

# Ontario Cattle Situation and Outlook

December 15 2022

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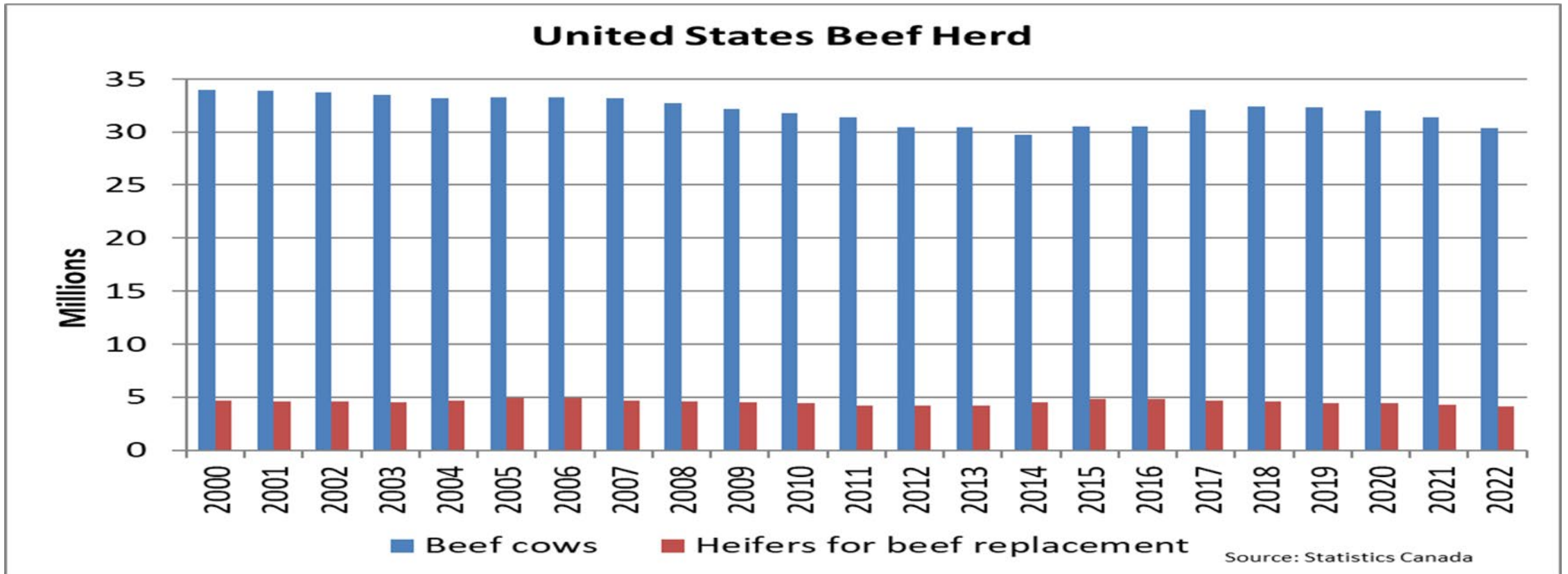
# Overview

- United States market situation
- Canadian & Ontario market situation
- Ontario market outlook

# USA Market Situation

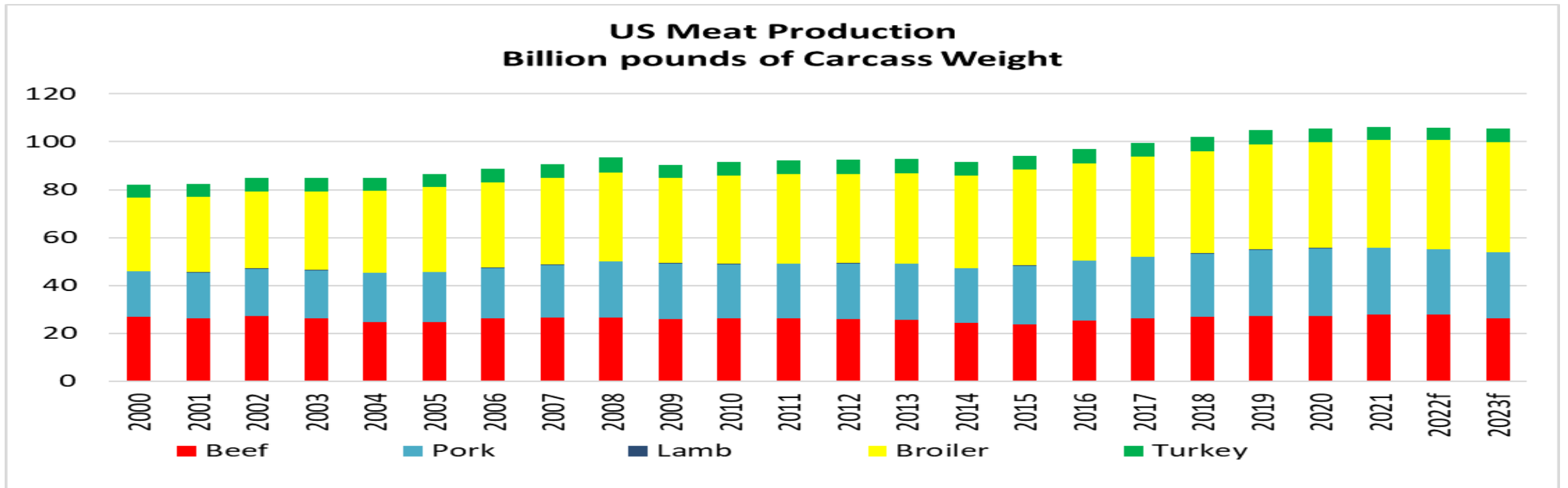
# US Cow Herd

- US cow herd bottomed in 2014, peaked again in 2018 and is now in fourth year of slight contraction

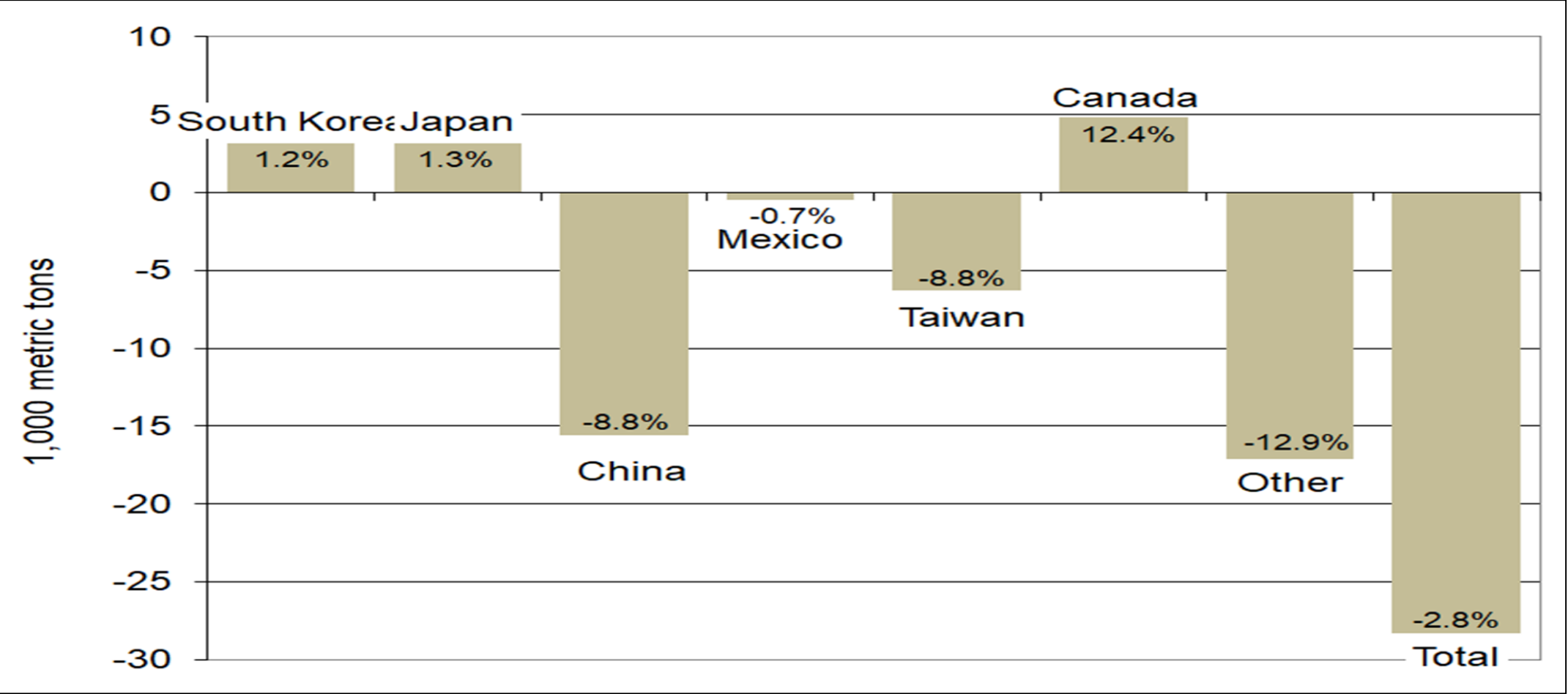


# U.S. Meat Production

- US total meat production has been at record levels year after year
- Pork and chicken production have rose 50% and beef 4% since 2000
- Beef production was up 3% in 2021.
- 2022 is expected to be flat and 2023 decline roughly 6%



# 2022 YTD changes in US Beef Exports



# US Drought Monitor

- Roughly 65 to 70% of corn & soybean areas affected by drought
- Roughly 59% of cattle areas affected by drought

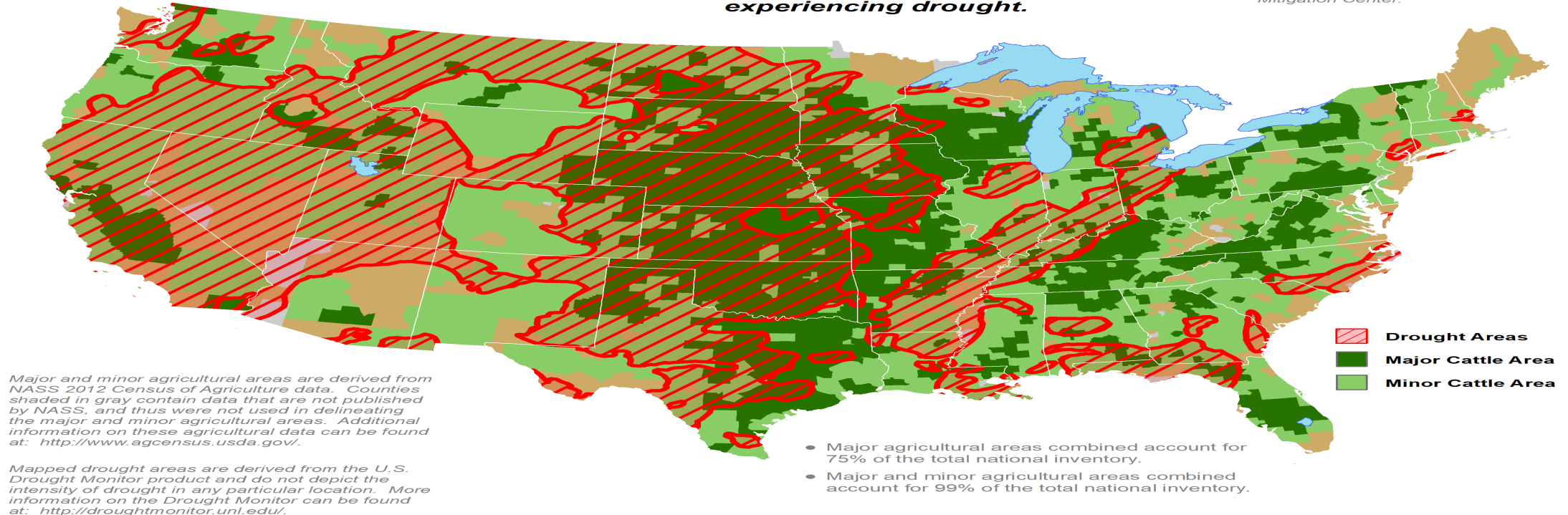
## ***U.S. Cattle Areas Experiencing Drought***

Reflects **December 13, 2022**  
U.S. Drought Monitor data

Approximately **59%** of cattle  
inventory is within an area  
experiencing drought.



This product is prepared jointly by the  
USDA World Agricultural Outlook  
Board and the UNL National Drought  
Mitigation Center.

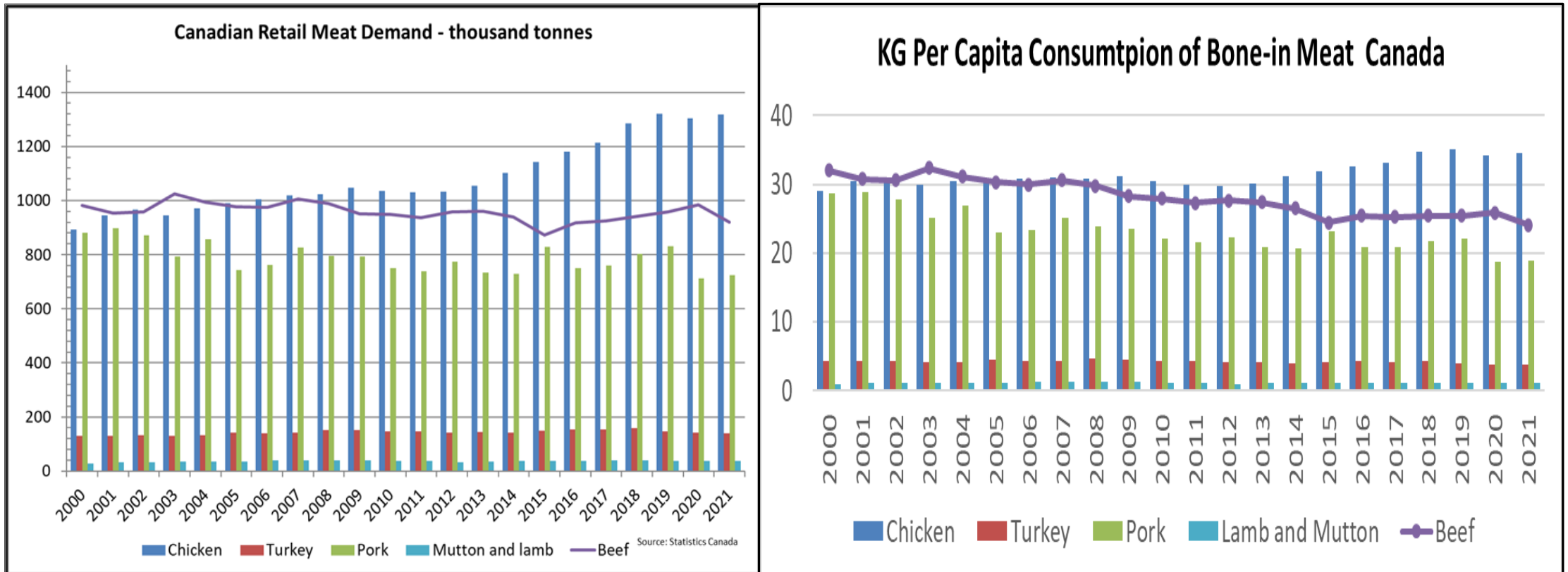


# Canadian & Ontario Market Situation



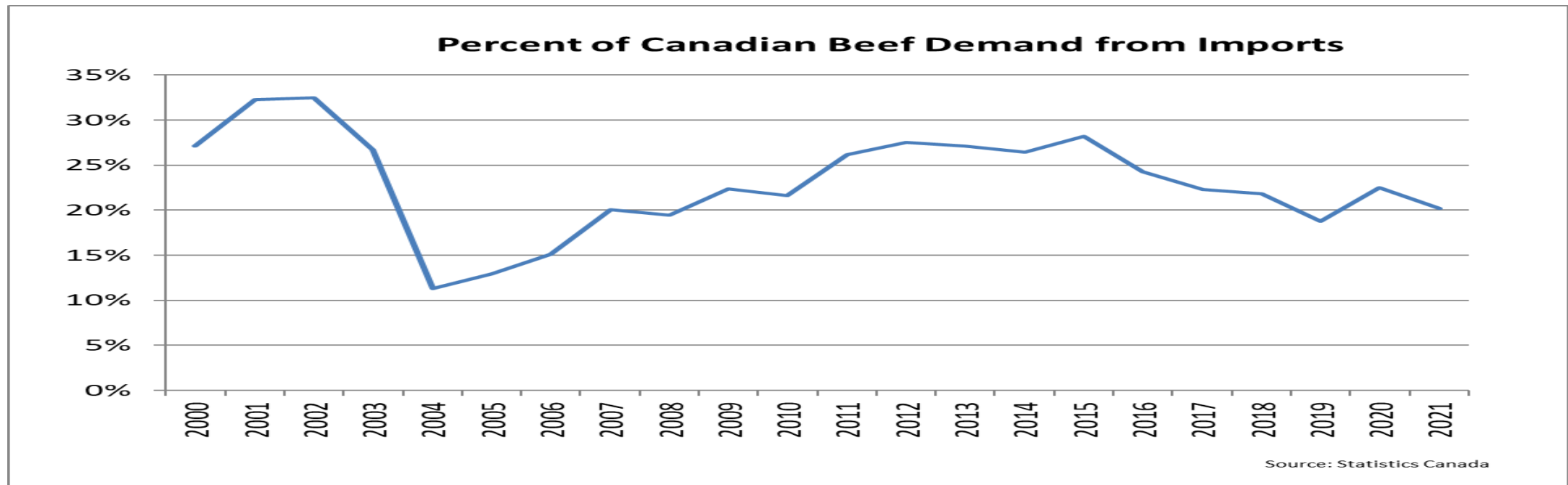
# Meat Demand

- Total meat demand is growing - demand for lean protein is growing significantly
- Chicken is the only meat seeing sustained year over year increases in per capita demand
- 2022 YTD data suggests per capita beef demand has risen by about 1%



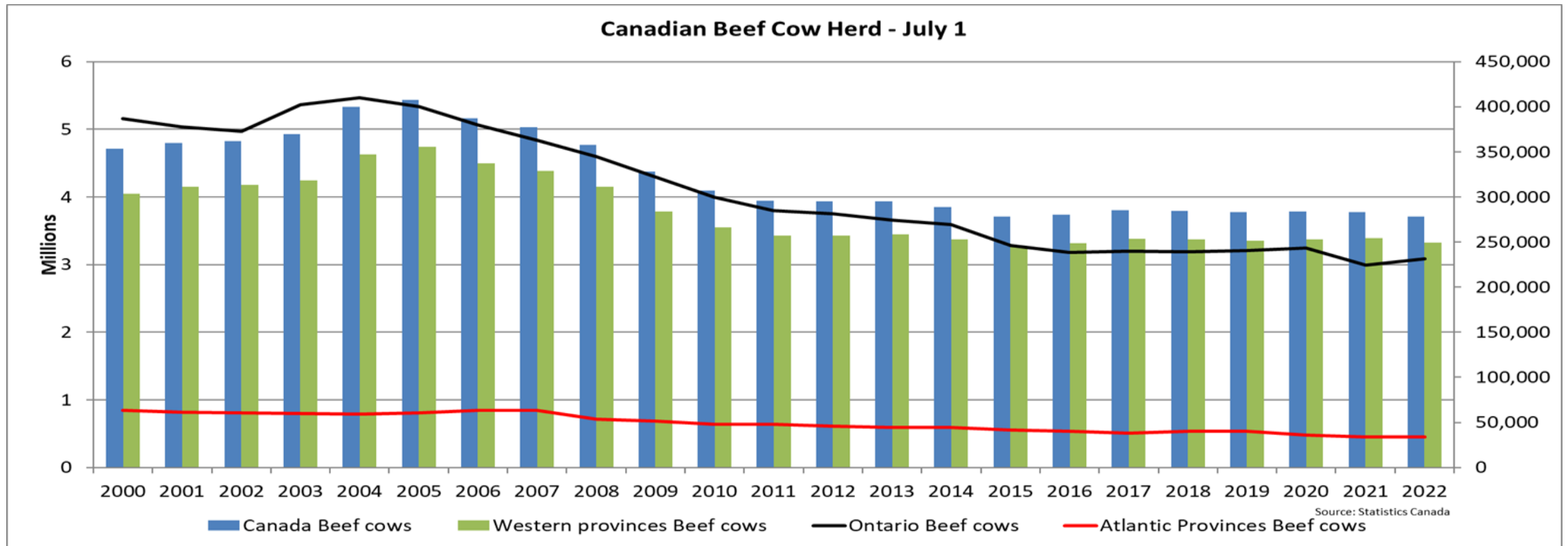
# Beef Imports

- Beef imports are a major part of the Canadian supply chain – 20% of demand in 2021
- Ontario imports close to 35% of beef consumption
- Canadian beef imports fell 14% in 2021
- Ontario imports up 18% in 2021
- YTD Ontario beef imports are up 1% from 2021



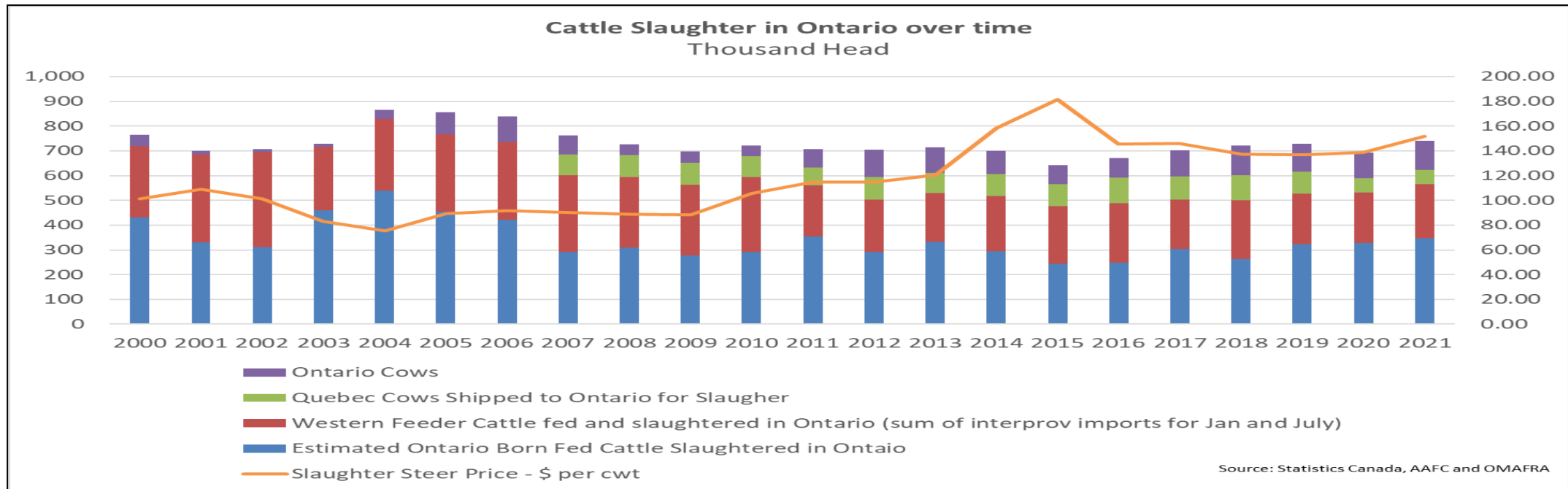
# Canadian Cow Herd

- Canadian cow herd has declined 32% since BSE
- Ontario herd has fallen 42% since BSE but rose slightly in 2022



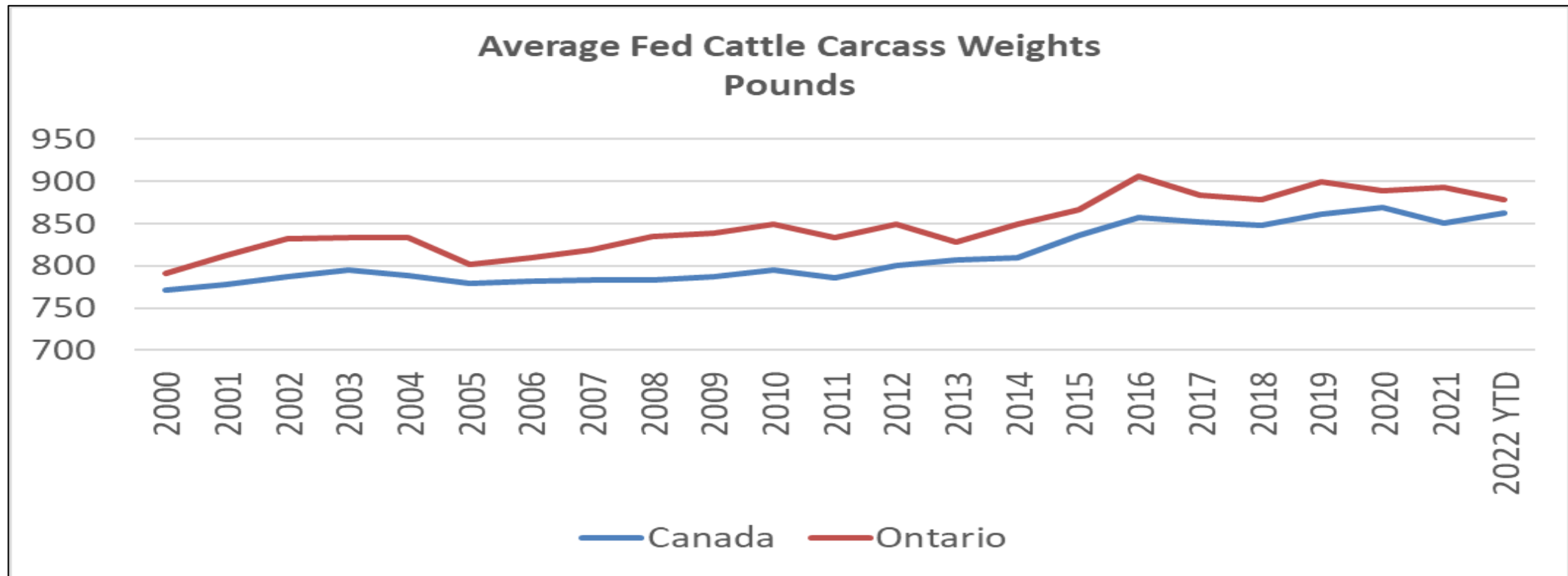
# Ontario Cattle Slaughter

- YTD slaughter at federal plants down 1%
- Average weekly slaughter at federal plants 11,862 YTD in 2022
- Roughly 1,100 cattle per week in 2020 and 2021 were from Quebec (9%) and are for most part all cull cows – roughly 900 per week YTD in 2022
- YTD in 2022 Ontario provincial plant cattle slaughter is down about 4% with all categories being down except for heifers which is up 4%



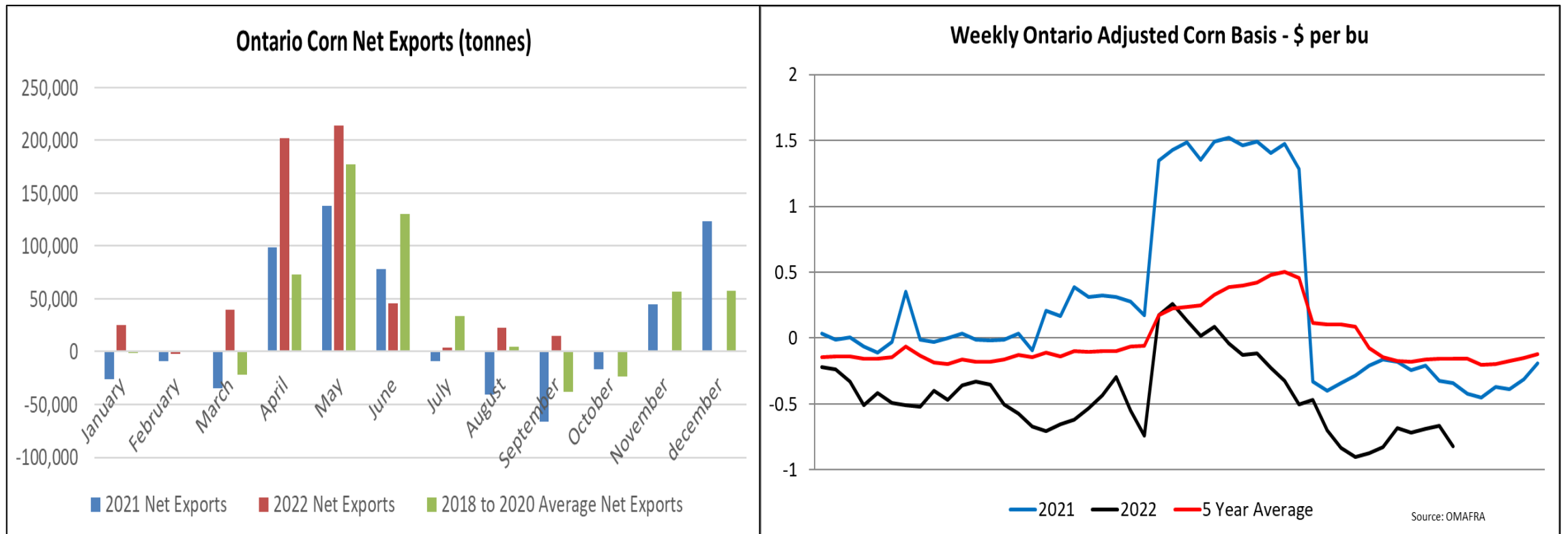
# Carcass Weights

- Strong demand and smaller inventories have led to increasing carcass weights
- Ontario fed cattle averaged over 893 pounds in 2021 which was the third highest on record
- YTD Ontario carcass weights are down about 2%



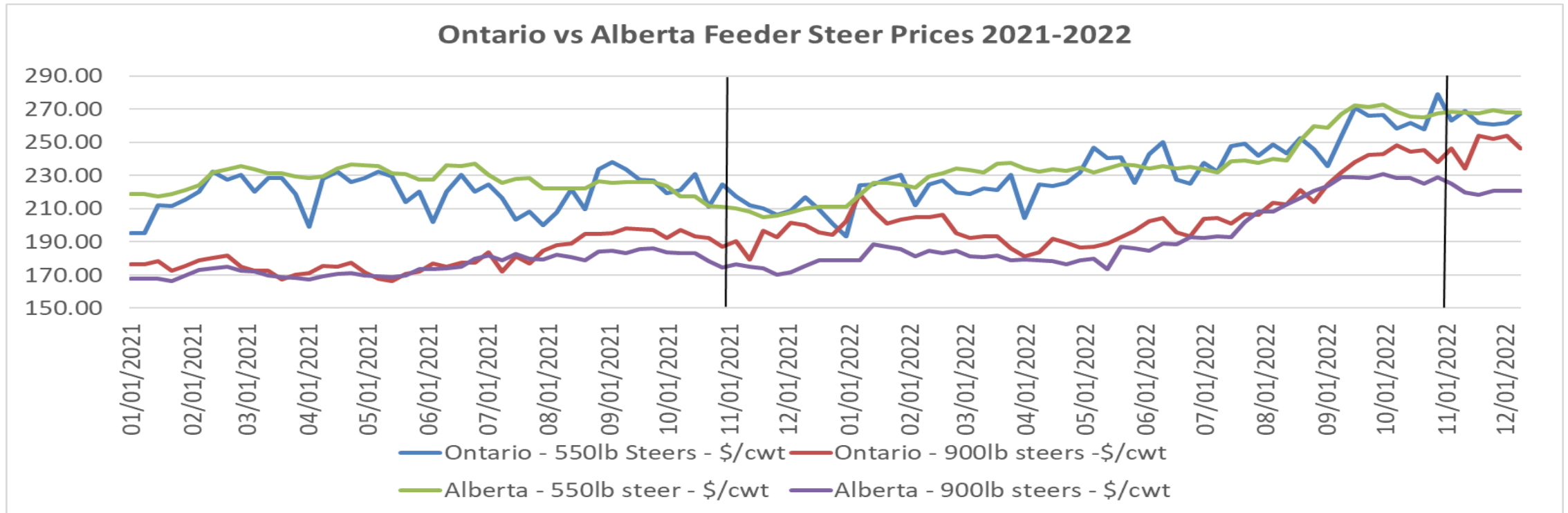
# Ontario Corn Basis

- Ontario corn is normally on an export basis (below Chicago) most of the year
- Calendar 2020 was for first time Ontario was an overall net importer of corn
- 2021 saw Ontario continue an import basis for much of the year
- 2022 has seen basis weaken to an export basis as net exports have risen



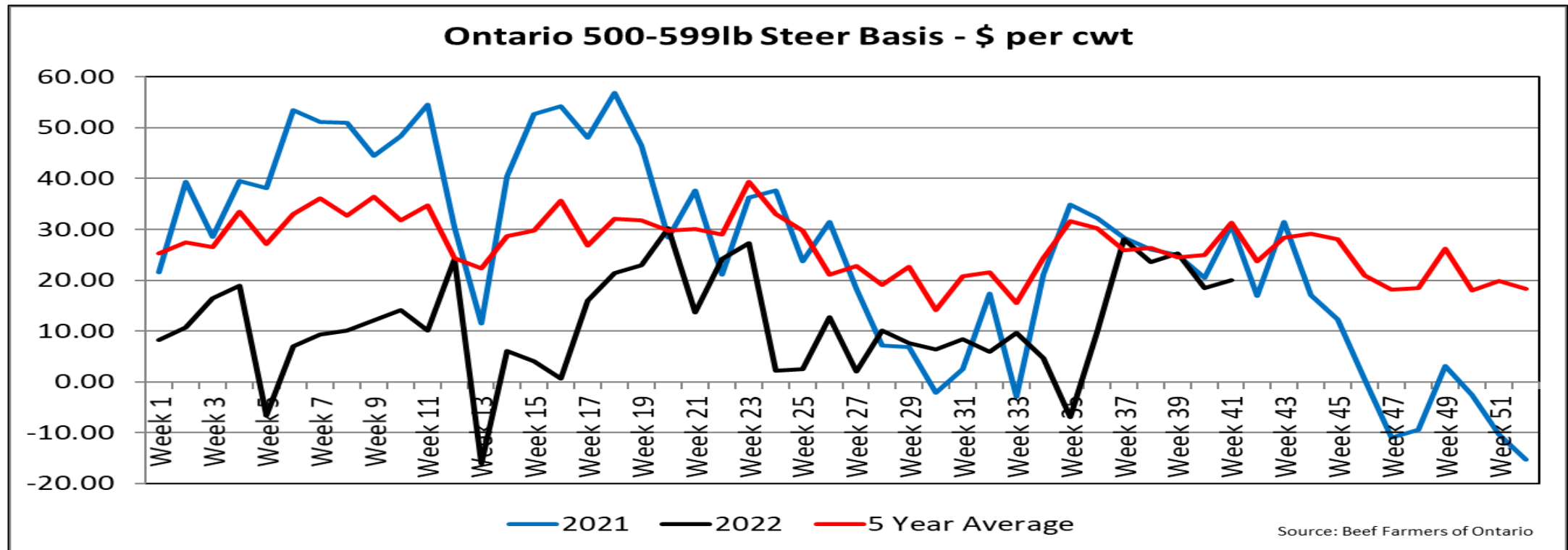
# Ontario vs Alberta Feeder Prices

- On average since 2009, weekly Ontario 550lb steers are about \$37 per cwt higher than in Alberta. Since October have averaged \$17 per cwt higher
- On average since 2009, weekly Ontario 900lb steers are about \$44 per cwt higher than in Alberta. Since October have averaged \$43 per cwt higher



# Ontario Feeder Calf Basis

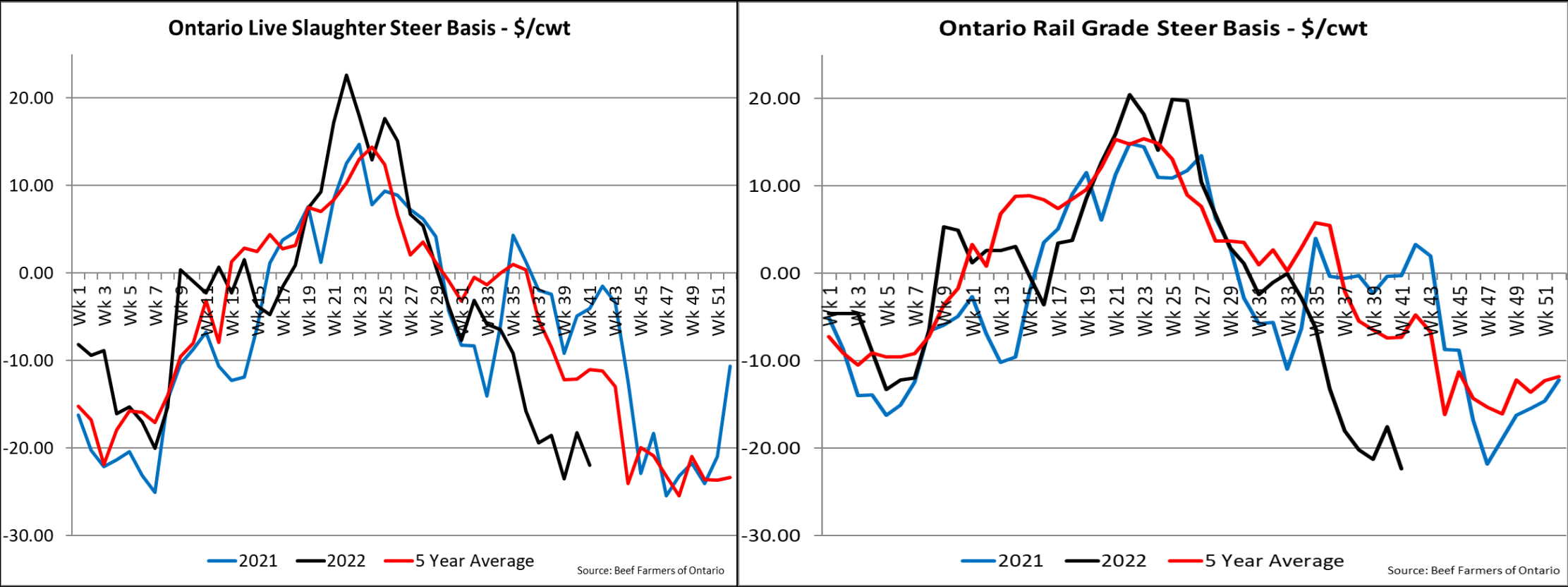
- Local basis for feeder cattle has weakened since mid 2021 – but returned to average in recent weeks
- As has been the case for a few years now, despite a strong basis, weaker cattle have been more heavily discounted than in years such as 2015 to 2018





# Ontario Fed Cattle Slaughter Basis

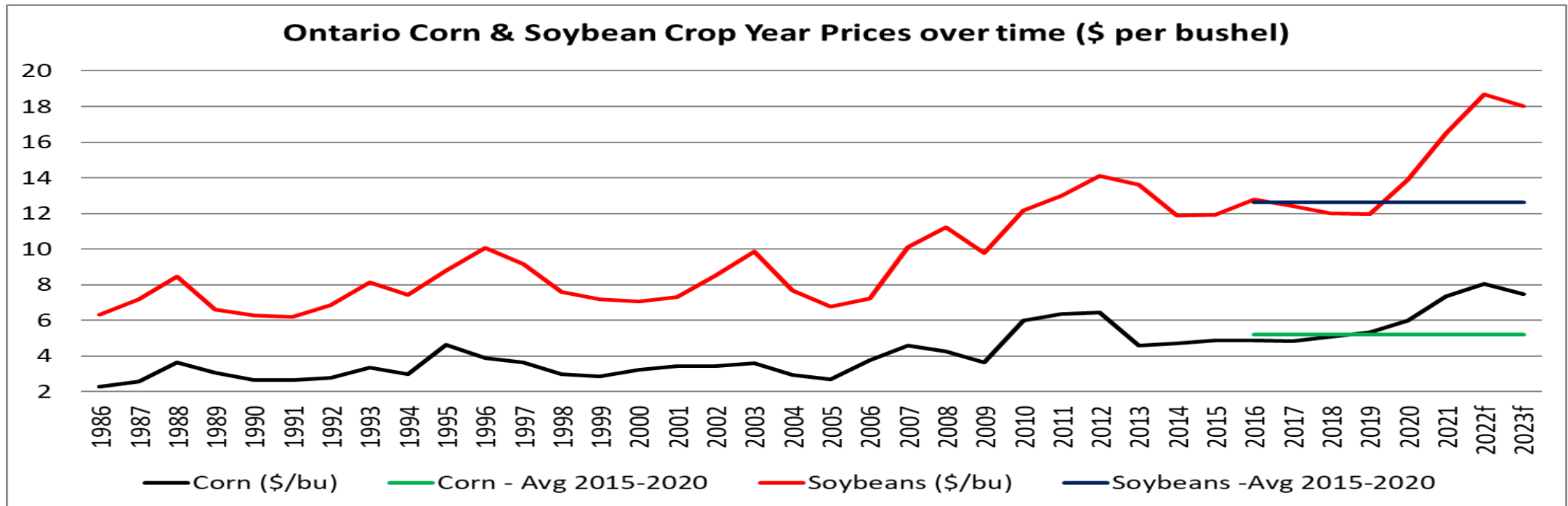
- Ontario plants appear to have a strong underlying demand for Ontario fed cattle and it has been reflected in the basis thru most of 2022



# Ontario Market Outlook

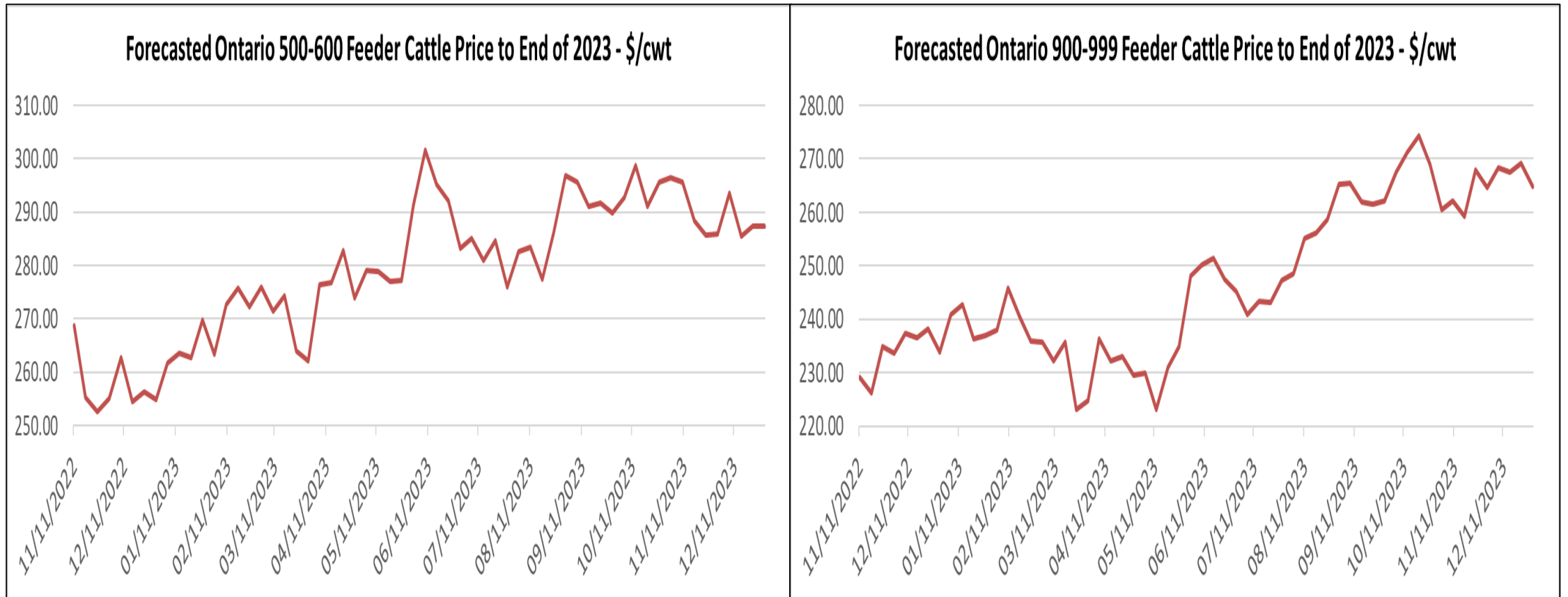
# Corn and Soybean Crop Year Prices

- Record futures prices have not been fully realized due to widespread use of forward contracting – despite this realized prices have been record level in their own right
- Forecasting 2022-23 Corn at \$8.03 per bu which would be up 9% and 2023-24 at \$7.47 per bu which would be down 7%
- Forecasting 2022-23 Soybeans at \$18.67 per bu which would be up 13% and 2023-24 at \$18.03 per bu which would be down 3%



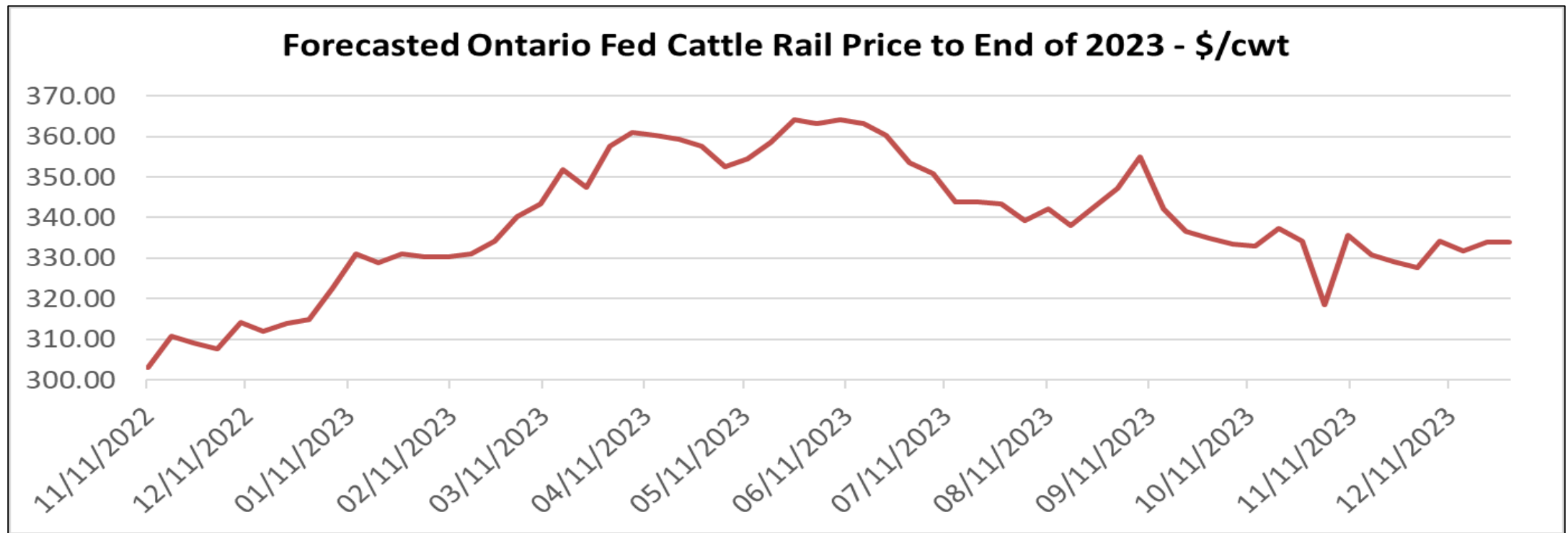
# Using Feeder Futures and Basis – Looking Forward

- Here's what feeder cattle futures on November 11, 2022 and a weekly 5-year average basis would suggest for Ontario 500-600lb and 900-999lb steer prices for the next year



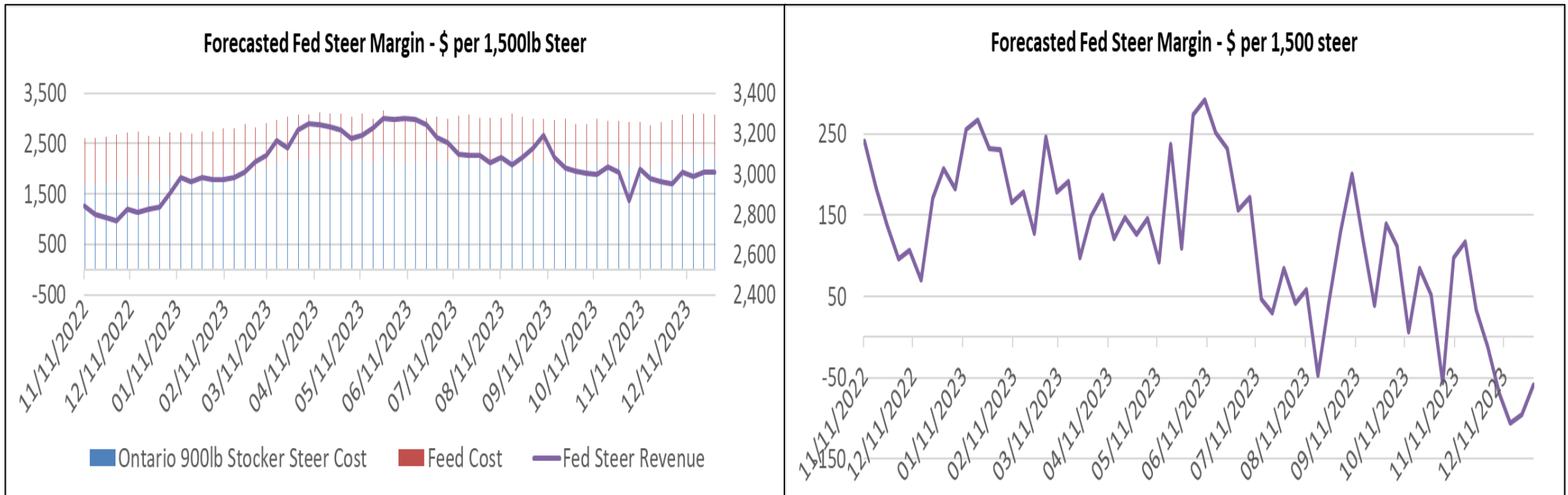
# Using Fed Cattle Futures and Basis – Looking Forward

- Here's what fed cattle futures on November 11, 2022 and a weekly 5-year average basis would suggest for Ontario rail-grade steer prices for the next year



# Forecasted Fed Steer Feeding Margin

- Current rail prices are such that feeding margins are quite strong
- Feed costs forecasted to exceed \$850 per head on average thru 2022 & 2023
- Significant strength in feeder cattle futures thru summer & fall of 2023 to pressure margins



# Feedlot Financial Situation

- Feedlots represent a large portion of the total cattle sales in Ontario – centers the risk associated with the sector on very few farms
- Profit margins as expected are very tight
- Over 65% increase in estimated debt levels – 2<sup>nd</sup> highest of all farm type – high portion of debt is operating debt
- Interest coverage ratio lowest among all farm types - operating interest at around 6.95% for all of 2023 will pressure most feedlots – add roughly \$30 per head in interest in 2023
- AgriStability coverage falling due to declining reference margins

	Farm Size Distribution								Profit		Estimated Debt Levels				Estimated BRM Coverage			
	Number of Farms per Range		% of Total Farms		% of Ontario Farm Cash Receipts		% of Employees		Net Cash Income as a % of FCR		Estimated Debt Levels		Interest Coverage Ratio		AgriStability Reference Margin as a % of FCR		Avg % Decline in Price to Reach AgriStability 70% trigger	
	2016	2021	2016	2021	2016	2021	2016	2021	2016	2021	2016	2021	2016	2021	2016	2021	2016	2021
<b>Feedlots</b>	253	274	4%	3%	59%	65%	29%	44%	4%	4%	760,847,318	1,359,492,694	2.4	2.1	79%	25%	24%	7%

# Summary

- Ontario has followed the US herd to near record lows
- Cow-calf sector has enjoyed unprecedented prices which have fallen significantly
- US will continue to contract thru 2023 and will pressure fed and feeder cattle prices
- Pace of Canadian cow contraction will determine how US price changes affect Ontario through the local basis
- Lack of federal packer competition will continue to pressure fed cattle prices in the short to medium term
- Strong consumer demand will continue to balance the lack of packer competition
- Ontario will continue to have room to take more Ontario calves and beef production
- Managing operating debt will be an even larger issue for feedlots for coming year