Market Advisor: Is this the new normal?

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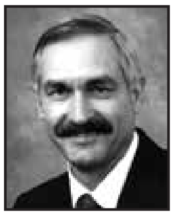

I am struggling to find the appropriate adjective or set of words that best describes the current cattle and beef markets. Terms like normal, average and typical come to mind, but they aren't really what I'm looking for either.

The dictionary definition for "normal" is a standard, usual or regular pattern. "Average" is a level that is typical of a group, class or series, and "typical" means exhibiting expected or representative characteristics.

Tides are turning

Both 2014 and 2015 were certainly abnormal, atypical or not average years when discussing U.S. cattle and beef price patterns. 2014 was characterized by just about every fundamental supply-and-demand factor that can affect cattle and beef prices being positive.

Those fundamentals have been discussed in previous columns, but some highlights include a historically tight supply of cattle and beef due to eight straight years of a declining beef cow herd. A record U.S. corn crop and much improved pasture conditions caused lower feed costs and beef herd rebuilding. Lower-than-expected pork and chicken production occurred due to the porcine epidemic diarrhea (PED) virus in hogs and genetic problems with chickens.

On the demand side, beef and byproduct export values were record high, and the U.S. economy was improving. Those factors led to the largest increase in cattle prices in history, with record-high prices throughout the year.

The tide abruptly turned in mid-2015 when just about every fundamental that was so positive in 2014 turned negative. A few important

factors include pork and chicken production ramped up to record-high levels that led to record-high total meat production. Beef production increased during the last several months due to record-high steer carcass weights that even became excessive. A backlog of heavy-weight cattle fueled a contra-seasonal decline in fed-cattle prices the second half of the year.

Beef, pork and chicken exports declined sharply due in part to the high U.S. dollar value, trade restrictions caused by the avian influenza outbreak, Russia's ban on U.S. meat imports and other factors. Record meat production and struggling exports led to record-high cold-storage meat stocks. All the seemingly endless negative fundamentals caused volatile and plummeting prices for all livestock commodities. A previous column titled, "The Good, The Bad, and The Ugly" went into more detail (you can read that column in the February 2016 *Angus Journal)*.

Although plenty of price volatility exists in 2016, may we dare say that some degree of normalcy in prices may be evident? I am referring back to the 2010-2013 time period. Even in spite of drought in many cattle-producing areas, cattle prices followed more normal seasonal price patterns. Prices were impacted by both positive and negative fundamental factors instead of being so one-sided (either mostly good or bad), like what happened the last couple of years.

2010-2013 were good years, especially for seedstock and cow-calf producers who weren't affected by severe drought conditions. Prices for several market classes of cattle are exhibiting more normal historic seasonal price patterns and mirroring 2013 levels rather closely.

For example, the average annual five-area fed-steer price for 2013 was \$126.33 per hundredweight (cwt.), and USDA is projecting \$127.12 per cwt. for 2016. Interestingly, the average fed-steer price in 2012 was \$122.97, and USDA is predicting \$123.25 for 2017. Of course, the biggest difference is that 2010-2013 was the upward cattle price cycle, and 2016-2018 will likely be the downward price cycle.

World political, economic, meat production and trade issues are constantly changing. Plus, U.S. weather conditions are also dynamic. So cattle prices will likely continue to be volatile. Marketing plans should be based on historic (not 2014 and 2015) seasonal price patterns, but with the downward price cycle bias factored in.

Editor's Note: *Tim Petry is a livestock marketing economist with the North Dakota State University Extension Service.*