

University of Idaho
Extension



United States
Department of
Agriculture

National Institute
of Food and
Agriculture

UNDERSTANDING THE CATTLE CYCLE

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Extension Educator

Hold the Line Workshop
March 22nd & 23rd



WHAT IS THE CATTLE CYCLE?

1. Over abundance of supply (cattle), prices plunge
2. Production decreases or stops
3. Supply falls below equilibrium price (Breakeven)
4. Price rises to profitable level
5. Attract new producers or more production
6. Requires retaining heifers
7. Reduces output supply
8. Prices increase
9. Encourages more production
10. Over abundance of supply, demand drops, prices drop
11. Heifers rerouted to slaughter, further demand and price decline
12. All discouraged exit



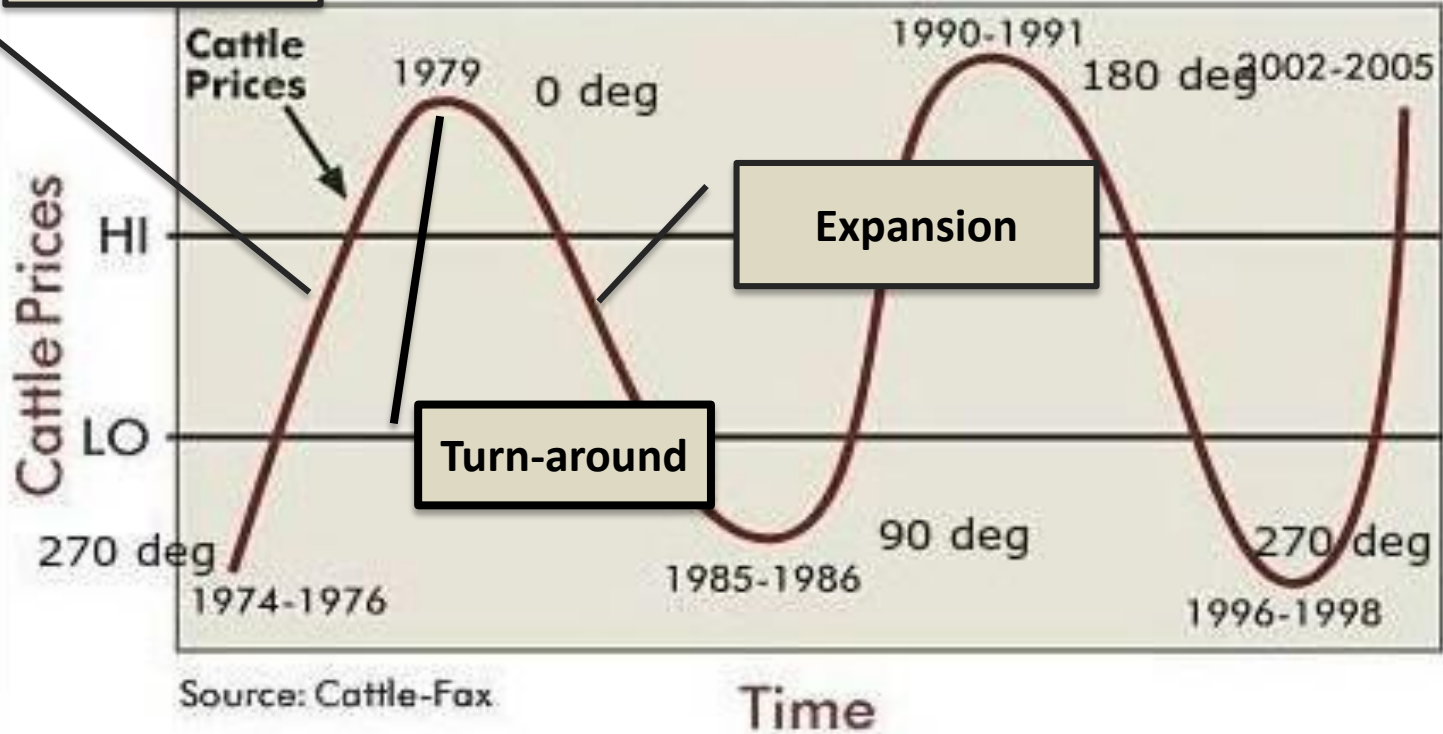
WHAT IS THE CATTLE CYCLE?

- A cycle length of about 10 years
- Individual cycles of 8 to 13 years
- Longest was 14 years (1990 to 2004)
- Broken into three phases:
 1. Expansion
 2. Turn-around
 3. Contraction



Contraction

The Cattle Cycle



US cattle cycle helps anticipate production trends

Expansion



- better profitability
- so producers increase cow numbers

- calf numbers increase
- feedlot numbers rise
- beef & cattle prices plateau

Turn-around

- high beef production
- falling beef prices
- high calf supplies
- low calf prices

Contraction

- cow slaughter rises
- herds contract
- adds to short term prod'n

- smaller calf crop
- but feedlot numbers stay high
- continued high prod'n

- calf prices begin to rise due to lower numbers

- feedlot numbers fall
- beef prod'n falls
- beef prices rise

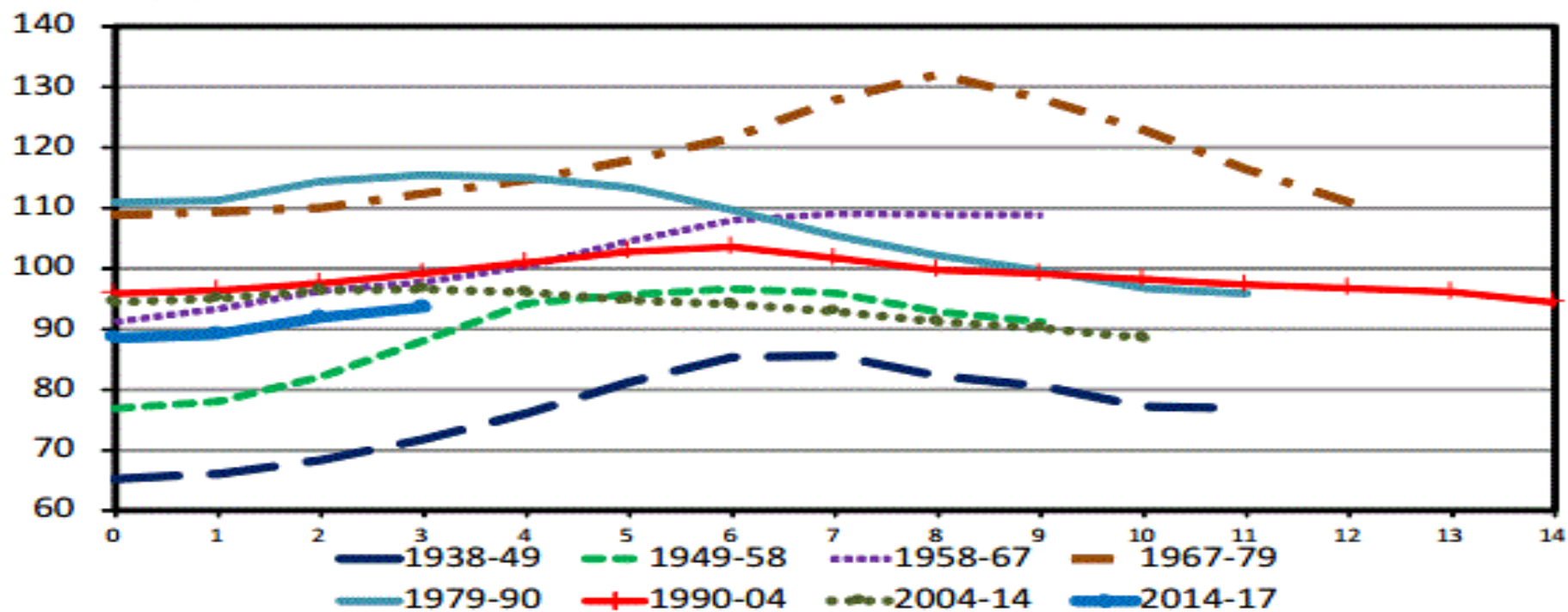
- higher calf prices
- cows & heifers retained for breeding



TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

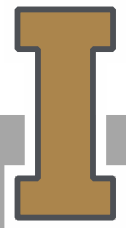
UNDERSTANDING THE CATTLE CYCLE

- Expansion phase generally more regular about 6 to 8 yrs.
 - Due to biological constraints
- Contraction phase more volatile 3 to 8 years
- Usually begins with finished cattle sector
- About two year lag between sectors



TRUE OR FALSE:

THE TEN YEAR CATTLE CYCLE HAS
VERY LITTLE TO DO WITH CATTLE
AND EVERYTHING TO DO WITH
HUMAN PSYCHOLOGY?

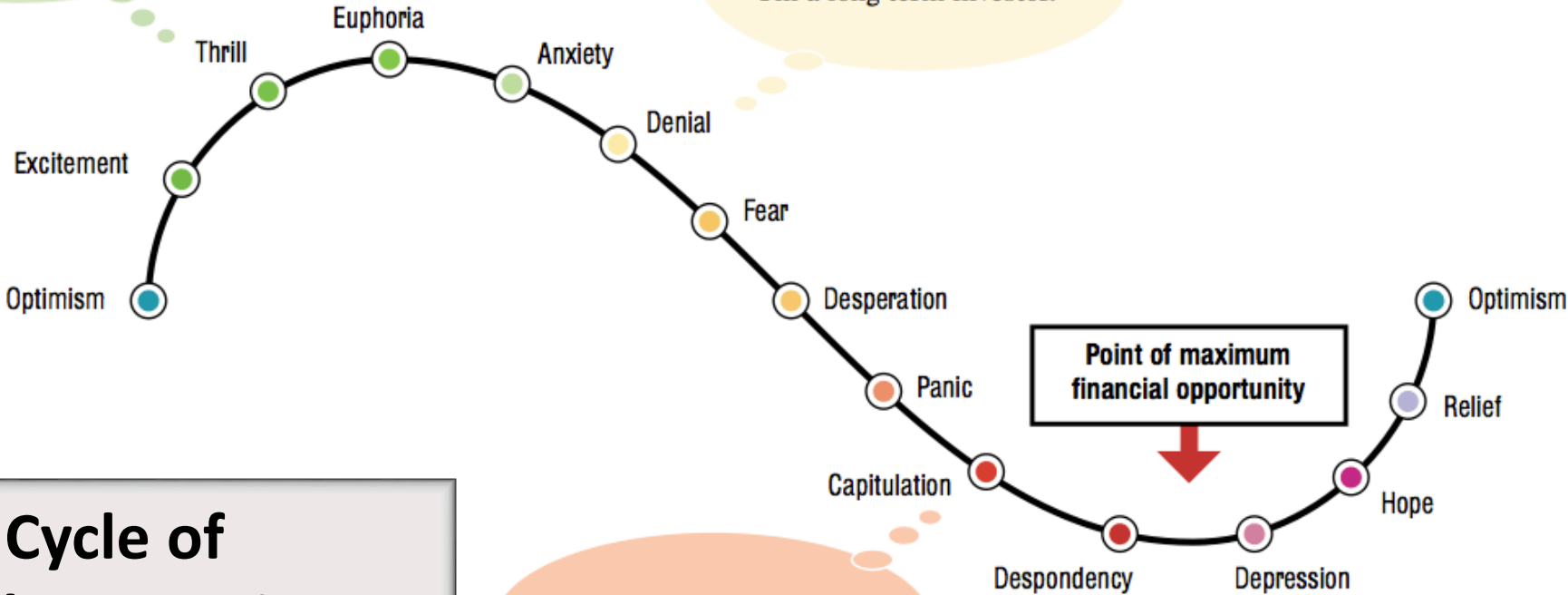


Point of maximum financial risk



“Wow, I feel great about this investment.”

“Temporary setback. I’m a long-term investor.”

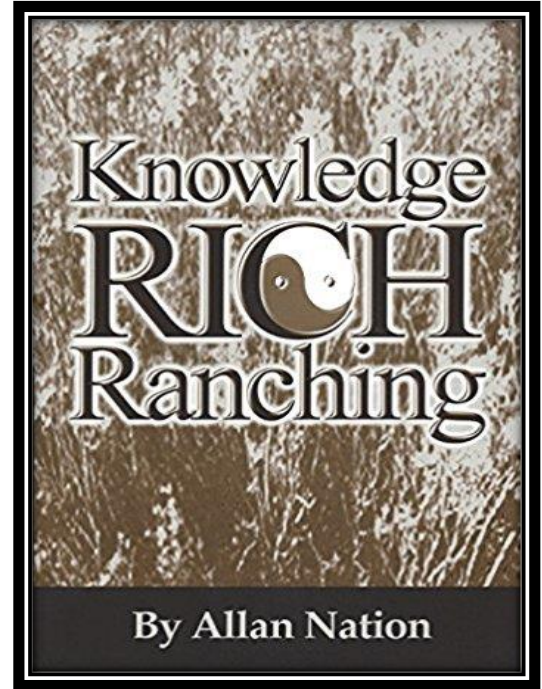


The Cycle of Market Emotions

“Maybe the markets just aren’t for me.”

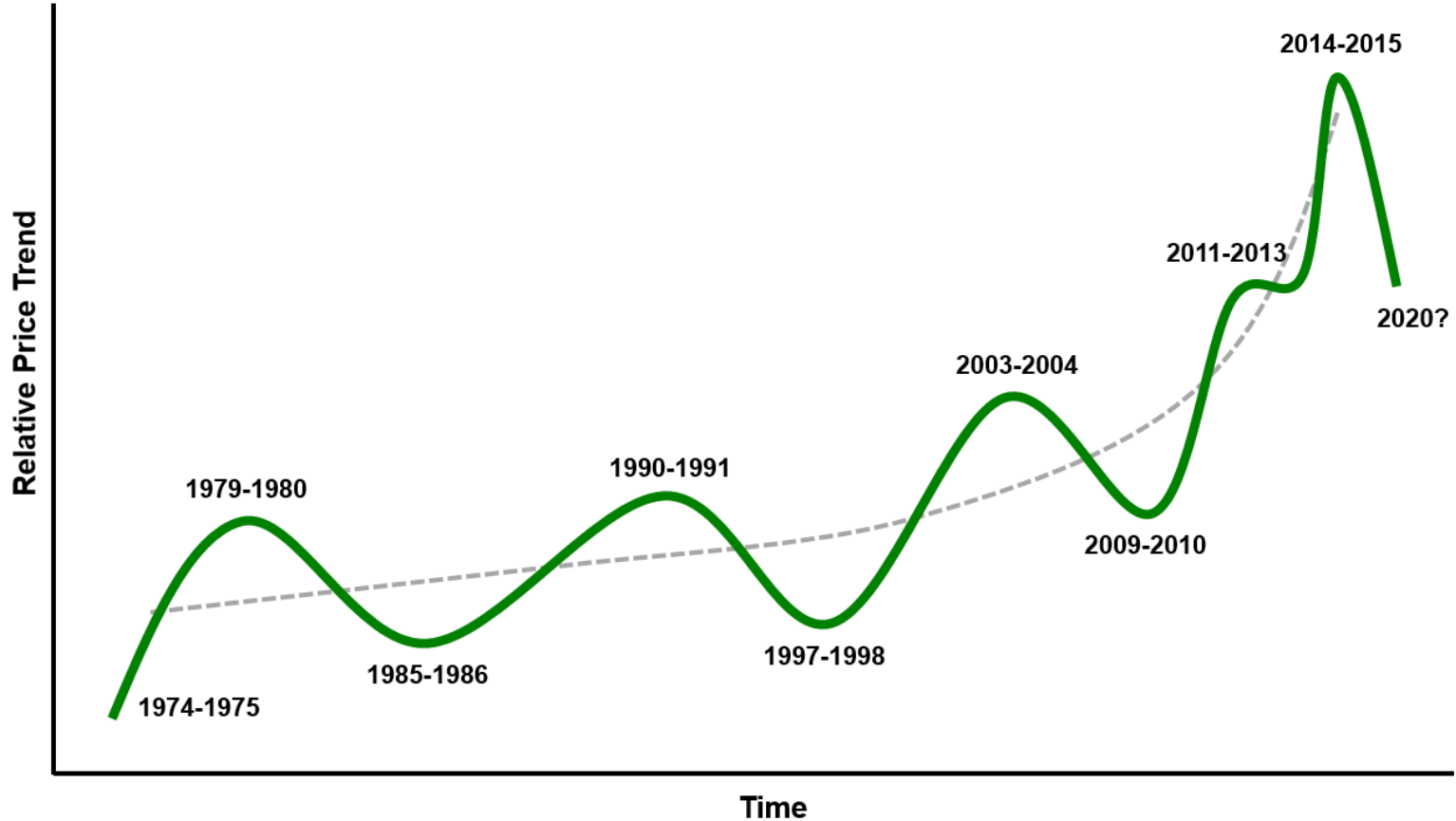
UNDERSTANDING THE CATTLE CYCLE

- Cattle Cycle is caused by:
 - Ranching suspected to be relatively easy to get into; all it takes is money.
 - Expansion more from new entrants
 - No recollection/experience of previous downside
 - So, prices will always be good and act accordingly



The Cattle Price Cycle

Historical U.S. Cattle Market Price Trend



COW-CALF RETURNS AND CATTLE INVENTORY

\$ Per Cow

U.S., Annual

Mil. Head

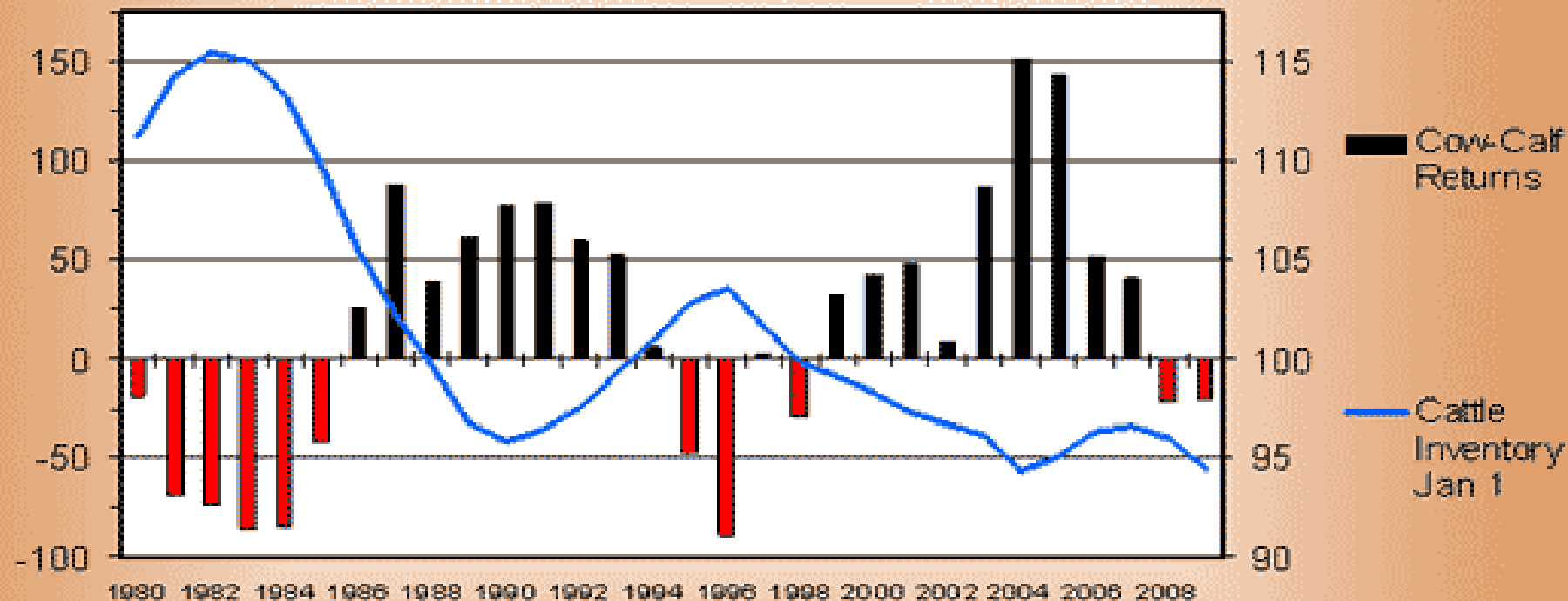
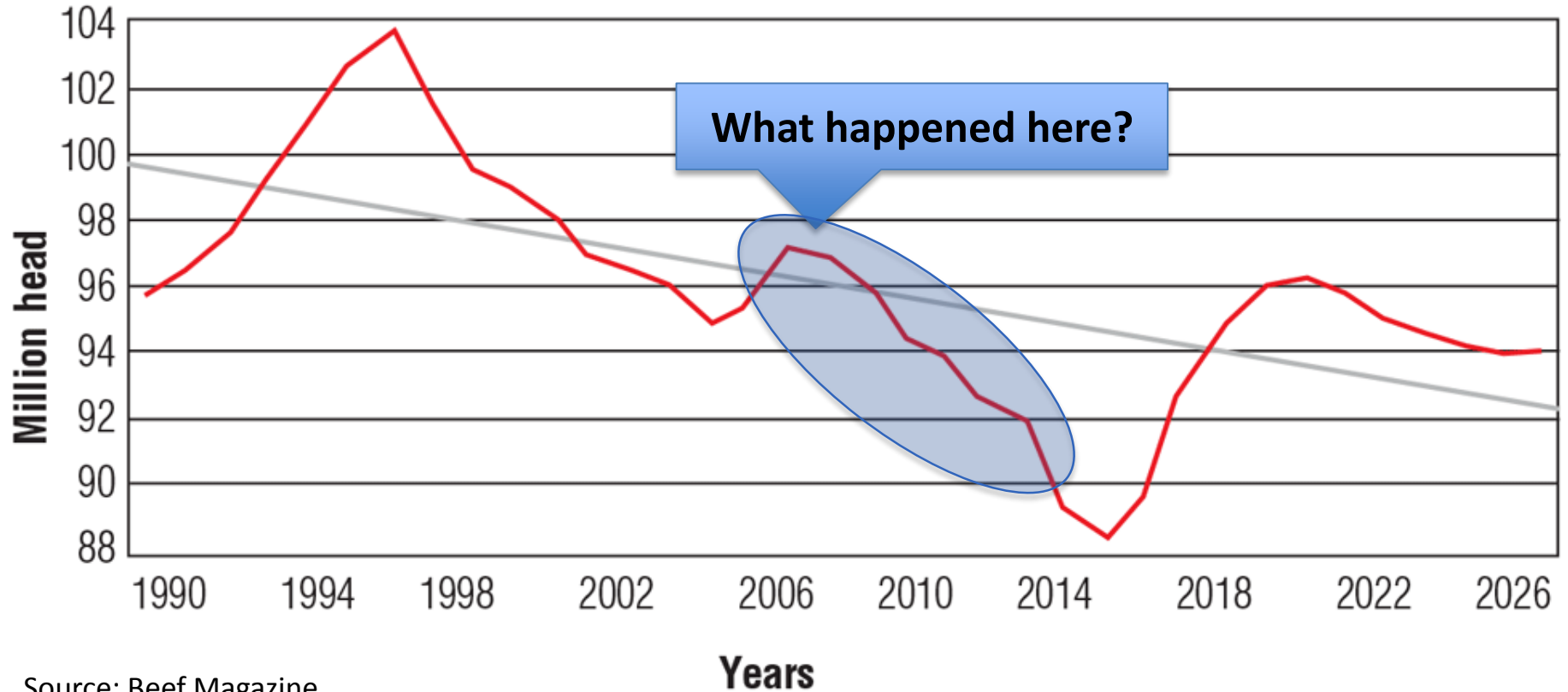


Figure 1. Long-run U.S. All Cattle numbers 1990-2016, with projections to 2025

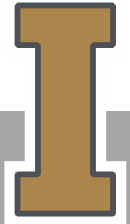
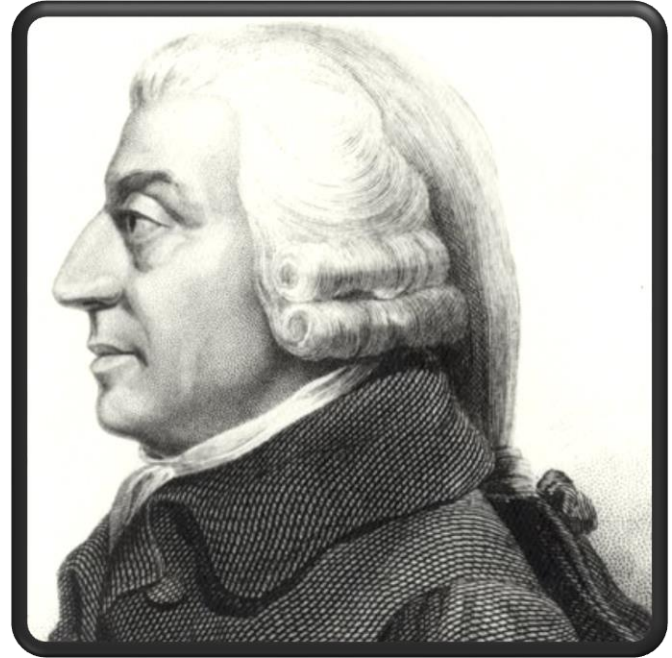


Source: Beef Magazine

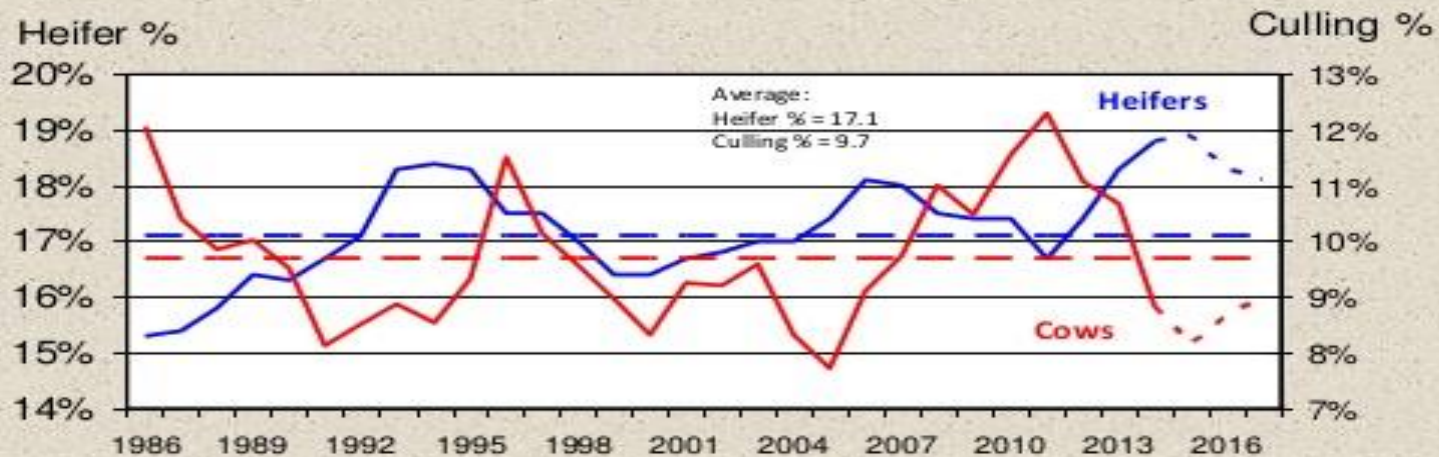
Economist:

An Expert who will know tomorrow why the things he predicted yesterday didn't happen.

~ Evan Esar



HEIFER RETENTION AND COW CULLING as % of January 1 Cow Herd

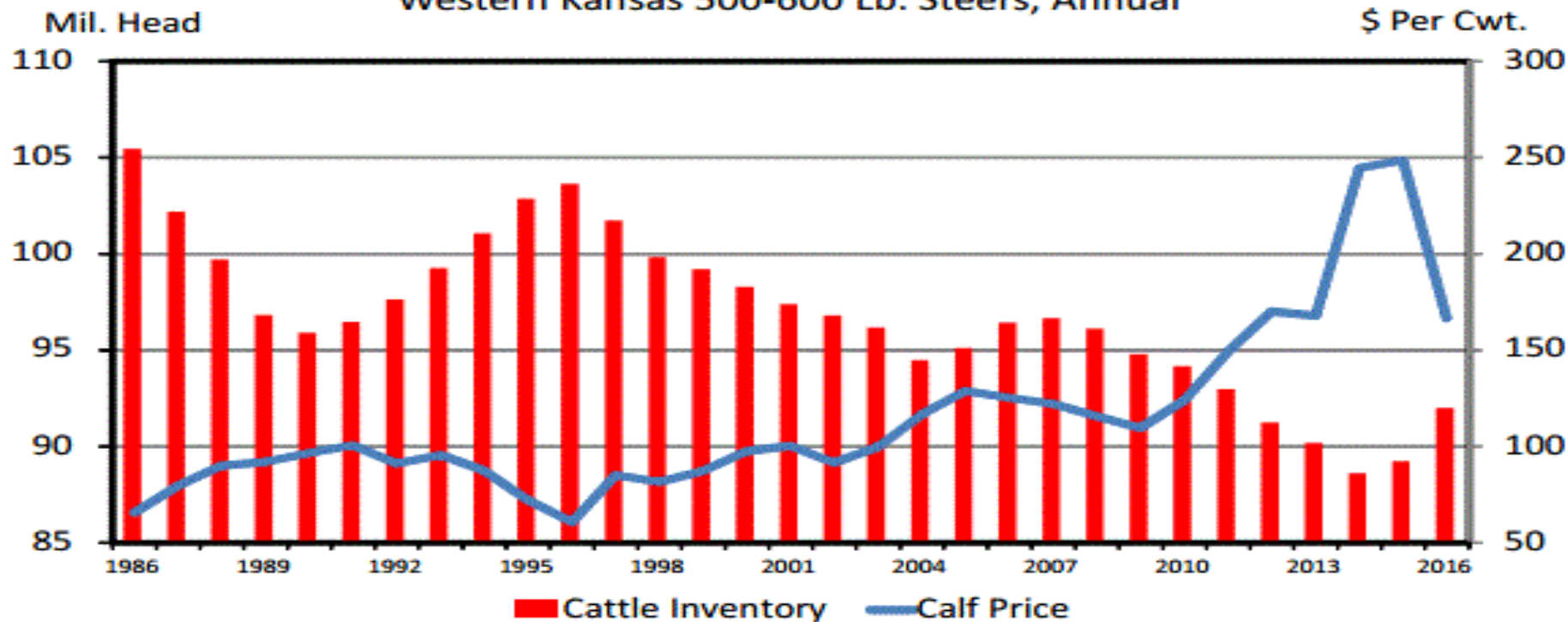


Analysis by Derrell Peel

Data Source: USDA-NASS

CALF PRICES AND CATTLE INVENTORY

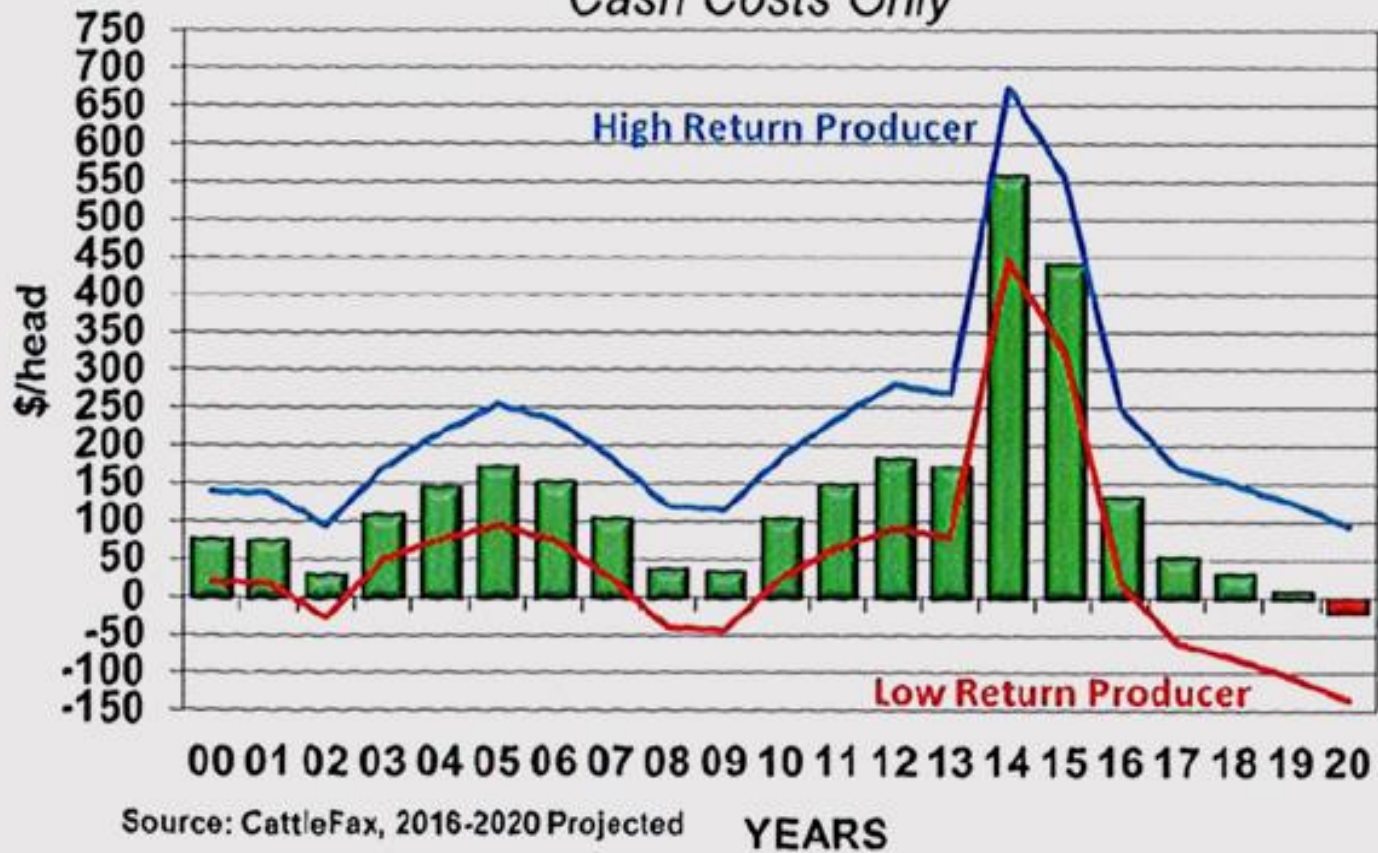
Western Kansas 500-600 Lb. Steers, Annual



Data Source: USDA-AMS & USDA-NASS Compiled by LMIC

Livestock Marketing Information Center

Average Cow/Calf Profit (Loss) *Cash Costs Only*



Source: CattleFax, 2016-2020 Projected

YEARS