farmdoc DAILY

Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Falling Cattle Prices, Where Is the Bottom?

Chris Hurt

Department of Agricultural Economics
Purdue University

May 2, 2016

***farmdoc daily* (6):83**

Recommended citation format: Hurt, C. "Weekly Outlook: Falling Cattle Prices, Where Is the Bottom?" *farmdoc daily* (6):83, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, May 2, 2016.

Permalink: http://farmdocdaily.illinois.edu/2016/05/falling-cattle-prices-where-is-the-bottom.html

Cattle prices have had a rough spring. After peaking in late 2014 and early 2015, prices have been adjusting downward from very lofty peaks. High prices and profits at that time provided the incentives to expand beef production. Expanding beef production and a remarkable recovery in total meat supplies continues to put downward pressure on cattle prices. Unfortunately, more downward price pressure is expected this summer.

Finished cattle prices reached their year-to-date high in the third week of March near $140 per hundredweight. Since that time, prices have fallen to the mid-$120s with much of this drop coming in the past week or two. This $15 drop is much more than the average seasonal decrease in prices for this time of year.

Prices in the live cattle futures market paralleled the decline in the cash market. June futures had a year-to-date high at $131.35 before closing near $115 at the end of April. The $16 decline for June futures was of similar magnitude to the decrease in cash prices.

Beef production this year has been up three percent. The increase has been composed of about one percent higher cattle numbers and nearly two percent higher cattle weights. So far this year, live marketing weights have averaged 1378 pounds compared to 1352 pounds for the same period in 2015. Going back two years, market weights are up 48 pounds from 1330 pounds during the first four months of 2014. That means weights are up 3.6 percent over the past two years.

An apparent reason for the sharp decline in prices over the past several weeks has been an escalation of slaughter numbers. April numbers were up about five percent on average, but with two weeks being six percent to seven percent above the same weeks in 2015. Cattle on Feed data from USDA suggest that on-feed numbers had grown last fall. This meant that marketings were able to rise this year, thus providing the more recent surge of cattle. Monthly marketings of cattle from feedlots were up five percent in February and seven percent in March.

Recent heavy placements of cattle into feedlots are keeping futures markets nervous about continued large beef supplies into the summer and fall. Placements were up ten percent in February and up five percent in

March. In addition, feedlot managers have been more aggressive at placing heavier cattle that will reach market weights more rapidly this summer. For the first three months of 2016, placements of cattle 700 pounds and heavier have been up eight percent, while placements of cattle weighing less than 700 pounds have been down one percent.

There is more competition for beef this year as meat supplies recover from the 2014 lows. In fact, per capita meat supplies have risen by 13 pounds in the U.S. since 2014. That is over six percent more meat per person in the past two years.

Another possible explanation of low cattle prices is that retail beef prices have not dropped enough to spur the added consumption that is required for the higher level of beef production. Retail beef prices in the first quarter of 2016 were only four percent lower than in the first quarter of 2015. Finished cattle prices, on the other hand, were 17 percent lower. Over time, further reductions in retail prices will likely occur, and these lower prices can help support the live prices of cattle.

With the cash price of finished cattle already in the mid-$120s, the futures market is suggesting that declining prices will continue into the summer and beyond. Current futures forecast are for finished cattle prices to average about $122 in the second quarter and then drop toward an average of only $112 in the third quarter and $113 in the final quarter of 2016. These are in sharp contrast to USDA forecasts that are about $20 higher for the final two quarters of the year. Perhaps prices somewhere between these two extremes are most likely.

One thing is clear, cattle prices are adjusting to more moderate levels after the spike of 2014 and early 2015. This adjustment process is of large magnitude and markets have lost their historic benchmarks. For these reasons, there are dramatic differences of opinion about the level of longer-term prices.

Cattle finishers need to remain cautious about overpaying for calves. Iowa State University's calculated cattle feeding losses for closeouts in March 2016 were still estimating losses of nearly $300 per head for finishing calves.

Cow-calf producers will need to reconsider their expansion plans. With current live cattle futures prices and with feed prices showing signs of some strength, calf prices are less likely to be high enough to provide profitable returns from retention of more heifers. Overall, it appears that the expansion of the beef herd will begin to slow in the second half of 2016.