

Cattle Business in Mississippi - June/July 2011 **“Stocker Cents” article**

Feeder Cattle Supplies

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A large point of contention among cattle producers right now is the constant talk of decreased supplies in the face of reports that indicate the number of cattle on feed and those placed on feed are higher than the previous year. The annual *Cattle Inventory* report released in January by USDA revealed that the U.S. beef cow herd had declined 1% and beef heifers due to calve in 2011 were down 5% from the previous year. This represents the fifth straight year of declines in the U.S. beef herd. However, as Figure 1 indicates, net placements - the number of total placements minus any cattle that were taken off feed due to death or poor performance - for all of 2010 and thus far in 2011 has, for the most part, been in line with the ten-year olympic average from 2001 to 2010. (An olympic average removes the highest and lowest values from the calculation). Before jumping to conclusions, let me put current *Cattle on Feed* numbers into perspective, the latter half of 2009 and the first half of 2010 was a low water mark compared to previous years. For example, in the the first five months of 2010, the number of cattle on feed were the lowest since at least 2003. As a result the numbers being reported over the past number of months are in comparison to very low values. Still, it is evident that feeder cattle being placed into feedlots are, at the very least, maintaining the same pace as previous years despite decreased availability of feeder cattle. Where are these cattle coming from?

The first component of the answer to this question lies in the recent high prices for feeder cattle. This has created a strong incentive to sell feeder cattle - both steers and heifers - thus creating an increase in the number of cattle on feed. As an example, the inventory report revealed that heifers retained for replacement in 2010 - those that will calve in 2012 - were down 7%. These heifers did not simply disappear, they were placed on feed. Figure 2 shows the number of heifers in feedlots at the end of each quarter and from the second quarter of 2010 to the first quarter of 2011, heifers in feedlots are ahead of previous year numbers. Adding yet another layer to this issue is the dryness across the Southern Plains where many backgrounders were forced to sell wheat pasture cattle early at lower weights. Cattle placed on feed under 600 pounds in January and February 2011 were 22% above the ten-year olympic average. Collectively, the domestic feeder cattle supply will run out of steam eventually given that many have been sent to market earlier than is typical. Pinpointing when exactly the supply will dwindle is no easy task but as is shown in figure 3, the current number of feeder cattle outside of feedlots in the U.S. is much lower.

The previous discussion focused solely on feeder cattle in the U.S.; however, not only have feeder cattle prices been on the rise but fed cattle prices have hit record setting levels as well. As a result, before corn soared to \$7/bu, feeders saw - for the first time

in a number of months - a positive profit margin. Therefore, there was a strong incentive to place as many feeders as possible while these market factors were in play. With few cattle available in the U.S. feeders had to move outside the borders to procure cattle. Despite a decreasing dollar since June 2010, which has caused foreign goods to be more expensive than typically experienced, the incentive was strong enough that imports of Mexican feeder cattle grew. As depicted in figure 4, imports of feeder cattle from Mexico were above average in 2010 and have started 2011 even higher. Although few cattle are brought in from Canada when compared to those imported from Mexico, it is also noticeable from figure 4 that imports of Canadian cattle have not been as enticing since: (a) Canada is also in a supply crunch thus causing feeder cattle to be at higher prices, (b) disincentives as a result of the exchange rate and (c) the longer trucking to primary feedlot regions.

In summary, the domestic supply of feeder cattle is low and most likely will continue to dwindle given unforeseen pressures that forced producers to liquidate feeders earlier than planned thus, prematurely pushing the number of cattle placed into feedlots higher. Further, market conditions made - for a brief moment - the incentive to feed cattle a profitable endeavor and so feeders procured cattle from sources outside of the U.S. pushing the number of placements even higher.

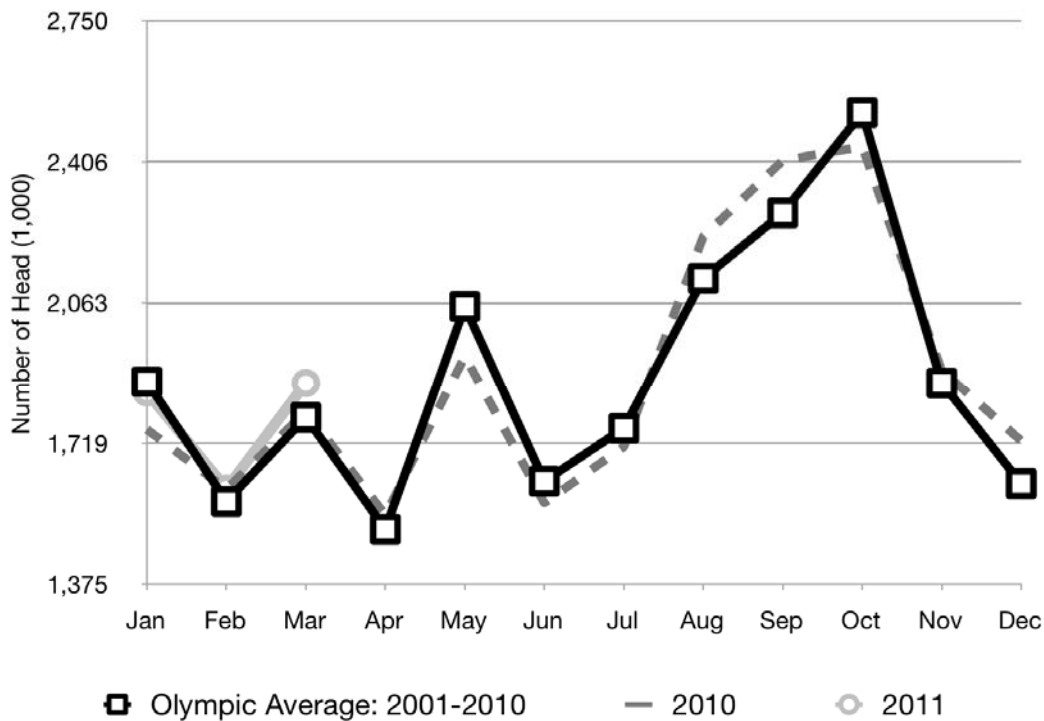


Figure 1. Net Feedlot Placements, U.S. Feedlots with 1,000 Head or Larger Capacity

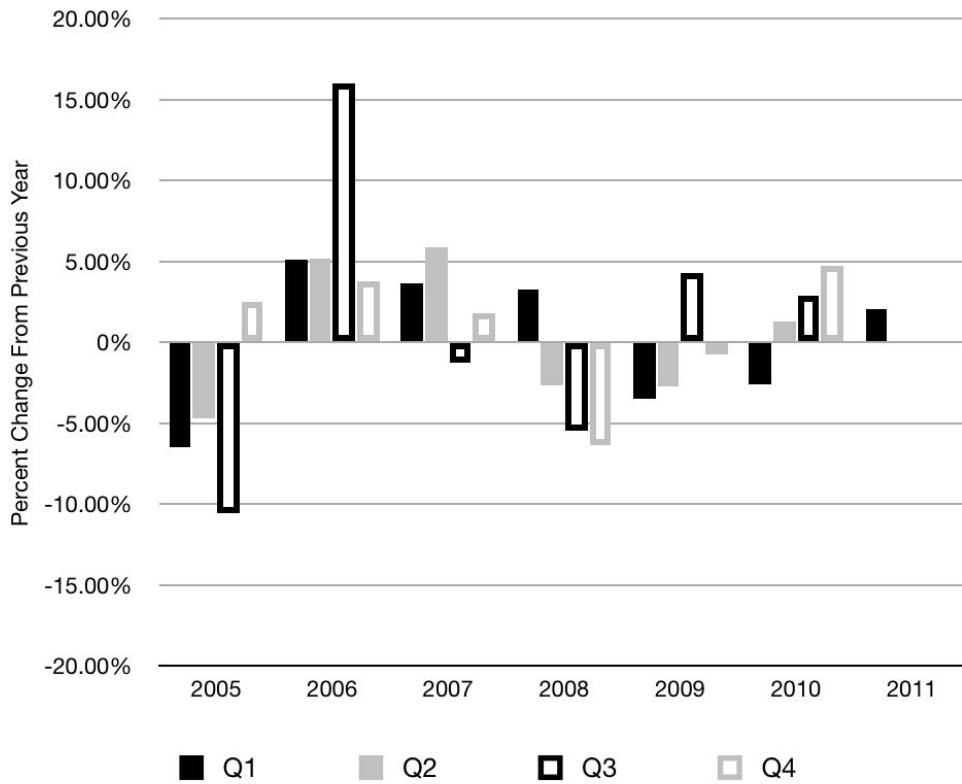


Figure 2. Change in Number of Heifers on Feed, U.S. Feedlots with 1,000 Head or Larger Capacity, end of Quarter

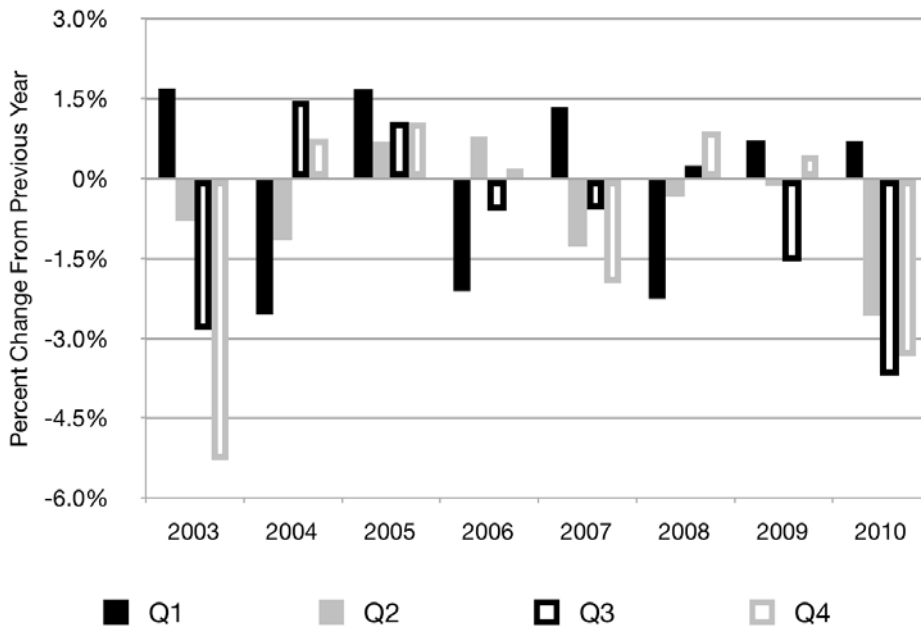


Figure 3. Change in Feeder Cattle Outside of Feedlots in the United States, end of Quarter

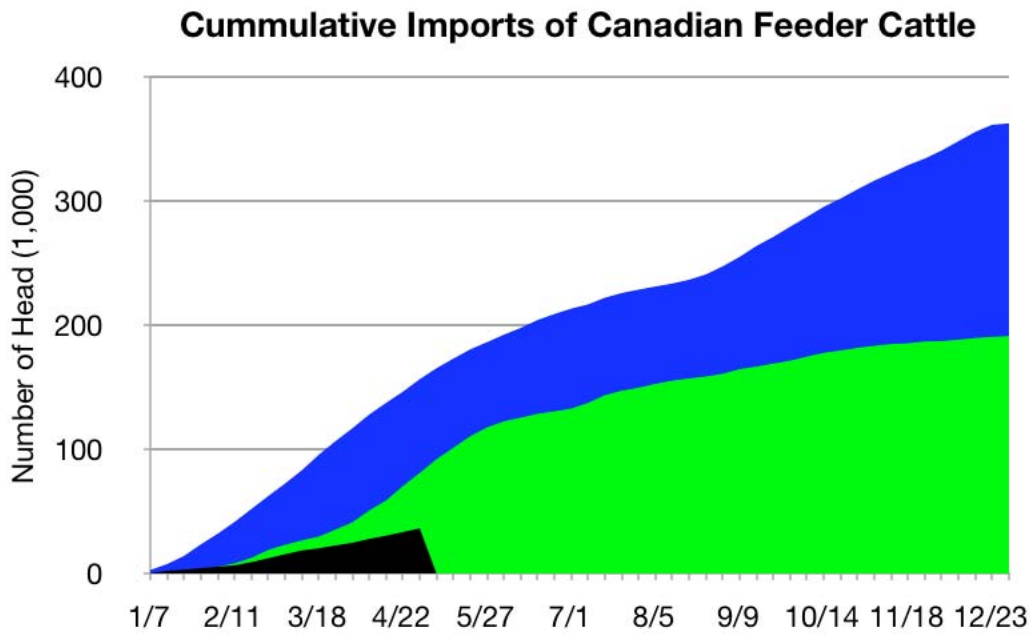
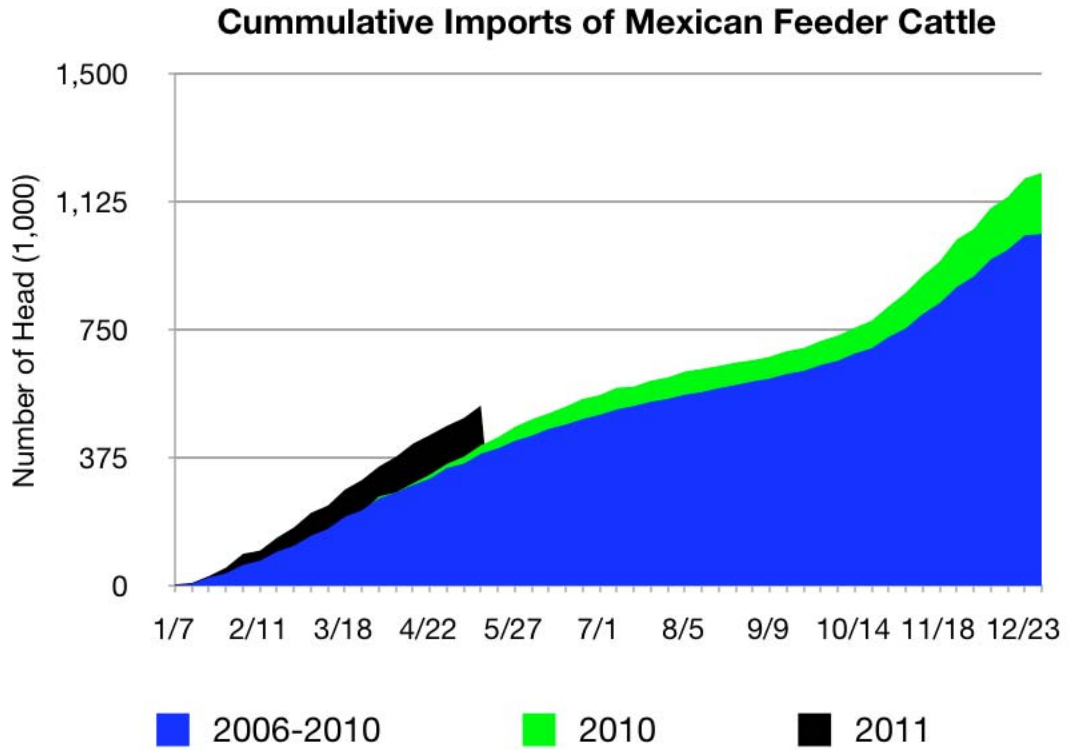


Figure 4. Number of Feeder Cattle Imported from Mexico and Canada