

'Explosive' in the Right Ways

Record demand and exports to drive cattle prices higher in 2022.

by Miranda Reiman, senior associate editor

Cattlemen have done more with less, done better with more information and have responded to market signals.

The reward, said Kevin Good, senior analyst with CattleFax, is this: "The demand story has been very bright, hasn't it?"

The number of head nationwide overlaid against total pounds of beef produced carries a simple message.

"Cattle numbers have declined in the last 40 to 50 years at the same time production continues to climb," he said, during the 2022 Cattle Industry Convention & Trade Show, hosted Feb. 1-3 in Houston, Texas "The fact that we're doing more with less is a really good story."

That's sustainability, Good said.

"Beef prices in both retail and wholesale have gone up at twice the rate of inflation, which means there's more real dollars in our business," he explained.

Beef used to command 40% of the retail meat dollars, and today that's at 48%.

"We're gaining market share," Good said. "Think about the quality of the product, and the consistency of the product we have today compared to the past."

Carcass grading trends show nothing but improvement in the past 15 years. Good shared 60% of the improvement in grade has been in the top two-thirds Choice and Prime.

"In our opinion, we continue to

see that genetic progress as we go forward. We think the dollars are there," he said.

Fewer cattle for more buyers

In the supply and demand equation, there has been no shortage of market-ready cattle for some time. That's about to change, Good said.

"We do see the bigger drop in production in the second half of the year, and in particular, in the fourth quarter. That's a very rare occurrence," he noted.

When it does happen, it typically marks a non-expansion or liquidation year, which is exactly what the analyst predicts for 2022.

Export markets were record-large last year, up about 18%, due to recent strength in the Chinese market and sustained long-term growth in Japan and South Korea. Good suggests strong exports again, with a 5% growth to Asian countries.

"We're optimistic the long-term trend will continue," he said, noting that per-capita beef consumption will decrease, based on limited supplies.

Beef cutouts were 17% higher in the last two years, but that growth will moderate.

"We have to take a little bit of a breath," Good said; but more leverage will shift to the producer.

Fed-cattle prices should average \$140 per hundredweight (cwt.) for 2022, he said. A 550-pound (lb.) steer

price is expected to average \$205 per cwt., with a range of \$180 to \$230 per cwt.

"We're going to suggest calf values high enough to expand, but you've got to have green grass to get that," Good said.

Cattle inventories are already down 1.5 million head since the most recent peak, and they see liquidation continuing, depending on weather patterns.

"Frankly, when you look at these numbers, if we don't get better moisture until the end of this year, we've been kicking the can down the road another year of liquidation and tighter supplies," he said.

Expansion of existing packing plants and new capacity coming online gives the industry hope, but Good said labor will remain a major challenge.

"It will continue to be a headwind that we have to grapple with as an industry, as we go forward. We can build brick and mortar. We've got to have somebody to work in the plants," he said.

Good suggested the upcoming market could become "explosive."

"We are in the process of seeing the market move higher, but we're early in the game," he said. **AJ**

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