Simmer

Expect cattle prices to rise steadily this year and then likely spike in 2024 or 2025.

by ***Wes Ishmael***

Cow-calf producers should occupy the proverbial driver's seat this year and beyond, as cattle feeders and beef packers chase tightening supplies.

"Prices have been trending higher, generally, and ended 2022 on a very strong note. I expect that to continue through 2022 and 2023. Markets have been getting stronger and will probably accelerate this year," says Derrell Peel, Extension livestock marketing specialist at Oklahoma State University. "The new year looks to contrast with last year with noticeably tighter cattle numbers, especially at the feedlot level, driven by previous herd liquidation and sharply lower feeder cattle supplies."

Likewise, Katelyn McCullock, director and senior economist with the Livestock Marketing Information Center (LMIC), expects cattle prices to continue rising this year. LMIC projects the annual average price range for steer calves (500-600 pounds, Southern Plains) at $207-$209 per hundredweight (cwt.) this year versus $191.40 last year (see Table 1). Price projections for feeder-weight steers (700-800 pounds, Southern Plains) are $180-$182; they were $168.89 last year. She notes drought will ultimately hold sway over market price levels and timing.

By way of comparison, USDA's Economic Research Service (ERS) projects the average feeder steer price (750-800 pounds, Oklahoma City) to be $177 per cwt. in the first quarter of 2023, $190 in the second quarter and $214.00 in the third quarter for an annual average price of $201.25. The annual average this year was projected to be $165.68. That's from December's monthly Livestock, Dairy and Poultry Outlook.

On average, Peel explains feedlot inventories peaked in December and hit their low in September from 2016 to 2000. However, in 2021, the peak came in February and the ebb in September. In 2022, the ebb came in September and peak numbers may already have been established for a long while.

"Feedlot inventories decreased from November to December. This may signal that the seasonal peak is already in place, although it is too early to be sure," Peel says. "The last time that December feedlot inventories were lower than November occurred in 2016. In that instance, feedlot inventories decreased in December and January before jumping higher to a belated peak in June 2017. I believe it is unlikely that feedlot inventories will move higher anytime in 2023 and the November 2022 total may be the peak for many months. Time will tell."

Peel explains cow slaughter will paint the sharp market contrast between this year and last. "We ate inventory and pushed beef production to record levels in 2022," he says. "You can't keep doing that. Beef production will drop at least 4-6% in 2023. It will get squeezed more when we start rebuilding."

The USDA cattle inventory report released at the end of January will likely verify that beef cow numbers declined 3% or more.

"Beef cow and heifer slaughter in 2022 was the most since 1986," Peel says. "Female liquidation is something we haven't seen in 20 years, if not 30 or 40 years."

The last price spike

Many producers and industry pundits liken current supply fundamentals to those that set the stage for the historically high cattle prices in 2014-15, which followed significant drought-forced beef cow liquidation a few years earlier. Prices firmed and rose steadily as cattle supplies declined. Prices spiked when producers began retaining more heifers to build back the cow inventory, squeezing already snug feeder cattle supplies.

"At some point, the market will break hard to the upside, but that may not be this year," McCullock says.

Back then, 500-600 pound steers averaged more than $200 per cwt. for a little more than a year. The $280-$300 per cwt. price tags lasted about three months, according to McCullock.

There are differences, though.

"The difference compared to last time is that last time we continued to keep replacement heifers through the drought, and we had a pool of heifers to begin rebuilding with. We don't have a pool of heifers to start with this time," Peel says. When producers begin rebuilding, he believes the price spike could be more exaggerated than 2014-15 because of how long the drought has lasted and how much of the national herd — beef cows and heifers — has been liquidated.

Differences exist beyond the industry, too.

"Most, if not all of the situation in the 2014-15 period was a domestic cattle situation," says Glynn Tonsor, agricultural economist at Kansas State University. "I wouldn't say that is at all the case today. There is as much or more influence coming from outside the industry."

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For one, Tonsor notes the elevated cost structure, everything from interest rates to feed and fuel.

As well, McCullock points out the U.S. was entering an economic growth phase in 2014-15. The economy is sputtering today, perhaps headed for economic recession.

"A lot of times, we talk about things in a vacuum, in terms of the drought or the cattle cycle. But there are so many other things that can overshadow them," McCullock says. "Volatility is probably here to stay, and we won't see as many clear-cut price drivers and price reactions."

Even so, the sheer dearth of cattle numbers suggests a price spike is less of a question than when it will occur. All mentioned here believe the spike will likely come next year if not in 2025, in part because the rebuilding process will be a slow go, even when Mother Nature allows.

Given the different dynamics today, prices could spike higher than in 2014-15, or peak at a lower level but last longer, McCullock says. "It changes based on how quickly we can build back the cow herd. And, everyone is facing increased costs to a significant degree, so margins aren't as wide as they were back then."

Building back

Opinions differ on whether producers will rebuild the herd to the previous peak of 2019 when there were 31.8 million beef cows at the beginning of the year.

"I'm not optimistic we come back all of the way. My gut says we come back two-thirds or three-quarters of the way, Tonsor says. "One — we don't need as many cows to hit the beef production target; two — the cost of running every cow has increased so much that we'll reach equilibrium quicker."

The national cow herd has declined since the mid-1970s, as genetics, management and technology yielded more beef production per head of beef cow inventory.

Even so, Peel thinks there is a chance to build back the inventory to its previous peak and maybe more. He points out the nation's cow herd was poised to continue expansion until drought derailed intentions.

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There could be some regional differences in expansion, too.

In Kansas, for instance, Tonsor says Jan. 1 beef cow numbers were 1.4 million head in 2022 just like they were in 2014. In other areas, where the bulk of national herd rebuilding occurred last time, cattle numbers remained lower than before the previous drought.

Moreover, Tonsor points to the fact that some pastures have been converted to crops over time. "It takes a pretty big carrot to put those fences back up," he says.

Table 1: Quarterly Commercial Cattle Prices[a]

Year/Quarter	Live Sltr. Steer Price 5-Mkt. Avg. ($/cwt.)	% Change from Year Ago	Feeder Steer Price Southern Plains[d]	
			700-800 lbs. ($/cwt.)	500-600 lbs. ($/cwt.)
2022				
I	139.25	23.3	160.00	193.66
II	141.93	17.5	160.49	188.43
III	143.42	16.2	177.57	191.97
IV	150-151	13.7	177.50	191.55
Year	143-144	17.2	168.89	191.40
2023				
I	147-152	7.4	178-180	194-197
II	152-157	8.9	178-182	199-203
III[b]	148-158	6.7	178-188	205-215
IV[c]	150-160	3.0	181-191	220-230
Year	153-154	7.0	180-182	207-209
2024				
I	160-175	12.0	182-197	225-240
II	165-180	11.7	184-198	220-235
III	163-178	11.4	190-205	230-245
IV	167-182	12.6	187-202	235-250
Year	165-175	10.7	187-197	230-240

Superscript (a) Totals may not add due to rounding.
Superscript (b) Projected/Estimated quarter
Superscript (c) Forecasted quarters
Superscript (d) Average of Kansas and Oklahoma Weekly Combined reports

Sources: Livestock Slaughter - USDA/NASS; Steer Prices - USDA/AMS Livestock Market News; Projections and Forecasts by LMIC

Demand remains key

Of course, consumers will have much to say about how high prices can go.

Domestic beef demand remained resilient last year, but cracks could be appearing.

"Consumers' finances and their innate ability to pay for beef is a concern. All of my measures say domestic consumer demand was quite good until about four months ago," Tonsor says. Among those measures is the Beef Demand Monitor, he helps produce, which is funded in part by the beef checkoff.

"When we ask consumers about their finances relative to the same time last year and what they expect them to be like a year from now, they're quite pessimistic," Tonsor says. "Tighter supplies because of drought will only move cattle prices higher relative to our ability to pass along higher prices to the consumer."

The question is one of how much prices increase. As Peel says, "Beef prices will go higher because we'll start rationing supply in the domestic and international markets."

Speaking of which, the international demand for U.S. beef Peel alluded to earlier has been nothing short of remarkable.

"I think we will become more dependent on the export market, and that could mitigate some things like domestic price pressure," Tonsor says.

Economic and logistical headwinds finally caught up to U.S. beef exports in November, however export value through the first 11 months of the year already exceeded the record $10.58 billion achieved the previous year.

November beef exports totaled 115,777 metric tons (mt), down 6% from the previous year's large volume, while export value declined nearly 20% to $846.6 million, according to data released by USDA and compiled by the U.S. Meat Export Federation (USMEF).

For the first 11 months of the year, beef export value increased 14% year-over-year to $10.9 billion. January-November export volume was 1.36 million mt, up 3% from the record pace of 2021.

November beef export value equated to $382.46 per head of fed slaughter, down 20% from a year ago, but the January-November average was up 13% to $452.42.

"Similar to the previous month, November results for U.S. beef exports reflected severe headwinds in our large Asian markets," explains Dan Halstrom, USMEF president and CEO. "Key currencies in the region were still slumping, which impacted the buying power of importers and consumers. COVID-19 cases and lockdowns in China were also intensifying, prompting widespread protests and the eventual lifting of many restrictions. But the U.S. dollar mainly peaked in late October and early November and global demand has remained relatively strong. Even with a high level of economic uncertainty, 2022 has been a fantastic year for U.S. beef exports and the outlook for the coming year remains positive."

Despite economic shocks and uncertainties during the last several years, there is no strong indication that softer global economics have weakened U.S. beef demand in East Asia, according to a recent International Agricultural Trade Report — U.S. Beef Exports to Asia on Record Pace — from USDA's Foreign Agricultural Service (FAS).

In spite of supply chain disruptions for U.S. fresh or chilled beef, longer shipping times, and higher costs, FAS analysts say East Asian import demand for beef products should remain steady. Demand from the region was record large in 2021 for both volume and value.

"East Asia's relatively robust middle class has supported the demand for high-quality beef, and a developed e-commerce retail sector has provided flexible avenues for suppliers to promote beef products during the pandemic," according to the report.

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Peel explains the U.S. will export less beef this year because less will be produced, headwinds such as the high U.S. dollar and the fact Australia has finally built back enough numbers from its drought to resume its competitive position in the global marketplace.

But, Peel says, "The U.S. is in a very good place in terms of the global markets, from my perspective."

In the meantime, drought is the major issue facing producers.

"The revenue side of cattle production will be less of a concern in 2023, at least as far as cattle prices go," Peel says. "However, managing and maintaining production and managing the rising cost of production will continue to be major challenges for cattle producers this year." HW