PERSPECTIVES

Market Advisor

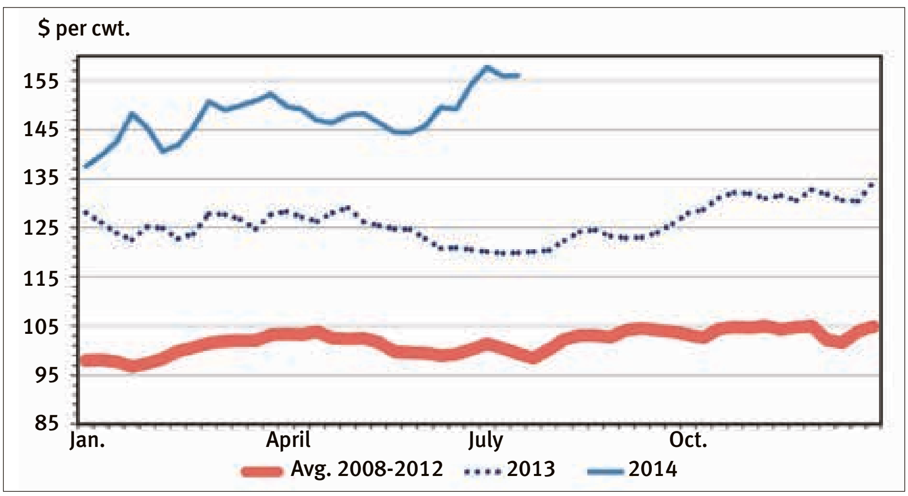
*by **Tim Petry,** North Dakota State University Extension Service*

Why did fed-cattle prices increase contra-seasonally?

Seasonal price patterns are a fact of life in the cattle industry and are usually the best starting point for good marketing plans.

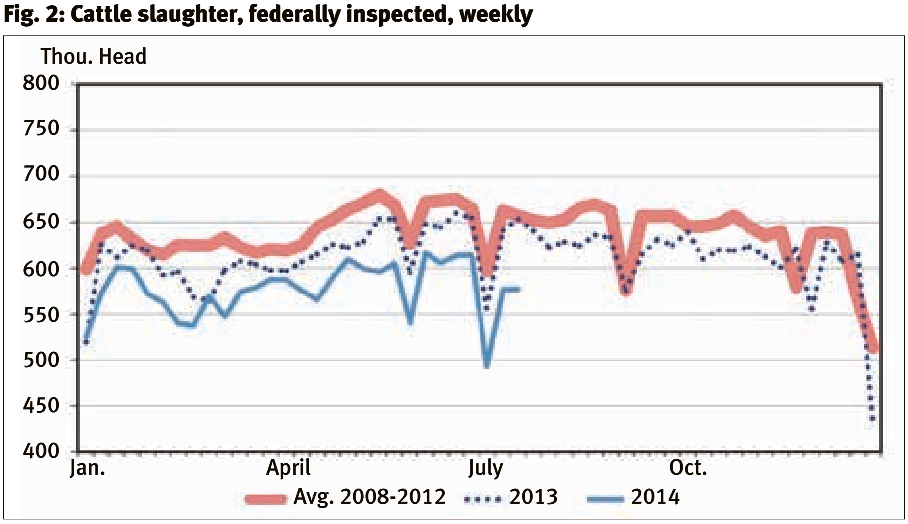
As I write this column in mid-summer, fed-cattle prices are at all-time record-high levels. Record-high prices in the beef industry the last several years have become the norm. However, record-high fed-cattle prices in July are especially noteworthy because prices increased contra-seasonally. Typically, fed-cattle prices are seasonally low in June, July and August due to the seasonal peak in cattle slaughter numbers and waning beef demand after the 4th of July purchases are finished.

Fig. 1: Prices for slaughter steers, five-market weighted average, weekly



Data Source: USDA-AMS, Livestock Marketing Information Center.

Fig. 2: Cattle slaughter, federally inspected, weekly



Data Source: USDA-AMS, Livestock Marketing Information Center.

Demand is up

The normal fed-cattle seasonal price pattern was intact for the first several months of 2014. Prices for slaughter steers for the five-area market, as reported by the USDA Agricultural Marketing Service (*www.ams.usda.gov/mnreports/lm_ct150.txt*), started the year at a record-high $139 per hundredweight (cwt.). Prices increased seasonally to a normal seasonal peak the end of March at just more than $152. Prices then gradually retreated seasonally through May to just less than $145, but instead of maintaining a seasonally low status into June and July, prices advanced sharply to more than $155 — a new record high.

Both supply and demand were supportive. On the supply side, fed steer, fed heifer and cow slaughter have all been lower in 2014. Steer slaughter has been down just less than 2% so far, but heifer slaughter has been down about 7%, with cow slaughter showing a 13% decline. The lower female slaughter is the result of improving moisture conditions in parts of the United States that, along with record-high prices, is creating interest in herd rebuilding.

The fed-cattle market is expected to be very volatile in the next several months.

Beef production has been down 5% so far and will likely be down close to that for the year. Tight supplies have caused the fed-cattle market to be volatile as the market attempts to ration smaller but changing supplies on a weekly basis. For example, fed steer and heifer slaughter was down about 13% during a week in mid-July.

Both domestic and export beef demand have also improved. I have discussed both domestic and export demand separately in this column before, and each could take the entire column to explain in detail. I will touch on a few issues, some expected and some unexpected, that have affected fed-cattle prices and seasonality.

Domestic beef demand has been improving as the economy, as expected, slowly recovers. However, lower-than-expected pork and chicken production has also buoyed beef

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demand. The pork industry has had to deal with the impact of the porcine epidemic diarrhea virus (PEDv), which has caused deaths in baby pigs. The chicken industry has been dealing with fertility problems in a particular genetic line. Combined beef, pork and poultry production in June and July was about 5% below last year. Expectations were that increasing pork and poultry production would make up for declining beef production, but that did not happen.

Beef exports were expected to decline in 2014 due to the record-high prices and the shorter U.S. supply. However, beef exports have been up about 6% from last year with especially strong demand from Mexico and some Asian markets.

Beef-byproduct values have also risen to record-high levels mainly driven by a strong export market.

The contra-seasonal higher fed-cattle prices in mid-summer were certainly welcome to the cattle-feeding sector. The fed-cattle market is expected to be very volatile in the next several months. Prices may not follow normal seasonal price patterns as the market continues to deal with short beef supplies and issues outside the cattle industry.

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