



Forecasting for the Future

Steady demand for beef domestically and internationally needed to balance higher beef supplies in 2018.

by *Kayla Jennings*

Calves are on the ground and many ranchers are soon to begin weaning. It won't be long before fall hits and producers begin looking for the best avenue to market their calves. This time of year lends itself to much thought regarding the cattle market forecast for 2018. Fortunately for cattle producers across the country, the state of the cattle market has been optimistic, but that outlook could change in 2018.

Katelyn McCullock, senior economist at the Livestock Marketing Information Center, Lakewood, Colo., says strong demand for beef domestically and secure beef sales overseas provide a positive outlook for the beef industry moving forward.

"We've seen more cattle numbers, which have produced more beef overall," McCullock explains. "But the good news is, on the demand side, we've seen also pretty strong domestic and export growth to support those heavier beef production numbers." However, in recent weeks, announcements levying tariffs and the potential for a trade war have left agriculture on shaky ground.

Current economy

For the last couple of years, the cattle industry has been in an expansionary phase, and McCullock indicates that trend is beginning to slow. "We've been adding cattle numbers year-over-year for quite a few years," she explains. "Over the last two years, we've seen that cycle slow down, so we've added less numbers than we have the year before, but it's still been a year-over-year increase."

As of late, there has been a steady increase of heifers in the feedlot, however. That shift suggests those females are not retained to produce a larger calf crop in 2019. Even though the expansion is slowing, there has still been a steady increase in cattle numbers with a strong market to support that increase.

Reflecting on 2017, McCullock states export sales were near \$9 billion — nearly displacing the record year seen in 2014. "We've really seen this number just grow considerably over time," she notes, "which has been positive for the beef sector overall."

To date, more animals are on feed and moving through the system. "But some of the finer points

here are when those come to market,” McCulloch notes. “Because we’ve seen a lot higher placements last year, this year there’s a high number of cattle on feed. Feedlots have continued to purchase cattle fairly aggressively, which have supported those prices year-over-year.”

However, after analyzing reports in recent weeks, McCulloch says those numbers are weakening slightly. Those reports, in tandem with high placement numbers, spur questions regarding when the cattle numbers coming into those feedlots dry up and when that shift will occur. Additionally, McCulloch notes this year’s calf crop and imports affect placements — revealing when the industry will see that placement number change direction.

Conversely, feedlots are maintaining steady profit on a per-head basis. McCulloch says it will be interesting to see how various factors like fed-cattle prices and feeder cattle prices affect the decisions they make as far as buying cattle later this year.

“Now all of this, too, hinges of course on how much beef we can move through retail channels, or through wholesale markets, or overseas,” she emphasizes. Trade is vitally important to the beef industry, and in the wake of China’s second round of retaliatory tariffs, which included beef products, the beef industry is concerned about the trade landscape and what other countries might target in beef products.

Emerging markets

Strong domestic demand has been favorable for the industry over the last year, and McCulloch foresees this trend remaining strong in 2018. “[In 2017] we ate more beef than the year before,” she says. “Right now, I believe we are expecting another year-over-year increase in the amount of beef that the U.S. consumer will eat.”

This consumer demand is driven by a multitude of factors including recent nutrition trends supporting beef in a healthy diet and more competitive pricing. McCulloch says there are a lot of options for consumers at the supermarket today. Yet, when the options for protein are all reasonably priced, the price factor opens the meat case up as a more competitive player in that scene.

“I think competitive pricing definitely plays a role, particularly, because in the last decade there have been times when beef was pretty expensive, relative to pork and chicken,” she explains. “This is putting beef on a more level playing field,



The industry has witnessed a higher placement of cattle on feed, but the feedlots have continued to purchase cattle aggressively to support prices year-over-year.

but, ultimately, I think the domestic economy is optimistic about the future.” She says consumers are not necessarily pinching pennies today like they may have been several years ago.

“We’re not in a recessionary mode,” she notes. “That’s a positive sign for beef.” Because of competitive pricing and a steady economy, McCulloch notes the increase in beef featured in restaurants and beef becoming more popular in those settings with consumers. These factors

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The retail market for beef has been strong with U.S. consumers over the past year.

promote a ripple effect that only elevates potential profits for the beef industry.

“What the beef industry hinges on is a continued strong demand from both the domestic consumer, and the export market,” she notes. “The world economy so far seems pretty favorable.” McCulloch does note recent talk regarding trade may also be a factor that affects the beef industry from an international perspective, but it is too soon in the conversation to definitively make a conclusion there.

Thinking from an international perspective, it is important to consider consumer confidence in the economy. McCulloch says consumer confidence provides an indicator of what consumers are projected to do with regard to purchasing decisions. It is important to remember consumer confidence is

relative to the entire economy, and it is not specific to agriculture. However, those values indicate the direction of spending — including that on agricultural goods like beef, as well.

“Japan, Korea and China are also major buyers of agricultural commodities for the U.S., and you can see that compared to that North American chart (Figure 1), Asian consumer confidence (Figure 2) is really quite strong,” McCulloch notes.

That statistic is especially valuable today as the China market recently opened for American beef. Historically, the Chinese have not eaten as much beef as the American consumer has. However, the sheer size of the market is what brings forth excitement for the beef industry. “They buy quite a bit of beef from Australia, which tends to be more grass-fed,”

McCulloch explains. “So bringing on this grain-fed type product into that market and carving out a piece of that market is really exciting and something that potentially could, over a longer period of time, be very important to the beef industry.”

Considering the market is so new, McCulloch says the industry will be working toward gaining market share and marketing toward that population in the upcoming months. “I think this opportunity is something very exciting for the beef industry and is something that we’ll continue to watch moving forward,” she says.

Stepping back and viewing all the factors at play in the coming year, McCulloch foresees an increase in production and is hopeful for the demand to keep up with production. “I think that consumer demand is really going to play a big role — it does every year. But prices remained very strong last year, considering how much more meat we had on the market,” she explains. “Now with that being said, it’s still very early in the year, and there’s a lot of things that can change that.”

At the end of the day, various factors like drought and other regional challenges affect the market in a variety of ways, too. Producers should follow the market from a national and international perspective, but they should also not neglect the regional concerns regarding market value for their cattle. **HW**

Figure 1: North American consumer confidence index

Amplitude adjusted, Long-term average = 100, Jan. 2014-Feb. 2018



Figure 2: Asian consumer confidence index

Amplitude adjusted, Long-term average = 100, Jan. 2014-Feb. 2018

