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**COVID-19 Impacts on Arkansas’ Agricultural and Rural Economies**

**UPDATE:**

**June *Cattle on Feed* Report and Implications for the Cattle Market**

**Prepared by:**

**John Anderson**

**Department of Agricultural Economics and Agribusiness**

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In many respects, the cattle market has made great strides in getting back to something like pre-COVID normalcy. For example, last week’s federally inspected cattle slaughter amounted to 656,000 head, down less than 2% from the same week a year ago. Also, wholesale beef prices have retreated sharply from the record highs reached as a consequence of processing plant disruptions. Last week, the Choice boxed beef cutout value averaged $220.34/hundredweight (cwt): about even with its value a year ago.

But despite these apparent signs of normalcy, the cattle market has been significantly disrupted by COVID-19; and for the industry as a whole, the effects of that disruption are not over. A good place to look to see how profoundly the cattle industry has been affected by COVID-19 is at the monthly on-feed figures compiled by USDA National Agricultural Statistics Service (NASS). On Friday, USDA released their latest *Cattle on Feed* (*COF*) report. Headline numbers in the report are summarized in Table 1.

**Table 1.** June 2020 *Cattle on Feed* Summary: Actual vs. Pre-Report Figures

|  |  |  |  |
| --- | --- | --- | --- |
|  | 1,000 head | % of Prior Year | Pre-Report Estimates\* |
| On Feed June 1 | 11,671 | 99.5 | 99.7 |
| May Placements | 2,037 | 98.7 | 101.3 |
| May Marketings | 1,500 | 72.5 | 73.2 |
| \*Source: Livestock Marketing Information Center. |

May placements are worth digging into a bit (***see figure 1***). The number of cattle placed into feedlots in May was about 1% below last May (and a little smaller than pre-report expectations). Still, this represents a dramatic recovery from both March and April placements, which were both over 20% below the prior year. At some point, placements in heavier weight categories will likely increase beyond normal as calves that were held back in March and April make their way into feedlots. That has not happened yet, though. In May, placements in the under-600-pound category were up by 1.4% year-over year; but placements in all other weight categories were steady to lower than the prior year.

By contrast with placements, fed cattle marketings in May remained well below the level of the prior year (***see figure 2***). To be specific, May fed cattle marketings were down 28% compared to 2019, representing the smallest marketing figure for May in this COF series, which goes back to 2016.

The net effect of higher placements and continued sluggish marketings was a rather substantial increase in the total inventory of cattle on feed (***see figure 3***). The May 1 on-feed inventory was 5% below the prior year. The large spread between May placements and marketings has led to a counter-seasonal increase in the on-feed inventory so that it is now just about even with the 2019 level.

The fact that the on-feed inventory now closely matches the year-ago level should not be interpreted as a return to normal. With relatively fewer cattle being moved out of feedlots than are being moved in to feedlots, the proportion of the total on-feed inventory represented by market-ready cattle has grown. The number of cattle that have been on feed for at least 120 days can be approximated by taking the on-feed inventory in a given month and subtracting the last four months of net placements (placements minus other disappearance). For the current year, that number was tracking closely with 2019 through April 1. Since that time, though, it has surged sharply higher as fed cattle marketings have fallen in response to reduced processing capacity. For June 1, the number of cattle on feed for 120 days or more was 23% higher than a year ago (***see figure 4***).

Another way to assess these front-end supplies in the fed cattle market is with reference to fed cattle dressed weights. An over-abundance of market ready fed cattle typically shows up as an increase in dressed weights, as delays in marketing required to work through an over supply lead to heavier final weights. For the first week of June (most recent data available), the average steer dressed weight was 892 pounds: 5.4% (or about 45 pounds) higher than a year ago (***see figure 5***).

The large supply of market-ready cattle facing a significantly constrained capacity for handling that supply represents a real challenge for the cattle market. This situation creates strong downward pressure on fed cattle prices that, in turn, tends to depress feeder and stocker markets as well. Last week, cash fed cattle prices fell by almost $4/cwt, the fourth straight week of decline after rallying from initial COVID-19 losses (***see figure 6***). That rally put fed cattle prices at about even with 2019 prices, which is where the market started the year. A seasonal decline from that point would not have been unusual – falling fed cattle price in the summer is one of the most reliable seasonal phenomena in an agricultural market; but the pace of decline over the past three or four weeks suggests that normal seasonal forces are being compounded considerably by the large front-end supplies that have developed as a result of earlier processing plant disruptions. This backlog of market ready cattle, and the pace at which it can be worked through the system, will likely be the biggest factors influencing cattle prices for the rest of the year.

Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.

**Figure 1.** Number of Cattle Placed into Feedlots (1,000+ head Capacity): Monthly

Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.

**Figure 2.** Number of Cattle Marketing by Feedlots (1,000+ head Capacity): Monthly

Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.

**Figure 3.** Inventory of Cattle in Feedlots (1,000+ head Capacity): Monthly

Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.

**Figure 4.** Estimated Inventory of Cattle in Feedlots (1,000+ head Capacity) over 120 Days on Feed: Monthly

Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

**Figure 5.** Weekly Average Steer Dressed Weight

Data Source: USDA Agricultural Marketing Service through Livestock Marketing Information Center.

**Figure 6.** Weekly 5-Area Weighted Average Fed Steer Price: Live Negotiated, FOB

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