

Risk & Profit CONFERENCE



K-State Dept. of Agricultural Economics

August 21-22, 2014

K-State Alumni Center
Manhattan, KS

Ag Policy: Here,
There, Everywhere

KANSAS STATE
UNIVERSITY
Department of Agricultural Economics

Livestock Industry Outlook Overview

Glynn Tonsor
Dept. of Agricultural Economics
Kansas State University

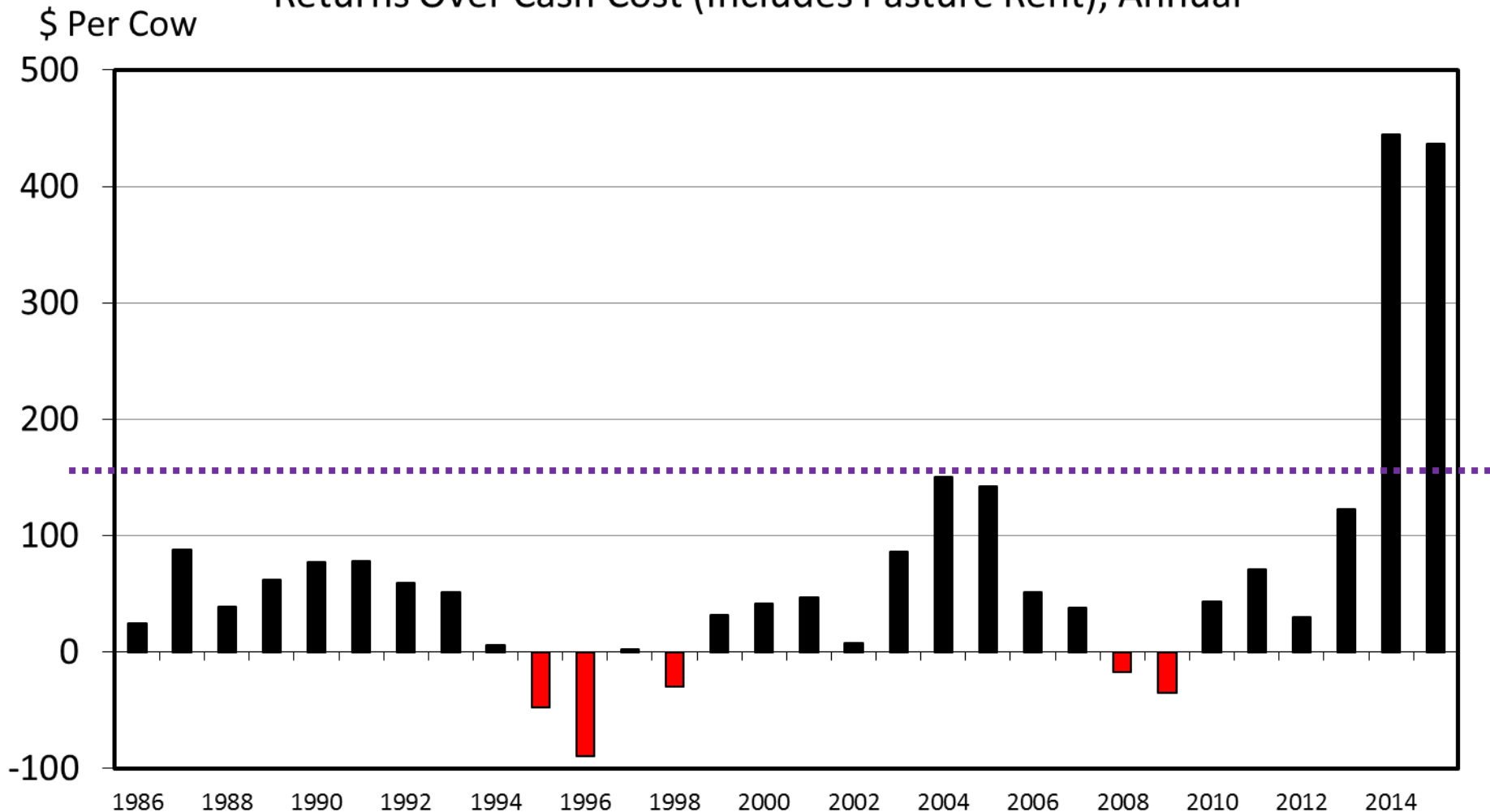


Overarching Beef Industry Economic Outlook

- Supplies
 - Continued pull down, both in # of head & beef lbs
 - Mixed expansion signals
- Demand
 - Confusing yet positive: Q2.2014 best since Q4.2004
 - Reinforced by record setting pork demand
- Combined:
 - “Historic” price levels, excitement, & uncertainty...

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



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

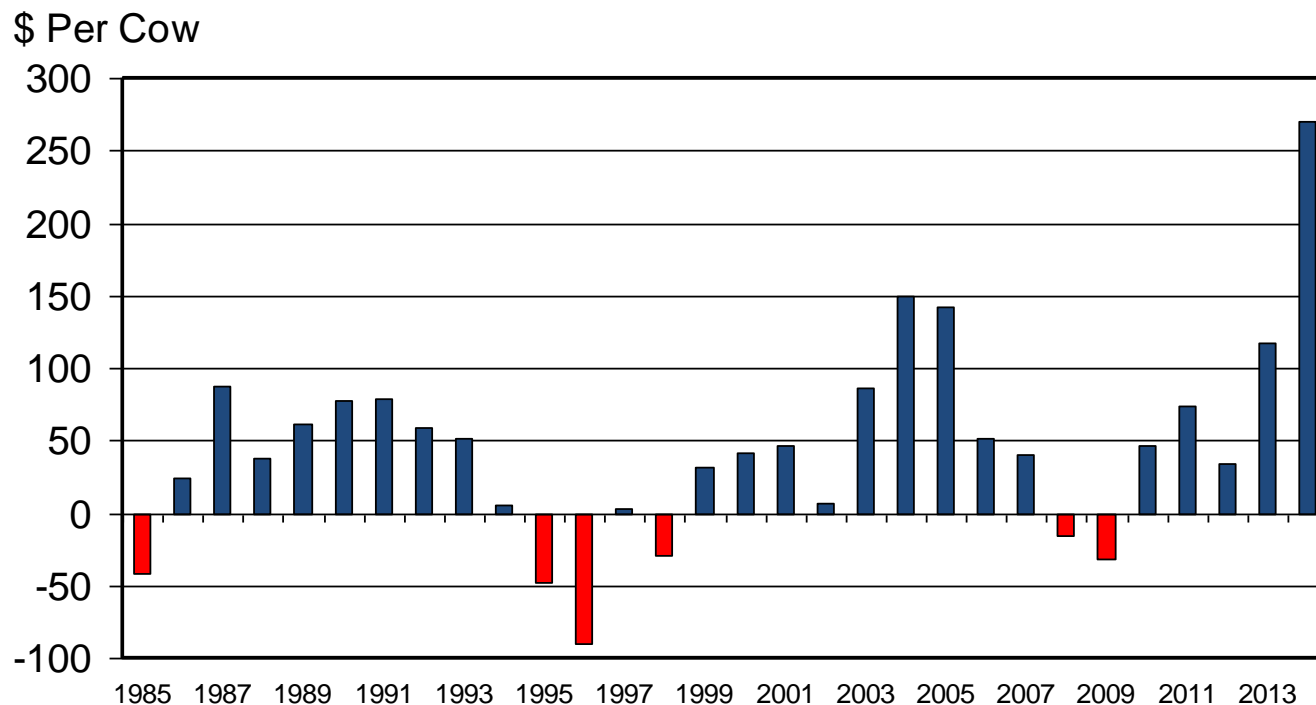
Livestock Marketing Information Center

C-P-66

07/16/14

What will it take to trigger herd expansion?

ESTIMATED AVERAGE COW CALF RETURNS Returns Over Cash Cost (Includes Pasture Rent), Annual



Livestock Marketing Information Center

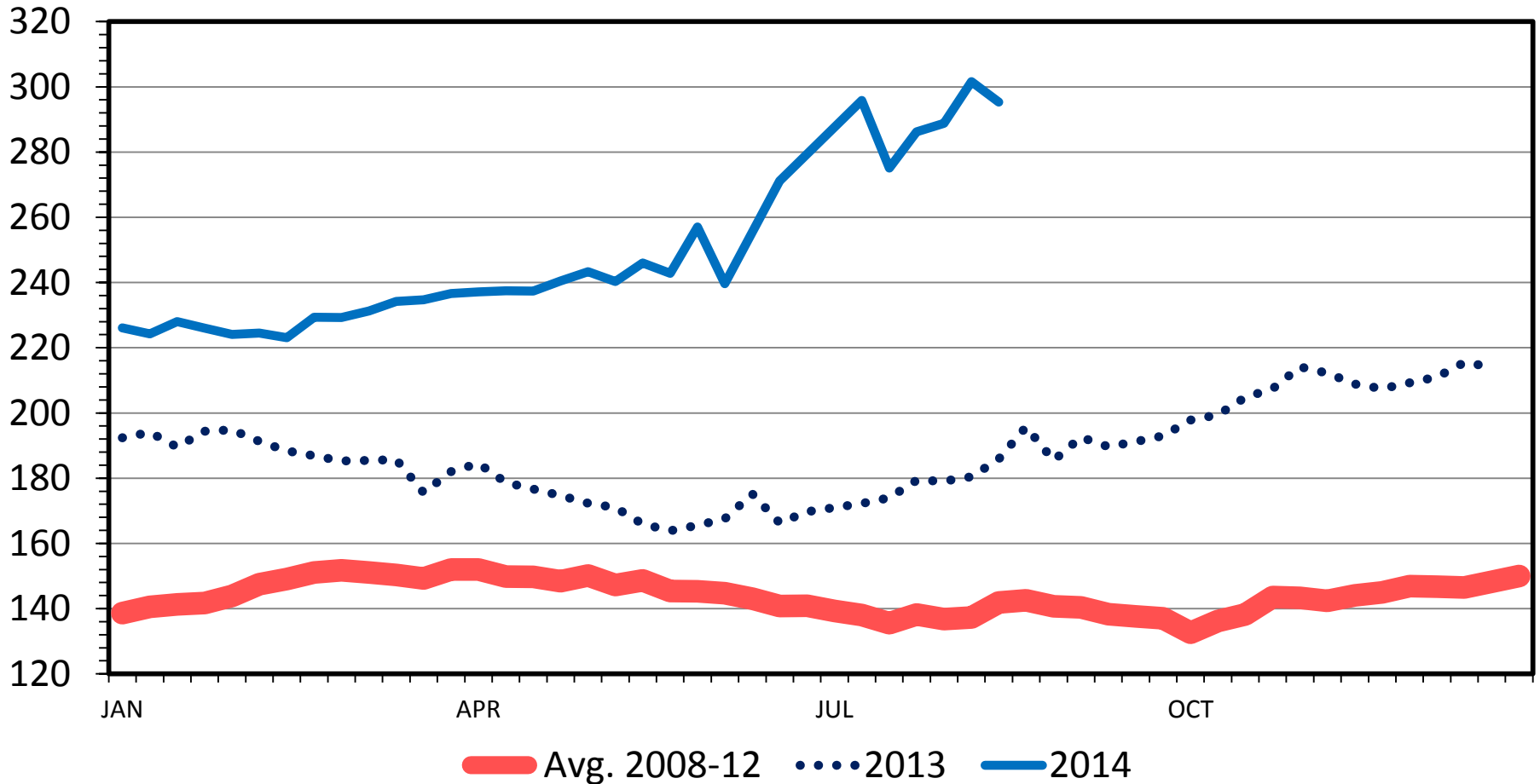
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
07/31/13

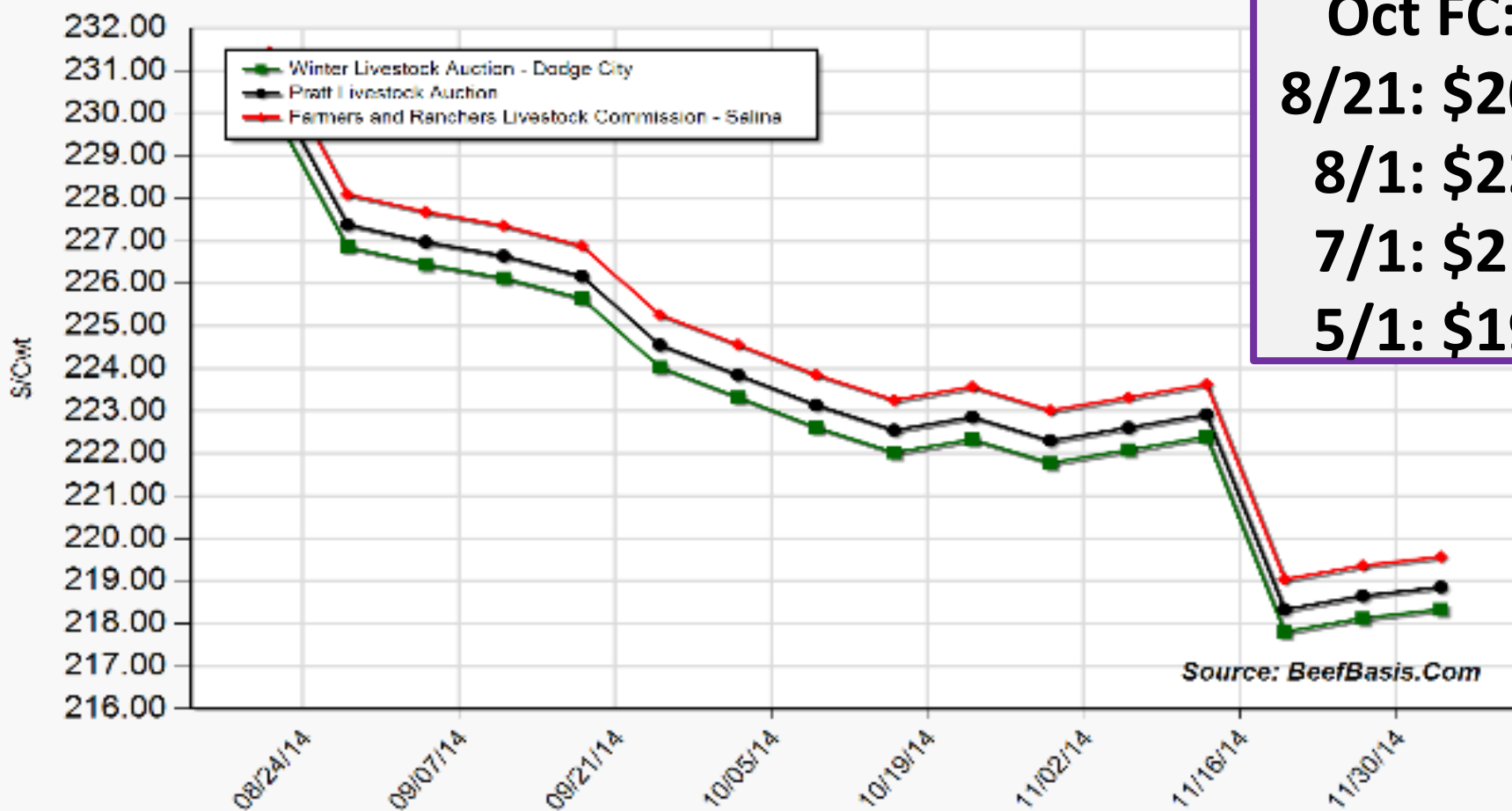
MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

\$ Per Cwt.



Projected Price for 550 Lb Steer at Selected Kansas Auctions

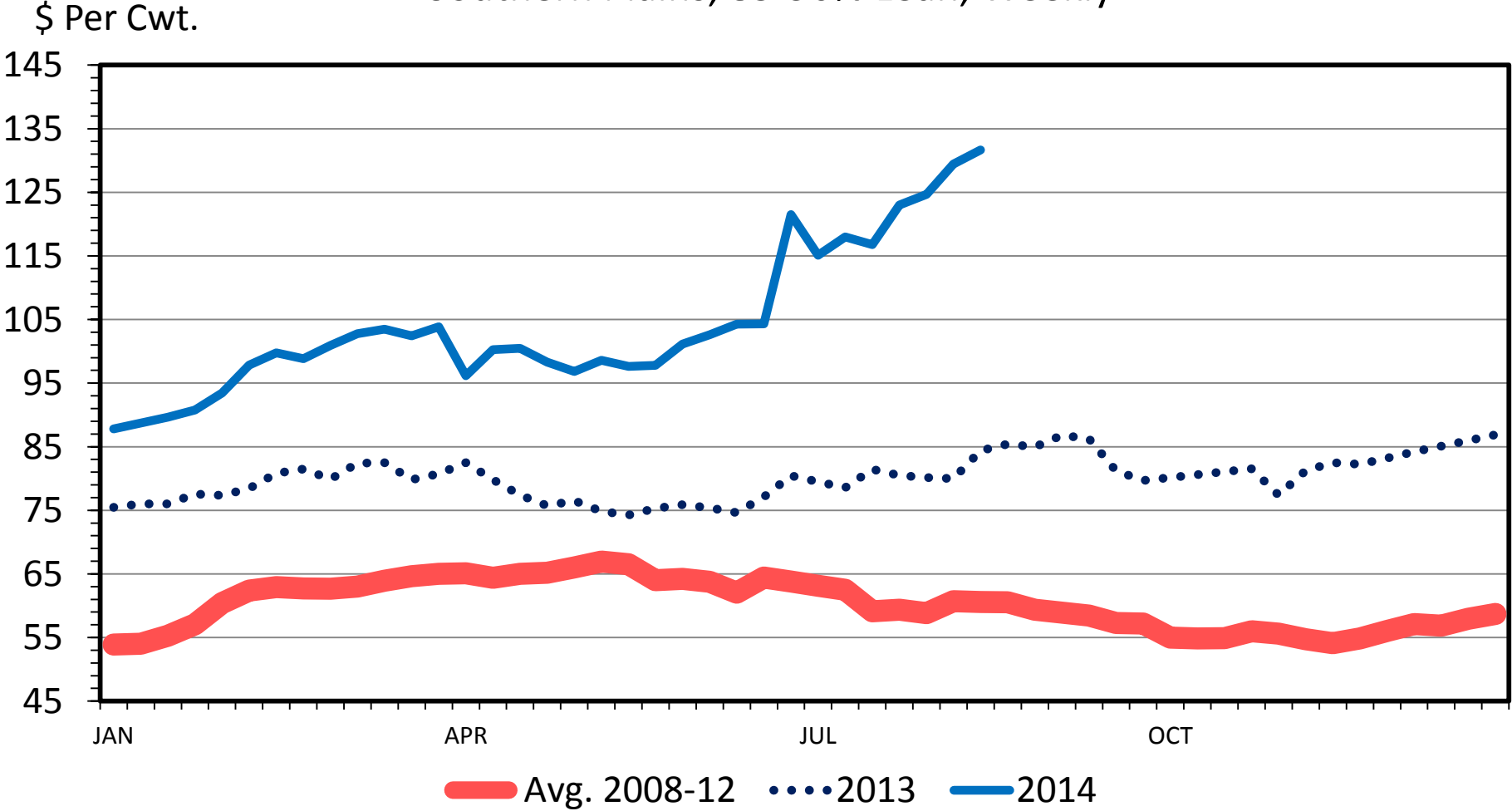


Oct FC:
8/21: \$209
8/1: \$220
7/1: \$215
5/1: \$190

Source: BeefBasis.Com

SLAUGHTER COW PRICES

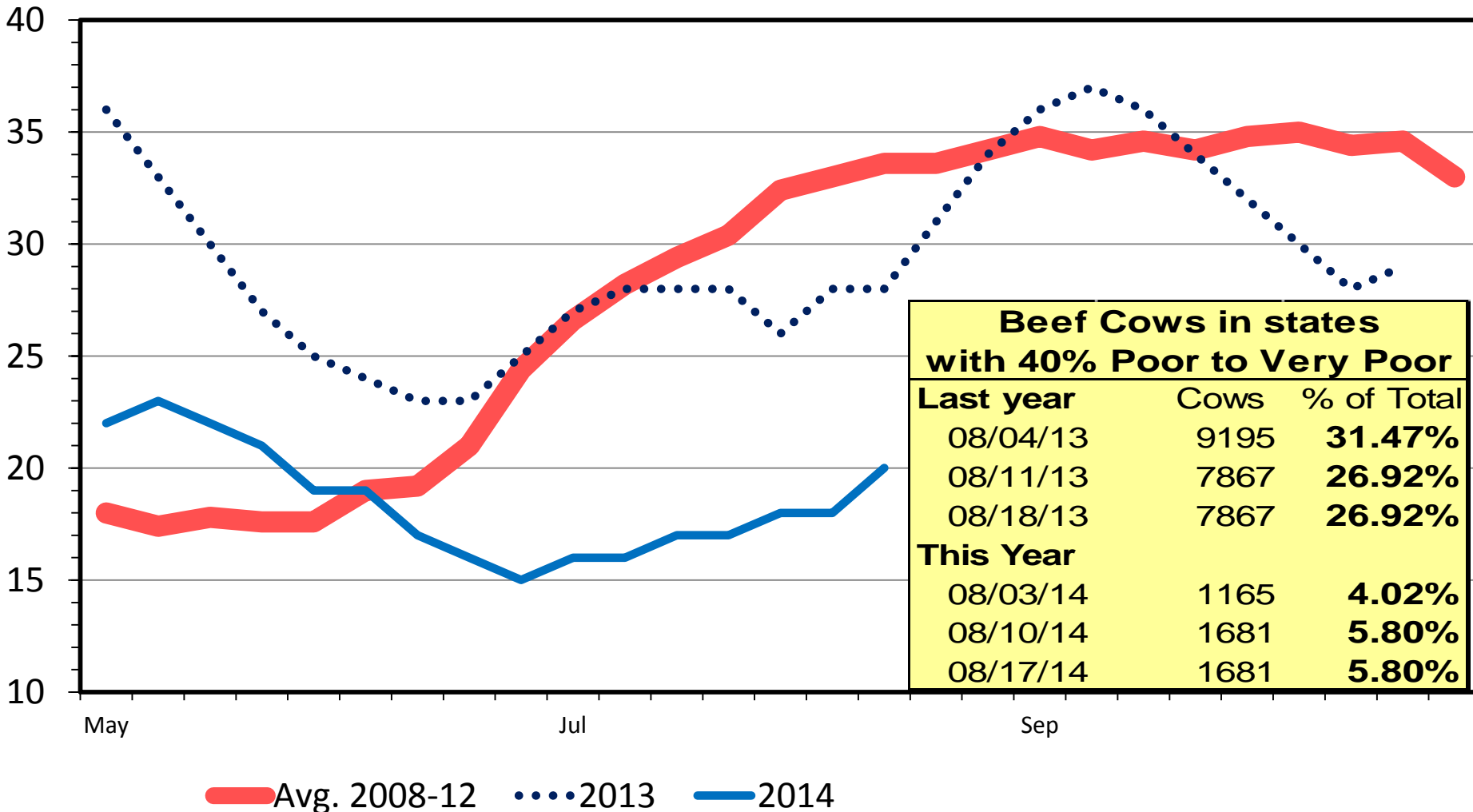
Southern Plains, 85-90% Lean, Weekly



US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

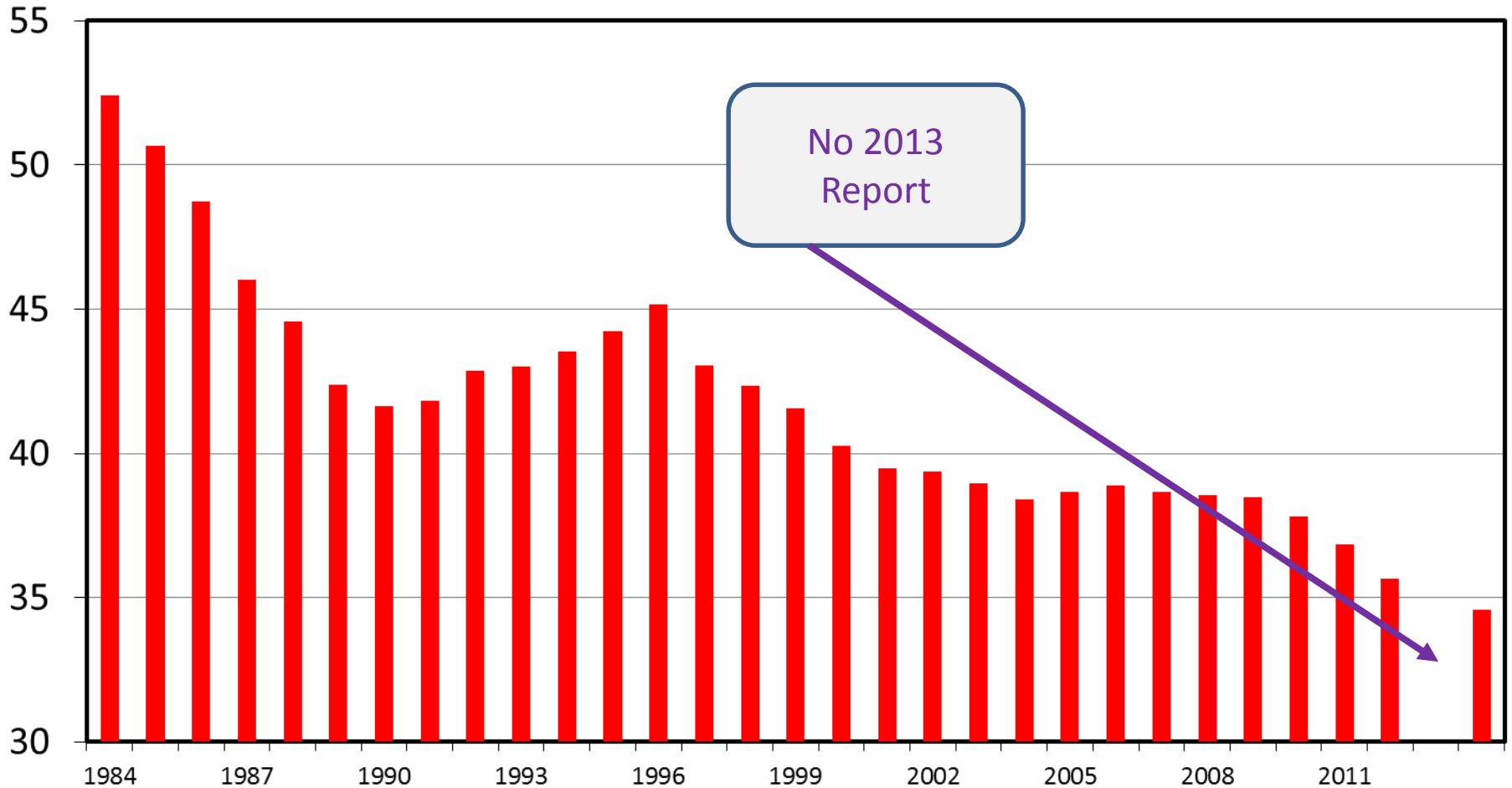
Percent



JULY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

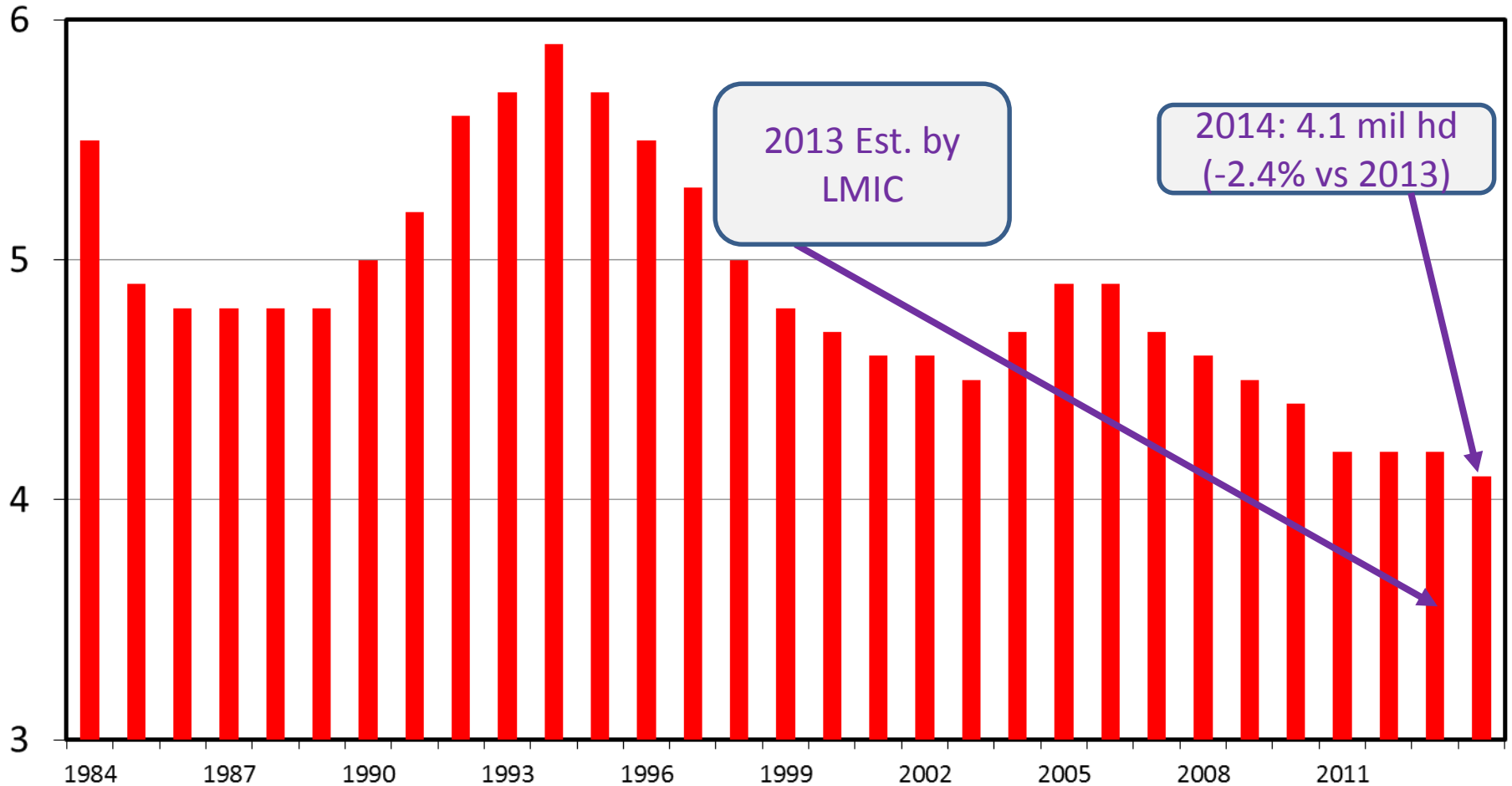
C-N-32

07/28/14

HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.

Mil. Head



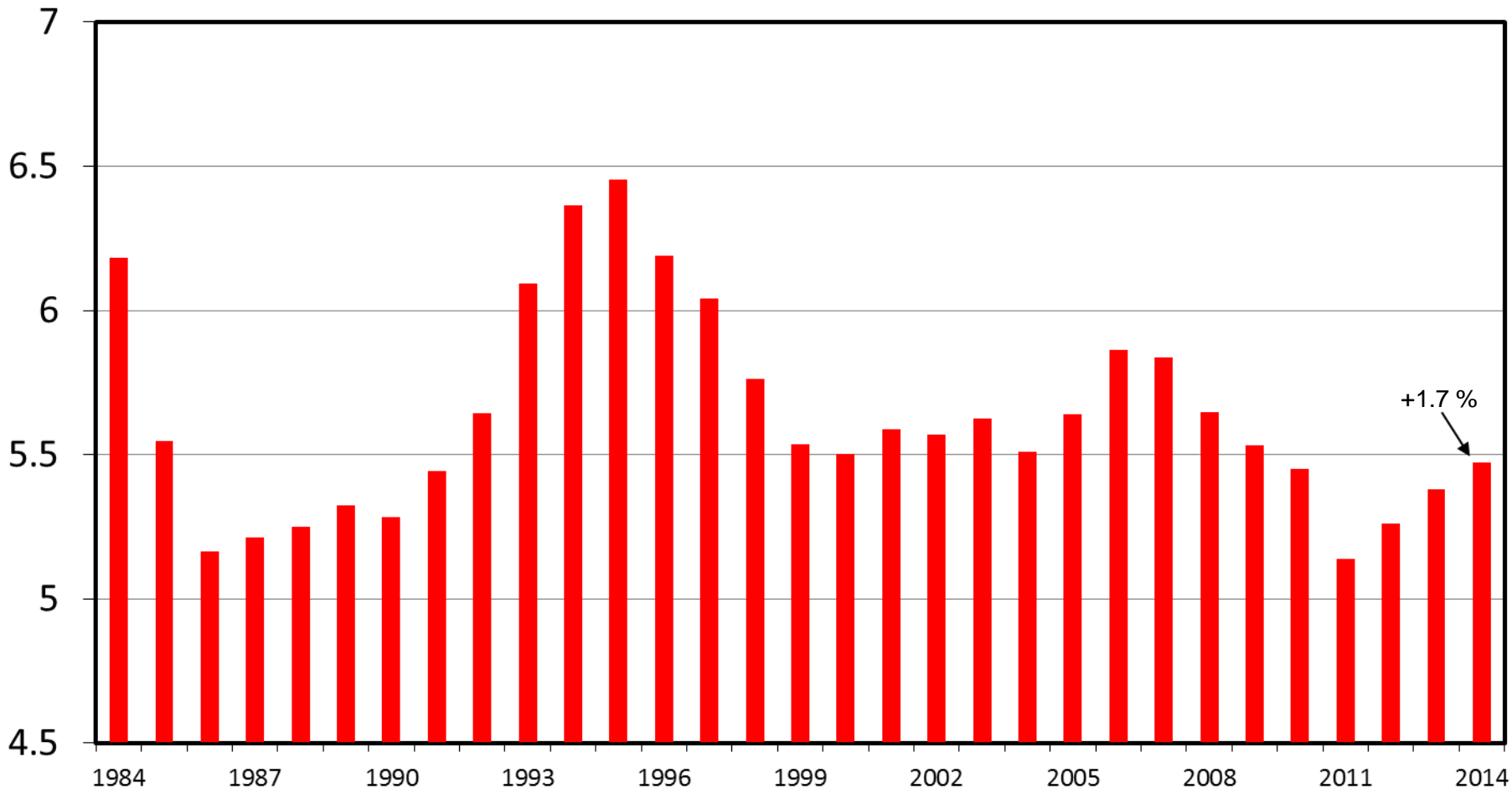
2013 Est. by LMIC

2014: 4.1 mil hd (-2.4% vs 2013)

HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.

Mil. Head



Data Source: USDA-NASS

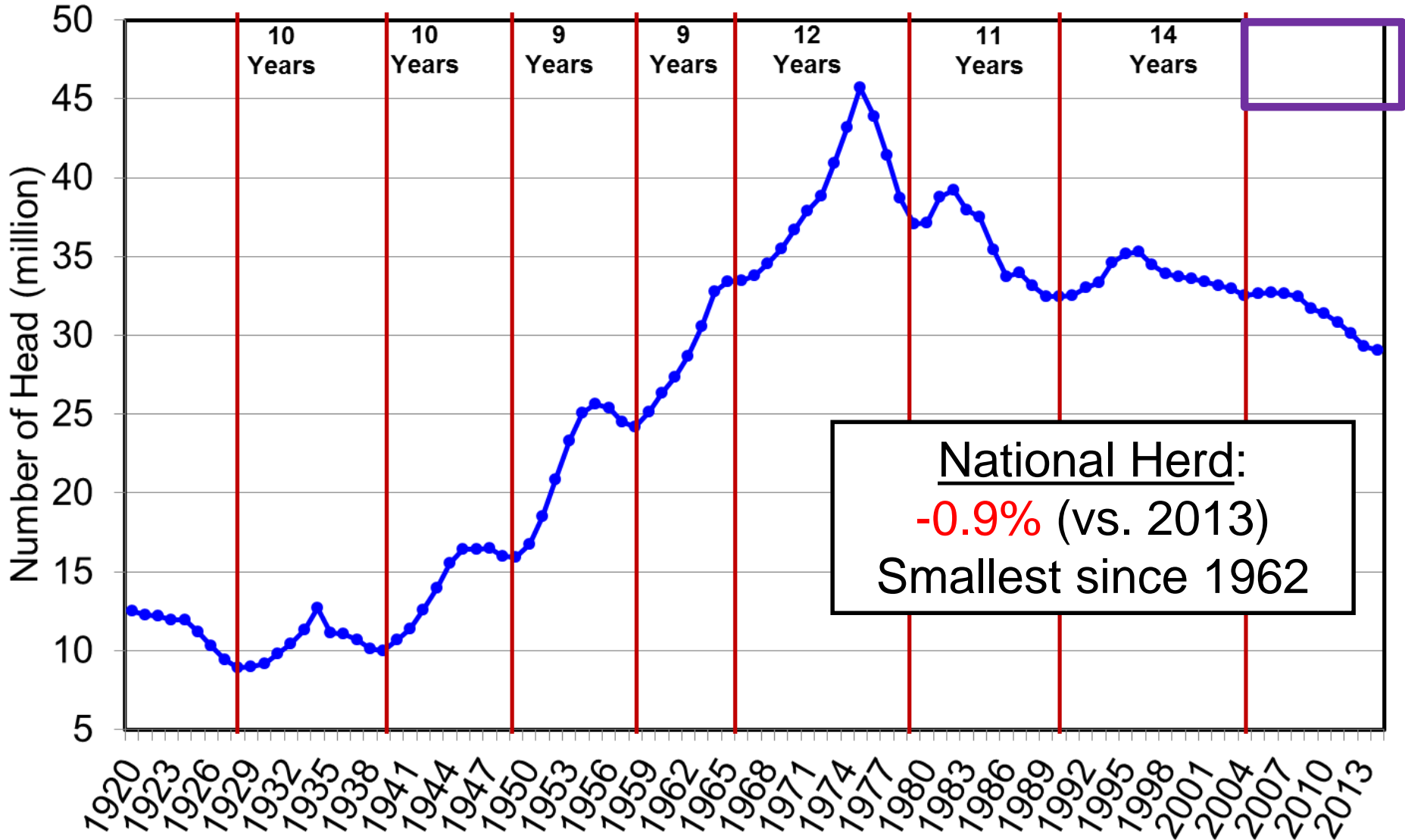
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C-N-38
07/28/14

Pending Expansion? – How Fast?,
How Large?, How Long?...

Come to Breakout Session!

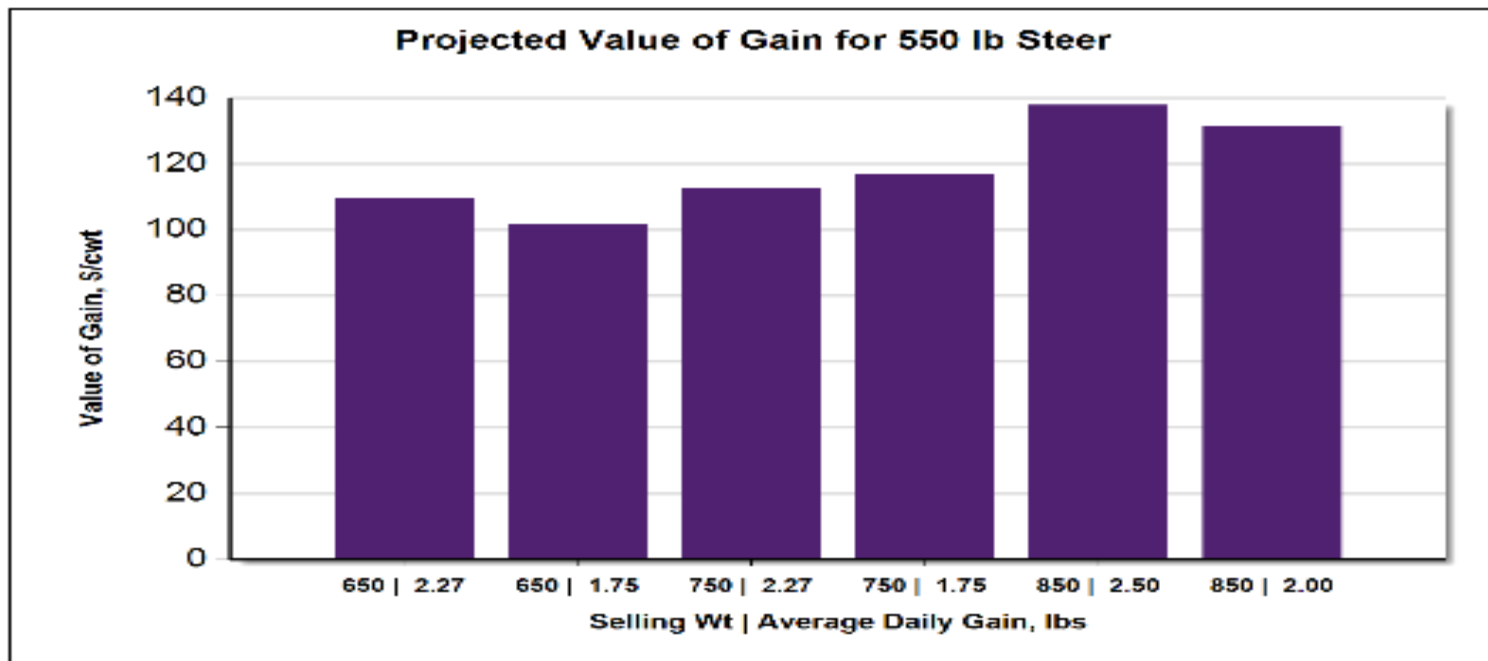
January 1 U.S. Beef Cow Inventory



National Herd:
-0.9% (vs. 2013)
Smallest since 1962

Economic Outlook Overview: Stockers

- Attractive Values of Gain (VOG) vs. COG
 - For those in many stocker/backgrounding areas ...
 - Notably higher VOGs than feedlot COG projections...
- Salina, KS 8/21/14 situation:
 - Buy 550 lb steer on 9/17/14 (\$227.21)
 - Sell 750 lb steer on 12/24/14 (\$200.29) {2.02 ADG}
 - VOG: \$126.27/cwt
 - Sell 850 lb steer on 2/11/15 (\$194.29) {2.03 ADG}
 - VOG: \$133.95/cwt



Projected Value of Gain					
Beginning Weight, lbs	Ending Weight, lbs	Date	Weight Gain, lbs/hd	ADG, lbs	Value of Gain, \$/cwt
550	650	10/04/2014	100	2.27	\$109.44
550	650	10/17/2014	100	1.75	\$101.70
550	750	11/17/2014	200	2.27	\$112.40
550	750	12/13/2014	200	1.75	\$116.64
550	850	12/19/2014	300	2.50	\$137.78
550	850	01/18/2015	300	2.00	\$131.29

Note: Projections derived for the Salina, KS market using BeefBasis.com
 Related information is available at: BeefBasis.com

8/21/2014



Economic Outlook Overview: Feedlots

- 2014 to-date has been MUCH better than 2013
- Fed-cattle break-even prices rising rapidly...
- Excess capacity concerns persist:
 - Calf Crop, Heifer Retention, Plant Closures, & MCOOL...

Historical and Projected Kansas Feedlot Net Return (as of 8/4/14')

(<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturn>)

June 14': +\$197/steer

(6th straight mo > \$125/steer – first sequence EVER)

**Oct LC:
8/21: \$145
8/1: \$156
7/1: \$155
5/1: \$140**

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

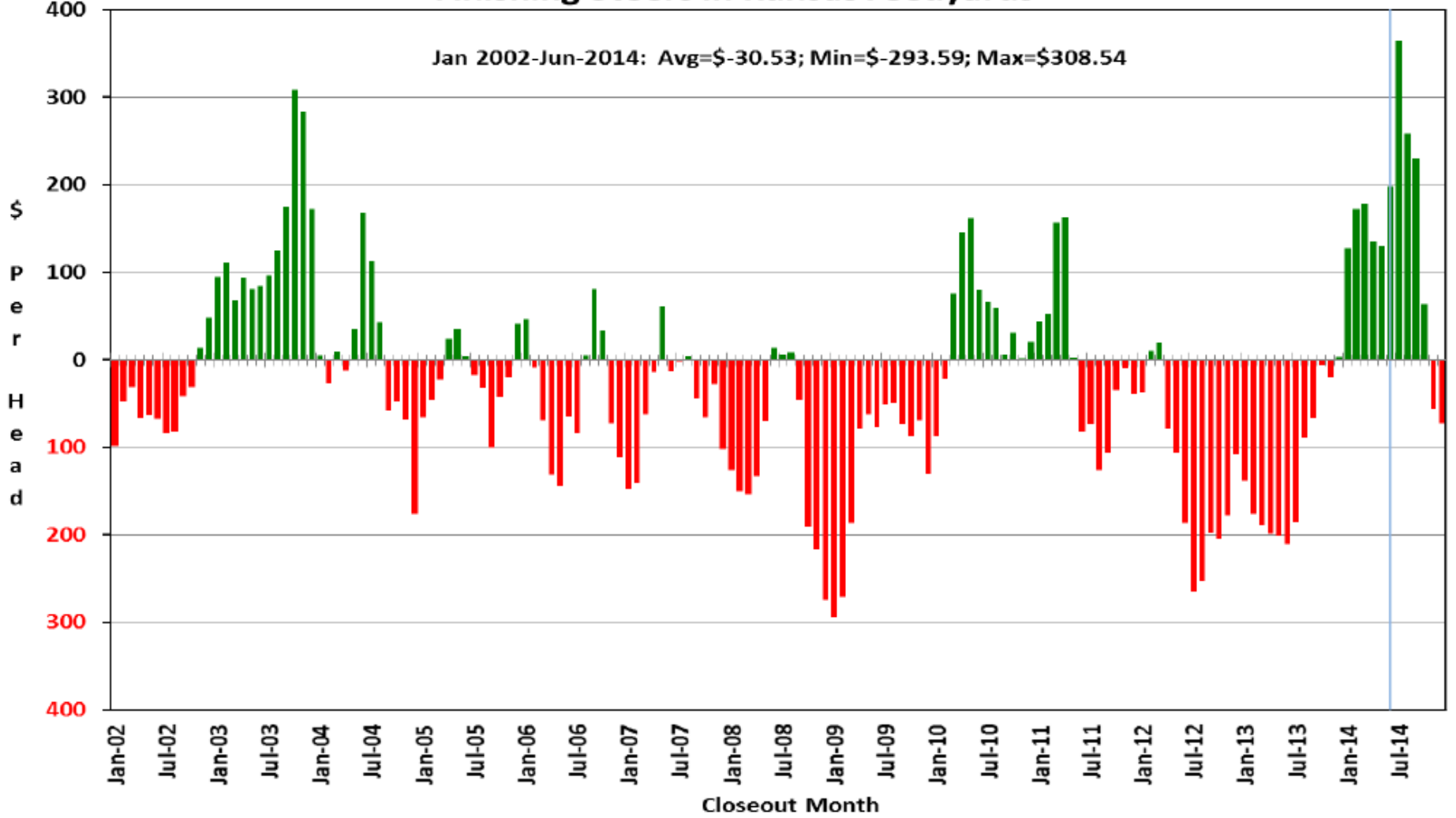
Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Jul-14	364.86	87.04	157.54	164.05	145.29	131.61	210.78
Aug-14	258.09	87.75	156.33	169.66	132.23	138.35	199.83
Sep-14	230.09	87.47	155.67	173.24	126.40	139.47	200.99
Oct-14	63.99	86.83	156.76	191.26	98.26	152.26	198.67
Nov-14	-55.85	85.08	157.01	206.94	75.03	160.98	200.38
Dec-14	-72.98	84.23	155.09	211.35	72.41	160.08	202.72

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 8/4/14')

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

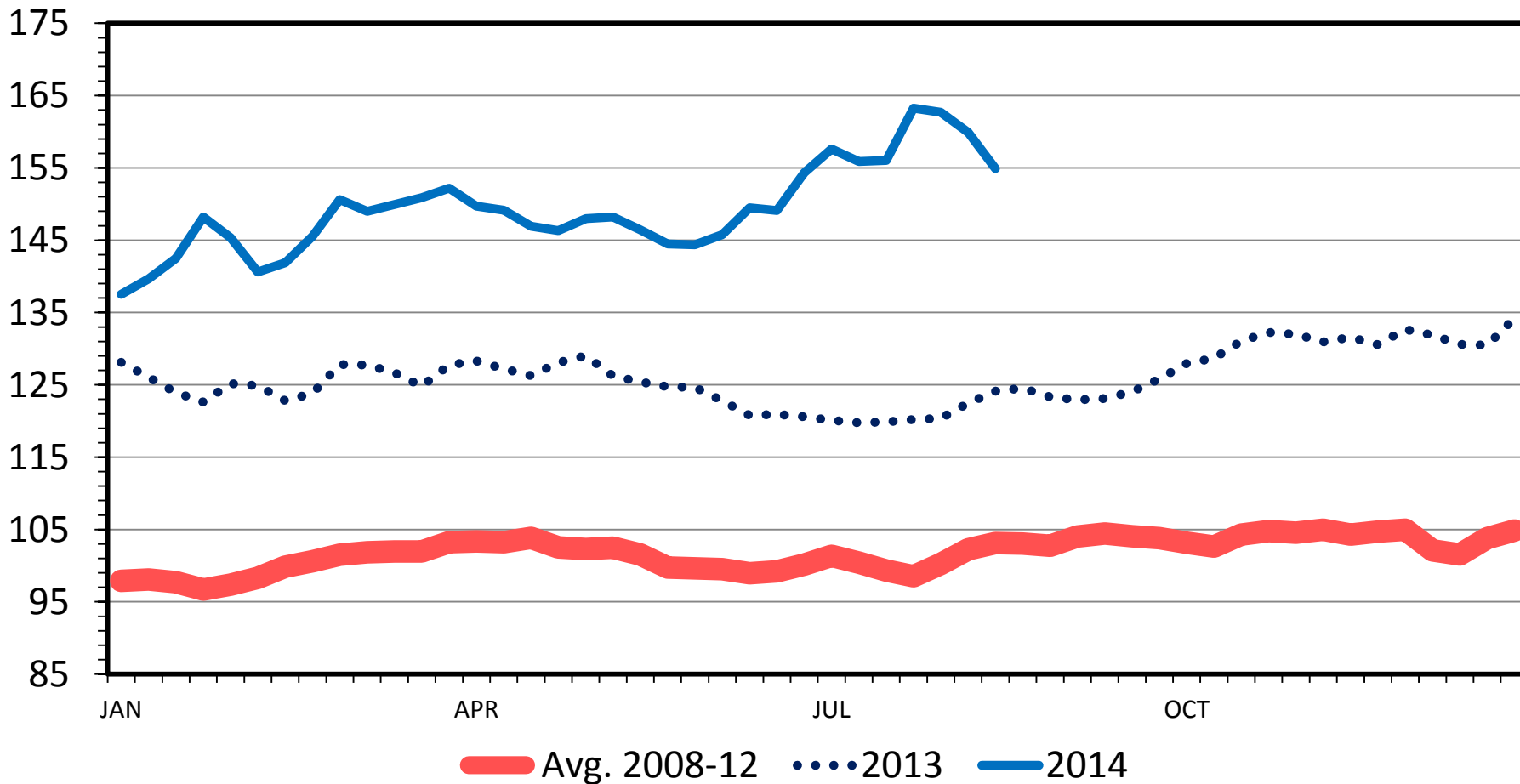
Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards



SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly

\$ Per Cwt.



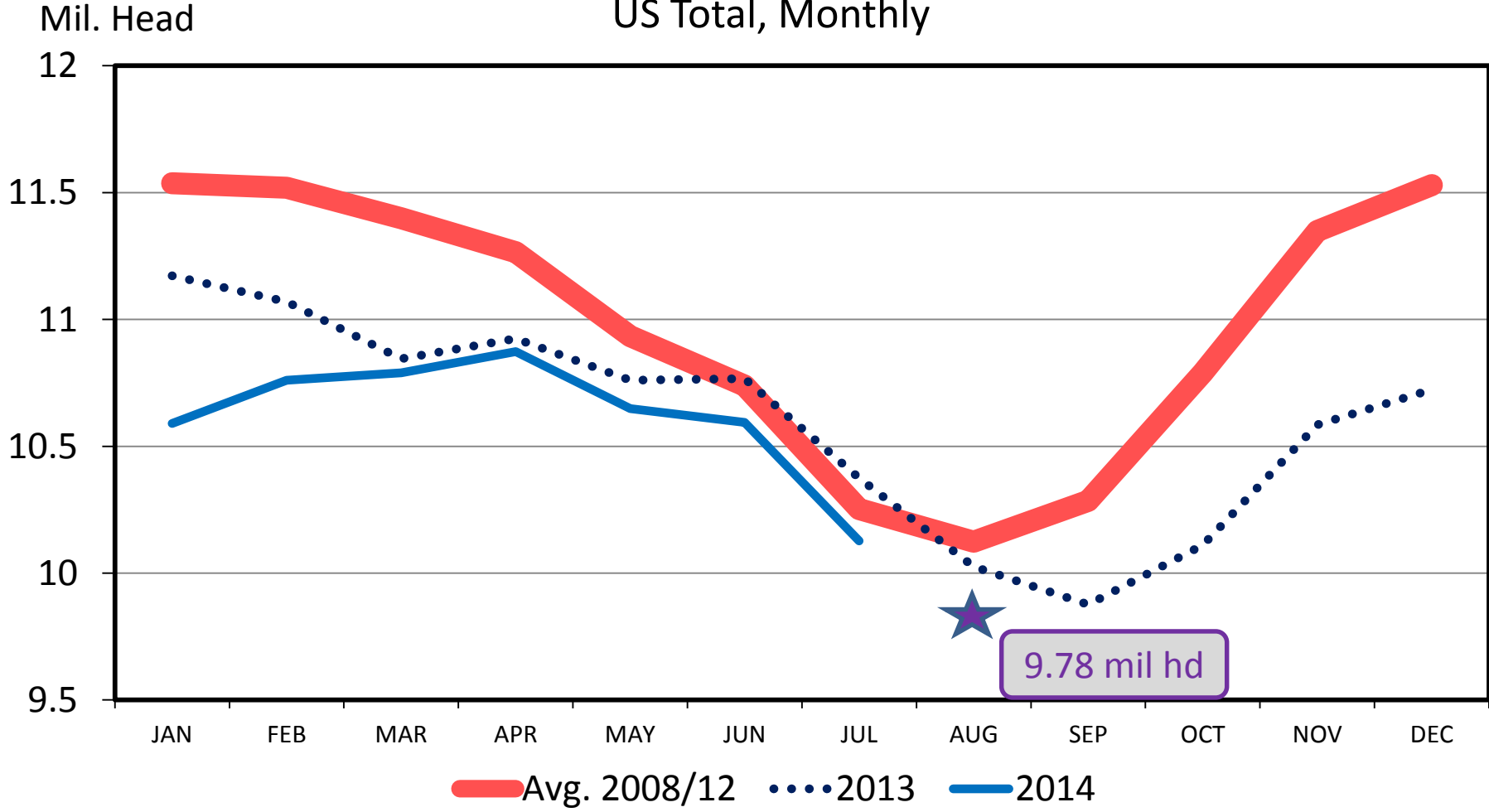
Data Source: USDA-AMS

Livestock Marketing Information Center

08/18/14

Pre- 8/22 COF Report Estimates:
On Feed Aug 1: **-2.4%** {-3.1% to -1.7%}

CATTLE ON FEED US Total, Monthly



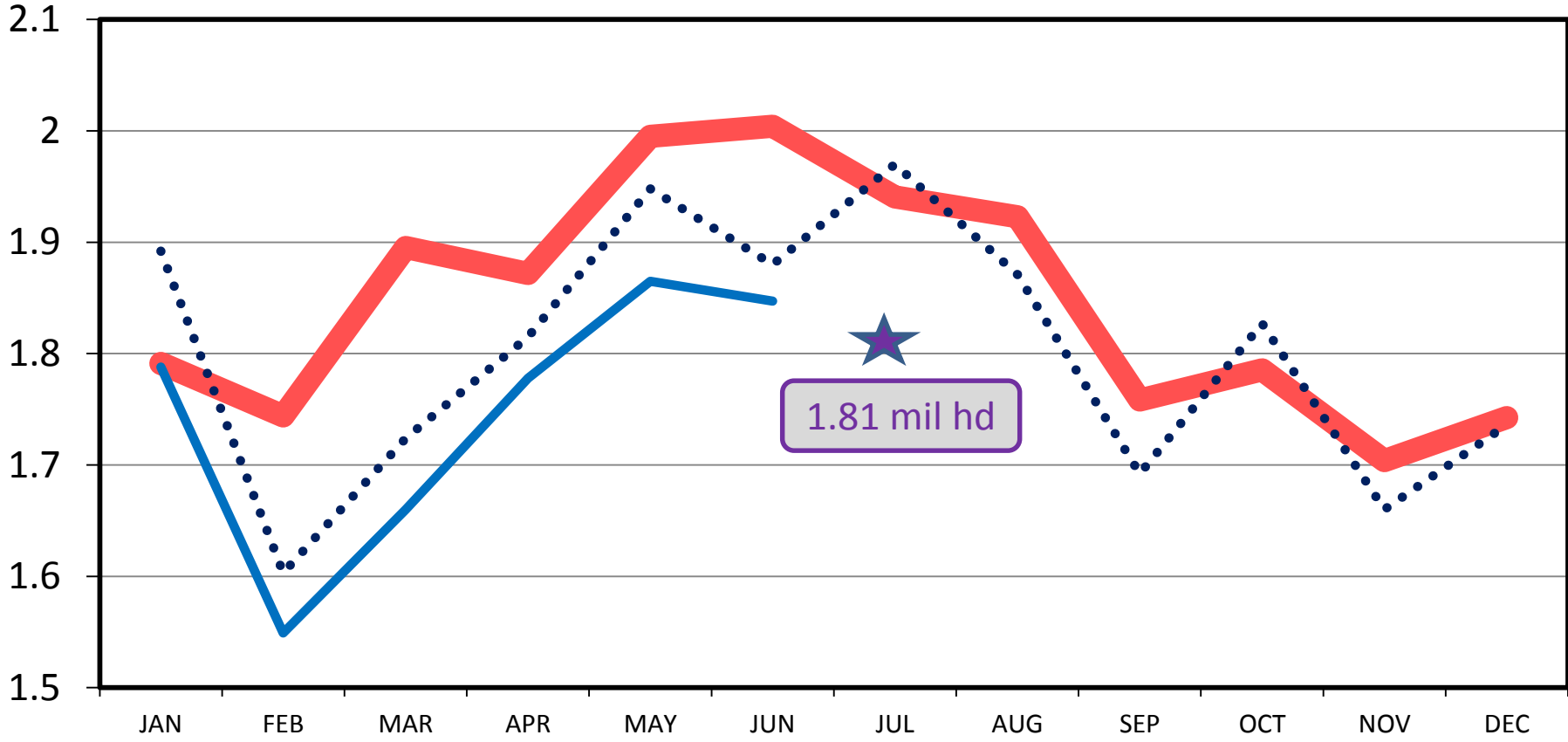
Pre- 8/22 COF Report Estimates:

Marketed in July: **-8.3%** {-9.0% to -7.6%}

FED CATTLE MARKETINGS

US Total, Monthly

Mil. Head



— Avg. 2008/12 ••• 2013 — 2014

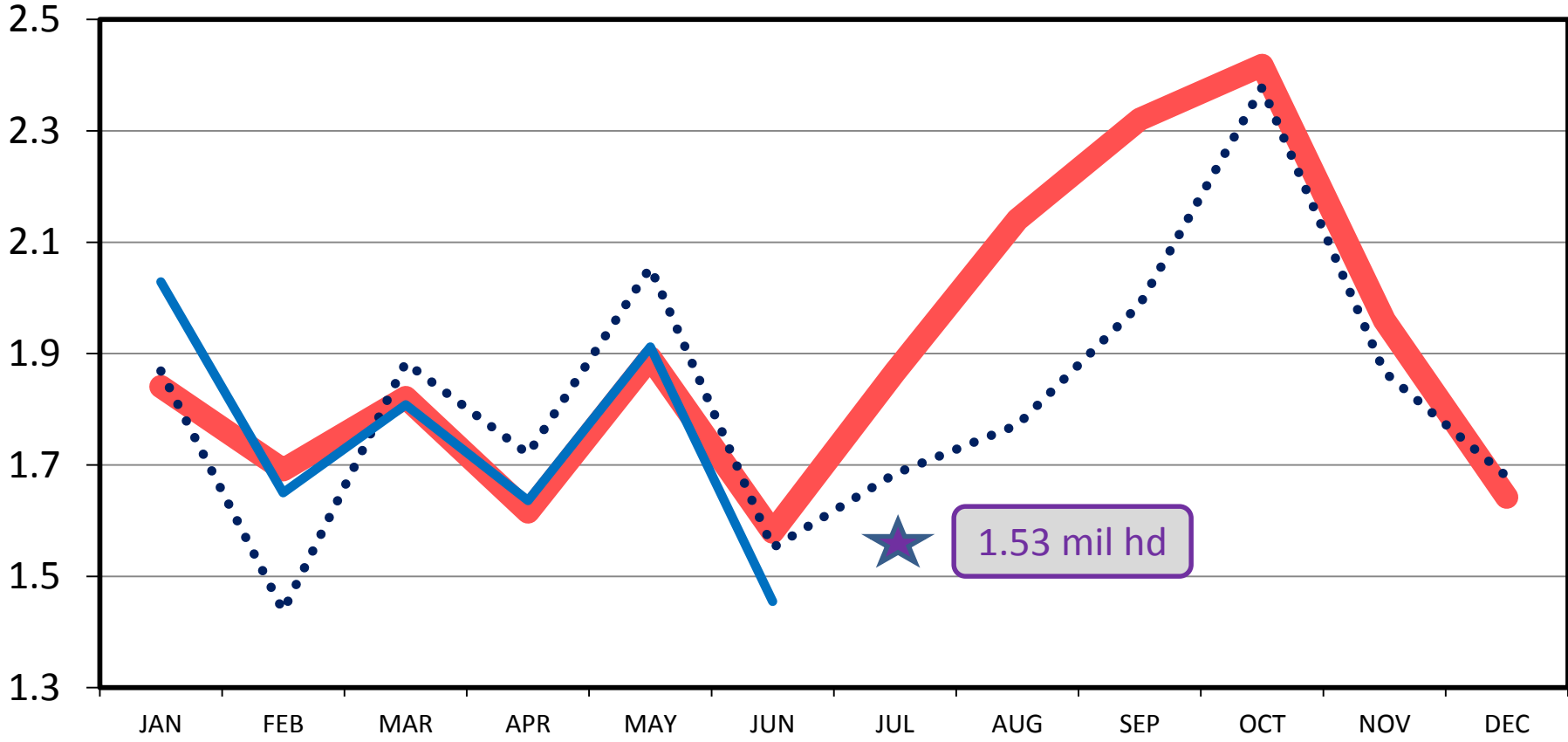
Pre- 8/22 COF Report Estimates:

Placed in July: **-9.1%** {-13.7% to -5.0%}

FEEDLOT PLACEMENTS

US Total, Monthly

Mil. Head



★ 1.53 mil hd

— Avg. 2008/12 ••• 2013 — 2014

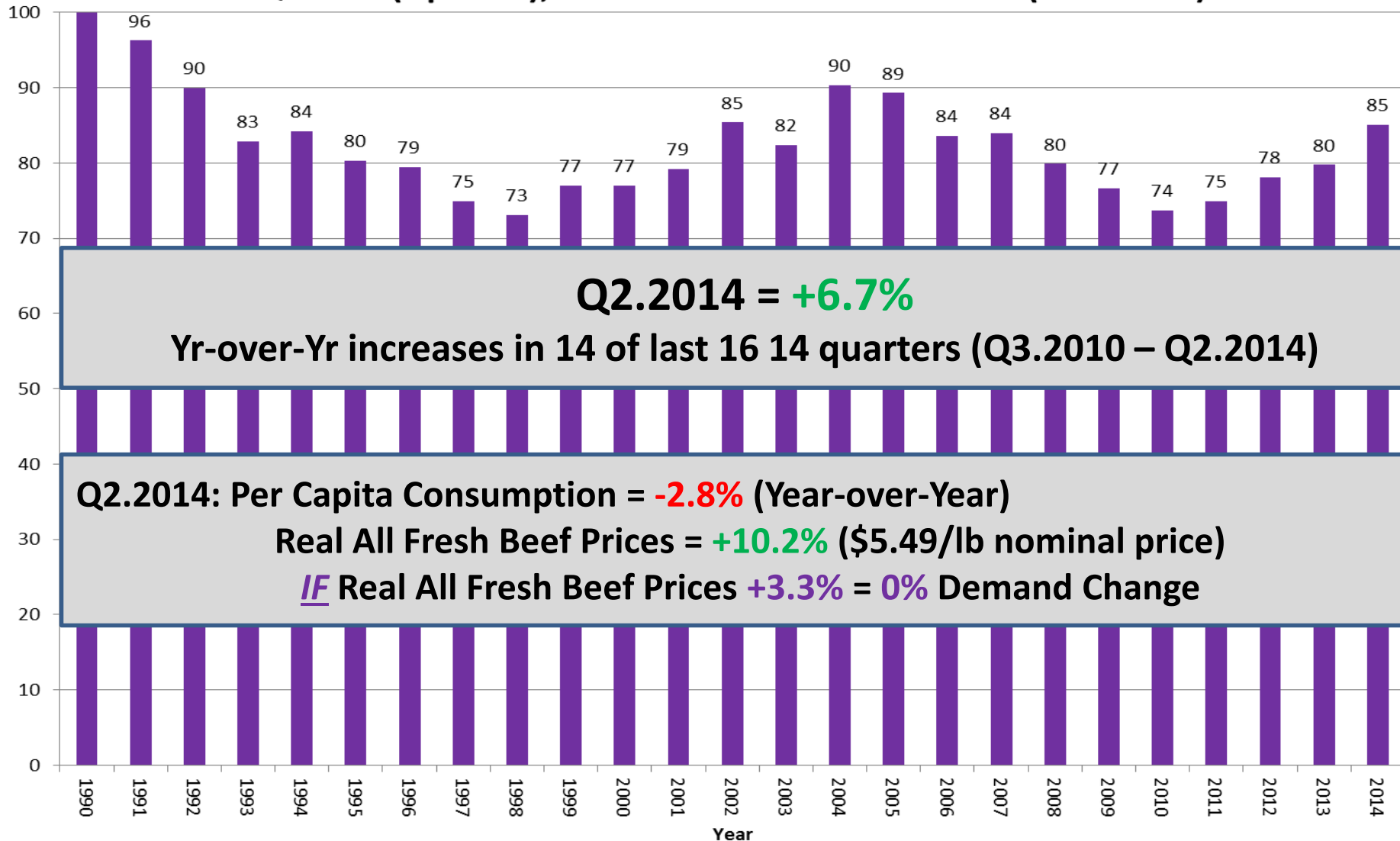
Quarterly Forecasts (LMIC: 8/5/14)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2013						
I	7,781	-3.1	793.5	1.4	6,175	-1.7
II	8,325	0.2	782.4	0.4	6,513	0.6
III	8,321	-0.1	794.3	0.5	6,609	0.4
IV	8,035	-3.0	799.4	0.7	6,423	-2.3
Year	32,462	-1.5	792.3	0.7	25,720	-0.7
2014						
I	7,375	-5.2	795.7	0.3	5,868	-5.0
II	7,836	-5.9	789.0	0.9	6,183	-5.1
III	7,748	-6.9	801.4	0.9	6,209	-6.1
IV	7,629	-5.1	803.5	0.5	6,130	-4.6
Year	30,588	-5.8	797.4	0.6	24,391	-5.2
2015						
I	7,159	-2.9	800.9	0.7	5,734	-2.3
II	7,613	-2.8	793.2	0.5	6,039	-2.3
III	7,543	-2.6	807.1	0.7	6,088	-1.9
IV	7,526	-1.4	806.3	0.3	6,068	-1.0
Year	29,841	-2.4	801.9	0.6	23,929	-1.9

Quarterly Forecasts (LMIC: 8/5/14)

	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2013				
I	125.51	0.2	142.41	170.13
II	124.95	3.3	137.34	159.71
III	122.30	2.2	155.95	171.19
IV	130.77	4.2	167.04	187.56
Year	125.88	2.5	150.69	172.15
2014				
I	146.34	16.6	171.77	209.30
II	147.82	18.3	193.16	227.67
III	156-158	28.4	219-222	244-249
IV	159-161	22.4	218-222	240-246
Year	152-154	21.5	200-203	229-234
2015				
I	158-162	9.3	217-223	245-252
II	157-162	7.9	221-229	250-259
III	154-160	0.0	219-228	251-261
IV	156-163	-0.3	213-224	246-258
Year	157-161	3.9	221-225	250-256

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



Q2.2014 = +6.7%

Yr-over-Yr increases in 14 of last 16 14 quarters (Q3.2010 – Q2.2014)

Q2.2014: Per Capita Consumption = -2.8% (Year-over-Year)

Real All Fresh Beef Prices = +10.2% (\$5.49/lb nominal price)

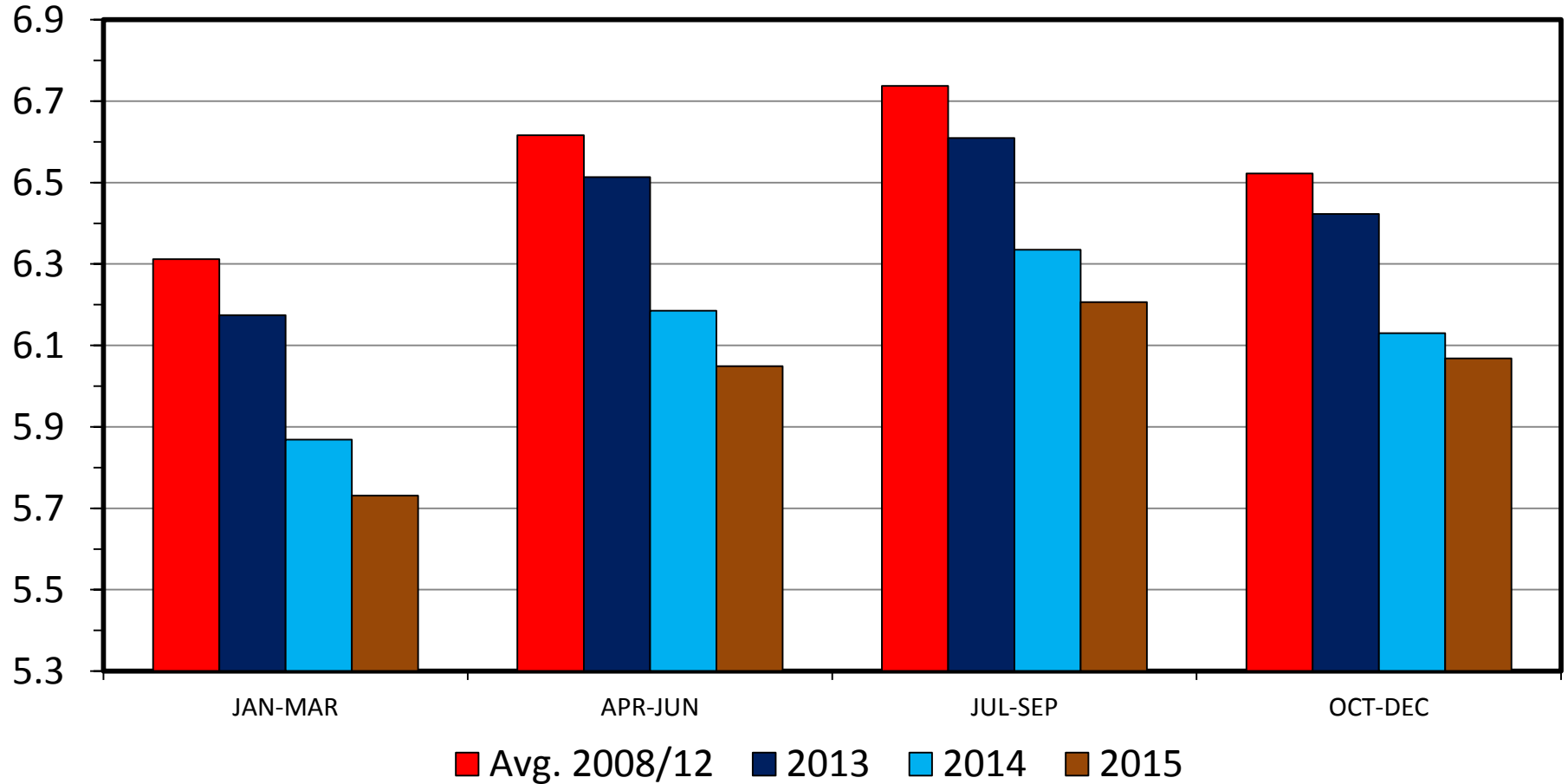
IF Real All Fresh Beef Prices +3.3% = 0% Demand Change

Source: Glynn T. Tonsor, Kansas State University, July 2014

COMMERCIAL BEEF PRODUCTION

Quarterly

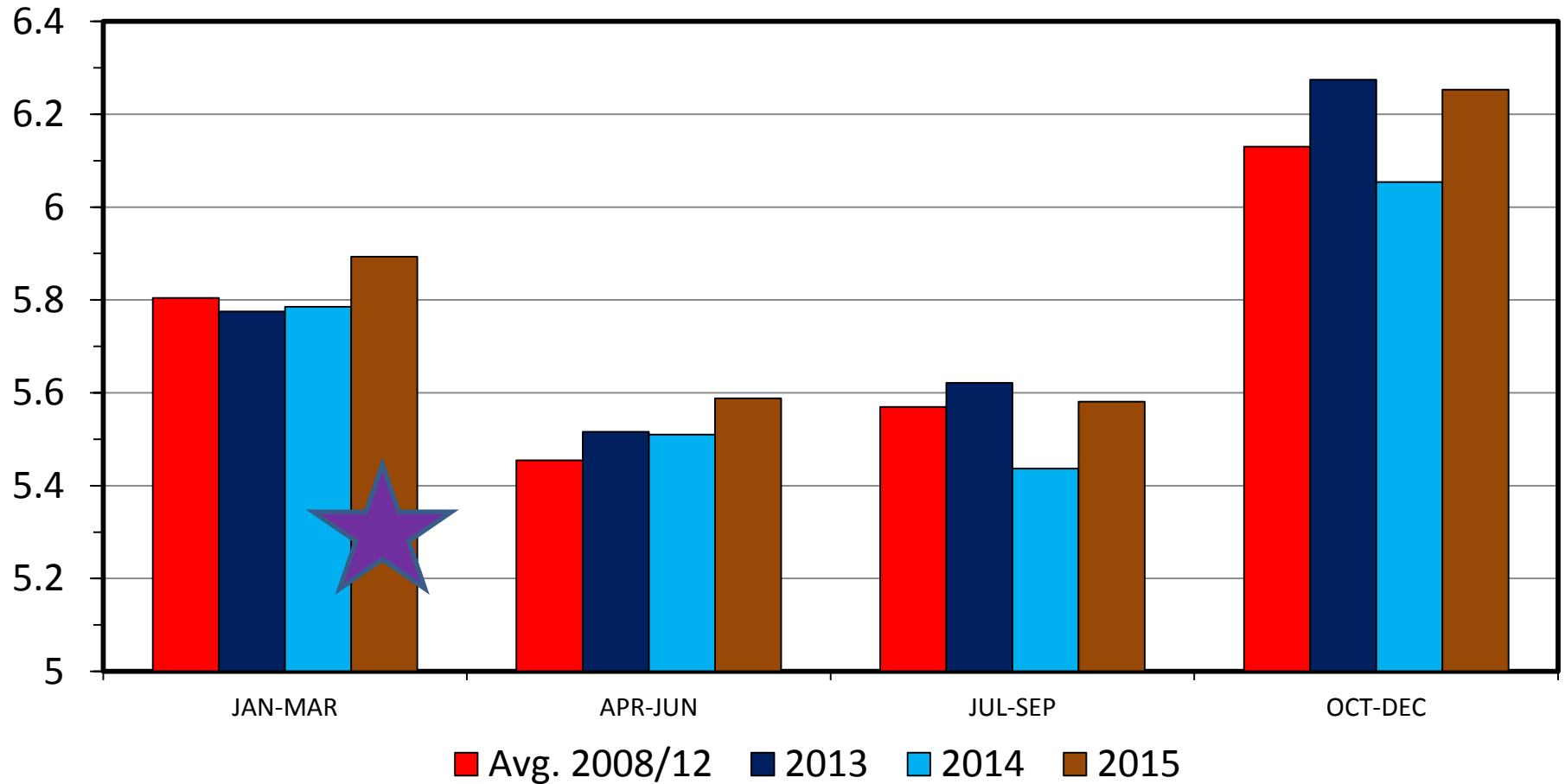
Bil. Pounds



COMMERCIAL PORK PRODUCTION

Quarterly

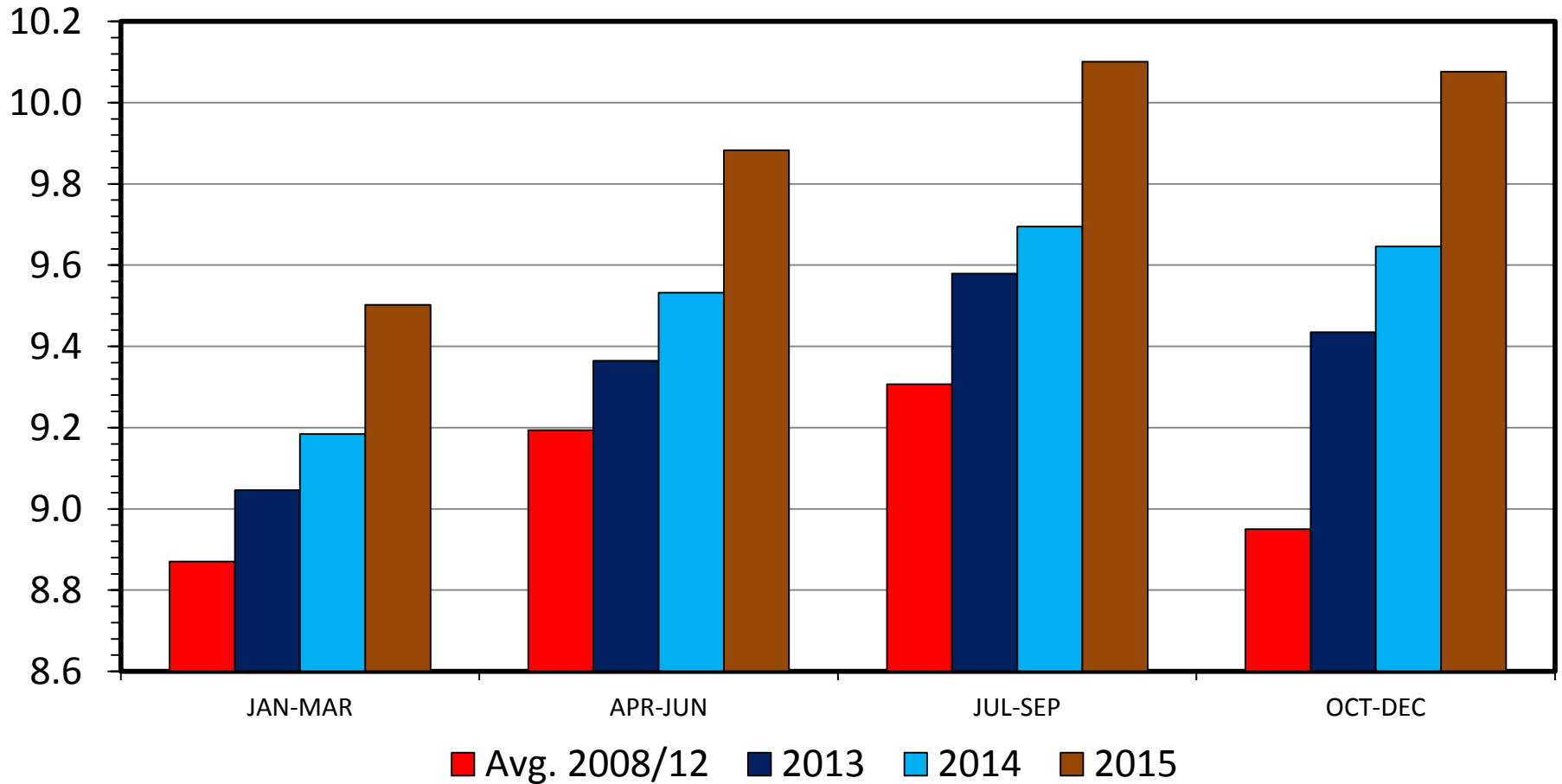
Bil. Pounds



RTC BROILER PRODUCTION

Quarterly

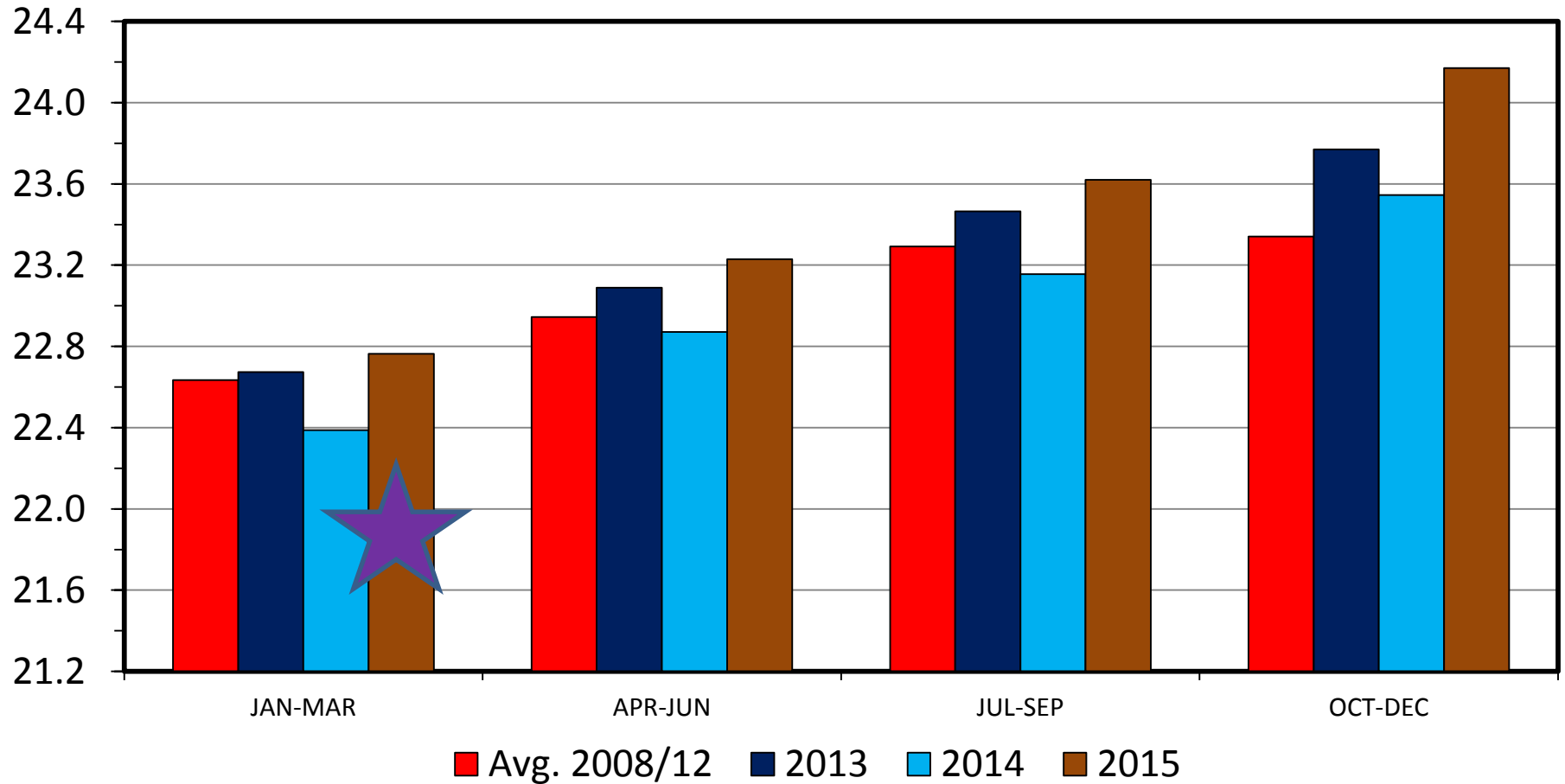
Bil. Pounds



TOTAL RED MEAT & POULTRY PRODUCTION

Quarterly

Bil. Pounds



August 2014 WASDE Report

<http://www.usda.gov/oce/commodity/wasde/>

U.S. Quarterly Animal Product Production

Year and Quarter		Beef	Pork	Red Meat 2/	Broiler	Turkey	Total Poultry 3/	Red Meat & Poultry
		<i>Million Pounds</i>						
2013	III	6609	5622	12298	9683	1440	11265	23563
	IV	6423	6274	12764	9537	1420	11080	23844
	Annual	25720	23187	49174	37830	5805	44159	93333
2014	I	5868	5785	11716	9283	1332	10739	22455
	II	6183	5504	11754	9616	1429	11179	22933
	III*	6445	5460	11968	9825	1450	11415	23383
	IV*	6065	6030	12158	9675	1500	11305	23463
	Annual							
	Jul Proj.	24538	22760	47552	38233	5717	44479	92031
	Aug Proj.	24561	22779	47596	38399	5711	44638	92234
		-4.5%	-1.8%	-3.2%	1.5%	-1.6%	1.1%	-1.2%
2015	I*	5650	5655	11368	9480	1400	11005	22373
	II*	6375	5450	11887	9915	1475	11530	23417
	Annual							
	Jul Proj.	24375	23240	47862	39315	5925	45785	93647
	Aug Proj.	24325	23280	47852	39345	5925	45815	93667
		-1.0%	2.2%	0.5%	2.5%	3.7%	2.6%	1.6%

August 2014 WASDE Report

<http://www.usda.gov/oce/commodity/wasde/>

U.S. Quarterly Prices for Animal Products

Year and Quarter		Steers	Barrows	Broilers
		2/ 3/	and gilts 3/	4/
		<i>Dol./cwt</i>	<i>Dol./cwt</i>	<i>Cents/lb.</i>
2013	III	122.3	70.59	93.9
	IV	130.77	61.11	92.8
	Annual	125.89	64.05	99.7
2014	I	146.34	68.69	98.4
	II	147.82	85.4	113.7
	III*	153-157	85-87	102-106
	IV*	153-163	77-81	99-105
	Annual			
	Jul Proj.	146-150	79-81	106-108
	Aug Proj.	150-153	79-81	103-106
2015	I*	150-162	72-78	100-108
	II*	150-162	75-81	102-110
	Annual			
	Jul Proj.	145-157	75-81	100-108
	Aug Proj.	149-162	72-78	100-108

Take-Home Summary Points

- Tight meat & live animal supplies +
- Strong retail meat demand +
- Sound pastures & mixed expansion signals =
- Record:
 - Prices throughout industry
 - Cow-calf returns
 - Cash at-stake ...

More information available at:



This presentation will be available in PDF format at:

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

Glynn T. Tonsor
Associate Professor
Dept. of Agricultural Economics
Kansas State University
Email: gtonsor@ksu.edu
Twitter: @TonsorGlynn



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