Gaining Leverage

CattleFax analysts paint bullish picture into 2025.

by Troy Smith, Miranda Reiman & Megan Silveira

"We're pretty optimistic," declared Randy Blach, during the CattleFax Outlook Seminar at the 2021 Cattle Industry Convention in Nashville, Tenn., in early August. CEO Blach and a team of CattleFax market analysts said the beef industry is bouncing back from the pandemic's effects, and indicators point toward better markets for cattle producers.

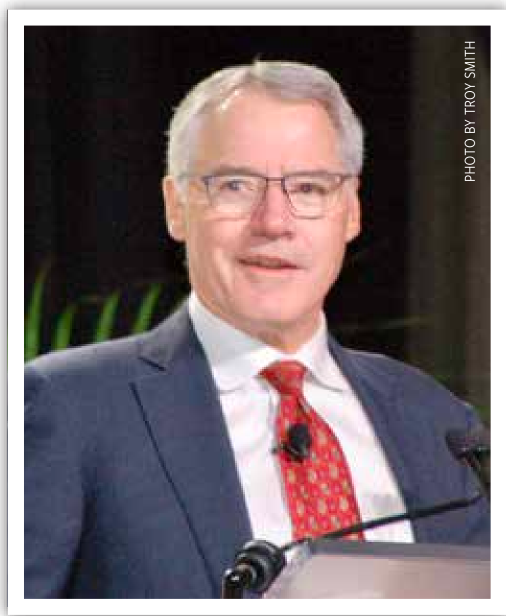
"Leverage is improving for producers. Prices are headed higher, and cow-calf profitability should improve significantly," stated Blach.

CattleFax estimated an average 2021 fed-steer price of $121 per hundredweight (cwt.) and predicted 2022 trade will range from $120 to $150 per cwt., averaging $135. Prices for 800-pound (lb.) feeder steers should range from $150 to $180, averaging $165 per cwt. That's up $20 per cwt. from the 2021 average of $145. And 550-lb. steer calves averaging $170 per cwt. in 2021 could trade $30 higher next year. Calf prices are expected to range from $170 to $230 per cwt., averaging $200 in 2022.

Talking about reasons for optimism, Blach reminded the audience that pre-COVID numbers of harvest-ready cattle were high, and packing capacity was low. Then COVID-related labor issues pushed harvest back, and that delayed feeder-cattle placements. However, the burdensome supply of market-ready cattle is gradually being worked through the system. Data suggest the supply has peaked.

"We're making progress," stated Blach, maintaining the market still works.

Tighter supplies are expected in the future. Unfortunately, drought has hastened herd liquidation in western and northern states. CattleFax data suggest U.S. cow numbers will decline by 400,000 head by January 2022. Mild contraction of the nation's cow herd is expected to continue,



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bringing a decline in feeder-calf supplies.

A 500,000-head decline in fed-cattle slaughter is forecast for 2022.

Noting that, since 2017, slaughter cattle supplies have exceeded available harvest capacity by 5%-7%, Blach said that is expected to change. Reportedly, plans for new packing plants and expansion of existing facilities could increase harvest capacity by 25,000 head per week through the next few years.

Blach reminded producers that beef demand continues to be a strong influence on markets. Praising the industry's emphasis on increasing beef quality and consistency, he noted that 60% of fed cattle have achieved Choice or Prime quality grade, during the last 15 years, and one out of 10 animals grade Prime. He said quality has supported demand.

"Demand for our product is at its highest level in 33 years," stated Blach.

Citing the growth of U.S. beef exports — from 2% of total production in the 1980s, to the current 18% — Blach said the export market makes a nearly $400 contribution to the total value of each beef animal, on average. He foresees that increasing to near $500 by the middle of the decade.

Calling money flow a market fundamental, Blach warned that the industry will have to deal with inflation. However, with adjustment to cattle numbers in progress, continued strong domestic demand and growing export markets, cattle producers are poised to regain some market leverage.

"We look for a higher price trend solidly into 2025," stated Blach.

People want beef

"Beef demand is great."

That message from Kevin Good, CattleFax vice president of industry relations and analysis, is a stark contrast to what cattlemen in similar seats would have heard just two decades earlier.

"If you look at the last 20 years, you'll see that beef values, both wholesale and retail, have increased at over double the rate of inflation," Good said. "There's plenty of dollars in the system. We just want a bigger piece of that pie."

From 1980 to 1998, beef's market share dropped from 54% to 40%. Compared to other proteins, beef has regained 8% of that back, and 2% of that recovery in market share was won last year alone, Good said.

He credited much of that rise to the cattle industry's commitment to raising a better product. One out of every four carcasses today reaches upper two-thirds Choice — the marbling level required for the *Certified Angus Beef*® (CAB®) brand. Combine that with the surge in Prime reaching above 10% of the harvest many weeks and, Good said, "over a third of the cattle we produce are in that premium line from a quality standpoint."

Leverage is still the frustration of those on the live-cattle side of the equation. There's no shortage of finished animals, as the backlog from COVID-19-related disruptions continues to work through the system.

Good said there are two ways to "get out of this mess:" placements and harvest.

Import and export data with Mexico and Canada show fewer feeder cattle coming in and a larger number going out. That leaves the trade balance with 350,000-400,000 head fewer in the United States.

Feedlot placements have been down every month since June.

Labor issues continue to hamper packing plants, but the number of cattle on feed 150 days and above, "peaked four months ago, and each month is getting a little bit smaller," Good said.

"Combine that trend with tighter supplies going forward, and it would suggest we are starting to gain some leverage from [a] fed-cattle marketing standpoint as we move forward," he predicted.

How fast will that come? By the latter part of this year, Good said, but a rising price trend in the fourth quarter will continue on into 2022 when there's a 500,000-head reduction in harvest numbers.

Another point of optimism comes from overseas demand. Overall, exports are up 15% and imports down 8%.

"That's a 23% swing on a 3-billion-pound market. We're optimistic that exports will continue to increase," Good said. Australia's drought-limited herd and an increasing appetite for beef in China and other Asian countries certainly works in the U.S. cattleman's favor.

"Despite the fact we're producing 2.5% more beef this year than last, we've got tighter per capita supplies," he said.

CattleFax predicts prices for all classes of cattle will move up this next year.

"We do see profit in the system for the cow-calf producer moving forward if Mother Nature will cooperate from a feed standpoint," Good said.

Outside factors

The pandemic continues to shift the labor force and alter consumer activity, said Mike Murphy, vice president of research and risk management, explaining implications of the U.S. economy, energy supply, and feed-grain and hay markets. The unemployment rate, currently at 5.4%, is predicted to reach a 50-year low in 2022.

"We have to understand that tight labor force is going to continue to affect all of us," he said.

Wages and salaries are two metrics Murphy urged cattlemen to consider, stating both are expected to increase in the upcoming years.

Government transfer payments — payments made by the government without goods or services being received in return — doubled in size last year. These payments had a huge effect in stabilizing the economy, he said, noting some argue the government went too far.

"That liquidity that was directly injected into the consumer has certainly created a lot of the inflation we're seeing today," he added.

This has several implications for cattlemen, Murphy said. The numbers will subside at some point. While things may currently look positive from a revenue standpoint, he encouraged cattlemen to continue to focus on the cost side for a balanced approach.

On the energy front, Murphy said the pandemic caused a "global shutdown." As life has attempted to slowly return to normal, consumption has increased rapidly.

Murphy predicted the planet will continue to be in an environment where it will be difficult to make production levels equal consumption.

Oil prices are still too high for profitability, a fact Murphy said is responsible for the drawdown on energy stocks. On a brighter note, he identified a growth in global markets for U.S. products.

Focusing on corn prices, Murphy said May's crop estimates indicated yields were not going to meet expectations of the past eight to 12 months.

He reports Trump's trade policy positively affected the United States' ability to export corn to China. This, he said, resulted in demand recovering both in terms of exports and domestically.

"We're going to export about 900 billion bushels of corn to China alone this year," Murphy said.

The country has already secured another 450 billion bushels for next year.

As effects of the pandemic slowly diminish, Murphy said, people have started going out more frequently. This surge of activity led to an increase in demand for ethanol and a slight increase in usage.

Murphy said the soybean market is in tight supply, and the industry finds itself in a critical stage as producers attempt to finish the crop off for the year. A higher trading range on soybeans has been seen, but Murphy said it is yet to be defined for future growth.

Regarding feed, Murphy said there's little change in foundational demand. He said feedlots might have to accept animals into lots sooner than in past years — a decision that would cause a chain reaction for feed usage.

Murphy reminded producers it all starts with production, and corn and soybean acreage is high. He encouraged watching the markets to see how the crops would finish.

Next year will see another battle for acreage, said Murphy. Producers should expect spot corn future prices to move back to $6.25 in the spring. The old historical range is broken, but swings in the market should moderate with the start of the new year.

Editor's note: Troy Smith is a freelance writer and cattleman from Sargent, Neb. Miranda Reiman is senior associate editor for the *Angus Beef Bulletin*. Megan Silveira is assistant editor for the *Angus Journal*.

Weather Forecast

No matter what type of management practices an operation employs, weather has a way to negate it. It's helpful to have a long-range forecast.

For the past 45 years, Art Douglas has given cattlemen these scientific predictions. The emeritus professor at Creighton University is a staple at the CattleFax Outlook session at the Cattle Industry Convention, and he brought his meteorological expertise again this year.

It wasn't good news for those in the West.

Douglas forecast that the Pacific storm track will be forced farther north than normal, thus giving a delayed fall rainy season along the West Coast. Monsoon moisture will flow north into the Rockies. The Corn Belt will be warm and dry through September and early October.

He predicted below-normal temperatures will move across the middle of the country in mid- to late fall.

"The main moisture in the West will fall early as the summer monsoon persists well into September. By mid-fall the area of above-normal moisture will shift into the Corn Belt, and then drier weather is forecast to return in November," Douglas said.

For the winter, he said, *La Niña* will cause cold air to move south into the north-central states, with the cold periodically reaching the Gulf Coast. Winter storms and moisture will be reduced, strengthening the drought in the West and Plains.

He forecast a cold winter across the north-central states, with cold outbreaks down to the Gulf Coast. There could be small pockets of slightly above-normal precipitation in the northern Rockies and Ohio Valley, he said.

He finished with some good news. *El Niño* signals are starting. He said it could begin by midyear next year, so the drought could start easing in winter 2022 and 2023. However, he admitted the analog forecast system identified 12 years as good matches to July 2021 climate conditions. One-third of the years showed a *La Niña* for another year, though the other years changed to *El Niño* within a year.

While forecasts are simply predictions with science behind them, Douglas spent the last 45 years trying to give cattlemen more tools to be more successful. This year, he announced his retirement.

— by Kasey Brown, associate editor