



Competing meat production important to cattle prices

Most of my “Market Advisor” columns are directly related to cattle fundamental (supply and demand) issues. I do periodically mention supplies and related prices for competing meats, mainly pork and chicken. Theoretically, one of the determinants of demand for any product is price of substitute products.

So, I thought it might be interesting to discuss changes in pork and chicken production in more depth. For example, and holding everything else constant, an increase in pork production with a subsequent decline in pork and hog prices would cause a decrease in demand for beef and lower prices down through the production chain to feeder cattle.

Closer look at pork and poultry

The United States is a major meat producer in the world. We are the leading producer of beef and chicken, and second in pork. So, since meat cannot be stored for an extended period of time, what is not exported needs to be sold to domestic consumers at a price that will clear the market. Typically, and depending on current trade issues, the United States is the world’s leading exporter of pork, second in chicken and fourth in beef. So the United States is a major player in world meat production, exports and prices.

For a historical perspective, total U.S. commercial red meat and poultry production increased until 2008, when increasing feed prices caused a decline in subsequent years. Both pork and chicken production peaked in 2008. However, beef production had already peaked in 2002, with the declining cow herd that has been discussed in previous columns causing lower beef production. Lower feed prices in recent years have again stimulated red meat and poultry production to all-time record levels.

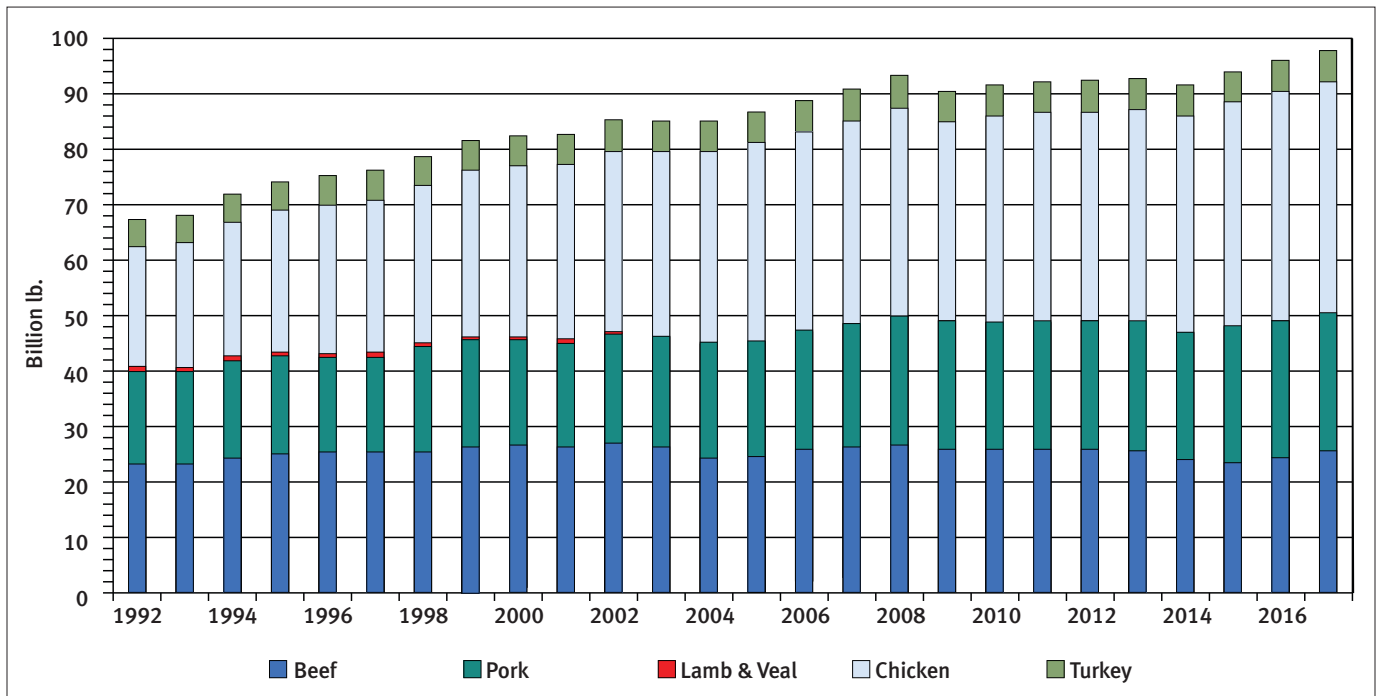
A good way to monitor changing levels

of meat production and corresponding livestock prices is the USDA *World Agricultural Supply and Demand Estimates* (WASDE) report. Updated WASDE reports are released monthly around the 9th to the 12th and are available at www.usda.gov/ocel/commodity/wasde.

Total red meat and poultry production was the lowest in several years in 2014. It had been expected that chicken and pork production would begin to ramp up with the lower feed prices. Yet, the porcine epidemic diarrhea (PED) virus in hogs and genetic problems in chickens caused lower-than-expected production. Beef production also declined due to the cyclically declining cow herd. Lower-than-expected meat production, along with a number of other positive fundamental factors, led to record-high annual prices for fed steers [\$154.56 per hundredweight (cwt.)], hogs (\$76.03 per cwt.), and broiler chickens [104.9¢ per pound (lb.)] in 2014.

Record-high prices in agriculture tend to cause subsequent increases in production to, at times, record-high levels. For example, record-high corn prices in 2012 caused at or near-record corn crops in the three following

Fig. 1: Commercial meat and poultry production by type of meat, annual



Source: USDA National Agricultural Statistics Service, compiled and analysis by Livestock Marketing Information Center.

years of 2013 [13.8 billion bushels (bu.)], 2014 (14.2 billion bu.) and 2015 (13.6 billion bu.).

Due to the reproductive biology of livestock, the broiler industry can increase production the quickest, followed by pork. Obviously, the beef industry is slowest to be able to respond to record-high prices.

In 2015, the pork and broiler industries did respond relatively quickly with record-high production. Pork production increased 7.3%, and broiler production was up almost 4% from 2014. Even though beef production continued to decline (-2.3%), the increased competing meat production led to record-high total meat production, up 2.7%.

Annual average livestock prices responded in the expected opposite direction with hog prices down 33.2% (\$50.23 per cwt.) and broiler chickens down 13.7% (90.5¢ per lb.). Even though beef production declined, fed steer prices also declined 4.2% to \$148.12 due, at least in part, to the increased production and lower prices of competing meats.

The latest WASDE report predicts 2016 beef production to increase 4.1% over 2015. Another 2% increase in pork production and 2.4% increase in broiler production is

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expected, both record high. The result will be about a 3% increase in total meat production, a record for the second straight year.

Correspondingly, annual fed-steer prices are predicted to average \$127.08 per cwt. (-14.2%), with hog prices at \$48.53 per cwt. (-3.4%) and broiler prices at 89.8¢ per lb. (-0.8%). The WASDE also predicts further increases and record-high meat production with lower livestock prices in 2017.

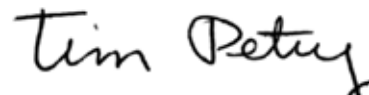
Interestingly, 2017 may be the first year that U.S. meat production exceeds 100 billion lb.

Of course, projections change as actual supply and demand fundamentals change.

Sometimes changes occur rather rapidly due to factors like weather-related impacts on production and world economic conditions.

For example, the latest WASDE U.S. corn production estimate for 2016 is 14.4 billion bu., a record high. However, the crop is far from being in the bin as I write this column in mid-June. New crop corn futures prices have already risen about 80¢ per bu. on southern hemisphere production problems and concerns about the size of the U.S. crop. By the time you read this, new projections will be released.

Livestock producers respond to lower livestock prices and/or higher feed costs with decreasing or at least moderating production. The big question for cattle producers is if, when and how much response may occur in the competing meat complexes in upcoming months.



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