Cattle market outlook: 2014 and beyond
Lee L. Schulz, Assistant Professor and Extension Livestock Economist, Iowa State University

Outlook overview
Cattle supplies, prospects of herd expansion, beef demand, and similar issues currently dominate many industry conversations. Some clarity and signals for the future may appear in the closely watched USDA Cattle report, due to be released January 31, 2014. However, equally important to understanding the future of the industry is consideration of the unique beef cattle market situation that has developed.

Looking at the beef cow herd, the foundation of the total cattle inventory, a distinct cycle of growth and liquidation has defined the industry. By 2014, one of the longest and most severe liquidation phases in the history of cattle cycle has reduced the U.S. cattle herd to its lowest level in over fifty years - well below the trough of the previous cycle. Recent cattle cycles have become much less pronounced, with shorter periods of increase and more prolonged phases of decrease. Much of this deviation from historical trends can be attributed to abnormal weather (leading to increased variability in stocking rates), decreases in the available land base, production being impacted by replacement rates, and input and output price variability and volatility (which affects producer's foresight of prices). Future cattle cycles will likely not have as much in common with past cycles and investment strategies will need to be tailored to meet this unknown, or emerging, new pattern.

Cow-calf outlook
Cow-calf producers have a growing incentive for herd expansion with strong profit prospects and an improved forage situation. Though 2013 was another year of herd reduction, improving forward returns may provide the period of herd stabilization (with little or no growth) that often occurs in first year of herd expansion. Most herd expansions in the past have included one to two years of minimal or modest herd growth before accelerating for two to three years.

The ultimate question becomes, given the uncertainty experienced the last several years, what level of return will be required to encourage producers to begin rebuilding the cowherd? In other words, what level of annual return would motivate producers to assume risk in retaining more heifers and/or investing in additional cows? The Livestock Marketing Information Center (LMIC) estimates cow-calf returns over cash costs (including pasture rent) based on typical production and marketing practices. The estimated numbers are designed to serve as a barometer for returns, thus actual returns may vary considerably. Preliminary LMIC forecasts for 2014 suggest returns may set a new record high, exceeding $300 per cow, as the uptrend in calf and cull animal sale prices are expected to significantly out-pace production costs.

Backgrounding/stocker outlook
Backgrounding/stocker producers (including cow-calf producers retaining calves) continue to see enhanced market signals to add additional weight to calves and feeder cattle. Information from the feeder cattle futures market combined with basis forecasts can be utilized to garner value of gain projections to help guide retained ownership and backgrounding/stocker decisions. Currently, there are some historically high values of gain, which are expected to remain given current projections. Of course these projections do not take into consideration costs of adding additional weight and producers need to compare that to the value of gain.

Feedlot outlook
The feedlot sector continues to have excess capacity concerns and the longer the industry delays rebuilding the cattle herd the greater the issue of tight feeder cattle supplies will be in the future. Basically, there is fixed amount of bunk space available while the calf crop and the associated feeder cattle supply have dwindled. This particular mismatch continues to be a pinch point for the feedlot industry.

Data from the Iowa State University Estimated returns for Finishing Yearling Steers, a monthly barometer of cattle feeding returns, estimated positive net returns for closeouts the last few months of 2013, breaking a long streak of monthly losses. Computed cattle “crush” margins (crush margin = live cattle – feeder cattle - corn) based on futures market prices suggests returns could be well above breakeven levels in the coming months reflecting a moderation in feed costs and strong fed cattle prices. After May, margins may tighten if current futures market prices for cattle and corn prove to be a true prediction.
**Beef production**

Beef production in 2013 decreased 0.8 percent with a 1.5 percent decrease in slaughter being offset by a 0.8 percent increase in carcass weights. Cattle slaughter and beef production will continue to fall as the market transitions into a much tighter supply situation in 2014. Beef slaughter forecasts suggest a 6.5 to 7.5 percent year over year decrease in commercial slaughter in 2014 and a 2.5 to 4.5 percent year over year pull-down in 2015. This may be partially offset by higher carcass weights. The last several years of higher than normal increases in carcass weights have come, in part, as packers have tried to manage beef supplies in light of decreasing slaughter levels. Overall, forecasts suggest a net reduction in beef production in total and per capita in 2014 and 2015.

**Beef demand**

While there is general agreement on tight supply fundamentals in 2014 and 2015, there is less certainty regarding beef demand. A quarterly All Fresh beef demand index maintained at Iowa State University indicates year over year gains in beef demand for the last 13 quarters ending in September 2013. This domestic demand strength warrants considerable appreciation. However, the next several years will put demand in relatively uncharted waters so it is impossible to know exactly what to expect. As per capita supplies are reduced to historically low levels in coming years, the willingness of some U.S. consumers to pay likely record high retail beef prices is paramount to monitor. The combination of higher prices and reduced per capita supplies will likely be met by more requests for beef quality and associated requirements for additional investment and management adjustments.

**International trade**

U.S. beef exports in 2013 increased by 4.2 percent but were still 8.2% below the 2011 record export level. Higher U.S. beef prices and reduced beef production are expected to decrease U.S. beef exports in the coming years. U.S. beef export forecasts suggest a 5.5 percent year over year decrease in 2014 and a 3.3 percent year over year pull-down in 2015. However, beef exports as a percent of total production is expected to remain mostly unchanged. U.S. beef imports in 2013 increased by 1.9 percent; boosted by tightening U.S. beef supplies and higher U.S. beef values. Beef imports could increase by 11 percent in 2014 and 9 percent in 2015 with strong processing beef demand, reduced domestic beef supplies, and higher domestic beef values being the driving factors.

**Summary**

The entire U.S. cattle industry is in the middle of several structural changes outlined above and in the associated presentation. These adjustments coupled with issues more external to the industry are effectively increasing the overall uncertainty of profitability for producers. This increased uncertainty will be welcomed by some producers who in turn may choose to expand their operations in coming years. Conversely, other producers uncomfortable with this uncertainty or facing favorable alternatives to cattle production will stabilize or further reduce their operations. The net impacts of these adjustments will dictate the collective make-up of the U.S. cattle industry for years to come.

Related and updated information is regularly available at: Iowa Farm Outlook & News (http://www.econ.iastate.edu/ifo/), Iowa State University Ag Decision Maker (http://www.extension.iastate.edu/agdm/), Iowa State University Estimated Livestock Returns (http://www.econ.iastate.edu/estimated-returns/), and Iowa State University Livestock Crush Margins (http://www.econ.iastate.edu/margins/).