



Full Steam Ahead

Record cattle prices, solid beef demand and continued cow herd expansion expected for 2015.

by **Kindra Gordon**

If you had to use one word to describe current conditions in today's cattle industry that word would likely be this — unprecedented. Indeed, cattle prices have reached peaks never seen before.

Cattle producers thought the 2013 average price received for a 550-pound steer was quite good at \$168 per hundredweight (cwt.). Then 2014 came, and tight supplies drove prices even higher. The CattleFax average estimated price for 550-pound steers for 2014 is \$240 per cwt., and the 2015 estimate is \$255 per cwt. Unprecedented.

What's even more astonishing is that this price phenomenon may stay in place through 2015 and even into 2016.

Kansas State University (KSU) livestock economist Glynn Tonsor credits much of this to the fact that the beef industry is facing tight supplies coupled with continued strong beef demand. He says this is a scenario that is likely here to stay for at least another year — depending on herd expansion. Tonsor projects prices for 500-600-lb. calves in 2015 could be as high as \$270 per cwt., and in 2016 they could be \$280 per cwt.

As a result, average cow-calf returns are over \$500. Tonsor says, "In the past a \$150 return was considered great, we saw that in 2004 and 2005 and got close in 2013. Now, producers are seeing over \$500 and that is expected to hold for 2015. This sets the stage for a lot of excitement for expansion."

Expansion underway

In addition to dollars, several other factors are helping encourage expansion including cheaper feedstuffs and improved drought conditions allowing for ample range, pasture and hay.

Tonsor says heifer placements on feed and cull cow rates have slowed over the past year — indicating herd expansion is occurring. However, he says that since July 2014, there have been some mixed signals in the marketplace, indicating expansion slowed a little.

In spite of that slowed expansion, long-term forecasts suggest between now and 2023, the national cow herd inventory could grow from 4% to 16%. That growth would move the U.S. from a current 29 million cows to upward of 33.7 million head, which Tonsor says is about equivalent to what the cow herd was in the year 2000.

The U.S. cattle cycle has not seen a significant expansion phase since the 1991 to 1996 expansion, increasing by 1.7 million cows. Moderate efforts for expansion from 2004 to 2006 were cut short by drought in the Southern Plains.

Tonsor says indicators to watch with regard to expansion are the percentages of cull cows and heifer placements. When the cull cow rate is below 10%, that's an indicator that expansion is happening. In 2015 the rate is projected to be below 9%. Another indicator that expansion is on the horizon can be seen in the years when heifer slaughter percentage of total fed slaughter is around 35% or lower.

With regard to expansion, Tonsor says that is an individual question that each producer should ask himself, and Tonsor notes that it may not be the right option for some cattle operations.

Tonsor says other important questions to ask yourself with

CattleFax webinar helps producers in high-price environment

The current expansion environment has produced record profitability and exposed the segment to more financial and production risk than any other time in recent history. CattleFax will address the challenge during its next Trends+ Cow-Calf Webinar at 5:30 p.m. MT, Jan. 21, 2015.

During the one-hour session, CattleFax analysts Mike Murphy and Lance Zimmerman will discuss how producers can navigate marketing decisions and business plans for the next five to 10 years. To participate in the webinar and access program details, producers and industry leaders simply need to register online at www.cattlefax.com/meetings.aspx.

Elanco Animal Health is sponsoring the webinar — making it free for all cattle and beef producers to benefit from CattleFax's analysis and perspective on factors influencing the cow-calf, stocker and backgrounding businesses. The webinar will include:

- A winter and spring 2015 market outlook for breeding cattle, calf, feeder cattle and feedstuff markets,
- Advice on high-return cow herd and bull purchasing decisions, and
- Considerations on the long-term implications of U.S. beef cow herd expansion. **HW**



regard to expansion are: What can I afford to pay for a replacement female? Should I buy cows instead of heifers? Should I buy or raise my own replacement heifers?

Tonsor says two web spreadsheet resources can help answer those questions:

- www.agmanager.info/Tools/default.asp#LIVESTOCK (Scroll to KSU Beef Replacements and download.)
- www.extension.iastate.edu/agdm/livestock/html/b1-73.html

The bottomline, says Tonsor, is that the beef industry has “lots of positive things going on.” Now, if expansion occurs, consumer demand will need to be maintained or increased as well.

Surprisingly, to date in spite of increased retail beef prices, consumer demand in the U.S. has remained resilient. But the question analysts are monitoring will be how will beef demand hold up going into 2015 with expected larger pork and poultry production? That’s a question that remains to be answered.

Going forward, a report authored by agriculture economist Jessica Sampson and James Robb with the Livestock Marketing Information Center (LMIC)

suggests that two major uncertainties need to be monitored: crop production and the macroeconomic environment as it relates to domestic and international beef buyers. If those factors remain favorable, LMIC projects average cattle prices could peak in 2016 or 2017.

However, if unfavorable weather affects U.S. crop production, that could in turn affect cattle feeders and calf prices. Additionally, if significant economic slowdowns — or recessions — come into play, beef prices and consumer purchasing could be adversely affected.

But for now, it continues to be an unprecedented ride.

What about land prices?

In addition to hot cattle prices, can you help but speculate on sky-high land prices as well? Is this a bubble? Is it going to burst? When’s the time to buy land or expand?

Brent Gloy gets those questions a lot. Trained as an economist, Gloy has a keen grasp on the global agriculture scene. He has held tenured faculty positions in agricultural economics at Purdue University and Cornell University, and his research has been quoted and referenced in media

ranging from the farm press to the *Wall Street Journal*, *New York Times* and *USA Today* among others.

Gloy’s credentials become even more stellar when you learn that he is currently operating his family farming operation in southwest Nebraska.

So, what’s Gloy’s take on the future of agriculture? He usually starts by pointing out that he and his wife and their young children wouldn’t have returned to the family farm if they weren’t optimistic about the future of agriculture.

That said, he acknowledges that many farmland values have gone “straight to the moon.” One recent report based on numbers from the United States Department of Agriculture showed that only two states, Arizona and West Virginia, have experienced zero or negative change in land values from 2005 to 2013. Corn Belt farmland values have seen sharp increases, and land values in North Dakota, South Dakota and Nebraska have seen the largest increases — up to 218%.

Gloy notes: “Could it crash or be a bubble? It absolutely could.”

He adds, “My view is that the land market is on a plateau with a slight downward tilt. It’s not a free fall.”

But he also cautions, “Keep in mind, my expectations may not play out. If the 10-year treasury bond skyrockets, (it went from 7.5 to 14 in the 1980s) all bets on farmland values are off.”

With grain commodity prices coming down and sky-high land values potentially outpacing production returns, Gloy recognizes the “land bubble” concerns. However, he remains bullish for farming’s future, noting that the last few years have been somewhat of an anomaly. He explains that for grain farmers, the last several years haven’t just been good, “they’ve been spectacular.” Gloy says they are probably the best seven years in the last 100.

Thus, he’s realistic about the future, and on the grain side of the farm economy, he says, “The next seven years may not be as good as the last seven. Farm incomes are likely to fall from historic highs, but not to historic lows.”

Of the higher prices in the livestock market, Gloy says, “It is livestock producers’ turn, and I’m happy for them.” **HW**