



# Stay Astute for 2016

**Lower cattle prices and a return to seasonal price patterns projected.**

by *Kindra Gordon*

Cattle producers will likely find themselves singing an old Bob Dylan tune in 2016. Dylan's 1964 anthem "The Times They Are A-Changin'" seems to aptly capture the cattle market forecast ahead.

The trend of ever-higher calf prices is shifting, with 2015 marking the turnaround, according to Jim Robb, Livestock Market Information Center agricultural economist. For 2016 and forward, Robb projects "cyclically lower prices through 2018 — and probably through 2019."

Likewise, CattleFax general manager Duane Lenz says

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CattleFax's market data suggest 2016 cattle prices will see a "significant" drop. He reports CattleFax anticipates prices \$4-5 lower per hundredweight. He tempers that by saying, "We're not going back to 2008-2009 prices on calves, but producers will have to settle for less."

Robb also reminds producers that the drop in prices "feels bad compared to 2014," but he says, "That was an anomaly. This year [2015] still represents the second highest fed cattle market in history."

Both Robb and Lenz shared their outlook comments at the Range Beef Cow Symposium held mid-November in Loveland, Colo.

#### What's happening?

Robb attributes the drop in prices to global economics. He notes that the macro economy in the U.S. is growing and rather sustainably. But he says, "The

problem is the rest of the world is not doing this." He points out that China is in a recession and that the Russian and European markets are also stagnant.

Specifically, Robb says the decreasing export market has taken dollars off of carcass prices. "Beef exports are struggling because key customers are in recession." Additionally, he says the value of hide and offal "is a wreck."

Robb doesn't anticipate a lot of growth in beef exports until possibly 2017, which may help begin to bolster U.S. beef prices.

Another factor influencing the beef market includes demand. Robb reports that within the U.S., per capita consumption of beef also is in decline, but Robb emphasizes that per capita consumption does not define beef demand. The price consumers are willing to pay for beef must be considered too — and, presently, beef buyers remain willing to pay relatively high prices.

"The really good news is that beef's demand profile remains pretty solid," says Robb.

But supply has also been a factor influencing prices. In 2015 the U.S. has been bringing in an increasing amount of beef imports, particularly from Australia, where drought has prompted liquidation of cattle herds. Additionally, the chicken and pork industries each experienced surges in production during 2015. Robb says all

of these factors are expected to level off in 2016 and 2017, which should help beef retain some of its foothold in the marketplace.

That said, continuing U.S. beef industry expansion will increase beef supplies, and increased supplies typically cause prices to dip as well. Robb reports July 2015 data indicate that breeding heifer retention was up 6% from the previous year, and the retention rate has increased since the report was issued. With this trend, Robb anticipates by 2017 U.S. beef production will return to 2013 levels.

But, Robb does not expect expansion to last long. "We're on a pretty aggressive expansion this year and next, but then that is going to slow down." Why? Robb attributes a slowdown to the high cost of operating.

He cautions, "It takes more capital than ever to play this game." He estimates annual production costs can soar as high as \$900/cow. Robb notes that pasture rent has gone up dramatically and calls this factor a major component holding expansion back.

Regarding corn, Robb does not anticipate prices going higher

again unless the U.S. experiences a drought.

#### Plan and prepare

Going forward, Robb advises cattle producers to remain astute. He says, "This is a market we need to learn from. We need to learn how to respond in cattle country." He also notes that the cattle feeding sector has suffered severe financial losses, and its business has and will continue to change.

Robb calls on producers to remember the more "normal" seasonal price fluctuations of previous calf cycles and to plan their marketing accordingly. He expects this to be the model the market returns to going forward. "That means fed cattle peak early spring and calf prices are lowest in the fall," says Robb.

To this Robb says, "Price calves realistically. Set acceptable bids early. If you've got good calves, be responsible. Know the potential of your calves and costs."

He also cautions that volatility will still be a part of the scene, so he advises producers to be ready for "recognizing and dealing with market price downdrafts."

Robb adds, "These are hard to get through. Remember 9-11 and BSE when the market went

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— *Jim Robb*

into recession." Robb reminds producers it took about eight weeks for the market to rebound, so he says when you get into an unraveling, irrational market be prepared to "act early and don't wait or have enough feed reserves to come out the other side."

As a final piece of advice, Robb encourages cattlemen to "invest 2015 profits wisely."

Regarding the international outlook, CattleFax's Lenz remains bullish, saying, "The global potential for U.S. beef is very good." He notes that the global middle class is beginning a major wave of growth and is projected to expand from 2 billion people in 2012 to 4.9 billion by 2030. And Lenz emphasizes that as the middle class grows, its members will have more income to spend on protein, including beef.

If export growth and demand resurge, by 2020 export and offal values could be worth \$500 per head. As global economies improve and the middle class population expands, Lenz says exports will grow again, and he concludes, "Global opportunities [for beef] are great, we are talking billions, not millions." **HW**