

Risk & Profit
CONFERENCE



K-State Dept. of Agricultural Economics
August 16-17, 2018
K-State Alumni Center
Manhattan, KS

*Markets and
Government:
Trade, Taxes & Transition*

K-STATE
Research and Extension

Beef Industry Outlook & Trade Insights

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Overarching Beef Industry Economic Outlook

- Supplies
 - Commercial Beef Production Up, Increases Moderating
 - +6.4% in 2016, +3.8% in 2017, +4.2% in 2018, +1.4% in 2019

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 - Key to surprising prices in late 2017 & early 2018

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- Demand
 - Key to surprising prices in late 2017 & early 2018
 - Q4.17: Production +2%; Fed Prices +9% & Calf Prices +23%
 - Q1.18: Production +3%; Fed Prices +2% & Calf Prices +14%
 - Q2.18: Production +5%; Fed Prices -12% & Calf Prices -0%
 - Exports are key & ongoing arena of uncertainty

All-Fresh Beef Retail Demand Index

(Quarterly, Price-Index Approach, 1990=100)

Q2.2018: +0.4%
vs. Q2.2017

<http://agmanager.info/livestock-meat/meat-demand>

Demand is **NOT** Per Capita Consumption

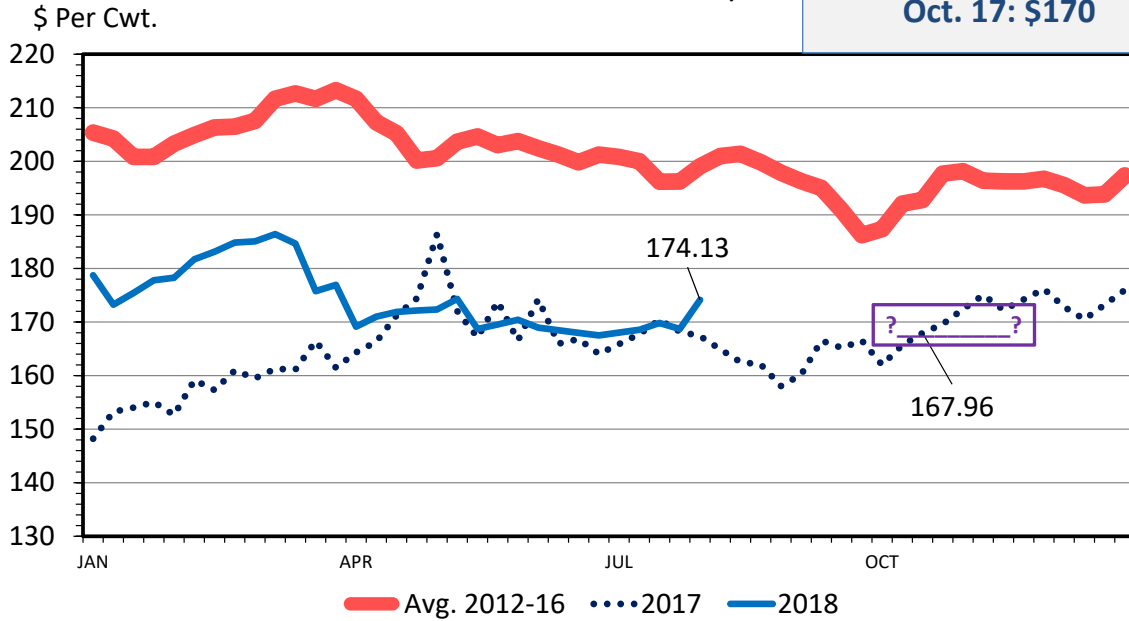
2013 Beef Demand Determinants Study



<http://www.beefboard.org/evaluation/130612demanddeterminantstudy.asp>

**BeefBasis.com, Salina,
KS 2018 Projections
(as of 8/10/18):
Oct. 17: \$170**

MED. & LRG. #1 STEER CALF PRICES
500-600 Pounds, Southern Plains, Weekly

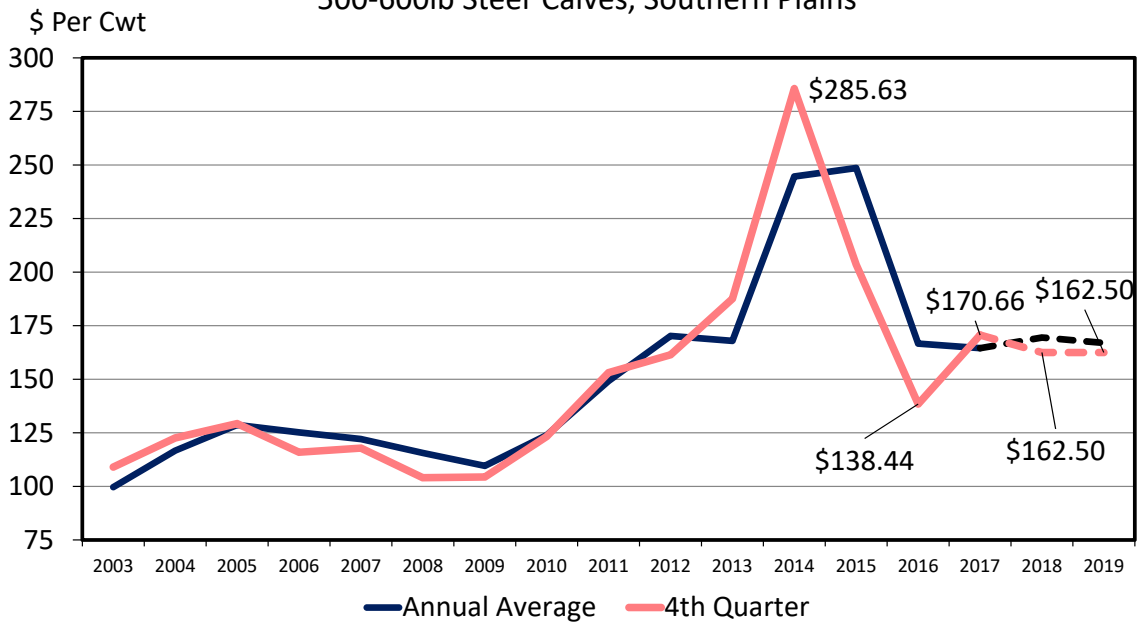


Data Source: USDA-AMS
Livestock Marketing Information Center

C-P-54
08/06/18

AVERAGE CALF PRICES

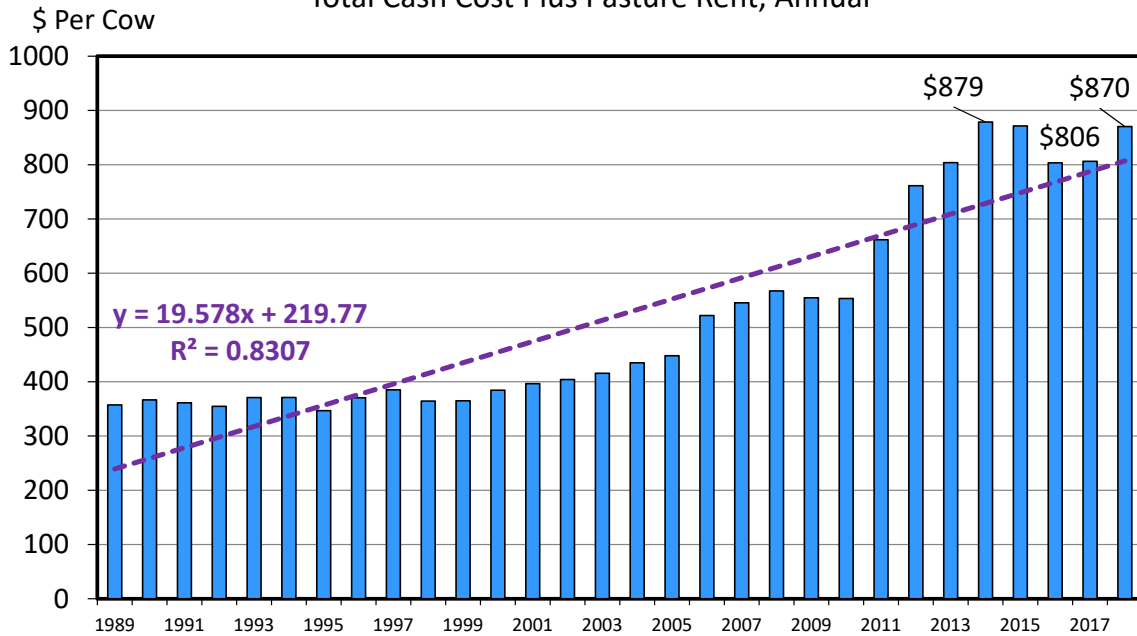
500-600lb Steer Calves, Southern Plains



Data Source: USDA-AMS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



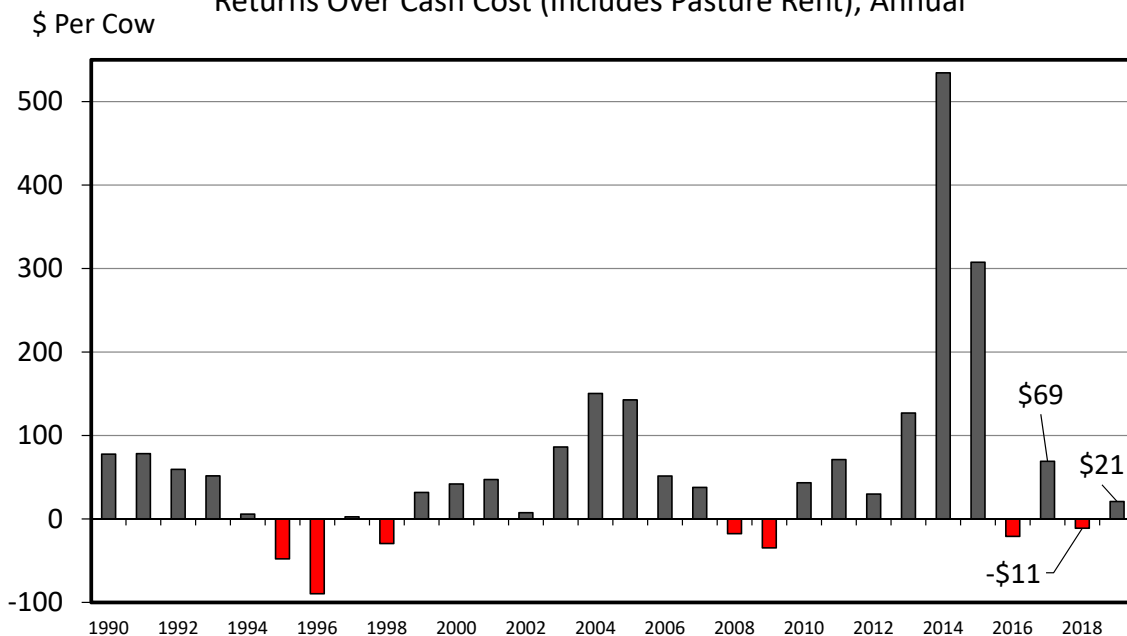
Data Source: USDA & LMIC, Compiled by LMIC

Livestock Marketing Information Center

07/05/18

ESTIMATED AVERAGE COW CALF RETURNS

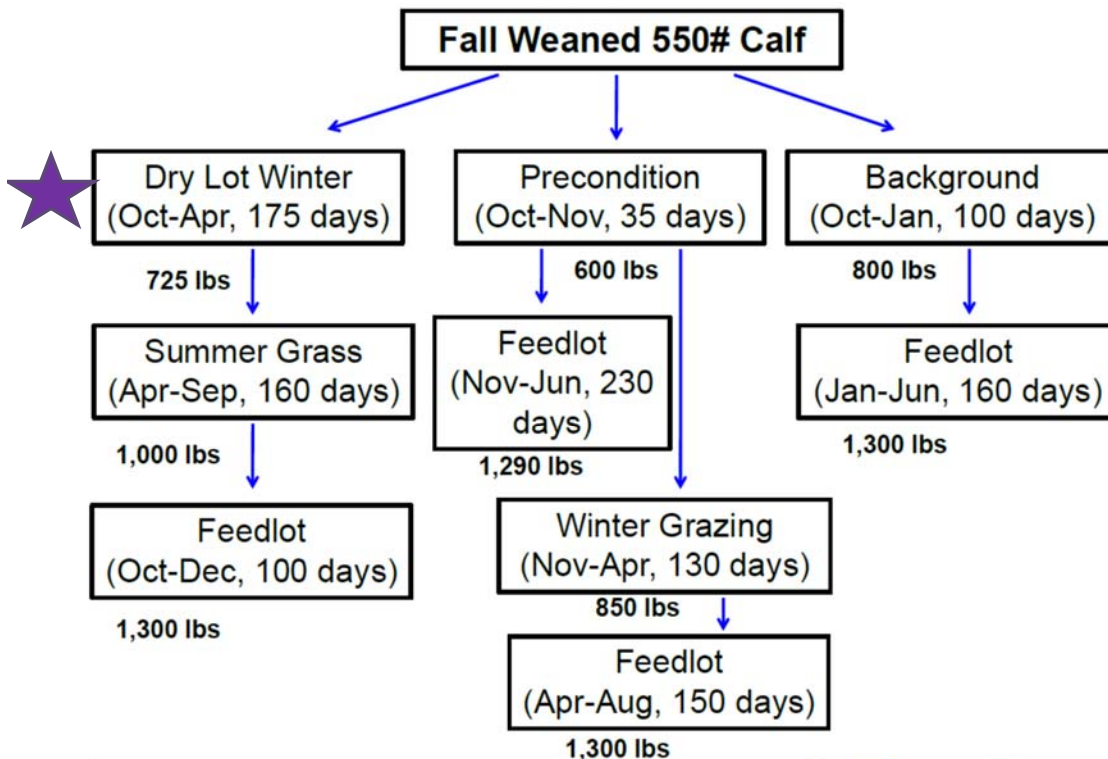
Returns Over Cash Cost (Includes Pasture Rent), Annual



Data Source: USDA & LMIC, Compiled by LMIC

Livestock Marketing Information Center

C-P-66
07/05/18



CattleFax | THE DECIDING FACTOR

VOG Projections: <http://www.beefbasis.com/VOG.aspx>

Production Chart: <http://www.beefusa.org/CMDocs/BeefUSA/resources/CC2011-Cattle-Fax-All-Slides.pdf>

Economic Outlook Overview: Post Weaning *Forward-Looking Margin Perspective*

<http://www.beefbasis.com/VOG.aspx>

- Salina, KS 8/10/18 Dry-Lot Wintering situation:
 - Buy/Retain 550 lb steer on 10/17/18 (\$170)
 - Sell 750 lb steer on 4/17/19 (\$154) {1.1 ADG}
 - VOG: \$109/cwt
 - Drought Monitor will dictate feasibility locally...
 - High market-implied value = hedging opp???

Economic Outlook Overview: Feedlots

- 2017 was better than anticipated
- 2018 has been rougher
 - Q3-Q4 return prospects have improved

Historical and Projected Kansas Feedlot Net Returns (as of 8/10/18')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

June 18': -\$186/steer

Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

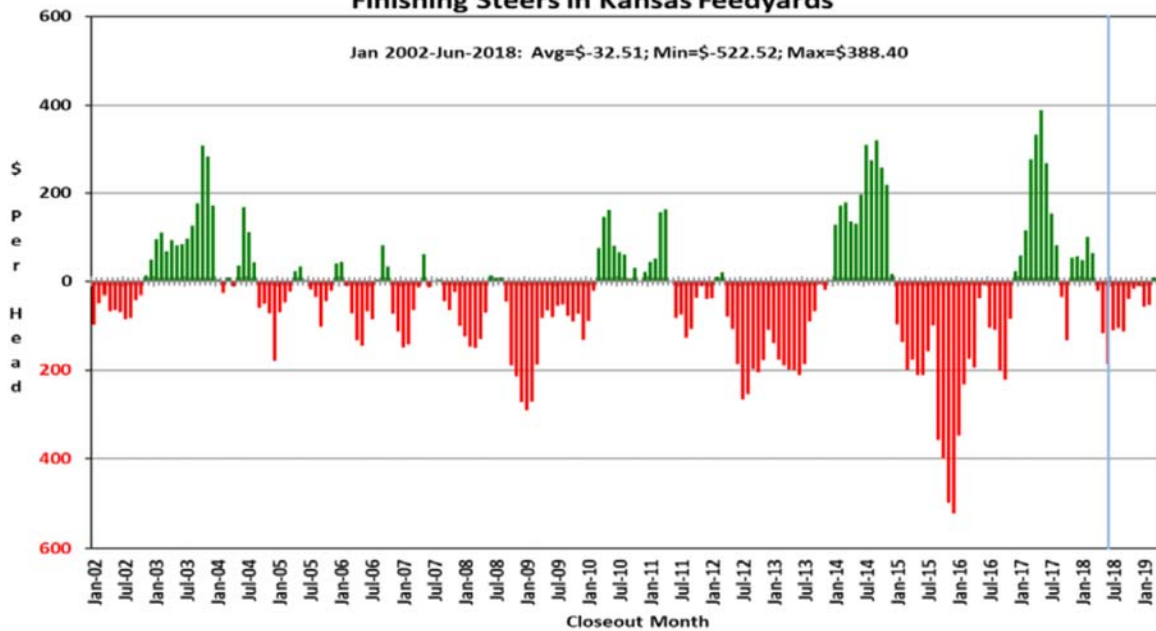
Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Fed Futures	Fed Basis	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Jul-18	-109.31	82.95	112.09	107.13	4.96	147.28	65.27	120.03	132.87
Aug-18	-105.09	82.24	110.84	109.40	1.44	147.15	66.01	118.41	132.97
Sep-18	-112.01	83.54	109.84	109.40	0.44	143.83	66.29	117.76	129.20
Oct-18	-38.81	83.87	114.05	113.35	0.70	136.91	77.22	116.76	132.34
Nov-18	-17.75	83.20	114.27	113.35	0.92	140.52	80.56	115.49	138.25
Dec-18	-10.21	83.94	118.18	116.45	1.73	146.47	82.41	118.89	145.14
Jan-19	-55.20	84.40	118.35	116.45	1.90	150.90	75.92	122.23	143.78
Feb-19	-52.45	85.06	119.13	117.85	1.28	152.37	77.01	122.87	145.38
Mar-19	9.91	83.75	121.62	117.85	3.77	151.39	85.25	120.90	152.76
Apr-19	-63.41	84.46	115.13	111.85	3.28	147.80	74.66	119.74	139.09

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 8/10/18')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>)

Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards



Quarterly Forecasts (LMIC: 7/24/18)

Year	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2017						
I	7,714	7.4	817.0	-1.1	6,303	6.2
II	8,076	5.8	793.3	-2.2	6,407	3.5
III	8,254	5.2	816.0	-1.1	6,736	4.1
IV	8,145	2.9	827.8	-1.1	6,742	1.8
Year	32,189	5.3	813.5	-1.4	26,187	3.8
2018						
I	7,877	2.1	820.8	0.5	6,465	2.6
II	8,424	4.3	798.2	0.6	6,724	4.9
III	8,598	4.2	823.3	0.9	7,079	5.1
IV	8,416	3.3	835.4	0.9	7,031	4.3
Year	33,315	3.5	819.4	0.7	27,298	4.2
2019						
I	7,861	-0.2	826.2	0.7	6,495	0.5
II	8,483	0.7	808.1	1.2	6,855	2.0
III	8,692	1.1	831.5	1.0	7,228	2.1
IV	8,447	0.4	840.0	0.6	7,095	0.9
Year	33,483	0.5	826.5	0.9	27,673	1.4

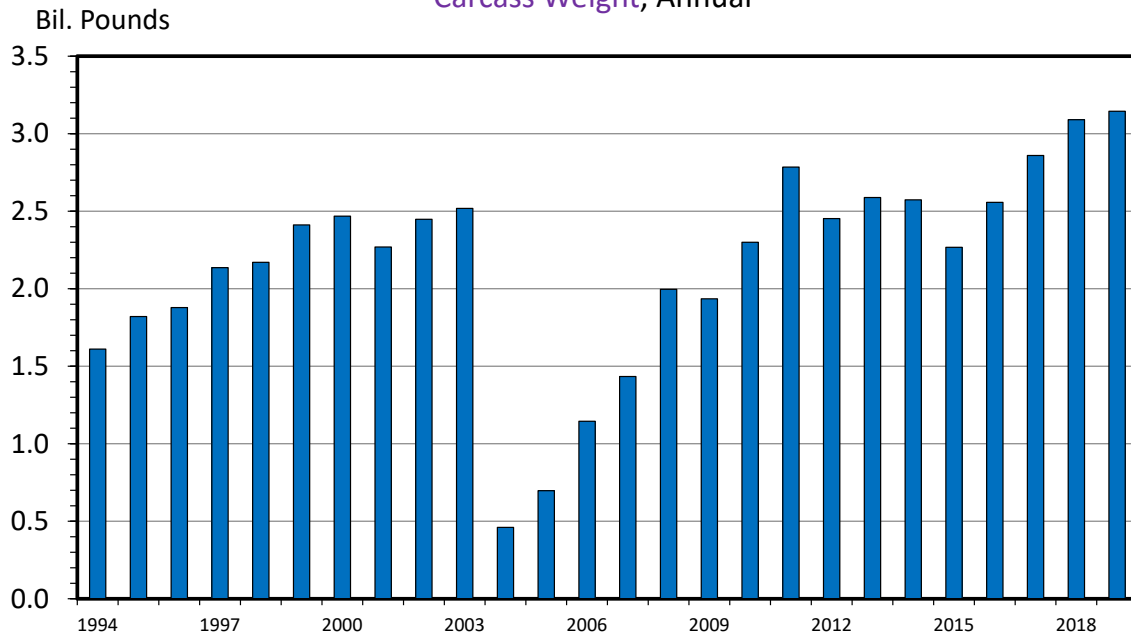
Quarterly Forecasts (LMIC: 7/24/18)

	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2017				
I	122.96	-8.8	132.88	157.38
II	132.76	4.0	149.30	170.49
III	112	-0.6	153	165
IV	118	9.1	157	171
Year	122	0.5	148	166
2018				
I	125.61	2.1	148.73	180.01
II	116.72	-11.9	144.52	170.11
III	108-110	-3.1	144-147	164-168
IV	112-115	-3.7	144-148	160-165
Year	115-117	-4.5	144-148	167-172
2019				
I	118-123	-4.1	143-148	165-171
II	115-120	0.7	143-150	168-175
III	106-112	0.0	139-147	163-171
IV	109-116	-0.9	139-148	159-168
Year	113-117	-0.9	142-147	164-170

Trade Context Update

US BEEF AND VEAL EXPORTS

Carcass Weight, Annual

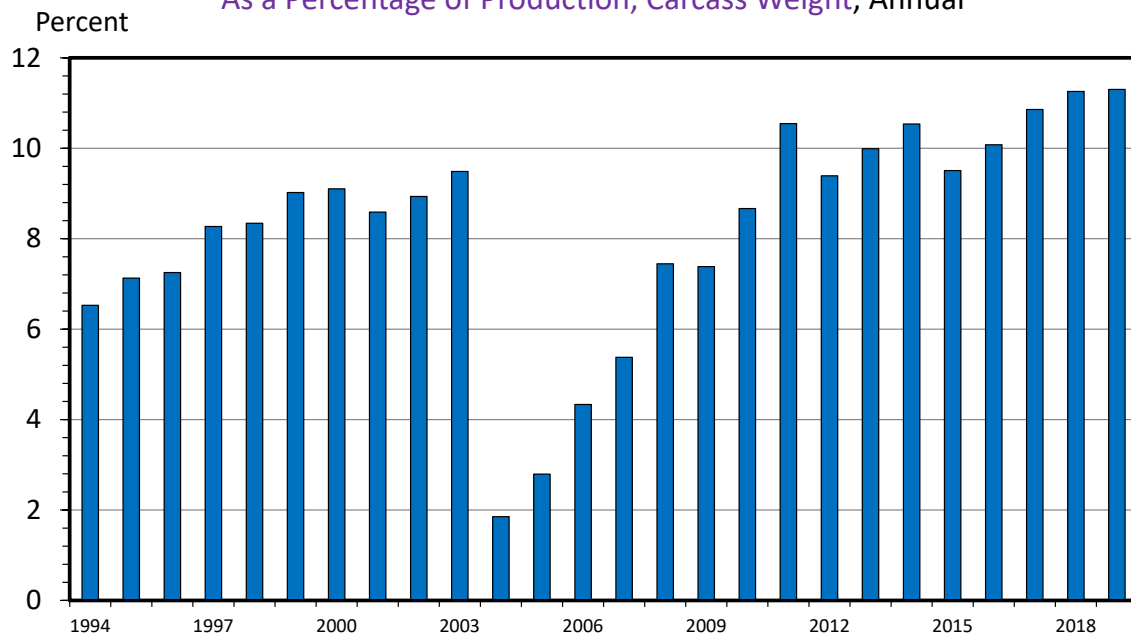


Data Source: USDA-ERS & USDA-FAS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

I-N-06
07/10/18

US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



Data Source: USDA-ERS & USDA-FAS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

I-N-07
07/10/18

USDA Long-Term projections

Feb. 2018 report (<http://www.usda.gov/oce/commodity/projections/>)

Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
Pork	50.1	50.4	52.1	52.2	51.9	52.0	
Total red meat	107.0	109.0	112.6	114.4	114.1	112.2	
Broilers	89.8	91.0	91.8	91.6	92.4	92.2	
Total poultry	107.6	108.8	109.6	109.2	109.9	109.3	
Red meat & poultry	214.6	217.8	222.2	223.6	224.0	221.5	
Note: Totals may not add due to rounding.							

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USDA Long-Term projections

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Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
Pork	50.1	50.4	52.1	52.2	51.9	52.0	
Total red meat	107.0	109.0	112.6	114.4	114.1	112.2	
Broilers	89.8	91.0	91.8	91.6	92.4	92.2	
Total poultry	107.6	108.8	109.6	109.2	109.9	109.3	
Red meat & poultry	214.6	217.8	222.2	223.6	224.0	221.5	
Note: Totals may not add due to rounding.							

2019 would be highest for beef since 2009

Year	Total Red Meat & Poultry
1995	205.4
2000	214.4
2005	219.7
2010	207.5
2014	200.1



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USDA Long-Term projections

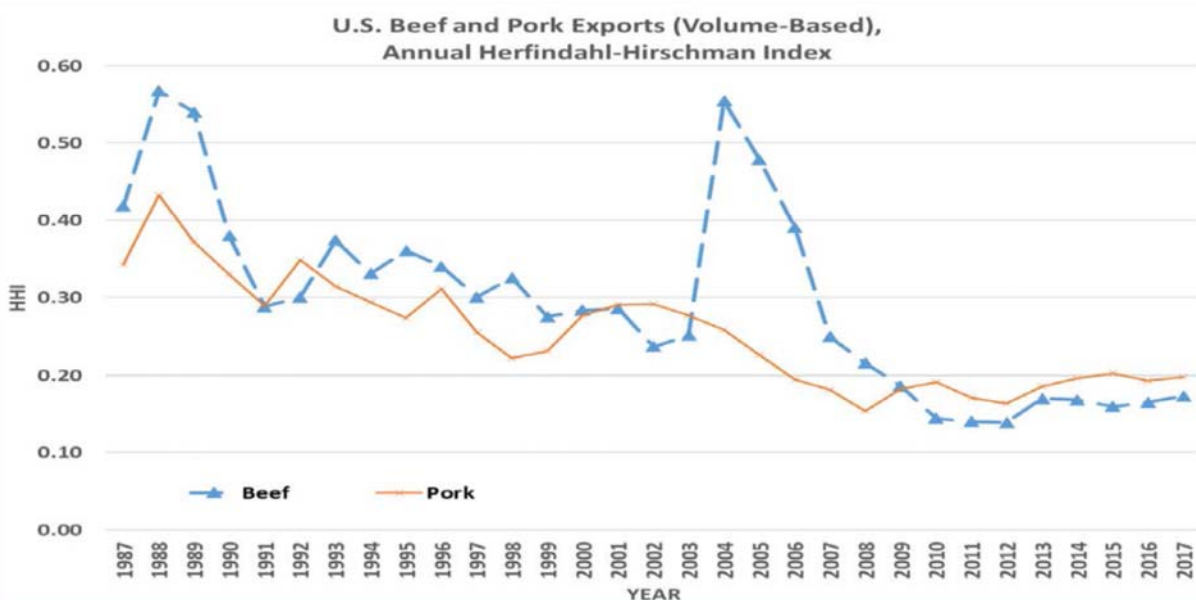
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Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
Pork	50.1	50.4	52.1	52.2	51.9	52.0	
Total red meat	107.0	109.0	112.6	114.4	114.1	112.2	
Broilers	89.8	91.0	91.8	91.6	92.4	92.2	
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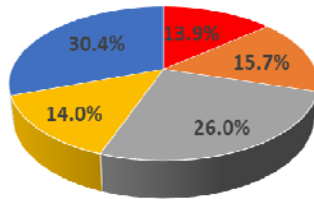
Projections INCLUDE trade dependency...

Concentration of U.S. Red Meat Exports



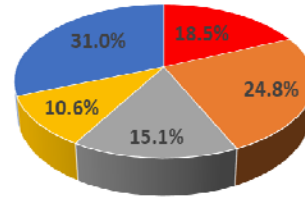
U.S. Beef Export Portfolio (by vol.)

U.S. Beef Export Portfolio, Average Annual Shares: 2013-2017



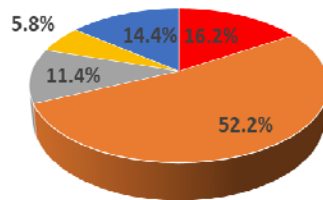
■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

U.S. Beef Export Portfolio, Average Annual Shares: 2008-2012



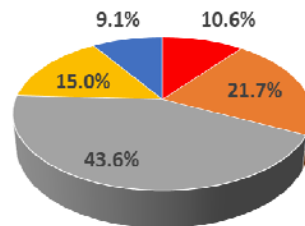
■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

U.S. Beef Export Portfolio, Average Annual Shares: 2003-2007



■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

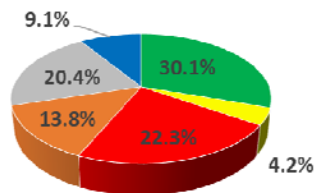
U.S. Beef Export Portfolio, Average Annual Shares: 1998-2002



■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

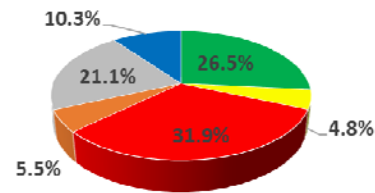
U.S. Beef Import Portfolio (by vol.)

U.S. Beef Import Portfolio, Average Annual Shares: 2013-2017



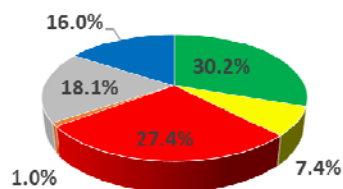
■ Australia ■ Brazil ■ Canada
■ Mexico ■ New Zealand ■ Other

U.S. Beef Import Portfolio, Average Annual Shares: 2008-2012



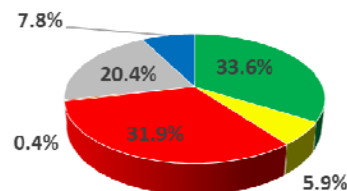
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U.S. Beef Import Portfolio, Average Annual Shares: 2003-2007



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U.S. Beef Import Portfolio, Average Annual Shares: 1998-2002



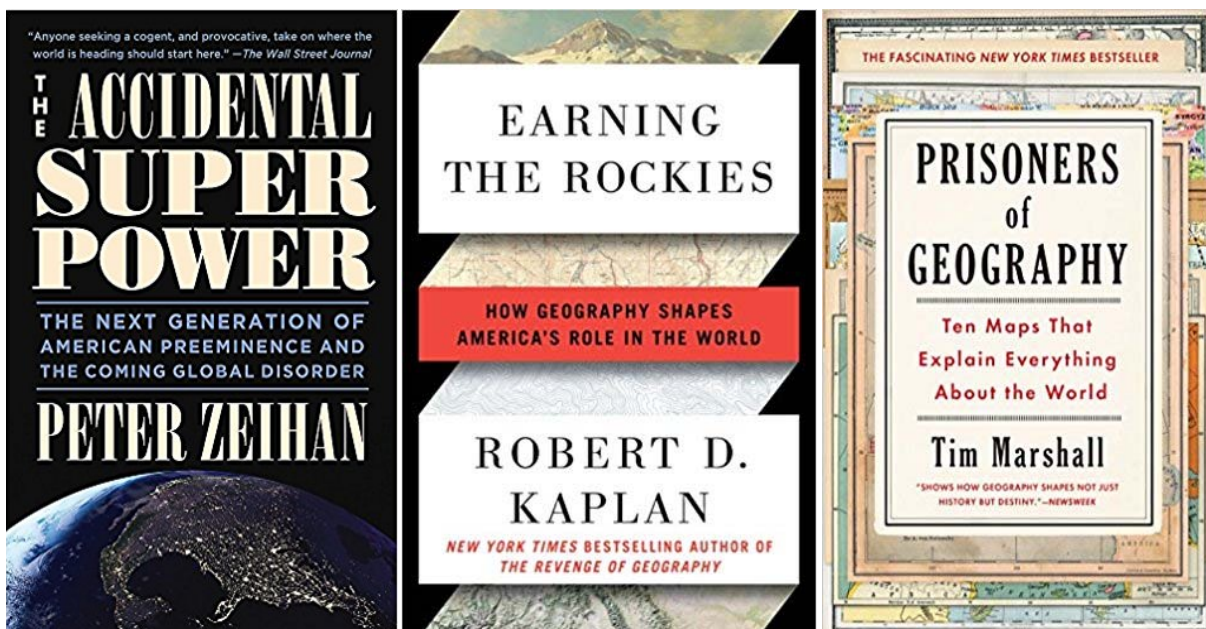
■ Australia ■ Brazil ■ Canada
■ Mexico ■ New Zealand ■ Other

Comparative Advantages

- World trust & places premium on U.S. beef
 - Grain-finished production
- Sound & effective infrastructure
 - Feed grain base, processing, safety, transportation
 - Genetics & meat quality expertise
 - Research discovery & outreach education
 - Public-private mix is changing...
- Property rights encourage investment

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Comparative Advantages: Geography Matters!



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Comparative **DIS**advantages

- Not lowest \$/lb producer
 - Public research funding declining
- Partially effective communication, coordination, and signaling across industry sectors
- Fragmented support of increased traceability systems (or information sharing more generally)

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Key Opportunities & Challenges

- Refining domestic consumer efforts
- Expanding foreign consumer focus

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Broad Situation Summary

- Immense opportunity exists;

BUT

- Internal industry coordination must improve
 - International trade deals (sustain, expand, & initiate)
 - National animal ID & traceability

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Food for Thought...

- ❖ Why do we BOTH import & export large volumes of beef?
 - Will this always be the case?
- ❖ What are pros & cons of becoming more export reliant?
- ❖ Should U.S. further invest in development of export markets?
 - Should a loss-leader approach be adopted to form grain-finished preferences?
- ❖ How does increasing exports help me as a producer?

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Wrap-Up

- Broad 2018-2019 Profitability Outlook
 - Cow-calf:
 - Converging toward Long-Term Levels
 - Situation Better than Expected, Hope Demand's Role is Recognized!
 - Stocker:
 - Margins vary widely across situations
 - Drought/feasibility impact likely substantial
 - Feedlot:
 - 2017 offered notable equity recovery
 - Q3-Q4 2018 has improved
 - Challenges may grow (weights, demand, & trade...)

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More information available at:



This presentation will be available in PDF format at:

<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

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