



December 2016 – Livestock Market Update

Public Policy Department Budget & Economic Analysis Team

2017: A Year in Transition

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December has been busy for livestock markets. Several major announcements capped off the year in both the policy and market arenas. Next year will undoubtedly be one of transition. Some transitions have been on the horizon and are wrapped in uncertainty such as a new administration taking office. Others are still to come, but are fairly known such as the veterinary feed directive that will go into effect January 1, 2017. These will ultimately change how many livestock producers conduct business. Three noteworthy announcements came in the last three weeks of this year that will also add to a changing business landscape:

1. The Federal Reserve increased interest rates for the first time in 2016 by 0.25%, reflecting confidence in the U.S. economy. The Fed also released a new GDP forecast raising projections for 2016 and 2017 growth to 1.9% and 2.1%, respectively.
2. The long awaited GIPSA rule, coined “Farmer Fair Practice Rules”, was released revising legislation from 2010 and further clarifying actions that would violate Packers and Stockyards Act.
3. Seven major reports for the livestock sector were released last week from USDA-NASS, including Quarterly Hogs and Pigs, Cattle on Feed, Chicken and Eggs, Cold Storage, Livestock Slaughter, Poultry Slaughter and Milk Production.

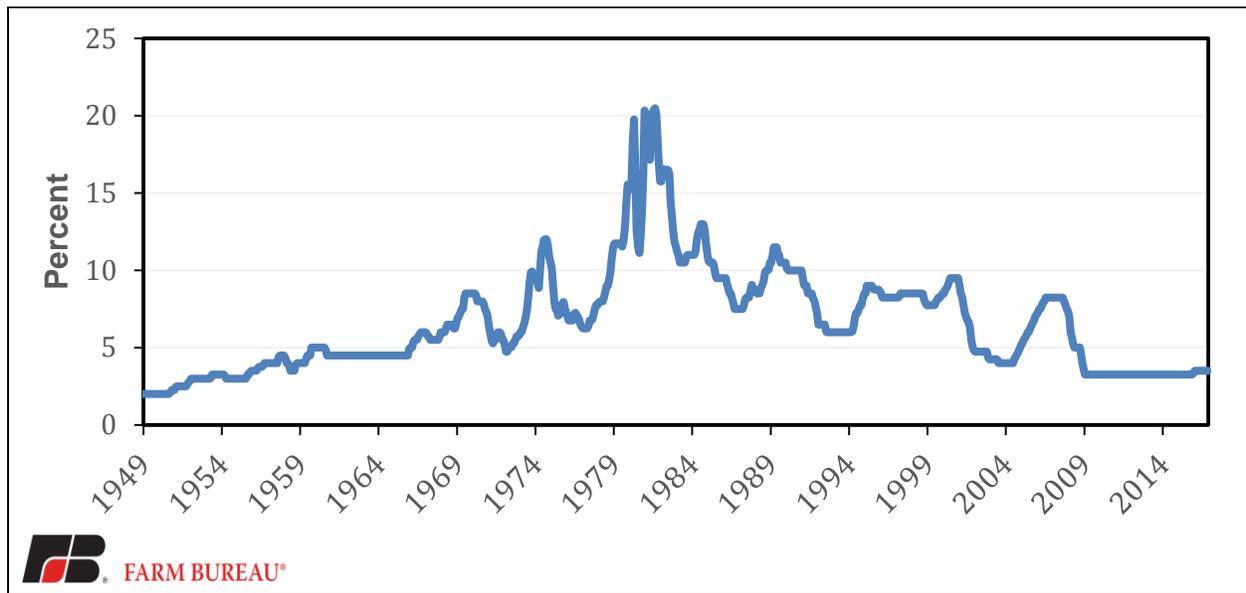
Fed Finds Strength in U.S. Economy

The increase in interest rates was expected and raises the federal funds rate, the rate at which banks can loan money from each other, by 0.25%. The Federal Open Market Committee cited solid job growth and a smaller unemployment rate in recent months leading the committee to believe the economy has continued to strengthen. Inflation has also increased and is expected to rise to the Fed’s target of 2%. **For folks in the country**, this should contribute to higher savings rates, and higher loan rates. However, interest rates are still historically low, see Figure 1.

It may be tempting to look at this announcement as a negative, after all the price of money just increased. For those looking to expand or borrow money, it’s a little more expensive. But remember why we’re here. The Fed has only made this move based on stronger economic growth, higher job numbers and indication inflation is creeping back into the system. Growth in the economy could benefit producers in a much larger way by increasing consumption and offsetting the negative impact of raising interest rates. A stronger economy indicates consumers will spend more. This includes dining out more often and spending more at the grocery store in the form of more expensive cuts and/or greater volumes, pointing to hopefully a boost in domestic demand.

Figure 1: Prime Bank Loan Rate

Source: St. Louis Federal Reserve



The Ghost of GIPSA Past

Farmer Fair Practice Rules caused a stir among the livestock groups. One interim final and two proposed rules were announced in the Federal Register on December 20, 2016. The rule left out many of the controversial issues from the 2010 proposed rule and addresses several issues that are poultry specific such as tournament systems. Farm Bureau issued a [statement](#) supporting changes that address issues in the poultry industry. It's important to recognize these rules are not final. Time will tell if these rules move forward, and if any changes are made before implementation.

The interim final rule defines with the scope of Packers and Stockyards Act (P&S) and clarifies conduct or actions that may violate P&S, while strengthening GIPSA's position that farmer's do not need to prove harm to the industry as a whole. The two proposed rules: **"Unfair Practices and Undue Preferences in Violation of the Packers and Stockyards Act"** and **"Poultry Grower Ranking Systems"** address the criteria of which violations will be evaluated and characterize unfair practices specifically associated with poultry ranking systems, i.e. tournaments. Farmer Fair Practice Rules to allow for justification from businesses for acts that would otherwise be considered a violation if they can prove it was for a legitimate business decision.

The two proposed rules did estimate market impacts on supply and demand for poultry, hogs, and cattle and concluded that prices will likely rise as a result of this rule. However, the study concluded that the market impacts would not be significantly different from zero based on the size of the industry. Costs associated with the new GIPSA rule are direct costs related to litigation and administrative costs. American Farm Bureau Federation staff is working in collaboration with states on comments for an interim final and two proposed rules at this time.

December Reports Set the Stage for the New Year

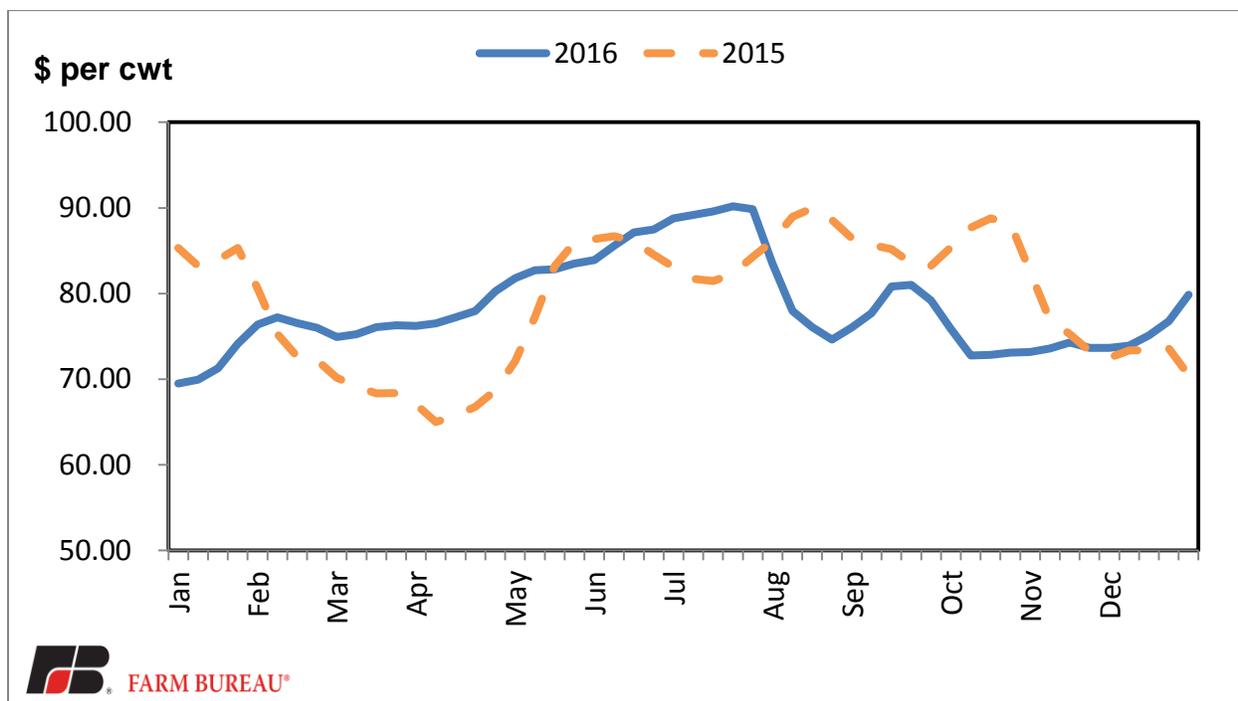
Possibly the largest surprises all year, the [Quarterly Hogs and Pigs](#) report did not disappoint. Very large increases in market hogs across all weight groups were stated to be 4% higher compared to last year. Farrowing intentions were a bit of a surprise. Sep-Nov intentions from the two previous reports showed a decrease compared to year over year numbers, and the actual came in up 3.9%.

Gains in pigs per litter and higher numbers of sows farrowing bumped the Sep-Nov pig crop to 4.8% larger than last year.

Earlier this year the Livestock Update highlighted the slaughter capacity issues that might arise from large market hog numbers. The industry was able to manage through this fall without a price collapse and at the time of this writing, the futures market has not declined significantly on the rather large hog numbers that will come to market as a result of the Sep-Nov pig crop. Part of this is due to the increase in slaughter capacity expected for next year. The second is there is some strength building on the demand side. Pork cutout values have increased since Thanksgiving, as shown on Figure 2. On a weekly basis, pork cutout climbed to 13% above a year ago on weekending December 23rd. Ham and Picnic primal cuts have shown the greatest strength both increasing in double digit percentage values over 2015 since the November.

Figure 2: Weekly National FOB Pork Cutout

Source: USDA-AMS, LMIC



[Cattle on Feed](#) also put up some impressive numbers in December. November placements and marketings were up 15% and 17% compared to last year. Marketings are affected by the number of slaughter days, which November 2016 had an additional day compared to 2015, but this is still a large number. What is more interesting is the placement number of feeder cattle. Two important factors at play:

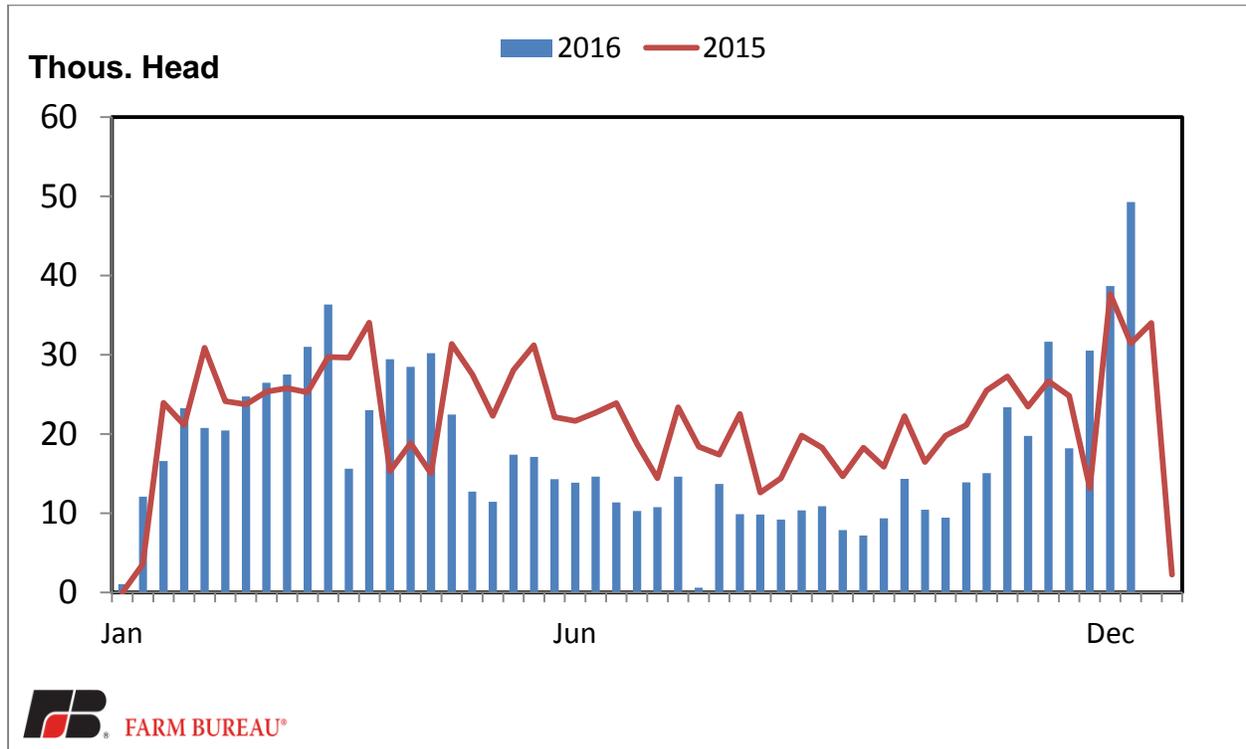
First, many producers calving this fall held back calves based on market conditions and opted to put more weight on them this winter. The recent uptick in feeder cattle prices likely triggered a few sales of those animals into feedlots. This is evident in the increases in heavier weight placements. Cumulatively, placements 600lbs and above were up 21%, while less than 600lbs were even with a year ago. Cattle weighing 700-799lbs saw the greatest increase in the number of head, up 37%.

Second is the recent influx of feeder cattle imported from Mexico. Feeder cattle imports from Mexico have been down almost all year. Year to date through November and December imports were down 20-25% compared to 2015. In the last couple of weeks feeder cattle imports have

soared (See Figure 3). November imports were 5% ahead of 2015 and December also has higher volumes. The total number of placements in November was 241 thousand head ahead of last year. Mexican imports are only ahead about 5 thousand head from last year, representing a very small proportion of those placements.

Figure 3: Weekly Live Cattle Imports from Mexico

Source: USDA-AMS, LMIC



[Milk production](#) continued to gain. September through October registered over 2% gains year over year. Monthly figures have averaged 1.8% above year ago, trending slightly higher than the 20-year long term average of 1.5% increase. Herd size also grew, adding another 4,000 head and remaining above 2008 figures. Much of the increase in milk production is attributed to increases in herd size, which is averaging 12,000 head above 2015. However, milk per cow has seen some strong gains too, up 1.7% above last year, edging the long term (20-year) trend of 1.6%.

Those additional pounds of milk will reap the benefits late in the fourth quarter, as the dairy price complex has moved higher. Cheese, butter, nonfat dry milk powder, and dry whey have all increased and are going to finish this year strong.