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## Cattle Cycles: Where Are We and Where Are We Headed?

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# CORNHUSKER ECONOMICS

## Cattle Cycles: Where Are We and Where Are We Headed?

Market Report	Yr Ago	4 Wks Ago	2/17/06
<b><u>Livestock and Products,</u></b>			
<b><u>Weekly Average</u></b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight . . . . .	\$87.57	\$94.56	\$87.96
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb . . . . .	130.28	141.54	139.97
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb . . . . .	104.54	114.96	112.76
Choice Boxed Beef, 600-750 lb. Carcass . . . . .	143.54	156.81	148.45
Western Corn Belt Base Hog Price Carcass, Negotiated . . . . .	68.76	54.10	61.79
Feeder Pigs, National Direct 45 lbs, FOB . . . . .	64.45	*	56.14
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean . . . . .	68.79	60.55	62.19
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest . . . . .	111.50	78.50	79.00
National Carcass Lamb Cutout, FOB . . . . .	266.50	226.10	217.26
<b><u>Crops,</u></b>			
<b><u>Daily Spot Prices</u></b>			
Wheat, No. 1, H.W. Imperial, bu . . . . .	3.31	*	4.00
Corn, No. 2, Yellow Omaha, bu . . . . .	1.80	1.80	1.97
Soybeans, No. 1, Yellow Omaha, bu . . . . .	5.38	5.35	5.62
Grain Sorghum, No. 2, Yellow Columbus, cwt . . . . .	2.50	2.77	2.89
Oats, No. 2, Heavy Minneapolis, MN , bu . . . . .	1.79	2.14	2.05
<b><u>Hay</u></b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton . . . . .	112.50	130.00	130.00
Alfalfa, Large Rounds, Good Platte Valley, ton . . . . .	62.50	65.00	65.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton . . . . .	57.50	52.50	52.50
* No market.			

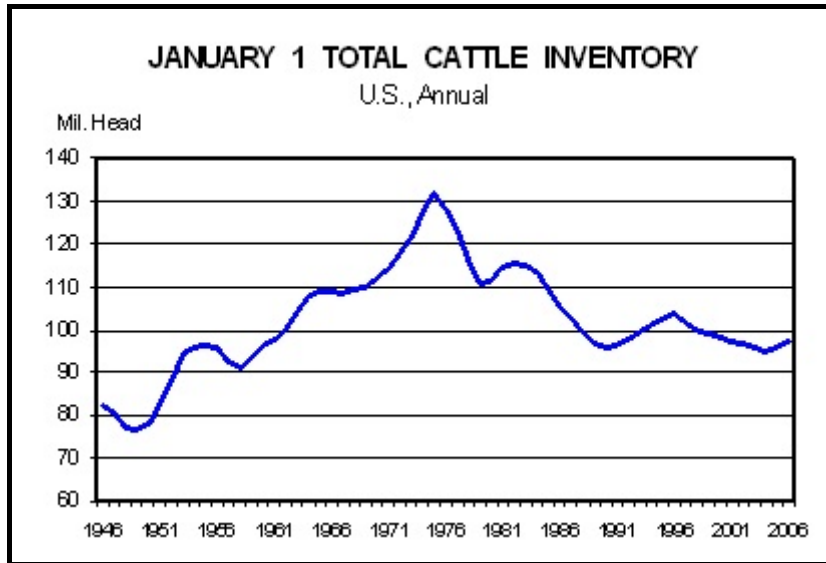
There are 97.1 million total head of cattle in the U.S. as of January 1, 2006. That is an increase of 1.78 percent over the 2005 value, and an increase of 2.33 percent over the 2004 value. The January 1, 2004 value marked the end of the prior cattle cycle and the start of a new cycle. The total number of beef cows that have calved is now at 33.3 million head, an increase of one percent over 2005. This marks the second year of herd growth and it appears that growth will continue in 2006; beef replacement heifers were at 5.9 million head, a 4 percent increase over the prior year. That is the most beef heifers held for replacements since 1997.

What are the longer term price ramifications of a growing beef cow herd? With the past two cattle cycles prices peaked in the year the cycle turned or in the following year. Prices for all classes of cattle then declined as herd inventory numbers increased. With that in mind, prices will likely decline over the next few years from the peak levels of 2005. Calf prices typically decline each year the inventory is increasing and then increase once herd liquidation begins. Fed cattle prices typically decline even a year or two past the beginning of the liquidation phase, as the initial liquidation actually places more pounds of beef on the market. So, how long will herd growth continue and prices decline?

The growth in herd numbers for the last three cycles lasted six, four and eight years. The start of this cycle looks very much like the last cycle, so at this point in time I would plan on six years of herd growth. That means the growth would end four more years from now in 2009, with the largest inventory January 1, 2010.

What are some factors that may alter the length of the current cycle? Drought comes to mind as a major factor. The Southern Plains is experiencing severe drought at the present time and much of the Rocky Mountain and Northern Plains regions probably have not fully recovered from drought. This may limit herd growth

in these areas. This could lengthen the herd expansion phase as growth may occur more slowly, and then these areas may expand in the future as their resource base permits. However, it could end the expansion phase if the drought persists and expands in geographic area. International trade may also play a role in this cattle cycle. If exports expand fairly rapidly over the next couple of years, prices for beef and fed cattle will likely not decline as much, and this may encourage continued expansion. However, if the U.S.



Predicting changes in the cow herd numbers over the next several years is obviously risky given the number of factors that can and will likely change. Prices are not the perfect mirror image to inventory numbers as additional economic market forces add variability to the prices. Therefore, long term predictions

into cattle prices should be viewed with a fair amount of caution. With that disclaimer in place, I expect 2006 price levels to be near 2004 price levels: fed cattle could average about \$86 per cwt.; 750 pound steers in Nebraska could average about \$112 per cwt.; and 550 pound steers in Nebraska could average about \$127 per cwt. Prices for calves and yearlings will likely be above those levels for the first half of the year, but then will decline late in the third quarter and into the fourth quarter. Prices may decline to the low \$70 per cwt. range for fed cattle in four to five years, with 750 pound steers in the low \$90 per cwt. range and prices for 550 pound steer calves near \$100 per cwt.



While I would not bet very much money on these exact price levels, I am more confident of the direction in prices over the next few years. Keep this in mind as you make decisions on buying and raising replacement heifers and/or buying or selling additional cows.

is slow to regain export markets in the Pacific Rim, then sharply lower beef and fed cattle prices may discourage further herd expansion after this year or next. We are due for a new Farm Bill next year and changes in farm policy could alter feed costs, trading competitiveness, milk prices, etc., all of which could impact profits in the cattle industry and therefore, alter herd expansion plans.

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