2017 Cattle Markets…and a Look Ahead to 2018

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So far this year
Through the first three-quarters of the year, 2017 has, by and large, been a pleasant surprise. Fed and feeder cattle prices peaked higher than expected in the second quarter before declining seasonally into the summer. Feeder cattle prices are holding at or slightly higher than the same time last year while fed cattle price dropped below year ago levels due to late summer seasonal pressure.

Feedlots enjoyed record profitability through the first half of the year before returns dropped with declining August fed cattle prices. Aggressive feedlot marketings largely kept pace with increased feedlot placements limiting the growth of feedlot inventories in the face of overall growth in cattle numbers.

Cattle and beef prices have been supported strong domestic and international beef demand. Despite a year to date increase in beef production of over four percent, retail beef prices have generally increased month to month and are currently very close to a year ago levels. After dropping sharply from an impressive and surprising peak in May and June, boxed beef prices are holding close to year earlier levels late in the third quarter.

International trade has helped support cattle prices in 2017 with beef exports up 14.5 percent for the first 8 months of the year and beef imports down 2.8 percent over the same period. For the year to date, Japan is the top export market with 30.6 percent of U.S. beef exports, followed by South Korea (16.2 percent); Mexico (14.8 percent); Canada (11.3 percent) and Hong Kong (10.1 percent). The top five export destinations represent 83 percent of total U.S. beef exports. Major sources of beef imports include Canada with 23.2 percent of total imports; followed closely by New Zealand (21.8 percent); Australia (21.7 percent); Mexico (18.8 percent) and Brazil (5.0 percent). These five import sources represent almost 91 percent of total beef imports in the first eight months of 2017.

Cattle producers in many regions have been challenged in 2017 by a host of natural disasters including spring wildfires in the southern plains; summer and fall wildfires in the northern Rockies and Pacific Northwest; drought across the northern plains; and hurricanes Harvey and Irma. While none of these individually or even collectively are likely to impact cattle and beef markets much, these events have huge impacts on affected producers.

Finishing up 2017
Fed and feeder cattle prices, along with boxed beef prices are all expected to remain above year ago levels in the fourth quarter. Feeder cattle prices will be subject to typical seasonal price pressure this fall. A larger 2017 calf crop will increase fall calf supplies but generally good forage conditions, especially in the southern half of the country, combined with continued feedlot demand for feedlot cattle, are expected to hold feeder prices to seasonal declines. Fed cattle and boxed beef prices are expected to stabilize from summer lows and move seasonally higher in the fourth quarter.
Feed costs are expected to remain favorable for cattle producers with hay and concentrate prices close to year earlier levels. Cow-calf producers have decent prospects for modest returns depending on individual cost of production. Feedlot margins are squeezed at the end of the third quarter but may improve in the fourth quarter with fed prices expected to improve relative to feeder cattle prices.

Beef production will continue growing in the fourth quarter, though with a smaller year over year increase compared to earlier quarters. For the year, 2017 beef production is projected to be up 4 to 4.5 percent over 2016. Total cattle slaughter will likely be up 5 to 5.5 percent with smaller carcass weights partially offsetting increased slaughter. Steer and heifer carcass weights have averaged about 14 pounds below last year through August. Carcass weights will reach a seasonal peak in the fourth quarter but are expected to remain below year ago levels through the end of the year.

**A look ahead to 2018**

Cattle numbers and beef production will be higher, yet again, in 2018. The beef cow herd almost certainly continued expanding in 2017, albeit at a slower pace than 2016. Estimates for 2017 beef cow herd expansion vary from less than one percent to a nearly two percent year over year increase by January 2018. Heifer and beef cow slaughter in 2017 were up significantly, partly due to a larger herd size but likely also indicating a slowdown in heifer retention. Nevertheless, the ratio of steer to heifer slaughter remains very high indicating that heifer slaughter remains at a relatively low rate consistent with continued herd expansion. The 2017 calf crop was likely 2.5-3.0 percent higher year over year, meaning that the pipeline of feeder cattle will continue to grow in 2018.

Feedlots will continue to place and market more cattle in 2017, and the relative rates of placements and marketings will determine how fast feedlot inventories grow. Aggressive marketings and increased feedlot turnover rates have been a key to managing growing cattle and beef supplies and will remain a key in the coming year. Nevertheless, average feedlot inventories are likely to build in 2018. Feedlots are expected to continue enjoying favorable feed costs with decent, if more modest, returns compared to early 2017.

2018 beef production is projected at a record level of 27.4 billion pounds. This is the result of cattle slaughter that is expected to increase another 3 to 3.5 percent year over year along with increased carcass weights following the decline in carcass weights in 2017.

International trade is expected to continue to be supportive of U.S. cattle markets in 2018. Beef exports are expected to increase modestly in 2018, reaching a record level. Growing exports to China could add to annual export totals in 2018 but are still expected to grow slowly in the coming months. Considerable uncertainty currently exists regarding beef trade, highlighted by the renegotiation of NAFTA and threats of withdrawal from NAFTA and the South Korean Free Trade Agreement (KORUS FTA). 2018 beef imports are expected to be down year over year or close to 2017 levels.

After adjusting for trade, a three-plus percent increase in beef production is expected to result in per capita domestic consumption of 57.7 pounds, up 2.0 percent from 2017. This level of domestic beef consumption was last seen in 2010 in the U.S. Increased pork production, and steady broiler production will combine with beef to produce record total red meat and poultry production of just over 101 billion pounds in 2018. However, per capita total meat consumption is projected to be up fractionally from 2017 with increased meat exports expected to absorb much of the increase in meat production.
Continued strong domestic demand supported by beef trade will be essential to minimize the price impacts of growing beef supplies in 2018. With decent domestic and international demand, supply pressures are likely to push cattle prices modestly lower in 2018, likely in the range of 3 to 6 percent below 2017 average levels. Increased beef production in 2018 and through 2019, at least, is certain given that calf crops will undoubtedly be larger until 2018. Lower prices are not necessarily a certainty depending on demand, though the more likely scenario is one of modestly lower prices with a threat of sharply lower prices.