CattleFax Outlook: Looking Forward to Better Cattle Prices and Higher Profitability

Economy, feedstuffs, weather — what producers can expect in 2023.

Strong Demand, Fewer Cattle

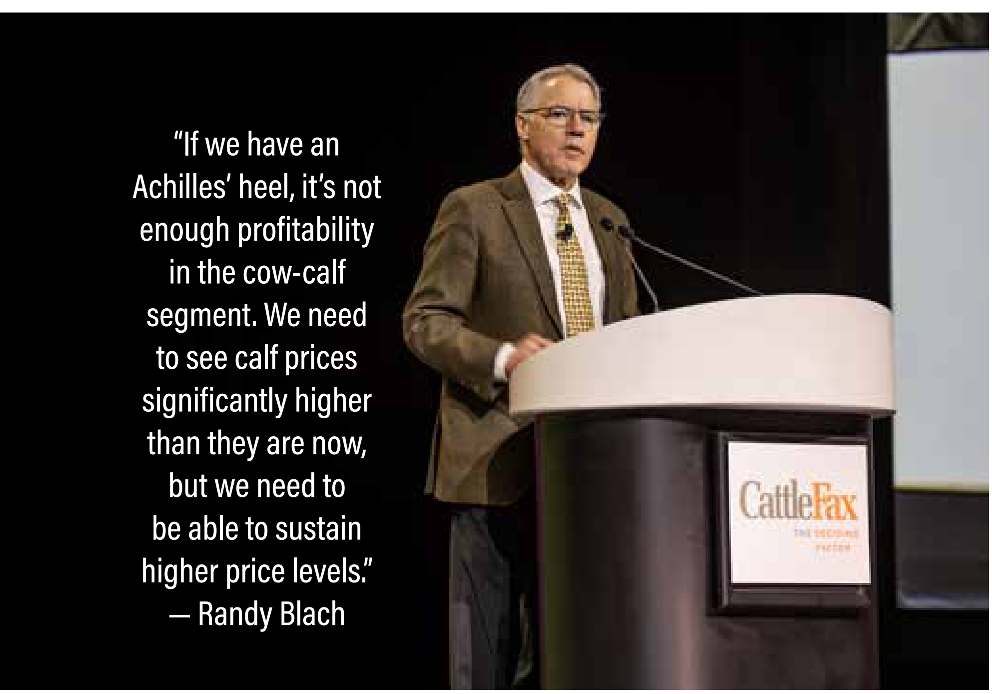
by Troy Smith

A shift to weather patterns more favorable to forage production, moderating corn prices, cyclically tighter cattle supplies and continued strong demand for beef were forecast during the CattleFax Industry Outlook session hosted Feb. 2, during the 2023 Cattle Industry Convention in New Orleans, La.

It's good news for cattle producers, according to Randy Blach, CEO and chief market analyst for CattleFax. He said the lower cattle numbers and reduced beef supplies should support cattle prices and producer profitability.

The U.S. cattle industry has entered 2023 with the smallest total animal inventory since 2015 — down 1.5 million head from cycle highs. Tight supplies of cattle should push prices higher for all classes of cattle.

"If we have an Achilles' heel, it's not enough profitability in the cow-calf segment. We need to see calf prices significantly higher than they are now, but we need to be able to sustain higher price levels," he said.



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CattleFax analysis suggests 2023 prices for 550-pound (lb.) steer calves will range from $200 to $245 per hundredweight (cwt.), averaging $225. For 800-lb. steers, prices are expected to range from $180 to $215, averaging near $200 per cwt. Fed cattle are expected to trade in a range from $150 to $172 per cwt.

"But we could see unprecedented volatility, even as prices gradually push higher for the next three to four years," Blach cautioned, warning price swings could be wide.

He reminded producers from all segments to control production costs, and suggested they'd see little to no relief from high interest rates. Blach said total interest cost has increased by about $100 per head, in just the last 12 to 18 months.

"We think we still have a couple of more smaller rate hikes ahead of us, and we're not expecting to see any significant reductions in interest rates anytime soon," Blach added.

Fed cattle sellers may gain leverage if expected expansion in beef harvest capacity comes online in 2025 and '26, when supplies of fed cattle will be low, Blach said. Increases in cattle from beef-on-dairy programs will fill part of the void. Blach also anticipates a halt to packers' Saturday slaughter shifts.

Increasing numbers of fed cattle are sold on negotiated grids, because of the record-wide value differences, Blach said.

"The price spreads have been rewarding," he said, explaining how the average price across all grades is about $45 per head higher than what the cash market averages on a weekly basis.

Looking at the cattle that grade 80% Choice and Prime, the value appreciation is about $65 per head.

"If you've watched these spreads over the course of the last quarter of the year, there's been cattle that have really hit the targets — 90%-plus Choice and Prime animals that have been bringing $150- to $200-a-head premiums," Blach said. "Those are the market signals we need."

Product grading Choice or better now represents 83% of total production. Consumers show a continued willingness to pay for higher quality and demand for Select beef has not grown.

In summary, CattleFax staff predicted the following:

- Tighter cattle supplies over the next three to four years
- Increased harvest capacity
- Reduced total beef production
- Demand will remain relatively strong, with some decline in domestic consumption and flattening of export volume
- Record-high prices for all classes of cattle, albeit with market volatility. New highs for fed cattle prices are likely for 2023, then spread to feeder and calf markets.

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Herd Inventory and Economy

compiled by Shauna Hermel, Angus Beef Bulletin *editor*

Reduced herd numbers will start to affect beef supply in the coming year. Kevin Good, vice president of industry relations and analysis at CattleFax, predicts the 2023 beef cow herd to be down about another million head this year to nearly 29.2 million.

"Last year 25% of the cattle herd throughout the year, on average, was going to be in exceptional or extreme drought conditions, 50% were in drought conditions and 65% were in dry or drought conditions throughout the year.

> "Drought improvement and higher cattle prices should drastically slow beef cow culling through 2023."
> — Kevin Good

"That was the headwind that we faced along with the input cost," Good said. "If you think about this past year, that was a culling rate of 13.5%. That's 1% higher than any year in history. Drought improvement and higher cattle prices should drastically slow beef cow culling through 2023."

At 25.1 million head, feeder-cattle and calf supplies outside of feedyards is smaller than 2022. Cattle-on-feed inventories are 300,000-400,000 head below last year, at 14.3 million head, and remain smaller. Commercial fed slaughter in 2023 is forecast to decline by 750,000-800,000.

"With drought-forced placement and culling, beef production was record large in 2022 at 28.3 billion pounds (lb.). Expect production to drop over the next several years — declining 4-5% in 2023 to 27 billion pounds," Good said. "The decline in production in 2023 will lead to a 2.2-pounds decline in net beef supply to 57 pounds per person."

Still, all cattle classes are expected to trade higher, and prices are expected to continue to trend upward. Inflation, rising interest rates and general economic uncertainty will continue to affect consumer purchasing decisions as many look to limit spending.

Inflation reached a 40-year high in 2022, triggering the U.S. Federal Reserve to raise interest rates seven times last year with intentions for further rate increases until inflation falls. The U.S. economy is expected to

Continued on page 66

CattleFax Outlook *continued from page 65*

slow in 2023, with most economists calling for a mild recession in the second half of the year.

Good noted though beef demand has softened, it remains historically strong, and consumers have shown willingness to continue to buy beef in a new and higher range. He expects the 2023 USDA All-Fresh Retail Beef prices to average $7.35 per lb. Wholesale demand prices will not go up at the same rate of inflation despite tighter supplies. The cutout value should move higher to average $270 per cwt. for 2023.

Global protein demand continues to rise, and tighter global protein supplies should broadly support prices in 2023. After more than 20% of growth across the last two years, U.S. beef exports are expected to moderate, declining 3%. Japan and South Korea remain the top U.S. beef export destinations. Meanwhile, Chinese demand has continued to grow, with tonnage up 20% last year.

Economic and Grain Outlook

by Julie Mais, editor

High input costs, inflation and drought in much of the country affected the cattleman's budget in 2022. In 2023, Mike Murphy, CattleFax vice president of research and risk management services, expects some relief in hay prices, along with continued elevated interest rates and energy prices.

Murphy projected an improvement in inflation rates and by the end of the year a 3-4% year-over-year growth.

Interest rates influence the bottom line, and he expects to see another quarter to two more quarter-point increases going into the spring.

"From our standpoint though, as we get in here towards the prime rates at 8-, 8.25% , we don't really see any relief for the remainder of the year," he said.

Energy will continue to be a "wild card" Murphy added, suggesting crude oil in the mid-70s, which is on the low-end of the range for the remainder of the year.

Natural gas stocks are now above the five-year average.

"An incredible correction," Murphy said as he views stocks as more balanced.

What does that mean for diesel? Murphy said prices will remain elevated due to small stock levels and high consumption.

"For the farming, ranching community, we see this really widespread between retail diesel and retail gasoline prices," he explained. "And that has had a huge impact on us as producers from a cost-of-production standpoint. Unfortunately, there's not a lot of resolution to this as we look at 2023."

Turning to corn stocks, Murphy expects them to be stable, just under 9%, which will help stabilize prices maintaining current trading range.That will continue to support the market above $6 per bushel (bu.), and provide resistance near $7.50 per bu. into the summer with a yearly average price of $6.50 per bu. expected.

Potential planting delay due to cool soil temperatures this spring could cause some anxiety in the market and be reflected from a price standpoint. Hay production is at the smallest level since the mid-1950s, Murphy said.

National Dec. 1 on-farm hay stocks were down 9% from a year ago at 71.9 million tons, with hay prices averaging $216 per ton in 2022.

With the lower beef cow numbers, he expects hay stocks to build up more quickly along with a price decline.

"Between now and summer, do we expect any decline in hay prices? And the answer is no," Murphy said. "But once you get past into the fall, assuming we have the production that we think we will, we will see a big decline in hay prices."

That's good news, he said.

Moisture in the Long-Range Weather Forecast

by Megan Silveira, assistant editor

It's only been a year since Matt Makens first stood on a stage in Houston, Texas, and spoke to U.S. cattlemen about upcoming weather patterns. Although this February, he was happy to have better news.

"We're about to slam the door on *La Niña*, and what does that mean? We're opening the door to something new," the CattleFax meteorologist announced.

The past several months, Makens has noticed clues of *La Niña* fading away. The ocean is slowly warming up, and he reminded producers ocean conditions and sea surface temperatures truly drive the weather.

Despite positive signs in the waters, Makens said it takes more than a few perfect days of ocean temperatures to bring about *El Niño*. The atmosphere has to fall into accordance as well.

"The atmosphere and the ocean do work together, but maybe several months or several seasons offset from one another," he said. "That's the point — it's going to take time."

Small pockets of *El Niño* will make an appearance this year, but Makens predicted it will be 2024 before it becomes a complete reality.

On a global scale, Makens pointed to healthier crops in southern and northern Brazil. Vegetation is also noticeably healthier in Spain and France. Europe hasn't seen much change from 2022, but snow levels are certainly lower, leading Makens to anticipate a slow buildup for the upcoming growing season.

As *El Niño* comes into the picture, water will leave European regions and be seen in surplus in the United States.

"We will gain some traction," he said. "Things will recover heading into the spring."

The past year, vegetative health in the Ohio and Tennessee valleys suffered. However, Makens said the coming spring will supply a lot of "valuable moisture" in Nebraska or Wyoming. The trend will continue in "hit and miss" spots in the valleys.

Makens said it will be a cooler-than-average spring in the United States, thanks to the amount of snow and ice in the northern high Plains and upper Midwest.

Moving into the summer, the monsoon will be robust. Makens said the moisture will continue to even out as he predicts favorable precipitation patterns in the Rockies. He warns producers it's going to be give and take, as the Corn Belt will see drier tendencies. There will be neutral to cooler temperatures compared to average levels in pockets in growing areas across the country.

Rounding out with the fall season, Makens said there's a 52-53% chance of *El Niño* hitting full-force. He offers two different realities based on the strength of *El Niño's* initial appearance — one is exceptionally wet, and the other is a bit more neutral.

Makens leans towards the neutral zone, adding that moisture will still be spread farther west. The Dakotas, Nebraska, and parts of both Kansas and Missouri have a positive precipitation outlook.

Until September and October, however, Makens said cattlemen can expect the Ohio Valley, the upper Midwest, California, Arizona, Utah and Nevada to stay relatively dry. AJ