MARKET ADVISOR

by Tim Petry, North Dakota State University Extension Service

Supply or Demand?

Prices for most market classes of cattle, with the exception of cull cows, were similar from 2018 to 2017. Early 2019 prices are also similar to last year. Why have prices been this way?

Economists are quick to point out that only two economic dimensions determine prices — supply and demand. Of course it is the many variables under each category that ultimately impact prices. Different supply and demand variables can affect each market class of cattle. With 2018 in the past, let's take a general look at both past and expected cattle fundamentals.

Supply variables are usually the easiest to quantify due to the excellent and timely information provided by several USDA agencies. However, as I write this column in mid-January, a government shutdown is limiting the available information from them.

A few notable January reports not issued include the World Agricultural Supply and Demand Estimates (WASDE) from the World Agricultural Outlook Board (WAOB) and Livestock and Meat International Trade Data from the Economic Research Service (ERS). Likely, the monthly Cattle on Feed report from the National Agricultural Statistics Service (NASS) along with the highly anticipated annual Cattle Inventory report will not be released on time.

Hopefully by the time you read this, USDA reporting will be back to normal and my next column can address the updated information.

On Jan. 1, 2018, NASS estimated the beef cow herd at 31.7 million, which was a 2.64 million head increase in four years. Further expansion likely occurred in 2018, but at a more moderate rate. NASS estimated the 2018 calf crop (which includes dairy calves) at 36.5 million head, up about 2% or just less than 700,000 larger than the 35.8 million in 2017. Since 2015, the U.S. calf crop has increased by nearly 3 million head, up 8.8%.

The 2018 U.S. beef production, 26.9 billion pounds (lb.), was the second largest ever; only behind the record-high 27.1 billion lb. in 2002. This year's beef production is expected to reach a record high at 27.4 billion lb. Record total U.S. meat production, including both pork and chicken, occurred each year from 2015 to 2018 and is expected to do the same in 2019.

A strengthening U.S. economy bolstered consumer incomes. In 2018, GDP growth in the second and third quarters was the best since 2014; and national unemployment rates have been declining for several years and were under 4%. The 2018 income tax cut that was expected to support meat demand was partially offset by increasing gasoline prices. However, the sharp decline in gasoline prices in October and November really supported fourth-quarter holiday beef demand.

U.S. beef exports hit record highs in 2017 and 2018, even though the U.S. started 2018 in trade negotiations with the top four importing customers — Japan, South Korea, Mexico, and Canada. Regardless, 2018 beef and variety meat exports were up 7% in volume and a robust 15% in value at $8.3 billion. But U.S. hog and pork prices, cattle hide, and lamb pelt prices were negatively impacted by tariff retaliations. Beef exports in 2019 are predicted to set another record.

Looking ahead, weakness in the domestic or global economy would negatively impact beef demand. A setback in the U.S. stock market, unresolved trade negotiations, and weather are just a few potential headwinds. Supply and demand fundamentals are dynamic and price volatility can be expected as a result. Flexible marketing plans that include risk management strategies are always suggested. AJ

Editor's note: Tim Petry is a livestock marketing economist with the North Dakota State University Extension Service.