

The Outlook for Beef Cattle (Unless Trump Screws It Up!)

Larry Martin, February 4, 2025

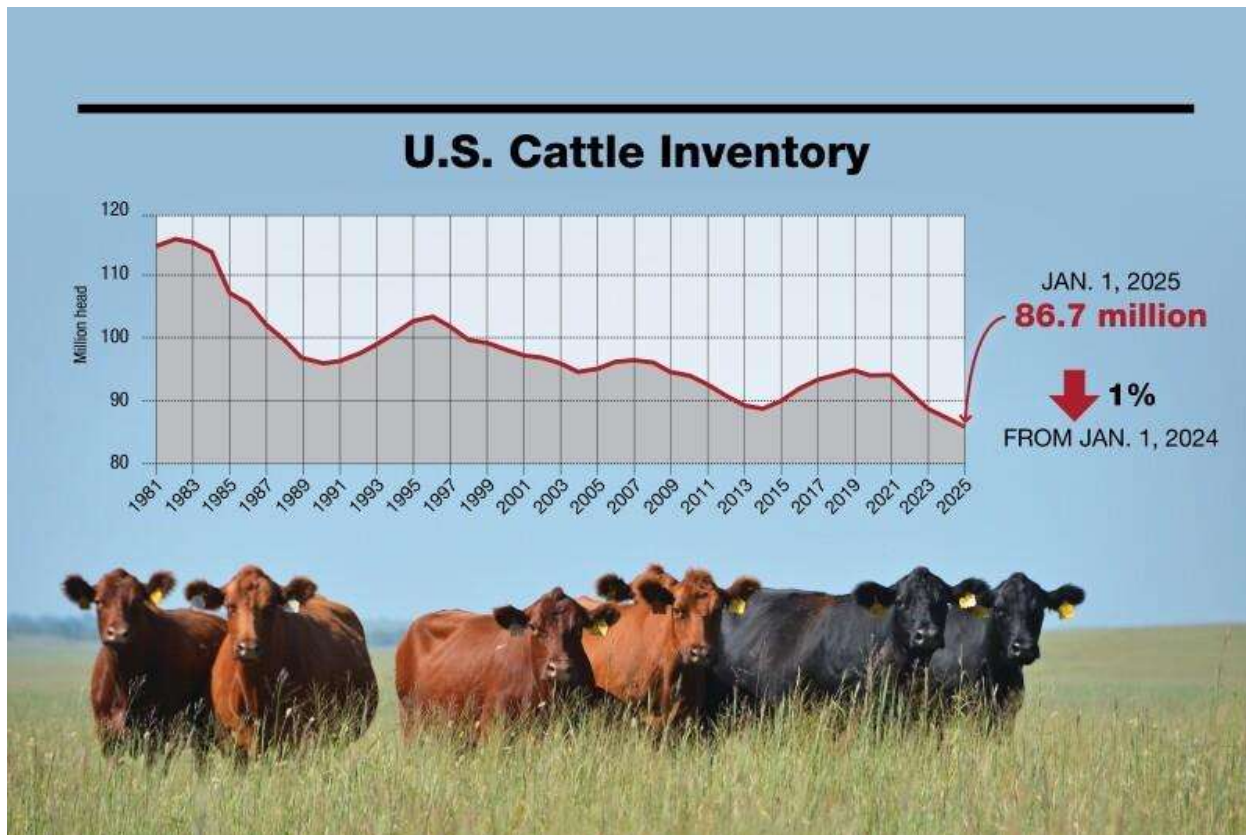
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Markets this week started out in total chaos because of Trump's trade policies and the logical responses to them by his victims. By the end of the day Monday, he backed off the worst of them for Canada and Mexico, extending the imposition of tariffs for a month – as well as extending the potential chaos.

Meanwhile a significant piece of information for the beef industry was released on January 31. The annual USDA cattle inventory report contains estimates of the number of beef and dairy animals on US farms at January 1. This report was widely anticipated because the beef herd has gone through several years of decline as a result of drought, high costs, and relatively low cattle prices. Everyone wondered whether the decline had finally stopped.

The chart below contains the obvious answer – it hasn't! Total cattle and calves inventory, at 86.7 million Head, is the lowest in 51 years, and down almost 1% from 2024. The number of cows in the breeding herd is also down by about 0.5%, and the calf crop is down by 0.1%.

Canadian data reveal a similar trend for all of the same reasons.



Source: The Drover Magazine.

Bottom line is that the industry still has not started to keep females into the breeding herd and, given that cattle reach market weight at nearly two years of age, there is little hope of increased beef supplies through 2026.

Implications for Beef Supply and Prices

Three factors can, however, cause some increase in beef supplies even before the herd starts to build up again:

- The industry has consistently improved management practices, thereby reducing mortality rates. So, a larger portion of the calf crop will make it to market weight.
- Carcass weights are continuously increasing as cattlemen manage to finish animals at higher weights. Higher carcass weights mean more beef per animal.
- In recent years, there has been a substantial increase in the number of dairy cows being bred to beef bulls. This provides more calves to feedlots and, eventually, into the supply of beef. It is likely that this trend will continue.

As usual, however, there is “another hand”. The other hand in this case is the interesting irony that, in order to increase beef supply, it first has to be shorted. The only ways to increase supply in the long term is to let cows go to a later age before culling them, and to hold more heifers into breeding herds, thereby keeping them out of feedlots. When these happen, the proportion of females in the total number marketed falls, so supply of beef declines in order for it to increase!

In past beef cycles the largest periods of increased cattle and beef prices were during the periods when females were held into the breeding herd. As indicated above, this hasn't started yet in the current cycle.

The question on the supply side is when will the buildup start and how much will it offset the three bulleted points above. I believe that prices of cattle and beef will rise inevitably over the next couple of years. The key questions of when and how much will depend on the factors above, how much consumers will resist price increases, and the availability of offshore beef.

An additional point is the implications for the ground beef market. Ground beef comes mainly from cull cows and trim. If the total number of cattle being marketed falls and the proportion of cows declines, the reduction in ground beef supply will be greater than the overall reduction in beef supply. Even though ground beef is less expensive than most other cuts, it is likely to face even more upward pressure.

But What About the Trump Chaos?

One moral of the beef cycle story above is that, left alone, the market will correct itself – “the best cure for high prices is high prices, the best cure for low prices is low prices.” Increasing prices currently are getting close to levels that will give producers an incentive to expand the production that declined as a result of low prices.

But Trump, who obviously knows how things should be better than the market knows, is threatening to impose ridiculous tariffs on products from Canada, Mexico, China, and, eventually, the EU. And I'm sure he'll eventually get around to striking blows to the poorer countries as well!

US tariffs alone would likely significantly reduce Canadian Mexican prices of commodities like beef. But, as we have seen in recent days, they will also reduce the value of our currencies. Interestingly, the US both imports

and exports beef and cattle from and to both countries. Both are threatening to levy major tariffs on US products. There is no reasonable way to forecast what the final effect will be on prices in any of the three countries. One thing is certain and another is probable if this stupidity is carried out.

The certainty is that the chaos will cause uncertainty (!), and that's a cost to the system: people will be more reluctant to make risky investment decisions, as well as delaying or reducing consumption decisions. All one has to do is go back and trace what happened in the late 1920's which led to the greatest world depression in history to appreciate just how irresponsible Trump's actions are.

The probable outcome is that Canadian commodity prices will likely fall relative to the US. So, Trump may be responsible for reducing our currency value and our commodity prices, expressed in US funds. USDA reports weekly data on US commodity exports. In the case of beef, most weeks the major customers of the US are Korea, China and Mexico. For many years, three of the major criticisms of Canadian businesses are we rely too much on the US market, are not very good international merchandisers, and that we rely too much on resources for our wealth.

Looks like Mr. Trump is about to hand us a potential solution to overcome all of those criticisms.

We need to grab the opportunity!

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