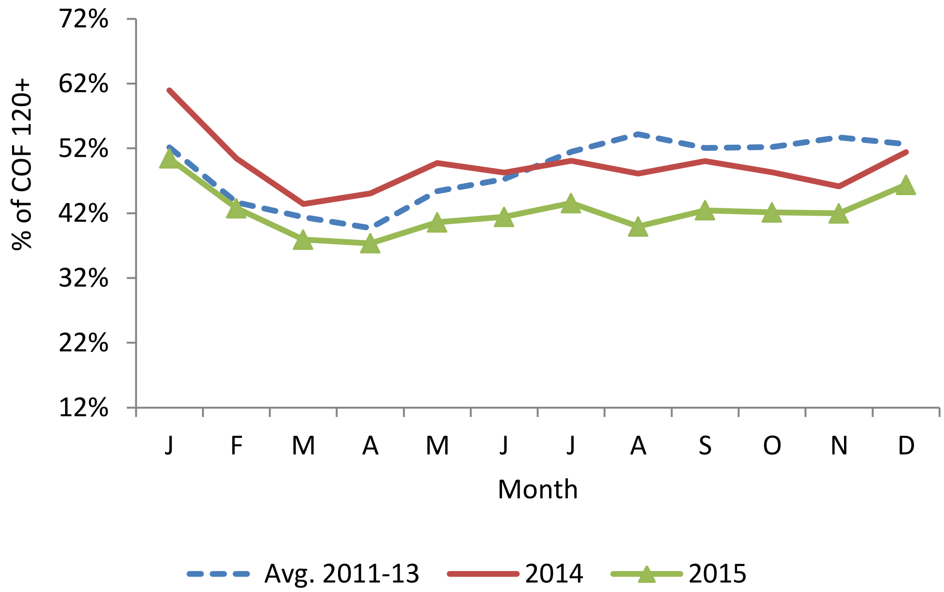
January 2016 – Livestock Market Update
Public Policy Department
Budget & Economic Analysis Team

Cattle on Feed Shows Marketings Still Slow

Last week's Cattle on Feed report was kind of a disappointment for a market that was hoping for some positive fundamental news to turn around what has been a really challenging market. There was at least one real surprise in the report and it was the bad kind of surprise: placements in December were down less than one percent from a year ago—considerably higher than expected. Compounding the negative tone of the report, marketings were less aggressive than the pre-report estimates had hoped—up 1.1 percent compared to the prior year.

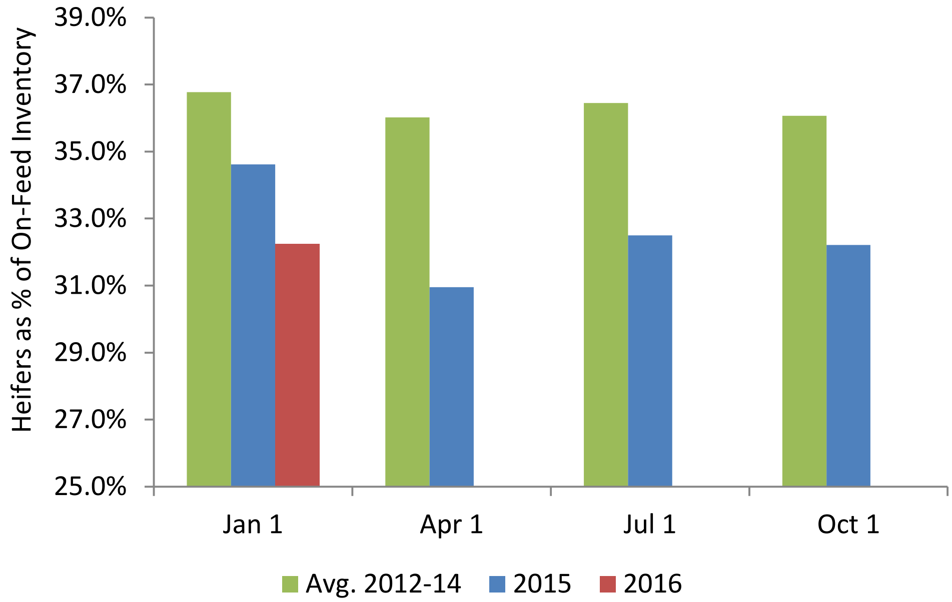
Marketings appear to have remained more sluggish than would be desired given the available front-end supplies of fed cattle. Figure 1 shows monthly marketings as a percent of the estimated inventory of cattle with more than 120 days on feed.



Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center
Figure 1. Fed Cattle Marketings as a Percent of Inventory with 120+ Days on Feed

By this measure, the pace of marketings remains below historic norms, though the gap did at least narrow slightly in the last couple of months of the year. Live Cattle futures seem to have largely shrugged off the report, with the nearby contract closing modestly lower on Monday following the report, but gaining that loss back (and then some) on Tuesday. Looking ahead, though, the fundamental picture on the supply side of the market doesn't appear to be much altered by the report.

Looking further ahead, the COF report provides evidence of continued herd expansion. This report included the quarterly breakdown of on-feed inventory by class. The January 1 on-feed inventory included 3.41 million heifers. Heifers thus accounted for just a bit over 32 percent of the inventory of cattle on feed. This is the lowest percentage of heifers in the January 1 inventory since this COF series began in 1996. Figure 2 shows the quarterly percentage of heifers in the on-feed inventory for this year, last year, and the 2012-14 average.



Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center

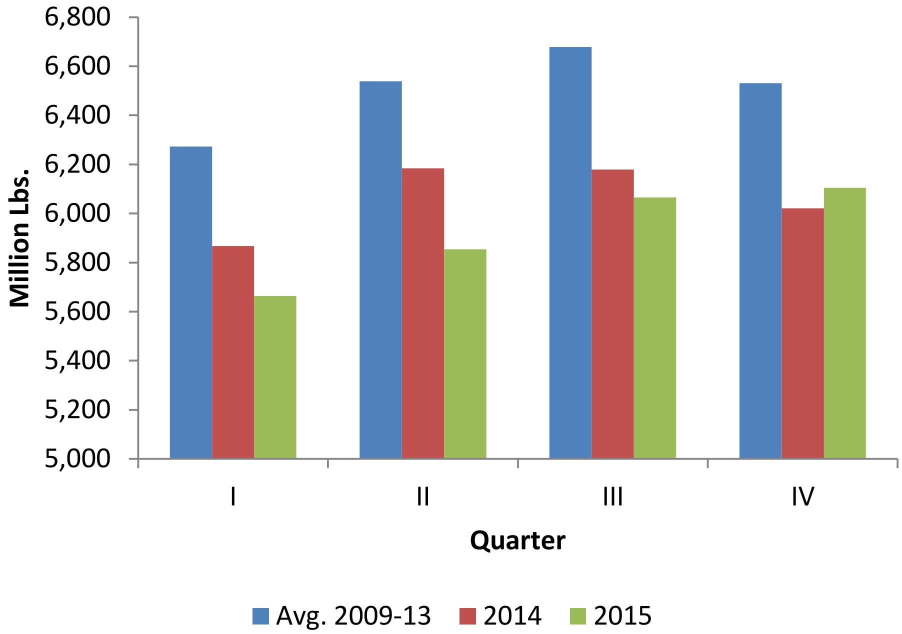
Figure 2. Heifers and Heifer Calves as a Percent of Cattle on Feed Inventory

These numbers suggest that ranchers are still diverting heifers back into the breeding herd as rebuilding continues. We will get a clearer picture of the extent of herd rebuilding in the annual Cattle report that comes out on the last business day of this month.

Summary of 2015 Beef and Pork Production

Red meat production finished 2015 on a high note. Obviously, that's not as positive as it sounds: supply pressure (i.e., large production) was the principal cause of the catastrophic fourth quarter cattle market. It is worth taking a moment to point out a couple of historic highlights from 2015's beef and pork production numbers.

First of all, fourth quarter beef production was really large relative to the first three quarters of the year. Typically, due to large summer production, the third quarter of the year will see the largest production of beef, with production tailing off in the fourth quarter due to seasonally lower November and December production. This year, beef production increased steadily throughout the entire year. Figure 3 shows quarterly beef production for 2015 compared to the prior year and the 2009-13 five-year average. In this figure, the five-year average captures the normal seasonal pattern of production pretty well.

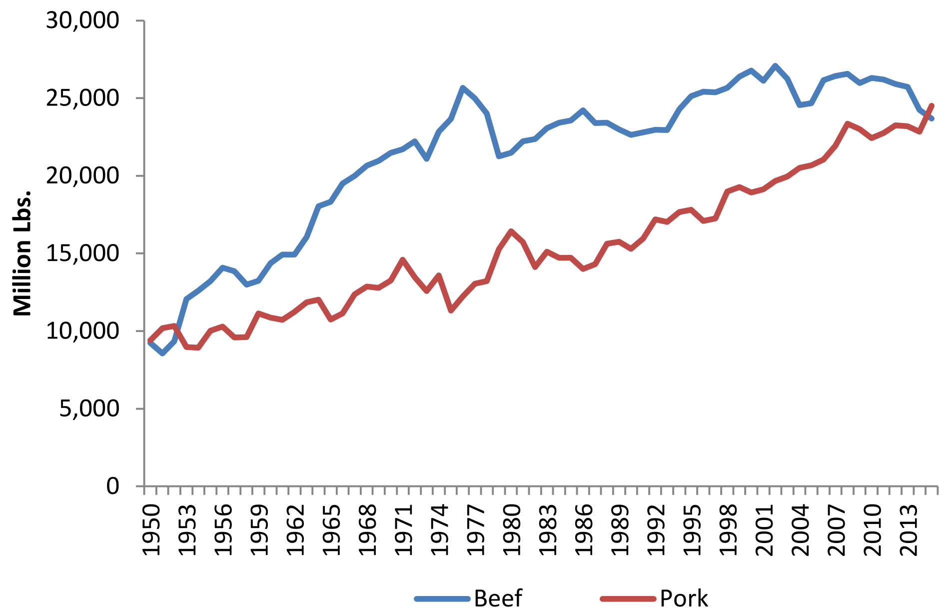


Data Source: USDA National Agricultural Statistics Service
Figure 3. Quarterly Commercial Beef Production

Fourth quarter beef production was up by 1.4 percent from the prior year. This is the largest year-over-year increase in quarterly beef production since 2011.Q1. In historic context, the increase in fourth quarter beef production was big and it was strongly counter-seasonal. This is not mean to imply that the violent market response to the supply pressure was fully justified, but it does help clarify the point that the supply pressure was real.

Before leaving the topic of annual red meat production, a note on 2015 pork production is in order. Fourth quarter commercial pork production was large. There is nothing counter-seasonal about that—Q4 is always a big quarter for pork production. But this year was really big: 6,456 million pounds, a record level of quarterly production and a 5.3 percent year-over-year increase. Hog weights have actually been down a touch this year, in general, so the increase in production is a function of higher slaughter volumes. The last Livestock Slaughter report for 2015 showed that the number of hogs slaughtered commercially in 2015 was eight percent from the prior year. Of most interest, for December 2015, the number of hogs slaughtered in that single month was up five percent year-over-year, hitting 10.4 million head. How much can that number grow before current capacity constraints (which probably won't change much until mid-2017 or so) become painfully binding? That is a question that we will likely hear with increasing frequency as 2016 rolls along.

One final point that is probably less important than the preceding one in terms of current market strategies, but that is definitely of historic significance: for the full year, 2015 pork production exceeded beef production. To get a sense of the historic character of this switch in production rankings, take a look at Figure 4 below:



Data Source: USDA National Agricultural Statistics Service

Figure 4. Annual Commercial Beef and Pork Production: 1950 – 2015

The last time annual pork production exceeded beef production was 1952. Outside of a couple of generally short downturns in the early 1970s and early 1980s, pork production has steadily increased over the period shown on the chart. By contrast, beef production rose dramatically through the mid-1970s, but has since been generally pretty flat, perhaps actually trending lower since the early 2000s. Following those diverging paths, beef and pork production have, at long last, once again converged. Right now, it looks like good odds that pork production will exceed beef production again in 2016. If anything like the trends of the past ten years or so hold, pork may keep the number 2 spot (don't forget chicken!) for a while.

It's That Time of Year Again!

Speaking of chicken, it has become something of an annual ritual that I take time in this January newsletter to reassure a worried public that we will, in fact, have sufficient supplies of chicken wings to see us through the annual bacchanalia that is Super Bowl Sunday. I don't know when chicken wings became essential Super Bowl fare—sometime during the Troy Aikman administration, I believe—but essential they are. With this in mind, I am happy to report that chicken wings are available in abundance. Last week's Cold Storage report showed frozen stocks of chicken wings to be 34 percent larger than a year ago. So far, prices look to be about the same as a year ago, suggesting that demand is very good. Last year, for the week ending on January 30, individually quick frozen (IQF) party wings were featured by 2,028 retail outlets at an average feature price of $2.81. This year, for the week ending January 22, IQF party wings were featured by 1,991 retail outlets at an average feature price of $2.81. The Big Game falls a week later on the calendar this year, so we'll see what retailers do this week and next. The key point, though, is that wings are available and prices are steady so there is no need to resort to violence or underhanded scheming to get what you want. That only works for the Patriots (and not even for them this year—**GO BRONCOS!**).

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