# September 2013 – Livestock Market Update
## Public Policy Department
## Budget & Economic Analysis Team

**In this edition:**

- Livestock Update: John Anderson, Deputy Chief Economist
- Energy Update: Matthew Erickson, Economist

**Recommended links:**

- Recent Analysis and Presentations on SILO

**Next Market Update:**

- Crop Market Update: Week of September 16th

**6th Annual AFBF Commodity Outlook Conference**
Peppermill Resort – Reno, NV
October 16-18, 2013
*Agenda & registration information available on SILO *

## Livestock Update

***Chicken Soars to New High***

This month's data on monthly average retail meat prices reported by USDA Economic Research Service provides us with some interesting information. Average retail prices for all three major species hit new record highs last month. By USDA's estimation, retail beef (all fresh), pork, and chicken prices in August averaged 496.8, 375.7, and 200.21 cents/pound, respectively. Retail beef prices were actually the least dramatic of the three, with the all fresh retail beef price basically moving up in line with the trend of the last four months. In contrast, retail pork prices raced higher in August. The August retail pork price was up 3.5 percent from the prior month to 375.7 cents/lb. That may not sound like a big gain, but a 3.5 percent increase in a single month is quite a big leap. It is actually the second largest month-over-month increase in the retail pork price in the last ten years – it went up a bit over 4 percent between April and May 2010. The big gain in retail pork prices continues a string of large month-to-month gains going back to mid-Spring. This is evident in Figure 1, which shows beef, pork, and broiler retail prices over the past three years.

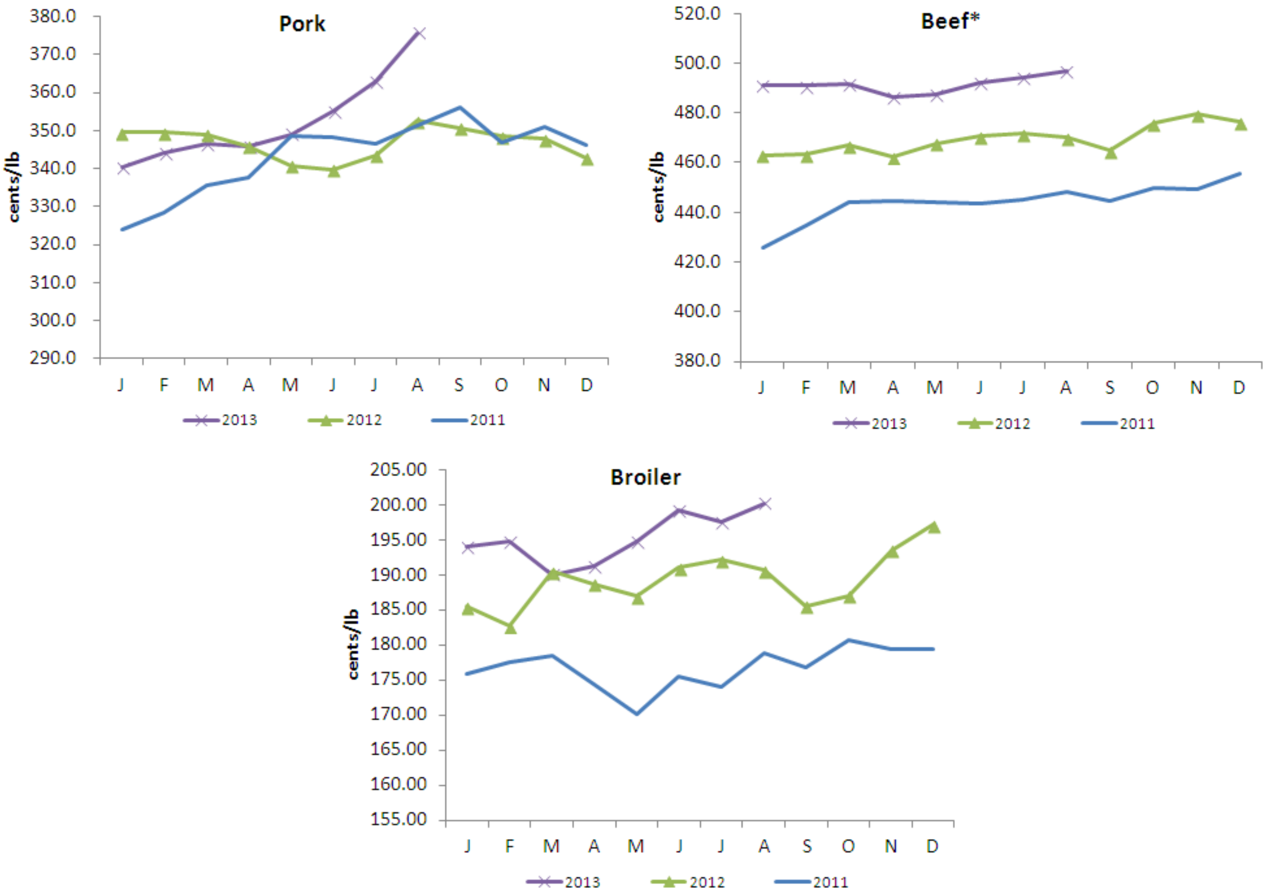



**Figure 1.** Average Monthly Retail Pork, Beef, and Broiler Price: January 2011 – August 2013
Data Source: USDA Economic Research Service through Livestock Marketing Information Center

Another notable feature of August retail meat prices that is not plainly evident in the above figure is that retail broiler prices broke through the 200 cents/pound mark for the first time ever. While chicken prices are clearly up in the last several months, relative to competing meat prices, chicken still looks fairly inexpensive. For example, in January, the retail price of chicken was about 57 percent of the retail price of pork. For August, the retail price of chicken was down to 53.3 percent of the retail price of pork, underscoring the fact that pork prices have increased more in that period of time than chicken prices have increased. For the year, chicken prices have increased relative to beef prices, but only slightly. In January, the retail chicken price was 39.5 percent of the retail all fresh beef price; for August, that figure was 40.3 percent. Looking ahead, with increasing chicken supplies coming on line, it is likely that chicken will remain very competitively priced relative to pork and beef.

### *Cattle on Feed* Summary

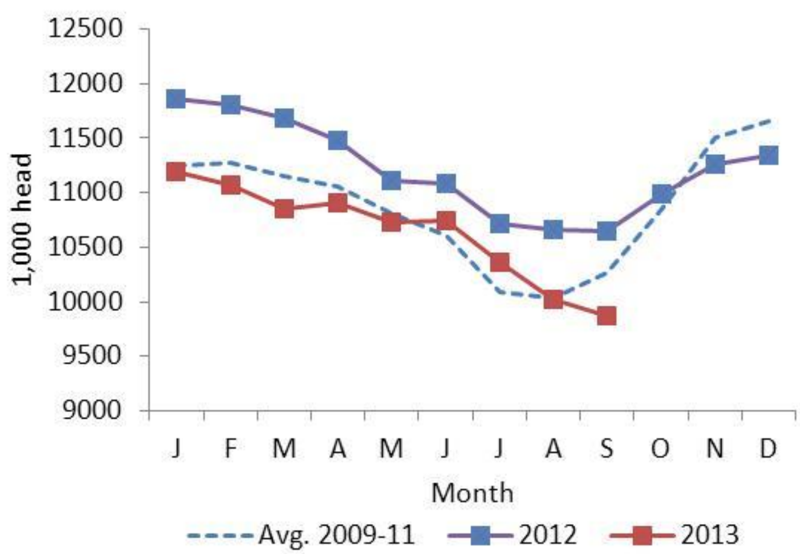
The September *Cattle on Feed* report was released last Friday. Table 1 below summarizes headline numbers from that report:

**Table 1.** September *Cattle on Feed* Summary: Actual Figures vs. Pre-Report Estimates

| | 1,000 head | % of Previous Year | Pre-Report Estimates* Average | Range |
|---|---|---|---|---|
| August Placements | 1,788 | 89.1 | 91.6 | 86.5 – 101.9 |
| August Marketings | 1,883 | 96.3 | 95.5 | 93.5 – 100.0 |
| September 1 On-Feed | 9,876 | 92.8 | 93.5 | 92.7 – 96.0 |

*Source: Dow-Jones Newswires through the Livestock Marketing Information Center.

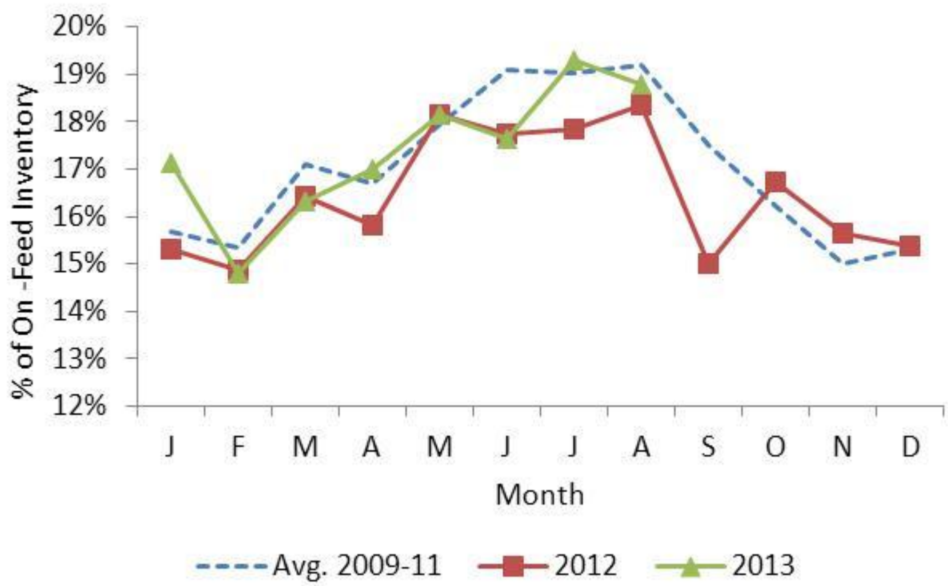
Key numbers in the report were clearly well in line with trade expectations. It is useful, though, to examine these headline numbers in their historical context. It is becoming more apparent each month that the aggressive herd liquidation of the last several years is really starting to show up in these feedlot numbers. Consider first the total on-feed inventory number. The 9.9 million head on-feed inventory as of September 1 is the lowest September figure since 2003. It represents the largest year-to-year inventory decline of 2013 – a year in which each month's inventory has been lower than the prior year. Finally, the September on-feed number is notable in that it represents a decline of 1.5 percent from the August inventory. Typically, the on-feed inventory number increases from August to September. In fact, the decline this month represents the largest August-to-September decline in the on-feed inventory since the *COF* report was established in its present form in 1996. Figure 2 shows the monthly on-feed inventory this year compared to last year and the three-year (2009-11) average.




Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.
**Figure 2.** Monthly Inventory of Cattle in Feedlots (1,000+ Head Capacity)

The monthly decline in the on-feed inventory is not the only figure of historic note is last week's report. Placements, at just under 1.8 million head, were the lowest for the month of August since this report began in 1996. Placements were down in every weight category, though placements do continue to run toward heavier weights. Total placements in the under-700-pound categories were down by 14.3 percent while placements in the 700-pound-and-over categories were down by 8.3 percent.

Finally, marketings for August were the second lowest for that month since 1996 (with 2009 being the lowest). This is a bit misleading because it makes it sound as though marketings have been very slow. That is not necessarily the case. Marketings are down partly because inventories of marketable cattle are low. Viewed as a percent of the beginning inventory for the month, marketings in the last couple of months have actually been a bit higher than last year's level and are essentially in-line with the three year average. This is illustrated in Figure 3 below. From this perspective, there would appear to be little worry right now about feedlot inventories backing up: placements have consistently been below year-ago levels for about the past four months, and marketings as a percent of inventories have met or exceeded year-ago performance. This looks, in short, like the picture of tightening fed cattle supplies that we have all been talking about and expecting for a long time now.

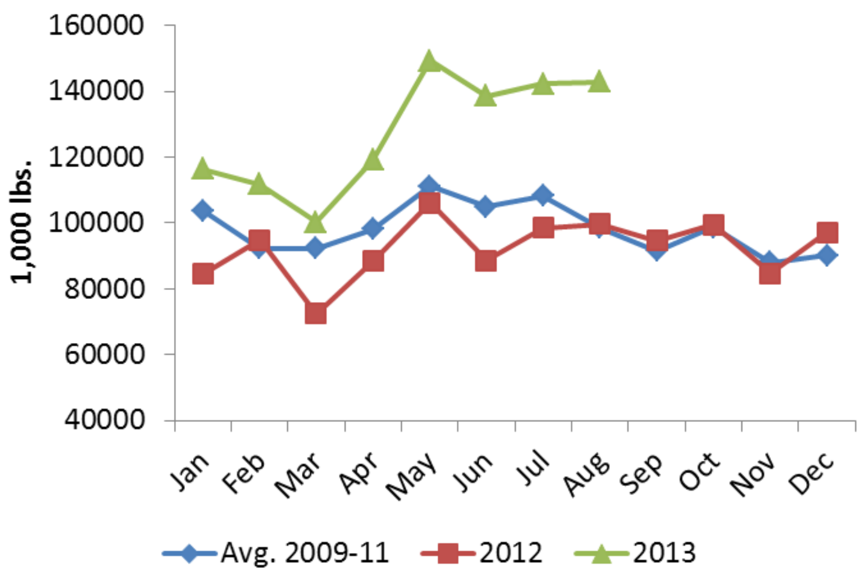



Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.
**Figure 3.** Number of Cattle Marketed Monthly by Feedlots (1,000+ Head Capacity)

***Cold Storage***

On Monday this week, USDA released the monthly *Cold Storage* report, provided detailed information on the inventory of frozen meat and poultry products. Earlier this month, USDA announced plans to purchase chicken drumsticks and leg quarters for "surplus removal." This week's *Cold Storage* report gives some indication of just how much dark meat chicken supplies have built up over the past few months. According to the report, at the end of August, 142.9 million pounds of frozen leg quarters were in cold storage. That is a 43 percent increase from a year ago. Drumstick supplies look considerably less dramatic: up just 6 percent from a year ago at 17.5 million pounds.

Leg quarters supplies have increased dramatically this year. Figure 4 shows frozen leg quarter supplies reported monthly in the *Cold Storage* report. Frozen stocks increased sharply in April and May and have basically held steady since that time. Note that seasonally we should expect stocks to draw down more-or-less steadily beginning in early summer. The usual suspect in a surge in leg quarter supplies would be weak exports since we have traditionally sent a sizable portion of chicken dark meat overseas. Leg quarter exports did soften up some in April and May, which may account for some of the accumulation of stocks; but year-to-date leg quarter exports are about even with last year and are well above 2010 and 2011 levels. It seems, then, that a bigger part of the issue is simply greater production meeting a weaker domestic market. Over the last few years, domestic demand for dark meat cuts of chicken has looked pretty good as consumers appear to have shown a preference for value cuts of meat. Maybe U.S. consumers aren't really that into leg quarters after all. So far wholesale leg and leg quarter prices haven't moved much, with wholesale leg quarter prices holding in the low 50s per pound since spring. That will probably change if these stocks can't be whittled away soon. Expect to see more retail featuring of leg quarters, legs, drumsticks, and/or thighs in coming weeks. If that happens, that $2 per pound record retail chicken price noted in the first section probably won't hold up.




Data Source: USDA National Agricultural Statistics Service through Livestock Marketing Information Center.
**Figure 4.** End-of-Month Inventory of Chicken Leg Quarters in Cold Storage

### *Hog Slaughter Questions*

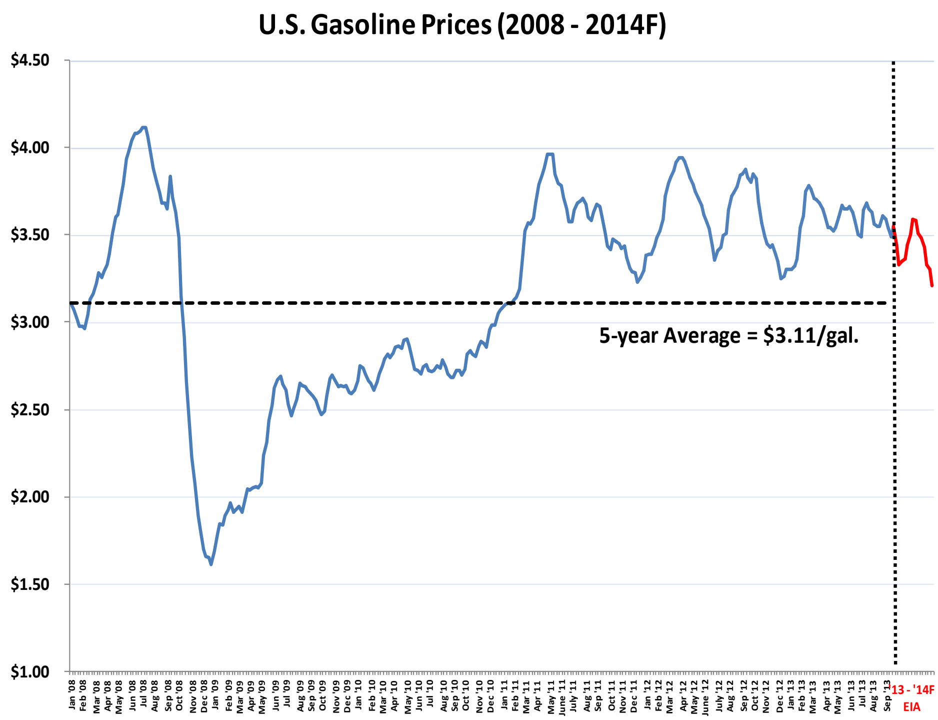
For the last couple of weeks, hog slaughter figures have been surprisingly low. For the week ending September 21, hog slaughter was 9.2 percent below last year. The preceding week, hog slaughter was down 10.5 percent from a year ago. This followed a three week stretch of hog slaughter running 3 percent to 4 percent below the prior year. It is not clear at this point what accounts for this unexpected sharp drop in hog slaughter. Steve Meyer and Len Steiner noted the sharp decline two weeks ago in their Daily Livestock Report. They suggest that the decline may be the result of severe August heat slowing down finishing and delaying hog marketings; a decline in the use of ractopamine that has slowed gain and led to a gap in market ready hogs; or a shortage of market ready hogs due to the PEDv outbreak. Right now, I would put my money on the heat. The August heat wave was quite intense and it set in very suddenly. The behavior of the hog slaughter data so far is very consistent with that kind of event. But stay tuned; time will tell what the market is dealing with here.

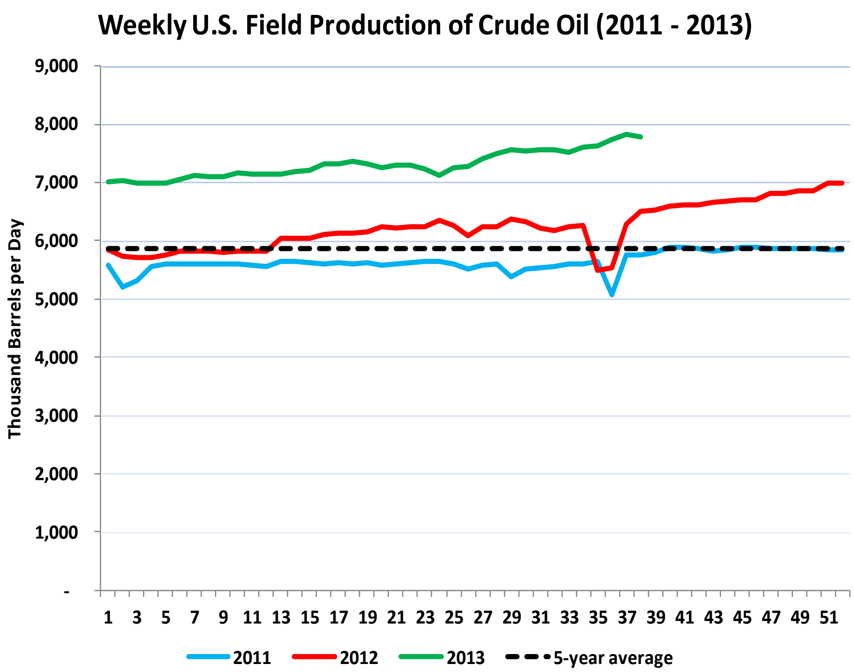
## **Energy Update:** ***September Brings Some Relief at the Pump***

### ***Gasoline Prices and September Short-Term Energy Outlook (STEO)***

With the situation in Syria and the on-going budget battles heating up again this month in Washington, there was somewhat relatively good news on the energy front – lower gas prices! Weekly gasoline prices dropped to its lowest level since mid-July to approximately $3.49 a gallon, about $0.34 lower than this time last year. And motorists in some states can find gasoline at below $3.20 a gallon – that list of states includes South Carolina, Mississippi, Missouri, Texas and Arkansas. Gasoline prices have been on the decline over the past month due to record high U.S. refining rates, adequate supply and consumer demand being relatively flat. Even though 30 out of the 50 states reported gasoline prices below the national average of $3.49 a gallon, parts of the country, such as California, are still seeing relatively high gasoline prices. However, even though California is seeing gasoline prices at an average of $3.95 a gallon, this is still roughly $0.20 a gallon lower from a year ago. Hawaii is the only state where prices are currently averaging over $4 a gallon.

The Energy Information Administration's (EIA) STEO forecasted gasoline prices to fall further from the current national average – any time an economist can bring good news they just have to run with it! EIA's forecast for regular retail gasoline is forecasted to average $3.44 a gallon in the fourth quarter of 2013. Annual gasoline prices were forecasted rather bearishly in the September Short Term Energy Outlook. The annual average retail gasoline price, which was $3.63 a gallon in 2012, is

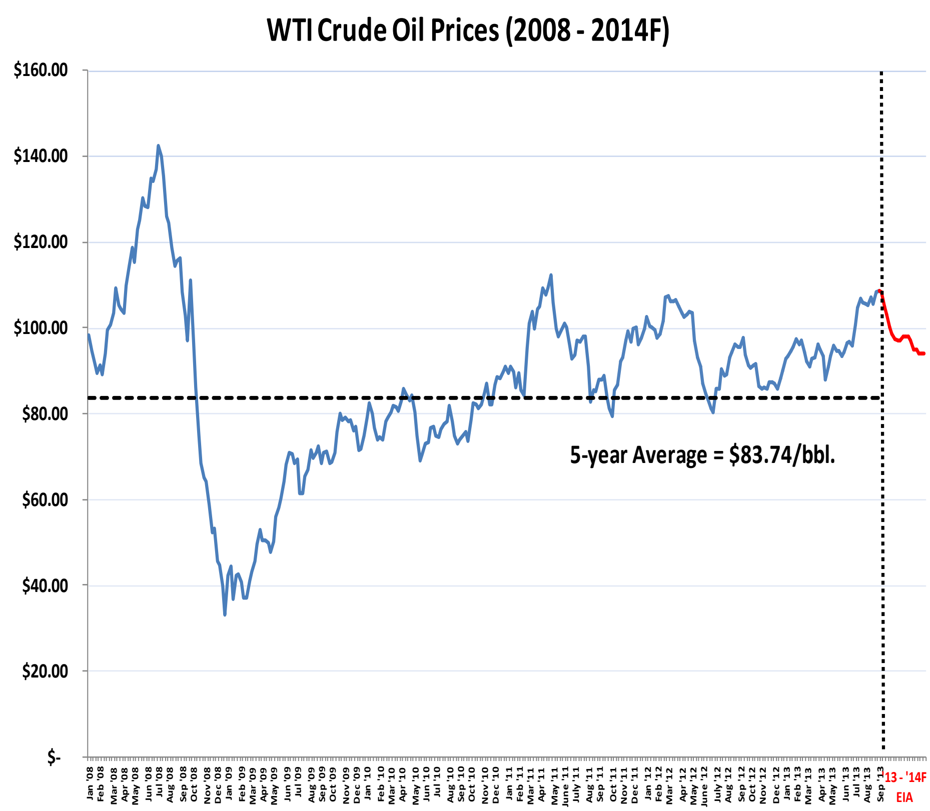





expected to be $3.55 a gallon in 2013 and $3.43 a gallon in 2014 with price fluctuations continuing during the start and end of the summer driving season. Nevertheless, it's always a good way to start a newsletter with at least some good news of lower gasoline prices.

And now we turn it to over to the conversation of crude oil where it seems like anything can happen.

Monthly average crude oil prices increased for the fifth consecutive month in September 2013, as supply disruptions in Libya increased and concerns intensified over the conflict in Syria. Over the past month, crude oil prices flirted with the $110 per barrel mark, but have managed to lose momentum over the past couple weeks as domestic production for crude oil are at levels not seen since around 1989. Currently, week-over-week WTI prices decreased slightly from $108 per barrel to just over $106 per barrel. Even though domestic production of crude oil is at its highest levels since 1989, one would think that this would bring down the price for crude oil. Although true, the reality of the situation is that all bets are off once geo-political uncertainty takes center stage.

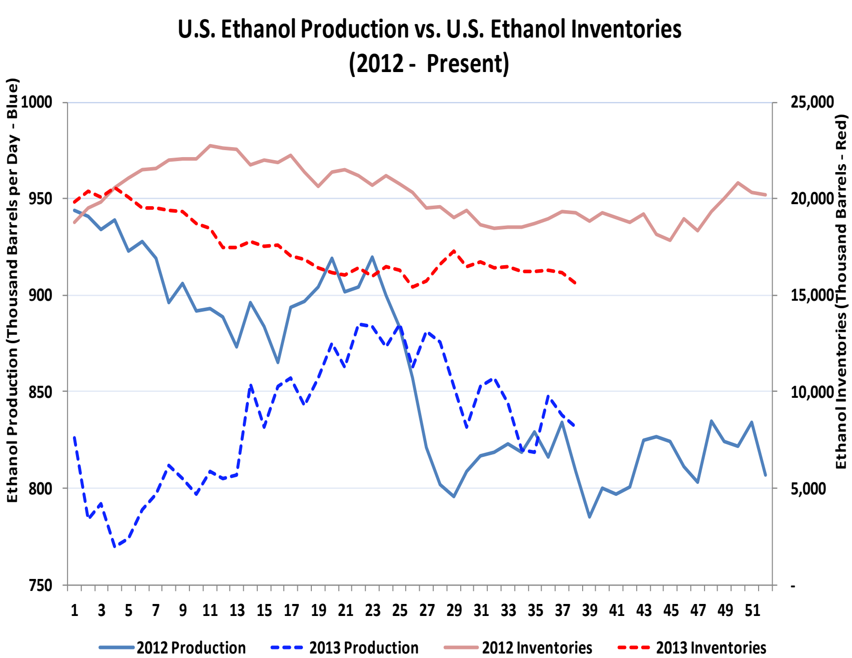



The September STEO continues to show crude oil forecasted to average in the high $90 per barrel range for 2013. As compared to the August STEO, this month's STEO was rather bullish on crude oil headlined by the on-going events in the Middle East region. The forecast WTI crude oil spot price averages $99 per barrel in 2013 and $96 per barrel in 2014, $2 per barrel and $3 per barrel higher, respectively, than last month's STEO. The discount of WTI crude oil to Brent crude oil, which averaged $18 per barrel in 2012 and increased to a monthly average of $21 per barrel in February 2013 before falling to $3 per barrel in July, reached $8 per barrel at the end of August, and averaged $5 per barrel for the month. Supply disruptions in Libya, growing tensions in Syria, and seasonal maintenance in the North Sea region contributed to Brent crude oil prices increasing more than WTI crude oil over the last two weeks of August. EIA expects the WTI discount to average $6.50 per barrel during the fourth quarter of 2013 as U.S. refinery runs fall from summer highs and midcontinent crude oil production growth outpaces increases in capacity to transport crude oil from the region to other refining centers.

To round out the discussion of energy markets, natural gas prices over the past month have been increasing pretty steady over the past month as cooler weather hits parts of the United States. Natural gas spot prices for the month of September have averaged approximately $3.64 per MMBtu at the Henry Hub, up $0.23 from the August average price. For the most part, while prices have been declining since April, EIA expects this pattern will reverse beginning in September as the weather becomes cooler and natural gas demand for space heating begins to become a factor once again. EIA expects the Henry Hub price to increase from an average of $2.75 per MMBtu in 2012 to $3.68 per MMBtu in 2013 and $3.91 per MMBtu in 2014.

### *Ethanol Production and Inventory Update: Continuing to Rely on Old Crop Corn*

Ethanol production continued its fall as the ethanol market is working through a very tight market. Production for the third week of September reported a monthly low at 832,000 barrels per day, equivalent to 12.75 billion gallons of ethanol and 4.6 billion bushels of corn. Week-over-week production fell a little under one percent for week ending September 20 and the supply in the PADD 2 region, which covers the Midwest, continues to produce at low levels. The price for ethanol advanced narrowing its discount to gasoline and tightened to just under $0.25 a gallon. With 7 percent of the corn crop harvested and out of the field as of September 22, expect production to stay relatively low as ethanol plants continue to rely on corn from last year's harvest.




On the stockpile front, ethanol inventories reported their lowest level since June 28. Ethanol stockpiles fell 3.5 percent to an 11-week low of 15.6 million barrels. Ethanol stockpiles will continue to remain tight until this year's corn crop is harvested in the fall. With this year's corn harvest 7 percent complete (behind that of the five year average rate of 16 percent), continue to see tight market conditions throughout the ethanol industry until this year's corn harvest is complete. On the other hand, imports of ethanol rose to their highest level since August 2 and increased to 48,000 barrels a day, up from 3,000 the previous week.

Overall, the on-going tensions and situations with Syria, Libya and Iran will continue to be a focal point in the overall direction of energy prices. With the start of fall season bringing cooler temperatures, I expect natural gas prices to increase over the course of next month. However, and without any further disruption in the Middle East, I expect crude oil and gasoline prices to continue a slow and steady decline as the supply situation will become more of a factor in lowering the price points for crude oil and gasoline over the course of next month. Enjoy your start to the fall season!