IOWA STATE UNIVERSITY
University Extension

Iowa Farm Outlook

Department of Economics
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January Cattle Report: Beef Cattle Numbers Down

The USDA 2011 January Cattle Report released at the end of January indicates that the national cattle inventory is down more than 1 percent from a year ago. The beef industry continues to retract as the dairy industry expanded slightly. Beef cow numbers are down more than 1.6 percent while dairy cow numbers are up nearly 1 percent. There are now less than 31 million head of beef cows nationwide, the lowest inventory since 1963. With beef replacement heifers down more than 5 percent there will be no growth in the cow-calf sector during the next year. Dairy heifer numbers on the other hand are up nearly a percent, indicating that the dairy industry is prepared to maintain their production capacity. All steer numbers are down almost 1 percent and feeder heifers are up half of a percent. Feeder cattle supplies are down as the 2010 calf crop was down nearly 1 percent and current cattle feed numbers are up almost 3 percent. By the middle of the year, feedlot inventories will be down due to a shortage of new cattle to place. Table 1 summaries the USDA cattle report for the nation and Iowa. Cattle numbers in Iowa have increased from a year ago thanks to the ever increasing number of cattle on feed here in the state. Iowa's beef cow herd took another step back with a 5 percent decline and heifer retention down nearly 8 percent. Iowa's dairy cow numbers also declined more than 2 percent, however, replacement dairy heifers numbers remain steady from a year ago.

Table 1. Cattle Inventory Summary for US and Iowa

	US		Iowa	
	Million Hd	**% chg**	**Million Hd**	**% chg**
All Cattle	92.58	-1.4%	3.9	1.3%
Beef Cows	30.86	-1.6%	0.84	-5.1%
Beef Replacement heifers	5.16	-5.4%	0.12	-7.7%
Dairy Cows	9.15	0.7%	0.21	-2.3%
Dairy Replacement heifers	4.56	0.7%	0.13	0.0%
Steers	16.38	-0.8%	1.35	1.5%
Other heifers	9.82	0.5%	0.74	15.6%
Bulls	2.15	-1.7%	0.06	0.0%
Calves under 500 lbs	14.50	-3.2%	0.45	-2.2%
Cattle on Feed	14.02	2.8%	1.38	1.5%
2010 Calf Crop	35.68	-0.7%	1.01	-1.9%

The beef industry is entering the secondary phase of retraction. While the number of beef cows has been declining for several years, the number of cattle on feed had been influenced more by the current profit margins than by availability of feeder cattle. Already the demand for feeder cattle has bumped up against tight supplies and pushed feeder cattle prices high enough to squeeze out most the profitability in a record high fed cattle market. If feed prices were locked in at the time of the feeder cattle placement the returns to cattle currently on feed will be very good. Profit projections on feeder cattle being placed now and for the next five months are not promising significant returns, and tighter feeder cattle supplies are compounding the issue for many feeders. As the cattle report indicated last year's total calf crop was down 1 percent which means the beef calf crop was down nearly 2 percent along with beef cow numbers.

Cattle Market Outlook

There will be a smaller supply of fed cattle by the end of the third quarter this year, and the live cattle futures market has already taken some considerable leaps in anticipation of strong demand and tight supplies converging later in the year. There will be the expected seasonal increase in cash cattle prices during the spring as retailers start placing beef orders for the start of grilling season, but cattle prices are not expected to back off from what is usually the high point for cattle prices during the year. April and June live cattle futures have danced between $112 and $116/cwt for most of the past two months, and the cattle market is still packing a considerable amount of steam. Strong exports, stable domestic demand and general inflation in all food commodities are providing bullish pressure to the market. Just like excess pressure in a boiling pot can lift a lid to let off some steam, this hot market will lift prices high enough to let some "steam" off. Cattle marketers will be timing things to catch one of the high points, and capture perhaps a $3-5/cwt advantage. Both high and low, the current range in cattle prices is new territory and producers will be taking advantage of the current opportunities for high returns. In the third quarter returns will be very narrow, but a respectability level of profitability will return by the fourth quarter.

While fed cattle prices have been record setting, trim and ground meat prices have also taken cull animal prices to new heights. With strong consumer demand for ground beef, cull cow prices have been phenomenal, up more than 30% from a year ago and nearly 50% higher than two years ago. This will continue to put pressure on the nations cow herds, as producers must choose between cashing in older cows at record high prices or maintaining cow herds on fewer resources and uncertain profitability.

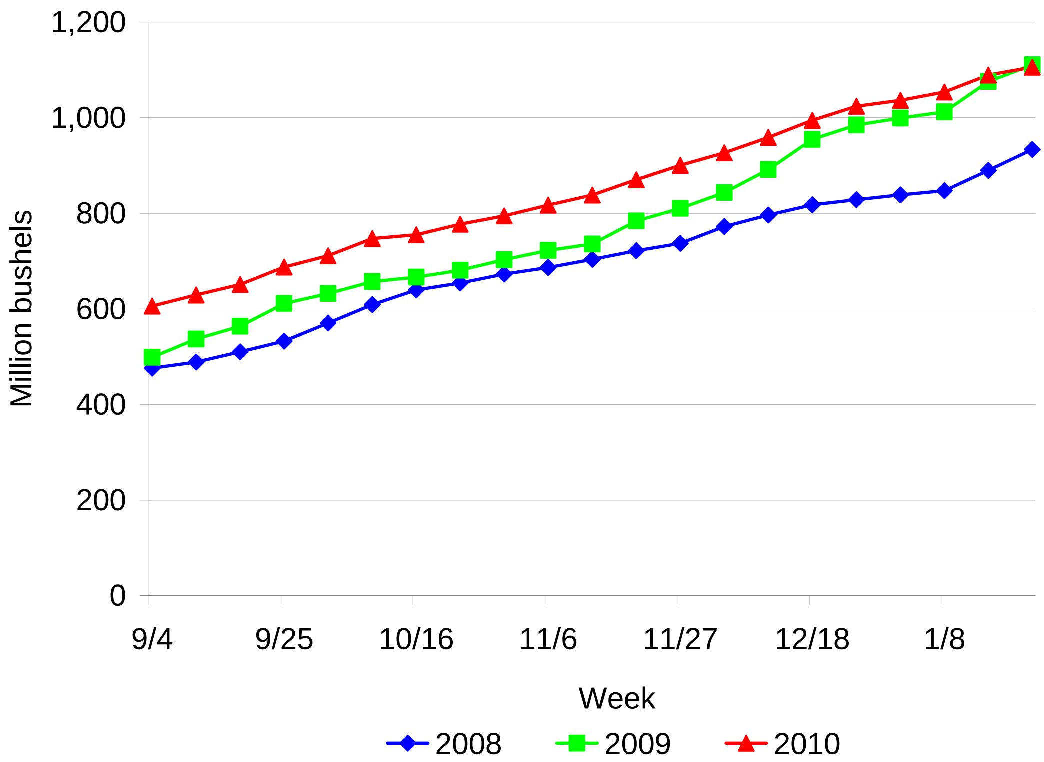
Shane Ellis

Potential Signs of Demand Weakening

Over the last month, the markets have been trying to accomplish two things, ration old crop demand and incentivize 2011 plantings. Based on recent data, those accomplishments may be reached. Export pace has backed off, in comparison to last year. Some industry analysts are growing concerned about ethanol margins tightening. And the livestock industry is caught between record high prices on one hand and near record high feed costs on the other. Meanwhile, new crop futures have continued to march upward. December 2011 corn futures are approaching $6 per bushel. November 2011 soybean futures have topped $13.50 per bushel. With wheat and cotton prices also on an upward trend, planting incentives are strong.

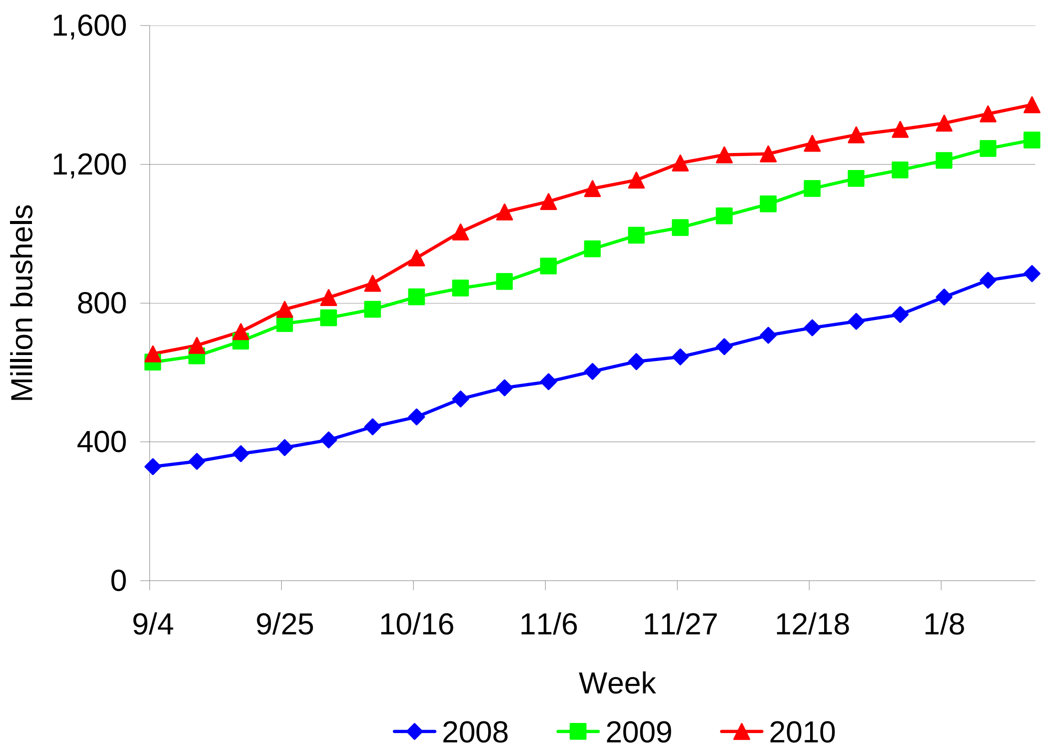
Let's start with export demand. Figures 1 and 2 show the weekly export pace for the 2010 crops and compare it to the 2008 and 2009 crops. For corn, the 2010 early marketing year export pace ran about 4% ahead of the 2009 pace. But that gap started to close in mid-December and has now disappeared. By the end of January, 2010 corn exports were 0.4% behind 2009. While we have seen corn exports to Japan, Egypt, and China increase in comparison to last year, exports to Mexico, South Korea, and Taiwan are off. The biggest drop has been with Mexico as exports so far are running 50 million bushels behind last year. Part of the drop is due to higher corn production in Mexico last year, but higher prices are also a factor.

Figure 1. Corn Exports (Source: USDA-FAS)



While the 2010 soybean export pace is still ahead of the 2009 pace, that gap has been decreasing as well. The shift seems to have started in mid-December. Early in the marketing year, soybean export demand had been up by over 10%. The gap is down to 8%. The vast majority of the export increase is from China. But even their buying pace has shown signs of weakening. Soybean sales to the European Union, Japan, and Taiwan are down 9 to 14%.

Figure 2. Soybean Exports (Source: USDA-FAS)

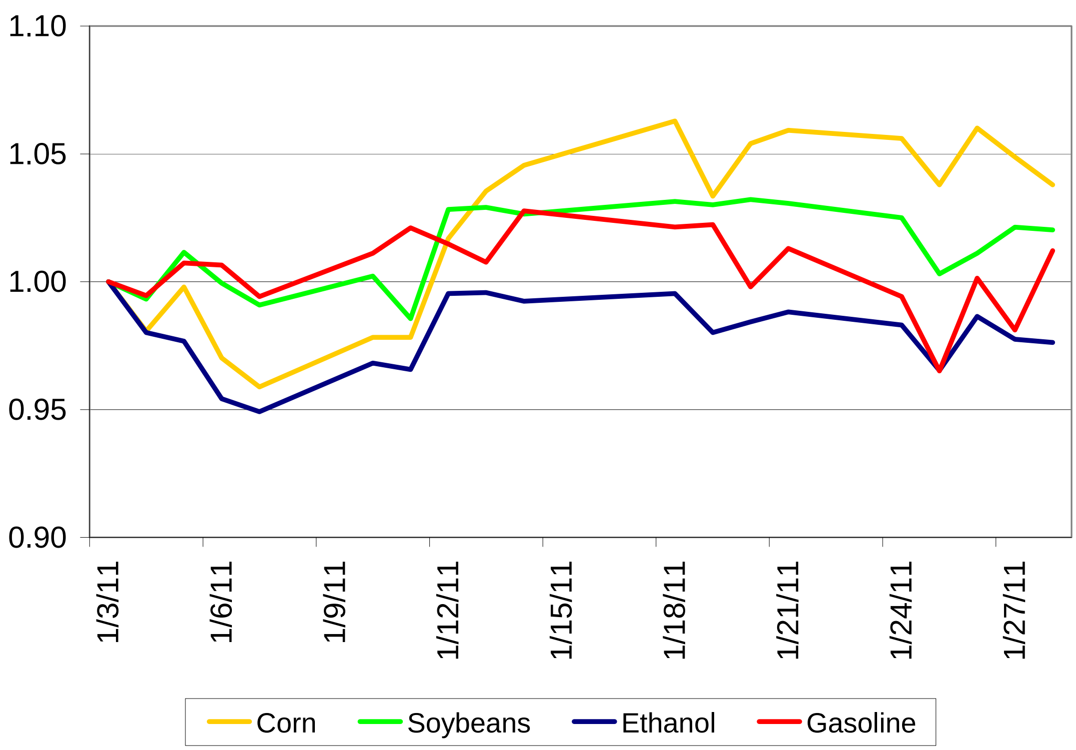


For the ethanol industry, blending margins remain in good shape as gasoline prices are holding above ethanol prices. But for the ethanol plants, costs have been rising faster than revenues. As Figure 3 shows, corn prices were up roughly 4% over January, while ethanol prices fell 2%. So production margins were being pinched and concerns were growing that the trend would continue. However, weekly ethanol production numbers are still hovering around record levels. And the unrest in Egypt has pushed energy prices higher. That could provide some room for ethanol prices to catch up to corn.

But even if demand is beginning to weaken, current crop price levels are very strong. USDA has the midpoints of their season-average price estimates at $5.30 per bushel for corn and $11.70 per bushel for soybeans. Futures, as of Jan. 28, pointed to season-average prices over $5.40 per bushel for corn and over $12 per bushel for soybeans. If these price hold, the 2010 corn and soybean crops will be the highest valued crops on record. The 2007 crops currently hold the record with season-average prices of $4.20 per bushel for corn and $10.10 per bushel for soybeans. The 2010 crops weren't small; we had the 3rd largest corn crop and the 2nd largest soybean crop. But demand has been sensational, strong enough to pull average cash prices over a buck above record levels.

The projected level of ending stocks for the 2010/11 crops remain very tight. And the futures markets have shifted some bullish pressure to the new crop contracts. In fact, futures-based projections of the 2011/12 season-average prices have those prices above this year's. As of Jan. 28, those projections were $5.60 per bushel for corn and $12.69 per bushel for soybeans. In evaluating 2011 crop prospects, the month of February is important as the crop insurance guarantees are based on average futures prices during the month. Given current prices, it looks like those crop insurance guarantees will also be record levels. This creates a good news/bad news situation for farmers. The good news is those record insurance guarantees that will provide substantial risk management protection for 2011. The bad news is that those guarantees will be paired with higher crop insurance premiums, as the premiums are directly tied to price levels.

Figure 3. Price Movements (Jan. 3, 2011 = 1)



Chad Hart

Dr. Chad Hart, Asst. Professor
Grain Marketing Specialist
468 Heady Hall
Phone: (515)294-9911
Fax: (515) 294-1700
chart@iastate.edu
www.econ.iastate.edu/faculty/hart

Shane Ellis
Extension Livestock Economist
475 Heady Hall
Phone: (515) 294-8030
Fax: (515) 294-1700
shanee@iastate.edu
www.econ.iastate.edu/prosci/ellis

David Swenson
Economist
177 Heady Hall
Phone: (515) 294-7458
Fax: (515) 294-4545
dswenson@iastate.edu
www.econ.iastate.edu/prosci/swenson/swensonpage.htm

Liesl Eathington
Economist
175 Heady Hall
Phone: (515) 294-2954
leathing@iastate.edu