



Weekly Outlook: Where Have All the Beef Cows Gone?

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Cattle numbers are down again, to their lowest level since 1952, according to USDA's recent inventory count. Beef cow numbers are at their lowest level since 1962 as the devastating impacts of the 2012 drought continues the longer-term decline. Beef cow numbers were down three percent in 2012 and 11 percent since 2007. The drivers have been high feed and forage prices, persistent drought in the Southern Plains, and of course the widespread Midwestern drought of 2012.

The 2012 drought was the primary driver of the decrease last year as it destroyed pastures and forage supplies and catapulted corn, sorghum, and soybean meal prices. The impacts were largest for producers in the Southern Plains where beef cow numbers dropped by 9 percent last year and in the Central Plains where numbers were down 6 percent. These two regions had a decrease of 860,000 cows. Likely some of those cows moved to the Northern Plains where rain was more abundant and cow numbers expanded by four percent, totaling about 170,000 cows.

The 2012 drought was just the latest event to result in the liquidation of cows that has been accelerating since 2007. Nationally, the beef cow herd has dropped by 3.6 million head (11 percent) with reductions in all regions except the Northern Plains. It has been difficult for the beef industry to compete for high priced feed and limited land that is being converted to corn and soybean production. The Southern and Central Plains have led the way with a 1.9 million head reduction since 2007, followed by declines of 700,000 head in the Southeast, and 680,000 head in Corn Belt states.

What will it take to turn the herd decline around? The answer is more rain, more crop production, and more pasture and forage production. Larger crop and forage production would increase availability and lower prices of these critical feedstuffs. Given the small size of the calf crop, this would bolster calf prices. A second condition beef producers would like to see before expanding is some assurance that feed prices will have an overall moderation in coming years, not just a one year decrease.

USDA found evidence among producers that they were getting positioned to begin expansion. The number of beef heifers being saved for herd replacement was up two percent. There is a general feeling that cattle prices could be very strong in coming years due to small per capita beef supplies. If weather moderates, several profitable years are anticipated for cow-calf producers.

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Finished cattle prices should strengthen into the spring as beef supplies drop. These smaller beef supplies are related to both a small cow herd which means a small number of calves available and to the pace of feedlot placements that dropped sharply beginning last July due to higher feed prices resulting from the drought. Placements from July through November last year were down 12 percent. This will create a period of reduced marketings from feedlots in the late winter through mid-summer. In addition, the U.S. economy may be somewhat stronger than some are anticipating which will be supportive to finished cattle prices as well.

Recent futures price declines, which are suggesting late winter and spring prices in the low-to-mid \$130s, may have been excessive. Smaller finished cattle supplies due to the small placements last summer and fall provide the opportunity for finished cattle prices to rally back toward the mid-to-higher \$130s this spring and early summer. Prices are expected to be in the higher \$120s this summer and then strengthen in the fall to the low-to-mid \$130's. If weather helps restore feed and forage supplies this summer, a more aggressive expansion of beef heifers should be anticipated beginning in the fall of 2013 and continuing into 2014. If this does occur, it will set the stage for very strong calf prices and new record high prices for finished cattle in 2014.

If crop and forage production returns to near normal, the cattle industry is poised for multiple years of favorable returns and expansion. However, everyone watching the "Drought Monitor" knows that much of the country has not yet returned to normal weather conditions. Beef cattle producers will be poised to expand when weather conditions improve. Unfortunately for the beef industry, both poultry and pork producers are waiting at the start line as well. Those industries can expand production much more quickly and will extract market share from beef during the period from late 2013 to 2016.