

# AG-ECO NEWS

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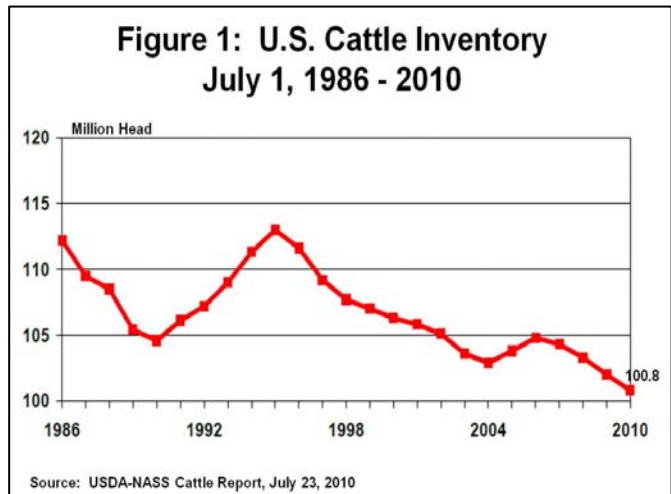
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## Mid-Year Cattle Inventory Dropped To The Lowest Since The Late 50's; Excellent Current Prices and Concerns For Sluggish Economic Recovery May Be Influencing Herd Reduction

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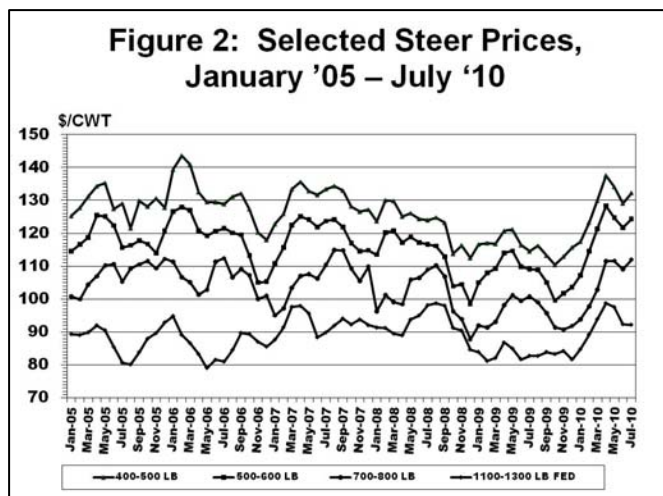
The U.S. cattle herd decreased for the 4<sup>th</sup> year in a row to the lowest herd size since the late 50's. USDA's mid-year cattle inventory report, released on July 23, 2010, indicated that the U.S. cattle herd totaled 100.8 million head, down 1.2 million head from an inventory of 102.0 million head on July 1, 2009. The inventory is down about 4.0 million head from an inventory of 104.8 million in 2006. (See Figure 1) The report was generally anticipated by the market. Excellent market prices, especially for cull cows, and concerns for a sluggish economic recovery may be influencing the continuing herd reduction. Most cattle operations



have been profitable this year and there are ample forage supplies available as a result of excellent rains since last fall. But, money has been very tight after several years of record high feed costs and weak markets. Ranchers may be selling cattle to meet financial obligations. It appears that the recession increased demand for ground beef as reduced beef imports and a lower cattle inventory reduced supplies. High prices for cows prompted additional cow slaughter to fill needs for hamburger meat

### Markets

While cattle markets weakened slightly recently, markets have improved substantially (See Figure 2). It appears that reduced cattle



supplies, lower corn prices and a slowly recovering economy are influencing the recent market improvement.

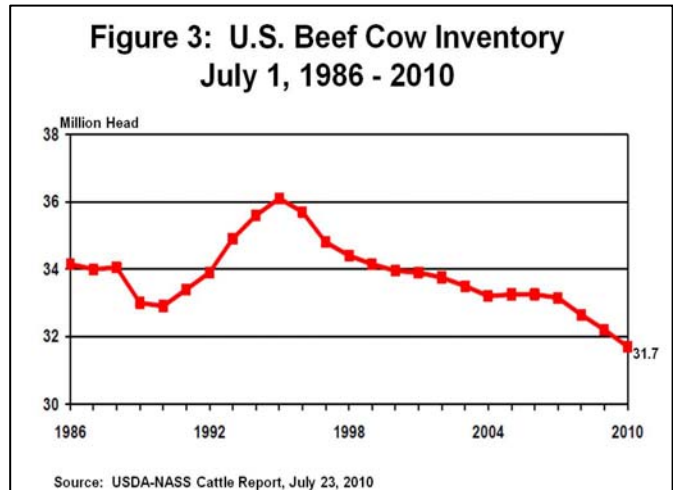
Also, related to this recent market improvement, USDA's July '10 Cattle on Feed report indicated that cattle placements increased for the fifth month in a row as compared to last year, reflecting a strong demand for cattle from a lower feeder supplies as feedlots move to operate closer to capacity. USDA's July 23, 2010 Cattle on Feed report indicated an inventory of 10.07 million head on feed on July 1, 2010, up 3.2 percent from 9.752 million head on July 1, 2009.

Concerns for a troubled U.S. economy appear to have softened and prospects for an improved economic situation are slowly starting to surface. For example, the Dow Jones industrial index closed at 10,424 points on Friday (7/23/10), up close to 4,000 points from March '09 lows and the U.S. Gross Domestic Product (GDP) rose for the 3<sup>rd</sup> quarter in a row, after having dropped for three consecutive prior quarters.

Increase in demand from a reduced inventory of feeder cattle and lower grain prices, also appear to be influencing the market improvement. The 2010 calf crop is estimated at 35.4 million head, down 419,000 head from a calf crop of 35.819 million in 2009 and down 1.7 million head from a calf crop of 36.113 million head in 2008. Feeder supplies will remain in short supply unless feeder cattle imports from Mexico increase above the norm.

#### Liquidation?

While last year's severe drought and weak markets were having a major impact on the continuing liquidation, excellent prices, especially for cows, as demand for ground meat increases, appears to be influencing herd reduction as ranchers attempt to liquidate accumulated debt. The inventory of all cows and heifers that have calved on July 1, 2010, was down 600,000 head from July 1, 2009. The inventory of beef cows at 31.7 million head, the lowest beef cow inventory since 1964, was down 500,000 head (1.6%) from an inventory of 32.2 million head a year ago. (See Figure 3). The inventory of dairy cows was down 100,000 head (1.1%) from an inventory of 9.2 million head a year ago.



The inventory of beef replacement heifers at 4.4 million head was down 2.2 percent from an inventory of 4.5 million a year ago. The July 23, 2010 Cattle on Feed inventory include about 47,000 more heifers on feed on July 1, 2010 compared to the same period in 2009. The inventory of other heifers (feedlot heifers), however, at 7.65 million head was down 100,000 head (1.3%) from last year, probably indicating a slight "hiccup" to continued liquidation. (See Table 1)

TABLE 1. UNITED STATES ALL CATTLE AND CALVES NUMBER BY CLASS AND CALF CROP July 2005-10							
	2005	2006	2007	2008	2009	2010	% CHNG 2009/10
	<i>x 1,000 HEAD</i>						
ALL CATTLE/CALVES	104,200	105,200	104,800	103,300	102,000	100,800	-1.2%
COWS/HEIFERS THAT HAVE CALVED	42,500	42,600	42,500	42,000	41,400	40,800	-1.4%
BEEF COWS	33,450	33,450	33,350	32,650	32,200	31,700	-1.6%
MILK COWS	9,050	9,150	9,150	9,350	9,200	9,100	-1.1%
ALL HEIFERS/500 LBS AND OVER	16,200	16,600	16,600	16,300	16,200	16,100	-0.6%
BEEF COW REPLACEMENTS	5,000	5,000	4,700	4,600	4,500	4,400	-2.2%
MILK COW REPLACEMENTS	3,700	3,800	3,900	3,900	3,950	4,050	2.5%
OTHER HEIFERS	7,500	7,800	8,000	7,800	7,750	7,650	-1.3%
STEERS/500 LBS AND OVER	14,500	15,000	14,900	14,700	14,400	14,300	-0.7%
BULLS/500 LBS AND OVER	2,100	2,100	2,100	2,100	2,100	2,100	0.0%
CALVES UNDER 500 LBS	28,900	28,900	28,700	28,200	27,900	27,500	-1.4%
CALF CROP	37,575	37,519	37,361	36,113	35,819	35,400	-1.2%
CATTLE ON FEED	12,000	12,500	12,300	12,200	11,600	12,000	3.4%

SOURCE: AGRICULTURAL STATISTICS BOARD: USDA

### Meat Supplies Up

Meanwhile, record high red meat production in June is providing consumers a wide variety of choices, but the annual meat production estimate for 2010 is down. USDA's July 23, 2010 estimate of red meat production during June '10 (beef, pork, veal, lamb and mutton) at a record 4.18 billion pounds was up slightly from 4.16 billion pounds produced in June 2009. But, according to USDA's July 9, 2010 World Supply/Demand report, the estimate of red meat production for 2010 at 48.2 billion pounds is down 1.07 billion pounds (2.2%) from 49.3 billion pounds produced in 2009. The estimate of poultry production at 42.513 billion pounds, however, is up 2.0 percent from 41.673 billion pounds produced last year. The July '10 estimate of this year's beef production at 25.67 billion pounds was down 299 million pounds (1.2%) from 25.97 billion pounds produced last year. The average live weight for cattle slaughtered at 1,261 pounds was down 8 pounds (0.6%) from average slaughter weights of 1,269 pounds during June a year ago.

### Corn Production Up

USDA's July 9, 2010 supply/demand report pegged the U.S. corn crop at a record 13.245 billion bushels, down slightly from last month's estimate, but up 135 million bushels (1.0%) from last year's crop of 13.11 billion bushels. Futures prices for corn have weakened recently, probably influenced by reports of good growing conditions, excellent crop progress and higher per/acre yield estimates. However, the estimated demand for this year's corn crop at 13.36 billion bushels is higher than the production estimates.

As prices for corn drop, cost of gain remains relatively manageable in relation to the price of calves, feeders and slaughter cattle.

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