In The Cattle Markets

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The importance of beef imports to the US cattle producer

The USDA ERS livestock and meat trade data released in September showed an increase in beef imports of 32% coupled with a decrease of 10% in beef exports. Given current trade expectations, approximately 14% of the US supply of beef in 2015 will be from imports, as compared to 12% in 2014. The recent decline in cattle price combined with these changes in trade have many questioning the reason for beef imports and the importance of these imports to the US cattle producer.

The primary sources of domestic beef are grain-fed cattle and culled dairy cows. US exports of beef consist primarily of the high-valued beef cuts in the form of steaks and roasts from grain-fed cattle, whereas beef imports are primarily ground beef. Retail level ground beef is typically made up of different combinations of lean trimmings. For example, 76% lean hamburger is determined by blending 90CL trimmings with 50CL trimmings. The majority of 50CL trimmings come from grain-fed cattle, while 90CL trimmings are from culled cows or grass-fed cattle. The majority of US beef imports are from countries that produce grass-fed cattle and without these imports the US would have significantly less 90CL trimmings that are used in hamburger. The US could produce a greater amount of lean beef and decrease imports, but by doing so there would eventually be a decrease in the production of high-value beef cuts that are consumed domestically or exported.

The recent decline in cattle prices combined with the increase in beef imports has prompted several comments regarding the need to restrict beef imports as the lower total supply of beef would support cattle prices. This solution is problematic in the long term. In the short term, the US would have a challenging time filling the needs for lean beef due to decreased cow slaughter and heavier finished cattle weights. Hence the 90CL beef price would increase, eventually increasing the retail price of ground beef. Beef is already the highest priced protein product and additional increases would likely shift consumer demand faster from high cost beef to lower cost poultry or pork. Additionally, the long-term increases in production of lean beef would decrease the more profitable sales of high-valued cuts both domestically and in the export market further reducing the overall profit margin for US cattle producers.

As herd rebuilding continues and the US supply of grain-fed beef grows, the US supply of lean beef will likely continue to decrease due to heavier finishing weights and decreased cow slaughter. This indicates that higher, not lower, levels of imports will be needed to meet US demand needs and keep market share from shifting to lower price alternatives such as poultry and pork products.

The Markets

Live cattle and feeder cattle futures were volatile last week as prices plunged through Thursday, only to see limit increases on Friday. Cash markets also traded mostly lower and will likely continue to do so until the supply of heavy cattle is diminished. The choice beef cutout value plunged $13.11, or 5.9% to a 19-month low.

Data Source: USDA-AMS Market News		**Week of 9/25/15**	**Week of 9/18/15**	**Week of 9/26/14**
5-Area Fed Steer	all grades, live weight, $/cwt	$128.61	$134.93	$156.75
	all grades, dressed weight, $/cwt	$202.44	$212.63	$245.78
Boxed Beef	Choice Price, 600-900 lb., $/cwt	$218.66	$231.77	$239.62
	Choice-Select Spread, $/cwt	$4.28	$8.43	$13.04
700-800 lb. Feeder Steer	Montana 3-market average, $/cwt	$196.79	$202.42	--
	Nebraska 7-market average, $/cwt	$200.86	$204.94	$245.07
	Oklahoma 8-market average, $/cwt	$192.91	$200.03	$236.71
500-600 lb. Feeder Steer	Montana 3-market average, $/cwt	$203.40	$218.67	--
	Nebraska 7-market average, $/cwt	$232.13	$242.73	$294.31
	Oklahoma 8-market average, $/cwt	$209.36	$225.26	$254.35
Feed Grains	Corn, Omaha, NE, $/bu (Thursday)	$3.56	$3.55	$2.98
	DDGS Price, Nebraska, $/ton	$128.88	$135.10	$106.50