

EXTERNAL FORCES

CattleFax outlook briefs cattlemen on factors that will affect profitability in 2019.

by Kasey Brown, associate editor, & Troy Smith, field editor

A multitude of factors influence the profitability of each sector of the cattle business. Many of those factors are beyond a cowboy's control, but understanding them can help in planning your operation for the coming year. CattleFax analysts presented insights during the recent 2019 Cattle Industry Convention & NCBA Trade Show in New Orleans, La.

Economy

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, reported Mike Murphy, CattleFax market analyst. 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%.

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.

Energy

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.

Feedstuffs

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 was to give its annual *Crop Report* in early February, but Murphy anticipated no significant changes. The corn stocks-to-use ratio was at 11.8%, while soybeans were 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, Murphy said.

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

Murphy didn't predict much change in 2019 hay acres, but the weather outlook appears to be favorable for hay growth. This should allow on-farm stocks to

rebuild as production increases to pressure hay and forage prices lower.

Weather

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, this time telling 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 often are observed in the Pacific Northwest and the Rocky Mountains.

"It's not going away soon," stated Douglas, 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," explained Douglas.

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," opined Douglas, "it's a good thing." ■



Art Douglas explained what weakening *El Niño* means for ranchers across the country.

Editor's note: Troy Smith is a freelance writer and cattleman from Sargent, Neb.