

Margin Squeeze

Cattle prices are significantly higher, so are input costs.

by *Wes Ishmael*



“There is little doubt that the revenue side of the equation is going to look better in 2022,” says Derrell Peel, Oklahoma State University Extension livestock marketing specialist. “We’re in a position to build on the optimism that has been building in the industry. We’re coming into the year with higher prices across the board.”

Although cash and futures prices for feeder cattle and calves began to increase as the year wore on, Peel explains it took negotiated cash fed cattle prices finally breaking free in order for markets to find post-pandemic traction.

“Dynamics in 2020 created a backlog of fed cattle that we carried into 2021,” Peel says. “Combine that with the fact that the packing industry has been living close to the knife’s edge in terms of the balance between the supply of fed cattle and packing capacity, and it took about 10 months of the year to work through the backlog.”

It wasn’t exactly like a busted head gate in front of a wall of water, but when cattle feeders finally regained market currentness, fed cattle prices jumped.

The five-area direct average steer price in November was \$9.06 higher than the previous month at \$133.39 per hundredweight (cwt.) on a live basis. That price was \$24.54 more than the previous year.

As beef cow numbers decline cyclically, likely pressed lower due to lingering drought in 2021, and as beef demand strength continues, Peel says 2022 cattle prices should be higher year over year.

For perspective, USDA’s Economic Research Service (ERS) pegged the 2022 annual average feeder steer price (basis 750-800 pounds, Oklahoma City) at \$159 per cwt. That’s from December’s monthly Livestock, Dairy and Poultry Outlook. The annual average price for 2021 was projected at \$146.80. It was \$135.45 in 2020. Average feeder steer prices were forecast at \$158 in the first quarter this year, \$154 in the second quarter and \$159 in the third.

ERS projected the annual average five-area direct fed steer price for 2022 at \$135.25 per cwt., compared to \$122.56 in 2021. Prices were forecast at \$138 in the first quarter, \$134 in the second and \$132 in the third quarter.

CattleFax was more bullish with its December update to the price forecast first shared during October’s American Hereford Association educational forums.

For 2022, CattleFax projected: calves averaging \$205 per cwt. compared to \$170 in 2021; yearlings to average \$168, compared to \$140 in 2021; fed steers to average \$140, compared to \$121 in 2021.

Beef demand continues strong

By any measure, domestic and international customers continue to be willing to pay higher prices for U.S. beef.

For instance, the most recent monthly Domestic Meat Demand Index (October) for USDA Choice retail beef was 8.2% higher year over year. The index was 7.7% higher for all-fresh beef. That’s with prices at historically high levels.

“November Choice retail beef prices were \$7.85 per pound which eased slightly (5 cents) from the prior month’s record high of \$7.90. Prices for ground beef, roast, round and sirloin all

remained elevated in November at \$4.72, \$7.27, \$7.40 and \$11.51 per pound, respectively,” according to analysts with the Livestock Marketing Information Center (LMIC), in the mid-December Livestock Monitor.

Prices for competing meats are higher, too.

“Retail pork prices continued to climb in November reaching \$4.82 per pound, which marks the eighth consecutive month that retail pork prices set a new record,” according to LMIC analysts. “Boneless hams reached a record of \$4.94 per pound while bacon and chops remain elevated at \$7.27 and \$4.43, respectively. The broiler composite retail price hit a record of \$2.21 per pound, the fifth consecutive month for a record price.”

Beef market share at the grocery store was 32% in November, according to the monthly Meat Demand Monitor (MDM). It was 21% for pork. For restaurants, market share was 41% for beef and 15% for pork.

The MDM — funded in part by the National Beef Checkoff and the National Pork Checkoff, maintained by Kansas State University — tracks U.S. consumer preferences, views and demand for meat with separate analysis for retail and food service channels. More than 2,000 respondents are surveyed, reflecting the national population.

“Responses in November again suggest consumer expectations of price increases (beef and pork). These consumer expectations and realized prices continue to align with broader discussions

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around food (and non-food) inflation,” according to the MDM report. “It should be carefully noted these higher expected prices reflect both supply-side factors (e.g. higher production costs) and demand strength ... It should further be noted the majority (83%) indicate having either the same, or more than normal amounts of meat on hand, indicating both ongoing demand strength and supply availability.”

At the same time, U.S. beef exports continued on a record pace through October in terms of both quantity and value. Through the first 10 months of last year, beef export value was 38% more year over year at \$8.53 billion, equating to \$394.14 per head of fed slaughter. Export volume during the same period was 17% more than a year earlier at a staggering 1.19 million metric tons.

Focus on cost management

As bright as the price and demand pictures are, Peel notes higher feed and input costs will challenge cow-calf producer profitability this year.

You know the story — everything from drought to supply chain challenges and raw inflation.

“The pandemic has significantly altered how our economy functions, with the greatest impact coming from what we consume. Through October, in 2021 Americans spent 18% more on goods and about 1% less on services than they did in 2019. Compounded by a labor shortage, it is easy to see why supply chains have become one of the biggest economic challenges of the pandemic — demand has significantly exceeded the capacity of our existing system,” according to the 2022 Year Ahead Report from CoBank’s Knowledge Exchange.

CoBank analysts expect the U.S. farm economy to continue struggling with the ongoing supply chain dysfunction and cost inflation issues that emerged in the summer of 2021. They say historically strong prices will be more than offset by increases in cost structure for nearly all crop production including row crops, fruits and vegetables, and hay. They do not anticipate any significant pullback in farm-level costs until the third quarter of this year, at the earliest.

However, CoBank analysts also explain, “Livestock producer margins should continue to be generally favorable overall, with the effect of shrinking beef cattle supplies finally showing up in higher prices at the producer level.”

Closer to home, Peel reminds producers that the commercial cow-calf business is a means of harvesting forage, which means considering ways to increase the value of forage produced and harvested.

“Part of managing forage for increased value is to utilize grazing better to reduce cow feed costs,” Peel explains. “Grazing is the least expensive feed for cows, so this means managing pastures for maximum quantity, quality and duration of grazing and having cows do most of their own feed harvesting. Early planning is necessary to plan annual forage production and grazing management. This must be done in conjunction with plans for cow-calf production, retained stockers and forage use as part of cull cow marketing.”

To the extent hay must be used, Peel suggests evaluating opportunities to reduce waste, including testing nutritional value, storage and feeding options, as well as considering the economics of feeding supplemental feeds.

“Cost management is the place where producers really need to put their emphasis in 2022,” Peel emphasizes. “But, in general, we’ve got a lot of optimism coming in the market from demand, as well as tighter supplies helping support these markets.” **HW**