

## Beef Cattle Profitability Outlook

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It always seems appropriate to start the new year with an outlook of what is expected in the coming 12 months. The important word here is “expected,” because the writer of this article has been consistently wrong the past several years which should be expected again! Maybe Bob Uecker said it best when he said, “I led the league in ‘Go get ‘em next time.’” Similarly, Winston Churchill said, “Success is the ability to go from one failure to another with no loss of enthusiasm.” Thus, there is no reason to stop failing now and just continue doing it with as much gusto as possible.

Cattle prices in 2017 turned out much better than projected. Projections for 2017 were largely based on the precipitous decline in cattle prices during the third and fourth quarter of 2016. As the price decline through the back half of 2016 persisted, many analysts and producers were doom and gloom on cattle markets in 2017. However, once 2017 arrived, calf and feeder cattle prices began to escalate and did so through May and into June before finding a narrow trading range for the remainder of the year. From June through the end of 2017, 500 to 600 pounds steers traded in a range from \$140 to \$160 per hundredweight based on Tennessee weekly auction averages while 700 to 800 pound steers traded in a range from \$125 to \$145 per hundredweight.

The upward price movement the first half of 2017 and the steady range the back half of the year resulted in 500 to 600 pound steer prices averaging about \$145 per hundredweight for the year which is 1 percent higher than 2016 prices. Similarly, the annual average price for 700 to 800 pound steers increased 1.9 percent compared to 2016 while finished cattle prices were about 0.5 percent higher than 2016 with a price near \$121. The loser in the market was slaughter cows with prices declining 11.7 percent compared to 2016.

As expectations and projections are developed, there are several aspects of the market that must be considered but most of them boil down to domestic and international meat supply and demand. Domestic beef, pork, and poultry production are expected to continue increasing in 2018 which means the meat has to be absorbed by the domestic market or moved through international channels. Domestic beef demand has been strong throughout 2017 as retail beef prices have softened and as consumer discretionary spending has increased modestly. Similarly, beef exports have been surging for about a year and a half which has helped clear the market. The ability to continue moving pork items through international markets and hoping for resurgence in poultry exports should provide some relief from increased meat production.

Though the ideal market would result in increased exports, there are several policy issues that could influence trade. NAFTA renegotiations are an important part of 2018 cattle prices as is continuing to increase exports to China. Similarly, it is going to be important to work on trade deals with Japan and other Pacific trading partners to reduce tariff rates and to achieve more competitive trade agreements.

Though supply and demand significantly impact prices in the long-run, the market does not always trade on long-run fundamentals and many cattle producers operate in the short-run. Thus, it is integral to have some idea of the direction of prices and magnitude of prices throughout 2018.

**Don't bet the farm on these projections.** The market is expected to continue slowly returning to a more seasonal price pattern. Thus, producers can expect cattle prices to trade above year ago levels in the first quarter of 2018 with 500 to 600 pound calves averaging \$145 to \$155 per hundredweight in Tennessee while prices will slip in the second quarter and average between \$140 and \$150. Similarly, third and fourth quarter prices will continue to decline with averages in the \$130 to \$140 range and \$125 to \$135 range respectively.

Yearling cattle prices are not expected to range as widely as lighter weight cattle prices. Load lots (50,000 pounds) of 750 to 900 pound feeder cattle coming out of Tennessee are expected to average \$140 to \$150 per hundredweight during the first quarter while prices will likely strengthen

around \$5 moving into the second quarter. Third quarter prices will remain fairly strong and continue trading in the \$145 to \$155 range while prices are expected to soften in the fourth quarter of 2018 to \$135 to \$145. Again, producers should not bet the farm on these expectations as price projections will likely change tomorrow.