

# Forecast for '14

*Waiting on the Farm Bill and herd rebuilding.*

by *Kindra Gordon*

Two factors will heavily influence the new year — foremost, can Congress come to a consensus on a five-year farm bill, and, secondly, have drought conditions subsided enough that 2014 becomes the year that beef producers begin to rebuild their herds? Here are highlights of the indicators to watch in the year ahead.

## Farm bill friction

The Farm Bill is already a year behind schedule and has primarily faced gridlock over proposed cuts to food stamps and nutrition programs — which represent about 85% of USDA's (U.S. Department of Agriculture's) budget. Farm programs account for the remaining 15%. The Senate version called for \$4 billion to be cut from food stamps while the House wanted to reduce the program by \$40 billion.

As of mid-November, the farm bill was being reviewed by a conference committee representing 41 members of Congress. Barry Flinchbaugh, a Kansas State University agricultural economist, told Reuters, "Food is the only division. The other issues can be settled."

If Congress fails to pass a new bill, a second extension of the 2008 farm bill is likely, according to Flinchbaugh. If that happens, he anticipates it would be a two-year extension to avoid farm bill wrangling during the 2014 midterm elections — when 33 of 100 seats in the Senate and all 435 seats in the House will be contested. But political analysts agree that with Congress deeply divided, the future outcome for the farm bill is challenging to predict.

## Beef rebuilding

Despite the uncertainty in Washington, D.C., indications in ranch country are that rebuilding of the beef herd may be picking up its pace. Fall sales of heifer

calves at auctions in the Northern Plains were bringing top billing with many of those females going to herds planning to increase their cow herd numbers.

With the current low inventory of beef cattle creating tight supplies, cattle prices have remained strong. And, with some moisture over the summer and fall helping pasture conditions and the corn crop, cattlemen are seeing incentive for herd expansion.

Speaking at the Texas Cattle Feeders Association (TCFA) convention in early November, Randy Blach of CattleFax said the lower corn prices this fall are a "big deal."

Blach explained, "We've obviously been short on corn over the last couple of years... And then we had the drought on top of that. So, it's been impossible for the livestock industry to really catch a big enough corn crop in here to where we had production costs at levels where we could really make a living."

Blach anticipates the price of corn and other grains will remain relatively low for the near future and that will be good news to producers — allowing for more positive operating margins for the next several years as a result.

Blach said the size of the nation's cow herd has not jumped significantly yet, but he believes it will soon.

"We'll see a smaller herd yet on Jan. 1 of '14, but we do like what we see happening. The number of beef cows being harvested has slowed significantly. We're going to keep a few more heifers and not put them in the feedlot stream.... If we continue to get some good moisture, by Jan. 1 of 2015, we should see an uptick in the beef cow herd," he told TCFA attendees.

## The numbers

There are indications that heifer retention is accelerating this fall with cow-calf producers holding more heifers and heifer calves for

## Blustery winter weather

What's in store for winter weather 2013-14?

*The 2014 Old Farmer's Almanac* — which boasts an 80% accuracy rate — calls for a cold one with heavy snow to boot.

The *Almanac* says, "A decline in solar activity combined with ocean-atmosphere patterns in the Pacific and Atlantic will result in below-normal temperatures and above-normal snowfall during most of the winter across much of the United States."

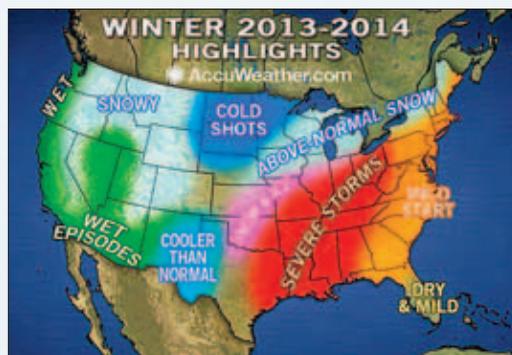
Janice Stillman, editor of *The Old Farmer's Almanac*, suggests there can be a silver lining to this snowy, cold forecast. She stated, "The good news is that the extra precipitation — which will fall as rain or snow depending where you are — will help with any drought issues left over from the summer."

Ample snow will also mean most ski resorts across the country should not have a problem getting up-and-running this year.

Predicting the weather trend for January, February and March is more challenging than normal this year because the Arctic Oscillation is in a neutral position — meaning there is no El Niño or La Niña currently occurring that would indicate expected temperatures and precipitation.

According to *Accuweather.com*, here are some specifics for the forecast:

- California can expect heavy precipitation through January, which will provide relief from the past two years of drought and help fill some reservoirs.
- In the Northwest and Rockies, abundant snow and wild temperatures are being predicted. This weather is being attributed to changes in water temperatures occurring in the northeastern Pacific — the waters are becoming much warmer. Montana and Wyoming can expect temperatures well below normal while coastal parts of Oregon and Washington may be milder.
- The Northern Plains and Upper Midwest can anticipate snowy weather with blasts of extreme cold. The Dakotas already had a record-breaking snowfall in October, and higher-than-normal snowfall amounts are also being forecast through January from Iowa and Nebraska to Minnesota and the Dakotas.
- In the Southeast and the Gulf Coast, warmer temperatures are in the forecast. However, this situation could also prompt severe weather with heavy rain and flooding in December and February.
- The East can expect a mild start to winter, but by January colder temps will arrive. Snowfall is also expected to be minimal until later in the season. **HW**



breeding. The October *Cattle on Feed* report, released Oct. 31, showed heifers and heifer calves on feed remain lower than any quarter since the fourth quarter of 2004.

Additionally, year-to-date beef cow slaughter has been 3.2% below 2012 and 8.7% below the 2007-11 average. In October and November, beef cow slaughter basically held steady since September, a time of year when beef cow slaughter is typically trending upward. Since September beef cow slaughter has been 15.4% below 2012 and 21.0% below the 2007-11 average, suggesting that the beef industry is back on track of decreasing cow slaughter, a necessary component of herd expansion.

The 2012 beef cow slaughter was 11.0% of the Jan. 1, 2012, beef cow inventory. That made 2012 the fifth consecutive year of double digit beef culling rates. Beef cow culling rates usually drop to under 9% for two to four years during herd expansions. Year-to-date, the beef cow culling rate has been 8.6%, suggesting the industry could be on the verge of beginning herd expansion, analysts say.

Another factor fueling the bullish outlook for beef is the increase in corn supplies — which will push prices down

for feed. In a Nov. 8 report, USDA projected total corn production for 2013 will be 14 billion bushels — up 30% from the 2012 crop.

Currently, the Livestock Marketing Information Center is projecting a \$300 return per cow over cash costs, including typical production practices and pasture rent, in 2014. If realized, that would be a record high return.

#### **Continued caution**

If the stars start to align, 2014 could be a very bright year for the U.S. beef industry — particularly cow-calf producers.

Scott Brown, University of Missouri beef economist, said the forecast for the cattle market over the next two years compares to the “golden era” of beef profits in 2004. Brown presented his outlook to producers at the annual Missouri Forage and Grassland Conference in early November.

Brown says in addition to high cattle prices and low feed costs, beef demand in the U.S. and global markets is improving, which should help bolster near record-high profitability.

Brown says international trade is a “bright spot” in looking ahead for 2014. He believes the ability to move

beef product into places like Japan, South Korea and China does nothing but continue to help the beef industry on the price side.

However, as cattle producers look to rebuild herds, he cautions, “All bets are off if there is a drought in 2014.”

Another reason to proceed with caution: Blach emphasized in his remarks at the TCFA convention that volatility is still a reality, and the swings can be big.

“The change in the cattle market from highs to lows on an annual basis if we go back 10 years ago, that range was \$150 a head. Now it’s \$350 a head. And we’re doing this while trying to make the same amount of money. So, it is an incredibly risky business that we are in, and we’ve got to manage risk as a result of that,” he emphasized.

Many are also cautioning that land values could decline from record levels and interest rates are beginning to move higher. Speaking in Montana in November, American Farm Bureau Federation Chief Economist Bob Young suggested rates will increase from 2.5-3.5% to 5-6%.

Domestic beef demand could also face some challenges. Technomic, a foodservice research and consulting

firm, released a report that indicates there may be less beef on menus in 2014 because of higher beef prices. Many restaurants indicated they will feature more pork and poultry to keep costs down and attract consumers by keeping menu prices down.

In planning strategy going forward, one individual offered this advice: Analyze your expansion plans for the next 10 to 20 years and be very cognizant that interest rates are low now and are likely going up. If you plan to expand, borrow all the money you want at cheap rates and absolutely have that money paid off at the end of the fixed term. Make sure you are not in a position where you need to borrow money when the rates are high — because if you have to borrow expensive money, you may end up out of business. **HW**