Make Informed Decisions
KevinGrier
Market Analysis and Consulting Inc.

79 Pheasant Run Drive
Guelph, Ontario
N1C 1E4

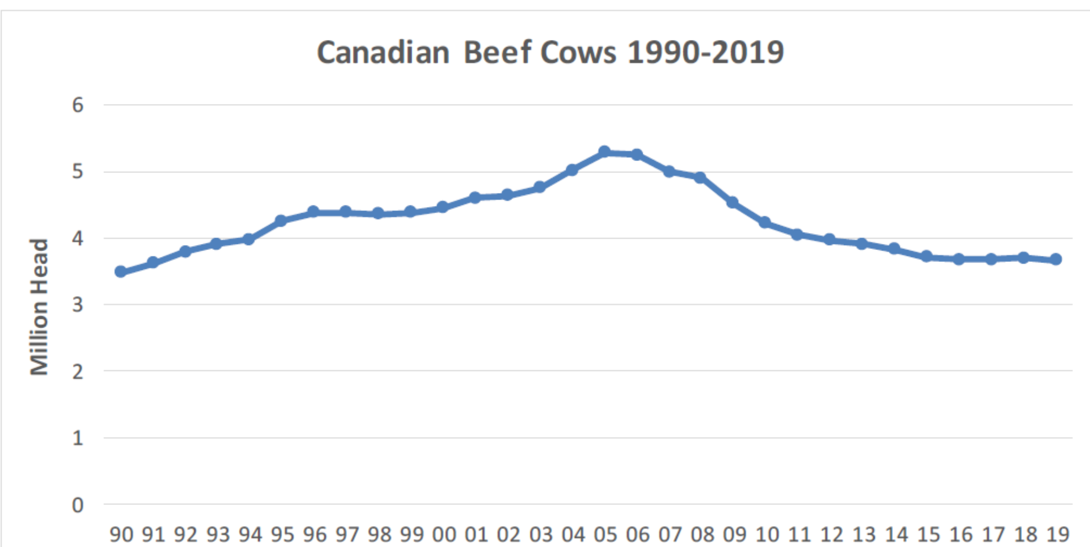
T 519 823 9868
C 519 240 8779
E Kevin@KevinGrier.com
KevinGrier.com

What does the Latest Cattle Inventory Report Mean to the Canadian Industry?

Kevin Grier, March 2019

Statistics Canada's January 1, 2019 cattle inventory report showed the total herd was down 1% year over year. The number of beef cows was also down 1% across the country.

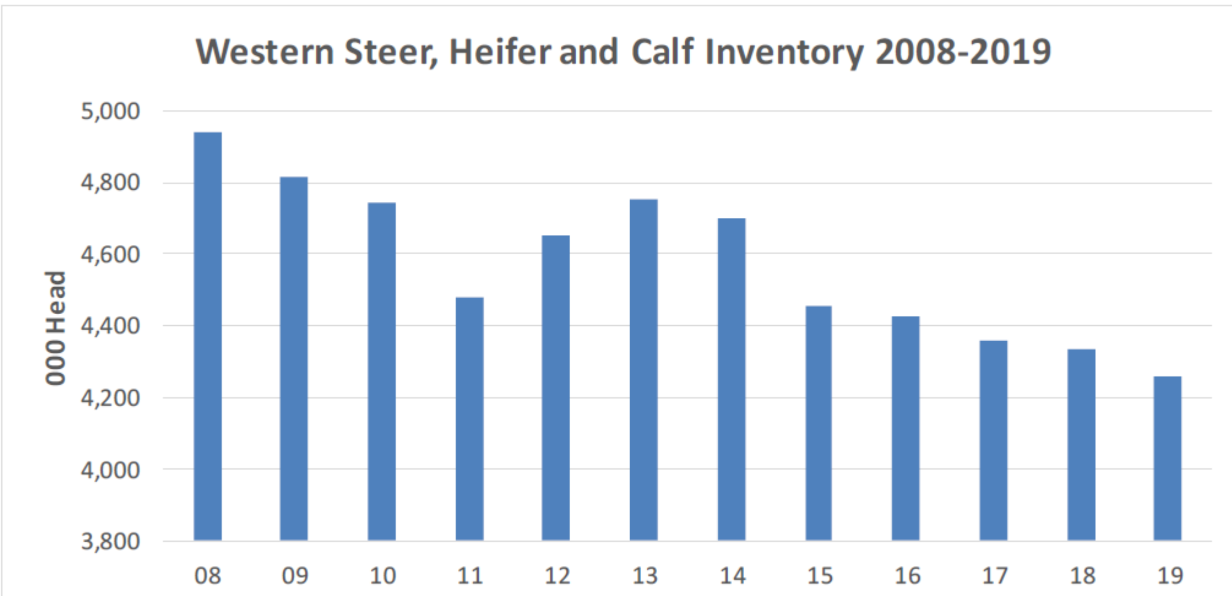
2019/2018 Change	Canada	Eastern	Western
All Cattle	-1%	0%	-1%
Dairy Cows	1%	1%	0%
Beef Cows	-1%	-1%	-1%
Replacement Heifers	-1%	-3%	-1%
Heifers for Slaughter	1%	0%	2%
Steers for Slaughter	-3%	-3%	-4%
Calves under one Year	-1%	1%	-2%



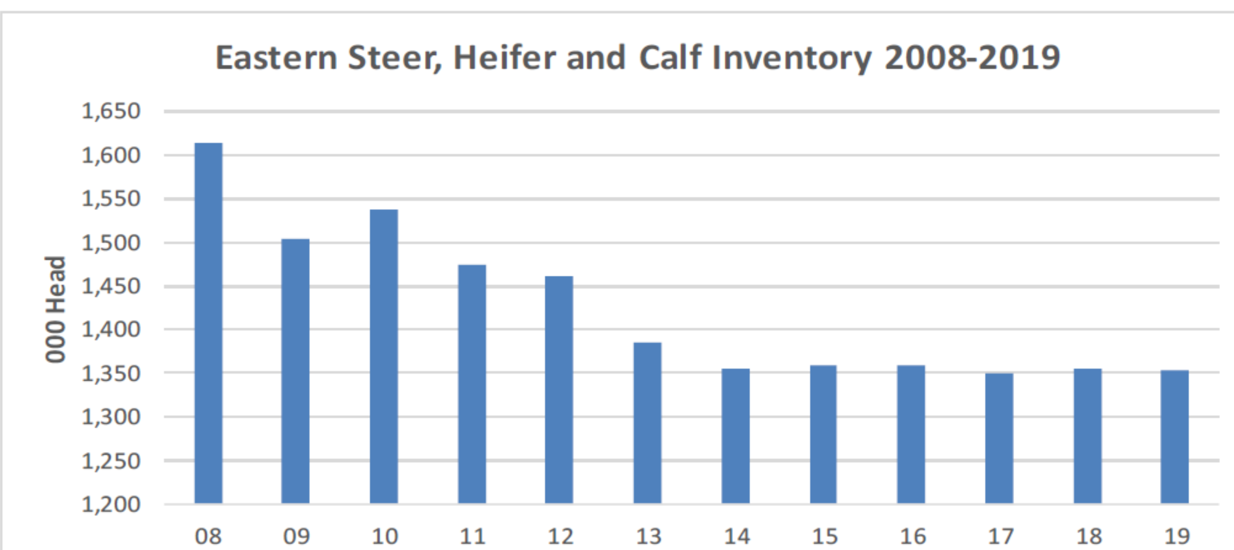
Canadian cow slaughter was up 13% last year. In addition, there were media reports with industry representatives stating that there was a large scale culling due to dryness. As such, the fact that the beef cow herd was only down by 1% is surprising. From a cattle feeder and packer perspective it should also be mildly encouraging. The flip side, however, is that the data does demonstrate that any hope of an increase in the herd is gone. Not only is the beef cow herd down, but just as importantly, the replacement heifer numbers are also down. Canfax calculations of cow-calf costs and returns were below average last year and are expected below average this year. If ranchers have not expanded in the very good years, they are unlikely to expand this year.

Slaughter Cattle Availability Tightens Again

For Alberta cattle feeders, it is notable that the 2% increase in the number of western heifers for slaughter was far short of replacing the 4% reduction in steers for slaughter. Total steer and heifer numbers for slaughter, plus calves under one year are down 1.8% in the west this January compared to last January.



Eastern Canadian cattle feeders are seeing no change in slaughter availability of steers, heifers and calves under one year of age. Those numbers have been steady since 2014.

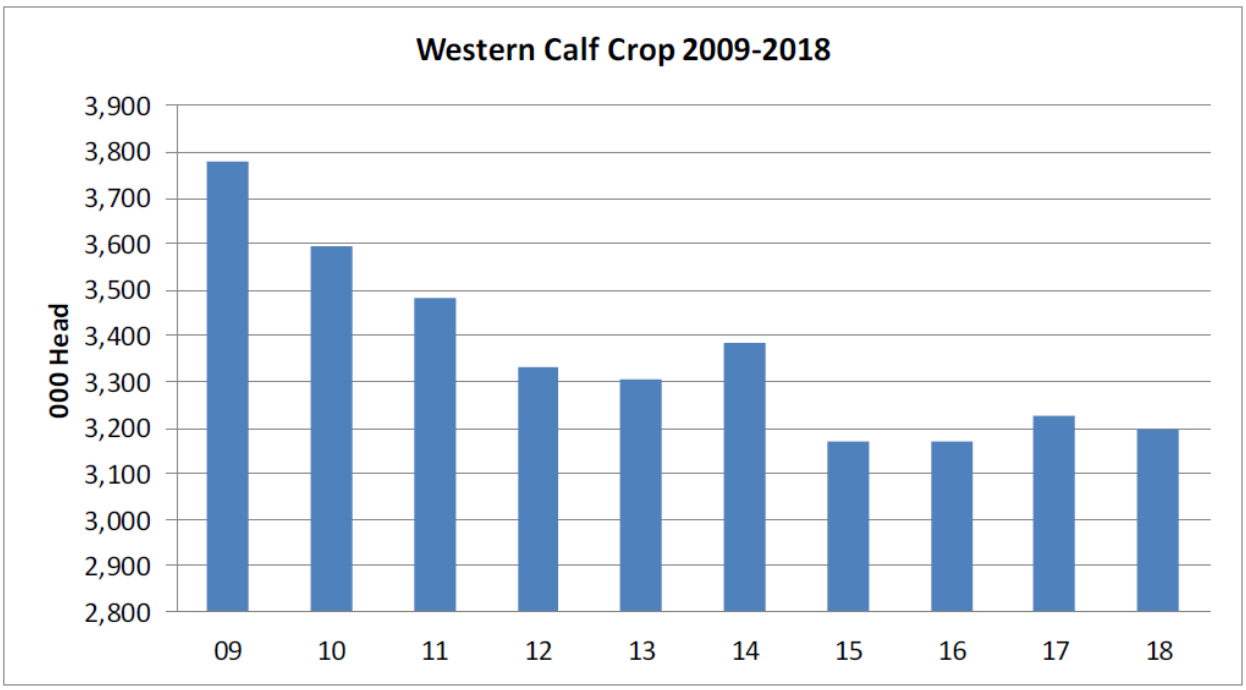


A Closer Look at Western Supply and Demand

The report provides an opportunity to take a look at local supply and demand prospects in 2019. It also provides an opportunity to assess the direction of the Alberta basis as we move into the next three quarters of 2019.

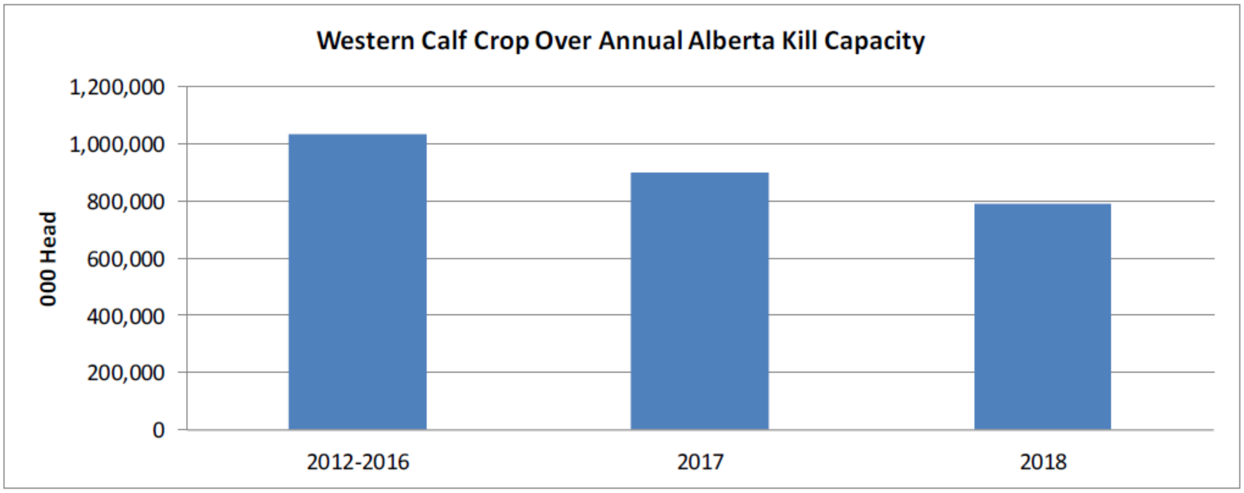
Supplies Down but Stable

The report showed the number of beef cows in the western provinces was down 1% January 1, 2019 versus 2018. The 2018 calf crop was down 1%. The calf crop has come off its 2015-2016 lows, but it remains exceptionally small relative to the last 20 years. Of course, with the beef cow herd continuing to decline, the calf crop is likely to be even lower this year and next.



Ultimately, the biggest demand driver for the calf crop supply are the three plants in Alberta, followed by the plants in the U.S. northwest. The three main plants in Alberta had a crudely estimated annual slaughter capacity of about 2.4 million head in 2018. That is estimated with Cargill at 4,700 per day, JBS at 4,100 and Harmony at 500. Harmony can be expected to continue to grow given its stated capacity is 800 head per day. I estimated the average annual kill capacity was just over 2.2 million in 2012-2016.

The calf crop is running about 800,000 head more than the total annual Alberta kill capacity in the three main plants, Cargill - High River, JBS - Brooks and Harmony in Balzac. That compares to an average surplus of over one million calves for the 2012-2016 average and over 900,000 in 2017.

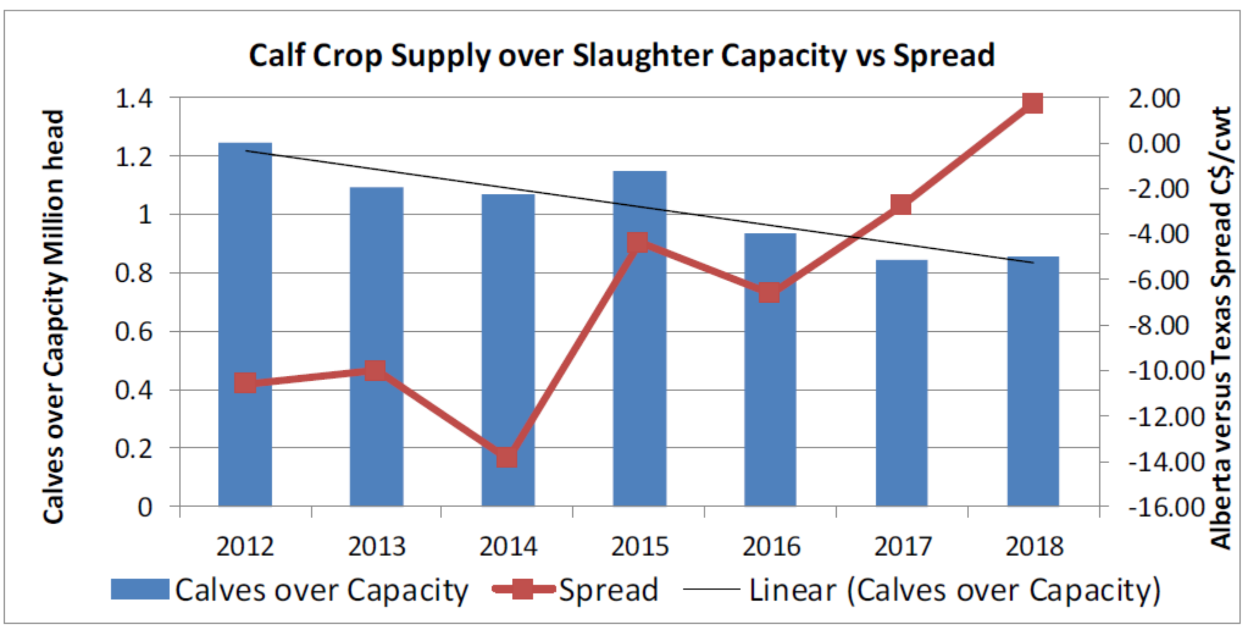


There are two key points regarding supply and capacity demand:

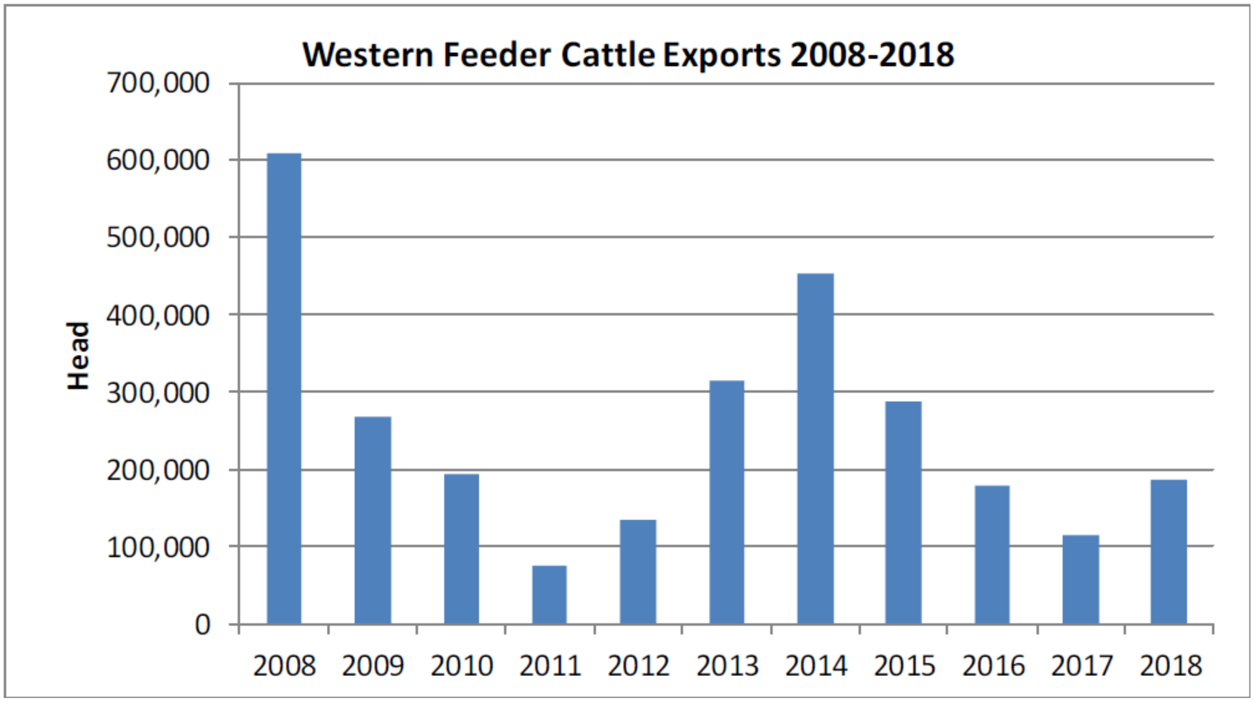
1. The beef calf crop remains well above the slaughter capacity.
2. The three plants slaughter a large volume of cows and are not solely dependent on fed cattle.

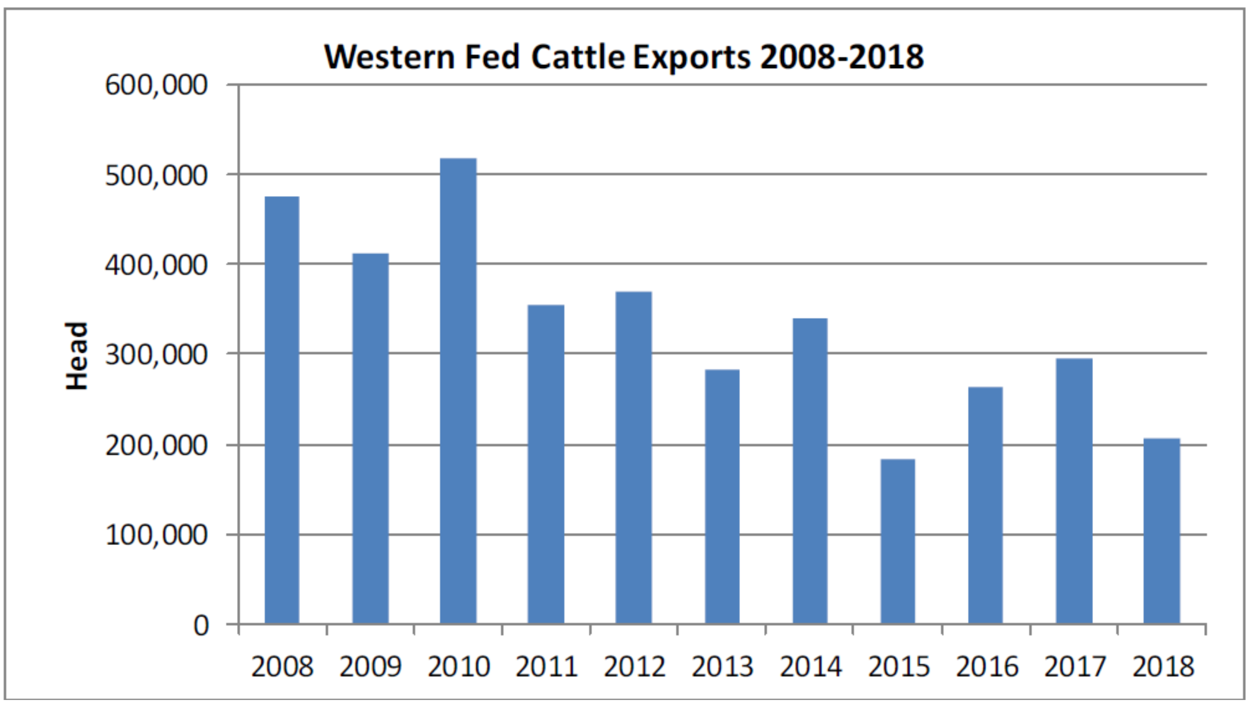
The Supply-Demand Relationship

Those points argue for a weaker basis. With that noted, capacity is growing relative to supply and will continue to grow as Harmony grows. The data does indicate a rough negative correlation between the decline in surplus calves against the Alberta-U.S. price spread.



Of course, there is more than just the demand from the three packers on the prairies. Both feeder and slaughter cattle move south to feedlots and packing plants in Nebraska and the U.S. Northwest.

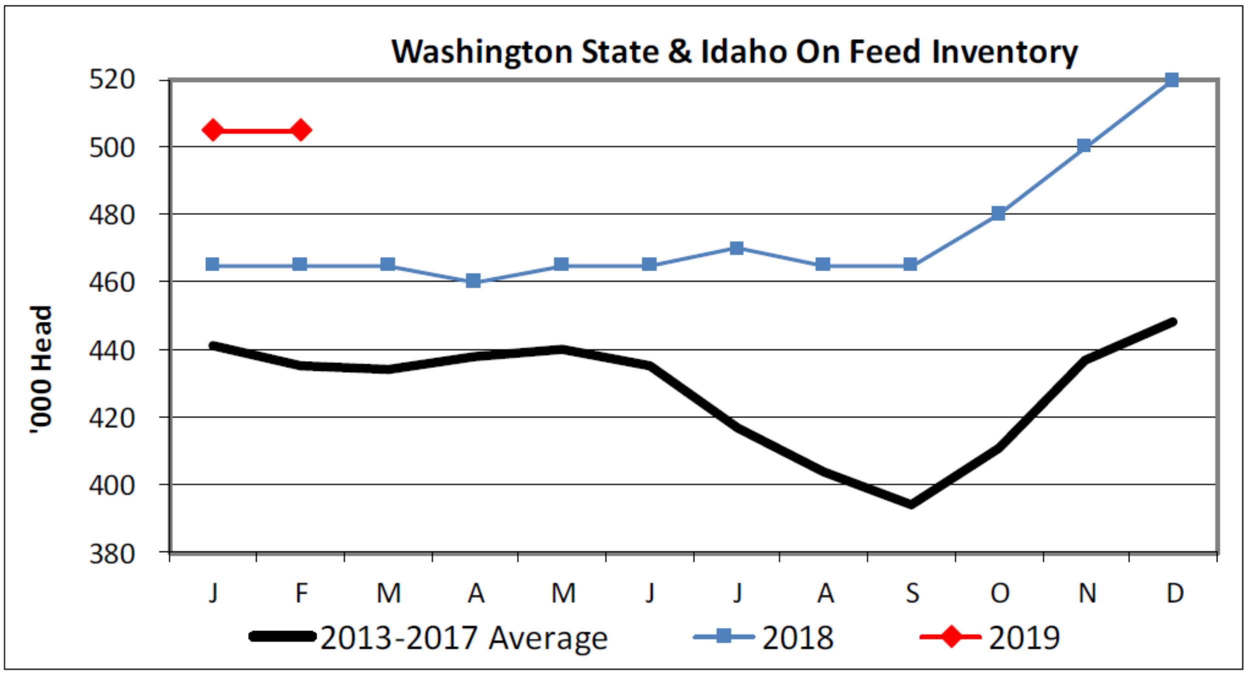




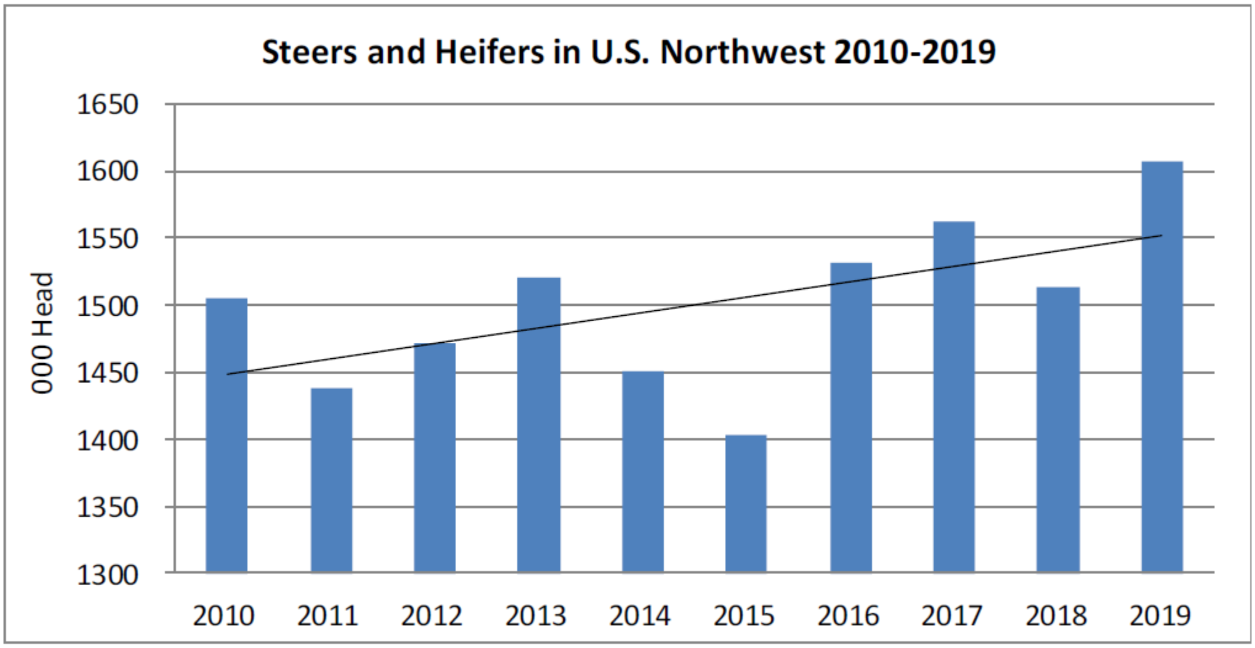
U.S. northern tier demand for prairie cattle will in part be driven by U.S. supplies. In that regard, it appears that the cattle on feed inventory in two key U.S. northwest states is very ample. The February 1 inventory of cattle on feed in Idaho and Washington State, the two states listed in the USDA Cattle on Feed Reports, stands at 505,000 head. That is up nine percent over February 2018 and compares to a less than one percent gain nationwide.

Part of the reason for the big increase on feed might be explained by a large number of Wagyu cattle on feed in the region. They would be on feed longer and inflate the total a little. Beyond that, however, numbers are up because Simplot is feeding more cattle for their relatively new plant in partnership with Caviness in Kuna, Idaho. That is mostly a non-fed plant but I believe they are doing fed cattle as well. Simplot also feeds for Tyson.

In addition to that, however, a very high basis over the last few years has attracted more cattle on feed by packers (or influenced by packers). Conversely, I argue there are less Holsteins on feed since Tyson is no longer killing them. This can be verified by the significant quantity of Holsteins exported to Canada.



In addition to the on-feed inventory, the overall inventory of steers and heifers in the U.S. northwest has grown rapidly. The year over year change in steers and heifers over 500 pounds in Idaho, Montana, Oregon and Washington State grew by 6% this January compared to last. That compares to a national U.S. growth rate of just 1%. The bottom line about supply is that it has grown in recent years in the U.S. northwest which should dampen demand for Alberta cattle.



The analysis leads to mixed conclusions. The main point though, is that there are still ample supplies for the demand on the prairies. At the same time, there should be less demand for prairie supplies coming from U.S. plants in the U.S. Northwest. I see the basis or spread returning to more normal levels in 2019. That means an average in the C$-6 or -$8 range for the year.

Kevin Grier
March 2019

This note first appeared in the Canadian Cattle Market Report. If you would like a free two-month trial subscription please send me an email at kevin@kevingrier.com