

# Optimistic Outlook

2014 could be banner year for cow-calf producers.

by **Kindra Gordon**, field editor

Improved weather conditions and cheaper feed costs — particularly for corn — are giving market analysts an optimistic outlook for the beef industry in 2014. For cow-calf producers, this could signal higher profits and a chance to expand herds.

Speaking at the Range Beef Cow Symposium (RBCS) in Rapid City, S.D., in early December, CattleFax analyst Chad Spearman told producers “transition” will be the theme for 2014.

“There’s going to be a lot of opportunity,” Spearman said. “It’s all looking pretty optimistic, especially for the level of the cow-calf producer.”

He emphasized that “opportunity always comes with some risk,” but explained that if improved weather conditions continue for most of the country, that will help bolster the outlook.

Spearman commented on several indicators to watch related to the industry:

**Precipitation:** For 2013, improved precipitation conditions helped much of the country recover from drought, Spearman said. “We are headed into winter in much better shape for precipitation and forage growth.”

He acknowledged that conditions continue to be dry out West, but said cattle producers have been able to rebuild forage stocks in the Southern Plains, Southeast and Northern Plains.



PHOTO BY TROY SMITH

► “Be plugged in; things can change. There’s never ‘no risk,’” CattleFax’s Chad Spearman cautioned.

“The area where the bulk of the cow herd resides has improved substantially,” he said.

**Corn:** Improved precipitation also helped the United States harvest a 14-billion-bushel (bu.) corn crop for 2013.

“That’s going to lift supplies and, barring a major event in the world, corn prices should moderate to \$3.50 to \$5.50 per bushel over the next two years,” Spearman said. “We are always one crop away from corn prices going high again, but [in] the last two years there’s been more production of corn around the world, so that should lift supplies” — and

keep corn prices in a more moderate range through 2015.

That should help moderate cost of gains to 50¢-80¢ per pound, compared to \$1.30 a year ago, he added. “That’s a huge deal. Cheaper cost of gain and elevated cattle prices [mean] good demand for calf prices.”

Spearman noted that corn in early December was priced in the \$4.10 to \$4.25 range. He said he anticipates a spring rally from \$4.75 to \$4.90, but that by late summer

or fall of 2014, “corn could be at the \$3.50- to \$3.60-per-bushel mark.”

**Other feedstuffs:** Regarding the cost outlook for other feedstuffs, Spearman said he believes energy feeds will be cheaper, but prices of soybean meal and other proteins will remain elevated. This will continue at least into spring until South America confirms the size of its soybean crop, which will help in determining available supply for demand. Because of this, Spearman said, “Soybean meal prices may not moderate until summer 2014.”

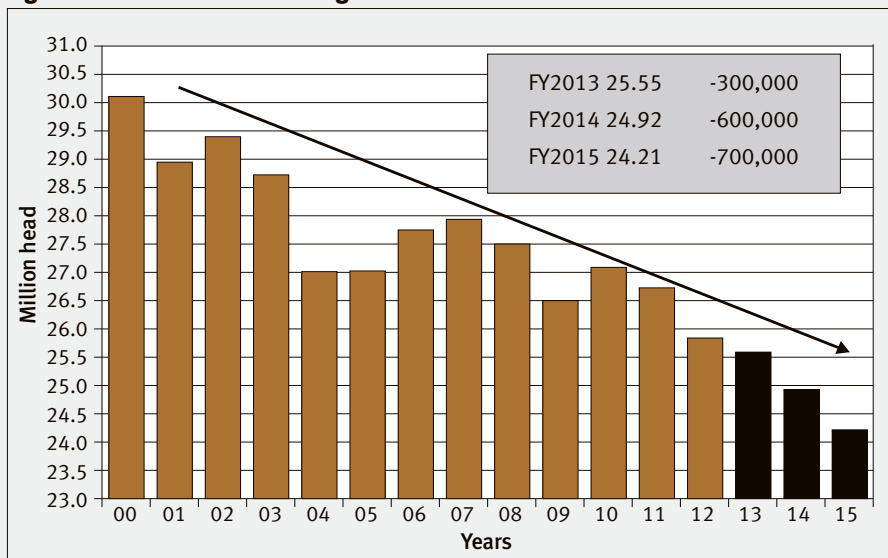
He predicted the price for distillers’ grains, alfalfa hay and cash rents may also stay elevated.

**Inventory and expansion:** Spearman reported that cow slaughter for beef and dairy was down 3% in 2013, and CattleFax expects the decreasing number of cows being slaughtered to continue in 2014 and 2015. Cow slaughter numbers could decline by 8%-9%.

“With lower feed costs and better weather, we see opportunities for a larger herd on its way for Jan. 1, 2015 — if Mother Nature cooperates,” he added.

Fed-steer and heifer slaughter sustained

**Fig. 1: U.S. steer and heifer slaughter**



Source: USDA.

Projected 2013-2014.

As presented Dec. 5, 2013, at the 2013 Range Beef Cow Symposium, Rapid City, S.D.

declines as well. In 2013, it was down by 300,000 head. CattleFax expects even larger declines ahead — by 600,000 head in 2014 and by 700,000 head in 2015 (see Fig. 1). While the U.S. cow herd works to rebuild, the lower slaughter numbers will mean an overcapacity situation for packers and feeders for the next few years.

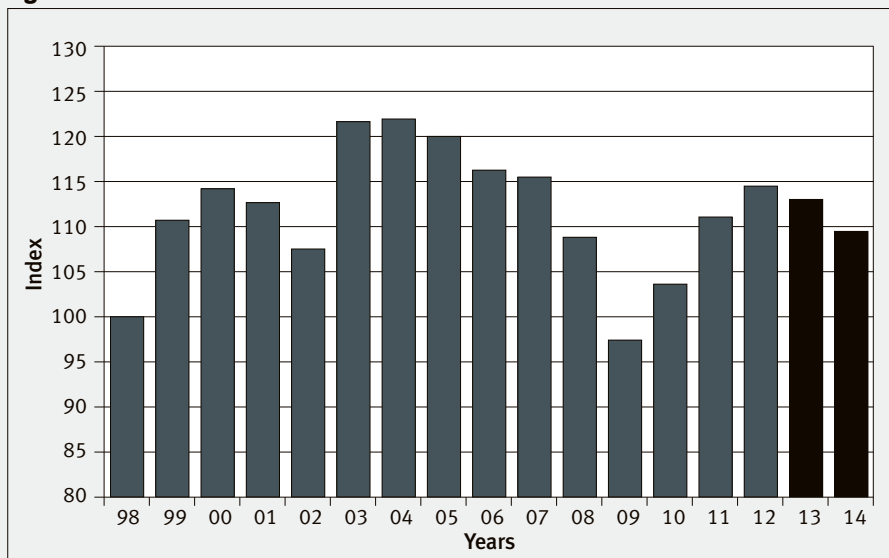
“Continued declines mean there’s potential for another packing plant to shut down,” Spearman said. “Feedlots will also find it tough to procure cattle and, depending on feed costs, we may see some feedyards closing, as well.”

**Consumption and demand:** Looking ahead, Spearman suggested the beef industry keep a keen eye on per capita beef consumption and demand. In 2013, domestic per capita beef consumption was 56.2 lb. per person; in 2014 it’s expected to be 53.8 lb. per person; and in 2015 it is projected to dip to 51.7 lb. per person.

This erosion of beef demand domestically — and continued competition from pork and poultry, who are ramping up production with the cheaper feed costs — could temper the price of beef, Spearman cautioned. Thus, he emphasized, continuing to grow U.S. beef exports will be extremely important.

A lot of opportunity does exist, he said. “Over the next 20-30 years, developing countries are expected to increase their requirements for protein needs.” For 2014, U.S. beef exports are expected to increase 2.5% from their record highs the past couple years.

**Fig. 2: Wholesale beef demand index**



Source: USDA.

Projected 2013-2014.

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In a nutshell, Spearman said, “With tighter beef supplies, beef prices will continue to be good, but demand challenges over the next two years may temper beef prices a bit.”

**Price outlook:**

Regarding actual market prices, Spearman said, CattleFax is projecting the following:

- ▶ Fed prices will average near \$126 per hundredweight (cwt.) for 2013 and are expected to average \$130 for 2014 with a range of \$120-\$140 per cwt.
- ▶ Feeder-cattle prices will average \$146 per cwt. for 2013 and are expected to average \$165 for 2014 with a range of \$150-\$178. Spearman said he anticipates highs between July and October, explaining, “eight out of 10 years the seasonal cycle works.”
- ▶ Calf prices will average near \$168 per cwt. this year and are projected to be \$185-\$190 per cwt. for 2014. Seasonally, Spearman said he anticipates fall lows in October and November, suggesting, “try and market cattle ahead of that.”
- ▶ Cull cow prices are expected to average

**Fig. 3: U.S. beef imports and exports**



Source: USDA.

Projected 2013-2014.

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\$83 per cwt. in 2014, but, Spearman noted, “They could be a lot more volatile if we see the declines [in cow slaughter] we are anticipating.”

**Final advice:** During closing remarks, a producer in the audience commented to Spearman, “It sounds like cow-calf producers can’t lose over the next two to three years.”

“There is never no risk,” Spearman responded. “Realize volatility is here to stay, and the market can turn on a dime. My advice is to pay attention and be plugged in. Things can change. As we look at expectations and weather forecasts, you never know.”

He continued, “It appears feed costs will be muted, but focus on what’s going on to trends in the market, especially seasonally. I would anticipate a seasonal fed market and a seasonal calf market. Calf prices could go as high as \$205-per-hundredweight basis on the U.S. average 550-pound steer price in the spring.”

With that said, Spearman noted that stocker operator profitability will be tested during the next three years.

To cow-calf producers looking at rebuilding he advised: “In the short term, bred cows make a lot more sense, or maybe you do a bit of both: retain heifers and buy some bred females.”

Chad Spearman made his remarks Dec. 5, 2013, at the Range Beef Cow Symposium in Rapid City, S.D. For more coverage from the event, visit [www.rangebeefcow.com](http://www.rangebeefcow.com) and click on Newsroom to see summaries and listen to audio from the more than 30 speakers.

