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

Cattle on Feed Highlights

Last Friday, USDA released the April Cattle on Feed (COF) report. The report showed a slight year-over-year increase in the April 1 on-feed inventory along with more substantial year-over-year increases in March placements and marketings. Key numbers from the report are summarized in Table 1:

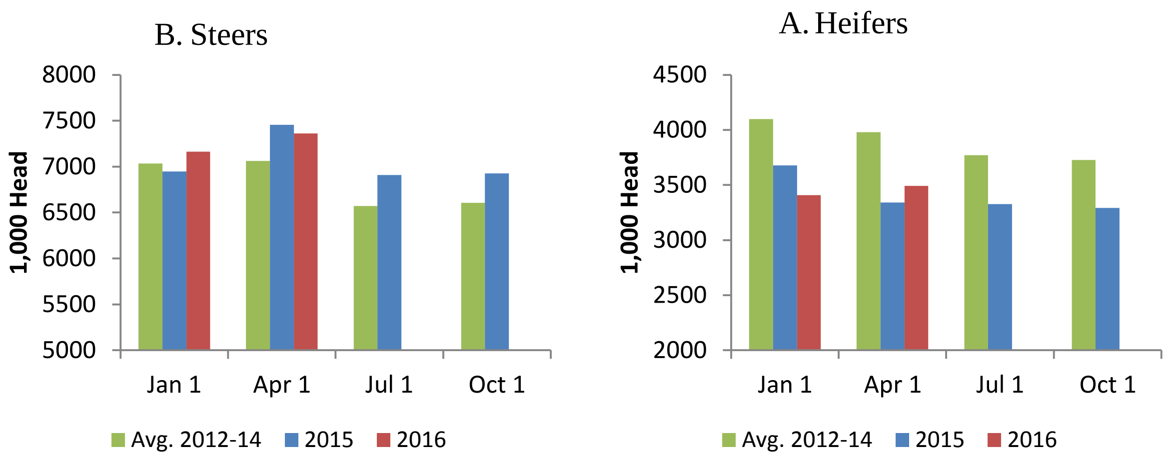
Table 1. Summary of April Cattle on Feed Report

	Number (1,000 head)	Percent of 2015
Placed during March	1,892	104.6%
Marketed during March	1,747	107.1%
On Feed April 1	10,853	100.5%

There weren't any real fireworks in the on-feed report this month. The headline numbers were basically in line with pre-report estimates. The increases in placements and marketings were largely anticipated and actually mostly reflect the fact that this March included one more business day than last March. Placements were a bit to the low side of the average pre-report, so it's not too much of a stretch to say the report was slightly bullish, but there were no major shocks in the report.

Perhaps the most interesting thing in this month's COF was the quarterly break down of the on-feed inventory by class. That portion of the report showed that of the 10.853 million head of cattle on feed as of the first of April, 7.361 million head were steers and 3.492 million were heifers. That is a 4.5 percent year-over-year increase in the number of heifers on feed; the first annual increase in the on-feed inventory of heifers since July 2012. Figure 1 shows the quarterly heifer and steer inventories for the last two years as well as the 2011-14 average.

Figure 1. Quarterly On-Feed Inventories of Steers (panel A) and Heifers (panel B)



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

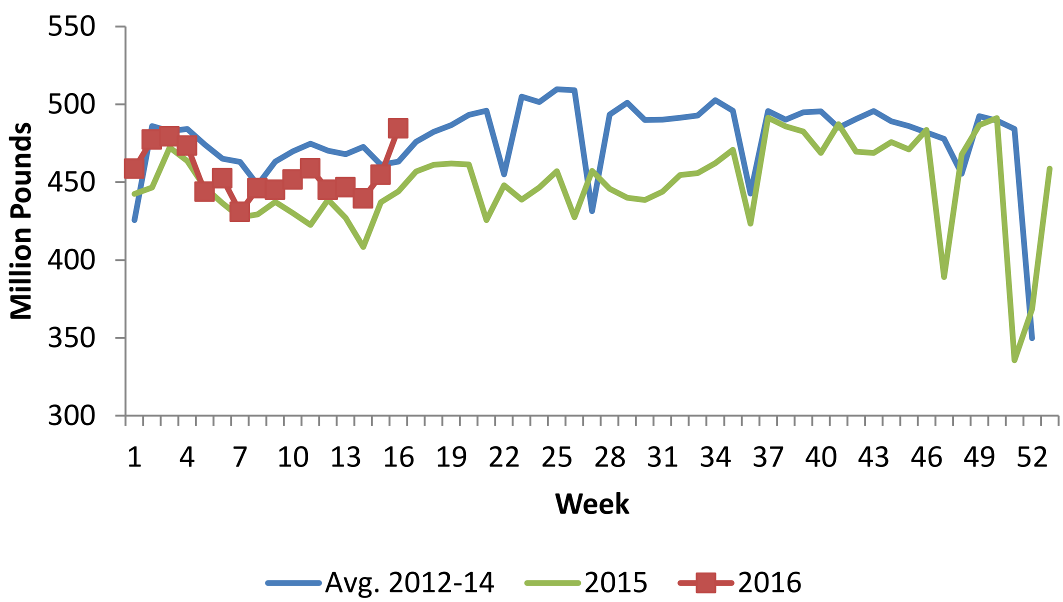
As Figure 1 illustrates, the slight increase in the on-feed inventory in this month's report was due to the increase in heifer inventory; the inventory of steers on feed was actually down from a year ago.

The higher inventory of heifers on feed does not mean that beef herd expansion is at an end. It probably does mean, however, that the pace of expansion has slowed from what really did seem to be a pretty aggressive pace in the last couple of annual cattle inventory reports. Cow slaughter figures so far this year also are suggesting a slowing, but definitely ongoing, expansion. Through the first full week of April, beef cow slaughter is up a little more than 1.5 percent from the same period a year ago. However, to this point in the year, cow slaughter is on pace to amount to just 7.9 percent of the January 1 beef cow inventory—a level that is certainly consistent with further herd expansion. Of course, it is still early in the year and a lot of things will influence the pace of cow slaughter for the rest of year. For example, a return of drought conditions in key production areas could force a return to liquidation; that has happened plenty of times in the past. For now expansion appears to be ongoing, though not quite as rapidly as last year.

Beef Production on the Move

Over the last few weeks, beef production has surged far above last year's levels. This move is especially notable in the federally inspected (FI) slaughter data for last week. Last week (week ending April 23), FI beef production amounted to 484.5 million pounds. This is an increase of 9.1 percent from the same week a year ago. For each of the preceding three weeks, beef production was up by around 7 percent from the prior year.

Figure 2. Weekly Federally Inspected Beef Production



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

In fact, as the figure above shows, last week's beef production was even back above the 2012-14 average.

Most of the increase in production was due to a surge in the number of head processed. For the week ending April 23, FI cattle slaughter amounted to 587 thousand head. To put that into perspective, that is the largest weekly cattle slaughter since the week ending Sept. 13, 2014. The class break-down on weekly slaughter lags the aggregate number by a couple of weeks, so we don't know yet if this surge in cattle slaughter represents a change in the beef cow slaughter story (i.e., only a slight increase from last year). I suspect not, though. For the last several weeks, steer slaughter has been running well above last year and last week's increase is likely a continuation of that.

The higher beef production also reflects some continued increase in slaughter weights. Last week's average dressed weight worked out to 827 pounds—15 pounds heavier than the same week a year ago.

With respect to other meats, last week's pork production was up by about 3.5 percent, the first year-over-year increase in about two months. Poultry production has consistently run about three percent about last year all year so far.

It will be interesting to see how wholesale prices respond to increasing production (if, in fact, the increases we saw last week persist). The last several days have been a bit of a mixed bag with the boxed beef cutout value edging lower while the pork cutout has edged higher.

Retail Meat Prices and Demand

USDA has recently released monthly average retail meat prices for March based on data from the Bureau of Labor and Statistics. This means that complete first quarter data (preliminary at least) to calculate real meat expenditures (a pretty good proxy for demand) for the first quarter of the year is now available.

With respect to prices, average monthly retail prices in March increased from the prior month for all three of the major species. This was the second consecutive monthly price increase for beef. For pork, it was the first month-to-month retail price increase since last October; and for chicken, the first since last November. Retail prices for all three species remain below year ago levels, however. Table 2 summarizes the monthly retail price data.

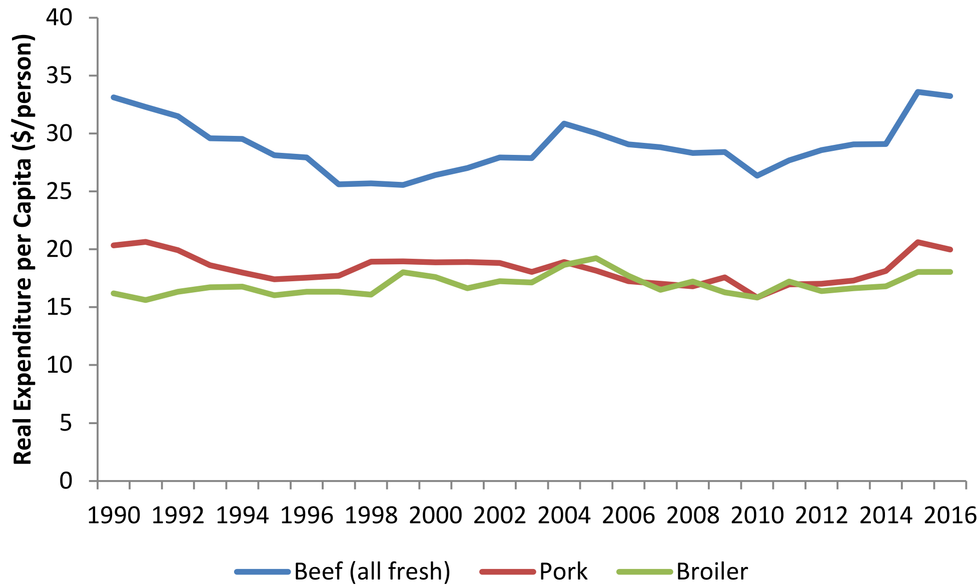
Table 2. Monthly Average Retail Meat Price (cents / lb.)

				March 2016 as % of	
	Mar. 2015	Feb. 2016	Mar. 2016	Mar. 2015	Feb. 2016
Beef, Choice	630.9	598.6	622.3	98.6	104.0
Beef, All Fresh	606.1	578.9	585.9	96.7	101.2
Pork	387.4	373.8	376.0	97.1	100.6
Chicken	198.7	187.4	188.7	95.0	100.7

Data Source: USDA Economic Research Service

Combining quarterly price data with quarterly per capita consumption estimates from the most recent USDA Economic Research Service's Livestock, Dairy, and Poultry Outlook report and quarterly Consumer Price Index (CPI) data, it is possible to calculate real per capita meat expenditures for the first quarter of 2016. Figure 3 shows first quarter real per capita expenditures for beef (all fresh), pork, and chicken for 1990 through 2016.

Figure 3. Real per Capita Expenditures on Meat: First Quarter, 1990 – 2016



Data Source: USDA Economic Research Service, Bureau of Labor Statistics, Livestock Marketing Information Center

For beef and pork, it appears that real per capita expenditures took a small year-over-year dip in the first quarter. For both of these, first quarter per capita expenditures had been growing since 2010. Chicken per capita expenditures in the first quarter were virtually flat between 2015 and 2016.

These per capita expenditure figures suggest a slight softening of demand—certainly a slowdown in recent demand growth. For beef and pork, expectations are that exports will begin to get back on track in 2016, with current forecasts from USDA projecting pork exports at their highest level since 2012. If domestic demand is slowing down while production is increasing, improving export prospects will be increasingly important to both of these markets.

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Has Global Demand Let Us Down?

Remember a few years ago when all folks could talk about was that by 2050 the world's population was going to increase by 35 percent to 9.5 billion people? To feed that population, we talked about how crop production would need to double.

It remains true that we're going to need more production for more people; we're having different conversations today than we were back in 2012 and 2013. So much so that the other day I overheard someone say, "So much for all that extra demand that was predicted. They told us to plant for 9.5 billion people and now look at where we're at." It was an interesting statement that reflects a lot of frustration and unease caused by our current low price environment, and it deserves a discussion. Has global demand let us down?

As part of the WASDE process, USDA FAS publishes monthly circulars on global markets and trade. Some commodities like grains and oilseeds have monthly reports, others like coffee, sugar, livestock and fresh deciduous fruit, among others are published quarterly or annually. They're a great resource for a deeper dive into individual commodities, with more narrative that tends to focus on longer term trends. This month's grain report pointed out that since 2006/07, combined imports of wheat and corn by Southeast Asian countries more than doubled. The numbers cited in this article come from the grain and oilseeds reports.

It doesn't take very long of looking at these reports to fully appreciate that we're currently suffering from a supply problem, not a demand problem. Compared to two years ago, (back when were still talking about feeding 9.5 billion) global consumption is up: 18.2 million metric tons for wheat, 4.3 million metric tons of rice, 36.7 million metric tons of corn and 36.4 million metric tons of soybeans. That's equivalent to a compound annual growth rate of 1.14 percent for wheat, 0.45 percent for rice, 1.93 percent for corn and 7.28 percent for soybeans. It seems global demand is pretty strong and doing its part.

What we've got on our hands is a supply problem. The weather over the last few years has led to pretty favorable growing conditions for most parts of the U.S. This has also been true for the bulk of the rest of the world. The result is supply growth that is outpacing demand, leading to significant increases in global ending stocks. Global stocks are 23 percent, 19 percent and 28 percent higher for wheat, corn and soybeans, respectively, than they were just two years ago.

In order to reach the goal of doubling 2013 production by 2050, we need to achieve a compound annual growth 1.89 percent. Today the world is beating that measure by a significant margin. At some point, a significant global producer will run into weather problems and production and use will fall back into alignment. In the meantime we need to keep nurturing our relationships with our global customers; they're still one of the most consistent growth opportunities that we've got.

World Supply and Distribution					
Million Metric Tons					
Wheat					
	2013/14	2014/15	2015/16	Change 14/15 from 13/14	Change 15/16 from 14/15
Production	714.9	725.4	733.1	1.5%	1.1%
Consumption	690.3	699.3	706.1	1.3%	1.0%
Ending Stocks	193.9	214.8	239.3	10.8%	11.4%
Imports	160.3	158.4	160.0	-1.2%	1.0%
Exports	162.4	161.4	162.5	-0.6%	0.7%
Corn					
	2013/14	2014/15	2015/16	Change 13/14 to 14/15	Change 14/15 to 15/16
Production	990.5	1012.8	972.1	2.3%	-4.0%
Consumption	941.7	962.1	978.4	2.2%	1.7%
Ending Stocks	175	207.6	208.9	18.6%	0.6%
Imports	125.1	122	129	-2.5%	5.7%
Exports	130.4	128	133.8	-1.8%	4.5%
Soybeans					
	2013/14	2014/15	2015/16	Change 13/14 to 14/15	Change 14/15 to 15/16
Production	282.6	319.5	320.2	13.1%	0.2%
Crush	241.3	262.1	277.7	8.6%	5.9%
Ending Stocks	61.8	77.7	79.0	25.8%	1.7%
Imports	111.9	122.1	129.8	9.1%	6.4%
Exports	112.7	126.0	132.4	11.8%	5.1%
Rice					
	2013/14	2014/15	2015/16	Change 13/14 to 14/15	Change 14/15 to 15/16
Production	478.4	478.8	470.6	0.1%	-1.7%
Consumption	477.8	479.6	482.1	0.4%	0.5%
Ending Stocks	107.4	103.6	90.2	-3.5%	-12.9%
Imports	41.1	39.4	39.9	-4.1%	1.3%
Exports	44.1	42.7	41.7	-3.2%	-2.3%
Source: USDA Grain: World Markets and Trade; Oilseeds: World Markets and Trade					

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