Later and Longer

Stalled herd expansion suggests an extended period of higher prices.

by ***Wes Ishmael***

MARKETS

Seasonal late-summer headwinds pressured cattle markets but did nothing to alter the fundamentals supporting near-historically high prices, nor did the fact that prices will advance when producers begin retaining heifers to expand the nation's herd.

When that happens remains a mystery.

On one hand, Tyler Cozzens, Livestock Marketing Information Center director, explains, "Weekly cow slaughter has been tracking well below year-ago levels since the start of the year, which suggests minimal beef cow herd liquidation compared to prior years. If there has been any beef cow herd liquidation (this year), it has been at a slower pace than what was seen over the last few years."

On the other hand, the percentage of heifers on feed July 1 was 39.6%, near the highest level in two decades, according to Derrell Peel, Extension livestock marketing specialist at Oklahoma State University. He explains the heifer percentage of feedlot inventories drops below the average level of 36.7% during periods of heifer retention and herd rebuilding; it's above average during periods of herd liquidation.

"We're just taking longer to do what we ultimately will do," Peel says. "I'm not convinced we'll have an aggressive push into expansion."

Unlike ambitious herd rebuilding in 2014-15, made possible by increasing replacement heifer retention preceding it, Peel points out the industry is starting from scratch this time around.

"Beef replacement inventories increased three of four years prior to the beginning of herd expansion in 1991 and for three years prior to herd expansion in 2015," Peel explains. "Both expansions included one year of very large heifer retention with smaller increases before and after."

With no pipeline of heifers to jumpstart expansion, rebuilding the herd will take years.

"We do not yet have a zero year (low inventory) from which herd rebuilding can begin," Peel explained in his August market comments. "Beef cow slaughter is sharply lower, down nearly 16% year over year thus far in 2024. However, that level of beef cow slaughter, combined with the low beef replacement heifer inventory in 2024 implies that the beef cow herd continues to liquidate by another 0.5-1% in 2024."

Cattle producers could take an initial step toward herd expansion this fall. The first indication will come with the Jan. 1 USDA *Cattle* report. Peel believes it could show increased beef heifer replacements of 2-3% at most.

Moreover, even if moisture and replenished hay supplies allow some producers to think about expansion this fall, high prices continue encouraging them to sell.

"A sustained decline in the percentage of heifers on feed could signal producers are retaining heifers for herd rebuilding efforts and requires watching as this would be supportive of calf and feeder prices," Cozzens says.

Making more from less

"In broad terms, when numbers are tight and we're trying to maintain beef production, it encourages moving cattle through the system quicker," Peel explains. "The market is telling cow-calf producers to produce as many as they can and move them as quick as they can; the equivalent of selling grain off the combine."

That partly explains how beef production has remained significantly higher than expected despite declining cattle numbers. Plus, cattle feeders figured out how to keep pens fuller for longer than many dreamed possible by keeping cattle on feed longer as packers slowed production.

In the September 2023 *World Agricultural Supply and Demand Estimates* (WASDE), USDA's Economic Research Service (ERS) forecast this year's beef production to be 25.2 billion pounds. That would have been 1.8 billion pounds less (-6.6%) year over year. Estimated 2024 beef production in this year's September *WASDE* was just 172 million pounds less (-0.6%) year over year at 26.8 billion pounds.

In turn, increased production with fewer cattle helps explain the August swoon in cash and futures prices for cattle.

> "In broad terms, when numbers are tight and we're trying to maintain beef production, it encourages moving cattle through the system quicker. The market is telling cow-calf producers to produce as many as they can and move them as quick as they can; the equivalent of selling grain off the combine."
>
> **— Derrell Peel,**
> **Oklahoma State University**

"The decline in prices was due in part to cattle being on feed for a longer period, as shown in cattle on feed inventory levels remaining near year-ago levels," Cozzens says. "The higher-than-expected number of cattle on feed is a headwind to calf and feeder steer prices in the near term (see Market Tracks, Page 66)."

Numbers ahead

Besides slow and prolonged herd expansion, history suggests cyclical peak beef cow numbers will be fewer than the prior one. That's been the case since the loftiest cattle numbers of the mid-1970s.

For perspective, this year began with 28.2 million beef cows, according to USDA's *Cattle* report. Peel says that was the smallest cow herd since 1961.

The Food and Agricultural Policy Institute (FAPRI) projects the U.S. beef cow herd declining to 28 million to begin 2025 and then growing slowly by 1.5 million to 29.5 million by 2029. That's from FAPRI's *2024 Baseline Update for U.S. Agricultural Markets* published in late August (see Extended Outlook).

"Comparing FAPRI's forecasted beef cow herd growth of 1.5 million head from 2025-2029 to a similar period during the last cattle cycles' expansionary phase is reasonable and signals an expectation that the industry will have a measured approach to herd rebuilding efforts," Cozzens says.

By way of comparison, Cozzens explains there were 29 million beef cows when expansion began in 2014. The beef cow herd grew by 2.2 million head (8%) to almost 31.2 million head by 2017; it peaked at 31.6 million head in 2019.

Peel also believes growing the herd by 1.5 million is reasonable if not conservative.

"We need to be able to produce more beef than we are," Peel says. "Beef demand continues to be remarkably robust, and I can't see any reason for that to change." **B***A*

Extended Outlook

"Increased supplies, a strong dollar and several other factors have caused prices for many agricultural commodities to fall sharply from their 2022 peak levels. In the absence of new shocks to the weather, the macroeconomy or policy, projected prices generally remain near current levels over the next five years," according to the 2024 Baseline Update for U.S. Agricultural Markets from the Food and Agricultural Policy Institute (FAPRI) at the University of Missouri.

"The cattle sector is the most important exception to the pattern of declining commodity prices," according to FAPRI. "Past years of drought and low returns have resulted in a smaller U.S. beef cow herd, reducing beef production and pushing up prices for feeder and slaughter animals."

FAPRI projects peak cattle prices in 2026.

Prices for steers (600-650 pounds, Oklahoma City) are projected at an average of $283.70 per hundredweight (cwt.) this year, rising to $289.65 next year and then declining to $260.77 in 2029.

FAPRI forecasts the five-area direct average fed steer price at $187.95 per cwt. this year, rising to $191.52 next year and then declining to $260.77 in 2029.

Based on information available in mid-August this year, other updated FAPRI highlights include:

- "Record yields result in the second consecutive 15-billion-bushel U.S. corn crop in 2024, despite a 4-million acre decline in planted area. The projected $4.10 per bushel 2024-25 farm price of corn is 37% below the price just two years ago."
- "Given the projected reduction in prices for a broad range of crops and moderating production costs, there is currently little incentive to sharply change the allocation of crop acreage in 2025."
- "Assuming average growing conditions in future years, projected prices remain near 2024-25 levels for many crops. Between 2025-26 and 2029-30, corn prices average $4.12 per bushel, soybeans average $9.98 per bushel and wheat prices average $5.70 per bushel." **B***A*