Cow Country Reporter

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News from your CEO

The year 2022 is coming to a close and another rollercoaster ride prevailed. Cattle prices were higher, however, higher input costs coupled with weather events caused many ranchers problems. Beef cow numbers in Louisiana started the year 1% higher than last year according to USDA, NASS. Hopefully, in January of 2023 I will have total numbers of cattle marketed through our seven Louisiana auction markets to make a comparison to the receipts in 2021. Our cattle runs continued high to Thanksgiving week with demand for stocker calves good. Year to date (Nov. 2022) beef cow slaughter in the U.S. was up 12.1%, however, total cull cow (dairy & beef) and bull slaughter was up 4.1%. Take a look at Dr. Peel's article in this newsletter talking about the wheat pasture conditions. Adequate wheat pasture grazing may not happen until January which may cause less demand for stockers, but with lower stocker numbers going into the first quarter of 2023 we may not see lower demand. Now I sound like a politician!

We can give thanks for what we do have in Louisiana, year-round available forage which will lower input costs. So, we give thanks for 2022 and look forward to a profitable 2023. May you and yours have a Merry Christmas and a Happy New Year!

Dave Foster, CEO

Herd Liquidation May Be Slowing Down

By: Derrell Peel - Oklahoma State University

Weekly beef cow slaughter has been higher year over year for 70 consecutive weeks. In that period, on only four occasions has the year over year increase been less than 3.0 percent. The latest weekly data shows that beef cow slaughter was up 2.7 percent year over year, just the second week this year up less than 3.0 percent. It's too early to be sure but beef cow slaughter may be slowing down. In Oklahoma auctions, the weekly volume of cull cows was double last year from July through early November before declining the past two weeks. Two weeks ago, the weekly cull volume was about equal to last year, and the volume in the latest weekly data is down 9.0 percent year over year.

For the year to date, beef cow slaughter is up 12.3 percent year over year. If beef cow slaughter were to decline to just equal year ago levels for the remaining weeks of the year, total beef cow slaughter for the year would be up 10.5 percent year over year. This would be a net beef cow herd culling rate of 13.1 percent for the year, a new record level. The actual culling rate is likely to be a little higher.

However, heifer slaughter has not yet shown any signs of decreasing. The October 1 quarterly cattle on feed report showed that the number of heifers in feedlots was still up 1.7 percent year over year. Since that report, weekly heifer slaughter has continued to be up over four percent year over year with the most recent week up 5.8 percent over the same week one year ago. Lower feedlot placements in October presumably means fewer heifers entering feedlots as well and reduced heifer slaughter eventually.

For the year to date, heifer slaughter is up 4.9 percent over last year. By several relative measures, 2022 heifer slaughter is at the highest level since 2003. Similar to the beef cow slaughter speculation, if heifer slaughter dropped to be just equal to last year for the remainder of the year, total annual heifer slaughter would be up 4.3 percent year over year. Beef cow and heifer slaughter could drop to year ago levels, or even lower, but it seems unlikely at this point and the number of weeks remaining in the year is dwindling rapidly.

With drought continuing, it is not clear what to expect for cow and heifer slaughter going forward. It seems likely that many producers have

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Herd Liquidation May Be Slowing Down

adjusted herd inventories, given hay and feed supplies, to be able get through the winter. This might mean that cow culling will slow down through the winter. If La Niña persists next spring, more liquidation can be expected going into the next growing season.

In any event, the damage to cattle industry female inventories is already done in 2022. Total cow plus heifer slaughter is over 51 percent of total cattle slaughter so far this year and is likely to average over 50 percent for the entire year. This is the highest female slaughter percentage since 1986. The female slaughter percentage varies in a fairly narrow range, and it looks like the percentage for 2022 will be more than two standard deviations above the average of the past 30 years. In other words, the level of cow plus heifer slaughter this year is very rare and indicates the most severe depletion of female cattle inventories in more than three decades.

Feeder Cattle Markets Jump into December

By: Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist

Oklahoma feeder cattle auction prices jumped sharply the week after Thanksgiving. Calf prices, in particular, were $10-$15/cwt. higher and all classes were $6-$10 higher after Thanksgiving. Several factors contributed to the strength in feeder prices. Improving Feeder futures prices, a stronger fed cattle market and limited supplies of feeder cattle all combined to push prices higher.

Oklahoma feeder auction volumes have been smaller five of the past six weeks after being higher year over year all summer and early fall. The volume of feeder cattle in Oklahoma auctions last week was down 19.4 percent compared to the same week last year. In the 16 weeks from July 1 through mid-October, the cumulative extra feeder cattle volume over last year totaled 71.397 head. Since mid-October, feeder volumes have been bringing the cumulative total since July 1 down to 52,808 head. In other words, the cumulative total of increased early sales of feeder cattle still far exceeds the reduction in the past six weeks. Smaller volumes will likely persist for the rest of the year at least.

I have driven across much of the state in recent weeks and it appears that most winter wheat is up with stands that vary from spotty to good. The final USDA Crop Progress report of 2022 was issued the end of November and showed that 95 percent of Oklahoma wheat is up, equal the same week last year and one point higher than the five-year average. The condition of Oklahoma wheat was rated at 12 percent very poor; 12 percent poor; 45 percent fair; 30 percent good and just one percent excellent. This shows that the stands are rather lackluster and almost none are grazable or will be before the end of the year. Depending on moisture and temperature conditions through December, some wheat may grow enough for turnout after January 1. All in all, wheat grazing will be very limited and most grazing that does occur will be used to supplement forage supplies for animals on hand.

Cattle slaughter and beef production are tightening in the final weeks of the year. Total weekly beef production was down 1.0 percent in the most recent weekly data. This is the largest weekly decline in weekly beef production since the first few weeks of the year. The expectations are to begin seeing consistent week over week decreases in beef production. The most recent weekly data showed the continuing contrast in steer and heifer slaughter. Steer slaughter was down 6.4 percent compared to the same week last year, while heifer slaughter was up 4.6 percent. Combined steer plus heifer slaughter was down 2.1 percent, contributing to the decrease in weekly beef production. Total steer plus heifer slaughter is up 0.8 percent for the year to date.

Beef production in 2022 has also been boosted by increased cow slaughter. Beef cow slaughter is up 12.1 percent year over year for the year to date. However, beef cow slaughter has been up only about three percent the past two weeks, suggesting that herd liquidation may be slowing down. For the year to date, cull cow and bull beef production has been up 4.1 percent year over year. Going forward into the new year, heifer and cow slaughter should decline thereby allowing total slaughter and beef production to decrease.

Derrell Peel discusses the livestock markets on SunUpTV from December 3, 2022. https://www.youtube.com/watch?v=EJoxhph6pic

What does the future of the U S beef supply hold?

RaboBank releases beef industry projections for Q4 2022 and beginning of 2023.

By: Kristy Foster Seachrist

As the saying goes, “the devil is in the details,” especially when it comes to the state of the beef industry. That holds true for what Rabobank’s fourth-quarter beef report shows.

RaboBank reports cattle prices are generally favorable across the country, but consumer confidence is falling and that could signal problems for the beef industry. The big question is whether beef prices will be impacted by supply-side pressure or the demand side.

Globally, beef production is split by the hemisphere. Northern countries are in a declining production state while southern countries are increasing.

Here’s a breakdown across the globe:

United States:

- Supply is adequate today, but buyers are concerned about future declines
- Higher beef prices are a risk in 2023, but consumer interest is holding.

Europe:

- Cattle supply to expand in 2H 2022 but production will decline overall.
- Downward pressure on consumption given high inflation.

China:

- Beef prices remain stable in a slowing economy.
- Beef imports increased strongly in the first three quarters of 2022.

Japan:

- Imports slow due to surplus stock and RaboBankak consumption.

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What does the future of the U.S. beef supply hold?

- LoRaboBankr imports to continue in Q4 2022.

Australia/New Zealand:

- AU – Production remains constrained; seasons support cattle prices.
- NZ – Softening prices on improving supply and easing demand.

Brazil:

- Exports continue at a record pace, led by China.
- Higher supply than demand maintains negative pressure on live cattle price.

Back to the USA's cattle herd

Cow herd liquidation in the US is nothing new. It has been discussed in this report often in the last several years. But four years of relatively deep herd culling and minimal heifer retention have done little to reduce beef production. RaboBank expects the tipping point to be reached in 2023. US beef production should fall by 3% in 2023, with additional annual declines of 2% to 5% possible into 2026.

US retailers and restaurants have kept meat case prices elevated over the past year. Supply disruptions pushed retail beef prices to a record-high USD 7.55/lb in October 2021. Retail values have stayed within 15 to 30 cents of those highs ever since, while wholesale beef prices have fallen more than 60 cents in the same time. End users are maintaining a risk premium in the market – anticipating tighter beef supplies and higher prices.

However, consumer pushback to relatively sticky beef prices in meat cases and on menus has remained manageable up to this point. US consumers will likely eat as much beef as they can afford. Therefore, household incomes will be a critical factor going forward, with the compounding effects of higher beef costs and limited real wage growth affecting consumption.

Income vs. food

Real per capita disposable income growth has withered to 0.3% compared to last year, while government assistance has become a smaller part of US personal incomes. Less than $1,600/month in real transfer payments exists today, the lowest level since 2008.

However, government food assistance has increased considerably. Real monthly Supplemental Nutrition Assistance Program payments have been around $150 per household since the pandemic – compared to $97 in the two years prior. Combined with generally stronger wages, this should underpin potential beef demand. Expect US beef demand to pull back, but retail prices could still push above $8/lb over the next several years without retesting the pandemic induced demand highs.

Filling the gap

With the US staring down the barrel of a potential 400,000- to 500,000-metric-ton annual loss in production, can anyone else meet US consumers' appetite for beef? While neighbors Mexico and Canada, the two largest suppliers, are likely to pick up some slack, Canada is going through its own liquidation phase and is likely limited in what it can supply. Australia and New Zealand, the third- and fourth-largest US suppliers, are the logical next options.

But New Zealand's production is expected to be limited – beef production is forecast to decline 4% between 2023 and 2025. Australia's recovery from its own liquidation phase is being drawn out with some questions as to whether it will have the cattle available to produce the same volumes it has done in the past.

What about new suppliers? Europe is not a big supplier to the US and RaboBank expects EU-27+UK beef production to continue its structural decline at an annual rate of about 0.5% in the 2023 to 2025 period as the dairy herd further contracts. This leaves South America, which has available volume but lacks the trade access needed to fill the sizeable gap in US production. Brazil's production is expected to grow over the coming years, but RaboBank expects production in Argentina to decline then plateau.

Combined, these two major South American exporters will not increase production enough to offset the drop in the US, even if trade arrangements are changed to increase exportable volumes from South America.

The result

RaboBank expects the decline in US beef production will not be met by production growth in other major exporting countries. And this is without considering any other increases in global beef demand over the same period. Consumers will need to pay to access available supply, given the supply pressures in many markets, which could create a strong upside to prices and the redistribution of trade volumes.

Wrap-up

RaboBank expects US cow and heifer slaughter to finish 2022 at its highest level since 2000, at 17.6m head. Beef cow liquidation has remained aggressive throughout this year, up 11.6% YTD. Heifer slaughter has also been exceptional. It is up 4.9% through to September, amounting to 9,000 head. Steer and heifer slaughter was up 3,500 head through that same time.

So, without the additional heifers, fed cattle slaughter would be down year-over-year. Considerable supply gains have come by eliminating young herd replacements from US cow-calf operations this year. Quality grade falling and spreads widening beef production should reach a new record high at 12.8m metric tons in 2022.

Feedyards are removing tallow from cattle feeding diets as feed energy costs soar. Also, steers and heifers are reaching processors at a younger age. The market-ready fed cattle supply is as current as any time since the pandemic, and cattle are entering feedyards younger as drought has increased the speed of cattle marketing throughout the supply chain.

USDOT Denies Hours of Service Exemption Request for Livestock Haulers

By: Jennifer Shike

The U.S. Department of Transportation's Federal Motor Carrier Safety Administration (FMCSA) denied an application from the Livestock Marketing Association, American Farm Bureau Federation, National Cattlemen's Beef Association and other groups for an hours of service (HOS) rule exemption.

FMCSA first published the request for an exemption in February 2019, on behalf of drivers who transport livestock, insects and aquatic animals.

Applicants requested approval for drivers, after 10 consecutive hours off duty, to drive through the 16th consecutive hour after coming on duty, and to drive a total of 15 hours during that 16-hour period.

Farm groups say it doesn't take into consideration the well-being of the animals being transported and will put a burden on producers.

"We've been operating with this extended relief for the last few years and being able to have that flexibility to determine how we want to ship cattle and what the best time is not only given the weather conditions and road conditions but also you know taking all that into consideration the livelihood of the livestock we're in charge of," says Kent Bacus, Executive Director of Government Affairs, National Cattlemen's Beef Association.

FMCSA's Response

After analyzing the application and public comments, FMCSA decided the exemption would not achieve a level of safety equal to the level achieved without such an exemption.

"Research studies demonstrate that long work hours reduce sleep and harm driver health, and that crash risk increases with work hours. The HOS regulations impose limits on when and how long an individual may drive, to ensure that drivers stay awake and alert, and to reduce the possibility of cumulative fatigue. As stated by opponents of the exemption, livestock haulers have been required to operate within the confines of the HOS regulations for over 80 years," FMCSA explained in the Federal Register.

The HOS rule limits truckers to 11 hours of driving time and 14 consecutive hours of on-duty time in any 24-hour period, and requires prescribed rest periods.

Merry Christmas

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