
**U.S. Beef Cattle Market and Economic Outlook**

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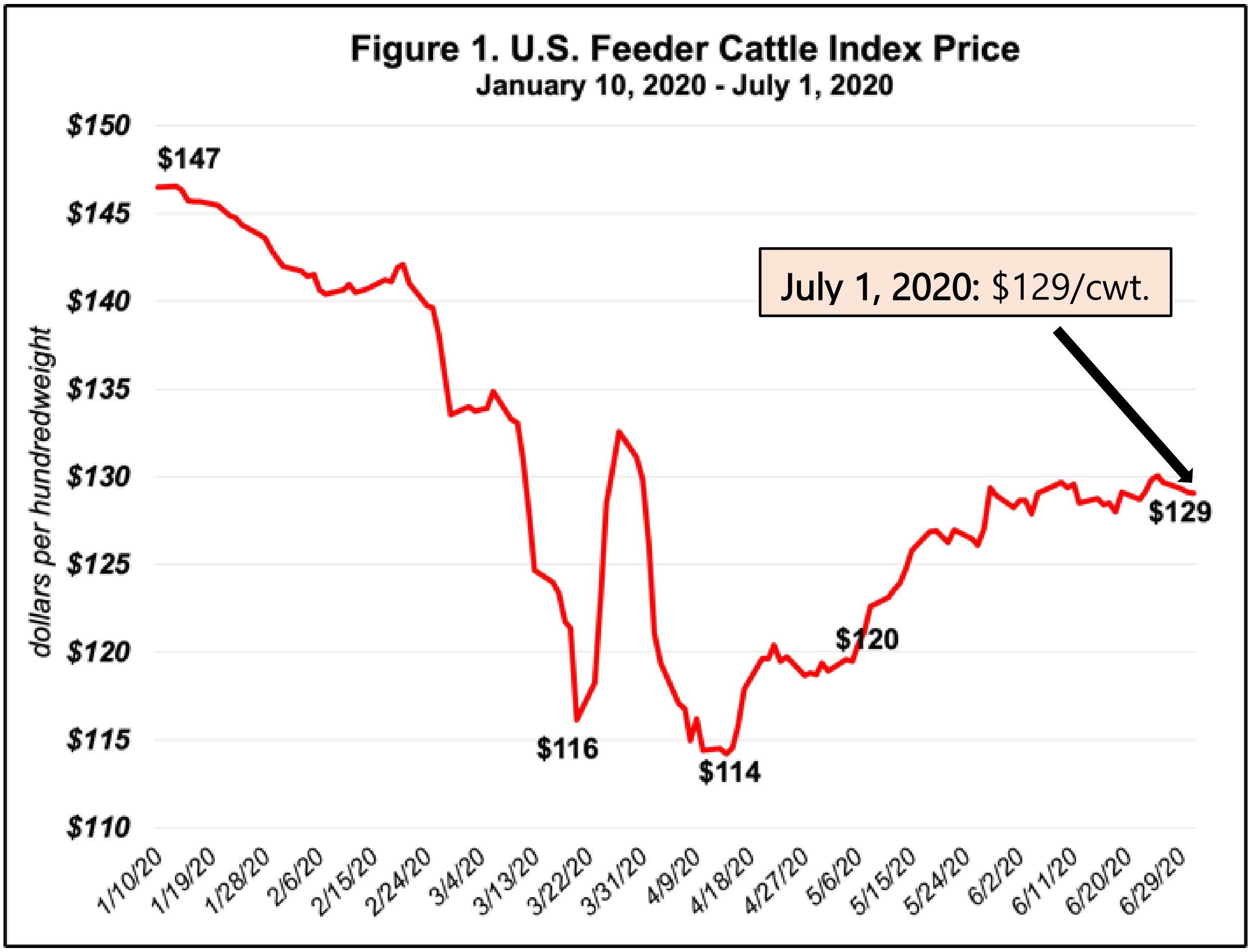
The last several months have been exceptionally stressful for all participants in the U.S. cattle industry due to the outbreak of COVID-19 (coronavirus) in China and its resulting spread throughout the world. The unknowns of this health crisis have resulted in extreme volatility in U.S. cattle markets. The entire U.S. cattle and beef supply chain has been impacted by COVID-19.

In late 2019 and early 2020, many forecasts were projecting higher U.S. cattle prices during 2020 relative to 2019. A combination of many factors (a plateauing U.S. cattle inventory, low corn prices, low U.S. unemployment, strong domestic and export beef demand, new trade agreements, etc.) supported the potential for higher U.S. cattle and beef prices. The improvement in cattle prices was well documented by Chicago Mercantile Exchange Live Cattle and Feeder Cattle Futures Contracts, USDA Agricultural Marketing Service, CattleFax, and Livestock Market Information Center's (LMIC) price forecasts.

The U.S. Feeder Cattle Index Price is provided by the USDA's Agricultural Marketing Service and make up actual sales of feeder cattle via auctions, direct trade, video sales, as well as internet sales within the 12-state region of Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming. These prices are a computed 7-day weighted average price and provides a proxy for the current U.S. feeder cattle cash market based on an 800-pound feeder steer. Figure 1 shows the substantial decline and significant volatility of the U.S. Feeder Cattle Index Price from January 10th to July 1st.




During the first half of 2020, the lowest U.S. Feeder Cattle Index Price occurred on April 14th. On that date, feeder cattle prices for an 800-pound feeder steer had declined by $33 per hundredweight or $264 per head from January 10th, when the crisis began impacting U.S. Beef Exports. For a load of 60 head of 800-pound feeder steers, that amounts to a decline of $15,840 per truckload unit. Since April 14th, U.S. Feeder Cattle Index Prices has improved by $15 per hundredweight or $120 per head. For a load of 60 head of 800-pound feeder steers, that amounts to an improvement of $7,200 per truckload unit. If evaluating the change from January 10th to present (July 1st), feeder cattle prices for an 800-pound feeder steer have declined $18 per hundredweight or $144 per head. For a load of 60 head of 800-pound feeder steers, that amounts to a decline of $8,640 per truckload.

**What would help Feeder Cattle Prices stabilize or improve?**

Domestic and global beef demand has been excellent the last several years. This was especially important given the huge supplies that were produced from the early expansion years. Today, we are presented with a different challenge as we still have huge supplies of beef in the U.S. but consumers (domestically and globally) have reduced discretionary spending habits. Obviously, there are a number of major concerns given the current number of business closings and the severity of unemployment so far in 2020. This will likely make the consumer the driver of prices moving forward. So obviously, in order for feeder cattle prices to see improvements in the shortrun U.S. economic conditions an improvement in consumer income is required. Additionally, where the product (beef) is sold is extremely important. Restaurant re-openings and improvements in seating capacity go a long way in helping to stabilize or improve prices. High-end restaurants are particularly key in order for premiums to exist for producers marketing beef cattle.

**U.S. Economic Conditions**

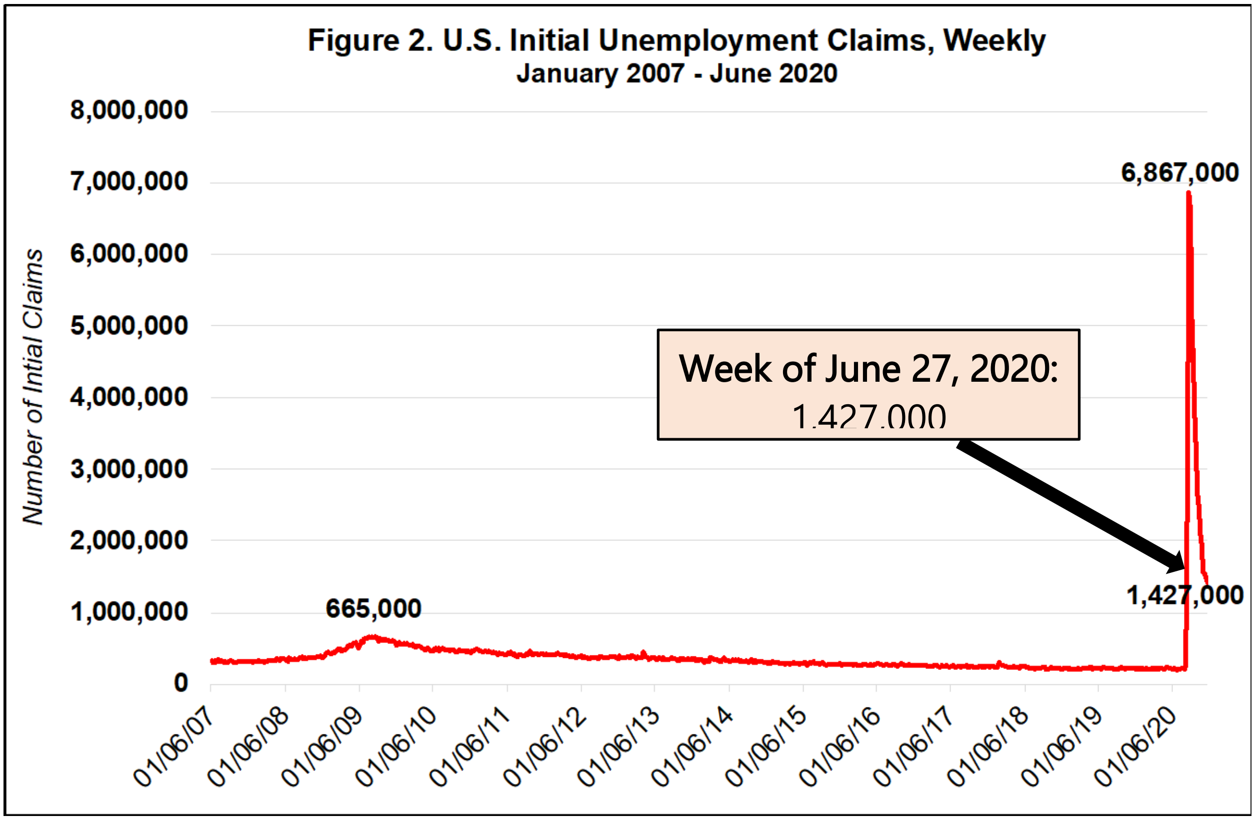
I'd like to briefly discuss four points in regard to the current U.S. economic conditions.

1) I think it's important for us to remember that when "flatten the curve" was implemented in March/April 2020 this was to slow the spread of COVID-19. It was not expected to stop or reduce the overall spread or number of people who will eventually get infected. The purpose was to avoid overwhelming medical resources until herd immunity, or a vaccine could be created. With that said, moving forward the same risks that were present this Spring still exist today.

2) **Risk.** Anytime risk is high, we should expect consumer goods to increase in price and raw products to decline. Why? Because everyone assumes more risk in the supply chain. Given, that 2020 has seen -$40/barrel crude oil, extreme civil unrest in many cities, government mandates to shut down certain businesses, and a collapse in processing capacity in meat packing facilities, risk is at a level that many have never seen in our lifetimes. No one in the supply chain wants to assume more risk right now for the same returns they were receiving prior to the pandemic.

3) On July 1, the Federal Reserve Bank of Atlanta estimated that the growth rate of real gross domestic product (GDP) was – 36.8%. This comes after Real Gross Domestic Product decreased by 5% during the 1$^{st}$ quarter of 2020. When the official estimate is released by the U.S. Bureau of Economic Analysis later this month, this will confirm that the U.S. has entered into a recession.

4) Initial Unemployment Claims continue to increase each week at levels that can only be viewed by economists as disastrous. An initial claim is a claim filed by an unemployed individual after a separation from an employer. The claim requests a determination of basic eligibility for the Unemployment Insurance program. Figure 2 below looks at U.S. weekly initial unemployment claims from January 2007 – June 2020.




**A look back.** I wanted you to see the difference between the 08/09 recession and the current crisis. During the 08/09 recession, initial unemployment claims peaked at 665,000 for the week of March 28, 2009. To have an even better understanding of the magnitude of current initial unemployment claims, at no point in time since the beginning of the collection of this data set in January 1967 has initial unemployment claims ever approached the levels of claims seen over the past 15 weeks. Prior to 2020, the highest weekly unemployment claim was 695,000 from the week of October 2, 1982. Since the week of March 21, 2020 initial unemployment claims have exceeded 1,000,000 claims, while totaling 48,679,000 initial claims.

**Bottom Line**

COVID-19 has impacted every cattle operation in the United States. These cattle market impacts have resulted in substantial economic losses for U.S. cattle producers. Many of these losses are ongoing and will likely continue through 2020. Regardless, of when cattle producers market their livestock during 2020, they will likely receive significantly lower prices. Actual impacts will certainly vary widely across operations. Producers should expect markets to continue to be volatile given our current set of circumstances and many unknowns. Abrupt changes and big price swings in a COVID-19 marketplace may become the norm. Cattle producers who continue to search for ways to lower their unit cost of production (what it costs to produce a pound of beef) and enhance market prices will be the in a better position when prices improve during the next decade.