Economic Outlook for ’18

Large beef supplies likely to temper cattle prices in 2018.

by ***Kindra Gordon***

As we all turn the calendar to a new year, folks are having fun making predictions for the months ahead. It seems plausible that the race to bring “self-driving cars” to the commercial market may actually become reality in 2018. Less certain are predictions of what may happen within the Trump administration, how Bitcoin will fare or if consumers will embrace meatless meat. As the saying goes, “Only time will tell.”

What about the cattle sector; what will 2018 bring? The current cattle inventory has been expanding over the last few years, with the calf crop in 2018 to be the largest inventory in a decade, according to Jim Robb, director of the Livestock Marketing Information Center. He projects 28 billion lb. of beef will be produced in the U.S. in 2018.

Robb calls the herd expansion over the last couple of years “unprecedented.” That said, in the next couple of years, expansion is expected to continue, but the rate of growth is expected to slow down — and could slow considerably if drought sets in. Robb calls beef’s future expansion pace “manageable” from a supply and demand standpoint but says the concern will be the additional production and supply of pork and poultry.

“The biggest risk in the marketplace is the sheer volume of protein,” he says, and adds, “There’s going to be more [meat] out there and the question will be are we going to be able to swim our way through it?”

In offering an outlook on market prices, Robb anticipates that with the abundant supply over the next two years, cattle prices will trend lower. But, by 2020 and 2021, he expects they may be stronger again.

2017’s surprise

Looking back at calf prices during the fourth quarter of 2017, Robb notes that the strong market compared to a year ago was a “pleasant surprise.” Slaughter steer prices also fared above a year ago. While cattle markets did not reach the highs seen from 2011 through 2015, Robb notes that 2017 was a favorable year for all sectors of the beef industry. As testament, he shares, “U.S. packers had their best year in history, so they wanted more cattle to kill.” As a result, Robb explains, “The markets pulled animals through the feedlot; usually we are trying to push them through.”

Additional factors that helped the market remain robust, according to Robb, included the domestic retail sector featuring beef as an item to draw customers in and buy, as well as continuing growth in export markets.

Of retail, Robb notes that with so many consumers now buying products online, retail groceries have recognized that their fresh meat case is one major leverage point. He says grocery executives have learned that when beef is featured on sale, it brings people in.

With regard to exports, U.S. beef exports should mark $7 billion in 2017 — a 7.5% growth compared to the previous year.

Continued export growth of 5% is projected by the U.S. Meat Export Federation for 2018, which could help manage some of the extra beef supply that is expected. If domestic consumer demand for beef holds together, that too would bode well for handling the beef supply.

Plan and prepare

Because no one has a crystal ball to the future, the best advice to producers is to be prepared for a price downturn to mitigate risk. Of the unexpected profits producers may have garnered from 2017 calf prices, Robb advises, “Use that money wisely.”

He adds, “Be prepared to swim upstream. As soon as the market turns, you’ve got to plan better.”

Likewise, CattleFax economist Ethan Oberst is encouraging producers to get their risk management tools in order as the cattle cycle prepares to change in 2018. He says, “High prices are behind us. Profitability has peaked. Margins will narrow, but remain positive [for a time], but that’s going to change.”

His number one tool for managing risk is to calculate and know breakeven costs. Additionally, he emphasizes knowing animal inventory and suggests that cow herd operations especially look at running some yearlings, which allows for stocking flexibility depending on changes in markets or available forage.

With regard to marketing, Oberst says knowing the seasonal market trends is one relatively easy way to employ risk management and to capitalize on price upswings. As examples, he points to data that showed in marketing 550 lb. calves, the seasonal price trend indicates it may be more advantageous to market them via summer video auction as opposed to the cash market. Whereas, 850 lb. calves garnered similar prices on video and cash market, making either option viable.

For cull cows, Oberst says they follow “one of the most consistent seasonal price markets there is.” March through May or June sees the highs, while October and November see the lows. Thus, he advises producers, “Holding cull cows until spring can return $60/head on average.”

As additional risk management tools, Oberst cites retaining ownership, using basis contracts, hedging and securing livestock risk protection (LRP) insurance. HW

Weather outlook for ’18: warm and dry

La Niña forecast predicted for the year ahead.

A La Niña weather pattern is setting in for 2018, according to the Climate Prediction Center (CPC). And that means the Southwest and Southeast will likely be warmer and drier than average and the Northwest and Midwest have the potential to be colder and wetter.

Specifically, weather models suggest that during the first few months of 2018, the bottom two-thirds of the continental U.S. will likely experience warmer-than-normal conditions. Most of the upper one-third of the country — South Dakota, Minnesota, Wisconsin and Michigan — is in the category of “equal chances” for a normal temperature winter. From North Dakota west to Washington, a sliver of the country along the Canadian border is projected to have cooler temperatures than normal (See Figure 1).

As to the big question of who will get moisture — the outlook is somewhat grim. Only the northern Rockies and the Midwest are forecast to receive above-average precipitation, according to the CPC. The center of the country is forecast to have “equal chances” for precipitation, meaning it could be dry or wet but, most likely, dry. And, the Southern Tier across the Carolinas, Florida, Texas, Arizona, New Mexico and Southern California is dry — and already seeing that trend set in (See Figure 2). In fact, the D-word — drought — is already being used by some.

Colorado weather forecaster and ag producer Brian Bledsoe confirms that drought is already setting in across the Southwest and Southern Plains — and even creeping into the Northern Plains. In looking at weather prediction models forecasting all the way out to June, Bledsoe says they indicate, “The dryness continues.”

He tells producers to never anticipate an “average” forecast. Instead, he suggests preparing for “too much or not enough” with regard to moisture. Looking at 2018, he anticipates drought will impact many producers, especially in the Southern Plains. But to Northern Plains producers he says, “I won’t say you will be wet, you will be less dry.”

Given these dry trends, Bledsoe advocates that producers be cautious about overextending their resources — financial and feed — in the coming months. He believes hay prices will double quickly. And, he stresses the need to have a drought plan ready and written down. The plan should detail which groups of cattle your operation will sell off by which date if it does not rain. HW

Figure 1

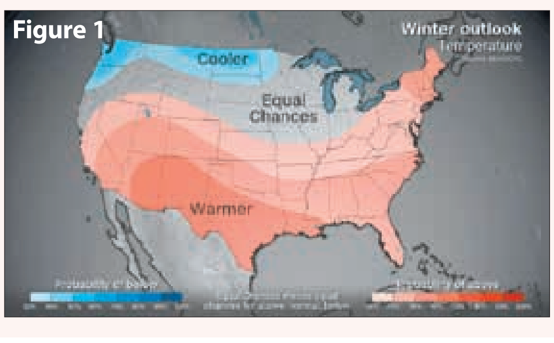
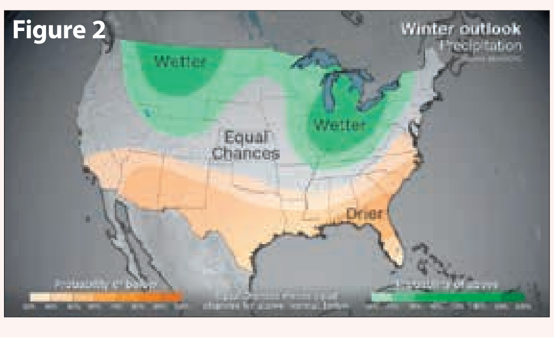


Figure 2



Editor’s note: Follow more of Bledsoe’s forecast on Twitter @BrianBledsoe or visit his website at *weather5280.com*.