MARKET ADVISOR

by Tim Petry, North Dakota State University Extension Service

Unprecedented Uncertainty and Volatility in Cattle Market

How cattle producers should face the unknown future caused by the recent pandemic.

This is one of the most difficult columns I have written in my almost 50-year career in analyzing and writing about the cattle market. I am writing in mid-June, and you may not read it for another month and a half. Who knows what will happen with the COVID-19 pandemic, the United States and the world economies in that time, let alone cattle prices?

Looking back at the last couple months, the cattle/beef market has experienced the most severe black swan event in most of our lifetimes. The Tyson packing plant fire last August, which at the time significantly affected cattle prices, now is but a glitch on charts. Even the terrorist attack on September, 11, 2001; the discovery of bovine spongiform encephalopathy (BSE) in a cow in December 2003; and the U.S. economic recession in 2008 pale in comparison to the effects of the COVID-19 pandemic.

Normally an unprecedented world pandemic, an unprecedented economic collapse, or unprecedented social unrest would each alone cause much uncertainty and price volatility. All three together gives us arguably the most uncertainty the beef industry has ever faced.

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Congress appropriated trillions of dollars in economic relief to citizens, and even a $5.1 billion aid package to cattle producers was not enough to cover market losses.

Looking back at the last column I wrote for the April issue of the *Angus Journal*, emphasis was on the 2019 decline in the beef cow herd. That was supportive to cattle prices, even though forecast record for 2020 beef, pork, and total meat production was a headwind.

Indeed many cattle market fundamentals were positive in February. The U.S. economy was robust with a record-high stock market and historically low unemployment levels, which meant strong domestic beef demand.

Record-high 2020 beef and pork exports were also predicted as trade agreements with top U.S. foreign beef customers finalized and African Swine Fever (ASF) in China spreading to other countries caused protein shortages and increasing prices. Generally good U.S. moisture conditions and prospects for a record corn crop were also positive.

System shock

However as the COVID-19 pandemic hit the United States in March and spread rapidly, severe disruptions occurred throughout the entire meat industry. The function of the price system is to prevent shortages and surpluses. That works very well until a sudden shock like the pandemic unexpectedly disrupts the system. Normally the meat industry is very efficient in moving large quantities of market-ready animals and perishable products quickly through processing, distribution and retail channels to the ultimate consumer.

All the uncertainty means cattle producers have to adjust marketing plans for volatile and lower than expected possible prices.

Stay-at-home and social-distancing orders meant foodservice meat demand declined significantly with restaurants and schools closing, and sporting events, concerts, etc., canceled. But demand at the retail level skyrocketed with panic-buying further fueling price increases. Many meat products destined for foodservice cannot easily be repackaged and merchandised at retail.

The ability of packing plants to harvest livestock was affected by the spread of the virus in the workforce, and many were forced to shut down. Closed plants and those operating at lower volumes reduced the demand for livestock, especially in that region.

The dilemma was consumers found limited availability and higher prices for meat items on store shelves, while livestock producers could not always find a market and faced declining prices.

From the first of March until lows in mid-April, prices for most market classes of cattle decreased 10-20%. A recovery has taken place since then as packing plants reopened and feeder cattle auction volume increased. There has been a good demand for lighter-weight calves for grazing. As I write this in June, prices for many market classes of feeder cattle are close to last year. Fed cattle prices are struggling with the backlog of market ready cattle, heavy slaughter weights increasing beef production and the normal lower summer seasonal price pattern.

All the uncertainty means cattle producers have to adjust marketing plans for volatile and lower than expected possible prices, and more emphasis has to be placed on financial plans along with lenders to assure cattle businesses remain viable into the future. AJ

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