Market Advisor

▶by **Tim Petry,** *North Dakota State University Extension Service*

The 2013 feeder cattle market — past, present, future

With the first half of 2013 now history, it is a good time to review the fundamental factors that have affected the cattle market so far and look ahead to the rest of the year. As I write this column in mid-July, calf, feeder-cattle and cow prices are very near last year's prices at this time. Fed-cattle prices are about $5 per hundredweight (cwt.) higher.

Similarities

Calf and feeder-cattle prices have been below last year's record levels, except for the very beginning of the year and now at mid-year when they were and are about the same. Calf prices usually increase seasonally into April and May, when demand for the lightweight calves peaks. As pastures and ranges green up from the South to the North, spring and summer grazing programs start. With high grain prices, there is an incentive to grow calves on grass rather than in the feedlot.

This year through May, the calf market moved contra-seasonally lower. A late, cold spring in parts of the United States, lingering effects of the 2012 widespread drought, and continued severe drought in much of the western United States reduced forage availability and limited demand for calves.

The USDA National Agricultural Statistics Service (NASS) begins reporting pasture and range conditions the first week in May. In 2013, 36% of the U.S. pastures and ranges were in the combined two worst categories — poor and very poor — to begin the reporting early in May. That compares to 17% in 2012 and the previous five-year average of 18%.

Calf prices improved in June and July as better moisture conditions prevailed in the eastern half of the United States and in the far north. By mid-June, pasture and ranges in poor and very poor categories had declined to 23%. That was opposite of last year, when the two categories had expanded to 43% as the 2012 drought began in earnest.

Weather will continue to be the most important factor affecting calf prices for the fall marketing season. Weather's impact on both grazing conditions and the ultimate size of the U.S. corn crop is crucial. Some early movement of calves to market from the very dry western states can be expected.

Projections

The first estimate of the size of the calf crop was historically available in the July *Cattle Inventory Report* released by NASS. However, due to budget constraints, that report will not be released this year. Official estimates of the 2013 calf crop size will not be available until January 2014. The 2013 calf crop will likely be 2%-3% smaller than last year, which will be supportive to calf prices.

USDA is projecting a record U.S corn crop of just less than 14 billion bushels (bu.). Although that crop is far from being in the bin, the larger crop with lower corn prices would be supportive to the entire feeder-cattle market. USDA's current estimate of the average farm price for corn in the 2013-2014 marketing year is $4.80 per bu., compared to this year's higher estimate of $6.95.

A base price forecast for fall calf prices would be at similar levels to last year. If the record corn crop materializes, grazing conditions improve and fed-cattle prices strengthen, prices could be better than last year — but a deteriorating corn crop and grazing conditions could force calf prices below last year.

The heavier-weight feeder-cattle prices also declined contra-seasonally in the first part of the year. Major factors affecting the decline included record-high feed prices, lower-than-expected fed-cattle prices and resulting feedlot losses. Furthermore, the lingering drought in the western United States forced some feeder cattle off pastures and ranges early. Likely, some heifers that had been retained for breeding also were sold. The USDA Agricultural Marketing Service (AMS) reported that feeder-cattle sales volumes averaged about 2% higher than last year. Feedlot placements were 6% higher than last year in March and 15% higher in April.

Feeder-cattle prices also increased in June and July as corn prices moderated somewhat, distant live-cattle futures prices increased $5 per cwt., and the availability of feeder cattle diminished. Feeder-cattle placements into feedlots compared to last year were down 1.7% in May and 4.6% lower in June.

Lower feed prices and tighter feeder-cattle supplies will be supportive to prices. Corn prices will be the No. 1 factor to watch to see if feeder-cattle prices will be either higher than or lower than last year.

Longer term, the additional beef cow slaughter in the first half of the year and some beef replacement heifers diverted into the feeder-cattle market will likely mean no beef herd expansion again this year. A potentially smaller calf crop next year will be supportive to calf and feeder-cattle prices, which is good news for cow-calf producers. However, the feedlot and packing sectors will have to deal with continued overcapacity issues.

Beef herd rebuilding next year will be dependent on Mother Nature providing improved pasture and range conditions and hay supplies, particularly in the dry western states.

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