

Cattle Backlog May Not Be As Large As Feared

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Market-ready cattle backlogged may be less than previous estimates

The number of market-ready cattle backlogged in feedyards may not be as large as previous estimates. While any tally of cattle currently waiting on available shackle space is – at best – an estimate, an analysis of 2020 Cattle on Feed and slaughter data from USDA suggests industry estimates of 1 million cattle backlogged may be overstated by as much as 50%.

“After a closer analysis of the flow of cattle through feedlots from Cattle on Feed reports, steer and heifer slaughter, and packing plant capacity utilization, I believe the 1 million head backlog figure is too large,” says Sterling Marketing president John Nalivka, Vale, Ore. “Instead, the backlog in feedlots from the April slowdown is probably closer to 400,000 to 550,000 head.”

In developing his estimate, Nalivka notes there were 11.8 million cattle on feed March 1, which was about unchanged from 2019. Feedlots placed 23% fewer cattle during March, resulting in a total supply of 3% fewer in March than in 2019 (about 425,000 head).

During March, steer and heifer slaughter increased 13% from the prior year with packers using an estimated 92% of fed cattle slaughter capacity, according to Sterling Marketing. That capacity use compares to 85% during March of 2019, a significant difference, Nalivka says.

“The drawdown in on feed inventories increased sharply during March as the result of aggressive packer buying and sharply reduced placements as feeder prices fell and sellers were unwilling to accept sharply lower bids for cattle and instead took cattle to grass,” Nalivka said. “This left the April 1 cattle on feed inventory down 4% from the March 1 inventory, and down 6% from the prior year as COVID-19 became a serious issue for packers. In 2019, the April 1 on feed inventory increased 1% from the March 1 inventory.”

Nalivka noted the April placements of cattle on feed continued to fall as the market situation worsened, reported by USDA at 22% fewer than April of 2019. Negotiated fed cattle prices fell 28% from the beginning of January while feeder cattle prices dropped 23% during the same period.

“The on feed supply (beginning inventory + placements) during April of this year was down 8% from 2019, or just over 1,000,000 head, and the lowest since 2016,” Nalivka said. “The reported number of fed cattle marketed from feedlots during April was down 24%, or 469,000 head from a year earlier, and 550,000 head fewer than March. Steer and heifer slaughter during April fell 25% from a year ago or 558,000 head.”

Nalivka emphasizes – the on-feed supply during April was down 1 million from prior year.

“Packers used on average for the month of April, 64% of total steer and heifer capacity with the low point at 56% at the end of the month. A year earlier, 89% of capacity was used,” Nalivka said.

He says it is important to follow the flow of cattle during both March and April to assess the “potential backlog” of finished cattle needing to be marketed.

“Even though steer and heifer slaughter during April fell sharply, the industry came into the month with sharply lower on-feed inventories and also placed significantly fewer cattle on feed, thus leaving the dynamic on feed supply during April down 8%. On May 1, the cattle on feed inventory was down 5% from a year ago. If placements are down 7% during the month, the on-feed supply will be up 400,000 during the month. I am also projecting a 28% drop in steer and heifer slaughter during May.”

Nalivka’s analysis takes into account 1) feedlot flow of cattle; 2) the rate of packer capacity utilization and thus steer and heifer slaughter; and 3) the flow of both during March and April.

The shortfall in cattle marketed out of feedlots and monthly steer and heifer slaughter consistently falls in the range of 400,000 to 550,000 head.

“I believe this is the backlog carryover of cattle on feed from the early April – early May plant capacity situation,” Nalivka says. “As packers continue to increase plant capacity into June and beyond, this estimated backlog will be more easily reduced. On feed inventories will be below a year-earlier through July. Then during late July and into August, the feeder cattle that went to grass will begin coming into feedlots and this will continue into October, bringing on feed inventories back up 2% - 3% above a year ago into late summer and fall.”

While Nalivka says he has sharply reduced his estimate of the number of market-ready cattle backlogged in feedlots, he has not changed his projections of the impact of the backlog.

“We will continue to see record heavy carcasses as cattle are held on feed,” he said. “And we will see sharply higher cost of gain and higher break-evens with losses ranging above \$300 per head for cattle if unhedged and sold at reported negotiated prices during April.”