2014 Cattle Industry Crystal Ball

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It would be nice if there was a cattle industry crystal ball. It could be used to predict annual inventory, prices, beef production, and so much more. However, crystal balls may not hold all the desirable traits we envision them to hold. For instance, the University of Alabama has earned three crystal balls since 2009 by winning national championships in football. However, not one of the three crystal balls told them how to defeat Auburn in the Iron Bowl this season. Similarly, the Associated Press and their crystal ball must not have been up to par either since the college football preseason polls did not have Florida State and Auburn ranked number one and two, but rather had Florida State ranked 11th while Auburn was not even on the radar. If those crystal balls really worked then one would think Alabama officials already knew they would lose to Auburn, and Tennessee fans would have looked into that 1998 crystal ball and reminisced about the good ole days.

I digress about football to make the point that it is not easy to predict happenings in the cattle industry either. The past year is a good representation of such difficulties. At this time a year ago, many were expecting the drought to break and herd expansion to start to take place in early 2013. However, drought persisted through the first half of the year which resulted in heifers continuing to be placed in the feedlot. Moisture finally started falling from the sky and many producers in the Southeast, Northern Plains and to a lesser degree Southern Plains have started attempting to rebuild the cattle herd.

Similarly, the January 2013 World Agriculture Supply and Demand Estimates (WASDE) compiled by USDA projected beef production in 2013 would be 4.3 percent lower than 2012 resulting in 24.81 billion pounds of beef. Comparing year to date values from January through October, 2013 beef production trails 2012 by only 0.3 percent. Likewise, the January 2013 WASDE pegged beef exports to decline 1.4 percent from 2012, but exports from January through October 2013 are nearly 4.1 percent greater than the same time period in 2012. Not to belabor the point but similar statements could be made about prices for different classes of cattle.

As I travel the state I am posed with many questions regarding cattle prices, feed prices, trade policies and how they will influence the industry, and at the beginning of every year folks want to hear some insight regarding the industry. There is no crystal ball and there is no smoking gun, but there are fundamental and technical aspects to the industry that influence the analysis of the industry. Therefore, the outlook and analysis of 2014 is based on current information and historical trends that influence the cattle and beef industries.

OUTLOOK: The New Year is shaping up to be a promising year for cow-calf and stocker producers. Prices for stocker calves and feeder cattle are expected to follow a more seasonal pattern than 2013 with calf prices highest in the spring when grass begins growing again and when the supply of lightweight calves is generally tight. There is potential for calf prices to reach record levels this spring due to the low cattle inventory and the expectation that producers will continue to retain heifers for development as breeding stock. Calf prices will be expected to lose a little ground in the fall when the fall run of calves go to market, but prices are expected to remain strong relative to previous years.

Feeder cattle prices are expected to be above year ago levels for the first half of the year. Feeder cattle supplies are tight which supports prices, but the major player in the rise of prices compared to a year ago is in relation to the reduction in corn and feed prices. Feeder cattle prices will continue to be strong throughout the year if corn yields in 2014 are adequate enough to maintain the status quo. However, if another drought wreaks havoc across the Corn Belt or the Plains States then this analysis may be devoid of validity.

Fed cattle prices are expected to reach record levels in 2014 even though 2013 was filled with time periods of extremely flat or steady trade. Supply will be the major factor influencing fed cattle prices but beef demand will also play an important role as it always has. The industry is set for beef production to decline due to lower cattle numbers and the expectation of producers retaining heifers which further tightens fed cattle supplies. Additionally, exports are expected to decline. The reduction in exports will stem from reduced supply of beef resulting in higher domestic beef prices and thus making U.S. beef more expensive to the export market and not as favorable to international customers. Imports are expected to increase as slaughter cow harvest slows and lean beef is needed.

There are many dynamics to the meat market place, and beef is not immune to internal and external environmental shocks. Weather and grain production in 2014 will greatly influence the analysis as well as consumer demand preferences.