

2013 Beef Outlook

United States Cattle Inventory and Situation

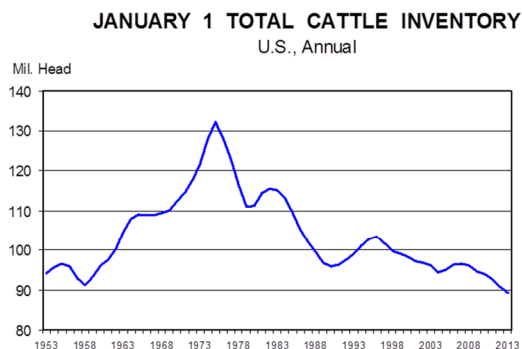
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On February 1, 2013, the USDA/NASS released the semiannual *Cattle* report. Record setting drought in 2011 and 2012 forced beef cow herd liquidation, allowed fewer calves on cereal grain pasture, and sent many more cattle to slaughter. However, record high feeder cattle prices stimulated interest in beef heifers.

Nationally, the total number of cattle and calves was 89.3 million head, down 1.6% (a decrease of 2.85 million head) from a year ago and 7.5% lower than the last cyclical peak in 2007. This is the lowest U.S. January 1 inventory of cattle and calves since the 88.1 million in 1952. Wisconsin, however, saw an increase of 1.5% in total number of cattle and calves in 2013 and is now at 3,450,000 head.



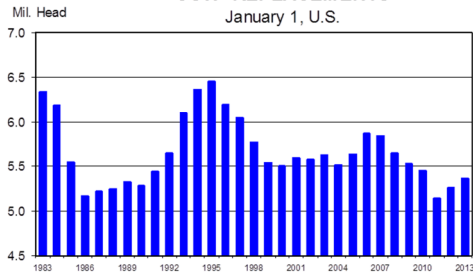
The number of beef cows that have produced a calf as of January 1 was reported at 29.3 million head (down 2.9%), slightly below expectations. However, the estimate for January 1, 2012 was revised, which

means that the decrease from 2011 to 2012 was not as severe as thought last year, but the annual percentage drop in beef cows from 2012 to 2013 was much more than anticipated. That year-on-year decline was double what typical relationships, actual U.S. slaughter data, and calculated beef cow imports would suggest. In the end though, the USDA estimated the inventory of beef cows at about the same number as the pre-report expectations. Almost all of the revision in beef cow numbers was in Oklahoma and Texas suggesting that cow liquidation in 2011 was not as severe as earlier estimated in those two states. Wisconsin showed no revisions to the data. Year-over-year Wisconsin had a 1.9% decrease in beef cows that have calved, while we saw a 0.4% increase in dairy cows that have calved.

Beef replacement heifers over 500 lbs. in the U.S. were up 1.9% from 2012, while Wisconsin was up 7.1%. Dairy cow replacements were down nationally 1.6%, while Wisconsin milk cow replacements were up 1.4%. The estimate for beef replacement heifers was also revised in the February 2013 report, indicating that the number of beef replacement heifers was up 2.4% in 2012 from 2011 levels. Though the 2012 inventory of beef replacement heifers was up, the drought and continued beef cow liquidation meant that a very low percentage of those potential replacement heifers actually entered the herd. The 2013

numbers are even more pronounced in this respect. The 2013 beef replacement heifer inventory is 18.3 percent of the beef cow herd inventory, the highest replacement percentage since 1995. However, it depends entirely on whether drought conditions moderate to determine what percentage of those heifers may actually enter the herd in 2013. Even with the increased replacements, there will likely not be any herd expansion in 2013, as this would require a decrease in beef cow slaughter as well as a significant number of these replacements actually making it into the cow herd in order to achieve an increase in the herd size. The number of beef heifers expected to calve in 2013 is up 1.8%.

HEIFERS HELD AS BEEF COW REPLACEMENTS
January 1, U.S.

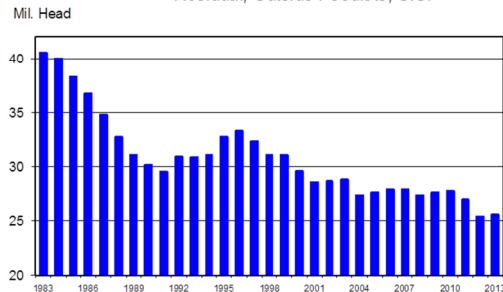


The combined total of calves under 500 lbs., and other heifers and steers over 500 lbs. outside of feedlots was down 1.5% from last year. The total number of cattle on feed was down 5.5% (at 13.35 M head). For 2013, fed slaughter is expected to be 1.7% lower than 2012, while cull cow slaughter is expected to be about 7% lower in 2013. So what does all this mean for the cattle situation and 2013 prices? High prices. But before the celebration begins, the entire picture must be examined.

Since 2011, I have been saying that cattle feeders were going to have trouble keeping their bunk space filled and there would

likely be some consolidation in the industry. My story hasn't changed, with smaller forecasted calf crop and reduced cattle imports, feeder supplies will remain tight, although there will be a slight increase in number from 2012. Without continued reductions in feedlot inventories, the feeder supply will shrink.

JANUARY 1 FEEDER CATTLE SUPPLIES
Residual, Outside Feedlots, U.S.



The tight numbers are supportive of calf and feeder cattle prices, and assuming a return to normal weather cow-calf operations should slow beef cow slaughter and possibly start herd expansion. The Livestock Marketing Information Center estimates that 2013 will likely bring average profits of close to \$160 per head for the cow-calf producer. This is up from the \$48 profit per head experienced in 2012 and the \$75 profit in 2011. Note that this is an industry average for profit and individual producers will experience differences depending on if they are a high or low cost producer. Assuming weather cooperates, these higher profits will likely lead to greater retention of beef heifers for replacements, which will put even more pressure on feedlots and the challenges they face in procuring calves and feeder cattle.

In 2013, cattle feeders will find it challenging to procure placements due to the low number of feeder cattle outside of feedlots, the decline in the 2013 calf crop, and the increase in the number of beef

heifers held for replacements. Thus we will likely continue to see low feedlot placements in the next several months. On top of the challenges of finding placements and paying higher prices for those placements, feedlots will also not experience the same percentage of increase in finished cattle price. Even though their output price will likely be higher for 2013, their margins will be lower due to the high price of corn. According to Sterling Beef Profit Tracker, cattle feeders are currently averaging losses of \$78 per head.

Finished cattle prices will not increase by the same percentage because of push back on choice beef prices. Beef packer margins have declined and, according to Sterling Beef Profit Tracker, packers are experiencing losses close to \$103 per head. Beef packer margins typically improve seasonally as spring approaches; however, packer margins are forecast to remain at about 2012 levels at least into the summer quarter.

Below is a table showing LMIC's forecasted cattle prices for 2013.

	Live Slaughter Steer Price – 5 market average	Feeder Steer Price Southern Plains 700-800 lbs.	Feeder Steer Price Southern Plains 500-600 lbs.
2013 Quarter #1	\$126-128	\$147-149	\$168-172
2013 Quarter #2	\$127-130	\$147-152	\$170-175
2013 Quarter #3	\$126-130	\$149-155	\$168-176
2013 Quarter #4	\$128-133	\$151-158	\$166-174