2016 May be Turning Point for Producers

Decreasing returns may stifle herd expansion.

*by **Barb Baylor Anderson,** field editor*

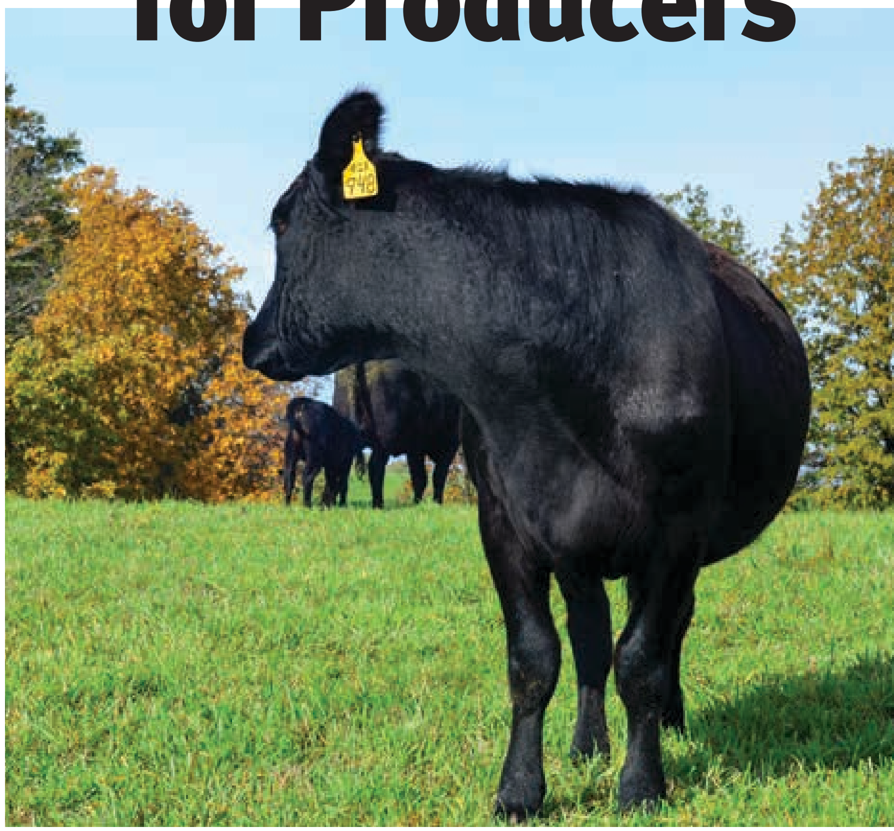


PHOTO BY SHAUNA ROSE HERMEL

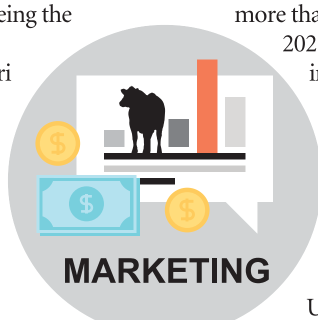
Record corn production means cheap feed. While that is welcome news for cattle-feeding budgets, other factors are pressuring production economics. Greater beef supplies are weighing on the market, encouraging some producers to take what may be steps toward herd reduction.

"This could be the stake in the sand," says Jim Robb, senior ag economist at the Livestock Marketing Information Center (LMIC) based in Lakewood, Colo. "Calf prices eroded more quickly than anticipated this summer, and cow-calf returns have been adjusted. Those returns are still positive, but they have eroded to a point where we may stop increasing the breeding herd."

Lower energy and feed costs will help fourth-quarter returns (calculated as cash costs plus pasture rent) remain positive, although Robb says it may not be enough to cover all costs.

Cattle supplies rise

"The breeding herd will still increase modestly on Jan. 1, 2017, but we are going through a supply-side increase with higher heifer and cull cow slaughter now. The $100-$150 return per cow for fall is now $70-$90, and that may or may not cover management, labor and capital risk. We will see a stable cow inventory with a possible decline into 2018 and perhaps a turnaround by the fourth quarter of 2019, with 2016 being the transition year," says Robb.



The University of Missouri Agricultural Markets and Policy (AMAP) in its most recent outlook estimates the beef cow herd will rise from 30.3 million head to 30.8 million on Jan. 1, 2017. It projects the cow herd will remain around the 31 million mark into 2020.

Chris Hurt, Purdue University ag economist, expects the calf-crop size to increase over the next two years, along with per capita beef supplies for two to three years, and general meat supplies.

"A critical factor in a continued increase in per capita meat supplies will be moderate feed prices," he says in a report from the University of Illinois' *FarmDoc Daily,* found at *http://farmdocdaily.illinois.edu/2016/08/beef-and-pork-role-in-filling-the-supply-gap.html.* "Corn, soybean meal and forage prices over the next 12 months will be some of the lowest of the past decade. This is likely to stimulate somewhat more meat production for 2017."

USDA's most recent forecast shows a similar trend, with beef cow numbers rising from 29.7 million head at the start of 2015 to more than 33 million toward the end of 2025. Total cattle inventory would increase from 89.8 million head in 2015 to more than 97 million.

Rising slaughter weights also contribute to the longer-term increases in beef production, but live-cattle imports may not. Ron Plain, University of Missouri emeritus ag economist, notes live cattle imports from Canada were down 10.4% in the first half of 2016, and imports from Mexico were down 16.0% compared with the previous year.

"Fewer imports from Canada and Mexico will continue unless there is a drought," says Robb.

Prices drop dramatically

As supplies have ballooned, cash cattle prices have dropped sharply. Spring-finished cattle price highs were near $138 per live hundredweight (cwt.) earlier and have since fallen to about $115. That is well below record prices established late in 2014 at about $173, which is a 34% decline.

University of Tennessee ag economist Andrew Griffith advises producers to expect lower prices the rest of the year on all weights and classes of calves and feeder cattle.

"The large number of calves and abundant supply of feeder cattle will result in all weight classes of cattle witnessing price pressure, which could easily result in 500- to 600-pound freshly weaned steer prices in the mid- to upper $120s in the Southeast. Similarly, prices for truckload lots of 700- to 900-pound steers in the region could be in the $120 to $130 range," he says.

Lower prices may stick around, too. AMAP's report expects "further declines until prices reach their low point in 2020," while USDA looks for cattle prices to level off and increase slightly by the end of 2025, assuming beef production gains slow down and beef exports continue to rise.

Demand increases modestly

In the short-term, Plain says lackluster growth in the U.S. economy has left meat demand slightly lower than 2015, and chicken may continue to attract some of beef's market share.

However, long-term USDA estimates beef production should be large enough to support both increasing export and domestic demand. Through 2025, the agency predicts per capita beef consumption will rise moderately, while steady global economic growth supports select high-quality meat cuts and parts demand into Mexico, Canada and Pacific Rim nations.

"We will have to see if the U.S. can regain its position as a key beef exporter and gain tonnage back," says Robb. U.S. beef exports were up 2% during the first half of 2016. "We also are seeing fewer beef imports from Australia because grazing conditions have improved there."

Imports of beef may continue to erode, although market watchers believe the United States will remain the world's largest importer of grass-fed, lean beef from Australia, New Zealand, Mexico and Canada for use in ground beef and processed products.

Bottom line: Be prepared

Griffith says that what it boils down to is that after two years of a roaring market, the air is out of the sails. "There remain profits for many in the industry, but further price declines will have others subsidizing cattle operations with off-farm jobs or other enterprises. Producers need to consider changes they can make to reduce costs without negatively impacting production," he says. "In addition, producers should consider ways to add value to their cattle, which require a little more labor and a lot more management, but are necessary to remain profitable." AJ

Editor's Note: *A former National Junior Angus Board member, Barb Baylor Anderson is a freelancer from Edwardsville, Ill.*