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U. S. Beef Cattle Situation and 2012 Price Outlook

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Highlights

Change from 1 year ago as of January 1, 2011

- The U.S. cattle and calves inventory decreased to a total of 92.6 million head, down about 1.3 million head (-1.4 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 40.0 million head, down about 442,000 head (-1.1 percent) from a year ago.
- The inventory of heifers 500 pounds and over decreased to a total of 19.5 million head, down about 213,000 head (-1.1%) from a year ago.
 - The inventory of heifers 500 pounds and over held for beef cow replacements decreased to a total of 5.2 million head, down about 293,000 head (-5.4 percent) from a year ago.
 - Milk cow replacements increased to a total of 4.6 million head, up about 31,000 head (0.7 percent) from a year ago.
 - The inventory of other heifers 500 pounds and over increased to a total of 9.8 million head, up about 49,000 head (0.5 percent) from a year ago.
- The 2010 U.S. calf crop was estimated to be 35.7 million head, a decrease of 254,000 head (-0.7 percent) from a year ago.

- The January 2011 number of feeder cattle outside of feedlots (FCOF) was estimated to be 26.7 million head, a decrease of 938,000 head (-3.4 percent) from a year ago.

Change from one year ago as of July 1, 2011

- The U.S. cattle and calves inventory decreased to a total of 100.0 million head, down about 1.1 million head (-1.1 percent) from a year ago.
- The number of cows and heifers that have calved decreased to a total of 40.6 million head, down about 300,000 head (-0.7 percent) from a year ago.
- The inventory of heifers 500 pounds and over decreased to a total of 16.0 million head, down 200,000 head (-1.2 percent) from a year ago.
 - The inventory of heifers 500 pounds and over held for beef cow replacements decreased to a total of 4.2 million head, down 200,000 head from last year (-4.6 percent).
 - The inventory of milk cow replacements increased to a total of 4.2 million head, up 150,000 head (3.7 percent) from a year ago.
 - The inventory of other heifers 500 pounds and over decreased to a total of 7.6 million head, down 150,000 head from last year (-1.9 percent).
- The July 2011 calf crop was estimated to be approximately 35.5 million head, down 185,000 head (-0.5 percent) from last year.
- The July 2011 number of feeder cattle outside of feedlots (FCOF) was estimated to be 36.8 million head, a decrease of 1.0 million head (-2.5 percent) from a year ago.

Expected Outlook

- 2011 U.S. beef production is expected to decrease to a total of 26.2 billion pounds, down about 0.08 billion pounds (-0.3 percent) from a year ago. U.S. beef production during 2012 is expected to be smaller than 2011 at approximately 25.1 billion pounds, down 1.2 billion pounds (-4.4 percent).
- Net beef supply (domestic beef production plus beef imports minus beef exports) during 2011 is expected to decrease to 25.6 billion pounds, down 0.7 billion pounds (-2.7 percent) from last year. The 2011 decrease is the result of a decrease of in domestic beef production (-0.08 billion pounds or -0.3 percent), a decrease in beef imports (-0.2 billion pounds or -9.1percent), and an increase in beef exports (0.4 billion pounds or 17.9 percent). Beef and veal imports are expected to be about 2.1 billion pounds during 2011. Beef and veal exports are expected to be about 2.7 billion pounds during 2011. Thus, a beef trade surplus of about +0.6 billion pounds is expected to be realized during 2011.
- Net beef supply during 2012 is expected to decrease to a total of 24.9 billion pounds, down 0.7 billion pounds (-2.8 percent) from 2011. The 2012 decrease is the result of a

decrease in domestic production (-1.2 billion pounds), an increase in beef imports (+0.3 billion pounds), and a decrease in beef exports (-0.1 billion pounds). Beef and veal imports are expected to be about 2.4 billion pounds, while beef and veal exports are expected to be about 2.6 billion pounds during 2012. Thus, a beef trade surplus of about +0.2 billion pounds is expected to be realized during 2012.

- Competing meat production (pork and poultry) during 2011 is expected to show increases compared to a year-ago. Pork production during 2011 is expected to show an increase of +0.2 billion pounds (+1 percent) and broiler production is expected to increase by about 0.5 billion pounds (+1.3 percent). Pork and broiler production are expected to total 22.7 and 37.4 billion pounds during 2011, respectively. Total beef, pork, and broiler production is expected to increase to a total of 86.3 billion pounds, an increase of about +0.6 billion pounds (+0.7 percent) from 2010.
- U.S. beef exports during 2011 are expected to increase to 2.7 billion pounds (+17.9 percent) due to a significant recovery by the majority of our trading partners and a weak U.S. dollar. However, U.S. beef exports during 2012 are expected to decline slightly due to a stronger U.S. dollar and financial market weaknesses among some trading partners. Exports during 2012 and beyond are expected to increase as world economies recover from recessionary conditions, world population grows, and consumer incomes rise. Any increase 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.
- The combination of a slightly higher level of cow slaughter last year and this year and a decline in both the July 2011 estimates for beef cow inventory (-1.1 percent) and heifers held for beef replacement (-4.5 percent) from a year ago, suggests that the U.S. beef cow-herd will continue to decrease. Current expectations are that the January 1, 2012 cattle and calves inventory estimate will show a decrease of between 1.0 to 2.0 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 a lack of profitability by the majority of cow-calf farmers (due to weak beef demand which was caused by the severe recession), high production costs (feed, fertilizer, fuel, labor, land rents, etc.), 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.

In the mid-year July 1, 2011 Cattle Report, cattle farmers told USDA they had about 350,000 fewer beef cows that had calved (-1.1 percent) than a year ago. Beef cow replacements were down 200,000 head (-4.6 percent) from a year ago at 4.2 million head. A decrease in beef cow replacements and beef cows that have calved during 2011 suggests that herd liquidation will continue in 2012.

Figure 1. U.S. Cattle Inventory, July 1, 2011

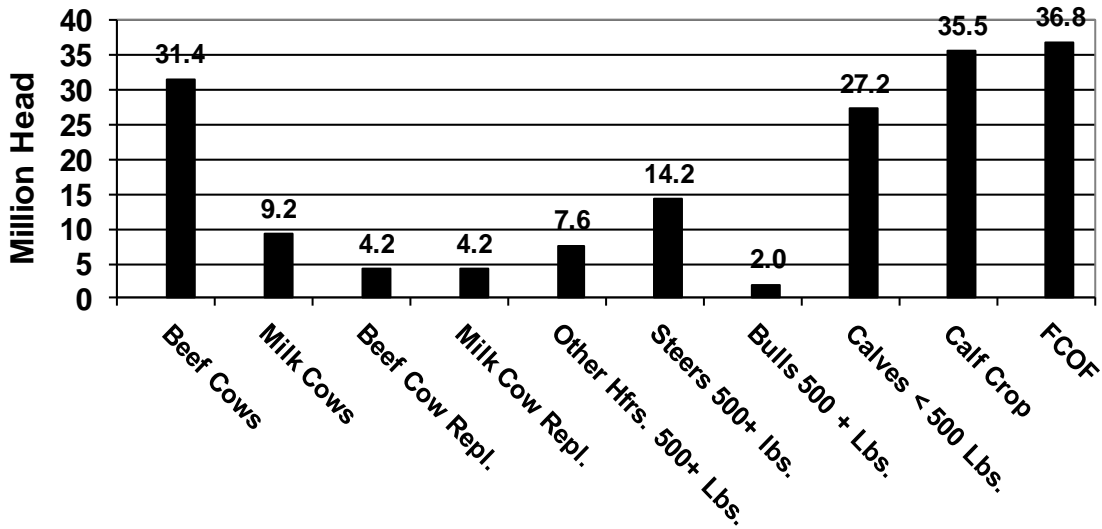
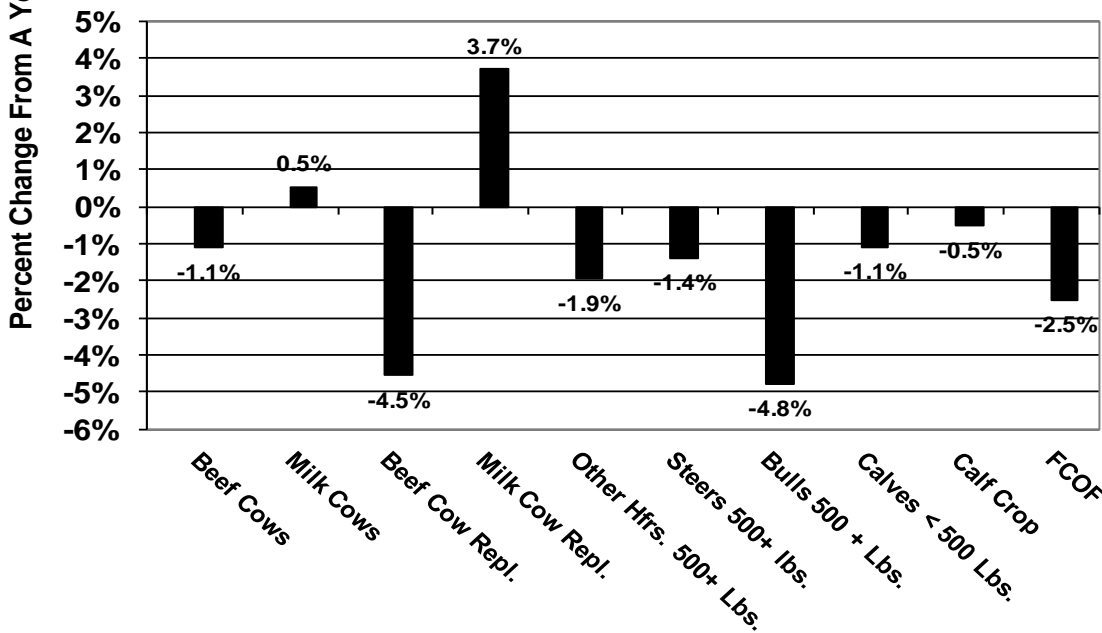


Figure 2. Percent Change In U.S. Cattle Inventory, July 1, 2011



A smaller inventory of cattle and calves and smaller calf crop during 2011 will limit beef production during 2012. USDA projects U.S. beef production during 2012 to be about 25.1 billion pounds (-4.4 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 2011 growing season of the major grain growing regions got off to a slow start. Weather conditions hindered planting in most major grain growing areas. The majority of the crop received average to slightly below average growing conditions most of the season. Harvest weather is currently adequate in most areas for a timely harvest. USDA's current corn and soybean production forecasts (Sept. 12th) are 12.5 billion bushels and 3.1 billion bushels, respectively, for 2011. If these production levels are realized, corn production will be about 0.05 billion bushels larger than a year ago (+0.4 percent) and soybean production will be about 0.2 billion bushels smaller than a year ago (-7.3 percent).

2011 corn and soybean futures prices have increased corresponding to the forecasted smaller crops that were projected earlier this season. December 2011 corn is currently trading at \$6.92 per bushel (Chicago Board of Trade, 9/16), while November 2011 soybeans is at \$13.55 per bushel. December 2011 corn futures prices have increased about \$1.00 per bushel, while November 2011 soybeans increased about \$0.65 per bushel during the 2011 summer months (July 1st to September 16th). These current futures prices represent an increase in futures prices for corn and soybeans of 16 percent and 5 percent from early July 2011, respectively. Corn and soybean prices are expected to move higher in 2012 due to tight supplies worldwide. Therefore, livestock farmers should seriously consider taking steps to manage their feed purchases during the 2011 crop harvest.

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.

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, but has been above average during 2011. 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 42 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 a continued La Nina condition which usually means warmer winter temperatures but lower rainfall in the Southeast.

Total 2011 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 132 million tons. That is down 13.6 million tons (-9.3 percent) from last year. A decrease in both average yield and

acres harvested are expected to be responsible for the decreased level of hay production. Harvested acreage is estimated to be down about 2.3 million acres (-3.8 percent) from 2010. Additionally, average yield is expected to decrease from 2.43 to 2.29 tons per acre (-5.8 percent). Most states in the Southeast will show lower levels of hay production compared with 2010. 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 due to the higher cost of living. Domestic beef demand is expected to be further tested during 2012 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 2011 has constrained domestic beef demand growth. Fortunately, world beef demand increased as world economies recovered from the recession and a weaker U.S. dollar contributed to increased beef exports.

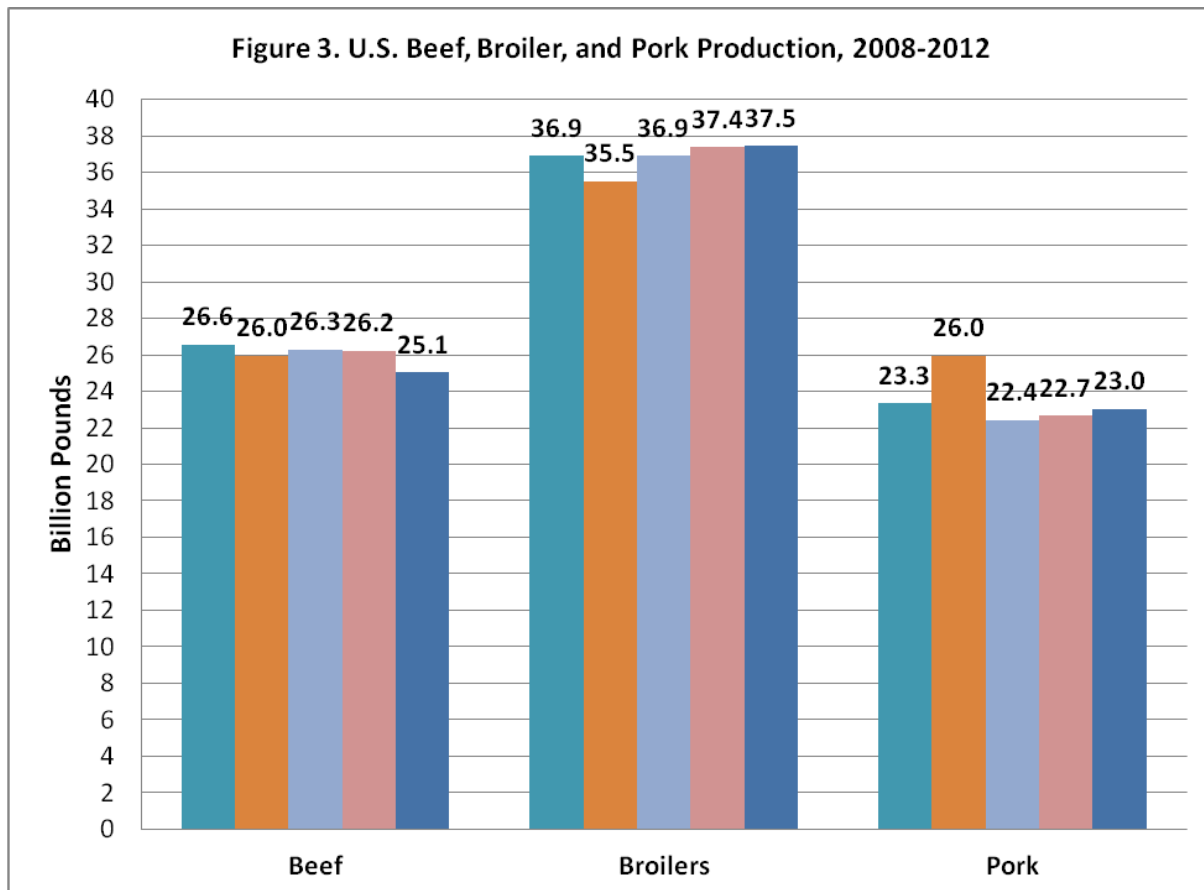
Per capita consumption of beef is expected to decline during 2011 and 2012. Beef production during 2011 is expected to be 26.2 billion pounds, down 0.08 billion pounds or -0.3 percent from a year-ago. 2011 beef imports are estimated to be 2.1 billion pounds or down about 208 million pounds (-9.1 percent) from 2010. 2011 beef exports are expected to be 2.7 billion pounds, up about 411 million pounds (17.9 percent) compared with 2010. The combination of lower domestic beef production, lower imports, and higher exports are expected to decrease domestic disappearance (net beef supply). As a result, overall domestic disappearance should decline somewhere around 700 million pounds. This reduction in domestic disappearance will result in a decrease in beef per capita consumption to around 57.7 pounds per person in 2011. Per capita consumption for 2012 is estimated to be about 55.5 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 2010 was \$4.02 per pound. Monthly average retail beef prices during the first eight months of 2011 averaged 42.7 cents higher than a year ago. The quantity of beef clearing the market is estimated to be 703 million pounds less during 2011. The 2011 average retail beef price is expected to be about 8-9 percent higher than 2010. However, during 2012 retail beef prices will be tested if unemployment continues to rise, economic recovery is not realized, and consumers are pressured by the rising costs of goods and services.

Additionally, it is very important that the U.S. continues to 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 2012 is expected to show mixed results. Beef production is expected to show a decrease, while pork and broiler production are expected to show small increases next year (see Figure 3). Beef production in 2012 is expected to decrease about 1.2 billion pounds (-4.4 percent). Pork production is expected to increase about 0.4 billion pounds (+1.6 percent) during 2012 compared with 2011, while broiler production is expected to increase about 0.08 billion pounds (+.2 percent).



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 2012 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.

2012 Beef Price Outlook

The 2012 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 2010-2012 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 2011 U.S. net beef supply is expected to show a decline of about 0.7 billion pounds (-2.7 percent) compared with 2010. The 2012 U.S. net beef supply is expected to show a decline by 0.7 billion pounds (-2.8 percent) compared with 2011.

Table 1. U.S. Net Beef Supply (Billion Pounds), 2010-2012.

Item	2010	2011	2012
	(Billion Pounds)		
U.S. Domestic Beef Production	26.3	26.2	25.1
U.S. Beef & Veal Imports	2.3	2.1	2.4
U.S. Beef & Veal Exports	2.3	2.7	2.6
U.S. Net Beef Supply	26.3	25.6	24.9

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 2012. The U.S. dollar has recently traded stronger against the Euro Dollar, Russian Rouble, Mexican Peso, and Australian Dollar. If this holds, expect less beef exports to these countries and perhaps more imports of lean beef.

U.S. net broiler supply is expected to be larger during 2011 as compared with 2010 estimates, while U.S. net pork supply is expected to be smaller as compared with 2010 estimates. Total 2011 U.S. net supply of beef, broilers, and pork is expected to be 0.4 billion pounds lower (-0.6 percent) compared with 2010. However, 2012 net beef, broilers, and pork supplies are expected to decrease 0.7 billion pounds (-0.9 percent) compared with 2011. U.S. net broiler supply is expected to decrease 0.2 billion pounds (-0.5 percent) and net pork supplies are expected to increase 0.2 billion pounds (+0.9 percent). U.S. net beef supply is expected to decline 0.7 billion pounds (-2.8 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 2012 U.S. net beef supply, beef cattle price projections were estimated for 2012. 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 average price for 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 2012 are expected to average between \$118 and \$124 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 2012. The lowest average prices for all classes of cattle are expected during the first quarter of 2012.

Table 2. Estimated average cattle market prices by quarter, Alabama and Nebraska, 2012.

Item	2012 1 st Qtr.	2012 2 nd Otr.	2012 3 rd Otr.	2012 4 th Qtr.	2012 Avg.
Choice slaughter steers, 5-Area, \$/cwt.	\$118-\$124	\$120-\$127	\$119-\$127	\$122-\$129	\$122-\$126
Feeder steers, 750#, AL, \$/cwt.	\$128-\$133	\$129-\$135	\$131-\$137	\$131-\$137	\$130-\$135
Feeder steer calves, 550#, AL, \$/cwt.	\$132-\$138	\$136-\$142	\$136-\$142	\$136-\$142	\$135-\$141
Boning utility cows, AL, \$/cwt.	\$64-\$69	\$68-\$73	\$67-\$72	\$67-\$72	\$67-\$72

For 2012, choice slaughter steers (5-area direct basis) are forecast to post an annual average price in the low to mid-\$120 per hundredweight. Alabama feeder steers (750#) are expected to average between \$130 and \$135 per hundredweight, Alabama feeder steer calves (550#) between \$135 and \$141 per hundredweight, and Alabama cutter cows in the upper \$60s to low \$70s 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 2012 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 (reduce spending, cap spending, balance budget, repeal or not repeal health care, stimulus funding, 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.

2012 cattle market prices should remain fundamentally strong and average 4-8 percent higher than 2011. As should be expected, the 2012 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 2012 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 2012.