

Current Economic Climate of the Beef Cattle Industry

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A Look Back at 2011

2011 was, in many ways, a year of contrasts for the cattle industry. Regionally, extreme drought conditions in the Southern Plains were contrasted with excellent forage conditions in much of the northern half of the country. As a result of these climate extremes, herd expansion, that began in some northern states in 2010 and continued in 2011, was more than offset by the largest single year cattle liquidations from the states of Oklahoma and Texas. The result as another year of declining beef cow inventories in the U.S. despite record calf prices that provides considerable incentive to rebuild the U.S. beef cow herd.

Beef production declined throughout the year dropping below year earlier levels in the second half of the year and ended 2011 about 0.5 percent below 2010. Cattle slaughter in 2011 consisted of larger than normal proportions of cows, due to drought liquidation and reduced heifer slaughter as northern regions continued heifer retention. Wholesale beef prices ended the year at near record levels on the heels of sharply lower fourth quarter beef production. Beef demand appeared to continue a sluggish pace of recovery with some much needed strength in middle meats apparent by the end of the year. Beef exports continued a strong pace from 2010 in 2011 and posted year to year gains of over 20 percent on top of double digit growth in 2010. Both volume and value of beef exports set new records in 2011 and that, combined with the lowest beef imports in many years, made the U.S. a net beef exporter for the first time.

Major Market Factors in 2012

Continued tightening of cattle supplies will be the overriding theme that will keep cattle prices at record levels in 2011. However, a number of factors will determine both the timing and the exact manner in which beef and cattle prices play out in 2012.

Drought and Herd Rebuilding

Current climate forecasts call for a continuation of drought conditions in the Southern Plains and if realized, this will lead to another round of herd liquidation. In this event, additional culling of cows and the redirection of heifer back into feeder markets rather than breeding would minimize, though not prevent declining beef production as currently expected. Moderation of the drought, especially early in the year will likely lead to an abrupt tightening of feeder supplies as heifer retention accelerates. Feedlots will, in any event, have difficulty maintaining feedlot inventories due to both the availability and price of feeder cattle.

Beef Production and Domestic Demand

Following decreased beef production in late 2011, beef production is expected to decline another four percent in 2012, with decreases in each quarter of the year compared to the previous year. Decreased beef production will put even more upward price pressure on wholesale and retail beef prices throughout the year. Domestic beef demand becomes one of the biggest unknowns in determining what the ultimate limits are for the beef industry. With reduced supplies pushing those limits, beef demand will determine ultimately the fed and feeder cattle price levels that are feasible relative to wholesale and retail beef prices. Several factors will affect beef demand including competing meats and total meat supplies and macroeconomic conditions among others. Total meat production is expected to decrease with both beef and poultry production decreases offsetting a modest increase in pork production. Positive but sluggish macroeconomic recovery is expected to continue and will be important relative to accelerating beef price increases. International macroeconomic concerns add to still-weak U.S. financial and stock markets and will likely limit economic recovery to a plodding pace in 2012.

International Beef and Cattle Trade

Strong beef exports contributed significantly to market strength in 2010 and 2011 and that support is expected to continue in 2012 although at a much more modest pace. Beef exports may decrease slightly in 2012 in the face of sharp decreases in total beef production but will likely continue to grow as a percent of total production. Modest growth in beef imports may occur in 2012, though the U.S. is expected to continue as a net exporter of beef. The magnitudes of both exports and imports will depend in part on U.S. dollar exchange rates. A strengthening dollar could dampen exports and enhance imports while a still weaker dollar would have the opposite effect. U.S. dollar exchange rates are currently being most affected by the European financial crisis but it is the U.S. dollar relative to the Canadian and Australian dollars that most affects beef and cattle trade for the U.S.

Feed and Input Markets

Relatively tight corn stocks will keep feed prices high through most of 2012 though corn prices could moderate if current production estimates for the 2012/2013 crop are realized. However, the last two years have demonstrated that maintaining trend yields is difficult given current needs to push corn production into more marginal production areas and utilize suboptimal production practices such as continuous corn. Fertilizer, fuel and other inputs are expected to increase in price as well and all input markets are subject to considerable volatility.

Implications for Cattle Producers

Cattle producers can expect generally high cattle prices for most any class of cattle being sold in 2012. However, input prices will be increasing as well and profitability will hinge more than anything on production and cost management. Producers buying replacement breeding females can expect very high prices, particularly if drought conditions in the Southern Plains

abate in 2012. In many ways, the situation for cattle producers can be stated as one in which marketing is relatively easy and production is the challenge.

Feedlots will face the greatest challenge among cattle production sectors with increasingly limited feeder supplies and record feeder prices combining with high cost of gain to keep feedlots in the red much of the time. Profitability or lack thereof for feedlots will depend most critically on the strength of consumer beef demand as it translates into how high fed cattle prices will go. Expect new record fed cattle prices in 2012 but it may not be enough to allow for much, if any, feedlot profitability.

Cow-calf and stocker (backgrounder) producers will to see market signals that encourage herd expansion and higher values for forage-based production. Calf prices are expected to post new record highs in 2012 and the price relationship between lightweight and heavy feeders will continue to reflect the high feedlot cost of gain so as to encourage more of total cattle production to occur prior to feedlot placement. Underlying all short run market conditions in 2012 is the longer run implications of an industry that is shifting back to a greater forage-base production compared to the heavily grain-intensive system of industry production that prevailed as the result of many years of cheap feed grains in the U.S.