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Beefing up: Strategies to shape a stronger US beef industry amid higher prices

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Summary

The US beef industry is entering the anticipated rebuilding phase of the cattle cycle. Inventories are at a historic low after five years of herd liquidation, and heifer retention will further reduce domestic beef production. Expect higher prices across all cattle and beef markets in the coming years, which will lead producers, processors, and end users to adjust strategies to manage elevated costs and limited availability of cattle and beef.

While declining per capita beef supplies support higher market prices, consumer demand will set the limits. New record-high prices are possible across the sector during the next several years. Competing with less expensive pork and poultry on price will be tough, so the industry must demonstrate the added value of beef while continuing to address quality challenges and align with consumer preferences.

As prices rise, the entire supply chain must also improve risk management to tackle increasing costs and limited working capital. Diversifying operations across beef segments can improve profitability and supply management as inventories tighten.

Tighter cattle and beef supplies will support prices

US beef supplies increased by 1.5lb per person in 2024 due to heavier carcass weights, more beef imports, and additional beef-dairy crossbred cattle. This trend will shift in 2025. Smaller cattle inventories and additional heifer retention will reduce per capita beef supplies by 2H 2025, driving cattle and beef prices higher.

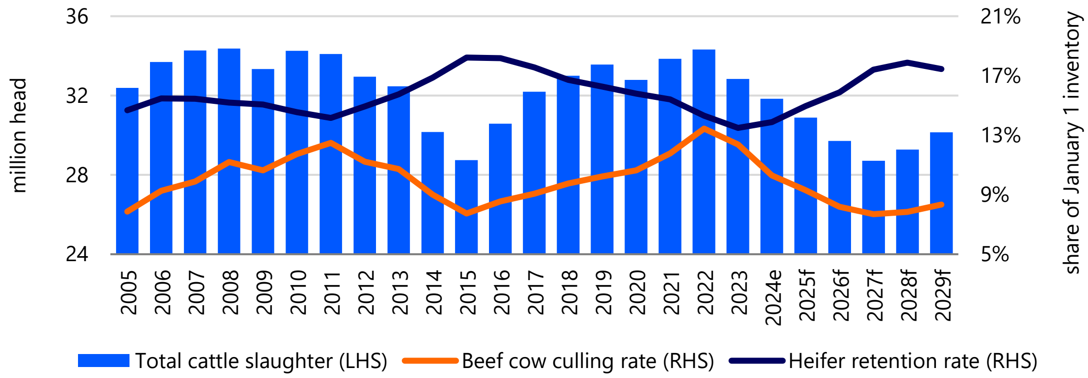
RaboResearch forecasts 2025 per capita beef supplies at 58.8lb, down from an estimated 59.6lb last year. While beef supplies may remain stable in early 2025 (due to heavier carcass weights, stronger beef imports, and feedyard inventories near year-ago levels), the pending cattle deficit will cause availability to tighten by mid-year.

The liquidation of 3.8m beef cows from the US herd since the 2019 high – a 12% reduction – has reduced cattle supplies to historic lows. The January 1, 2025, feeder cattle and calf supply outside of feedyards was at levels not seen since 1951, which will result in fewer cattle placements in feedyards throughout the year.

Additionally, improved pasture and hay availability – along with stronger cattle and milk margins – will encourage producers to rebuild herds in both the beef and dairy sectors. This will further reduce the number of cattle available for slaughter, marking a critical change in market fundamentals for cattle producers and beef consumers.

Beef cow slaughter fell more than 675,000 head (down 19%) last year, resulting in an annual culling rate of 10.3% (see Figure 1). A culling rate of 9% or lower tends to signal herd rebuilding, and that is the expectation for 2025. Additionally, improved milk profitability and limited breeding female inventories in the dairy sector are keeping dairy cow culling rates historically low. In 2024, the US dairy culling rate was 29.7%, the first time it has fallen below 30% since 2008. RaboResearch anticipates a slower liquidation pace to continue throughout 2025.

Figure 1: Cattle slaughter will decline as cow herd rebuilding grows



Source: USDA, RaboResearch 2025

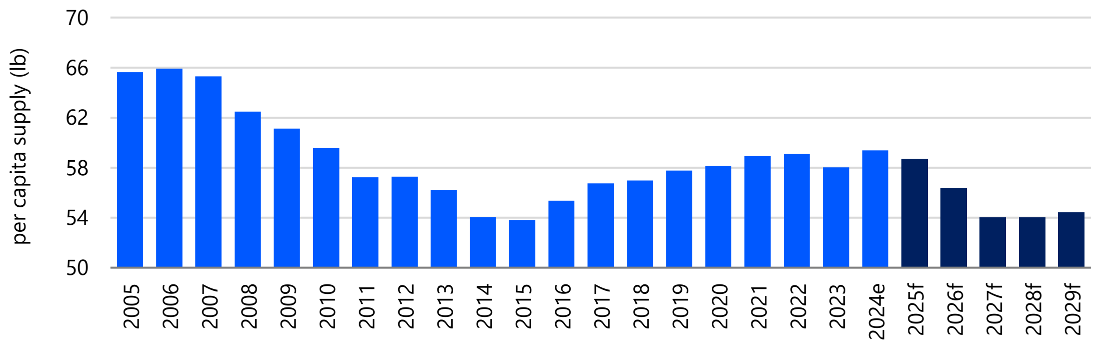
The 2025 transition from herd stabilization to rebuilding will require more aggressive heifer retention. This trend began with the fall 2024 calf run, when heifers accounted for 39.9% of feeder cattle and calf sales from September to December 2024, a decrease of 0.7 percentage points year-over-year and the lowest ratio since 2020.

Although subtle, the decline suggests that more heifers are being kept on farms for breeding purposes, a trend that is expected to become more common from the latter half of 2025 through 2028. Figure 1 shows that the implied heifer retention rate on US farms and ranches will gradually increase over the next several years, peaking near 17.5%.

Steer and heifer slaughter has remained remarkably consistent over the past eight years, ranging from 25.5m to 26.5m head. RaboResearch's 2025 forecast is 25.2m, marking the smallest fed slaughter since 2016. As on-farm retention rates increase, RaboResearch expects heifer slaughter to contribute the most to the decline in fed slaughter over the next several years. In 2024, total female cattle slaughter declined by 1.1m head (15%) and could decline another 800,000 to 1m head (6% to 7%) annually over the next three years as rebuilding efforts intensify.

US cattle inventories are projected to trend lower from now through 2027, and the rebuilding efforts for both beef and dairy cow herds will further reduce the number of cattle available for slaughter. As a result, annual US beef supplies should decline from 2024 highs near 59.6lb per capita to lows near 54lb by 2027 (see Figure 2).

Figure 2: Beef supplies will reach cyclical lows in 2027 and 2028



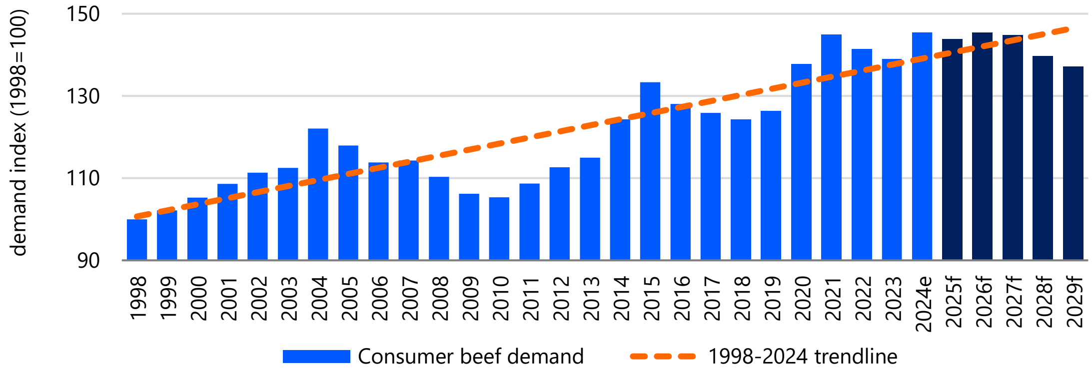
Source: USDA, RaboResearch 2025

Nearly all classes of cattle and beef prices made new highs in 2024, even as beef supplies increased. Demand growth offered ample price support over the past year, but declining beef supplies could provide price support in the future, even in a stagnant demand-growth environment.

Demand can influence higher price potential

Declining US and global cattle and beef supplies will provide a higher floor for market prices over the next several years, and consumer demand will determine the ceiling. Since 1998, beef demand has grown at an average rate of 1.5% per year, driven by improving food safety, convenience, and quality (see Figure 3).

Figure 3: Beef demand growth can remain above trendline until the late 2020s



Source: USDA, Census Bureau, Bureau of Labor Statistics, RaboResearch 2025

The only disruptions to this growth over the last two decades were the late 2000s recession and a significant increase in pork and broiler supplies after the 2014 lows. RaboResearch expects beef demand growth to slow over the next several years, but it will likely maintain the stronger demand levels experienced between 2020 and 2024.

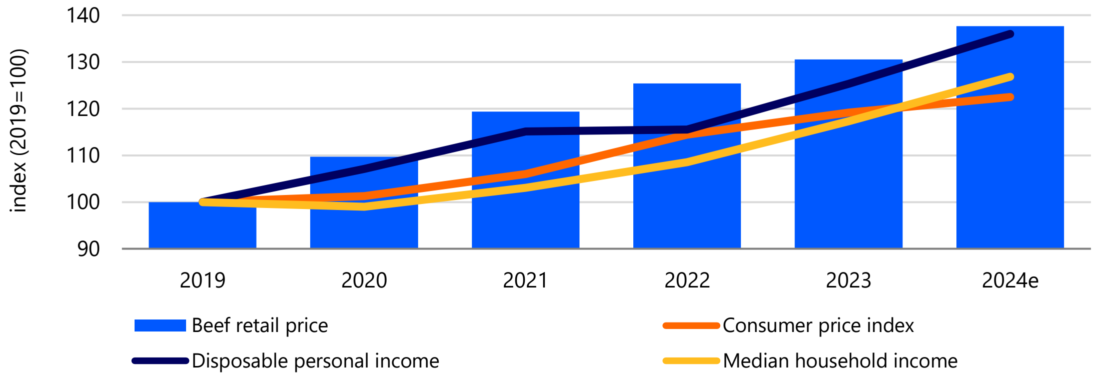
Despite initial concerns that economic challenges would dampen beef demand in 2024, the reality has been quite different. Analysts expected rising inflation to reduce consumer spending, but the all-fresh beef retail price reported by the USDA averaged more than USD 8/lb last year, while consumer demand increased nearly 5% YOY. This marks the best demand since 1986, highlighting beef's resilience and ongoing consumer appeal.

Global demand for US beef also remains strong. While export volumes fell by 4% in 1H 2024 compared to 1H 2023, they are expected to rise 2% YOY in 2H 2024. Overall, 2024 US beef exports will be steady to 1% lower than in 2023, but stronger beef market prices will support a 5% YOY increase in beef export value, reflecting the continued potential for US beef in the international market.

Conversely, the restaurant sector has struggled with declining customer traffic, particularly among casual dining chains. Rising menu prices have prompted beef consumers to seek better value in retail markets, while improvements in the share of beef graded as USDA Prime and Choice offered consumers better quality despite record-high prices.

At the start of 2024, analysts expected consumers to resist higher beef prices until incomes grew enough to offset inflation. However, beef price increases have consistently outpaced wage growth and inflation since the pandemic (see Figure 4). With recent gains in beef demand, US consumers are willing to pay more for beef as the industry prepares for a herd rebuild.

Figure 4: Retail beef price increases have outpaced income and inflation since the pandemic



Source: USDA, BEA, Census Bureau, RaboResearch 2025

Table 1 illustrates that steady consumer beef demand, trendline inflation, and a 3% annual decline in per capita beef supplies over the next three years would increase retail prices by 16%, creating a cycle-high average yearly beef price of USD 9.27/lb in 2027. If consumer demand improves just 1% annually, 2027 prices could increase 19% to USD 9.55/lb. A 2% increase in demand could push average beef prices 23% higher to USD 9.84.

Table 1: Beef supply and demand shifts will influence 2027 cycle-high retail prices

		Retail beef demand								
	CAGR	-2.0%	-1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%
Per capita beef supply	-3.0%	8.72	8.86	8.99	9.13	9.27	9.41	9.55	9.69	9.84
	-2.5%	8.62	8.75	8.88	9.02	9.15	9.29	9.43	9.57	9.71
	-2.0%	8.51	8.64	8.77	8.90	9.04	9.18	9.31	9.45	9.59
	-1.5%	8.40	8.53	8.66	8.79	8.92	9.06	9.19	9.33	9.47
	-1.0%	8.29	8.42	8.54	8.67	8.81	8.94	9.07	9.21	9.34
	-0.5%	8.18	8.30	8.43	8.56	8.69	8.82	8.95	9.08	9.22
	0.0%	8.06	8.19	8.31	8.44	8.57	8.70	8.83	8.96	9.09
		Forecast average annual retail beef price, 2027 (USD)								

Source: USDA, BEA, Census Bureau, RaboResearch 2025

Rising retail beef prices will also influence the price potential in the wholesale beef and cattle markets over the next several years. As beef and cattle supplies tighten, a larger portion of the retail price will affect upstream market valuations, encouraging herd rebuilding. This positive trend is already underway.

In 2024, the price of a 500lb steer calf accounted for nearly 40% of beef's retail price, compared to a 20-year average of 33%. This share is forecast to increase to 46% by 2027. Currently, more than 4 cents of every 10-cent increase in retail prices returns to US farmers and ranchers. As this cycle peaks, we can expect a record high in the producers' share.

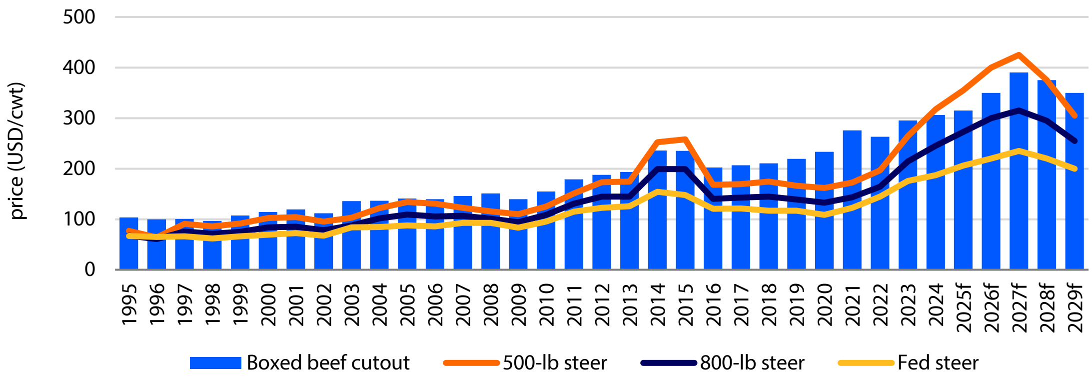
Value creation drives demand and differentiation

For decades the beef industry's fragmented supply chain model has thrived in a rising cost environment, effectively adding value and managing risk. Continuing this strategy will be crucial as herd rebuilding intensifies during the next several years.

RaboResearch predicts relatively steady consumer demand for beef over the next few years, leading to higher cattle prices (see Figure 5). If demand growth exceeds expectations, US cattle prices could rise significantly. Retail prices are projected to average USD 9.25/lb by 2027, supporting 500lb steer prices at USD 415/cwt, 800lb steers at USD 310/cwt, and fed steers at USD

225/cwt. In this scenario, the USDA comprehensive boxed beef cutout is expected to average USD 380/cwt.

Figure 5: Herd rebuilding will bring additional increases to wholesale beef and cattle prices

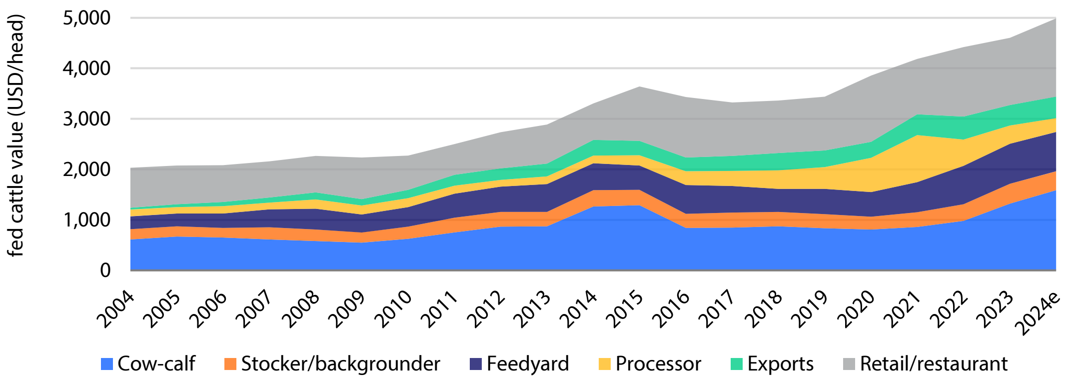


Source: USDA, LMIC, RaboResearch 2025

Demand shocks are a major planning obstacle for cattle and beef buyers. The fragmented US beef industry leads to unequal value distribution among participants. Each segment faces distinct infrastructure, labor, and logistical needs, creating delays in consumer-spending flow through the supply chain. This results in uneven – and often significant – swings in profits and losses across different segments, underscoring the need for strategic planning.

The US beef industry created nearly USD 5,000 per head in revenue for every fed steer and heifer processed in 2024. Figure 6 represents the per-head value creation by segment across the supply chain. Each segment covers its share of research, production, processing, and marketing costs to turn pasture into high-quality beef. Moreover, total value could increase to USD 6,000 as the expected increase in cattle costs affects the entire industry.

Figure 6: Each industry segment has added value to US fed beef production since the demand lows



Source: USDA, LMIC, RaboResearch 2025

Value creation does not happen without investment. For instance, the ranching and retail/food service segments generate the most industry value. They also have higher dollar-per-head cost contributions to production, processing, and merchandizing. The middle segments essentially add value by buying cattle and increasing profits through incremental contributions in production and processing.

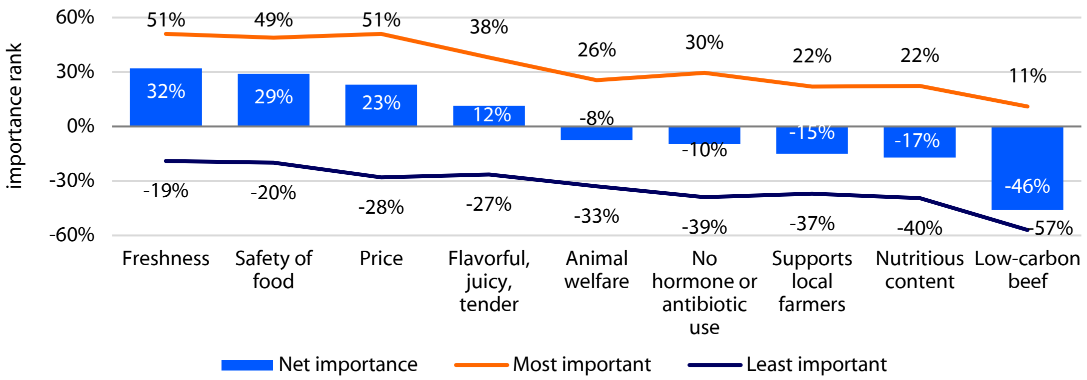
The US beef industry has focused on value creation for decades, leading to long-term improvements in demand. A key example of this is the National Beef Quality Audit, which is coordinated across the industry every five years. The first audit took place in 1991 and identified challenges the industry needed to address. These include external and seam fat, palatability, tenderness, cutability, and marbling.

The audits have had a positive impact on animal health, food safety, processing techniques, and cattle breeding throughout the industry. One significant outcome has been an increase in marbling in beef carcasses. In 2024, a record high of 83% of steer and heifer carcasses graded USDA Prime and Choice. This is a marked improvement from the low of 54% for the same quality grades in 2006.

Consumer needs are evolving, requiring the cattle production and beef processing industries to adapt. The 2022 National Beef Quality Audit identified several quality challenges, including food safety, cattle genetics, eating satisfaction, weight and size, visual characteristics, and the balance of lean, fat, and bone.

The Kansas Beef Council – in partnership with Kansas State University – surveyed 3,001 US consumers to identify the most important factors in beef purchasing decisions (see Figure 7). The research revealed freshness, food safety, price, and flavor as the top priorities for consumers.

Figure 7: Top beef attribute priorities of surveyed US consumers



Source: Kansas Beef Council, Kansas State University, RaboResearch 2025

As cattle producers, beef processors, and retailers seek to enhance value, it's crucial to address quality challenges and meet consumer preferences. Beef is not seen as a luxury good in the US market. Therefore, appealing to consumers requires more than competitive pricing against pork and poultry.

Ground beef is typically viewed as a value item, comprising around 55% of US beef consumption. In 2024, its retail price was 41% higher than boneless chicken and 32% above pork chops, reflecting a significant rise from only a decade ago, when those premiums were 20% and 10%. Twenty years ago, ground beef was discounted over 15% compared to these meats.

Fresh beef struggles to compete with pork and poultry on price. To justify its higher cost, it needs to meet consumer expectations. Improved understanding of the preferences of beef consumers will boost demand and differentiate beef products from the commodity market, leading to greater profitability for the entire beef industry.

Proactive management of cattle cycle side effects

Profitable businesses rely on a cycle of planning, execution, and evaluation. Rising cattle costs throughout the beef supply chain increase working capital demands. Incorporating effective risk management and strategic diversification can create greater opportunities for sustainable profits during this critical phase of the cattle cycle.

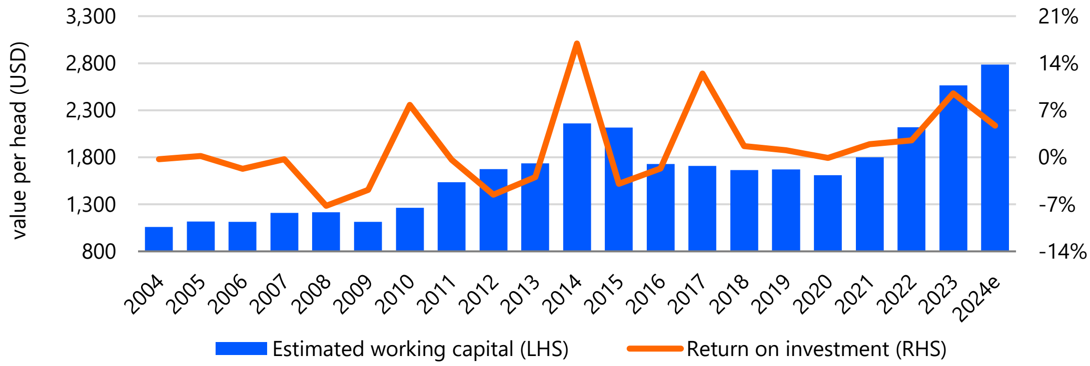
Managing risk in cattle production and beef processing

Effective risk management is especially critical for segments in the middle of the value chain, where cattle are generally the primary operating cost.

Take the feedyard segment as an example. Rising fed cattle prices may boost short-term margins. However, feedyards must maintain inventory and maximize capacity. This strategy leads to higher feeder cattle and calf prices in the long run, forcing feedyard returns to near breakeven.

That means the per head value of fed cattle is typically close to the working capital requirements to finish cattle in the long run. In 2024, the working capital needed to finish steers was nearly USD 2,800 per head (see Figure 8). That is 67% higher than 2019 levels (USD 1,670) and double what was necessary 15 years ago.

Figure 8: Feedyard working capital needs have doubled in 15 years



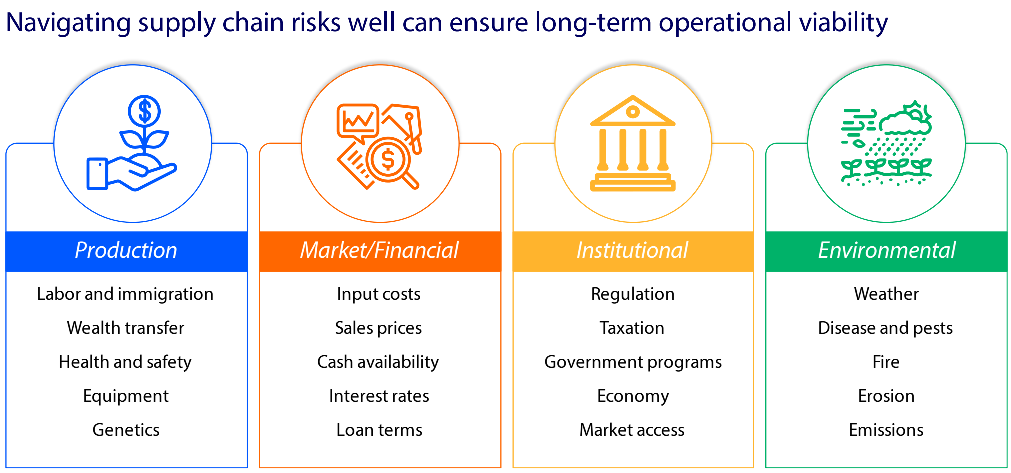
Source: USDA, LMIC, RaboResearch 2025

As working capital increases, returns from cattle feeding remain unchanged. The feedyard segment typically operates on thin margins, with a 20-year average cash-to-cash return on investment of just 1%. This means US feedyards are risking more cash than ever, and the returns are not improving.

While this example highlights one supply chain segment, similar challenges exist industry-wide. RaboResearch's forecast suggests that working capital needs will increase another 25% for market participants from now into the cycle highs at the end of the decade.

Cattle producers, beef processors, and end users must be diligent in assessing the risks that higher market prices present. Competition in the US beef sector means margins will likely remain thin, and careful planning and intentionality are required to manage the production, financial, institutional, and environmental risks that can influence profitability (see Figure 9).

Figure 9: Managing beef supply chain risks



Source: RaboResearch 2025

Market-related risks tend to demand more attention as prices increase, but the costs associated with supply chain risks increase proportionally. That means monitoring all aspects of the operation and paying attention to risks that could limit the long-term viability of the business.

Participation in programs for employee education, insurance, and access to government assistance can be critical to managing risk. Relationship building can also be essential to navigating risks, learning about business resources, and overcoming environmental challenges.

Diversifying operations to minimize supply challenges

Profitability can be elusive for some cattle and beef businesses when dealing with tighter supplies and higher procurement costs. Diversification within the beef supply chain may allow operators to offset rising working capital requirements and declining capacity utilization during this period in the cattle cycle.

For cattle producers, that may be as simple as adding spring and summer grazing cattle to the cow-calf operation. The price forecast for bred heifers and cows exceeds USD 4,000 per head at the cycle highs, and tighter cattle supplies will create market opportunities to extend ownership and add weight to cattle. The quicker turnover rate of grazing cattle can provide short-term cash flow opportunities, increase pasture utilization, and ease the cost of buying breeding stock or developing replacement heifers to restock pastures.

Feedyards could consider investing in cow-calf operations during the herd rebuilding phase. Higher replacement female prices and interest rates are limiting factors for herd rebuilding, especially among younger and part-time operators. Rather than investing in a ranch, feedyards could find more flexibility through a cost-share arrangement on the breeding stock with a cow-calf operation looking to restock. Partial ownership in a breeding herd – and providing the cow-calf operator with genetics, nutrition, and health management guidance – can secure a more consistent calf supply that better meets the performance and carcass quality needs of the feedyard.

Another opportunity for feedyards involves transitioning some bunk capacity to backgrounding weaned calves as capacity utilization declines with cattle supply reductions. Including backgrounding and finishing operations at the feedyard diversifies procurement opportunities and allows the operation to maintain capacity through a longer feeding period.

Cattle processors should also explore models that create joint ownership up- and downstream from the facility. Sustainable Beef LLC is starting operations in Q2 2025 and will leverage involvement across the beef supply chain. This unique ownership structure includes Nebraska cow-calf operators and feedyards near the facility. Furthermore, Walmart is a minority investor and will sit on the company's board. The ownership structure ensures the new facility will have access to a consistent local supply of high-quality cattle and a regular buyer for the beef with a distribution center near the facility.

Resilience is key to the industry's future

Shrinking supplies will lead to higher cattle and beef prices, increasing costs across the supply chain in the coming years. Rising consumer demand for beef may exacerbate these price hikes.

As prices rise, the beef industry must address quality challenges and adapt to consumer preferences to grow beef demand. Enhancing the value proposition of US beef can increase consumers' willingness to pay.

Like other agricultural sectors, the industry also faces margin pressures, with relatively stagnant profit margins and rising working capital needs since 2019. Maintaining liquidity during this rebuilding phase is crucial.

Production, financial, institutional, and environmental risks are increasingly significant in shaping the US beef industry's future. Effectively managing these risks and diversifying operations can strengthen the resilience and success of industry participants.

Imprint

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