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Beef Industry About to Make a Slow Turn

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The beef industry is about to reverse a downward trend in numbers, but expansion is expected to start slowly. The number of beef animals has been in a downward spiral since 2007 due to drought which has ravaged pastures and due to high prices of corn, soybean meal, and forages. Now, prospects are brightening for a renewal of pastures and for a welcomed reduction in feed prices.
Pastures and ranges have returned to favorable conditions for much of the country including the Northeast, the Southeast, Midwest, and the Northern Great Plains. Improvement is also noted for the Central and Southern Plains, although drought conditions are still lingering. Texas, Oklahoma, and Kansas have received some recent rains which may help to continue the abatement of drought. Nationally, 73 percent of pastures are rated in the fair, good, or excellent condition this year compared with only 46 percent at this time last year.

Markets are currently expecting feed prices to drop sharply when new crop harvest gets underway. New crop corn prices are about $2 per bushel lower than nearby bids and fall soybean meal prices could be as much as $200 per ton lower than current scarce old crop offers.

Beef cow operations in some parts of the country where pastures have been restored are probably getting ready to retain heifers. Beef cow numbers have declined in the Southeast by about 700,000 head, or 12 percent, since 2007. Midwest numbers have dropped by 680,000 head, or 14 percent, since 2007. Both of these areas should have the pasture and the feed to begin heifer retention. The Northern Plains is another area that is ripe for herd expansion.

On the other hand, pasture and range recovery has not yet reached a critical mass for expansion in the Central and Southern Plains and Western U.S. These regions include 43 percent of the beef cows and have had a 14 percent drop in those numbers since 2007. More rain and more improvement in pastures and ranges will be required.

So, the initial retention of heifers will likely occur this fall in areas primarily east of the Mississippi River, plus the Delta, the Western Corn Belt, and the Northern Great Plains. This is a large area that currently has 57 percent of the nation's beef cows.

Lower feed prices alone will not be enough to get retention started, but higher calf prices will be required as well. That process is also underway. Oklahoma 500 to 550 pound calves have increased by about $0.15 per pound since early June and 600 to 650 pounds steer calves by $0.13. Current prices are $1.65 and $1.55 per pound, respectively. However, these levels are not likely to stimulate any major beef cow herd expansion. It is more likely that prices of $1.75 to $2.00 may be required to convince brood cow operations to move aggressively toward more cows.

The already low inventory of finished cattle and some added heifer retention will keep beef supplies falling in the coming 12 months. USDA expects beef production to be down about four percent in the last-half of 2013 and by five percent in the first-half of 2014. This should provide the foundation for finished beef prices to average in the higher $120s to low $130s. These finished cattle prices, along with lower feed prices, should propel calf prices back to $1.75 per pound and higher.

Finished cattle prices are expected to trade in the low $120s per hundredweight in the third quarter, but move to the higher $120s for the final quarter of 2013. First-half 2014 prices are expected to average near $130, with early spring highs in the low-to-mid $130s. Calf and feeder cattle prices should follow the finished cattle prices higher, especially as feed prices also drop.

The industry may see the start of heifer retention this fall, but the magnitude of expansion is expected to be low and slow to get underway. Beef cow producers know that expansion of the herd is a long-term investment, and generally want a more extended period of favorable returns before making major financial commitments. In addition, nearly one-half of the country's cows are in regions that have not yet fully emerged from the drought.

Prices of calves may need to move closer to $2 per pound to provide the incentive that will provide for a more major beef expansion. Both the poultry and pork industries are set to increase production rapidly as feed prices decline. Retail beef prices, already at record highs, will move even higher in the coming 12 months at a time when poultry and pork prices increases are moderating or even falling. This will mean stiff competition for beef among domestic and foreign consumers.

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