CattleFax Outlook

Annual CattleFax Outlook Seminar Aug. 11 during the Cattle Industry Convention showcases the strength of cattle prices and demand, allowing producers optimism.

Pandemic Effects and Energy Outlook

Pandemic effects diminishing and new trade policy create increased demand and exports.

by Megan Silveira, assistant editor

Most individuals find themselves tired of seeing COVID-19 dominating news headlines, but Mike Murphy, vice president of research and risk management at CattleFax, said the pandemic continues to shift the labor force and alter consumer activity.

Murphy explained the implication of future realities of the U.S. economy, energy supply, and feed grain and hay markets for cattle producers.

Economy outlook

Murphy reported the current unemployment rate for the week of the presentation was at 5.4% but is predicted to reach a 50-year low in 2022.

"We have to understand that tight labor force is going to continue to affect all of us," he said.

Wages and salaries are two other metrics Murphy urged cattlemen to consider, as both are expected to increase in the upcoming years.

Government transfer payments doubled in size last year. Murphy defined these as payments made by the government without goods or services being received in return.

These payments, he said, had a huge effect in terms of stabilizing the economy. Murphy said arguments have been made, however, that the government went too far this year with transfer payments.

"That liquidity that was directly injected into the consumer has certainly created a lot of the inflation we're seeing today," he added.

For cattlemen, Murphy said this has several implications. These numbers are going to subside at some point in the future, he said.

While things may currently look positive from a revenue standpoint, he encourages individuals to focus on creating balance on the cost side.

Energy outlook

Murphy said it is important to remember there was a "global shutdown" of energy thanks to the pandemic. As life has been slowly attempting to return to a sense of normalcy, he said consumption has increased rapidly.

Murphy predicts the planet will continue to be in an environment where it will be difficult to make production levels equal consumption.

Oil prices are still too high for profitability, a fact Murphy gives responsibility for the drawdown on energy stocks. On a brighter note, he identifies a growth in global markets for U.S. products.

Feed grain and hay outlook

Focusing first on corn prices, Murphy said crop estimates are released each May, though this year's crop did not have the yield expected for the span of the past eight to 12 months.

He reports Trump's trade policy positively affected the United States' ability to export corn to China. This, he said, resulted in demand recovering both in terms of exports and domestically.

"We're going to export about 900 billion bushels (bu.) of corn to China alone this year," Murphy explained.

He said the country has already secured another 450 billion bu. for next year.

As effects of the pandemic are slowly diminishing, Murphy said people have begun going out more frequently. This surge of activity has also led to an increase in demand for ethanol and a slight increase in usage.

Murphy said the soybean market is in tight supply, and the industry is in a critical stage as producers attempt to finish the crop off for the year.

A higher trading range on soybeans has been seen, but Murphy said it is yet to be defined for future growth.

Regarding feed usage, Murphy said the next marketing year begins Sept. 1. With little change seen from a demand foundation, he predicts feedlots will likely have to accept animals sooner than past year — a decision that would cause a chain reaction for feed usage.

While the last couple of years have been challenging from an economic return standpoint, Murphy reminded producers it all starts with production, and acreage is high in soybeans and corn. He encouraged producers to watch the markets to see how the crops would finish.

Looking to next year, Murphy said it will see another battle for acreage. He said producers should expect to see spot corn future prices move back to $6.25 in the spring.

Current situations have broken the old historical range, but Murphy said things should settle back down in the markets with the start of the new year.

People Want Beef

CattleFax reports record demand, predicts profit for cattlemen.

by Miranda Reiman, senior associate editor

"Beef demand is great."

That message from Kevin Good, CattleFax vice president of industry relations and analysis, is a stark contrast to what cattlemen in similar seats would have heard just two decades earlier.

"If you look at the last 20 years, you'll see that beef values, both wholesale and retail, have increased at over double the rate of inflation," Good said. "There's plenty of dollars in the system. We just want a bigger piece of that pie."

From 1980 to 1998, beef's market share dropped from 54% to 40%. Compared to other proteins, beef has regained 8% of that back, and 2% of that recovery in market share was won last year alone, Good said.

He credited much of that rise to the cattle industry's commitment to raising a better product. One out of every four carcasses today reaches upper two-thirds Choice [the marbling level required for the *Certified Angus Beef* ® (CAB) brand]. Combine that with the surge in Prime reaching above 10% of the harvest many weeks.

"That's over a third of the cattle we produce are in that premium line from a quality standpoint," he said.

Leverage is still the frustration of those on the live cattle side of the equation. There's no shortage of finished animals, as the backlog from COVID-19-related disruptions continues to work through the system.

Good said there are two ways to "get out of this mess": placements and harvest.

Import and export data with Mexico and Canada show fewer feeder cattle coming in and a larger number going out, leaving the trade balance with 350,000 to 400,000 head fewer in the United States.

Feedlot placements have been down every month since June.

Labor issues continue to hamper packing plants, but the number of cattle on feed 150 days and above peaked four months ago, with each month getting a bit smaller.

"Combine that trend with tighter supplies going forward, and it would suggest we are starting to gain some leverage from fed-cattle marketing standpoint as we move forward," he predicted.

How fast will that come? Not in the third quarter, Good said, but a rising price trend in the fourth quarter will continue into 2022 when there's a 500,000-head reduction in harvest numbers.

Another point of optimism comes from overseas demand. Overall exports are up 15%, and imports down 8%.

"That's a 23% swing on a 3-billion pound market. We're optimistic that exports will continue to increase," Good said.

Australia's drought-limited herd and an increasing appetite for beef in China and other Asian countries certainly works in the U.S. cattleman's favor.

"Despite the fact we're producing 2.5% more beef this year than last, we've got tighter *per capita* supplies," he said.

CattleFax predicts prices for all classes of cattle will move up this next year.

"We do see profit in the system for the cow-calf producer moving forward if Mother Nature will cooperate from a feed standpoint," Good said.

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Long-range Outlook

Cattle prices expected to trend higher.

by Troy Smith, field editor

"We're pretty optimistic," declared Randy Blach, during the CattleFax Outlook Seminar. CEO Blach and a team of CattleFax market analysts said the beef industry is bouncing back from the pandemic's effects, and indicators point toward better markets for cattle producers.

"Leverage is improving for producers. Prices are headed higher and cow-calf profitability should improve significantly," Blach said.

CattleFax analysis estimates an average 2021 fed-steer price of $121 per hundredweight (cwt.), and predicts 2022 trade will range from $120 to $150. Prices for 800-pound (lb.) feeder steers should range from $150 to $180 — up $20 per cwt. from the 2021 average. And 550-lb. steer calves averaging $170 in 2021 could trade $30 higher next year. Calf prices are expected to range from $170 to $230 in 2022.

Blach said pre-COVID numbers of harvest-ready cattle were high and packing capacity was low. COVID-related labor issues pushed harvest back, delaying feeder-cattle placements. However, the burdensome supply of market-ready cattle is gradually being worked through the system. Data suggest the supply has peaked.

"We're making progress," he said.

Tighter supplies are expected in the future. Unfortunately, drought has hastened herd liquidation in western and northern states. CattleFax data suggest by Jan. 2022, U.S. cow numbers will decline by 400,000 head. Mild contraction of the nation's cow herd is expected to continue. A 500,000-head decline in fed-cattle slaughter is forecast.

Noting since 2017, slaughter cattle supplies have exceeded available harvest capacity by 5%-7%, Blach said that is expected to change.

Blach said beef demand continues to influence markets. He believes quality has supported demand.

"Demand for our product is at its highest level in 33 years," he said.

Blach warned the industry will have to deal with inflation. However, with adjustment to cattle numbers in progress, continued strong domestic demand and growing export markets, cattle producers are poised to regain some market leverage.

"We look for a higher price trend solidly into 2025," Blach stated.

Weather Forecast

Drought will intensify in the West;
Midwest should be warm and dry this fall.

by Kasey Brown, associate editor, Angus Beef Bulletin

No matter what management practices an operation employs, weather has a way to negate them. It's helpful to have a long-range forecast. For 45 years, Art Douglas has given cattlemen these scientific predictions. The emeritus professor at Creighton University is a staple at the "Industry Outlook" CattleFax general session at the Cattle Industry Convention. However, he didn't have much good news for those in the West.

He forecast the Pacific storm track will be forced farther north than normal, giving a delayed fall rainy season along the West coast. Monsoon moisture will flow north into the Rockies. The Corn Belt will be warm and dry through September and early October. He said this could be good for harvest, but could be a problem in September.

Below-normal temperatures will move across the middle of the country in mid- to late fall.

"The main moisture in the West will fall early as the summer monsoon persists well into September. By midfall the area of above-normal moisture will shift into the Corn Belt, and then drier weather is forecast to return in November," Douglas said.

For the winter, he said *La Niña* will cause cold air to move south into the north-central states, periodically reaching the Gulf Coast. Winter storms and moisture will be reduced, strengthening the drought in the West and Plains. He forecast a cold winter across the north-central states with cold outbreaks down to the Gulf Coast. There could be small pockets of slightly above-normal precipitation in the northern Rockies and Ohio Valley, he said.

He did finish with some good news. *El Niño* signals are starting. Douglas said it could begin by midyear next year, so the drought could start easing in winter 2022 and 2023. However, he said the analog forecast system identified 12 years as good matches to July 2021 climate conditions. One-third of the years showed a *La Niña* for another year, though the other years changed to *El Niño* within a year.

While forecasts are predictions with science behind them, Douglas has spent the last 45 years trying to give cattlemen more tools to be more successful. This year, he announced his retirement. AJ