

How Might Drought Affect Cattle Markets?

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In 2023, we have seen calf prices reach their highest level in seven years. These high prices are forecast to continue to rise as beef cattle inventories continue to decline. Between July 2022 and 2023, cattle inventories fell by 2.7%, with the calf crop down 1.9%. In turn, 2023 looks to be the first year of very positive returns in the cow-calf sector in almost a decade. As cow-calf profitability increases, the market will beg for more calves, but drought might pose a challenge to herd expansion.

How high have calf prices been compared to recent years? Prices for 500-600 lb. medium and large #1 steers averaged \$245/cwt in October 2023 in Alabama (Figure 1). This marks a 50% increase compared to October 2022, and a 76% increase over the 2017-2021 five-year average for October. As a result, U.S. cow-calf returns over cash costs are expected to reach \$244 per head in 2023, which would be their highest level since 2015, according to the Livestock Marketing Information Center (LMIC). Due to the declining calf inventories, these high calf prices are projected to climb even more and lead to increased profits in the cow-calf sector over the next two years.

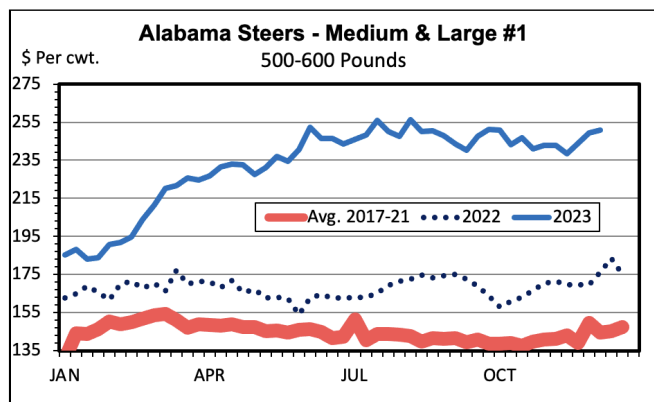


Figure 1: Weekly Alabama Steer Calf Prices
Data source: USDA-AMS, compiled by LMIC

As producers look to expand their herd due to the high returns, feedstuffs will be needed, but drought is posing a challenge. Recall that drought across the Great Plains and western states led to reductions in cattle inventories the past couple years. This drought has now shifted to the southeastern U.S., as shown in the U.S. Drought Monitor (Figure 2). The drought has been a fairly quick phenomenon rolling into the Deep South around August and enduring ever since. The drought

has intensified with large parts of Alabama in extreme drought (D3), and two counties elevating to exceptional drought (D4) as of November 7th. This drought has translated to declining pasture conditions, with 63% of Alabama pasture and rangeland deemed to be in poor or very poor condition according to the USDA Crop Progress Report. Nationwide, 38% of cattle inventories are in an area in drought, as is 37% of hay production.

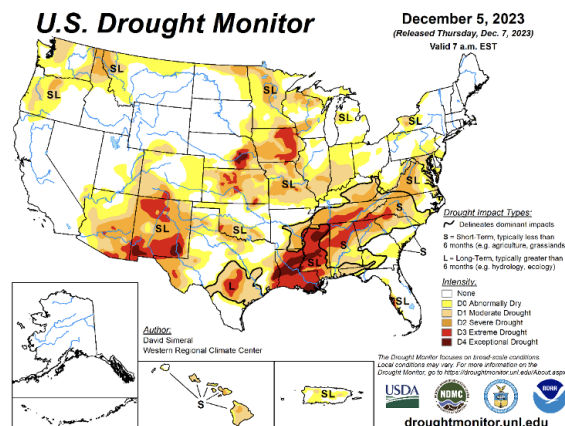


Figure 2: U.S. Drought Monitor for Contiguous U.S.
Note: Map released - December 7, 2023; Data valid - December 5, 2023

Hay inventories are looking to increase after a low in 2022. Hay excluding alfalfa production was at a historic low point, driven by both low harvested acreage and low yields. This led to the smallest May hay stocks in ten years, down 13% from last May nationwide. Hay stocks in Alabama were down 33% as of May compared to the previous year. This year, a forecasted 8% increase to hay production over what was produced last year is expected to help replenish hay stocks back above the levels seen in recent years.

While 2023 is looking to be a profitable year in the cow-calf sector, cattle-herd expansion has yet to occur, evidenced by the elevated cow and heifer slaughter numbers. A long-lasting drought could limit availability of feedstuffs, prevent expansion in the future, and keep cattle inventories low despite the profits observed in the cattle sector. This decreased ability to expand herds would likely prevent cattle prices from quickly declining and should give producers even more time to take advantage of these high cattle prices.