February 2013 Cattle Report

Beef Cattle Industry Just Beginning Transition to Expansion

Recent record high cattle prices and much lower feed prices have just begun to provide the profit incentives that will be necessary to move the beef cattle industry toward expansion after a continual decline in numbers since 2007. While those incentives have turned positive, they have not been in place long enough for the industry to begin registering signs of expansion according to USDA inventory numbers. The rebuilding of the beef herd is expected to take multiple years.

The cattle herd in the U.S. has been in a long-term decline with total numbers at the start of this year reaching their lowest level since 1951. The number of beef cows stood at the lowest level since 1962, according to USDA.

The most recent phase of the decline began in 2007 as a result of two basic drivers. First, sharply higher feed costs forced cattle feeding into large losses which depressed calf prices and secondly, drought conditions in major beef cow production areas also caused herd reductions.

Beef cow numbers fell by 253,000, or one percent in 2013 with most regions of the country reporting fewer cows. The biggest decline in numbers was in the Southeastern U.S. with a reduction of 118,000 cows followed by the Pacific Northwest -88,000; the Northern Plains -62,000; and the Southern Plains -57,000 head. The continual decline in beef cows since 2007, now means the 2014 calf crop will be very small at about 33.7 million head, a ten percent reduction since 2007.

The negative profit incentives and drought since 2007 have discouraged the cattle industry. However, the financial incentives have recently shifted back to strong profitability. The two factors driving the strong profit incentives are the small number of fed cattle and calves keeping supplies extremely low, and much lower feed costs starting last fall with normal U.S. yields of corn, soybeans, and forages. These factors have resulted in record high prices for fed cattle and calves this winter.

While the profit incentive has shifted back to strong profits, there has been too little time for the industry to show much response yet. The recent USDA Cattle inventory update suggests the industry has barely begun the expansion process, if at all.

Beef heifers being retained for beef cow replacements were up nearly two percent, but this may be too small to increase beef cow numbers during 2014. The total number of heifers being retained for breeding was only 90,000 head and represents less than one percent of beef cow numbers and is the smallest number of retained heifers in the past three years. The question of whether the beef cow herd will grow or continue to decline in 2014 will also depend heavily on the rate of cow slaughter. Some cow/calf operations will see 2014 as the golden opportunity to get out with record high cow prices. But the greater tendency will be for producers to hold on to the cows for the profitable opportunities that are expected over the next three or more years.

Regardless, any increase in beef cow numbers is expected to remain modest in 2014 for at least three reasons: 1.) The costs to retain heifers is very high; 2.) Cow/calf producers had a long period of narrow margins and they want a longer period of strong margins to build their confidence to take on the market uncertainties, and 3.) Drought/dryness still covers substantial areas of brood cow production areas.

The price outlook is extremely favorable for 2014 to 2016 for the beef industry. Beef supplies this year are expected to be down five percent. Domestic demand is expected to remain positive with some continued income growth in the U.S., but USDA does anticipate beef exports will be down eight percent with the very high U.S. beef prices. There also will be greater competition from two percent more pork and turkey and three percent more chicken. However, the low beef supplies will dominate these drivers and likely push cattle prices to another record high year.

Finished cattle prices are expected to average about $133 per live hundredweight in 2014 exceeding the previous record high near $126 in 2013. The extremely high prices in January 2014, around $143, are expected to moderate to an average of about $140 in February and March. Then prices may move down seasonally to a second quarter average in the mid-$130's before reaching the lows of the year in the third quarter close to an average in the very-high $120's. The final quarter of 2014 is expected to have prices in the low-$130's. Strong prices are expected to continue into 2015.

Calf prices also have seen recent record highs. Oklahoma City 500-550 pound steer calves averaged about $209 per live hundredweight in January with 600-650 pound steer calves at $184. Continued moderate feed prices and strong fed cattle prices are expected to keep calf prices very strong in 2014, but lower than the extreme January prices due to lower fed cattle prices.

The California drought has caught much attention. The state's beef cow inventory is only two percent of the nation's beef cows and four percent of the cattle on-feed. However, California is the largest dairy state with 19 percent of the nation's milk cow inventory. Continued drought in California and surrounding states could become an important story to the cattle and beef industry in 2014.

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