

## INDUSTRY NEWS - AM

## We are “out of cattle” – analyst

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**It Always Takes Longer Than You Think; We Are “Out of Cattle”**

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Exactly two years ago I wrote an article about the implications of declining cattle numbers (“At What Point Do We Run Out of Cattle”, Cow Calf Corner, November 15, 2010) . In that article I suggested that after many years of herd liquidation, we had reached a point where it was not possible to maintain beef production without herd rebuilding.

The article suggested that beef production would drop without herd rebuilding and that herd rebuilding would squeeze cattle supplies even more in the short run. The article further suggested that the only possible postponement to those consequences would be the temporary one if more herd liquidation occurred.

Little did I know that November of 2010 was the beginning of the driest and warmest year in

Oklahoma and the Southern Plains. The resulting cow liquidation and preempted herd rebuilding that occurred in 2011 and 2012 bring us to this point where the impacts I anticipated many months ago are now upon us.

Feedlot placements have dropped sharply the last four months and feedlot inventories are declining and will continue to decline in the coming months. In my mind the bigger question is not why we have such a dramatic decrease in feeder cattle supplies now but why it has taken so long for the situation to manifest itself. I believe there are several reasons.

The biggest and most obvious one is two years of drought, which provoked additional liquidation, and postponed heifer retention thereby moderating declining overall cattle numbers. It seems to me that drought and high cattle prices the last two years have had the effect of bringing cattle "out of the bushes" in a way that we have not seen for many years and may not be fully reflected in the cattle inventory data.

Another factor is veal calf slaughter, which is a minor part of the total, but responds as you would expect in these conditions. Veal slaughter decreased about 11 percent from 2008 to 2011 and is on pace to decrease another 11 percent in 2012. Compared to 2010, the decrease in veal slaughter the past two years has added roughly 120,000 head to feeder supplies.

Finally, feeder cattle imports from Mexico and Canada have augmented declining U.S. feeder supplies since 2009. In the last two years, increased feeder cattle imports have boosted feeder supplies by roughly an additional 300,000 head. In the first half of 2012, Mexican imports were continuing that trend with a record pace of drought forced sales of cattle.

As we move into 2013, some things about cattle supplies are more clear; and some are still uncertain. What's clear is that two more years of liquidation have put the industry in an even deeper hole with respect to feeder supplies. The 2013 U.S. calf crop will be the smallest since 1942, based on my estimates.

What is also clear is that feeder cattle imports will drop dramatically. Mexican cattle imports have decreased sharply in late 2012 and may decrease feeder supplies in 2013 by 600 to 800 thousand head year over year compared to 2012.

What is unclear is the drought question. Continued drought will moderate the short run effect by provoking more liquidation and postponing heifer retention. If drought conditions improve, herd inventories will stabilize and some heifer retention may begin in 2013.

Feedlots have not only placed fewer cattle but recent placements have been heavier weight

and will move through feedlots faster. It will be increasingly difficult to find placements to follow current feedlot inventories.

A significant decrease in cattle slaughter and beef production is unavoidable in 2013 and 2014. Continued drought may continue to impact the timing somewhat, but any short run moderation of tighter supplies due to drought liquidation will be at the expense of more drastic impacts later; just as the situation now is more drastic than it was two years ago.