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Weekly Outlook: Cattle Markets Can Recover

Chris Hurt

Department of Agricultural Economics
Purdue University

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Lower cattle prices have been the story this spring and summer. Beef supply has been large due to heavy placements of heavy calves and the beginning of more females coming to market as herd expansion may be slowing. Retail beef prices have been slow to come down and this has limited consumer purchases of beef in relation to abundant pork and poultry supplies.

Finished cattle prices have been on the skids since mid-March when prices reached near $140 per hundredweight. By last week, prices had fallen to around $115. Noticing the bearish theme in the cash market, the futures market has suggested prices will drop another $5 by the end of this year and proceed downward to near $100 by next summer.

There are plenty of reasons why prices have fallen, the biggest being a large number of cattle coming out of feedlots in recent months. That story goes back even further to abundant grass which encouraged cow-calf operations and backgrounders to add more weight to calves before they entered the feedlot. As a result, there has been a shift to heavier weight placements. In the first half of this year, placements weighing 800 pounds and more represented a record 40 percent of all placements, compared to a longer-term average around 27 percent.

Rapid placements of heavy calves meant that marketings were going to rise sharply. Marketings out of feedlots were up five percent in May and then up a sharp ten percent in June. Contributing to higher recent marketings has been a shift to lower slaughter weights since May which has served to “pull cattle forward.” This shift to lighter weights is probably related to the falling finished cattle prices and the desire of feedlot managers to get cattle to market before prices dropped even more.

Because of these heavy marketings, beef production was up five percent in May and ten percent in June compared to the same month in the previous year. The rapid marketings in recent months has reduced the total number on feed to just one percent higher than year-ago according to USDA. This should help ease the burdensome volume of cattle and encourage upward price movement.

There are early signs that the expansion phase of this cattle cycle could be in the process of slowing. Lower finished cattle prices and extremely weak futures prices may be causing cattle producers to re-think any additional expansion plans. The calf prices implied by $100 finished cattle is simply not profitable for most cow-calf operations. If producers slow the rate of expansion, then this means more females move to market providing added beef supply pressures to already declining cattle prices.

The signs of slowing expansion are in the rate of increased female slaughter. In June, the number of heifers processed was up relative to year previous levels for the first time in several years. In addition, the number of beef cows processed in both May and June was up about 18 percent. For June, total females (heifers and all cows) processed were up 7 percent compared to year earlier numbers.

The total number of females in the processing mix remains low, so it is still too early to say this expansion phase has come to an end. However, these signs of higher numbers of females in the processing mix may be the first clues of what is to come.

Retail beef prices have been slow to fall as much as needed to encourage consumers to buy the added beef supplies. In June, USDA reported the composite retail beef price was $6.20 per pound. This compares to a record high price of $6.41 per pound in May of 2015. Thus, recent retail prices were just three percent lower than the record high. In contrast, June retail pork prices were down 11 percent from their high.

Farm level prices normally drop quickly, but retail prices are much slower to decline. This means the current margin between the farm price and the retail price is at a record wide level. Packer margins are likely at record high levels as well. As retail prices adjust downward over time, consumers will have more price incentives to buy beef and this could actually help strengthen farm level prices.

With the number of cattle on feed only up one percent on July 1, there should be renewed hope for recovery in cattle prices. The fact that marketing weights have come down is also an encouragement that feedlot managers are more current in their marketings. In addition, over coming months, retail beef prices should also come down which will serve to narrow packer margins, but improve farm prices.

Prices of finished cattle are expected to be in the mid-to-higher teens in the third quarter then move upward to the high teens to low $120’s this fall.

Recent live cattle futures prices have been extremely depressed, sending signals of much lower cash prices next year. While prices are expected to be lower next year, they may not be as low as suggested by futures. Still, cow calf managers will want to continue to be cautious about further expansion of the brood cowherd.