Something new enters the cattle cycle

WASHINGTON, D.C. — After a fairly typical beginning, the latest cattle cycle has stalled. Any significant herd expansion may not resume until 1986 or 1987, according to USDA livestock analyst Ronald Gustafson.

The current cycle began in 1979 with 110.9 million head. By 1982, the cattle inventory had reached 115.6 million. Then the traditional upswing was interrupted.

In response to a financial squeeze caused by lower livestock prices, as well as a general decline in farm income, producers were forced to slaughter more beef cows. This was especially the case with crop-livestock producers whose cattle are a supplement to their primary crop business, says Gustafson.

On January 1, 1983, the cattle count came to 115.2 million head, virtually unchanged from the year before. More importantly, the foundation for greater growth was disrupted with a reduction in the breeding herd. Producers had trimmed the cow inventory by 3 percent and had cut back the number of possible replacement heifers by 4 percent.

Doesn't fit mold

None of this seems to fit the mold of the eight cattle cycles recorded since 1896: expansion of cattle numbers, building to peak levels, followed by a leveling-off or moderate decline. Each inventory has peaked at a higher level than the previous cycle.

This time around, the cyclical pattern is not expected to produce larger cattle numbers than the cycle which ended in 1979. The reasons, however, may have more to do with the last cycle than the current one.

"The facts suggest that the real abnormality may have occurred in the 1967-79 cycle," Gustafson says.

That 12-year cycle, which began with 108.8 million head, saw the sharpest surge in cattle numbers ever and the largest inventory liquidation. The cycle peaked at 132 million head in 1975, and about 21 million head—16 percent of the total—were liquidated during the next 4 years.

Large buildup

Such a large buildup—and an equally great decline—was based on what is now considered a reallocation of resources, Gustafson says. During the beginning buildup phase of the past cycle, the amount of forage available increased substantially as fertile land was shifted out of cash crops and into cropland pasture.

"Also, the increased use of cheap nitrogen fertilizers enabled pastures in the more humid areas to support more cattle per acre," he says.

The buildup during the previous cycle was further boosted by economic conditions that favored the production of beef over crops. An expanding economy, rising incomes, low inflation rates, and plentiful supplies of grain all spurred rapid growth of cattle herds.

Cattle cycles typically begin with a herd buildup when producers find promising conditions, such as low feed costs, growing demand, and better prices for their beef. Such expansion takes several years, since it is limited by the biological timetable. For example, it takes from 27 to 48 months from the time a heifer is born into a herd until her first calf reaches market weight or is ready for breeding to expand the herd.

Time lag

Also, because of the time lag, beef production may continue to increase well beyond the time that prices signal change. This happened in the last cycle. In the midst of expansion, new pressures emerged that would eventually limit beef production and lead to the largest cattle liquidation in history, according to Gustafson.

Blight was the first hint of trouble, sharply reducing corn production in 1970. Despite a record harvest in 1971 and a good crop in 1972, grain prices rose because of growing exports, including a sharp rise in grain purchases by the USSR. Livestock producers not only faced higher feed costs; but also dramatically higher prices for other inputs because of a sharp spurt in energy prices and inflation rates.

In response to a decidedly different economic environment, beef herd expansion was finally reined back beginning in 1975. Pasture had already begun to be transferred back to crop production in 1974. From 1974 through 1978, cropland used solely for pasture (some of the most fertile pastureland) fell 6.5 million acres.

Competition effects

Another factor that played — and continues to play — a large part is the competitive pressure of large pork and broiler production. During the 1970's, Gustafson says, the broiler industry was able to seize opportunities to expand production. In the early to middle years of the decade, production grew to meet a decline in pork output. Later in the decade, broiler production increased, as did pork, in response to cutbacks in the beef herd.

Because they aren't land-intensive, pork and broiler operations have been largely unaffected by the reduction in pastureland. Shorter biological cycles for hogs and broilers mean a quicker response to economic conditions and market demands. For hogs, the cycle takes from 10 to 27 months; For broilers, from 3 to 15 months.

New expansion

"Only by 1986 or 1987 is beef herd expansion expected to resume, despite more than sufficient amounts of pasture land," Gustafson says. "The reduced grazing acreage for beef still translates into excess grazing capacity in view of the steep cutbacks in herds since 1975."

At optimal levels, he adds, U.S. forage capacity could sustain 120 to 124 million head. But he expects that the current cycle will probably peak near the lower end of this range, given higher energy costs and only moderate price incentives. "And it will be the first time since 1896 that the cycle didn't peak at a higher cattle inventory than the one before it."