In The Cattle Markets

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Second Quarter Gross Domestic Product

Last Wednesday, the Bureau of Economic Analysis (BEA) released the latest figures on quarterly gross domestic product (GDP). GDP estimates the total value of goods and services produced in the U.S. economy; it thus represents a comprehensive measure of economic activity. The quarterly GDP report is always a highlight on the economic calendar. Last week's report, providing the advance estimate of second quarter GDP, was of particular interest because the first quarter report had been so surprising. In June, BEA's revised estimate of first quarter GDP indicated that real GDP had declined at an annual rate of 2.9 percent over that quarter. That figure represents a substantial contraction in the economy. In fact, contractions of two percent or more historically haven't happened outside of recessions. To have a reduction in economic activity of that magnitude outside of a recession was pretty remarkable, so the report raised serious questions about the underlying strength of the economy.

Last week's report showed real GDP growth recovering to a 4.0 percent annual rate. The first quarter number was revised to a decline of 2.1 percent – not as bad as the previous estimate but still a big quarterly drop outside of a recession. The rebound in GDP should inspire some confidence in the ongoing slow-but-mostly-steady economic recovery.

The first quarter number remains something of a mystery. At the time, it was considered something of an outlier among economic indicators. Other diagnostic figures like employment and consumer sentiment looked good, even very good, despite the poor GDP showing. The prevailing explanation was pretty simple: it was a really cold winter. More specifically, the historically cold weather this year in the January-to-March period reduced economic activity – particularly construction activity – and that showed up in the poor Q1 showing for GDP. That's really not much of an explanation for such a dramatic shortfall, but it's all we've got at this point. Whatever the reason, the Q1 number now looks like a fluke. The economy contracted by more than 2% in the first quarter but wasn't in recession and actually posted one of the best rates of growth in the post-recession period in Q2 (at least based on advance information which will, of course, be refined and revised over the next couple of months).

All of this should be welcome news for the beef industry. As has been widely noted, retail beef prices are now at record levels. According to USDA Economic Research Service (ERS) the all fresh beef average retail price for the month of June (most recent available) worked out to 551.2 cents per pound. That's an increase of over 12% from the prior year. The willingness and ability of consumers to pay higher prices for beef – and most other things, for that matter – is closely tied to the overall health of the economy. Of course *how* GDP grows can also be important: different sources of GDP growth may imply different things about consumer income, for example. But in a general sense, beef demand is not likely to be healthy if the general economy is not healthy. The general economy looks considerably better now than it did this winter. Let's hope it continues.

The Markets

Last week, cash fed cattle trade was slow to develop. There were few negotiated transactions before Friday, and even then, business was on the light side. Cattle that did trade hands brought prices that were close to steady with the prior week. The 5-Area weighted average live steer price for last week worked out to $162.70, down 56 cents from the preceding week. The wholesale beef market was doing its part to provide support for the cattle market. The weekly average beef cutout moved considerably higher last week compared to the prior week. On Friday, the Choice cutout averaged $263.13 (up $5.75 from the preceding Friday), and the Select cutout averaged $258.12 (up $3.79). Feeder and stocker cattle prices were also strong last week. The *National Feeder and Stocker Cattle Summary* report called prices on all classes $7 to $10 higher, with the biggest advance on heavy feeders. Corn futures started the week with a modest gain on Monday but spent the rest of the week giving it back and then some. Last Friday, the December Corn contract closed at $3.61 ½, down 10 ¼ cents from the prior Friday's close.

Data Source: USDA-AMS Market News		**Week of 8/1/14**	**Week of 7/25/14**	**Week of 8/2/13**
5-Area Fed Steer	all grades, live weight, $/cwt	$162.70	$163.26	$120.35
	all grades, dressed weight, $/cwt	$255.68	$256.54	$194.27
Boxed Beef	Choice Price, 600-900 lb., $/cwt	$262.06	$253.77	$186.68
	Choice-Select Spread, $/cwt	$3.11	$4.62	$5.08
700-800 lb. Feeder Steer	Nebraska 7-market average, $/cwt	$246.45	$243.79	$164.74
	Oklahoma 8-market average, $/cwt	$226.56	$219.78	$152.97
500-600 lb. Feeder Steer	Nebraska 7-market average, $/cwt	$288.97	$293.10	$169.88
	Oklahoma 8-market average, $/cwt	$255.49	$246.76	$167.53
Feed Grains	Corn, Omaha, NE, $/bu (Thursday)	$3.41	$3.42	$5.72
	DDGS Price, Nebraska, $/ton	$109.80	$115.70	$220.50