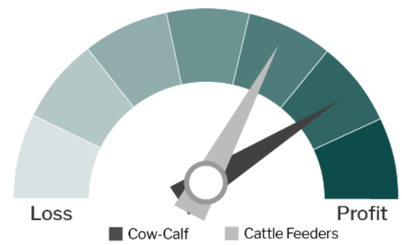
MARKET SNAPSHOT

Cattle

January 24, 2024

Executive summary

12-Month Profitability Outlook



AgWest Farm Credit's 12-month outlook for cattle suggests profitable returns for cow-calf producers and slightly profitable returns for cattle feeders. Strong calf and feeder cattle prices made 2023 one of the most profitable years for Northwest cattle producers. Despite record retail beef prices, domestic demand has remained robust. Cow-calf producers will likely enjoy record cattle prices and lower production costs in 2024.

Industry drivers

High open rates

Across the Northwest, cattle producers are reporting higher open rates (the cows that did become pregnant during the breeding season), with some areas experiencing open rates as high as 20%. Higher open rates are likely a lingering effect from the drought, which reduced the amount of pasture cattle have available for grazing. This could be attributed to cows that calved late in 2022 who had less time to re-breed in 2023, potentially missing the breeding window to re-breed with a 2024 pregnancy.

Prices end the year on a low

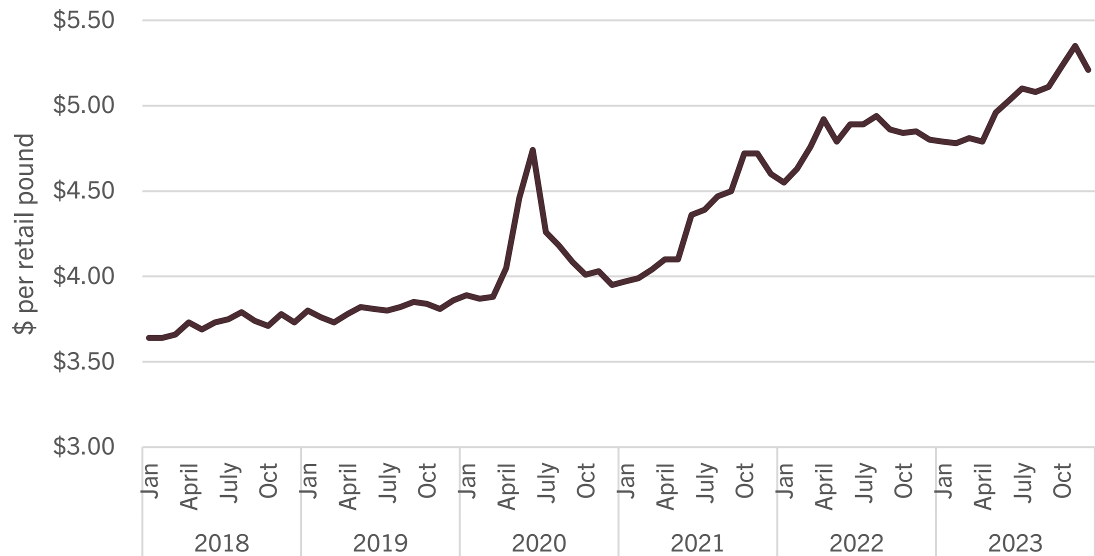
Feeder cattle futures prices steadily climbed higher for the first nine months of 2023, before dropping sharply in the fourth quarter following a bearish October Cattle on Feed report. Feeder futures fell more than $9 per cwt during the month of October, taking some producers by surprise and leaving some analysts to comment that speculators were potentially driving the sharp price declines. However, cattle future prices tend to experience a seasonal decline in the fall when feedlots are full. Fewer cattle were shipped in December, down 7.4% year over year as feedlots were fairly full and fed cattle prices were lower in December. Once feedlots work through their current cattle, lower live cattle prices will lower live-cattle prices will likely be temporary. Producers who can market their cattle in the summer typically benefit from higher prices; 2023 was the second most profitable year in history for the beef industry across all sectors and second highest in terms of calf prices.

Looking ahead to 2024, cattle prices are trending higher. The upcoming USDA Cattle report (released on January 31, 2024) is expected to show another year of a shrinking national herd. Rebuilding is not expected to begin until 2025 at the soonest. Demand for available cattle will benefit producers, supporting strong prices.

Demand a driving concern for beef prices

One of the challenges facing the U.S. beef industry is the price sensitivity of consumers. There is a limit to how much consumers are willing to pay for high-quality beef, especially when prices have increased significantly in recent years. From 2018 to 2020, the average retail price for Choice Beef was around $5.50 to $6.50 per pound, but it rose to over $8.30 by mid-2023. Ground beef prices reached an all-time high of $5.35 per pound in November 2023. The main factors behind rising prices are inflation, supply constraints and lower production. The national cattle herd is at its lowest level since 2015 and will shrink further in 2024, meaning less beef will be available and wholesale prices will likely reach new highs. Demand must hold for retail beef prices to continue increasing. As beef prices rise through 2024, consumers may opt for lower-cost meats. There is some evidence this is already happening.

Ground Beef Retail Value, 2018-2023



Retail beef prices peaked to their highest levels ever during the summer of 2023.

Source: USDA ERS, Compiled by AgWest.

Profitability

AgWest producers should benefit from favorable prices and strong returns over the next two to three years. The national cattle herd is still undergoing contraction and is not expanding fast enough to meet market demand due to continued difficulty with drought and low replacement rates. A tighter beef supply along with robust domestic and export demand has supported strong cattle prices. Cow-calf returns will benefit from lower feed costs and reductions in fuel costs. El Niño should favor areas in the U.S. that have been impacted by drought to promote herd expansion. However, interest rates may hold back herd expansion as they are nearly twice as high as in the previous expansion cycle (2013-2015). A tightening national cattle herd and lower costs will benefit cow-calf operations with 2024 margins forecasted at over $500 per head. If achieved, these would set a record. Until the cattle cycle can rebuild the national herd, cow-calf producers can enjoy strong prices, likely to last through 2025.

For cattle feeders, the year ended on a more somber note with five consecutive weeks of lower prices. Higher cattle prices and an increase of nearly 20% in the cost of finishing a steer have weighed on cattle feeders' and packers' margins. Increased interest and input costs put a strain on cattle feeders' capital and operating lines.

Packers' margins were pressured by strong cattle prices leading packers to reduce slaughter rates. Since these rates slowed in July and August, packers' margins improved, but many will continue to limit slaughter rates to protect their profits. This might be good for the beef industry as some feedlots are struggling to obtain feeder cattle. In the face of high retail prices, strong demand has been a key driver of cattle industry optimism. Should beef demand decline, it could dampen the profits of both cattle feeders and packers. Even with looming concerns of a global slowdown, analysts predict cattle industry profits will remain strong.

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