# Challenging Outlook for 2017

Opportunities exist for flexible operations with forage and management expertise

BY GREG HENDERSON

Profits will be harder to find for cattlemen in 2017, but there will be opportunities. That's the consensus of economists who see an industry struggling to cope with increasing supplies, volatile markets and meddlesome regulations.

Just two years ago cattlemen were riding the crest of a supply-starved market that generated record prices for all classes of cattle. Market conditions changed rapidly, however, and this past fall ranchers shipped calves to market that were valued at $70,000 per semi load less than the same semi loads in 2014.

"Profits plus grass equals expansion," says John Nalivka, president of Sterling Marketing, Inc., Vale, Ore. "We saw rapid herd rebuilding for two years as both cow and heifer slaughter were down sharply. Beef cow slaughter was down 14% in 2014 followed by a 4% drop in 2015. And while sharply reducing herd culling in order to take advantage of higher prices, cattlemen also bred more heifers. Heifer slaughter fell 8% in 2014 and was down another 12% in 2015."

Declining prices in 2015 and 2016 were the result of both increasing beef supplies and larger red meat and poultry supplies. USDA's National Agricultural Statistics Service (NASS) reported 5.8% more beef in 2016, and another 4.4% increase this year. And, Nalivka says, "per capita supplies of total red meat and poultry rose 7% in 2016, with an additional 8% expected this year."

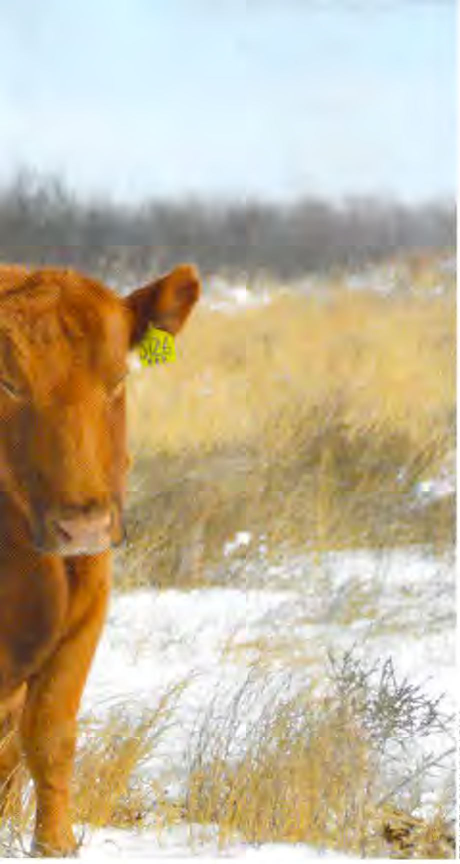
> **"Opportunities will appear as markets adapt to new prices.**
>
> *—Darrell Peel, Oklahoma State Unviersity*

Similar numbers are projected by the Livestock Marketing Information Center, Denver, Colo., calling for increases in beef and pork supplies during every quarter of 2017 and 2018. Enough, USDA projects, to provide 218 lb. of red meat and poultry on a per capita basis by 2018, an increase of 16 lb. per person from 2014.

In the December 2016 USDA World Agricultural Supply and Demand Estimates (WASDE) report, beef production is projected to reach 26 billion pounds in 2017, up 800 million pounds from 2016 and the largest since 2011.

Speaking at the Kansas Livestock Association convention in Wichita last fall, CattleFax CEO Randy Blach said record-large meat and poultry production combined with recent feedlot currentness issues added pressure to cattle markets. He estimates supplies will continue to be large as an additional 800,000 to 900,000 fed cattle are expected to be harvested in 2017. He encourages producers to begin reducing beef tonnage on the market.

"One of the best ways to combat these increasing numbers is to get weights under control," Blach says.



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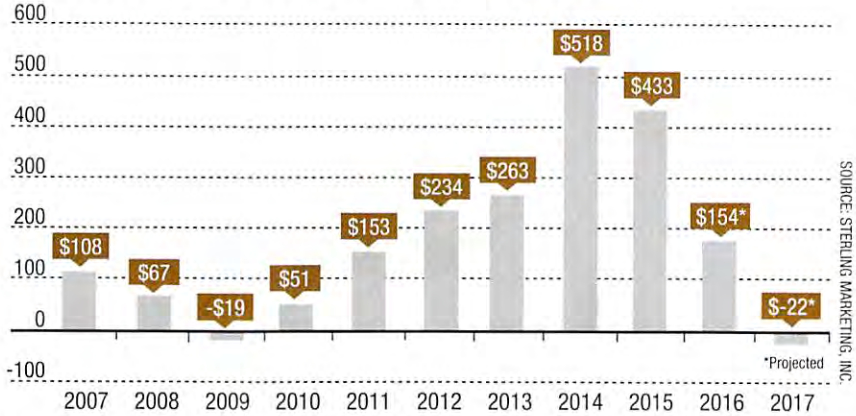
## Returns to Cow-Calf Producers




**Lower feeder cattle and calf prices will leave producers with a negative per cow profit for 2017, projects John Nalivka, owner of Sterling Marketing.**

The growing glut of red meat is reflected in cattle prices and profit margins. Feeders saw most closeouts written in red ink in 2016, though modest profits were common this past month. But the price outlook for 2017 is softer, most analysts believe.

USDA projects the average midpoint fed steer price at $107 per cwt, which is more than 10% lower than 2016. Sterling Marketing forecasts suggest fed cattle prices in the third and fourth quarter of 2017 will fall to $95 and $96 per cwt, respectively, with an annual average of $100. If accurate, that would represent a $48 per cwt decline in the annual average from 2015.

For ranchers, the declines in feeder cattle and calf prices the past two years are devastating. Oklahoma City auction prices for 750 lb. to 800 lb. feeder steers were 35% lower in October than the same period in 2015. Calves weighing 450 lb. to 500 lb. at the same auction were 38% lower.

Peak prices for calves in 2014 put ranch profits per cow at $517, according to Sterling Marketing. Those profits had dropped to $154 per cow in 2016, and, "in 2017 I'm projecting a loss of $21 per cow," Nalivka says.

That's because he also expects lower feeder cattle and calf prices. "I project we will see another 14% to 16% decline in the price for feeder cattle and calves next year," he says. "I project a third quarter price of $118 per cwt for Oklahoma City yearling feeders, and $136 per cwt for calves."

**While those forecasts are bleak, CattleFax's Blach thinks the industry has made it through the worst of the equity drain.** He believes positive margins at the feedyard level would benefit others in the supply chain. "For those cow-calf and stocker operators, you need to see the cattle feeder get profitable," he says. "He gets profitable, and you'll start to see some stability come back into your business."

Other opportunities will exist as the markets adapt to new prices. Derrell Peel, Oklahoma State University Extension economist says, "Retained ownership may be attractive for cow-calf producers depending on calf weaning weights and management flexibility." And he says the price rollback on calves this past fall might offer opportunities for stocker operations. "Not only does the current market suggest stocker opportunities in general, but also that the best buying opportunities are for animals somewhat heavier than typically purchased for winter grazing," he says.

Nalivka agrees backgrounding your calves might prove profitable.

"If you already have the forage, backgrounding can be an appealing option," he says. "As long as your marginal cost of an added pound does not exceed the marginal revenue from that additional pound of beef, the economics are on your side. The key—you must know your costs of forage (if produced) and your cost of gain for backgrounding whether in a dry lot or on grass."

Those opportunities might also carryover to finishing programs.

"Current retained ownership in the feedlot continues to look positive based on the feeder cattle market and expected breakevens based on the cattle cost and feed cost—both are down sharply," Nalivka says. V

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