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## In The Cattle Markets

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### Remembering the Old Year; Looking Ahead to the New

It is difficult to come up with enough superlatives to describe the past year in the cattle market. It was a year, in many respects, of dramatic extremes. The fact that cattle numbers were historically small going into 2014 has been well-noted, so it is not necessary to rehearse all of the supply side facts and figures for the year here. Still, a couple of data points are worth pointing out. USDA's latest of estimate of 2014 beef production from the December *World Agricultural Supply and Demand Estimates (WASDE)* report was just over 24.3 billion pounds. This would be the lowest annual beef production figure since 1993. At the same time, exports are projected to come in at almost 2.6 billion pounds, the second largest figure on record. On a per capita basis, domestic disappearance for 2014 is estimated to work out to 54.2 pounds per capita (retail weight). This will be the lowest per capita beef consumption since the early 1950s.

Tight supplies – of cattle, of beef, of competing meats – contributed to unprecedented prices at every level of the market. Retail beef, wholesale beef, fed cattle, feeder cattle, stocker cattle, cull cattle – every part of the industry witnessed record prices in 2014. Consider retail prices: the average All Fresh beef retail price for November 2014 was 597.5 cents per pound. This price was almost 20% higher than the prior November; and it marked the sixth consecutive month in which a new record price had been reached. When December data are available later this month, that streak of record setting prices may well be extended. Fed cattle prices also reached record-shattering levels in 2014. The highest weekly 5-Area weighted average price was posted in the last week of November. At \$171.38 (live basis), that price was over 25% higher than the prior year's highest price.

Impressive as beef and fed cattle markets were in 2014, their performances kind of pale in comparison to that of cash calf markets. Calf prices in 2014 were absolutely phenomenal. For example, the high price for the year on 7-800 pound feeder steers at Oklahoma City was a bit over \$248/hundredweight (cwt). The 2014 high on 4-500 pound steers was \$348/cwt: over 50% higher than 2013's best price on that class.

There is no question that a great many cattlemen sold their calves in 2014 for the highest prices that they have ever seen. The question now: what is in store for 2015? The only thing I am really sure of is that I don't know the answer to that question; at least not in the kind of definitive terms that would really be useful. But I do have some clear expectations about key features of the market in 2015 and what that might imply for cattle and beef prices.

Cattle numbers and beef production will still be historically small in 2015. Anecdotal evidence has been mounting for some months that herd expansion has gotten well underway. When the January 1 inventory report comes out, it should provide some hard data to either

confirm or refute this anecdotal evidence. Whatever the case, though, the path from herd expansion to higher beef production is a rather long one due to the production lags inherent in the system. This means for 2015 another year of smaller beef production.

As beef production declines, competing meat supplies will increase. Both pork and chicken are likely to achieve substantial year-over-year increases in production in 2015. USDA's November *WASDE* included forecasts for a 3% increase in broiler production in 2015 (following 2014's 2% increase) and a 3.6% increase in pork production. Combined red meat and poultry production are projected to be up by over 2% in 2015. By contrast, current estimates indicate that 2014 production was down by 1.3% from the prior year. The point of this is that in 2014, the beef (and, by extension, cattle markets) benefitted from overall lower meat production. That key fundamental factor will be quite different in 2015.

The environment for exports could also be a bit more challenging in 2015 than it was in 2014. The dollar gained strength against other major currencies in the last quarter of 2014. That trend is likely to continue in 2015 as world markets wrestle with questions about the viability of the Eurozone as well as Japan's apparent failure to jump start more robust economic growth.

On a related, but generally positive note, the stronger dollar has contributed to the dramatic decline in oil prices over the last few months. Lower oil prices translate into lower energy prices generally and lower gasoline prices specifically. This has provided consumers with a nice windfall to end 2014 – a generally positive factor for meat demand.

Overall, with more meat in the pipeline and a tougher export market to deal with, it will be tough to replicate 2014's cattle market – especially the fourth quarter market, which was clearly one for the ages. Demand has been very good, and we can hope – even expect – that it will remain so. But unless domestic demand actually improves, the balance of market fundamentals tilts toward some decline in prices from recent record levels. Keep in mind that year-over-year comparisons for the first quarter will still look quite good even if we aren't quite matching the fourth quarter records.

## **The Markets**

Markets have obviously been fairly volatile over the Holiday period. Cash fed cattle prices began to bounce back from the worst of their selloff two weeks ago. That recovery continued last week, with the 5-Area average live steer price working out to almost \$166 – an improvement of almost \$4 from the prior week. Wholesale beef prices also recovered some last week, though less emphatically than fed cattle. The Choice cutout value improved from \$244.52 last Friday (on extremely light volume) to \$248.90 on Wednesday before giving back about \$1 on Friday to finish the week at \$247.83. Feeder and stocker cattle trade remained light for another week due to the Holidays. It will be business-as-usual this week, though, with OKC and several other major markets getting back to regular order on Monday. Corn futures were sharply lower to end the week last week. Reports were that recent higher prices had started to pry more grain out of farmers' hands. Also, lower gasoline prices along with the higher corn prices were making ethanol producer margins look pretty poor.

<i>Data Source: USDA-AMS Market News</i>		<b>Week of 1/2/15</b>	<b>Week of 12/26/14</b>	<b>Week of 1/3/14</b>
<b>5-Area Fed Steer</b>	all grades, live weight, \$/cwt	\$165.94	\$161.95	\$137.53
	all grades, dressed weight, \$/cwt	\$264.87	\$257.03	\$217.13
<b>Boxed Beef</b>	Choice Price, 600-900 lb., \$/cwt	\$247.40	\$242.61	\$200.83
	Choice-Select Spread, \$/cwt	\$9.61	\$10.04	\$4.50
<b>700-800 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	--	--	--
	Nebraska 7-market average, \$/cwt	\$227.84	--	\$176.45
	Oklahoma 8-market average, \$/cwt	--	--	--
<b>500-600 lb. Feeder Steer Price</b>	Montana 3-market average, \$/cwt	--	--	\$207.50
	Nebraska 7-market average, \$/cwt	\$287.63	--	\$209.44
	Oklahoma 8-market average, \$/cwt	--	--	--
<b>Feed Grains</b>	Corn, Omaha, NE, \$/bu (Thursday)	\$3.77	\$3.88	\$4.16
	DDGS Price, Nebraska, \$/ton	\$182.25	\$176.00	\$206.63