Wisconsin Market Bulletin

Extension's Resource for Ag Outlook and Risk Management Strategies
February 13, 2014

UNIVERSITY OF WISCONSIN
River Falls

UW Extension

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Cattle Outlook and Situation

Calendar year 2013 provided a long-awaited opportunity for cattle feeders to post a profit in the last few months of the year. This opportunity was due to the decline in calf prices at the beginning of the year in 2013 and the decline in corn prices at the end of the year.

The USDA-AMS reported 5-market average slaughter steer price was above $120.00 per cwt. each quarter of 2013 and annually eclipsed the prior record high set in 2012 by over $3.00 per cwt.

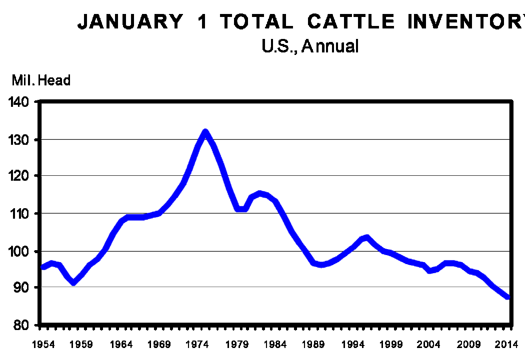
Calf prices reversed direction in the latter part of the year and reached record high prices in the final quarter once feed opportunities were known. Instead of the normal softening of calf prices during the fourth quarter of the year, prices took off. In the Southern Plains (using USDA-AMS reported data from Kansas and Oklahoma), 500-to 700-pound steer calves averaged over $187.00 per cwt. in the fourth quarter, 16 percent above 2013's. Yearling steers (700- to 800-pound) averaged over $167.00 per cwt. in the final three months of 2013, 14 percent above a year earlier.

Total cow slaughter in 2013 was very near the 6.45 million slaughtered in 2012; although dairy cow slaughter was up about 2 percent and other cow slaughter down 2 percent from 2012. After two years of drought induced beef cowherd shrinkage, initial steps toward cowherd rebuilding will reduce cow slaughter in 2014. Coupled with the declining calf imports from Mexico the U.S. will see reduced feeder cattle supplies outside feedlots throughout 2014.

(Cattle: Continued.)

On January 31, 2014, the USDA/NASS released the *Cattle* report. Most information in the report was expected. Continued drought caused beef cow herd liquidation and fewer calves on pasture. Record high feeder cattle prices stimulated interest in beef heifers, with replacements increasing 1.7% percent.

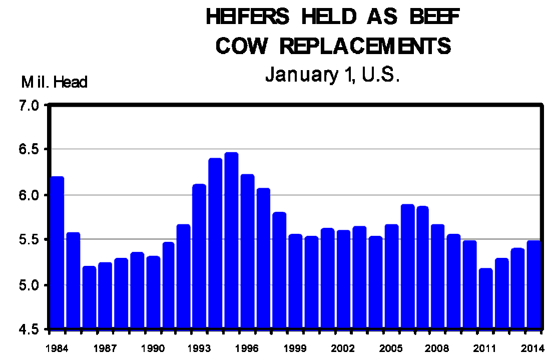
All cattle and calves in the U.S. as of January 1, 2014, totaled 87.7 million head, a 1.8% decrease from 2013. however, Wisconsin was down 2.9% to 3,350,000 head. This is the lowest U.S. January 1 inventory of cattle and calves since the 82 million in 1951.



The number of beef cows that have calved was down over 1% from 2013, at just over 29 million head. Wisconsin saw a much bigger decrease of 7.7% though.

Beef replacement heifers over 500 lbs. in the U.S. were up 1.7% over 2013. Milk cow replacements were mostly flat with 2013; although they were down 2.9% in Wisconsin.

The combined total of calves under 500 lbs., and other heifers and steers over 500 lbs. outside of feedlots was down 3%. The total number of cattle on feed at 12.7 M head was down 5%.



So what does all this mean for the cattle situation and 2014 prices? Higher prices. But before the celebration begins, the entire picture must be examined.

Last year at this time I wrote that there would likely be a small increase in cattle numbers in 2013 due to number of heifers held as replacements. I said that cattle feeders were going to have trouble keeping their bunk space filled and there would likely be some consolidation in the industry.

In previous years, feedlots have been kept full on account of early placements of drought impacted calves and directly placing Mexican cattle in feedlots. Since those calves were placed on feed early, there will be fewer calves available. Combine this decrease in the carryover of number of calves from 2012 with the January 1 estimate of smaller cow numbers signaling another decline in the calf crop for 2013, we see that supplies of all market classes of cattle will continue to be historically tight.

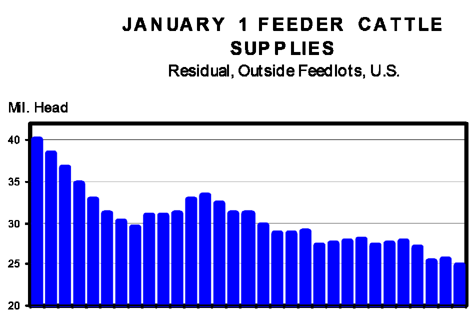
The tight numbers are supportive of calf and feeder cattle price. The Livestock Marketing Information Center estimates that 2014 will likely bring average profits of close to $325 per head for the cow-calf producer. This is up from the $125 profit per head experienced in 2013. Note that this is an industry 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 even greater

(Cattle: Continued.)

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 2014, cattle feeders will find it challenging to procure placements due to the decline in the 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.

Although there will be the challenges of finding placements and paying higher prices for those placements, feedlots will see lower feed costs in 2014 and higher output prices. Feeder margins improved significantly in the latter part of 2013. Although they have recently declines some, falling from $171 to $145, they are still significantly better than the negative $77 experienced last year at this time.



Finished cattle prices will not increase by the same percentage as calf prices because of push back on choice beef prices. Beef production will drop dramatically (6-7 percent) in 2014, which will continue the trend of increasing beef price. Beef price continues to reach new record high levels, and although the U.S. economy is improving, consumers will likely push back by switching to alternative protein products. Wholesale beef cutout prices have declined recently but are still high on a historical basis.

If protein demand is stable in 2014 (both domestic and foreign), beef and fed cattle prices have room to continue higher. Current forecasts put 5-market average slaughter steer prices for 2014 about 5 percent to 7 percent above 2013's and should average over $135.00 per cwt. for the first time ever.

Corn prices will likely not increase in the near future and barring a return to drought conditions will remain low throughout 2014. The higher livestock prices and lower feed prices in 2014 will allow producers profit opportunities.

Below is a table showing forecasted 2014 cattle prices.

	Live Slaughter Steer Price - 5 market average	Feeder Steer Price Southern Plains 700-800#	Feeder Steer Price Southern Plains 500-600#
2014 Quarter 1	139-142	169-172	200-205
2014 Quarter 2	138-141	170-175	205-212
2014 Quarter 3	133-137	171-177	199-207
2014 Quarter 4	136-141	168-175	195-204

If A Smaller Cattle Herd Brings Higher Prices, Why Would the Industry Want to Expand?

The January 2014 *Cattle* report provides numbers to indicate this is the smallest cattle herd since 1951. However, it should be noted that beef production totaled 25.8 billion pounds in 2013, compared to about 10 billion in 1952. The beef industry produces much more beef with the same number of cattle that existed in the 1950s. The record highest beef production was the 27 billion produced in 2002. Unfortunately, genetics will make is harder to continue producing more beef with less cattle.

Smaller beef production leads to smaller beef consumption. Beef consumption is measured by adjusting beef production for international trade and freezer stocks. When this number is divided by the current population, we get per capital beef consumption of 56.4 pounds, a 2.7% decline from 2012 levels.

It is vital for the long-term health of the industry not to have beef production fall too low. With declining cattle numbers, smaller packers and feedlots will likely exit the business. This infrastructure is not easily re-developed when cattle numbers increase.

Lower cattle numbers will eventually mean lower beef production and then retailers and wholesalers will encounter challenges when attempting to procure and feature beef. Consumers will find beef prices high and substitute lower price protein products for beef, leading to continued decline of domestic beef demand. Finally, U.S. exporters will have less beef quantities. These exports have added to the higher prices experienced. With insufficient quantities of beef to export, U.S. beef will have a higher price, making competition from Brazil and Australia even greater.

The important issue to note is that once procurement methods change, either for domestic retailers or foreign markets, it is difficult to regain those markets. Additionally, consumers are mostly creatures of habit, and if consumption of beef gets too low and consumers have substituted in lower prices proteins, it will be difficult to get them to increase consumption just because cattle numbers have increased.