

Market Outlook for Cattle and Beef

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The cattle and beef markets have had an incredible journey over the last few years as we have seen prices for fed cattle increase from a range of \$60 to \$80 per hundredweight between the years 1994 to 2003 to a range of \$75 to \$105 per hundredweight between the years 2003 to 2012. Since 2012 we have seen a steady rise in value to more than \$150 per hundredweight in 2014. Retail values have also increased as a result of these higher animal values. We have seen retail ground chuck prices increase from \$1.94/pound in 2000 to \$3.75 in 2014, an increase of 93.3%. While the beef industry saw demand for beef decline from an index value of 100 in 1980 to an index value of 50 in 1996, beef demand has remained steady since (figure 4). Since 1996 the index value has ranged from 50 in 1996 to a high of 61 in 2004. There are several factors that led this decline in beef demand. Part of the decline in beef demand can be attributed to changes in the underlying demand for red meat products as consumers moved away from beef for health reasons. Another important factor is the competition from competing protein sources like pork and chicken. Retail prices for pork have remained steady since 2000 while those for chicken have increased, but much less than beef (Figure 3).

Beef Supplies

Given the leveling of demand for beef since 1996, the rise in live animal and retail beef prices can be mostly attributed to a supply phenomenon. Since 2001 the number of beef cows in the U.S. cattle herd has declined from 33.39 million head in 2001 to 29.04 million head in 2014 (a 13% decline), with most of that decline occurring since 2008. The 29.04 million head inventoried in 2014 is the smallest beef cow herd recorded since 1951. Part of this decline in numbers can be attributed to increased costs of operating a beef cow herd and part of this decline can be attributed to weather events that made grazing conditions for cattle more difficult in some of the major cow calf producing states (e.g., California and Texas). The droughts have also caused feed prices to increase, making it more expensive to maintain a herd. While this decline in beef cattle inventories has been troubling to processors who are trying to operate plants at capacity to manage their costs, there are signs the end of this decline may be near. Weekly federally inspected cow slaughter appears to be declining rapidly after remaining high relative to January 1 inventories for many months. While also a seasonal pattern, the decline is likely evidence of a desire by producers to maintain or increase cow inventories. In response, weekly cow prices have moved sharply higher since the beginning of 2014.

USDA projects prices for fed steers to increase in 2014 by \$20 or more per hundredweight relative to 2013 (\$125.89/cwt in 2013 to a midpoint estimate of \$147.50 in 2014), with prices remaining strong throughout the year. Building the herd requires heifers to expand the number of cows, which takes those animals out of the feedlot. It will likely be 2015 before any decline in cattle market prices may be seen, and that decline is dependent on cooperative weather to bolster grazing conditions across the U.S. and to keep feed prices in check for finishing operations.

Feed Prices

Feed prices are putting pressure on cattle feeders with prices for corn increasing from \$2.00 per bushel in 2006 to \$6.89 in 2013. Soybean meal has also increased in price from \$174.17 per ton in 2006 to \$468.11 per ton in 2013. As a result, feedlots have seen their profit margins decline to a low of a loss of \$14.38 per hundredweight of fat animals produced in February, 2013. The recent increase in fed steer prices to \$150 per hundredweight in March, 2014 helped to bring those operations back to a profit of \$20.92 per hundredweight produced.

Several factors will be critical to the future and the beef industry. The beef demand index remains low at 54 in calendar year 2013 and risks further decline as beef prices itself out of the market for many consumers. This could result in a more permanent shift to alternative protein sources for consumers as climate change advocates argue that long term sustainability cannot support an animal protein source over the long run. The cost of producing beef will also be dependent on the cost of feed. There has been some relief to producers using corn for feed over the last year as prices have declined from an average value of \$6.89 per bushel in 2013 to a projected \$4.60 in 2014. That relief will be dependent on the current crop that is currently being planted in the major grain producing states. USDA is currently projecting that producers will plant 91.69 million acres of corn in 2014, a decline of 3.726 million acres from 2013. Soybean acreage will increase 4.94 million acres because of the current profit structure in soybeans relative to corn. These changes with a normal producing season would suggest lower values for soybean and soybean meal and slightly higher values for corn as a feed source. These changes are dependent on weather for planting the crop and then producing that crop. Weather problems in any of the major grain producing states could cause the prices of corn and soybean meal to go even higher than currently forecast and erode some of the profits beef producers are currently experiencing.

International Trade

A final factor that will weigh on these markets is international demand. On a positive note to producers, exports of beef are expected to increase this year even in the face of higher prices, expanding beef demand and helping to hold prices up for producers. On the negative side, increasing international demand for corn and soybeans is causing prices for those products to be higher than they would otherwise be. Exports of corn are expected to be 1 billion bushels higher (an increase of 58%) for the 2013 crop. Exports of soybeans are forecast to be 262 million bushels higher (19.6%) for the 2013 crop. As the global recovery continues there will be more pressure on U.S. agriculture to feed the world and prices for corn, soybeans and beef will likely increase.

Quarterly Forecasted Prices for 2014

USDA is currently forecasting fed steer prices will increase from \$125.89/cwt in 2013 to a range of \$144 to \$151/cwt, with a midpoint estimate of \$147.50 (table 1). Prices are expected to remain strong throughout the year, increasing slightly in the current quarter (2nd Quarter, 2014) and then experiencing a seasonal decline in the 3rd Quarter of 2014. Prices are expected to increase again in the 4th Quarter of 2014 to a mid-point value of \$147.50/cwt. Prices will likely remain strong throughout the year, but profitability will depend on feed costs.

As a consequence of higher fed steer prices and lower projected feed prices for 2014, USDA forecasts feeder steer prices (Oklahoma City basis) to average \$166-\$173/cwt for 2014, a mid-point increase of \$22.94/cwt (15.6%) for the year (table 2). All four Quarters are projected higher in 2014, but again these projections depend on the higher projected prices for fed steers and the lower projected prices for feed. Weather still holds the trump card for these markets.



Figure 1. Nearby live cattle prices from the CME Group, 1994 to 2013.
 Source: Bloomberg Finance. Accessed April 17, 2014.

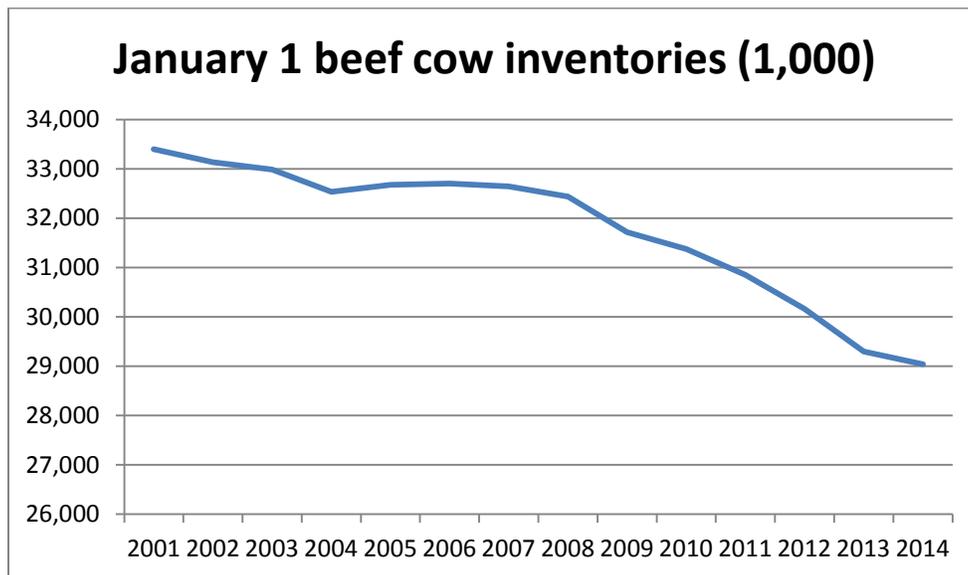


Figure 2. January 1 beef cow inventories, 2001 to 2014. Source: USDA NASS ISSN 1948-9099.

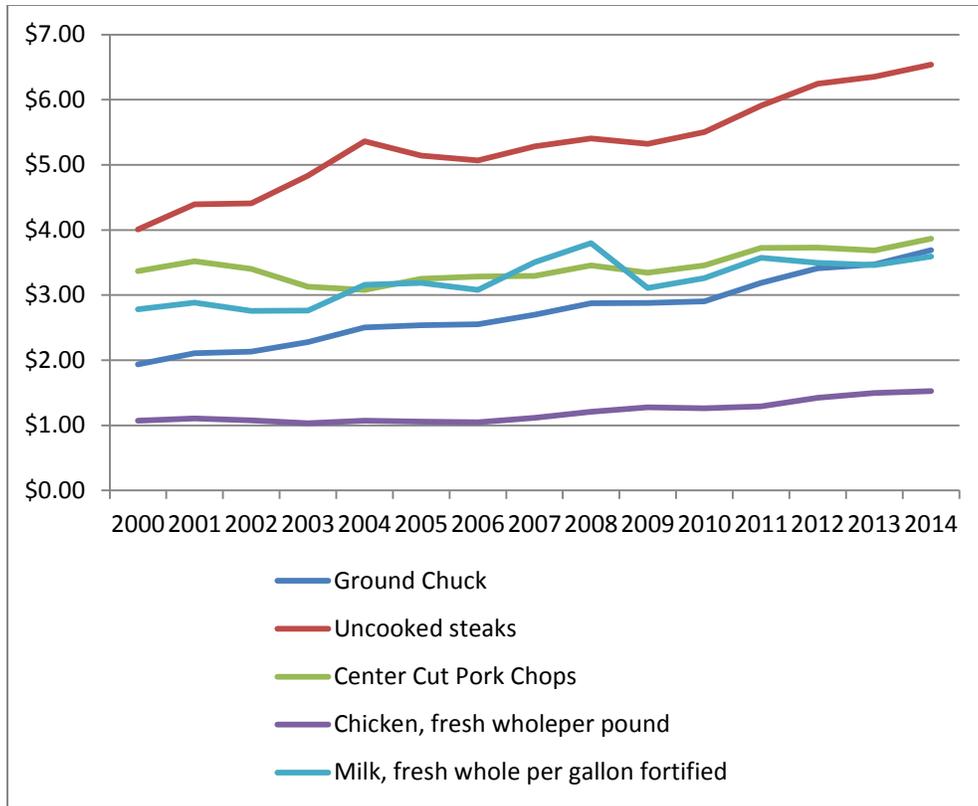


Figure 3. Retail prices for select meat products and milk, 2000 to 2014. Source : <http://data.bls.gov/cgi-bin/srgate> accessed April 22, 2014.

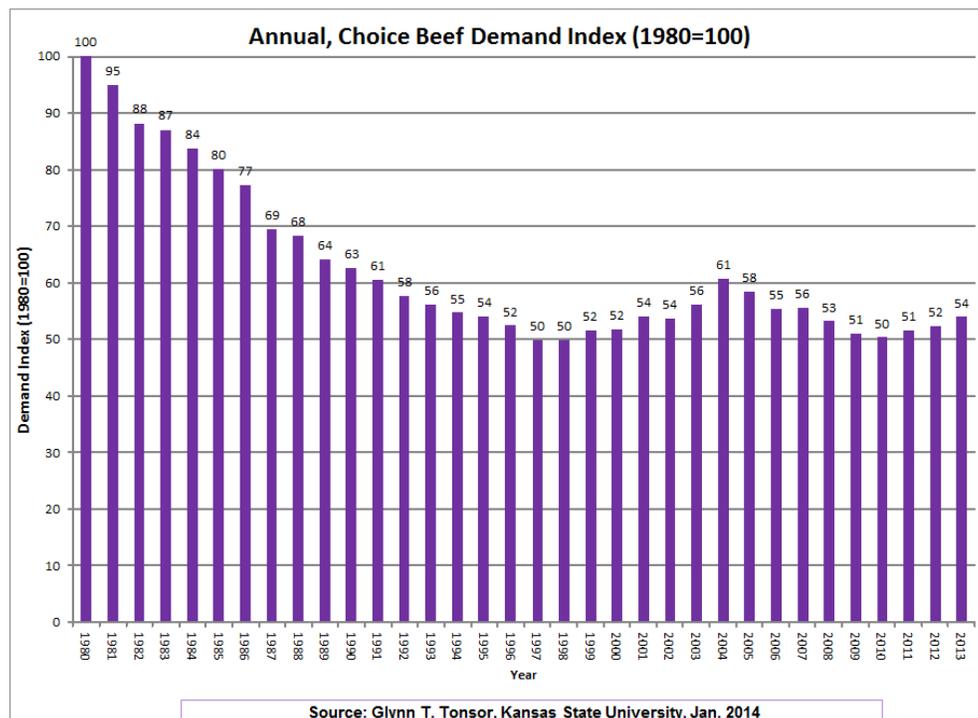


Figure 4. Annual choice beef demand index, 1980 to 2013. Source: http://www.agmanager.info/livestock/marketing/graphs/Tonsor/Annual_ChoiceBeefDemandIndex_1980.mht Accessed April 23, 2014



Figure 5. Nearby live cattle prices from the CME Group, 2010 through 2014. Source: Bloomberg Finance. Accessed April 17, 2014.

Table 1. U.S. quarterly prices for fed steers (5-Area Direct Total all grades), 2013 – 2014

Year	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Annual
2010	\$89.44/cwt	\$96.33/cwt	\$95.47/cwt	\$100.28/cwt	\$95.38/cwt
2011	\$110.07/cwt	\$112.79/cwt	\$114.05/cwt	\$121.99/cwt	\$114.73/cwt
2012	\$100.07/cwt	\$120.90/cwt	\$119.69/cwt	\$125.54/cwt	\$122.86/cwt
2013	\$125.52/cwt	\$124.95/cwt	\$122.30/cwt	\$130.77/cwt	\$125.89/cwt
2014 forecast	\$146.34/cwt	\$146-152/cwt	\$141-151/cwt	\$142-154/cwt	\$144-151/cwt

Source: USDA. "World Agricultural Supply and Demand Estimates." WASDE-528. April 9, 2014.

Table 2. U.S. quarterly prices for feeder steers (Oklahoma City), 2013 – 2014

Year	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Annual
2010	\$98.73/cwt	\$112.65/cwt	\$112.29/cwt	\$113.55/cwt	\$109.31/cwt
2011	\$127.20/cwt	\$131.09/cwt	\$134.74/cwt	\$141.93/cwt	\$133.74/cwt
2012	\$152.81/cwt	\$150.05/cwt	\$139.33/cwt	\$143.40/cwt	\$146.39/cwt
2013	\$141.36/cwt	\$133.10/cwt	\$152.08/cwt	\$161.69/cwt	\$147.06/cwt
2014 forecast	\$167.49/cwt	\$167-173/cwt	\$162-172/cwt	\$168-180/cwt	\$166-173/cwt

Source: USDA. "World Agricultural Supply and Demand Estimates." WASDE-528. April 9, 2014.