Cattle and Beef Markets: Short and Long Run Challenges and Opportunities

Current Market Situation

- Global
- U.S. Economy
- Agriculture
- Cattle Industry
2012 Recap

- Widespread drought in U.S.
  - Continued herd liquidation
  - Not as severe in Oklahoma this summer
    - Limited water and forage for winter
- Record high grain and forage prices
- Record high cattle prices
  - Reduced cow-calf profitability
  - Poor feedlot and packer margins
- Higher wholesale and retail beef prices
  - Limited beef demand
  - Weaker beef exports

Major Beef Market Factors

- Cattle Inventory and Beef Production
- Beef Demand
- International Trade
- Feed and Input Markets
- Forage Conditions
**BOXED BEEF CUTOUT VALUE**
Choice 600-900 Lbs. Carcass, Weekly

- Avg. 2007-11
- 2012
- 2013

$ Per Cwt.

Livestock Marketing Information Center
Data Source: USDA-AMS

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**SLAUGHTER STEER PRICES**
5 Market Weighted Average, Weekly

- Avg. 2007-11
- 2012
- 2013

$ Per Cwt.

Livestock Marketing Information Center
Data Source: USDA-AMS
MED. & LRG. #1 FEEDER STEER PRICES
700-800 Pounds, Southern Plains, Weekly

MED. & LRG. #1 STEER CALF PRICES
400-500 Pounds, Southern Plains, Weekly
SLAUGHTER COW PRICES
Southern Plains, 85-90% Lean, Weekly

$ Per Cwt.

Avg.
2007-11

2012

2013

BOXED COW-BEEF CUTOUT VALUE
Cutter Cow, Weekly

$ Per Cwt.

Avg.
2007-11

2012

2013

Livestock Marketing Information Center
Data Source: USDA-AMS

01/28/13
HEIFERS HELD AS BEEF COW REPLACEMENTS
July 1, U.S.

Livestock Marketing Information Center
Data Source: USDA-NASS

JANUARY 1 BEEF COW INVENTORY
U.S., Annual

Analysis by Derrell Peel
Data Source: USDA-NASS
BEEF PRODUCTION vs. CATTLE INVENTORY
Inventory on January 1, U.S.

Livestock Marketing Information Center
Data Source: USDA-NASS, Compiled & Analysis by LMIC
BEEF COW SLAUGHTER
Federally Inspected, Weekly

Thou. Head

Avg. 2007-11
2012
2013

Livestock Marketing Information Center
Data Source: USDA-AMS & USDA-NAAS

CHOICE MINUS SELECT BEEF PRICES
Carcass Cutout Value 600-900 Lbs., Weekly

$ Per Cwt.

Avg. 2007-11
2012
2013

Livestock Marketing Information Center
Data Source: USDA-AMS, Compiled & Analysis by LMIC
### Wholesale Beef Bottom Round Prices

**18-33 Pounds, Weekly**

<table>
<thead>
<tr>
<th>Month</th>
<th>2007-11</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>$150</td>
<td>$160</td>
<td>$170</td>
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<tr>
<td>Apr</td>
<td>$160</td>
<td>$170</td>
<td>$180</td>
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<tr>
<td>Jul</td>
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<td>$190</td>
</tr>
<tr>
<td>Oct</td>
<td>$180</td>
<td>$190</td>
<td>$200</td>
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</table>

Data Source: USDA-AMS

### Wholesale Boneless Beef Prices

**Fresh, 50% Lean, Weekly**

<table>
<thead>
<tr>
<th>Month</th>
<th>2007-11</th>
<th>2012</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td>Jan</td>
<td>$70</td>
<td>$80</td>
<td>$90</td>
</tr>
<tr>
<td>Apr</td>
<td>$80</td>
<td>$90</td>
<td>$100</td>
</tr>
<tr>
<td>Jul</td>
<td>$90</td>
<td>$100</td>
<td>$110</td>
</tr>
<tr>
<td>Oct</td>
<td>$100</td>
<td>$110</td>
<td>$120</td>
</tr>
</tbody>
</table>

Data Source: USDA-AMS
Total Meat Supplies Down in 2013

- Beef: ↓0.4% → ↓1.1% → ↓4.5%
- Pork: ↑1.4% → ↑2.2% → ↓0.3%
- Broilers: ↑0.8% → ↓0.7% → 0.0%
- Total Meat: ↑0.7% → 0.0% → ↓1.9%

Livestock Marketing Information Center
Data Source: USDA-AMS, Compiled & Analysis by LMIC
2013 Cattle Market Environment

- Continued drought?
  - More liquidation
- ...Or normal weather
  - More heifer retention
- Tighter cattle supplies...into 2014
- Beef demand is the key unknown
  - tied to general economy

**US BEEF AND VEAL EXPORTS**
Carcass Weight, Monthly

Livestock Marketing Information Center
Data Source: USDA-ERS & USDA-FAS
MAJOR U.S. BEEF IMPORT SOURCES
Carcass Weight, Annual

Livestock Marketing Information Center
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

United States: Beef Trade
2012-2014 Projected

Exports  Imports
US ANNUAL CORN PRODUCTION
Crop Year

US ANNUAL CORN ENDING STOCKS
Crop Year

Livestock Marketing Information Center
Data Source: USDA-AMS, Compiled & Forecasts by LMIC
NATIONAL AVERAGE CORN PRICE
Crop Year, Received by Farmers

$ Per Bushel

1.00 2.00 3.00 4.00 5.00 6.00 7.00 8.00

Livestock Marketing Information Center
Data Source: USDA-NASS, Compiled & Forecasts by LMIC

CATTLE ON FEED
US Total, Monthly

Mil. Head

12.0 11.5 11.0 10.5 10.0 9.5
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Livestock Marketing Information Center
Data Source: USDA-NASS

G-NP-03 01/11/13
C-N-10 01/25/13
FEEDLOT PLACEMENTS
US Total, Monthly

Mil. Head

JAN  FEB  MAR  APR  MAY  JUN  JUL  AUG  SEP  OCT  NOV  DEC

Avg. 2006/10
2011
2012

Livestock Marketing Information Center
Data Source: USDA-NASS

FED CATTLE MARKETINGS
US Total, Monthly

Mil. Head

JAN  FEB  MAR  APR  MAY  JUN  JUL  AUG  SEP  OCT  NOV  DEC

Avg. 2006/10
2011
2012

Livestock Marketing Information Center
Data Source: USDA-NASS
AVERAGE RETURNS TO CATTLE FEEDERS
Feeding 725 Lb. Steers, S. Plains, Monthly

Latest Data: December 2012

$ Per Head


CHOICE STEER PRICE vs BREAKEVEN
Cattle Feeding, S. Plains, Monthly

Latest Data: December 2012

$ Per Cwt

2013 Cattle Market Expectations

• Cattle and beef prices pushed higher by limited supplies
  – Beef production down by 4.5-5.0%
• Beef demand will limit price increases
• Question is “How much higher?”
• Moderation in feed prices
• Higher cow and heifer prices (if no drought)
  – Breeding cow and heifer demand

Agricultural Challenges

• Agriculture is being asked to do more of everything...
  – Biofuels
  – Global food demand
• ...with more restrictions and challenges
  – Environmental limitations
  – Anti-science/anti-commercial mentality
  – Social agendas that threaten agriculture
• Resource pressures in agriculture
  – More competition among crops for acres
  – More competition from crops for forage and hay production
• High and volatile input prices
Cattle Industry Evolution
1960s-2006

- Built on cheap energy and cheap grain
- Increasingly grain intensive
- Limited stocker role (more calves in feedlots)
- Influence on production systems
  - Animal genetics (carcass weights)
  - Type and use of technology
- Industry infrastructure (location and capacity)
  - Cattle feeding
  - Meat packing

Steer Carcass Weight
Federally Inspected
JANUARY 1 FEEDER CATTLE SUPPLIES
Residual, Outside Feedlots, U.S.

Data Source: USDA-NASS, Calculations by Derrell Peel

JANUARY 1 CATTLE ON FEED

Data Source: USDA-NASS, Calculations by Derrell Peel
Cattle on Feed as % of Estimated Feeder Supplies
January 1, 1965-2012

Corn Price
Crop year average, 1960-2012

2012 Projected
It is often said:

“The Beef Industry Can Survive High Corn Prices Better Than the Pork and Poultry Industries”

• True statement?
• What are the implications for the beef industry?

Price-Weight Relationship
Medium/Large No. 1 Steers

Price ($/cwt)

weight (pounds)
### Stocker Value of Gain, Average Weekly, 1992-2006

<table>
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<tr>
<th>Weight Gain</th>
<th>Weeks</th>
<th>12</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>19</th>
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<td>2.38</td>
<td>1.79</td>
<td>1.58</td>
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<td>475</td>
<td>0.559</td>
<td>0.568</td>
<td>0.572</td>
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<td>525</td>
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<td>1.88</td>
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<td>0.577</td>
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### Feedlot Cost of Gain, Kansas, $/cwt.

![Graph of Feedlot Cost of Gain](image-url)
**Price-Weight Relationship**

*Medium/Large No. 1 Steers, 7-markets, Oklahoma*

![Price-Weight Relationship Chart]

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**Steer Price, Total Value and Value of Gain**

*January 25, 2013, 7 Markets, Oklahoma*

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<td>$0.94</td>
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<tr>
<td>500</td>
<td>$180.57</td>
<td>$903</td>
<td>$0.89</td>
<td>$0.85</td>
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<td>550</td>
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<td>$158.40</td>
<td>$950</td>
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<td>$0.60</td>
<td>$0.48</td>
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<td>650</td>
<td>$151.77</td>
<td>$986</td>
<td>$0.69</td>
<td>$0.63</td>
<td>$0.56</td>
<td>$0.50</td>
<td>$0.72</td>
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<td>700</td>
<td>$147.84</td>
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<td>$0.74</td>
<td>$0.70</td>
<td>$0.66</td>
<td>$0.65</td>
<td>$0.84</td>
<td>$0.97</td>
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<td>750</td>
<td>$145.17</td>
<td>$1,089</td>
<td>$0.79</td>
<td>$0.76</td>
<td>$0.74</td>
<td>$0.76</td>
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<td>900</td>
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<td>$0.84</td>
<td>$0.94</td>
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KANSAS FEEDLOT CLOSEOUTS
Feeding Costs per Cwt, Steers

Corn Price and Estimated Feedlot Cost of Gain
Based on Kansas Feedlot Data

<table>
<thead>
<tr>
<th>Corn Price $/Bu</th>
<th>Estimated Feedlot Cost of Gain $/cwt.</th>
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<tbody>
<tr>
<td>5.00</td>
<td>87.1</td>
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<td>5.50</td>
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<td>6.00</td>
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<tr>
<td>8.50</td>
<td>122.0</td>
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Permanently Higher Grain Prices is a Game Changer for the Beef Industry

- Change from grain intensive to forage intensive to maintain competitiveness
  - Must emphasize ruminant advantages
  - Enhanced role for stocker production
- Influence on production systems
  - Animal genetics (change animal size?)
  - Type and use of technology?
  - Better forage management
  - New forages?
  - New forage systems?
- Industry infrastructure (location and capacity)
  - Different feeding industry?
  - Regional shifts in cattle feeding, cow-calf and stocker production

Change in Beef Cow Inventory, January 1, 2007-2012

U.S. Ave., -8.5 %
Future Forage Use in the U.S.

1) Use more forage
2) Use forage more efficiently
3) Manage forage more efficiently
4) Use different forages
5) Use forages differently

The Industry Faces New Questions

• For the last 4-5 decades:
  – “How can we get cattle to use more grain?”
• For the coming decades:
  – “How can we produce high quality beef using the least amount of grain?”
  – Expanded forage role
Cattle Sector Implications

- **Cow-calf**
  - Good profit potential; cost management key
  - Rebuilding strategy and costs
  - Producer transition
- **Stocker**
  - Good value of gain
- **Feedlots and packers will continue to struggle**
  - Loss of capacity likely
- **Production challenges bigger than marketing challenges**
Cow-Calf Corner

The Weekly Email Newsletter
From OSU Animal Science and Agricultural Economics

Send Email to
derrell.peel@okstate.edu