

**GENERAL SESSION III
*Livestock Outlook***

Jim Mintert, Purdue University

Dr. James Mintert is Assistant Director of Extension, Agriculture and Natural Resources at Purdue University. Prior to joining Purdue University in 2009, Mintert was Professor and Extension State Leader in the Department of Agricultural Economics at Kansas State University. Mintert holds B.S. and M.S. degrees in agricultural economics from Purdue University and a Ph.D. from the University of Missouri. Dr. Mintert has received numerous awards including Outstanding Extension Program Awards from both the American Agricultural Economics Association and the Western Agricultural Economics Association, in addition to the American Agricultural Economics Association's Premier Forecaster Award for his livestock production and price forecasts. Dr. Mintert is also the author of over 200 publications focusing on the economics of the livestock industry and, for over two decades, taught Commodity Futures Markets, which focused on developing and evaluating commodity risk management strategies.

Abstract/Summary

Losses throughout the livestock sector have been severe during 2008 and 2009. Weak demand for meat and livestock products has been the culprit. What's going to take place the rest of 2009 and 2010? Will demand recover or will we have to reduce supplies to counterbalance the demand decline? How long will the adjustment take and how quickly will the profit picture improve?

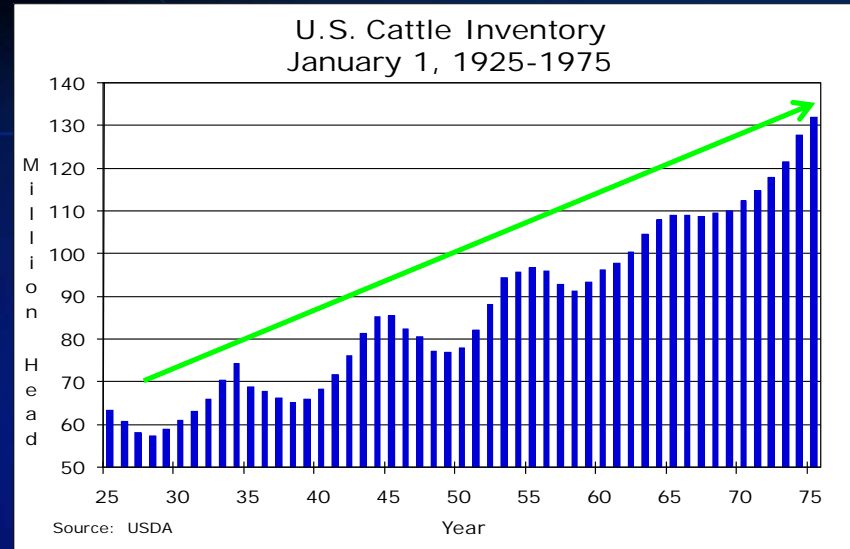
Cattle Outlook

James Mintert

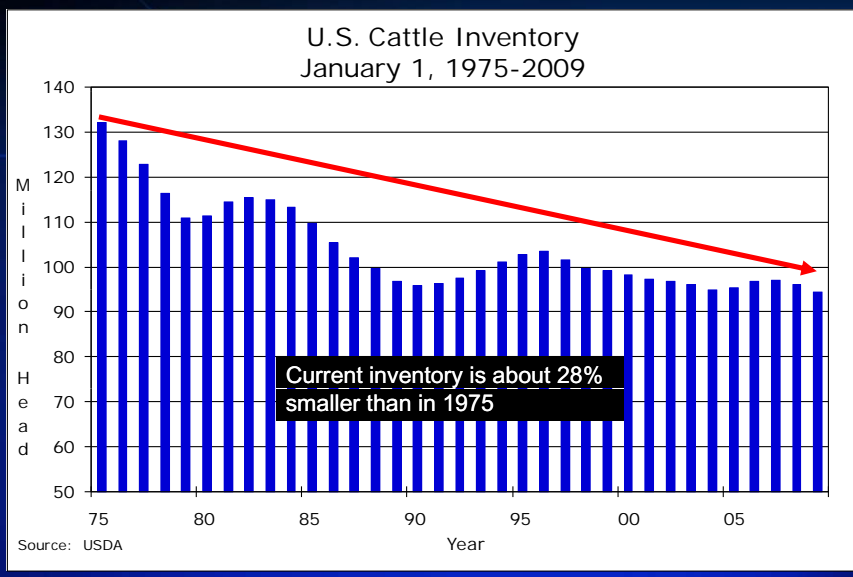
Assistant Director of Extension
Agriculture & Natural Resources

Purdue University

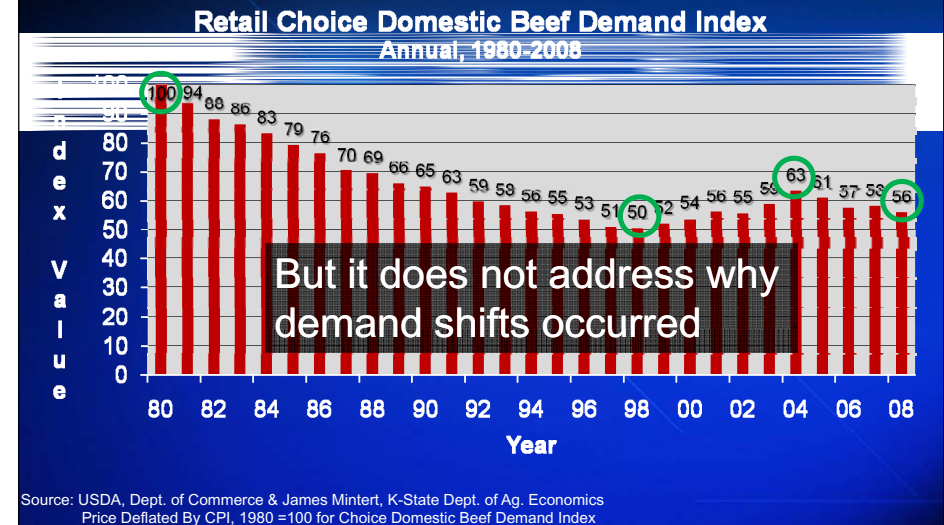
A Picture of A Healthy Industry



A Shrinking Industry Responding to a Long-Run Lack of Profitability



Index Tracks Demand Changes



Beef Demand Study

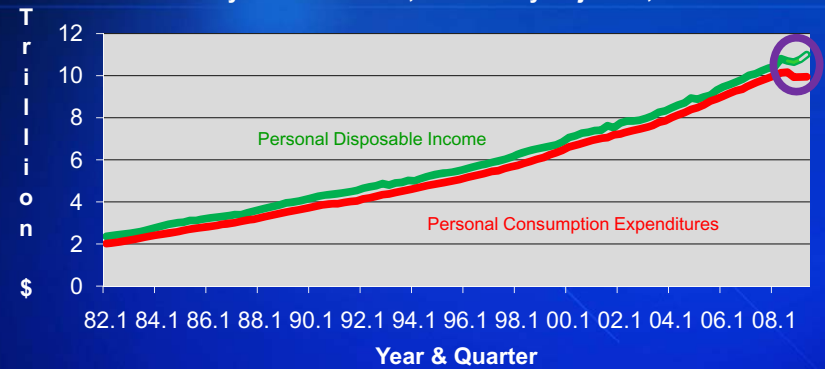
“Beef Demand Drivers & Enhancement Opportunities”

by

Glynn Tonsor, James Mintert & Ted Schroeder

Consumer Incomes Improving But Expenditures Remain Weak

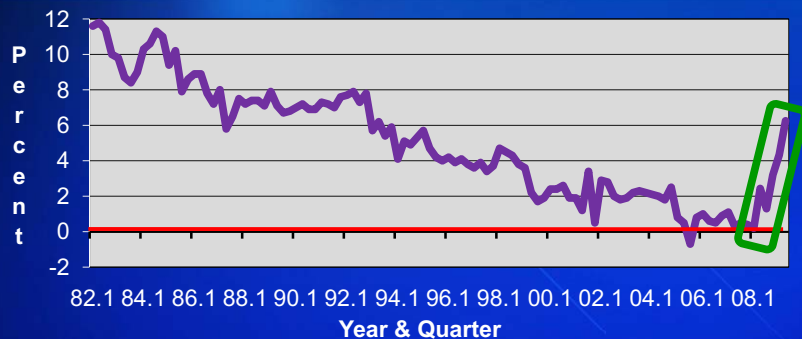
Personal Disposable Income vs.
Personal Consumption Expenditures
Quarterly at Annual Rate, Seasonally Adjusted, 1982-2009



Source: Bureau of Economic Analysis

Consumers Pushing Savings Rate Up Which Is Holding Down Beef Demand

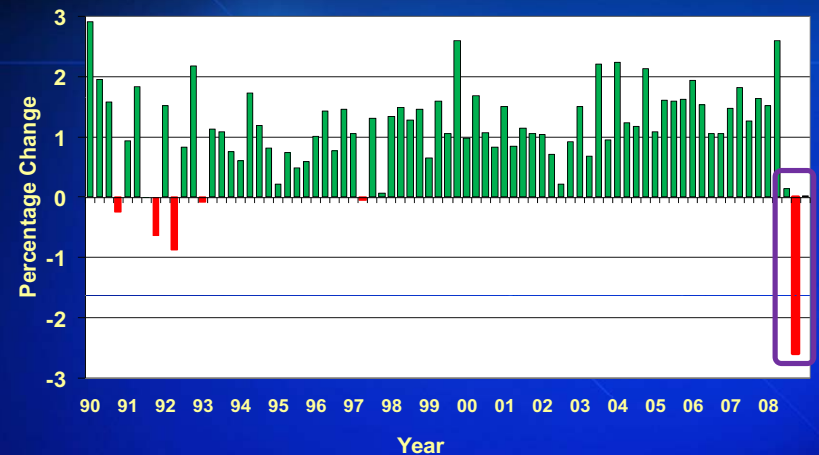
Personal Savings
% of Disposable Personal Income
Quarterly, 1982-2009



Source: Bureau of Economic Analysis

Consumers Pulling Back on Food Purchases

Percentage Change in Personal Consumption Expenditures for
Food, Annualized Rate, Seasonally Adjusted, 1990-2009



Beef demand & the U.S. Economy

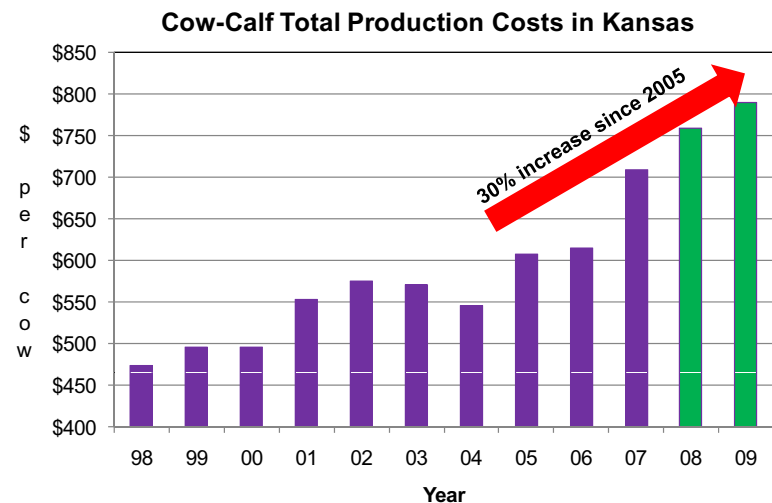
Historically, beef demand benefited from

- Growth in U.S. economy & low savings rate
- But in '09 & '10 problem areas are
 - Weak incomes
 - Rising savings rate, which will reduce expenditures

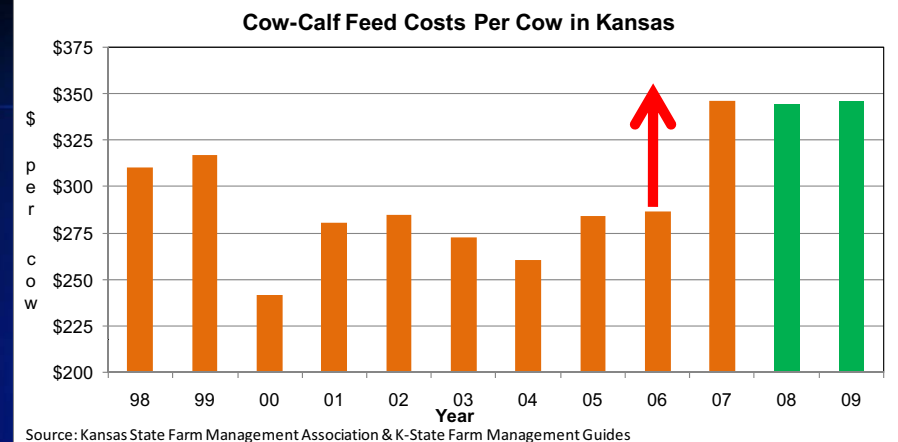
Near-term, weak consumer expenditures expected to hold back beef demand

IMPACT OF SHIFTING COST STRUCTURE

Cow-Calf Production Costs Rising Rapidly

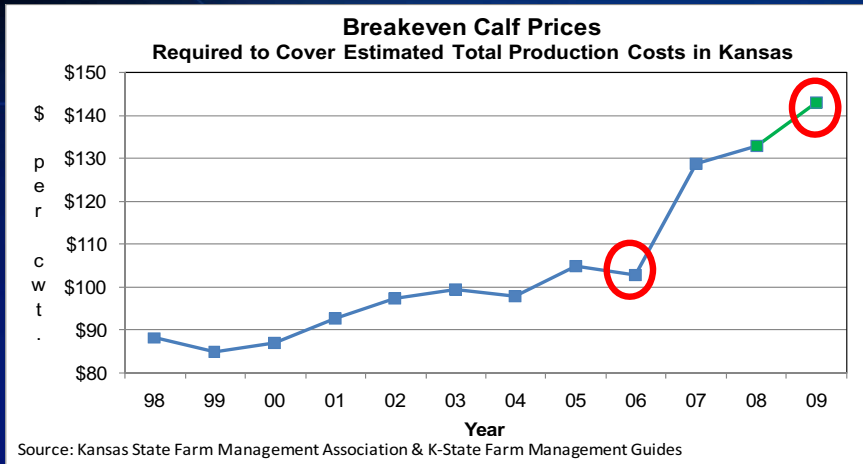


Feed Helped Drive Production Costs Up

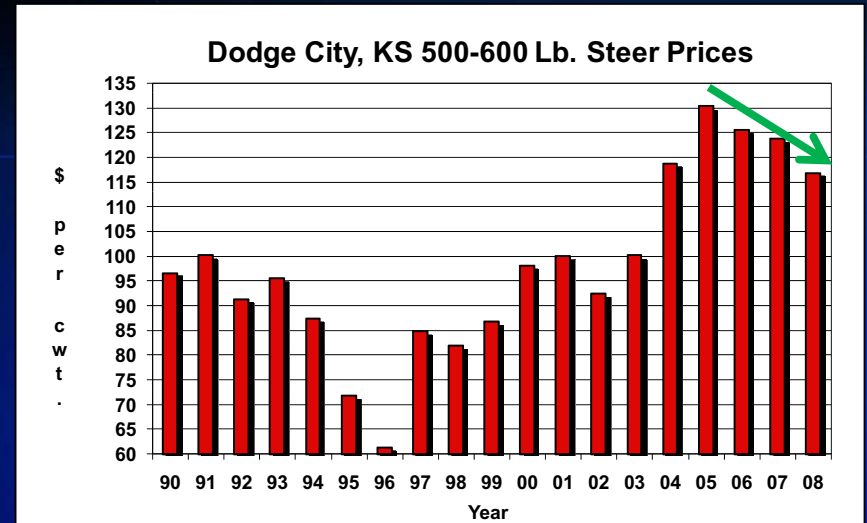


Rising Breakevens Putting Pressure On Cow-Calf Sector

Estimated '09 Breakevens Up 39% Compared to '06

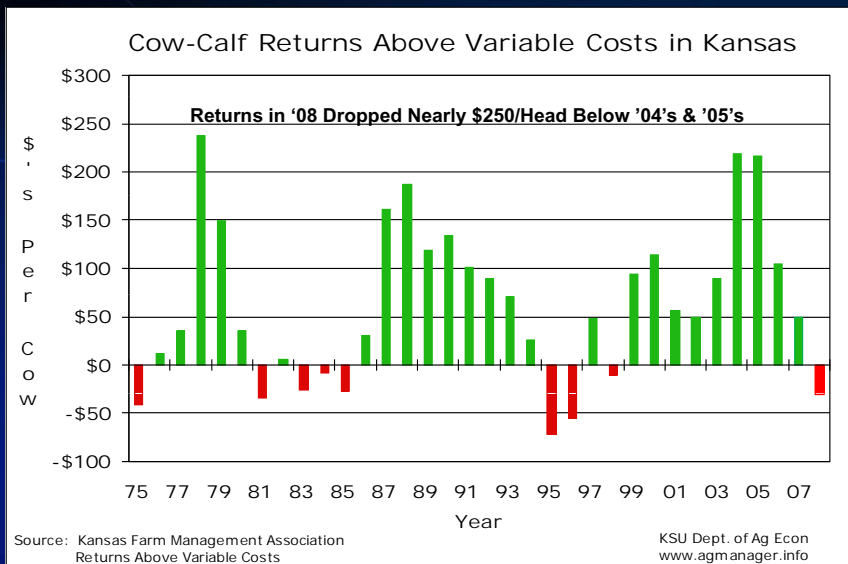


But Calf Prices Were Falling As Costs Rose



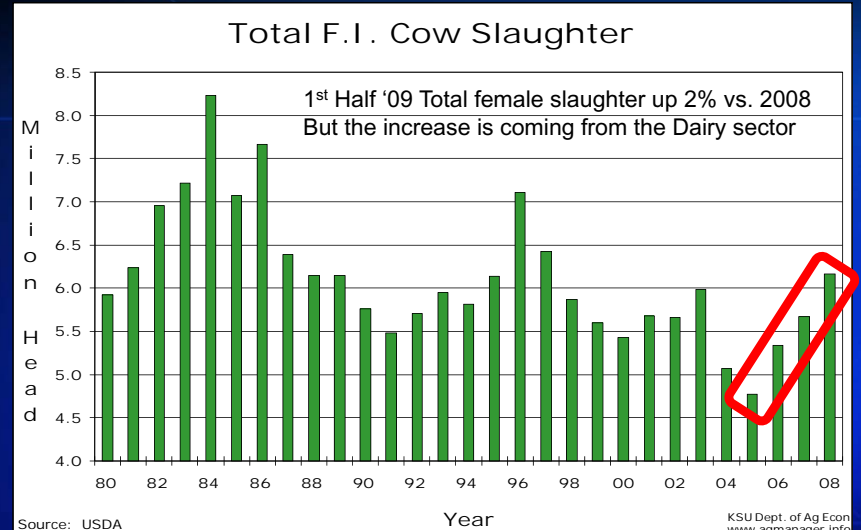
Returns Declined Rapidly

Returns Dipped Into The Red During '08 & Will Be Negative in '09

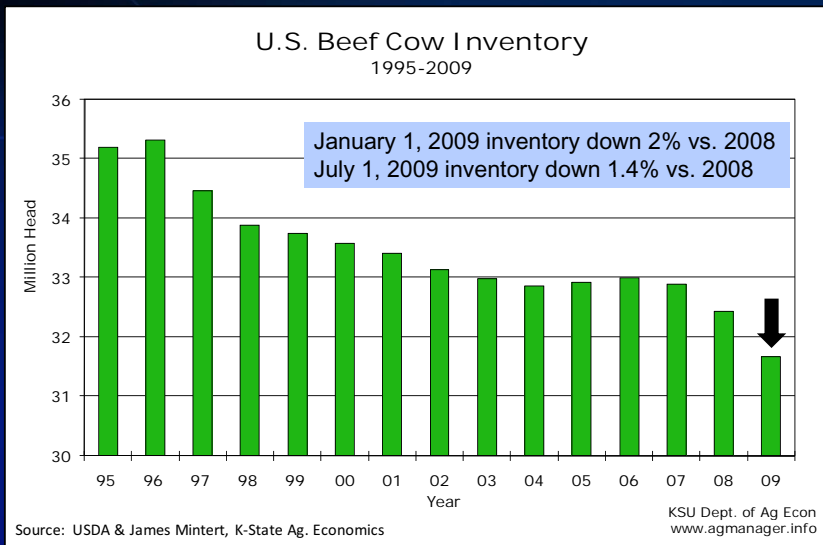


Total Cow Slaughter Up 3 Straight Years

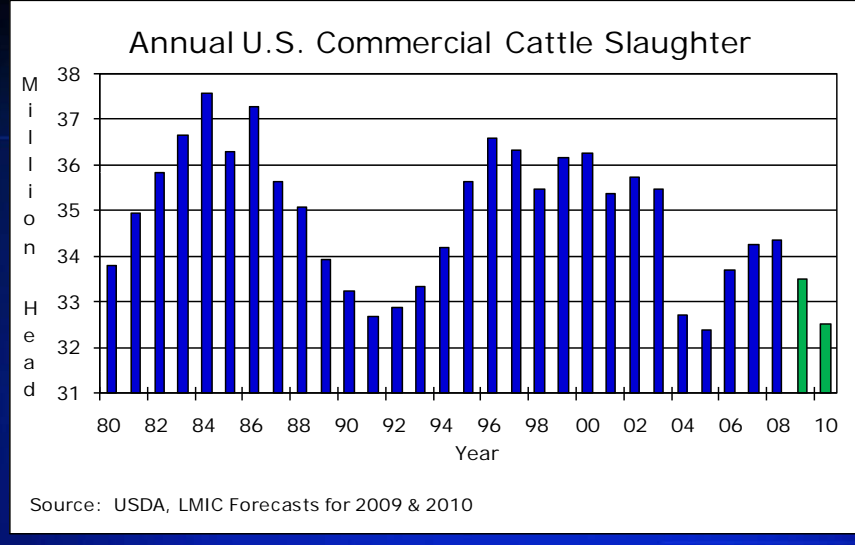
Cow slaughter increased 12% in '06, 6% in '07 & 9% in '08



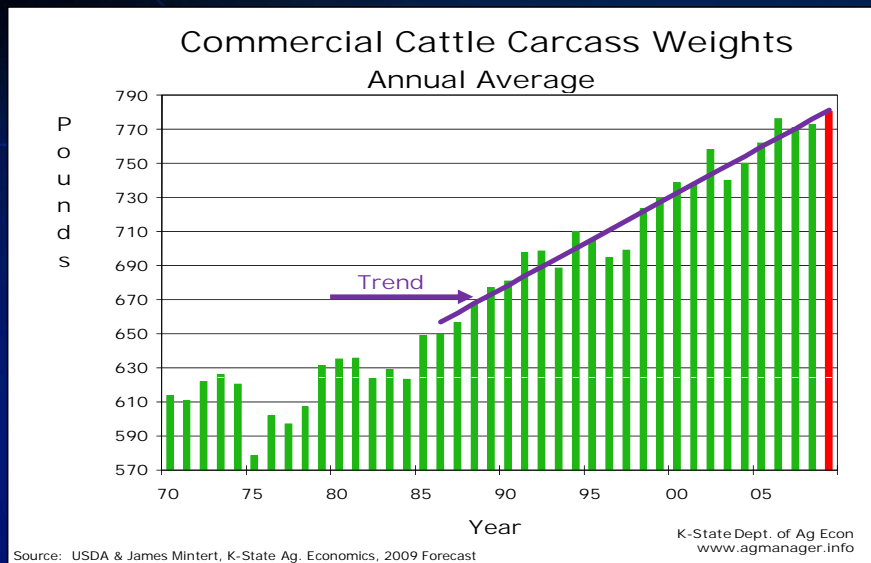
Beef Cow Inventory Declining



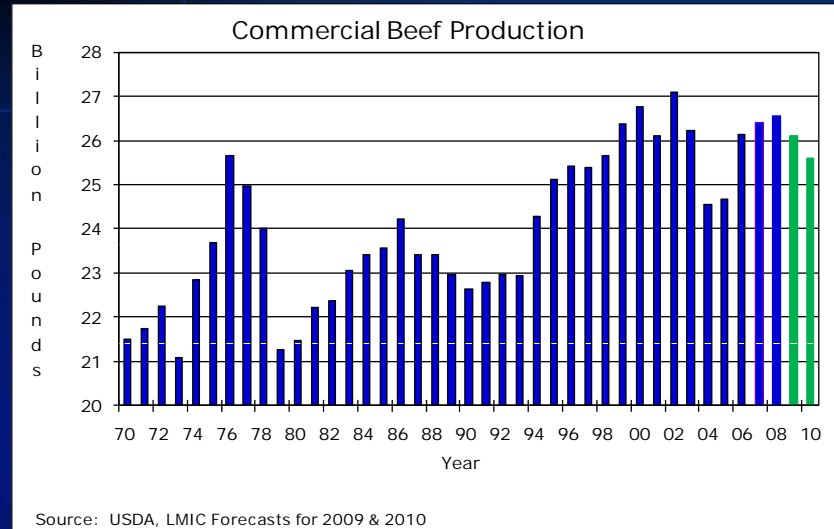
Slaughter Declines Expected in '09 & '10



But Cattle Are Coming Out At Heavier Weights

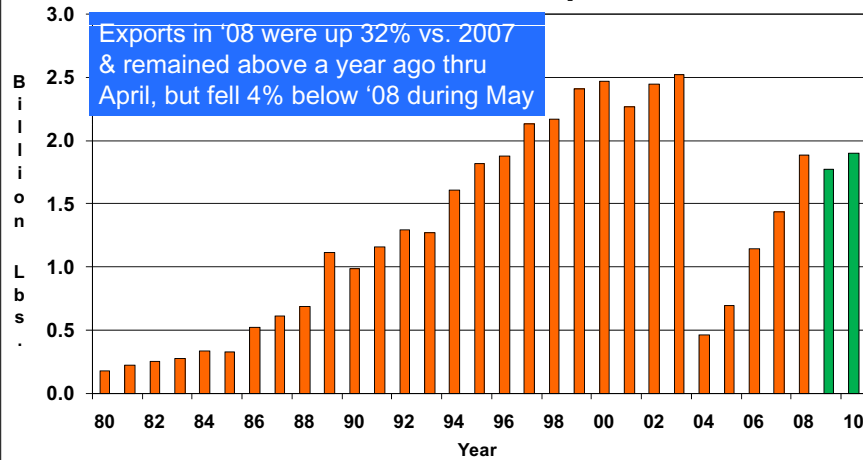


Beef Production Still Expected to Decline Even With Heavier Weights



Beef Exports Were Still Growing in Early '09 But Are Expected to Weaken During '09's 2nd Half

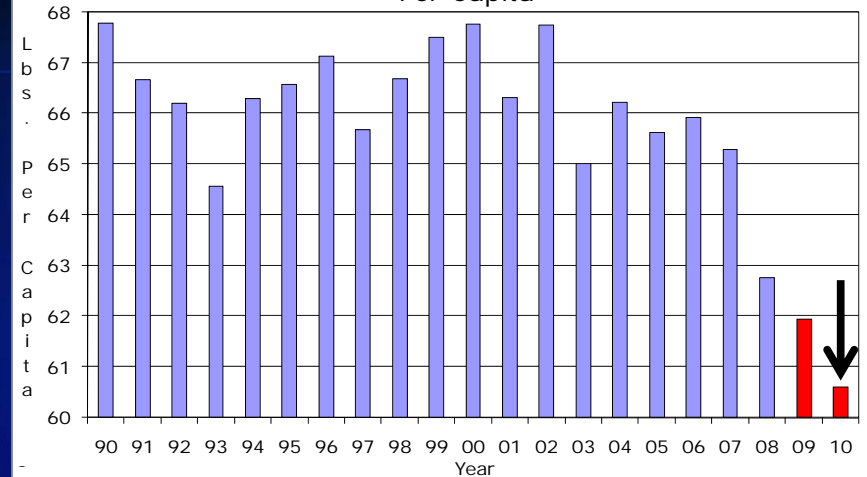
Annual U.S. Beef Exports



Source: USDA, 2009 & 2010 LMIC Forecasts

Smaller Domestic Beef Supplies Lie Ahead Especially in 2010 & Beyond

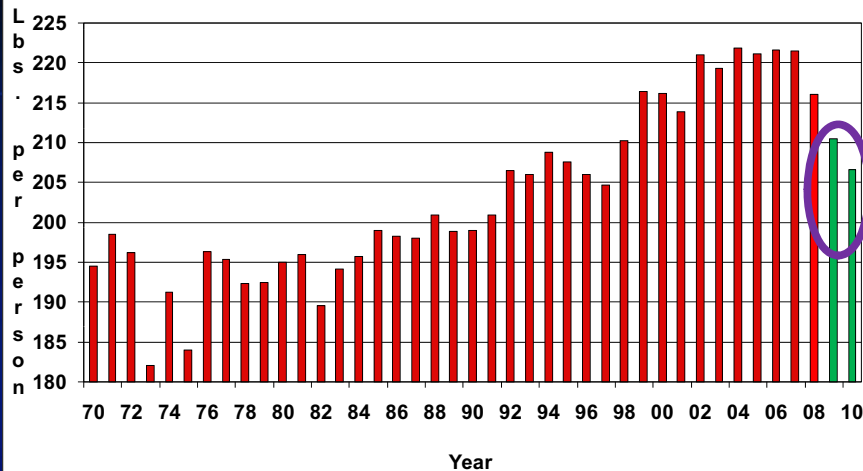
Annual U.S. Retail Beef Consumption Per Capita



Source: LMIC, Forecasts for 2009 & 2010

Total Meat Supplies Will Be Very Tight By 2010

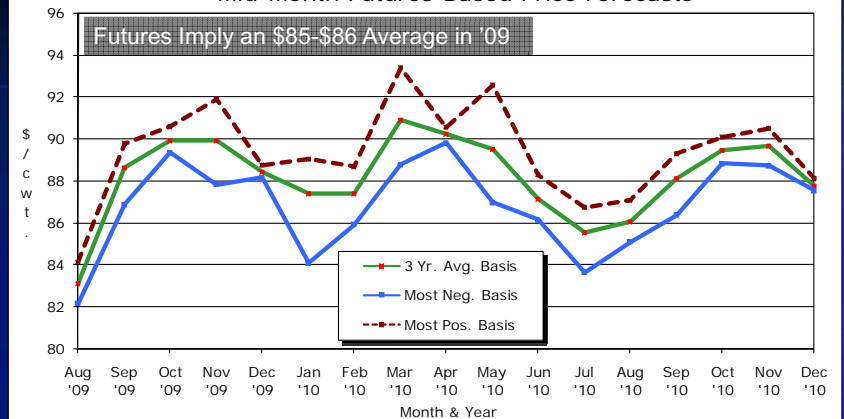
Annual U.S. Red Meat & Poultry Consumption Per Capita



Source: LMIC, forecasts for 2009 & 2010

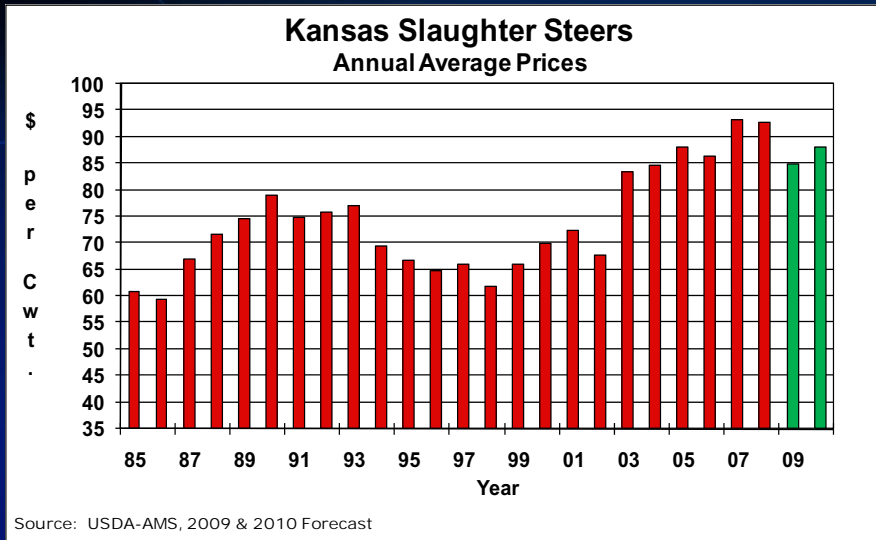
Futures Expect A Fall Recovery

Kansas Slaughter Steer Price Forecasts Mid-Month Futures Based Price Forecasts



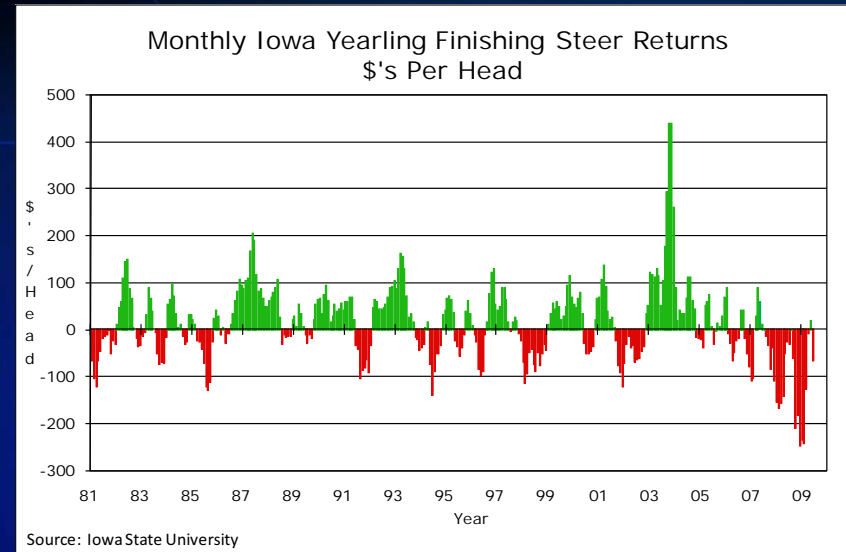
Source: USDA-AMS & CME
Based on 07.27.09 CME Live Cattle settlement prices

Weak Demand Is Still a Problem in '09 When Demand Recovers, Tight Supplies Will Push Prices Up

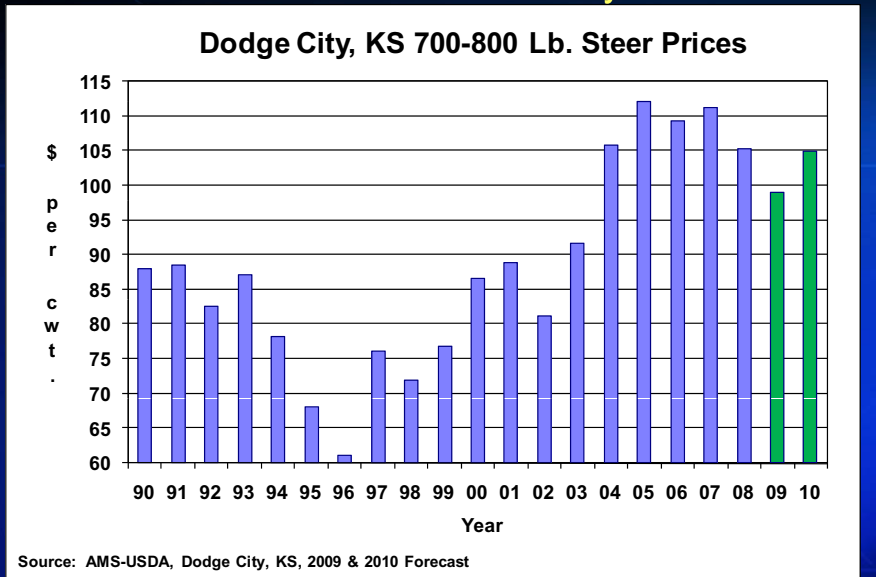


Record Losses for Cattle Feeders

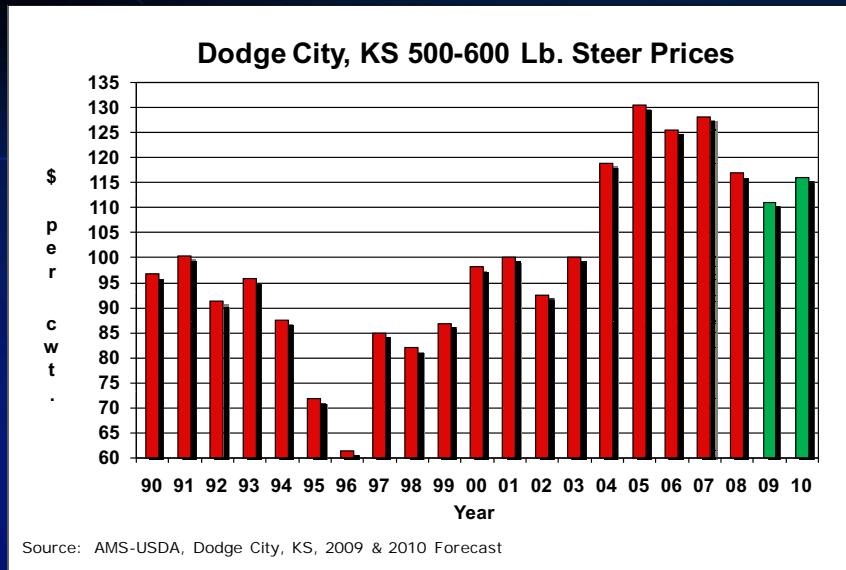
Losses Averaged \$120/Hd in '08 & \$110/hd. In '09



Lower Fed Cattle Prices Will Hold Down Feeder Prices But Look For Modest Recovery in 2010



Look for Calf Price Recovery to Begin in 2010 But Prices Will Still Be Below Breakevens



Looking Forward

- ✓ Weak U.S. economy will hold back beef demand
 - ✓ Rising savings rates will have a long lasting impact
- ✓ Tight supplies could set the stage for very strong price rebound, once demand improves
- ✓ Domestic beef demand still suffering from long-term decline...late '90's through '04 starting to look it was just a "blip" in the long-term decline

Feeder Cattle Basis Forecast		Hedge Analysis
State: Florida	Location: Ocala	Expected Sale Date: 8/17/2009
Sex: Steer	Frame: Lg & Med/Lg	Grade: 1-2
Weight: 410 lbs/head	Head: 1	
Feeder Cattle Futures Price: 96.27 \$/cwt	Live Cattle Futures Price: 89.35 \$/cwt	Corn Futures Price: 3.84 \$/bu
Reference Contract: Aug 2009 Transaction Date: Mar 09, 2009	Reference Contract: Feb 2010 Transaction Date: Mar 09, 2009	Reference Contract: Sep 2009 Transaction Date: Mar 09, 2009
Display Horizontal		Display Vertical
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Model-estimated feeder cattle basis values ¹		Results
Model-estimated feeder cattle basis, \$/cwt ²		9.49
Confidence interval for basis, \$/cwt ³		3.29 to 15.68
Expected cash price, \$/cwt		105.76
Confidence interval for expected cash price, \$/cwt ³		99.56 to 111.95
Optimal hedge ratio ⁴		0.8199
Number of calves hedged per contract ⁵		149