

Beef & Cattle Market Outlook

Glynn Tonsor

**Dept. of Agricultural Economics
Kansas State University**

**K-State's Winter Ranch Management Seminar
January 10, 2012**



OVERVIEW

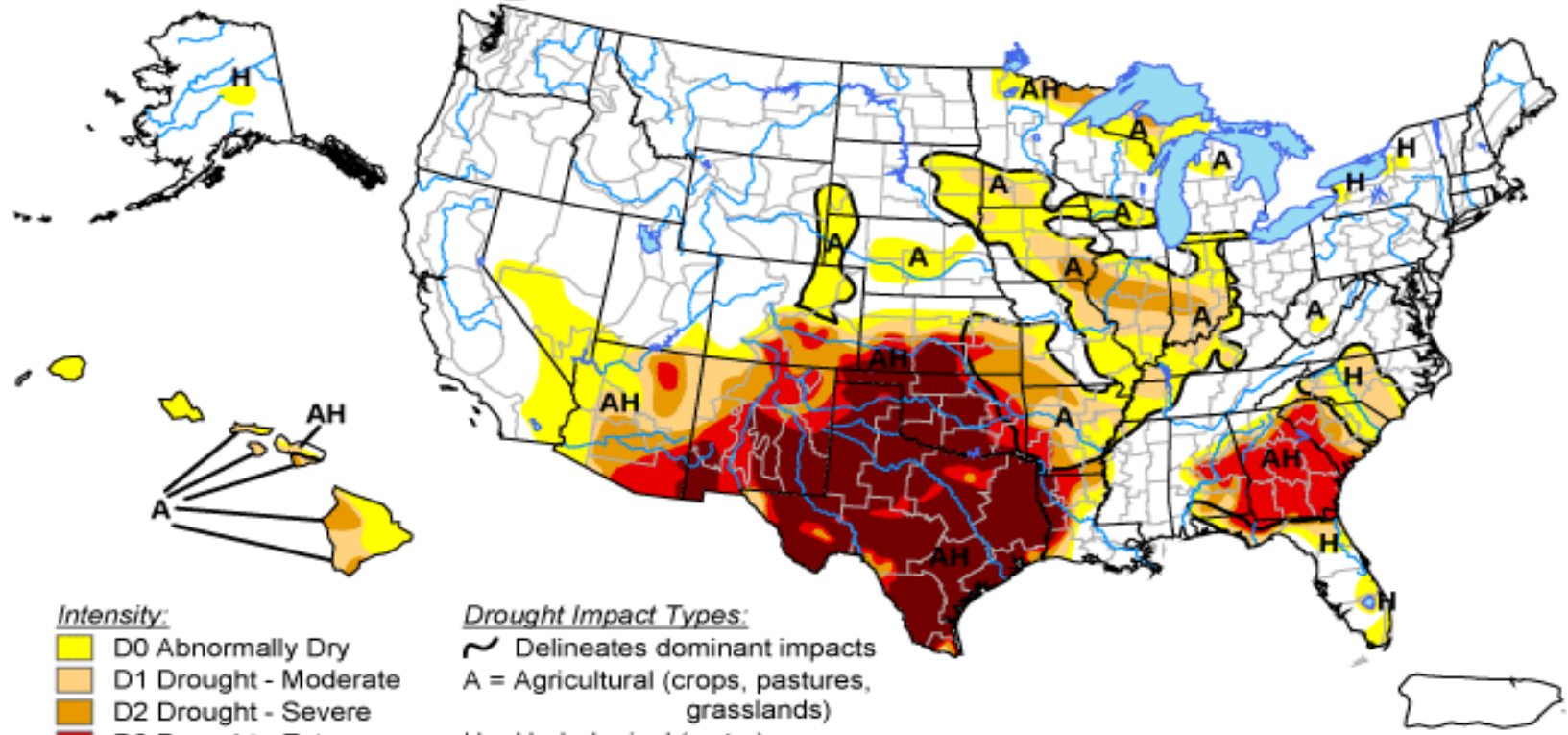
- FEEDSTUFFS:
 - Drought triggered liquidations; recent relief & associated wheat pasture changes...
 - “Expensive” and “hard to find” feed/forage ...
- SUPPLY:
 - Shrinking cow herd, expansion uncertainty
 - Structural changes underway...
- DEMAND:
 - Export demand remains strong
 - Domestic demand surpassing expectations



July '11: 40% of Beef Cows in States with > 40% Poor to Very Poor Pasture Conditions (was 4% in 2010)...

U.S. Drought Monitor

September 13, 2011
Valid 8 a.m. EDT



- Intensity:**
- D0 Abnormally Dry
 - D1 Drought - Moderate
 - D2 Drought - Severe
 - D3 Drought - Extreme
 - D4 Drought - Exceptional

- Drought Impact Types:**
- Delineates dominant impacts
 - A = Agricultural (crops, pastures, grasslands)
 - H = Hydrological (water)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

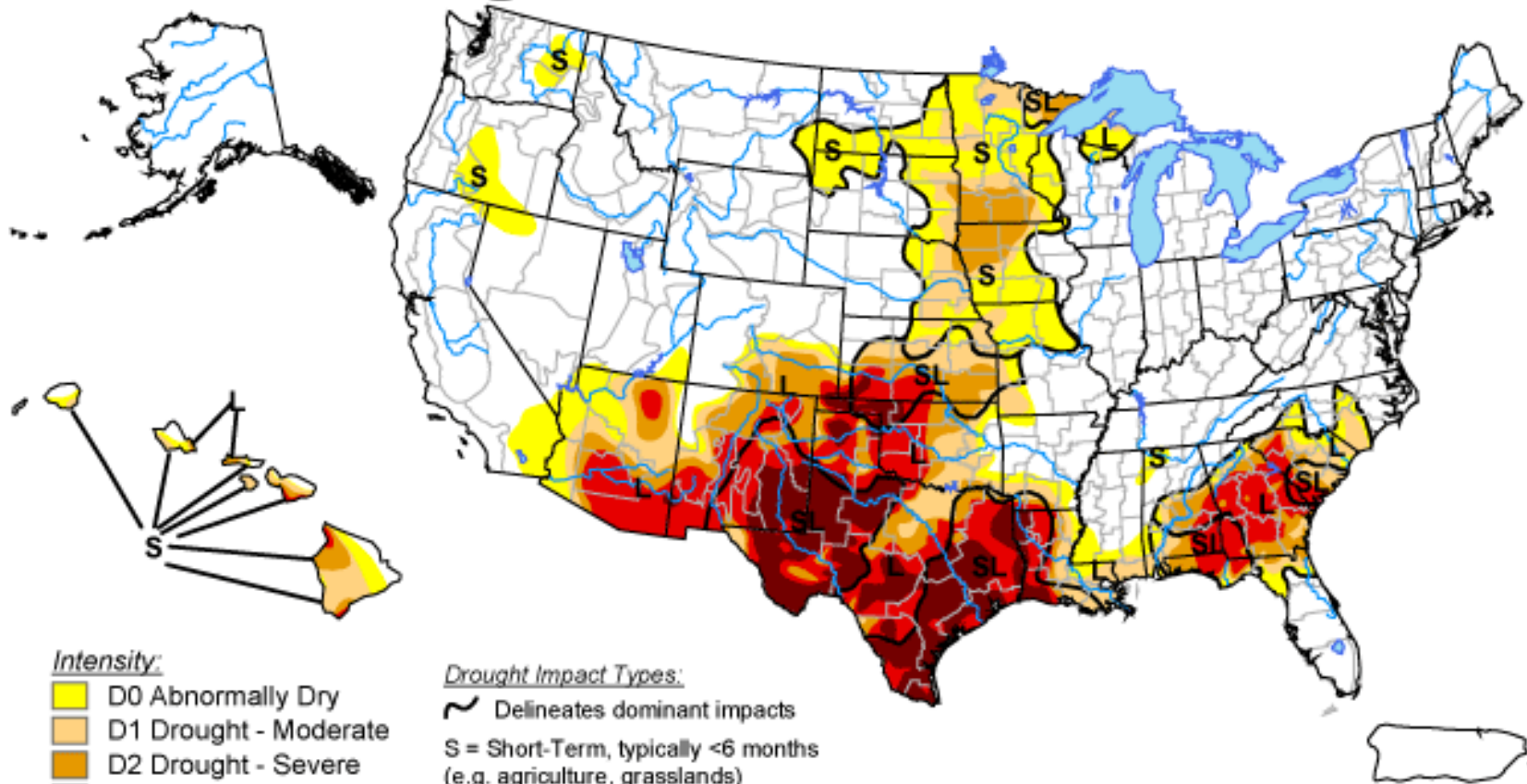
<http://drought.unl.edu/dm>








Released Thursday, September 15, 2011
Author: Mark Svoboda, National Drought Mitigation Center

U.S. Drought Monitor


November 29, 2011
Valid 7 a.m. EST



Intensity:

-  D0 Abnormally Dry
-  D1 Drought - Moderate
-  D2 Drought - Severe
-  D3 Drought - Extreme
-  D4 Drought - Exceptional

Drought Impact Types:

-  Delineates dominant impacts
- S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically >6 months (e.g. hydrology, ecology)

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://droughtmonitor.unl.edu/>

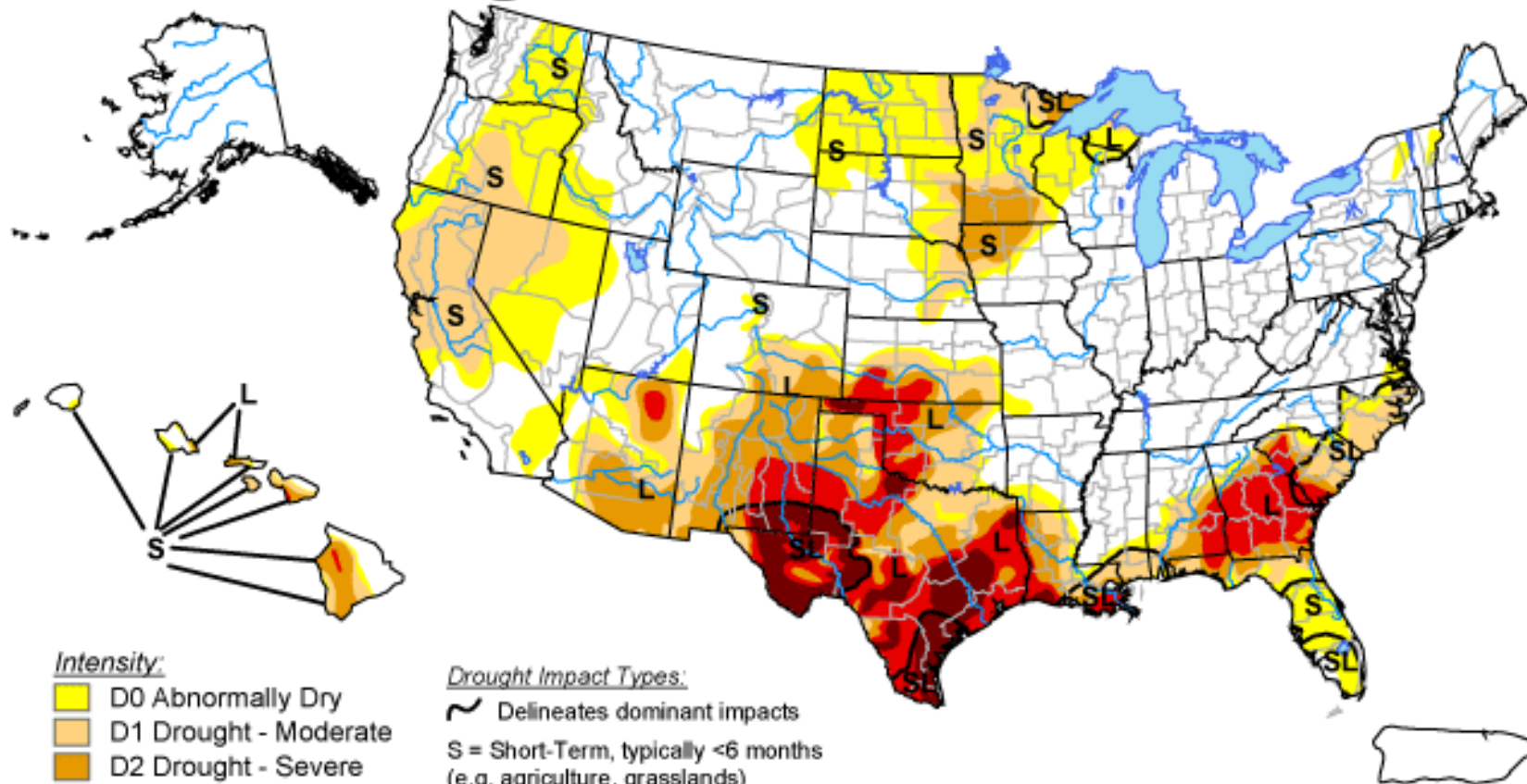


Released Thursday, December 1, 2011
Author: David Miskus, NOAA/NWS/NCEP/CPC








U.S. Drought Monitor


January 3, 2012
Valid 7 a.m. EST



Intensity:

-  D0 Abnormally Dry
-  D1 Drought - Moderate
-  D2 Drought - Severe
-  D3 Drought - Extreme
-  D4 Drought - Exceptional

Drought Impact Types:

-  Delineates dominant impacts
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<http://droughtmonitor.unl.edu/>



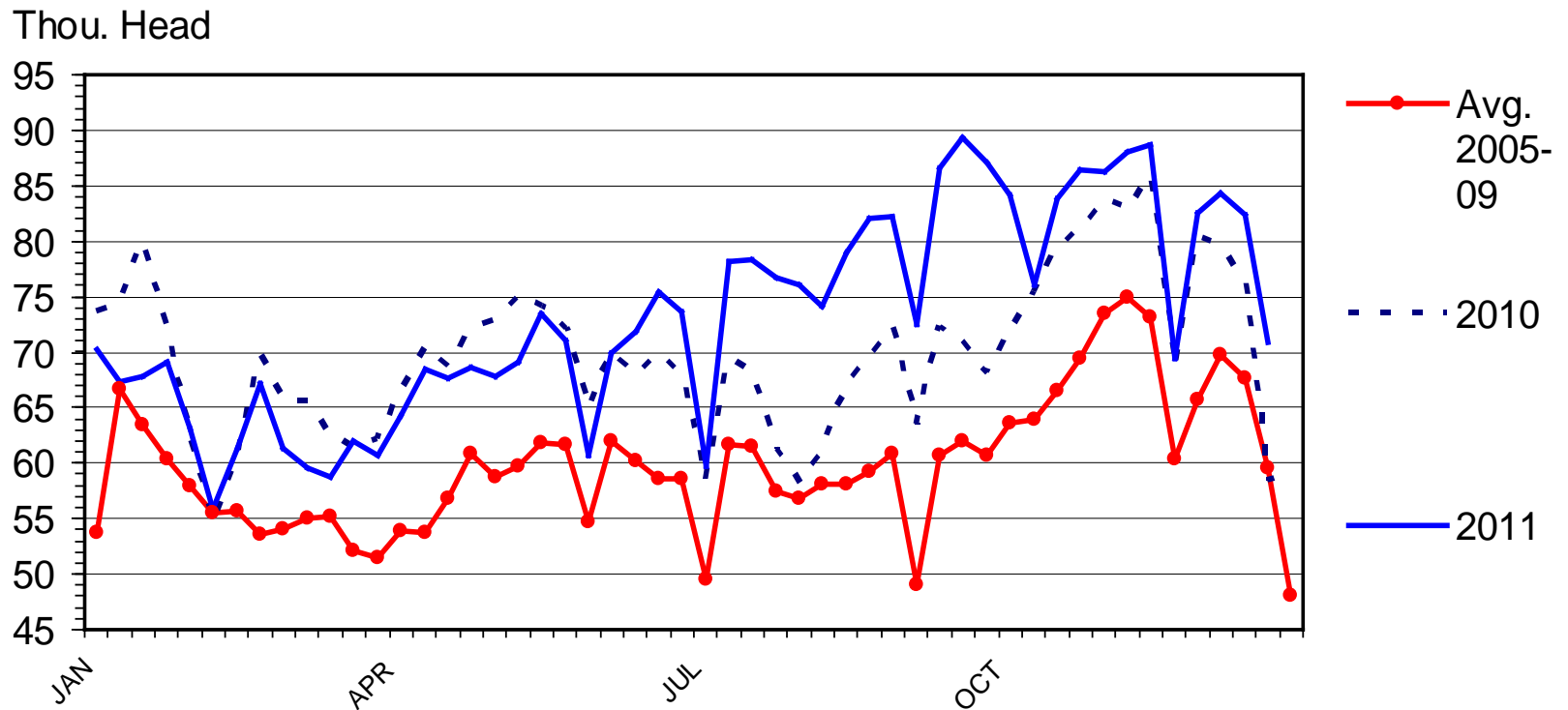
Released Thursday, January 5, 2012

Author: Brad Rippey, U.S. Department of Agriculture



BEEF COW SLAUGHTER

Federally Inspected, Weekly



Livestock Marketing Information Center

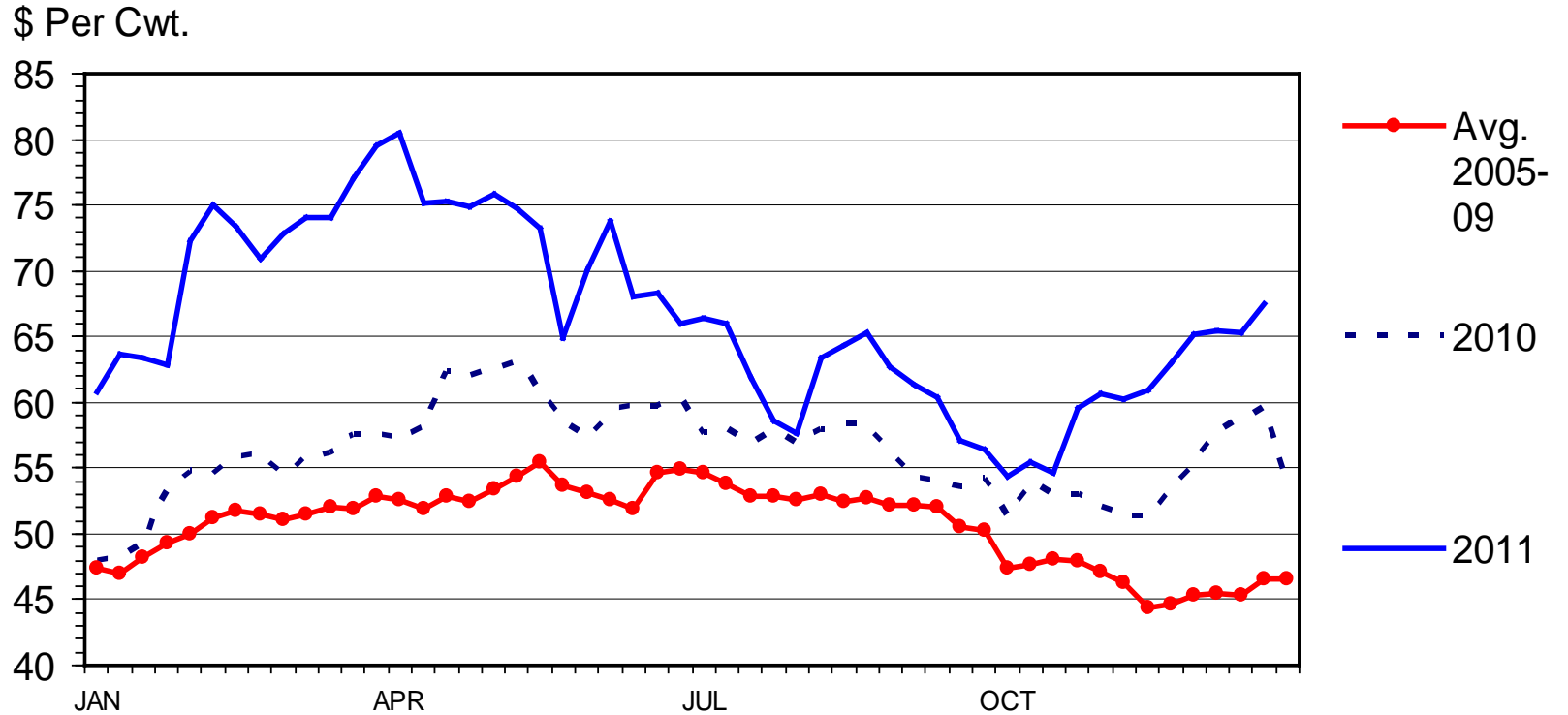
Data Source: USDA-AMS & USDA-NASS

C-S-34
01/06/12



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS

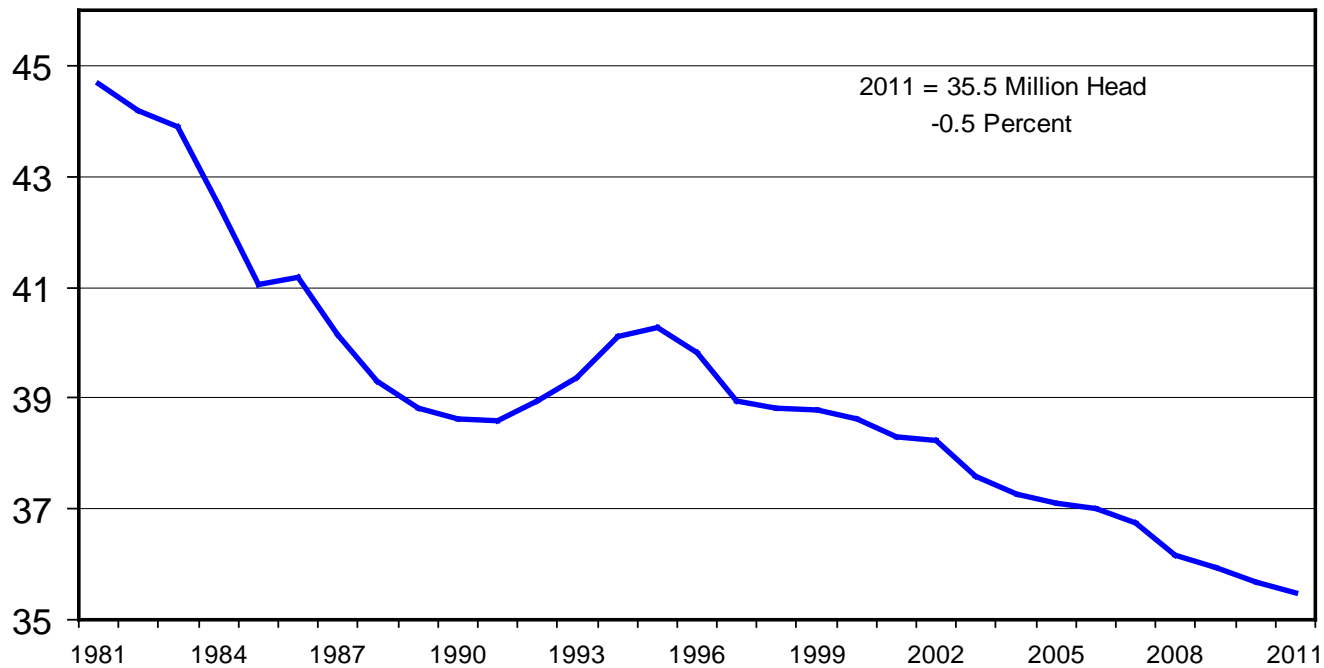
C-P-35
01/03/12



CALF CROP

July 1 Estimates, U.S., Annual

Mil. Head



Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-18B
07/22/11



When will U.S. national herd expand?

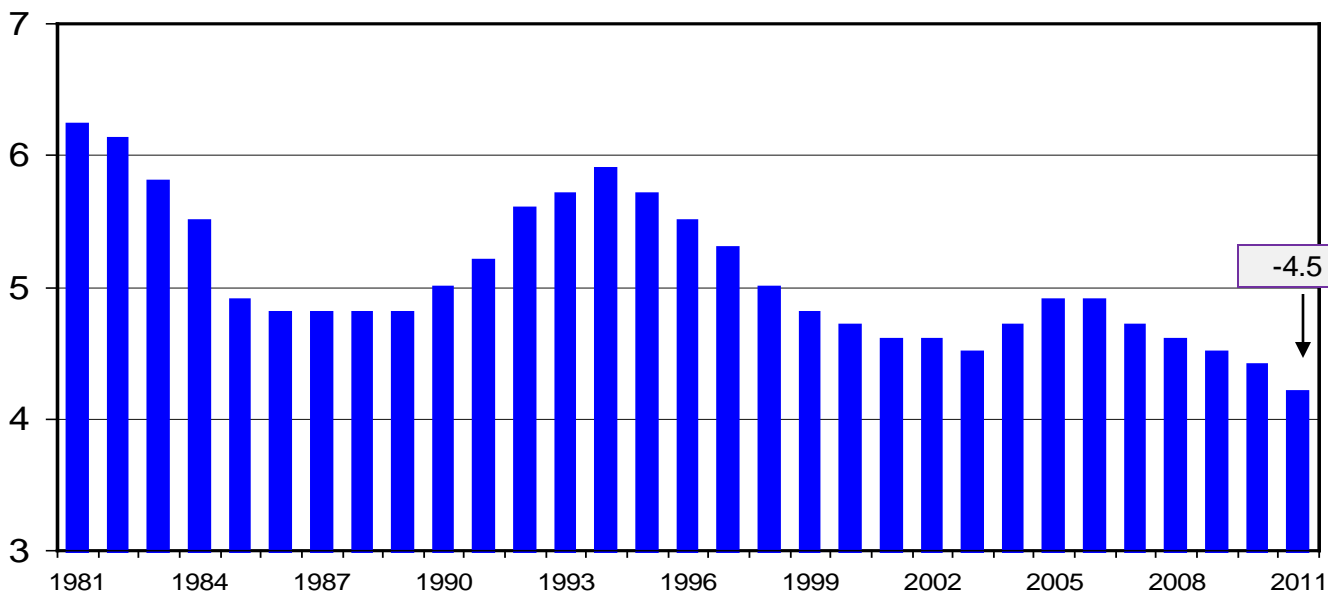
-- by 2014???

-- who & where will expansion occur???

HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.

Mil. Head



Jan. 1
guesstimate:
-2.0%

-4.5 %

Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-37
07/22/11

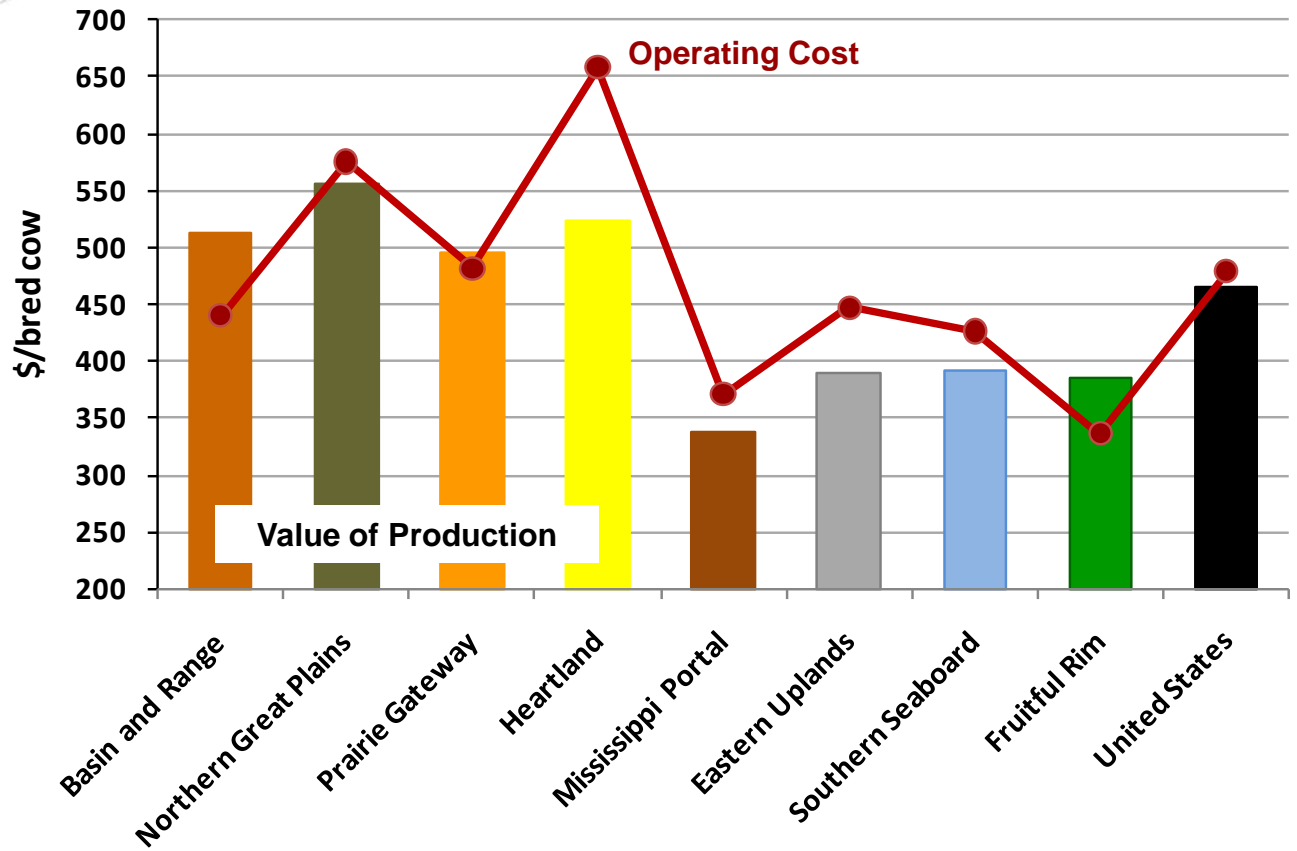
July 1st Canadian Inventory down 2%; BUT +7% in heifer retention...



Do some regions have an economic advantage for expansion?



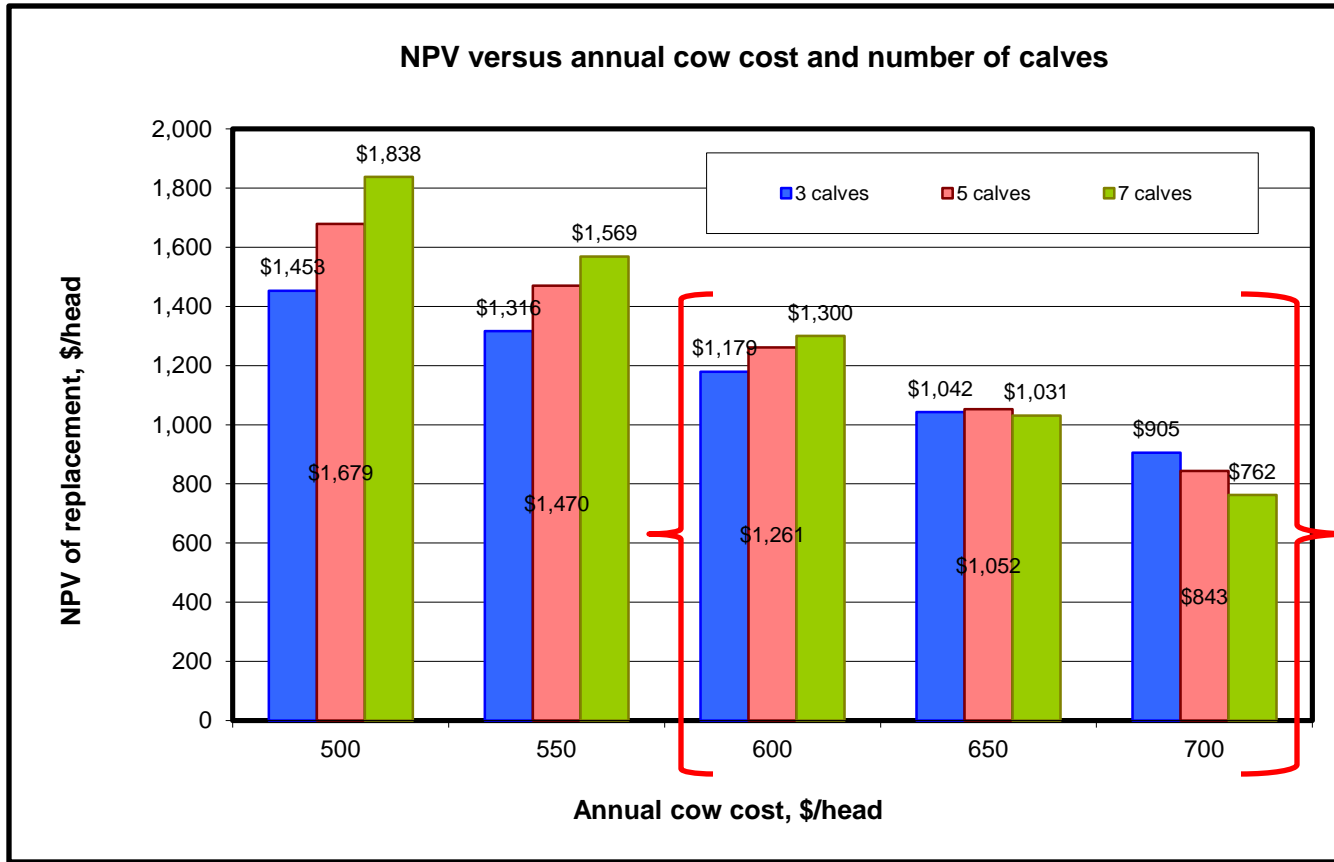
Value of Production and Operating Cost by Region, 2008-2010



Data source: USDA-ERS



KSU – Beef Replacement, Excel Spreadsheet Decision Tool
 (<http://www.agmanager.info/livestock/budgets/production/default.asp>)



1/6/12'

Dodge City,
 KS Auction:
 Young Bred
 Cows (Med-Lg
 1-2, 2nd stage)
 +/- \$1,500

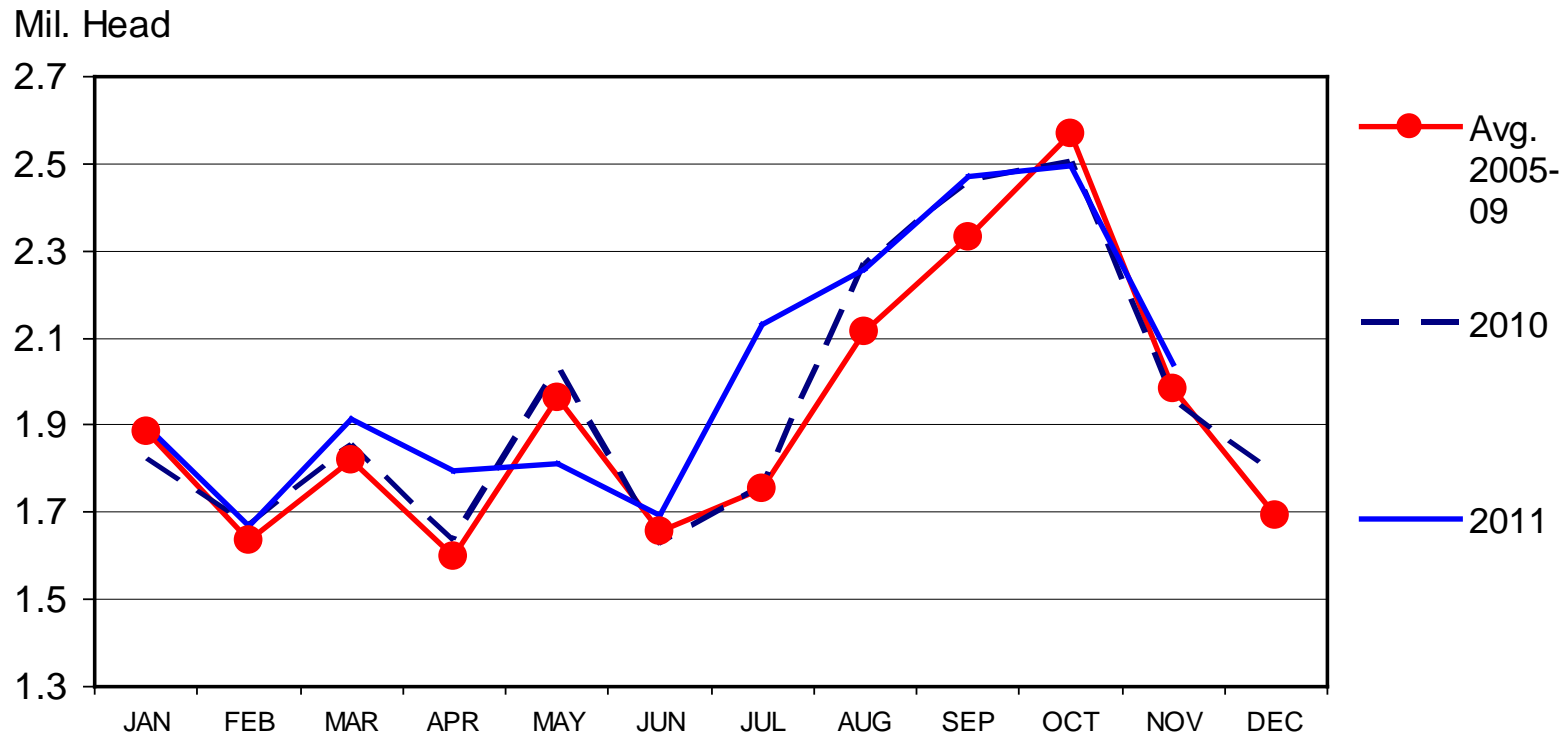
Notable
 regional
 variation...

Scenario: FARPI \$/cwt (550 lbs calves @ \$140 in 2012 to \$131 in 2021)
 6.5% interest/discount rate; 3% calf death loss



FEEDLOT PLACEMENTS

US Total, Monthly



Livestock Marketing Information Center

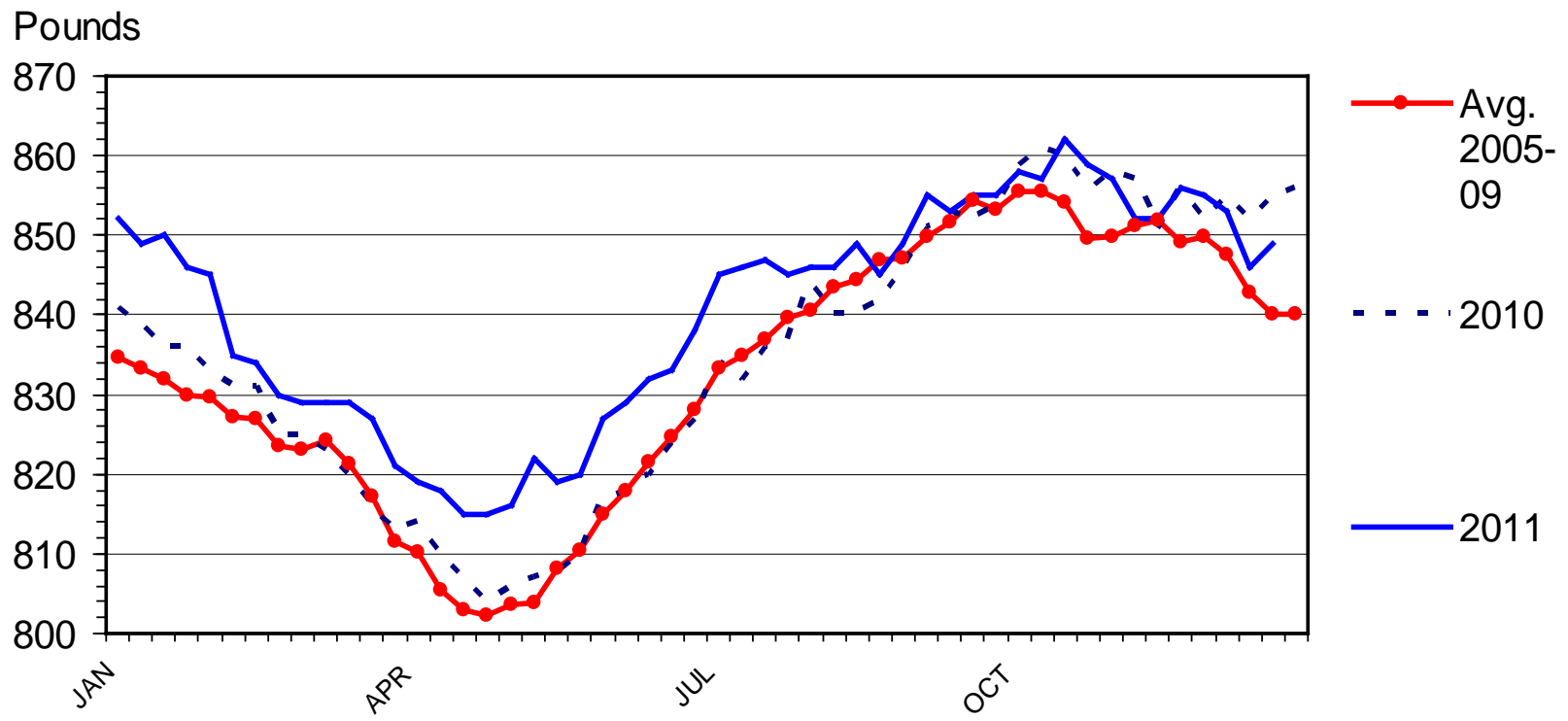
Data Source: USDA-NASS

C-N-08
12/16/11



STEER DRESSED WEIGHT

Federally Inspected, Weekly

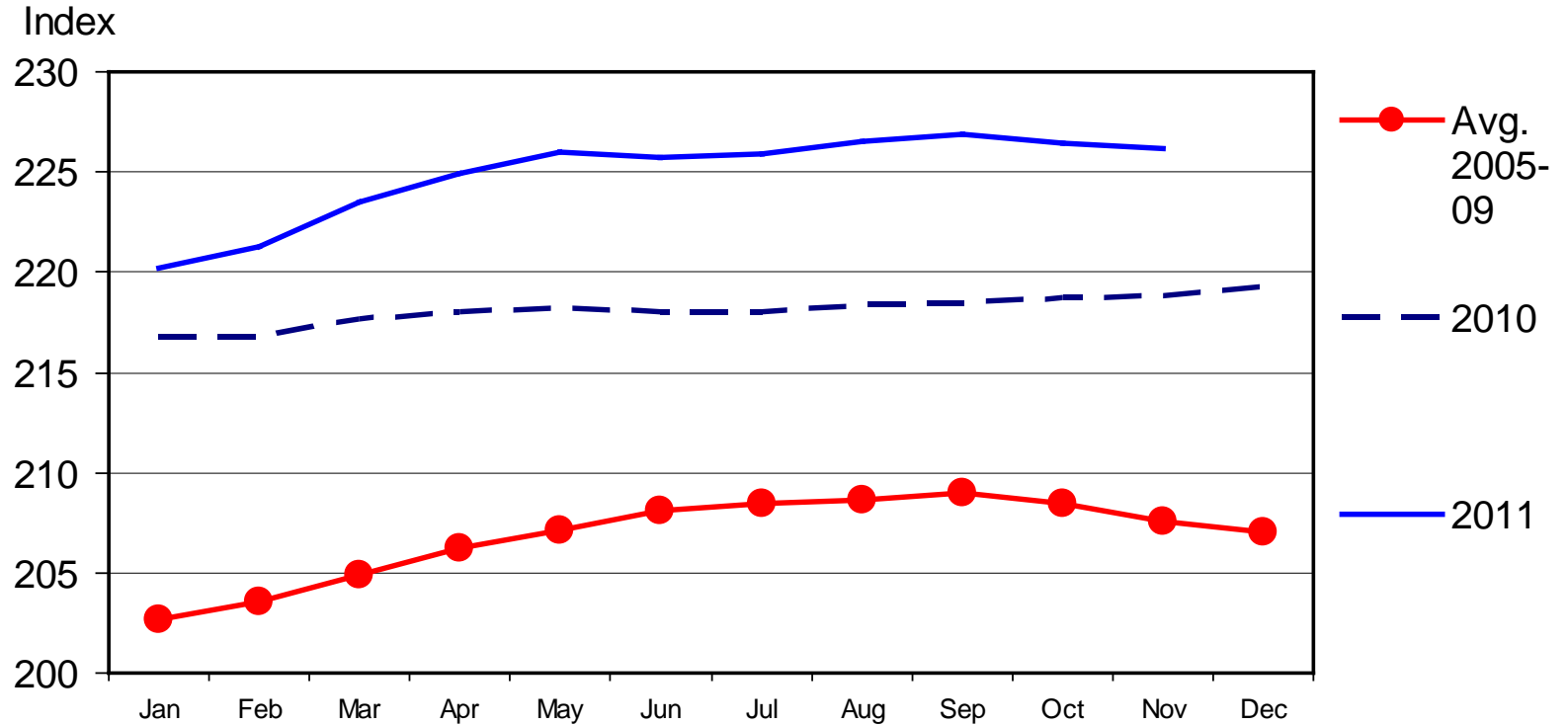


Livestock Marketing Information Center
 Data Source: USDA-AMS & USDA-NASS

C-S-18
 01/06/12

CONSUMER PRICE INDEX - ALL ITEMS

1982-1984 Base, Monthly



Livestock Marketing Information Center

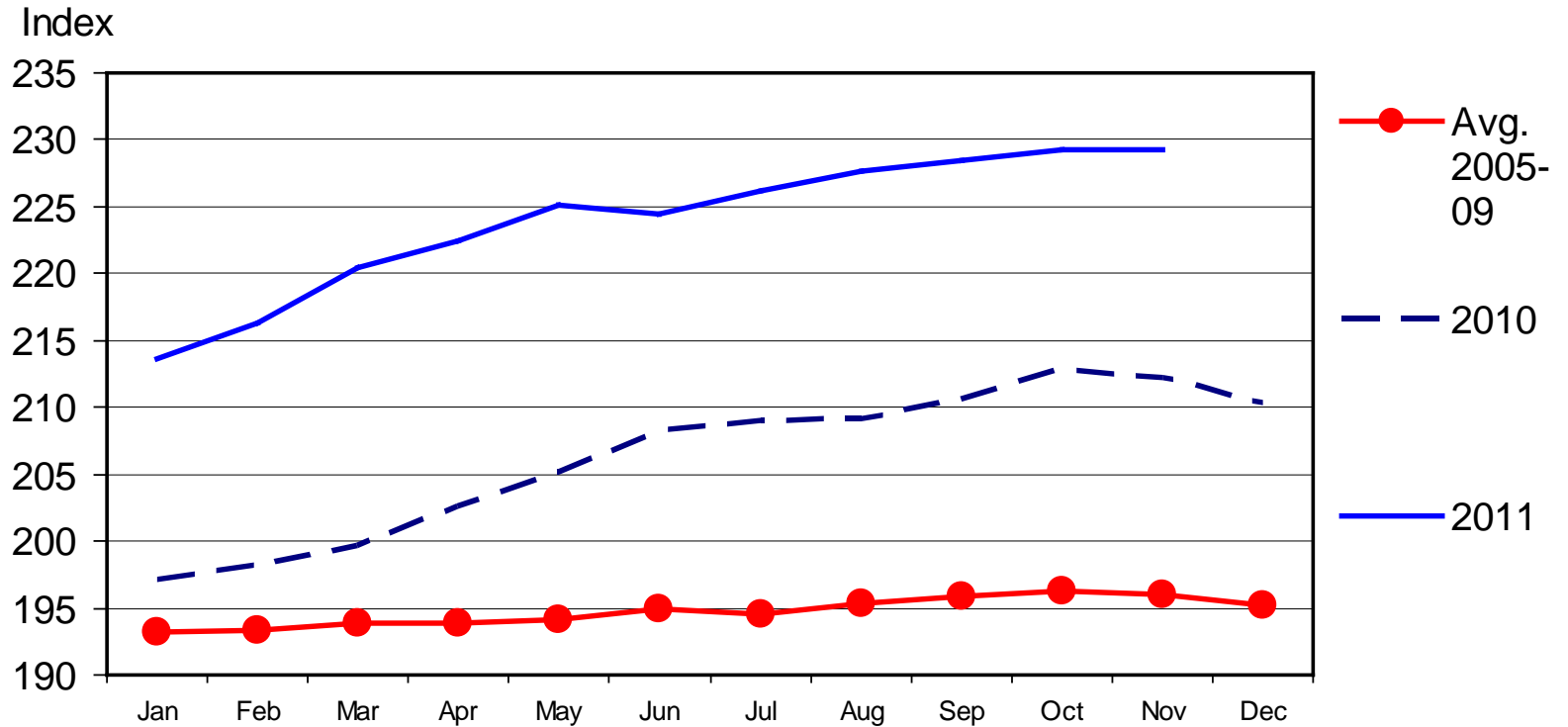
12/16/11

Data Source: Bureau of Labor Statistics



CPI - MEATS

1982-1984 Base, Monthly



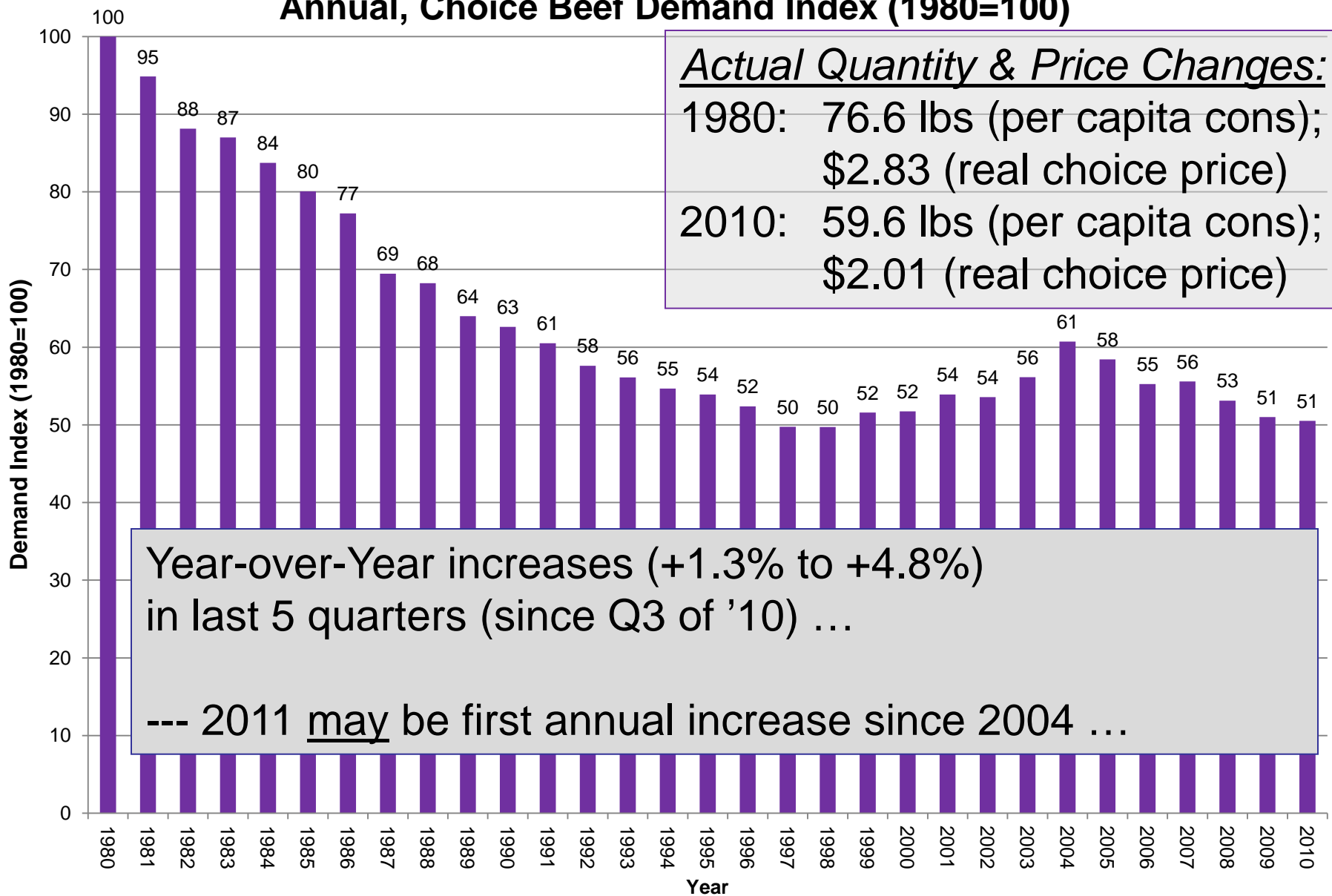
Livestock Marketing Information Center

12/16/11

Data Source: Bureau of Labor Statistics



Annual, Choice Beef Demand Index (1980=100)

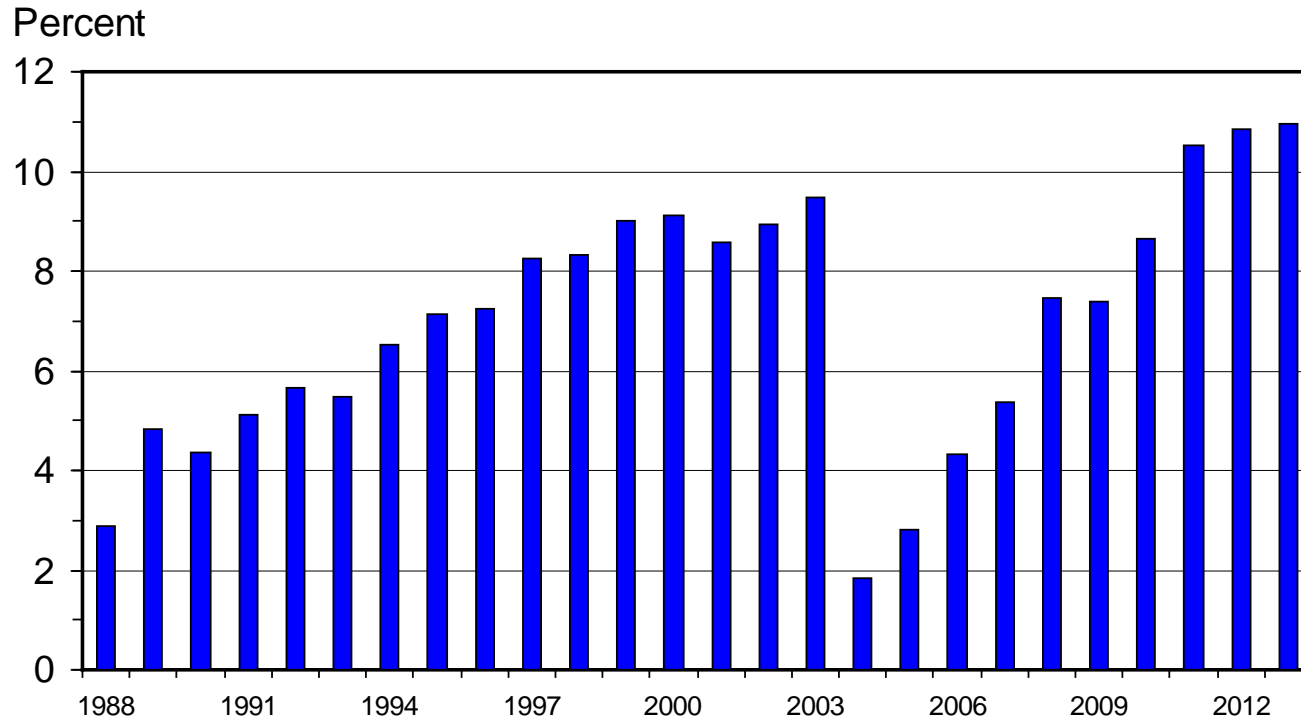


Source: Glynn T. Tonsor, Kansas State University, Jan. 2011



U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



Livestock Marketing Information Center

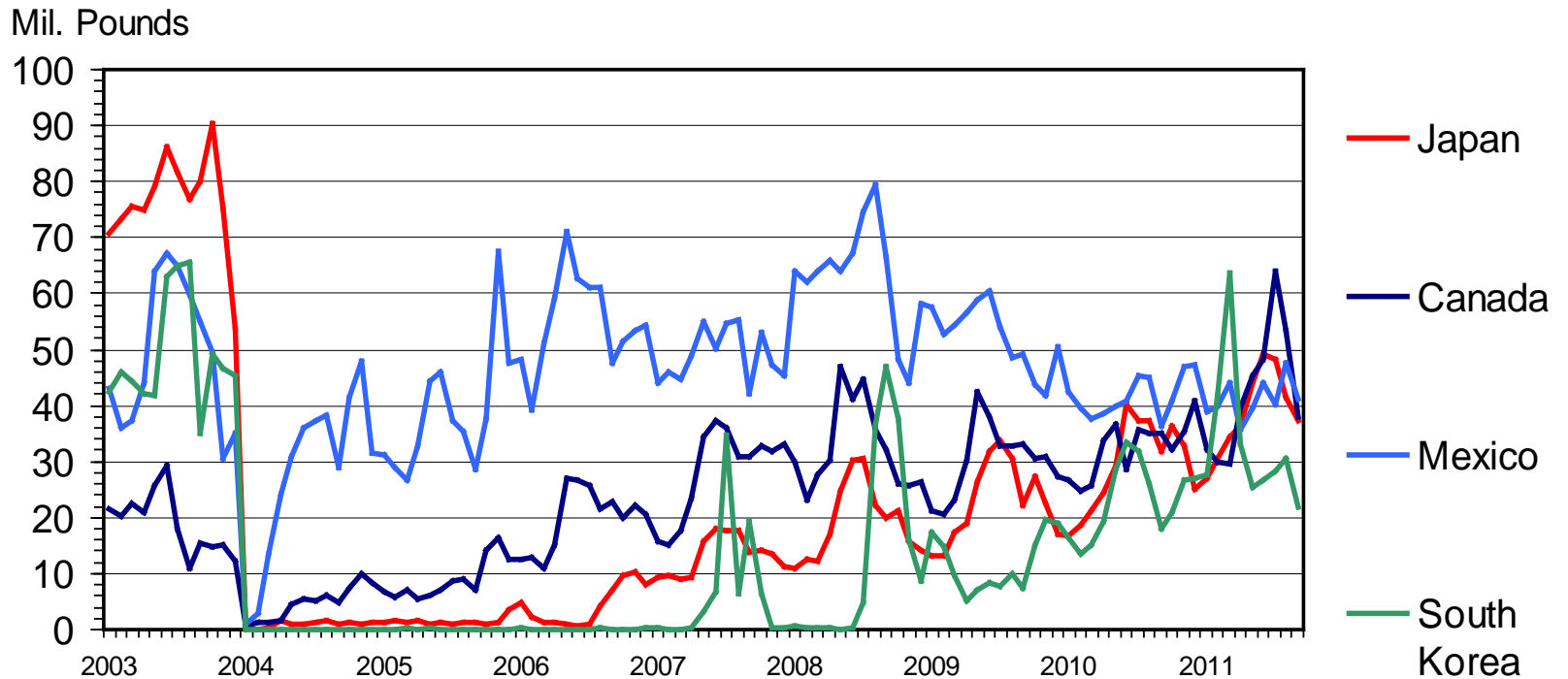
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-07
12/30/11



U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



Livestock Marketing Information Center

Data Source: USDA-ERS & USDA-FAS

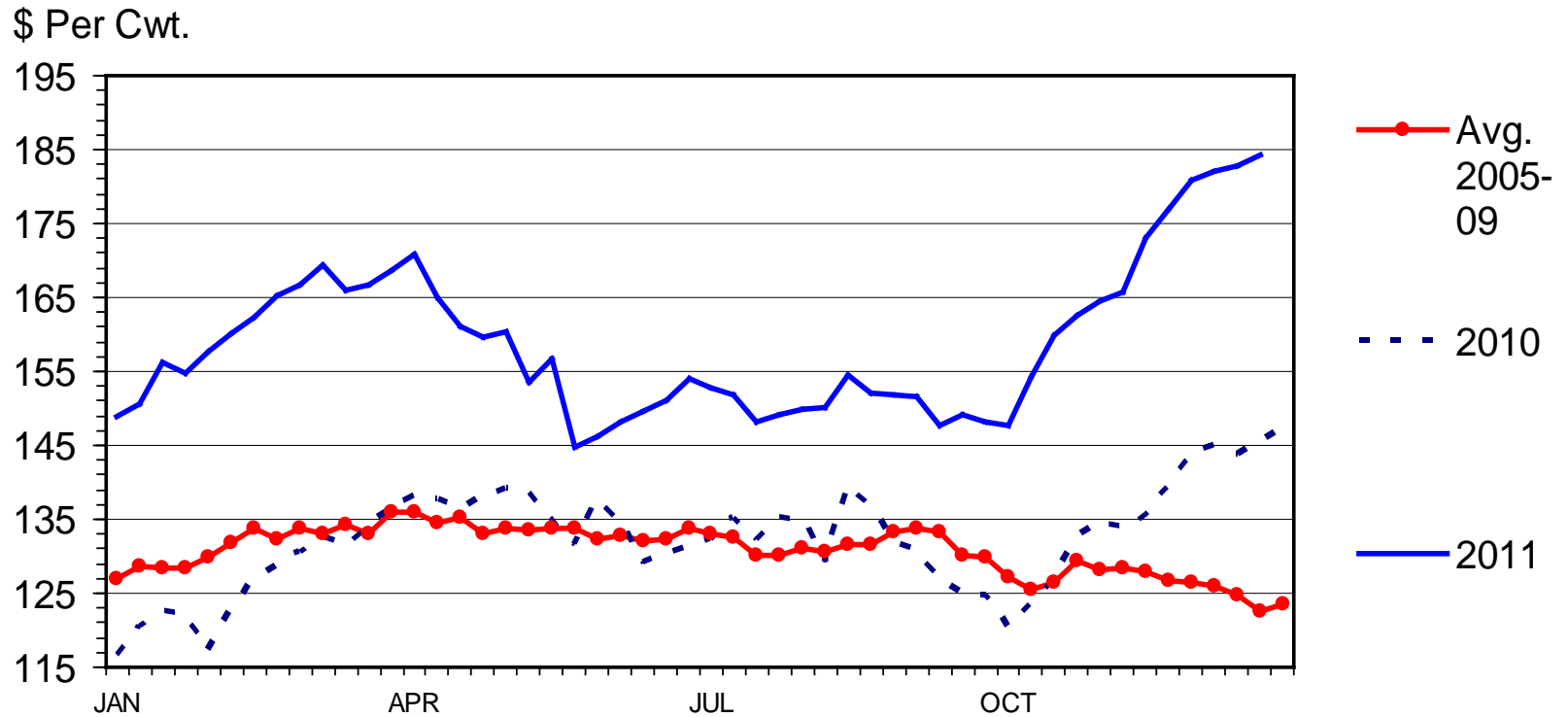
I-N-35
11/14/11

39% of exports to Canada & Mexico in 2010...



MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

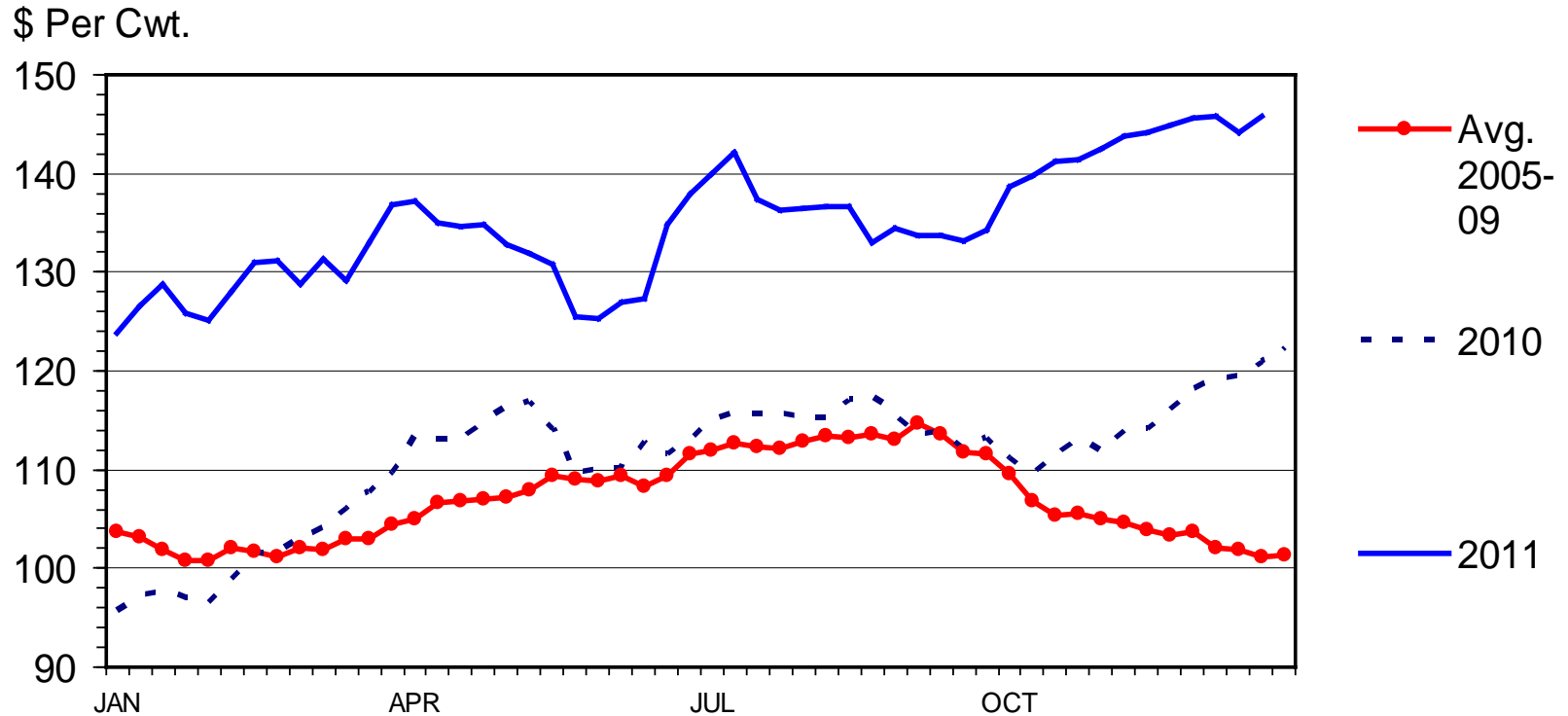
Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-49A
01/03/12



MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

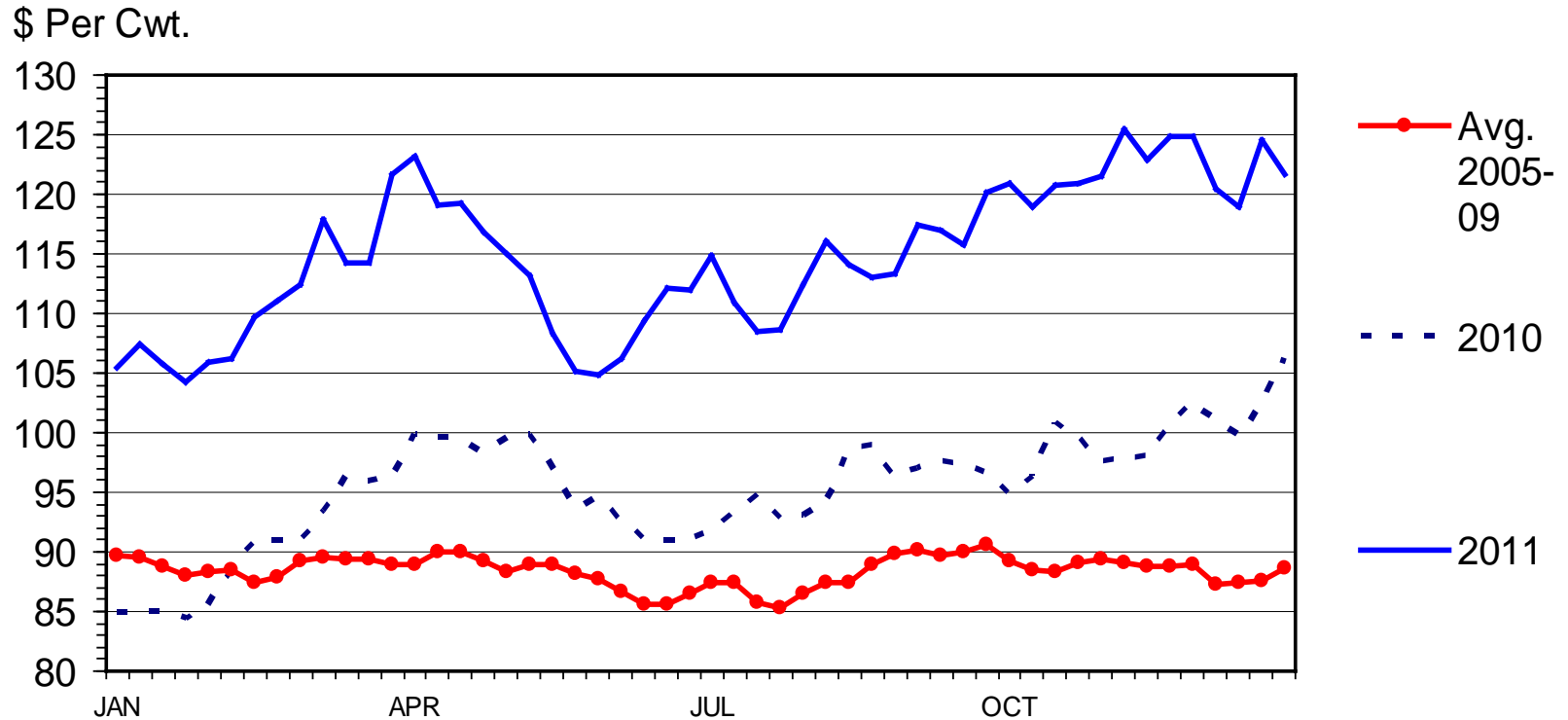
Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-49
01/03/12



SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



Livestock Marketing Information Center

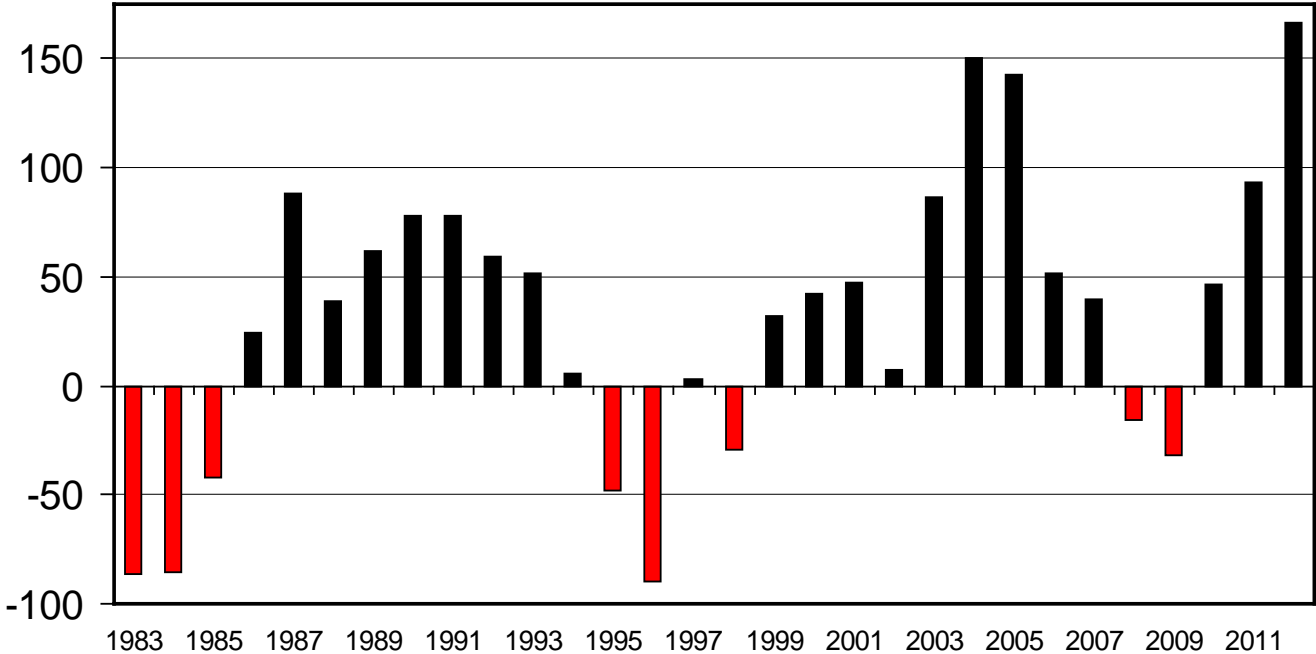
Data Source: USDA-AMS



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
12/28/11



Value of Gain Factsheet and Decision Tool Overview
(http://www.agmanager.info/livestock/budgets/production/beef/Value-of-Gain_FactSheet_AM-GTT_2011.pdf)

“Buy-Sell” spreadsheet tool
(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

1/10/12 Salina, KS Situation:

- BeefBasis.com forecasted price of 750 lb steer April 10, 2012 is \$144.69/cwt
- What is break-even purchase price of a 550 lb steer purchased on Jan. 10, 2011?
 - forecasted price is \$155.26/cwt



“Buy-Sell” spreadsheet tool

(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

Breakeven Buying Price Worksheet

Selling weight after shrink (pay-weight)	750
Expected selling price (\$/cwt)	\$144.69
Average Daily Gain (pay-to-pay)	2.00
Feeding cost of gain (\$/cwt)	\$90.00
Interest rate on feeder	7.00%
Percent death loss*	2.00%
Costs per head (trucking, etc.)**	\$10.00
Desired profit per head	\$0.00

* Enter ONLY if death loss is NOT included in feeding cost of gain, otherwise enter zero.

** Do not enter any costs included in feeding cost of gain.



“Buy-Sell” spreadsheet tool

(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

Purchase Weight ¹	<u>Selling Price</u>						
	\$138.69	\$140.69	\$142.69	\$144.69	\$146.69	\$148.69	\$150.69
	Breakeven Purchase Price ²						
450	161.80	164.97	168.15	171.32	174.50	177.68	180.85
500	155.32	158.19	161.06	163.93	166.80	169.68	172.55
550	150.06	152.69	155.31	157.93	160.55	163.18	165.80
600	145.72	148.14	150.56	152.97	155.39	157.80	160.22
650	142.09	144.33	146.57	148.81	151.05	153.29	155.53
700	139.02	141.11	143.20	145.29	147.38	149.47	151.56
750	N/A	N/A	N/A	N/A	N/A	N/A	N/A

¹ Enter the minimum purchase weight you are willing to consider.

² Based on a feeding cost of gain of \$90/cwt.

Expected Return: +\$5.34/head [2.0 * (\$157.93-\$155.26)]

Feeding COG \$80 = +\$12.00/head Expected Return

Feeding COG \$100 = - \$1.30/head Expected Return

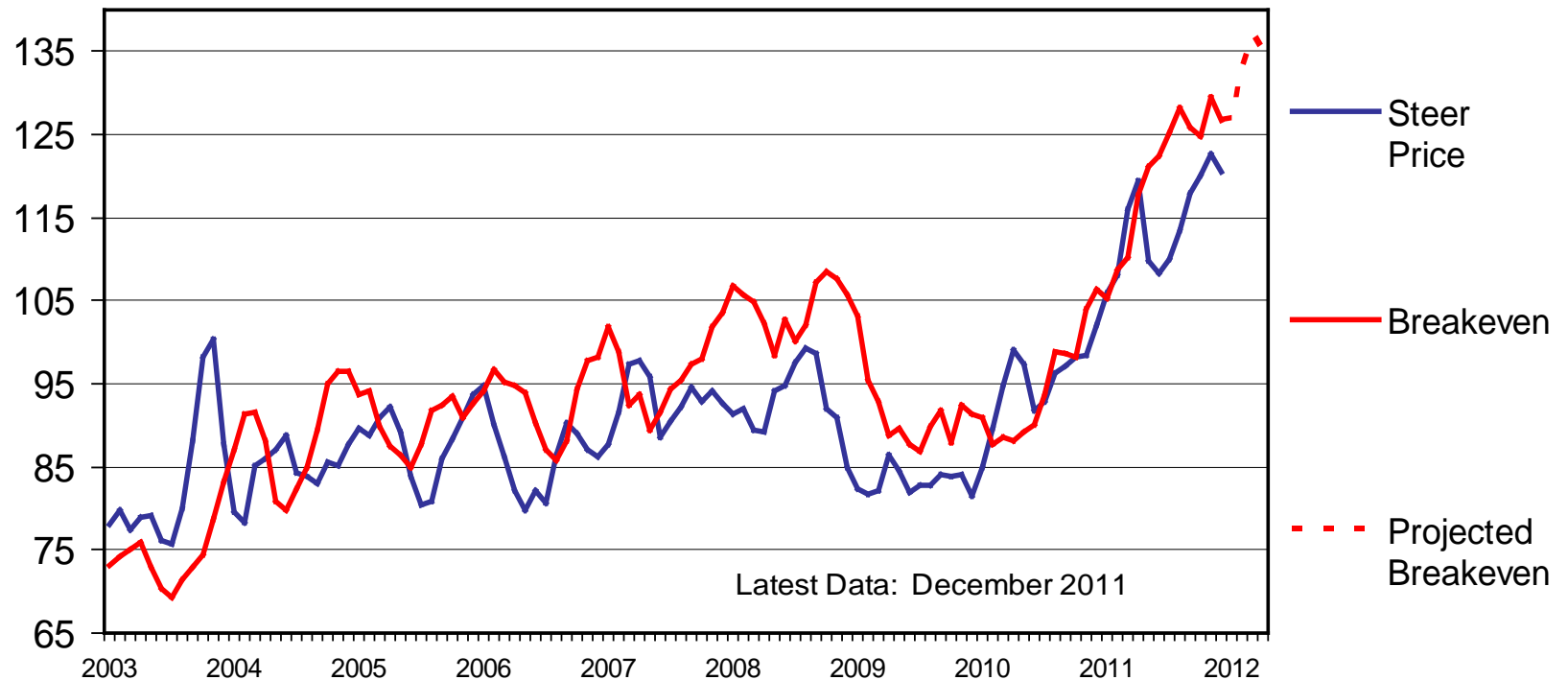


NAIBER (1/10/12): 750 lb placed on 1/10, sold at 1,223 lbs on 5/28/12 = -\$2/hd

CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly

\$ Per Cwt



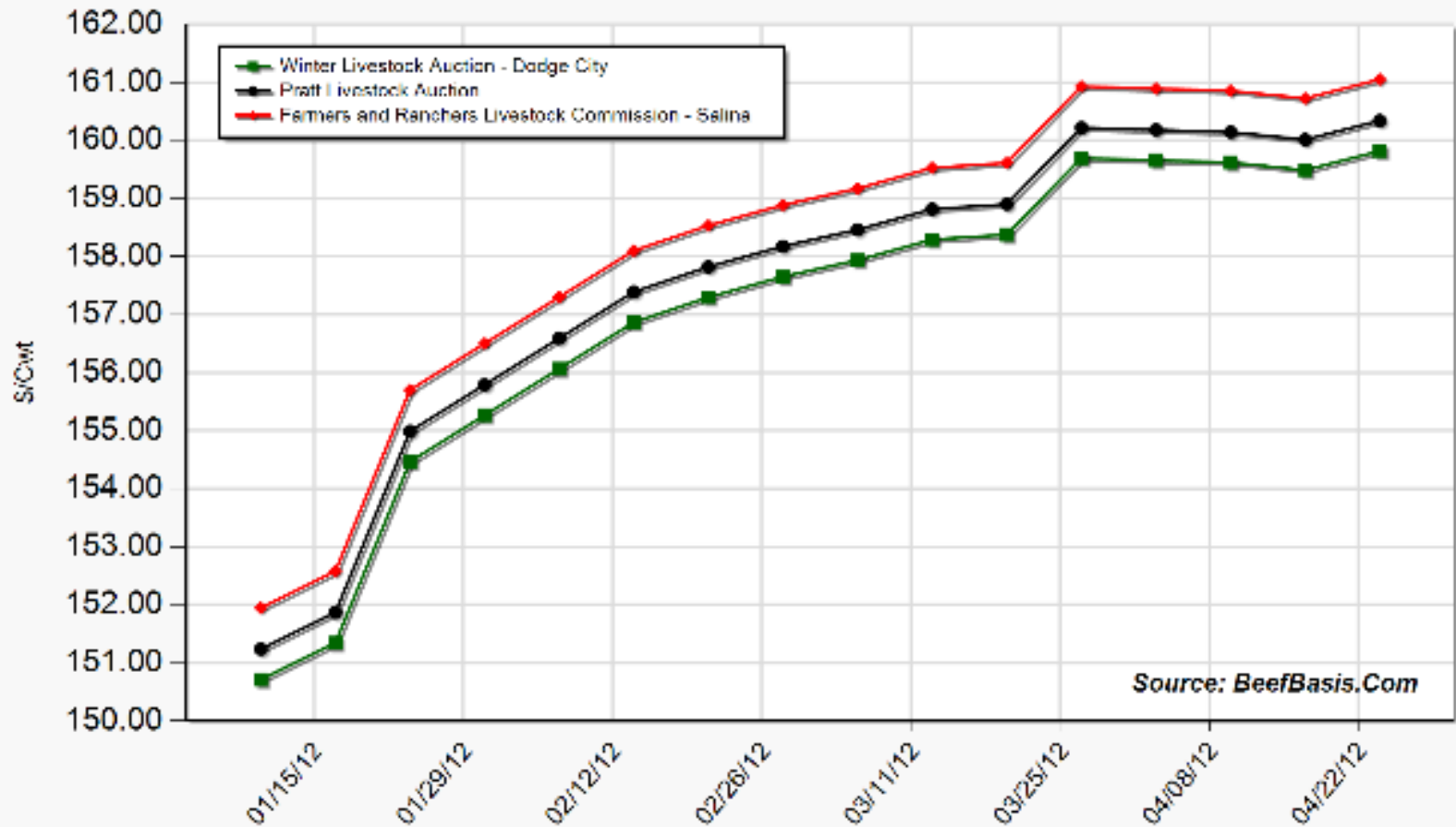
Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-21
01/03/12



Projected Price for 550 Lb Steer at Selected Kansas Auctions

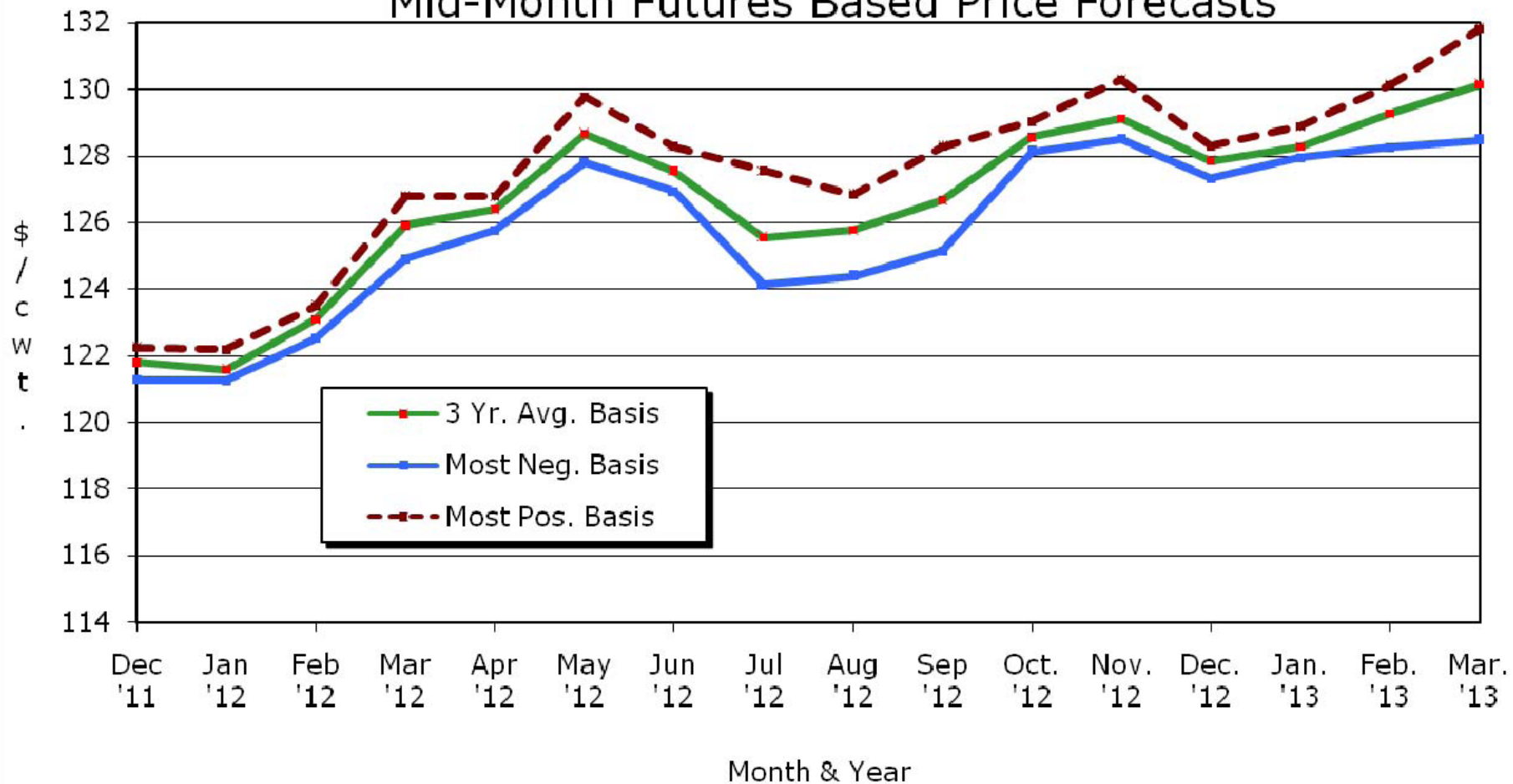


Source: BeefBasis.Com



Kansas Slaughter Steer Price Forecasts

Mid-Month Futures Based Price Forecasts



Source: USDA-AMS, CME, & K-State Ag. Economics
Based on 12.28.11 CME Live Cattle settlement prices

KSU Dept. of Ag Econ
www.agmanager.info

LC Futures off \$0.50 to \$1.00 since 12.28.11



QUARTERLY FORECASTS (LMIC:1/4/12)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2011						
I	8,317	1.9	770.9	0.7%	6,411	2.6
II	8,639	-0.5	759.2	0.7%	6,559	0.2
III	8,739	-0.1	771.0	-0.3%	6,737	-0.5
IV	8,396	-3.0	772.2	-0.9%	6,483	-3.8
Year	34,091	-0.5	768.3	0.0%	26,191	-0.4
2012						
I	7,991	-3.9	778.5	1.0%	6,221	-3.0
II	8,237	-4.7	766.3	0.9%	6,312	-3.8
III	8,129	-7.0	785.5	1.9%	6,385	-5.2
IV	7,958	-5.2	785.9	1.8%	6,254	-3.5
Year	32,315	-5.2	779.0	1.4%	25,172	-3.9
2013						
I	7,512	-6.0	787.9	1.2%	5,919	-4.9
II	7,820	-5.1	772.0	0.7%	6,037	-4.4
III	8,043	-1.1	794.2	1.1%	6,388	0.0
IV	7,719	-3.0	793.2	0.9%	6,123	-2.1
Year	31,094	-3.8	786.9	1.0%	24,467	-2.8



QUARTERLY FORECASTS (LMIC: 1/4/12)

	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2011				
I	110.12	23.11	129.06	150.07
II	112.79	17.08	132.03	148.61
III	114.05	19.47	135.93	141.69
IV	121.99	21.66	143.15	153.11
Year	114.74	20.29	135.04	148.37
2012				
I	121-124	11.25	140-144	152-157
II	124-128	11.72	141-146	153-159
III	121-126	8.28	143-149	153-161
IV	124-130	4.10	141-148	149-159
Year	123-127	8.94	141-147	152-159
2013				
I	126-133	5.71	139-148	151-162
II	128-136	4.76	143-153	154-167
III	124-133	4.05	145-156	154-169
IV	127-137	3.94	141-153	150-166
Year	128-133	4.40	144-150	154-164



*Looking Beyond Today's
Ps & Qs*



Beef industry changes underway

- January Cattle Inventory Report (***Jan. 27***)

- <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1017>

- Beef cows & heifers: -2.0%???

- Jan. 2011 was down 1.6% from 2010

- Heifers held as beef cow replacements: -0.5%???

- Jan. 2011 was down 5.4% from 2010

- Calf Crop: -1.0%???

- Jan. 2011 was down 0.9% from 2010



Beef industry changes underway

- Growth of stocker segment
 - Larger operations least likely to exit already are retaining ownership more...
 - Association with public grazing, value of gain, etc. makes this trend likely to continue...
- Reduced farmer-feeders (2010 vs 2009)
 - <1,000 hd yards; reduced total capacity by 150,000 hd (5,000 operations exited)
 - >50,000 hd yards; increased total capacity by 370,000 hd (4 more operations)
 - w/ +/- 20% feedlot over-capacity, will '11 be different ???



Demand Side Issues & Trends

- Long run decline in domestic overall meat consumption
 - Retail price impacts of shrinking beef supplies remain ...
- Global growth likely to exceed domestic
 - Heightens industry fragmentation issues such as animal ID/traceability, marketing arrangements, ...
 - Non-price factors increasingly important for beef...
 - Prevalence of E-coli vs. irradiation acceptance
 - Incomes, convenience, health information, recalls matter...



Policy/Regulation Issues & Trends

- GIPSA “fair market” proposed rules / “anti-competition” listening sessions ...
 - Ultimately little action w/r/t beef cattle industry
 - **BUT** lots of wasted time & energy...
- Environmental regulation concerns
- WTO MCOOL ruling – U.S. response?
- Animal welfare - mandatory labeling?
 - *Is overall uncertainty holding back investment throughout supply chain???*



Recent Events / Possible Discussion Points

- Japan may start accepting older cattle...
- FTA = reduction of S.Korea tariffs
- USMEF – ID/Traceability study == U.S. falling behind



More information available at:
AgManager (<http://www.agmanager.info/>)

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