

## Cattle Prices: The Difference a Year Makes

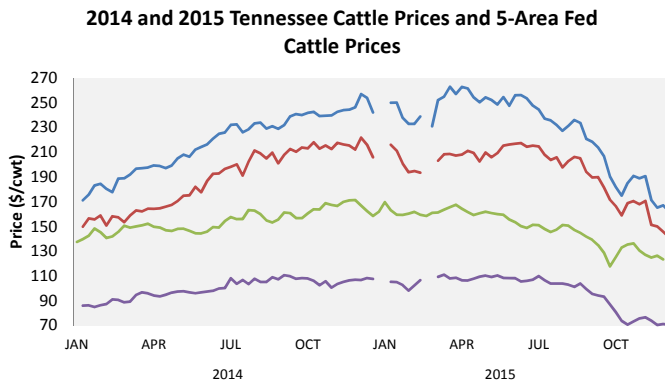
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What goes up must come down! That is exactly what has happened to cattle prices, but the task now is determining where the market is headed in 2016 and beyond. As is the normal procedure, taking a look backwards will help with understanding and analyzing the future.

Where to begin a discussion about 2015 cattle prices is fairly easy, start high and go low. Prices for all classes of cattle made an unprecedented run in 2014. The 2014 price run was supported by low cattle inventory, smaller supplies of beef, relatively high prices for competing meat proteins, and a strong export market.

The aforementioned conditions supported cattle prices for several months in 2015, but market conditions are continually changing. Larger supplies of pork and poultry on the domestic market pressured competing meat prices which resulted in beef being less competitive with other meat proteins at the meat counter. Additionally, the beef export market fell to shambles in 2015 compared to 2014 which has left more beef to be consumed in the domestic market. Beef and veal exports through the first ten months of 2015 were down 289 million pounds (-13.4%) compared to the same ten months in 2014. However, the export market was not as bad as it first appears because 2014 was an exceptional year for beef and veal exports. Beef and veal exports were only down 129 million pounds (-6.5%) over the first ten months of the year when comparing them to the five year average of the ten month period from 2009 to 2013.

Alternatively, market conditions were ideal for beef and veal imports. Imports the first ten month of 2015 were 593.3 million pounds (24.7%) higher than the same period in 2014 and 1.02 billion pounds (51.5%) higher than the five year average for January through October. One major contributor to reduced exports and increased imports has been the increase in the value of the dollar which continues to strengthen relative to other currencies.



range from \$500 to \$650 per head. Similarly, slaughter cow prices declined \$41/cwt (-36.6%) from March 2015 to the first week of December which is a decline in value of \$490 per head for a 1,200 pound cow.

It is easy to get lost in the large price decline from record prices, but the price in December 2015 is not much different from prices in December 2013. The price of 500 to 600 pound steers the first week of December 2015 was \$7/cwt higher than the same week two years earlier. Alternatively, 700 to 800 pound steer prices in December of 2015 were \$2/cwt lower than the same week in 2013 while slaughter cow prices were \$6/cwt lower than two years earlier.

The accompanying graph depicts the rapid increase and decrease of prices the past two years. As of the first week of December 2015, 500 to 600 pound steer prices in Tennessee declined \$101 per hundredweight (cwt) (-38.4%) from their apex in March 2015. Similarly, 700 to 800 pound steer prices in Tennessee declined \$81/cwt (-36.3%) from their record high in December 2014. These declines represent a reduction in revenue

**Outlook:** What is in store for 2016? Seasonality of cattle prices will more than likely dominate the market with calf prices peaking in the spring and experiencing their yearly low in the fall while feeder cattle prices will be strongest from mid-July to early September. Producers should not expect to see record cattle prices for several years unless some outside factor shocks the market again like it did the past three years.

Prices will increase off the lows witnessed during the fall of 2015, but a 10 to 20 percent increase may be all the market has in it. The beef export market will continue to put a damper on the cattle complex while the import of beef should slow tremendously. One factor that might be beneficial to beef markets is if exports of pork and poultry products gain some steam. The strong U.S. dollar will also continue to hamper exports.

Domestically, the cattle herd is increasing in numbers and the heifer retention rate in 2016 is expected to slow relative to the rate experienced in 2014 and 2015. Beef production will increase the next several years which will result in prices slowly eroding. This does not mean prices are not advantageous to profitability, but it does mean profit margins will be smaller and cost management will be important.