

# Livestock Outlook

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The livestock sector makes an important contribution to the agricultural economies in the Southern states, often generating a larger share of agricultural receipts than the crop sector. Livestock producers in the South are major parts of the cattle, hog, broiler, and turkey industries (and, of course, also other animal agriculture like catfish and fisheries).

Most of these livestock sectors have experienced record high prices in recent years and unprofitable prices too. Over the last decade, a series of events have triggered adjustments across the livestock industry. The first of these cross-cutting events was the ethanol boom that began in late 2006. Increased demand for corn for ethanol production led to sharply higher corn prices. Soybeans were also affected as the two major commodities competed for acreage. Feed supplies began to grow over the next several years, but were largely set-back by a severe drought in 2012. These increases in feed costs led to financial losses that kicked off a contraction in livestock and meat production. More recently, feed supplies have rebuilt and prices have fallen. Falling feed costs as production catches up with demand will spur increased livestock and meat production.

The second issue in common is total meat production, which directly impacts per capita meat supplies. The year 2014 was a phenomenal year across the board for all meats and all species received a clear expansion signal in the markets. Of course, expansion can occur in poultry and pork markets very quickly and both saw significant production increases during 2015. It wasn't until the following year that beef production saw its first year-over-year increase. Total red meat and poultry production hit a record in 2016 and is projected to continue to grow in coming years. Increased meat production will result in lower prices and stiff competition between sectors. Given the expected increases in meat production, export levels will ultimately determine how large the impact is on per capita meat supplies in the US.

The third cross-cutting issue is trade. United States and Southern livestock agriculture have become increasingly dependent on exports while imports are an important part of the beef industry. Beef exports have grown to over 10% of production. Broiler exports have approached 20% of

production, while pork exports have exceeded 20% of domestic production since 2011.

The fourth cross-cutting issue is the impact of animal diseases. Major disease outbreaks have affected pork and poultry production in the last few years. While these have not directly affected Southern producers in terms of production losses they have had major indirect effects. High Pathogenic Avian Influenza (HPAI) and Porcine Epidemic Diarrhea (PED) have hit the U.S. poultry and pork industries. The most important impacts have been death losses in the case of PED and trade impacts in the case of HPAI.

The remainder of this paper briefly examines the outlook for the cattle, pork, and poultry sectors over the next couple of years. Production, prices, producer returns, future path, and problems are discussed for each sector.

## Cattle

Increasing costs, record drought in the Southern Plains, and conversion of pasture and hay ground to row crops led to the smallest cattle inventory and beef cow numbers in decades in 2014. Beef production hit its lowest level since 1992, at 23.8 billion pounds, in 2015. Calf, feeder, and fed cattle prices hit record highs in the Fall of 2014. Drought recovery coupled with record high calf prices and profits led to the fastest herd expansion since the early 1970s.

Increasing beef production and cattle supplies, greater competition from pork and poultry in the meat case, and decreased export levels have led to falling calf and cattle prices. By the second quarter of 2016, Southern Plains 500-600 pound steer prices had declined 37% from the year before and were at their lowest since 2013. Feeder and fed cattle prices were also their lowest since 2013. Beef production grew by 6.4% in 2016 and is projected to increase by close to 4% in 2017 and 2018. While production grows, cattle and calf prices will continue to decline.

Beef demand has fared well over this decade in the face of record high prices. By some demand index measures, beef demand has been the highest in 25 years. Beef imports surged in 2015 largely due to higher prices, drought in Australia decreasing their production or export levels, and

a strong dollar. Beef exports struggled under high prices, a strong dollar, and some weaknesses in the economies of importing countries.

Cattle producers are facing the pressure of falling prices. While calf prices remain historically high they are declining and drastically squeezing profits at the cow-calf level. The tight cattle supplies and record high calf prices of 2014 and 2015 also led to record high replacement female prices. Producers paid extremely high prices for cows and heifers and the recent declines in calf prices are pressuring producer's ability to pay off high priced breeding stock. Declining prices also has the effect of reducing asset values across the herd. Cow values may be below what is owed on cows for some producers who financed breeding stock during the extremely high priced times. Periods of falling cattle prices have both cash flow and balance sheet (wealth) impacts on cattle producers.

Increasing cattle numbers will shift negotiating power to the buyer side of the equation and allow them to be more selective. It is likely that discounts for poorer quality cattle will grow. Pre-conditioning, management practices, and quality genetics will become more important to limit price discounts for producers in coming years. During 2014 and 2015, it was very difficult not to make money in the beef cattle sector. Over the next couple years, profits will be much lower and many producers will likely be unable to cover all their costs.

## Hogs

About 28% of the nation's breeding hogs are in the South. While largely unscathed, directly, by PEDv the industry has not been unaffected. Unprecedented returns in 2014 were driven by decreasing pork production caused by PEDv. Record high pork prices and returns have triggered industry expansion. PEDv was just the latest event to impact the industry. The hog industry was whipsawed by record feed costs, along with the rest of livestock agriculture.

Pork production dropped to 22.8 billion pounds in 2014, but rebounded 7% to 24.5 billion pounds in 2015. Pork production grew by 1.8% in 2016, and will likely grow another 2.8% in 2017. Hog prices have fallen by more than 30% from their record highs in 2014. But, decreasing

feed costs have kept returns largely profitable in 2016. Increasing production will likely limit any price increases.

One of the most watched upcoming events in the pork industry will be the opening of two new packing plants in 2017. Those new plants will likely provide a boost to hog prices as they compete for market share. Exports will continue to be extremely important for pork and hog prices and economic growth in Asia, coupled with lower price levels, should continue to be supportive to exports.

## Poultry

HPAI had an indirect effect on broiler production through reducing exports. Broiler exports declined by about 14%, or one billion pounds, from 2014 to 2015 and have continued to lag behind 2015. Even though exports have declined, production has continued to grow. In 2016, U.S. broiler production rose by 1.6%.

Production growth has come through the number of birds and bird weights. Growth has come through the investment in new production facilities requiring more new contract producers. It appears that growth will continue into 2017. Events that pressure or reduce production could result in pressure on contract producers.

Record high feed costs over the last decade forced many bankruptcies among broiler companies. Lower feed costs will cushion the blow of lower chicken prices, but events in the feed sector are always a worry as weather patterns can quickly change the feed supply picture. Disease events will continue to be a large concern going forward. Even though an outbreak may not effect a producer or region directly, related trade restrictions would affect the entire industry.

## Summary

Each of our livestock sectors is facing significant challenges. On the cattle side, cyclical expansion of beef production is leading to falling calf prices. Pork production is also increasing, which is leading to lower returns. In combination with increasing poultry production, total meat production will hit a new record high in 2017. Total meat supplies will pressure all meat and livestock prices lower in 2017. Exports will be a key for prices in 2017 and 2018.