

# Cattle Outlook

Kansas State University Cattlemen's Day  
March 3, 2006

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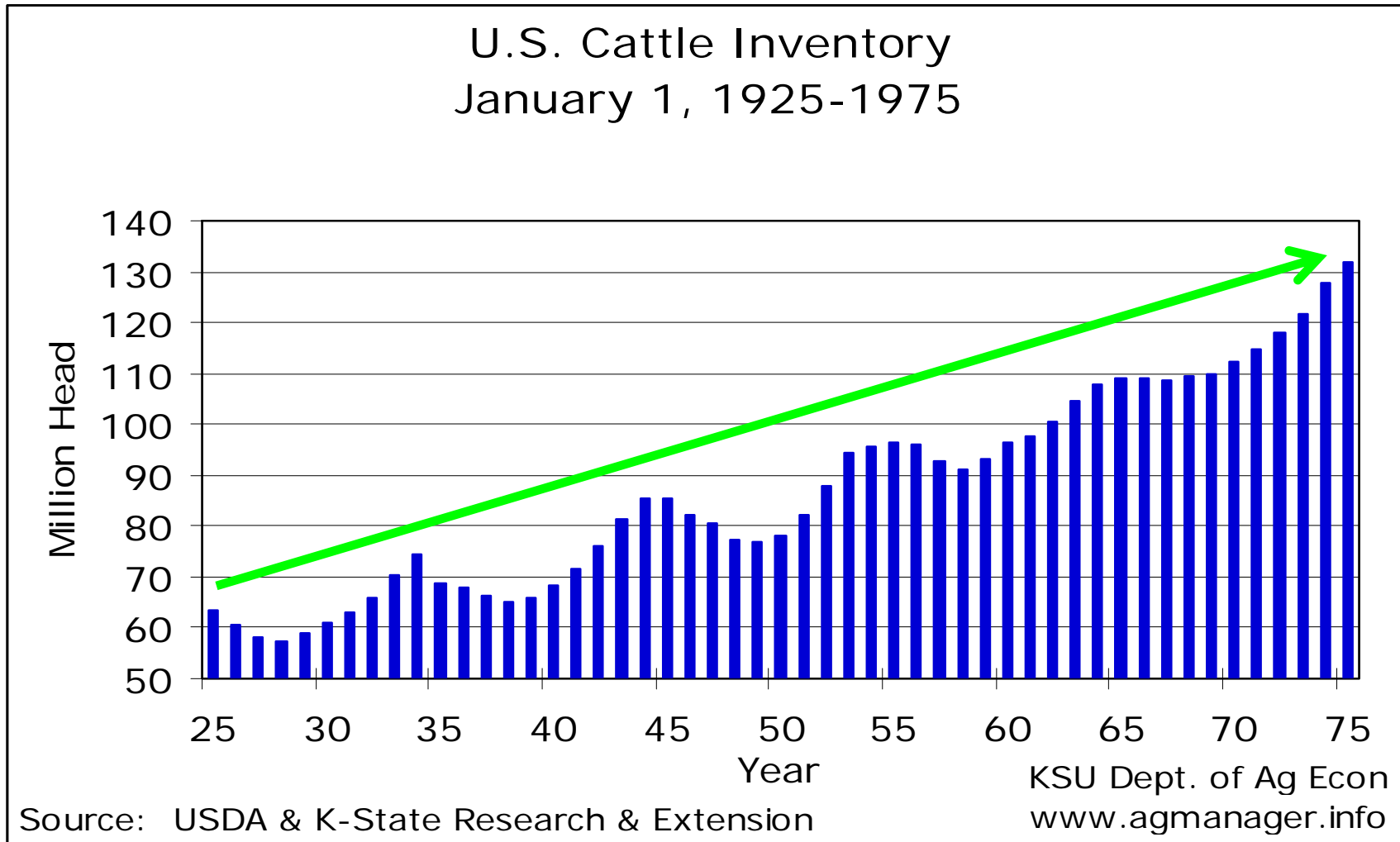
[www.agmanager.info/livestock/marketing](http://www.agmanager.info/livestock/marketing)  
[jmintert@ksu.edu](mailto:jmintert@ksu.edu)

# Forces Shaping Change in U.S. Beef Sector

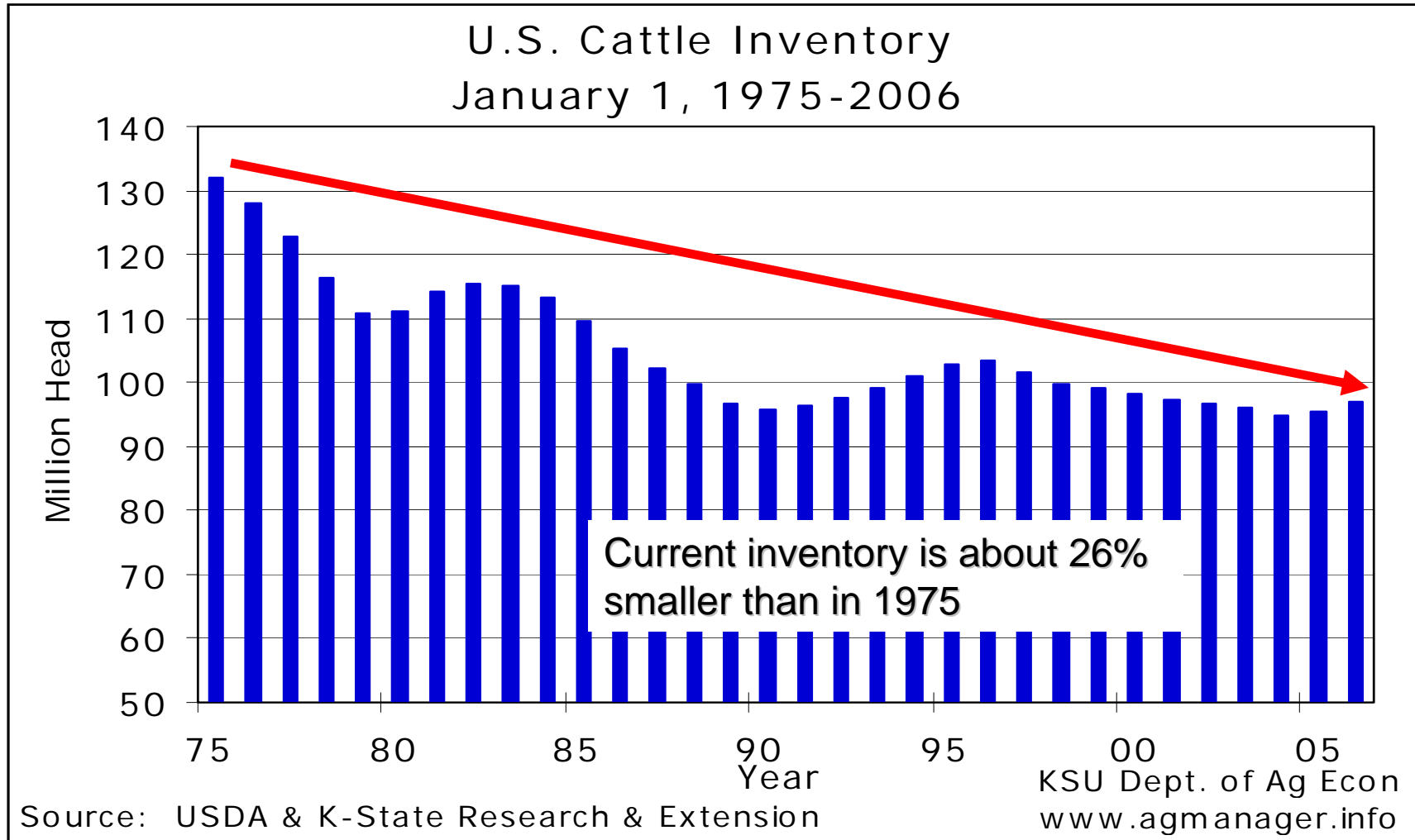
- Beef Demand
- International Trade
- Shifts in Optimum Firm Size
- Putting It All Together

# Beef Demand

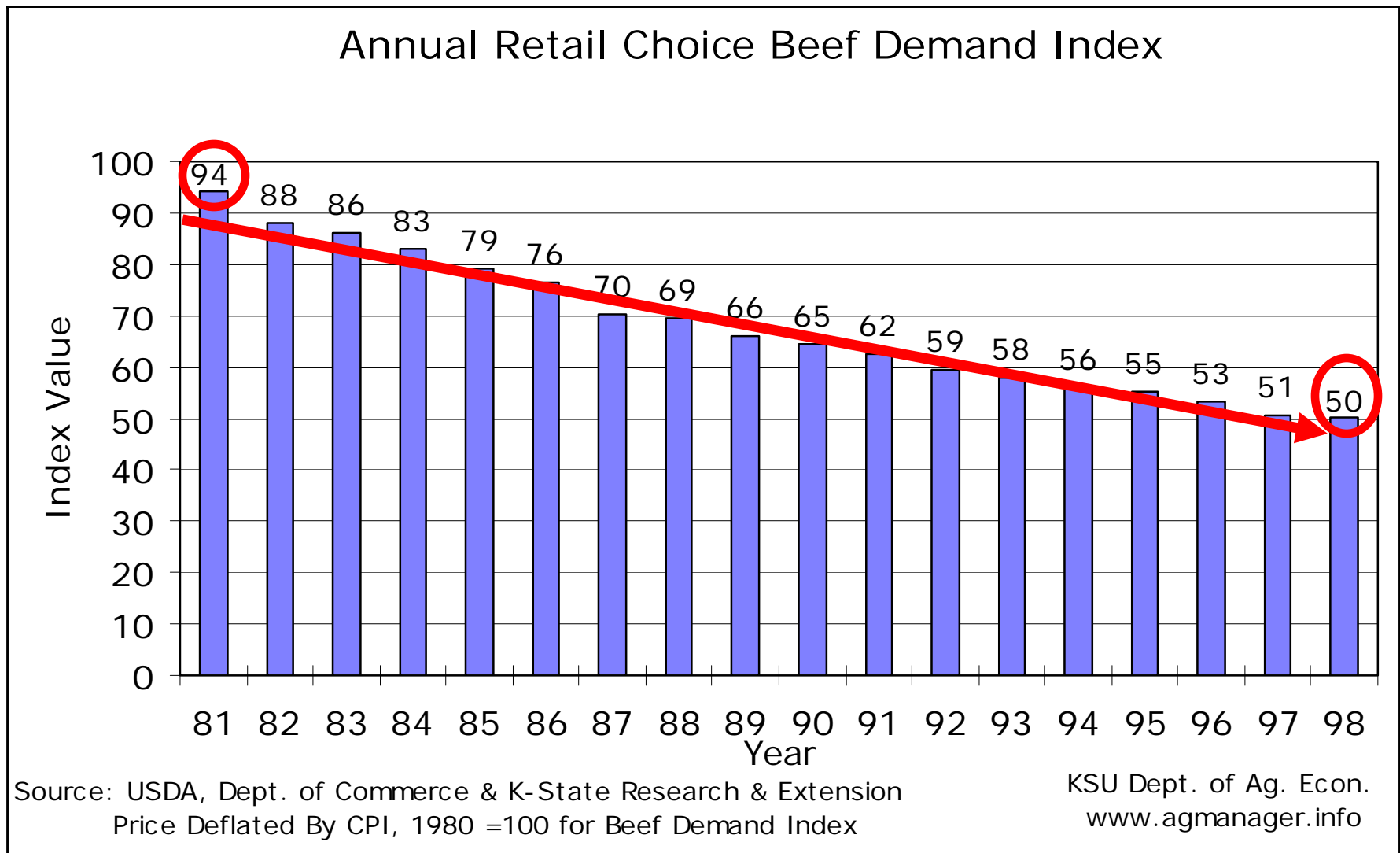
# A Picture of A Healthy Industry



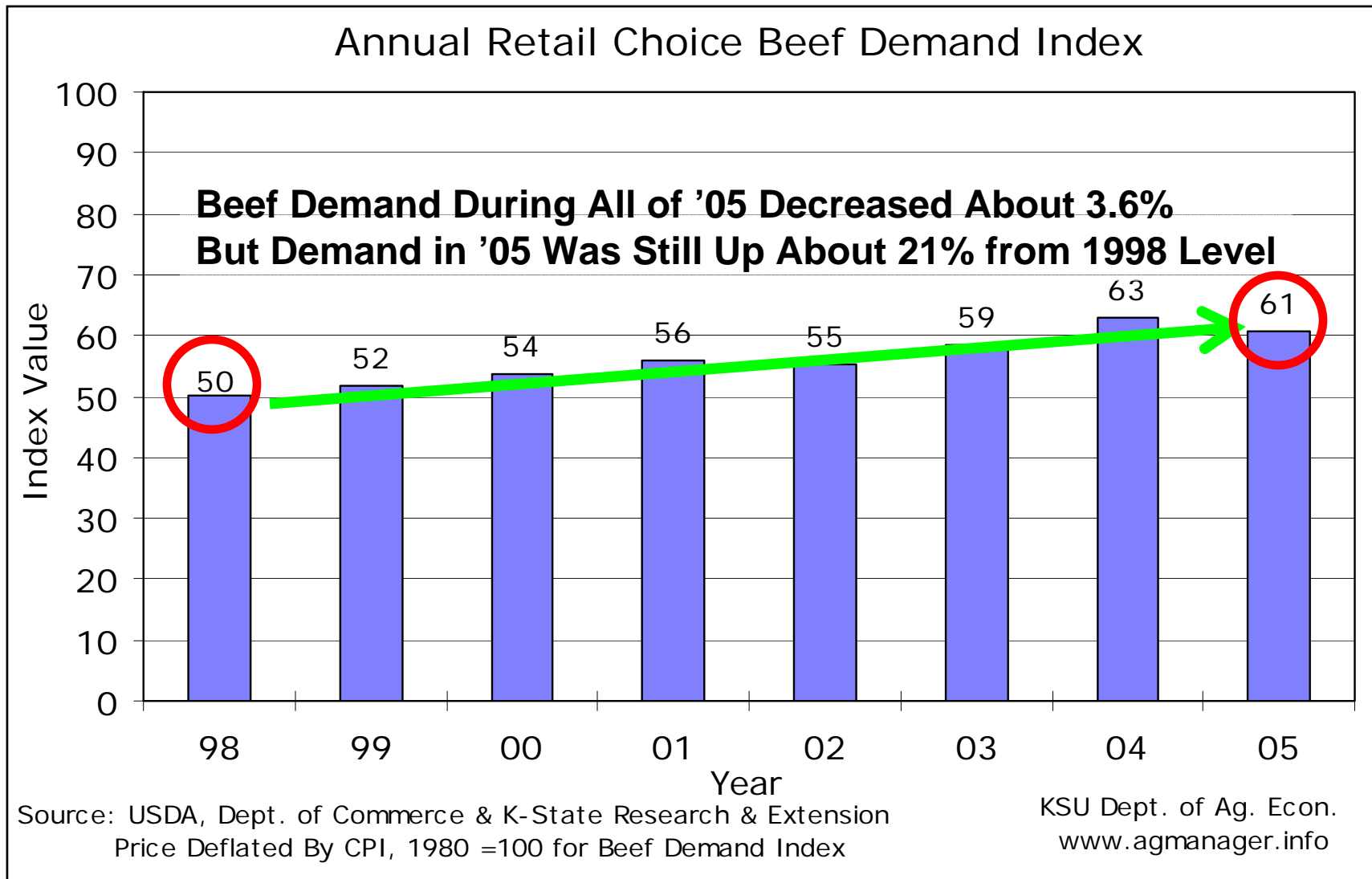
# A Shrinking Industry Responding to a Lack of Profitability



# 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
- Future demand growth will be harder to come by than in 2003 and 2004

# 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

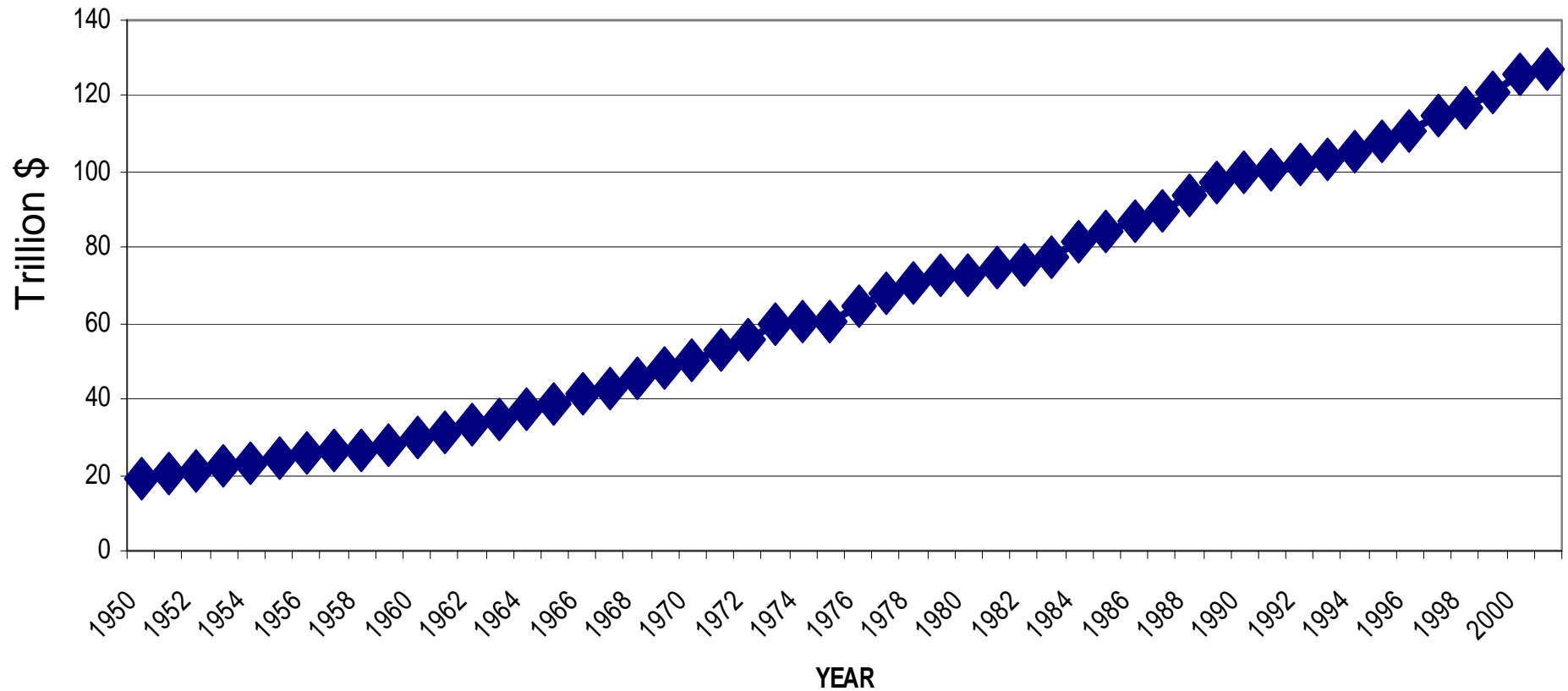
- All trade is voluntary
- All trade is mutually beneficial
- International trade increases consumption possibilities

# 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

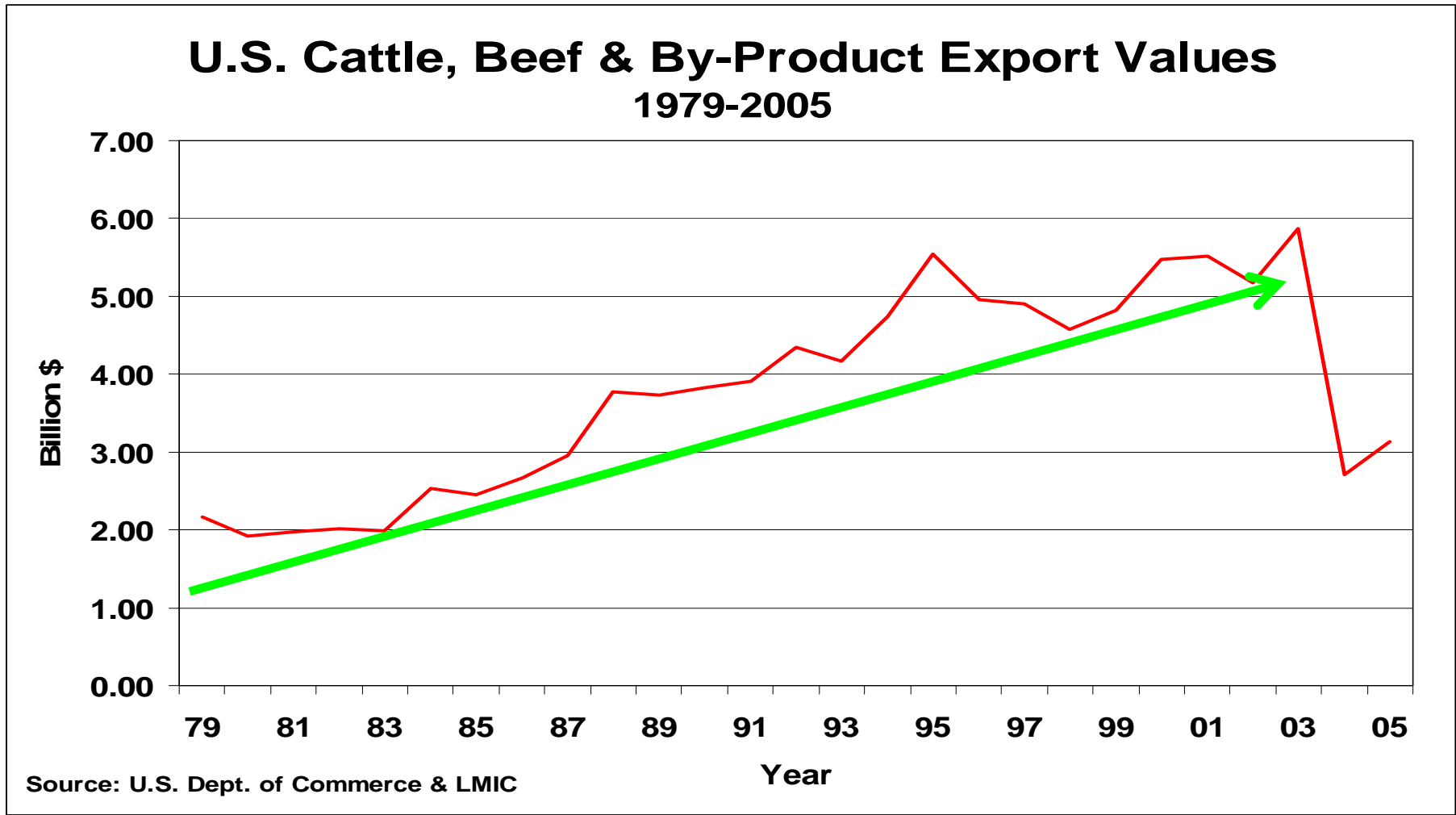
# Increases in Trade Fueled Economic Growth

## WORLD GDP (WTO)

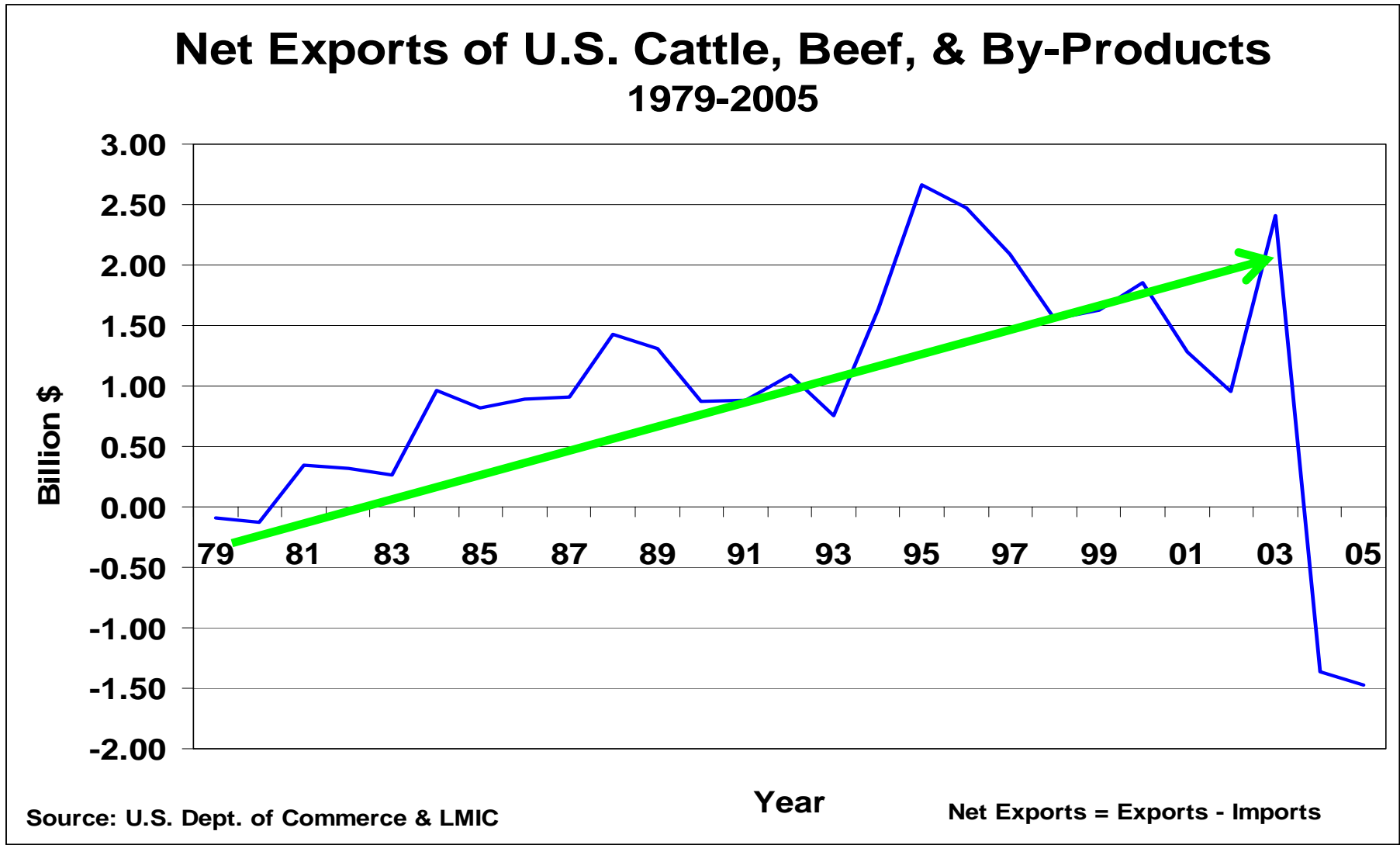


Source: WTO

# Phenomenal Long-Run Beef Export Growth

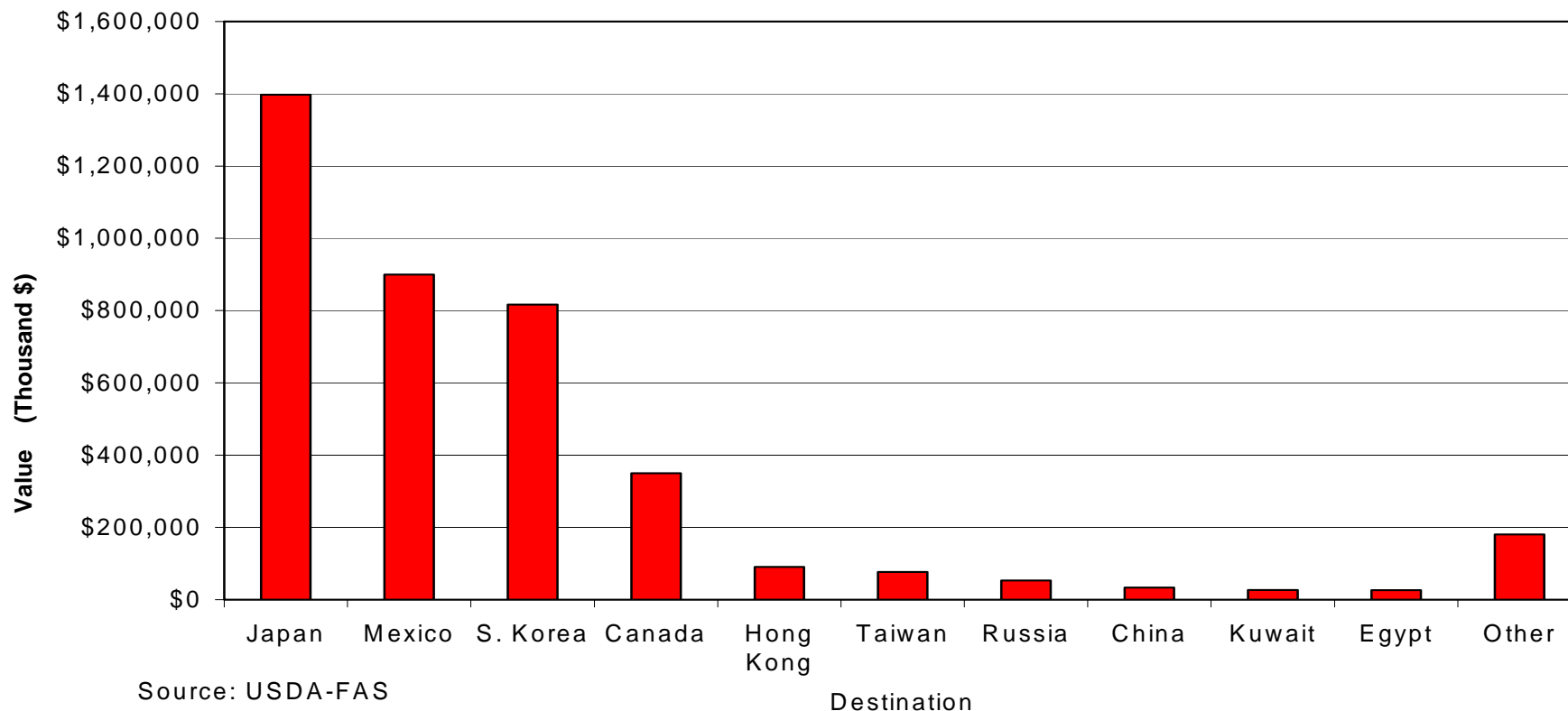


# U.S. Has Been A Net Exporter Since 1981

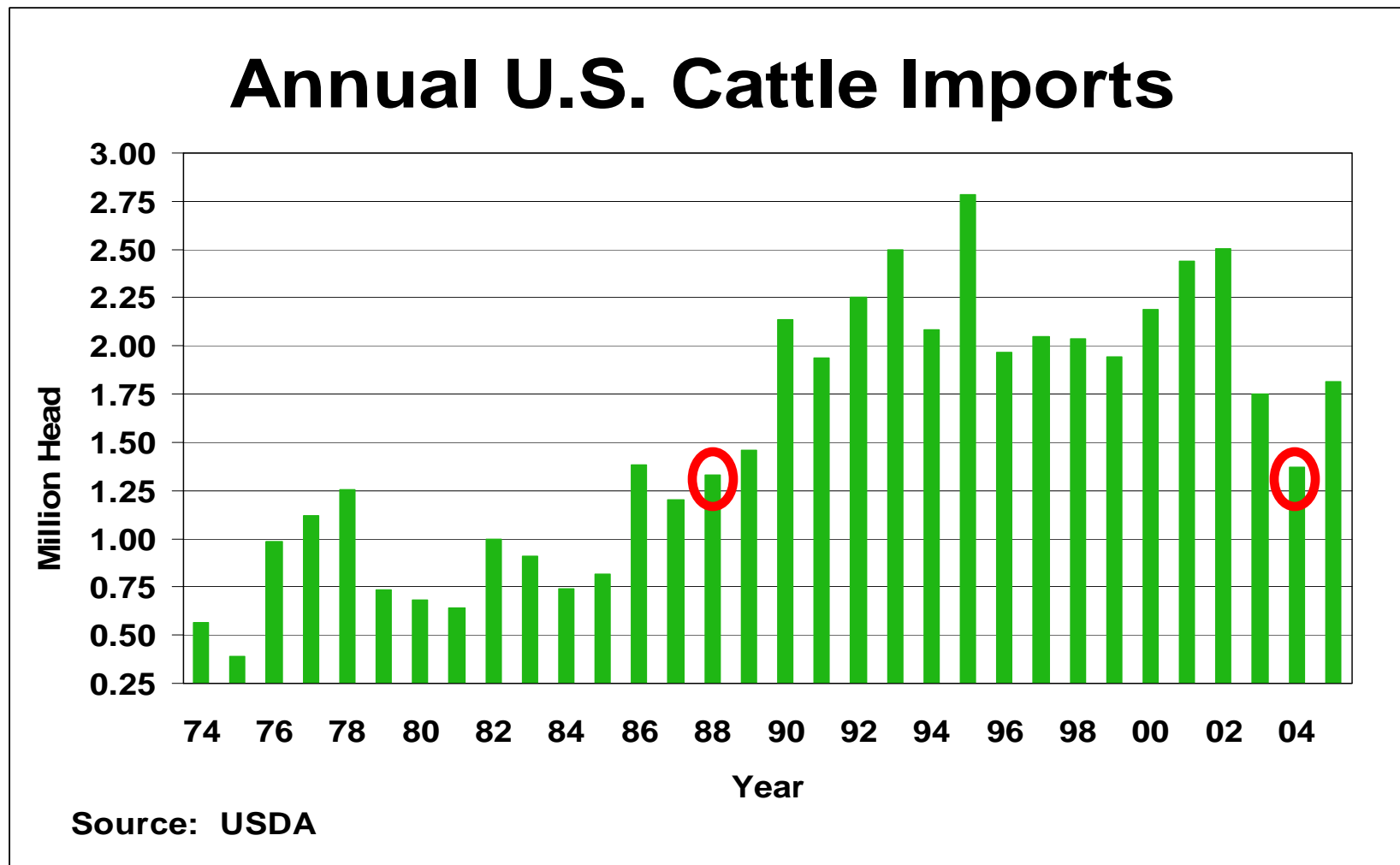


# Top 5 Importers Accounted for 91% of U.S. Exports

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

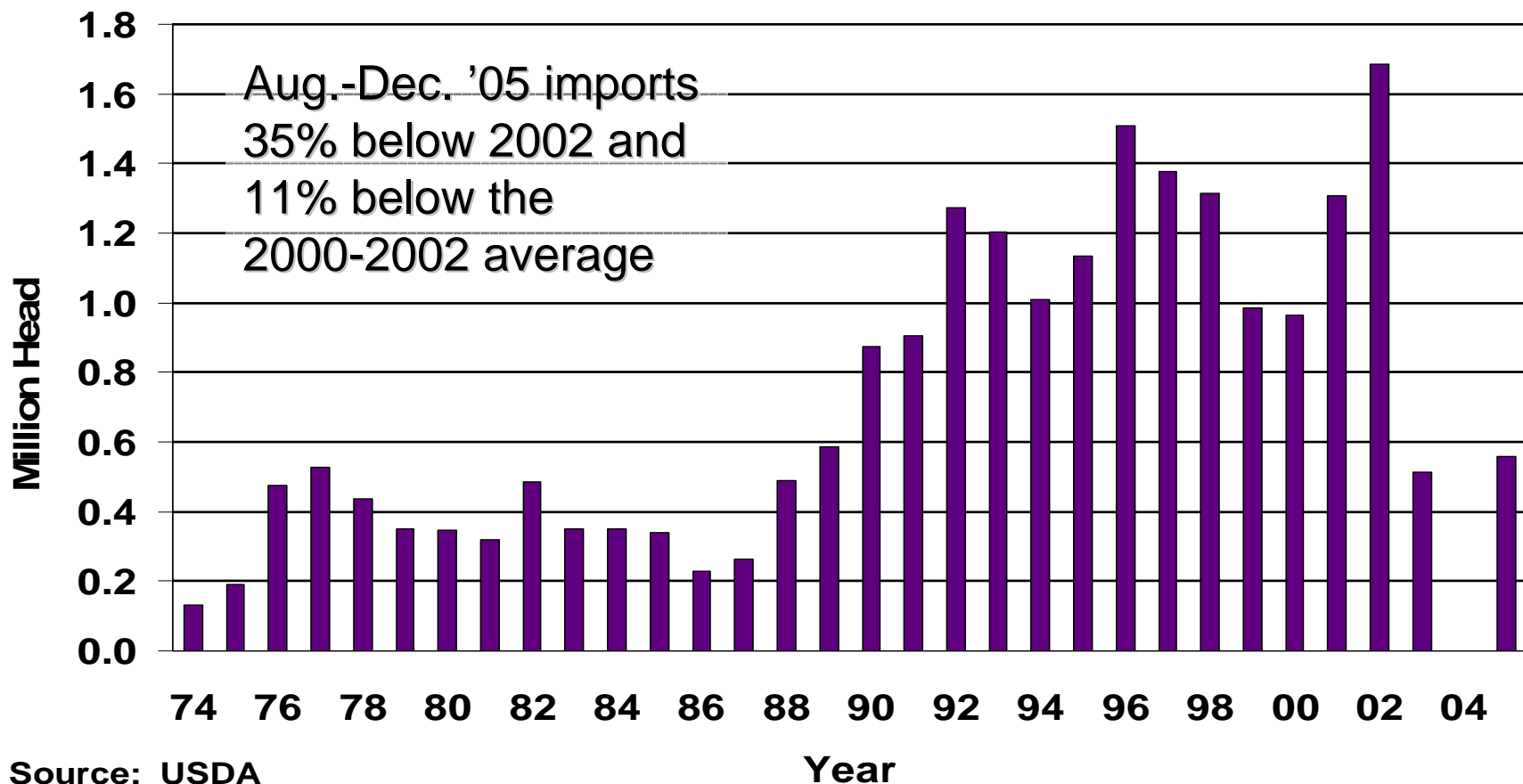


# U.S.-Canada Border Closure Led To Smallest Cattle Imports Since Late-1980's



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

## Annual Cattle Imports From Canada



# 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

# Largest Cattle Feeding Firms, 2005

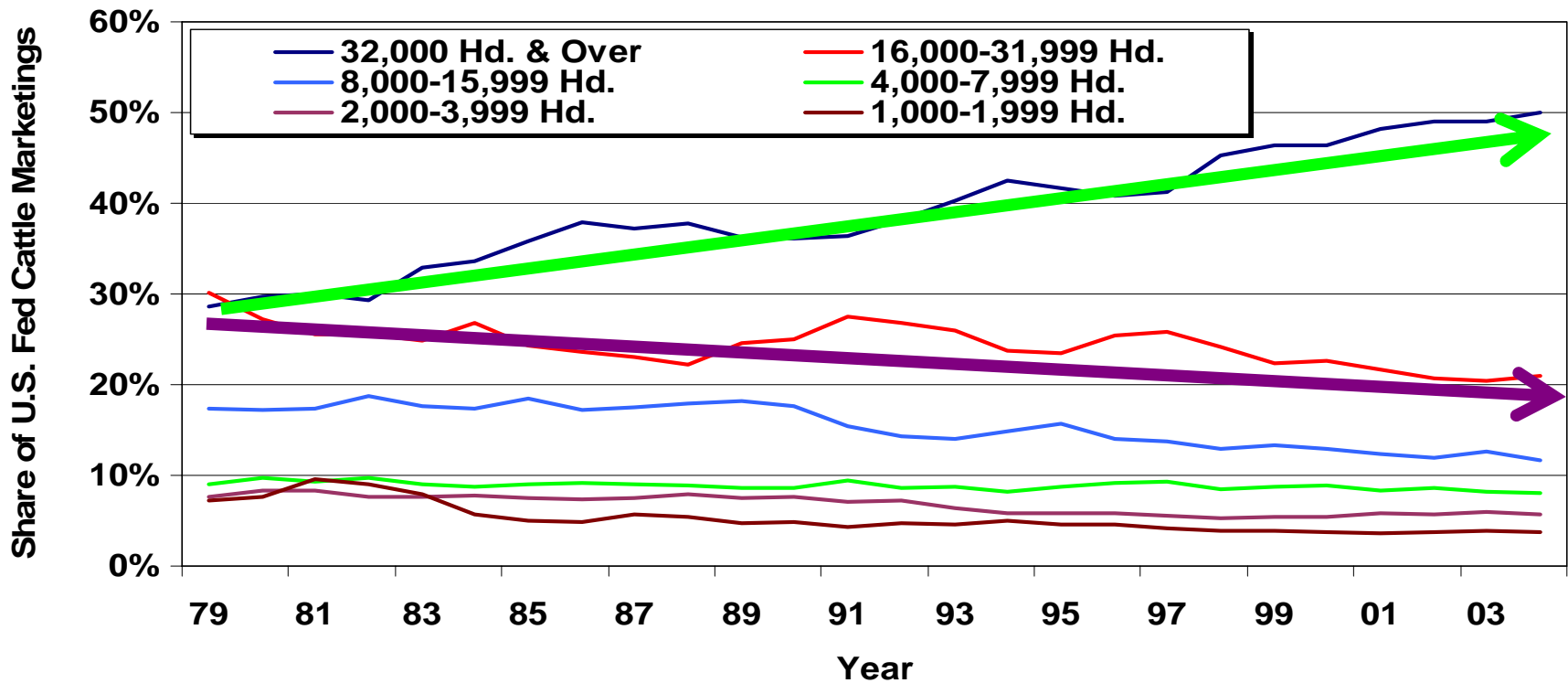
Rank	Firm	# of Lots	1-Time Cap. (hd.)
1	5 Rivers Ranch	10	811,000
2	Cactus	10	520,000
3	Cargill	4	300,000
4	Friona	4	275,000
5	AzTx	5	232,000

Source: Cattle Buyers Weekly

**K-State Research & Extension**

# 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

# What Helped Motivate Shift In Packing Industry?

- Change in packing plant labor costs facilitated shift to larger plants in the Plains
  - 1978, 45% of meat product workforce was unionized
  - Union workers wages 29% > non-union workers
  - 1987, just 21% of workforce unionized
  - In 1960's & 1970's, meatpacking wages 14 to 18% > than manufacturing wages
  - 2002, meatpacking wages were 25% below manufacturing wages

Source: McDonald & Ollinger, 2005

# Large Packing Plants Have Lower Costs

- Large plants paid higher wages in '60's & '70's
  - 1960-1972
    - Plant size ↑ 1% -wages 9% ↑ than mid-size plant
  - 1982
    - Plant size ↑ 1% -wages 6% ↑ than mid-size plant
  - 1992
    - Plant size ↑ 1% -no change in wages
- Eliminating wage differentials across plant sizes provided incentive to build large packing plants

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.

Source: Marsh & Brester, 2001

# 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

# 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

# Where Are We Headed?

## Beef Packing Sector

- Lower costs encouraged growth of large packing plants
- Lower costs, procurement, marketing and food safety advantages have all encouraged growth of large firms
- Bulk of gains from transition to large plants & firms have already been realized
- 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

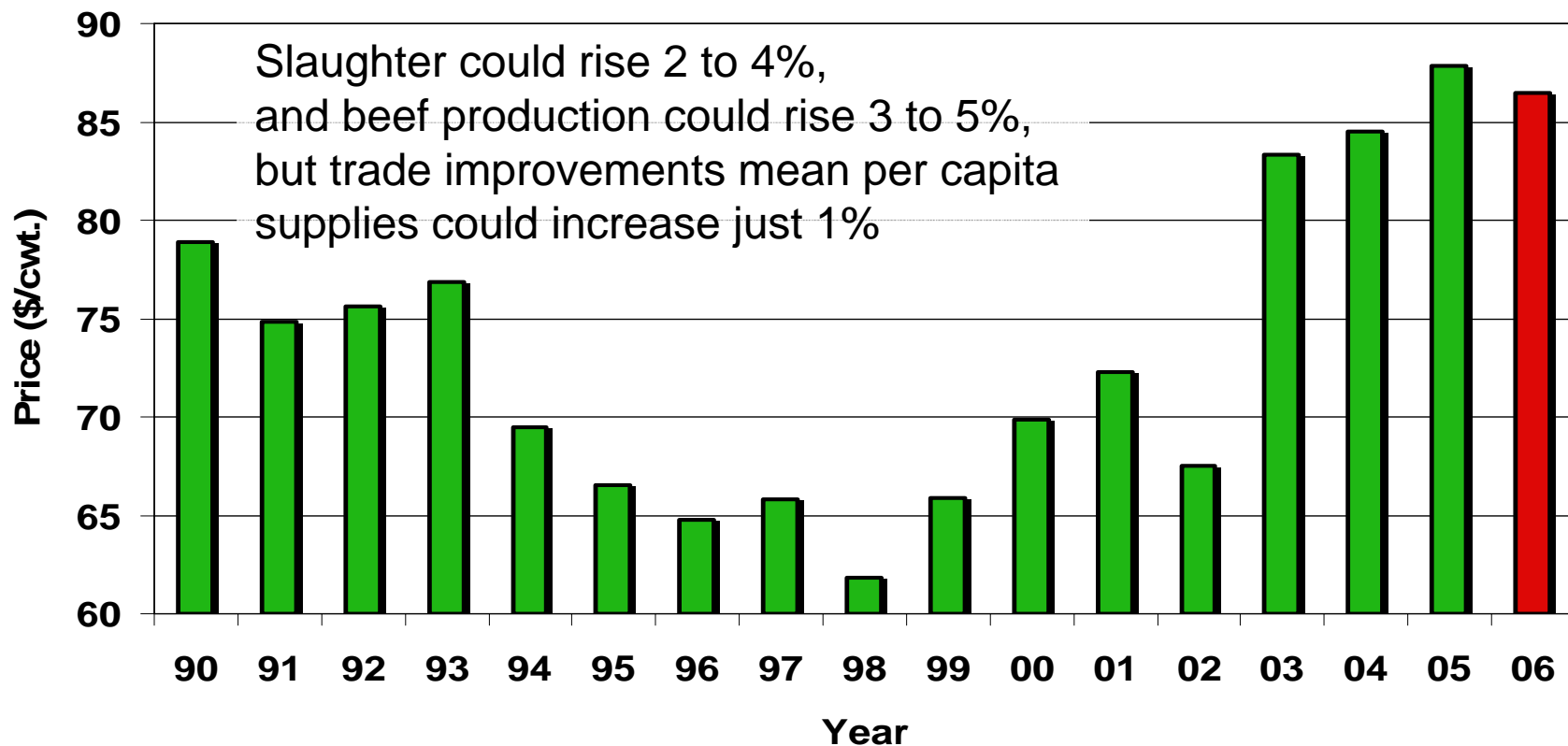
# Where Are We Headed?

## Beef Demand

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

## Record High Annual Average in '05 & Near Record High in '06

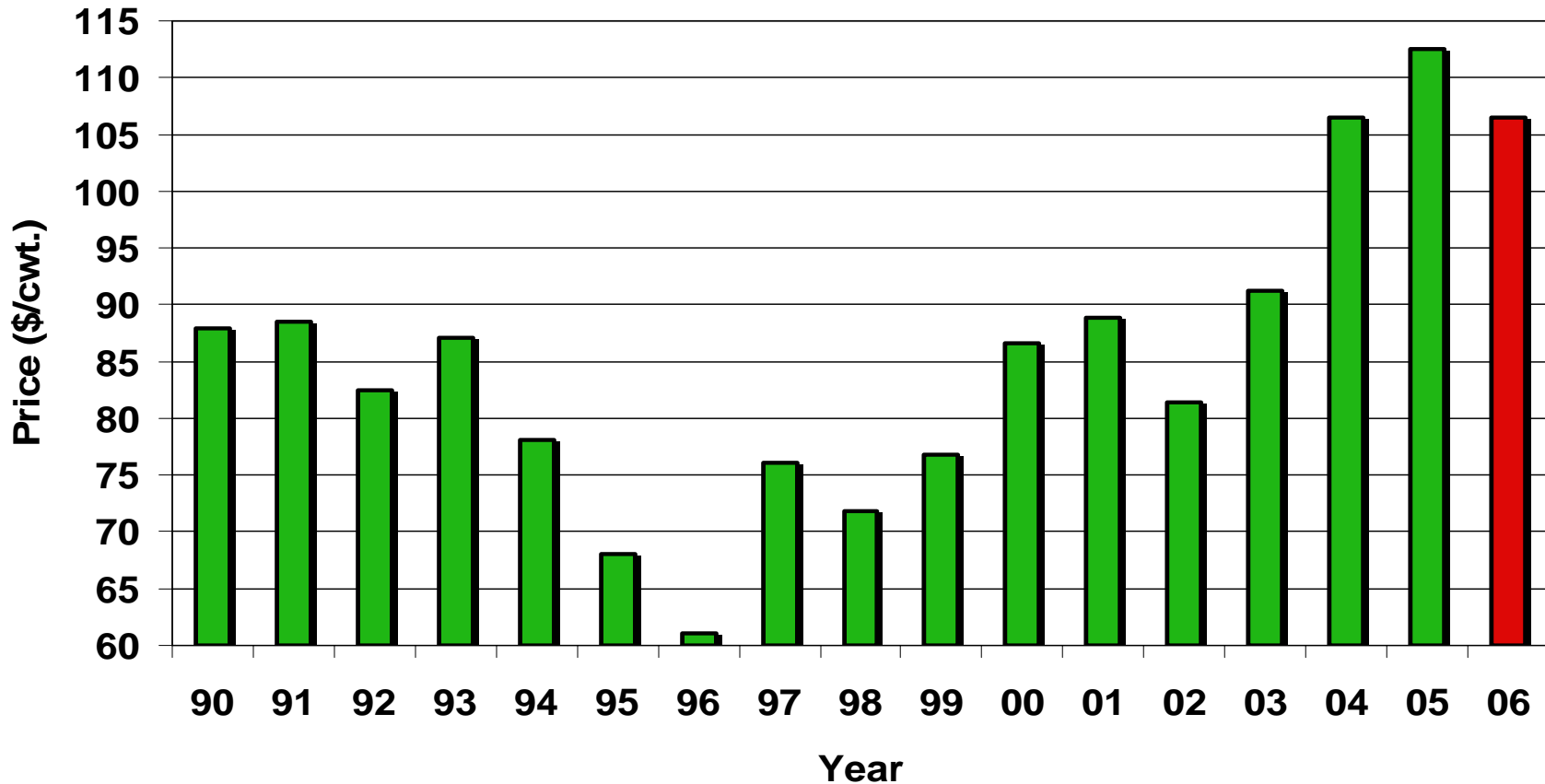
### W. Kansas Direct Slaughter Steer Prices



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

Feeders In '05 Averaged A Record High of \$112/cwt.  
But Still Near Record High in '06

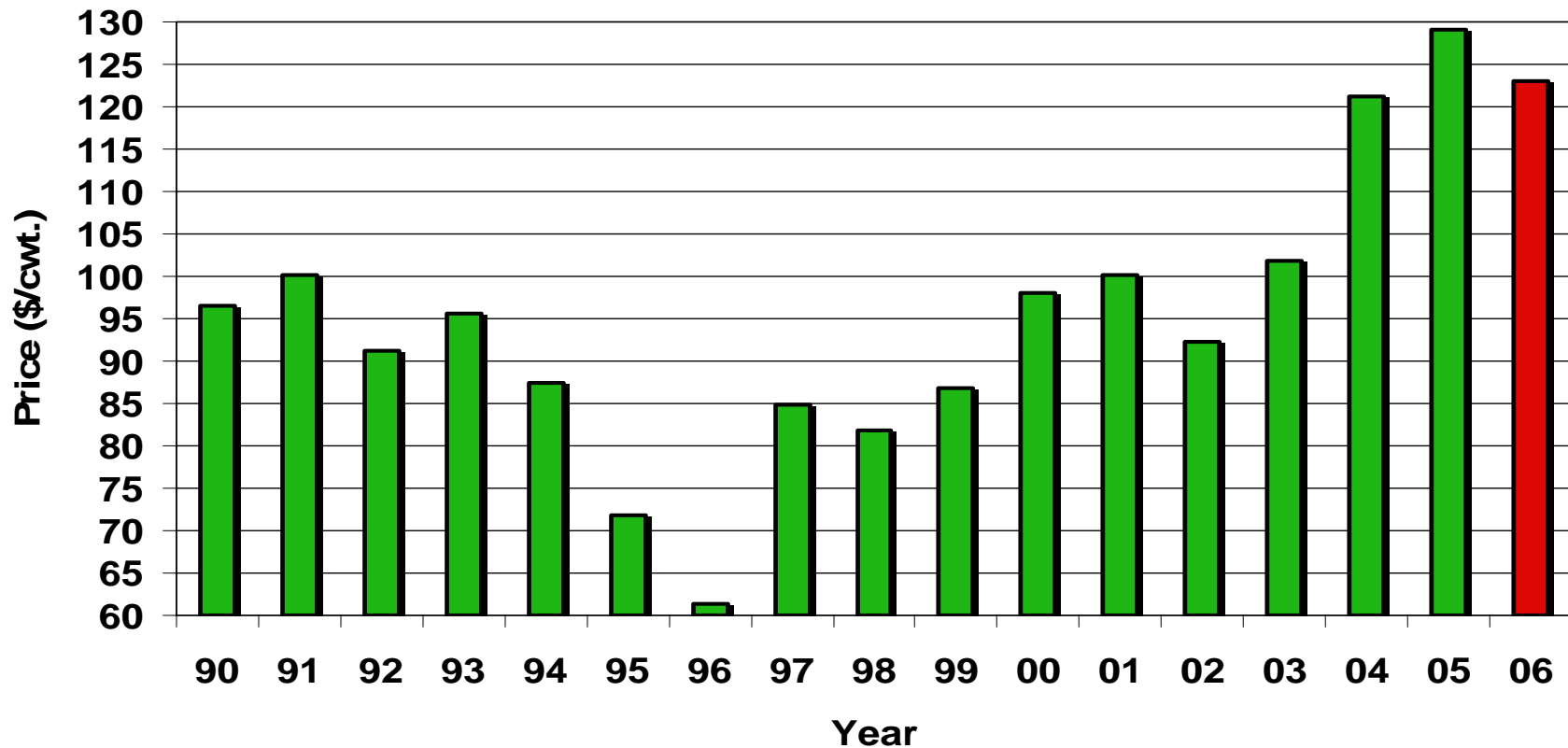
### Dodge City, KS 700-800 Lb. Steer Prices



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

## Record High Calf Prices In '05 But Again Near Record High in '06

### Dodge City, KS 500-600 Lb. Steer Prices



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



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# Livestock & Meat: Marketing

Next Scheduled Site Update: 1.13.06

## Beef Demand

### Market Outlook (updated weekly)

### Livestock Management

### Marketing & Management Extension Bulletins (BSE Bulletin Posted 4.28.05)

### Livestock and Hay Charts (updated 12.30.05)

### Livestock Databases (updated 12.30.05)

### LRP Information (updated 11.17.05)

### USDA Market News

### Futures Market Prices

### Extension Presentations (updated 4.27.05)

### Link to Barnaby's LRP Feeder Cattle Insurance Info.

### Link to RMA's LRP Premium Calculator

Barchart.com			
<b>CME Futures</b>			
Dec 05 L.Cattle	92.45	-2.45	-2.58%
Feb 06 L. Cattle	96.05	-0.22	-0.23%
Apr 06 L. Cattle	94.55	unch	unch
Feb 05 Hogs	64.47	-0.15	-0.23%
Apr 06 Hogs	68.05	+0.33	+0.49%
May 06 Hogs	70.37	+0.40	+0.57%
Jan 06 F.Cattle	114.50	+0.18	+0.16%
Mar 06 F.Cattle	113.97	+0.02	+0.02%
Apr 06 F.Cattle	114.27	+0.12	+0.11%
May 06 F.Cattle	113.95	+0.23	+0.20%
<b>CBOT Futures</b>			
Mar 06 Corn	211-0s	-3-2	-1.52%
May 06 Corn	220-4s	-3-0	-1.34%
Jul 06 Corn	229-0s	-2-6	-1.19%
Jan 06 Soy	584-0s	-16-4	-2.75%
Mar 06 Soy	594-0s	-17-0	-2.78%
Jul 06 Soy	612-4s	-17-0	-2.70%
Mar 06 Wheat	326-4s	-4-2	-1.28%
May 06 Wheat	337-0s	-3-6	-1.10%
Jul 06 Wheat	346-2s	-3-6	-1.07%
<b>KCBT Futures</b>			
Mar 06 Wheat	370-4s	-8-2	-2.18%
May 06 Wheat	369-2s	-7-6	-2.06%
Jul 06 Wheat	368-0s	-7-6	-2.06%
<b>Stock Market</b>			
Russell 2000	705.57	+6.18	+0.88%
NYSE Composite	8041.37	+9.71	+0.12%
Feb 06 Crude Oil	63.40	-0.81	-1.26%

# www.agmanager.info/livestock/marketing