain limited in 2024. The beef cow herd will be smaller in 2024 and holding the inventory stable next year (2024) may be the most likely outcome,” Peel says.

The USDA’s semiannual *Cattle* report with the Jan. 1 beef cow inventory for this year is scheduled for release Jan. 31.

In the meantime, USDA estimated beef production for this year at 26 billion pounds in the December *World Agricultural Supply and Demand Estimates*. That was 825 million pounds more (+3.3%) than the September estimate and a key reason cattle futures crumbled in October and November and continued to plumb for a bottom through mid-December (see *Market Tracks*, Page 24). If it comes to pass, this year’s beef production would be 942 million pounds less (-3.5%) than last year.

Estimated beef production bloomed as more cattle were pulled forward in response to lingering drought, historically high prices and the lack of expansion incentive noted by Mitchell.

Fundamentals suggest higher animal protein prices

Higher animal protein production costs and tighter supplies will push global animal protein prices higher and constrain global consumption in 2024, according to Rabobank’s annual *Global Animal Protein Outlook* report.

Input costs and inflation are likely to decline, but will remain higher than pre-pandemic levels, explains the report. Also, structural changes will challenge supply chains. For instance, Rabobank analysts say demographic shifts will tighten the labor market, increasing production costs, while less population growth will slow consumption.

Moreover, cattle cycles here and abroad, coupled with weather, are shifting global beef trade patterns, according to the Rabobank report. In the United States, Rabobank analysts explain high prices, declining production and relative strength of the U.S. dollar continue to pose headwinds to U.S. beef exports. Even with higher prices, those analysts say there are signs that consumers in some markets are willing to pay a quality premium. **BA**

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