Price Corner Near

Cattle markets should strengthen as the year unfolds.

by ***Wes Ishmael***

Long anticipated, dramatic cattle price increases lingered in the distance through the first half of the year, delayed by increased feedlot placements, elevated beef cow slaughter and more beef production than expected. Both drought and narrower economic margins associated with nose-bleed high input costs contributed to liquidation. But supply fundamentals say significantly higher prices are nigh.

"The general direction of cattle and beef market forecasts for this year has not changed but annual forecasts have been modified by the way the first half of the year has played out, with implications for a significantly different second half of the year," says Derrell Peel, Extension livestock marketing specialist, in his early-July weekly market comments.

For instance, Peel expects beef production to be 4% less for the second half of 2022, compared to the same period last year. Through the end of June, estimated year-to-date beef production of 13.96 billion pounds was 127.6 million pounds more (+0.9%) than last year. In the June Livestock, Dairy and Poultry Outlook (LDPO), USDA's Economic Research Service (ERS) forecast beef production next year to be 7% less than this year.

"Lower beef production going forward implies that cattle slaughter will decrease as well," Peel says. "Cattle slaughter is currently forecast to decrease by 1.0% for the year. In the first half of the year, total cattle slaughter has been up by 1.4% year over year. The increase is due to more female slaughter with total cow and heifer slaughter up 4.5% in the first half of the year."

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— Derrell Peel
Extension livestock marketing specialist
Oklahoma State University

As time passes, there will be fewer cattle on feed.

"... feedlot inventories are declining seasonally and typically bottom-out in the late summer. That trend is expected this year, too, but it remains to be seen just how quickly the inventory numbers decline through the summer or increase during the fall," according to Josh Maples, Extension livestock economist at Mississippi State University, in Cattle Market Notes Weekly. "The number of calves born in the U.S. has declined annually since 2018, and 2022 is expected to be smaller again."

Reflecting on another month of record-large feedlot inventories on June 1, Maples explains more heifers and cattle placed at lighter weights, among other factors, makes it difficult to pinpoint when feedlot inventories will begin to decline.

"Lighter cattle typically stay in the feedlot inventory longer, and an increase in heifers in the feedlot mix means higher feedlot totals now but fewer replacements to produce calves later," Maples says. "Both of these factors are likely contributing to higher feedlot totals today, but do not suggest sustained high inventories in the future."

Peel adds fewer year-over-year feedlot placements in the coming months will lead to lower feedlot inventories by the end of the year unless drought forces even larger numbers of cattle into feedlots.

Likewise, there is little doubt that the nation's beef cow herd is liquidating. Just how much remains to be answered. Beef cow slaughter was 15% more year over year through mid-June, according to ERS.

"Based on weekly actual slaughter data reported by the Agricultural Marketing Service through May 28, the pace of beef cow slaughter was almost 10,000 head per week on average above last year for the first four weeks of May," ERS analysts say.

In mid-June, Peel explained, "The current level of beef cow slaughter suggests a culling rate in excess of 13% this year and a potential beef cow herd decline of 1 million head or more.

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Prices should increase from here

Although calf prices declined more than expected seasonally through the spring, by mid-June they were blooming, helped along by supportive Feeder Cattle futures and tighter supplies on the horizon.

ERS lowered the expected average feeder steer price $2 for the second quarter, making it $157 per hundredweight (cwt.), based on recent price data (June LDPO). ERS forecast the average feeder steer price (basis 750-800 pounds, Oklahoma City) at $166 in the third quarter, and $170 in the fourth quarter for an annual average price of $162.76. Next year, the first-quarter price is projected at $170.00 and the annual average price is forecast to be $198.25.

"Based on the May 2022 average monthly price of $141.34 per cwt. and current daily price data, the 2022 fed steer price is forecast unchanged at $140.10. The 2023 fed steer price is also unchanged from last month at $153.00," according to ERS analysts. "A generally faster pace of slaughter from packers may keep fed steer prices relatively stable for the remainder of the second quarter."

On the other side of the equation, ERS left projected corn acreage and yield unchanged in the June World Agricultural Supply and Demand Estimates, but increased beginning and ending stocks on reduced exports. The season-average farm price for corn received by producers was unchanged at $6.75 per bushel. Subsequently, ERS estimated planted corn acreage for this year to be 89.9 million acres, in the June Acreage report. That would be 4% less than last year but was 400,000 acres more than estimated in the March Prospective Plantings report.

Acreage for all hay was estimated at 51.5 million acres, which would be 771,000 acres more (+1.5%) than last year.

FEEDER VALUE

Incidentally, left to its own devices, without government intervention, the market continues to find necessary price levels based on overall demand and marginal demand between sectors (see Market Gleanings, Page 8).

"The gross margin between live cattle price and wholesale beef peaked near $1,600 per 1,000 pounds of animal in 2020. Since that time, the gross live-to-wholesale margin has slowly declined with the margin declining below $400 per 1,000 pounds recently," according to Andrew P. Griffith, agricultural economist at the University of Tennessee, in his late-June market comments. "The expectation is that these margins will continue to shrink as cattle feeders gain leverage on packers, pushing cattle prices higher and as consumers show a little displeasure in paying higher and higher prices for beef at the meat counter. How much more the gross margin shrinks will largely hinge on consumer willingness to pay for beef as the quantity of cattle moving through the feeding system will certainly decline. The one positive is that packers have the dollars to compete for cattle as they have been reaping the rewards of strong margins for more than two years."

As existing and new packing capacity competes for fewer cattle, packer margins will undoubtedly continue retreating.

Beef demand remains key

Although domestic beef demand appears to be holding its own, as other retail protein prices also increase, rampant inflation and federal monetary response cloud the outlook.

The closely watched University of Michigan Index of Consumer Sentiment was 50.2 in June. Analysts with the Livestock Marketing Information Center (LMIC) pointed out that was the lowest value on record dating back to 1978, lower than during the Great Recession.

Analysts with the NPD Group (NPD) noted at the beginning of June that food inflation and rising costs contributed to a year-over-year 4% decline in consumer visits to U.S. restaurants in April compared to the previous year. Of course, that means consumers are eating more meals at home, hopefully using new cooking skills acquired during the pandemic to prepare more beef.

International demand for U.S. beef continued to exceed expectations through April.

U.S. beef exports topped $1 billion for the third time this year, according to data released by USDA and compiled by the U.S. Meat Export Federation (USMEF).

Beef exports totaled 124,408 metric tons (mt) in April, up 3% from a year ago and the fifth largest on record. Export value soared 33% to $1.05 billion. Value was second only to the record $1.07 billion in March.

April beef export value equated to $489.59 per head of fed slaughter, up 33% from a year ago and the second highest on record.

"Global demand for U.S. beef continues to overcome enormous obstacles, from inflationary pressure to logistical challenges to the recent lockdowns in some of China's major metropolitan areas," according to USMEF President and CEO Dan Halstrom. "Most encouraging is that even as beef exports climb to unprecedented levels in our largest Asian markets, demand is strengthening in other regions as well, fueled by a strong rebound in the foodservice sector."

Halstrom cautioned that April results did not capture the full impact of recent COVID-19 lockdowns in China, some of which continued through May and into early June. The pressure inflation imposes on consumers' discretionary income and the rising strength of the U.S. dollar versus some key trading partner currencies are also growing headwinds for U.S. red meat exports.

For January through April, beef exports increased 5% from a year ago to 478,260 mt, valued at $4.05 billion (up 38%).

Beef export value for January-April equated to $478.03 per head of fed slaughter, up 39% year over year.

"The global economic outlook for 2022 remains positive, but previous growth projections are moderated due to trade disruptions, rising energy costs, rising inflation rates and commenced tightening of monetary policy," according to the latest quarterly Outlook for U.S. Agricultural Trade from the ERS and USDA's Foreign Agricultural Service (FAS).

Compared to the previous Outlook, ERS and FAS analysts lowered projections for this year's world gross domestic production to 3.6% from 4.4%.

"The Russian invasion of Ukraine has presented new challenges to global economic growth," analysts say. "The conflict and resulting response have further elevated energy prices, most immediately impacting the European market. Continued supply chain constraints and complications remain a significant global growth headwind. Central banks are expected to respond to rising inflation rates by implementing contractionary monetary policy. The tightening of monetary policy typically presents challenges to economic growth in the short term."

U.S. GDP was forecast at 3.7% versus 3.8% in the previous report.

Even so, U.S. agricultural exports in fiscal year (FY) 2022 are forecast at a record $191.0 billion, up $7.5 billion from the February forecast, led by increases in corn, cotton and soybeans. HW