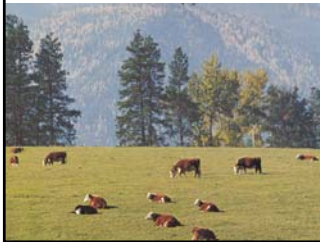


The U.S. Cattle Cycle and Calf Prices

Gary Brester

MSU Department of Agricultural Economics and Economics

Montana Nutrition Conference 2015



Bozeman, MT

April 28, 2015



OUTLINE

1. **World Beef Markets**
2. **U.S. Beef Markets**
3. **U.S. Cattle Cycle**
4. **Long Term Calf Price Outlook**
5. **Questions**

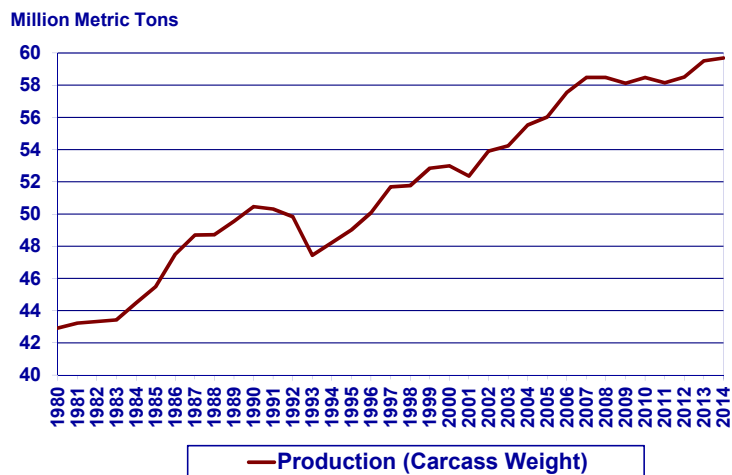
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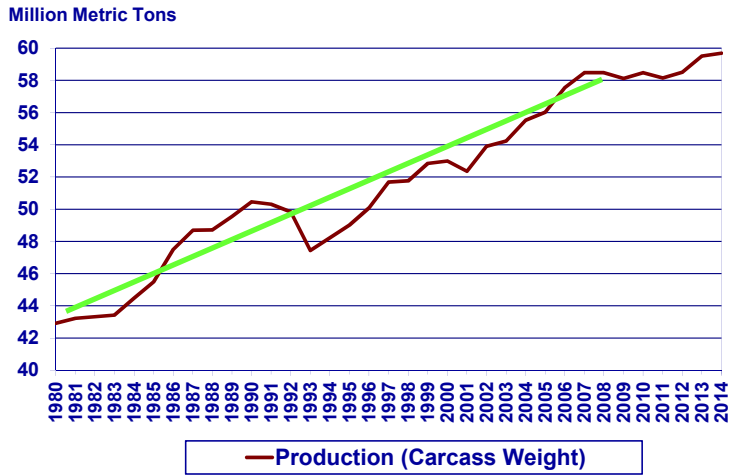
World Beef Production



Source: Foreign Agricultural Service

4

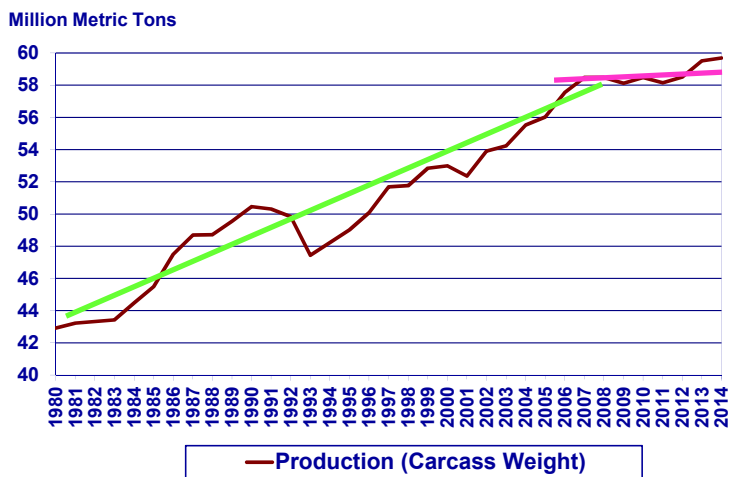
World Beef Production



Source: Foreign Agricultural Service

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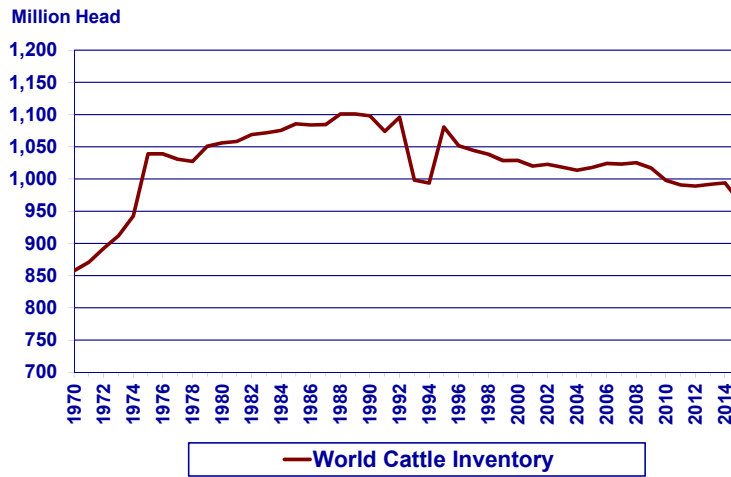
World Beef Production



Source: Foreign Agricultural Service

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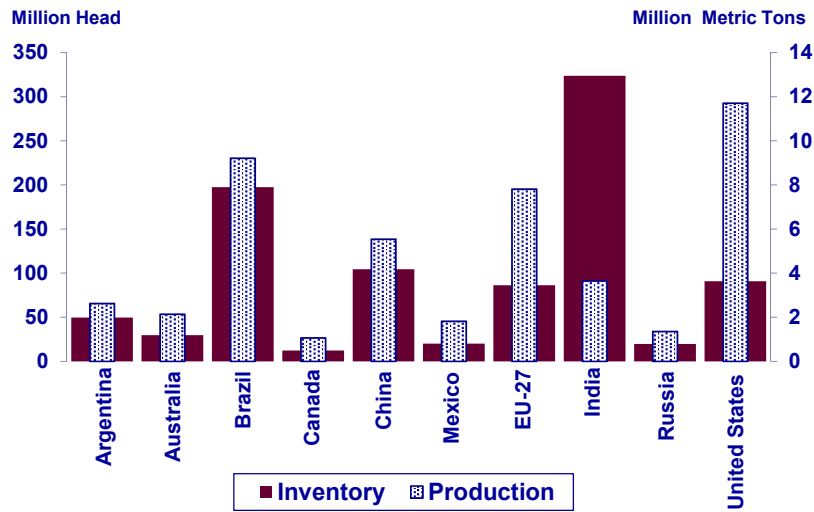
World Cattle Inventories



Source: Foreign Agricultural Service

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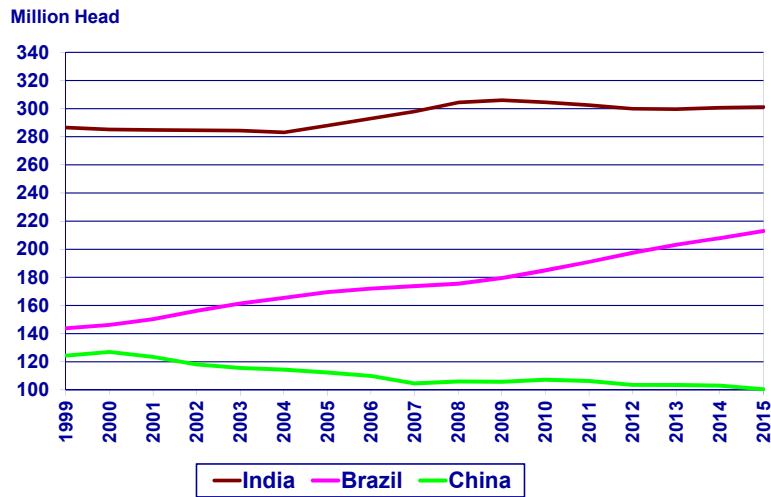
Cattle Inventory Increases/Beef Production



Source: Foreign Agricultural Service

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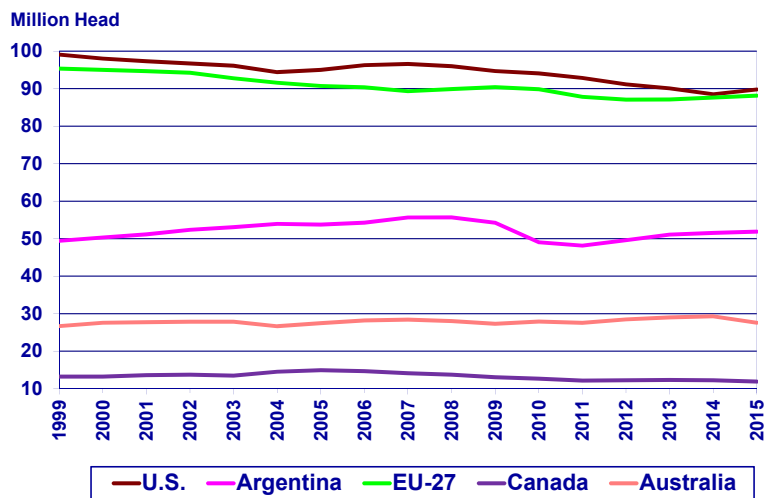
India, Brazil, China Cattle Inventories



Source: Foreign Agricultural Service

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U.S., Argentina, Australia, EU-27, Canada Inventories



Source: Foreign Agricultural Service

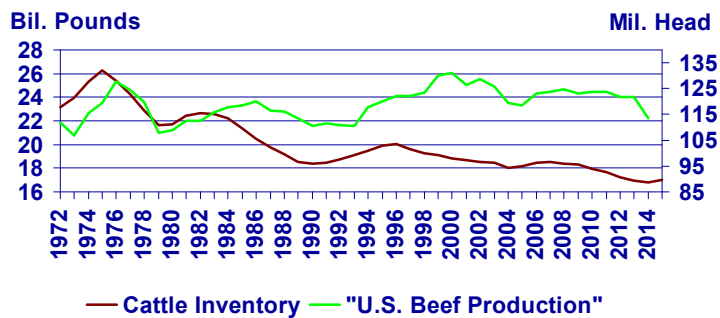
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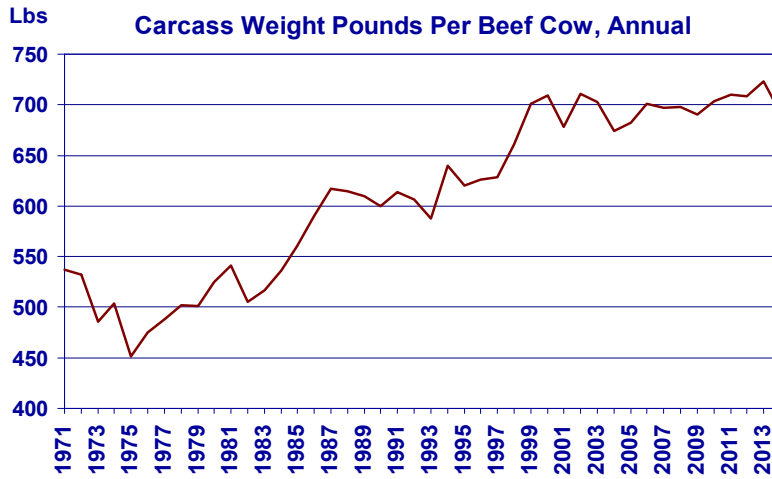
“US Beef Production” vs. Cattle Inventory (January 1)



2015 January 1 Inventory equals 89.8 million head
(increase from 2014 inventory of 88.5 million head)
(2014 calf crop was the lowest since 1950, 33.90 million head)
Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

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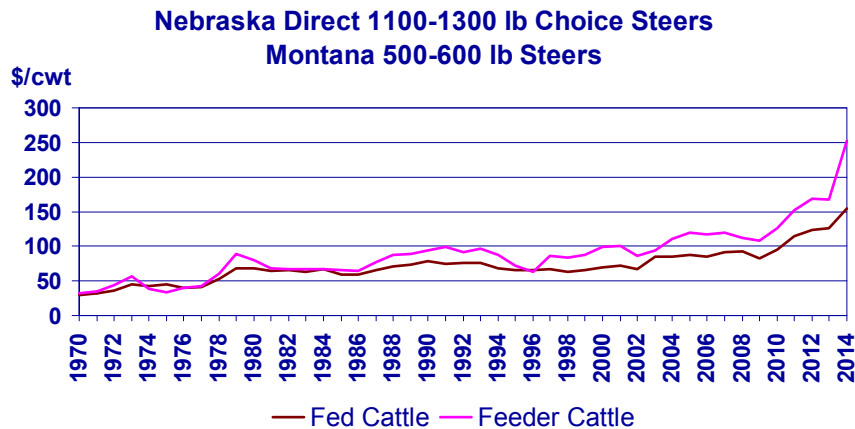
Productivity of U.S. Beef Cow Breeding Herd



Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

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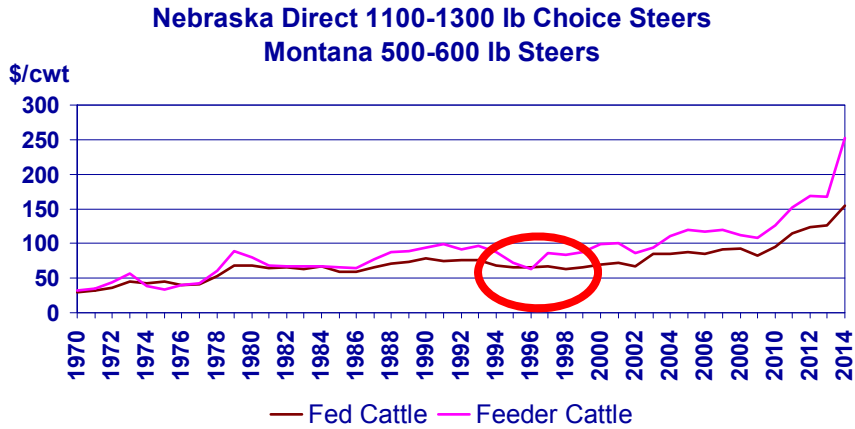
Nominal Fed And Feeder Cattle Prices



Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

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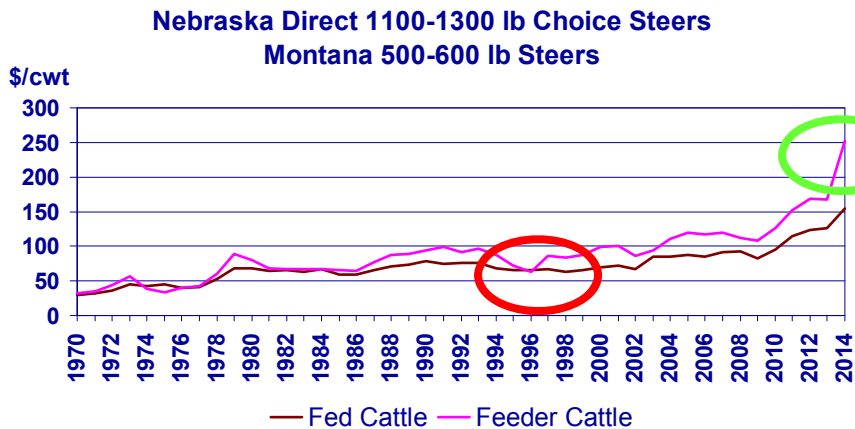
Nominal Fed And Feeder Cattle Prices



Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

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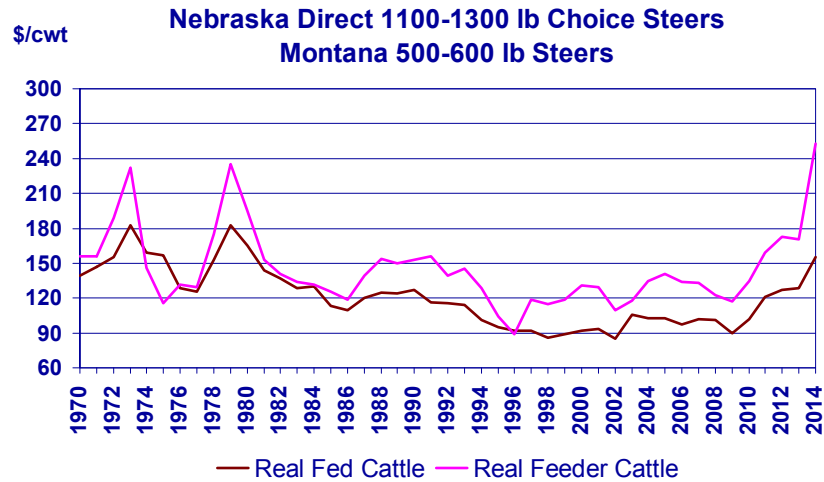
Nominal Fed And Feeder Cattle Prices



Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

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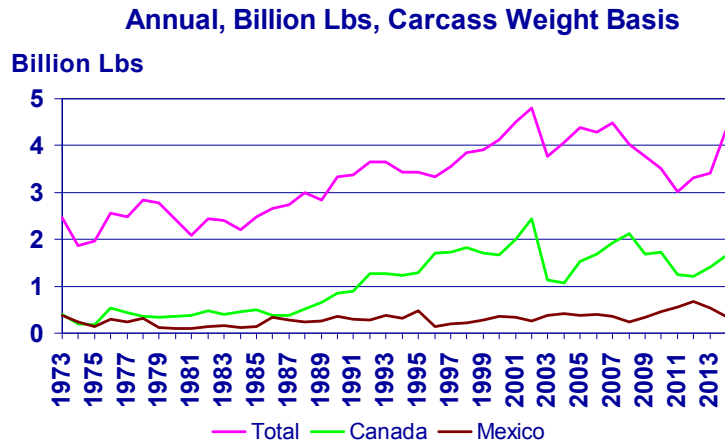
Real Fed And Feeder Cattle Prices



Source: Livestock Marketing Information Center (2014=100)

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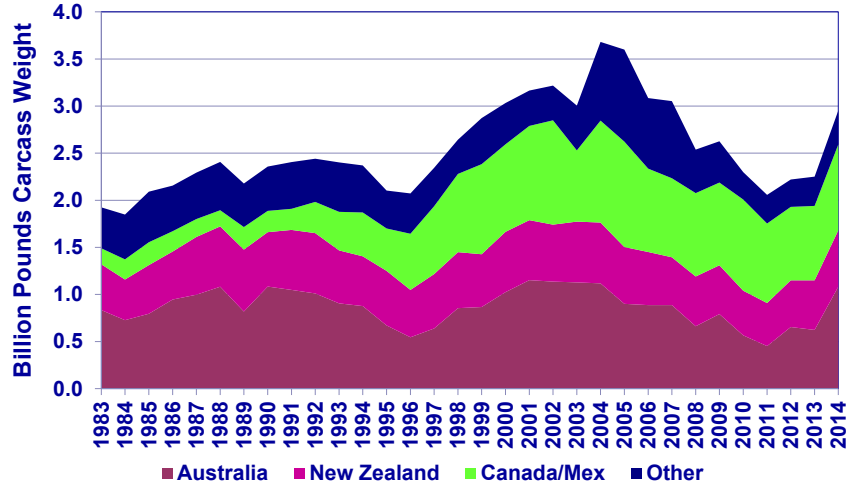
U.S. Beef, Veal and Live Animal Imports



Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

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U.S. Beef Imports By Source

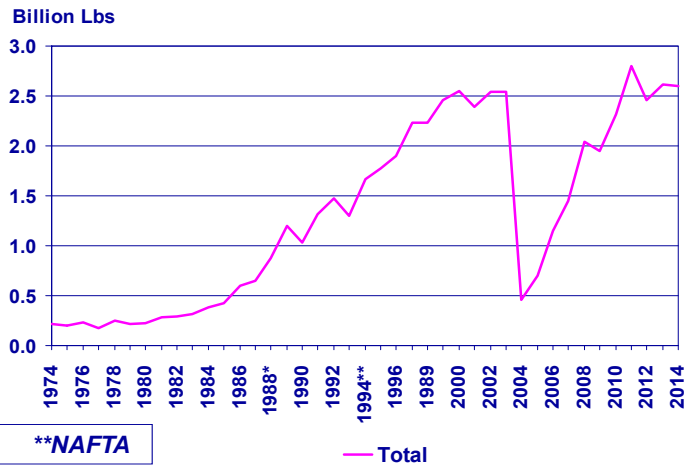


Source: Livestock Marketing Information Center

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U.S. Beef, Veal and Live Animal Exports

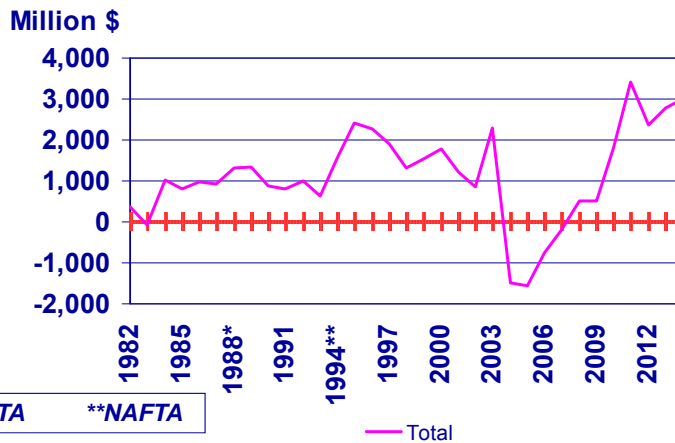
Annual, Billion Lbs, Carcass Weight Basis



Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

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Value of U.S. Beef, Veal and Live Animal, By-Product Net Imports/Exports



Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

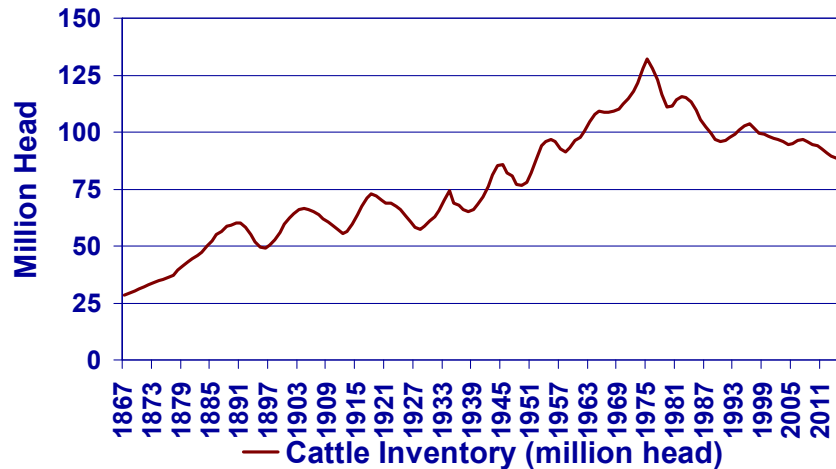
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U.S. Cattle Inventory (January 1)



Source: Livestock Marketing Information Center & MSU Agricultural Marketing Policy Center

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Demand Has Increased

1. Domestic demand is a little stronger over the past several years
 - a. Of course, per capita consumption is lower (not a demand decline)
 - b. It has to be because we don't have as much around
 - c. Price allocates
2. Foreign demand is increasing
 - a. Increasing incomes
 - b. Increasing population
 - c. These are slow effects

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Supply Has Declined

- 1. Cost factors**
 - a. Drought**
 - b. Feed costs**
 - c. Grazing availability**
 - d. Labor costs**
- 2. Alternative production factors**
 - a. Crop profitability**
 - b. Crop insurance**
 - c. Age**
- 3. Structural factors**
 - a. Full time versus part time**
 - b. Larger cows**

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Motivational Icons of the Past

- 1. William Shakespeare**
- 2. Clara Peller**
- 3. Meat Loaf**
- 4. Black Eyed Peas**
- 5. General Eric Shinseki**
- 6. Returning to one of my favorites**

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American Philosopher

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American Philosopher

Yogi Berra



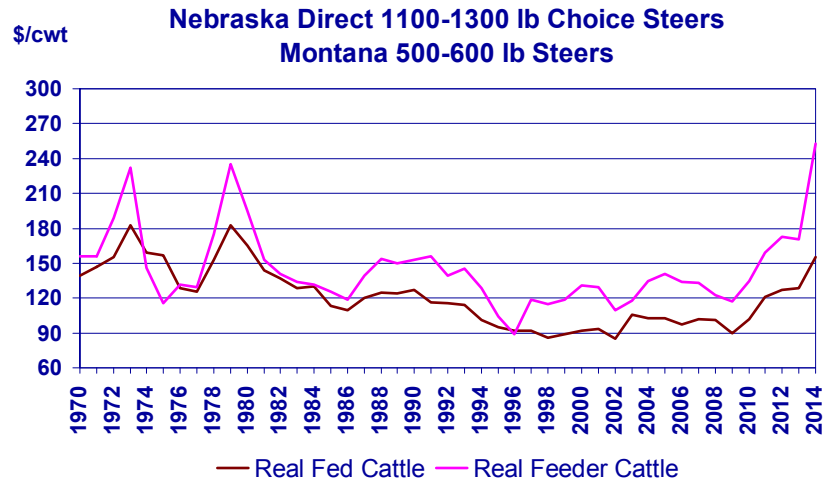
It's Déjà Vu All Over Again!

American Philosopher

Yogi Berra



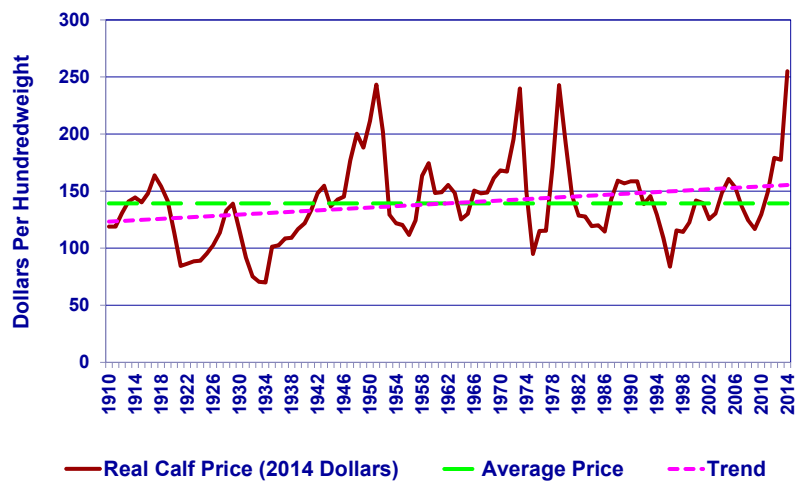
Real Fed And Feeder Cattle Prices



Source: Livestock Marketing Information Center (2014=100)

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Real Beef Calf Prices



Source: Livestock Marketing Information Center (2014=100)

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Déjà vu All Over Again?

- 1. If demand is not impacted by disease scares or lower incomes**
 - a. Cattle prices will remain strong until beef supplies increase**
- 2. We have seen these types of prices on 3 occasions**
 - a. 1951, 1973, 1979**

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Previous Price Spikes

- 1. Real price spikes occurred in 1951, 1973, 1979**
 - a. All were years of low cattle numbers**
 - Followed herd liquidation**
 - Start of herd expansion**
 - b. But no more so than some other years in the cycle**

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1951 (\$243/cwt)

- 1. Initiation of the Korean War**
 - a. Concerns of food security following terrible supply disruptions during World War II**
 - b. Potential for a new World War**
 - c. Countries purchased agricultural commodities as a hedge**
- 2. By 1954, calf prices were below the long run average of \$139/cwt**

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1973 (\$240/cwt)

- 1. 1972 Russian grain deal**
- 2. Reductions in Peruvian fish meal**
- 3. Declines in world production of other food and feed grains**
- 4. Beef sector was expanding**
 - a. Hog sector had contracted**
 - b. OPEC quadrupled oil prices**
- 5. High prices were short-lived as demand declined**
 - a. By 1975, prices were only \$95/cwt**
 - b. Rebuilding peaked in 1975 at a record level of cattle inventory**

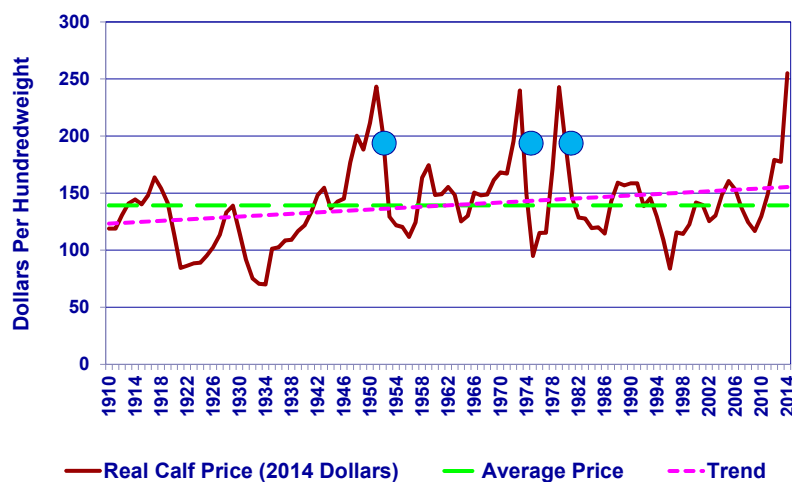
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1979 (\$243/cwt)

1. 20 million head decline in cattle inventory (15%) between 1975 and 1978
2. Herd rebuilding began
3. 1979 OPEC oil shock increased costs and hurt demand
4. Rebuilding lasted only two years before liquidation occurred
5. By 1982, prices (\$132/cwt) were below long-run average

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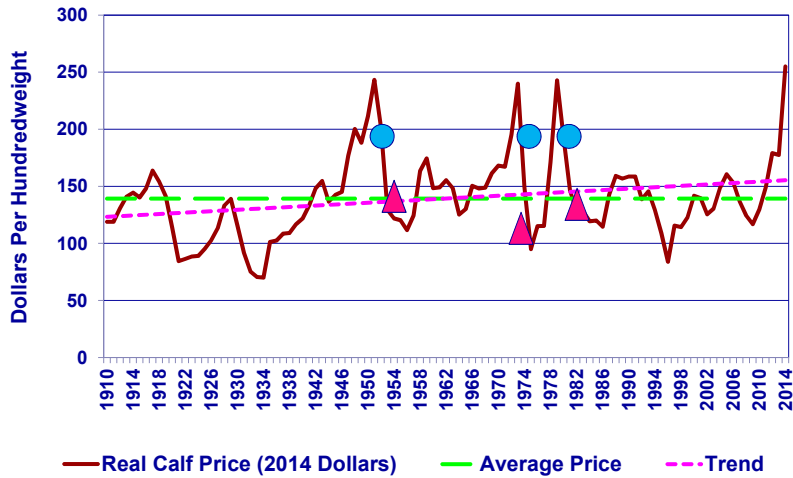
Real Beef Calf Prices



Source: Livestock Marketing Information Center (2014=100)

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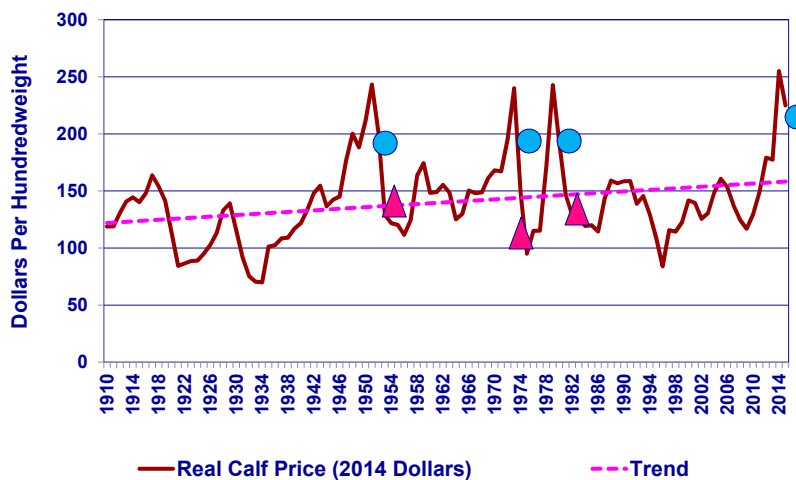
Real Beef Calf Prices



Source: Livestock Marketing Information Center (2014=100)

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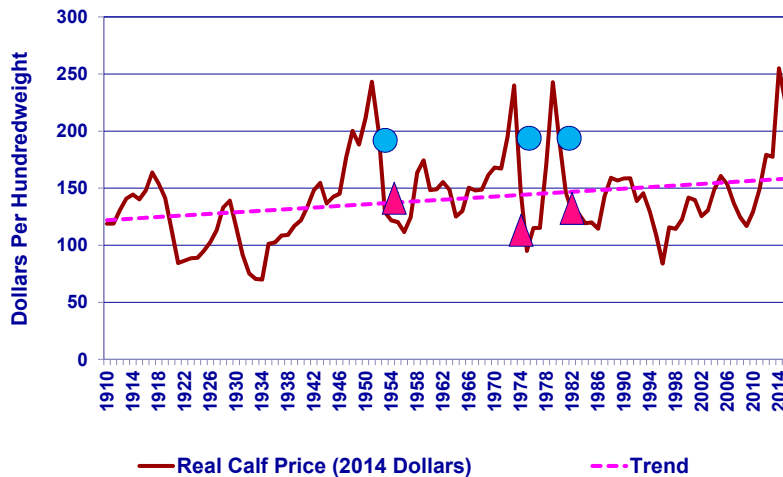
Real Beef Calf Prices



Source: Livestock Marketing Information Center (2014=100)

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Real Beef Calf Prices



Source: Livestock Marketing Information Center (2014=100)

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2014 (\$255/cwt)

1. **8 million head decline in cattle inventory (10%) between 2007 and 2014**
 - a. Production declining
 - b. World production is low
 - c. Demand is solid
2. **Will the supply side shocks noted above reverse themselves?**
3. **Will substantial herd rebuilding occur in the U.S.?**
 - a. Elsewhere?

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Questions?

