

Cattle Outlook

Kansas Agricultural Bankers Association
April 20, 2006

James Mintert, Ph.D.
Professor & Extension State Leader
Department of Agricultural Economics
Kansas State University

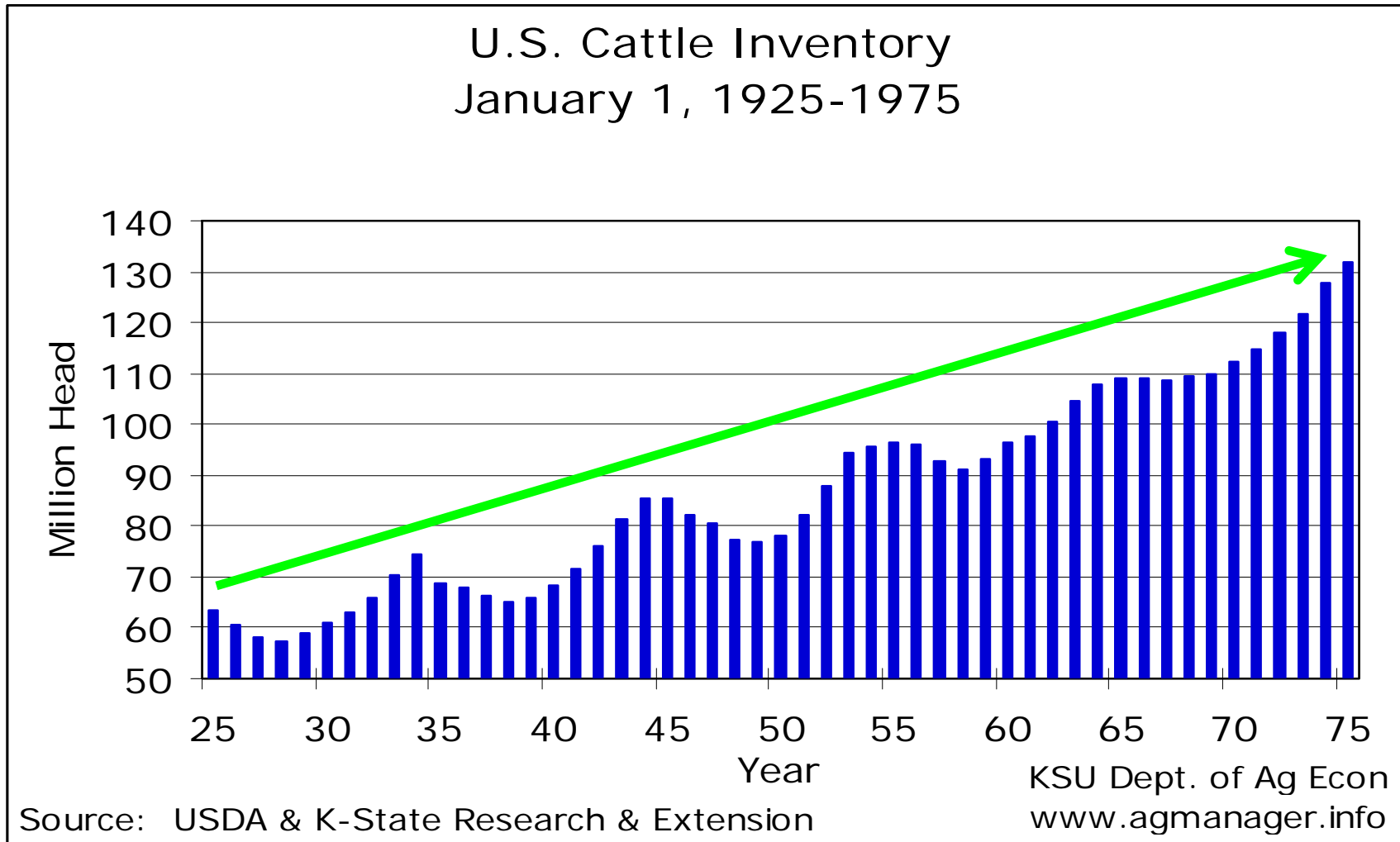
www.agmanager.info/livestock/marketing
jmintert@ksu.edu

Forces Shaping Change in U.S. Beef Sector

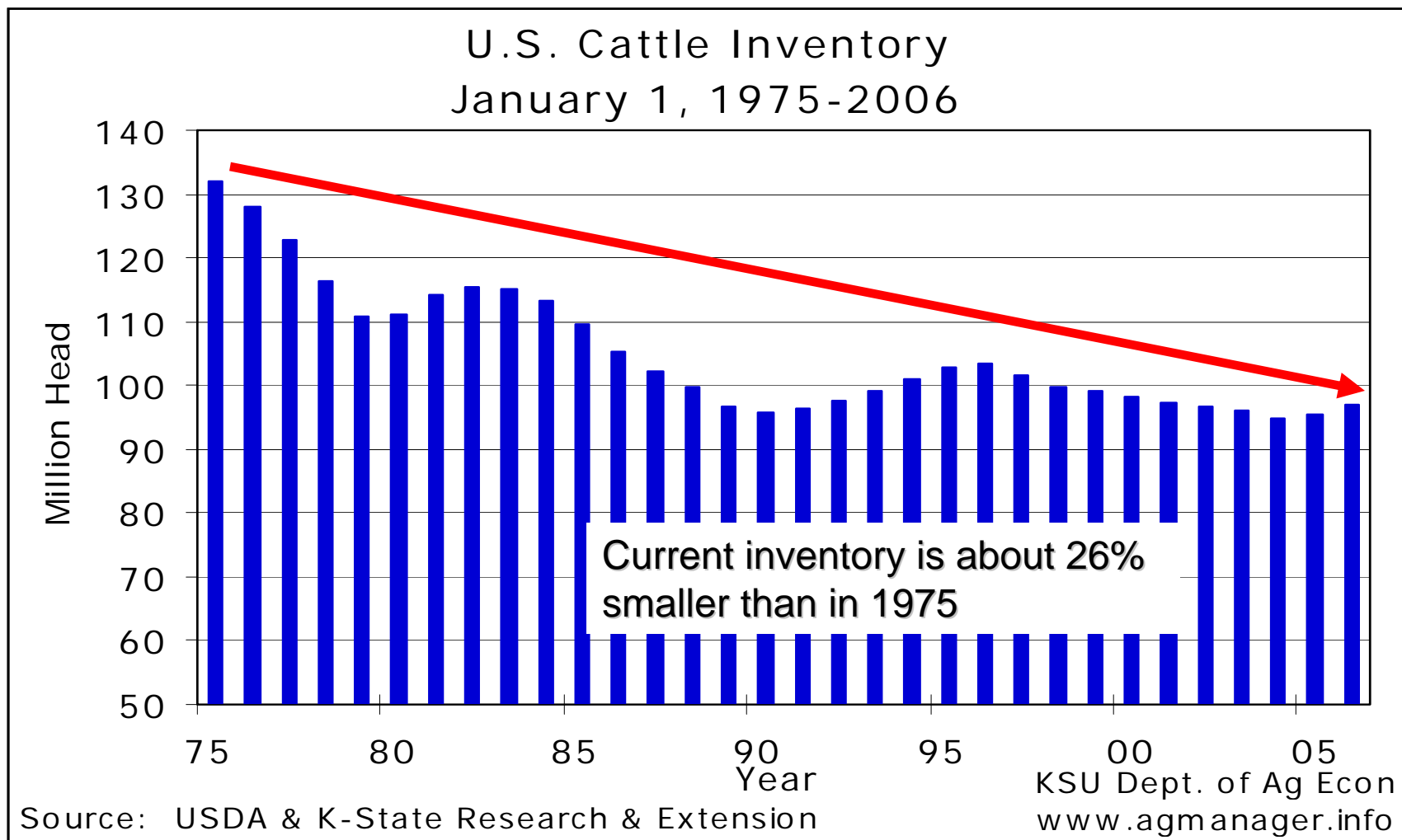
- Beef Demand
- International Trade
- Shifts in Optimum Firm Size
- Putting It All Together

Beef Demand

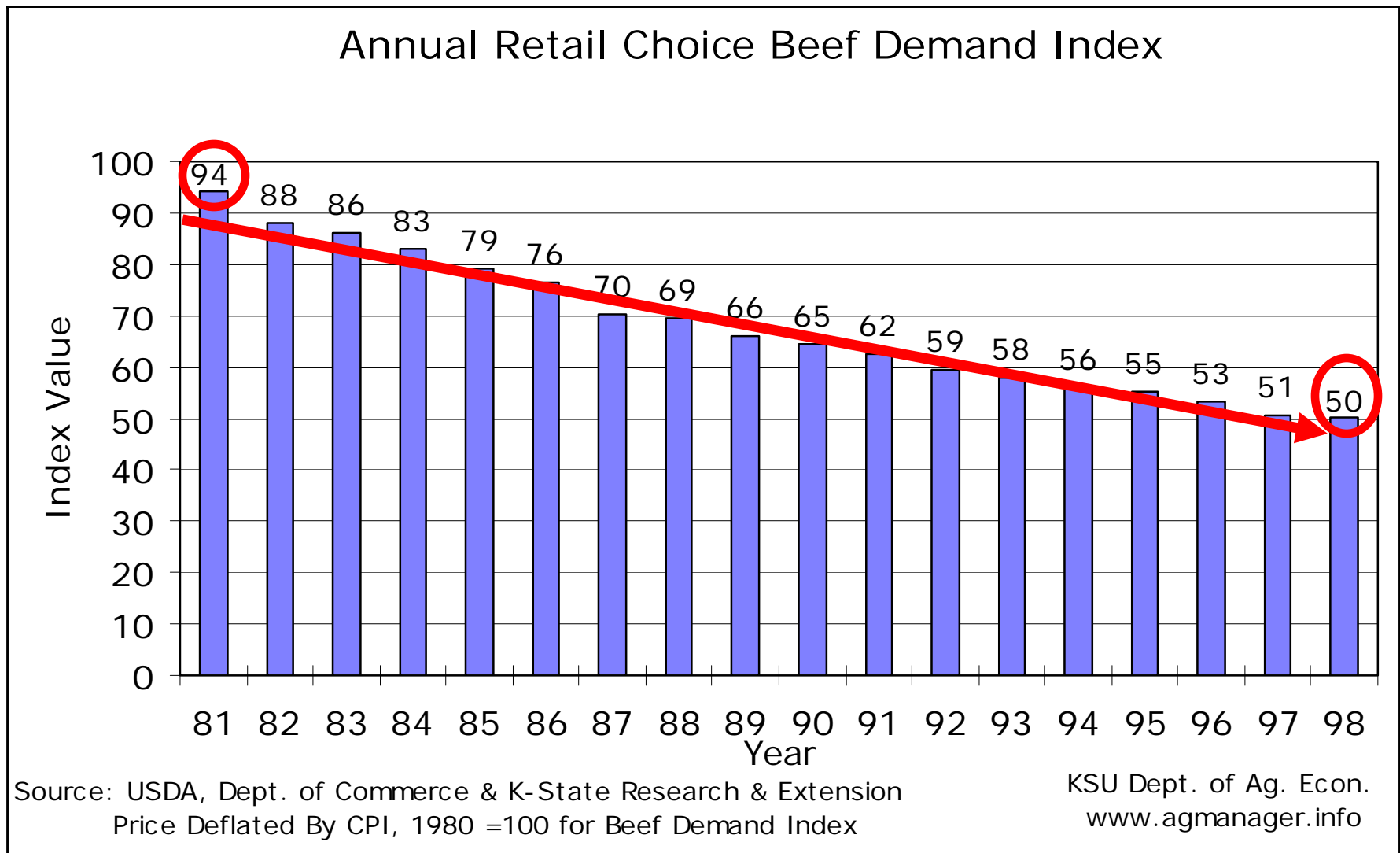
A Picture of A Healthy Industry



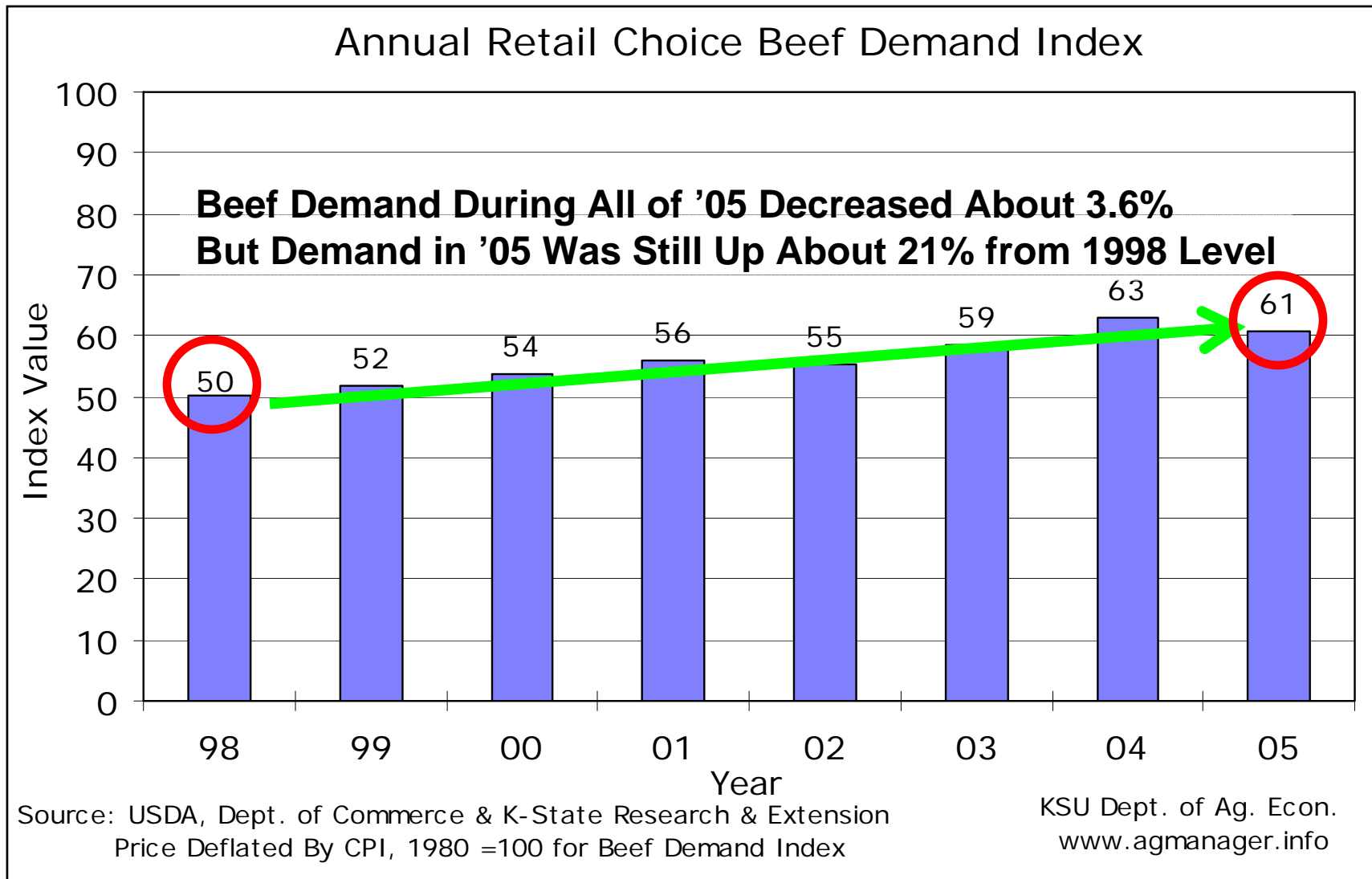
A Shrinking Industry Responding to a Lack of Profitability



Measuring Changes In Beef Demand 1980-1998



Measuring Changes In Beef Demand 1998-2005



Beef Demand Shifters

What's been taking place recently?

- Growth in consumer income
- New product offerings
- Positive health information
 - Low carb diets
 - But low carb diet effect appears to have leveled off
 - Implication: beef demand could weaken
 - Product innovation will be important

Who Benefits Most from Beef Demand Increases?

– In the long run:

- Cow-calf producers

– How?

- Higher prices for calves & culls
 - Profitability Increases
 - Rise in profitability leads to industry expansion

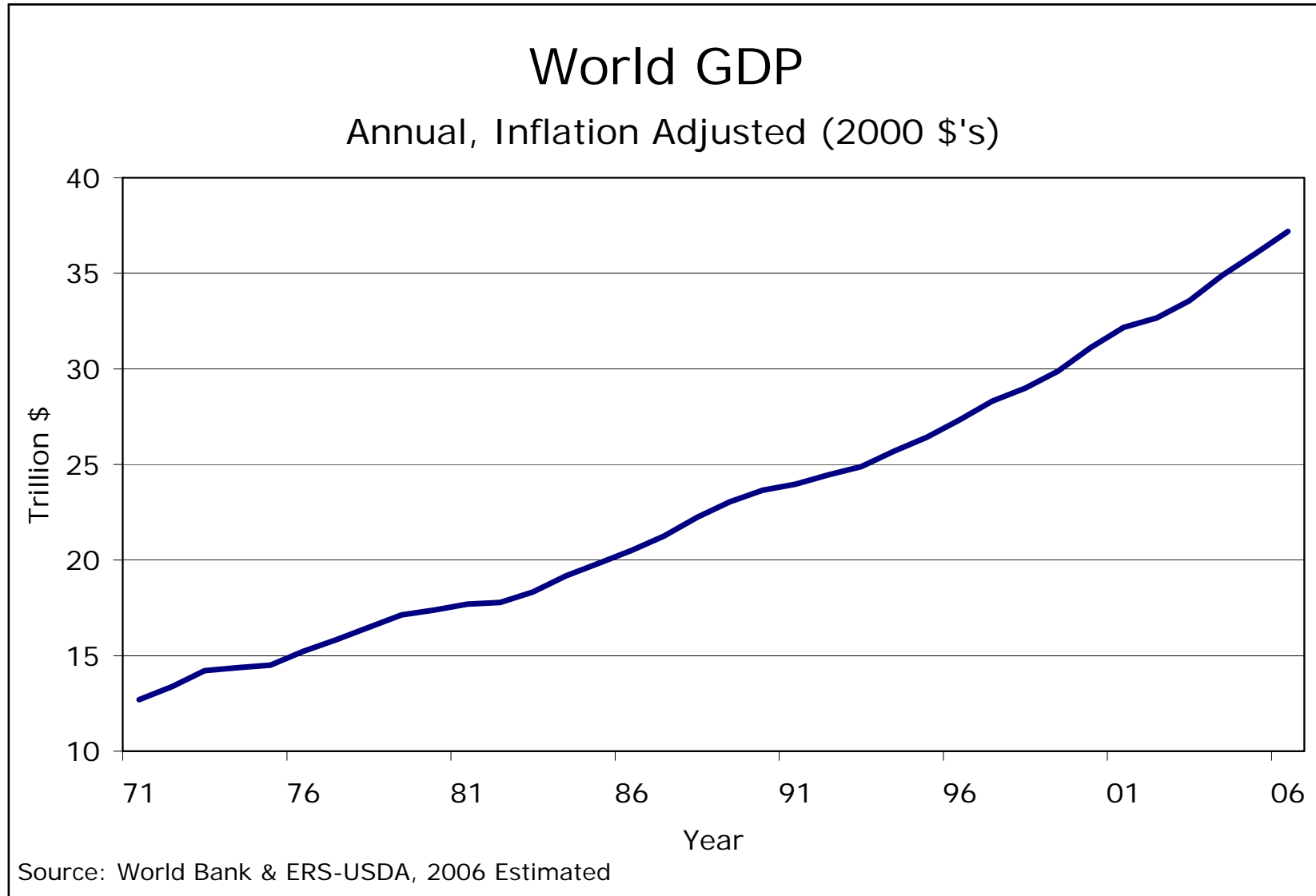
Trade

- All trade is voluntary
- All trade is mutually beneficial
- International trade increases consumption possibilities

If Trade Is So Good, Why Is It Controversial?

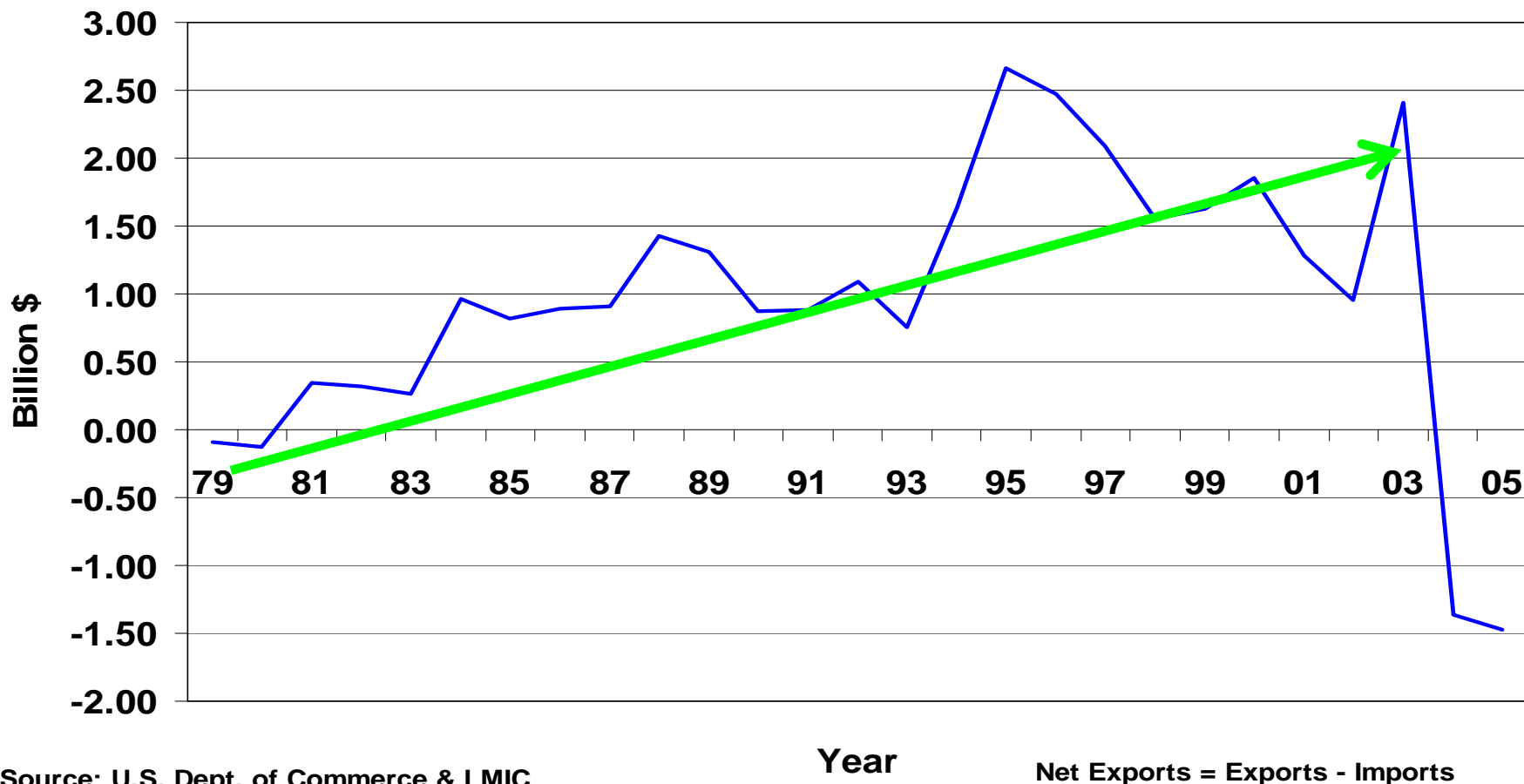
- Free markets and free trade increase social welfare (benefits outweigh costs) for society at large
- But not all individuals and groups are made better off

Increases in Trade Fueled Economic Growth



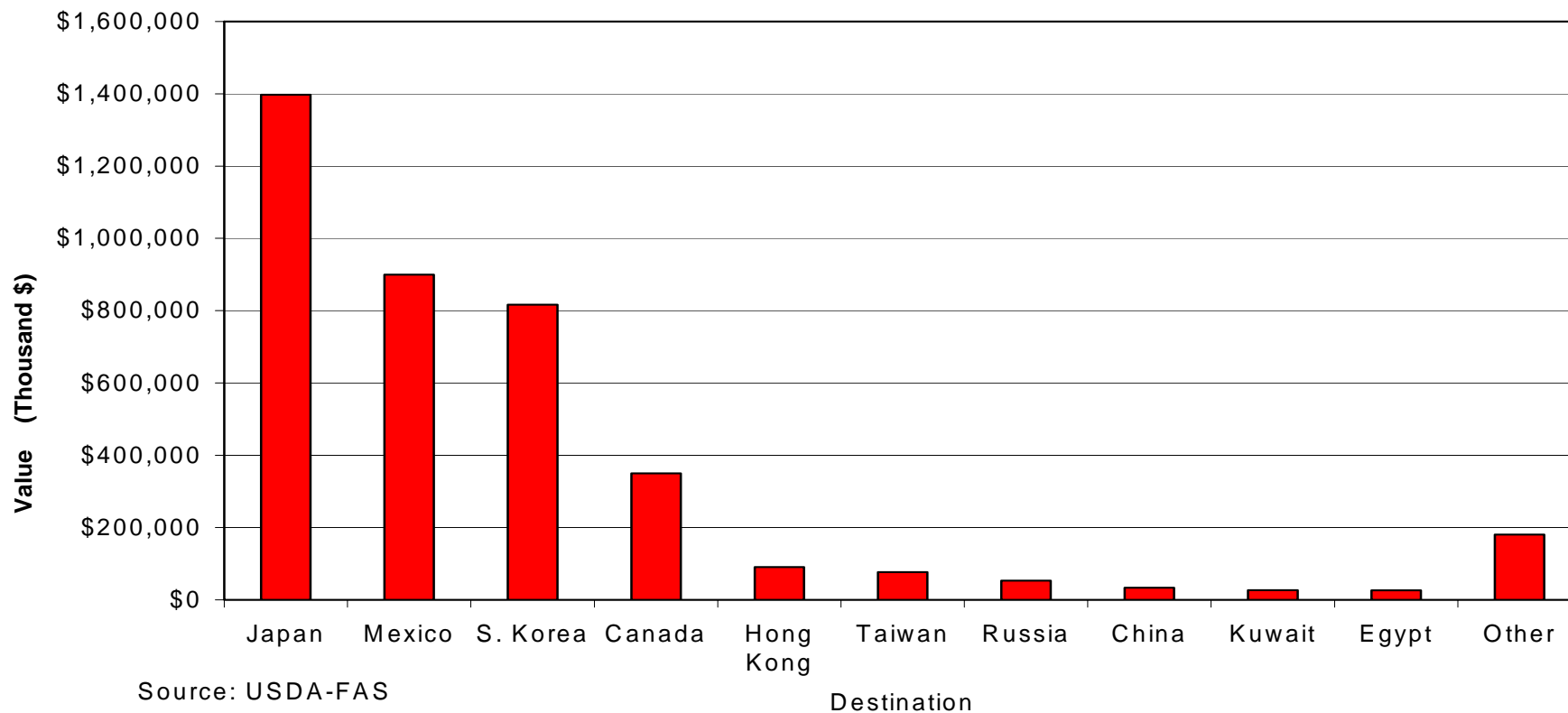
U.S. Has Been A Net Exporter Since 1981

Net Exports of U.S. Cattle, Beef, & By-Products 1979-2005

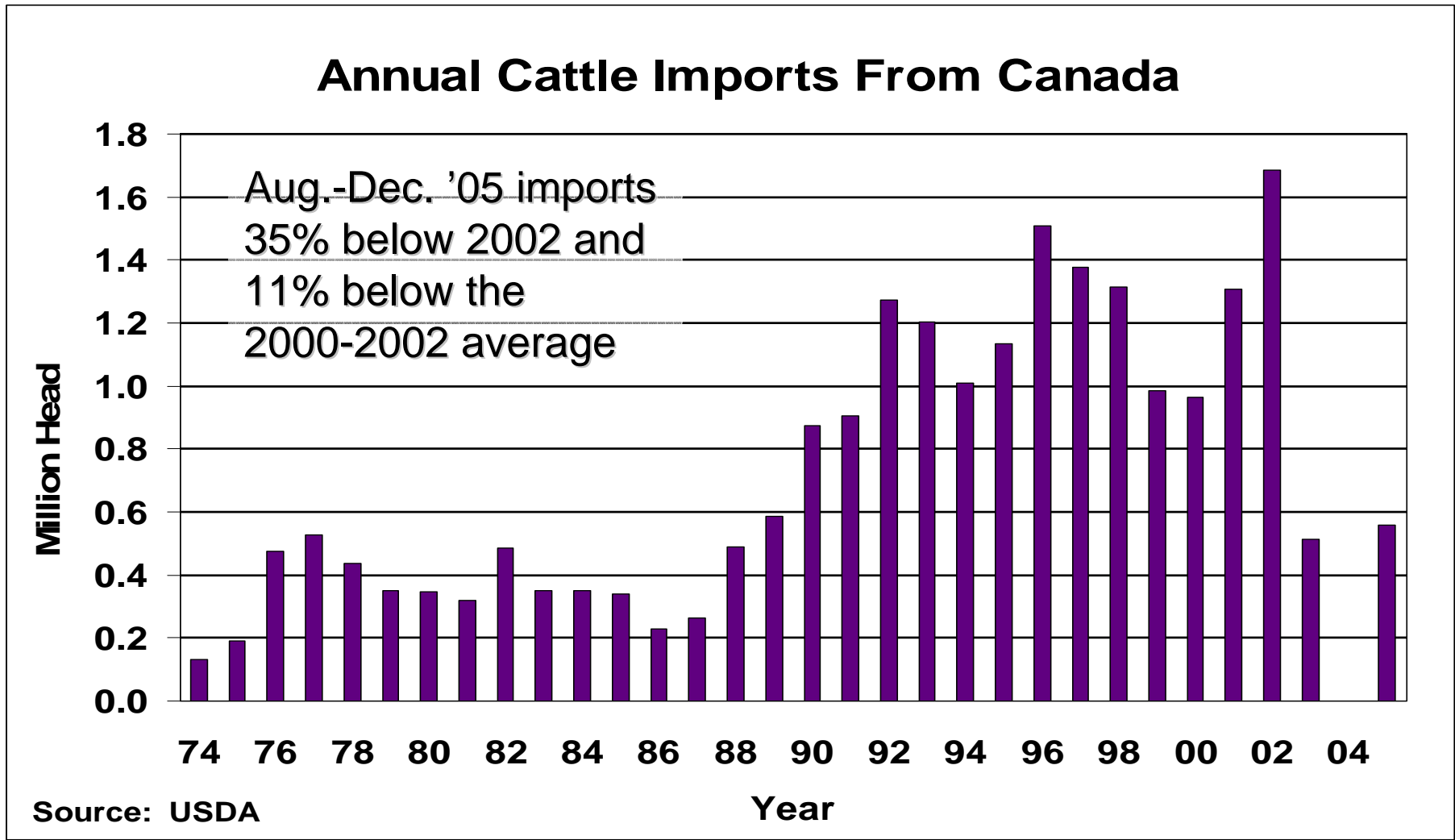


Top 5 Importers Accounted for 91% of U.S. Exports

Top 10 Importers of U.S. Beef
Ranked by Value of Imports in 2003
Other Category Consists of All Other Destinations



Cattle Imports from Canada Are Increasing But Rebound Has Been Slower Than Expected



Increases in Beef Industry Concentration

Cattle Feeding Concentration Increasing

1975

7 Major Feeding States

- 56,221 feedlots marketed 15 million cattle
- Average marketings/feedlot = 267 head
- Feedlots > 1,000 hd. (1,221 lots) marketed 74% of cattle

Source: USDA, Cattle On Feed

7 states = AZ, CA, CO, IA, KS,
NE, TX

Fewer But Larger Cattle Feeders

1995

7 Major Feeding States

- 23,472 feedlots marketed 20.2 million cattle
- Average marketings/feedlot = 858 head
- Feedlots >1000 hd. (1,584 lots) marketed 93% of cattle

Source: USDA, Cattle On Feed

7 states = AZ, CA, CO, IA, KS,
NE, TX

Even Fewer But Larger Cattle Feeders

2004

7 Major Feeding States

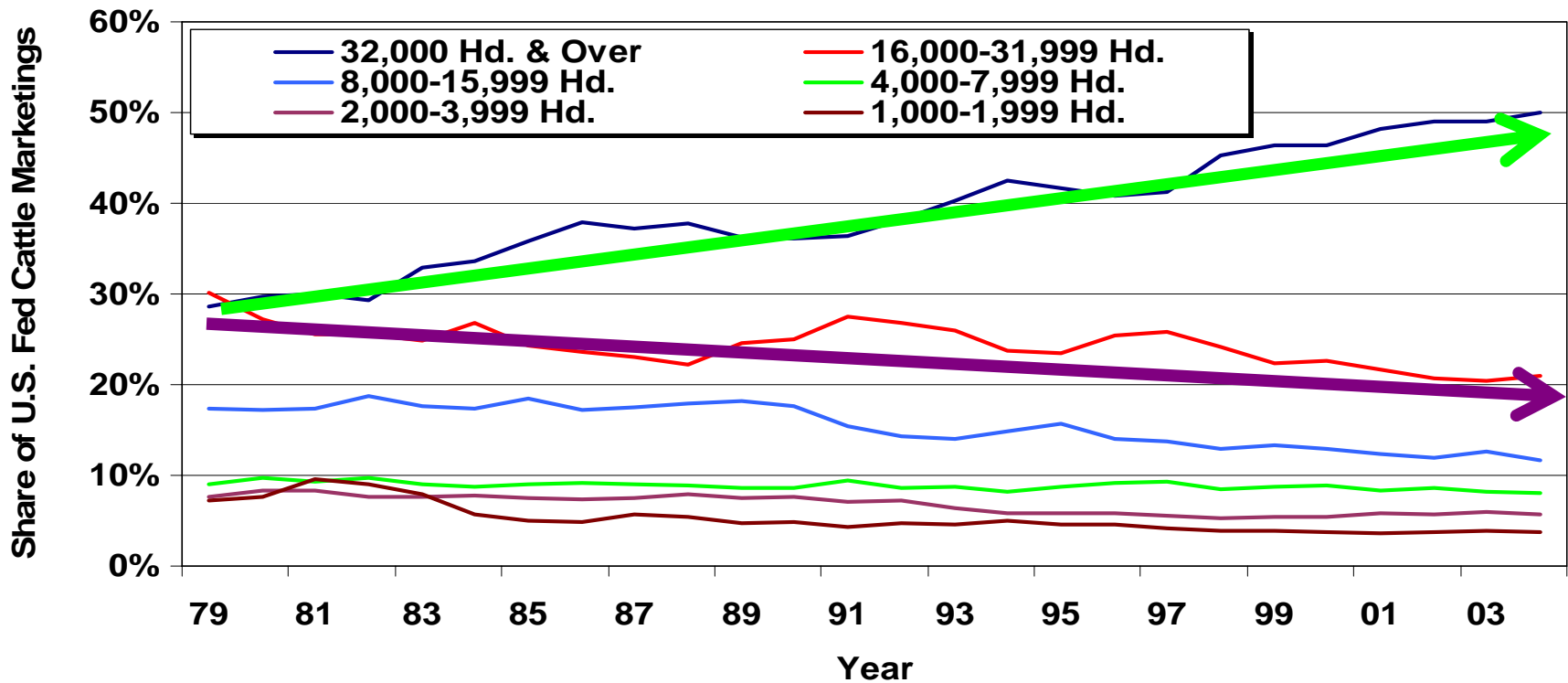
- 14,932 feedlots marketed 20.4 million cattle
- Average marketings/feedlot = 1,369 head
- Feedlots >1000 hd. (1,632 lots) marketed 95% of cattle

Source: USDA, Cattle On Feed

7 states = AZ, CA, CO, IA, KS,
NE, TX

Survivor Analysis: Which Size Category Is Gaining Market Share?

Share of U.S. Fed Cattle Marketings By Feedyard Size Category, 1979-2004



Source: USDA, LMIC, & K-State Research & Extension

Why Is Feedlot Concentration Increasing?

- Lower costs for larger firms
- Why?
- Larger firms in better position to utilize
 - Technology
 - Management skills
 - Labor management
 - Financial management
 - Marketing management
- Implication: Small & medium size feeders operate at a cost disadvantage

Beef Packing Sector Concentration Increased Dramatically

- 4-Firm Concentration Ratio (CR4) increased from 41% to 78% during '80's
 - Transition to large plant sizes was dramatic
 - 1972
 - 70% of all slaughter in plants handling less than 250,000 hd/year
 - 35% of all slaughter in plants handling less than 100,000 hd/year
 - 1992
 - 70% of all slaughter in plants handling over 500,000 hd/year
 - 4% of slaughter in plants handling less than 100,000 hd/year

Source: McDonald & Ollinger, 2005

Have Packing Industry Changes Been Good or Bad?

Shift toward larger plant sizes reduced costs
dramatically

Industry Weighted Average Processing Costs

Year	Per Head Cost (1992\$)
1977	\$131.42
1992	\$96.58
1997	\$90.65
2002	\$85.09

Source: McDonald & Ollinger, 2005

Have Packing Industry Changes Been Good or Bad?

- Meat packing labor productivity increased
 - Index of output per hour rose 80% from 1970 to 1998
- 1970 -1998, inflation adjusted spread between live and wholesale beef prices declined 57%
- Technology & productivity improvements
 - reduced farm-wholesale price spread by \$0.23/cwt.
 - boosted live cattle prices \$1.75/cwt.

What About the Rest of the Food Supply Chain?

Beef Packer & Retail Grocer Concentration 2004 concentration levels (approximate)

Top 4 Beef Packers (steer & heifer slaughter)

82% Market Share

**Tyson
Cargill
Swift & Co.
National Beef**

Top 4 Retail Grocers

33% Market Share

**Wal-Mart (15%)
Kroger (7%)
Costco (6%)
Albertsons (5%)**

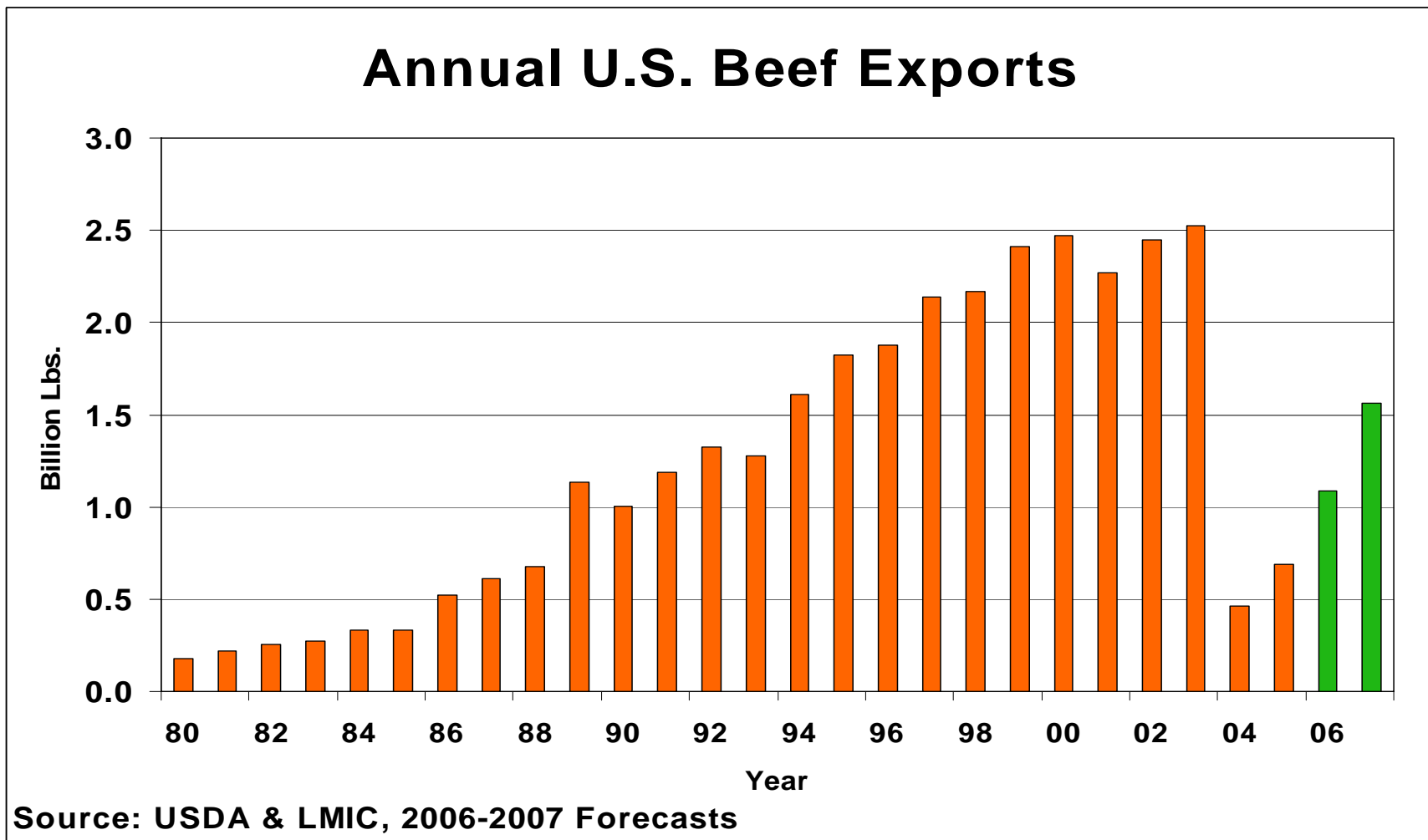
Sources: GIPSA-USDA, Cattle Buyers Weekly, and Supermarket News, Top 75 Grocery Retailers

Where Are We Headed?

Trade

- U.S. strength is in high quality beef products
- Other countries may have comparative advantage in cow-calf production
- Regaining market share could take years
- Consumer incomes in importing countries are key to long-run growth in exports

Long, Slow Road to Export Recovery



Where Are We Headed?

Beef Packing Sector

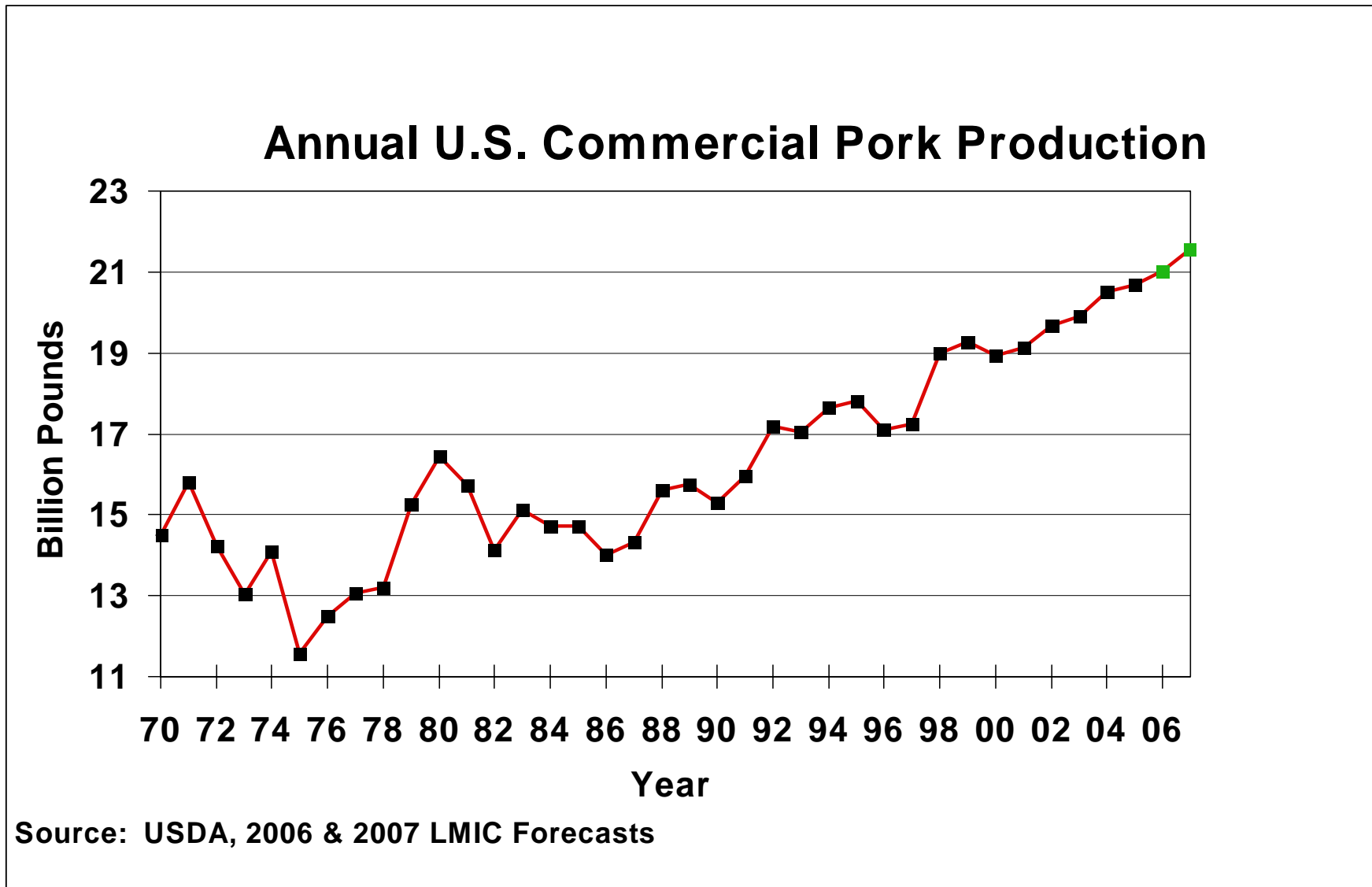
- Lower costs encouraged growth of large packing plants
- Movement toward large firms encouraged by
 - Lower operating costs
 - Lower procurement costs (per unit)
 - Lower marketing costs (per unit)
 - And food safety advantages
- Bulk of transition to large plants & firms has already taken place
- Future developments likely to be in more vertical alliances or integration
- Small packing plants operate at huge cost disadvantage
 - Future Beef (Winfield, KS) - Bankrupt
 - Iowa Quality Beef Supply Network (Tama, IA) - Bankrupt

Where Are We Headed?

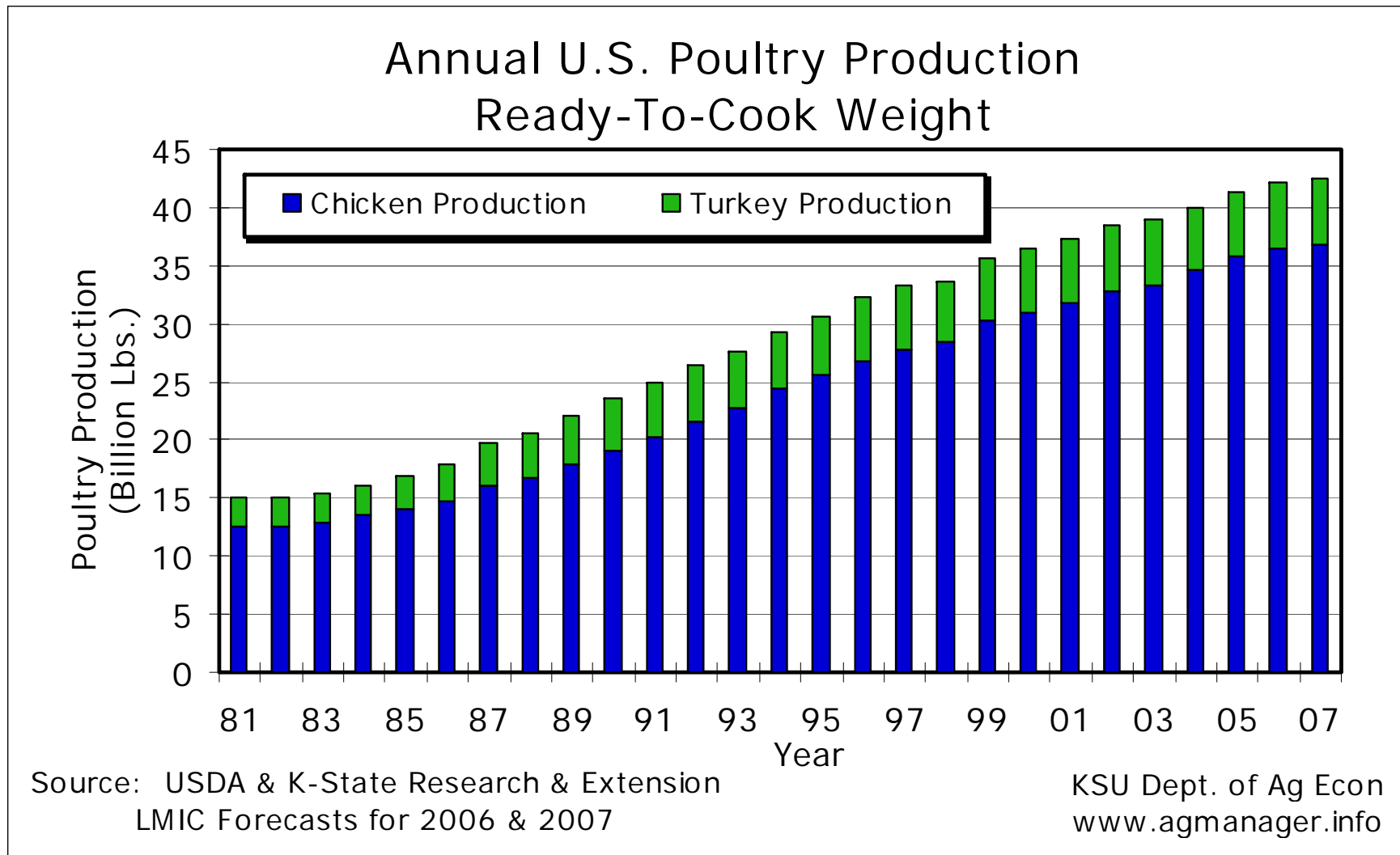
Beef Demand

- Short run gains from low-carb diets behind us
- Future gains will come from product innovation
- Opportunities abound for innovators

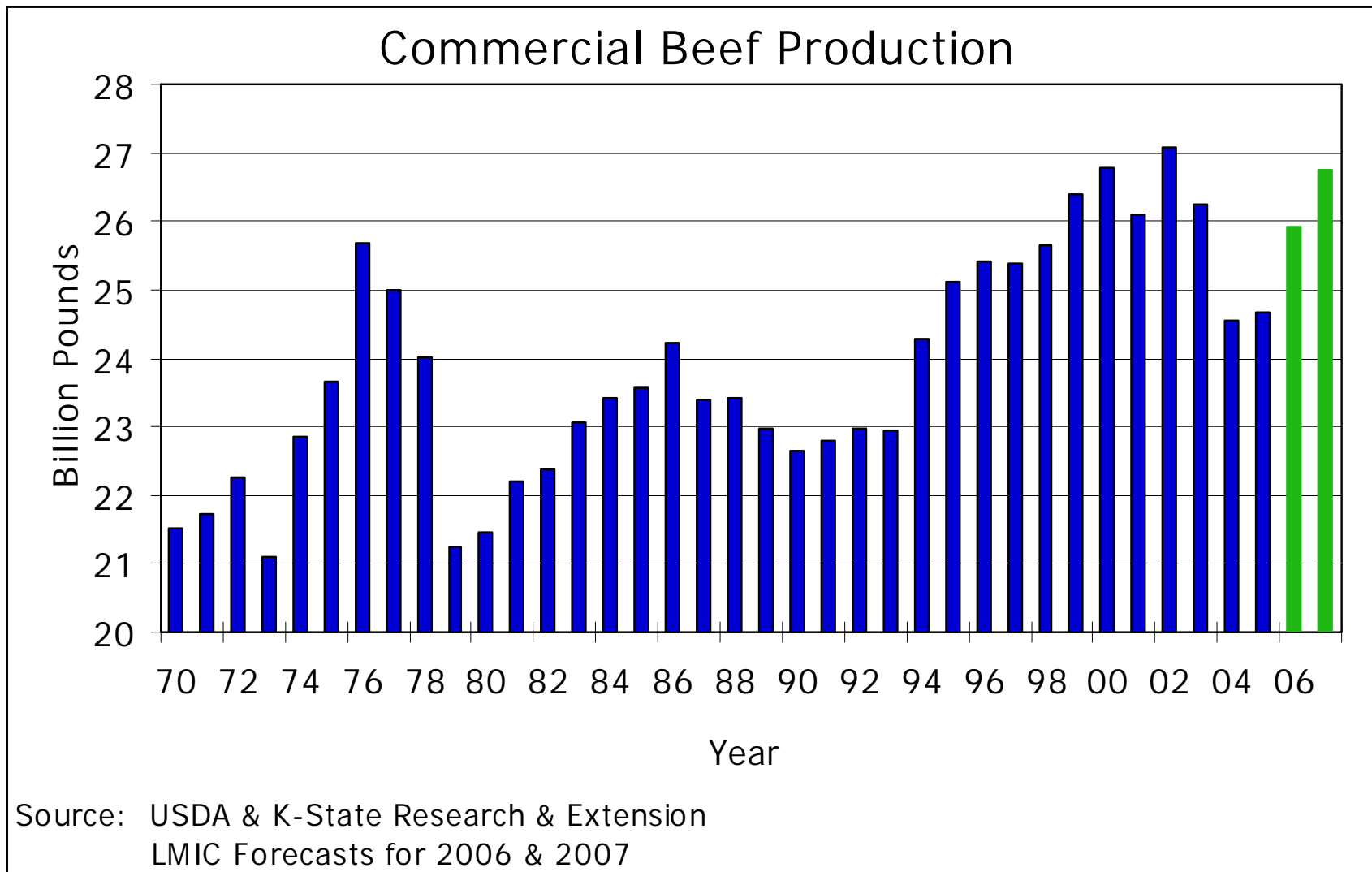
Pork Production Expected To Rise Next Several Years



Poultry Production Increases Could Moderate

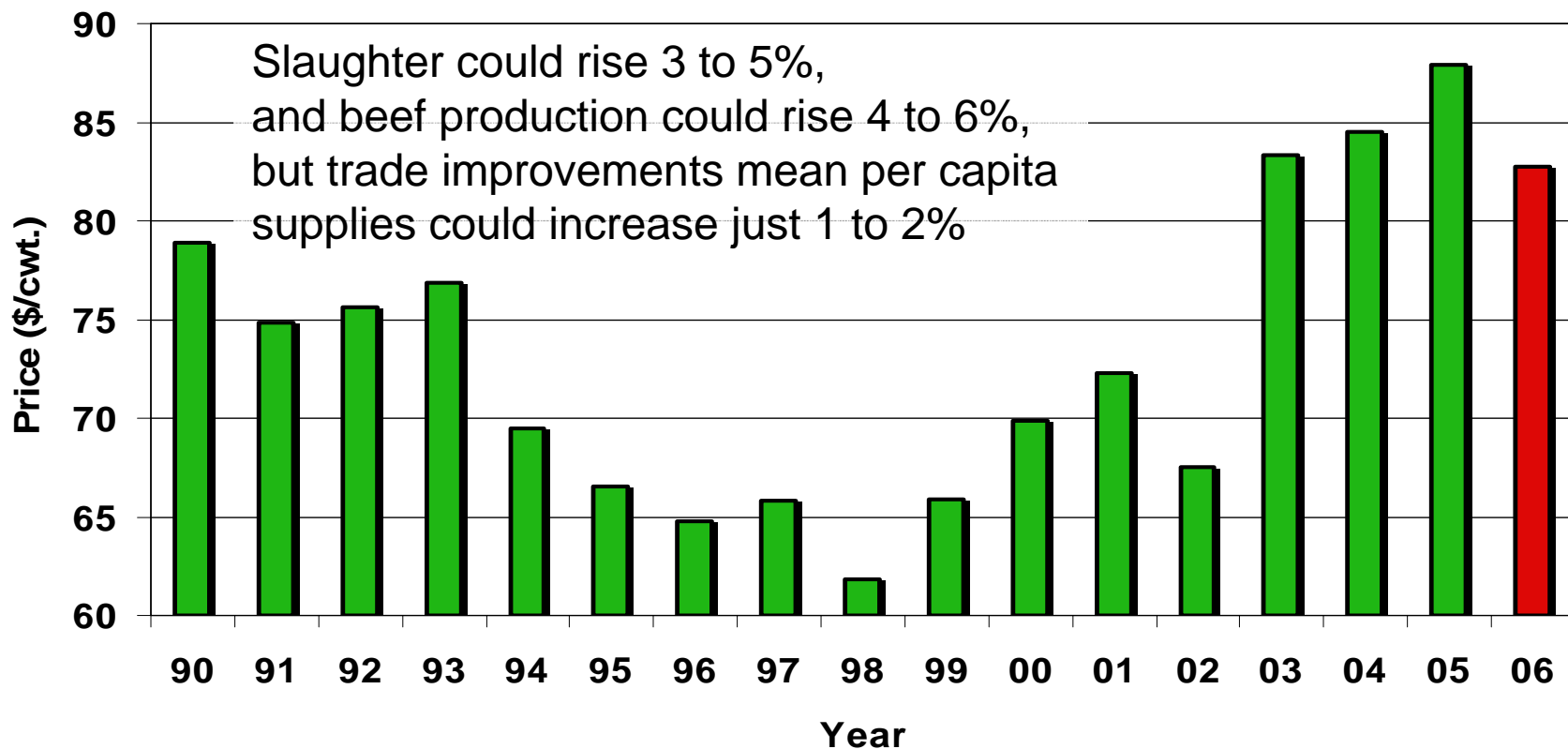


Beef Production Will Rise Cyclically



Record High Annual Average in '05 Lower Prices in '06

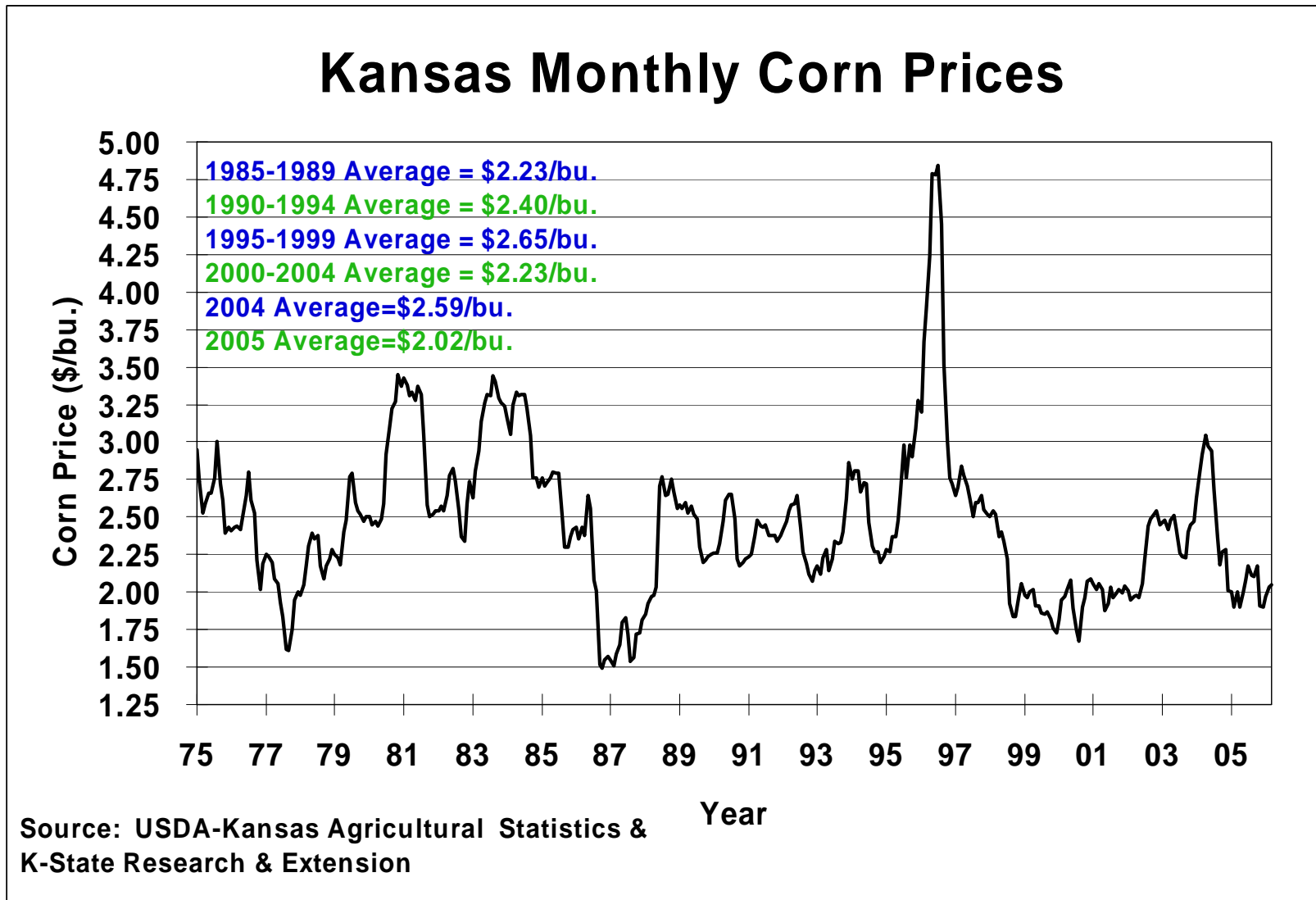
W. Kansas Direct Slaughter Steer Prices



Source: AMS-USDA, Dodge City, KS, 2006 Forecast

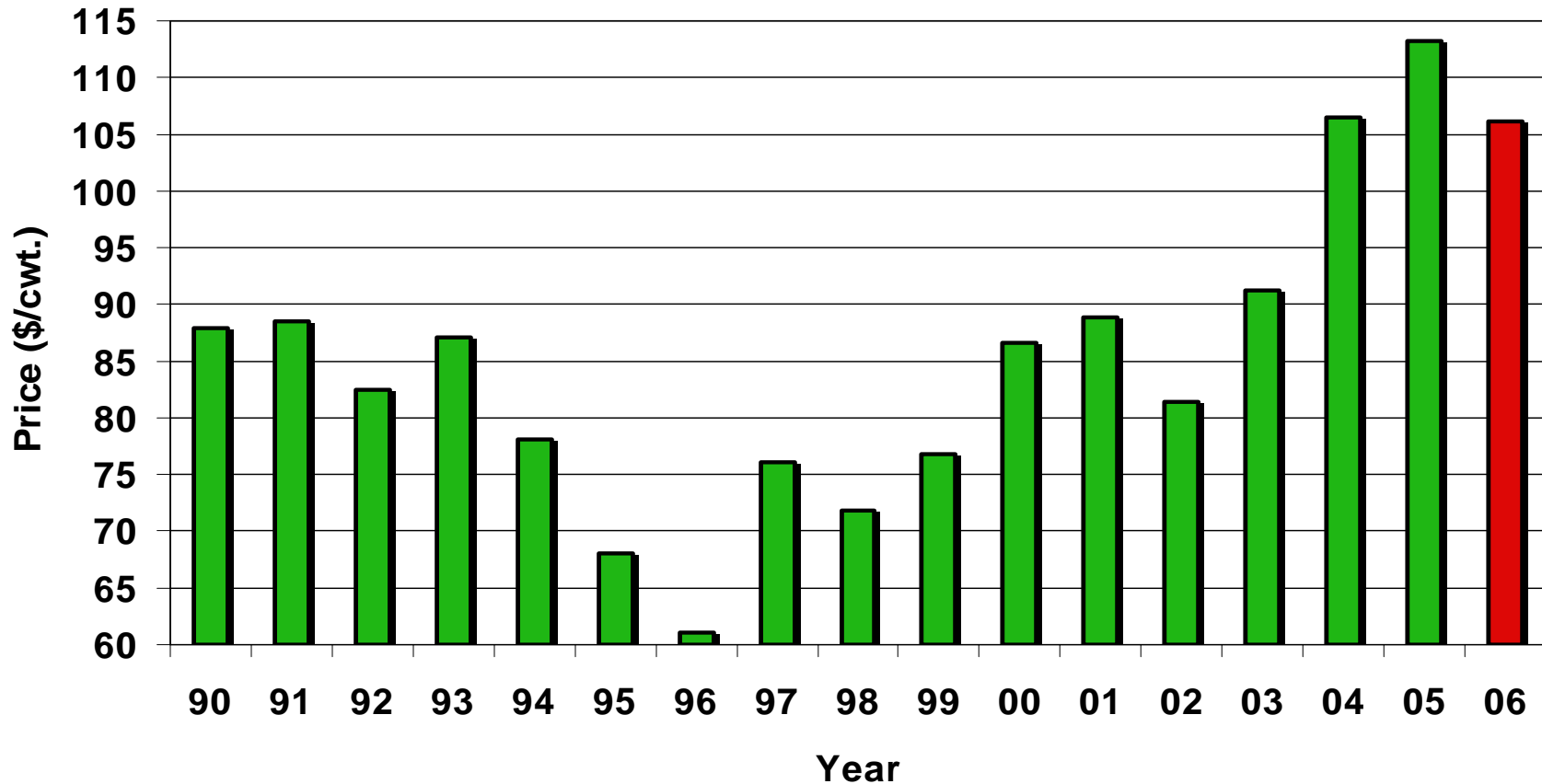
Where Are Corn Prices Headed?

Higher Corn Prices Spell Trouble for Livestock Producers



Feeders In '05 Averaged A Record High of \$112/cwt.
Prices in '06 Could Wind Up Near '04's Average

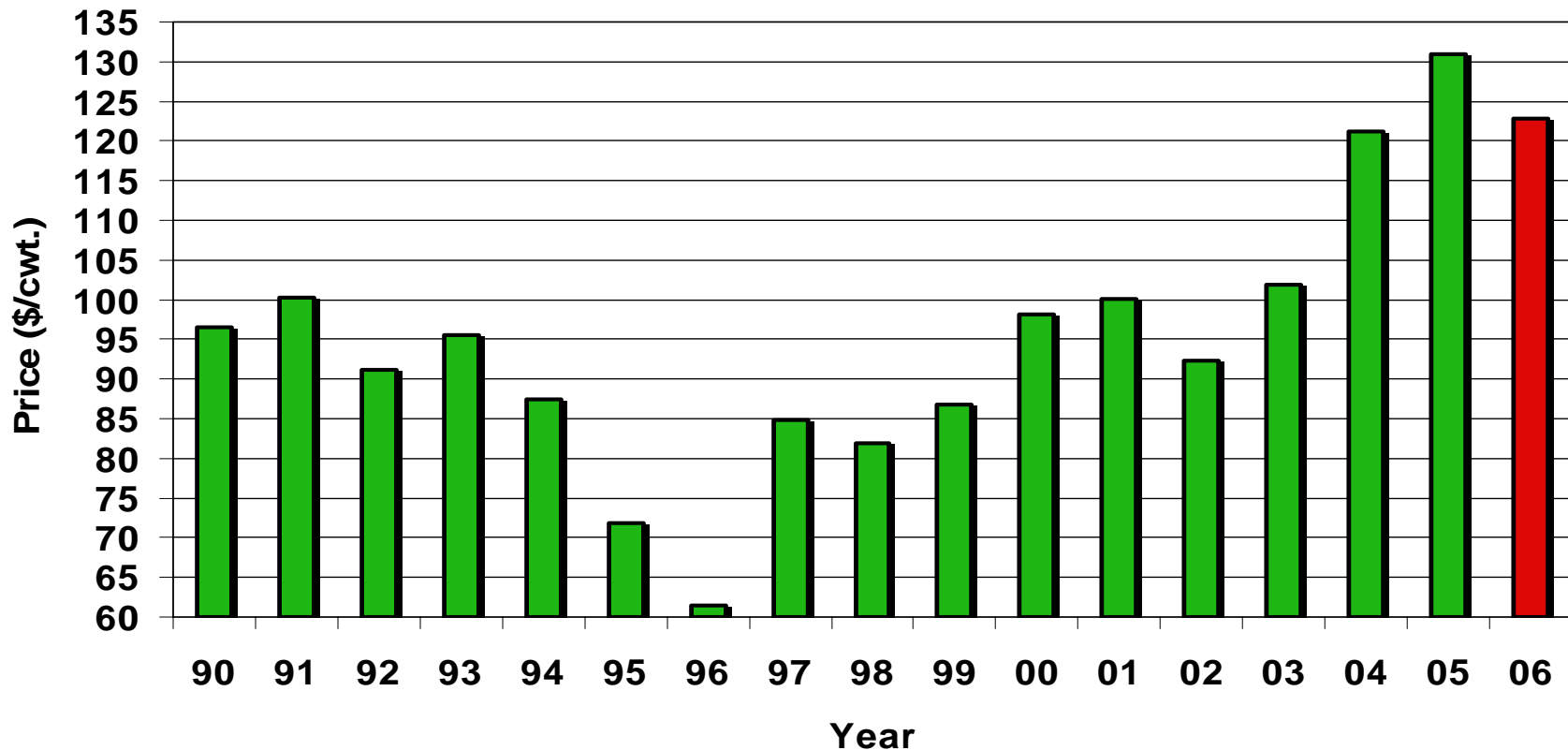
Dodge City, KS 700-800 Lb. Steer Prices



Source: AMS-USDA, Dodge City, KS & KSU, 2006 Forecast

Record High Calf Prices In '05 And Near Record High in '06

Dodge City, KS 500-600 Lb. Steer Prices



Source: AMS-USDA, Dodge City, KS & KSU, 2006 Forecast

AgManager: Livestock Marketing and Outlook - Mozilla Firefox

File Edit View Go Bookmarks Tools Help del.icio.us

http://www.agmanager.info/livestock/marketing/

AgManager Lvstck Marketing Jim's Stuff KSU Stuff Misc Ag Sites Weather Travel

AgManager: Livestock Marketi...

about contributors useful links site map feedback Search

Home / Livestock & Meat / Marketing

Livestock & Meat: Marketing

Next Scheduled Site Update: 4.21.06

Beef Demand

Market Outlook (updated weekly)

Livestock Management

Marketing & Management Extension Bulletins (BSE Bulletin Posted 4.28.05)

Livestock and Hay Charts (updated 4.14.06)

Livestock Databases (updated 4.14.06)

LRP Information (updated 11.17.05)

USDA Market News

Futures Market Prices

Extension Presentations (updated 3.16.06)

Link to Barnaby's LRP Feeder Cattle Insurance Info.

Link to RMA's LRP Premium Calculator

Barchart.com

CME Futures			
Apr 06 L. Cattle	81.87	+0.12	+0.15%
Jun 06 L. Cattle	75.27	-0.38	-0.50%
Aug 06 L. Cattle	77.20	-0.20	-0.26%
Oct 06 L. Cattle	80.47	-0.20	-0.25%
Dec 06 L. Cattle	81.95	-0.35	-0.43%
Apr 06 Hogs	54.22	-0.13	-0.24%
May 06 Hogs	63.40	-0.10	-0.16%
June 06 Hogs	64.80	+0.28	+0.43%
Aug 05 Hogs	64.80	+0.50	+0.78%
Oct 06 Hogs	55.65	unch	unch
Dec 06 Hogs	54.25	+0.63	+1.17%
Apr 06 F.Cattle	102.17	+0.82	+0.81%
May 06 F.Cattle	102.90	+1.25	+1.23%
Aug 06 F.Cattle	104.05	+0.73	+0.71%
Oct 06 F.Cattle	102.55	+0.45	+0.44%
CBOT Futures			
May 06 Corn	239-0	+2-6	+1.16%
Jul 06 Corn	250-6	+2-2	+0.91%
Sept 06 Corn	260-4	+3-0	+1.17%
May 06 Soy	569-4	+6-4	+1.15%
Jul 06 Soy	583-4	+6-0	+1.04%
Sept 06 Soy	593-4	+6-2	+1.06%
May 06 Wheat	351-0	-6-4	-1.82%
Jul 06 Wheat	364-0	-7-2	-1.95%
Sept 06 Wheat	376-0	-5-4	-1.44%
KCBT Futures			
May 06 Wheat	441-4	-15-0	-3.29%
Jul 06 Wheat	448-0	-16-4	-3.55%
Sept 06 Wheat	451-0	-14-0	-3.01%
Stock Market			
Russell 2000	753.03	+1.92	+0.26%
NYSE Composite	8266.52	+38.57	+0.47%
June 06 Crude Oil	71.25	+0.43	+0.61%

www.agmanager.info/livestock/marketing

Applet QuotePage started

start

11:08 AM