Searching for the Bottom of the U.S. Beef Cattle Price Cycle

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Extremely Difficult Time for the U.S. Meat Industry

The situation may be difficult for packers; however they are generally well capitalized and can handle being down for a period of time.

Additionally, retailers can handle getting shorted product by either raising prices to ration out demand or mixing and matching products that are available.

Extremely Difficult Time for the U.S. Meat Industry

Producers, on the other hand, cannot tell their cattle, hogs, or chickens to stop growing for a while until plants open back up. There is a flow of animals that moves through the farm and if you stop what goes out the door, the entire system breaks down.

Therefore, this is an extremely difficult time for producers and, like with any natural disaster, immediate support and assistance is needed to assure their survival.
This is not gonna be a good year... and this is just the beginning **Wave 1**

**UNCHARTED TERRITORY**

**COVID-19 Pandemic and Cattle Markets**

U.S. Economy likely in a Recession

Global Economy likely in a Recession
COVID-19 Pandemic and Cattle Markets

Beef Cattle Market Price Projections – Uncharted Territory

Major Changes in Domestic and Global Consumer Beef Demand

Major Disruptions in the Supply Chain – Both Inputs & Outputs

Consumer and Governmental Reactions to COVID-19 will likely affect our future way of producing beef.

THINGS THAT WILL IMPACT US IN 2020

- CORONAVIRUS
- MEAT PLANTS CLOSING
- AFRICAN SWINE FEVER
- TRADE WARS
- THE BORDER
- RISK OF RECESSION
- INTEREST RATES - INFLATION
- BALANCE SHEET WRITEOFFS
- COST OF PRODUCTION
- TIGHT MARGINS
- WEATHER RELATED IMPACTS

• I am not going to say that all farmers are broke and we are headed for a 1980s type crash
• What I think is true is that for the 300,000 to 400,000 real farmers in the U.S., the likelihood of failure is equal to the likelihood of staying in business – some just don’t realize it
• Across the country the record yields experienced over the last few years temporarily changed the outlook and put off a disaster—for now

Don’t Fall Off The Mountain

U.S. Farm Bankruptcies Reach Eight-Year High
Number of Chapter 12 bankruptcies filed in the U.S. by year

* Chapter 12 is a part of the federal bankruptcy code that is designed for family farmers and farmers. Source: United States Court[1]
Figure 1. U.S. Feeder Cattle Index Price
January 10, 2020 - April 2, 2020
January 10 - April 2
-$25.44/cwt.
-$203.53/head
-$12,212/truckload

Figure 2. Avg. CME 2020 Feeder Cattle Futures Settlement Price
January 10, 2020 - April 2, 2020
January 10 - April 2
-$37.12/cwt.
-$296.95/head
-$17,817/truckload
**Beef Cattle Price Cycle**

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**Projected Cattle Prices and Cow-Calf Profits During the Four Phases of the Cattle Price Cycle**

<table>
<thead>
<tr>
<th>Phase of the Cattle Price Cycle</th>
<th>Projected Cow-Calf Profits/Losses</th>
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*Projected Cattle Prices and Cow-Calf Profit Trends are based on previous Cattle Cycles.*

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**TOTAL CATTLE INVENTORY BY CYCLE**

U.S., January 1


Data Source: USDA-NASS  
Livestock Marketing Information Center
Projected Cattle Prices and Cow-Calf Profits During the Four Phases of the Cattle Price Cycle

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<td><strong>Top of the Price Cycle</strong></td>
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<td><strong>Downward Price Transition</strong></td>
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<td>Still declining profitability</td>
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<tr>
<td><strong>Bottom of the Price Cycle</strong></td>
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<tr>
<td>(2019 – 2021?)</td>
<td>Significant Losses</td>
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<tr>
<td><strong>Upward Price Transition</strong></td>
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<tr>
<td>(2021 – 2027?)</td>
<td>Profits/Loses</td>
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<tr>
<td>Improving profitability</td>
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Supply fundamentals are supportive of prices going forward.
The Market Makes the Rules

- What do we have the work with?
- This is what we have... let's allocate it out

Revenue
- Fixed Costs
- Variable Costs

Net Returns

Profit Equation

Revenue − Cost = Profit

What You Get − What You Put In = What You Keep
Cattle Prices are Expected to Decline,  
*What Can Producers Do?*

1) Search for ways to lower unit cost of production (such as more efficient use of inputs, reduce wastes, scrutinize capital purchases, debt, etc.)

2) Identify opportunities to enhance cattle market prices (improve quality and quantity, identify economical weights, *months to sell*, price protection, etc.) in order to achieve higher levels of profits during the bottom of the cattle price cycle (2019 – 2021)

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“Most” SE Cow-Calf Producers Are Focused On
- **LET’ER RIP**
- Keep Heifers
- Give Cows Another Chance
- Put More Weight on Steers

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Cow-Calf Producers Need to Focus On:
- **Survive Then Thrive**
- Continue to do the things that got you here
- Wage a war on forage and feeding costs (focus on mgt. & resources)
- Prepare for the next drought…
Summary

• Volatile changes are occurring in U.S. and foreign economies, 2020 has the potential for some BIG price swings.

• Lower U.S. cattle prices for feeder calves, feeder cattle, and fed cattle are expected during 2020 due to further increases in beef production and competing meat proteins.

Thank you for your attention.
I hope you have a profitable 2020!

Next Ona Highlight Webinar

The May Ona Highlight will feature guest presenters with UF/IFAS Extension: Lauren D. Butler (Okeechobee County) and Lindsey Wiggins (Hendry County).

They will be providing an overview of the UF/IFAS South Florida Beef Forage Extension Program and providing information on utilizing UF/IFAS Extension Resources during COVID-19.