

Livestock Monitor

A Newsletter for Extension Staff

Livestock Marketing Information Center

State Extension Services in Cooperation with the USDA

Market Indicators . . .

July 27, 2018

Production			Prices			
Week Ending 7/28/2018	Last	Year Ago	Weekly Average (\$/Cwt)	Last	Week Ago	Year Ago
FI Cattle Slaughter (Thou Hd)	640	627	Live Steer	110.10	112.61	117.16
FI Hog Slaughter (Thou Hd)	1987	2234	Dressed Steer	176.05	179.00	187.48
FI Sheep Slaughter (Thou Hd)	36	35	Choice Beef Cutout	204.83	204.32	206.96
Live Y. Chicken Sl. (Mil Hd)	164.4	164.6	USDA Hide/Offal	9.05	9.18	11.51
Slaughter Cattle Live Weight	1330	1337	GA Auction Fdr. Str. (6-7 Cwt.)	137.44	135.69	138.09
Slaughter Hog Live Weight	278	276	Iowa/S. Minn. Base Hog	65.78	71.59	82.62
Slaughter Lamb/Sheep Live Wt.	139	137	Natl. Net Hog Carcass	74.98	78.24	87.63
Beef Production (Mil Pounds)	515.8	508.9	Feeder Pigs (40 Lbs) (\$/Head)	23.41	33.96	48.13
Pork Production (Mil Pounds)	412.4	461.3	Pork Cutout	77.96	82.69	100.78
Lamb, Mutton Prod. (Mil Lbs.)	2.5	2.4	Lamb Cutout	336.69	341.57	384.21
Previous 6 Wk. Moving Avg.			Corn, Omaha (\$/Bu)	3.45	3.35	3.38
Total Beef (Mil Lbs)	510.4	496.0	Wheat, Portland (\$/Bu)	5.88	5.85	5.23
Total Pork (Mil Lbs)	451.4	443.9	Wheat, Kansas City (\$/Bu)	5.63	5.39	4.42
Total Lamb, Mutton (Mil Lbs)	2.5	2.4	Soybeans, Cntrl IL (\$/Bu)	8.56	8.42	9.93

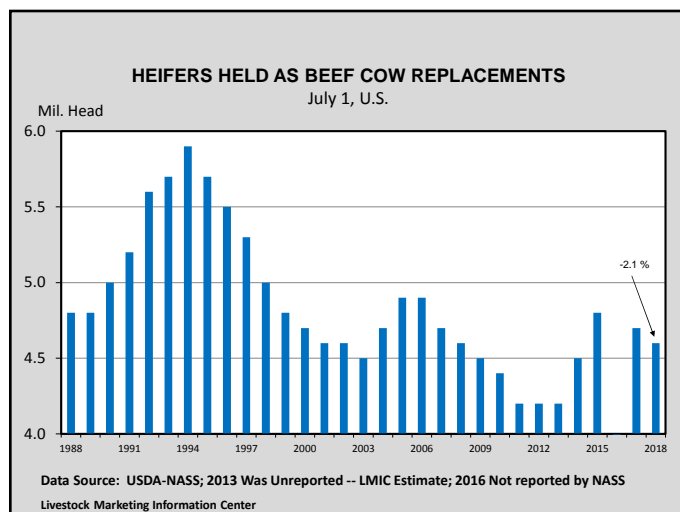
Source: Various USDA-AMS reports. Data are preliminary.

Trends . . . COW-CALF OPERATIONS: TIME TO PLAN

Some overriding forces are shaping the economic environment for U.S. cow-calf operations. From a longer-term strategic perspective, some planning may pay large dividends for cattle producers. Interest costs are rising, albeit at a measured pace. In terms of basic supply and demand market forces, there is the obvious uncertainty regarding demand for beef and hence cattle, given the international trade environment of tariffs and retaliation that has developed in recent months. Still, stepping back, the U.S. beef sector has so far faced mostly indirect impacts, and U.S. beef export tonnage was record-large for this year's first quarter. On the domestic front, the economy has been robust so far this year.

For producers, the clearest market signal is on the supply side. The U.S. beef cattle sector is well into the cyclical adjustment phase transitioning from aggressive herd expansion to very modest growth. Looking ahead, smaller herd growth rates will translate into the rather modest year-over-year increase in beef production in 2019. If recent cowherd trends persist, 2020 could mark the end of the current U.S. cattle inventory build-up.

USDA's National Agricultural Statistics Service (NASS) released their mid-year count of U.S. cattle numbers on July 20th. The NASS survey largely confirmed that the national herd is still growing, but importantly, at a moderating pace compared to that of recent years. In aggregate, at 103.2 million animals as of July 1, the number of all cattle and calves was 1.0% above a year ago. The beef cowherd increased by 0.9% year-over-year. NASS estimated that the number of



heifers designated by beef producers as replacements declined compared to a year ago (down 2.1%). This year's calf crop was projected at 36.5 million head up 1.9% from 2017's.

This calendar year, calf and yearling prices are projected to be similar to 2016's and 2017's. In the fourth quarter of this year, calf prices may average slightly below 2017's, but substantially above 2016's. If the general trends of the first half of 2018 persist, as of January 1, 2019, the U.S. cowherd likely will be up well less than 1.0% year-over-year. That suggests cyclically stronger calf prices are ahead (e.g., calf prices in the fall of 2020). Pre-planning may position a cattle operation to take advantage of this market transition.

DAIRY HERD EXPANSION NEUTRALIZED TO BALANCE DAIRY MARKET VALUES

The NASS estimate of milk cows in the U.S. at mid-year was unchanged from a year earlier. This reconciles with other data from NASS showing less than half a percent increase in cows being milked during the spring quarter compared to the same quarter in 2017, which was a decline from the winter quarter milking herd of 3,000 cows (9.403 million cows). Milk production during the spring quarter was up 0.8% from a year earlier, which compares to a 1.5% increase, year-over-year, during the winter quarter. The slowdown in production reflects a sensitivity to lower milk prices (down close to 10% this spring from a year earlier while alfalfa hay prices are up close to 20% over the same interval. The milk-feed price ratio published by NASS is at its lowest level since the spring of 2016.

The crux of the challenge for the dairy industry is ebbing demand for fluid milk. Fluid milk product sales have been in a downtrend for several years, with no sign of stabilization yet. Fluid milk product sales volumes in May were down 3.2% from a year earlier, one of the bigger year-over-year declines in the last few years. Countering these declines, usage of cheese and butter are gaining, but not by enough to offset fluid milk usage declines and increases in milk production.

American-type cheese usage has been on a stellar growth path this year, resulting in a reversal of trend in building inventories of this type of cheese in cold storage. Mid-year American-type cheese inventories in cold storage were down 1% from a year earlier and cheddar cheese prices at the wholesale level were slightly higher than a year ago during the spring quarter. The situation for Italian-type and other cheeses is not as sanguine as the American-type cheese market. Domestic usage growth was impressive during the winter quarter but lost some momentum during the spring. This is a bit of surprise, given the impressive growth in restaurant and foodservice sales during the quarter. Inventories of these types of cheese in cold storage are up 16% from a year ago at mid-year. The Class III milk price has suffered, accordingly.

RED MEAT IN COLD STORAGE DECLINES; POULTRY INCREASES

Amidst trade tariff and retaliation tariff cycles, one of the big takeaways in cold storage is how little pork inventories changed. Total pork in cold storage remained unchanged in the month of June compared to the previous year and was below prior month by 10%. Of the 12 categories of pork tracked, bellies and trimmings were the only two categories to show worrisome year-over-year gains, up 130% and 38%, respectively. Although bellies are still building back from historically low levels of the prior year, both cuts also declined relative to May inventories, providing some comfort that the market is continuing to work through large pork supplies and changing trade landscapes.

Beef fared moderately, increasing 8% from the year earlier but declined 3% from the month of May. Veal and sheep meat also continued to post lofty year-over-year gains, but lamb and mutton was the only red meat category to show an increase from the previous month. Overall, total red meat was up 5% compared to last year but declined 7% relative to the prior month.

Poultry stocks again were worrisome, increasing relative to a year ago and a month ago. Notable increases were in turkey legs (up 44% year-over-year, and 23% month-over-month), chicken drumsticks (up 76% year-over-year, 13% month-over-month), chicken wings (up 35% year-over-year, 2% month-over-month) and chicken paws and feet (up 93% year-over-year, 22% month-over-month).

As much as trade is weighing in the current market, the most recent cold storage and trade data does not reflect the full weight of what has happened or will happen in the export markets. Poultry products did make the list of retaliatory actions by China. The U.S. exports very little poultry meat to China, but about 25% of total poultry meat exports go to Mexico. Larger production is the majority of what is driving the current levels in cold storage, but that could change in the coming months for poultry and pork.