

The 2017 Beef Bulge

Strong exports may limit price weakness.

by **Barb Baylor Anderson**, field editor

Last November marked the largest beef production month since 2010. It also was a good month for U.S. beef exports, and market watchers say it will take continued robust international beef demand to absorb the beef bulge and help continue to maintain or lift cattle prices in 2017.

According to the U.S. Meat Export Federation (USMEF), November 2016 beef exports were up 20% year-over-year and the largest since July 2013. Export value increased 21% to \$619.1 million, the highest since December 2014. That pushed January–November 2016 export volume to 1.07 million tons, which was up 10% year-over-year.

"November exports were nearly 15% of total beef production and 11.7% for muscle cuts — the highest since 2014," says Philip Seng, USMEF president and CEO. "Beef export value per head reached a 2016 high of \$294.39, up 5% from November 2015."

Exports are expected to increase from the total 2.5 billion pounds (lb.) recorded in 2016 to 2.6 billion lb. in 2017. Imports are expected to decline from 3.0 billion lb. to 2.7 billion lb., says Darrel Good, University of Illinois emeritus livestock economist, which may help move more beef.

More U.S. beef coming

USDA raised its beef production forecast for 2016 and the upward trend is expected to continue. Production rose 6% last year and may climb another 4% this year. Rabo AgriFinance predicts a more modest 2.5%-3% increase in 2017, and also expects the surge in the U.S. dollar to increase feeder-cattle shipments to the United States from Mexico and Canada.

"U.S. beef production hit a 22-year low in 2015, but is expected to increase from 25.1 billion pounds in 2016 to 26.2 billion pounds in 2017," says Good. "The expansion in the cow herd that started in 2015 and the continuation of low feed prices will increase beef production."

"Cattle slaughter exceeded expectations throughout 2016," confirms Derrell Peel, Oklahoma State University Extension livestock marketing specialist. "Herd expansion through 2016 ensures increased beef production through 2018. Herd expansion may slow or stop in 2017, which will impact heifer flows and define production beyond 2018."

Markets open for business

With beef available, USMEF is working

worldwide to keep U.S. beef sales on an upward track.

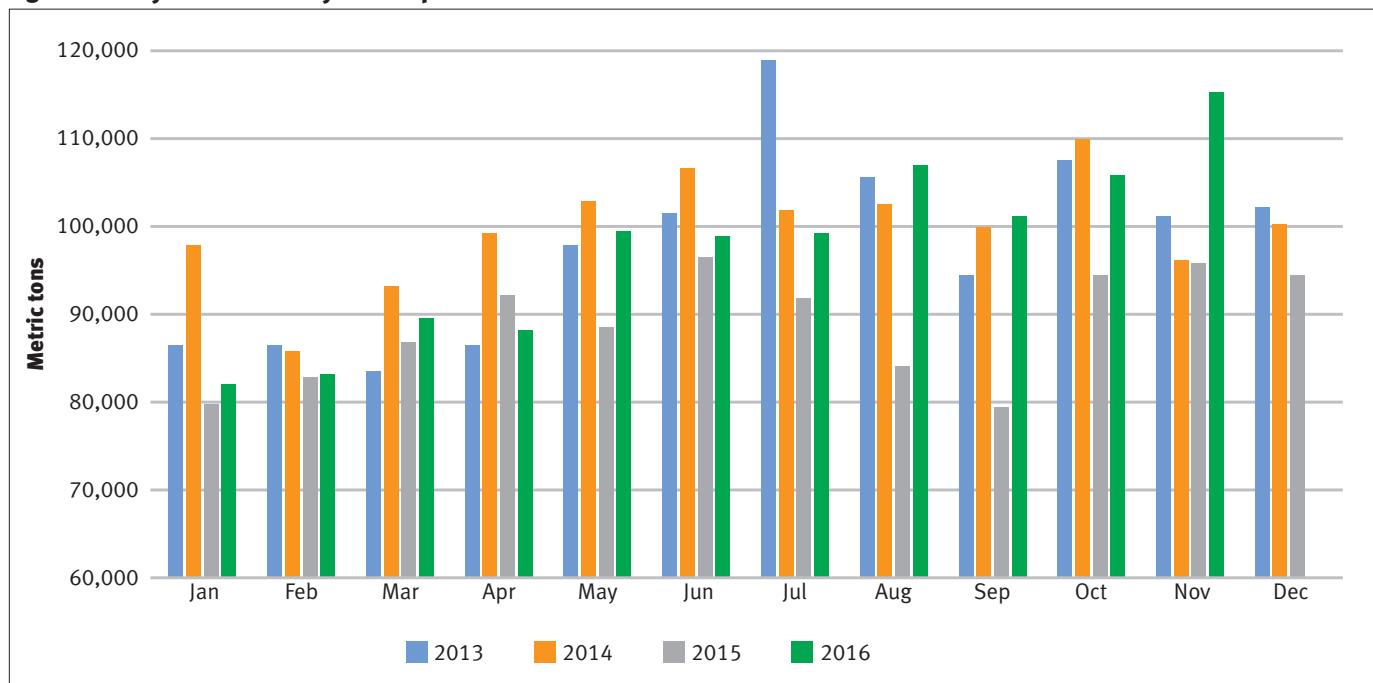
"We expect continued growth in those markets that led the trend in 2016," says USMEF Economist Erin Borror. "Export growth is expected to be driven by our key Asian markets, as well as in emerging markets in Southeast Asia, especially Indonesia and Vietnam. USMEF sees potential for further growth in the Western Hemisphere, where the rebound in shipments to Mexico should continue with growth to Central and South America."

Following a down year in 2015, U.S. beef exports to Japan continue to rebound. For January through November 2016, USMEF notes export volume increased 24%.

"U.S. beef faces a roughly 10% tariff disadvantage versus Australian beef in Japan, because Australia implemented a bilateral economic partnership agreement with them in 2015 to reduce tariffs on Australian beef," says Borror. "If the Trans-Pacific Partnership (TPP) had been implemented, U.S. beef would be subject to the same lower tariff. Absent TPP implementation or a U.S.-Japan bilateral agreement, U.S. beef will face a growing tariff disadvantage."

Beef exports to South Korea set a new

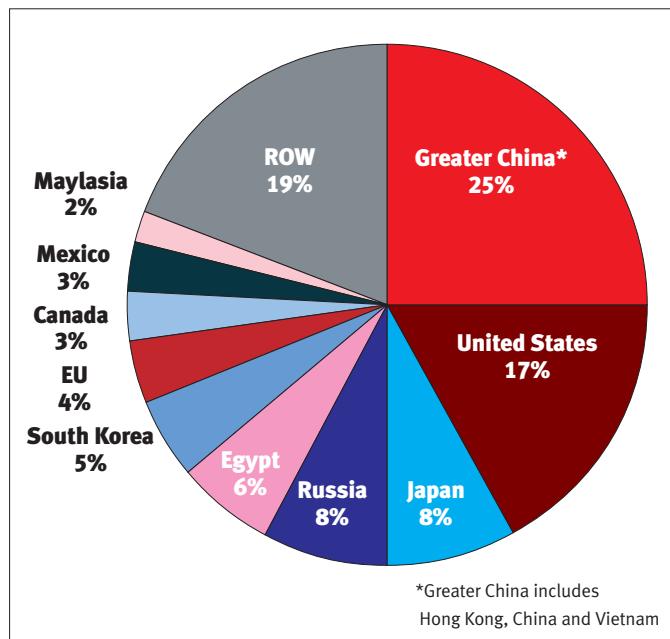
Fig. 1: Monthly beef and variety meat export volume



Source: USDA & USMEF.

Fig. 2: Top beef importers

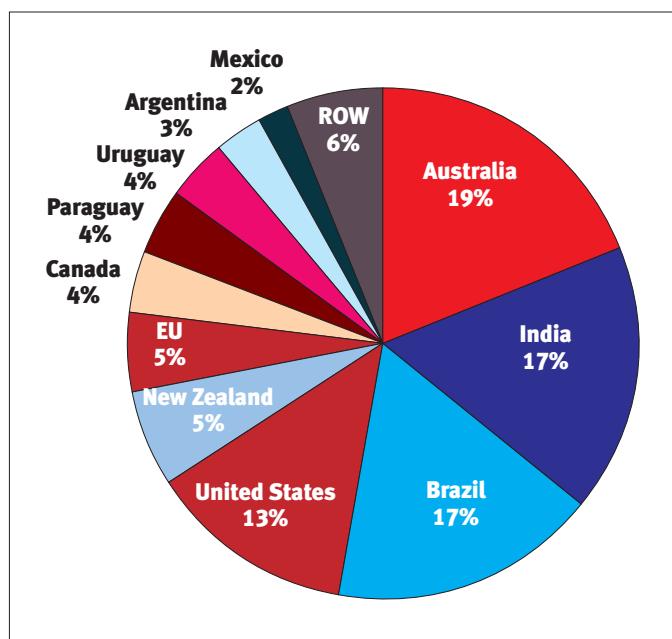
2015 beef and variety meat import estimates



Source: Global Trade Atlas, USMEF estimates, product weight.

Fig. 3: Top beef exporters

2015 beef and variety meat export estimates



Source: Global Trade Atlas, USMEF estimates, product weight.

value record from January to November 2016. Borror says Korea became the fifth market where U.S. exports exceeded \$1 billion in a single year. Beef exports to Taiwan were 22% above the 2015 pace in volume through November, and U.S. beef also recently gained access to Brazil. USMEF expects strong demand for U.S. sirloin caps, which is the highest-value cut there, as well as for U.S. middle meats and livers.

The wild card for U.S. beef sales may be China, according to Scott Brown, University of Missouri Extension livestock economist. He says while the country is open to importing U.S. beef, several challenges still limit access to the fast-growing market.

"Trade policy in China and elsewhere and the value of the U.S. dollar will both affect U.S. exports," he says. "A strong dollar makes prices higher for U.S. beef in other countries."

Even with that impact, Borror expects overall global supply dynamics and continued economic growth to favor further increases in U.S. beef exports and support for U.S. cattle prices.

"Although tracking the specific impact of beef exports on cattle prices can be somewhat challenging, there is no doubt that export growth in beef has, at a minimum, kept a floor under cattle prices as U.S. beef production rebounded," says Borror.

Prices under less pressure

Continued underlying price strength from robust exports would be welcome. Rabo AgriFinance, in their recent animal protein outlook, reported that with less volatility

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— Darrel Good

in beef cattle supplies and a more certain outlook, the large swings the cattle market has experienced for the last 18 months will subside. Their economists expect that may bring better marketing and margin opportunities for cow-calf producers and feedlots, although not necessarily sustained cattle price increases.

"Cattle prices in 2017 are expected to average close to fourth-quarter 2016 levels, though they will be lower than 2016 for year-over-year averages," says Peel.

He anticipates several factors may have a significant impact on cattle and beef markets, including uncertainty from a variety of sources. "Current U.S. macroeconomic conditions are encouraging. The stock market finished strong and unemployment was low at the end of 2016," he says. "However, the economy is gearing up for higher interest rates and perhaps higher inflation. Uncertainty surrounds changes by the new administration, and that is a negative."

Global market uncertainty also may come into play. Peel points to the Brexit vote last summer, followed by other populist moves in Europe as contributing to macroeconomic unknowns.

"If we can't sell more beef abroad, that means the meat must be consumed here at home. The main way to move more meat is to lower prices," he says.

Fed-cattle prices averaged near \$148 in 2015 and about \$120 in 2016, but are projected to average only about \$105 in 2017, says Good. Looking at 600-weight calf prices in Oklahoma City, Brown says 2017 prices could be \$10-\$15 lower than the end of 2016 average of \$153.

"Futures have been climbing since mid-October, so producers can consider some risk management even if prices are not great," says Brown. "There are downside risks if you hang on to calves when prices are rising, as we may return to a more long-term normal price level."

Brown advises producers to look at both cost and sales opportunities. USDA data show a \$300-\$400 difference in costs per cow across the country. "Look at your costs, and work on herd quality," he says. "Invest in genetic potential to make your cattle more efficient or grade better, and consider working with a broker to use futures and options strategies for sales in 2017."



Editor's Note: A former National Junior Angus Board member, Barb Baylor Anderson is a freelancer from Edwardsville, Ill.