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U. S. Cattle Inventory Shows Further Decline

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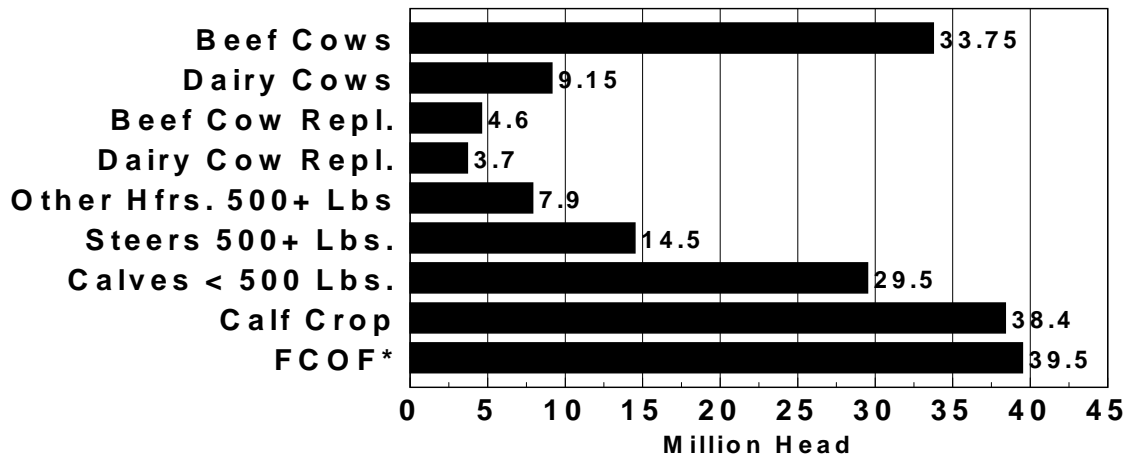
Continued modest declines in the U.S. cattle inventory was reported in the mid-year Cattle report prepared by USDA. As of July 1, 2002, the cattle inventory data suggests that the U.S. cattle industry had not started the cowherd rebuilding process. Beef operations have not held back more beef cows or beef cow replacements to start cowherd expansion.

The current cattle cycle began in 1990 with about 104.6 million head of cattle and calves. The average cattle cycle is about 10-12 years in length. We are presently in our 13th year of this cattle cycle. The July 1, 2002 inventory count of U.S. cattle and calves was 105.2 million head which was one percent smaller than a year earlier and one percent larger than the beginning of this cattle cycle in 1990.

As of July 1, 2002, USDA reported that the number of cows and heifers that have calved was 42.9 million head, down about 100,000 head from a year ago (-0.2 percent). As shown in Figure 1, inventory estimates for beef and dairy cows were 33.75 and 9.15 million head, respectively. Beef cow numbers were down 150,000 head from last year and dairy cow numbers were about 100,000 head higher than a year ago. However, compared with July 1990, the July 2002 estimates were three percent larger for beef cows and nine percent smaller for dairy cows.

The July 1, 2002 number of heifers 500+ pounds held for beef cow and dairy cow replacements were estimated at 4.6 and 3.7 million head, respectively. Beef cow replacements were unchanged from last year, while dairy cow replacements were three percent higher than a year ago. The number of other heifers 500+ pounds was estimated to be 7.9 million head, down about 300,000 head. These estimates seem to imply that drought conditions, higher production costs, weaker cattle prices, and other adverse conditions may have caused producers to re-evaluate their heifer retention plans during the first half of 2002.

Figure 1. U.S. Cattle Inventory, July 1, 2002



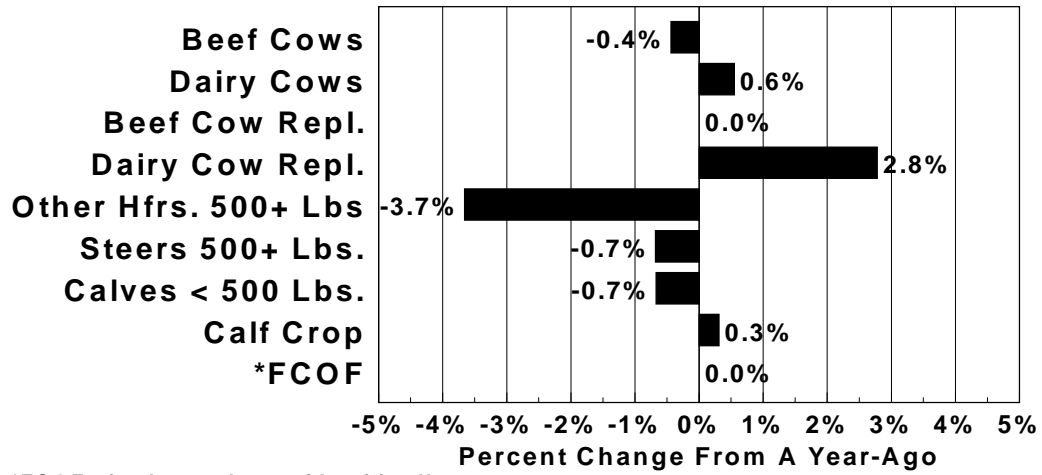
*FCOF - feeder cattle outside of feedlots.

Steers 500+ pounds were estimated to be 14.5 million head, down about 100,000 head from a year ago. Calves less than 500 pounds were estimated at 29.5 million head, down 200,000 from a year ago. The calf crop for 2002 was estimated to be 38.4 million head, up about 120,000 head from a year ago. Based on the July 1, 2002 Cattle report, the estimated feeder cattle supply outside of feedlots was 39.5 million head (no change from a year ago).

Preliminary inventory data was reported for 11 of the larger cattle producing states. Of the 11 reported states, four states (California, Iowa, Oklahoma, and Texas) reported slight increases in cows that have calved since last year. Each of the remaining seven states reported only marginal decreases in cows that have calved since last year. Dry weather in the majority of states will likely limit U. S. herd expansion in the near future.

Figure 2 illustrates the percent change from a year ago for several livestock categories of the U.S. cattle inventory based on the July 1, 2002 Cattle report. As mentioned earlier, the inventory of beef cows showed a slight decrease from a year ago (-0.4 percent). The estimate of beef cow replacements was unchanged from a year ago (0.0 percent). The percent change in dairy cows and dairy cow replacements showed increases of about 0.6 and 2.8 percent from a year ago, respectively. A decrease was realized for other heifers 500+ pounds (-300,000 head or -3.7 percent) and steers 500+ pounds (-100,000 head or -0.7 percent). Calves less than 500 pounds were estimated to be down 200,000 head (-0.7 percent). The 2002 calf crop was estimated to be up 120,000 head (+0.3 percent). Overall, this report suggests a continued modest decline in the U.S. cattle inventory.

Figure 2. Percent Change In U. S. Cattle Inventory, July 1, 2002



*FCOF - feeder cattle outside of feedlots.

The outlook appears bright for the cattle industry. The lower inventory numbers for cattle and calves will result in lower beef supplies, which should further improve cattle prices. The next Cattle inventory report will be taken as of January 1, 2003 and released in early February. The January 1, 2003 U.S. cattle and calves inventory will likely post another year-to-year decline. Thus, this cattle cycle might be 14 years long and counting.

The opportunity for lower beef supplies and potentially higher cattle prices are certainly a real possibility in the near future. Total beef production will likely decline when conditions favor herd rebuilding (i.e. increased levels of beef and dairy cow replacements) and cattle market prices should show improvement. In addition, if adequate moisture for pasture and grain production are realized this year, cow-calf producers may want to evaluate retained ownership programs (stockering and/or feedlot). The combination of abundant forage, low grain prices, and a stronger beef cattle market next year should result in additional profits for cattle producers.