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In The Cattle Markets

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Thoughts on the Cattle Industry in 2016

The last two years have been a whirlwind of dramatic extremes for the cattle industry. With historically tight supplies in 2014, record prices in every segment of the market were reached. Improvements in drought conditions and unprecedented high cow/calf returns brought about rapid expansion at the end of 2014 and throughout 2015. Cattle numbers and beef production continued to be historically small in 2015. The latest USDA's *World Agricultural Supply and Demand Estimates (WASDE)* report from December estimates 2015 beef production at 23.7 billion pounds. This is the lowest annual beef production figure since 1993. This past year producers faced major volatility in prices due to any disruption to supply, whether positive or negative, causing large price fluctuations. Prices in the first quarter of 2015 started higher than 2014, but significant declines brought them back closer to 2013 price levels in the second half of 2015.

So what is in store for 2016? In the cattle industry, nothing is certain, but there are some key factors worth mentioning for 2016 and beyond.

Evidence has been pointing to a rapid-pace expansion in 2015 because there are fewer heifers entering the feedyard as well as fewer cull cows going to market. The January 1 Cattle Inventory report will be released on January 29th and will set the stage for 2016. Two factors will contribute to or hinder further expansion in 2016: cow/calf returns based on feeder cattle prices and weather conditions. Current LMIC estimates point to lower cow/calf returns in 2016 with returns over cash costs plus pasture rent near \$200/cow. Drought conditions have continued to improve over most of cow/calf country. Continued improvements would continue to contribute to expansion in 2016, but any formations of drought could rapidly slow the pace.

Expansion equates to more beef production in 2016, 2017, and 2018 which also means lower prices. The latest WASDE estimates 2016 beef production will be over 24.7 billion pounds. Larger carcass weights will also contribute to increased beef production; however, due to reduced feedlot placements recently, beef production will be constrained for the first part of 2016. Beef production in 2016 will be higher than 2014 and 2015 but will still be historically low.

The export market was challenging in 2015 and there doesn't appear to be significant changes to improve the export market in 2016. The continued high priced beef coupled with the strengthening U.S. dollar and lower purchasing power of major markets have played a big factor in the export market and will continue to dampen it for 2016. The import market was strong in 2015, but will likely see less beef imports in 2016. Australia has seen a decline in

their herd numbers and are recovering from drought; expanding their herds will decline imported beef in 2016. Domestic demand remained relatively good through 2015 but will be an important figure to watch as we move through 2016. Increased supply of beef, pork, and poultry are expected in 2016, but only up about 2% over 2015 according to the latest WASDE with only slight increases in per capita consumption.

Basic supply and demand fundamentals will continue to play out in 2016. Increased beef production equates to declining prices in the pipeline unless domestic and export demand improve significantly. Besides the fundamental market factors, producers need to be aware of other factors that contribute to how the markets will continue to play out in the coming years. These factors include ongoing political issues and trade agreements, we are entering a presidential election year, as well as consumers (both domestic and international) increasing interest in where and how their food is produced.

As we enter 2016, I wish each and every one of you a year of good health, happiness, and great success.

The Markets

In a shortened holiday week, markets continued to show the volatility we have seen in 2015. Cash fed cattle prices continued the rebound from the previous week with 5-Area average live steer price at \$133.95 up over \$10 from the previous week and up over \$17 from two weeks ago. Demand was good for year-end sales across Nebraska. Heavy weight steers in Nebraska were up over \$3 from previous week.

<i>Data Source: USDA-AMS Market News</i>		Week of 1/1/16	Week of 12/25/15	Week of 1/2/15
5-Area Fed Steer	all grades, live weight, \$/cwt	\$133.95	\$123.40	\$165.94
	all grades, dressed weight, \$/cwt	\$211.52	\$199.60	\$264.87
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$207.16	\$193.83	\$247.40
	Choice-Select Spread, \$/cwt	\$7.76	\$7.70	\$9.61
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$172.28	\$169.07	\$227.84
	Oklahoma 8-market, \$/cwt	--	--	--
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	--	--	--
	Nebraska 7-market, \$/cwt	\$192.26	\$195.09	\$287.63
	Oklahoma 8-market, \$/cwt	--	--	--
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.49	\$3.52	\$3.77
	DDGS, Nebraska, \$/ton	\$134.63	\$133.50	\$182.25