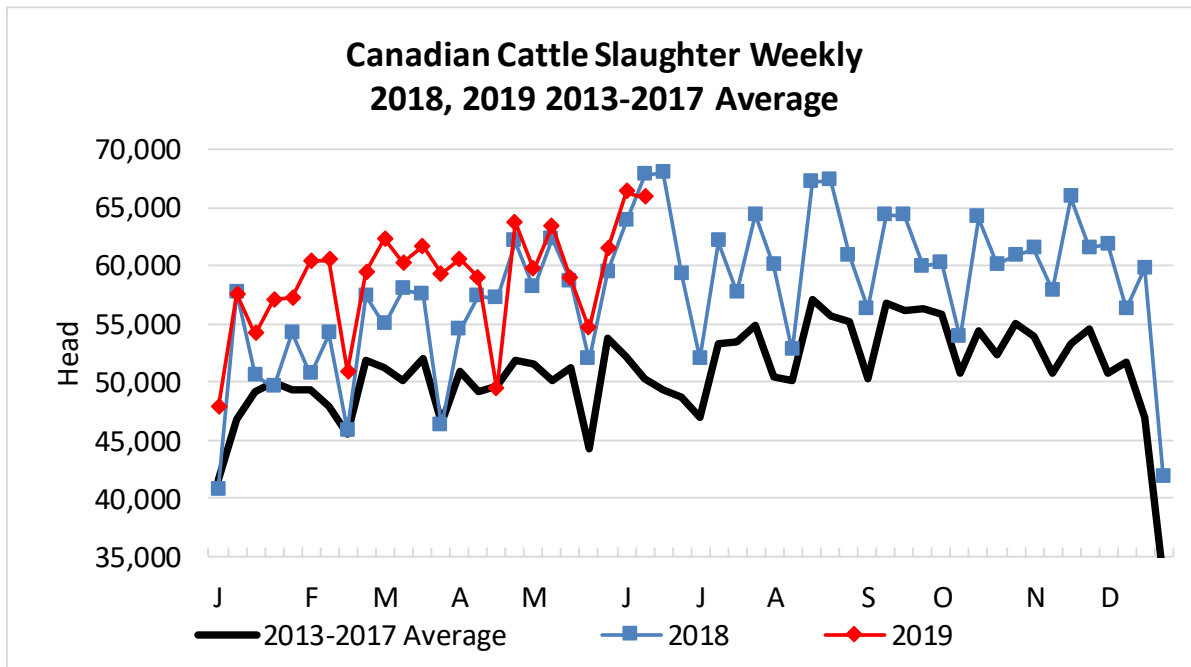




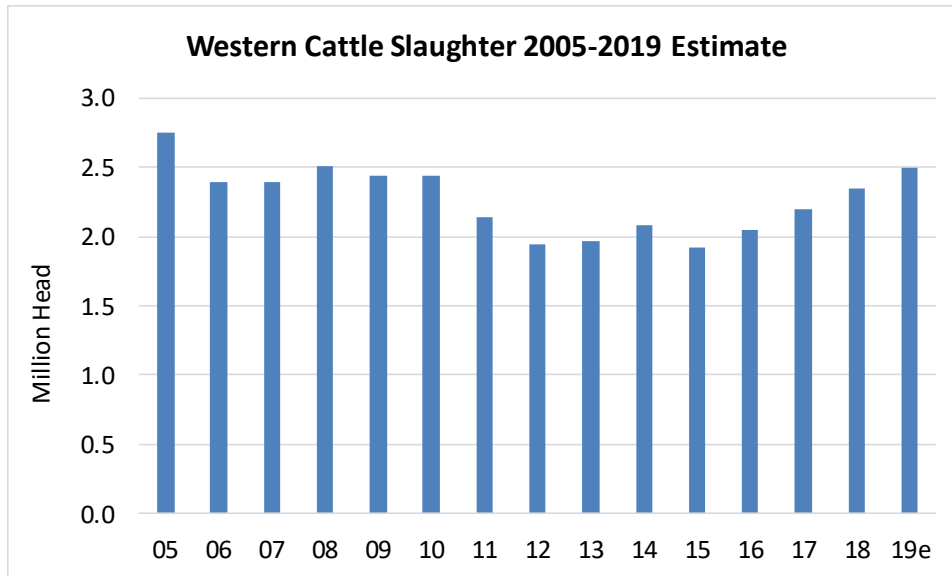
## Cattle Slaughter is Surging in 2019; Here's Why

As of mid-2019, Canadian weekly cattle slaughter has lurched past the 65,000 head range. That total is like June last year, but well above the previous five-year average of just over 50,000 head.



Alberta is home to 75-80% of the cattle slaughter in Canada. That means that kills at JBS, Brooks, Cargill, High River and Harmony in Balzac are running in the 50,000 head/week range this year and last. That 50,000 tally compares to the previous five-year average of just around 40,000 head per week.

On an annual basis, western cattle slaughter hit 2.35 million head last year. That was the largest tally since 2010's 2.45 million. During the first half of this year, slaughter has been running at a 6% higher clip than last year. If this continues, 2019 slaughter will be around 2.5 million resulting in the largest slaughter since 2008 when kills were just over 2.5 million.

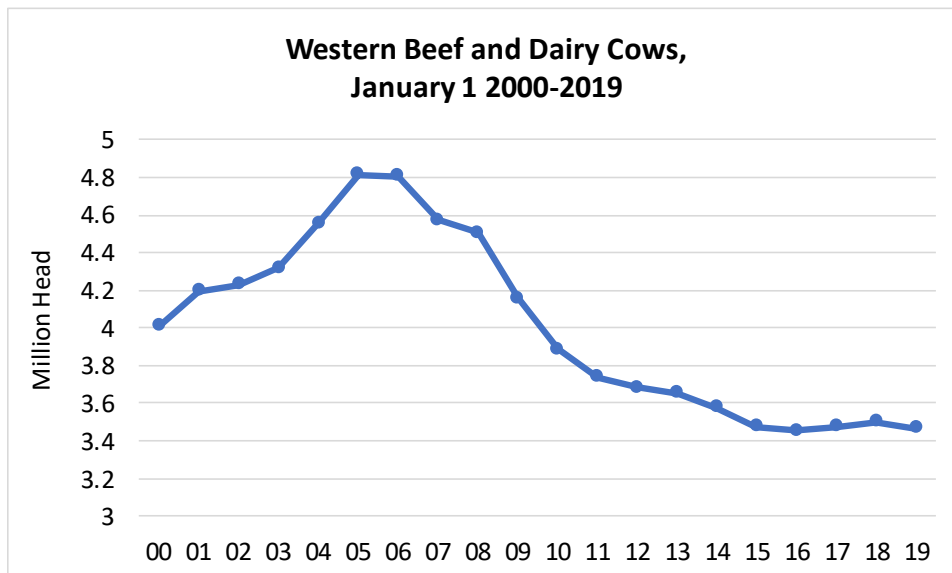


Part of the reason slaughter is higher is the presence of Harmony Beef in Balzac. That plant opened in early 2017 with a capacity in the range of 800 per day. Harmony has been slowly increasing its rate to achieve that level. I estimate the plant is still killing well below 600 per day, with a large share of that being cows.

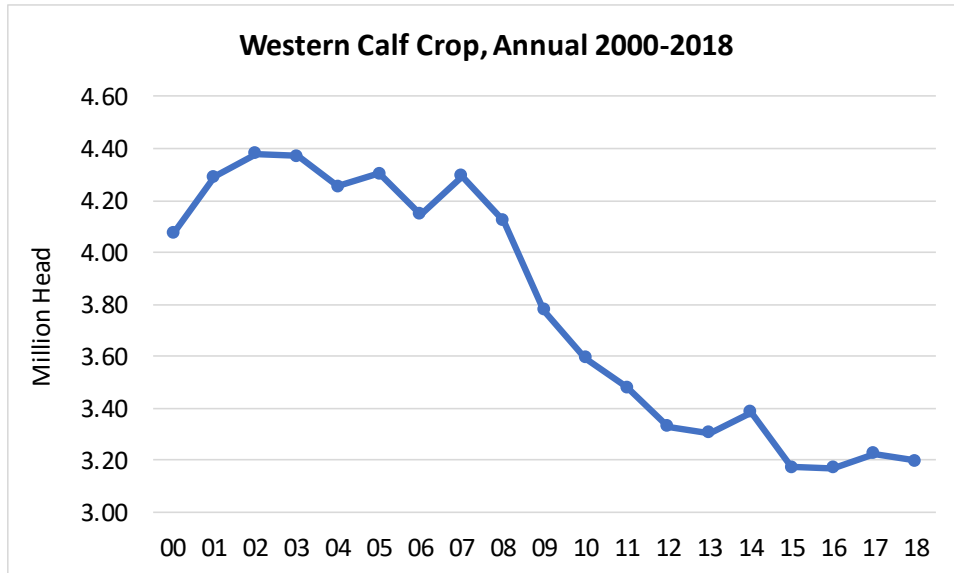
While, of course, the presence of a new plant does contribute to larger kills, there are other, perhaps more important factors at work that are driving large kills.

### Stable Supply

The supply of cattle has been relatively stable during the past four years. That is the case regarding cow supply and the annual calf crop. The dairy and beef combined cow herd peaked in 2005 at 4.8 million head. That number was inflated, probably by at least 200,000 head given the inability of cows to move south due to BSE related restrictions. The cow inventory declined steadily from 2005 to 2015, but it has stabilized since that time.



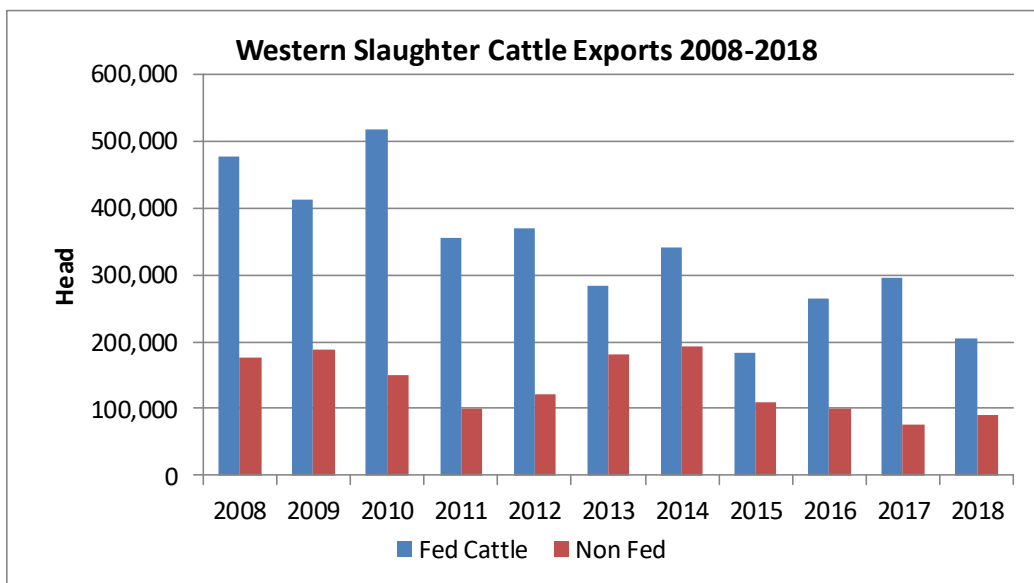
Not surprisingly, the western calf crop has seen a similar volume pattern. Numbers have declined steadily from 2007 to 2015 but have stabilized since then. The calf crop has been steady at 3.2 million head from 2015-2018.



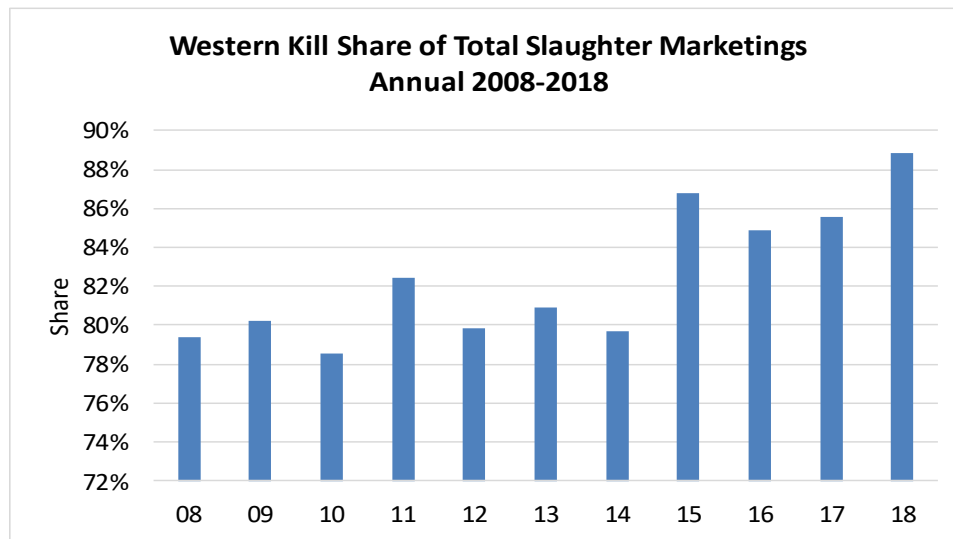
There is, therefore, a combination of increasing slaughter and a steady or declining supply of cattle. That means western packers have been taking a larger slice of a smaller pie.

### Feeder and Fed Exports Decline

That commonsense conclusion is borne out by the export data. The available supply of cattle is either marketed to packers on the prairies or the U.S. Feeder cattle are either sold to cattle feeders or backgrounders on the prairies or the U.S. There have been big declines in feeder cattle exports from the prairies to the U.S. Slaughter cattle exports have also been declining.



The combination of the decline in slaughter exports and the increase in the kill on the prairies means that, obviously, the western kill share of total slaughter marketings has been increasing.



The question, of course, is whether this is the way it is going to be or not. The answer lies in why the cattle have stayed on the prairies. One big reason has been the strong fed cattle basis during 2017 and 2018. That not only kept fed cattle on the prairies, but it also kept feeder cattle. The stronger fed basis translated to a stronger feeder basis or at least a stronger feeder price than would have been the case otherwise.

I have long argued that the strong fed basis was outside of historic norms and outside of any logic that I could muster. While the basis did go to positive territory last week, for the most part it has been running more like normal for the past seven months. I expect a more normal basis in the future. That in turn should allow more exports of fed cattle and feeder cattle.

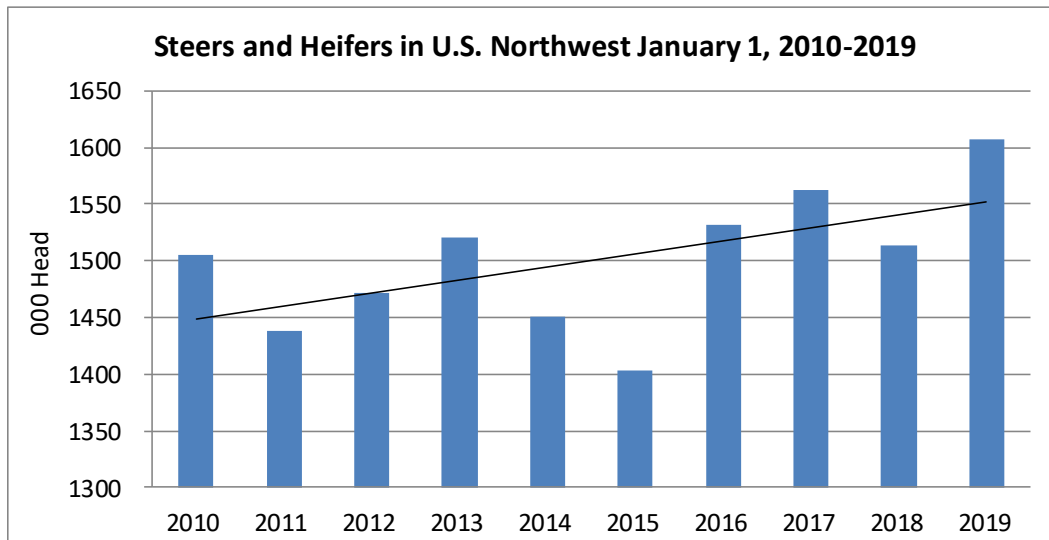
The trouble with that point, however, is that the U.S. Northwest packers that buy the fed cattle, may not need them as much as in the past. Alberta fed cattle are always going to be an important part of the slaughter mix at Tyson, Pasco and Agri Beef in Yakima. With that noted, those packers are not likely to be in a great deal of need for Alberta fed cattle for the next couple of years because of ample supplies of feeder cattle in that region. (see graph next page)

### **The Holstein Factor**

Ultimately, the direction of slaughter depends on the direction of supply. The supply base is the beef cow herd. The cow kill is up, and the herd is likely in retrenchment due to drought and other economic reasons. With that said, assuming the drought does not get worse, the herd decline is not likely to be dramatic. The other key factor is feeder exports. Those are likely to increase due to the very poor grain basis in Alberta. That increase, however, is not likely to be dramatic given feedlot capacity and packer demand in Alberta.

Then, of course, there are the Holstein calf imports. Those imports have been running about 15,000 to 75,000 head per quarter over the past two years. Historic norms are less than 10,000 head of imports into Canada. Last year there may have been about 185-190,000 Holsteins

imported by Alberta feedlots. There were another 40,000 or so in the first quarter this year. Those will offset by far the possible increases in fed or feeder exports.



The bottom line is that I see Alberta slaughter declining modestly in 2020 due to lower inventories and higher feeder exports. With that noted, if the 2019 kill is 2.5 million head, then 2020 will be still respectable at about 2.4 million. That is, it will be like 2018 which was a very large kill.

Kevin Grier, June 2018



*A version of this article first appeared in the June 24 edition of my bi-weekly, Canadian Cattle Market Report. If you would like a free two-month trial, just send me an email [kevin@kevingrier.com](mailto:kevin@kevingrier.com).*