
Livestock Market Comments

Do We Really Have a Cattle Shortage? Not Really.

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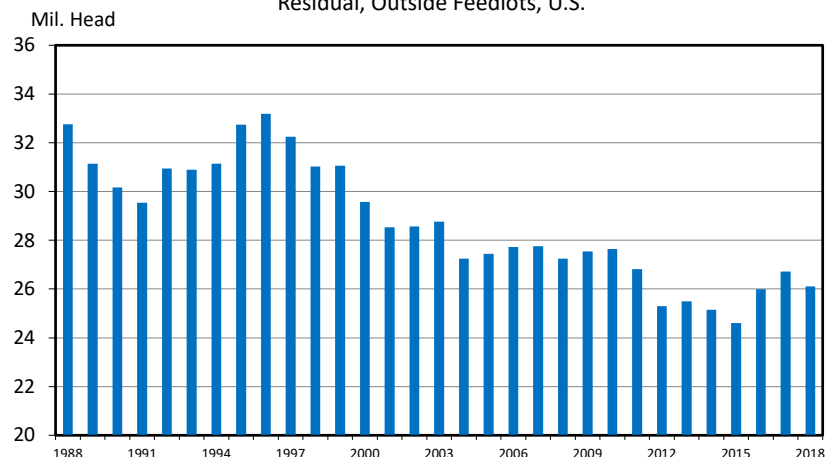
After digging through USDA's cattle inventory report, I thought a couple more comments were in order. I noticed several articles announced that we had a shortage of cattle and that calf prices would remain high due to this shortage. Let's take a look at the data contributing to this statement.

The idea that there is a shortage of feeder cattle is based on the estimated feeder cattle supply outside of feedlots. This number is calculated by analysts as a potential measure of feeder cattle supplies that might be coming to market in the Spring. Several numbers out of the inventory report are used to estimate this data point, including steers over 500 pounds, other heifers, steers, heifers, and bulls under 500 pounds, and the number of cattle on feed. Several factors can influence how this number works out including the calf crop. A larger calf crop results in more calves available. (It's interesting to note that while the cowherd was up 3.5 percent in 2017 the calf crop was only up 2 percent. That might suggest some future revisions.) More rapid placements of the year's calves would result in fewer feeder cattle outside feedlots. More heifers not being held for replacement yields a larger number outside feedlots, or more in feedlots.

So, how does the report shake these numbers out compared to the year before? The calculated number of feeder cattle supplies outside feedlots was 26.1 million head, down 607,000 from the year before. The number of steers 500 pounds and over was down 32,000 head. The number of steers, heifers, and bulls under 500 pounds was up 41,000 head. The number of "other" heifers was up 322,000 head. But the biggest change was the number of cattle on feed, up 939,000 head, or 7.2 percent. So, why was the number of feeder cattle outside feedlots down from the year before? Because they already went to feedlots. Derived demand from packers and feedlots for cattle, fueled by profits pulled cattle

JANUARY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.



Data Source: USDA-NASS

Livestock Marketing Information Center

ahead. Good beef demand, both domestic and export (record beef export volume), pulled beef ahead. And, the building drought in wheat pasture country led to light weight calves going to feedlots rather than wheat.

Feeder cattle supplies outside feedlots is often used as an anecdotal look at available supplies for the next few months. In this case, it's viewed as a reason for strong calf and feeder prices this Spring. The fact that lightweight feeder cattle went to feedlots instead of wheat pasture could be seen as an argument for a smaller than seasonal decline in feeder cattle prices this spring. The feeders coming off wheat pasture won't be there. It's worth remembering that there is also a demand for feeder cattle. There may also be less demand for those "wheat pasture" feeder cattle because feeders already bought them and put them on feed – back in October, November, and December.

Two other things about the calculated feeder cattle supplies outside of feedlots. One is that it is a residual calculation. The residual is what's left over. There can be a lot left in, or out of it. The second thing is that while it is an interesting number that can give some insight, it has never proved to be worth much as a predictor of later prices. Many analysts, including this one, have tried to develop models using this statistic with insignificant results.

It doesn't look like there is a shortage of cattle. A smaller calf crop than expected, drought, and good demand have conspired to move cattle faster through the system.

