January 27, 2006
Iowa Farm Outlook

The USDA has released the much anticipated inventory of the US cattle herd as of January 1, 2006 and it comes as no surprise that the national herd in on the build. The total number of all cattle is over 97 million head, up 1.7 percent from a year ago. Beef cow numbers are up 1 percent at 33 and a quarter million head. Nearly 6 million head of replacement beef heifers are destined to enter the national beef breeding herd, 4 percent more than 2005. Table 1 contains a summary of the US cattle inventory, the 2005 calf crop and the percentage change from last year.

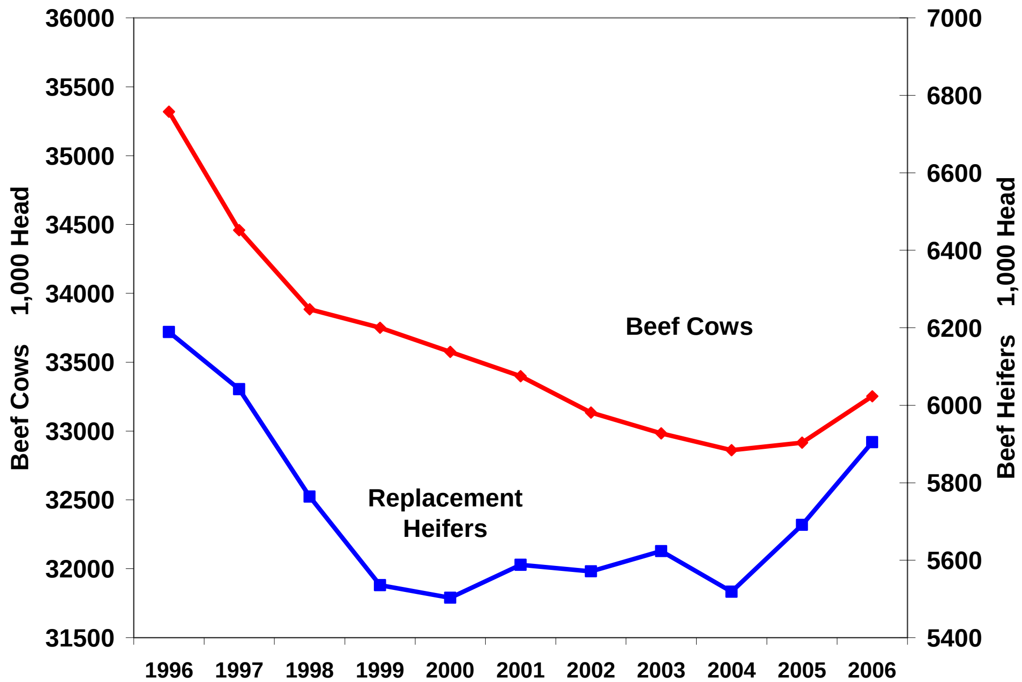
Table 1. USDA Cattle Report Summary, January 1, 2006

	1000 Head Inventory	05-06 % change	1000 Head Change
All cattle	97,102	1.74%	1,664
Cows and Heifers that have calved	42,311	0.93%	391
Beef cows	33,253	1.03%	338
Dairy cows	9,058	0.59%	53
Heifers 500 lbs. and more	19,978	2.07%	405
Beef replacements	5,905	3.76%	214
Dairy replacement	4,278	3.89%	160
Other	9,795	0.33%	32
Steers 500 lbs. and more	16,923	2.71%	447
Bulls 500 lbs. and more	2,263	1.98%	44
Calves under 500 lbs.	15,626	2.47%	376
Cattle on feed	14,132	2.82%	387
Calf crop	37,505	0.73%	275

The supply of feeder cattle has also increased from a year ago. Feeder steer numbers are up almost 3 percent and feeder heifers are up a third of a percent, with almost 27 million head of feeders available. Young calf numbers are also up a 2 and half percent from last year. Last year's calf crop, up almost three quarters of a percent, reflected the 2004-2005 increase in the number of breeding animals. The calf crop include both beef and dairy cattle, so the actual increase in the crop of beef calves is somewhat muffled by the smaller increase in dairy calves born. The number of cattle on feed is currently over 14 million, up 3 percent from a year ago. Increases in feedlot inventories are attributed not only to more feeder cattle being available (both US and Canadian), but cattle are being fed longer and sold at higher weights as feedlots try to offset the high price they paid for feeder cattle with low cost gain.

Heifer retention, both beef and dairy, are on the rise with nearly 4 percent more than last year's inventory. This is the second year in a row that heifer retention has increased by more than 3 percent. Quality bred beef heifers are selling in the range of $1000 to $1400, an extraordinary price that may take some time to recoup even if cattle prices remain strong for the next several years. Figure 1 is a graph of beef cow and heifer inventories over the past eleven years. (Note that the cows and heifers are scaled on different axis in this graph.) From the current trends we can expect a similar increase in breeding beef cattle numbers over the next year.

Figure 1. Beef Cows and Heifer January Inventory, 1996-2006



In short, the beef industry is currently at a hot point in the building of the cattle cycle. The extraordinary prices paid for feeder cattle over the past three years have encouraged cow-calf producers to build their herds by both heifer retention and culling fewer mature cows. Heifer retention will continue to have an impact on feeder cattle availability, but imports of feeder cattle from Canada should reduce the chance of shortages. Demand for feeder cattle has supported light weight cattle prices for sometime now, and this year will be a continuation of the same if feed costs stay low, and packers continue to pay strong prices for fed cattle.

In the coming year, the Livestock Marketing Information Center is forecasting steady to higher beef demand. Feeder cattle prices are forecast to be slightly lower than the past two years, but still above the five year average. Fed cattle prices are expected to be similar to those seen last year.

Trade Issues

Recently it seems like beef exportation has been facing opening and slamming doors in almost the same week. Japan recently closed its newly reopened border when back bone material was found in an air shipment of veal. USDA is working with Japanese officials to work through the problem, but there is no indication as to when exportation may resume. Japan has stated that when they reopen their market, only packing plants which they have inspected will be eligible to export to Japan. Other Asian markets began reopening after waiting for Japan to “test the water.” Although Japan has since jumped back out of the pool other markets continue to reopen, such as South Korea and Taiwan. This is encouraging news, but no one should expect a stiff spike in exports. Foreign markets have been closed to our exports for long enough that demand for US beef will be rather “rusty.” It will take some time to reestablish foreign market demand and confidence in US beef.