

Livestock Outlook

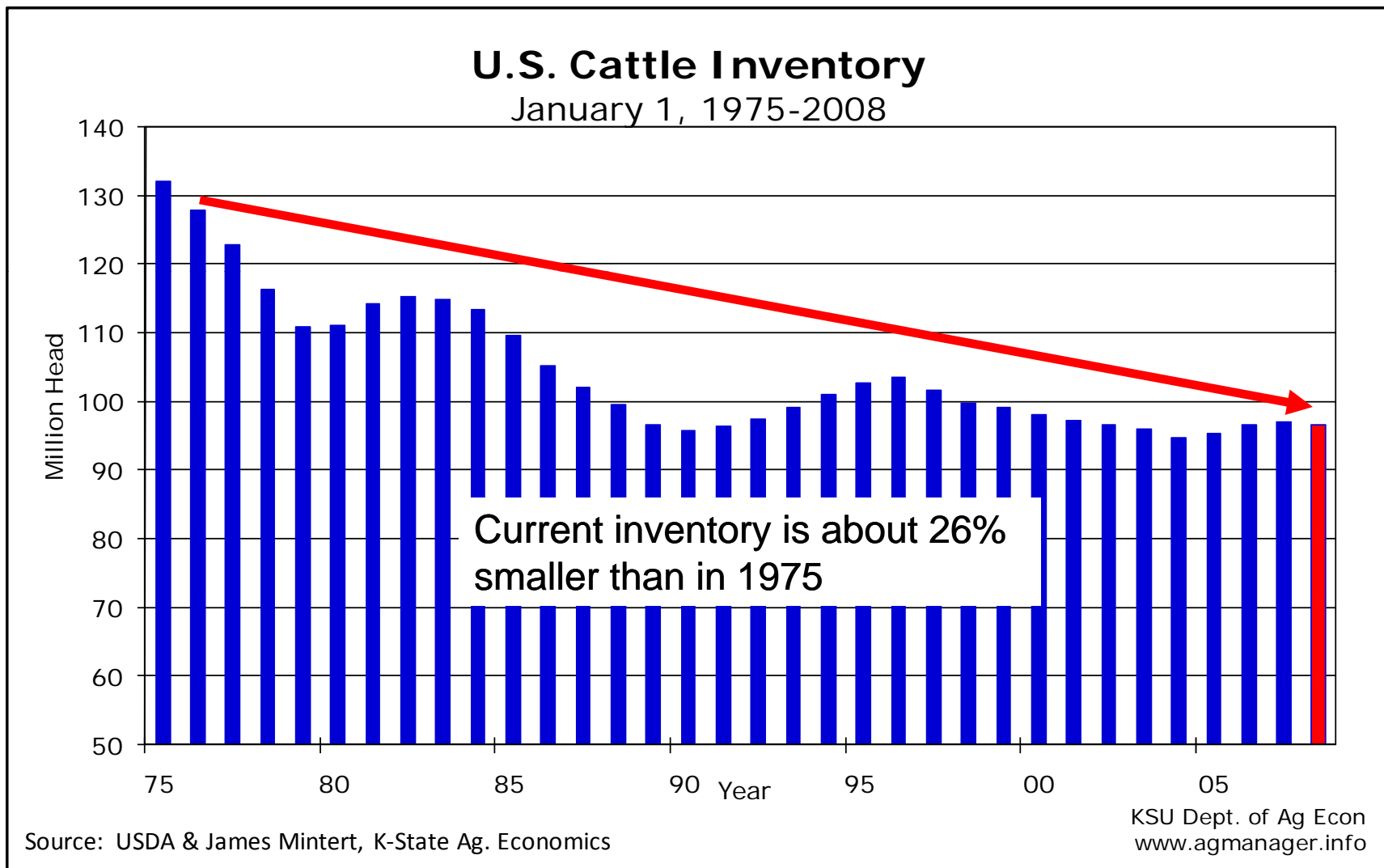
James Mintert, Ph.D.

Professor & Extension State Leader
Department of Agricultural Economics
Kansas State University

August 15, 2008

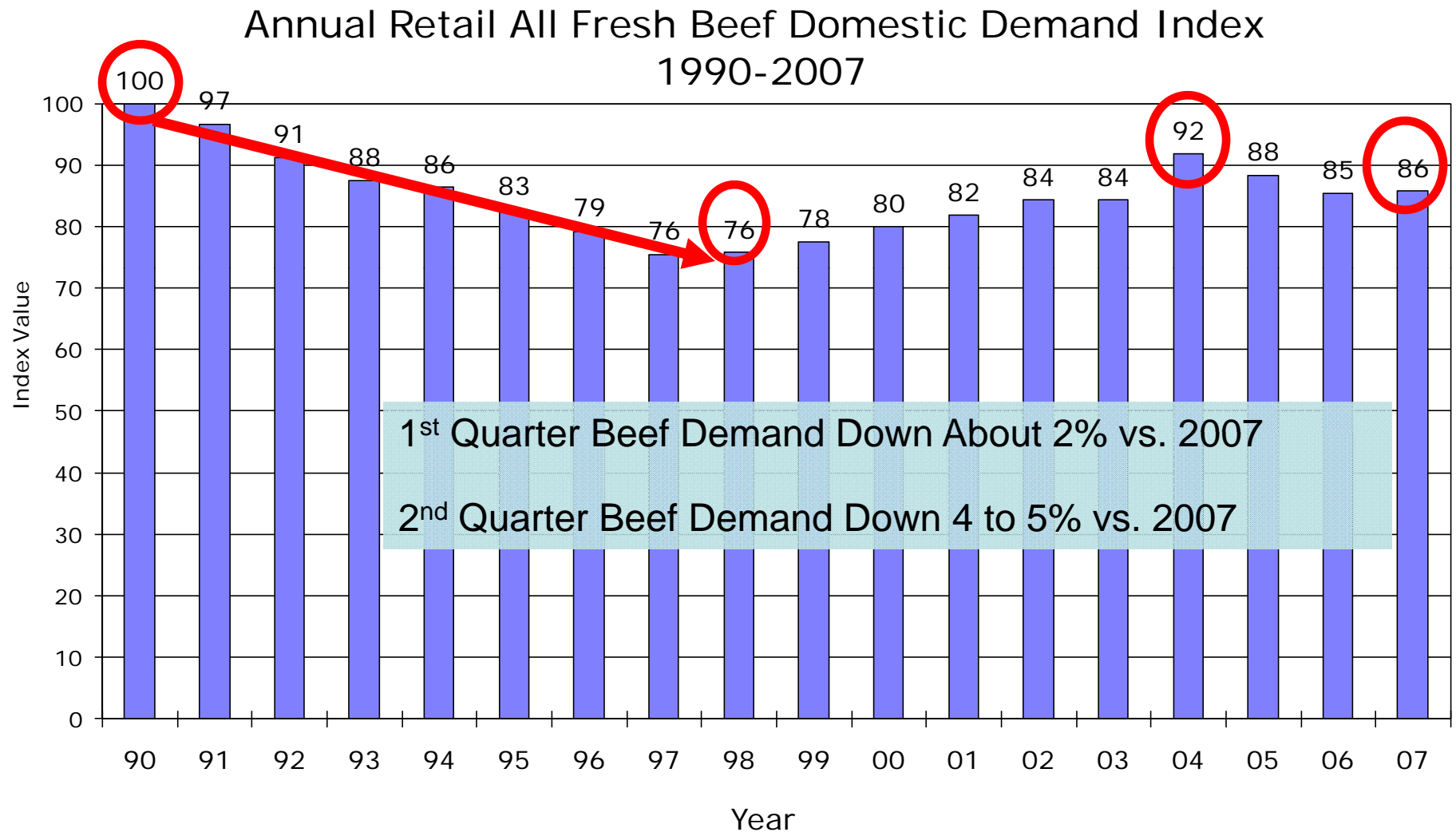
DOMESTIC BEEF DEMAND

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



Weaker Domestic Demand Was Key

Weakening U.S. Economy Means Weaker Domestic Demand in 2008



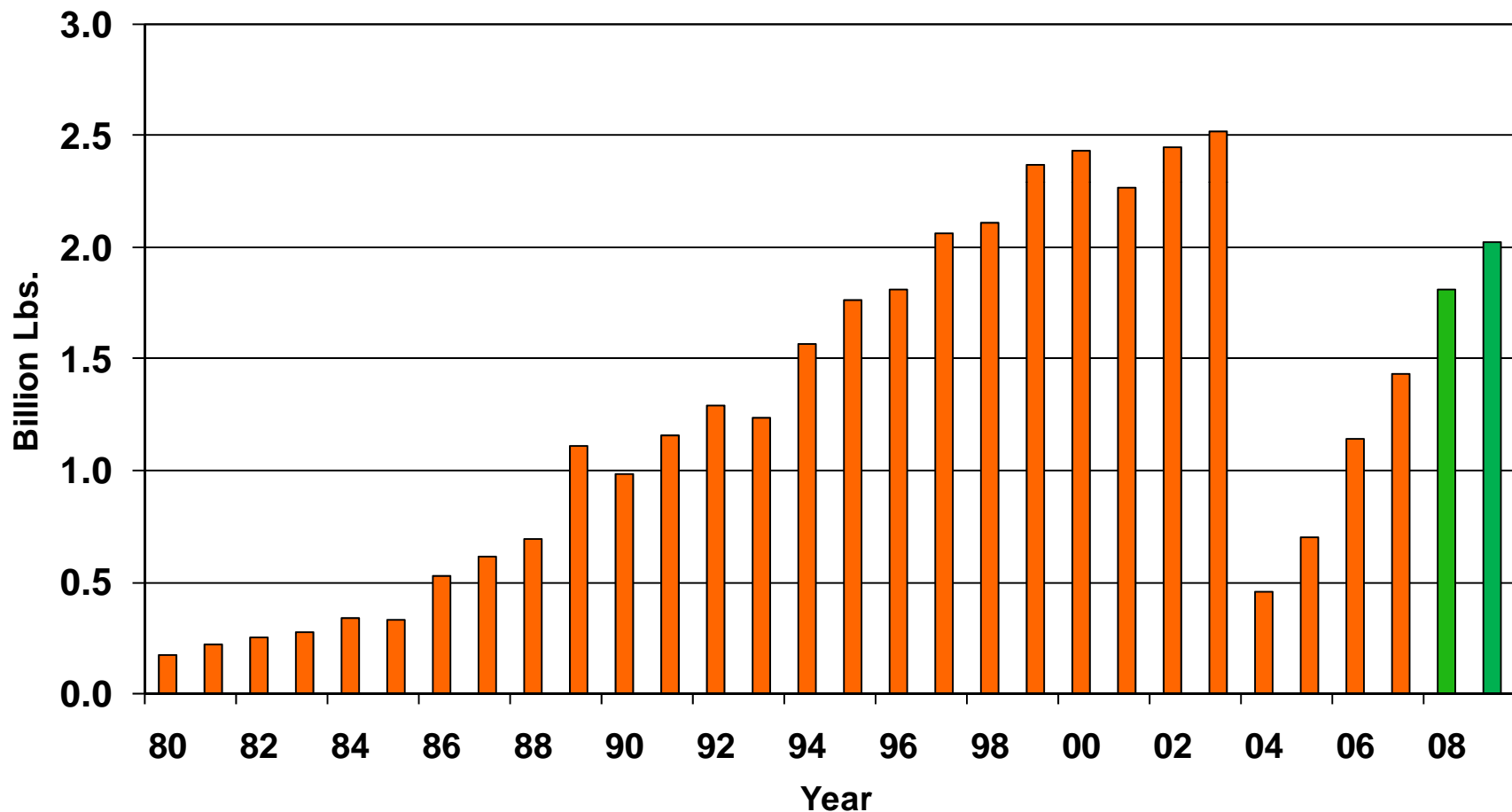
Source: USDA, Dept. of Commerce & James Mintert, K-State Dept. of Ag. Economics
Price Deflated By CPI, 1990 = 100 for All Fresh Beef Demand Index

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EXPORT DEMAND

Beef Exports Are Growing But Still Well Below 2003's

Annual U.S. Beef Exports

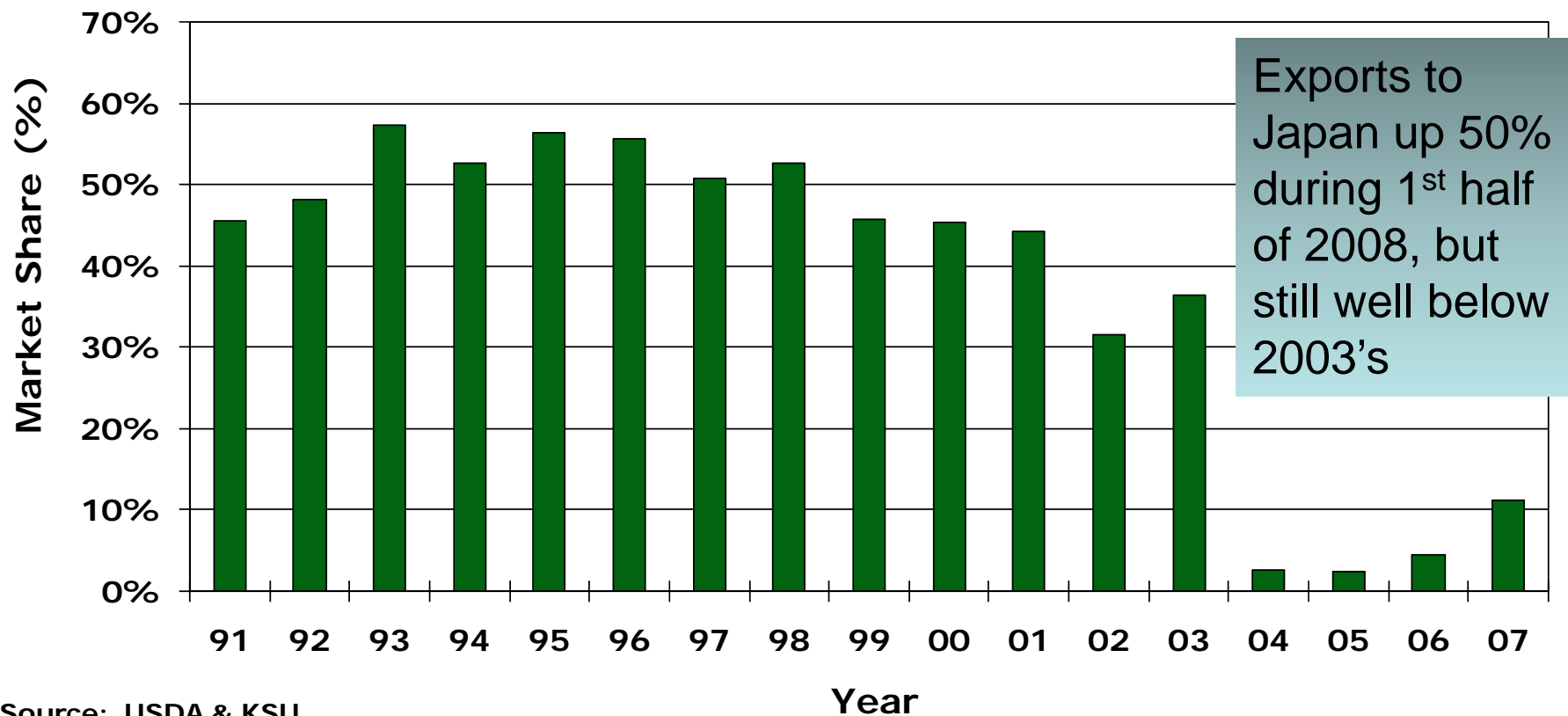


Source: USDA, 2008-2009 LMIC Forecasts

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Problem Continues To Be Limited Access To Key Markets

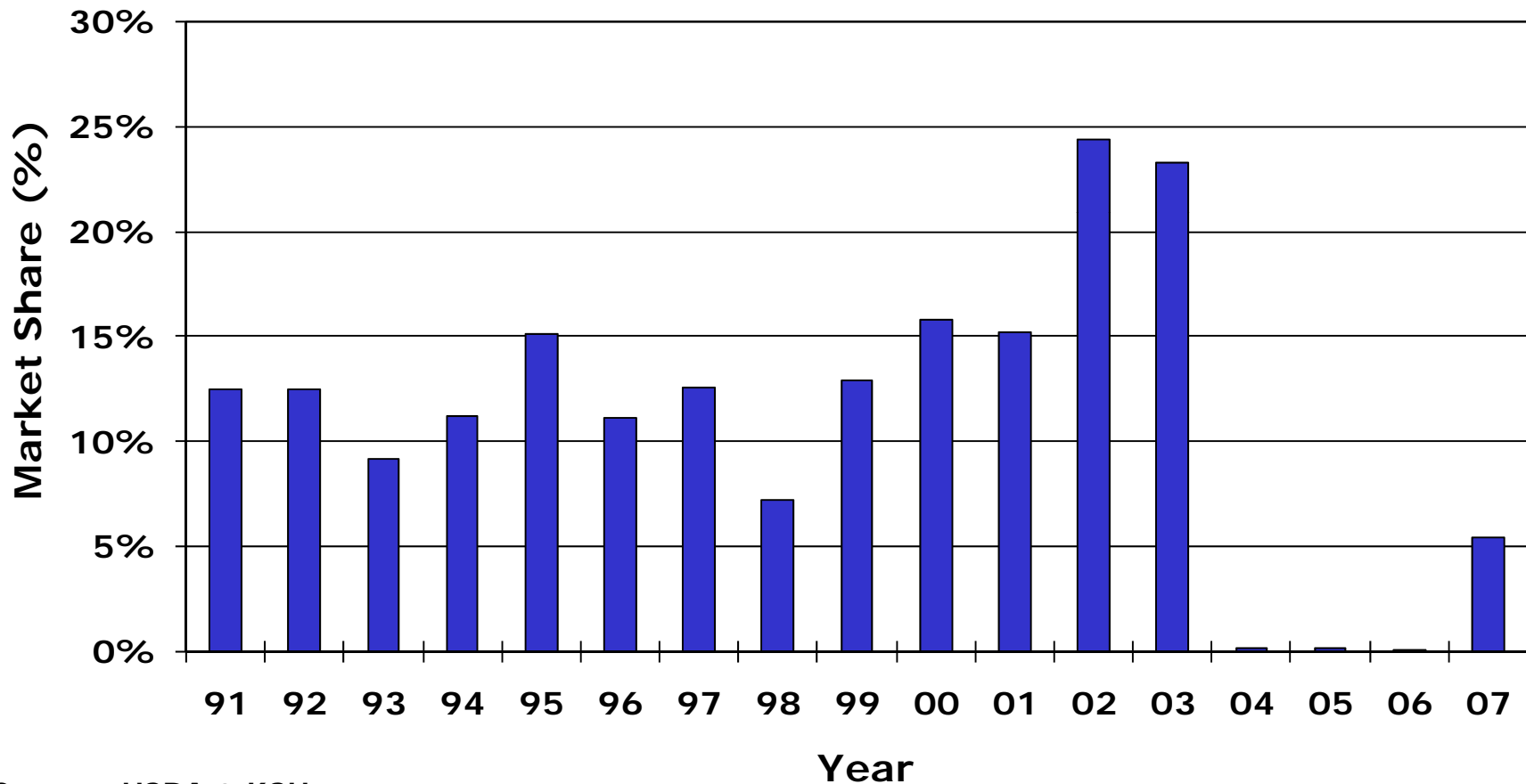
Japan's Share of U.S. Beef Exports



Source: USDA & KSU,
Measured On A Carcass Weight Basis

How Quickly Will Exports To Korea Rebound?

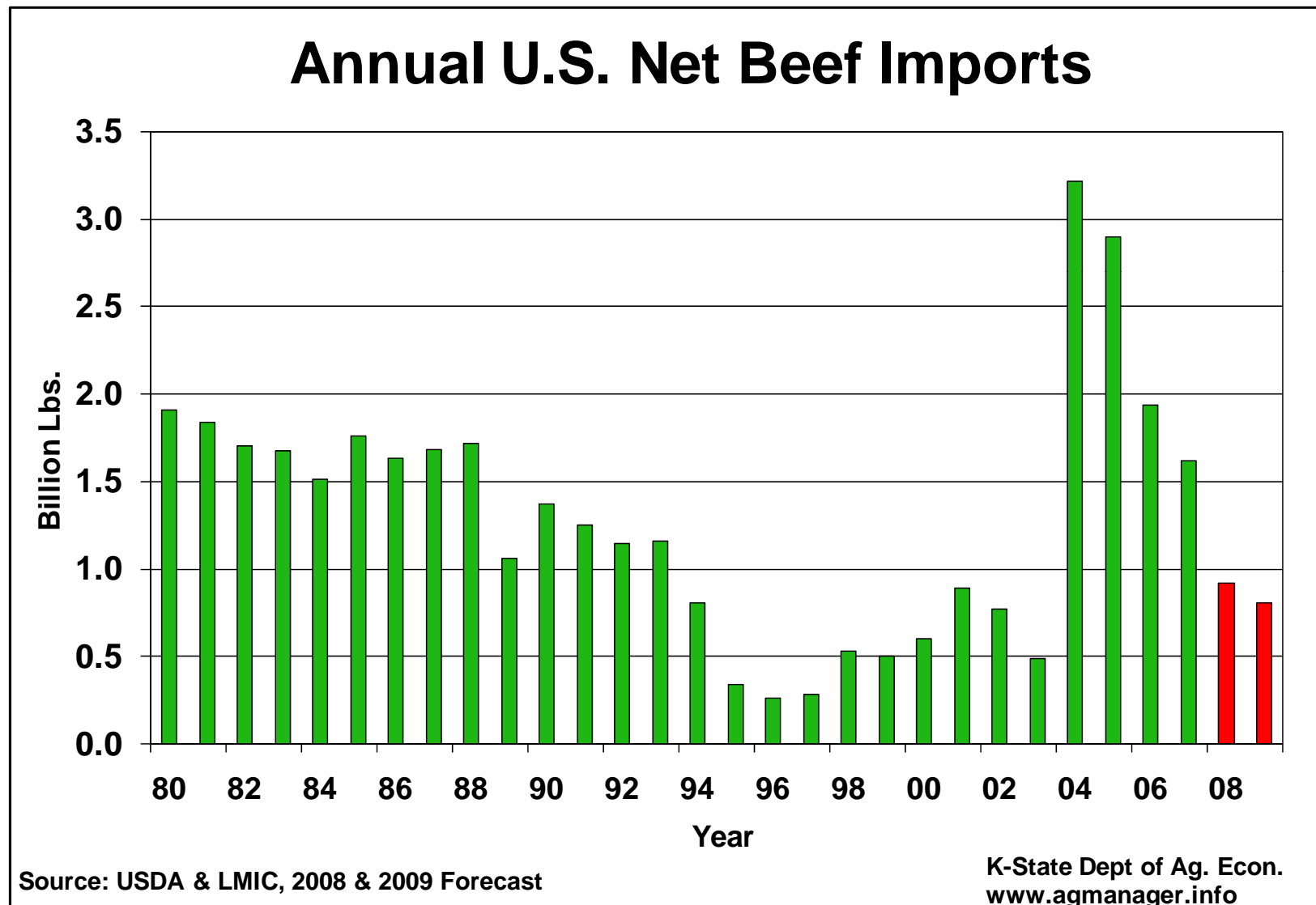
Korea's Share of U.S. Beef Exports



Source: USDA & KSU,
Measured On A Carcass Weight Basis

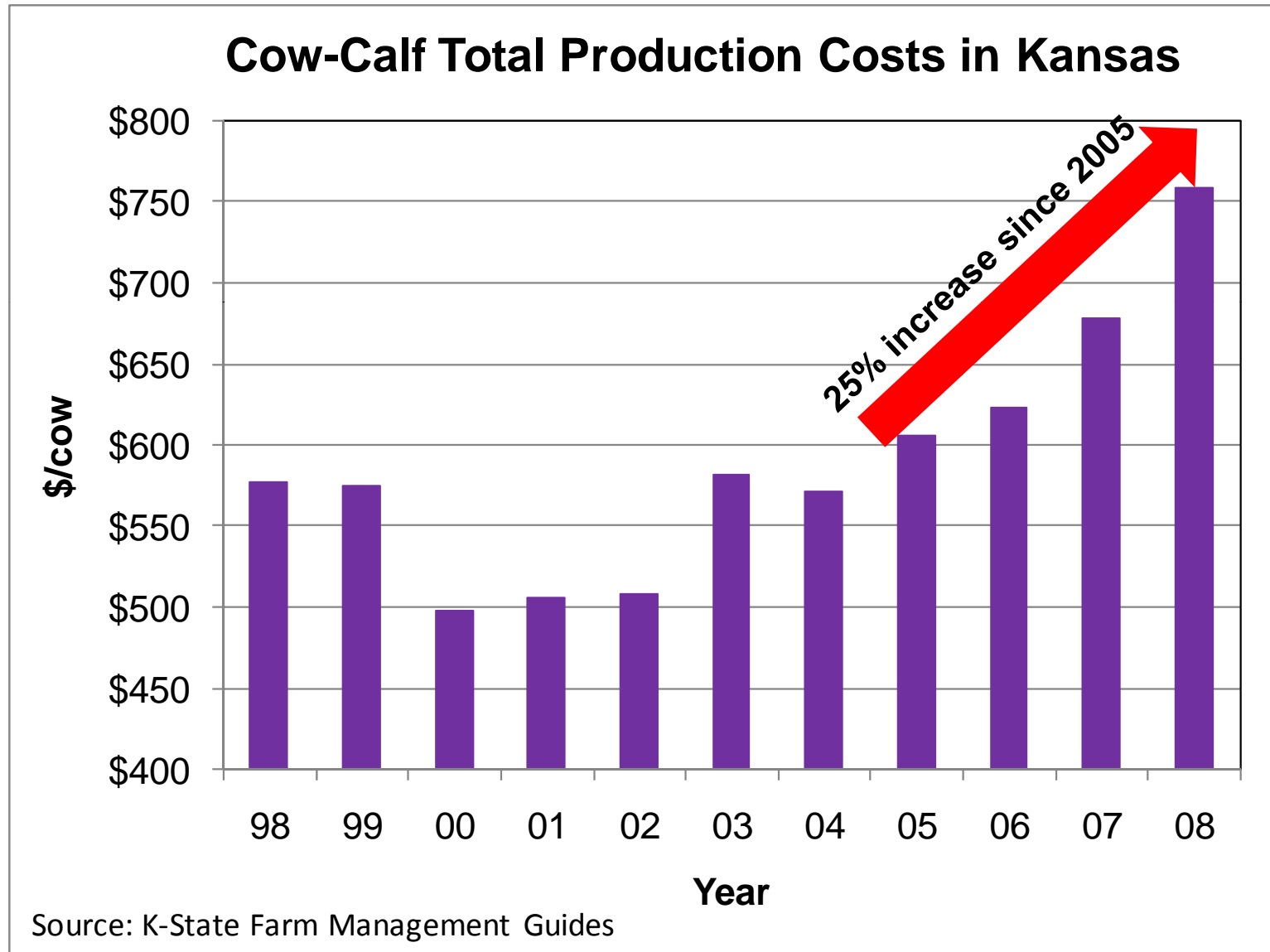
Export Increases and Import Declines

Will Hold Down Per Capita Beef Supplies in U.S.

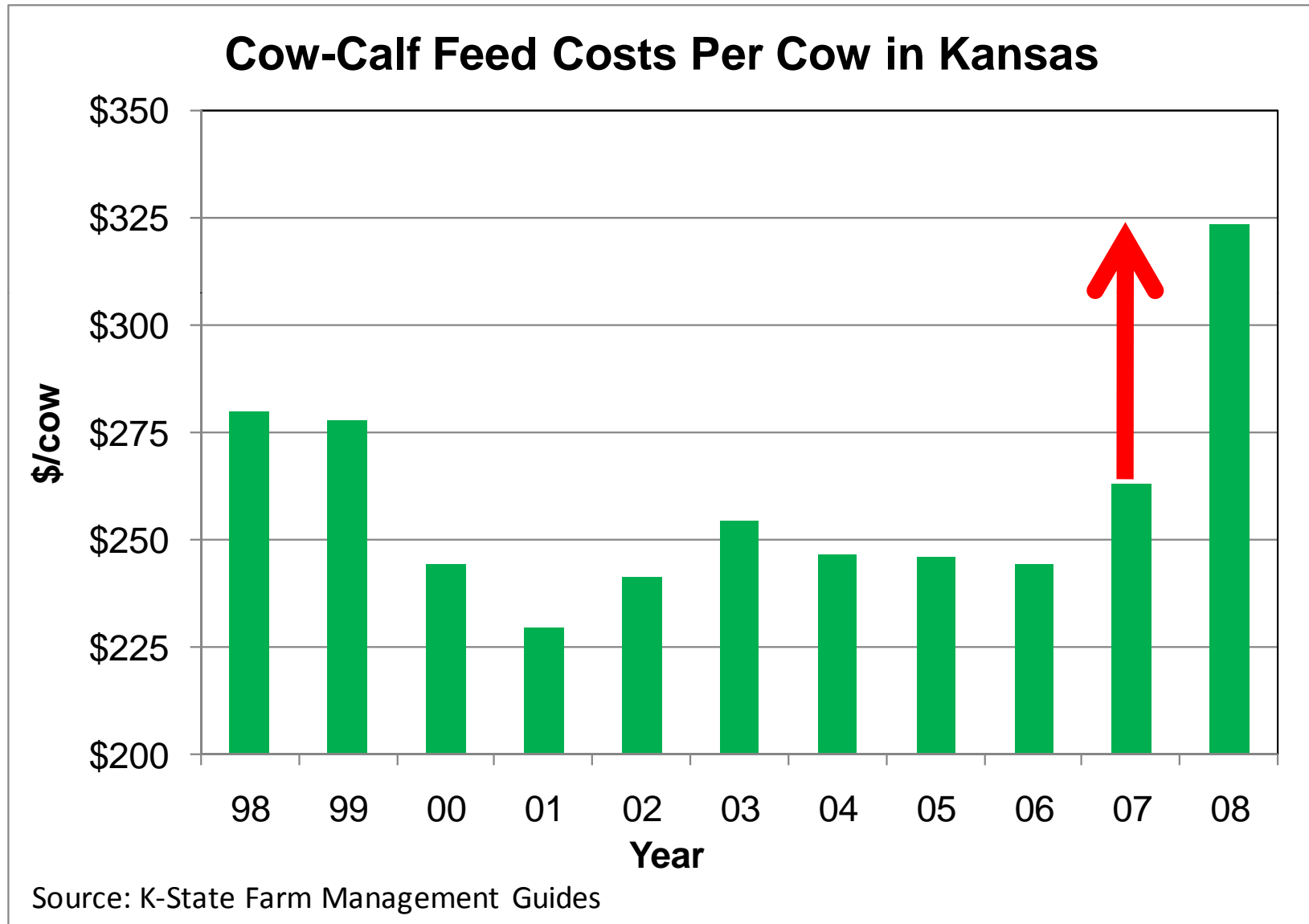


IMPACT OF SHIFTING COST STRUCTURE

Cow-Calf Production Costs Rising Rapidly

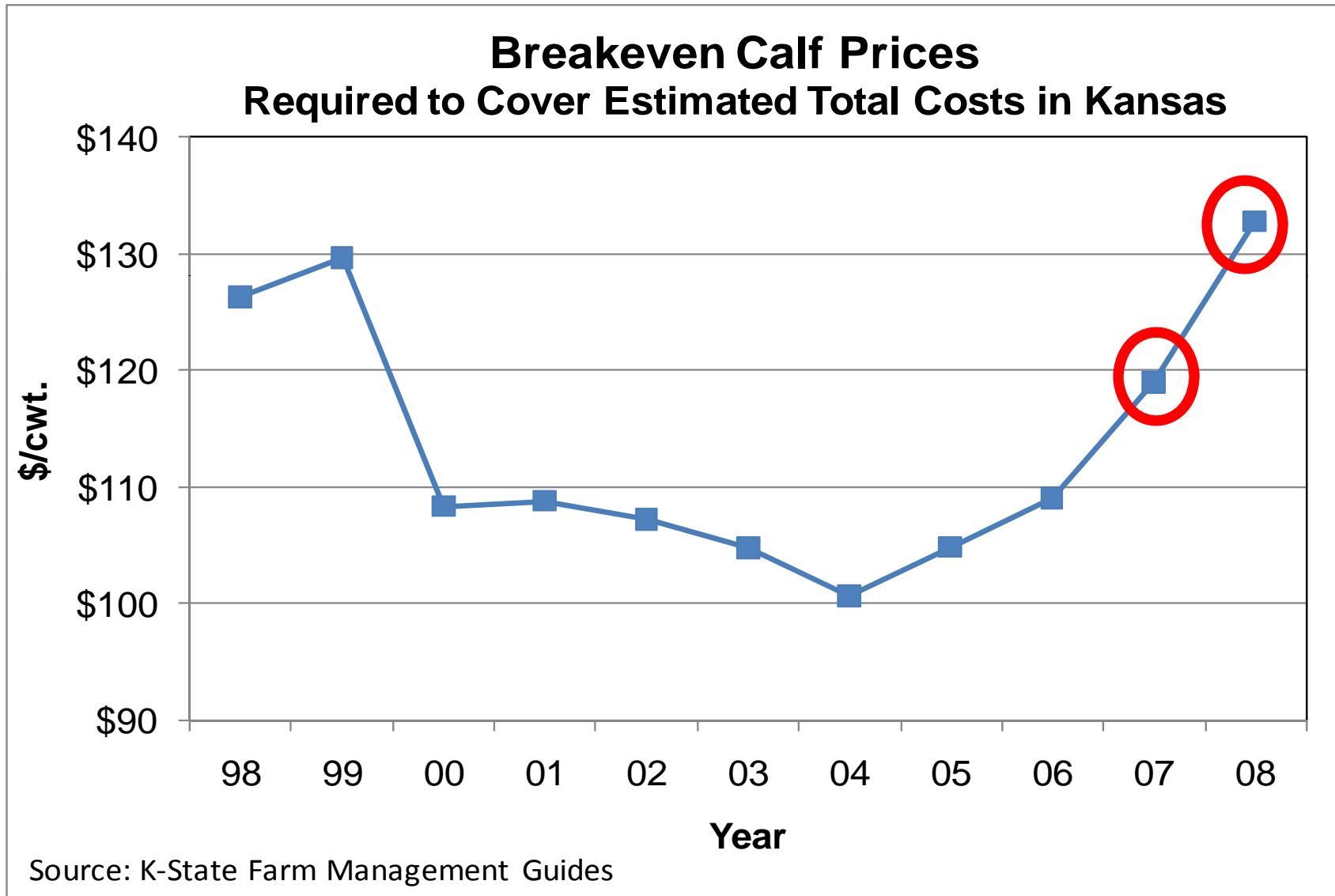


Feed Driving Future Production Costs Up



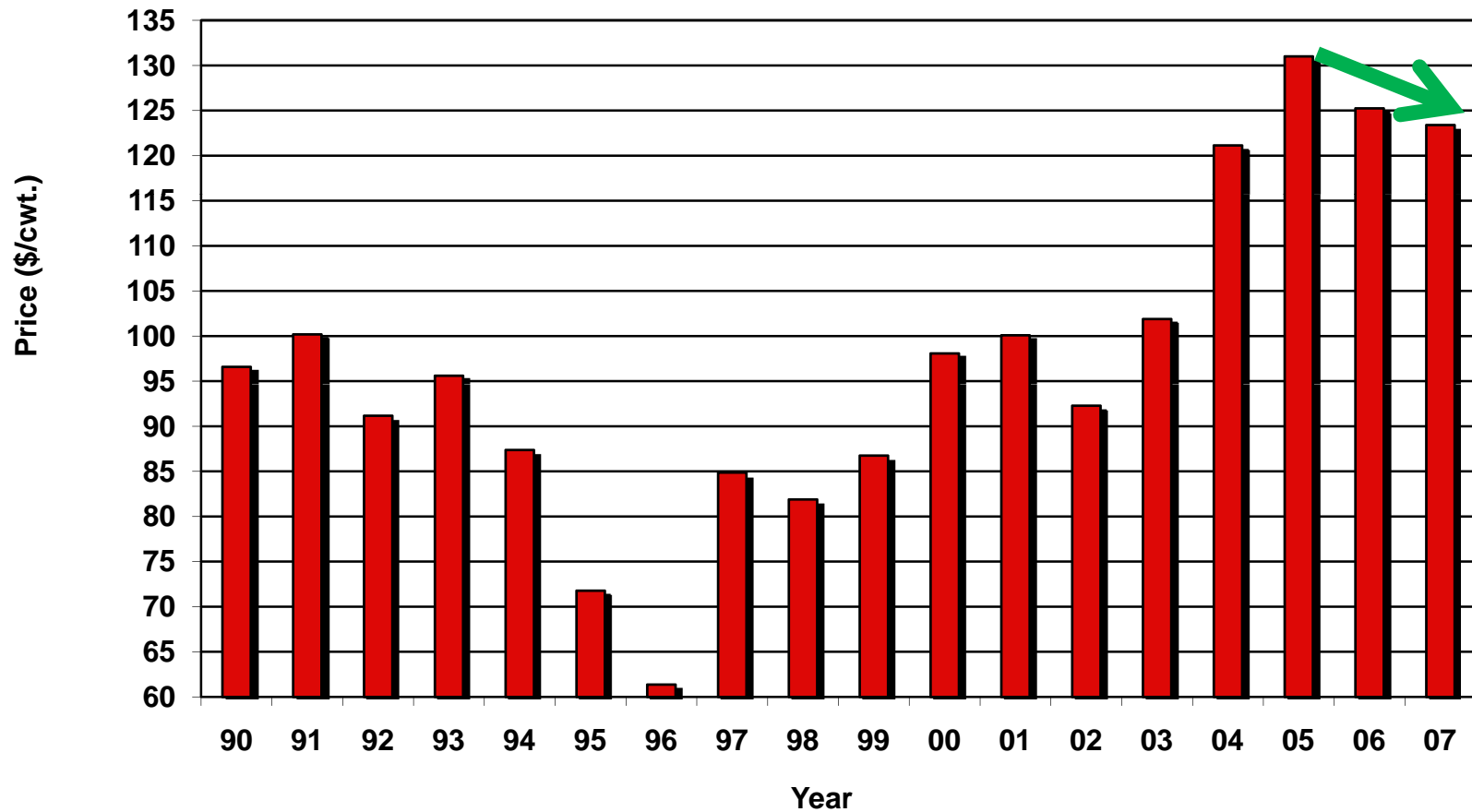
Rising Breakevens Putting Pressure On Cow-Calf Sector

'08 Breakevens Up 12% Compared to '07



But Calf Prices Were Falling As Costs Rose

Dodge City, KS 500-600 Lb. Steer Prices

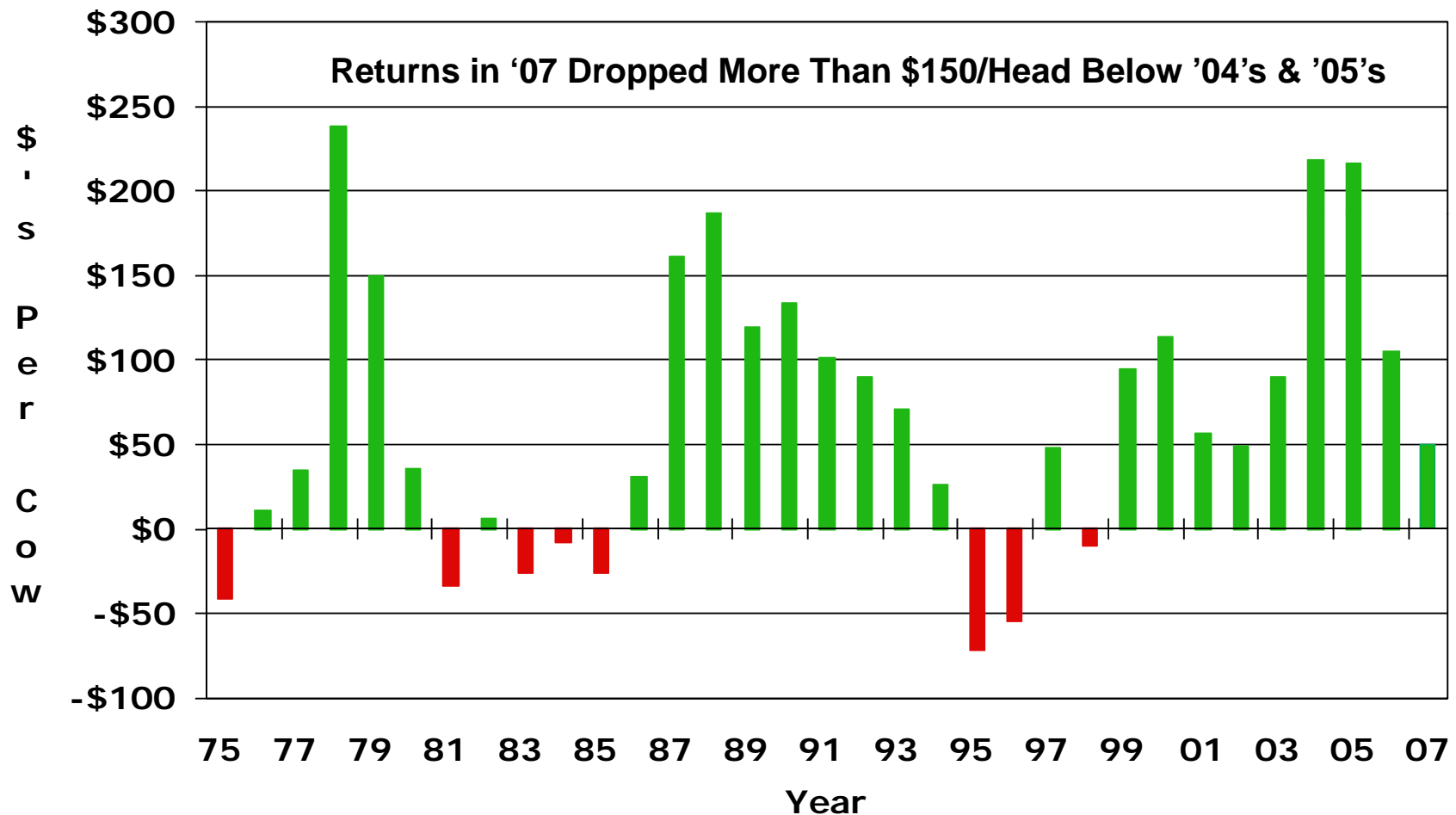


Source: AMS-USDA, Dodge City, KS

Returns Declining Rapidly

Returns Expected To Dip Into The Red During 2008

Cow-Calf Returns Above Variable Costs in Kansas

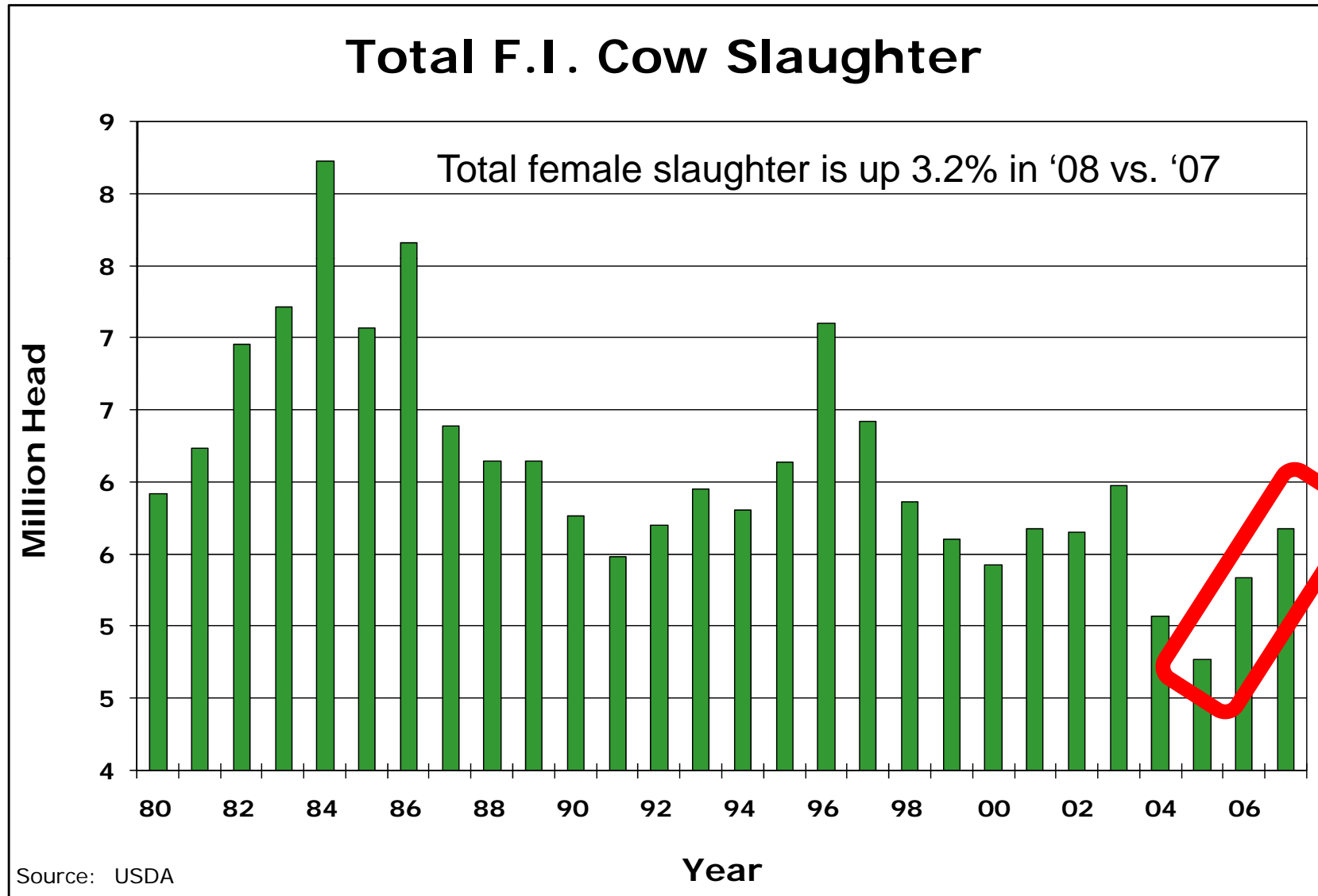


Source: Kansas Farm Management Association
Returns Above Variable Costs

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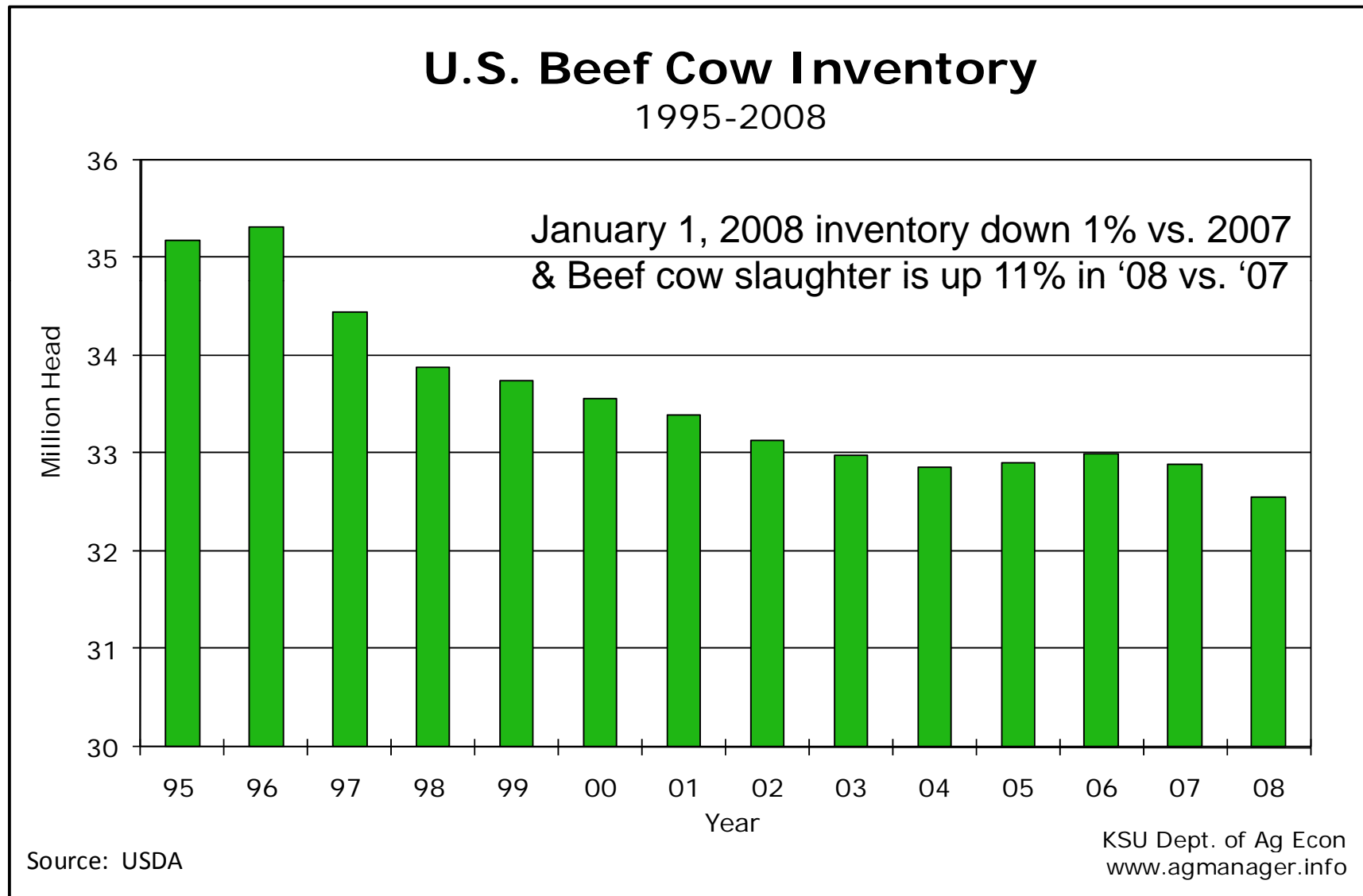
Total Cow Slaughter Up In Both '06 & '07

Cow slaughter increased 12% in '06 and 6% in '07



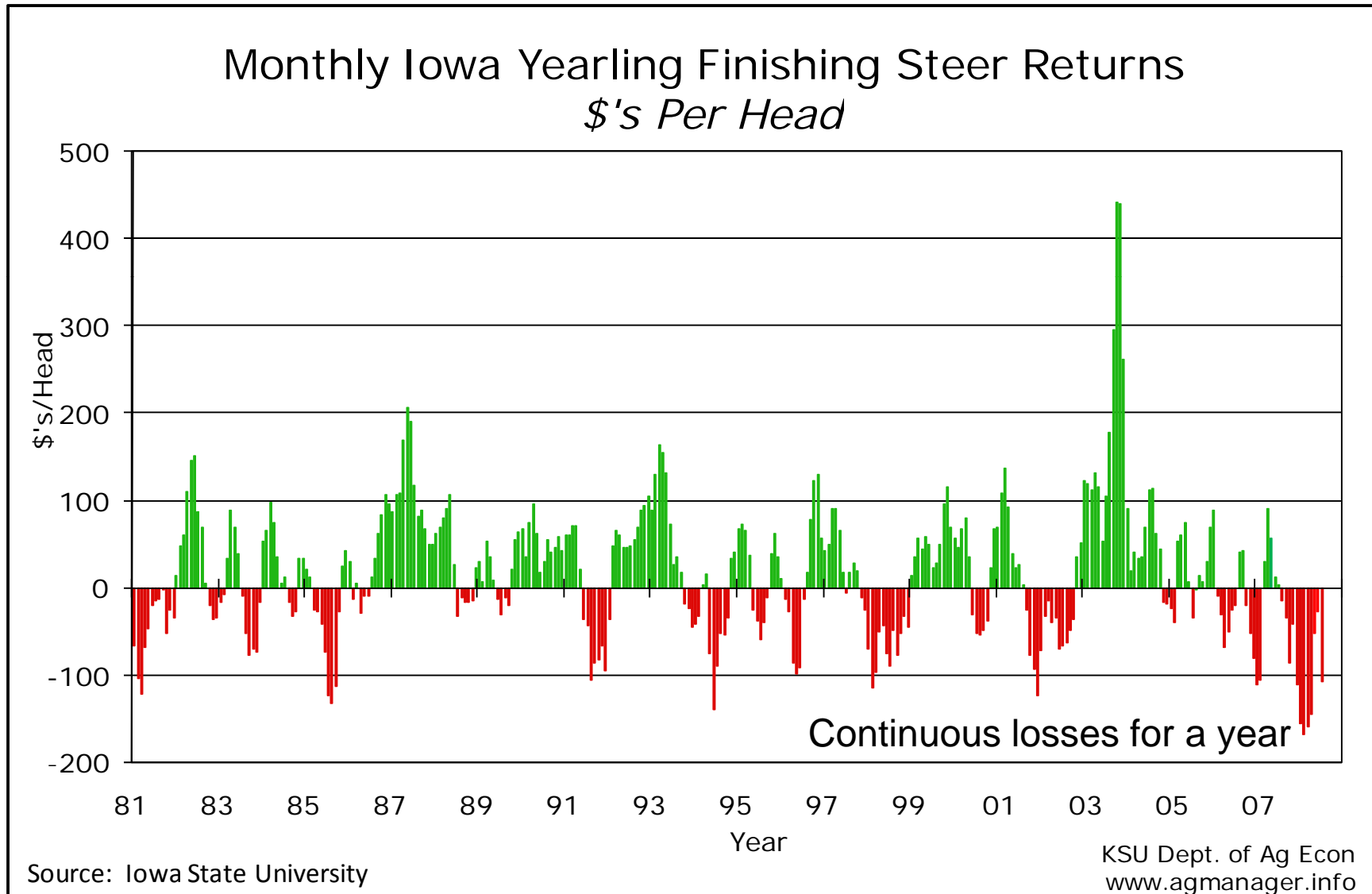
Beef Cow Inventory Declining

Cow Slaughter Picked Up During July, Signaling That Liquidation Pace Is Increasing



Record Losses for Cattle Feeders

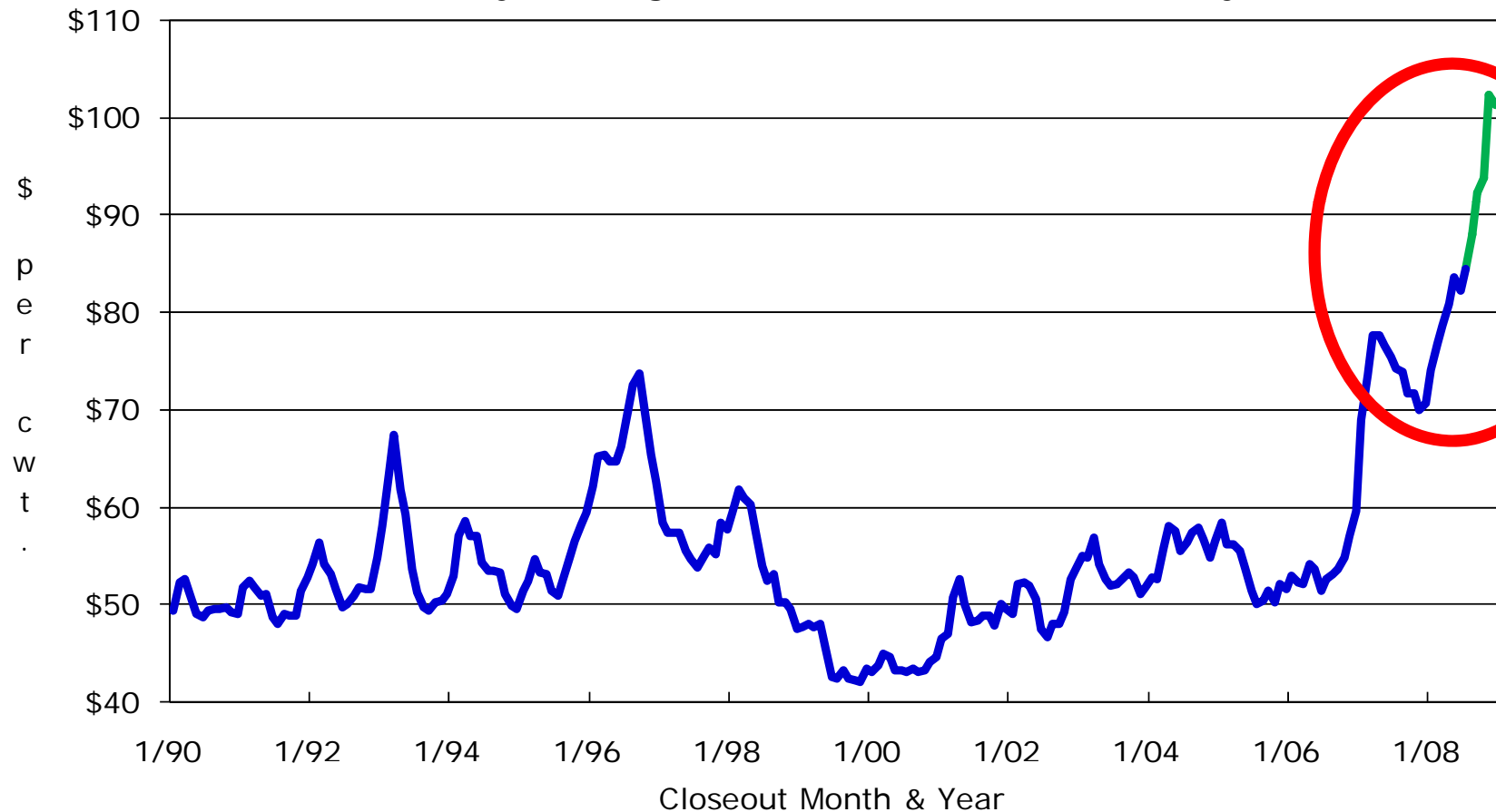
1st Quarter '08 Losses Averaged \$160/Head



High Feeding Costs Tell The Story

Steer Feeding Cost of Gain

Monthly Averages, Kansas Commercial Feedyards

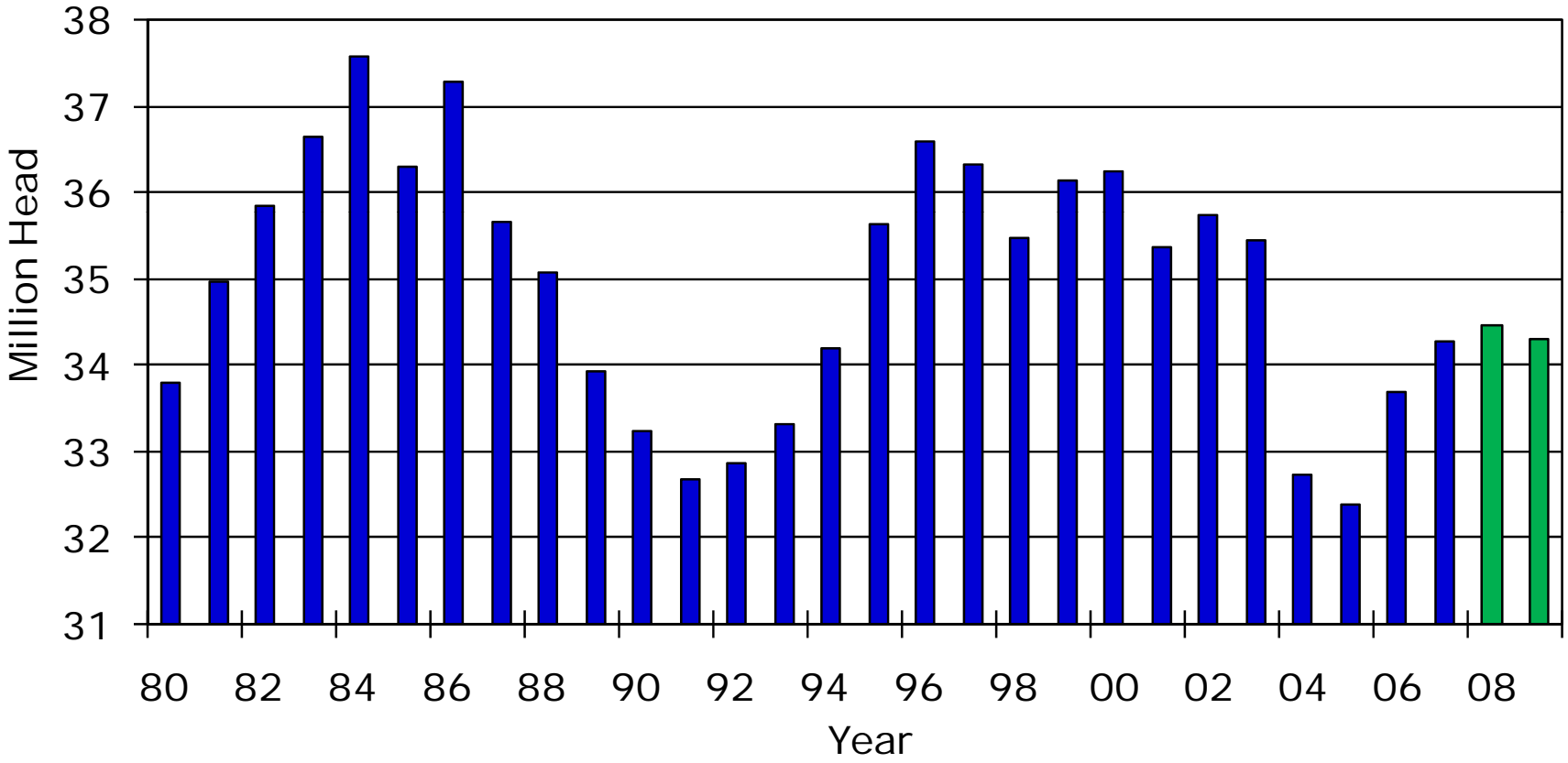


Source: Kansas State University's *Focus On Feedlots* newsletter, monthly survey of 6-10 Kansas commercial feedyards. Projected costs of gain for July through December 2008 closeouts are in green.

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Modest Slaughter Decline Expected in '09

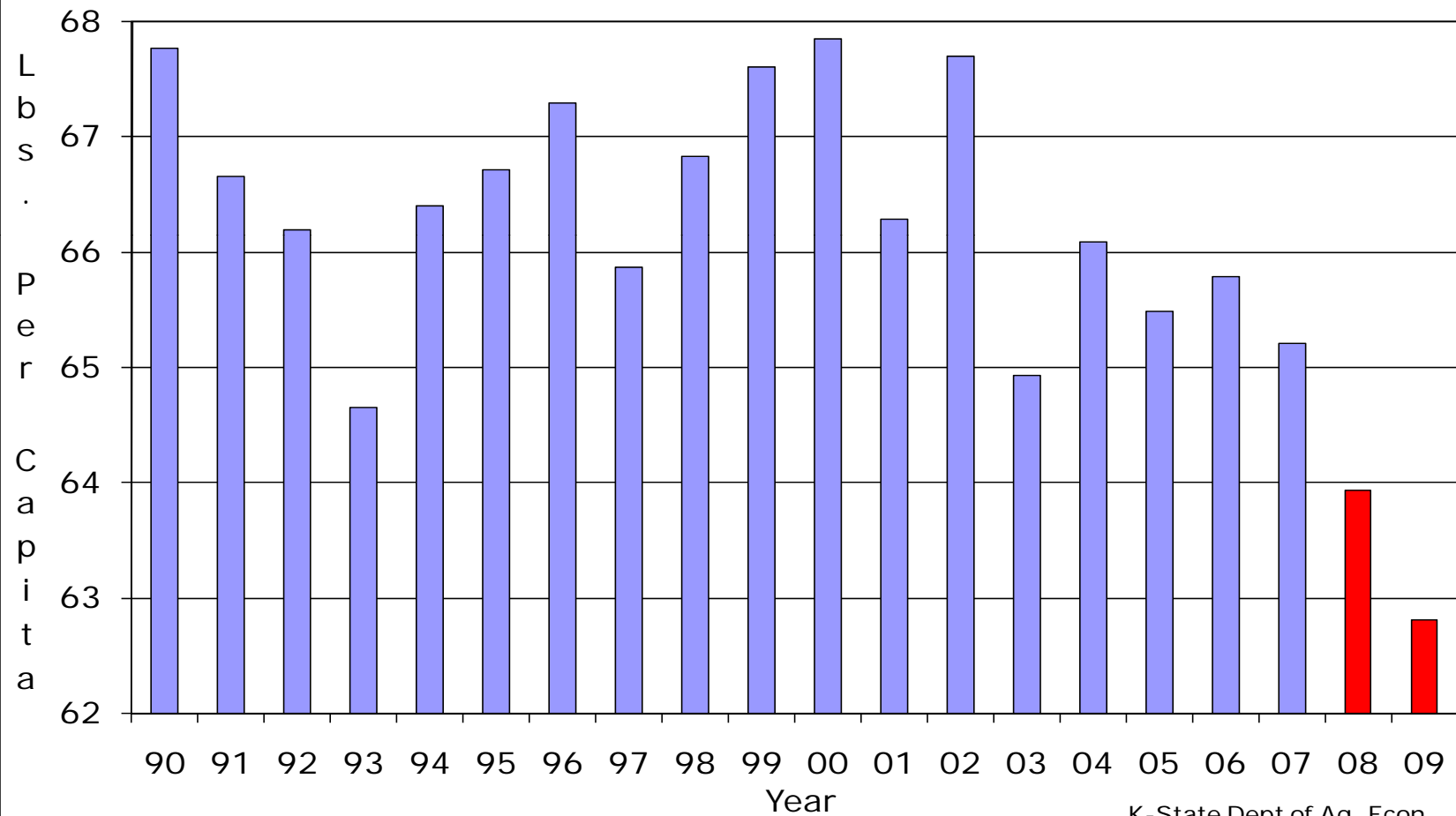
Annual U.S. Commercial Cattle Slaughter



Source: USDA, LMIC Forecasts for 2008 & 2009

Smaller Domestic Beef Supplies Expected to Support Prices in '08 and in '09

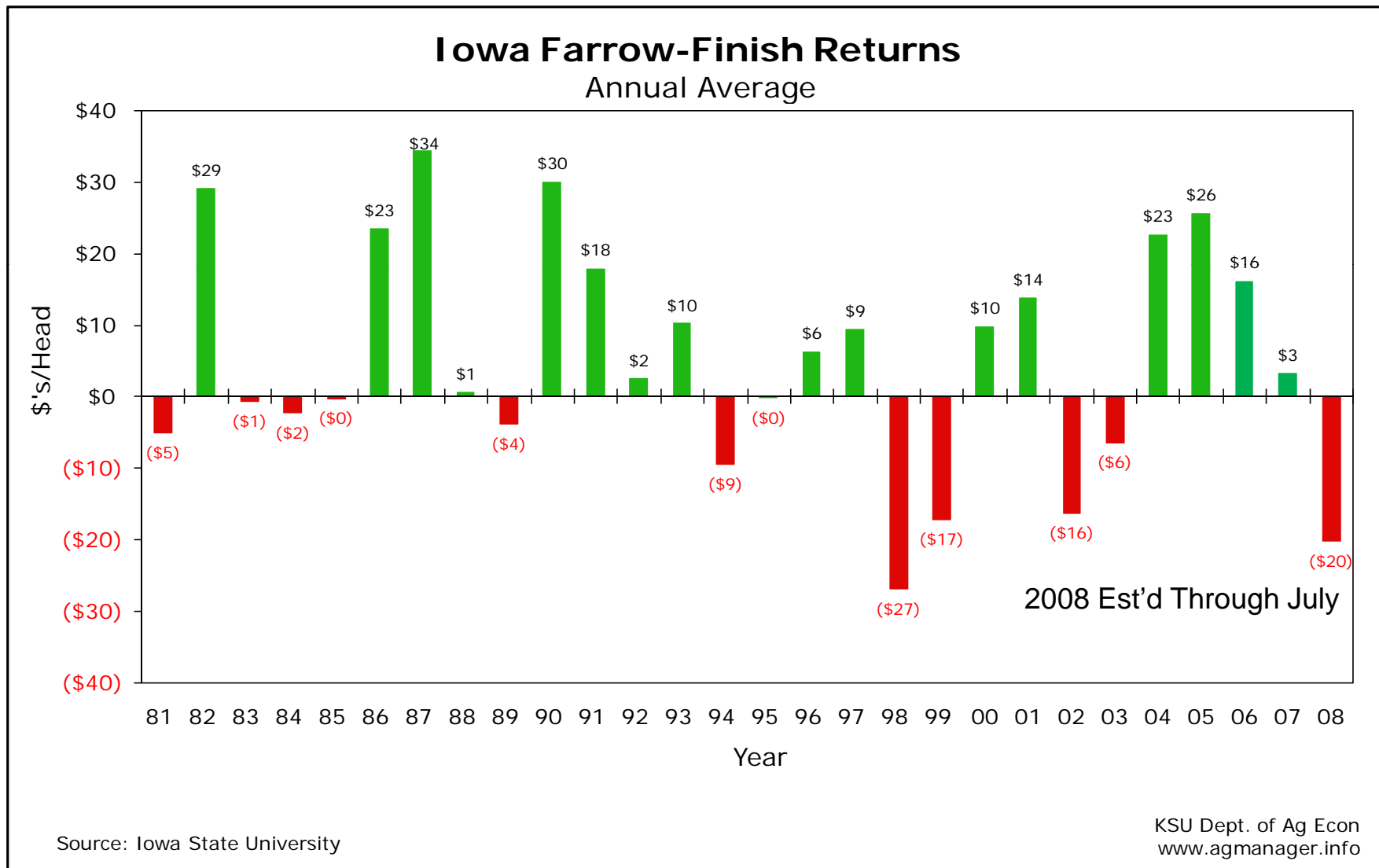
Annual U.S. Retail Beef Consumption Per Capita



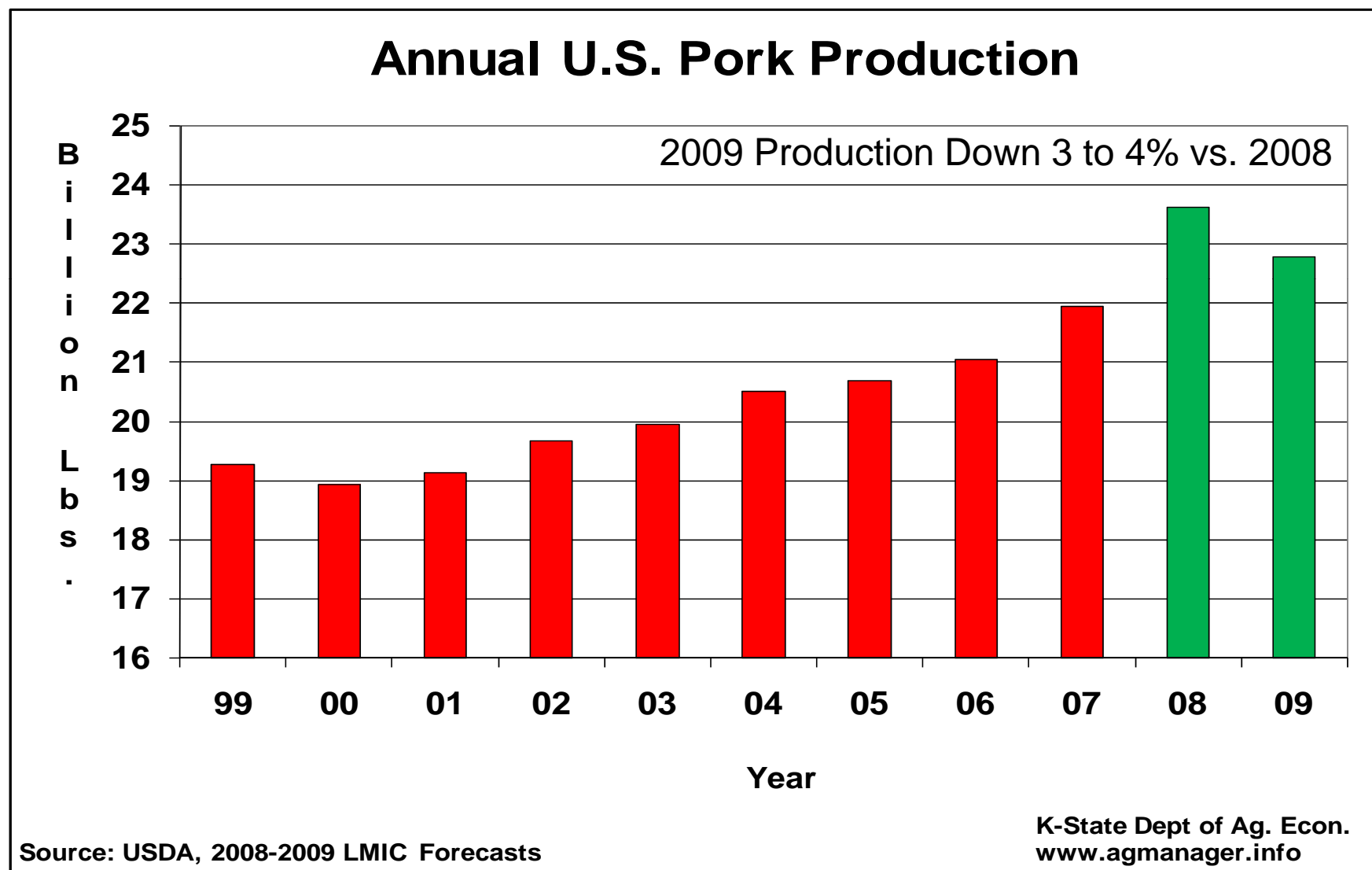
Source: USDA, 2008 & 2009 LMIC Forecasts

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Hog Sector Losses Are Mounting

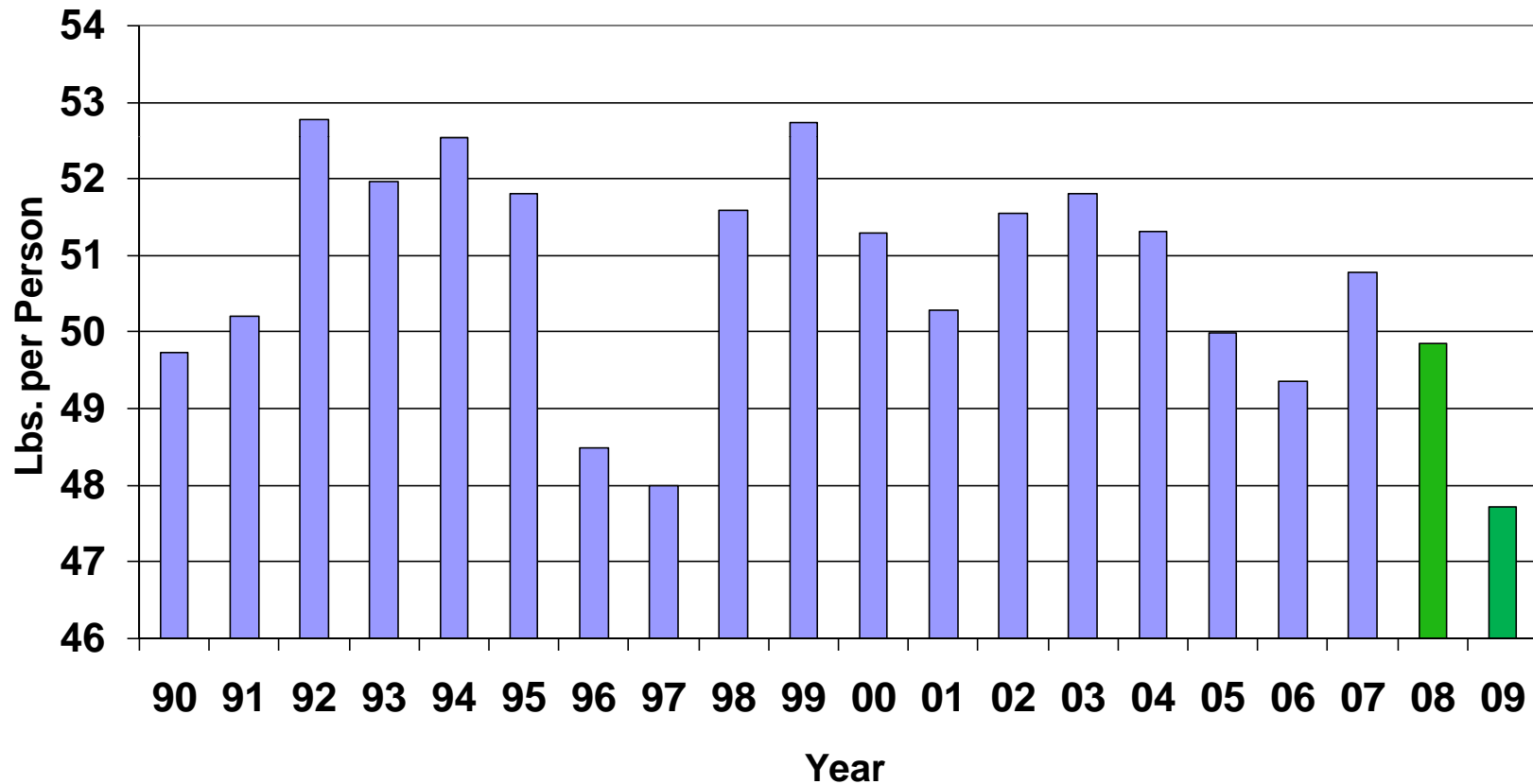


Losses Expected To Lead to Smaller Production in 2009



Strong Exports Holding Down Domestic Pork Supplies

Annual U.S. Retail Pork Consumption Per Capita

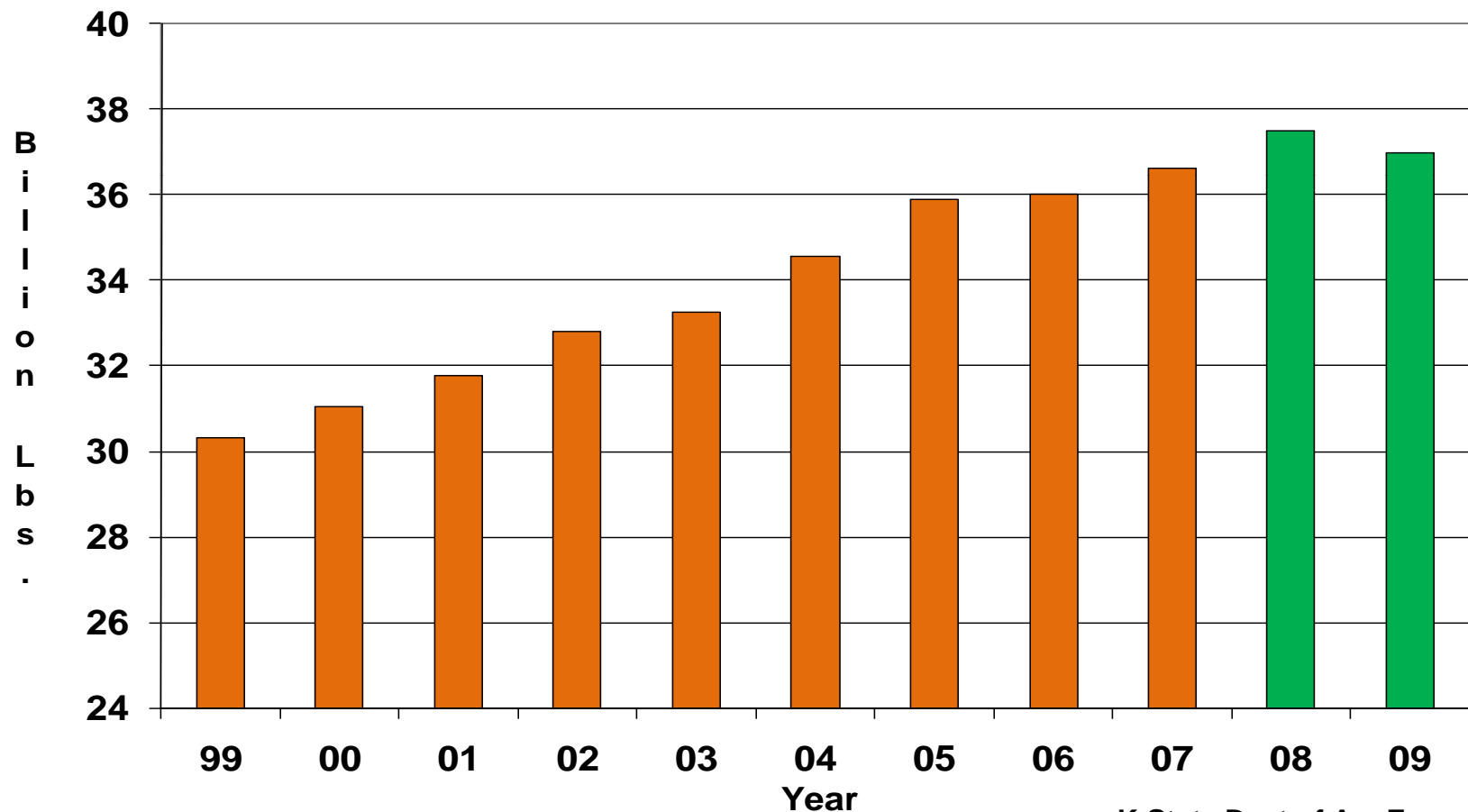


Source: USDA & Livestock Marketing Information Center, Forecasts for 2008, 2009

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Even Chicken Production Is Expected To Decline

Annual U.S. Chicken Production

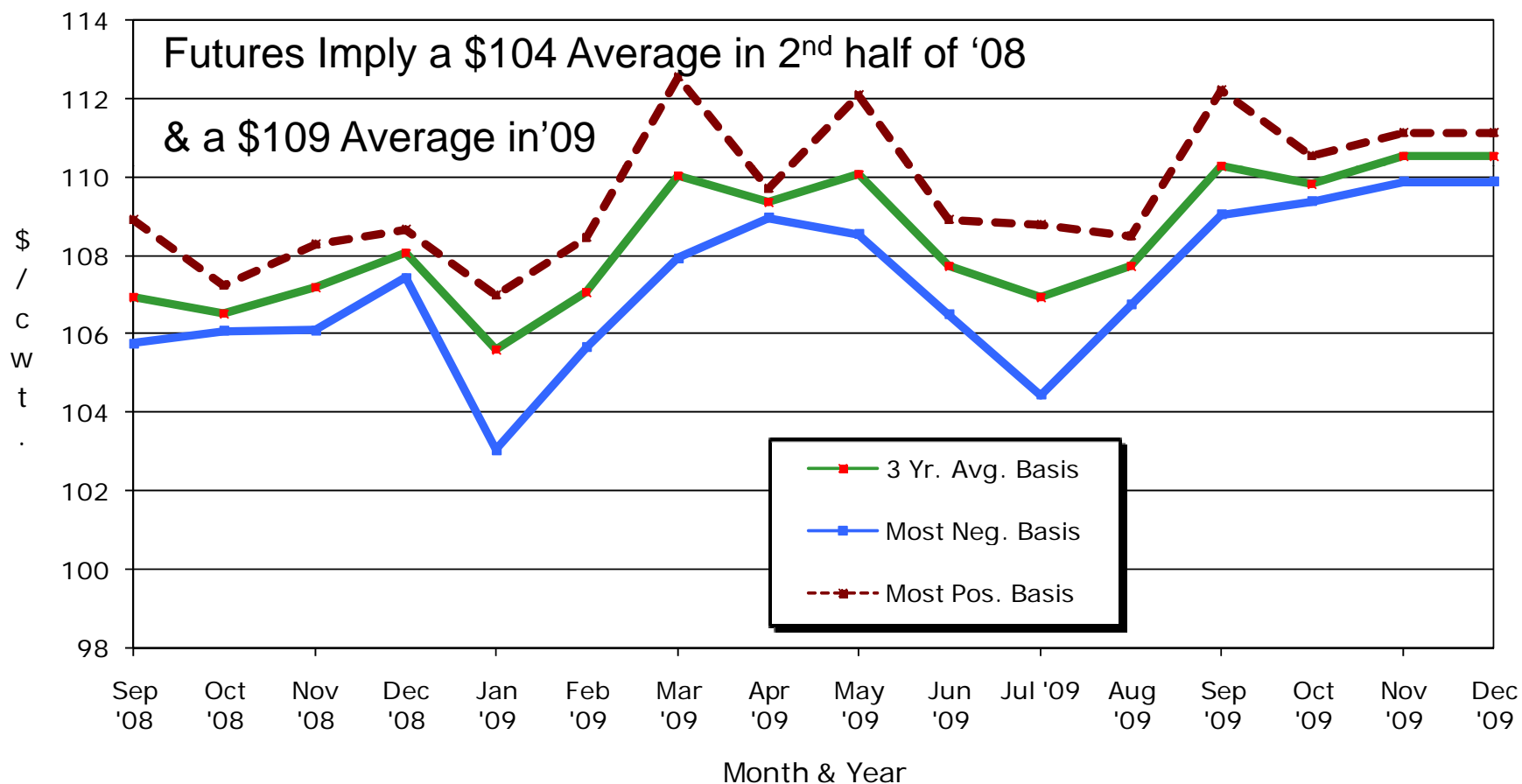


Source: USDA, 2008-2009 LMIC Forecasts

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Are Futures Too Optimistic About This Fall & 2009?

Mid-Month Futures Based Price Forecasts Kansas Slaughter Steers

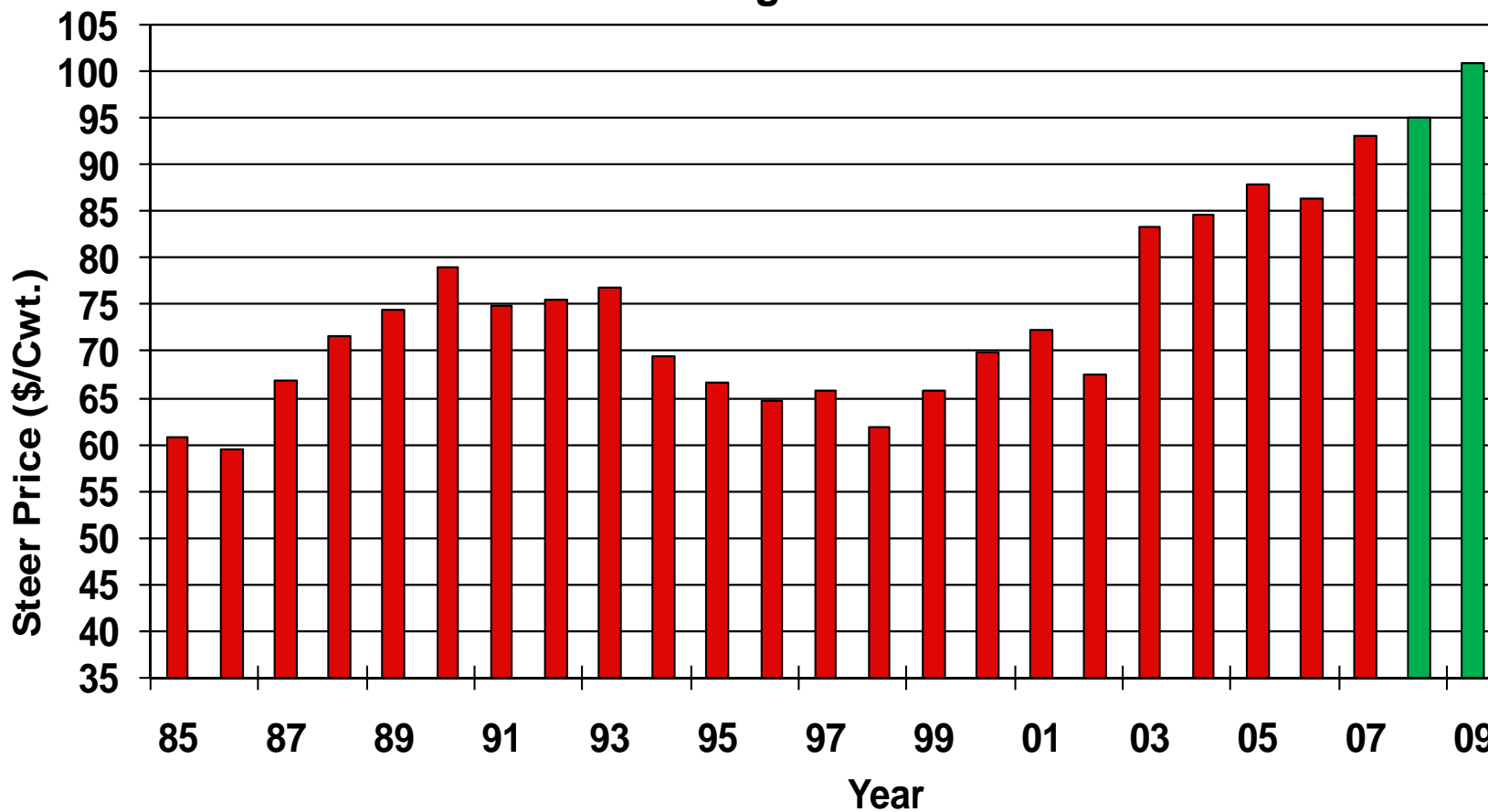


Source: USDA-AMS, CME, & James Mintert, K-State Ag. Economics
Based on 8.14.08 CME Live Cattle settlement prices

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Slaughter Cattle Prices Expected To Set New Record in '09

Kansas Slaughter Steers Annual Average Prices



Source: USDA-AMS, 2008 & 2009 KSU Forecast

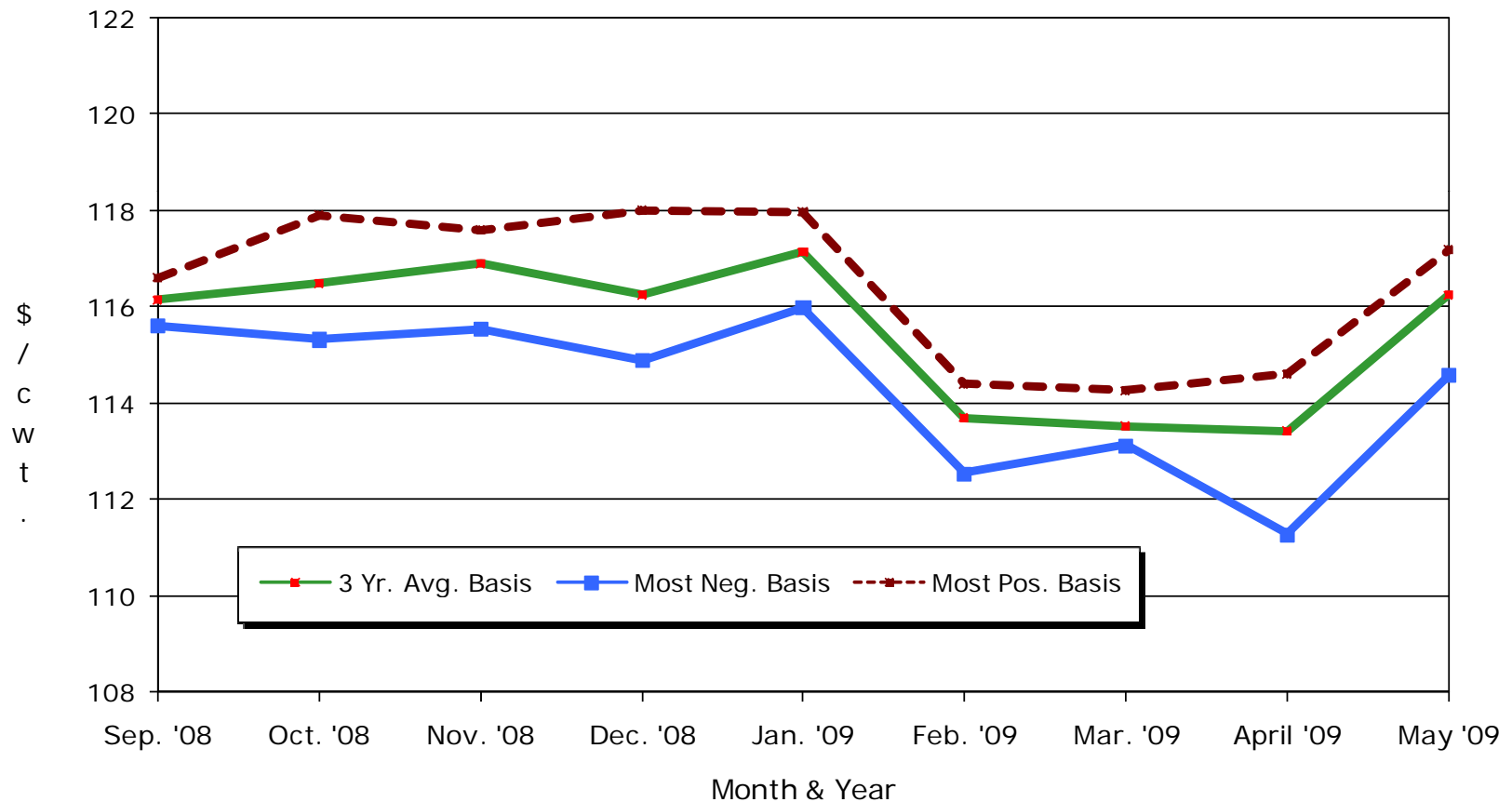
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Futures Are Pretty Optimistic

They Imply a Fall '08 Cash Price Average of \$116-\$117

Mid-Month Futures Based Price Forecasts

700-800 Lb. Feeder Steers, Dodge City, KS

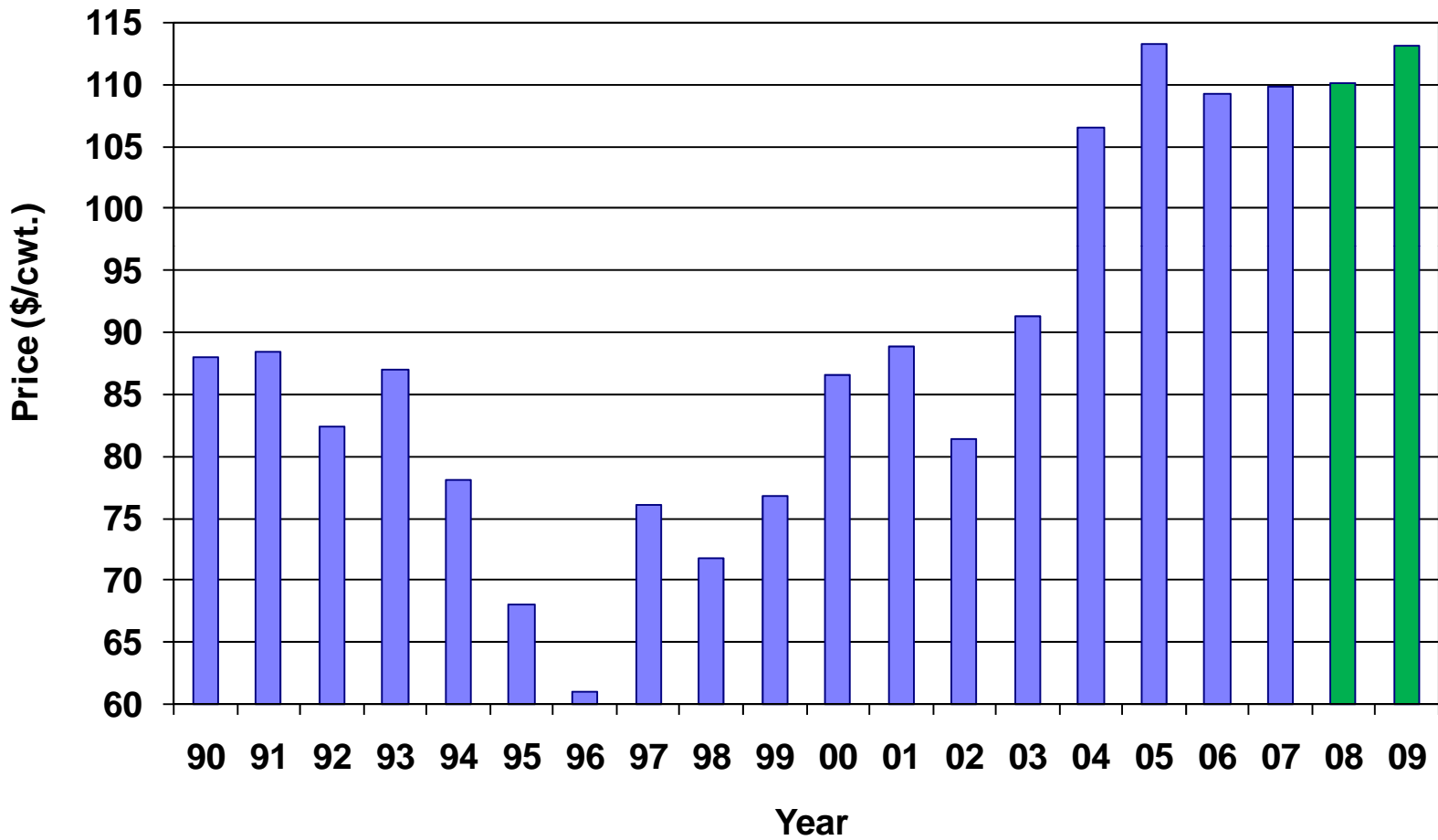


Source: USDA-AMS, CME, & K-State Research & Extension
Forecasts = 8.14.08 Futures Price + Basis Estimates

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Feed Costs Will Be A Big Factor in Feeder Price Outlook

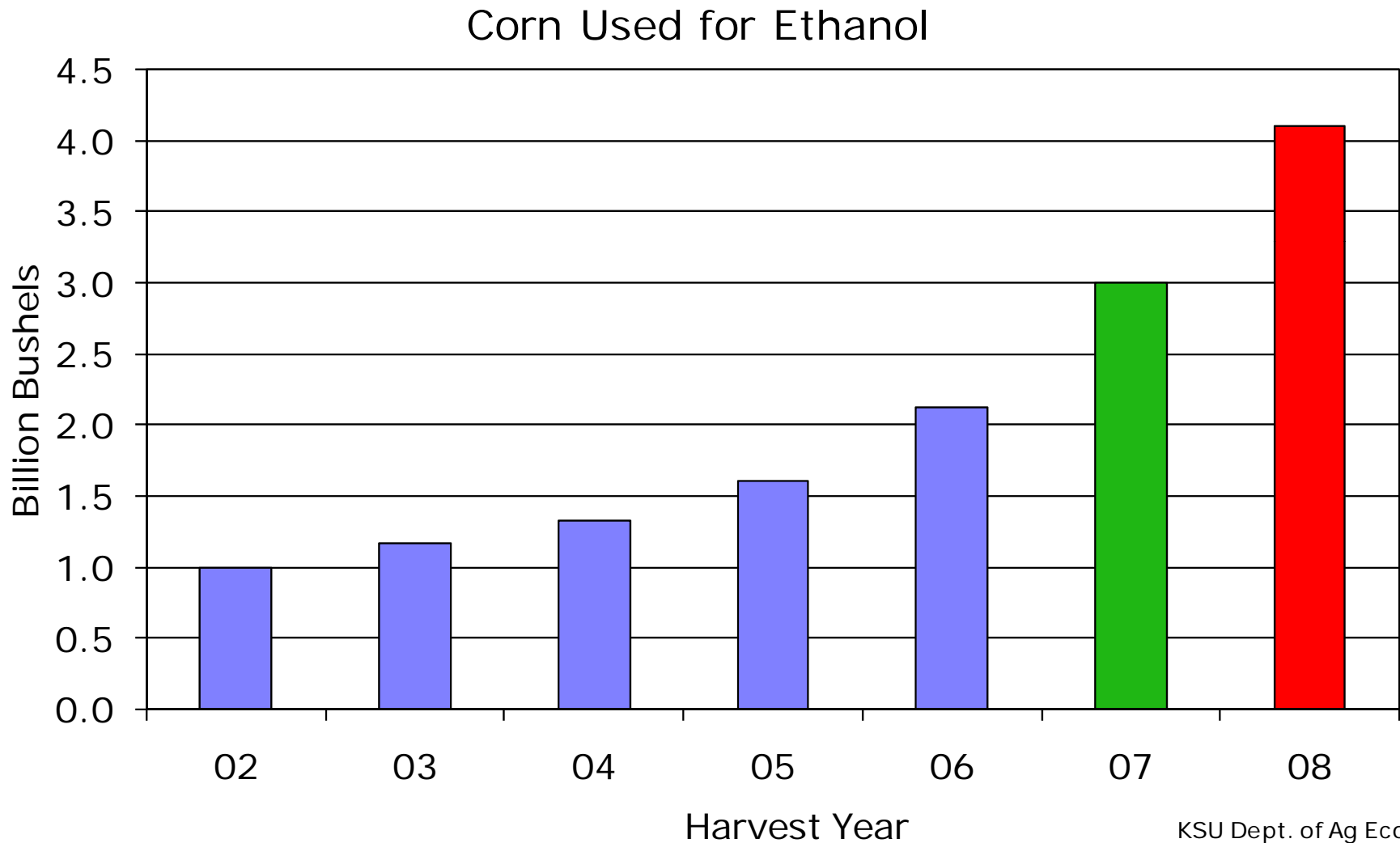
Dodge City, KS 700-800 Lb. Steer Prices



Source: AMS-USDA, Dodge City, KS, 2008 & 2009 KSU Forecast

INDUSTRY CHANGES

More Corn Will Be Used for Ethanol in the Future

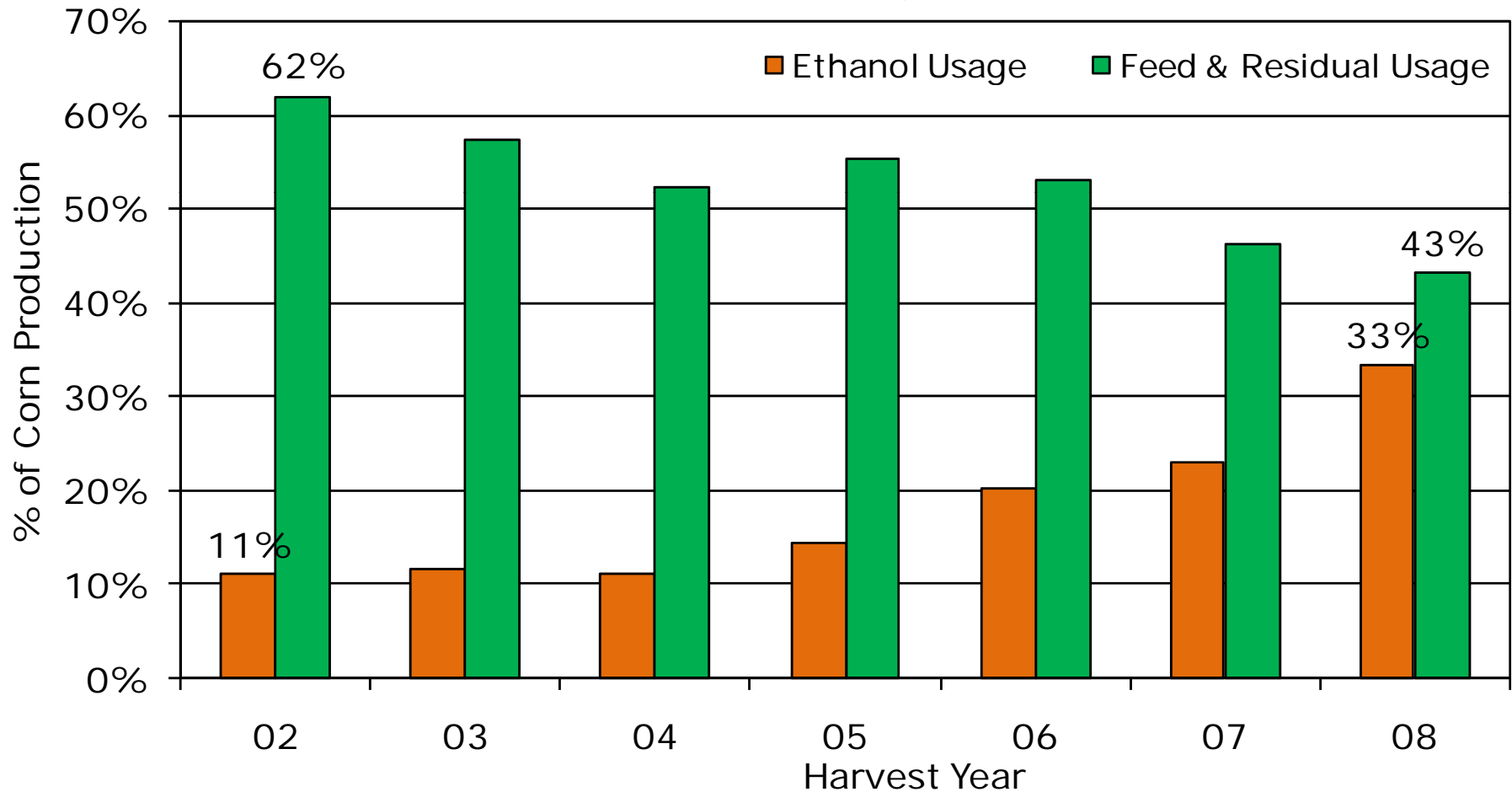


Source: USDA WASDE Report: 8.12.08

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Composition of Corn Usage Changing Dramatically

Corn Used for Ethanol Production & Feed Consumption
% of U.S. Corn Production

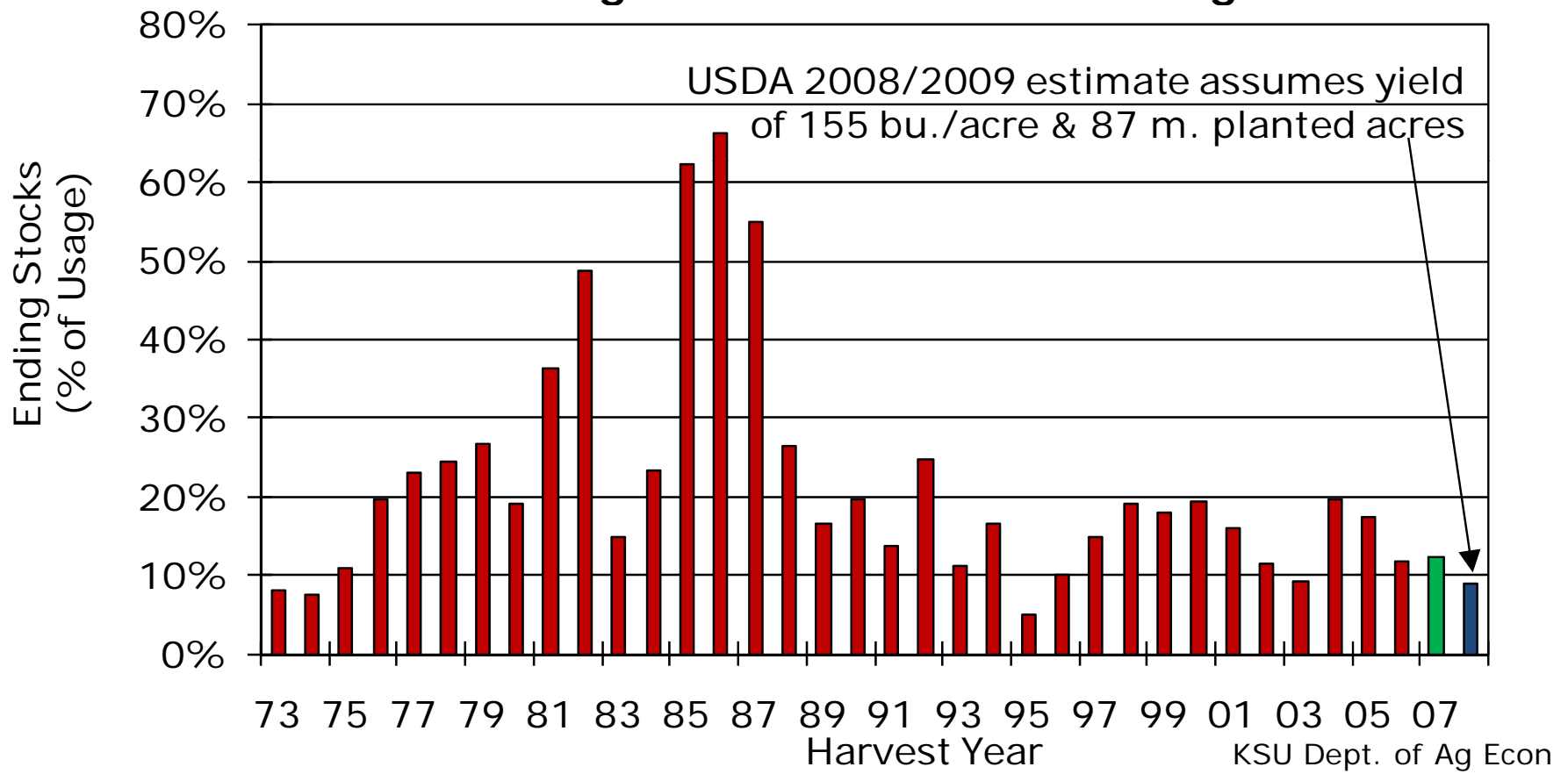


Source: USDA, WASDE 8.12.08
& James Mintert, K-State Ag. Economics

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Ending Stocks In Summer '09 Are Still Likely To Drop Below 10% of Annual Usage

Corn Ending Stocks
Ending Stocks as % of Total Usage

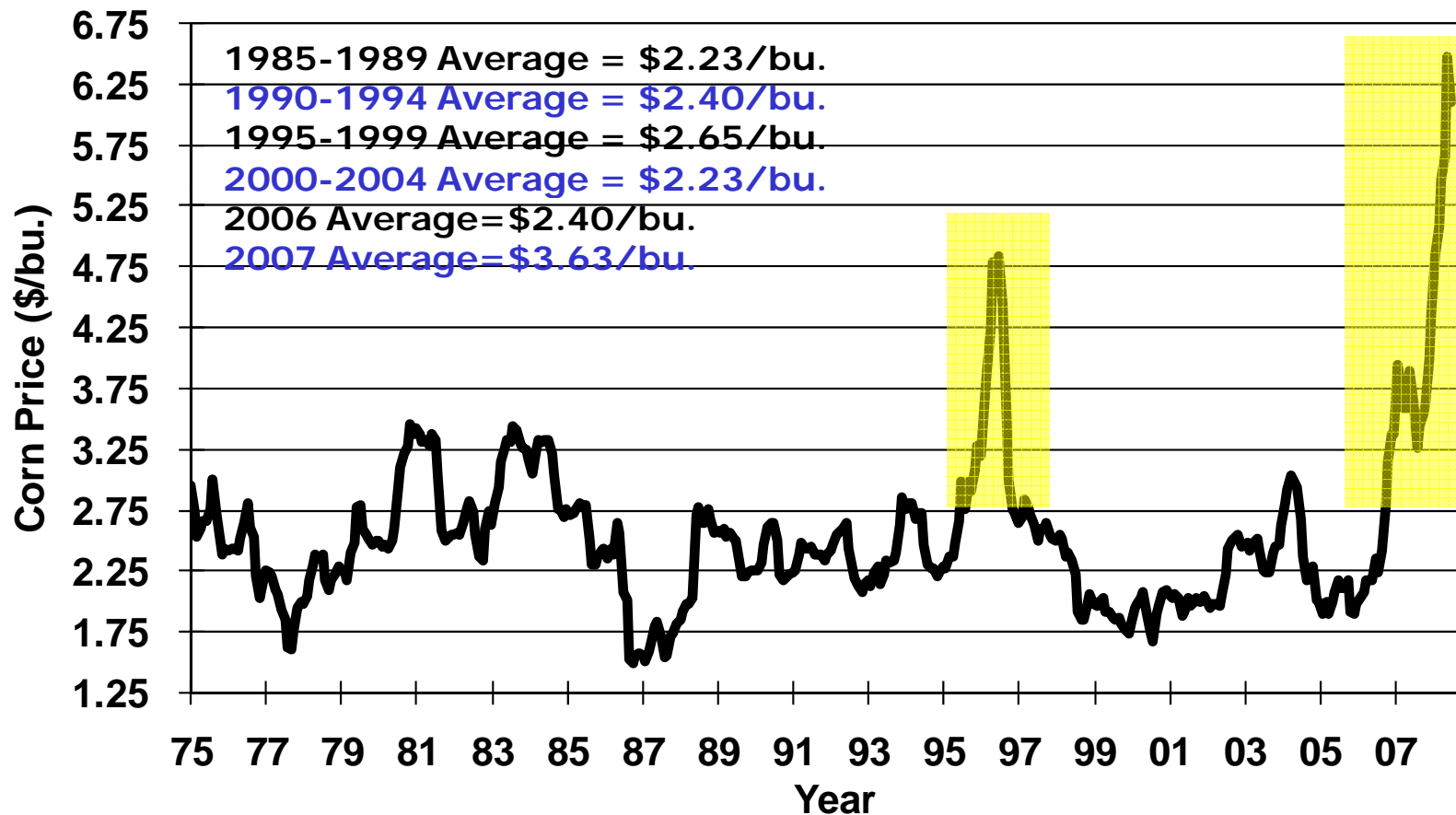


Source: USDA WASDE Report: 8.12.08

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More Price Spikes In The Future

Kansas Monthly Average Corn Prices

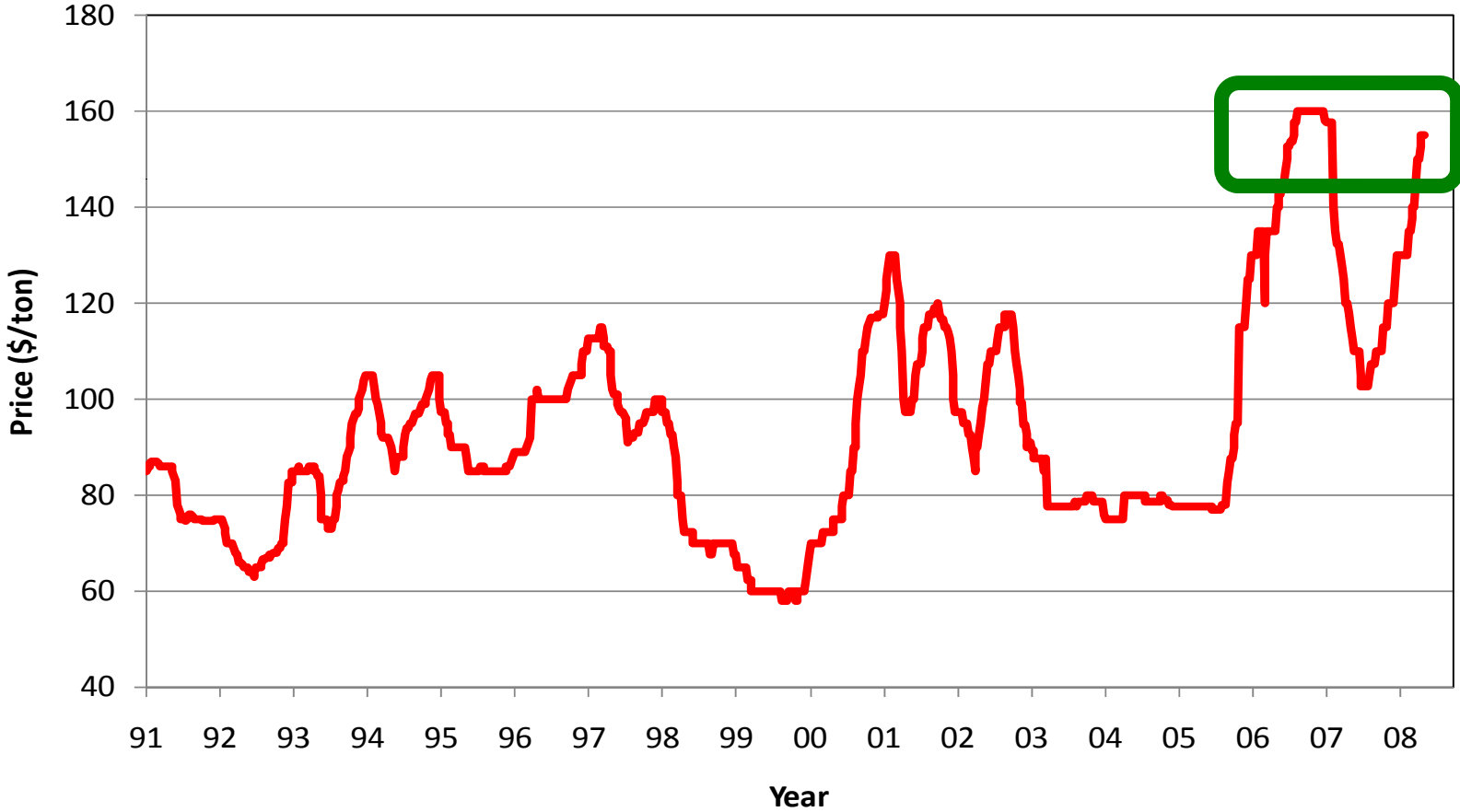


Source: USDA-Kansas Agricultural Statistics & James Mintert, K-State Ag. Economics

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Hay Prices Have Increased

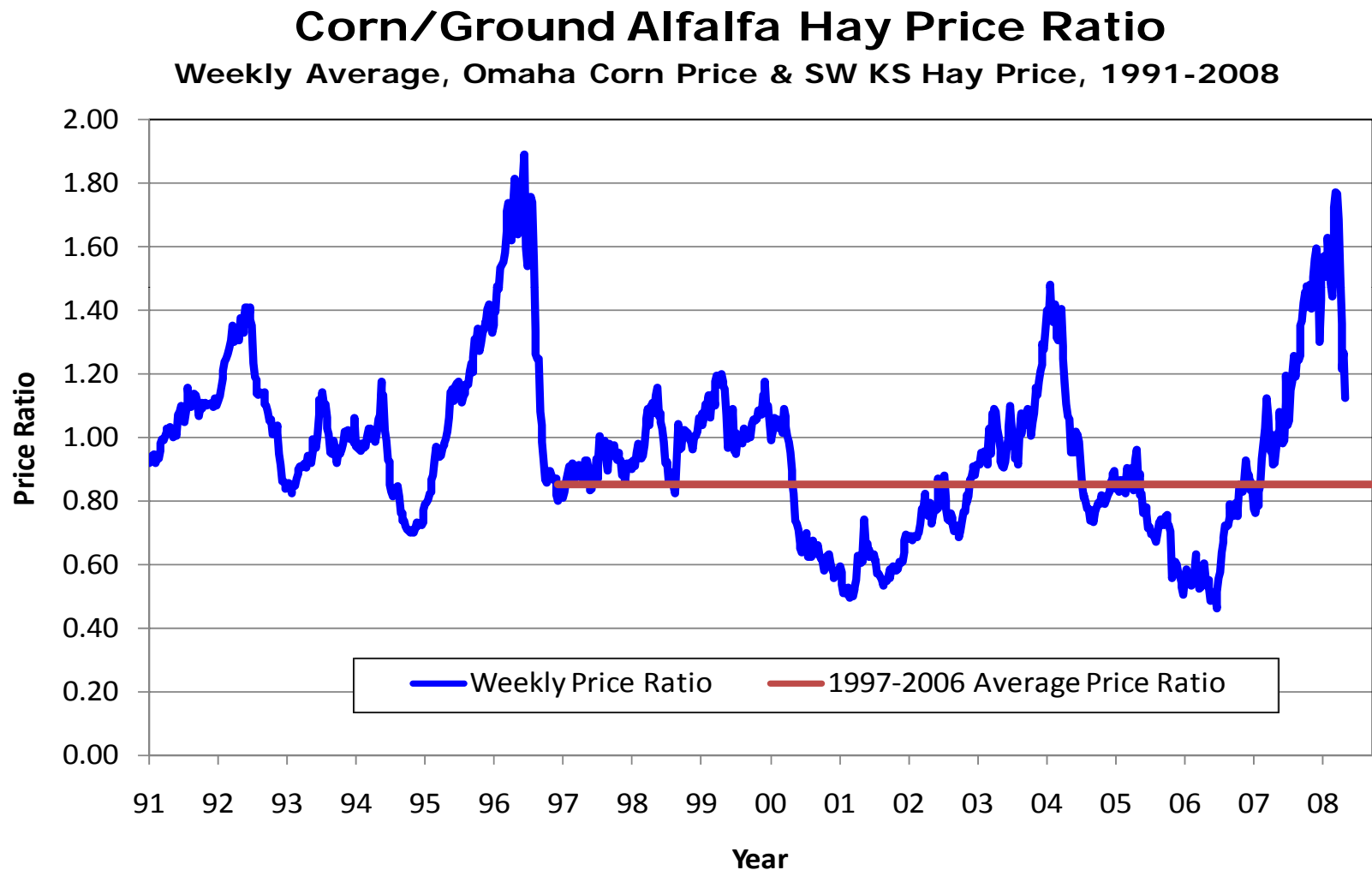
SW Kansas Ground & Delivered Alfalfa Prices
Weekly Averages, 1991-2008



Source: USDA-AMS, Dodge City, KS

But Hay Prices Have Not Kept Up With Corn Prices

Implication: Additional Hay Price Increases Are Ahead

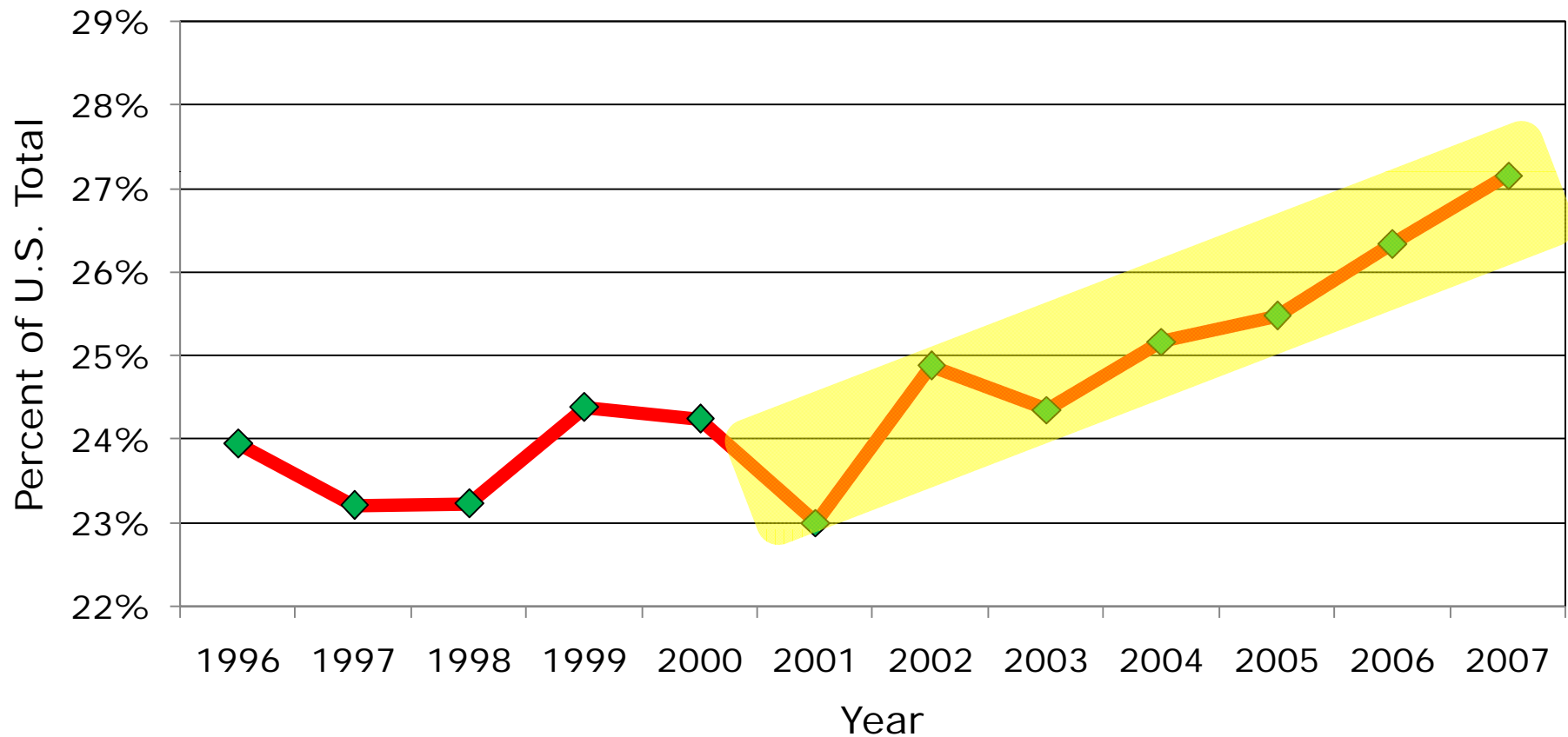


Source: USDA-AMS, Dodge City, KS

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Northern Plains & Upper Midwest Gaining Market Share

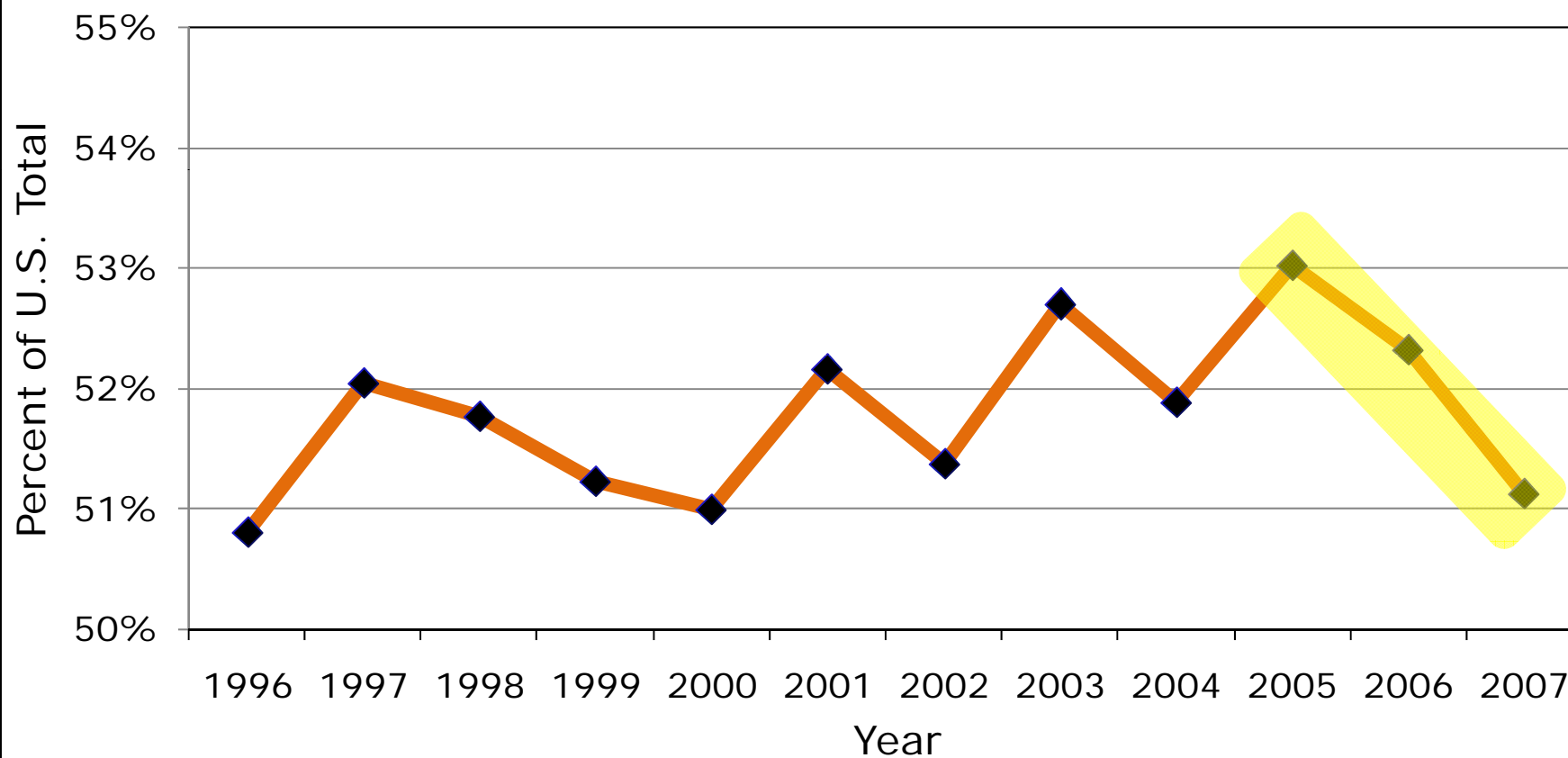
NE, IA, SD Placements of Cattle On Feed
% of U.S. Gross Placements



Source: USDA, Cattle On Feed & James Mintert, K-State Dept. of Ag. Economics

Southern Plains Losing Market Share

KS, OK, TX Placements of Cattle On Feed
% of U.S. Gross Placements



Source: USDA, Cattle On Feed & James Mintert, K-State Dept. of Ag. Economics

What Are The Implications of Dramatic Rise In Production Costs?

- Beef industry needs higher prices at all levels of marketing chain
- How will industry obtain higher prices?

How Will Beef Industry Obtain Higher Prices?

- Stronger domestic beef demand?
 - Unlikely to see enough domestic demand growth to offset production cost rise
- Stronger export demand for beef?
 - Exports are growing, but not rapidly enough to offset production cost rise
- The Answer is: Industry contraction
 - Result will be a smaller industry providing consumers fewer pounds of beef, but at higher prices

Summary

- Cow – calf producers
 - Modest herd reduction currently underway
 - High grain prices mean
 - Pressure on prices for calves/feeders
 - But strong deferred futures continue to support feeder/calf prices
 - Increases in hay prices & pasture rents
 - Manage cost of production
 - Feed efficiency at the cow-calf level is in vogue again
 - Sound management info. system is more important than ever

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Thank You!