Set to Climb

Declining numbers should lift cattle prices.

*by **Wes Ishmael***

Cattle prices are poised to continue increasing this year as cattle numbers and beef production decrease, but the degree of incline could be tempered by high input costs and demand volatility related to raging inflation and slower economic growth.

For perspective, the USDA projected 2023 beef production at 26.27 billion pounds. That would be a staggering 2.14 billion pounds less (-7.5%) than the 2022 estimate. The wide swing is driven by significantly fewer beef cows heading into this year and last year's record large beef production.

First, consider the record production.

"The pandemic in 2020 caused a backlog of cattle in feedlots and in the country. As a result, the estimated feeder supply on Jan. 1, 2021, was higher than 2020," explained Derrell Peel, Extension livestock marketing specialist at Oklahoma State University, in his mid-November market comments. "The drought in 2021 and 2020 caused cattle to be marketed earlier than usual and resulted in reduced heifer retention and increased heifer and cow slaughter in 2021 and 2022. Early marketing of cattle, reduced heifer retention and herd liquidation have kept feedlot inventories higher in 2022 and temporarily increased beef production. Beef production is projected at a record large 28.4 billion pounds in 2022, as a result of the highest total cattle slaughter in 15 to 20 years."

As for cow liquidation, year-to-date beef cow and beef heifer slaughter through November represented the steepest decline of female beef cattle inventories in more than three decades, according to Peel. At the time, he noted beef cow slaughter was up 12.3% year over year and had been higher year over year for 70 consecutive weeks.

"If beef cow slaughter were to decline to equal year-ago levels for the remaining weeks of the year (2022), total beef cow slaughter for the year would be up 10.5% year over year," Peel explained. "This would be a net beef cow herd culling rate of 13.1% for the year, a new record level. The actual culling rate is likely to be a little higher."

Peel pointed out beef heifer slaughter remained higher year over year, as well.

ERS projects this year's feeder steer price to average about $35 more than last year at $201.25 per hundredweight.

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> **— Derrell Peel, Extension livestock marketing specialist, Oklahoma State University**

When USDA publishes the *Cattle* report at the end of this month it will likely indicate the nation's beef cow herd was at least 3% less year over year.

Early-release tables for the USDA Agricultural Projections report from the Economic Research Service (ERS) project the beef cow inventory to be 1.1 million head fewer year over year Jan. 1 at about 29 million head. That would be 3.6% less than the same time a year earlier. The ERS projects the nation's beef cow herd declining another 387,000 head (-1.3%) to 28.6 million head by Jan. 1, 2024, before rebounding to 29.1 million head Jan. 1, 2025. From there the herd grows slowly to 31.3 million head at the beginning of 2032.

Total cattle inventory in the projections decline 2.5 million head this year (-2.7%) to 89.4 million head and another 800,000 head next year (-0.9%) to 88.6 million head at the beginning of 2024.

"With drought continuing, it is not clear what to expect for cow and heifer slaughter going forward," Peel said. "It seems likely that many producers adjusted herd inventories, given hay and feed supplies, to be able get through the winter. This might mean that cow culling will slow down through the winter. If La Niña persists next spring, more liquidation can be expected going into the next growing season."

Unfortunately, current weather models offer a dour outlook through next spring (see Parched, Page 64).

"How long we continue to contract will be directly impacted by drought and pasture conditions, explained Josh Maples, Extension livestock economist at Mississippi State University, in a November issue of *Cattle Market Notes Weekly*. "The current drought draws comparisons to the 2011-2013 and has led to similar liquidation impacts on the cattle inventory. Herd expansion will be difficult until the drought abates." Then, he explained producer profitability will be the key to when the next expansion phase occurs and when the next cattle cycle begins.

The ERS increased expected feeder steer prices (750-800 pounds, Oklahoma City) for the fourth quarter of last year and the first quarter of this year, in November's *Livestock, Dairy and Poultry Outlook*.

"Despite higher operating costs, firm feedlot demand is expected for the remainder of 2022, and with current price data the fourth-quarter 2022 price forecast for feeder steers is raised $3 to $176/ per hundredweight (cwt.)," according to ERS analysts. "Based on current price strength, the price projection in first-quarter 2023 is raised $2 to $177 per cwt."

ERS projects feeder steer prices to be $190 in the second quarter of 2023 and $214 in the third quarter for an annual average price of $201.25. The estimated annual average price for 2022 was $165.68.

In the December *World Agricultural Supply and Demand Estimates* (WASDE), ERS forecast the five-area direct weighted average fed steer price at $153 per cwt. in the first quarter of this year, $154 in the second and $166 in the third quarter with an annual average price of $156. The 2022 annual average price was projected at $144.15.

Beef demand holds so far

Domestic beef demand strength continues despite higher retail prices.

"Beef demand considers retail beef prices as well as the quantity of beef consumption," Peel explained, in November. "The fact that retail beef prices this year are averaging higher at the same time as consumption is increasing is an indication of strong beef demand."

The all-fresh retail beef price remained in a narrow range through October last year, from $7.37 per pound to $7.25 per pound, averaging $7.33 per pound, according to Peel. It was $6.95 during the same period in 2021.

Similar to retail prices, Peel explained wholesale beef prices also traded in a narrow range most of last year.

"Consumers, thus far, have absorbed large supplies of beef at record prices," Peel said. "As beef supplies tighten, some consumers may begin to 'trade down' as market prices ration a smaller supply of beef. Per capita beef consumption is expected to decrease in the coming year, not because beef demand is weak but simply because the available supply of beef will decrease."

Surprising some, international demand for U.S. beef also appeared to be on a record pace through the end of 2022.

Through October, based on data released by USDA and compiled by the U.S. Meat Export Federation (USMEF), beef export value was 18% more than the previous year's record and was on pace to reach $10.05 billion – topping $10 billion in a single year for only the second time. January-October export volume was 1.25 million metric tons, up 4% from a year ago. Export value for January-October equated to $459.50 per head of fed slaughter, up 17% year over year.

Dan Halstrom, USMEF president and CEO, said the pace of U.S. beef exports was remarkable, considering strong headwinds, which included ongoing logistical challenges, declining buying power of international customers due to the strength of the U.S. dollar and ongoing COVID-19 restrictions in some parts of the world.

In the latest quarterly *Outlook for U.S. Agricultural Trade*, the ERS and USDA's Foreign Agricultural Service (FAS) projected U.S. beef export value $500 million higher for 2023 to $10.3 billion. Higher expectations were based on expected increased unit values as domestic beef production declines.

Cattle and Government

Some of the notions explored during the pandemic to bolster packing capacity and market transparency are starting to take shape.

Cattle contract library

In early December, the USDA published the final rule that will require packers to submit contractual information for the purchase of cattle. The rule applies to beef packers that slaughtered an average of not less than 5% of the number of fed cattle slaughtered nationally during the immediately preceding five calendar years.

The rule stems from the Consolidated Appropriations Act of 2022, which directed the Agricultural Marketing Service (AMS) to create a Cattle Contracts Library Pilot Program (library) to increase market transparency for cattle producers.

Publication of the final rule, which goes into effect on Jan. 6, 2023, aims to ensure complete reporting of contractual information and volumes purchased against the contracts, including: supplemental information on cattle requirements; associated schedules of premiums and discounts; delivery and transportation terms and payments; appendices and agreements of financing, risk-sharing or profit sharing; or other financial arrangements associated with such contracts, whenever new contracts are offered, or existing contracts are updated.

"We are pleased that USDA listened to feedback from stakeholders like NCBA while crafting the final rule on the Cattle Contract Library Pilot Program. We are hopeful that this pilot program will strike an appropriate balance between offering cattle producers additional insight into the market while also protecting their proprietary business information," said Tanner Beymer, senior director of government affairs for the National Cattlemen's Beef Association (NCBA).

Meat and poultry processing expansion

USDA announced in early November that the Biden Administration was investing $73 million in 21 grant projects through the first round of the Meat and Poultry Processing Expansion Program (MPPEP), which aims to support small to mid-size packing companies and expand the nation's meat and poultry processing capacity.

For instance, Greater Omaha Packing Co. in Nebraska received a $20 million MPPEP grant that the company will use as part of a planned $100 million investment to upgrade and automate freezers, expand its wastewater system for increased capacity, remodel key areas for value-added further processing and increase its carcass holding coolers. In total, the Greater Omaha team estimates the capacity expansions will help the company process an additional 700 head of cattle per day. The company has long offered a value-added Hereford beef program.

"This significant investment will allow the company to remain competitive in the marketplace and continue to support our small family feeder operators while providing incremental value back to the producers," said Henry Davis, CEO of Greater Omaha. "We believe the production expansions will keep us at the forefront of an ever-changing industry."

"This opportunity to enhance our production capacity will make a difference across the supply chain, from the cattle producer to the retail operator and foodservice chef receiving a safe, premium product," according to Mike Drury, president of Greater Omaha.

In addition to funding through MPPEP, the Administration is investing $75 million for eight projects through the Meat and Poultry Intermediary Lending Program, as well as more than $75 million for four meat and poultry-related projects through the Food Supply Chain Guaranteed Loan program. **HW**

Global economy struggling

"The global economic outlook for calendar year 2023 remains uncertain due to inflation, changing monetary policy conditions and trade disruptions caused by the Russian invasion of Ukraine," according to ERS-FAS analysts. "Previous growth projections are moderated due to tempered economic growth in Europe and North America."

Although domestic economic growth was stronger than expected in the third quarter, the global economic outlook continued to weaken, according to the late-year *World Economic Outlook* (WEO) from the International Monetary Fund (IMF).

"More than a third of the global economy will contract this year or next, while the three largest economies — the United States, the European Union and China — will continue to stall," said WEO authors. "In short, the worst is yet to come, and for many people 2023 will feel like a recession."

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> **— USDA Economic Research Service and Foreign Agricultural Service**

The IMF shaved 0.2% from its outlook for 2023 global economic growth, compared to the July projection. IMF forecasts global gross domestic product (GDP) to be 3.2% in 2022 and to be 2.7% this year.

"This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic and reflects significant slowdowns for the largest economies: a U.S. GDP contraction in the first half of 2022, a euro area contraction in the second half of 2022, and prolonged COVID-19 outbreaks and lockdowns in China with a growing property sector crisis," explained IMF analysts.

Projections pegged U.S. economic growth at 1.6% in 2022 and 1.0% this year.

IMF analysts said risks to their quarterly outlook remained unusually large and to the downside. **HW**