Cattle Markets: Is There Finally Light At The End Of The Tunnel?

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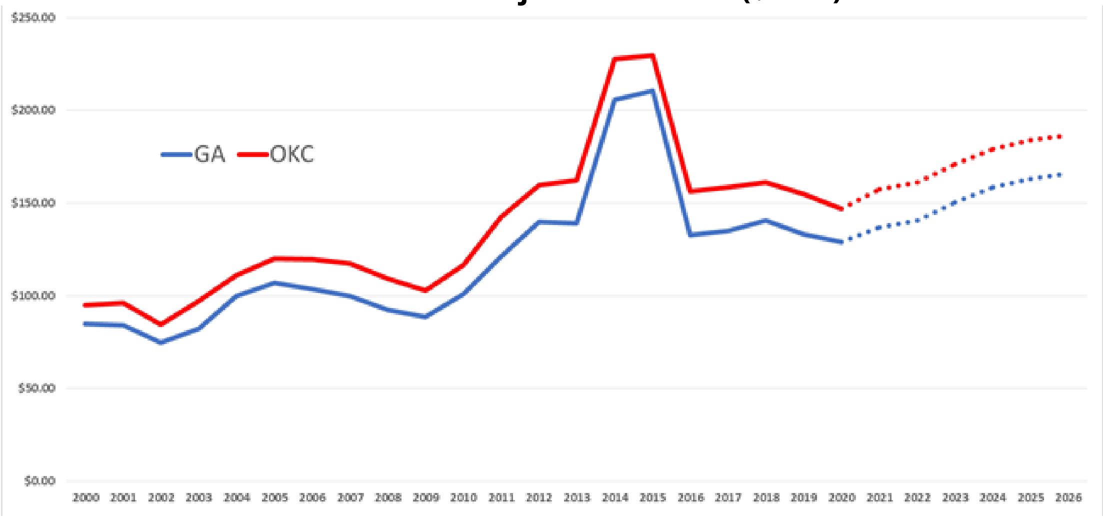
It seems as though livestock economists have been predicting improvement in cattle prices for several years. These predictions have, however, been slow to materialize, seemingly always just around the corner, or next quarter, or maybe next year. Processing plant fires, wildfires, drought, high feed prices and, yes, even pandemics, have all played a role in pushing real, substantial price recovery farther and farther into the future.

As 2021 heads into the home stretch it looks as if forecasts for improving cattle prices may finally materialize as several developing trends finally begin to come together. Higher slaughter rates, lower animal weights, and a smaller calf crop in 2022 all signal a tightening of supply. A strong demand for U.S. beef, both at home and abroad, shows no sign of waning. Moderating feed prices should make feeding cows more attractive to feedlot owners as their profit margins improve. Cattlemen are painfully aware of the economic consequences when supply exceeds demand. The prospect of seeing demand exceed supply for a change should certainly be a welcome sight.

USDA's latest Livestock, Dairy, and Poultry Outlook report notes that cow slaughter is expected to be higher during the second half of 2021 while steer and heifer slaughter move lower. This has several important implications for cattle markets. First, higher cow slaughter suggests an acceleration in the liquidation phase of the current cattle cycle as fewer cows are held back for breeding purposes. Indications are that fewer heifers are being retained from the current calf crop as well. This implies a smaller breeding herd and thus a reduced calf crop over the next several years. Cattle cycles tend to average about ten years, with some ending sooner while others last a bit longer depending on extraneous conditions such as weather, feed prices, global trade situations, and of course, pandemics. The current cattle cycle was off to a strong start in 2014 with commercial beef production growing at around 4% annually through 2017. The liquidation phase of this cycle, which began in early 2020 is anticipated to run through 2025 or 2026, depending on how the global economic recovery plays out. Beef production is projected to decline by about 3% in 2022. This will be the first decline since the current cattle cycle began.

Consumer demand for beef, which has strengthened over the past several years, held up well throughout the pandemic due, in part, to the fact that beef lends itself well to at-home meal preparation when restaurants and school lunchrooms are closed.

Figure 1. Oklahoma City and Georgia 600-650 lb. Feeder Steer Prices with Projection to 2025 ($/cwt)



Demand should remain strong as the economy begins to reopen, diners return to restaurants and students return to school lunch rooms and college dining halls.

Demand for U.S. beef exports is also strong. In addition to record beef exports to long standing customers including Canada, Mexico, Japan, and South Korea, China emerged as the third largest export destination for U.S. beef in 2021. U.S. exports to China in 2021 have increased nearly 15 fold over 2020 levels as the country struggles to fill the void left by its own pork industry, which has been decimated by the effects of Asian Swine Fever since 2018. U.S. beef exports are projected to remain strong as it supplies a world attempting to return to normal after the 2020 pandemic. U.S. beef exports through the middle of 2021 were up 22% from 2020. Exports are expected to end the year on a record high that is at least 15% above last year. Export sales should remain strong through 2022, although increasing beef prices may cap further growth.

These supply and demand factors, taken together, imply that beef supplies should continue to tighten during a time when both domestic and international demand for U.S. beef remain strong. Feed prices are also likely to moderate for the coming crop year. Corn producers responded to higher prices by planting additional acreage in 2021, which should, in turn, lead to lower feed prices in 2022, providing an extra incentive for feed lots to fill empty pens from a dwindling supply of feeder stock.

The Food and Agricultural Policy Research Institute, which is widely recognized for its agricultural price forecasting, projects Oklahoma City prices for 600-650 pound feeder steers as shown in Figure 1. Georgia auction prices for 600-650 feeder steers have averaged about $20 below Oklahoma prices in recent years. Applying this rule of thumb to FAPRI's long term projections results in the accompanying Georgia projections. Hopefully the light that we see at the end of the tunnel as 2021 winds down will not turn out to be an oncoming train this time.

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