

Update on the State of Beef Industry Economics

***New Generation Supplements
2015 National Sales Meeting
August 25, 2015
Manhattan, KS***

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Dept. of Agricultural Economics Kansas State University**



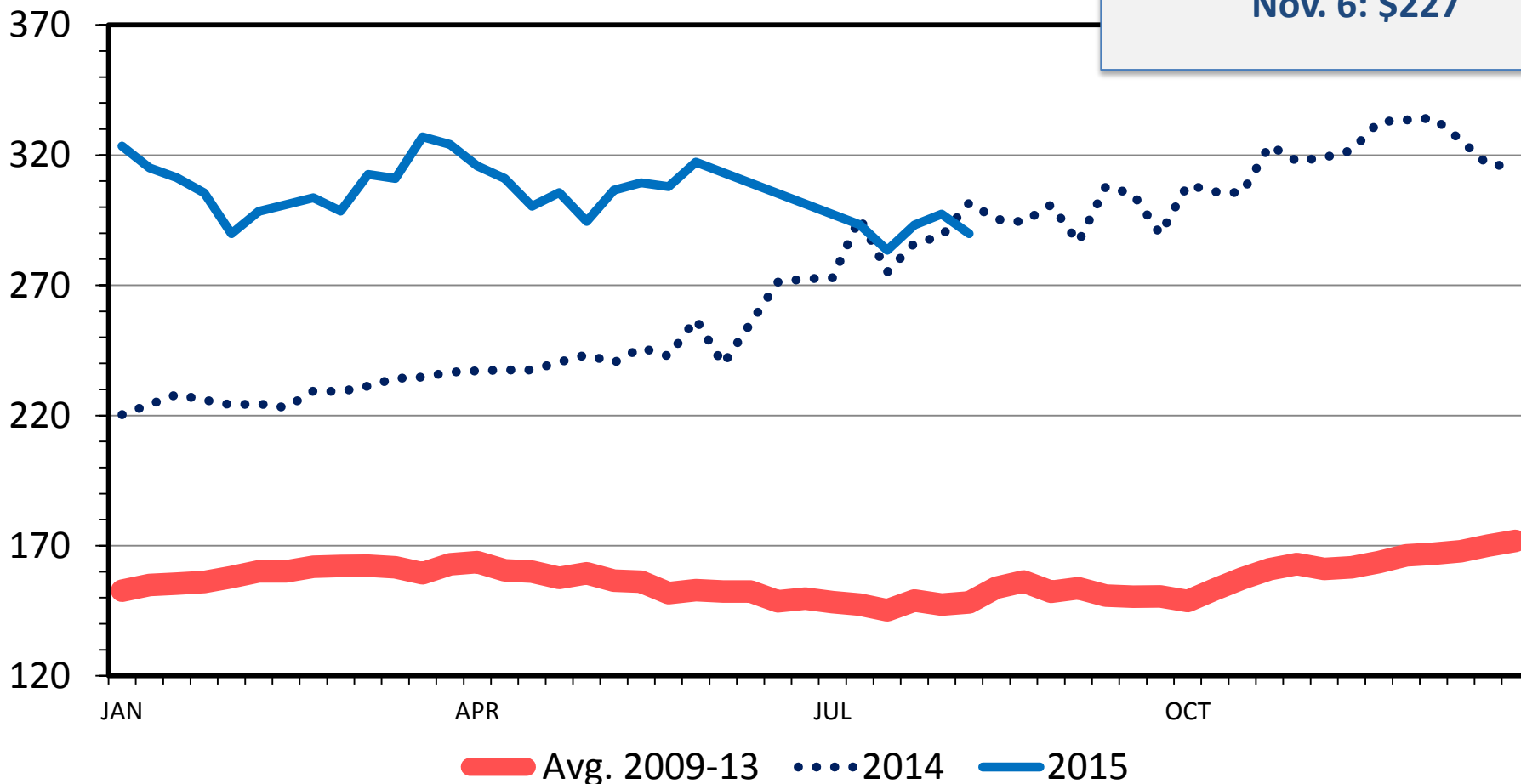
Overarching Beef Industry Economic Outlook

- Supplies
 - Historically tight; but expansion well underway
 - Competing meat supplies growing; context needed...
- Demand
 - Confusing yet positive; Q2.2015 continued trend
 - Far less certain, understood, & appreciated than supply...
- Combined
 - Heartburn or excitement depending on perspective...

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

\$ Per Cwt.



Beef Basis, Salina KS
Projections (as of 8/24):

Sept. 4: \$233

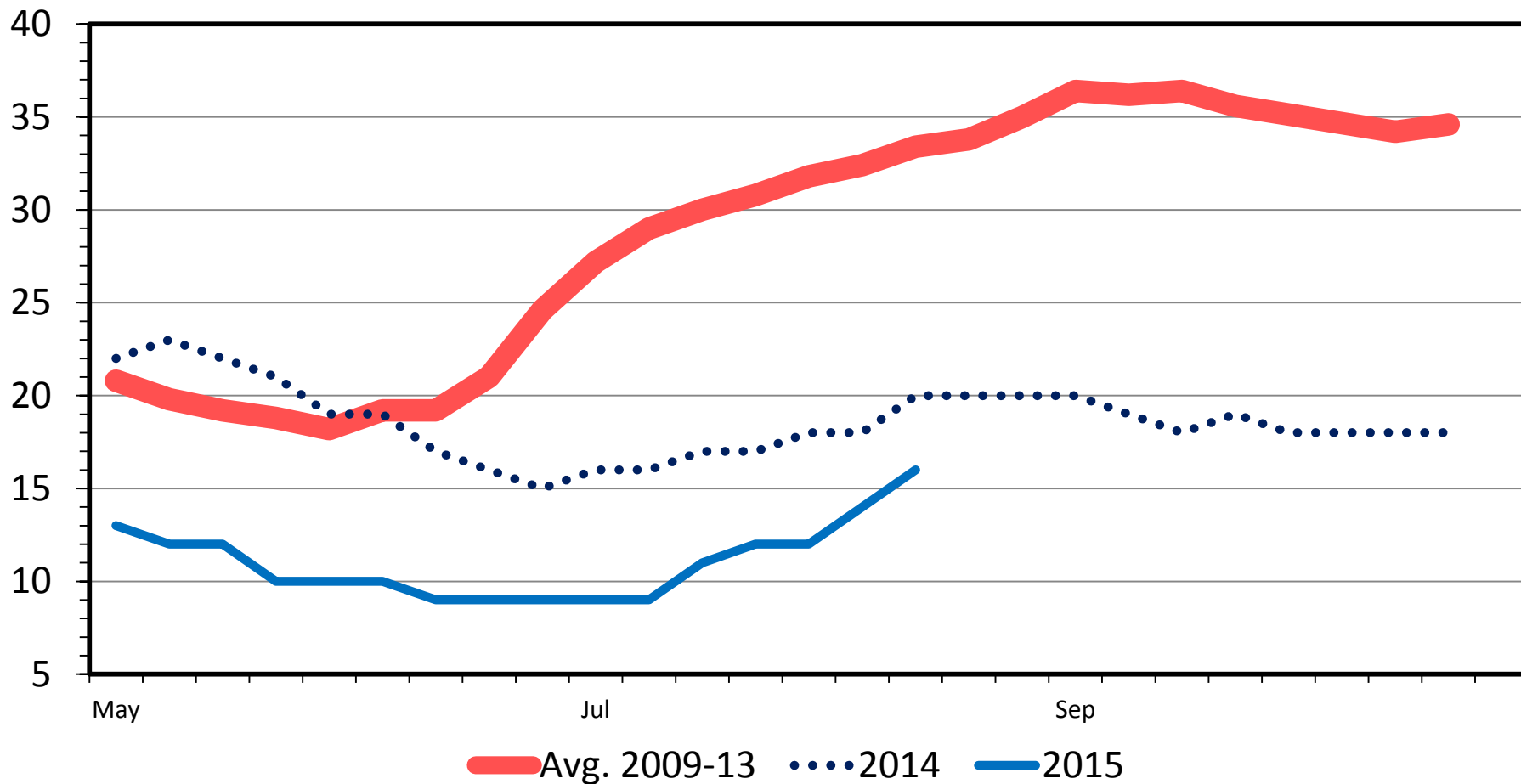
Oct. 2: \$228

Nov. 6: \$227

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

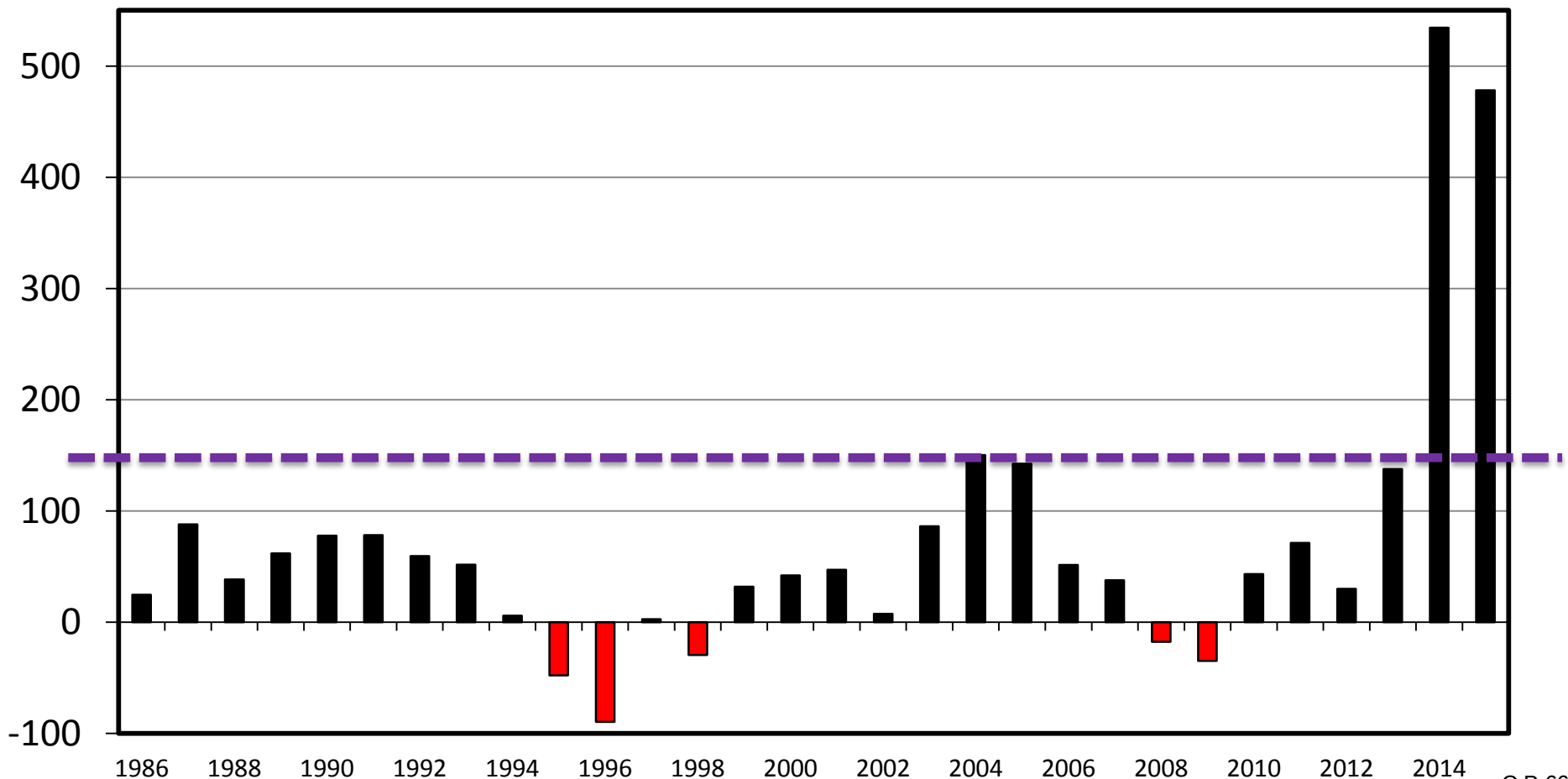
Percent



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



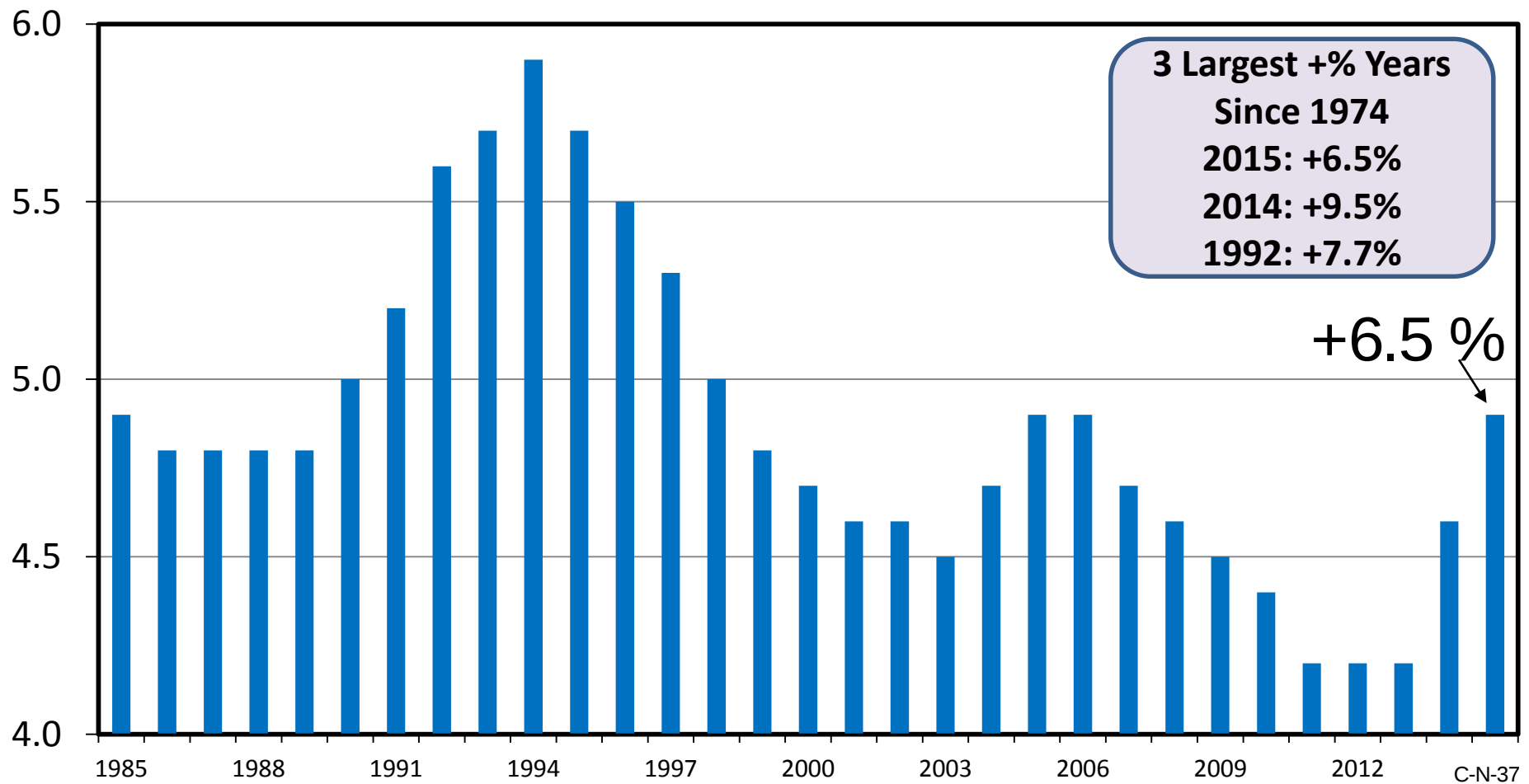
Data Source: USDA-AMS, Compiled and Analysis by Livestock Marketing Information Center

C-P-66
08/05/15

HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.

Mil. Head



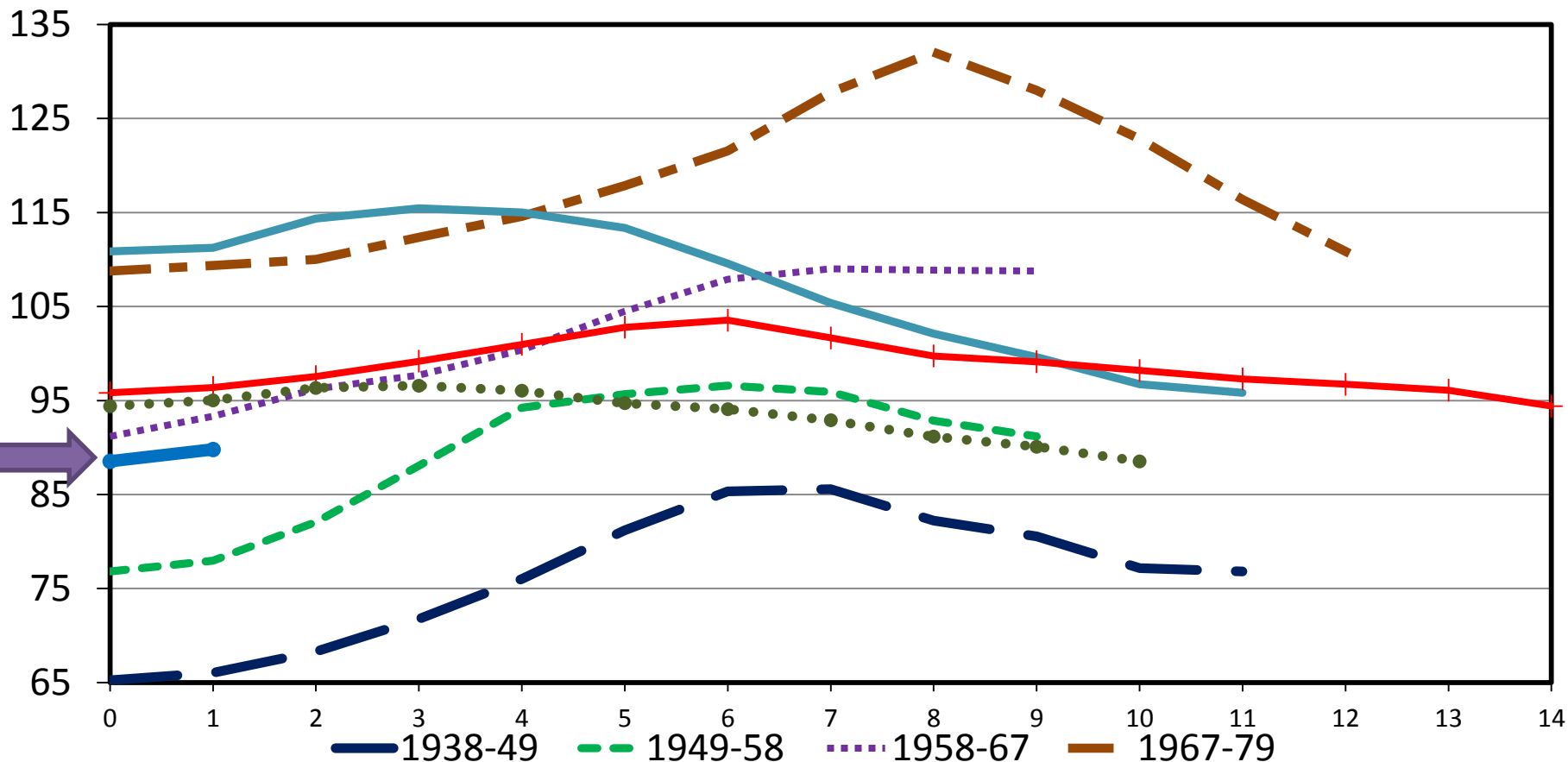
Data Source: USDA-NASS Livestock Marketing Information Center

C-N-37
07/28/15

TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

C-N-40
07/28/15

Feeder Cattle Price Hedging Considerations (as of 8/24/15)

- Salina, KS 8/24/15 situation :
 - Sell 550 lb calves on 9/16/15 (\$217)
- Considering price protection on Sep sale
 - Or for stocker, consider protection for buy in Sep
 - **USE: *FeederCattleRiskMgmtTool.xlsx***

<http://www.agmanager.info/Tools/default.asp#LIVESTOCK>

Economic Outlook Overview: Stockers

<http://www.beefbasis.com/ForecastingTools/ValueofGain/tabid/1132/Default.aspx>

- Salina, KS 8/24/15 situation:
 - Buy 550 lb steer on 09/16/15 (\$217)
 - Sell 750 lb steer on 12/16/15 (\$187) {2.17 ADG}
 - VOG: \$102/cwt
- IF COG \$80/cwt THEN Exp. Profit = +/- \$45/hd
 - Note Total Cost > \$1,300/hd = low % ROI

Economic Outlook Overview: Feedlots

- 2015 has been rough
- Structural concerns persist:
 - Excess capacity
 - Heifer Retention, Plant Closures, MCOOL, ...

Historical and Projected Kansas Feedlot Net Returns (as of 8/7/15')

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

June 15': -\$210/steer

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

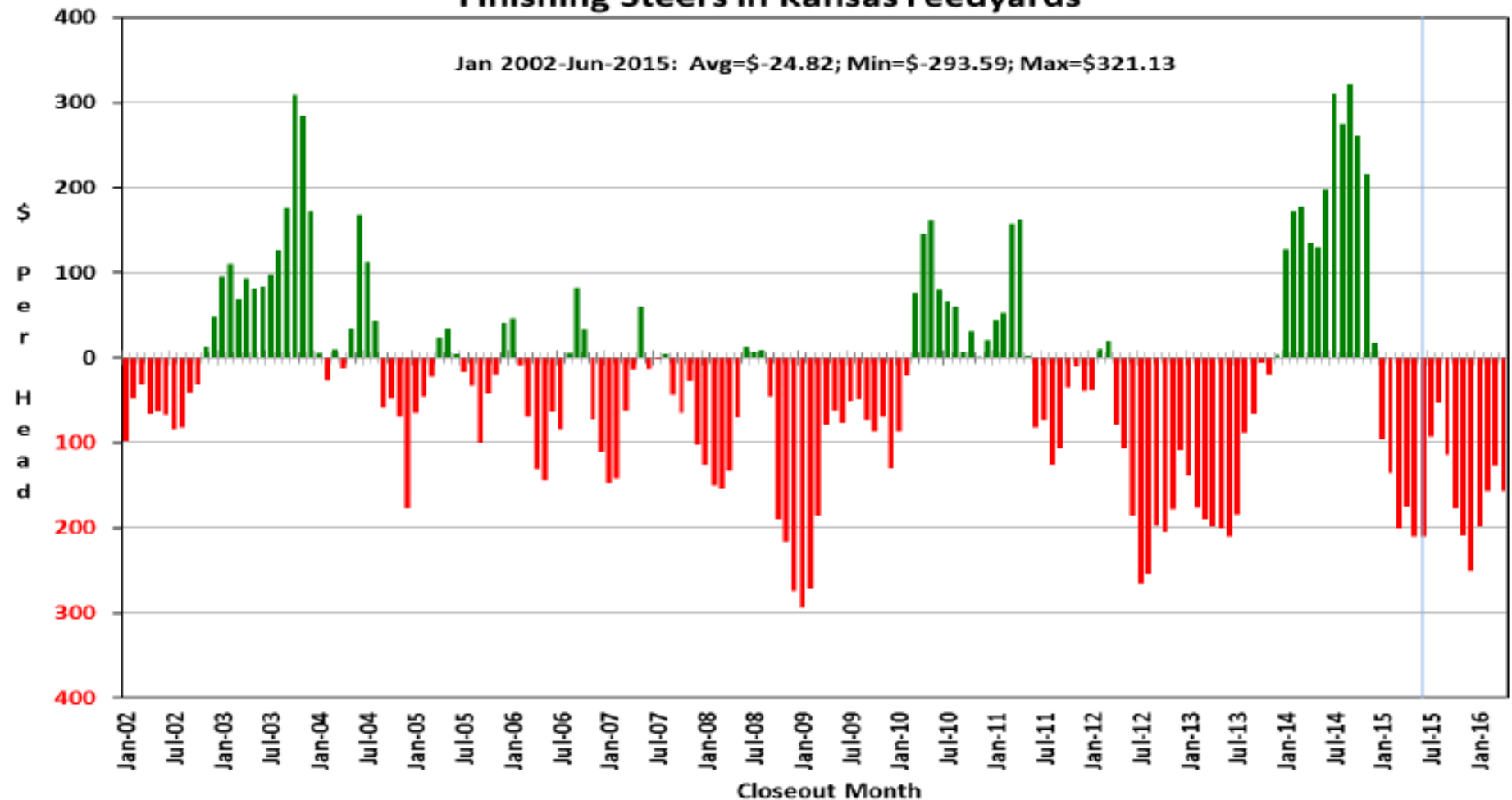
Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Jul-15	-92.96	82.98	149.25	206.86	67.60	155.89	195.19
Aug-15	-53.41	82.90	149.10	202.30	74.22	152.86	195.65
Sep-15	-114.66	83.48	148.81	209.48	65.03	156.87	195.15
Oct-15	-176.89	85.90	151.48	215.77	56.48	163.82	194.50
Nov-15	-209.00	86.36	151.04	219.05	51.26	165.79	193.63
Dec-15	-250.05	88.20	150.12	217.95	45.49	167.55	188.50
Jan-16	-198.23	89.56	151.31	210.90	54.17	165.33	187.67
Feb-16	-156.09	90.63	150.12	208.23	64.29	161.23	189.00
Mar-16	-126.14	89.79	151.33	204.26	67.25	160.46	188.91
Apr-16	-156.02	88.18	143.92	201.06	61.99	155.14	181.41

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 8/7/15')

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

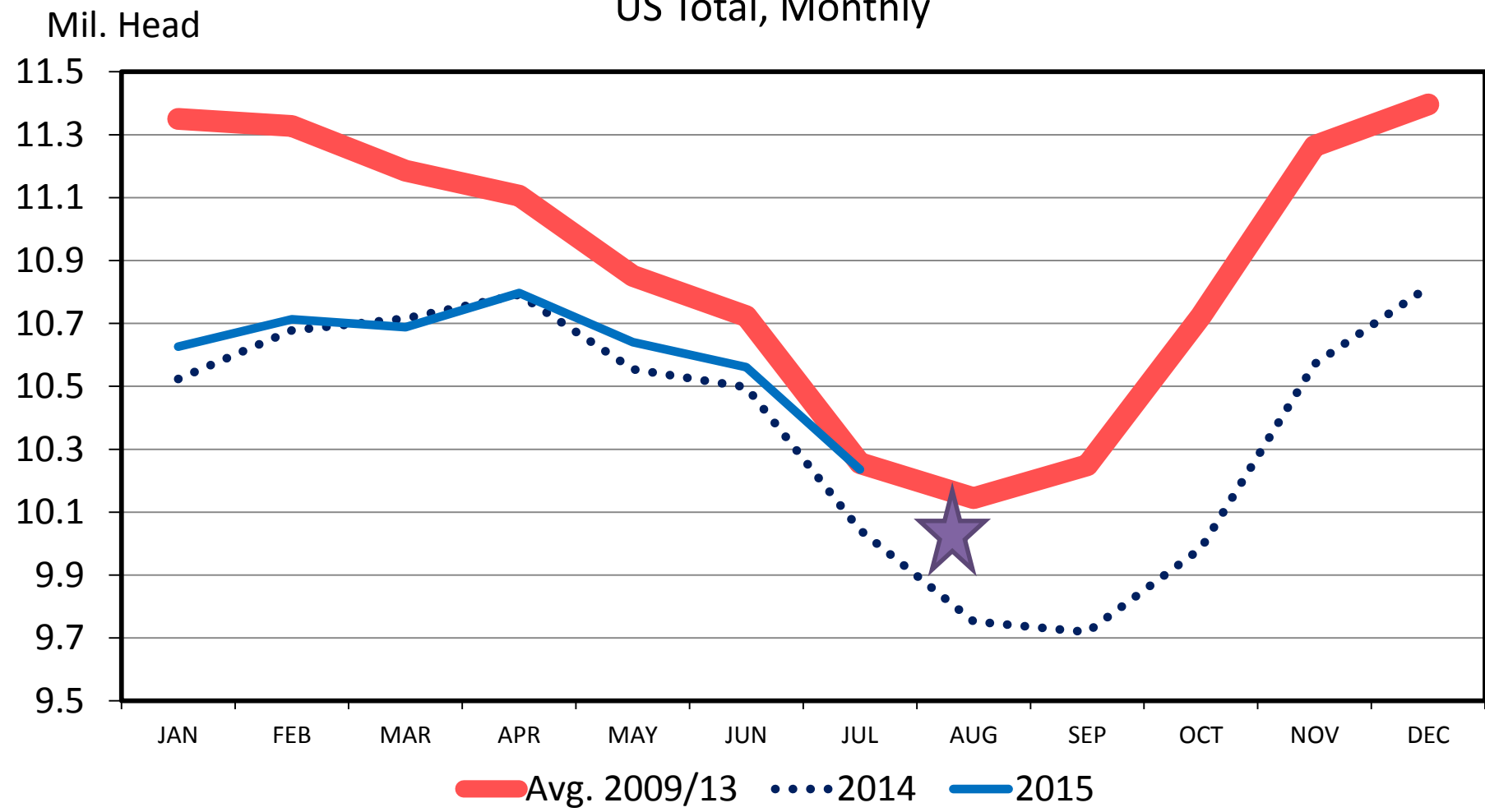
Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards



Pre-8/21 COF Report Estimates:
On Feed Aug 1: +2.6% {+1.6% to +3.5%}

CATTLE ON FEED

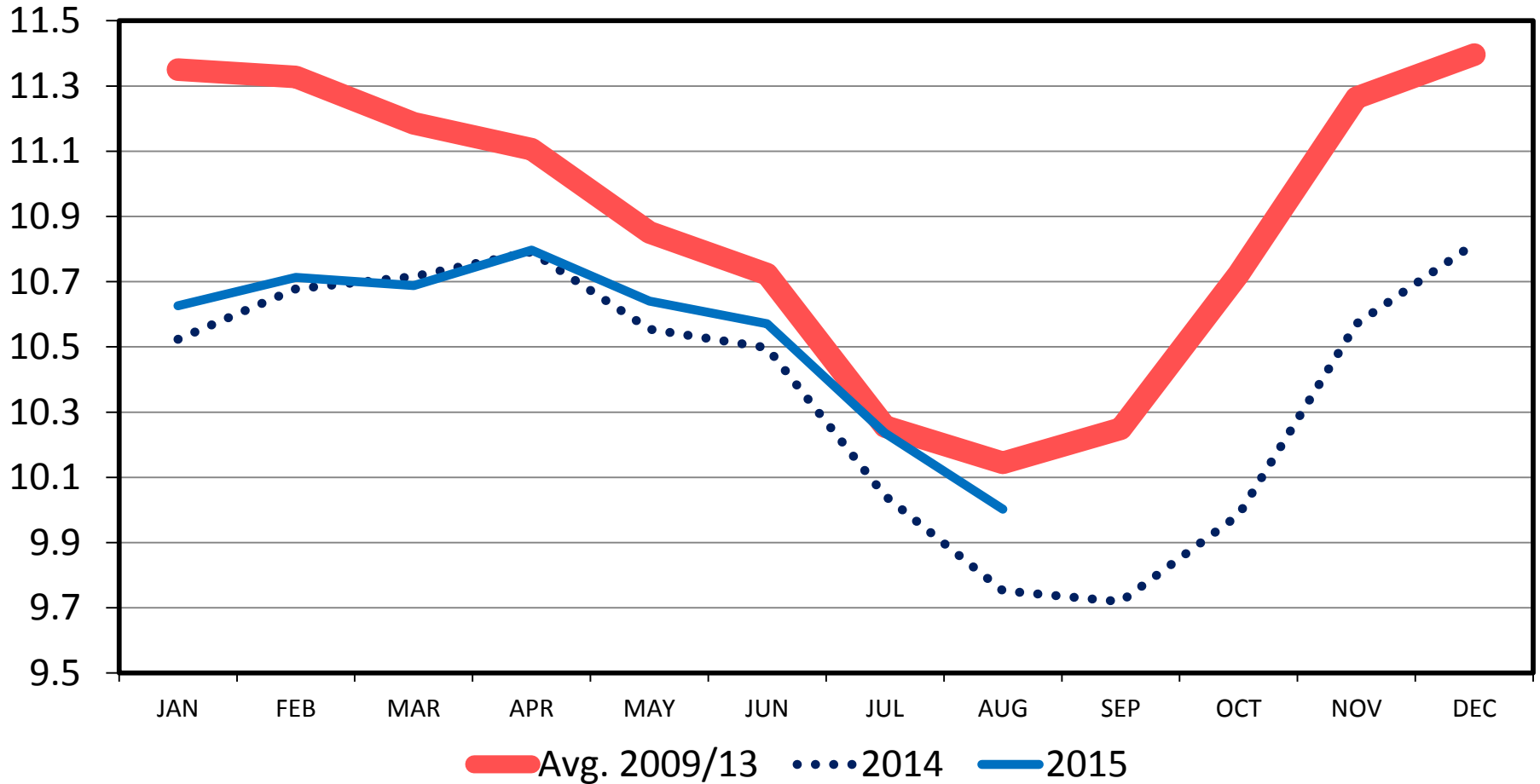
US Total, Monthly



CATTLE ON FEED

US Total, Monthly

Mil. Head



Data Source: USDA-NASS

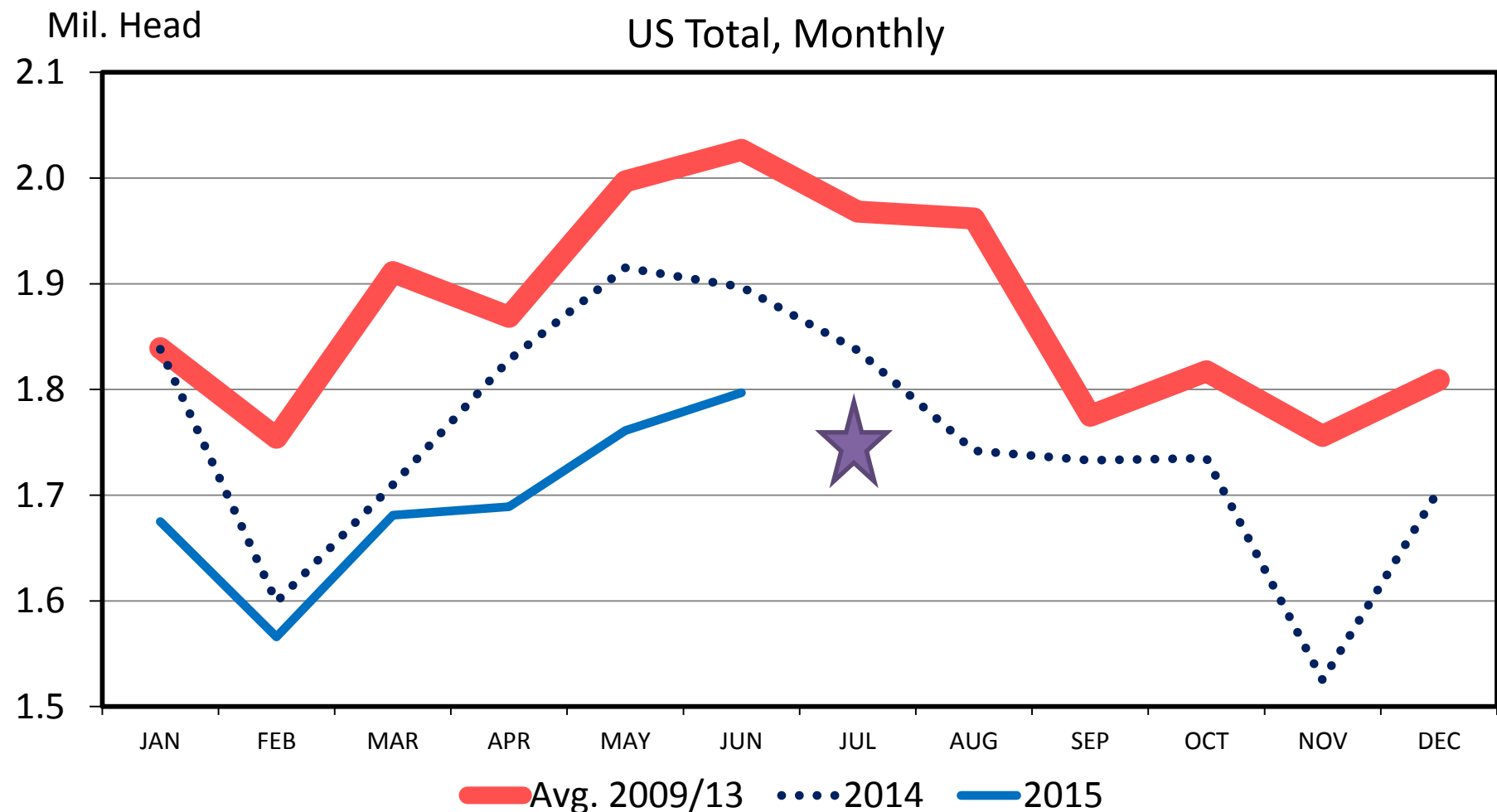
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C-N-10
08/21/15

Pre-8/21 COF Report Estimates:
Marketed in July: -3.0% {-7.6% to -2.1%}

FED CATTLE MARKETINGS

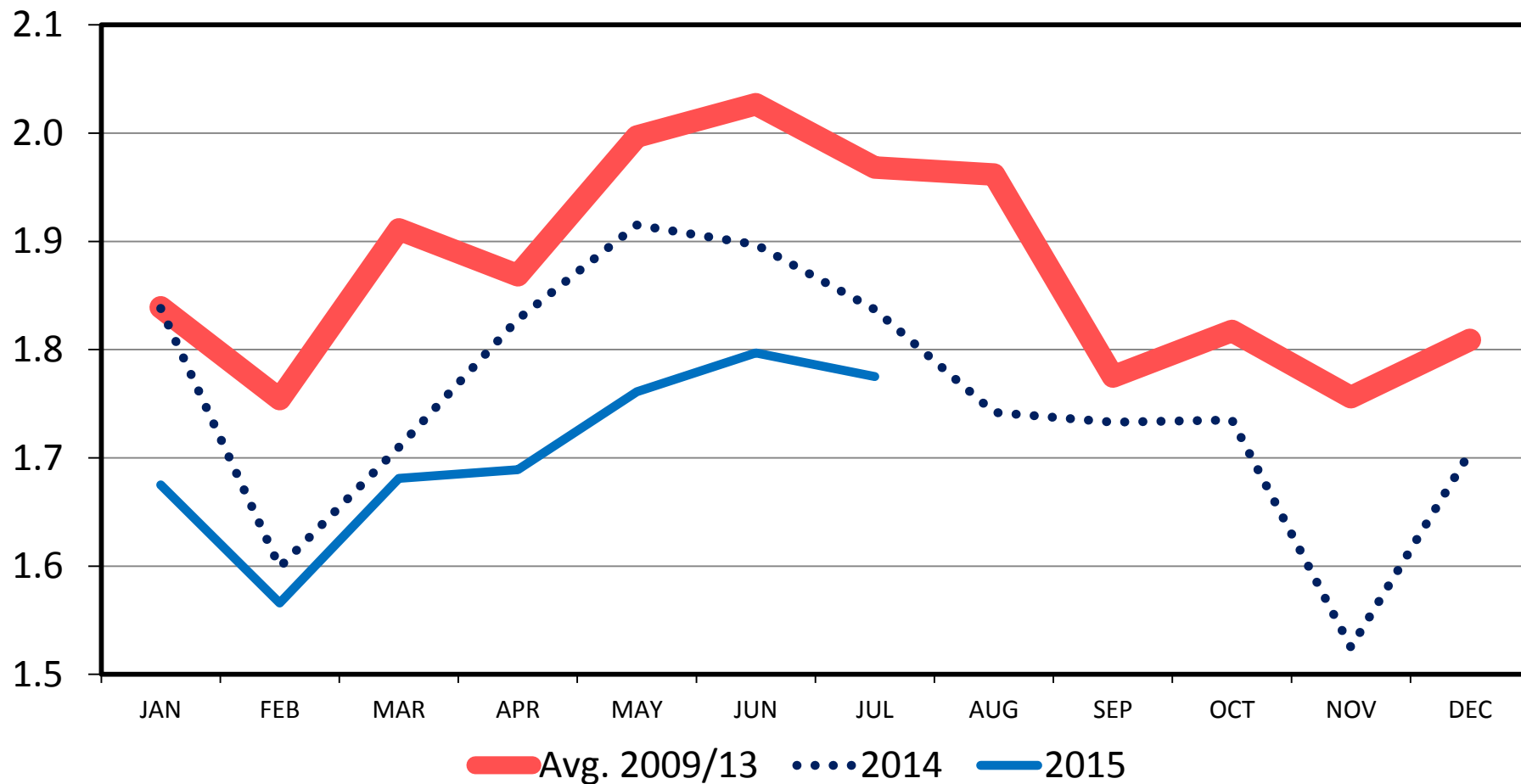
US Total, Monthly



FED CATTLE MARKETINGS

US Total, Monthly

Mil. Head



Data Source: USDA-NASS

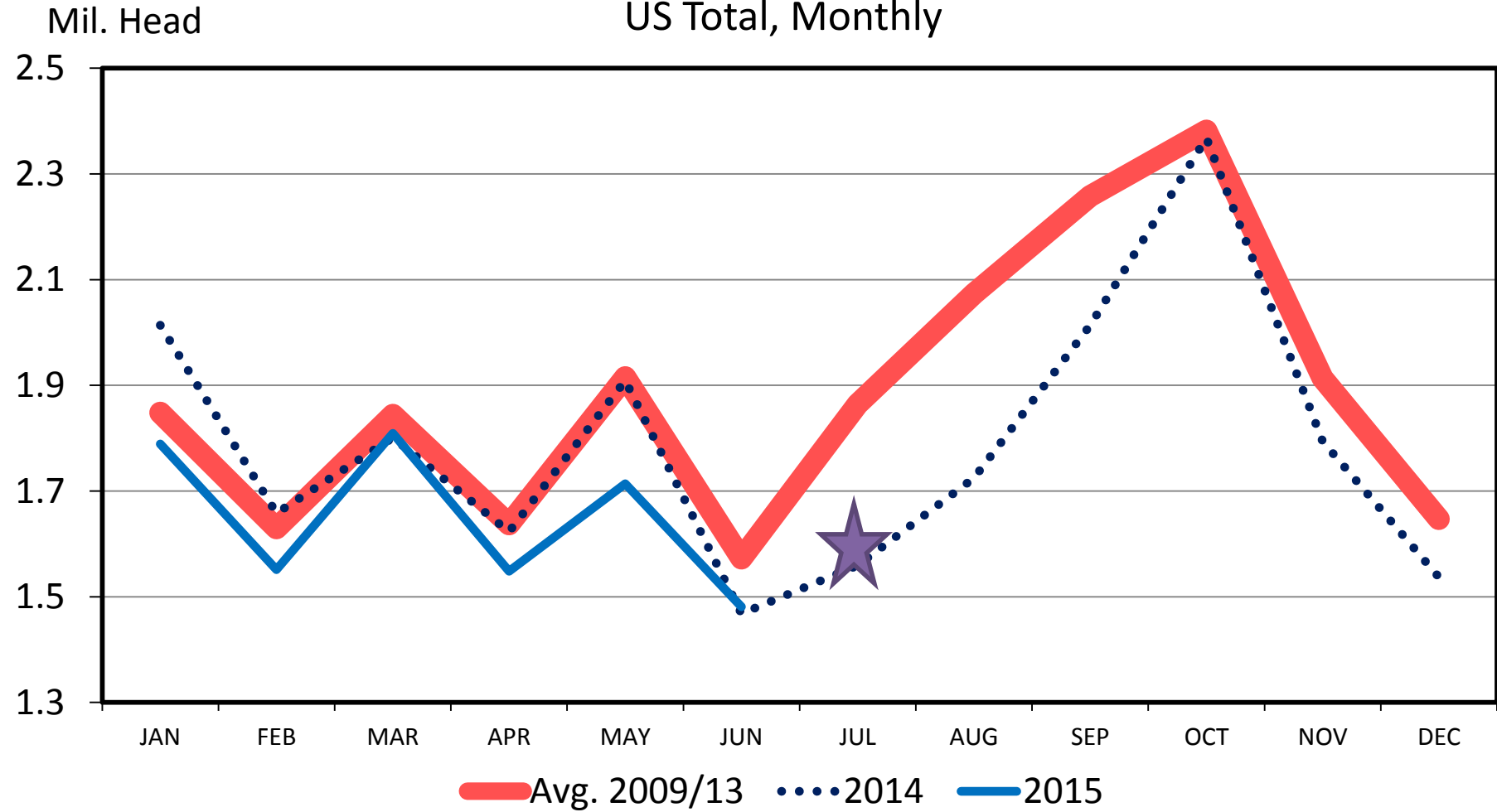
Livestock Marketing Information Center

C-M-11
08/21/15

Pre-8/21 COF Report Estimates:
Placed in July: +0.9% {-4.9% to +5.2%}

FEEDLOT PLACEMENTS

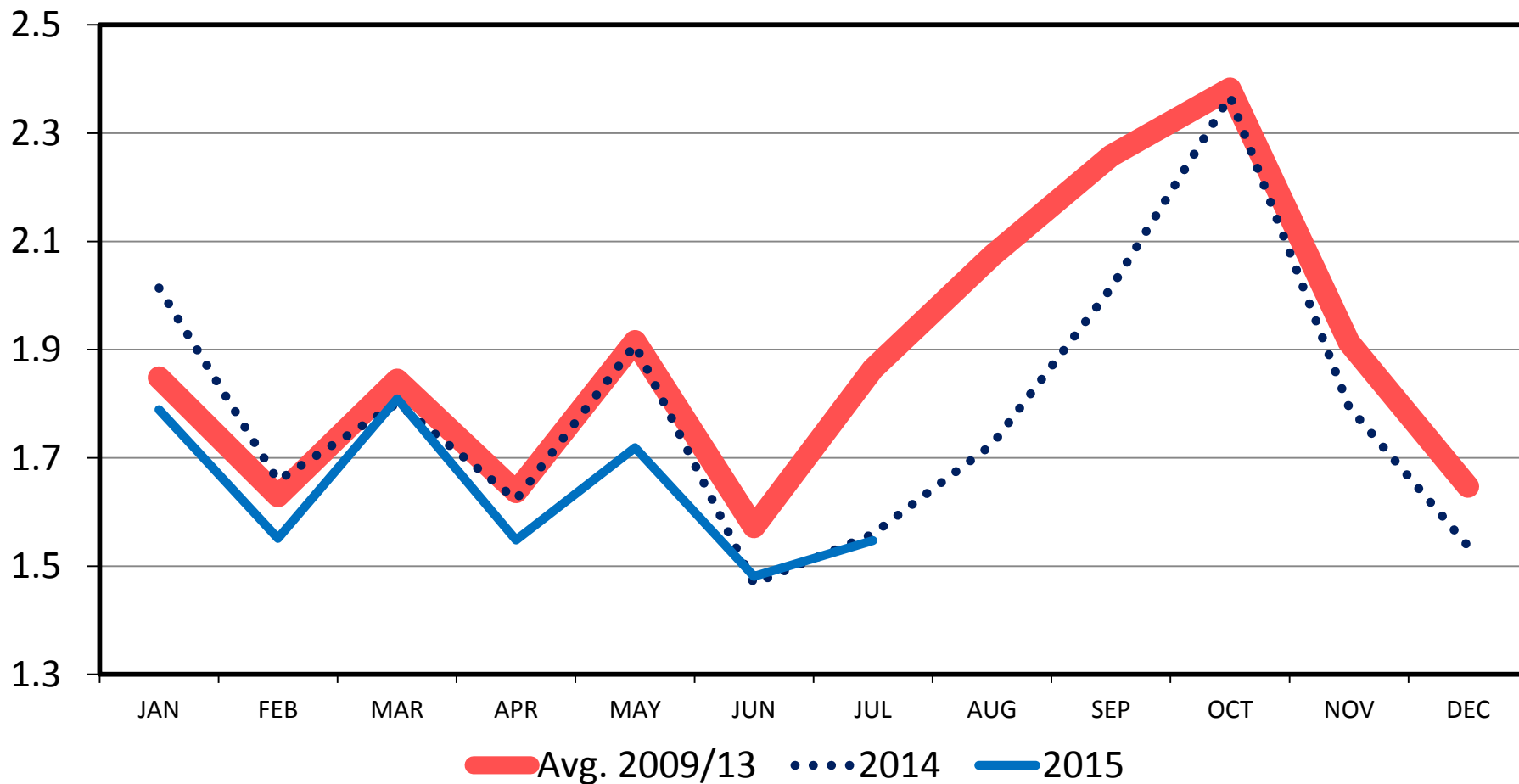
US Total, Monthly



FEEDLOT PLACEMENTS

US Total, Monthly

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

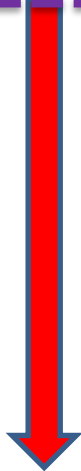
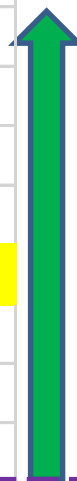
C-N-08
08/21/15

Quarterly Forecasts (LMIC: 8/17/15)

		% Chg.	Average	% Chg.	Comm'l	% Chg.
Year	Comm'l	from	Dressed	from	Beef	from
Quarter	Slaughter	Year Ago	Weight	Year Ago	Production	Year Ago
2014						
I	7,374	-5.2	795.7	0.3	5,868	-5.0
II	7,837	-5.9	789.0	0.9	6,184	-5.1
III	7,632	-8.3	809.6	1.9	6,179	-6.5
IV	7,326	-8.8	821.8	2.8	6,021	-6.3
Year	30,170	-7.1	803.8	1.5	24,252	-5.7
2015						
I	6,967	-5.5	813.0	2.2	5,664	-3.5
II	7,227	-7.8	810.1	2.7	5,855	-5.3
III	7,470	-2.1	824.6	1.9	6,160	-0.3
IV	7,375	0.7	826.2	0.5	6,093	1.2
Year	29,039	-3.7	818.6	1.8	23,772	-2.0
2016						
I	7,116	2.1	822.4	1.2	5,852	3.3
II	7,389	2.2	813.2	0.4	6,009	2.6
III	7,667	2.6	831.0	0.8	6,371	3.4
IV	7,468	1.3	830.6	0.5	6,203	1.8
Year	29,640	2.1	824.4	0.7	24,435	2.8

Quarterly Forecasts (LMIC: 8/17/15)

Year Quarter	Live Sltr. Steer Price 5-Mkt Avg	% Chg. from Year Ago	Feeder Steer Price Southern Plains	
			7-800#	5-600#
2014				
I	146.34	16.6	171.77	209.30
II	147.82	18.3	193.16	227.67
III	158.49	29.6	225.93	263.14
IV	165.59	26.6	239.81	285.63
Year	154.56	22.8	207.67	246.44
2015				
I	162.43	11.0	215.87	276.14
II	158.11	7.0	225.29	279.32
III	149-151	-5.4	220-222	254-258
IV	153-156	-6.7	207-211	251-256
Year	156-157	1.3	217-219	264-268
2016				
I	154-158	-4.0	205-211	260-267
II	152-157	-2.3	208-215	262-268
III	147-153	0.0	202-210	253-262
IV	151-158	0.0	198-207	247-258
Year	153-155	-1.6	205-209	257-262



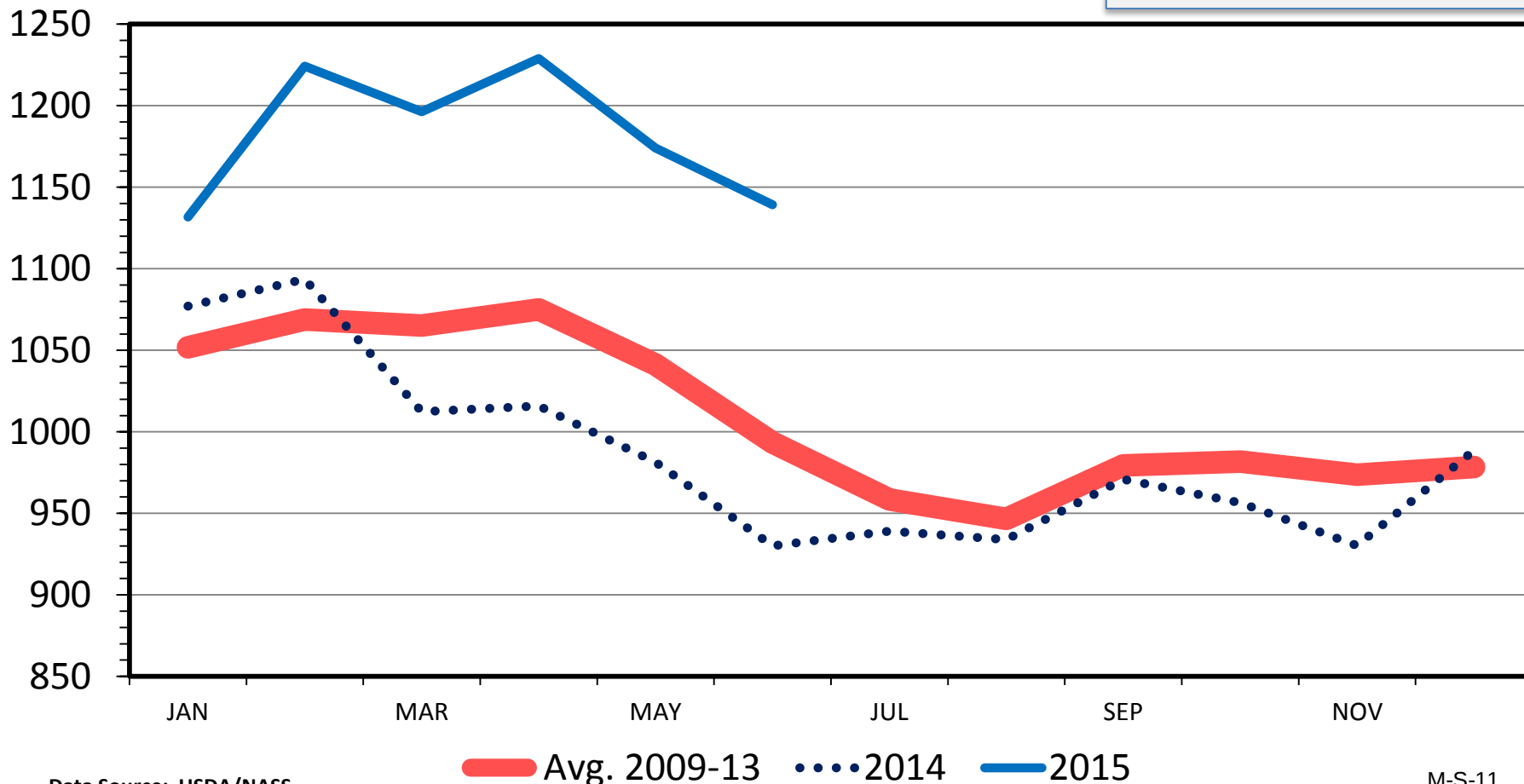
Trade & Meat Supplies
Maintain Context

TOTAL RED MEAT IN COLD STORAGE

End of the Month

Mil. Pounds

Expanding Production +
High USD + Q1 West Coast
Logistics + Al...

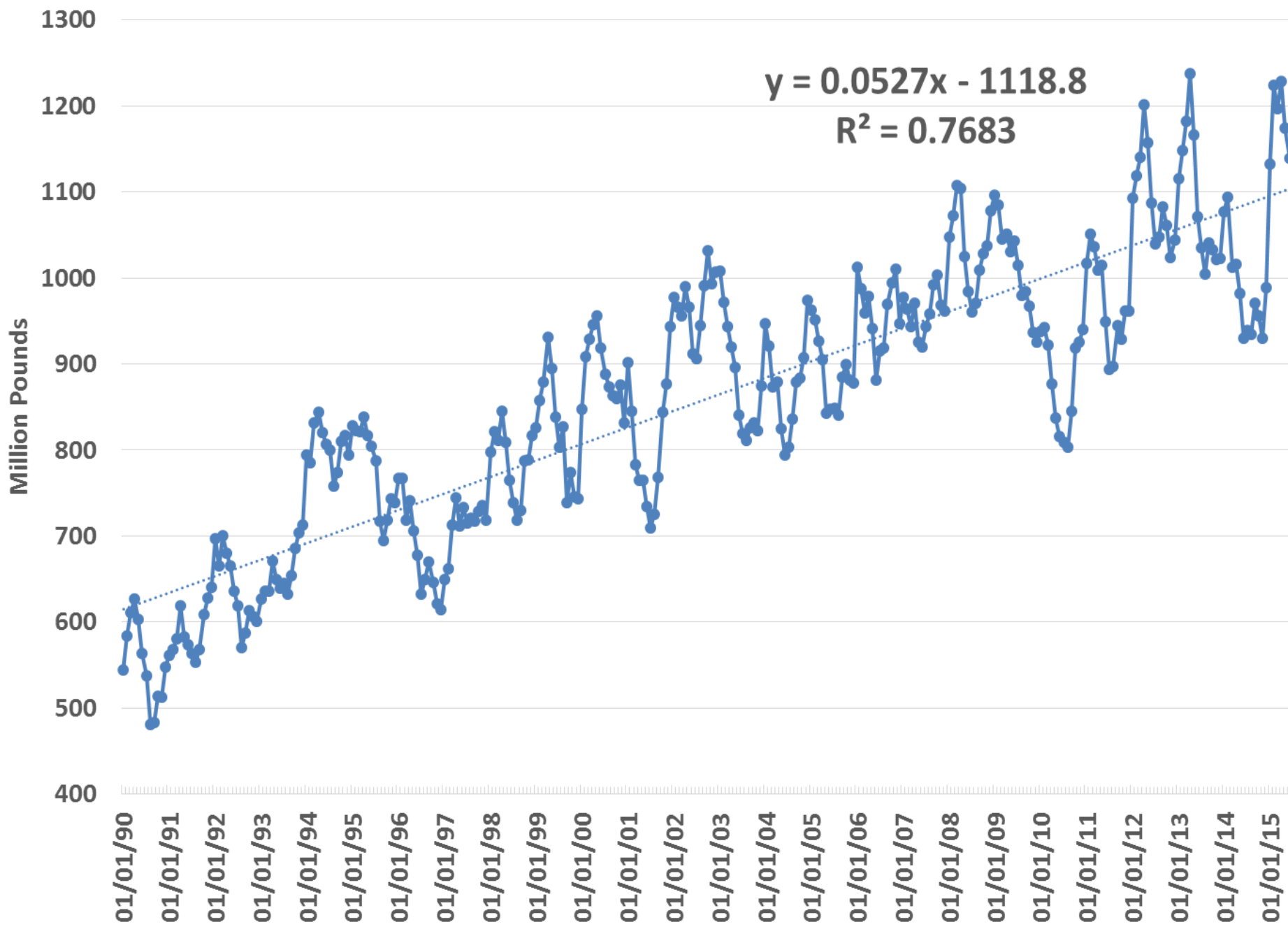


Data Source: USDA/NASS

Livestock Marketing Information Center

M-S-11
07/22/15

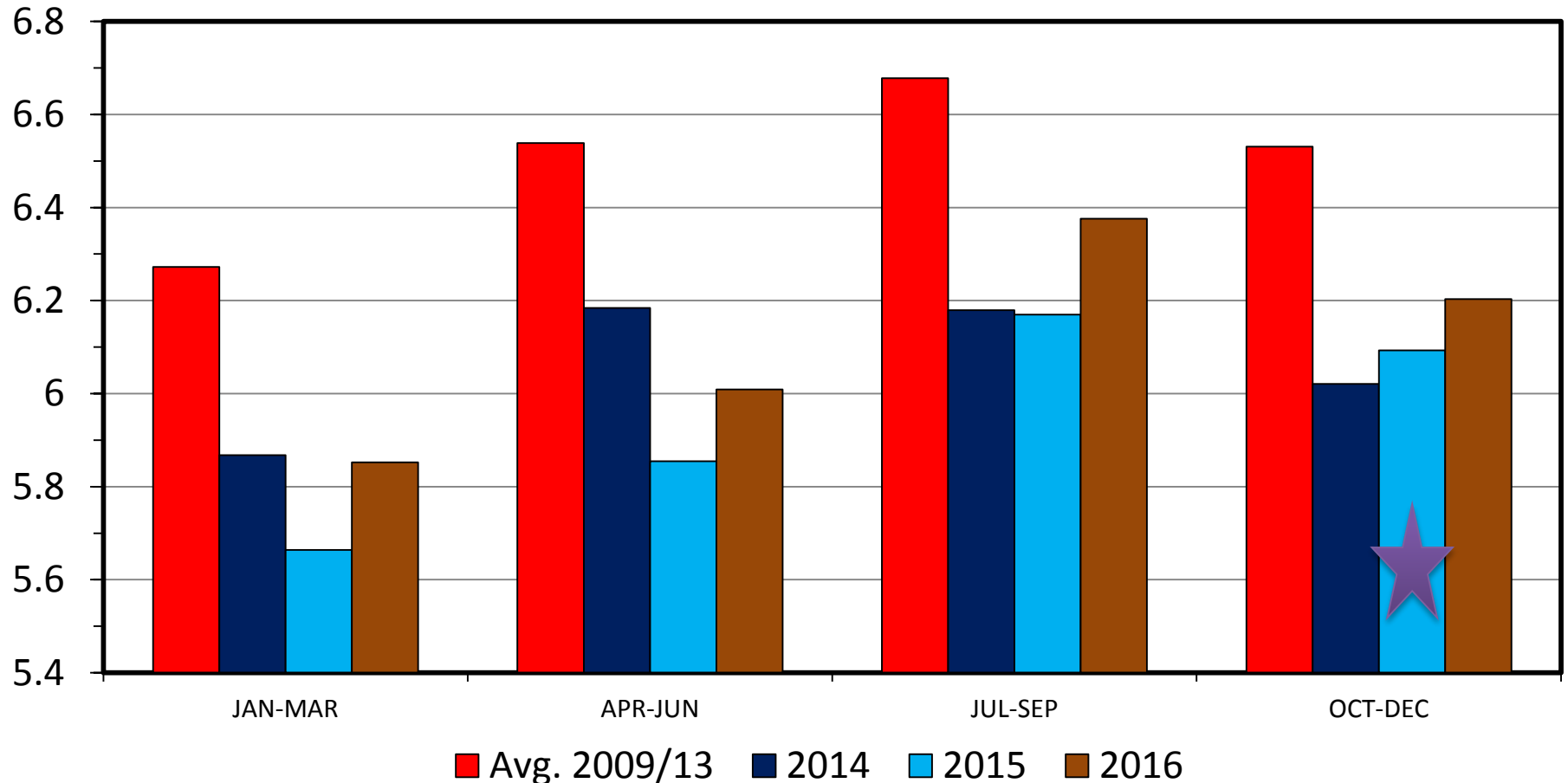
Total Red Meat in Cold Storage (End of Month)



COMMERCIAL BEEF PRODUCTION

US, Quarterly

Bil. Pounds



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

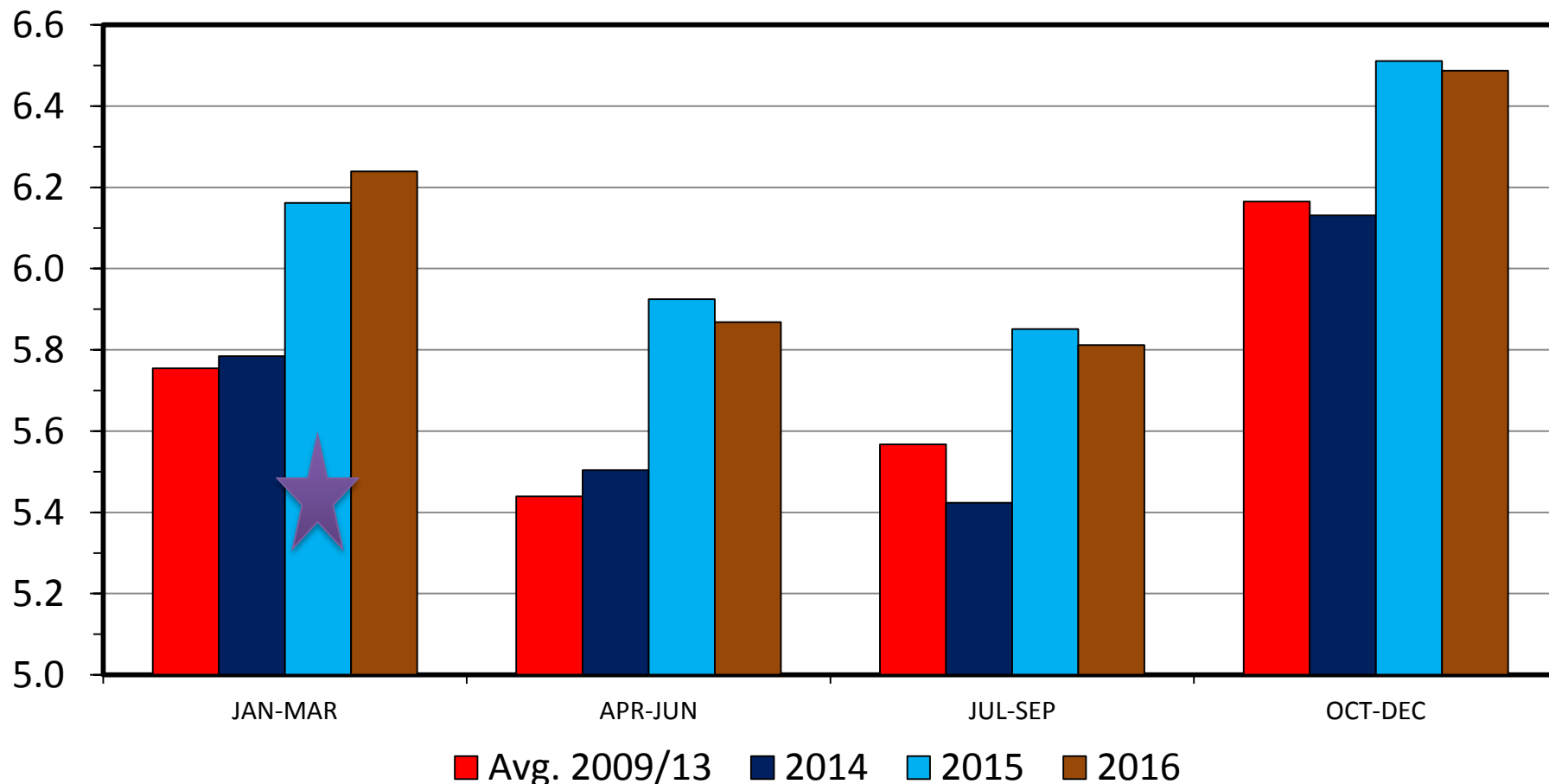
Livestock Marketing Information Center

M-S-01
07/24/15

COMMERCIAL PORK PRODUCTION

US, Quarterly

Bil. Pounds



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

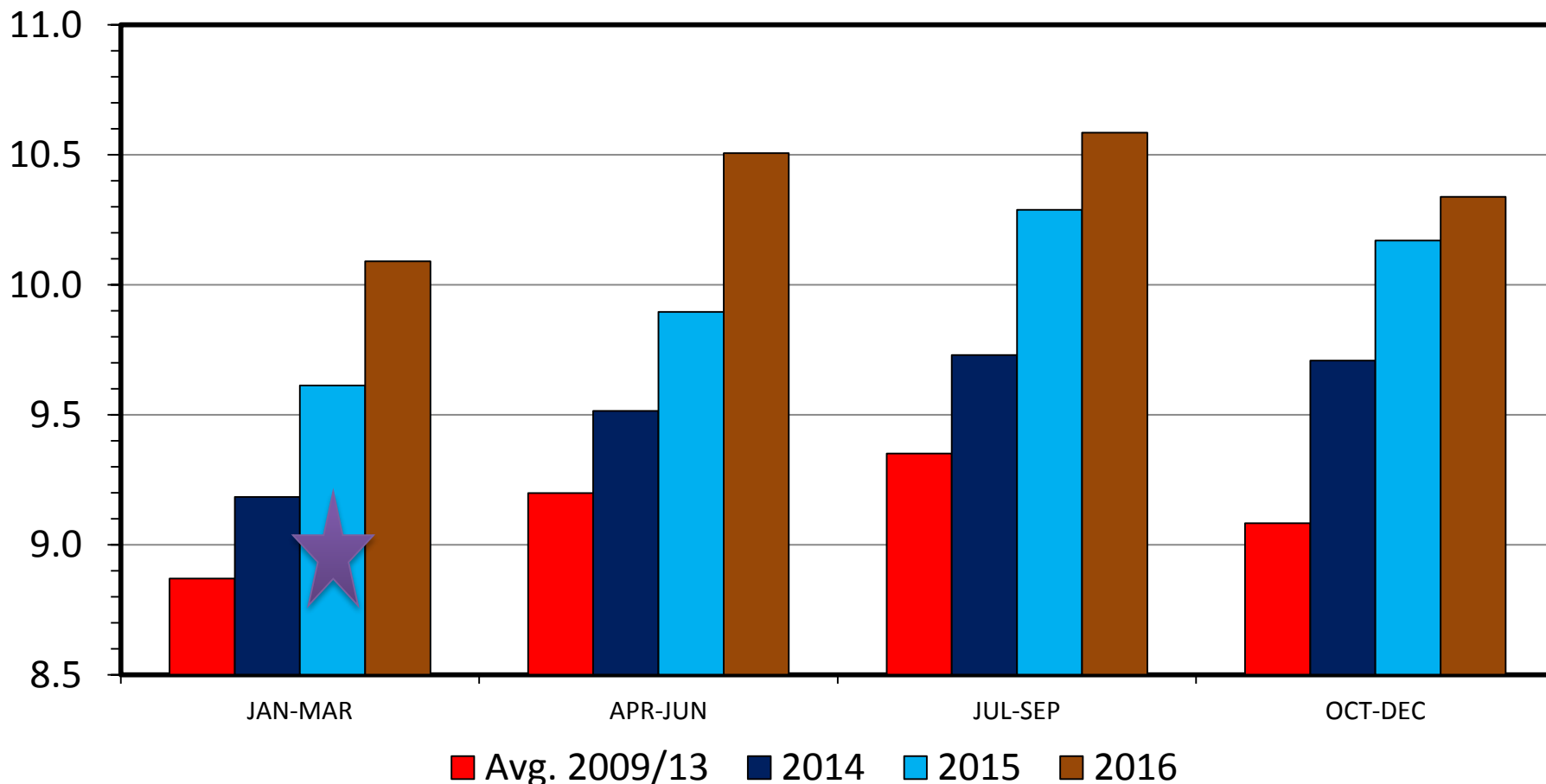
Livestock Marketing Information Center

M-S-06
07/24/15

RTC BROILER PRODUCTION

US, Quarterly

Bil. Pounds



■ Avg. 2009/13 ■ 2014 ■ 2015 ■ 2016

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

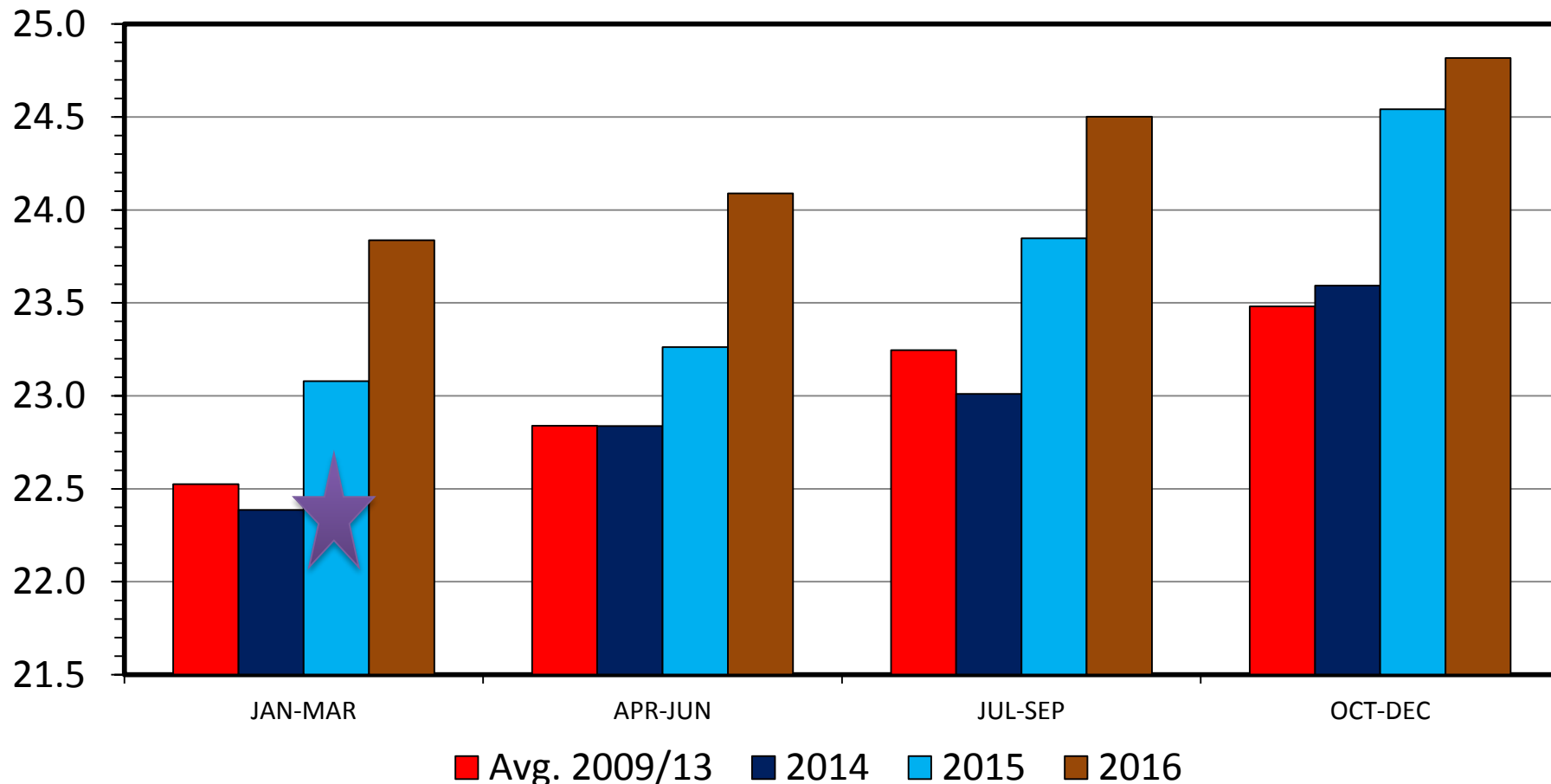
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M-S-30
07/24/15

TOTAL RED MEAT & POULTRY PRODUCTION

US, Quarterly

Bil. Pounds



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

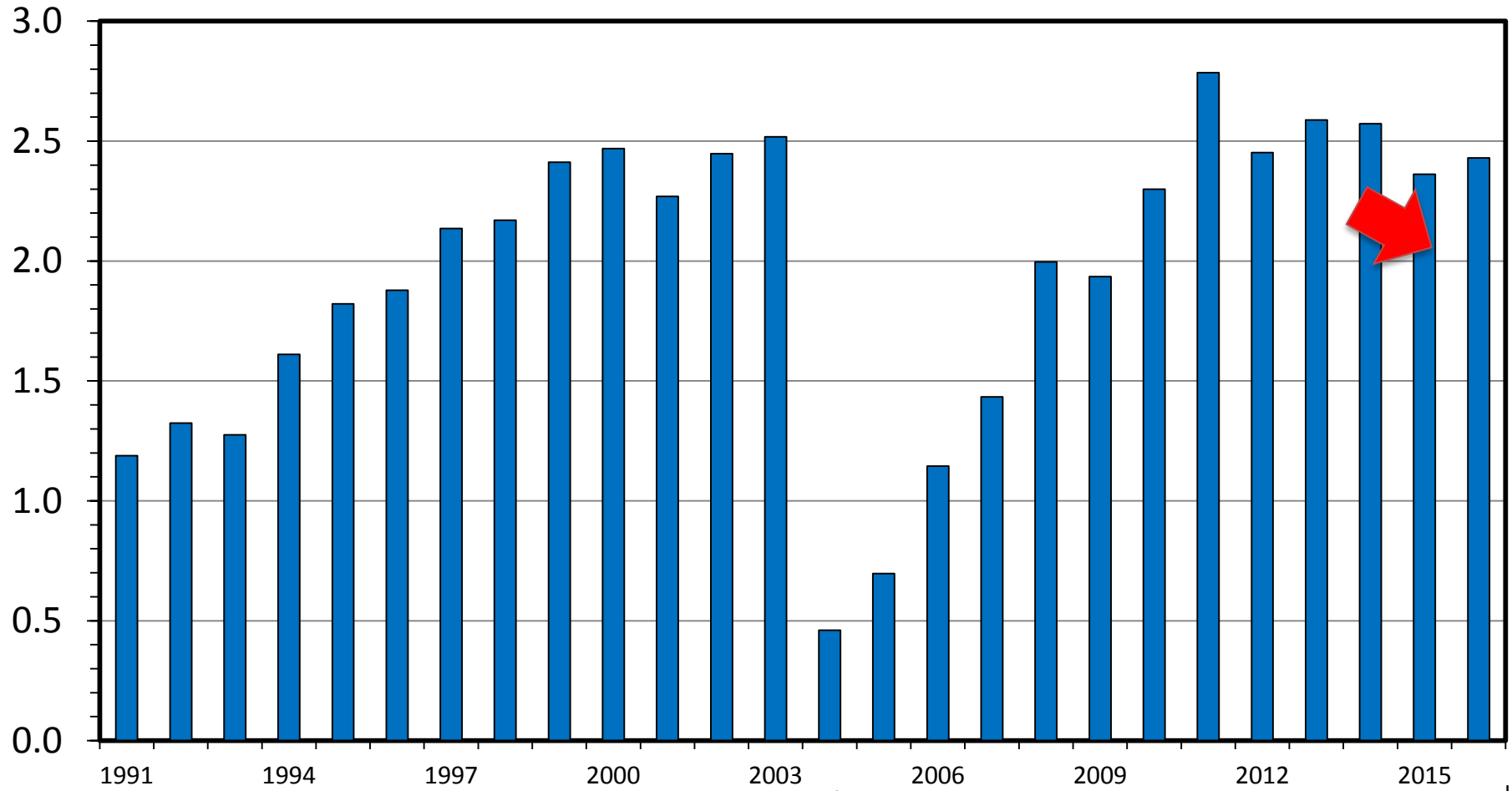
Livestock Marketing Information Center

M-S-31
07/24/15

US BEEF AND VEAL EXPORTS

Carcass Weight, Annual

Bil. Pounds

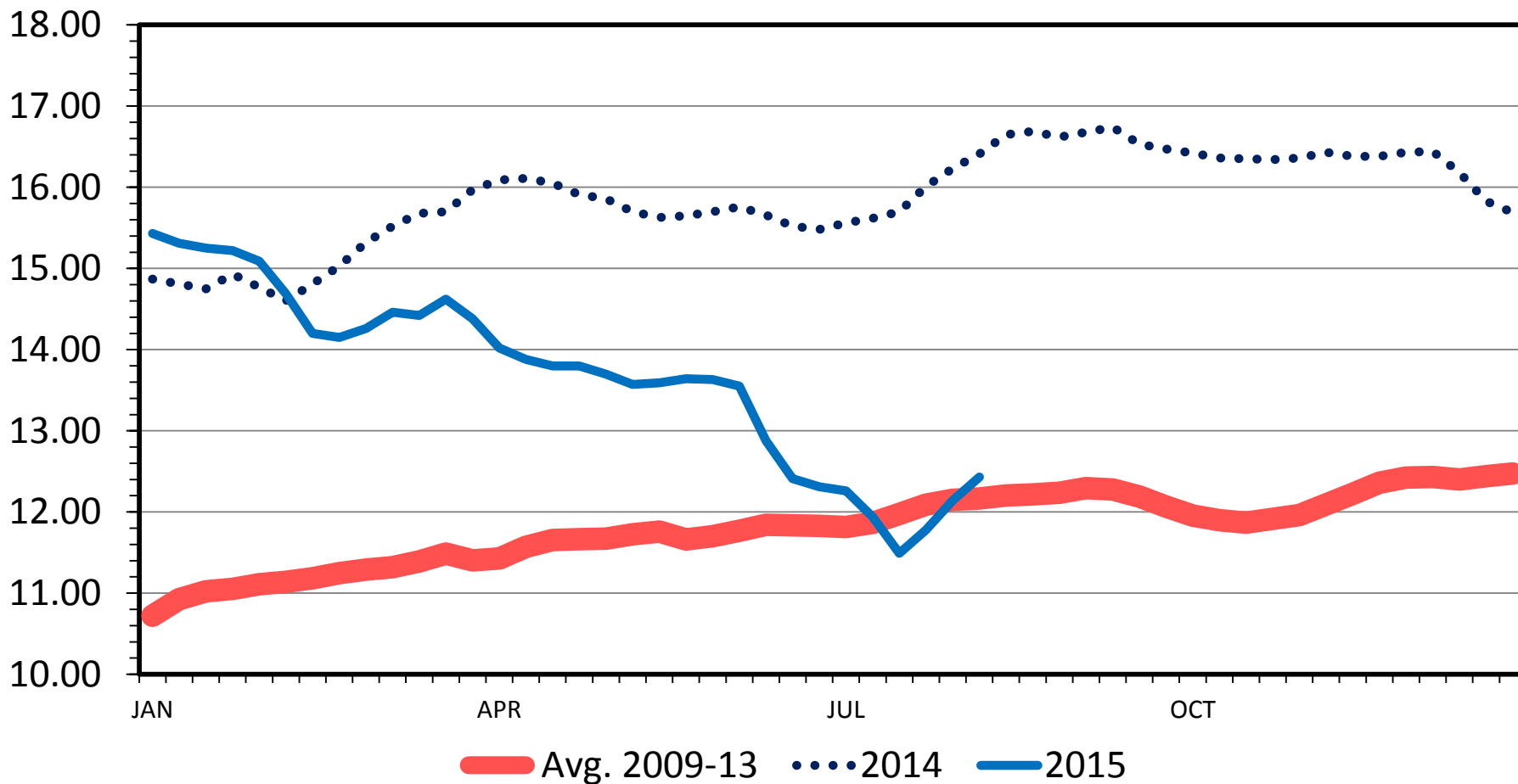


Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by Livestock Marketing Information Center

STEER HIDE AND OFFAL VALUE

Live Animal Basis, Weekly

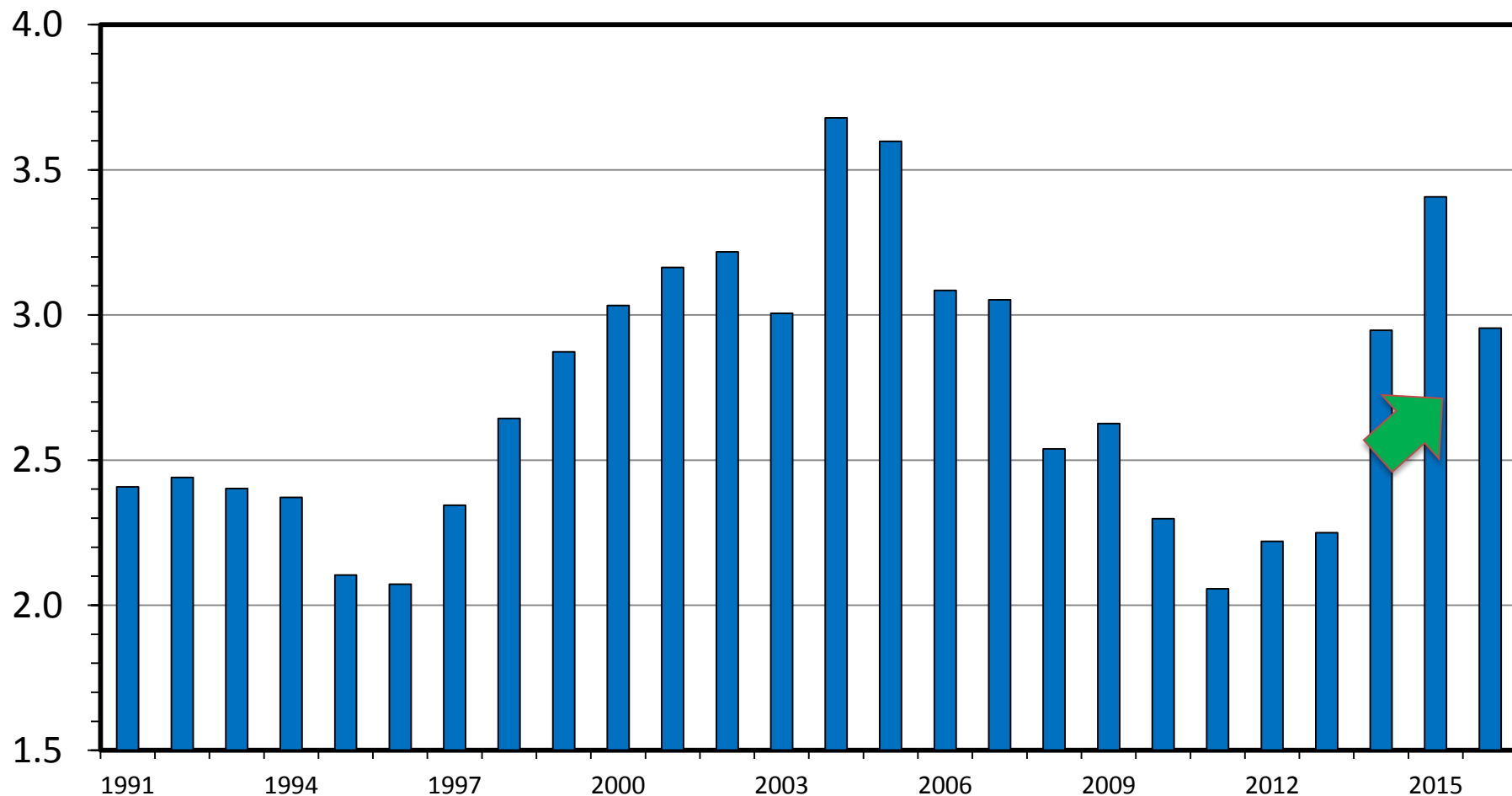
\$ Per Cwt.



US BEEF AND VEAL IMPORTS

Carcass Weight, Annual

Bil. Pounds



Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by Livestock Marketing Information Center

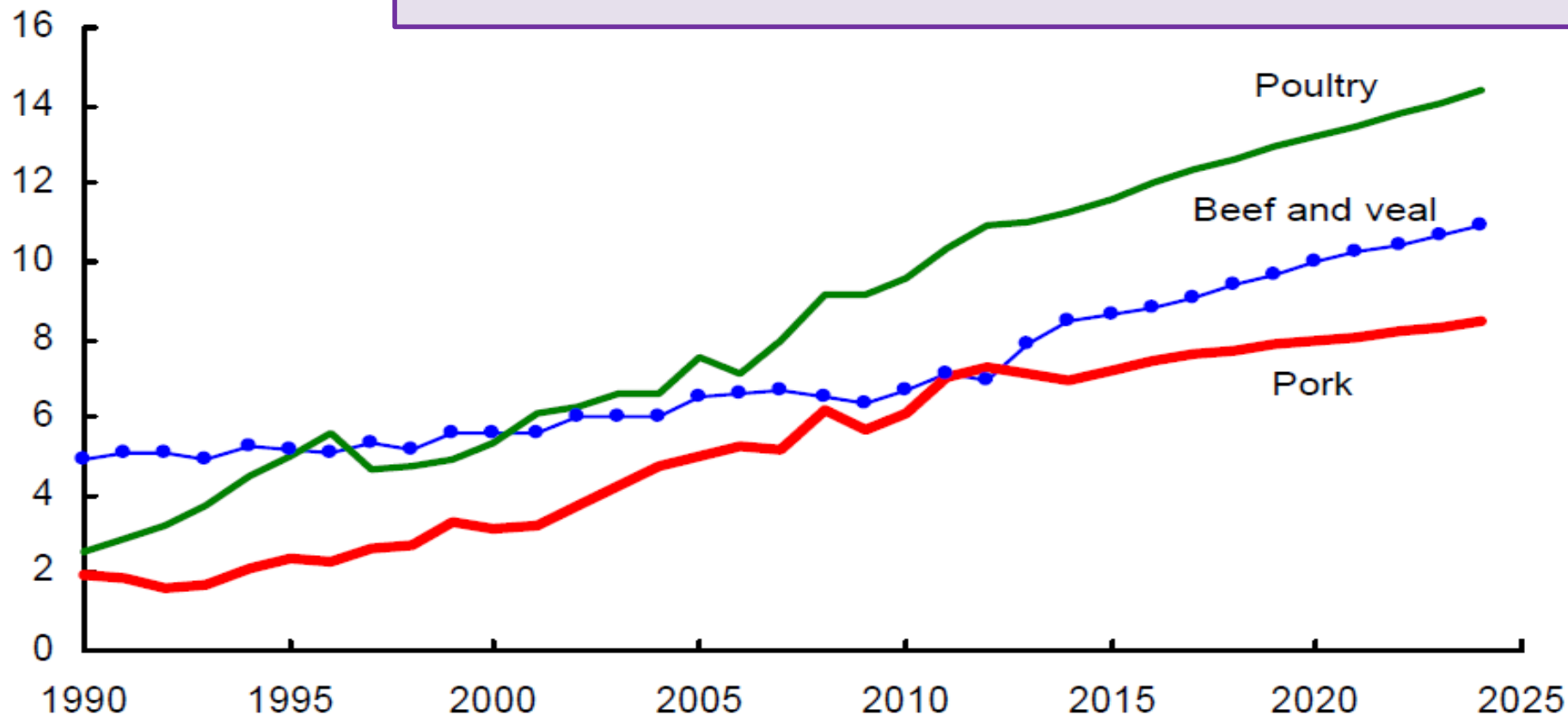
USDA Long-Term projections (2015-2024)

Feb. 11, 2015 report (<http://www.usda.gov/oce/commodity/projections/index.htm>)

Meat exports 1/

Export growth rates: +2.7% beef, +1.6% pork, & +2.2% poultry.

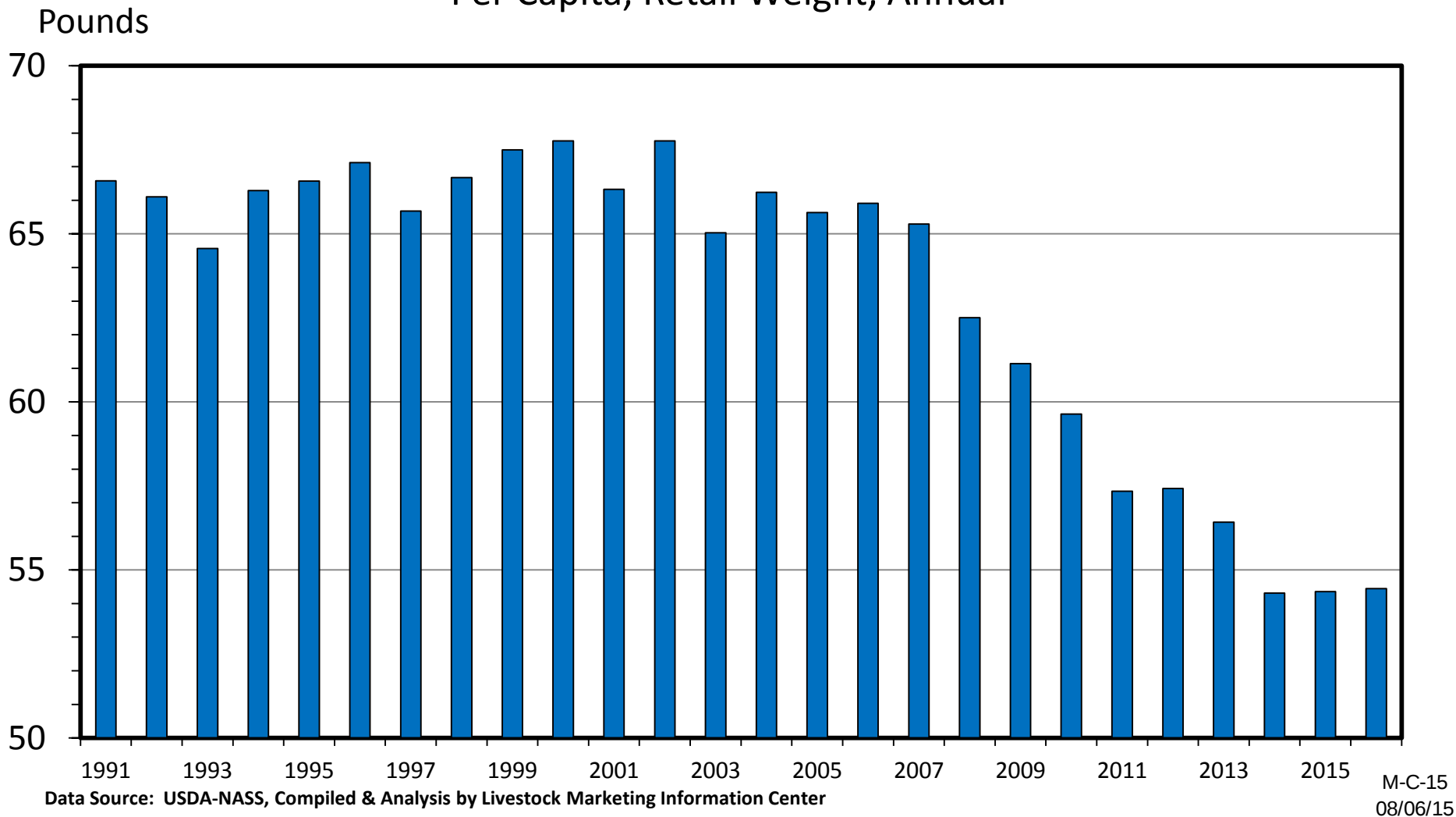
Million metric tons



1/ Major exporters (see tables 14-16).

US BEEF CONSUMPTION

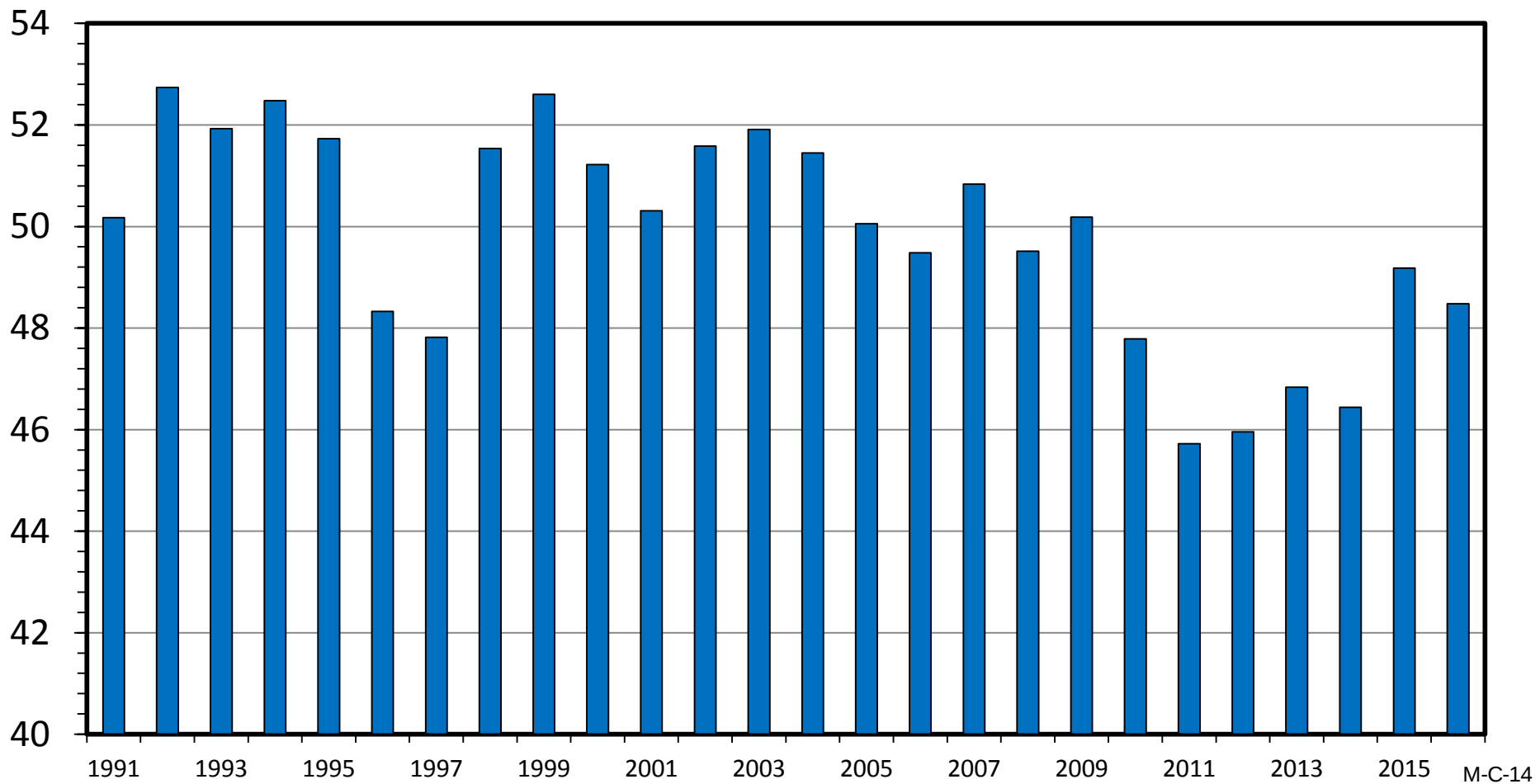
Per Capita, Retail Weight, Annual



US PORK CONSUMPTION

Per Capita, Retail Weight, Annual

Pounds



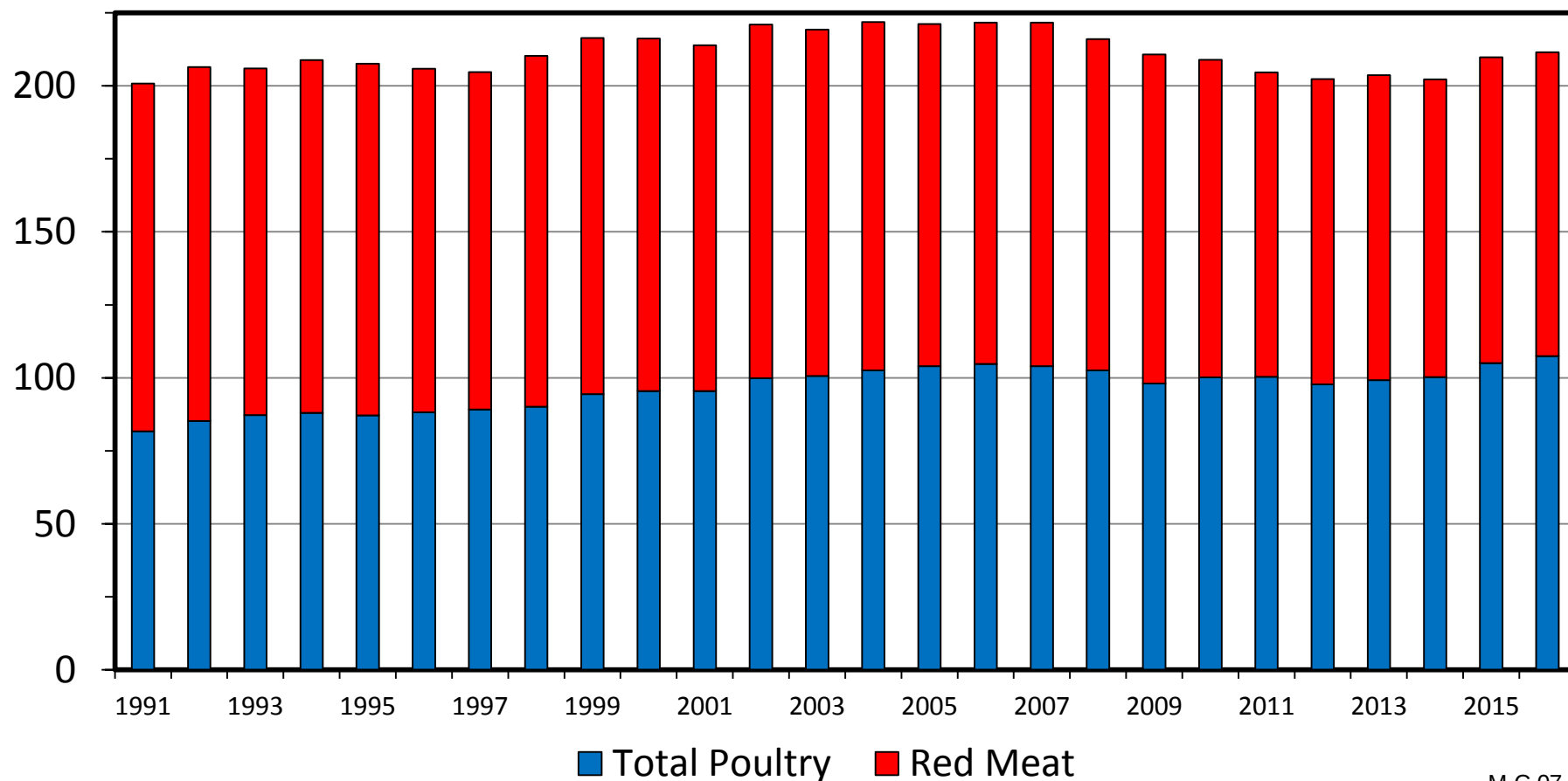
Data Source: USDA-NASS, Compiled & Analysis by Livestock Marketing Information Center

M-C-14
08/06/15

US RED MEAT & POULTRY CONSUMPTION

Per Capita, Retail Weight, Annual

Pounds



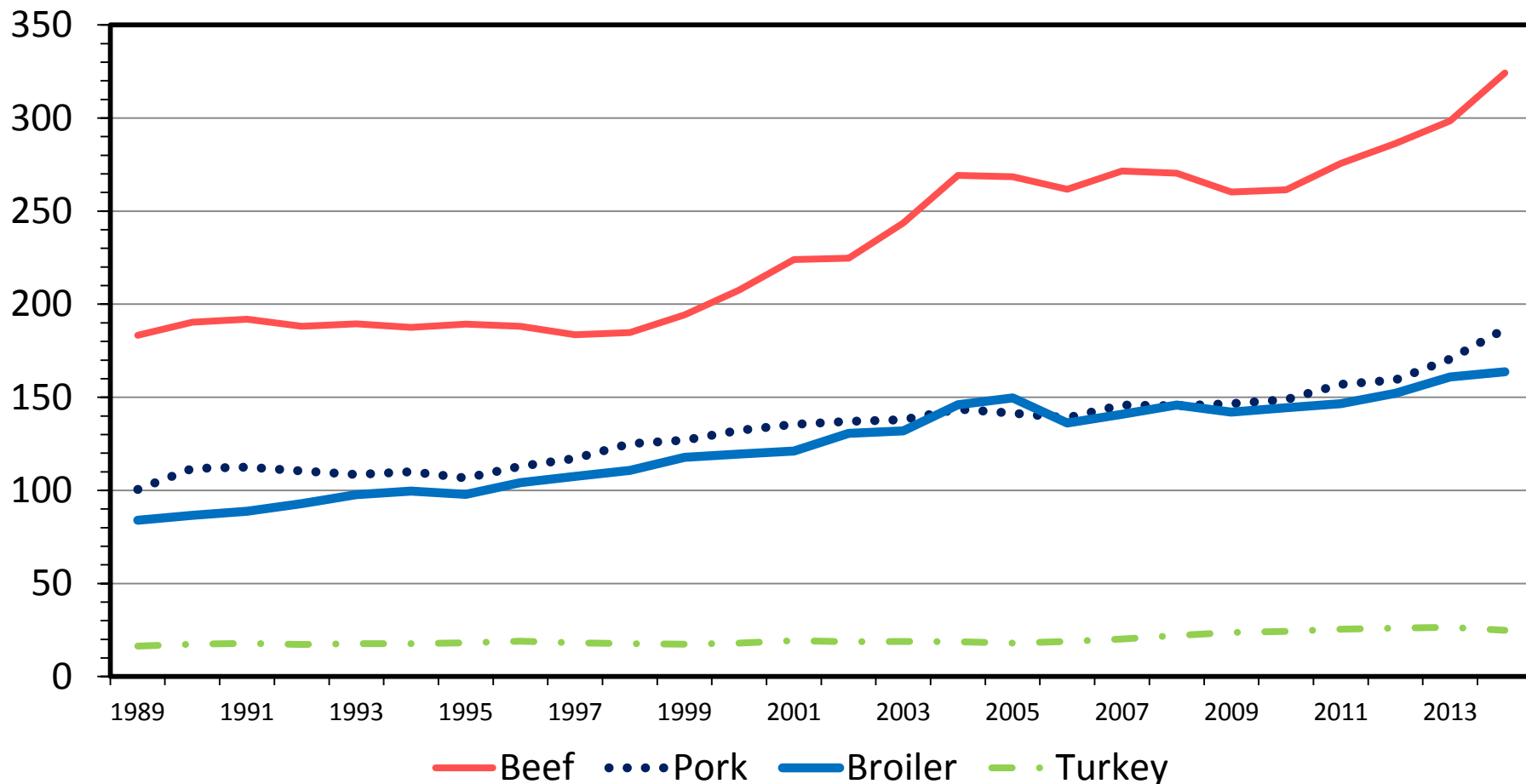
Data Source: USDA-NASS, Compiled & Analysis by Livestock Marketing Information Center

M-C-07
08/06/15

US EXPENDITURES FOR MEAT & POULTRY

Per Capita, By Type of Meat, Annual

Nominal Dollars



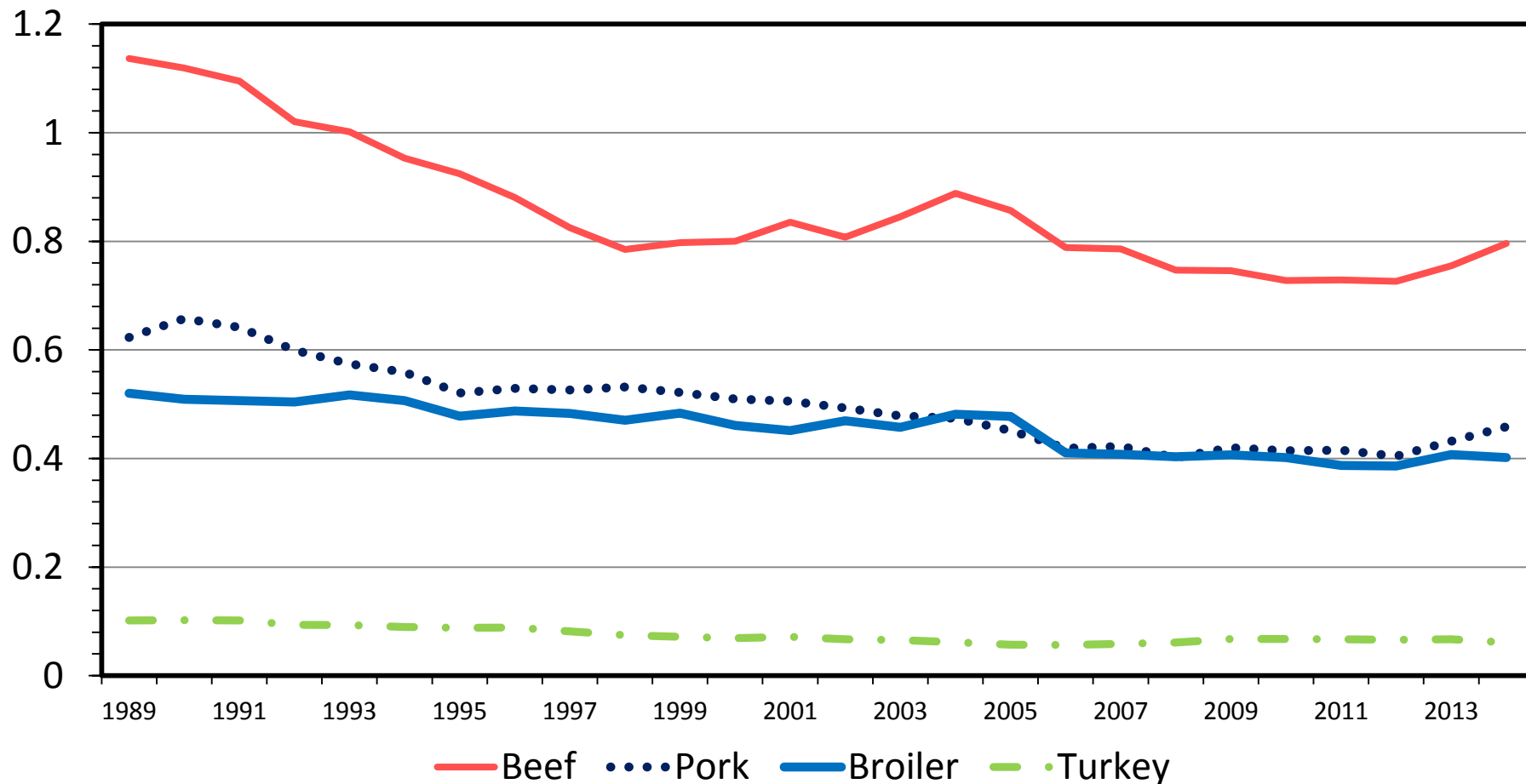
Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled & Analysis by Livestock Marketing Information Center

M-C-16B
08/06/15

US EXPENDITURES FOR MEAT & POULTRY

Percent of Disposable Income

Percent



Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled & Analysis by Livestock Marketing Information Center

M-C-16
08/06/15

USDA Long-Term projections (2015-2024)

Feb. 11, 2015 report (<http://www.usda.gov/oce/commodity/projections/index.htm>)

	Recent		NEXT 5 YEARS					10 Yrs Out
Per capita meat consumption, retail weight								
Item	2013	2014	2015	2016	2017	2018	2019	2024
	Pounds							
Beef	56.3	54.6	52.2	49.4	48.5	49.1	49.8	52.4
Pork	46.8	45.3	46.6	48.5	48.8	49.1	49.3	49.5
Total red meat	104.4	101.1	99.9	99.0	98.4	99.3	100.1	102.9
Broilers	81.9	83.4	85.4	86.7	88.1	89.2	90.2	93.1
Turkeys	16.0	15.7	15.8	16.2	16.5	16.7	16.8	17.3
Total poultry	99.2	100.3	102.5	104.2	106.0	107.3	108.4	111.9
Red meat & poultry	203.6	201.4	202.3	203.2	204.4	206.5	208.5	214.8

USDA Long-Term projections (2015-2024)

Feb. 11, 2015 report (<http://www.usda.gov/oce/commodity/projections/index.htm>)

Recent

NEXT 5 YEARS

10 Yrs Out

Per capita meat consumption, retail weight

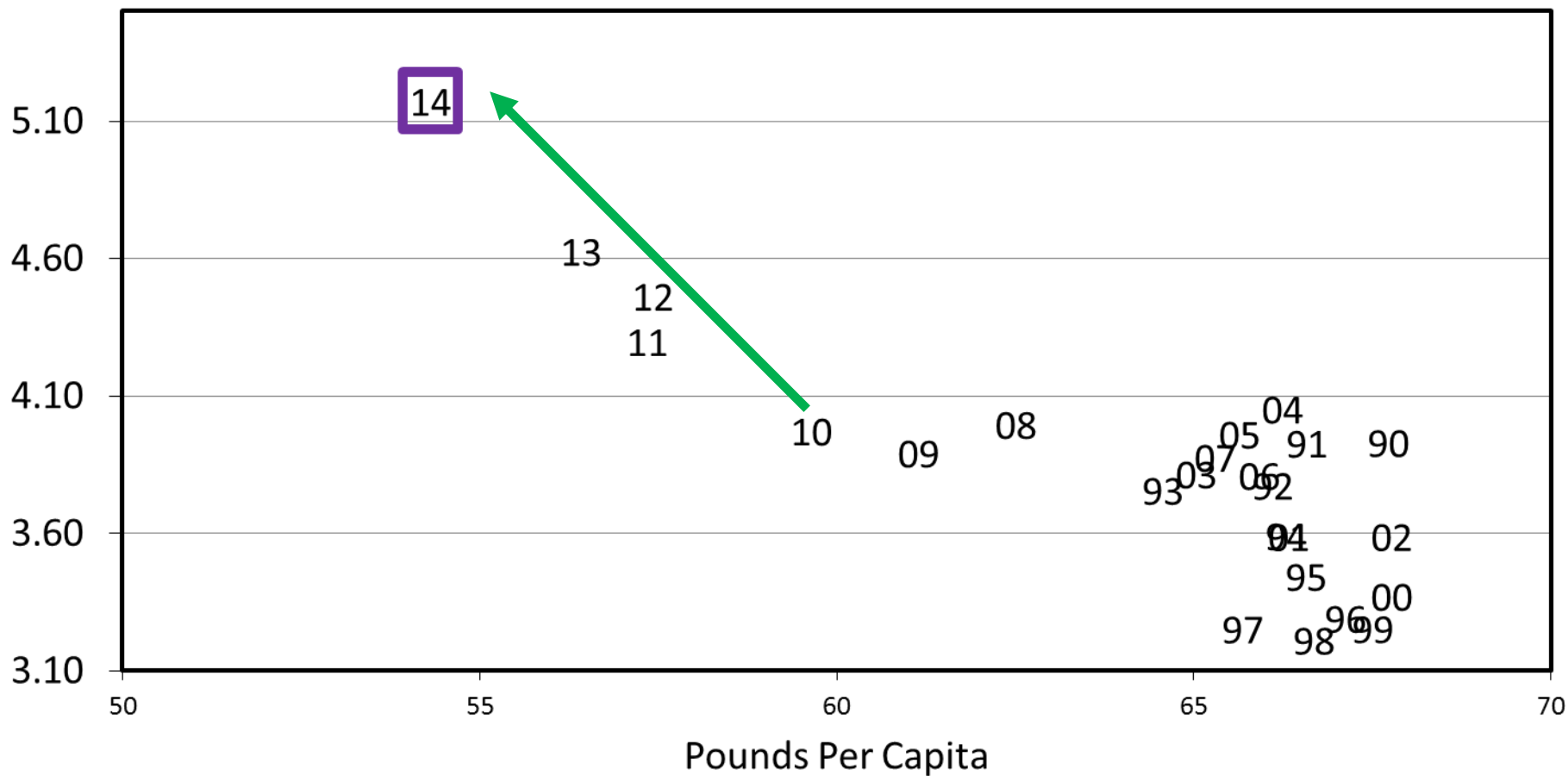
	Red Meat	Poultry	Total
1995	120	87	208
2008	113	103	216
2013	104	99	204
2014	102	100	202
2015	105	105	210
2024	103	112	215

**2024 (215 lbs) <
2008 (216 lbs)**

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

\$ Per Pound



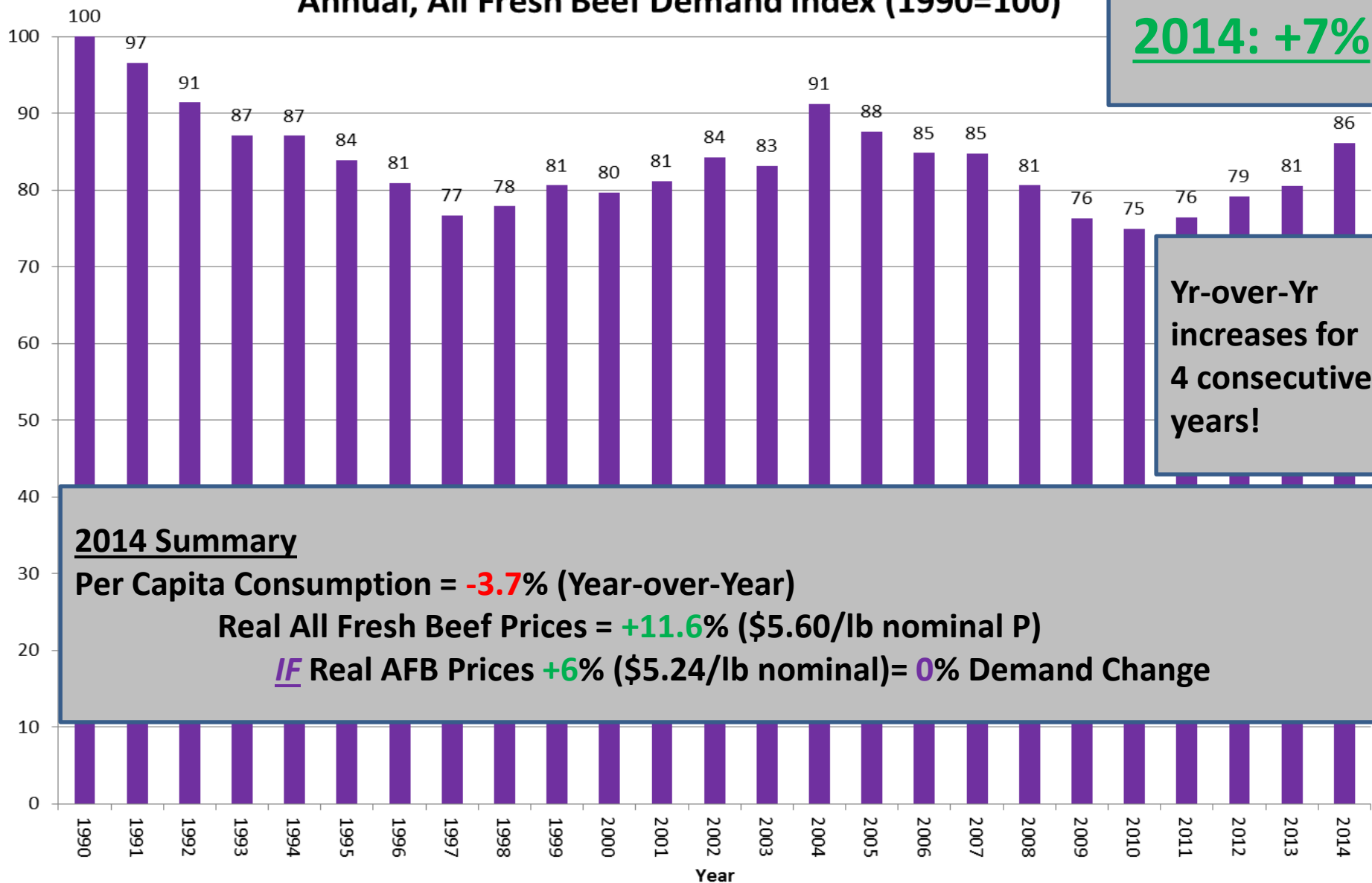
Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled and Analysis by LMIC
Livestock Marketing Information Center

C-P-65A
03/04/15

Annual, All Fresh Beef Demand Index (1990=100)

2014: +7%

Demand Index (1990=100)



**Yr-over-Yr
increases for
4 consecutive
years!**

2014 Summary

Per Capita Consumption = -3.7% (Year-over-Year)

Real All Fresh Beef Prices = +11.6% (\$5.60/lb nominal P)

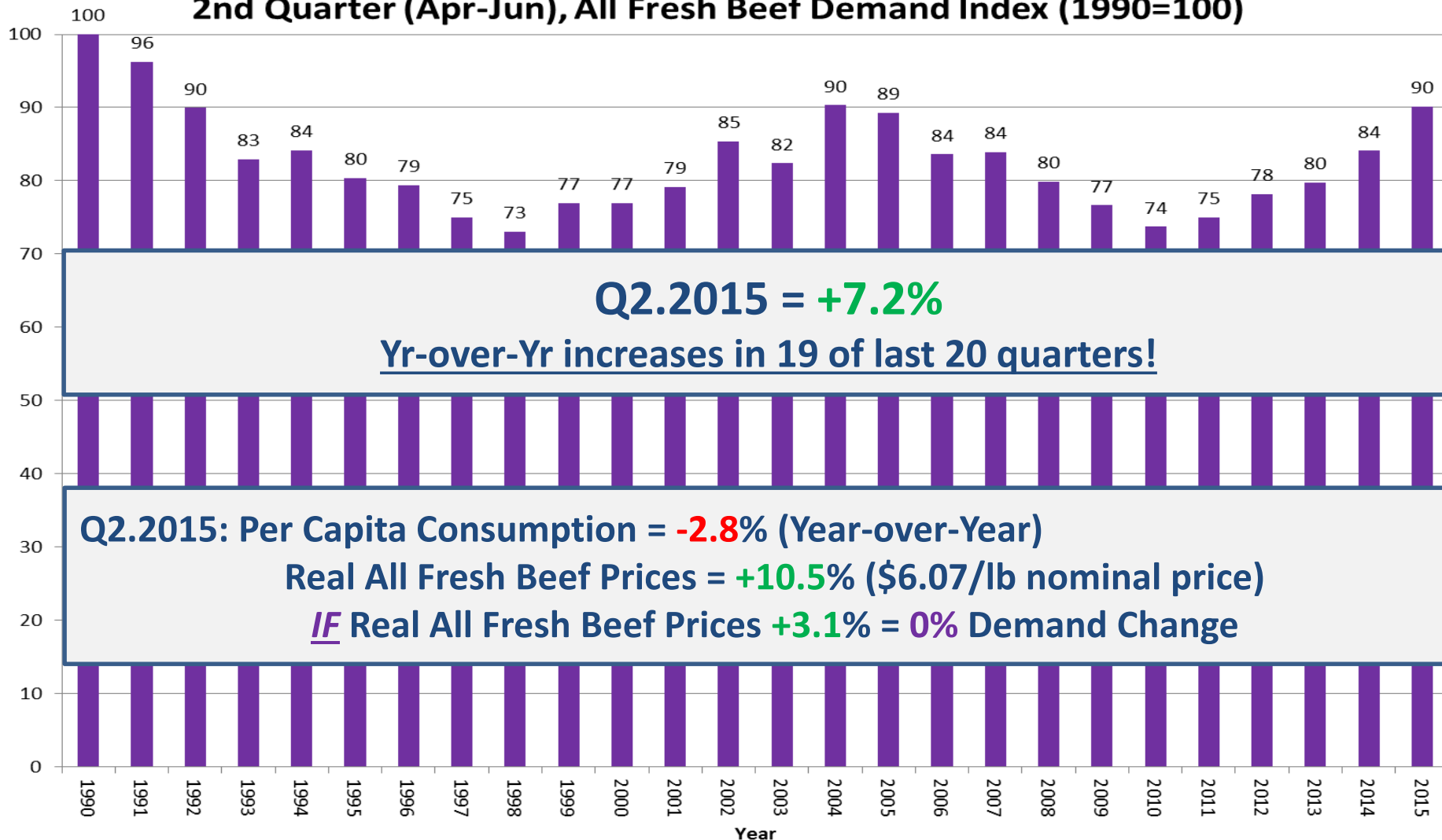
IF Real AFB Prices +6% (\$5.24/lb nominal)= 0% Demand Change

Source: Glynn T. Tonsor, Kansas State University, Jan. 2015

<http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>

2nd Quarter (Apr-Jun), All Fresh Beef Demand Index (1990=100)

Demand Index (1990=100)



Source: Glynn T. Tonsor, Kansas State University, July 2015

<http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>

Take-Home Summary Points

- Industry at tipping point on role of tight supplies
- Demand's role will become clearer going forward
- Identifying & acting upon comparative advantage will increasingly be key!

Issues We Could Discuss...

- Physical Capacity/Infrastructure
- Regional shifts in production
- Avian Influenza & PEDv
- Mandatory Country of Origin Labeling
- Persistence of 2015 Export “constraints”
- Public acceptance of new food technology
 - And many more.....

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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