

## MARKET SNAPSHOT

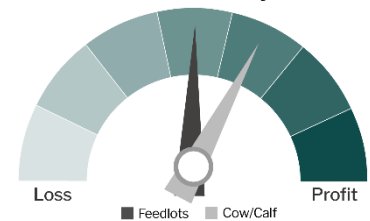
# Cattle

Dec. 31, 2022

### Executive summary

**AgWest Farm Credit's 12-month outlook for cattle suggests slightly profitable returns for cow/calf producers and breakeven returns for cattle feeders in 2023.** A tighter beef supply supports strong cattle prices with the USDA forecasting an 8% increase in fed-steer prices. Persistent drought has created national headwinds for the cattle industry. Improvements in moisture conditions will benefit Northwest cattle producers.

### 12-Month Profitability Outlook



### Industry drivers

#### Winter weather causes feed challenges

An early snowstorm in eastern Montana filled feedlots with cattle and left producers concerned about their feed supply. Producers have carefully planned winter feed (due to lingering drought and expensive feeder hay prices) with little room for additional use. If the winter is harsher than expected, producers might have to liquidate cattle to adjust for available feed. December and January weather will determine winter feed use. If the winter is mild, bred cattle sale prices should improve.

#### Cattle liquidation slows

Nationally, 13% of the U.S. beef cow herd was slaughtered in 2022. This is the same rate as in 1984; however, the herd was already 10 million head smaller than in 1984. Furthermore, 53% of heifers greater than 500 lbs. have been slaughtered, which is the highest percentage of this category since 2003.

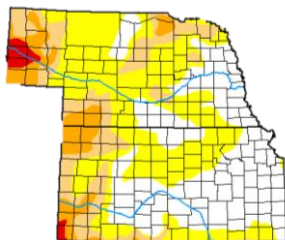
In October, cattle on feed slowed to 2.11 million head, down 6% year over year and the lowest level of placements in 20 years. Producers who liquidated will need 2-3 years to rebuild herds, which will support higher cattle prices until 2024.

#### Regional droughts continue

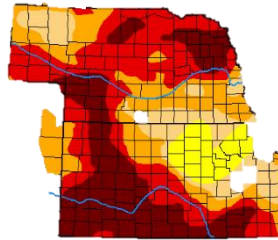
Additional headwinds are expected as regional cattle liquidations continue, albeit at a slower pace, for the fourth consecutive year. In the High Plains, soil moisture deficits continued to worsen with 85% of Nebraska (2nd largest cattle producing state) and 70% of Kansas (3rd largest) is in severe to exceptional drought. Collectively these states account for 15% of U.S cattle production and will experience the most severe liquidations this year if precipitation issues continue. Total beef cow inventory is expected to decline by 1 million head in 2022 with the largest liquidations in the High Plains.

#### Kansas and Nebraska Drought Monitor

December 13, 2021



December 15, 2022



*Accounting for 15% of national cattle production, worsening drought in Nebraska and Kansas will lead to additional regional cattle liquidations.*

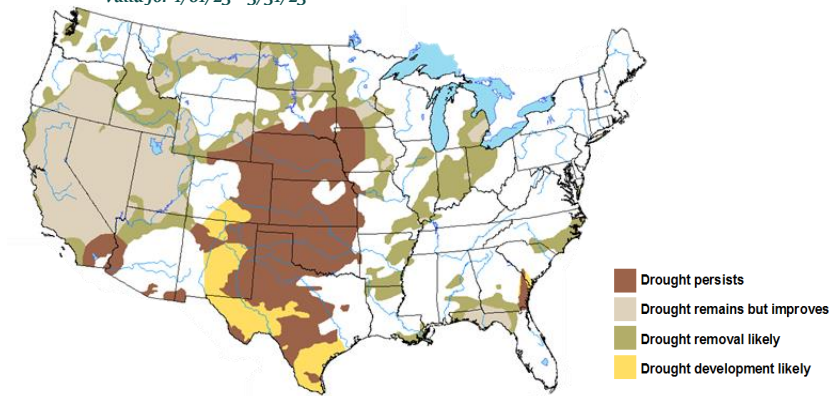
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Source: U.S. Drought Monitor.

La Niña conditions are expected to occur for a third winter in a row, leading to wetter winter conditions for the Northwest. As shown in the seasonal drought outlook, Northwest cattle producers will benefit from improvements or likely removal of drought across the entire region. Continued drought in Kansas and Nebraska will cause feed costs in the most affected regions to remain high until moisture conditions improve. Kansas and Nebraska feedlots are the ultimate destination for many of the feeder cattle coming out of the Northwest. Northwest cattle producers will face headwinds as feedlots in the Great Plains might be bearish in what they are willing to pay for feeder cattle.

### U.S. Seasonal Drought Outlook

Valid for 1/01/23 - 3/31/23



*Drought in the Northwest is predicted to improve or end.*

Source: Rich Tinker, Climate Prediction Center, NOAA.

### Domestic availability to decline

Beef availability is forecasted to decline sharply throughout 2023. As a result, domestic per-person consumption is projected 5.6% lower. Beef demand faces headwinds from inflation and greater competition in grocery stores as more pork, chicken and turkey will be available. Looming economic uncertainty does not bode well for restaurant demand, historically during economic downturns consumers cut back on the number of visits to fine dining establishments and swap meat dishes for carb-based options.

### Record exports slow amidst a strong U.S. dollar

Despite a historically strong U.S. dollar, 2022 beef exports set a record at \$10.8 billion dollars. Chinese beef demand grew 32% throughout 2022 becoming the 2<sup>nd</sup> largest export destination. Throughout 2023, U.S. beef exports will decrease primarily due to less beef production and some influence from U.S. beef exports being relatively more expensive than other countries, particularly South America.

### Profitability

Winter sales prices have been strong across the Northwest. On Dec. 9, 750 lb. feeder steers in Montana averaged \$0.21 per lbs., up 25% from a year ago. Tighter beef supplies have producers optimistic that strong cattle prices will stay. The USDA forecasts fed-steer prices up 8% higher year over year. Improving drought conditions and strong prices have Northwest cattle producers positioned to make a profit.

Feedlots are bullish having experienced some relief from persistent labor issues, but feed costs remain high. Feedlot margins have steadily declined in 2022. While feedlots might have some relief from lower commodity prices in 2023, analysts predict higher cattle prices and inflation will squeeze feedlot margins. Packer margins have also tightened considerably in 2022, and some may experience losses in 2023. If packer profitability is negative, they will likely become more careful buyers, which will place downward pressure for fat and feeder cattle prices.

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### Additional information

AgWest Farm Credit Business Management Center

[www.Agwestfc.com/industry-insights](http://www.Agwestfc.com/industry-insights)

### Beef Magazine

<https://www.beefmagazine.com>

### Cattle Fax

[www.cattlefax.com](http://www.cattlefax.com)

### Livestock Marketing Information Center

<https://www.lmic.info/>

### USDA Economic Research Service

[www.ers.usda.gov](http://www.ers.usda.gov)

### Western Livestock Journal

[www.wlj.net](http://www.wlj.net)

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