Beef Industry Traveling to a Different Drummer This Year

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The beef industry stands alone in 2015 in its continued reduction in supplies available to consumers. The year of 2014 was a special year for the animal production industries with record high farm level prices for cattle, hogs, broilers, turkeys, milk and eggs. For 2015, a surprisingly fast expansion of poultry, pork and milk production will cause lower prices for those commodities. Beef stands alone in the continuation toward lower production, but prices remain uncertain.

In the first four months of this year, beef production was down by five percent, with slaughter numbers down seven percent but market weights up two percent. The reduction is the result of a beef cow herd that had been in decline from 2006, reaching its low point in 2014. Expansion of the beef cow herd began in the last-half of 2014 and current indications are that the expansion continues. Producers can increase cow numbers both by retaining heifers and by keeping older cows for another cycle when they normally would have gone to market. Slaughter of females so far this year indicate producers are doing both. Heifer slaughter last year was down eight percent and so far this year heifer slaughter remains down seven percent. Beef cow slaughter in 2014 was down 18 percent and remains down 17 percent so far this year. While these producer behaviors will build the beef cow herd and eventually increase beef production, the impact for this year is to pull down beef production.

Meat availability per person had fallen by about 20 pounds from 2007 to 2014, but is making a sharp comeback in 2015. Current USDA estimates are that per capita meat availability could surge by nearly nine pounds this year. Chicken and turkey lead the way with over five pounds of increase and pork adds an impressive increase of near four pounds per person. This means that the meat industry in one year has restored about 45 percent of the lost meat availability from 2007 to 2014. The impacts of avian influenza will likely reduce poultry meat production in 2015, but are not included here.

The recent Cattle on Feed report from USDA also shows some of the adjustments the beef industry is making. The number of heifers in feedlots as of April 1 was down 10 percent from previous year levels, most likely confirming a high rate of heifer retention for herd expansion. Secondly, as a result of record high calf prices and weak live cattle futures prices, fewer lightweight calves are moving to feedlots as producers keep those calves on forage diets and background them for longer. The number of calves under 700 pounds entering feedlots in March was down 11 percent, but the number over 800 pounds was up 16 percent. In fact, 40 percent of all placements in March were older calves that were 800 pounds and higher. Improved pasture conditions in the Central and Southern Plains provides some of the explanation, but there were also reports of calves staying on winter wheat pasture further into the spring this year.

What are the implications for cattle prices this year? First, a review of the unusual year of 2014 when finished steers averaged a record high $155 per hundredweight. The normal seasonal price pattern for finished cattle is to peak in late March or early April, then move lower into mid-to-late summer, with a rally into the end of the year. In 2014 finished steer prices began the year at $140 and pretty much moved higher throughout the year peaking above $170 in late-November. So far this year, finished steers have averaged $161.50 compared with $146 for the same period in 2014.

Live cattle futures are suggesting a return to a more normal seasonal price pattern this year. Peak finished steer prices in 2015 to-date came in early April in the mid-$160s and have declined since. The futures tone stays weak through summer with prices falling to the middle $140s by the end of summer and then rallying to the low $150s toward the end of the year. With prices so far this year and futures estimates for the remainder of the year, finished steers would average $153, a couple of dollars lower than 2014.

USDA forecasters in the April 9 WASDE report have taken a much more bullish path with $163.50 at the mid-point of their annual estimated range. Also of note is that USDA analysts increased the potential range of prices as the year progresses. One reason to increase a price forecast range is because of greater uncertainty. Ultimately, prices may be somewhere between these two. Current high $150s prices could drop to the very low $150s by late summer and recover to the mid-$150s by the end of the year, with annual prices near last year's $155. One thing seems certain -- 2014 was an extraordinary year for the animal industries. So comparing this year's prices to last year's prices may bring inherent dangers. But, the beef industry is the only one which will not increase production this year and therefore has a reasonable chance of seeing annual price averages near 2014 levels.

The wide difference of opinions about cattle prices for the remainder of this year point out the large price risks for cattle finishers. Cattle feeders already have record amounts of money invested in the cattle in their feedlots. Even with the lowest feed prices in five years, they are vulnerable to weak live cattle prices as the futures market is currently suggesting. Feedlot managers should strive to price calves based on budgets using current futures prices and then should look to hedge those cattle with either futures or put options. If feedlot managers find themselves bidding so much for calves that they have to have a sizable rally in the live cattle futures to cover costs, they may want to re-think buying the calves in the first place.

