Cattle Outlook and Situation
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Calendar year 2016 was a tumultuous year for the cattle industry. Although profitability potential increased slightly for some segments of the industry throughout the year the opportunities occurred seldom and were short-lived. Profitability potential for packers and cow-calf producers were still positive in 2016, while feeders and stockers saw negative profitability.

The USDA-AMS reported 5-market average slaughter steer price 2016 was $120.85, 18.4% lower than the 2015 level of $148.12, and 21.8% lower than the 2014 high prices of $154.56.

Calf prices began their downward trend in the second half of 2015 and continued this trend through 2016. In 2016, in the Southern Plains (using USDA-AMS reported data from Kansas and Oklahoma), 500-to 700-pound steer calves averaged $166.29 a 34% decline over 2015 levels. Yearling steers (700- to 800-pound) averaged $145.61 per cwt., a 30% decline from 2015 average prices of $208.21.

Total cow slaughter in 2016 was 5.4 million head, up 5.4% from 2015. Dairy cow slaughter was down 1% from 2015 while beef cow slaughter was up 13.7%. The industry will likely see continued increases in 2017 as the industry cyclically moves toward stabilization rather than expansion.

On January 31, 2017, the USDA/NASS released the *Cattle* report. The report showed continued expansion through 2016 and the likelihood that expansion will continue through at least the first half of 2017.

All cattle and calves in the U.S. as of January 1, 2017, totaled 93.6 million head, a 1.8% increase from 2016. Wisconsin was up 1.4% to 3,550,000 head. This is the highest inventory of cattle and calves since 2010.

The number of beef cows that have calved was up 3.4% from 2016, at just 31.2 million head. For beef cows, Wisconsin saw a 7.4% increase to 290 thousand head and a 0.4% increase in dairy cows that have calved.

Beef replacement heifers over 500 lbs. in the U.S. were up 1.2% over 2016, and stable in Wisconsin. Milk cow replacements were down 1.2% in 2017; although they were down 3.4% in Wisconsin.

The combined total of calves under 500 lbs., and other heifers and steers over 500 lbs. outside of feedlots was 26.6 million head, up 2%. The total number of cattle on feed at 13.07 M head was down 0.7%.

In 2016, the combination of more cattle slaughtered at heavier weights (an increase of 1 pound) meant an increase in commercial beef production of 6.4% over 2015 production levels. This increase in beef production equates to 1.4 additional pounds of beef per capita.

The herd expansion, more cattle outside feedlots and on feed in 2017 will equate to additional increases in beef production. 2017 will likely see an additional increase of 3.5% in beef production over 2016, a 0.8 pound per capita of additional beef.

The increase in beef production will be sold both domestically and internationally. 2016 saw an increase in consumption. Demand for beef, which is made up of both desire to purchase beef and willingness and ability to pay for beef, declined slightly in 2016. The annual all fresh retail beef demand index created by Kansas State University showed that beef demand declined by 3% in 2016 and will likely declines more in 2017.

The cattle industry will face increased pressure from the pork and poultry industry in 2017. Pork production was up 1.8% in 2016 and will see additional increases of 2.5% in 2017. Broiler production will see additional increases in 2017 of 3.2%.

Beef exports were strong in 2016 and will likely be up an additional 6% in 2017. Due to the decreased Australian production, the US has gained market share in Japan, our highest value customer. Pork exports will likely increase 3% and poultry exports will increase 4%, assuming no US outbreak of HPAI.

So what does all this mean for the cattle situation and 2017 prices? Lower prices for all aspects of the industry.

Retail beef prices will be lower in 2017. The increase in protein production will outpace the increase in export market expansion and domestic population increase. The growing supply and increases in cold storage will likely bring retail prices down 6% in 2017.

Price elasticities, a concept in economics, show that in times of increasing supplies, those in the industry closest to the final consumer tend to experience the highest margins, while those furthest away have the least margins. At the end of 2016, retailers saw exceptionally high margins due to the decline in wholesale prices and the slower decline in retail prices.

Packers will likely maintain higher margins in 2017 as the fed cattle price will continue to see greater price decreases, as compared to the wholesale beef cutout.

Two years ago, cattle feeders had trouble keeping their bunk space filled; now with the increase in feeder cattle outside the feedyards there will be less competition for those feeders and hence lower feeder and calf prices. Although fat cattle prices will be lower in 2017, the lower feeder cattle prices, coupled with lower feed and energy prices will provide cattle feeders some profit potential in 2017.

Corn prices will likely increase slightly through mid-March 2017, then will decrease, barring any weather anomalies, into harvest 2017.

Feeder cattle and calf prices will see the largest price declines in 2017. Due to the availability of feeder cattle and calves, the feeder will have greater control over the cow-calf producer. As such, feeder cattle and calves will see greater percentage declines in prices than fat cattle. Additionally, those lower quality animals will see greater discounts to the higher quality animals.

	Comm. Slaughter (1000 Hd)		Beef Production (Mil Pounds)		Live Slaughter Steer – 5 Market Avg ($/Cwt)		Feeder Steer Prices – S. Plains ($/Cwt)		Calf Prices - S. Plains ($/Cwt)	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Q1	7181	7494	5935	6150	134.81	117.50	160.06	130.50	195.73	150.50
Q2	7629	7974	6187	6493	127.68	114.50	149.22	131.00	173.86	147.50
Q3	7840	8049	6468	6670	113.22	108.00	144.10	131.00	157.12	142.50
Q4	7916	8088	6623	6789	107.69	109.50	129.07	129.50	138.44	137.50