U. S. Beef Cattle Situation and 2013 Price Outlook
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Highlights

Change from 1 year ago as of January 1, 2012

- The U.S. cattle and calves inventory decreased to a total of 90.8 million head, down about 1.9 million head (-2.1 percent) from a year ago.
  - The new cattle cycle, which began January 2004, exhibited modest growth for 3 years and began its decline in January 2008.
  - The inventory of cattle and calves for this cattle cycle is tracking below the previous cattle cycle inventory levels (1990-2004).

- The number of cows and heifers that have calved decreased to a total of 39.1 million head, down about 887,000 head (-2.2 percent) from a year ago.

- The inventory of heifers 500 pounds and over decreased to a total of 19.4 million head, down about 188,000 head (-1.0 percent) from a year ago.
  - The inventory of heifers 500 pounds and over held for beef cow replacements increased to a total of 5.2 million head, up about 73,000 head (1.4 percent) from a year ago.
  - Milk cow replacements decreased to a total of 4.5 million head, down about 41,000 head (-0.9 percent) from a year ago.
  - The inventory of other heifers 500 pounds and over decreased to a total of 9.6 million head, down about 220,000 head (-2.2 percent) from a year ago.

- The 2011 U.S. calf crop was estimated to be 35.3 million head, a decrease of 382,000 head (-1.1 percent) from a year ago.

- The January 2012 number of feeder cattle outside of feedlots (FCOF) was estimated to be 25.7 million head, a decrease of 1.1 million head (-4.0 percent) from a year ago.

Change from one year ago as of July 1, 2012

- The U.S. cattle and calves inventory decreased to a total of 97.8 million head, down about 2.2 million head (-2.2 percent) from a year ago.
The number of cows and heifers that have calved decreased to a total of 39.7 million head, down about 900,000 head (-2.2 percent) from a year ago.

The inventory of heifers 500 pounds and over decreased to a total of 15.7 million head, down 300,000 head (-1.9 percent) from a year ago.
- The inventory of heifers 500 pounds and over held for beef cow replacements totaled 4.2 million head, unchanged from last year (0.0 percent).
- The inventory of milk cow replacements decreased to a total of 4.1 million head, down 100,000 head (-2.4 percent) from a year ago.
- The inventory of other heifers 500 pounds and over decreased to a total of 7.4 million head, down 200,000 head from last year (-2.6 percent).

The July 2012 calf crop was estimated to be approximately 34.5 million head, down 1 million head (-2.8 percent) from last year.

The July 2012 number of feeder cattle outside of feedlots (FCOF) was estimated to be 35.6 million head, a decrease of 1.2 million head (-3.3 percent) from a year ago.

Expected Outlook

2012 U.S. beef production is expected to decrease to a total of 25.8 billion pounds, down about 0.41 billion pounds (-1.6 percent) from a year ago.

Net beef supply (domestic beef production plus beef imports minus beef exports) during 2012 is expected to increase to 25.7 billion pounds, up 0.2 billion pounds (1.0 percent) from last year. The 2012 increase is the result of a decrease in domestic beef production (-0.4 billion pounds or -1.6 percent), an increase in beef imports (0.3 billion pounds or 17 percent), and a decrease in beef exports (-0.3 billion pounds or -11 percent). Beef and veal imports are expected to be about 2.4 billion pounds during 2012. Beef and veal exports are expected to be about 2.5 billion pounds during 2012. Thus, a beef trade surplus of about 0.07 billion pounds is expected to be realized during 2012.

Net beef supply during 2013 is expected to decrease to a total of 24.8 billion pounds, down 0.9 billion pounds (-3.4 percent) from 2012. The 2013 decrease is the result of a decrease in domestic production (-1.1 billion pounds), an increase in beef imports (+0.2 billion pounds), and a decrease in beef exports (-0.03 billion pounds). Beef and veal imports are expected to be about 2.5 billion pounds, while beef and veal exports are expected to be about 2.5 billion pounds during 2013. Thus, a beef trade deficit of about -0.2 billion pounds is expected to be realized during 2013.

Competing meat production (pork and poultry) during 2012 is expected to show mixed signals compared to a year ago. Pork production during 2012 is expected to show an increase of 0.4 billion pounds (+2 percent) and broiler production is expected to decrease by about 0.4 billion pounds (-1.2 percent). Pork and broiler production are expected to total 23.2 and 36.8 billion pounds during 2012, respectively. Total beef, pork, and broiler production is expected to decrease to a total of 83.9 billion pounds, a decrease of about -1.8 billion pounds (-2.1 percent) from 2011.
- U.S. beef exports during 2012 are expected to decrease to 2.5 billion pounds (-11 percent) due to weaker markets of several major trading partners.

- U.S. beef exports during 2013 are expected to decline slightly due to financial market weaknesses, more unemployment, and recessionary concerns among some trading partners. Exports during 2013 and beyond are expected to be variable as world economies fight to overcome recessionary pressures. Any increase or decrease in the levels of U.S. exports of beef and/or competing meats (pork and poultry) will have a significant impact on U.S. domestic beef prices.

- As of July 2012, the combination of a lower level of brood cow inventory (-900,000 head or -2.2 percent) and a slight decrease in replacement heifers (beef and dairy, -100,000 head or -1.2 percent), suggests that the U.S. beef cow-herd will continue to decrease. Current expectations are that the January 1, 2013 cattle and calves inventory estimate will show a decrease of between 1 to 2 percent.

**Beef Supply Situation**

U.S. cattle farmers are continuing to decrease their inventory of cattle and calves (Figures 1 and 2). The major factors responsible for causing cattle inventory declines include a combination of high production costs (feed, fertilizer, fuel, labor, land rents, etc.), lower levels of profitability for many farmers, large levels of competing meats, and alternative uses of land (pasture acreage moving into grain production and/or conservation programs and other non-farm uses such as recreation and rural non-farm development). Thus, given the current lackluster level of profits and immense uncertainty in the U.S. general economy, cattle farmers will likely continue to liquidate cattle numbers until profitability can be achieved at a level commensurate with the level of risk incurred.

In the mid-year July 1, 2011 Cattle Report, cattle farmers told USDA they had about 900,000 fewer beef cows that had calved (-2.2 percent) than a year ago. Beef cow numbers were 30.5 million head. Dairy cow numbers were unchanged from a year ago at 9.2 million head. Beef cow replacements were unchanged from a year ago at 4.2 million head. Dairy cow replacements at 4.1 million head were down 100,000 head (-2.4 percent) from a year ago. A decrease in total cows (-900,000 head of beef and dairy cows) and total replacements (-100,000 head of beef and dairy) during 2012 suggests that herd liquidation will continue in 2013.
A smaller inventory of cattle and calves and smaller calf crop during 2012 will limit beef production during 2013. USDA projects U.S. beef production during 2013 to be about 24.7 billion pounds (-4.3 percent from a year ago). This level of beef production will be influenced by any adjustments in average carcass weights and the level of feeder and live cattle imports (from Canada and Mexico).
Feed and Forage Conditions

The 2012 growing season of the major corn growing regions started with an earlier planting schedule and more acres planted. Industry expectations were for a 13+ billion bushel corn crop. However, dry weather severely impacted growing conditions and caused yield levels to plummet in most major grain growing areas. The majority of the crop experienced below average growing conditions most of the season. Fortunately, harvest weather is currently adequate in most areas for a timely harvest. USDA’s current corn and soybean production forecasts (Sept. 12th) are 10.7 billion bushels and 2.6 billion bushels, respectively, for 2012. If these production levels are realized, corn production will be about -1.6 billion bushels smaller than a year ago (-13.2 percent) and soybean production will be about -0.5 billion bushels smaller than a year ago (-13.8 percent).

2012 corn and soybean futures prices have increased corresponding to the forecasted smaller crops that were projected this season. December 2012 corn is currently trading at $7.48 per bushel (CME Group, 9/21), while November 2012 soybeans is at $16.21 per bushel. December 2012 corn futures prices have increased to about $8.50 per bushel before falling to $7.48 per bushel, while November 2012 soybeans increased to about $17.85 per bushel before falling to $16.21 per bushel during the 2012 summer months (August to September 21th). These current futures prices represent a decrease in futures prices for corn and soybeans of -12 percent and -9 percent from early August 2012, respectively. Corn and soybean prices are expected to move higher in 2013 due to tight supplies worldwide. Therefore, livestock farmers should seriously consider taking steps to manage their feed purchases during the 2012 crop harvest. If these high grain prices continue, animal agriculture will no doubt get smaller.

The tight stocks to use ratios of most U.S. grain crops will keep market analysts monitoring the sizes of crops in Europe, Asia, and South America. Commodity prices are high and should encourage additional production. Favorable weather and growing conditions will be extremely important to reduce the pressure on grain stocks to use ratios.

Another factor that can certainly affect feed prices and feeder calf and feeder cattle prices is the level of export demand for corn and soybeans. Any major changes in world export demand for these commodities could significantly move market prices. Economic growth in several Asian countries has begun to slow down. Additionally, the strength of the U.S. dollar is certain to influence the world export demand (a weak U.S. dollar improves U.S. grain export demand).

Unfortunately, pasture and range conditions have not been better over many of the cow-calf states this year. The pasture and range conditions as of September 12th rated as poor or very poor was 58 percent of the U.S. acreage in pasture and rangeland. These poor pasture and forage conditions coupled with higher input costs (feed, fertilizer, labor, land rent, etc.) and higher cull cow prices have resulted in a large number of cull cows moving to slaughter this year. The current weather forecast suggests an El Nino condition which usually means colder winter temperatures and higher rainfall in the Southeast.

Total 2012 U.S. hay production is expected to be smaller than a year ago. USDA’s September Crop Production Report (9/12/11) estimated total hay production at about 120 million tons. That is down 10.8 million tons (-8.2 percent) from last year. Average yield is expected to decrease significantly and acreage harvested is expected to increase marginally for hay production. Average yield is expected to decrease from 2.36 to 2.09 tons per acre (-11.4 percent). Harvested acreage is estimated to be up about 1.9 million acres (3.5 percent) from 2011. Most states in the Southeast will show lower levels of hay production compared with 2011. Additionally, higher inputs costs will contribute to continued high hay prices.
Therefore, alternative winter forages and feedstuffs will be in much demand this winter as cattlemen seek to feed their cow herds and stocker cattle.

**Beef Demand and Trade**

U.S. beef demand has felt some challenges the last three years due to high unemployment and tightening consumer grocery budgets. Domestic beef demand is expected to be further tested during 2013 as consumers continue to experience rising prices for most goods and services. If consumer disposable income does not rise proportionally, shopping habits and choices will shift as prices rise forcing consumers to substitute and/or reduce the bundle of goods and services they consume. The weak U.S. economy during 2012 has limited domestic beef demand growth.

Per capita consumption of beef is expected to decline during 2012 and 2013. Beef production during 2012 is expected to be 25.8 billion pounds, down 0.4 billion pounds or -1.6 percent from a year ago. 2012 beef imports are estimated to be 2.4 billion pounds or up about 349 million pounds (17 percent) from 2011. 2012 beef exports are expected to be 2.5 billion pounds, down about 307 million pounds (-11 percent) compared with 2011. The combination of lower domestic beef production, a modest increase in imports, and slightly lower exports are expected to increase domestic net beef supply marginally in 2012 (+244 million pounds, +1 percent). Domestic disappearance will result in beef per capita consumption to around 57.5 pounds per person in 2012. Per capita consumption for 2013 is estimated to be about 55.2 pounds per person. Also, as the U.S. population increases in the future, per capita beef consumption will likely be lower unless U.S. beef production increases and/or imports increase.

The average retail beef price for 2011 was $4.44 per pound. Monthly average retail beef prices, during the first eight months of 2012, averaged 25 cents higher than a year ago. The quantity of beef clearing the market is estimated to be 244 million pounds more during 2012. The 2012 average retail beef price is expected to be about 4-6 percent higher than 2011. Howbeit, during 2013 retail beef prices will be tested if unemployment continues to rise, economic recovery is not sustained, and consumers are pressured by the rising costs of goods and services.

Additionally, it is very important that the U.S. continues to sustain/grow beef export markets. These export markets could be worth $5 to $10 per hundredweight on the value of fed slaughter cattle. Growth in beef export markets will also help to moderate the price impacts of any weaknesses in U.S. broiler and pork exports.

**Competing Meats**

U.S. meat production in 2013 is expected to show a significant decline. Beef, broiler, and pork production are all expected to show decreases next year (see Figure 3). Beef production in 2013 is expected to decrease about 1.1 billion pounds (-4.3 percent). Broiler production is expected to decrease about 0.4 billion pounds (-1.1 percent). Pork production is expected to decrease about 0.3 billion pounds (-1.3 percent) during 2013 compared with 2012.
Any changes in these production levels or export levels of pork and broilers could have a significant effect on U.S. beef prices. Additionally, any further increases in feedstuff prices will likely alter these 2013 production projections. A watchful eye on the production and export levels of competing meats and feed prices will help identify potential changes in beef prices.

2013 Beef Price Outlook

The 2013 cattle market will continue to operate with a great deal of uncertainty. Cattle farmers should monitor several factors including changes in domestic beef demand (future strength/weakness of U.S. economic recovery), supplies of broilers and pork, export and import sales (beef, broilers, and pork), feedstuff prices, monetary exchange rates, and adverse weather impacts (the length, extent, and severity of the droughts, floods, extreme temperatures, etc.). The cattle markets will likely experience some volatile movements with abrupt changes in any of these factors and/or combinations of factors.

The 2011-2013 U.S. net beef supply estimates are shown in Table 1. U.S. net beef supply is domestic beef production plus beef imports minus beef exports. The net beef supply is the amount of beef that is consumed in U.S. markets. The 2012 U.S. net beef supply is expected to show a slight increase of about 0.2 billion pounds (25.7-25.5, +1 percent) compared with 2011. The 2013 U.S. net beef supply is expected to show a decline by 0.9 billion pounds.
(24.8-25.7, -3.4 percent) compared with 2012.

Table 1. U.S. Net Beef Supply (Billion Pounds), 2011-2013.

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<thead>
<tr>
<th>Item</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td>U.S. Domestic Beef Production</td>
<td>26.2</td>
<td>25.8</td>
<td>24.7</td>
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<tr>
<td>U.S. Beef &amp; Veal Imports</td>
<td>2.1</td>
<td>2.4</td>
<td>2.6</td>
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<tr>
<td>U.S. Beef &amp; Veal Exports</td>
<td>2.8</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>U.S. Net Beef Supply</td>
<td>25.5</td>
<td>25.7</td>
<td>24.8</td>
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1Columns may not sum exactly due to rounding.

Minor changes in future U.S. beef import and/or export levels (due to beef demand, food safety, exchange rates, politics, regulations, etc.) can significantly change the U.S. net beef supply and consequently domestic beef prices. Additionally, the strength of the U.S. dollar will have a major influence on the levels of U.S. beef exports and imports during 2013. If U.S. dollar trades stronger against currencies of our trading partners, expect less beef exports to these countries and perhaps more lean beef imports.

U.S. net broiler and pork supplies are expected to be smaller also during 2013 as compared with 2012 estimates. Total 2012 U.S. net supply of beef, broilers, and pork is expected to be about even with a year ago. However, 2013 net beef, broilers, and pork supplies are expected to decrease 0.6 billion pounds (-0.8 percent) compared with 2012. U.S. net broiler supply is expected to decrease 0.3 billion pounds (-1.0 percent) and net pork supplies are expected to decrease 0.3 billion pounds (-1.5 percent). U.S. net beef supply is expected to decline 0.9 billion pounds (-3.4 percent).

Supplies of beef, broilers, and pork are expected to respond quickly to changes in demand. Any significant changes in domestic demand and/or foreign demand of these three competing meats could cause major movements in beef prices. Each industry is very capable of significantly altering production levels and is subject to wide changes in export and import levels.

Given the above projections regarding the 2013 U.S. net beef supply, beef cattle price projections were estimated for 2013. Beef cattle price projections were estimated by quarter for choice slaughter steers (5-area basis), feeder steers, 750#, (Alabama basis), feeder steer calves, 550#, (Alabama basis), and cutter cows (Alabama basis), as shown in Table 2. These prices represent the range over which the particular class of cattle would average for the indicated quarter. For example, Choice slaughter steers of the 5-area direct trade during the first quarter of 2013 are expected to average between $126 and $132 per hundredweight. The highest average prices for slaughter steers, 750# feeder steers, and 550# feeder calves are expected during either the third or fourth quarter of 2013. The lowest average prices for all classes of cattle are expected during the first quarter of 2013.
Table 2. Estimated average cattle market prices by quarter, Alabama and Nebraska, 2013.

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<tr>
<td>Choice slaughter steers, 5-Area, $/cwt.</td>
<td>$126-$132</td>
<td>$128-$134</td>
<td>$127-$133</td>
<td>$131-$137</td>
<td>$128-$134</td>
</tr>
<tr>
<td>Feeder steers, 750#, AL, $/cwt.</td>
<td>$138-$144</td>
<td>$139-$145</td>
<td>$142-$148</td>
<td>$143-$149</td>
<td>$140-$146</td>
</tr>
<tr>
<td>Boning utility cows, AL, $/cwt.</td>
<td>$73-$79</td>
<td>$75-$81</td>
<td>$75-$81</td>
<td>$73-$79</td>
<td>$74-$80</td>
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For 2013, choice slaughter steers (5-area direct basis) are forecast to post an annual average price in the upper $120s or lower $130s per hundredweight. Alabama feeder steers (750#) are expected to average between $140 and $146 per hundredweight, Alabama feeder steer calves (550#) between $148 and $154 per hundredweight, and Alabama breaking utility cows in the mid-$70s to $80 per hundredweight. Breeding heifer, cow, and bull prices are expected to show significant increases as the demand for herd replacements gain in importance.

Factors to watch in 2013 include the current weak U.S. economy, high levels of unemployment, lack of consumer confidence, political gridlock and chaos at all levels of government, an upcoming U.S. Presidential election, and various and sundry other issues (reduced spending, capped spending, balancing the budget, repealing or not repealing health care, stimulus funding, quantitative easing #x, immigration, free trade agreements, financial weakness/recession in Europe, etc.). There is little wonder why future economic uncertainty is fresh in the minds of many U.S. citizens. The decisions made on these issues are believed to have an overwhelming affect on business and consumer spending and our future prosperity. Unfortunately, there is not convincing evidence about what the future holds. Consumers, at least for right now, are spending less and saving more. Only time will tell if this may be the start of a longer term shift in consumer behavior.

2013 cattle market prices should remain fundamentally strong and average 4-8 percent higher than 2012. As should be expected, the 2013 cattle market has the potential for some big price swings. Abrupt changes in the levels of the factors mentioned above could add much volatility to 2013 cattle market prices. Cattle farmers will need to search for ways to lower their unit cost of production (what it costs to produce a pound of beef) and ways to enhance market prices in order to achieve profitability during 2013.