

CattleFax Outlook

CattleFax projections include decline in beef supply, rising prices in 2013.

Cattlemen and women gathered Feb. 8 at the 2013 Cattle Industry Convention to hear CattleFax market analysts' projections for the year ahead. Creighton University Professor Emeritus Art Douglas told the audience that there is a chance some regions of the United States will see a return to more normal precipitation patterns during the upcoming spring and summer growing season. That was welcome news to participants, many of whom have been enduring an ongoing, multi-year drought that has affected more than 70% of cattle country.

If precipitation returns to near-normal levels for the 2013 growing season, CattleFax predicts farmers in the United States will plant a record number of acres in both corn and soybeans. CattleFax Grain Market Analyst Chad Spearman told the audience that would lead to lower feed-grain prices this year.

"If we see anything close to trend line yields, we'll see relief on the supply side, and the result will be price relief, particularly in the second half of 2013," said Spearman, who added that the additional moisture will help mitigate hay prices after harvest begins this summer.

"With a little help from Mother Nature, we will be in much better shape with regard to hay supply and prices during the second half of the year," he said.

Although input costs may provide relief, analyst Mike Murphy provided



PHOTOS BY TROY SMITH

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a note of caution, saying that a possible economic slowdown could put pressure on beef prices and demand among consumers. He projected that net income in the United States would be flat, with incomes struggling to keep pace with inflation. However, he predicted beef exports would continue to provide support for prices.

"We expect to see an increase in exports, due in large part to an increase in shipments to Japan since that market recently opened to beef from cattle under 30 months of age," said Murphy. "Imports will also be up substantially as well, due to tighter supplies in the U.S. at a time when we have strong demand for 90% lean trim."

Overall, CattleFax Senior Analyst Kevin Good predicted beef production

in the United States will fall, with per-capita supply declining 2.2%. However, he said, the decrease will be partially offset by increasing carcass weights. CattleFax projects the Wholesale Beef Demand Index will decline by 1%, due to a 1% decline in real income of consumers.

Good said he expects that there will be a shift in leverage with the loss of packing capacity in the United States after the closure of a southern Plains packing plant earlier this year.

"As a result of that decline in capacity, feedlots will get a smaller percentage of the wholesale value of beef," said Good. He added that CattleFax is projecting average prices will be higher for all classes of cattle during 2013 compared to the prior year.

Prices are expected to average \$126 compared to \$123 during 2012, an increase of 2.5%. Yearling prices are expected to average \$155, an increase of 5% from the 2012 average of \$147. According to Good, calf prices will average \$175, up 5% from last year's average of \$167.

"The cow-calf sector will remain in the driver's seat during 2013, particularly if they have feed," said Good.

CattleFax CEO Randy Blach summarized the year ahead by saying it will be a difficult year for margin operators in the cattle business. He emphasized the importance of risk management due to continued volatility and rising capital



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requirements. Packer margins, though, should see some improvement as the result of the decline in capacity, a trend that he expects to continue.

"Don't be surprised if we see the loss of another one or two plants before we're done with the consolidation phase," said Blach. Likewise, he said the industry can expect cattle feeding capacity to continue its decline due to the current market situation.

Editor's Note: Article adapted from a news release provided by the National Cattlemen's Beef Association (NCBA). For summaries of each speaker's presentation provided by Angus Journal staff, such as "Expectations for profitability mixed," see the newsroom at www.4cattlemen.com.

Expectations for profitability mixed

Cattle producers attending the 2013 Cattle Industry Convention in Tampa, Fla., heard market forecasts for higher cattle and beef prices, but expectations for profitability were mixed. During the CattleFax Annual Outlook Seminar, market analysts said profitability could vary among industry segments. The outlook is not rosy for beef retailers, packers or cattle feeders. Profitability for stocker and cow-calf producers could depend on drought's effect on each operation's input costs.

CattleFax's Randy Blach said food retailers are "featuring" beef less often, as margins have been squeezed. Both grocers and restaurants will struggle to increase profits in 2013. The reason is a decrease in domestic demand as a result of decreased real income among consumers. Prices for pork and poultry were up, but beef prices increased more. Price resistance suggests consumers are keeping tighter grips on their wallets.

That would pressure beef and cattle prices lower were it not for increased sales of U.S. beef abroad. Blach said the value of exports contributes \$280 per head to the value of a finished steer. In the current environment, that doesn't necessarily translate to profitability in all of the beef business.



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Blach said the beef industry faces a continuing struggle with excess capacity in the beef-packing and cattle-feeding sectors. Excess packer capacity reached 15% in 2012, resulting in the lowest margins in five years and forcing the closing of a Plainview, Texas, packing plant. Blach said there could be more plant closings, followed by contraction in the feeding segment.

"We estimate a 25% to 30% excess in cattle feeding capacity. Cattle feeders are chasing a declining supply of feeder cattle. Losses in the feeding segment were nearly \$100 per head in 2012, assuming no risk management," added Blach. "And there's a high probability of feeding losses during the coming summer."

According to Blach, prospects for high feeder-cattle prices are good, and that bodes well for stocker operations. However, they are margin operators, too. Profitability could be hard to achieve if drought continues to affect availability and costs of grazed and harvested forages. Some cow-calf operators may be in the same boat. If their feed situation is good, cow-calf producers are in the driver's seat and should be profitable in 2013.

Blach said drought relief would aid chances for everyone. Persisting drought will likely lead to more contraction within the beef herd and continuing high prices for feedstuffs. However, numbers indicate that producers in some areas of the country are expanding. The Pacific Northwest and Northern Plains were cited as regions where increased heifer retention and cow herd expansion are evident. It shows what a difference adequate precipitation makes.

— by Troy Smith, field editor