

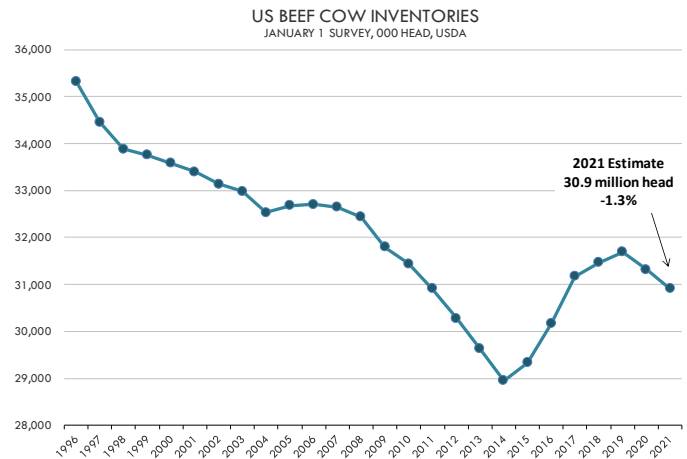
Last Friday USDA issued the results of its monthly survey of feedlots with +1000 head capacity. That survey showed the number of cattle that were on feed as of January 1 and thus the supply of cattle/beef that we expect to come to market in the next few months. This coming Friday USDA will release the results of **a more comprehensive survey that seeks to capture all the cattle out there and the potential for beef production in the next two to three years.** So while the 'Cattle' inventory report does not have an immediate impact on futures, it is critically important for both producers and end users in terms of planning for the future. The table to the right summarizes the ideas from three analysts polled ahead of the report. Here's a couple of things we are watching as we wait for the data:

**How many cows are out there?** Different from pigs, where a sow gives birth to a litter of piglets, cows give birth to one calf a year (if everything goes right). The size of the cow herd at the start of the year is a pretty good predictor of the number of calves that will be produced in a given year. The three analysts surveyed expect the cow herd to be lower but they vary in their assessment. On average they think the January 1 cow herd will be about 325k head smaller than last year (-0.8%), with the decline resulting entirely from the liquidation of the beef cow herd last year. The expectation is that beef cow numbers in 2020 declined by 407k head. Dairy cow herd is almost assured to be bigger and frankly we don't understand the wide range. Each month USDA offers a cow of the dairy cows and for December the dairy count was estimated at 9.443 million head, 100k head or 1.1% higher than last year. The overall reduction in the beef cow herd guarantees a smaller calf crop for 2021 and thus lower beef supplies down the road.

**Cattle supply outlook for 2021 and beyond.** The decline in the beef cow in 2019 and 2020 signaled an end to cattle supply growth. Over the years producers have managed to keep up beef production despite a decline in total slaughter by putting more weight on animals and also turning animals faster. Still, each year of reduced calf crops has an incremental impact. In 2019 the calf crop was estimated at 36.060 million head, down 253k head from the previous year and analysts think that in 2020 the calf crop was down another 288k head. This is a bit lower than the initial estimate presented last July, which pegged the calf crop down 260k head from the previous year. But even as a smaller calf crop implies fewer cattle available for marketing down the road, the timing and actual numbers coming through are difficult to pinpoint. Analysts think that the number of heifers that will be held back for beef cow replacement will be down 1.9% or 110k head from the previous year. So if producers decide to hold back fewer heifers to replace the cows they decide to cull, this means supplies in the near term may not decline as much but that future supplies will be down even more. Also, if high feed costs/poor returns cause producers to continue to liquidate, that will help keep slaughter numbers close to a year

## Analyst Estimates Ahead of USDA Semi-Annual Cattle Inventory Report

	USDA Jan. 1, 2020	Estimates from 3 Analysts for Jan 1, 2021			
		Range of Est. (% of year ago)	Avg. of Est.	Implied from Avg.	Y/Y Ch.
All Cattle & calves	94,413	99.6 - 99.8	99.7	94,130	-283
Cows that have calved	40,651	98.7 - 99.5	99.2	40,326	-325
Beef cows	31,317	98.0 - 99.1	98.7	30,910	-407
Dairy cows	9,335	100.3 - 101.0	100.7	9,400	65
Heifers 500+ pounds	20,114	99.8 - 100.5	100.1	20,134	20
For beef cow repl.	5,772	97.0 - 99.2	98.1	5,662	-110
For dairy cow repl.	4,637	99.2 - 101.9	100.6	4,665	28
Other heifers	9,706	99.6 - 102.0	100.9	9,793	87
Steers 500+ pounds	16,671	99.6 - 102.3	100.7	16,788	117
Bulls 500+ pounds	2,237	98.3 - 99.9	99.3	2,221	-16
Calves < 500 pounds	14,739	98.3 - 99.9	99.6	14,680	-59
Calf crop (2020)	36,060	98.7 - 99.5	99.2	35,772	-288



ago but it will further curtail future production potential. High feed costs and the recent collapse in dairy prices may cause producers to rethink those replacement decisions

**Bottom line:** By all measures beef production in the next three years will trend lower. Higher feed costs, tighter supplies, a rebound in economic activity and easy money policies all point to higher beef price inflation down the road. If you are a beef buyer, Friday's survey will start to tell us how bad things could get .

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