



Market Advisor

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Mountain of meat

Each year the livestock industry usually has an important fundamental theme that significantly affects prices. For example, in 2014 and 2015 disease issues, including porcine epidemic diarrhea (PED) and avian influenza, certainly affected production and livestock prices.

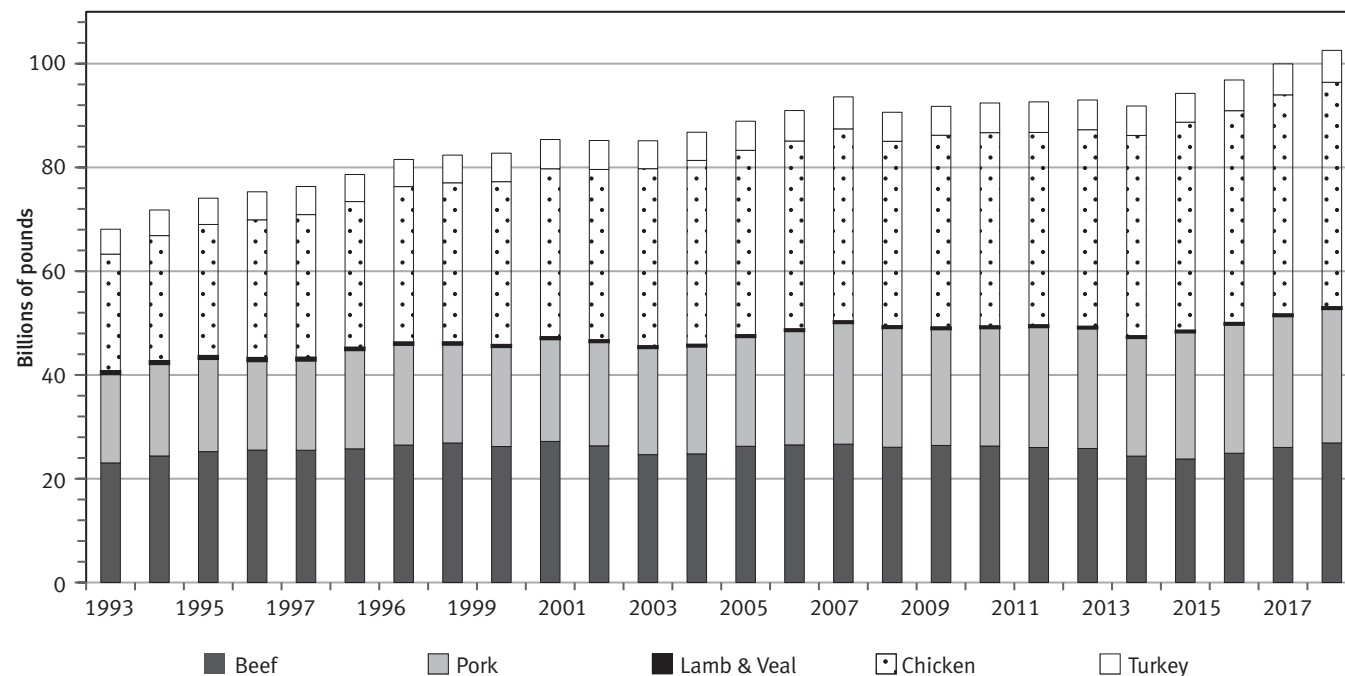
Although hundreds of factors can affect livestock prices, one of the most important fundamental themes for 2016 was the mountain of meat that was produced. An important question for cattle producers is how long will that theme continue into the future.

Slow turnaround

All-time record-high total meat production occurred in 2016. That alone may not be earth-shattering news, because record-high production also occurred in 2015. Different in 2016 was that beef production increased more than 6% after declining 2.3% in 2015.

U.S. beef production in 2016 was 25.2 billion pounds (lb.). That was the first time annual output was above the prior

Fig. 1: Commercial meat & poultry production by type of meat, annual



year's level since 2010. Eight straight years of beef cow liquidation from 2007 to 2014 and fueled by drought, particularly in the Southern Plains from 2010 to 2013, was a major reason.

In the last three months of 2016, beef production was larger than any quarter since the third quarter of 2013. During the summer months, slaughter of heifers and cows started to post increases compared to 2015. As calf prices declined, speculative interest in beef herd rebuilding waned. Furthermore, developing drought in the southern Appalachian states caused some forced liquidation of cows and heifers.

For a historical perspective, record farm-level prices for most red meat, poultry and dairy products in 2014, along with lower feed prices, stimulated production to record-high levels. Record-high prices in agriculture tend to cause subsequent increases in production to, at times, record-high levels. For example, record-high corn prices due to drought in 2012 caused at or near-record corn crops in the four following years of 2013 [13.8 billion bushels (bu.)], 2014 (14.2 billion bu.), 2015 (13.6 billion bu.) and 2016 (15.2 billion bu.).

Due to the reproductive biology of livestock, the broiler chicken industry can increase production the quickest, followed by pork. Obviously, the beef industry is slowest to be able to respond.

In 2015, the pork and broiler industries did respond relatively quickly with record-high production. Pork production increased about 7%, and broiler production was up almost 4% from 2014. Even though beef production continued to decline (-2%), the increase in other meat production led to record-high total meat production, which was up almost 3%.

In 2016, another almost 2% increase in both pork and broiler production occurred, both record highs. That resulted in about a 3% increase in total meat production, a record for the second straight year.

What does the future hold?

Record total meat production is forecast again for 2017 and possibly even 2018. We will have a better idea of 2017 and 2018 beef production potential when USDA National Agricultural Statistics Service (NASS) releases the annual cattle inventory report Jan. 31. Current estimates are for another 3%-4% increase in beef production in 2017 with another 3% increase possible in 2018. Expanding drought conditions would push those estimates higher.

Pork production is forecast to increase about 3% again in both 2017 and 2018. Likewise, chicken production may increase about 2%-3% in 2017 and 2018. Total meat production is on track to set all-time record-high levels in each year of 2015 through 2018.

Beef production is not yet at record

levels. The all-time record-high beef production occurred in 2002 at 27.2 billion lb. Beef production has increased about 1 billion lb. per year the last couple of years. If that continues, beef production in 2018 will be about 27 billion lb. and could break the previous record.

Record total meat production will be a headwind for cattle and all livestock prices, but the pace of price decline is expected to moderate significantly compared to the last two years.

Meat demand is the other important market price driver. Export markets will be very important given record-high

production. The United States is a major exporter of beef, pork and chicken. The status of several international trade agreements is in limbo now, which adds to the uncertainty of cattle prices for the next couple of years.

