



Beef & Cattle Market Outlook

Glynn Tonsor

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

**K-State Stocker Field Day
September 22, 2011**



OVERVIEW

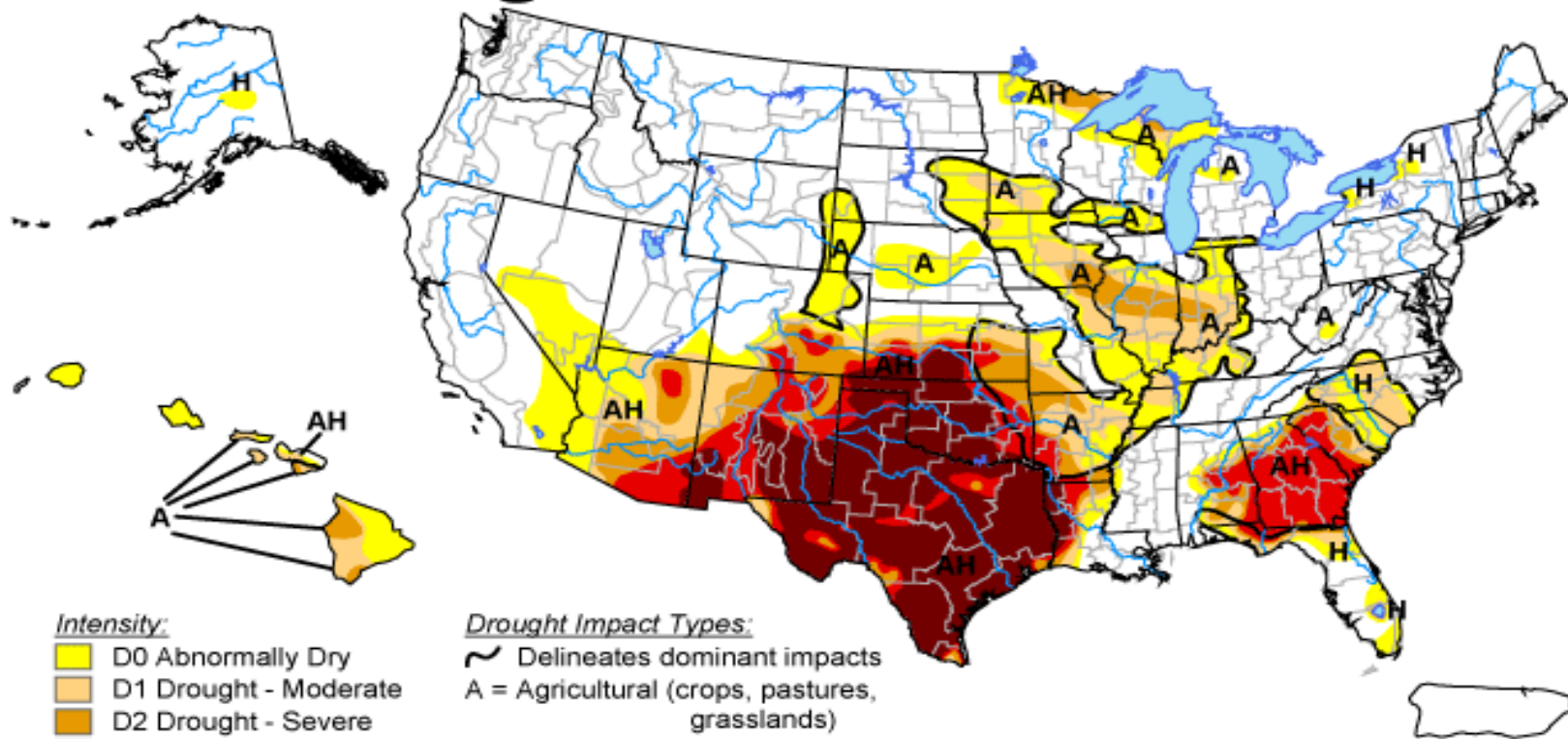
- FEEDSTUFFS:
 - Drought: triggering liquidations; expensive and “hard to find” forage and grain for feed...
- SUPPLY:
 - Short-run (drought) vs. long-run (herd) perspectives
 - Shrinking cow herd, expansion uncertainty
 - Structural changes underway...
- DEMAND:
 - Export demand remains strong
 - Domestic demand surpassing expectations but remains worrisome...



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.



Released Thursday, September 15, 2011

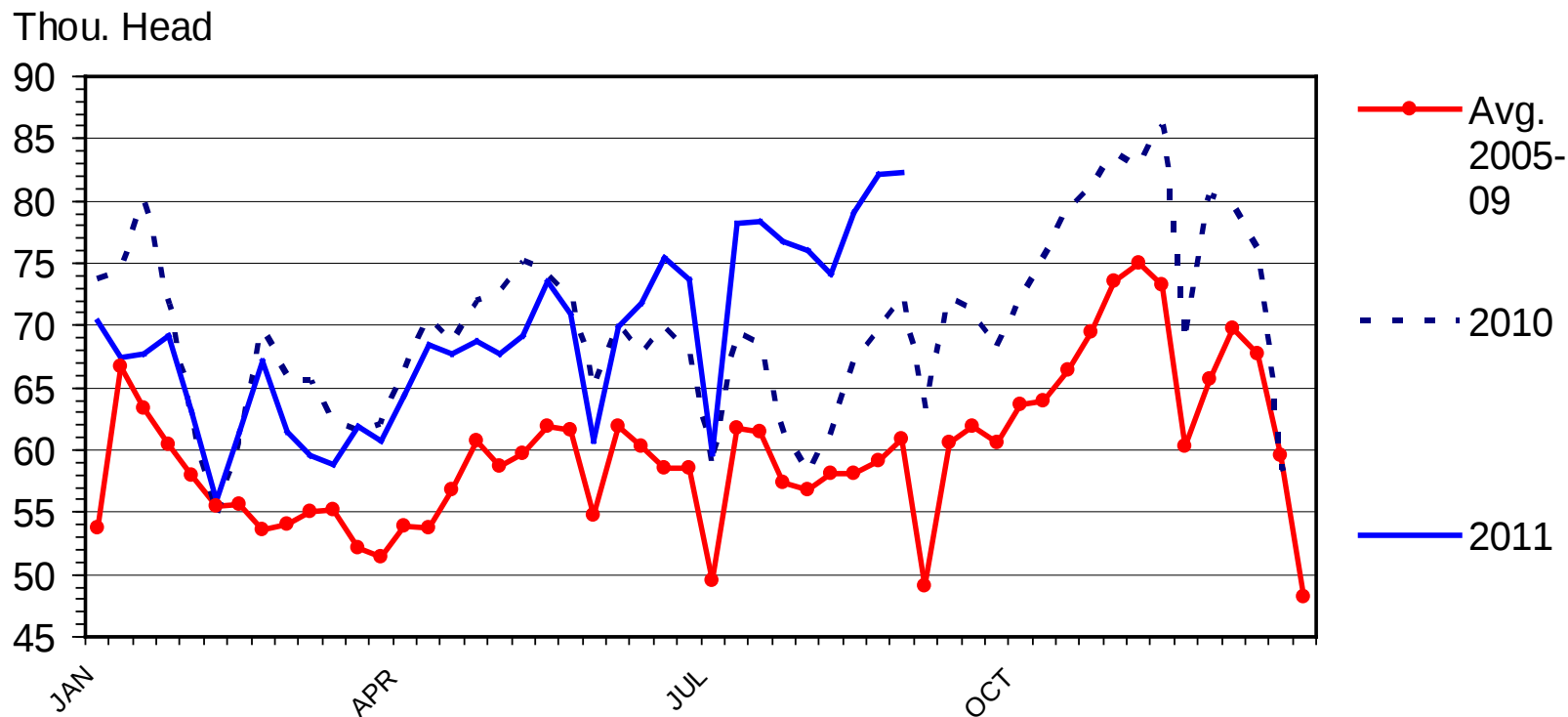
Author: Mark Svoboda, National Drought Mitigation Center

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



BEEF COW SLAUGHTER

Federally Inspected, Weekly



Livestock Marketing Information Center

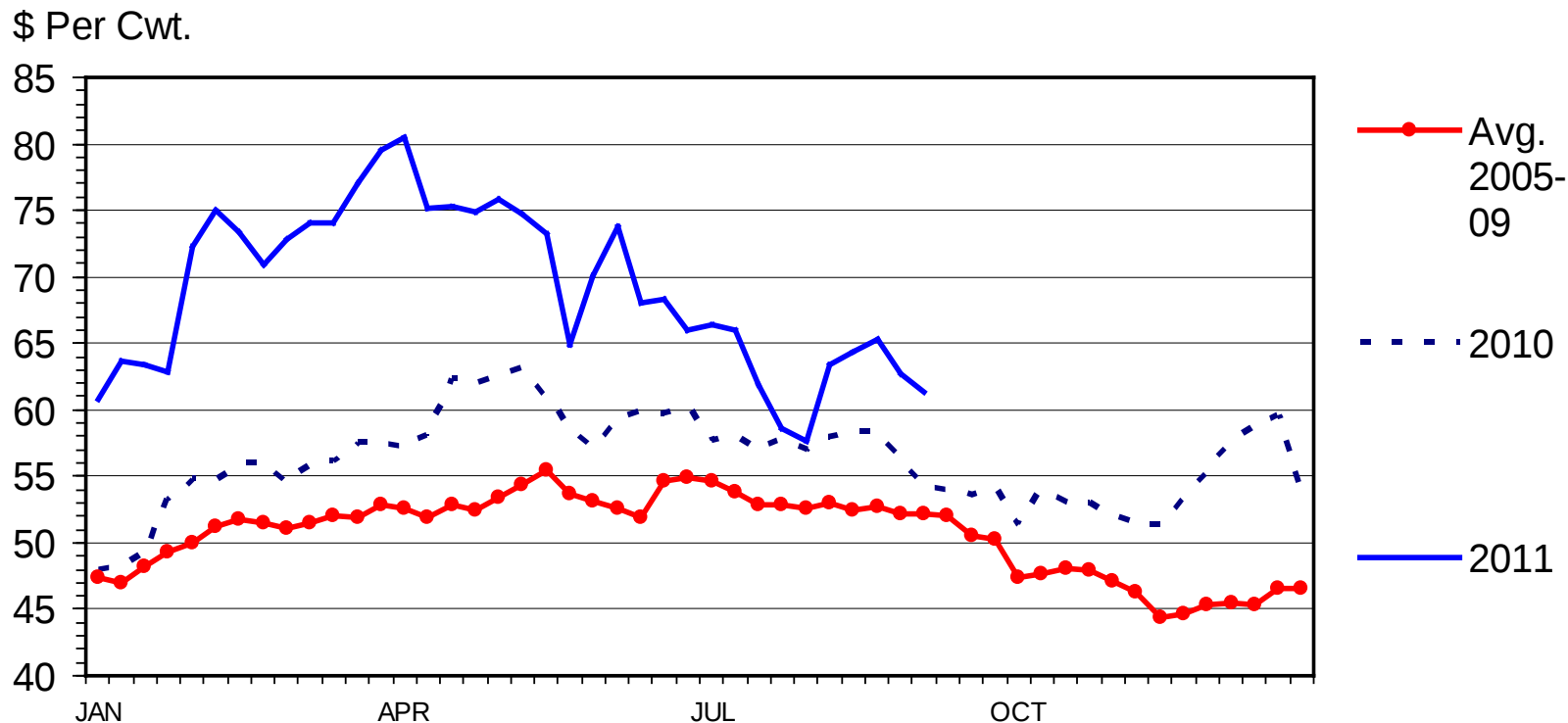
Data Source: USDA-AMS & USDA-NASS

C-S-34
09/16/11



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS

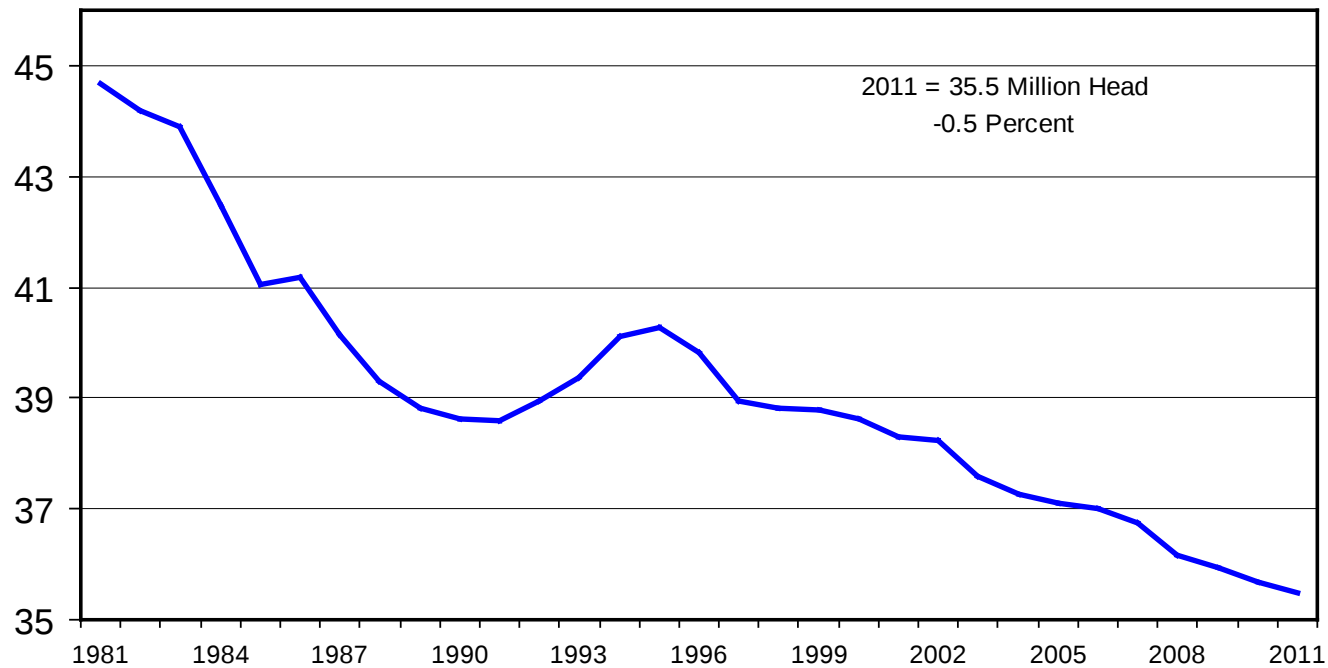
C-P-35
09/19/11



CALF CROP

July 1 Estimates, U.S., Annual

Mil. Head



Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-18B
07/22/11

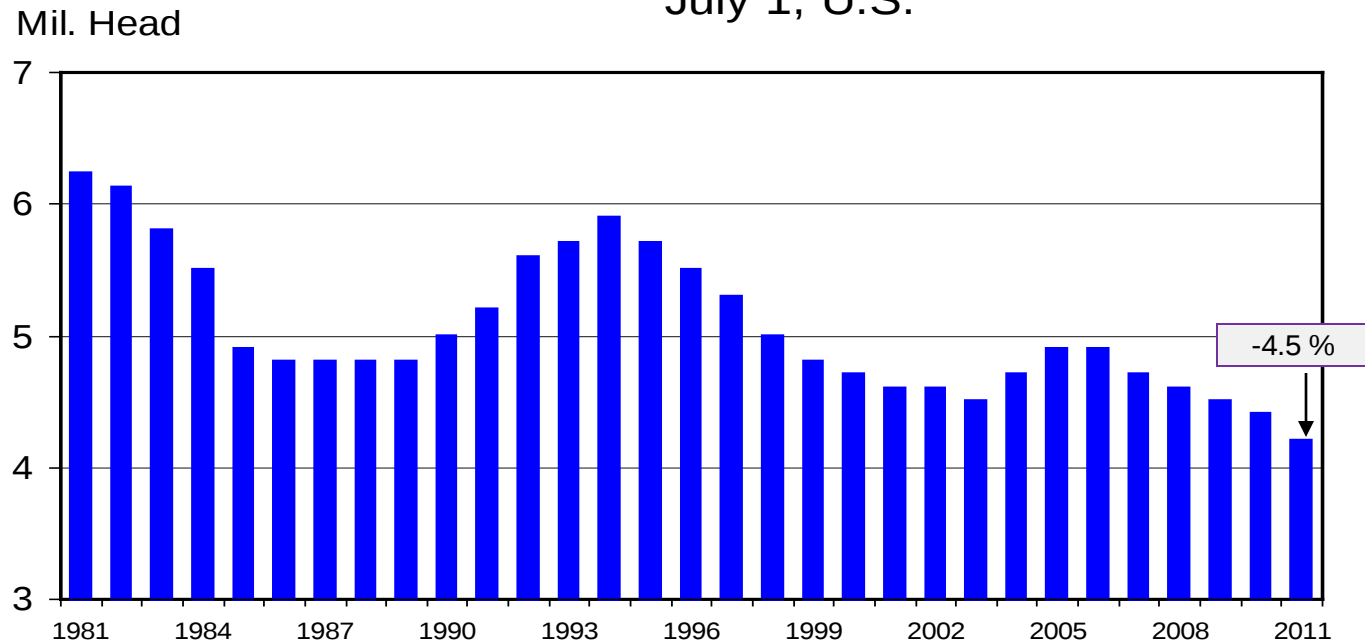


Will U.S. national herd expand by 2014???

-- who & where will expansion occur???

HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.



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...



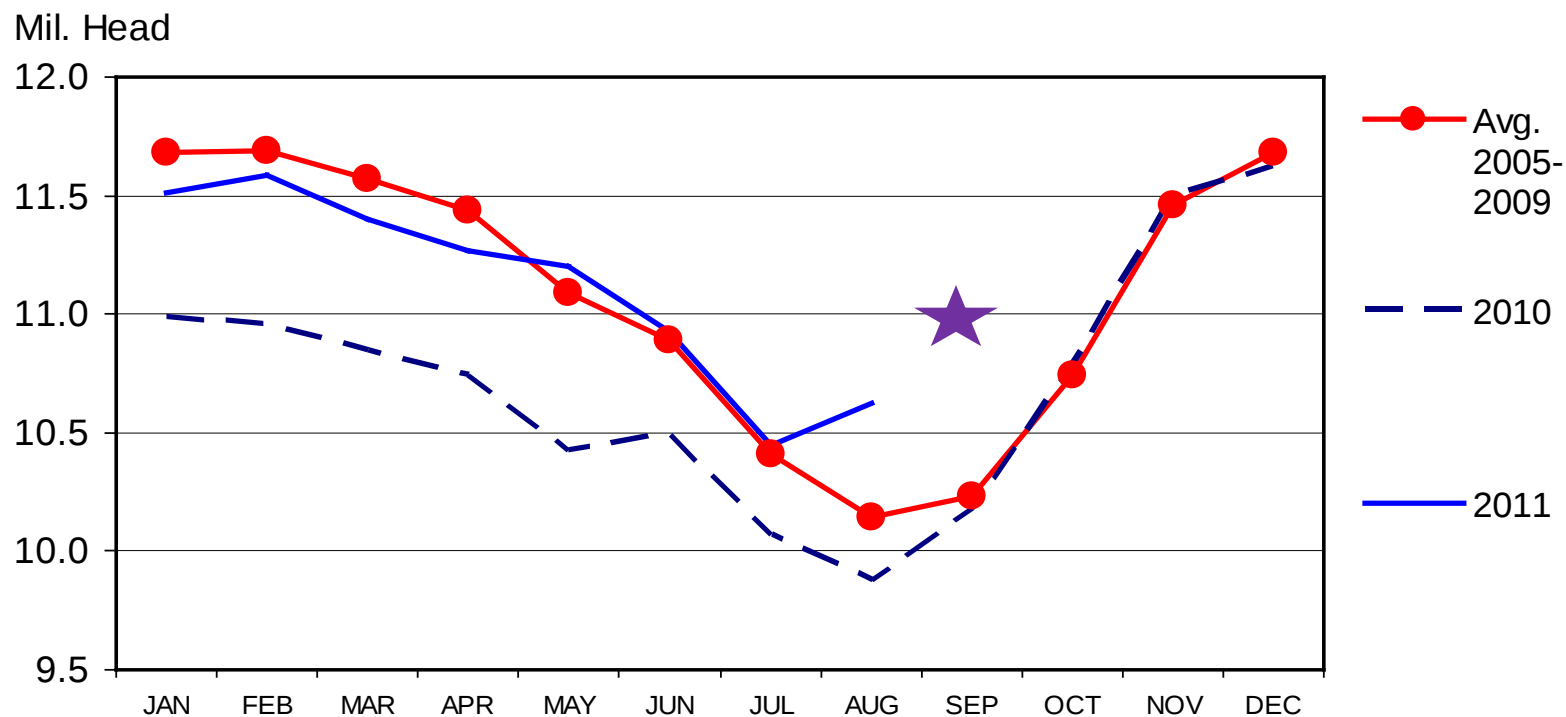
Pre-Report Estimates (Sept. 23 release):

On Feed Sept 1 (up 7.9%) {+6.1% to +9.1%}

Placed in August (up 7.7%) {+0.4% to +12.3%}

CATTLE ON FEED

US Total, Monthly



Livestock Marketing Information Center

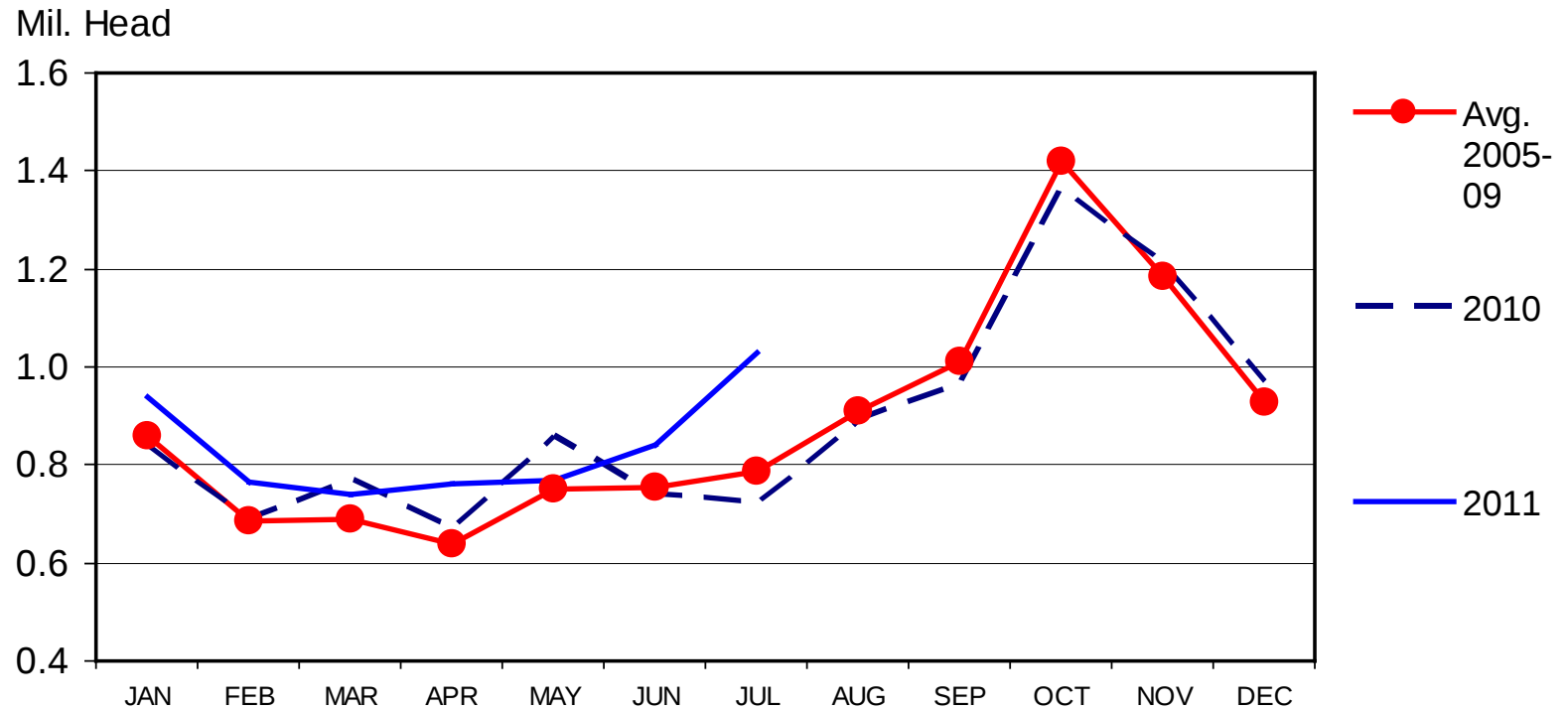
Data Source: USDA-NASS

C-N-10
08/19/11



CATTLE PLACED WEIGHING LESS THAN 700 POUNDS

1,000 Plus Capacity Feedlots, U.S., Monthly



Livestock Marketing Information Center

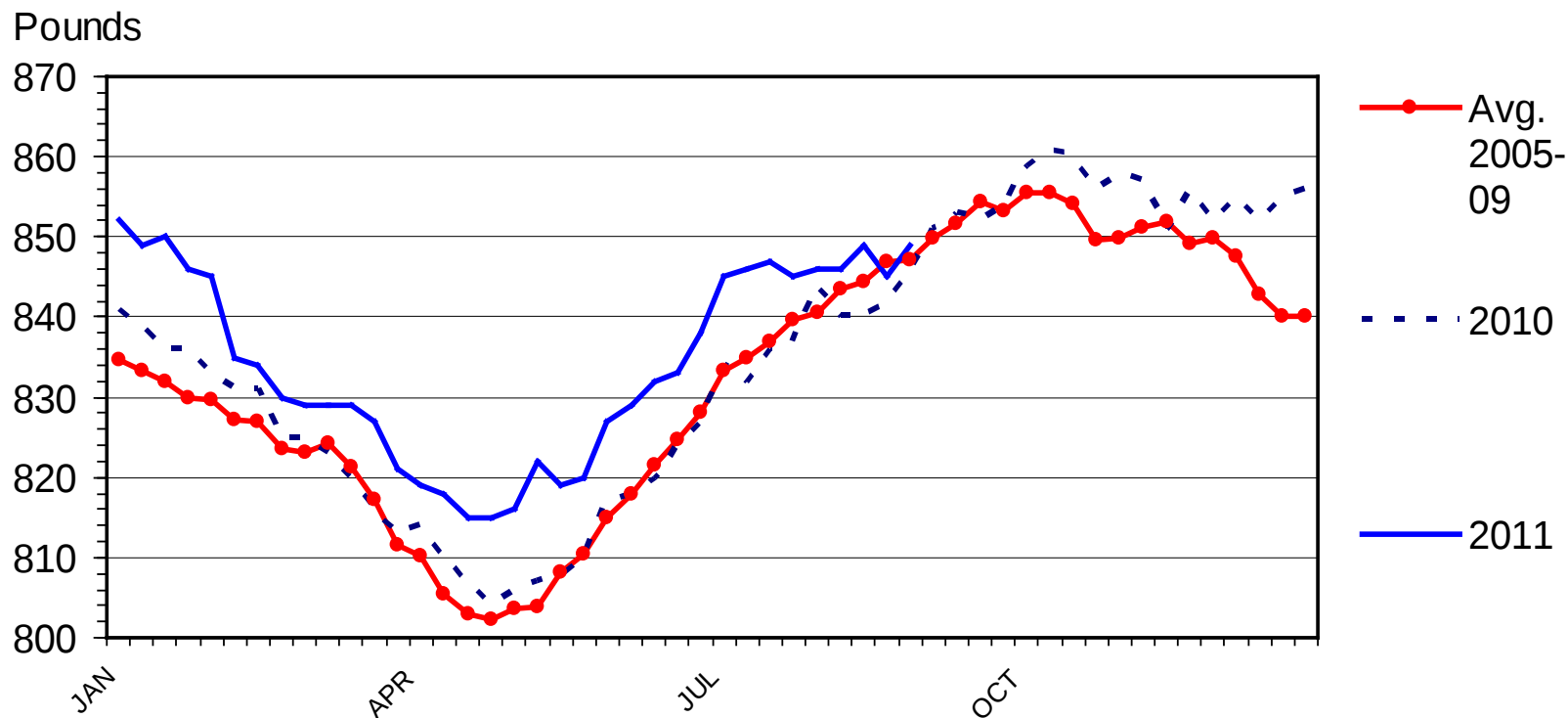
Data Source: USDA-NASS, Compiled & Analysis by LMIC

C-N-08A
08/19/11



STEER DRESSED WEIGHT

Federally Inspected, Weekly



Livestock Marketing Information Center

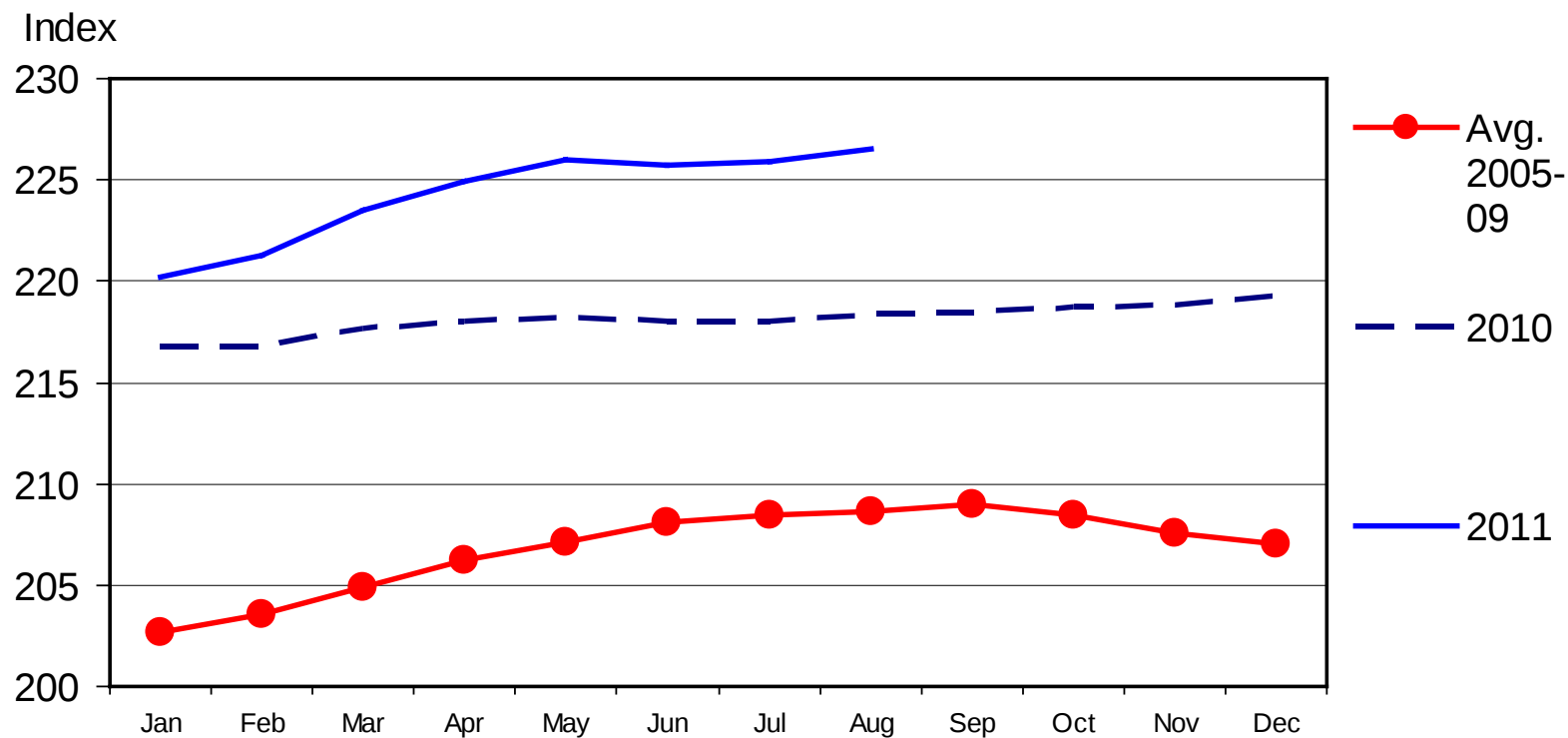
Data Source: USDA-AMS & USDA-NASS

C-S-18
09/16/11



CONSUMER PRICE INDEX - ALL ITEMS

1982-1984 Base, Monthly



Livestock Marketing Information Center

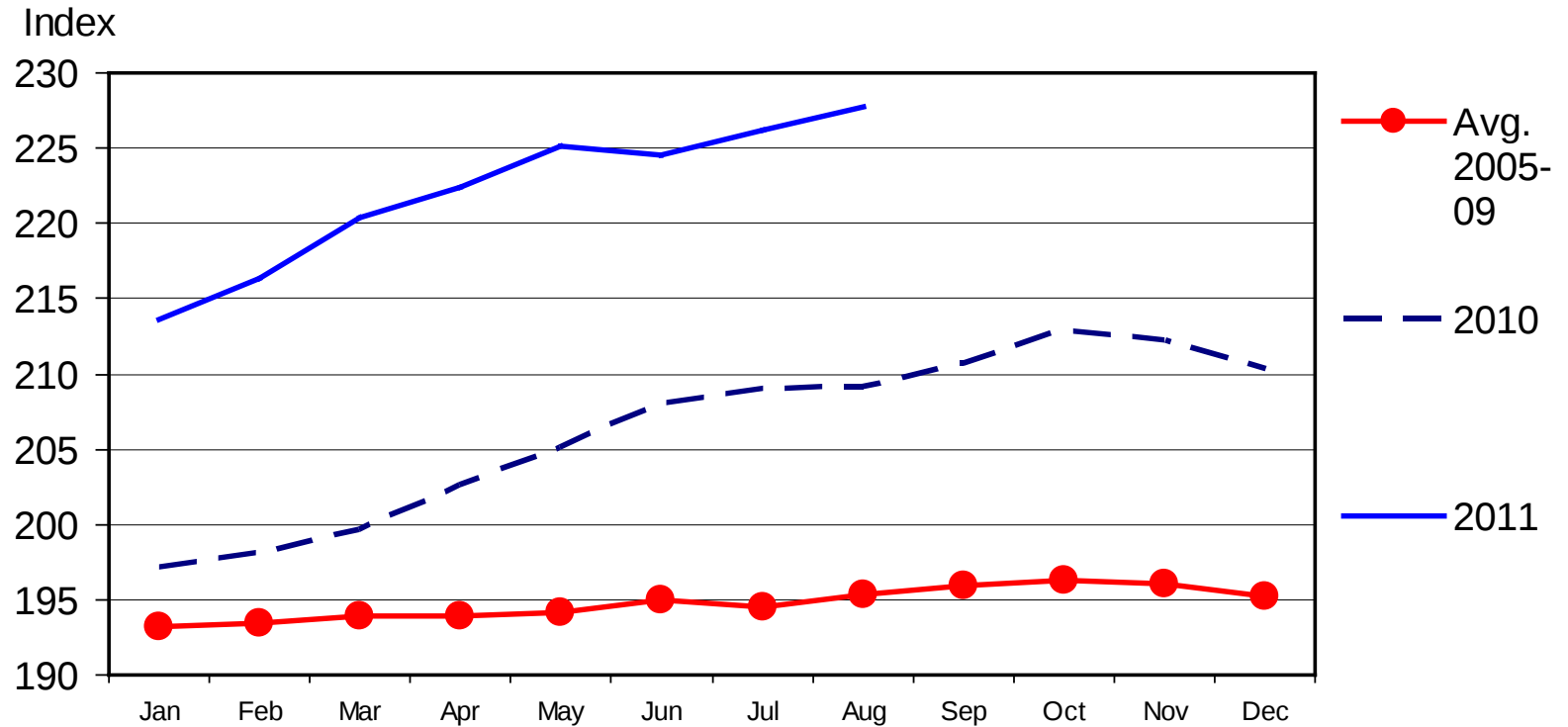
09/15/11

Data Source: Bureau of Labor Statistics



CPI - MEATS

1982-1984 Base, Monthly



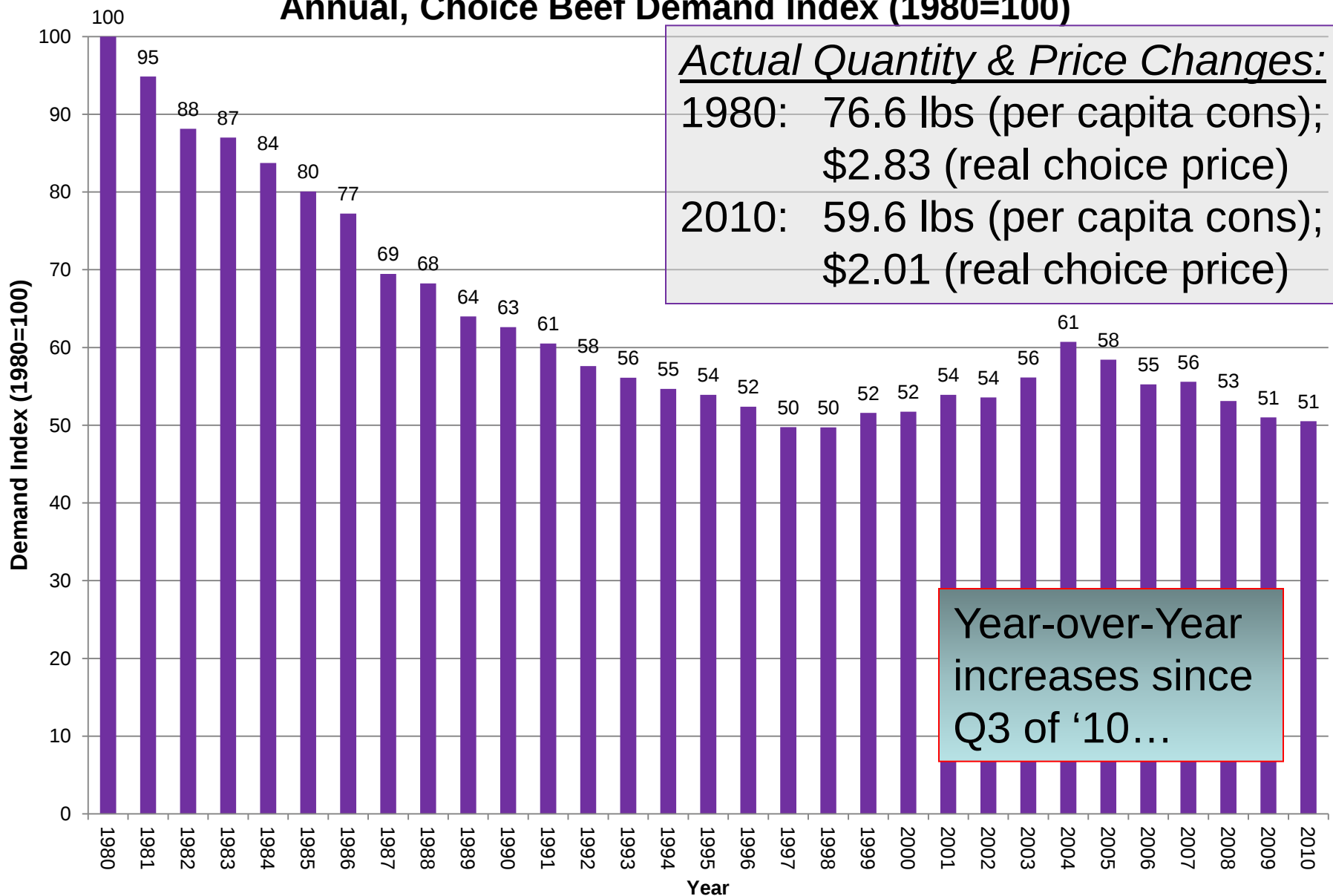
Livestock Marketing Information Center

09/15/11

Data Source: Bureau of Labor Statistics



Annual, Choice Beef Demand Index (1980=100)

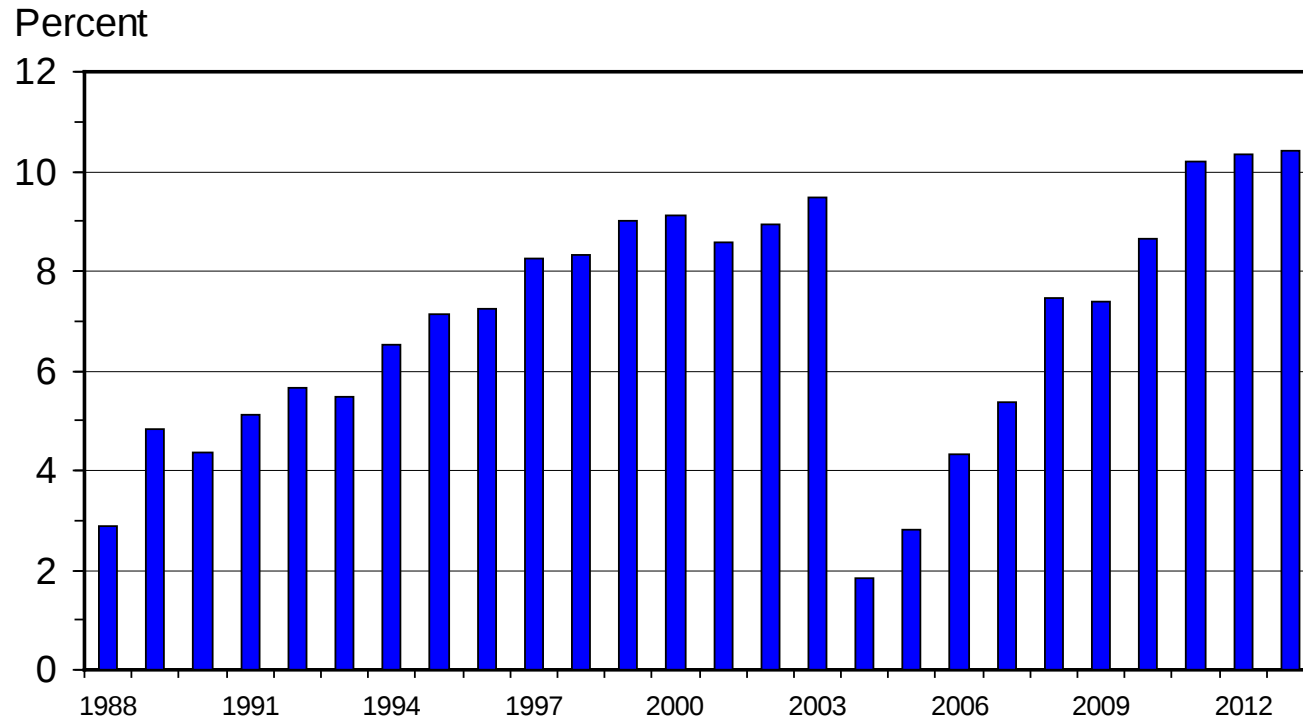


Source: Glynn T. Tonsor, Kansas State University, Jan. 2011



U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



Livestock Marketing Information Center

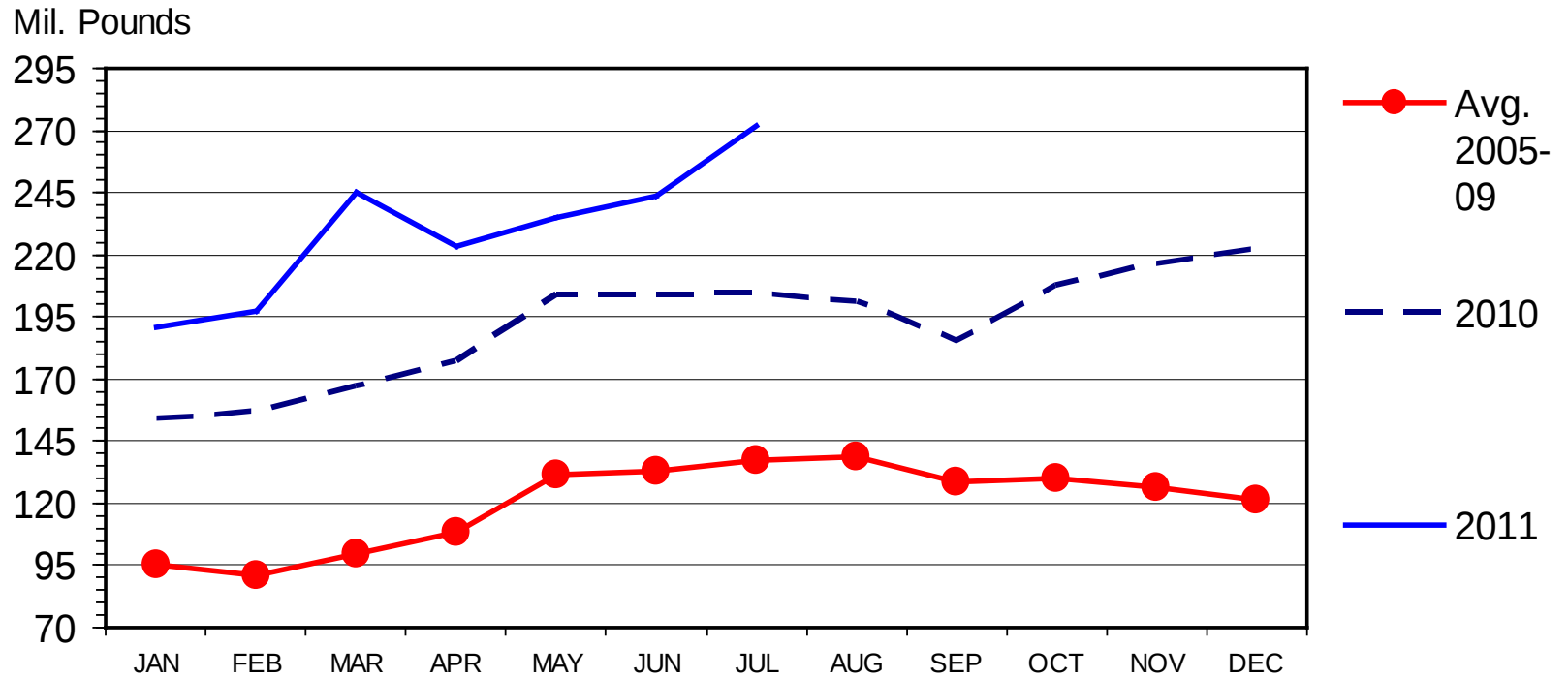
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-07
09/13/11



U S BEEF AND VEAL EXPORTS

Carcass Weight, Monthly



Livestock Marketing Information Center

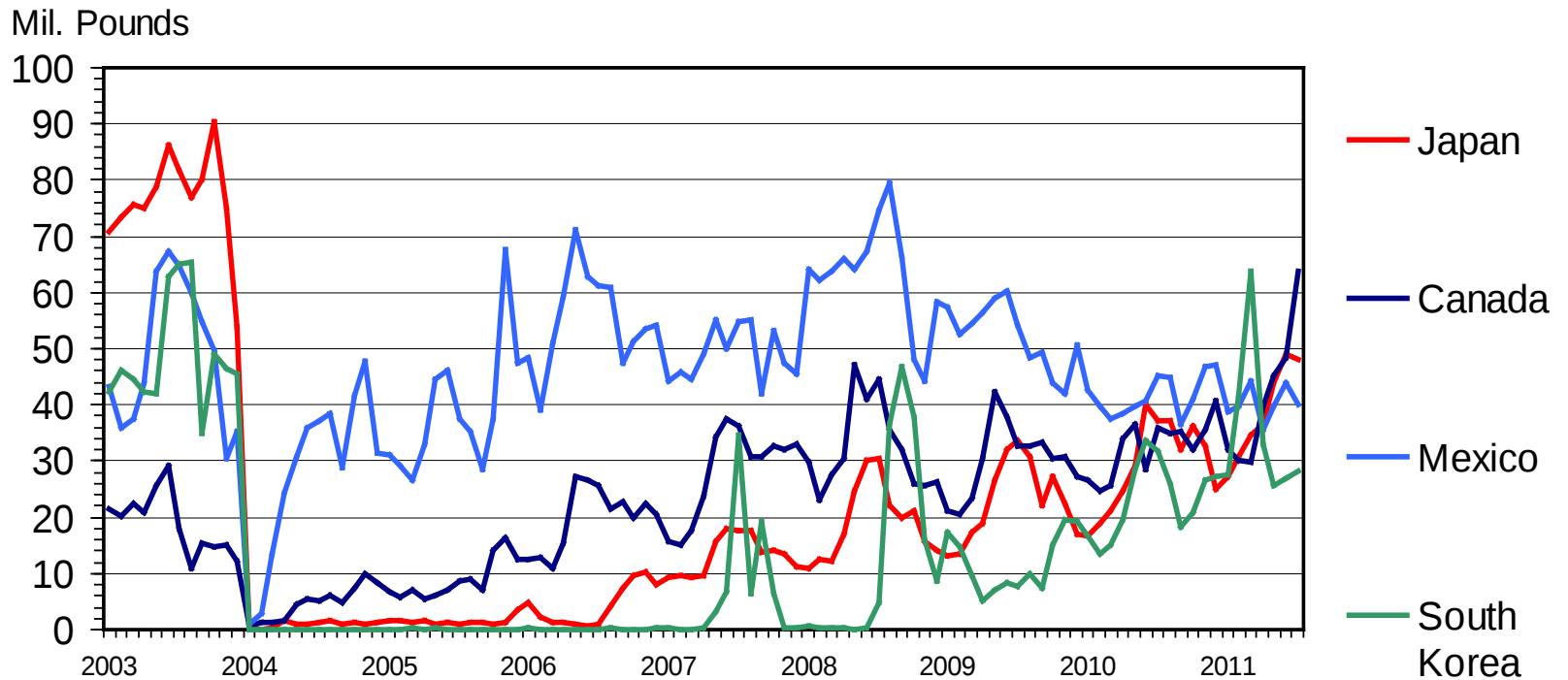
Data Source: USDA-ERS & USDA-FAS

I-N-16
09/09/11



U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



Livestock Marketing Information Center

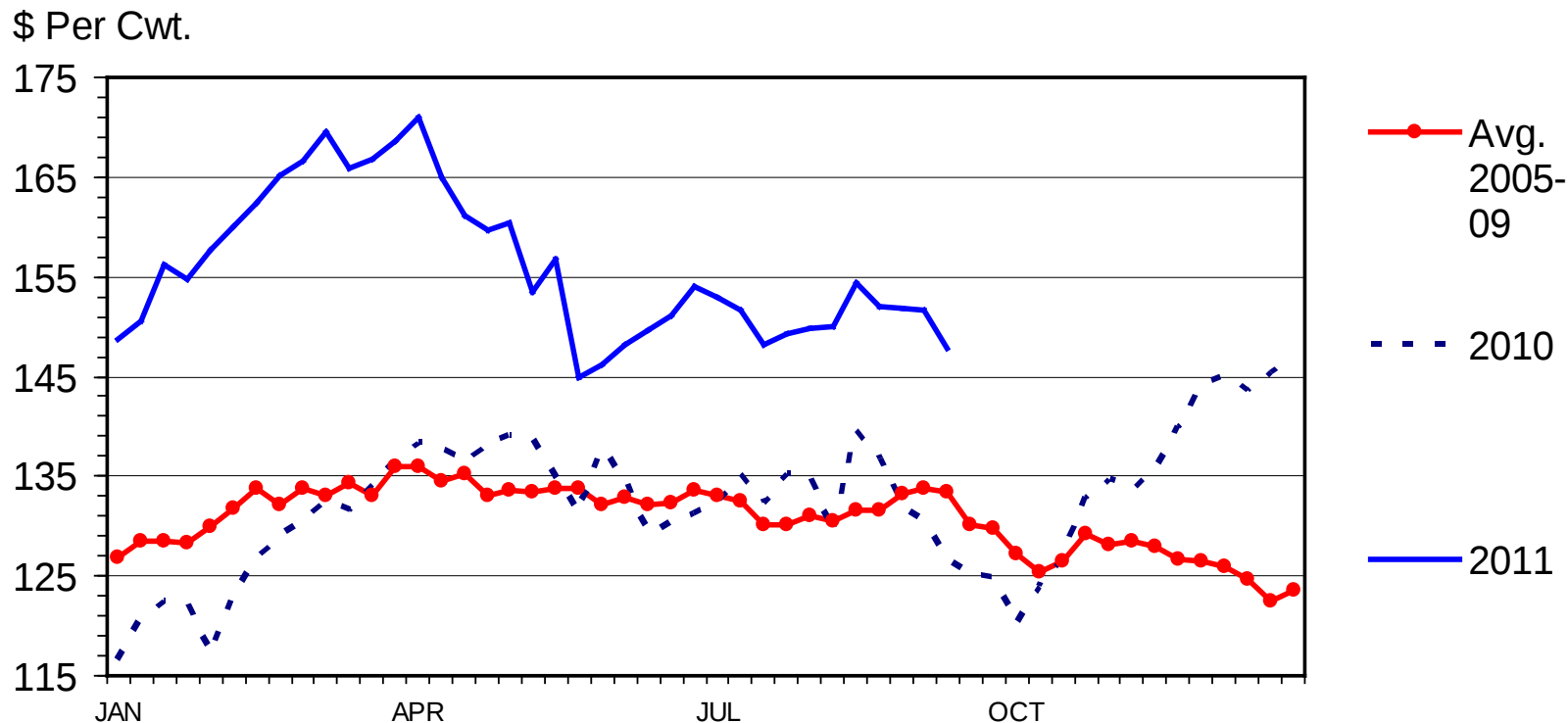
Data Source: USDA-ERS & USDA-FAS

I-N-35
09/09/11



MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

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

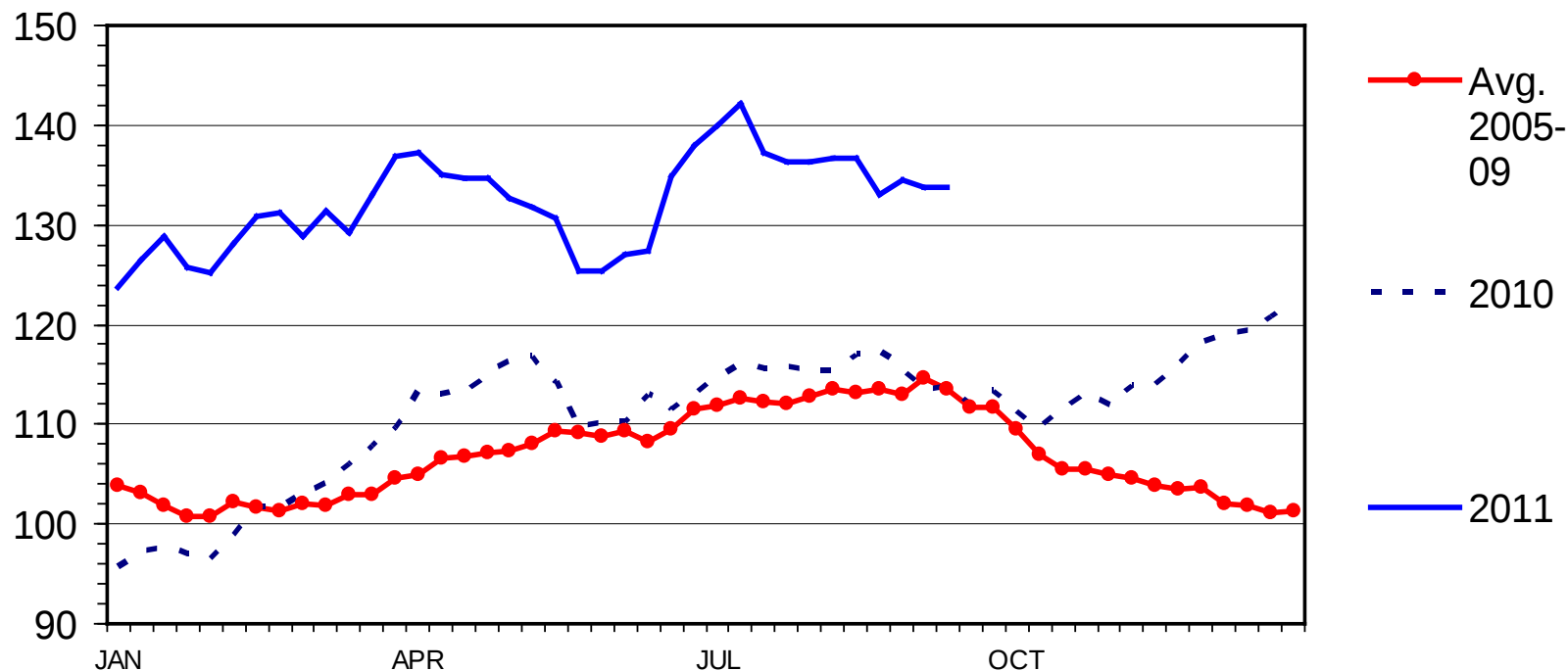
C-P-49A
09/19/11



MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly

\$ Per Cwt.



Livestock Marketing Information Center

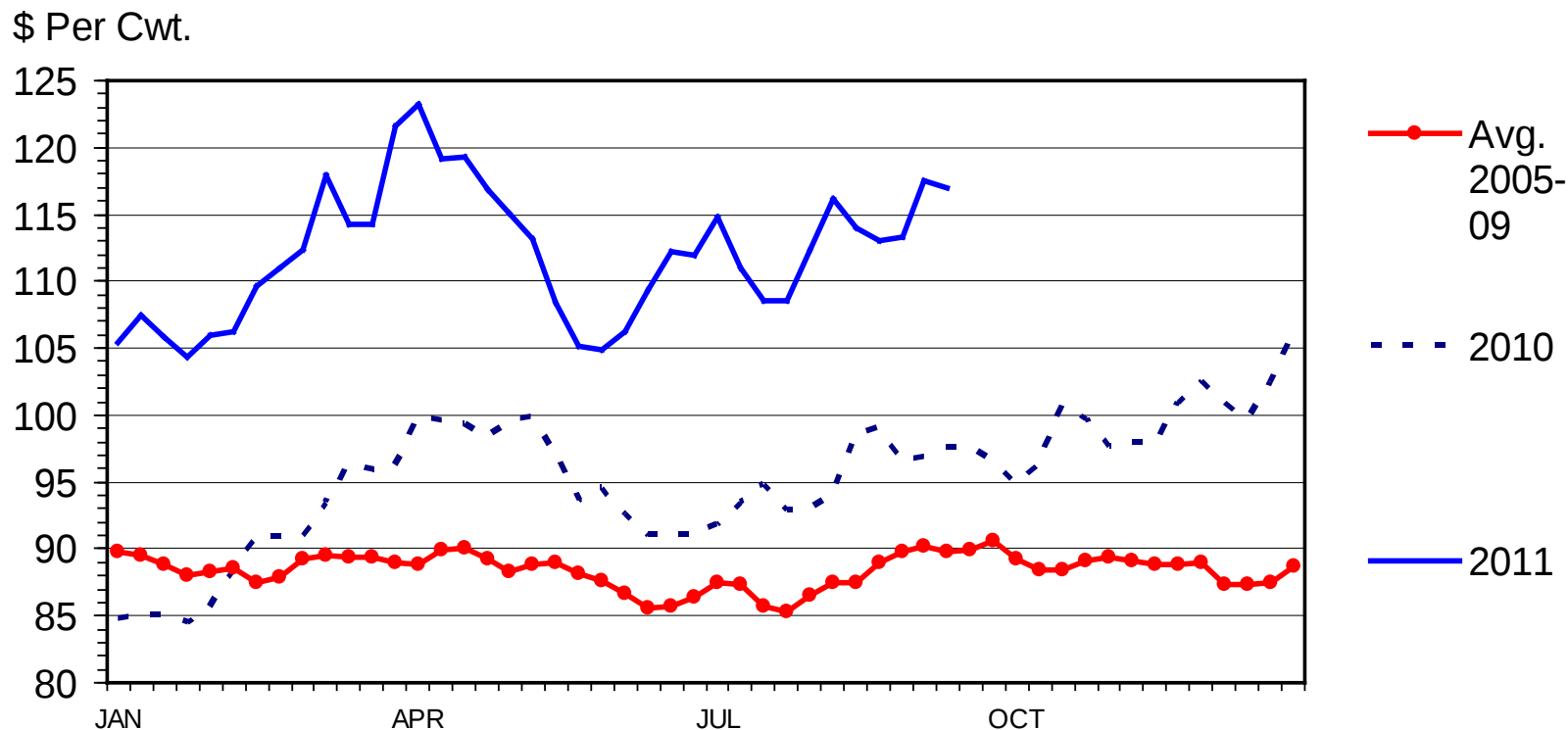
Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-49
09/19/11



SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



Livestock Marketing Information Center

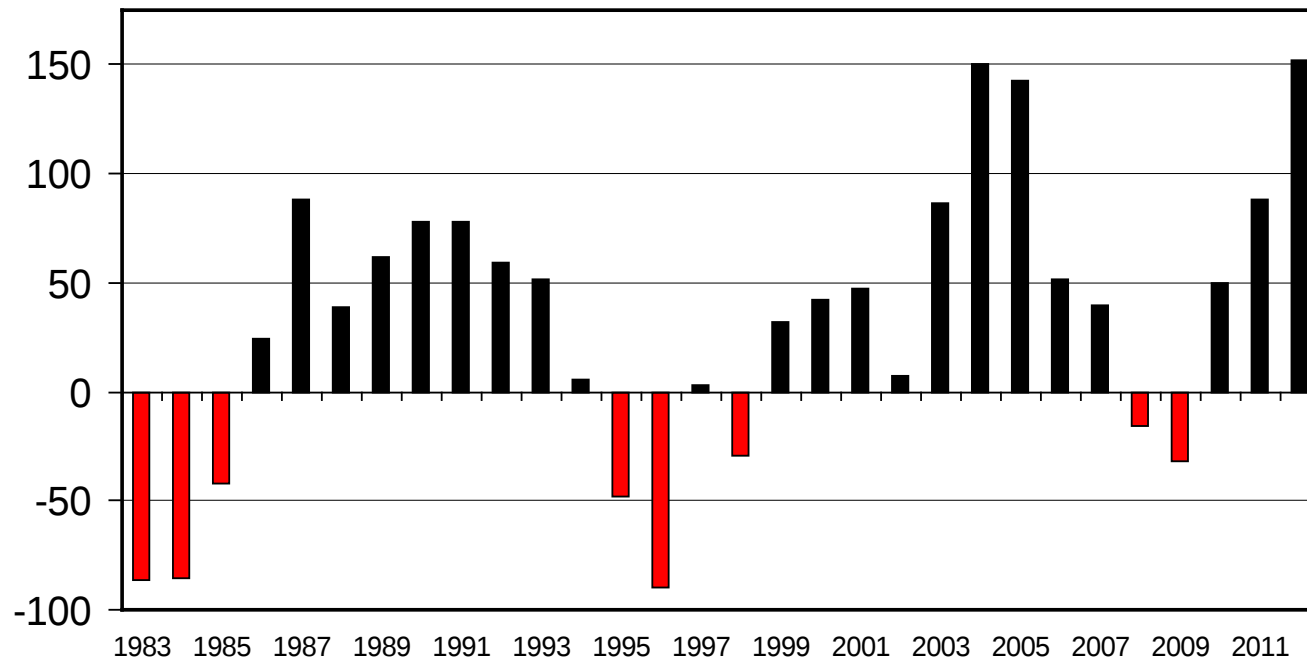
Data Source: USDA-AMS



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Livestock Marketing Information Center

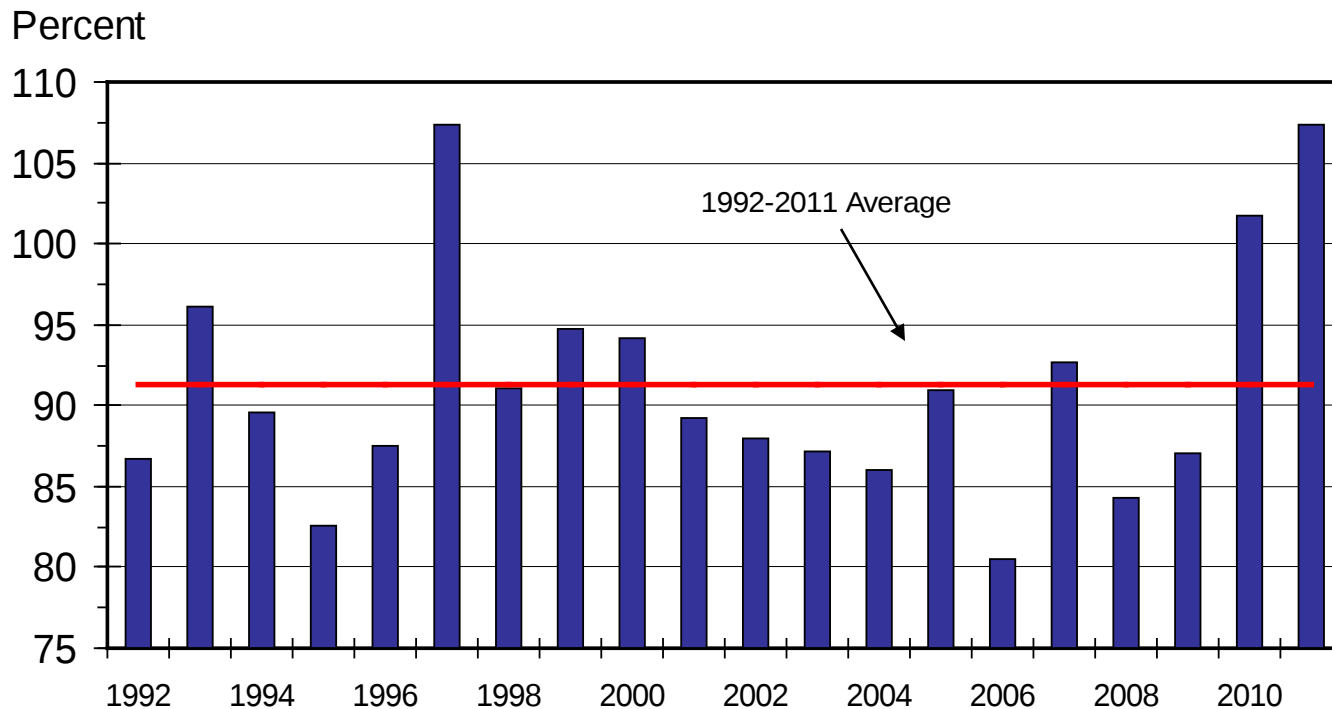
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
08/16/11



BUY/SELL MARGINS

S. Plains, Mar. 7-800 lb. Steer as % of Nov. 5-600 lb. Steer



Livestock Marketing Information Center

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

C-P-60
08/17/11



9/21/11 Salina, KS Situation:

- Basis.com forecasted price of 800 lb steer March 1, 2012 is \$137.37/cwt
- What is break-even purchase price of a 500 lb steer purchased on October 1, 2011? – forecasted price is \$165.67



“Buy-Sell” spreadsheet tool

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

Breakeven Buying Price Worksheet

Selling weight after shrink (pay-weight)	800
Expected selling price (\$/cwt)	\$137.37
Average Daily Gain (pay-to-pay)	2.00
Feeding cost of gain (\$/cwt)	\$75.00
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>						
	\$131.37	\$133.37	\$135.37	\$137.37	\$139.37	\$141.37	\$143.37
	<u>Breakeven Purchase Price²</u>						
450	164.49	167.87	171.24	174.61	177.98	181.35	184.72
500	156.25	159.30	162.35	165.40	168.44	171.49	174.54
550	149.55	152.33	155.11	157.90	160.68	163.47	166.25
600	143.99	146.56	149.12	151.68	154.25	156.81	159.38
650	139.33	141.70	144.08	146.46	148.84	151.22	153.59
700	135.36	137.58	139.80	142.01	144.23	146.45	148.67
750	131.95	134.03	136.11	138.19	140.27	142.35	144.43

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

² Based on a feeding cost of gain of \$75/cwt.

Expected Sales Price: \$137.37/cwt:

Expected Return: **-\$1.35/head** [5.0 * (\$165.40 - \$165.67)]



“Buy-Sell” spreadsheet tool

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

Purchase Weight	<u>Feeding Cost of Gain</u>						
	\$67.50	\$70.00	\$72.50	\$75.00	\$77.50	\$80.00	\$82.50
	Breakeven Purchase Price ¹						
450	180.08	178.26	176.43	174.61	172.78	170.96	169.13
500	169.60	168.20	166.80	165.40	164.00	162.60	161.20
550	161.05	160.00	158.95	157.90	156.85	155.80	154.74
600	153.96	153.20	152.44	151.68	150.93	150.17	149.41
650	148.00	147.48	146.97	146.46	145.95	145.44	144.93
700	142.91	142.61	142.31	142.01	141.72	141.42	141.12
750	138.53	138.42	138.30	138.19	138.08	137.96	137.85

¹ Based on a purchase price of \$137.3/cwt.

Expected Purchase Price: \$165.67/cwt

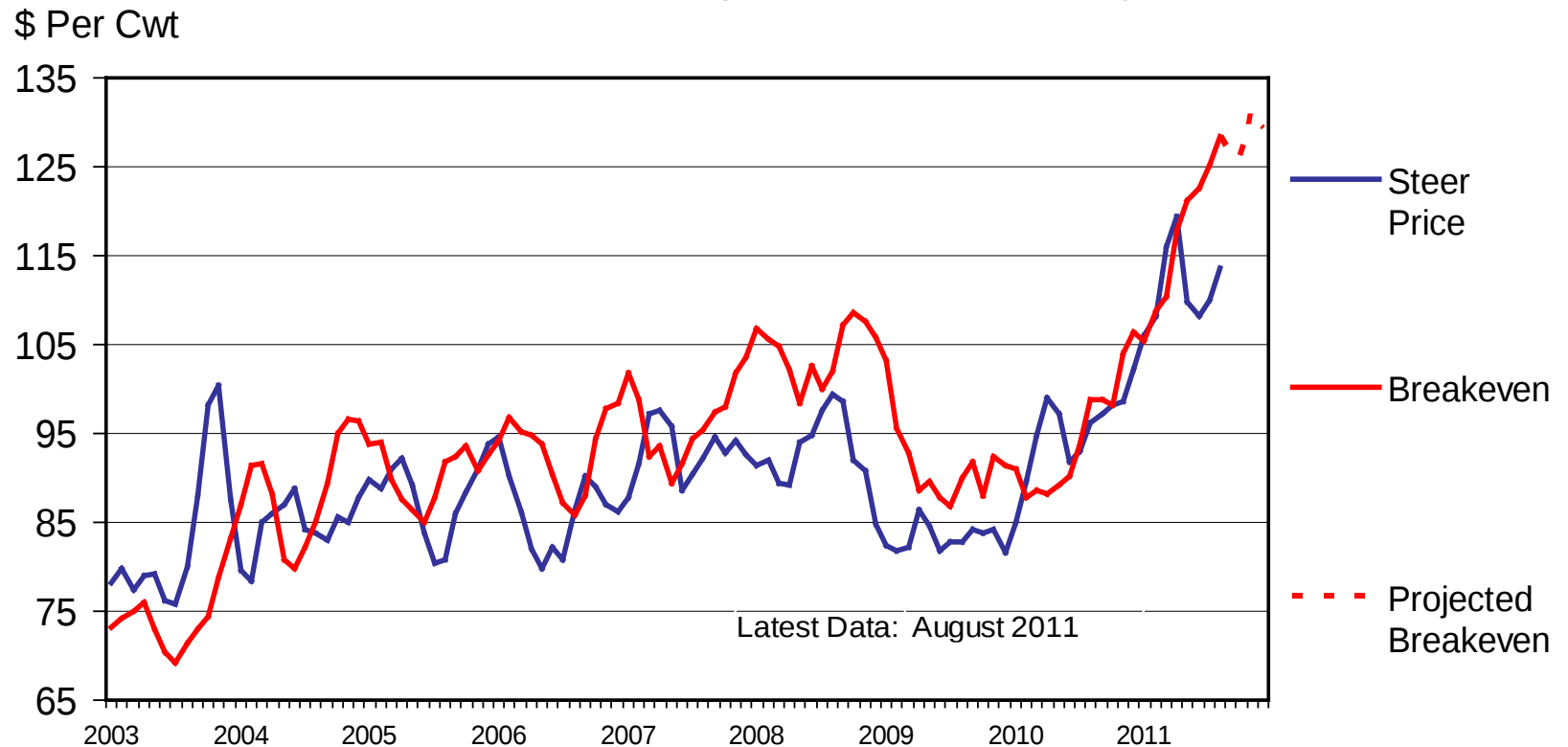
Feeding COG \$70 = +\$12.65/head Expected Return

Feeding COG \$80 = **-\$15.35/head** Expected Return



CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly



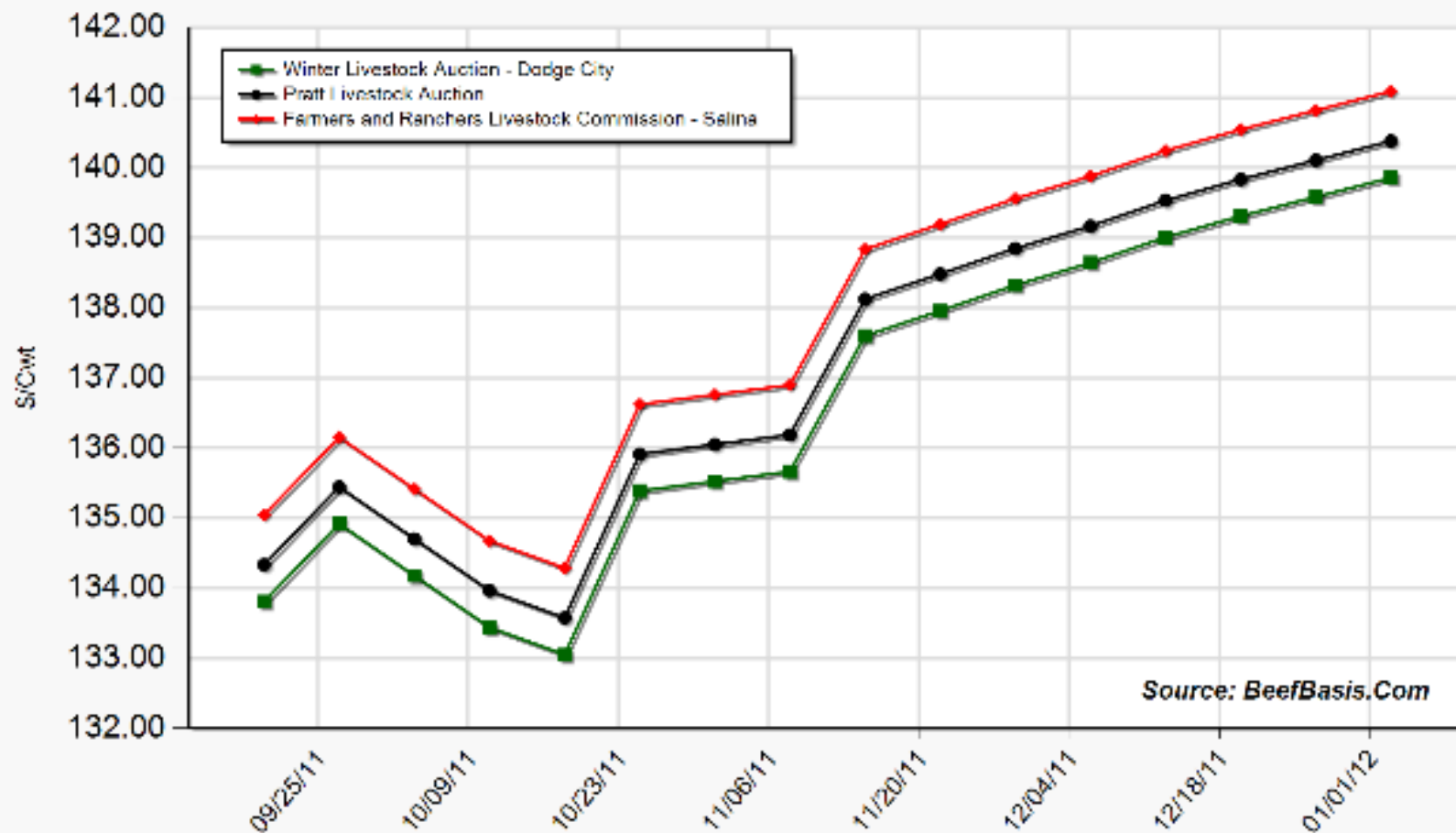
Livestock Marketing Information Center

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

C-P-21
09/15/11

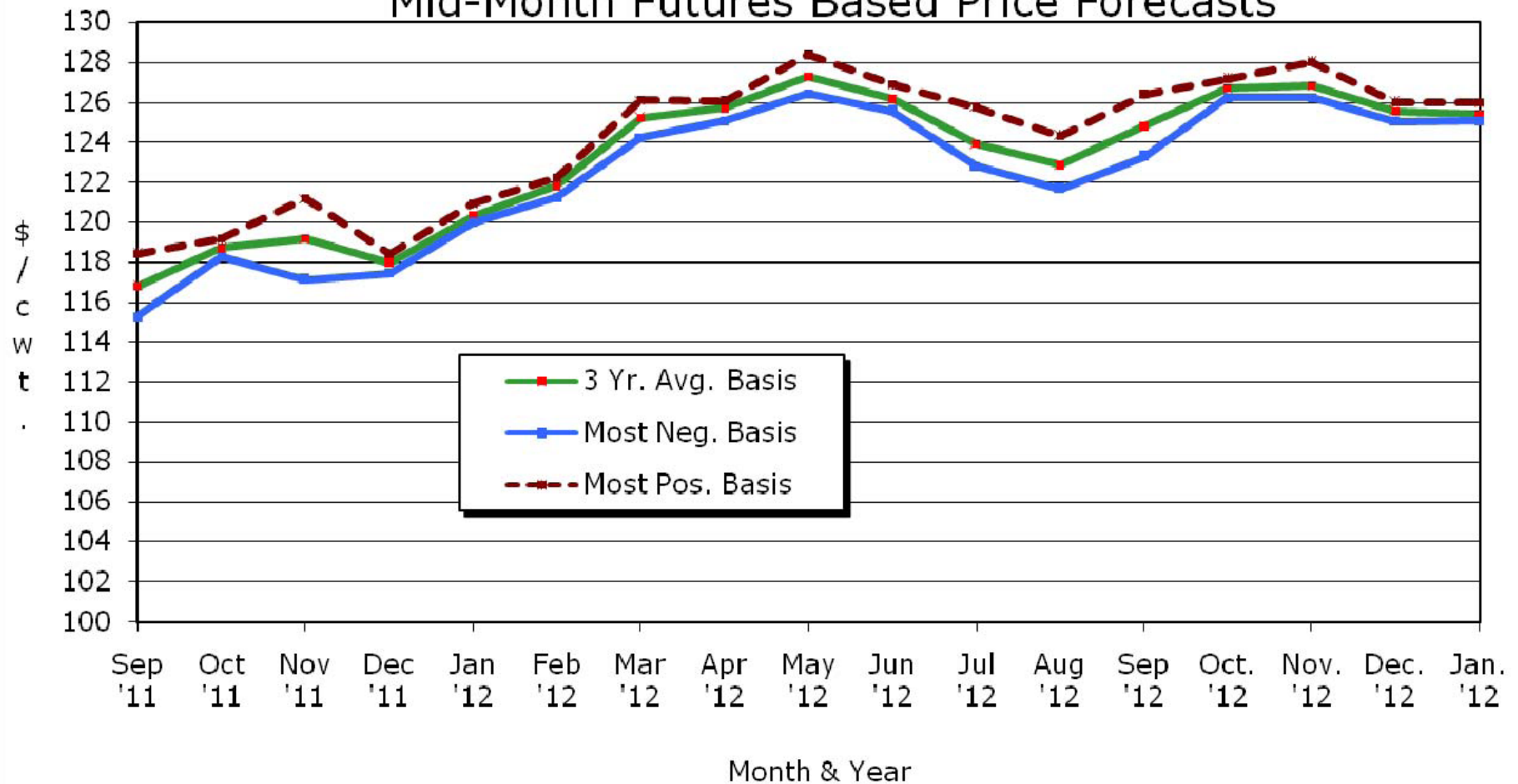


Projected Price for 650 Lb Steer at Selected Kansas Auctions



Kansas Slaughter Steer Price Forecasts

Mid-Month Futures Based Price Forecasts



Source: USDA-AMS, CME, & K-State Ag. Economics
Based on 9.16.11 CME Live Cattle settlement prices

KSU Dept. of Ag Econ
www.agmanager.info



QUARTERLY FORECASTS (LMIC: 9/20/11)

Year	Comm'l	% Chg.	Average	% Chg.	Comm'l	% Chg.
Quarter	Slaughter	from	Dressed	from	Beef	from
		Year Ago	Weight	Year Ago	Production	Year Ago
2011						
I	8,317	1.9	771	0.7	6,411	2.6
II	8,639	-0.5	759	0.7	6,559	0.2
III	8,771	0.2	773	-0.1	6,778	0.1
IV	8,195	-5.3	782	0.4	6,406	-5.0
Year	33,922	-1.0	771	0.4	26,154	-0.6
2012						
I	7,934	-4.6	779	1.1	6,182	-3.6
II	8,180	-5.3	766	0.9	6,269	-4.4
III	8,182	-6.7	786	1.7	6,428	-5.2
IV	7,914	-3.4	788	0.9	6,239	-2.6
Year	32,210	-5.0	780	1.1	25,118	-4.0
2013						
I	7,483	-5.7	788	1.2	5,898	-4.6
II	7,766	-5.1	772	0.7	5,995	-4.4
III	8,116	-0.8	793	1.0	6,438	0.2
IV	7,657	-3.2	794	0.8	6,083	-2.5
Year	31,022	-3.7	787	0.9	24,414	-2.8



QUARTERLY FORECASTS (LMIC: 9/20/11)

Year	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price	
Quarter	5-Mkt Avg	Year Ago	Southern Plains 7-800#	5-600#
2011				
I	110.12	23.11	129.06	150.07
II	112.79	17.08	132.03	148.61
III	112-113	17.84	135-137	141-143
IV	115-118	16.18	130-134	136-140
Year	112-114	18.47	131-133	142-147
2012				
I	116-120	7.16	126-131	139-146
II	118-123	6.84	130-137	144-153
III	114-120	4.00	133-141	146-156
IV	117-124	3.43	128-137	141-152
Year	117-121	5.31	129-137	142-152
2013				
I	119-127	4.24	129-139	143-157
II	121-130	4.15	133-144	146-159
III	116-126	3.42	135-147	147-161
IV	119-130	3.32	131-144	143-158
Year	120-127	3.78	133-143	146-158



Looking Beyond Today's Ps & Qs



Beef industry changes underway...

- BEEF Magazine Poll (N=99 as of 8/17)
 - “If you had to liquidate cattle this year because of flooding or drought, what do you plan to do with the proceeds?”
 - 47% Restock with cows when conditions improve
 - 9% Restock but change production models (e.g., buy stockers rather than cows)
 - 27% Keep the cash; leave the business
 - 6% Reinvest the cash in another non-livestock ag enterprise
 - 10% Don't know
- Sales value of cull cows is about = for all
 - Those with higher costs, opportunities to row crop, etc. may increasingly exit
 - Expansion will not come from those with higher costs and notable alternative opportunities...



Beef industry changes underway...

- Expansion of stocker segment continues...
- Feedlot closeout trends:
 - Increasing final weights, ADG, & Feeding costs
 - Decreasing DOF & Feed-to-Gain
- Overall movement to more forage based gain = opportunity for cow-calf/stockers with associated comparative advantages...



Policy/Regulation Issues & Trends

- GIPSA “fair market” proposed rules / “anti-competition” listening sessions ...
 - No timetable on USDA’s ben.-cost assessment...
- environmental regulation concerns
- WTO MCOOL ruling in fall of 2011?
- animal welfare/mandatory labeling?
 - Is overall uncertainty holding back investment throughout supply chain???



Ending thought...

- Beef-cattle industry is facing increasing volatility and uncertainty while also being asked to do more with less...
- Increased risk may signal opportunity and higher average returns...
 - within industry variations in views and comparative advantages will determine the ability to profit and shape future of industry...



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

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Other References of Notable Interest:

- <http://www.agmanager.info/livestock/budgets/production/default.asp>
 - Value of Gain (Situation and Decision Tool Overview)
 - Cattle Cycles (Historical Overview and Implications)
 - KSU-Beef Replacement (Calculate Economic Value of Purchasing Replacements)



Notable AgManager Resources

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

- Weekly commentary & newsletters
- Current & historical price information
- Risk management/forecasting tools



Weekly Email Distribution of AgManager Updates

- <http://listserv.ksu.edu/web?SUBED1=AGMANAGERUPDATE&A=1>

OR email your request to:

- Rich Llewelyn
[rllewely@AGECON.KSU.EDU]



Regular Newsletters & Commentary

- KSU Radio Interview

- (<http://www.agmanager.info/livestock/marketing/outlook/newsletters/default.asp>)
- OR (<http://www.ksre.k-state.edu/news/DesktopDefault.aspx?tabid=66>)
- Weekly, released on Mondays (Tonsor, Mark, Peel, LMIC)

- “In the Cattle Markets”

- (<http://www.lmic.info/memberspublic/InTheCattleMarket/CattleMktsframe.html>)
- Weekly (Mark, Feuz, Petry, Riley/Anderson)

- Recent Cattle Finishing Returns

- (<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>);
- monthly updates based on *Focus on Feedlots* newsletter



Regular “Situation Update” Commentary: LMIC

- “Chart of the Week”
 - (<http://www.lmic.info/index.shtml>)
- “Weekly Price & Production Summary”
 - (<http://www.lmic.info/priprod/pandp.html>)
- “Quick Market Reports”
 - (<http://www.lmic.info/quick/quickdr.html>)



Current Price & Basis Information

- Futures Markets

- (<http://www.cmegroup.com/trading/commodities/>) OR
<http://www.agmanager.info/livestock/marketing/futures/default.asp>)
- LC, FC, LH & C, SB, S, W

- Cash Markets

- [http://www.agmanager.info/livestock/marketing/graphs/default.asp#Price Charts](http://www.agmanager.info/livestock/marketing/graphs/default.asp#Price%20Charts)
- [http://www.agmanager.info/livestock/marketing/database/default.asp#Cattle and Beef Databases](http://www.agmanager.info/livestock/marketing/database/default.asp#Cattle%20and%20Beef%20Databases)
 - Dodge City, Pratt, & Salina 700-800 lb steer; KS Direct Slaughter steer prices

- Basis (Cash - Futures) Information

- [http://www.agmanager.info/livestock/marketing/graphs/default.asp#Basis Charts](http://www.agmanager.info/livestock/marketing/graphs/default.asp#Basis%20Charts)
- BeefBasis.com (<http://www.beefbasis.com/>)



Risk Management and Return Forecasting Tools Available:

- Feeder Cattle Sales Risk Management Tool,
 - Compare expected sales prices of alternative FC marketing strategies
 - (<http://www.agmanager.info/livestock/marketing/LRP/default.asp>)
- Feedlot Profitability Tool: NAIBER's Feeding Risk Analyzer
 - Forecasts feedlot returns and variability in returns for future placements
 - (<http://www.naiber.org/cattleriskalyzer/>)
- BeefBasis.com
 - Decision support for hedging feeder cattle (output for cow-calf; input for feedlots)
 - (<http://www.beefbasis.com/Home/tabid/53/Default.aspx>)

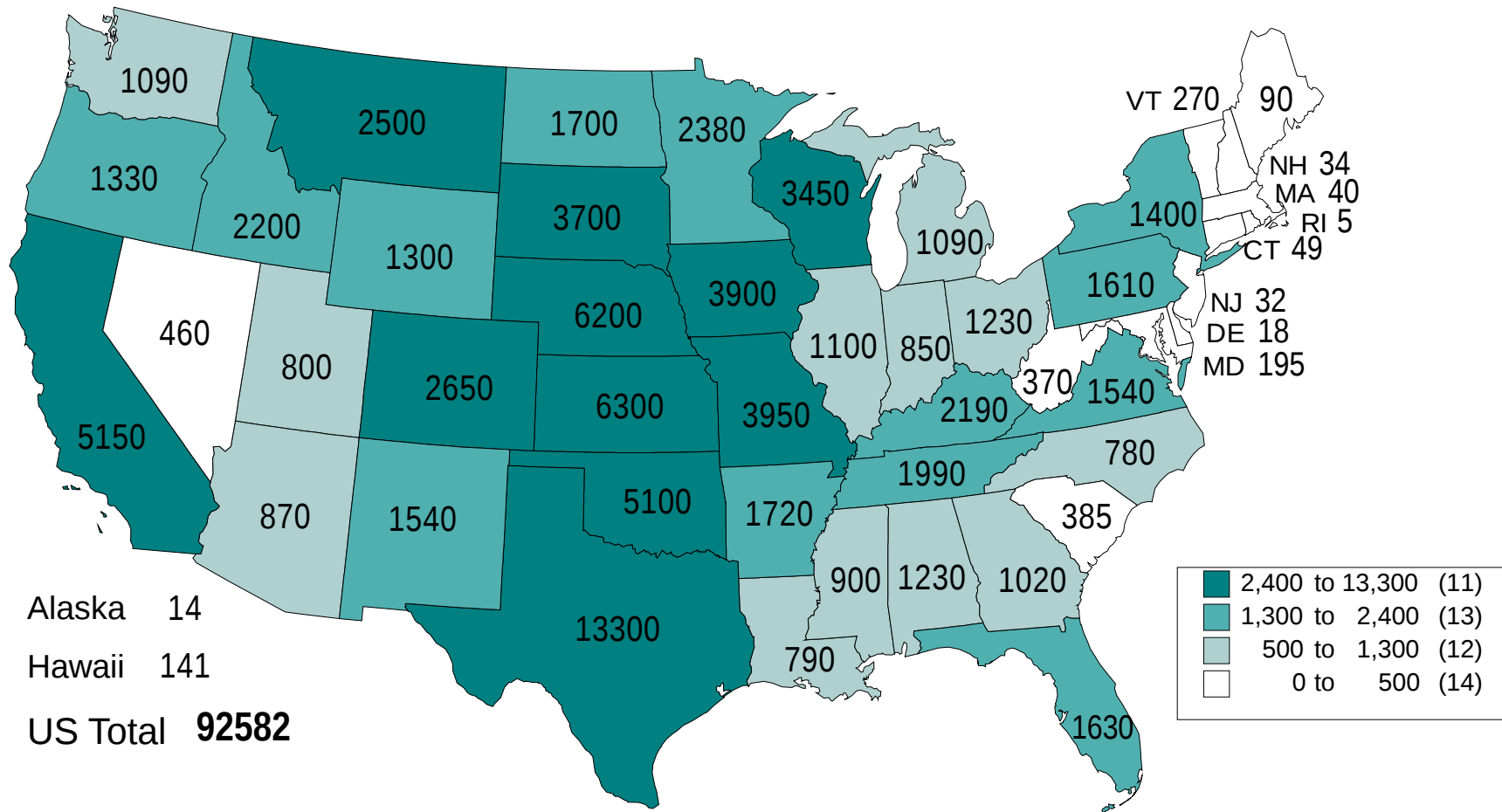


Other References of Interest:

- March '11 ERS Report on Cow-Calf Industry
 - <http://www.ers.usda.gov/publications/eib73/>
- Beef Demand Information
 - Journal articles, fact sheet, annual & quarterly demand indices
 - <http://www.agmanager.info/livestock/marketing/Beef%20Demand/default.asp>
- Animal Well-Being Information
 - Journal articles, fact sheets, and short video summaries
 - <http://www.agmanager.info/livestock/marketing/AnimalWelfare/default.asp>
- Animal Identification & Traceability Information
 - Journal articles, fact sheets, and short video summaries
 - <http://www.agmanager.info/livestock/marketing/AnimalID/default.asp>



TOTAL CATTLE NUMBERS JANUARY 1, 2011 (1000 Head)



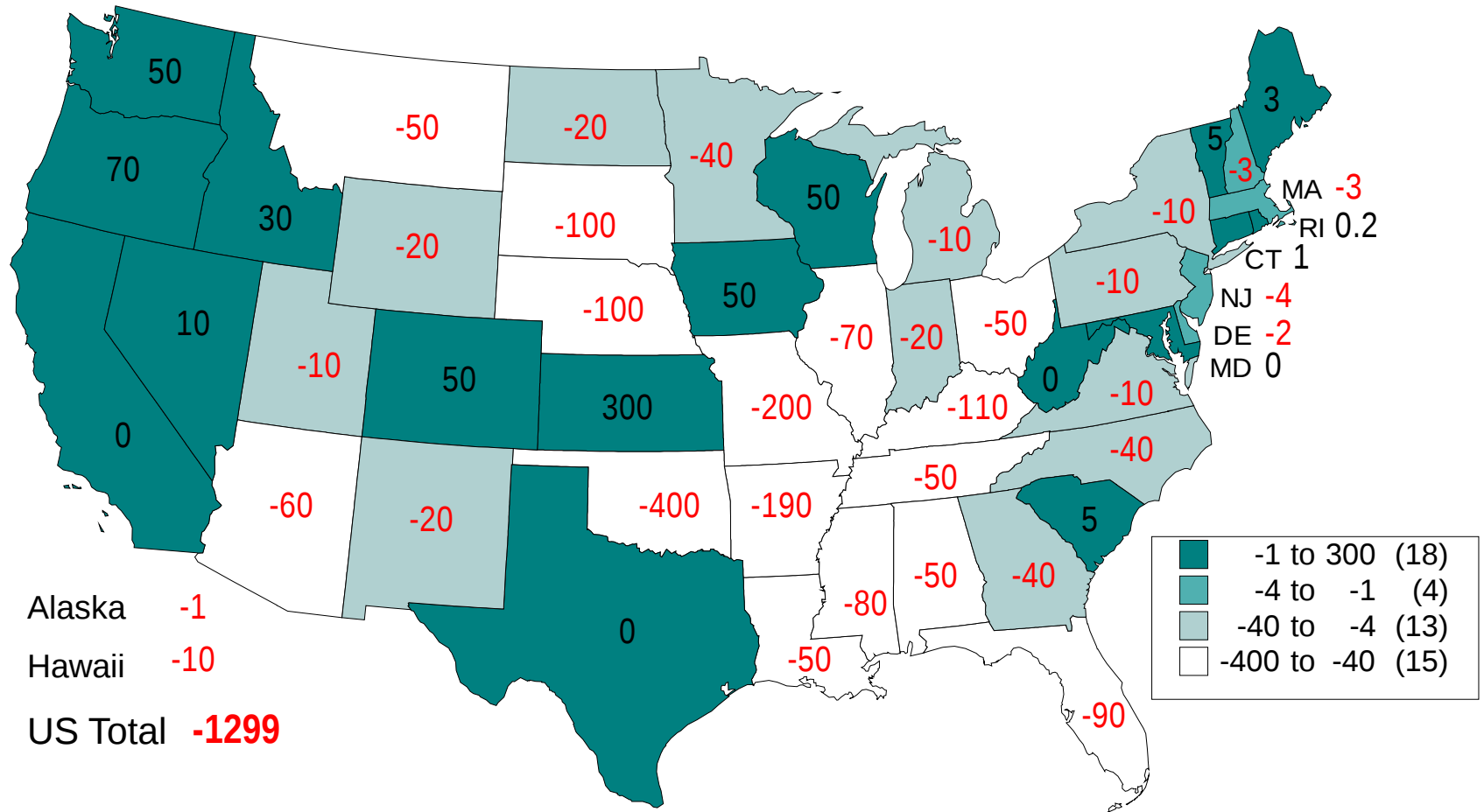
Livestock Marketing Information Center

Data Source: USDA/NASS

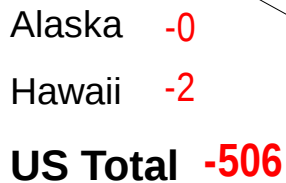
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01/28/11



CHANGE IN TOTAL CATTLE NUMBERS 2010 - 2011 (1000 Head)



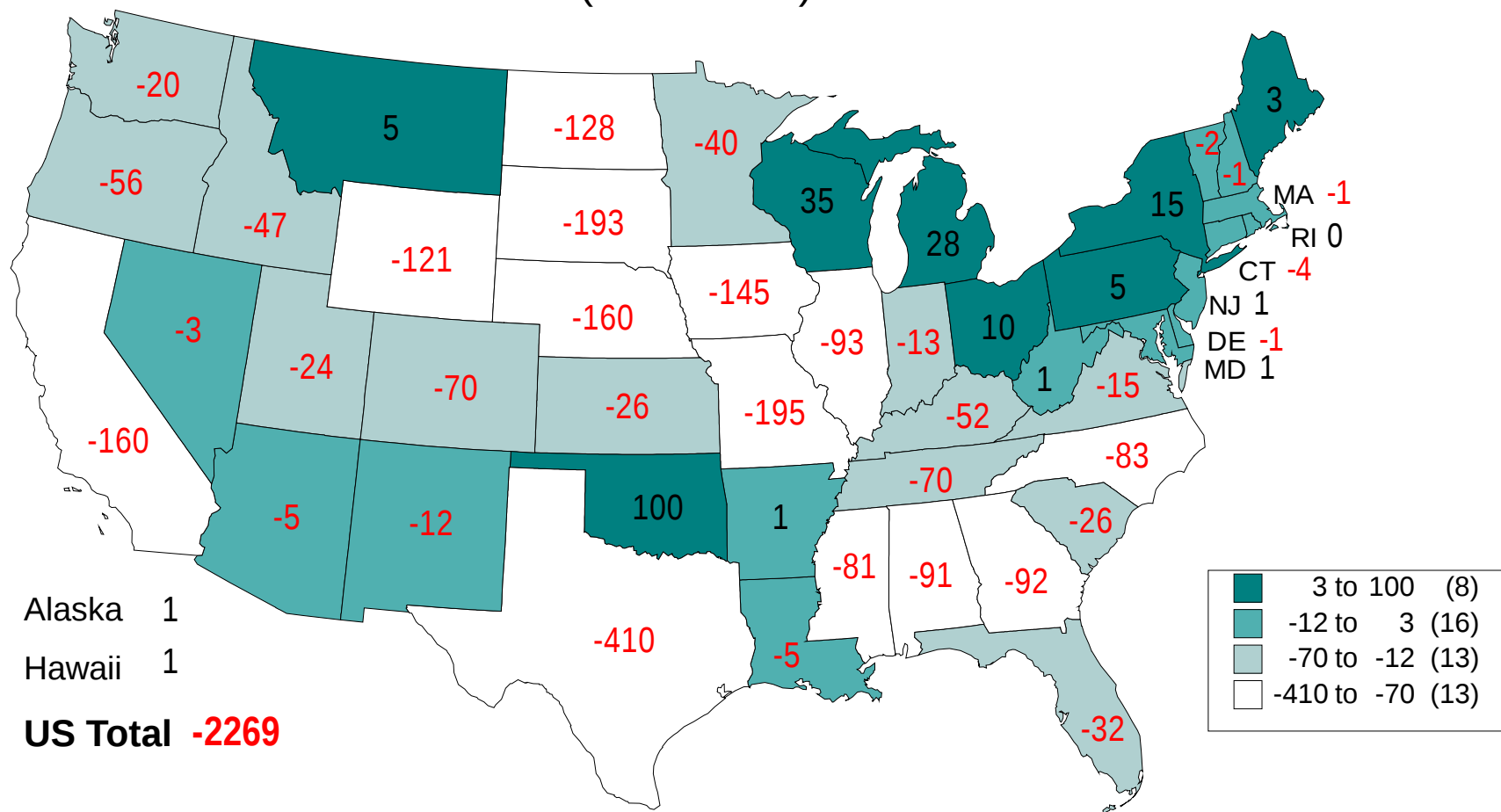
**CHANGE IN BEEF COW NUMBERS
JANUARY 1, 2010 TO JANUARY 1, 2011
(1000 Head)**



Data Source: USDA/NASS

C-N-28
01/28/11

CHANGE IN BEEF COW NUMBERS JANUARY 1, 2002 TO JANUARY 1, 2011 (1000 Head)



Livestock Marketing Information Center

Data Source: USDA/NASS

C-N-29
01/28/11

