

May 2014 Cattle Report

How Did Cattle Prices Get So High?

Where did the record cattle prices this year come from? That is a question almost all analysts and many cattle producers are asking. It was not so surprising that we had record high cattle prices, but the real surprise was the unexpected lofty heights of those new records. In the first quarter as an example, Nebraska steers averaged \$147 per live hundredweight which was more than \$20 higher than the previous first quarter record price. In percentage terms, finished cattle prices in the first quarter this year were up 17 percent and production was down only four percent.

It's easy to list some possible causes, but none of them seem to be large enough to have caused such startlingly high prices. We start with the fact that meat and poultry supplies all were low. We have mentioned the four percent reduced beef production and broiler egg hatchability has been low, reducing chicken supplies below expectations. Then it appears that PED virus in hogs may have been the real kicker primarily because the pork market appears to have sharply overshot prices because of the uncertainty of the actual death loss from the disease. There were also arguments that "maybe" demand was very strong, but first quarter GDP growth of only 0.1 percent seems to discredit this argument. Data on trade are positive, but not enough to explain such high prices.

Much like pork, we are left with an incomplete understanding of why cattle prices were so high especially in March and April. Like in the pork sector, this may mean that cattle prices were "caught-up" in the fear of very short meat and poultry supplies and may have become overpriced. This may be another example of the old market adage of "buy the rumor and sell the fact."

Record beef prices for consumers have also become a reality. In 2013 retail beef prices averaged \$5.29 a pound but moved to a record \$5.55 in the first quarter of 2014. Retail beef prices in 2014 are now expected to \$5.67 a pound, an increase of seven percent over last year.

Current live cattle futures markets are taking a more moderate approach to prices for the rest of the year now that the highs of the year are likely behind us. Prices of finished cattle are expected to move downward to the mid-to-lower \$140s in May and June. Third quarter prices are expected to dip more and average in the \$135 to \$139 range, and then recover into the low-to-mid \$140s for the last quarter average. Prices in 2013 averaged \$126 and this year's new record is expected to be near \$142.

Unexplained high prices in the first four months of 2014 have added new excitement for cattle producers as they see strong profitability potential for the first time in years. This means that the conditions have become positive for some beef cow producers to move toward expansion. The two conditions that we have suggested for expansion are the movement of calf prices above \$1.75 a pound and restoration of pasture and grazing land after dry or drought conditions.

In terms of calf prices, first quarter calves weighting 500 to 550 pounds at Oklahoma City averaged \$2.15 a pound and heifer calves averaged \$1.93. Both were record highs.

Much of the country, but not all, has seen improved pasture conditions. The region that remains a concern is the Southern Plains, the Southwest, and the West. The Drought Monitor from NOAA shows some anticipated drought abatement this summer for the Central Plains and Eastern Texas. If so, this means that only about 15 percent of the nation's brood cows will be in areas still in drought. Alternatively, about 85 percent the beef cows are in regions where pasture and range is sufficient to promote herd expansion.

The evidence so far this year is that expansion has started as measured by reductions in female slaughter and by reduced number of heifers in the feedlots. In the first quarter the number of heifers slaughtered was down seven percent, and the number of cows slaughtered was down eight percent. In contrast the steer slaughter was only down three percent. The reduced female slaughter alone accounted for two percent less animals in the total slaughter mix.

The quarterly cattle on feed report suggested that fewer females have headed to the feedlots. On April 1, heifers in feedlots were down six percent while steers were up two percent. Some producers hold on to heifers to gain the flexibility to either move them to breeding herds or to later decide to sell them to feedlots, but under current economic conditions, the odds favor many being added to the breeding herd.

The expansion of the beef herd is just beginning and will likely extend for multiple years. This means small supplies of beef in 2015 and 2016 and strong prices. Beef producers however should expect both poultry and pork production to grow rapidly in 2015 and 2016.

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