

October 2012 Cattle Report

Cattle Prices Will Continue to Rise

The impacts of the 2012 drought continue to play out in a beef industry discouraged by high feed prices and large cattle feeding losses. In the latest *Cattle On Feed* report, the USDA confirmed that placements into feed lots dropped sharply in September following substantial declines in July and August. As a result, on-feed numbers are now down nearly three percent as the beef industry is doing its part to reduce corn and other feed usage.

Drought has been particularly cruel to the beef cattle industry. A multiple year drought in the Southern Plains has been followed by a devastating Midwestern drought in 2012 that is now forecast to continue into 2013. Brood cows remain the last major livestock industry that is land extensive. So, when dryness causes wide stretches of land to be unable to support cow grazing, producers have to buy feed or send the cows to town.

The 2012 drought began in the Eastern Corn Belt in the spring and early summer, but migrated westward in the late summer and fall. Today the drought conditions still cover 62 percent of the lower continental U.S. according to the Drought Monitor. The central Great Plains has become the epicenter with Nebraska having 95 percent of the state in the worst two drought categories. In addition to Nebraska, six other states have more than 50 percent of their area in the worst two drought categories: Kansas, Oklahoma, Colorado, Wyoming, South Dakota, and Iowa. These states represent 30 percent of the nation's beef cows.

While some important beef cow areas have gotten relief from the drought others have a discouraging outlook. Improved moisture conditions began in August and have continued into the fall for the Eastern Corn Belt and the Southeast. However, the forecast is for the drought to continue and possibly intensify into the winter for the area of the country that is west of a line roughly from Chicago Illinois to Lubbock Texas.

Beef cow numbers are likely to continue to move two to three percent lower in the upcoming January inventory report. The mid-year readings were already reflecting a four percent decrease in the national beef cow herd, and that was before the impacts of the 2012 drought began to be felt. The implications are for continued cow reductions until feed and forage supplies are restored. USDA is currently reporting 55 percent of the nation's pastures and ranges in "poor" or "very poor" condition, the lowest two categories.

Negative returns for feedlots have continued with losses over \$200 a head according to Kansas State University. High feed prices, a small calf crop, and excess capacity in feedlots has all contributed to these large losses. Placements of calves in September were down 19 percent from a year-ago. Significantly, this was the smallest number of cattle placed in 1,000+ head capacity feedlots since USDA began the current series in 1996. The low September placements follow about a ten percent reduction in placements in both July and August.

As a result of the slowing placements in the past three months, the number of cattle on-feed dropped to three percent below year-ago levels on October 1. Cattle on-feed will play a role in rationing the short corn supply. The current three percent reduction in on-feed numbers contrast with only a one percent expected reduction in on-feed numbers in USDA's grain consuming animal unit calculations for the 2012/13 marketing year. Cattle on-feed represent 23 percent of the total USDA grain consuming animal units.

The cattle on-feed numbers were supportive to the overall expected reduction in per capita beef supplies of about three percent through the first-half of 2013. As a result, finished cattle prices are expected to continue to rise this year and into 2013. For the just completed third quarter, steer prices averaged near \$120 per hundredweight. Prices for the final quarter of 2012 are expected to be near \$125, with first quarter 2013 moving upward to average near \$130. Spring prices may peak in the higher \$130's with the second quarter average in the mid-\$130's. Record high cattle prices will be in store for 2013 with prices now expected to average in the very low \$130's compared to an expected record this year near \$122.

Calf prices however will be slower to recover due to high feed prices which will continue to depress calf prices until feed prices begin to moderate. That moderation could begin in a small way with lower soybean meal prices in the spring of 2013 assuming reasonable South American soybean production. Further declines in feed costs could occur with hope for a better grazing season in the spring and summer of 2013, and a hoped for return to better U.S. corn and soybean crops next year. A more abundant feed supply in the second-half of 2013 could result in a robust price recovery for calf and feeder cattle prices. Replenishment of feed supplies would also begin beef cow expansion in late 2013.

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