Locked and Loaded

Cattle prices poised for significant increase.

by ***Wes Ishmael***

Calf and feeder cattle markets appear to have finally turned the long-awaited corner toward a multi-year run of higher prices.

Through August, calf prices were seasonally stronger than usual as cattle numbers thinned and futures prices pointed higher.

"The price of lightweight calves coming to market are not following their normal seasonal pattern at this time, as prices have been inching higher," explained Andrew P. Griffith, agricultural economist at the University of Tennessee, in his late-August market comments. "The price of these cattle may come under a little pressure when the glut of spring calves hit the market from late September through November, but prices are not expected to decline as much as the seasonal tendency would project."

As for feeder-weight cattle, the CME Feeder Cattle Index increased from $174.40 Aug. 1 to $182.36 at the end of the month, when it was $24 higher year over year.

During the same period, December Corn futures increased 60 cents per bushel.

Even as Corn futures rallied yet again at the end of August, Feeder Cattle futures ranged from $183.87 (Sep) at the front of the board to $199.50 at the back (Aug) with each contract higher than the preceding one. That's just a hint of the anticipated price trajectory over the next few years (see Records on the Horizon).

USDA's Economic Research Service (ERS) increased projected feeder steer prices (750-800 pounds, Oklahoma City) in August's Livestock, Dairy and Poultry Outlook. That was based on recent price strength and anticipated firm feedlot demand in second half of this year.

The feeder steer price was forecast $3 higher in the third quarter at $171 per hundredweight (cwt.) and $2 higher in the fourth quarter at $173 for an annual average of $164.60. Prices were forecast at $169 and $186 in the first and second quarters of next year, respectively, with an annual average of $199.25.

Negotiated cash fed cattle prices provided underlying support, with the five-area direct weighted average steer price mostly $141 to 144 per cwt. in July and August, about $19 more than the same period last year (see Market Tracks, Page 50).

At the end of August, Live Cattle futures ranged from $144.50 in spot Oct to $158.02 in Apr and then from $154.05 in Jun to $162.75 in Feb '24.

In the August World Agricultural Supply and Demand Estimates (WASDE), ERS increased the expected weighted average five-area direct fed steer price for this year 80 cents to $142.10 per cwt., on current price strength. Next year's projected annual price was $1 higher than the previous month's estimate at $154. Prices were estimated at $140 in the third quarter and $147 in the fourth quarter. Prices in the first and second quarter next year were projected at $151 and $152, respectively.

Cattle numbers tell the tale

Fed cattle slaughter and beef production were higher through the first half of this year as drought drove more calves to feedlots earlier and more cows to the market.

Estimated year-to-date total cattle slaughter Sept. 2 was 22.7 million head, which was 282,000 head more (+1.3%) than the same time last year. Estimated year-to-date beef production was 18.74 billion pounds, which was 192.1 million pounds more (+1.0%) than a year earlier.

Through August, cattle on feed in feedlots with 1,000 head or more capacity was higher each month year over year, according to USDA's monthly Cattle on Feed report. Of the eight months, inventory was record large in five months and the second most on record in two months, relative to the data series beginning in 1996.

Now the stage is set for significantly less cattle slaughter and beef production.

When this year started, the calculated number of calves outside feedyards was 676,000 head fewer (-2.6%) than a year earlier at 25.54 million head. Based on July 1 numbers in the semiannual Cattle report, numbers outside feedlots of 35.7 million head were 1 million fewer (-2.7%) year over year.

The beef cow inventory at the beginning of the year was 718,500 head fewer (-2.3%) year over year at 30.12 million head. That was the smallest inventory since 2015 and represented the steepest year-over-year decline since 1996-97, according to David Anderson, Extension livestock economist at Texas A&M University. Beef cow numbers July 1 of 30.35 million head were 2.4% less year over year.

Beef heifers held for replacement of 5.61 million head Jan. 1 were 191,600 head fewer (-3.3%) than the previous year. The 4.15 million beef heifers retained as replacements July 1 were 150,000 fewer (-3.5%) than a year earlier.

"The July 1 inventory of heifers in feedlots was 2.9% more than last year and confirms that heifers continue to be diverted into feeder channels rather than being retained for breeding," explained Derrell Peel, Extension livestock marketing specialist at Oklahoma State University, in early-August market comments. With the mid-year beef cow inventory 2.4% less year over year

Records on the Horizon

The recent Baseline Update for U.S. Agricultural Markets from the Food and Agricultural Policy Institute (FAPRI) at the University of Missouri offers added perspective regarding potential cattle numbers and prices over the next five years (see Figs. 1-3).

FAPRI pegs the beef cow inventory at 29.3 million Jan. 1 of next year, which would be 800,000 fewer (-2.7%) year over year. FAPRI projects the inventory at 28.7 million head in 2024 and then 28.5 million head the next two years before rising to 28.7 million in 2027.

Forecast cattle prices increase during most of the next five years — all higher than this year.

FAPRI forecasts the weighted average five-area direct fed steer price this year at $142.35 per cwt. For 2023 through 2027, projected prices are, respectively, $150.98, $156.53, $158.87, $159.39 and $157.81.

FAPRI estimates this year's average price for feeder steers (600-650 pounds, Oklahoma City) to be $180.54. For 2023 through 2027, projected prices are, respectively, $197.54, $211.62, $219.03, $220.45 and $218.22.

Updated projections are based on information available in mid-August 2022 this year.

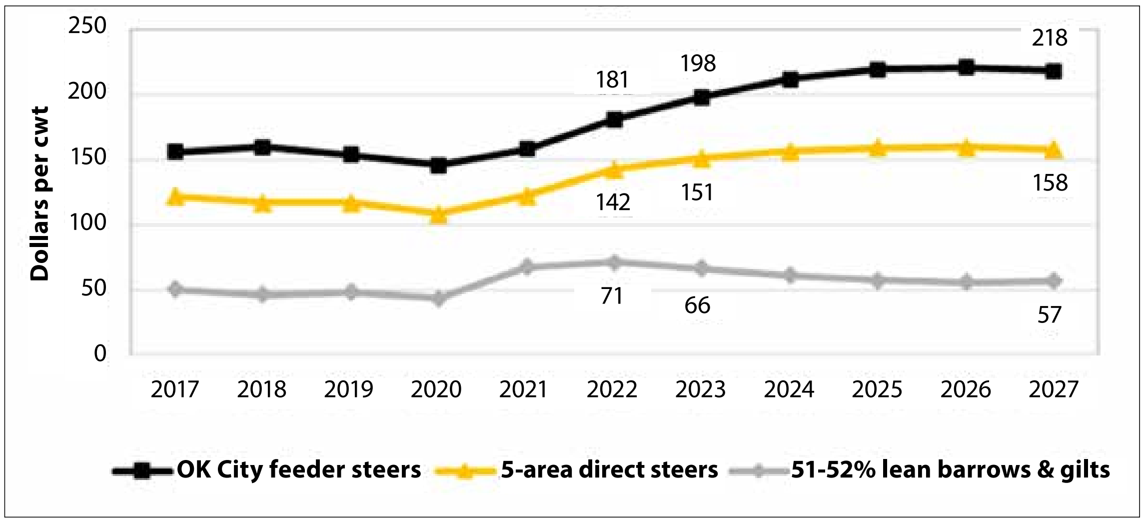
Among other update highlights:

- Drought conditions in important cow-calf areas are causing producers to send animals to slaughter early, lifting beef production in the short term but leading to fewer cows and higher prices in the years to come.
- Sharply higher feed and other input costs help keep projected total U.S. meat production nearly flat in 2022 and 2023. The last time meat production failed to grow in consecutive years was 2003 and 2004. Strong U.S. consumer demand for meat offsets a decline in exports.
- Tight global supplies result in record prices for wheat and cotton and near-record prices for corn and soybeans. For the 2022/23 marketing year, wheat prices are projected to exceed $9 per bushel; corn, $6 per bushel; and soybeans, $14 per bushel.
- Prices for fertilizer, fuel and many other farm inputs have also risen sharply in 2022. For example, variable corn production expenses have increased by an estimated $164 per acre in 2022. Projected input costs moderate in the years ahead but remain well above the 2021 level.
- If better growing conditions result in trendline crop yields in 2023 and later years, crop prices could decline from current levels. In 2023/24, projected average corn prices drop to $5.22 per bushel, wheat falls to $7.11 per bushel and soybean prices decline to $12.36 per bushel.
- The Consumer Price Index (CPI) for food is projected to increase 9.0% in 2022. Food-at-home prices increase 10.6%, well above the increase in prices of food away-from-home for the first time since 2011.
- The increase in the food CPI moderates to 2.3% in 2023, as commodity prices and food marketing costs decline. This still outpaces the 1.7% average annual increase from 2010-2019. HW

and the inventory of beef replacement heifers down 3.5%, Peel said the beef industry was poised to see the largest single-year beef cow herd liquidation in more than 35 years.

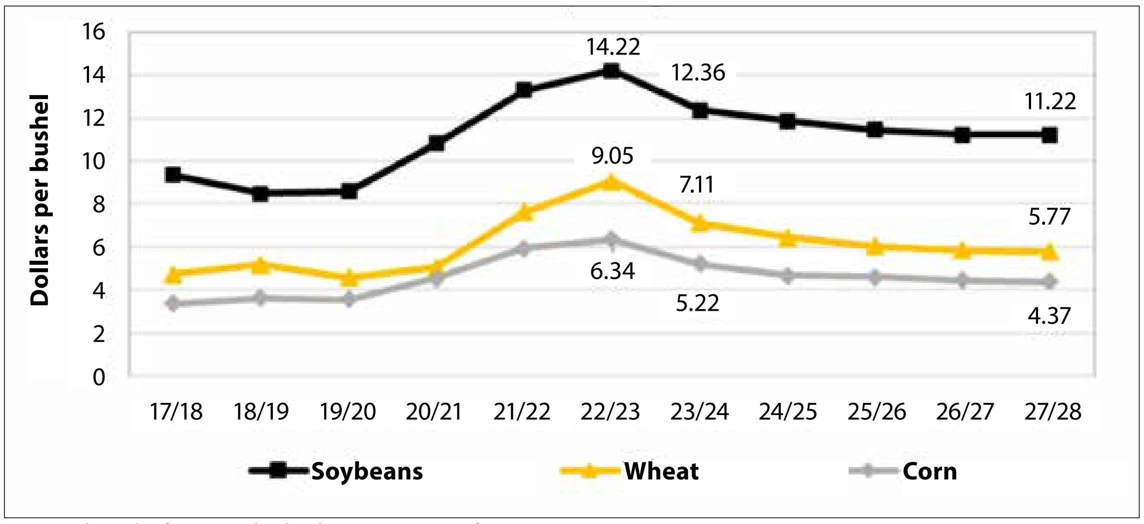
The August WASDE pegged beef production for this year at 27.99 billion pounds, which was 68 million pounds more than the previous month's estimate, based on higher expected placements in the second half of this year. Estimated beef production next year of 26.26 billion pounds would be 1.7 billion pounds less (-6.2%) than this year and significantly less than the record and near-record supply the last three years.

Figure 1: Cattle and Hog Prices



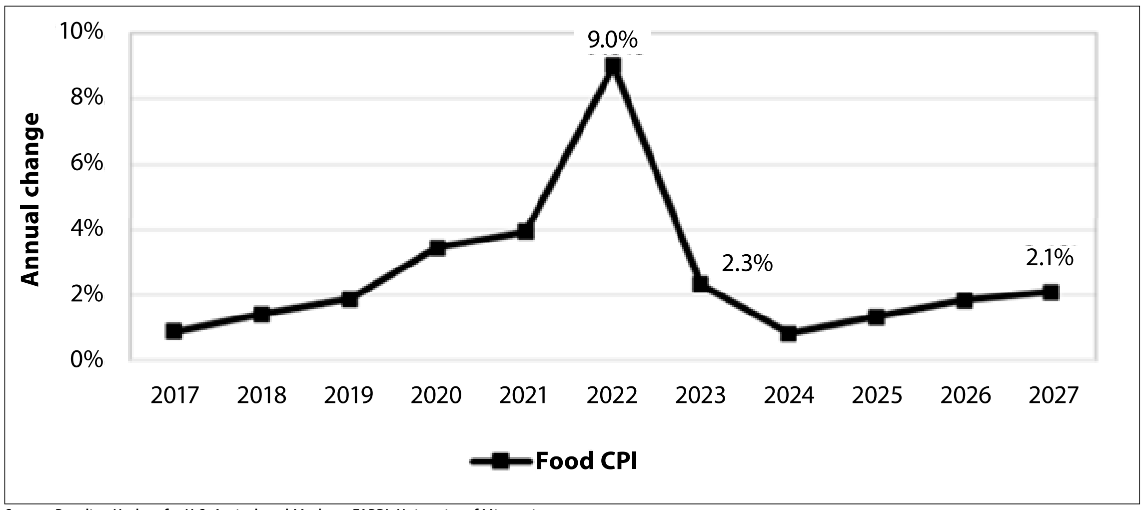
Source: Baseline Update for U.S. Agricultural Markets, FAPRI, University of Missouri

Figure 2: Grain and Soybean Prices



Source: Baseline Update for U.S. Agricultural Markets, FAPRI, University of Missouri

Figure 3: CPI for Food



Source: Baseline Update for U.S. Agricultural Markets, FAPRI, University of Missouri

Beef demand paves the way

As always, cash cattle prices ride on the back of consumer beef demand. Depending on your leanings, domestic demand remains extraordinarily resilient.

"Retail beef prices spiked following the COVID-19 shutdown to levels I anticipated not seeing again for the foreseeable future. But those price levels were seen across much of 2019, and we are close to those levels now. Retail beef margins are very strong," explained Stephen Koontz, agricultural economist at Colorado State University, in the mid-August issue of *In the Cattle Markets* from the Livestock Marketing Information Center.

More simply, Koontz explained if beef prices are strong and supplies are reasonably abundant then strength of demand is the only reason beef prices can remain elevated.

"It's the consumer — both domestic and international — and the downstream market. This strong consumer demand is being revealed in retail prices and strengthening the wholesale and farm level prices," Koontz said.

The all fresh beef retail value in July this year was $7.34 per pound. It was $7.10 a year earlier, according to USDA data.

Plus, international demand for U.S. beef is off the charts.

U.S. beef exports topped $1 billion in June for the fifth time this year, according to data released by USDA and compiled by the U.S. Meat Export Federation (USMEF). For the first half of this year, beef exports increased 6% year over year for volume, and 33% for value at $6.19 billion.

Through June, U.S. beef export value averaged $476.98 per head of fed slaughter, up 33% from the first half of 2021.

"Performance for U.S. beef exports through the first half of the year was nothing short of remarkable, especially considering the growing economic headwinds in many key markets and continued shipping and logistical challenges," according to Dan Halstrom, USMEF President and CEO. He explains, "The rebound in the global foodservice sector has provided a tremendous lift in 2022, even though it is still far from a full recovery in many Asian and European destinations. We definitely see opportunities for further growth, although inflationary pressure and the stronger U.S. dollar continue to raise concerns about consumer spending power."

Weaker economy ahead

"The global economic outlook for 2022 and 2023 is growing more uncertain due to the continued materialization of downside risks. Previous growth projections are moderated due to ongoing trade disruptions, above-target inflation rates and rising energy prices," say analysts with the ERS, in the latest quarterly *Outlook for U.S. Agricultural Trade*.

ERS analysts say global real gross domestic product (GDP) is projected to increase by 3.2% this year, down 0.4% from the previous forecast. Global GDP is projected to increase by 2.9% in 2023.

"The Russian invasion of Ukraine is ongoing and continues to impose far-reaching economic disruptions. The disruptions have thus far led to elevated energy prices that continue to disproportionately affect the European market," ERS analysts explain. "Supply chain complications have slowly abated, but spot shipping rates remain elevated compared with their pre-pandemic levels. Central banks around the world, including the Federal Reserve, have begun monetary tightening cycles to combat rising inflation rates. The tightening of monetary policy counters inflation but also typically presents short-term barriers to economic growth."

Against this economic backdrop, U.S. agricultural exports in fiscal year (FY) 2023 are projected at $193.5 billion, down $2.5 billion from the revised forecast for FY 2022.

"This decrease is primarily driven by lower exports of cotton, beef and sorghum that are partially offset by higher exports of soybeans and horticultural products," say ERS analysts.

Beef exports are forecast down $1.1 billion to $9.8 billion as higher prices fail to offset lower volumes driven by tight U.S. supplies. HW