

Livestock Monitor

A Newsletter for Extension Staff

Livestock Marketing Information Center

State Extension Services in Cooperation with the USDA

Market Indicators . . .

September 6, 2019

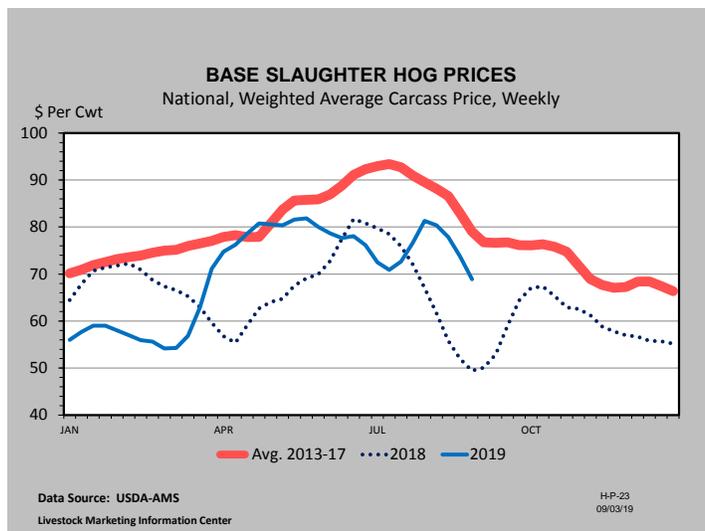
Production			Prices			
Week Ending 9/7/2019			Weekly Average (\$/Cwt)			
	Last	Year Ago		Last	Week Ago	Year Ago
FI Cattle Slaughter (Thou Hd)	565	571	Live Steer	102.31	105.59	107.67
FI Hog Slaughter (Thou Hd)	2204	2221	Dressed Steer	166.19	171.52	170.25
FI Sheep Slaughter (Thou Hd)	29	34	Choice Beef Cutout	229.51	234.35	209.13
Live Y. Chicken Sl. (Mil Hd)	177.9	171.0	USDA Hide/Offal	9.18	9.17	9.33
			OK City Fdr. Str. (6-7 Cwt.)		146.54	
Slaughter Cattle Live Weight	1340	1357	Iowa/S. Minn. Base Hog	54.56	60.33	38.38
Slaughter Hog Live Weight	279	280	Natl. Net Hog Carcass	68.34	71.21	52.38
Slaughter Lamb/Sheep Live Wt.	129	134	Feeder Pigs (40 Lbs) (\$/Head)	36.15	37.02	21.87
Beef Production (Mil Pounds)	459.3	471.2	Pork Cutout	73.01	73.64	68.22
Pork Production (Mil Pounds)	458.2	463.7	Lamb Cutout	346.87	348.61	335.62
Lamb, Mutton Prod. (Mil Lbs.)	1.9	2.3	Cheddar, 40 lb Block(\$/lb)	1.91	1.88	1.66
Previous 6 Wk. Moving Avg.			Corn, Omaha (\$/Bu)	3.59	3.70	3.33
Total Beef (Mil Lbs)	513.8	516.9	Soybeans, Cntrl IL (\$/Bu)	8.38	8.54	7.92
Total Pork (Mil Lbs)	498.3	496.9				
Total Lamb, Mutton (Mil Lbs)	2.4	2.6				

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

Trends . . . LIVE-TO-CUTOUT PORK PRICE SPREAD UNDER PRESSURE

The live-to-cutout pork price spread (or the packer gross margin) continues to trend below year-ago levels. The last three months have been progressively declining. The live-to-cutout spread for July was \$25.34 per head which is more than 20% lower than last year. That is an indication that packer demand for hogs is supporting hog prices due to several new hog plants opening in recent years. Typically, the live-to-cutout spread starts to increase around June or July as more hogs come to market and hog prices trend lower leading to improved packer returns.

The base slaughter hog price seasonally peaks in July before declining in the second half of the year. This year has had a similar pattern, with the base hog price peaking at \$81.33 per cwt at the end of July, and as of late August, the price was \$68.85 per cwt. Both price points are above a year ago but were below the five-year average. Recently, ham and loin prices have been under pressure, but moderate gains in the belly price over the last couple of weeks has helped underpin hog prices.



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Iowa State University farrow-to-finish hog returns have been reflecting a profit for the last five months with July most recently at \$24.07 per head. Strong prices through the first half of the year helped spur hog producer returns while year-to-date hog slaughter is running nearly 4% above 2018's. Iowa State University's breakeven hog price for the first half of 2019 has been between \$60 and \$63 per cwt on a carcass basis. The nearby October futures contract for the last week of August was \$63.79 per cwt.

Live hog prices are expected to remain at or above breakeven levels for the remainder of 2019. Corn and soybean prices have been under pressure recently as reports indicate larger crops than expected earlier in the growing season. However, harvest season has yet to begin, which could present more risks to favorable crop development. Relatively lower feed costs, robust domestic demand, and export potential should support hog prices and producer returns in coming months.

CULL COW VALUES, ARE THE PRICE DRIVERS FINALLY ADJUSTING?

Cull cow prices received by producers have been severely depressed for two years. Nationally, cutter cows (90% lean) have not broken above \$60 per cwt on a live basis since September of 2017. Starting at the end of July, prices climbed above a year ago. On a national live basis, last week's cutter value (90% Lean) was \$55.77 per cwt compared to last year's \$50.01 per cwt.

As we approach the inflection point of this year's cattle cycle a helpful comparison is looking at the previous cattle cycle. Mandatory reporting for cows only began in 2008, which is approximately 1 year off peak inventory in the last cycle. In the fall of 2008 cutter cow prices dropped from \$56.12 per cwt to \$33.10, a 41% decline in a single quarter. In 2017, a similar drop occurred falling 28%. The price pattern for national cull cow prices has been similar to those seen in the fall of 2008 through summer of 2010, when overlaid with fall of 2017 through the summer of 2019.

In this demand environment, there have been three intertwined drivers that have pressured cull cow prices. First, large levels of cow slaughter, caused by low milk price in the dairy sector and cyclical national herd inventory adjustments in the beef sector. In 2018, U.S. Federally Inspected (FI) cow slaughter was nearly 6.2 million head, which was the largest since 2013's, and an increase of 405,000 head year-over-year (up 7.0%). Cow slaughter levels in 2013 were still reflecting U.S. droughts and beef cowherd liquidation in prior years. Also tied to slaughter levels, it appears that U.S. cow slaughter capacity is limited, which contributed to low animal prices in recent years, especially in some regions of the country. Third, drought in Australia has kept U.S. imports of lean and manufacturing grade beef above expected levels, up 8% year to date. Strong U.S. demand has been a factor in attracting more beef from Central America and South America. Nicaragua and Uruguay have increased shipments to the U.S. by more than 10% this year. Compared to the 2008-2010 timeframe, U.S. imports dropped to under 3 billion pounds, figures that had not been seen since the 1990s. U.S. imports in 2018 and 2017 were also below 3 billion pounds.

So far this year, there have been signs of adjustment to cow-beef supply. January through July, FI cow slaughter was 3.4% above 2018's. Imports, year to date are up 1.1% (January through July), but July showed a significant drop from a year ago. U.S. beef import tonnage declined by 28.4 million pounds year-over-year, a significant percentage drop of 9.6%.

Cull cow prices have begun to respond, begrudgingly. Over the last 5 weeks, national prices have shown month over month gains. Imports are likely to be a key factor affecting further appreciation in cull cow values moving forward.

U.S. MEAT & POULTRY EXPORT UPDATE

Beef and lamb export tonnage struggled in July, with shipments slipping compared to 2018's by 2% for beef and by 78% for lamb. July's meat trade data converted to a carcass weight by USDA ERS was released on September 5th, showing that key beef markets that had been sources of strength last year faltered in July. Japan and Vietnam were down from a year ago by 9% and 17%, respectively. U.S. beef sales to Canada continued to struggle and were 15% below a year ago while South Korean volumes were up 7%.

Pork, broiler, and turkey meat exports were very robust in July. Pork export tonnage jumped 27% above a year ago, driven by very large shipments to China (+480%), Canada (+12%), and Mexico (+18%). China was the second-largest market for U.S. pork in July, topped by Mexico. Broiler exports were up 4% this month, showing a substantial increase to Caribbean countries, which added 41 million pounds to last year's purchases. Mexico bought 16% more broiler (young chicken) items reaching 138 million pounds (carcass weight), and the second-highest monthly value since 2014. Turkey exports climbed 5% over a year ago on the back of 5% higher shipments to Mexico and strong gains outside the U.S. top 4 destinations, which were up 19%.

Imported lamb is a much bigger component of the lamb market than are exports. Interestingly, lamb imports have been down significantly in June (-15%) and during July (-23%). Australia and New Zealand both contributed to the large declines in imported products. Those following the lamb market have seen the rapid rise in shoulder prices this year and rather large gains in slaughter lamb prices relative to a year ago.