

Market Advisor: Beef herd expansion in high gear

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USDA made modest changes to 2017 beef projections in December's monthly *World Agricultural Supply and Demand Estimates* (WASDE) release. The 2017 average mid-point fed-steer price is now projected at \$107 per hundredweight (cwt.), up \$1 from the projection made

in November. Despite the slightly higher projection, USDA still pegs next year's fed-steer price more than 10% lower than 2016. Beef production is estimated at 26 billion pounds (lb.) for 2017, up 800 million lb. from this year and the largest since 2011.

Cattle and beef prices lost some ground the week of Dec. 9. Through Thursday, Dec. 8, the five-area average price for slaughter steers sold on a live-weight basis was \$110.31 per cwt., down \$4.07 from the previous week's average, and \$8.14 lower than a year ago. The five-area dressed steer price averaged \$170.50 per cwt., down \$4.87 from the week before, and \$16.87 below last year's level. These losses erased the previous week's gains and then some.

Beef cutout values were down this week, though not as much as the cattle. The morning of Dec. 9, the Choice boxed beef cutout value was \$190.25 per cwt., down just 4¢ from the previous Friday, but \$12.80 lower than a year ago. The Select carcass cutout Dec. 9 was \$171.85 per cwt., down \$1.74 from the previous week. At \$18.40 per cwt., the Choice-Select spread remains relatively high, even accounting for holiday beef demand.

Beef exports in October were at the highest level since August 2014. Shipments to Japan and Korea continue

Choice boxed beef rallies

Daily Choice boxed-beef cutout values advanced to the highest level seen since late September 2016 for the week ending Dec. 2, reaching \$190.50 per cwt. on Dec. 1. The boxed-beef cutout value is a calculation using primal cuts' pricing and yield (rib, chuck, round, loin, brisket, short plate and flank) for a specific grade.

Rib and tenderloin (loin) values tend to be seasonal, tied to Christmas and New Year's demand. This year the seasonal rally was later than usual. Given larger beef supplies and low prices, retailers did not pre-buy items until consumer demand was more apparent and specials/features/ads were fully fleshed out.

As a result, rib pricing reached the highest value of 2016, \$387.26 per cwt., on Dec. 2, rallying from its lowest point of the year \$290.17 per cwt., in October and increasing 33% since mid-October.

Loin values are up over recent weeks, but have not shown the strength relative to ribs. Loins hit the lowest prices in mid-October, as well, and have climbed 6% to \$234.31 per cwt. during the last six weeks. Brisket prices have contributed to the increase in the cutout over the same time frame. Brisket prices are up 14% since October, adding \$69 per cwt.

Chuck, round and short plate prices have lost ground from highs

to run well above last year's levels, with the year-to-date (YTD) growth in those two markets now near 23%. Total U.S. beef exports are now 9% higher on the year, with further gains needed to support prices as beef production increases continue.

Preliminary December consumer confidence numbers were just shy of the highest levels since 2004, with much of the consumer optimism centered on expectations for President-elect Trump's economic policies. This bodes well for domestic meat demand moving forward, a necessary condition to move heavy meat supplies for the next couple of years.

The week's cattle slaughter totaled 611,000 head, down 5,000 head from the previous week but up 5.3% from a year ago. The average steer dressed weight for the week ending Nov. 26 was 916 lb., 2 lb. lighter than the week before, and down 7 lb. from a year ago.

Cattle prices were steady to lower at the Oklahoma City auction the week of Dec. 9. Feeder-steer prices were steady to \$5 lower, with steer calves steady to \$3 lower compared to the week before. Prices for medium and large frame #1

steers by weight group were:

- 400 lb.-450 lb., \$169.50-\$180;
- 450 lb.-500 lb., \$150-\$170;
- 500 lb.-550 lb., \$140-\$165;
- 550 lb.-600 lb., \$136-\$151;
- 600 lb.-650 lb., \$120-\$141.50;
- 650 lb.-700 lb., \$124.50-\$137;
- 700 lb.-750 lb., \$119-\$133;
- 750 lb.-800 lb., \$125.50-\$133.50;
- 800 lb.-900 lb., \$120-\$135; and

- 900 lb.-1,000 lb., \$124-\$132.75 per cwt.

Cattle futures were higher the week of Dec. 9, even as cash prices declined. The December live-cattle futures contract settled at \$108.90 per cwt. Dec. 9, up 68¢ for the week. February live cattle gained \$1.88 during the week and closed at \$110.75 per cwt. The April contract settled at \$110.22.

The January feeder-cattle futures contract ended the week at \$125.97 per cwt., up \$1.37 from a week earlier. March feeder cattle gained \$1.08 during the week to settle at \$122.60 per cwt. April feeder cattle settled at \$121.90 per cwt.



Editor's Note: Ron Plain and Scott Brown are ag economists for the University of Missouri.

late in the year

set earlier in the year and the week of Nov. 28, 2016, moved opposite of the cutout on Dec. 1. Still, prices for the chuck, round and short plate are off their lows set for the year and are up 3%-6%.

Flank prices have been the only primal setting an annual low in the last six weeks. The lowest price recorded for the year is \$83.30 per cwt., set the week of Nov. 28. Seasonally, chucks, rounds and flanks tend to be used more in winter months and end up on consumer tables as roasts and stews. Short plate cuts are more dependent on the export markets, which were slow in the first half of the year but picked up in the third quarter.

Cutout values are still below year-ago levels. Rib and brisket primal values are the only cuts showing year-over-year increases in daily values, and ribs will fade with the New Year. Chuck, round and short plate prices are expected to play a larger role in the cutout movement after the first of the year, but those values now are down 9%-15% compared to last year at this time.

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