Still in a Cycle

Industry expected to remain profitable with strong markets.

by Julie Mais, editor

The U.S. beef industry continues to experience the return to historical market cycles, according to CattleFax CEO Randy Blach who provided a big-picture view and long-term trend outlook during the 2019 Cattle Industry Convention and National Cattlmen's Beef Association (NCBA) Trade Show in New Orleans Jan. 30-Feb. 1.

"Our pipeline is full," he said. "We've been running our packing plants at full capacity. Our feed yards are full. Our cow herd is up three million head as well."

Because of this, Blach predicts price spreads to narrow some over the course of the next few years due to cattle inventory numbers.

"My message to those of you in the cow calf and stocking side is no, it's not a train wreck, but you need to be aware that we still have some cyclical price risk until these numbers peak and our production feeds into the early part of this next decade," he said. "We think that it is going to occur in about 2021."

Demanding quality

Blach praised the industry for addressing consumer requests over the past two decades leading to the strong demand experienced today.

"We've got a 50% increase in the quantity of Choice and Prime product we're producing on an annual basis," he said. With 1998 being the low-water mark for demand, Blach added, "We basically moved the Choice/Prime percentage from 50 to 55% (in 1998) to 80%." Data proves consumers responded to the higher-quality by paying premiums for Choice and Prime beef.

"I think this tells a great story for our business that we finally started listening to the consumer," he said. "And the consumers rewarded us."

Long-term trends

Blach said his team sees cattle numbers growing gradually in the early part of the next decade.

"We'll be looking at peak production in 2020-21 and then we'll start to see a gradual decline," he said. "The packing segment is going to be in a strong leverage position. They're going to continue to enjoy some very, very good margins here in 2019 and 2020."

He believes the industry will continue to be profitable and does not expect a major liquidation phase as it moves into that time frame.

"We're optimistic about that when we tell you we're going to see a little more erosion in these calf prices as we go into the early part of the decade, but we've had a very good run," he said. "When you just step back and think about it, I think it's really a pretty good outlook when you think about where we are in the cycle and the growth that we've experienced. This demand situation, domestic and global demand growth, has been phenomenal."

Economy, Energy and Grain Outlook

Export demand plays role in feedstuffs outlook.

by Kasey Brown, Angus Beef Bulletin *associate editor*

Despite the fact the government shutdown negatively affected the gross domestic product (GDP) by anywhere from 0.13 to 0.25% each week, the overall U.S. economy strengthened by about 2.8% in the fourth quarter. Unemployment rates are down again by 4%, and median household income has grown for the fifth year in a row, this year by about 2%. Mike Murphy, CattleFax market analyst, presented an outlook of the economy, energy and feedstuffs to attendees of the 2019 Cattle Industry Convention in New Orleans, La.

A headwind of sustained inflation growth, interest hikes and lower personal-saving rates indicate an economic slowdown could be imminent, which would put consumer beef demand at risk. He admits that the volatile global market conditions could change things.

Many outside factors can affect trade, like the Brexit, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, and hopefully a U.S.-Japan bilateral agreement later this year), the United States-Mexico-Canada Agreement (USMCA), and China-U.S. relations.

"The real key from an economic standpoint is China," he said. China's purchasing managers index has contracted within the last two months in correlation with the trade dispute, which shows that it is important for both parties to come to an agreement soon.

A boon is that the United States is energy independent, which was put into motion in the early 2000s. Seventy percent of global oil production is from the United States. Exports of crude oil, gasoline and natural gas are driving U.S. energy demand growth. Murphy predicted retail gasoline prices to trade from $2.30 to $2.90 per gallon, averaging $2.62, down 24¢ from last year. Retail diesel should trade from $2.60 to $3.27 per gallon, averaging $2.90, down 27¢ from last year.

With soybean exports down, Murphy predicted corn acres planted to be up for 2019. With record pork production and the potential for increased poultry production, feed corn will be needed.

"Expect corn acres to increase 2 million acres to 91 million this year, while soybean acres decline 2.2 million to 87 million acres and wheat acres increase 1 million acres to 49 million," Murphy said.

USDA gave its annual *Crop Report* in early February, but Murphy anticipated no significant changes. The corn stocks-to-use ratio is at 11.8%, while soybeans are at 23.3%. Adequate supplies mean demand changes will dictate corn and soybean prices throughout the first half of 2019.

The practical range for spot corn futures is $3.60 to $4.10 per bushel for the first half of 2019.

Mike Murphy expects trade negotiations to play a role in 2019 feedstuffs market.

Ethanol margins were the worst in history, so watch ethanol production in the future, he warns.

He didn't predict much change in 2019 hay acres, but forecasted weather looks to be favorable for hay growth. This should allow on-farm stocks to rebuild as production increases to pressure hay and forage prices lower.

Supply and Demand

Cattle market continues on an upward trajectory based on weather market.

by Lindsay King, assistant editor

It's a weather market year. During the 2019 Cattle Industry Convention in New Orleans, La., CattleFax Senior Analyst Kevin Good said this will make the cattle market explosive in the spring and risky in the later summer months. Much like last year, his overall outlook for 2019 is positive, despite past and future challenges in the industry.

"Generally speaking, prices are strong," he said, "available dollars coming in are a record high. Everyone in the cattle production system has had a good few years, but I would challenge producers to think about expansion as the strong domestic and global economy are sure to crumble at some point."

Cattle slaughter numbers were up by 400,000 head last year and is expected to increase by another 150,000 head in 2019. CattleFax projects beef production will hit a record high in 2019 at 27.3 billion pounds (lb.) and level off in 2020 at 28.1 billion lb.

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"We produced 3.2 billion more pounds of beef in 2018," Good explained. "The balance of trade improved by 1.3 billion pounds between 2015 and 2018. Basically, exports are going up while imports are going down."

This also means beef on the domestic market per capita will remain steady with the numbers from last year. This is not from a lack of supply though. In fact, the calf crop coming into the year is up by more 350,000 head.

Kevin Good predicts a positive outlook for cattle producers in 2019.

"We won't be able to harvest more cattle than we did a year ago — we were going five days a week plus most Saturdays — but we believe supplies will stay larger and longer into the fall," Good added.

While poultry entered 2019 at a ten-year-low price, beef is still recognized as a premium product. Beef retail prices are expected to average out at $5.73/lb. Demand for it is strong thanks to increased wages and job growth. Since 80% of fed cattle grade either Prime or Choice, retailers are seeing the benefit of advertising beef at a higher rate.

"The lack of shackle space at the packer will present a challenge as we move into the third quarter," Good said, referring to July through October, the months he considers most risky in the coming year.

This will make selling cattle difficult for producers from a bargaining standpoint, he added.

While exports continue to increase and appear to be "friendly," Good is quick to point out how ongoing trade negotiations make this status volatile. Although, trade continues to be healthy for all three proteins – poultry, pork and beef – and Good expects that trend to continue in the coming year.

"African Swine Fever is spreading through China and we expect this will open up more avenues for products going overseas later in the year," Good said. "The 10% swing in pounds of beef traded, equates to $300 million in the market."

Weather conditions and profitability ultimately drive expansion. In the current weather market, Good said cattle will take longer to reach market weight. This will give the market more "push" through the spring months.

Essentially, the cattle industry is continuing its upward trajectory. However, Good cautioned producers to be thinking long term as he said conditions will eventually deteriorate, as they have historically in the cycle.

Extended Range Weather Outlook

Art Douglas explains what weakening El Nino means for ranchers across the country.

by Troy Smith, field editor

Favorable range conditions across many parts of the U.S. cattle industry have been influenced by what Art Douglas calls "a classic *El Niño* weather pattern." A year ago, the Creighton University professor emeritus of atmospheric science predicted the coming of *El Niño*, which is characterized by warm sea surface temperatures in the central equatorial Pacific. Douglas again shared his long-range forecast at the CattleFax Industry Outlook Seminar, during the 2019 Cattle Industry Convention in New Orleans, La. This time, Douglas told attendees that *El Niño* shows signs of weakening.

El Niño is credited for wetter-than-average conditions in large portions of the United States, especially in states along the Gulf of Mexico and, to a lesser degree, in California and the Southwest. At the same time, drier conditions are often observed in the Pacific Northwest and the Rocky Mountains.

"It's not going away soon," Douglas stated, explaining that *El Niño* will continue to influence weather conditions for the remainder of winter and through the spring. However, *El Niño* appears to have peaked, with a slow cooling of Pacific waters now beginning.

For the near term, Douglas predicted a chilly February, followed by a mild spring across much of cattle country. The southern tier of states could see a wetter-than-average spring, with drier conditions in the East. He expects warm and drier conditions in the Corn Belt.

"I don't mean drought conditions, but it won't be wet. There should be no planting delay," Douglas explained.

The forecast favors an active monsoon season in the Southwest and increased moisture in previously dry portions of the Northwest. Summer's weather will depend on how quickly *El Niño* fades.

Looking far into the future, Douglas noted how the Earth's north magnetic pole has been gradually moving away from Canada and toward Siberia. The pole's creep has been underway for 20 years or so, and could be related to a shift northward of the planet's major cold region.

"If anything," Douglas opined, "it's a good thing."

Editor's note: These article are part of Angus Media's coverage of the 2019 Cattle Industry Convention in New Orleans, La. Find additional coverage in future Angus Journal *issues and online at www.angus.org.*

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