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In The Cattle Markets

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USDA's Outlook Forum Gives a Preview of What Lies Ahead for the Cattle Industry

The United States Department of Agriculture held its annual Agricultural Outlook Forum a couple of weeks ago in which many topics relevant to the agricultural industry were discussed at length. Topics of discussion ranged from trade to regulation and from policy to rural development. But the one topic that is always a mainstay at the annual forum are the market outlooks for most of our major commodities. The outlooks at the forum include information regarding the current supply and demand situation as well as projections for the current production year and a discussion of the factors that are the driving forces behind those projections.

The most important aspect on the supply side of the cattle industry comes back to the annual Cattle report released back in January. The Cattle report gives us a snapshot on the industry's inventory of cattle and calves as of January 1, 2018. Based upon those numbers, the beef industry saw the herd size expand for the fourth consecutive year. The USDA projects expansion to continue throughout 2018, but also points out evidence that the rate of expansion will also slow substantially this year. Heifer retention is projected to be down 3.7% from a year ago, while the number of heifers expected to calve will be down 5.2% from a year ago. However, these declines in heifer numbers are not necessarily an indicator of an industry contraction. Rather, it is likely an indicator of a slower rate of expansion. We really won't see the industry begin to contract until the rate of culling older cows exceeds the rate in which replacement heifers are added to the herd. With such high replacement heifer retention over the last few years, I suspect we have a relatively young cattle herd nationally, which will help to keep the culling rate down over the next couple of years.

On the demand side, the USDA is projecting exports to continue to increase 5.7% from last year, with much of that going to Japan, South Korea, and Hong Kong. Although the U.S. beef industry does have a foot in the door with China, exports to that country are still expected to be small relative to other Asian counterparts. It will likely take a few years for exports to China to grow to an amount that will have a noticeable impact on total exports. Per capita consumption is also expected to be higher for beef as well as for all animal proteins. In fact, total per capital meat consumption for 2018 is expected to hit record levels.

Despite increases in both domestic beef consumption as well as beef exports, the USDA is projecting slightly lower cattle prices for 2018. A big part of the reason for lower projected prices is the 5.9% increase in total beef production for 2018, which would be a new record. The USDA is projecting average steer prices for the year to be about 2% below a year ago, which when combined with slightly lower corn prices should mean that this year's margins in the cattle feeding industry should be relatively consistent with last year's margins.

The Markets

The five-area fed steer price ended the week averaging \$126.76 for live sales and \$204.21 for dressed, down \$1.19 and \$0.48 from a week ago respectively. Nebraska feeder cattle were lower on the week with 500-600 pound steers down \$3.36 averaging \$195.64 and 700-800 pound steers down \$2.96 averaging \$156.40. Corn was up \$0.12 on the week trading at \$3.60/bu in Omaha on Thursday.

<i>Data Source: USDA-AMS Market News</i>		Week of 3/2/18	Week of 2/23/18	Week of 3/3/17
5-Area Fed Steer	all grades, live weight, \$/cwt	\$126.76	\$127.95	\$124.76
	all grades, dressed weight, \$/cwt	\$204.21	\$204.69	\$199.98
Boxed Beef	Choice Price, 600-900 lb., \$/cwt	\$221.18	\$216.53	\$205.86
	Choice-Select Spread, \$/cwt	\$6.21	\$5.60	\$4.05
700-800 lb. Feeder Steer	Montana 3-market, \$/cwt	\$152.75	\$156.07	\$132.02
	Nebraska 7-market, \$/cwt	\$156.40	\$159.36	\$134.31
	Oklahoma 8-market, \$/cwt	\$148.84	\$150.50	\$128.80
500-600 lb. Feeder Steer	Montana 3-market, \$/cwt	\$194.46	\$197.67	\$160.84
	Nebraska 7-market, \$/cwt	\$195.64	\$199.00	\$167.68
	Oklahoma 8-market, \$/cwt	\$179.75	\$177.79	\$156.63
Feed Grains	Corn, Omaha, NE, \$/bu (Thursday)	\$3.60	\$3.48	\$3.38
	DDGS, Nebraska, \$/ton	\$144.00	\$143.00	\$100.00