

In The Cattle Markets

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Beef Cattle Market: 2018 in Review and a Look Ahead

Large supplies, record exports, and trade concerns are just a few of the topics that dominated the beef headlines in 2018. Amidst all of these factors, U.S. calf and yearling prices have showed relatively consistent strength throughout the year. 2019 will likely bring a mostly flat year for national herd growth which will position the industry at a pivotal point for supplies and prices moving forward. In this article, we'll dig a little deeper into a few key drivers to watch in 2019.

Cattle and Calf Supplies

Cattle and beef supplies have been growing since the price peak in 2014-2015 and this continues to be the primary headwind to higher prices. The 2018 U.S. calf crop was about 8.5% larger than it was in 2014 – that is nearly 3 million more calves on the ground. However, that growth has been slowing recently with 2019 expected to be close to flat for cow herd growth. It takes time for the expansion that has already occurred to work through the cattle and beef supply chain. The stage is already set for modestly larger calf and beef supplies in 2019. We can look to 2014-2015 as a mirrored example. 2014 was the low point for most of the cattle supply numbers (number of cows, calf crop, etc.), but 2015 was the lowest year of beef production.

Beef Production and Supplies

Beef production was over 13 percent higher in 2018 than in 2015. Current forecasts suggest an increase of just under 2 percent in 2019. Put it all together and that would be an approximately 15 percent increase in beef production in just four years. This would be the fastest four-year growth since 1973-1977. Following the cattle supply story, the increases are slowing. With respect to the cattle cycle, recent cowherd trends suggest 2020 could potentially mark the end of the current U.S. cattle inventory build-up. But it is worth noting that this is looking like a unique cattle cycle. History might suggest that after herd growth stops, herd declines will follow. But the ingredients for near-term herd declines are not obvious at this point. Prices have mostly remained at or above profitable levels for cow-calf producers which does not provide much incentive for liquidation.

Beef Demand

While larger supplies will remain the biggest headwind to stronger prices in 2019, strong domestic and international demand for U.S. beef is continuing to provide price support. A strong domestic economy is supporting beef demand despite the larger supplies of beef and also larger supplies of other proteins chicken and pork. Domestic beef consumption per person in 2018 was about 57 pounds and is forecasted to grow slightly in 2019. Internationally, robust exports have supported the demand profile for beef and, therefore,

cattle. Beef exports have risen by over 20 percent over the past 2 years which has helped absorb some of the beef production increases. More modest export growth is forecasted for 2019, but it is worth noting that the modest forecasts the past two years have been sharply exceeded.

Summary

The past few years have been a demand-driven environment where stronger-than-expected beef demand led to stronger-than-expected calf and yearling prices. These have been important transition years that coped with the sharp supply increases. Looking ahead, slower herd growth numbers begin to paint a brighter price picture for 2019 and 2020 if domestic demand and exports continue to grow.

The Markets

Note: most pricing available was not available last week due to the holidays.

<i>Data Source: USDA-AMS Market News</i>		Week of 12/28/18	Week of 12/21/18	Week of 12/29/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$122.52	\$118.81	\$122.84
	all grades, dressed weight, \$/cwt	\$194.25	\$189.96	\$194.50
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$215.13	\$212.71	\$202.35
	Choice-Select Spread, \$/cwt	\$7.69	\$7.49	\$11.06
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	--	\$152.53	\$156.50
	Oklahoma 8-market, \$/cwt	--	\$144.93	--
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	--	\$176.63	\$174.56
	Oklahoma 8-market, \$/cwt	--	\$165.02	--
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.55	\$3.55	\$3.28
	DDGS, Nebraska, \$/ton	--	\$165.00	\$153.50