2013 Cattle Market Outlook: Challenges and Opportunities

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Drought and Cattle Numbers

The annual Cattle report, due out on February 1, 2013, is expected to show that the total inventory of all cattle and calves in the U.S. dropped just under 90 million head, the smallest total since 1952. Total beef cows likely will be 29.4 million head, the smallest beef cow herd since 1962. The 2012 calf crop was the 17th consecutively smaller calf crop and the 2013 calf crop will be smaller still, likely the smallest total U.S. calf crop since 1942.

Though delayed by drought the last two years, the squeeze in feeder cattle supplies has caught up with feedlots. Feedlot placements have been 1.33 million head below year earlier levels in the last seven months. Feedlot inventories will continue to drop as feeder numbers decrease even more this year and into 2014. If drought conditions persist, significant herd liquidation will happen again in 2013 and the brief increase in cattle sales may temporarily offset smaller cattle numbers followed by an even bigger deficit into the second half of the year and beyond.

Beef Production

Total beef production in 2013 is estimated to decrease 4.5 -5.0 percent year over year with a 5 percent decrease in cattle slaughter slightly offset by a one half percent increase in carcass weights. This follows a 1.1 percent decrease in 2012 beef production where a 3.3 percent decrease in cattle slaughter was significantly offset by a 2.3 percent increase in carcass weights.

Beef Demand

The production decreases projected above are expected to translate into a roughly 3.3 percent decrease in 2013 per capita beef supplies when adjusted for trade impacts. This magnitude of year over year decrease is similar to 2011 when retail prices increased 9.9 percent. In 2012, per capita beef supplies were almost unchanged from 2011 (when production was adjusted for trade) which led to a a 4.1 percent increase in retail beef prices. There will be plenty of pressure in 2013 for retail price to increase 10 percent or more but it is unclear if consumer demand will support increases at this level. Multiple times in 2012, wholesale Choice boxed beef prices approached but were unable to surpass the $200/cwt level. How fast and how much consumers can absorb higher retail prices is a key uncertainty in 2013 beef market outlook.

International Trade

Beef exports retreated by 12 percent from the 2011 record export level. Higher U.S. beef prices and reduced beef production are expected to further decrease U.S. beef exports slightly in 2012. However beef exports as a percent of total production will be mostly unchanged. Beef imports increased by a modest 6 percent in 2012, bolstered by higher U.S. beef values. Beef imports could increase by 11 percent year over year in 2013 with strong processing beef demand, reduced domestic supplies and higher values.

Industry Sector Outlook

Cow-calf

Production challenges clearly dominate considerations for many cow-calf producers. Calf and Feeder prices are likely to set new records in 2013 so prices are not the major issue. Surviving the drought and preserving financial resources for rebuilding are a major concern for many producers. For producers in drought areas as well as other producers, cost management will be the primary determinate of profitability against historically high calf prices.

Stocker

Stocker producers (including retained calves from cow-calf production) continue to see enhanced market signals to add additional weight to feeder cattle. These market signals are not so much about short term market conditions as much as the beginning of long term beef industry adjustments to higher grain prices. Long term beef industry competitiveness in the face of high grain prices means that the beef industry must some grain based production with forage based production which means enhanced stocker or backgrounding production.

Feedlot

Chronic excess feedlot capacity continues to plague the cattle feeding industry. Cattle feeders have endured huge losses with more to come as limited cattle numbers, record cattle prices and high feed costs combine to prevent feedlot profitability in general for the foreseeable future. The longer term industry adjustments to more forage and less grain based production imply that structural adjustment will continue for some time to come with some additional feedlot capacity exiting the industry.

Packer

Beef packers, like feedlots, have faced chronic excess capacity for many years. Limited cattle, struggling beef demand and near record fed cattle prices is likewise squeezing packer margins beyond endurance. The recent closure of a 1 million head per year plant in the Texas Panhandle is testament to the severe economic conditions of the packing industry.