

MARKET ADVISOR

by Tim Petry, North Dakota State University Extension Service

Will Drought Affect Cyclical Cattle Prices?

Drought, effects of COVID-19 and planning for the future are all considerations for cattle producers.

Drought in one-third of the U.S. beef-cattle-producing area has caused cattle producers to make difficult decisions on herd reduction, alternative feed sources and plans for next year. One piece of the planning puzzle is cattle price expectations.

Despite drought in the Northern Plains and Western United States, lingering effects of COVID-19, and the highest corn prices in several years, cattle prices are above the last several years' prices.

Price support is coming from smaller current and expected supplies and strong demand.

The U.S. beef cow herd declined in 2019 and 2020. Drought forced liquidation, and higher beef cow slaughter will result in the beef cow herd declining again in 2021. Declining beef cow numbers will be supportive to cattle prices for the next several years.

USDA is forecasting beef production to peak in 2021 at 27.9 billion pounds (lb.), at least partially buoyed by high beef cow slaughter. Beef production is expected to decline in the third and fourth quarters, and continue to decline in 2022 and subsequent years. Less competition from pork supplies is also expected. Pork production peaked in 2020, with declines in 2021 and 2022 expected.

COVID-19 vaccinations are resulting in a return to some resemblance of normalcy, with restaurants and foodservice experiencing good consumer traffic. Unemployment rates are declining. The stock market has steadily increased to recent record highs.

Beef exports are again at record levels after underperforming in 2020. Record export volumes to South Korea and China are expected to contribute to a record 2021 beef export volume high. Wholesale beef prices increased seasonally into June which meant record export values.

Fed cattle prices have continued to improve in 2021 both in the domestic and export market. Seasonal midsummer stalling should be followed by continued improvement the rest of the year.

As I write this column in mid-July, December live cattle futures prices are at \$132 per hundredweight (cwt.). 2022 live cattle futures are all above \$132 with the April and December contracts at \$139, which would be the highest fed cattle prices since 2016.

Calf and feeder cattle prices are also higher than the last several years, but have not increased as much as fed cattle prices due to higher corn prices. Prices are being supported by smaller calf crops and the expectation for

increasing fed cattle prices due to the higher live cattle futures.

Volatile corn prices will affect calf and feeder cattle prices. A 10¢-per-bushel change in corn prices usually causes a \$1-per-cwt. change in fall calf prices in the opposite direction. Corn prices will continue to be volatile as planted acres, crop development, expected yields, and exports affect prices.

Higher corn prices and cost of gain mean feedlots prefer to purchase heavier cattle, so incentives exist to graze feeder cattle. Unfortunately in drought areas, that is not possible.

Price support for feeder cattle is coming from very good grazing conditions in the Southern Plains and Appalachian states.

Feeder cattle futures prices are signaling continued improvement in feeder cattle prices this fall. November futures (based on 800-lb. steers) are at \$163/cwt., and spring 2022 futures contracts are at \$165, the highest prices since 2016.

Expectations are for cyclically increasing calf prices the next several years. [A](#)

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