

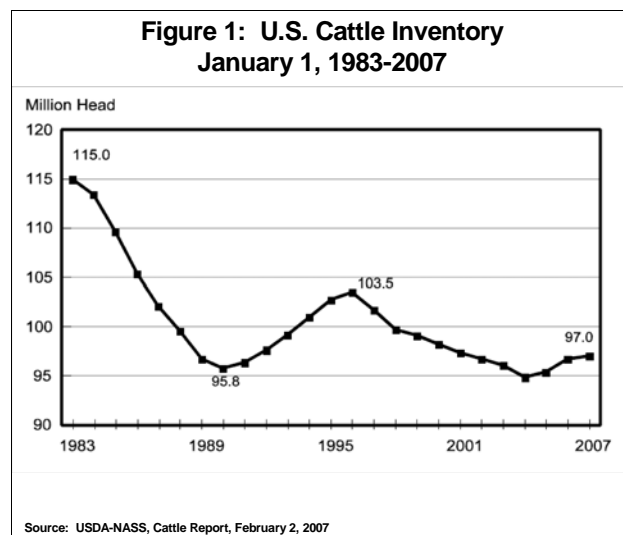
### US. Cattle Inventory Up Slightly Drought, High Feed and Energy Costs Slowing Down Rate of Increase *Jose G. Peña, Professor and Extension Economist-Management*

The U.S. cattle inventory increased slightly for the third year in a row, up 301,000 head (0.3%) from last year and up 2.2 percent from January 1, 2004 when the herd re-building cycle began. The inventory remains 6.3 percent below the 103.5 million head previous cyclical peak on January 1, 1996. (See Figure 1).

According to USDA's February 2, 2007 Cattle Report, all cattle and calves in the U.S., as of January 1, 2007, totaled 97.0 million head, up just slightly from 96.7 million on January 1, 2006 and up 1.6 percent from 95.438 million head on January 1, 2005.

#### Beef Herd Down

While the report showed a slight increase in the size of the total cattle herd, the actual size of the beef herd, especially the inventory of the beef breeding herd, including beef cows, heifers for beef cow replacements and beef heifers expected to calve in 2007, decreased by close to 200,000 head. (See Table 1).



**TABLE 1. UNITED STATES ALL CATTLE AND CALVES  
NUMBER BY CLASS AND CALF CROP  
January 2000-2007**

	2000	2001	2002	2003	2004	2005	2006	2007	% CHNG 2006/07
	<i>x 1,000 Head</i>								
ALL CATTLE/CALVES	98,198	97,277	96,704	96,100	94,888	95,438	96,702	97,003	0.3%
COWS/HEIFERS THAT HAVE CALVED	42,759	42,580	42,299	42,125	41,851	41,920	42,056	42,023	-0.1%
BEEF COWS	33,569	33,397	33,118	32,983	32,861	32,915	32,994	32,894	-0.3%
MILK COWS	9,190	9,183	9,112	9,142	8,990	9,005	9,063	9,129	0.7%
ALL HEIFERS/500 LBS AND OVER	19,649	19,776	19,678	19,628	19,345	19,573	19,984	20,086	0.5%
BEEF COW REPLACEMENTS	5,503	5,588	5,561	5,624	5,518	5,691	5,904	5,877	-0.5%
EXPECTED TO CALVE <sup>1</sup>		3,337	3,425	3,548	3,493	3,496	2,896	2,842	-1.9%
OTHER HEIFERS	10,147	10,131	10,057	9,891	9,806	9,763	9,805	9,899	1.0%
STEERS/500 LBS AND OVER	16,682	16,441	16,790	16,554	16,277	16,476	16,933	17,222	1.7%
BULLS/500 LBS AND OVER	2,293	2,274	2,244	2,248	2,206	2,219	2,263	2,215	-2.1%
CALVES UNDER 500 LBS	16,815	16,206	15,763	15,545	15,210	15,250	15,465	15,456	-0.1%
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	
CALF CROP	38,796	38,631	38,280	38,224	37,903	37,505	37,575	37,567	0.0%

<sup>1</sup> REPLACEMENT HEIFERS EXPECTED TO CALVE DURING THE YEAR.  
SOURCE: AGRICULTURAL STATISTICS BOARD: USDA

In addition, the inventory of other heifers (heifers on pastures bound for feedlots) increased 94,000 head from an inventory 9.8 million head on January 1, 2006. This increase, plus the increase in the dairy herd and the large number of cattle on feed account for most of the total January 1, 2007 inventory increase.

It appears that last year's dry weather, high corn prices and high energy costs have had enough of a significant impact to stop the growth of the U.S. beef cattle herd. While moisture conditions have improved in major parts of the West and in the southern Plains, longer term weather forecasts from the National Weather Service suggest a return of drought conditions this summer. Grass, hay and feed grains could remain expensive this year. This area accounts for approximately 60 percent of the U.S. cattle herd.

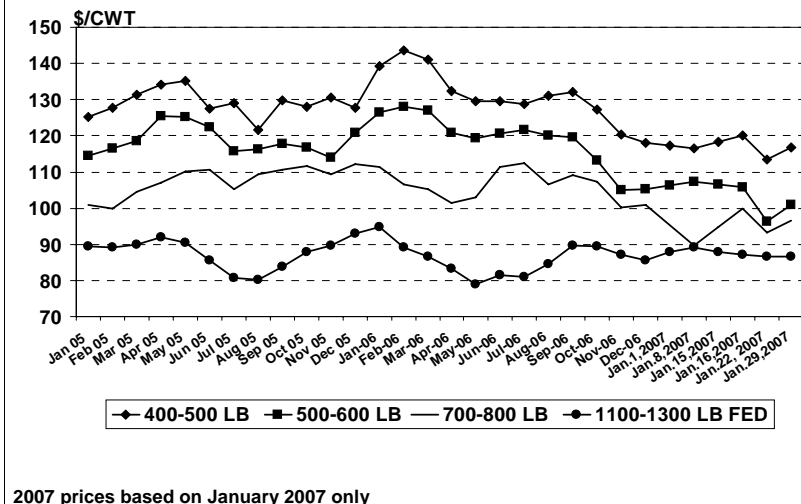
**Prices Down**

After record high prices for most beef cattle categories during winter '05-'06, prices have weakened as the drought intensified and corn prices increased. (See Figure 2). While calf prices have weakened from last winter's record highs and input costs, i.e., feed/energy costs, are up, prices for calves remain relatively attractive. This indicates that weather (cold/drought) and feed costs will be the key determinants of the future direction of the size of the U.S. cattle herd.

**Ethanol**

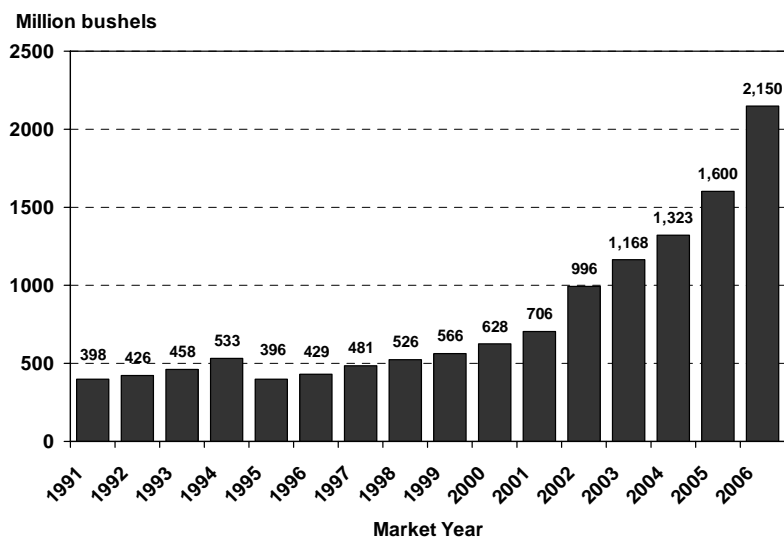
The continuing surge in corn demand for ethanol production has and will continue to have a significant widespread impact on U.S. agriculture, especially livestock agriculture as feed costs increase. This summer's boom in ethanol plant development was influenced by high energy costs. Use for ethanol production has more than doubled since 2002 and is now expected to consume about 2.15 billion bushels of corn, or about 20.4 percent of

**Figure 2: Selected Steer Prices Jan. '05-Jan. '07; 2005, 2006 Monthly; January 2007 Weekly Prices**



2007 prices based on January 2007 only

**Figure 3: Corn Utilization, In Alcohol for fuel**



this season's entire U.S. corn crop. (See Figure 3). **Plan for High Feed Costs**

Keep in mind that increased demand for corn has resulted in sharply higher prices for corn, not a short crop. Demand driven corn prices will remain high unless corn production (or supplies of adequate substitutes or imports) increases significantly. While higher prices send a market signal for increased corn production, a crop of about 12 billion bushels of corn would be needed to make feed prices more economically manageable. Even with record corn yields in 2007, we would need to harvest about 4.4 million more acres of corn than were harvested this past season to come close to this level of production. This would mean planting about 82 million acres of corn to compensate for the historical harvested-to-planted ratio. With this past season's average yields of 149.1 bu/ac., close to 89 million acres of corn would have to be planted. Where are these extra acres coming from? While we expect increased corn plantings, neither of these two scenarios appear very likely. As a result, cattle producers should plan to contend with higher feed costs as compared to the last few years of abundant supplies of corn and relatively inexpensive feed costs.

#### **Calf Crop Down**

The 2006 calf crop was estimated at 37.567 million head, down very slightly (0.02 percent) from 37.575 million calves born in 2005, but up 0.2 percent from a calf crop of 37.505 million head in 2004. Calves born during the first half of the year (spring 2007 feeder calf crop) were estimated at 27.4 million, up just slightly from 2005.

#### **Feedlots Full**

Meanwhile, feedlots appear behind in marketing, however, this past month's winter storms have decreased productivity. According to USDA's January 26, 2007 Cattle-on-Feed report, cattle and calves on feed for slaughter market in the United States for feedlots with capacity of 1,000 or more head totaled 12.0 million head on January 1, 2007, up one percent from January 1, 2006 and six percent above January 1, 2005. This is the highest January 1 inventory since the series began in 1996.

Cattle placements in feedlots during December '06, however, totaled 1.71 million, nine percent below December '05 and seven percent below December '06.