CattleFax Outlook for 2014

CattleFax outlook predicting higher prices, lower input costs and favorable weather is music to cattlemen's ears.

*by **Kasey Brown,** associate editor, **and Kindra Gordon & Troy Smith,** field editors*

Market analyst Kevin Good's presentation put smiles on the faces of prospective cattle sellers present for the CattleFax Outlook Seminar Feb. 5 during the 2014 Cattle Industry Convention in Nashville, Tenn. Good said prices should be stronger for all classes of cattle, with some segments reaching record-high levels.

According to Good, years of drought-driven culling has ended, for the most part, and rebuilding of the U.S. cow herd is under way. Cull cow slaughter has declined sharply. Retention of young females for breeding has begun, meaning fewer heifers will be fed to enter the slaughter mix. Total fed-cattle numbers are expected to be down by 600,000-700,000 head during 2014 and again in 2015, and feed costs have decreased. It all makes for a pretty positive price outlook.

PHOTOS BY KASEY BROWN

►"Bred-stock prices are projected to be up by 25%, or $200 to $300 per head, in 2014," Kevin Good stated.

Good said he expects another year of record-high retail beef prices. Fed-cattle prices are increasing for the fifth consecutive year, gaining more than 60% since 2009. Short supplies and increasing global demand for U.S. beef have moved the fed market to a higher trading range.

"In 2014, we expect the fed market to average $135 [per hundredweight (cwt.)], ranging from $120 to near $150," reported Good.

Bolstered by higher fed values and lower feed prices, Good said he looks for yearling

CattleFax offers weather outlook

El Niño promises to bring drought relief according to crowd-pleasing forecast.

"It's a fact. El Niño is coming, and that's a good thing," stated climate researcher Art Douglas before an audience gathered Feb. 5 for the 2014 Cattle Industry Convention in Nashville, Tenn. The Creighton University (Omaha, Neb.) atmospheric science professor delivered a crowd-pleasing weather forecast during the CattleFax Outlook Seminar hosted in conjunction with the annual convention.

Douglas said the periodic warming of South Pacific ocean water, known as El Niño, promises to bring relief from drought that has plagued large portions of the United States. He said most forecasting models indicate that even the severe drought in California is likely to subside, with moisture reaching near-normal levels by March.

Douglas predicted above-average temperatures across much of the United States during late winter and spring. Precipitation should increase from Texas northward through the Plains. Above-average spring moisture in the Midwest may delay planting in the western Corn Belt, but summer should bring nearly ideal weather for growing crops.

Higher-than-normal temperatures are expected to moderate starting in July, as El Niño gains strength. The forecast calls for the southwestern monsoon season to start earlier than normal, followed by a dry late-summer and fall period. Cooler water in the Atlantic should suppress hurricane activity.

►Art Douglas predicted a warmer spring, cooler fall and more moisture in 2014 — welcome words to an audience of cattlemen gathered in Nashville, Tenn., in early February.

Explaining that El Niño has far-reaching impacts, Douglas said drought conditions in Argentina should improve, while a wet Brazil turns drier. Typically, he said, El Niño brings drought to Australia. Wetter conditions from February through May are predicted for Asia, followed by drought from June through September.

— by Troy Smith

prices to range between $160 and just more than $170 per cwt. The 2014 average should be in the neighborhood of $167 per cwt. Calf sellers may enjoy all-time high prices. At peak demand for calves headed to grass, prices could easily exceed $215 per cwt. Good said the 2014 average for 550-pound (lb.) steers is expected to be $193 per cwt.

With high calf prices, better moisture and improved forage conditions driving herd expansion, record-high prices could be paid for bred females purchased through special bred-female sales and at private treaty.

"Bred-stock prices are projected to be up by 25%, or $200 to $300 per head, in 2014," Good stated.

Projections also suggest that cull cow value will increase again this year. Good foresees a 15% jump, with Utility cows averaging $90 per cwt.

— by Troy Smith

Outlook for grain, hay, energy

Factors favor stable to increasing supplies for feedgrains and hay, so prices are likely to trend lower. Assuming energy costs remain relatively stable, lower feed costs mean business margins should improve for many cattle producers. That was the take-home message delivered by market analyst Mike Murphy.

Murphy noted how corn usage as feed had declined in response to previous high prices. However, corn usage is going up in response to recent lower prices.

"Globally, corn is the cheapest commodity," said Murphy, citing increased U.S. acreage in production and the promise of improved moisture as reasons why corn supplies are likely to increase and prices are expected to trend lower for the next couple of years. The analyst admits that a couple of million acres could shift to soybeans, but corn growers are expected to produce a 13.5- to 14-billion-acre crop.

Murphy said a projected corn stocks-to-use ratio of 12%-14% should keep prices in check. He expects, at best, a modest spring rally. Murphy said $4.75 per bushel should mark the high end of the price range, with a support level at $4.10-$4.20.

According to Murphy, 2013 hay production was up but usage declined, leaving increased stocks. Precipitation predictions put much of the United States in position for good hay production in 2014. That should pressure hay prices lower, with the decline lagging in California.

While corn and hay prices are trending lower, the value of protein sources remains historically high. Murphy credited strong export demand for soybean meal, which has carried over into other protein products, including distillers' grains.

Commenting on the energy situation, Murphy said oil usage in the United States, Japan and much of Europe has declined. The exceptions are China, Russia and some other developing countries. Globally, oil usage is lower.

"The U.S. is becoming more energy-independent," said Murphy, noting sharply increased U.S. oil production. "Less reliance on imported oil puts us in a better position relative to energy costs."

He said he expects retail gasoline prices to remain fairly flat during the first half of 2014, ranging from $3.25 to $3.75 per gallon. Prices may weaken during the second half of the year. Diesel prices are expected to demand a 30¢-60¢ premium relative to gasoline.

— by Troy Smith

High beef prices and smaller supply mean demand is dependent upon whether consumers are willing to pay higher prices, Kevin Good said.

U.S. cow herd is rebuilding

Total cow slaughter is projected to be down by nearly 600,000 head in 2014, and heifer retention is projected to be up, which is a pretty good indicator U.S. beef producers are in the process of retaining females to begin expanding the U.S. cow herd, according to Good.

"That's what it takes to turn the ship around," he said. "We are in the process of starting to rebuild the herd over the next couple of years." He credited improvements in moisture conditions and a decrease in input costs for helping stabilize the beef herd and allow for rebuilding in 2014 and into 2015.

This ends a 16-year cycle of liquidating the cow herd. "The late 80s to early 90s was the last we (the United States) truly expanded," Good said, noting the increase of about 3 million head, which was about a 9% increase.

While rebuilding the cow herd is needed, in the short term it will take about 10,000 head a day out of the harvest mix for the next couple years, Good explained. Tighter supplies will likely create aggressive bidding among feedyards in an effort to maintain occupancy levels. As a result, he said, don't be surprised if packing capacity is downsized by another one, two or three plants. CattleFax is forecasting fed slaughter to total 24.9 million head in 2014.

Good added, "We're not going to produce more beef as we expand," but pork and poultry will likely grow production and some consumption in that time.

For net beef supplies the rebuilding scenario will mean a 3.5% reduction (900 million lb.) in 2014 due to reduced total cattle slaughter. The tighter supplies will also continue to drive higher beef prices at restaurants and retail.

Despite that, Good said, beef in fine-dining and fast-casual restaurants is still "doing well," and CattleFax anticipates beef demand should remain steady to 1% higher in 2014.

— by Kindra Gordon

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PHOTO BY TROY SMITH

▶CattleFax market analyst Mike Murphy said $4.75 per bushel should mark the high end of the price range for corn in 2014, with a support level at $4.10-$4.20.

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U.S. consumers and beef demand

The U.S. consumer is gaining confidence in the economy, but as beef prices continue to skyrocket, retail beef demand should be steady in 2014, said Good.

The U.S. economy has performed mostly below the historical growth rate of 3.1% throughout 2013, Good noted, but stronger performance is expected in 2014. This confidence is likely coming from a 20% increase in the stock market, better home values, and smaller monthly personal debt payments, he explained. However, real personal income — excluding government payments — in 2013 is only 1.3% higher than the previous year, and consumer inflation was up 1.5%.

Emerging global markets will continue to bid aggressively for U.S. beef in 2014, he said. Yet, record-high wholesale beef prices mean the industry will struggle to be competitive with the pork and poultry industries. Differentiation through unique beef cuts and promotions will be necessary for grocery stores to increase traffic.

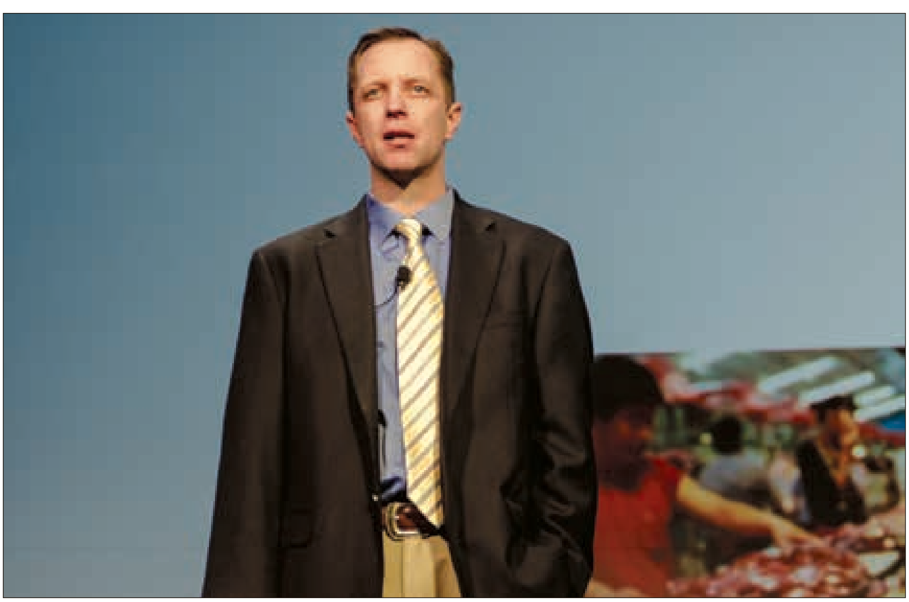
►In the short term, rebuilding the cow herd will take about 10,000 head a day out of the harvest mix for the next couple years, leading to tighter supplies and aggressive bidding among feedyards to maintain occupancy levels, explained Kevin Good.

Restaurants are expected to continue expansion in 2014, Good said. Tighter non-fed beef supplies will lead to higher wholesale grind prices, so the margins of hamburger and specialty-hamburger restaurants will be challenged. This should cause end-cut demand to increase. He predicted quick-serve or casual restaurants to stay steady, though fine-dining and fast-casual restaurants should see more growth in 2014. Fine dining should increase, which will support middle-meat demand and premium-Choice and higher cutout values.

High beef prices and smaller supply mean demand is dependent upon whether consumers are willing to pay higher prices, Good said. "The forecast for end-meat values is significantly higher as tighter 2014 lean-beef trimming supplies will force ground-beef manufacturers to buy chuck and round cuts to meet demand."

Competing proteins look positive on a price comparison. The chicken industry is in a mild expansion phase, he explained. The 2014 price forecast is 1.5% higher than last year, which he said implies a demand increase of 4%. Retail pork prices will increase with steady to slightly larger supplies, which should result in a 4% demand increase, too. However, the porcine epidemic diarrhea virus (PEDv) is limiting the possibility of much herd expansion.

— by Kasey Brown



►Consumer demand for beef in China is real and price is going through the roof, said CattleFax analyst Brett Stuart. "They are paying the same price for beef that we do in the U.S., and most Chinese have one-sixth the income."

Global beef trends

Global beef production for 2014 will remain steady, continuing the trend of the last several years, said CattleFax analyst Brett Stuart. The growing world population and its growing income will drive global protein consumption. For perspective, Stuart pointed out that 78 million people — the equivalent to nine New York Cities — are added to the planet each year.

With the exception of India and Brazil, which are seeing some slight increases in their red-meat production, Stuart said global beef supplies have "pretty much flatlined." Meanwhile, pork and poultry production are seeing growth. However, Stuart said the outlook for pork in 2014 remains to be seen as the PEDv is "wreaking havoc" on that industry and its production.

On the global scene, Stuart said China is influencing nearly all ag markets in a big way — and that will continue. Of the export growth potential in their market, Stuart said, "The Chinese middle class of 300 million will expand to 640 million by 2020, which is only six years away."

Consumer demand for beef in China is real and price is going through the roof, Stuart said. "They are paying the same price for beef that we do in the U.S., and most Chinese have one-sixth the income."

Along with China, Hong Kong and Vietnam are also big beef markets. Brazil, India and Australia currently lead in beef exports to these countries. The United States is fourth, and the market for U.S. beef remains closed in China. Will that change? Stuart said the Chinese market supposedly opened in 2006, but no plans have ever been approved.

"It's a tough process," he said. "If we hear an announcement, it could still take time to work out details." In the meantime, he noted, Hong Kong remains a strong buyer of U.S. beef.

The U.S. beef market to Russia also remains closed. Said Stuart, "I assume that won't change."

Stuart emphasized that adding an average $307 per head, or 21%, to the value of fed cattle, export markets are important for helping to add value.

However, the current industry scenario of tighter lean beef supplies and solid global beef demand has created a scenario that Stuart described this way, "The rubber band between supply and demand is stretching very tight." Still, CattleFax projected the 2014 export and import forecast should remain stable.

"The rubber band between supply and demand is stretching very tight."
— Brett Stuart

Looking to the future, Stuart summarized that the global situation will be influenced by emerging Chinese policies, expansion of the U.S. cow herd and the global economy, as well as pork and poultry supplies and impending trade issues, such as mandatory country-of-origin labeling (mCOOL) and the beta-agonist ban.

Stuart said he is also watching the Trans-Pacific Partnership (TPP) agreement, which he said could be huge, especially because it would bring Japan to the table to discuss equalizing trade.

— by Kindra Gordon

2020 vision

Don't underestimate the efficiency of the markets. They will work if we let them, said Randy Blach, CEO of CattleFax.

The beef supply that Americans consume annually has decreased to less than 55 lb., compared to 95 lb. in the late 1990s, Blach shared. The main driver why markets change is supply. The trade price ranges are increasing as the herd is in a rebuilding stage, though, and high prices will stick around. In 2014, retail and wholesale beef prices are expected to increase 7%, though per capita net beef supplies will drop 4% to 54 lb. per person.

Blach reiterated that export markets add $307 in value of beef, beef byproducts and hide exports per carcass, a strong increase from $175 in 2003. He predicted further global market growth by 2020.

Currently, the United States is the largest beef producer in the world, but it needs herd expansion to retain that title. Blach said 27% of the meat — beef, pork and poultry — exported globally comes from the United States. The United States exports about 13%-14% of its beef production, and the export market shows promise to increase in value. In 2013, the United States exported 7.3 billion lb. of beef, and Blach predicted that by 2020, that number could increase to 12.2 billion.

The United States has many advantages in global trade, including an infrastructure that is in place; one of the most efficient production systems in the world, evident by its being the largest beef producer; many trade agreements in place; nationwide regulations; and producers who adapt to market signals.

To prepare for an increasingly global marketplace in 2020, Blach suggested the U.S. beef industry

- will continue to consolidate,
- must expand the cow herd in the next one to four years,
- will increase capital requirements,
- must be prepared for more volatility,
- must increase risk management, and
- must enhance global market access and trade agreements to respond to increased global buying power.

Other countries need more of what we have, and now they have the income to pay for it, he explained.

— by Kasey Brown

PHOTO BY TROY SMITH

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Editor's Note: *Kindra Gordon is a freelancer and cattlewoman from Whitewood, S.D. Troy Smith is a freelancer and cattleman from Sargent, Neb. This article contains information compiled from the* Angus Journal's *online coverage of the 2014 Cattle Industry Convention and NCBA Trade Show, which is available online at* www.4cattlemen.com.