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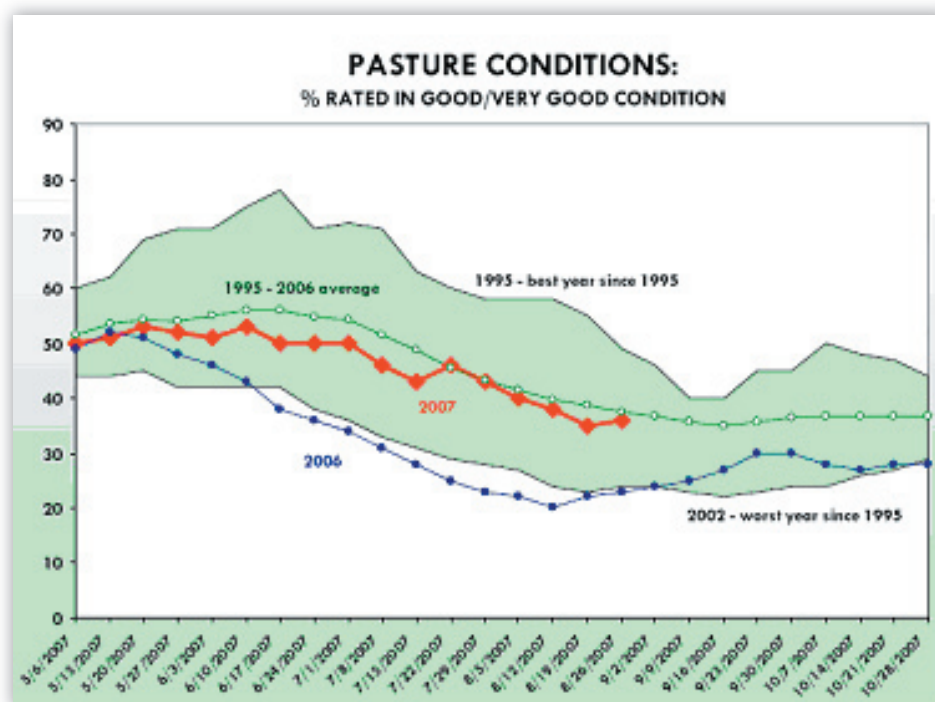
United States Beef Cow Slaughter Rates

U.S. beef cow slaughter rates serve as an indicator of herd rebuilding/liquidation momentum and, by extension, beef supply prospects in the coming years. For more than a year (March 2006 to May 2007) U.S. beef cow slaughter increased in double digits, a result of drought, high feed costs and a slumping calf market. More recently, however, beef cow slaughter has again started to decline, especially in key areas that in the past have accounted for the largest share of the beef cow herd. As for the overall impact on beef supplies, the changes in cow slaughter have a significant effect for some items, in particular (grinding meats) but also for the overall market.

For instance, during the period from January to May of 2007, U.S. beef production increased by a net 175 million pounds (or 1.7 per cent) compared to the same period a year ago. During this same period, cow meat production increased by 185 million pounds, thus accounting for all of the increase (and then some) in the overall supply of beef during the first five months of the year. In June and July, the reduction in cow meat production was significant, declining by almost five million pounds compared to the previous year. Fed beef supplies also declined in June and July by almost 60 million pounds.

The decline in cow slaughter rates this summer has been driven by roughly the same factors that fueled its increase for the past 14 months. The attached chart shows

that national pasture conditions have returned to the average for the past dozen years after a very dismal performance the year prior. Conditions have significantly improved in the Southern Plains, where almost 75 per cent of pastures are rated as being in good or excellent condition. The improvement over a year ago is staggering and explains why beef cow slaughter in Region 6, which includes Texas and Oklahoma, has been down 42 per cent in the last four weeks. Overall beef cow slaughter in the last four weeks has declined eight per cent. The surge in feeder cattle futures has also improved the outlook for cow-calf producers and contributed to the reduction in overall slaughter. Bottom line: the liquidation of the cow herd may have come to an end but we need to see real reductions in heifer slaughter for herd rebuilding to be underway. ■



U.S. Cattle Inventories July 2007

The July cattle report indicated that most classifications of cattle are down or steady from a year ago. Total cattle numbers are down 0.4 per cent from a year ago at 104.8 million head. Beef cow numbers were also down 0.3 per cent at 33.4 million head. Dairy cow inventories remain even with a year ago at 9.2 million head. Dairy heifer retention is up 2.6 per cent due to the continued profitability of high milk prices. Beef heifer retention, on the other hand, is down six per cent. Feeder cattle supplies are up 0.3 per cent from a year ago, due mostly to an increased number of feeder heifers. Table 1 contains a summary of the July cattle report.

TABLE 1
July 2007 USDA Cattle Report Summary

	Million Hd.	% change
All cattle	104.8	-0.4%
Cow	42.5	-0.2%
Beef	33.4	-0.3%
Milk	9.2	0.0%
Heifers	16.6	0.0%
Beef Replacements	4.7	-6.0%
Milk Replacements	3.9	2.6%
Feeder Heifers	8.0	2.6%
Steers	14.9	-0.7%
Bulls	2.1	0.0%
Calves	28.7	-0.7%
Calf crop	37.4	-0.4%
Cattle on feed	12.3	-1.6%

contains a summary of the July cattle report.

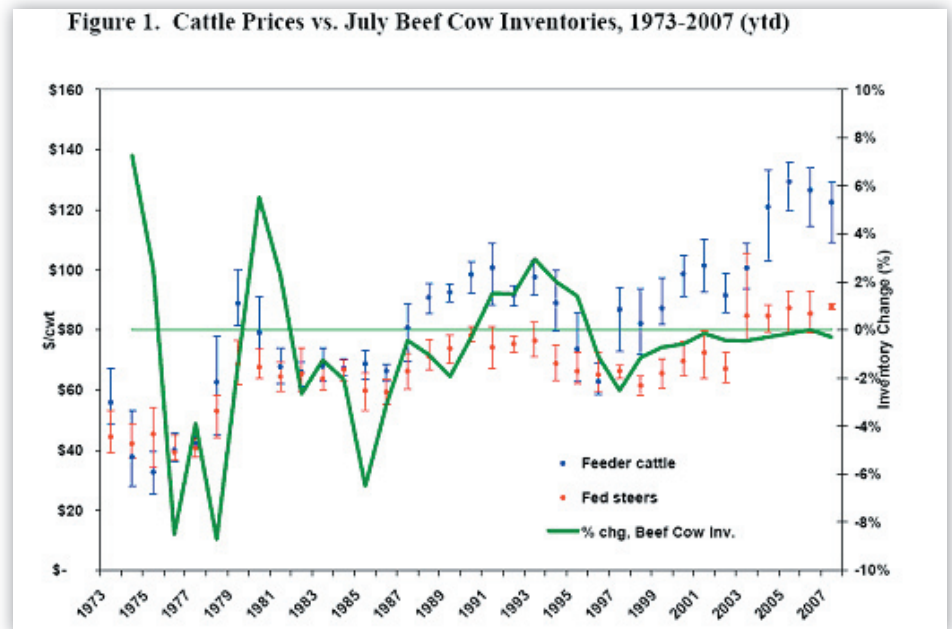
Generally, beef cow numbers are the primary indicator of where the national herd is going, and beef heifer retention is its precursor. Domestic feeder animal supplies are currently up this year, but there will be fewer beef calves produced for at least the next two years. Although additional dairy calves may be produced in the future, continued expansion in the dairy herd will siphon off some of the additional dairy feeder cattle. The price of corn and other feed sources will remain the dominant influence on calf prices in the fourth quarter, further suppressing the role that feeder cattle availability has in the market. ■

What Happened to the '10-year' Cattle Cycle?

The U.S. cattle industry does experience up and down trends in cattle inventories. Usually the inventories peak, decline and then rebound to another peak about every decade. According to past July cattle reports, the troughs in this cycle have occurred in 1979-80, 1990-91, and 2000-01. History has also indicated that cattle prices have a strong influence on the growth and decline of cattle inventories. Have feeder cattle prices declined enough to warrant the recent increase in cow slaughter and decrease beef cow numbers? Beef cow slaughter so far this year is up 12 per cent from last year and 25 per cent from two years ago. Figure 1 contains a graph that illustrates the interaction between beef price of fed and feeder cattle and the percentage change in mid-year cattle inventories. The trend between feeder cattle prices and beef cow inventory change is very evident until eight years ago. Even though cattle prices were increasing, July cow inventories continued to decline, only at a slower rate. In the past three years the price of feeder cattle and fed cattle have set new record highs and yet the beef herd expansion remained in the doldrums.

Figure 1 also contains the high and low range in which cattle prices occurred during the year. Although there is no significant correlation between annual price variance and change in beef cow numbers, it does appear that a combination of price change and the margin of price variation is a precursor to direction and speed of change in inventory expansion and decline. Exceptions to this seem to happen in years of widespread drought and low forage availability. Feeder cattle prices in the past four years have been very profitable for cow-calf producers, so why isn't there more expansion? Historical comparison indicates that market uncertainty still impacts producer decisions. The last time mid-year beef cow numbers actually increased from the previous year was in 1996, and last year was the first time since 1997 that beef cow inventories stopped declining and leveled off. Feeder cattle prices have declined in the past two years with considerable price variability and beef cow numbers have again started to decline. Perhaps the "building stage" of the cattle cycle was replaced this time by a slower cattle inventory reduction and the cattle cycle is in fact still holding true.

That being said, the national beef herd should continue to decline at a slightly faster rate for the next several years. Finally, cow-calf producers may be approaching equilibrium between production levels and the beef market or resource availability. If this is the case, extreme year-to-year changes in cattle inventories may be something we will not see again for some time. ■



Canadian Cow Inventories 2007

Canada's national cattle herd declined for the second consecutive year as the breeding herd fell in most provinces, according to the July Livestock Survey of 16,000 producers.

As of July 1, 2007, cattlemen reported 15.9 million head on their farms, down 0.7 per cent from the same date in 2006.

This level was 5.9 per cent below the record 16.9 million head set in 2005, when producers held back thousands of animals from the marketplace following the bovine spongiform encephalopathy (BSE)-related closure of the border to the American market. The American border was reopened to live cattle under 30 months of age July 18, 2005.

In Alberta, Canada's largest cattle-producing province, the herd increased 2.7 per cent between July 1, 2006, and July 1, 2007. This was due to greater demand for steers and heifers among feedlot operators.

The survey also showed year-over-year declines in both hog and sheep inventories. As of July 1, 2007, farmers reported 1.1 million sheep on their farms, down 4.8 per cent, and 14.7 million hogs, down 2.5 per cent.

Data for this release has been adjusted to align with Census of Agriculture data, released on May 16, 2007.

Census data showed that in the case of both cattle and hogs, the number of producers is on the decline, but the size of the average operation is rising. The cattle industry is not dominated by any one particular size of farm as large numbers of cattle can be found on small, medium and large operations.

TABLE 2
Livestock Inventories at July 1

	Cattle		Hogs		Sheep	
	2006	2007	2006	2007	2006	2007
	thousands of head					
Canada	16,000	15,885	15,065	14,693	1,151	1,096
Atlantic	292	292	325	299	41	43
Quebec	1,425	1,395	4,250	4,120	307	295
Ontario	2,033	1,954	3,930	3,830	311	305
Manitoba	1,680	1,540	2,980	2,965	69	70
Saskatchewan	3,450	3,430	1,389	1,360	133	120
Alberta	6,300	6,470	2,056	1,990	228	205
British Columbia	820	805	135	129	63	58
Note: Figures may not add up to totals because of rounding						

Cattle herd declines in all regions except Alberta

The increase in Alberta's cattle herd between July 1, 2006, and July 1, 2007, was offset by declines in the other provinces.

Decreases ranged from 2.1 per cent in Quebec and 3.9 per cent in Ontario to 8.3 per cent in Manitoba, 0.6 per cent in Saskatchewan and 1.8 per cent in British Columbia.

The Prairie provinces play a significant role in the cattle industry. As of July 1, 2007, they accounted for 72 per cent of the nation's cattle herd. Al-

berta, Canada's largest cattle-producing province, represented nearly 41 per cent itself.

Domestic slaughter levels have also been a key factor in the cattle business. During 2004 and the first half of 2005, levels hit record highs, fuelled by increased slaughter capacity, domestic demand, strong international demand for Canadian beef as well as lower levels of beef imports.

However, domestic slaughter has tapered off in the wake of lower exports of beef meat, particularly now that the United States border is open to shipments of live cattle. Slaughter in the year up to July 1, 2007, was down 3.5 per cent from the previous 12 months.

In addition, cattle prices remained low during the second half of 2006. Prices as of December 2006 amounted to 82 per cent of prices observed in December 2002, before the ban was imposed.

Although cattle prices regained lost ground during the first three months of 2007, feed grain prices rose rapidly at the same time. With higher costs for feed grains, downward pressure was put on prices that feedlots were willing to pay for feeder cattle.

Fewer cattle producers, but larger operations

Although census data showed fewer cattle producers, the size of the average cattle operation was on the rise. In 2001, the average cattle producer had 127 head of cattle; by 2006, this average had hit 144.

The 2006 Census enumerated 109,901 census farms reporting cattle, down from 122,066 in 2001, a 10.0 per cent decline. This is partially the result of the impact of BSE-related events.

The number of producers reporting cattle fell in every province. The largest drop occurred in Ontario, where the census counted 25,040 producers reporting cattle, down 11.2 per cent from 2001.

In Manitoba, 10,217 producers reported cattle, down 9.8 per cent. In Saskatchewan, 21,007 producers remained active, down 6.9 per cent, the smallest rate of decline in the country. Alberta had 28,751, down 9.5 per cent, while the number in British Columbia declined 9.4 per cent to 6,996.

In the beef sector, provincial declines ranged from 4.6 per cent to 9.6 per cent. In the dairy sector, decreases were stronger, ranging from 11.5 per cent to 37.7 per cent. ■