PERSPECTIVES

# Market Advisor

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

## Beef production and cattle prices are dynamic

***This column has discussed the expanding beef cow herd and potential for increased beef production in past articles (see the April** Angus Journal **"Market Advisor" column, "Cyclical Beef Cow Herd Expansion Continues"). I am writing this column in mid-July, so by the time you read this the semi-annual** Cattle **inventory report will have been released by USDA Agricultural Marketing Service (AMS). That report likely showed a continued increasing number of beef cows as of July 1, 2017.***

### Many factors affecting prices

The 2016 calf crop (including both beef and dairy calves) in the United States was estimated at 35.1 million head, up 2.9% from 2015. The additional beef cows and beef replacement heifers that will calve in 2017 mean a larger calf crop again this year. Although beef cow herd expansion is likely to moderate, larger calf crops may occur through 2019.

Larger calf crops will likely cause increased beef production for the next several years. All-time record beef production occurred in 2002 at just greater than 27 billion pounds (lb.), but declined to just less than 24 billion lb. by 2015 due to the declining beef cow herd. Production increased approximately 1 billion lb. in 2016 to 25.2 billion lb. and is expected to increase 1 billion lb. in each of the next two years. So, beef production is forecast to be greater than 26 billion lb. in 2017 and greater than 27 billion lb. in 2018, which would be at or near the all-time record high.

Increasing beef production is not supportive to prices, so increasing demand, particularly export demand, is very important. Beef demand is affected by production and resulting prices of competing meats, especially pork and poultry, so those markets need to be watched as well when discussing potential cattle prices.

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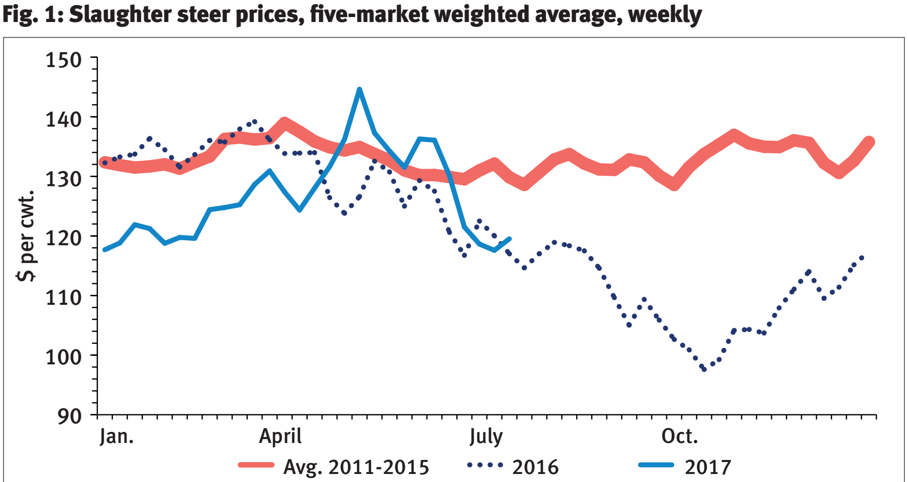
Both U.S. pork and chicken production and total meat production were record high in 2015 and 2016, with record production expected to continue in 2017 and 2018. The cyclically larger cattle and beef supplies and record-high pork, chicken and total meat production were the dominant factors pressuring cattle prices in 2016.

**Fig. 1: Slaughter steer prices, five-market weighted average, weekly**




**Source:** USDA AMS, Livestock Marketing Information Center.

That price pressure from record meat production continued into the first quarter of 2017 when the USDA AMS five-market fed steer price averaged 8.8% below the same period in 2016. However, the good news for cattle producers is that, in spite of record meat production, cattle prices rallied in the second quarter. The five-market fed-cattle price averaged about 4% above 2016 and fed-cattle, feeder-cattle and calf prices increased to a seasonal peak in early May at levels above 2016.

U.S. commercial cattle slaughter in the first quarter was 7.3% above 2016. Average cattle dressed weight declined 1.1% year-over-year, so beef production was 6.1% above a year ago. The trend of higher slaughter levels compared to a year earlier and lower dressed weights continued in the second quarter (slaughter up 5.8% and dressed weight dropped 2.2% year-over-year). In the second quarter, U.S. beef production was up 3.4% from 2016.

A major fundamental reason for the higher second-quarter prices was strong export demand coupled with lower beef imports. The supply of beef available to domestic consumers was likely up less than 1% in the second quarter of 2017. Also supportive to cattle prices was strong domestic preholiday (Memorial Day, Father's Day, July 4) beef demand, which caused the Choice boxed-beef carcass cutout value to soar 11% above the previous year.

The latest U.S. beef export trade data show beef exports up 17% in the first half of 2017. USDA is projecting a 10% increase for the year, and that follows a 12.6% increase in 2016.

U.S. exports were especially strong to the four major customers — Japan, Mexico, Canada and South Korea. Noteworthy is that the United States is currently in trade negotiations with Japan since the United States withdrew from the Trans-Pacific Partnership (TPP). In early July, the European Union and Japan signed an Economic Partner Agreement, which gives favorable access for European beef to Japan. The United States is also discussing provisions of the North American Free Trade Agreement (NAFTA) with Canada and Mexico. It is important the United States maintain the robust beef trade with those top beef customers.

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The major hurdle to resuming U.S. beef exports to China was the political negotiating process. Now that an agreement is in place and beef is allowed to be exported, the size of the Chinese market will need to be determined by the marketplace. The requirements that beef must be traceable to the birth farm using a unique identifier and that it contain no growth promotants, feed additives or other chemical compounds may restrict the amount of beef that is initially available for export to China. Longer term, price premiums may provide the incentive for beef producers to raise cattle that meet those requirements.

USDA is projecting fed-cattle prices to average about $10 per hundredweight higher in the third and fourth quarters of 2017. Continued strong export and domestic beef demand will both be important in supporting prices. The beef and cattle markets are dynamic, and changes can occur rather abruptly.

For example, a severe drought has quickly developed in the western Dakotas and eastern Montana. Currently, about 11% of the U.S. beef cow herd is affected by the drought and forced liquidation of beef cows is occurring. An expansion of the drought area and increasing intensity could negatively affect cattle prices. In addition, a wild card for feeder-cattle and calf prices is the potential size of the corn crop and resulting feed prices.

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