

30,000-FOOT INDUSTRY VIEW

Consumers in good position, which should help drive beef demand, cattle prices.

by Kindra Gordon, field editor

As 2021 gains momentum and hope continues that the pandemic subsides, the puzzle pieces are coming into place for a bullish economic outlook ahead. CattleFax analysts shared their market outlook projections earlier this year during the Cattle Industry Convention Winter Reboot, which was hosted virtually.

“The economics for ag are stronger, and it should be a nice run for ag the next three to four years,” said CattleFax CEO Randy Blach, offering a 30,000-foot view of several current numbers. The mechanics are in place, he added, for cattle prices to trend higher into 2024.

Wealthy consumers

Specifically, Blach pointed out that U.S. consumers are sitting on a lot of money and poised to spend. Blach shared that household wealth increased more than \$620 billion in 2020. How? Lost incomes were almost fully replaced by government transfer benefits, and unemployment payments increased roughly \$550 billion in 2020 — an increase over the previous year of 1,887%, Blach reported.

U.S. household net worth rose \$5 trillion in 2020, which bodes well for beef demand going forward, said Blach. Moreover, gross domestic product (GDP) is expected to grow at an annual rate of 4%-5% and continue the momentum into 2022.

“The U.S. consumer balance sheet is in the strongest position it’s been

[in] since the early 2000s, with an unprecedented amount of savings near \$2 trillion,” he added. “When the economy opens back up, consumer spending will surge along with the growing jobs market.”

Household debt payments are roughly 9% of disposable income compared to the previous recession, during which debt service peaked at 13% of disposable income, Blach added. CattleFax reports this is the lowest household debt burden on record since the 1980s.

Still, there is a cautionary flag. The past decade of very low inflation — at less than 2% — is about to change. Fiscal policy suggests that inflationary pressures will accelerate in the next several years, and interest rates are expected to inch upward.

Farm economy

The state of the ag industry is also going well. With the global population increasing at a rate of 83 million per year, U.S. agriculture is poised to play a key role, said Blach.

Consumers are spending their dollars on protein, as indicated by

total meat sales volume at retail climbing 10% in 2020. Total dollar sales increased at retail 18%, or \$12.7 billion. Beef’s share of the increase in spending was 45%, accounting for an extra \$5.7 billion spent on beef retail products.

That revenue is in turn helping producers on the farm. According to the Chicago and Kansas City Federal Reserves, ag loan repayments are up, with many operators indicating they plan to pay down debt and upgrade equipment. The percentage of loans with major or severe repayment problems is at the lowest level since 2014, reported Blach.

Land values increased 3%-6% in 2020, depending on region, shared Blach, who added: “The farm economy turned the corner in the second half of the year.”

Beef production

Beef production has been the largest on record since June 2020, Blach reported. “Never before in our history have we put more product on the market on a weekly basis,” he said.

Fortunately, that was coupled with the strongest beef demand the industry has experienced in more than 30 years.

Spring closures of packing facilities due to COVID-19 presented a challenge. Yet CattleFax reported that since summer, fed slaughter levels are back to 95%-97% of pre-COVID levels. Since June 2020, Saturday harvest levels are averaging about 50,000 head.

Total cattle slaughter levels for 2021 are projected at 33.5 million head, up 700,000 head (+2.2%); fed slaughter at 26.4 million head, up 600,000 head (+2.4%); and non-fed slaughter 7.1 million head, up 100,000 head (+1.2%), with average carcass weights averaging 4 pounds

(lb.) lighter. Total 2021 beef production is expected to be steady at 27.6 billion lb., up 500 million lb. (+1.7%).

Looking ahead, packing capacity is expected to increase slowly with the addition of more small-scale plants (500-2,000 head per day), said Blach. He suggested investments in technology and robotics will likely improve plant “throughput” and efficiency during the next several years.

Expectations

Blach said he anticipates the growth trend for meat and poultry production to slow due in part to emerging drought conditions, as well as rising input costs. Grain and energy prices will remain higher in

the next few years, he said.

Barring any new black-swan events, global demand for proteins, grains, fuel and energy is projected to remain strong, Blach said. “Beef demand will remain solid, and foodservice revenues should improve significantly in the second half of 2021.”

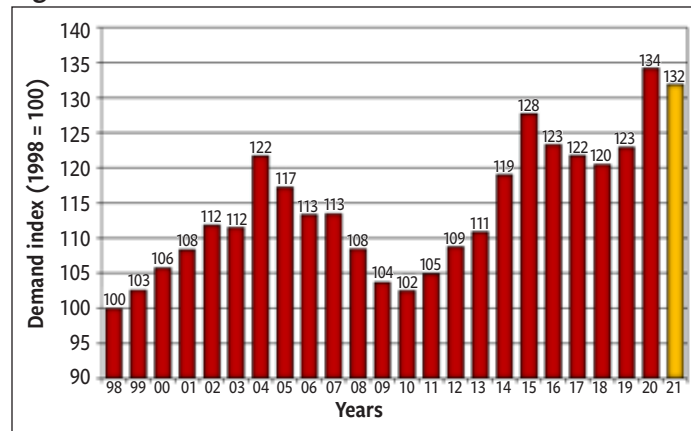
He noted that plant-based

commitment to animal care and land stewardship.

“Consumers will continue to want more information about source, traceability, animal care and sustainability,” he concluded. ■

Editor’s note: Kindra Gordon is a freelance writer and cattlemaster from Whitewood, S.D.

Fig. 1: Annual U.S. Consumer Beef Demand Index



SOURCE: USDA, BLS, K-State.
*2021 is CattleFax projection.

alternative proteins will likely continue to grow market share, but suggested the gains will be slow, and are currently still under 1% of market share.

To continue the beef industry’s engagement with consumers, Blach encouraged producers to implement verification efforts, and share the story of their management