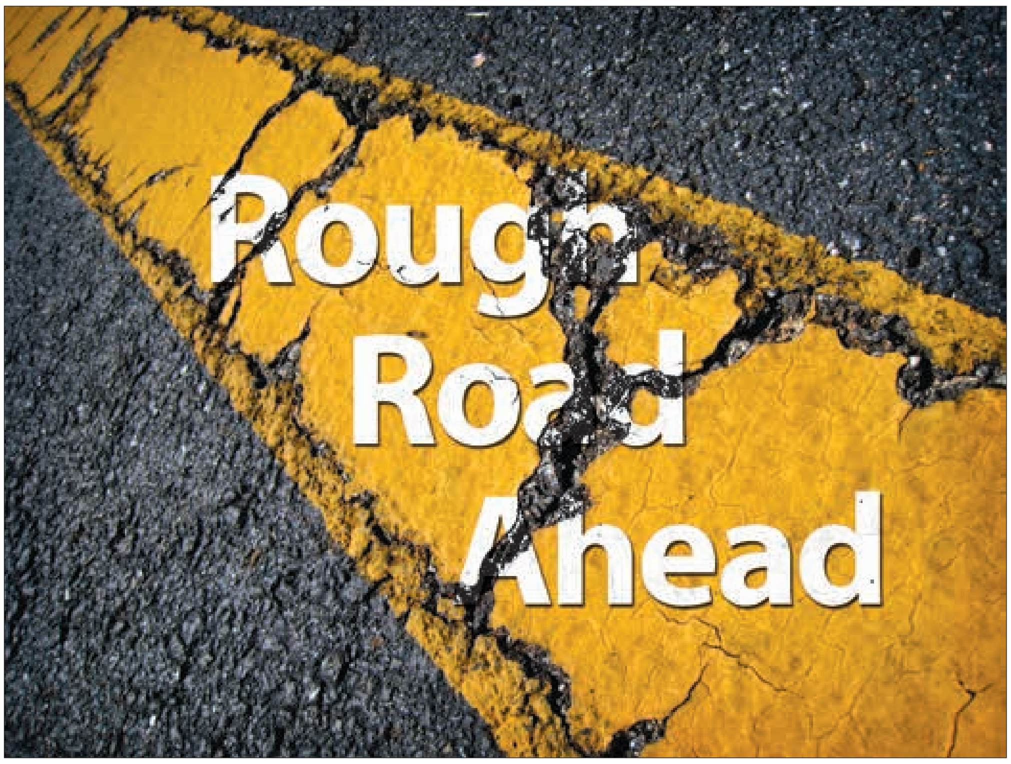

Lackluster cattle price outlook for 2017.

by **Kindra Gordon**

Cattle prices at the close of the 2016 year were difficult — and the unfortunate news ahead is that the low cattle prices are projected to continue. As testament to the dismal times, one producer shared that his fall calf check was $40,000 less than that of the previous year. CattleFax notes that the historic declines during this particular cattle cycle have lost more value faster than any break in 40 years. Ag economist David Kohl describes the dramatic dip in commodity price charts compared to the peak prices from a few years ago by saying, "We are on the other side of Mount Everest."

When will the market turn around? How can cattle producers get through this difficult time? Kohl, who is a professor emeritus of agricultural and applied economics from Virginia Tech and crisscrosses the country speaking to ag industry groups, answers, using a baseball analogy: "I think we're in the fourth or fifth inning of this economic reset." He explains that the U.S. economy is currently growing only at about 1% and says, "After a recession the growth rate is typically 3-4%."

Of this slow growth, he offers stern advice to ag producers, "We are at a time in the economic cycle where intensity on financials is going to have to step up."

Current market projections

Indeed, lower cattle prices are expected to continue in 2017 and may erode through 2018.

In wrapping up numbers from 2016, the Livestock Marketing Information Center (LMIC) projects annual average prices of 700-800 lb. steers will be 25-27% below those of 2015 and 500-600 lb, steer prices will be 30-32% below those of 2015.

In 2017 the current LMIC forecast is for fed cattle prices to decline 15-17% year-over-year in the first quarter and to be in the mid $110s/cwt. LMIC forecasts both calf and feeder animal prices will decrease around 20% year-over-year in the first quarter of 2017. Moving into the second half of 2017, calf and feeder animal prices are expected to moderate year-over-year and are forecast about 5% below the second half of 2016. Cyclically, cattle prices are forecast to post year-on-year declines through 2018.

The drop in prices can be attributed, as Kohl said, to the sluggish economy — both domestically and internationally. But it is also a factor of increasing supply. The cattle industry is facing larger beef supplies for 2017 and 2018. As well, pork and poultry production are projected to be record large again in 2017.

This situation leaves a lot of lingering questions as to how those factors will impact the market. Those scenarios include: How much of this increase in protein production will be exported? What impact

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will the on-going volatility of currencies have on America's ability to export, if any? What can producers expect from the domestic and global economies and the impact of minimal growth on demand? Furthermore, how much of a decline will retail prices need to incur to help offset the increase in production, if it's not being exported?

Exports crucial

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Exports are crucial to help offset the increasing domestic beef supplies. Specifically, LMIC forecasts U.S. commercial beef production for 2016 at approximately 24.8 billion lb., which is a year-over year increase in the range of 4-4.5%. That is the first rise in beef tonnage compared to a year earlier since 2010.

What effect will Trump's election have?

What are the possible implications of the election of Donald Trump as the 45th President of the United States on the food and agriculture sector? The Rabobank Food & Agribusiness Research and Advisory (FAR) group has authored a report dissecting key areas to watch.

Pablo Sherwell, Rabobank head of FAR for North America, noted, "Republican-controlled Executive and Legislative branches could mean swift action when the new administration takes office."

While President-elect Trump's policies are yet to be clearly defined, his statements during the campaign suggest drastic changes from current policy could be on the horizon. Acknowledging that any change, and the subsequent impact, is uncertain, Rabobank analysts do offer these short- and long-term possibilities:

Regarding short-term implications, Rabobank notes that uncertainty generates market volatility. This was seen firsthand after the election, when an initial uncertainty over President-elect Trump's policy direction resulted in a short-term sell-off reaction by markets. Until Trump's presidency is in place, agricultural markets may be affected by foreign exchange volatility, as well as changing business appetite and consumer confidence.

"Currently, the export share of U.S. agricultural production represents more than 20% in volume and value terms, making U.S. price formation highly dependent on foreign trade and therefore foreign currency," explains Sherwell.

Looking toward the next year, it will be critical to watch potential revisions to trade agreements, labor policies and business regulations, as well as the effects these elements will have on economic growth.

Longer-term

Trade agreements, agricultural policy and labor will be key areas where potential policy changes by Trump's administration could have longer-term implications on the industry as a whole. Specifically:

Trade Agreements: As the number-one global agricultural exporter, the U.S. food and agriculture sector is one of the main drivers of global agriculture and trade, reaching nearly $125 billion in 2016. Currently, the U.S. exports commodities that complement the rest of the world's food supply — any change to U.S. agricultural trade agreements will affect not only global prices and trade dynamics but also U.S. farmer margins.

Farm Bill 2018: The current Farm Bill is scheduled to be renewed by 2018. Because the Republican Party holds the majority, the development, approval and implementation of the 2018 Farm Bill is likely to be a smoother process than that of the previous bill. Regulatory reductions have been a policy direction advocated by President-elect Trump during his candidacy, and it is likely that the direction will shift even more toward an environment of reduced regulation.

Labor: The U.S. food and agriculture industry is highly dependent on migrant labor, particularly in sectors such as produce, animal protein and food service operation. If immigration laws are enforced more strictly, business owners may face labor shortages, which would pressure margins. HW

LMIC forecasts that U.S. beef tonnage will continue to exceed the prior year's level in 2017 by another 3-5%. And, domestic output in every red meat and poultry category is forecast to continue increasing in 2018.

This increase means U.S. production will continue to significantly outpace domestic population growth and, thus, exports are necessary to bolster demand and prices.

Presently, the United States' top international beef customers are Canada, Japan, Hong Kong, Mexico and South Korea. In 2015 those top five buyers represented 80% of U.S. fresh and frozen export tonnage.

Presently, on an annual basis, the U.S. typically exports about 10% of domestic beef production, with exports going to more than 100 countries. With more than 95% of the world's population living outside the U.S., many believe the potential growth for U.S. beef exports has huge opportunities ahead.

One promising development was the mid-September 2016 announcement that China's government has lifted its 13-year ban on U.S. beef imports for cattle under 30 months of age. As the trade details come together (the timeline is still uncertain) U.S. beef could eventually be exported en masse to China's large population, which may help liquidate supplies and bolster cattle prices.

Management advice

How can producers weather this price drought? Most analysts agree that sharpening the pencil and tightening the expense belt are essential. For instance, LMIC ag economist Jessica Sampson suggests retained ownership may be viable in some situations, but the current market suggests selling feeder cattle to feedlots at heavier weights instead of lighter. To that end, producers must calculate for the added cost incurred to hold and feed animals.

Sampson wrote in a recent column, "...it is critical to understand the costs of production and the price needed for the animal down the road, and be willing to move quickly on a sell decision if the market environment changes."

Another economist Brent Gloy likes to point out to producers: "You can't control prices, but you can control costs."

Likewise, Kohl says that in the current economic climate, producers "can't just produce their way to profit," as increased production can't compensate for unsustainable expenses. He shares that farm business management data have revealed that producers in the top 20% of profit compared to those in the lower 20% of profit often have similar production yields — the difference is that more profitable producers keep costs in check.

Thus, he emphasizes that knowing cost of production, by enterprise, and having a written marketing plan that addresses production, marketing, finances and risk management is an essential management tactic. Of it he says, "It's simple, but important. Then, when you have market volatility you can make decisions for profit."

Two big areas that Kohl suggests scrutinizing are negotiating with landlords to reduce cash rent or other lease agreements and adjusting input expenses where possible from transportation and feed to fuel and labor.

Additionally, Kohl advises trimming family living expenses. He reports that from 2007 to 2013 family living expenses in ag families doubled. He notes, "During good economic times, people make more and spend more."

But Kohl underscores that those times have changed, and, thus, spending habits also need to be reined in. "It requires tough communication for family; it's a family affair." Kohl says data indicate farm family living expenses often average from $65,000 to $90,000 but can balloon as high as $125,000 to $150,000 — a $60,000 difference. "This is a difference maker," says Kohl, and he adds, "Never put a family living budget on an annual basis, put it on a monthly basis."

Some additional thoughts to ponder:

- Question why "we've always done it that way." Rethink some of the "sacred cows" in your business strategy, including the cost of raising heifer calves; cropping distant, rented acreage; or feeding for maximum production rather than for optimal cost.
- Make the most of underperforming resources. Enhance performance of these resources or let them go.
- Rebalance your operation. Key resources — cropland, barns, feed storage, heifers, etc. — can get out of balance due to the stepwise nature of expansion. Maxing out current resources is key to diluting fixed costs and enhancing cash flow.
- Take full advantage of outside professional advisors. Nutritionists, veterinarians, agronomists and financial experts can offer expertise and perspective.
- Compare "essential" versus "nice to have" capital spending. With today's level of mechanization and technology, there is almost always some essential capital spending, but go on a disciplined, multi-year capital spending diet. Evaluate equipment replacement, land purchases and facility expansion plans.
- Sell unproductive assets. Consider selling unessential assets.

Kohl also advises scenario planning, which entails asking a variety of "what if" questions and how those scenarios may impact cash flow. He notes, "With computer spreadsheets today it's pretty easy to do. If you're too old to work a spreadsheet, it's time to bring in the younger generation." And he adds, "Involving the younger generation is critical to agriculture's future." HW

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Winter outlook: warmer, drier South; cooler, wetter North

La Niña influence will cause California drought to persist.

La Niña is forecast to influence the winter weather pattern through February 2017, according to the National Oceanic Atmospheric Administration Climate Outlook.

La Niña typically favors drier, warmer winters in the southern U.S. and wetter, cooler conditions in the northern U.S. However, the 2017 La Niña appears to be a weak event, which means its effect may not last long, and there is less certainty in the winter climate outlook.

Presently, forecasters suggest it will "feel like an extended winter for those living from the northern Plains to the eastern U.S. as cold and snowy conditions stretch into spring 2017." Specifically, the Northeast could see several large snow systems in the course of the season, resulting in above normal snowfall. Temperatures in the New England states are also expected to be below normal.

In the Midwest and Northern Plains, AccuWeather forecasters say winter will have "shots of brutally cold air slicing through the region." They anticipate temperatures will average 6 to 9 degrees lower than last winter.

Meanwhile, drier and milder weather is expected in the majority of the southern half of the nation. However, in January sudden bursts of cold air could penetrate the region, which could damage the region's citrus crop.

The Pacific Northwest is expected to have a stormy start to winter, with snow piling up and producing wetter than normal conditions. This snow will help lessen drought effects in northern California. The stormy snows should ease by late January and February.

California and the Southwest and Southern Plains are expected to remain warm and dry. This pattern could exacerbate ongoing drought conditions in southern California.

Forecasters and climatologists will be watching jet stream and Arctic circulation patterns closely. These patterns typically set up for two to four weeks at a time and can help forecasters predict if cold air is more likely to come down from Canada or if warmer air will prevail from the south. HW