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MARKET SNAPSHOT

CATTLE

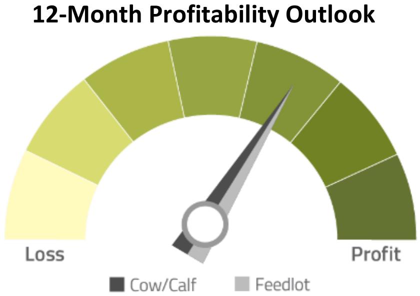
March 31, 2022

Executive Summary

Drivers for the cattle industry include tight hay supply, drought and rising input costs.

- Over 60% of all U.S. cattle inventory is experiencing drought conditions. Where conditions reach “severe drought” levels, the results will likely be devasting for cattle producers, furthering cattle liquidations and creating headwinds for producer profits. While liquidations may limit short term downside risks, they also hamper long term recovery prospects.
- Rising food inflation could impact domestic beef demand, and meat exports remain strong.

12-Month Profitability Outlook



Northwest FCS’ 12-month outlook for cattle suggest slightly profitable returns for cow/calf producers, who will face higher feed costs associated with rising global grain prices. If drought conditions persist, producers may reduce herd size to ensure they can provide remaining cattle with adequate nutrition. Stronger cattle prices and rebuilding hay inventories will provide tailwinds to cattle producer profitability.

Northwest Producer Outlook

A mild winter across the Northwest with little snow cover provided producers with advantageous calving conditions. Mild weather allowed for longer winter grazing and reduced the need to use limited hay inventories. Ranches were able to ration hay, providing tailwinds in a tight feed environment.

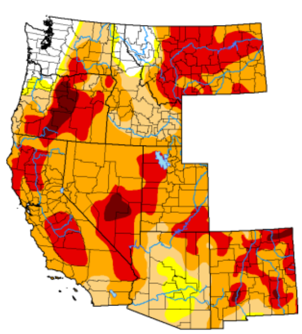
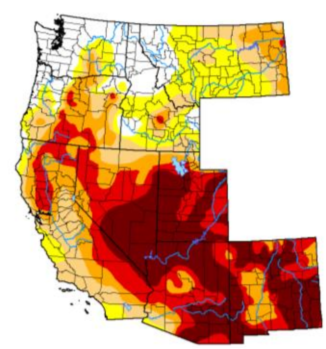
In eastern Montana, spring is off to a dry start. The potential for continued drought is driving cattle producers to evaluate herd size. Two consecutive years of drought and poor hay/straw conditions could potentially lead to higher abortion rates and weaker calves, particularly in eastern Montana. With tight hay supplies, producers face complex and challenging decisions. Ranchers could turn their cows onto grass, but risk stressing body conditions and impacting the ability to breed back. Montana ranchers have already sold beef cows reducing total beef herd by 90 cows for every 1,000 head from 2021 to 2022. On March 22, 82.5% of Montana lands were experiencing severe to exceptional drought. If this drought continues, more cows will likely be sold. If it’s a normal year of precipitation, producers will hold their hay inventory to rebuild farm-level stocks.

Feedlots are concerned about hay inventories. Alfalfa is a water intensive crop requiring irrigation in the desert areas of the West. Many producers have already been given notice of reduced irrigation water availability. Lower than normal water deliveries will result in continued low hay inventories. To combat concerns, feedlots in Idaho are offering higher placement prices now to avoid an influx of cows later in the season when hay prices are further elevated. Producers in eastern Idaho are working with nutritionists to mix rations and cut down on hay. Concerned about not having a consistent barley feed supply, a large Washington feedlot formed an agreement with a grain cooperative, who is offering a premium pool for barley that guarantees an additional $20 per ton over new crop market prices to attract additional barley acres.

In eastern Oregon and Klamath Falls, irrigation water supplies are well below average for March. The Emigrant Dam and Lake near Ashland, Oregon, is currently holding slightly over 4,000 acre-feet of water. The average for March is over 31,000 acre-feet and conditions have worsened from 2021 when the lake held less than 7,000 acre-feet. Water allotment is less than half of what producers usually receive. Oregon ranchers will face tight hay and grass supplies in 2022.

Elevated input prices and irrigation water availability will dissuade many hay producers from expanding production in 2022. Tight hay supplies will likely persist in 2022. Livestock producers who have historically held two or three years of hay inventory are benefiting. This long-standing custom of holding additional inventory will gain traction again as a means of managing drought risk. Producers who can rebuild their hay inventories will benefit.

U.S. Drought Monitor

March 17, 2022	Drought Intensity	March 16, 2021
 Source: U.S. Drought Monitor. March 17, 2022.	None **D0** (Abnormally Dry) **D1** (Moderate Drought) **D2** (Severe Drought) **D3** (Extreme Drought) **D4** (Exceptional Drought) No Data	

Beef Market Fundamentals

Demand

Retail meat prices have increased. For the past nine months retail beef prices have stayed above $7. The February All-Fresh retail price was $7.28 per pounds, 16% higher than a year ago. The February Choice retail beef price was $7.62, a $1.20 per pound increase from February 2021. Food inflation has risen 7.9% over the past year translating into higher consumer prices. This is the fastest food inflation growth in four decades. If food inflation continues to surge, changes in disposable income and higher retail prices may constrain U.S. demand for beef products.

Beef isn't the only meat product with price increases. February's retail price for pork and broilers increased 14.7% and 14%, respectively. Meat prices rising across all products will limit substitution effects providing some relief for beef demand as food inflation will likely continue throughout 2022.

Shifting domestic consumer habits will create headwinds for premium beef demand. Restaurant demand will likely increase in 2022 but will not return to pre-pandemic levels. Restaurant sales command premium prices, especially for beef. In March 2022, fewer people are eating out than in July of 2021. The National Restaurants Association reports that the consumer preference shift to dining at home will be long-lasting.

Beef exports have shown steady growth. January exports reached 287.6 million pounds, a 41.6 million pounds increase from last year. South Korea, Taiwan and China all had gains in shipments. The weakened U.S. dollar in 2021 fueled modest tailwinds for beef exports. Coupled with a tightening U.S. herd, exports are likely to decline in 2022 if the U.S. dollar continues to strengthen.

Total beef exports to China in 2021 more than doubled year over year, up 114%, making China the third-largest beef export destination. Following nationwide losses of pigs from African Swine Fever in 2018-19 shorting domestic pork supplies, Chinese beef imports rapidly rose. As Chinese pork production returns to normal production, beef demand is forecast to remain stable. The Chinese consumer gained an appetite for beef that is likely to stay, even with increases in pork availability and rising beef prices.

In January 2022, Japan was the top export destination for U.S. beef. On March 24, 2022, the U.S. and Japan reached a trade agreement allowing for greater U.S. beef exports. The U.S. shipped $2.4 billion (about $19 per person in Japan) worth of beef to Japan in 2021. This new agreement will reduce exporter uncertainties by enabling U.S. beef to be competitive in Japan against Trans-Pacific Partnership countries.

West Coast ports are the largest beef export location. Contract negotiations between the Northwest Seaport Alliance, which operates 29 West Coast ports, and longshoremen have begun. The current contracts expire July 1, 2022. Previous contract negotiations have created significant port slowdowns that lasted for months. Delays in negotiations are a risk and could amplify current shipping issues and create headwinds for beef export demand.

Supply

Tight cattle supply is the primary driver for beef price increases. In the traditional cattle cycle, higher beef prices would incentivize producers to grow their herd. However, limited feed supplies and prolonged drought have caused cattle herd reductions. Cattle producers in South Dakota, Texas and Montana are experiencing the greatest reductions in their herds. High feedlot placements in 2021 and the first quarter of 2022 suggest cattle supplies will be tighter than expected into 2023.

Feed

Drought in South America, uncertainty from the conflict in Ukraine and pressure from competing crops are reinforcing strong corn and feed prices.

Yields and production estimates for Brazil's and Argentina's corn and soybean crop have been reduced. A lack of moisture and elevated temperatures have slashed yield estimates. Conflict in Ukraine has disrupted markets for two of the largest global grain exporters and consequently injected uncertainty into the grains market. This remains a fluid and evolving situation, putting upward pressure on global corn and feed prices.

High production costs from increases in fertilizer and fuel prices supports higher corn prices. Increasing corn prices will provide headwinds to feedlot margins. As feedlot margins are squeezed by feed costs, it will impact what feedlots can pay for feeder calves.

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