



Beef & Cattle Market Outlook

Glynn Tonsor

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

**2011-2012 Ag Profitability Conferences
Wichita, KS December 6, 2011**



OVERVIEW

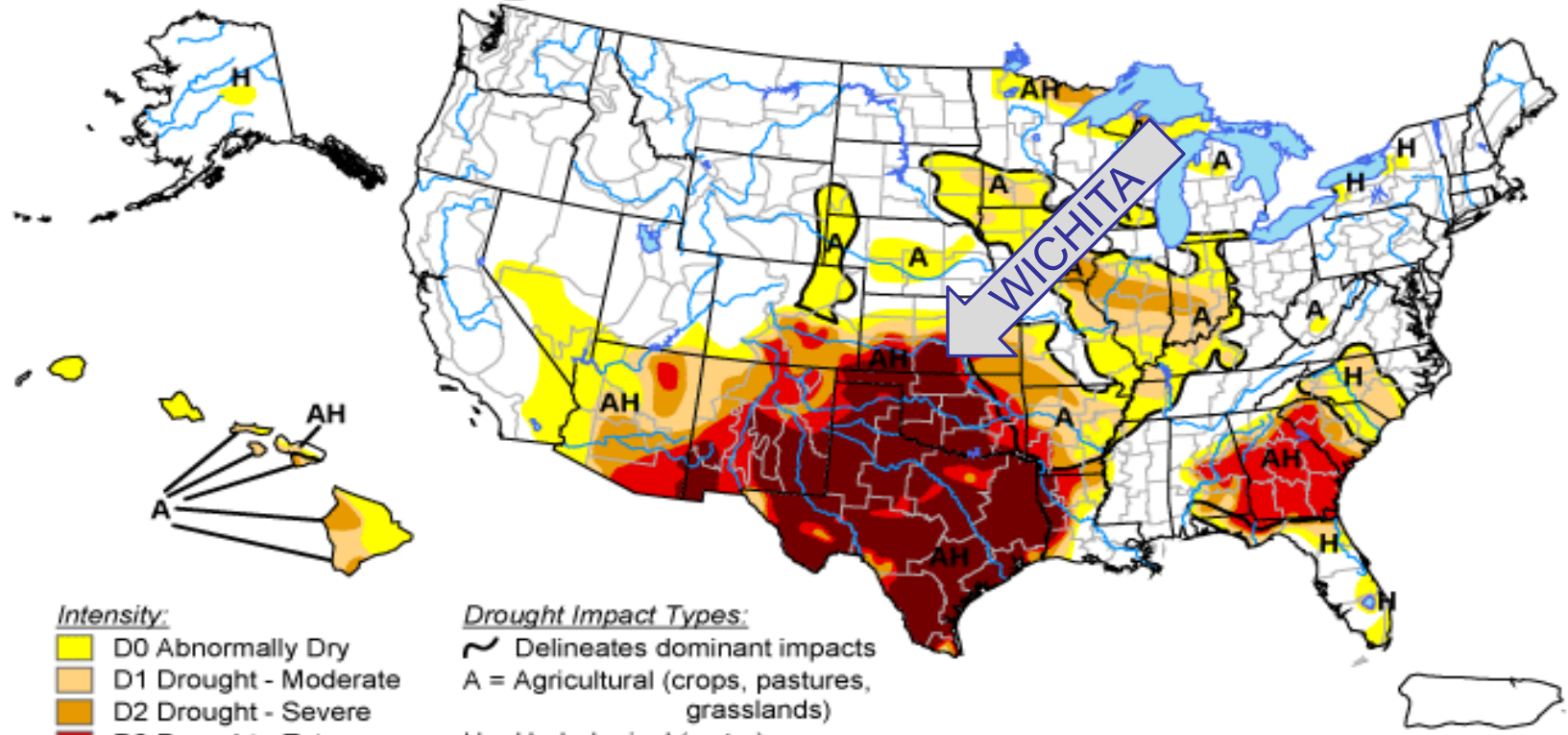
- FEEDSTUFFS:
 - Drought triggered liquidations; recent relief for some
 - “Expensive” and “hard to find” feed...
- SUPPLY:
 - Short-run (drought) vs. long-run (herd) perspectives
 - Shrinking cow herd, expansion uncertainty
 - Structural changes underway...
- DEMAND:
 - Export demand remains strong
 - Domestic demand surpassing expectations



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:**
- Yellow: D0 Abnormally Dry
 - Light Orange: D1 Drought - Moderate
 - Orange: D2 Drought - Severe
 - Red: D3 Drought - Extreme
 - Dark Red: 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.

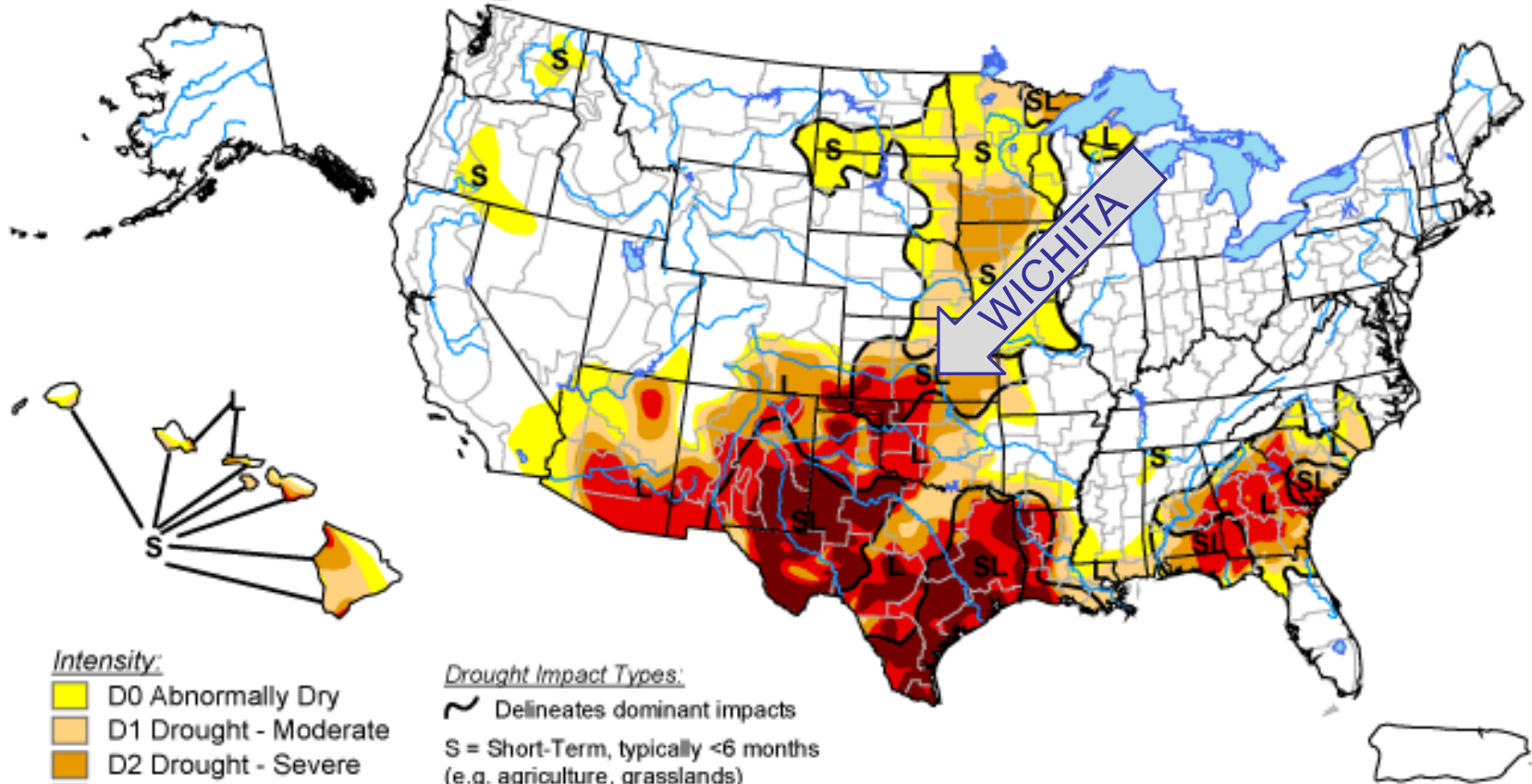


Released Thursday, September 15, 2011
Author: Mark Svoboda, National Drought Mitigation Center

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

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/>

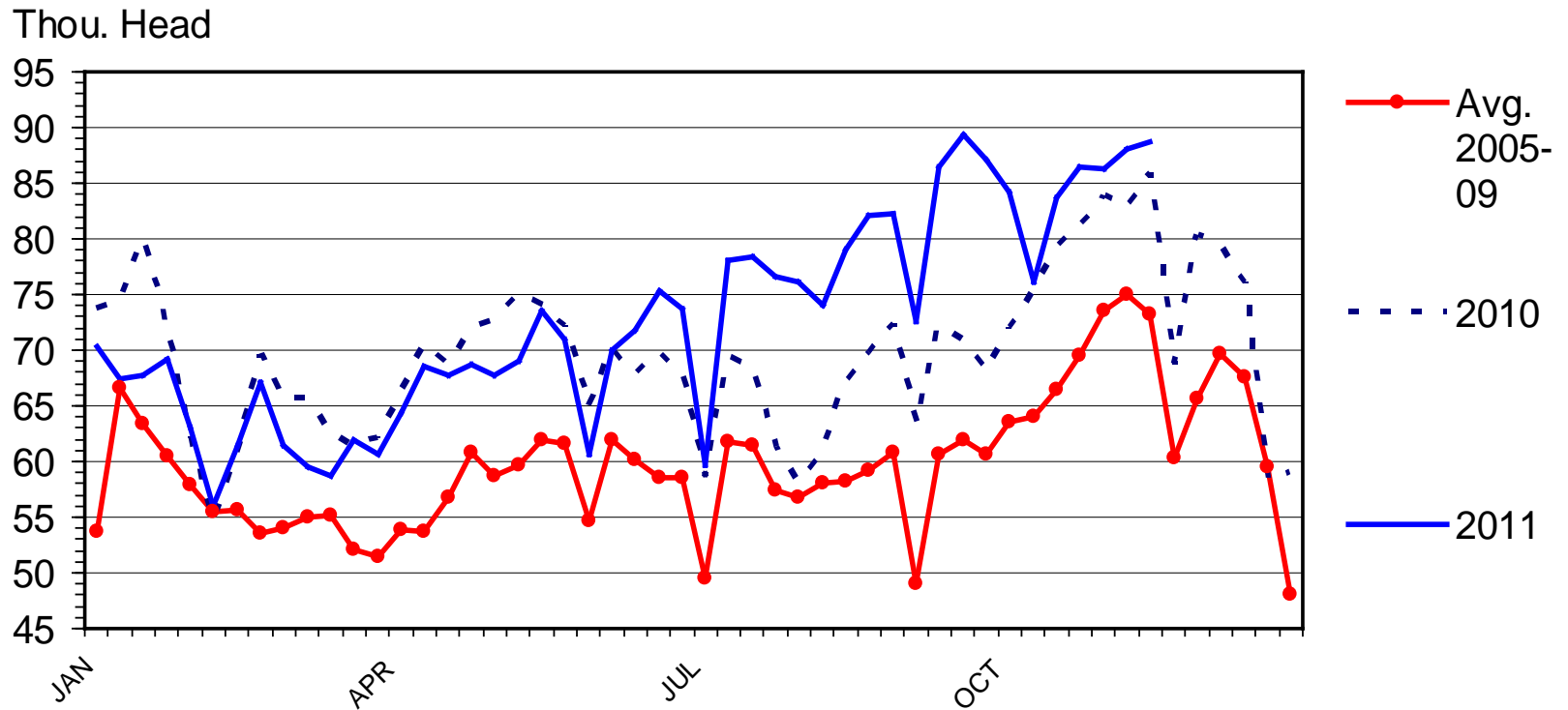


Released Thursday, December 1, 2011
Author: David Miskus, NOAA/NWS/NCEP/CPC



BEEF COW SLAUGHTER

Federally Inspected, Weekly



Livestock Marketing Information Center

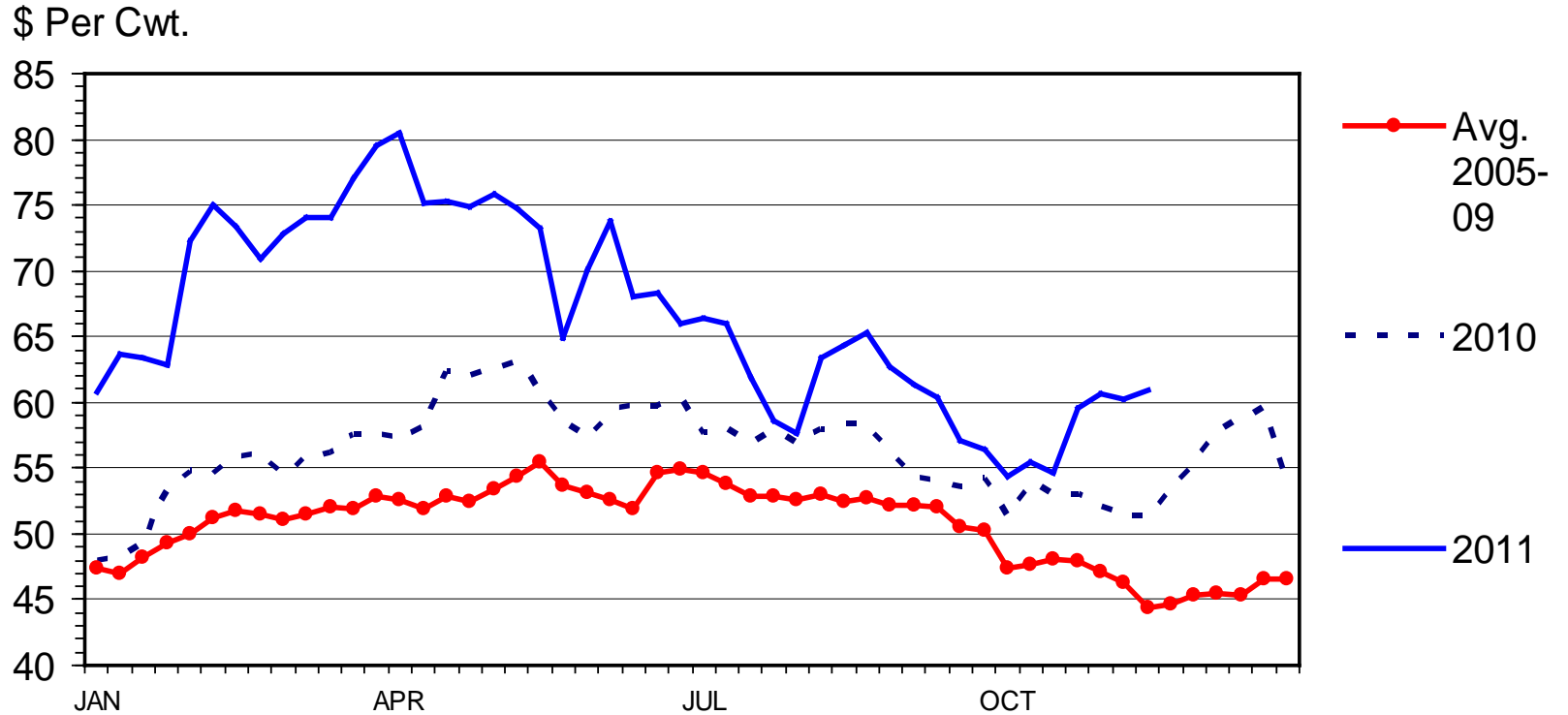
Data Source: USDA-AMS & USDA-NASS

C-S-34
12/02/11



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS

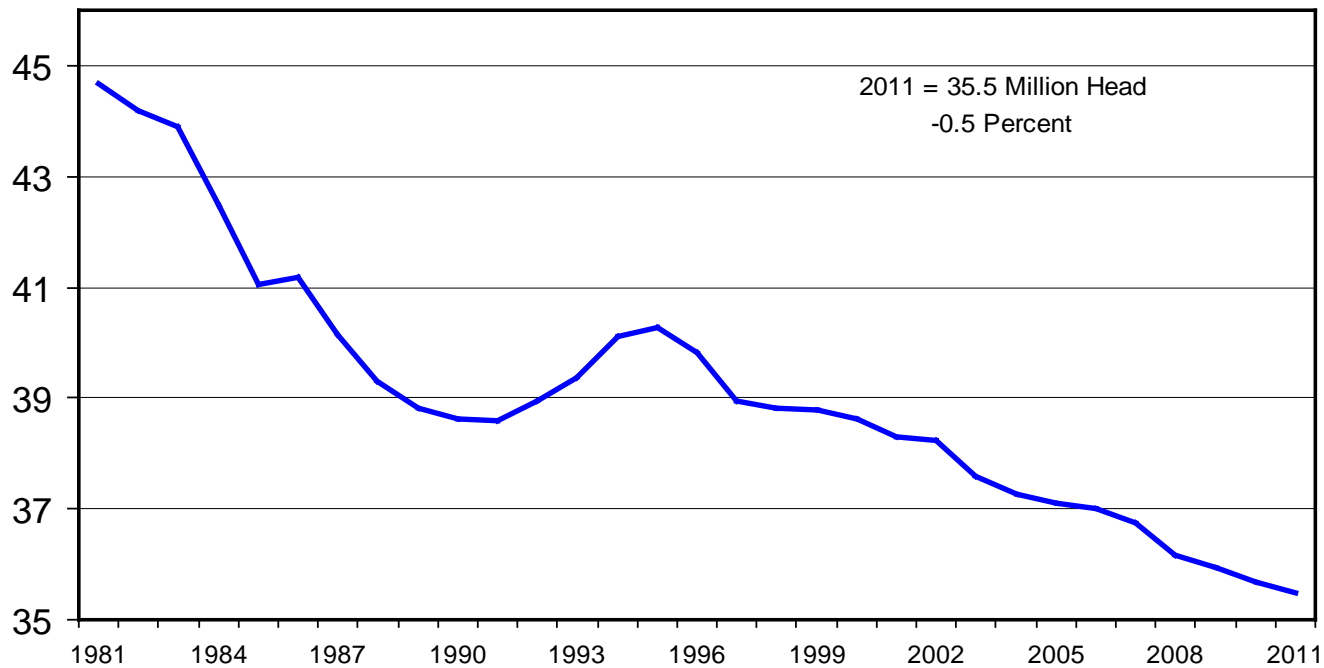
C-P-35
11/28/11



CALF CROP

July 1 Estimates, U.S., Annual

Mil. Head



Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-18B
07/22/11



When will U.S. national herd expand?

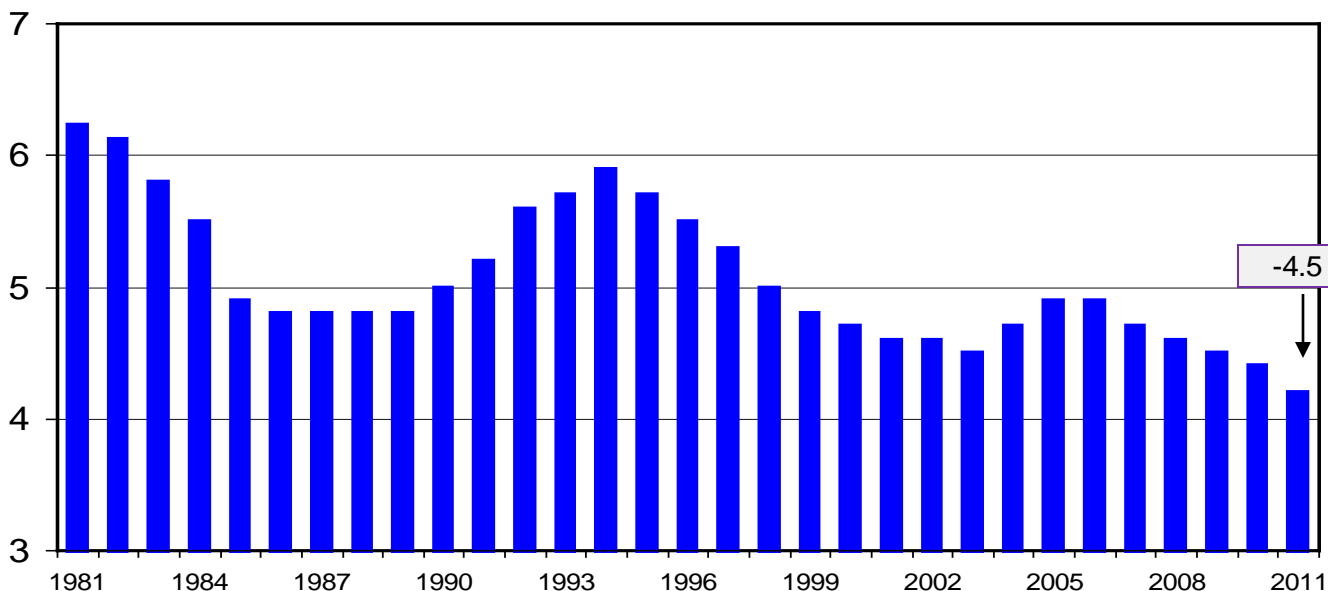
-- by 2014???

-- 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

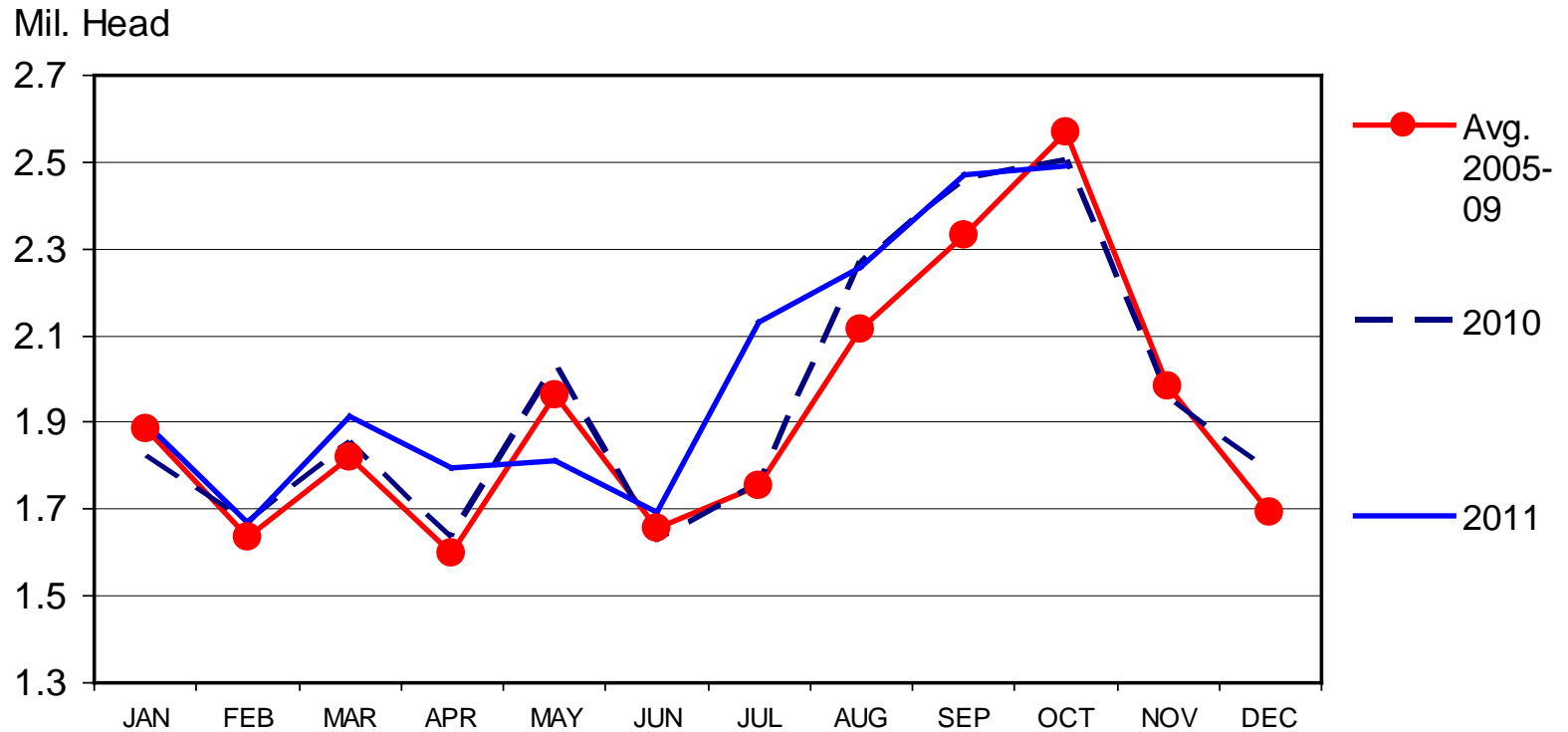
C-N-37
07/22/11

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



FEEDLOT PLACEMENTS

US Total, Monthly



Livestock Marketing Information Center

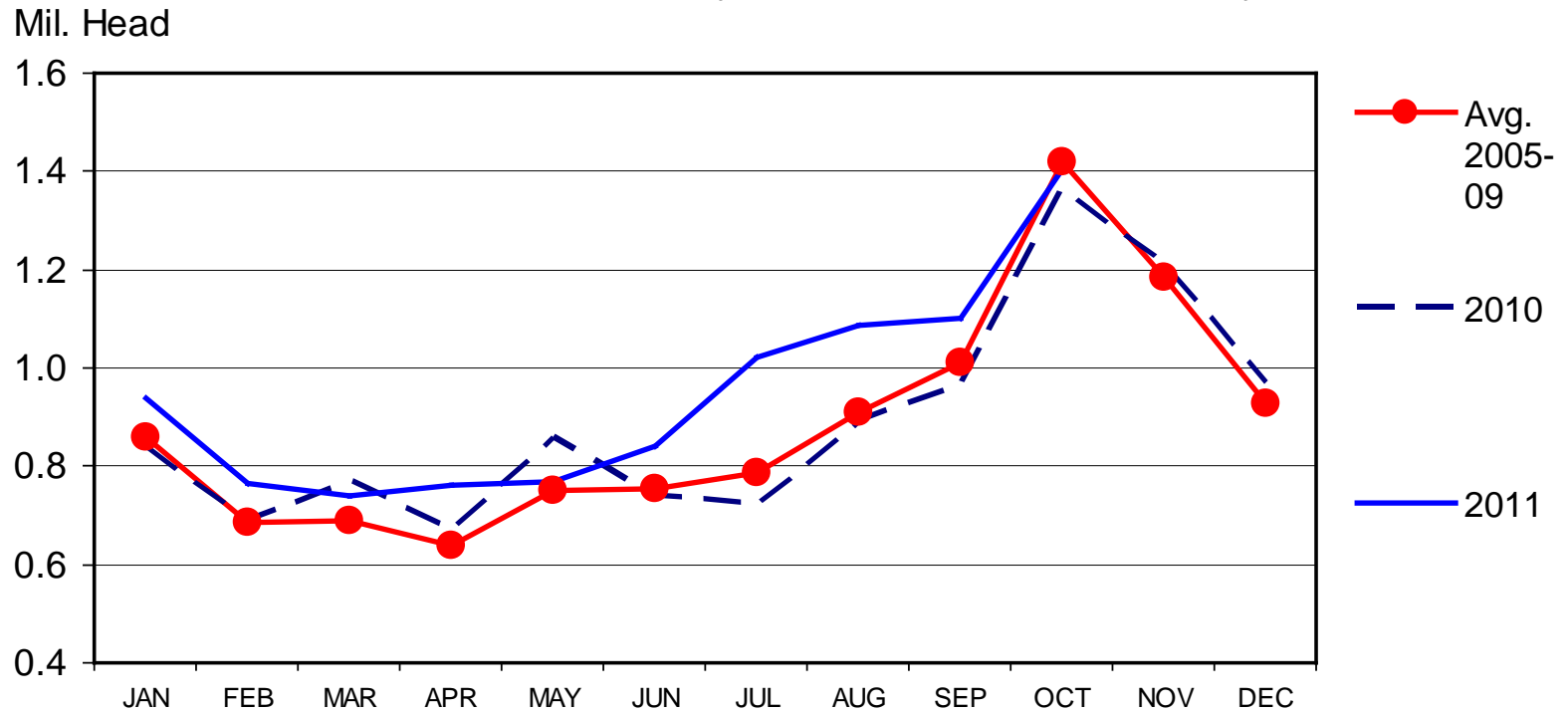
Data Source: USDA-NASS

C-N-08
11/18/11



CATTLE PLACED WEIGHING LESS THAN 700 POUNDS

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



Livestock Marketing Information Center

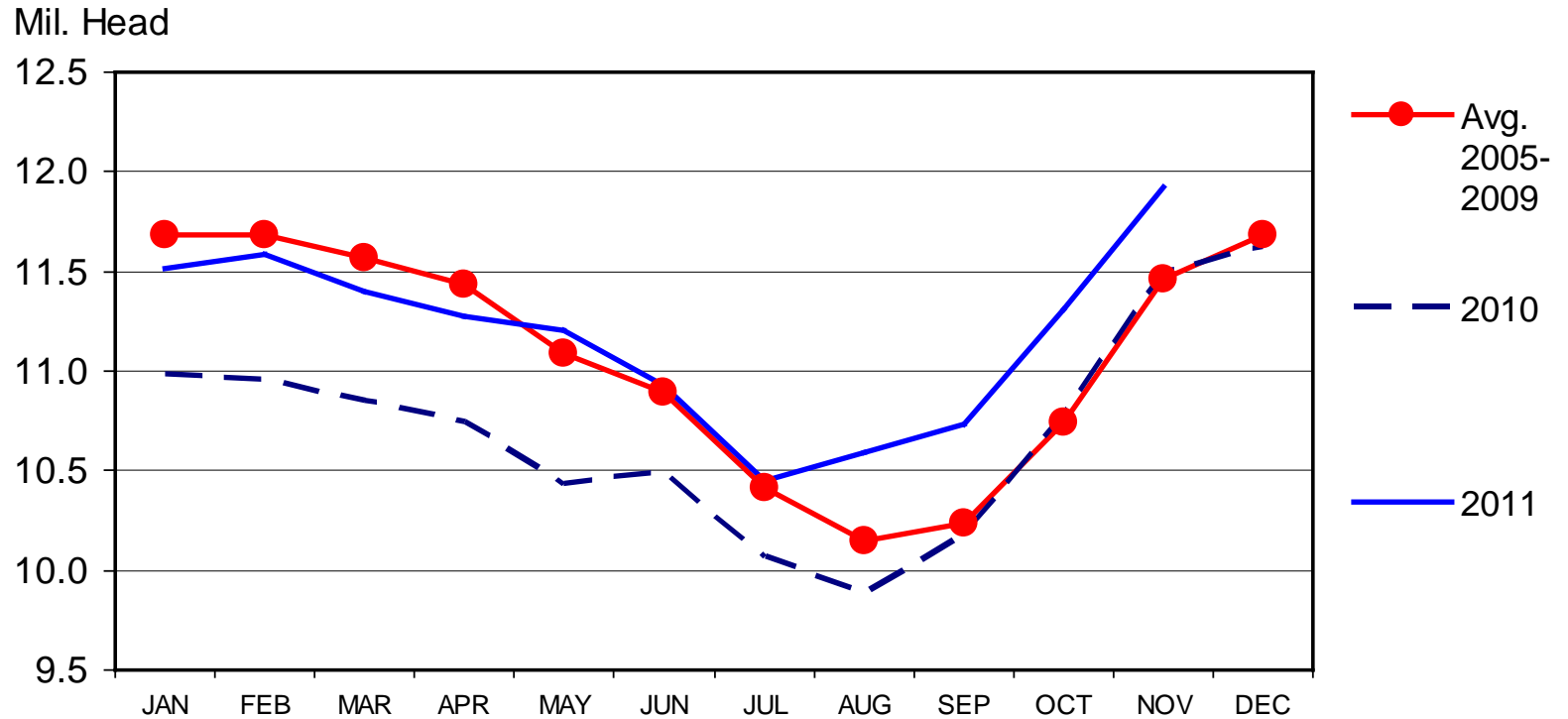
Data Source: USDA-NASS, Compiled & Analysis by LMIC

C-N-08A
11/18/11



CATTLE ON FEED

US Total, Monthly



Livestock Marketing Information Center

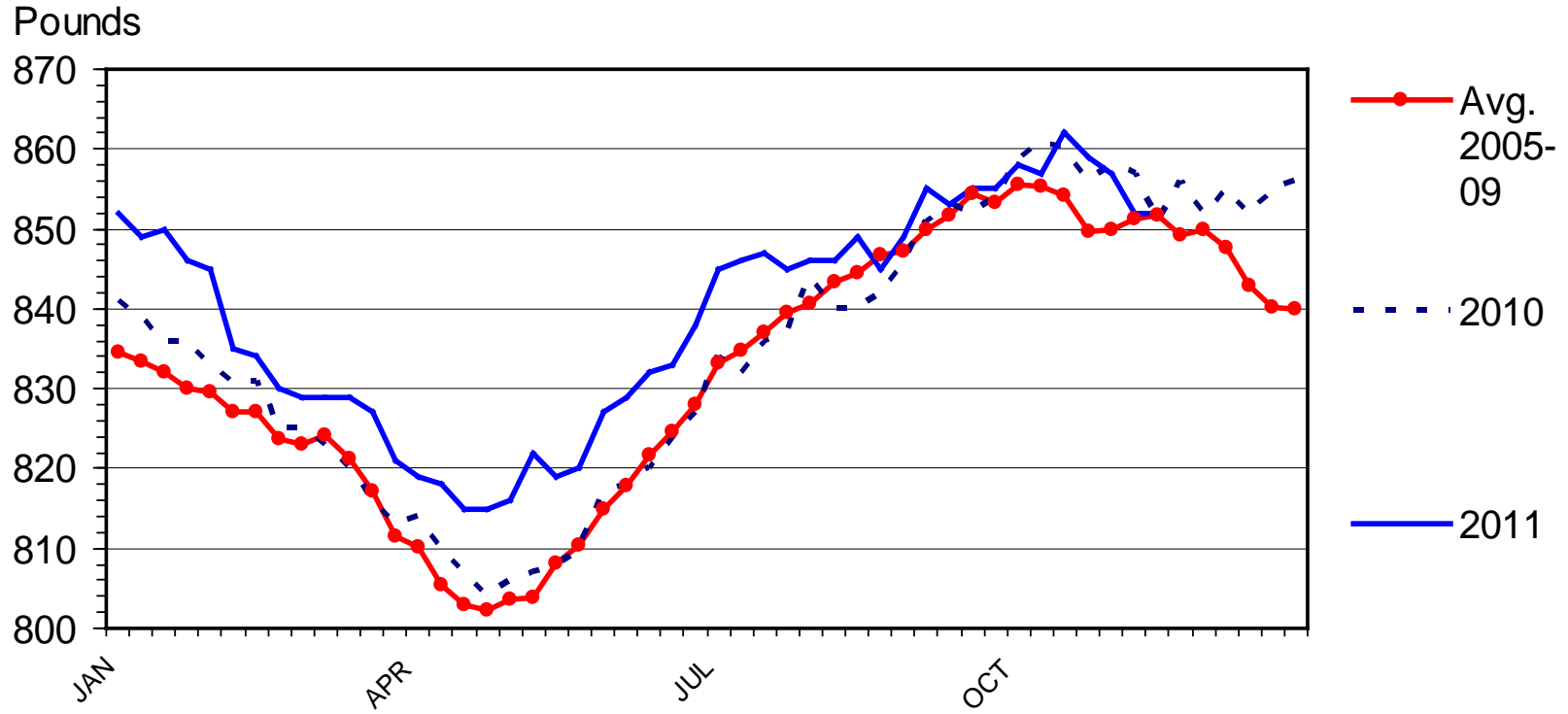
Data Source: USDA-NASS

C-N-10
11/18/11



STEER DRESSED WEIGHT

Federally Inspected, Weekly

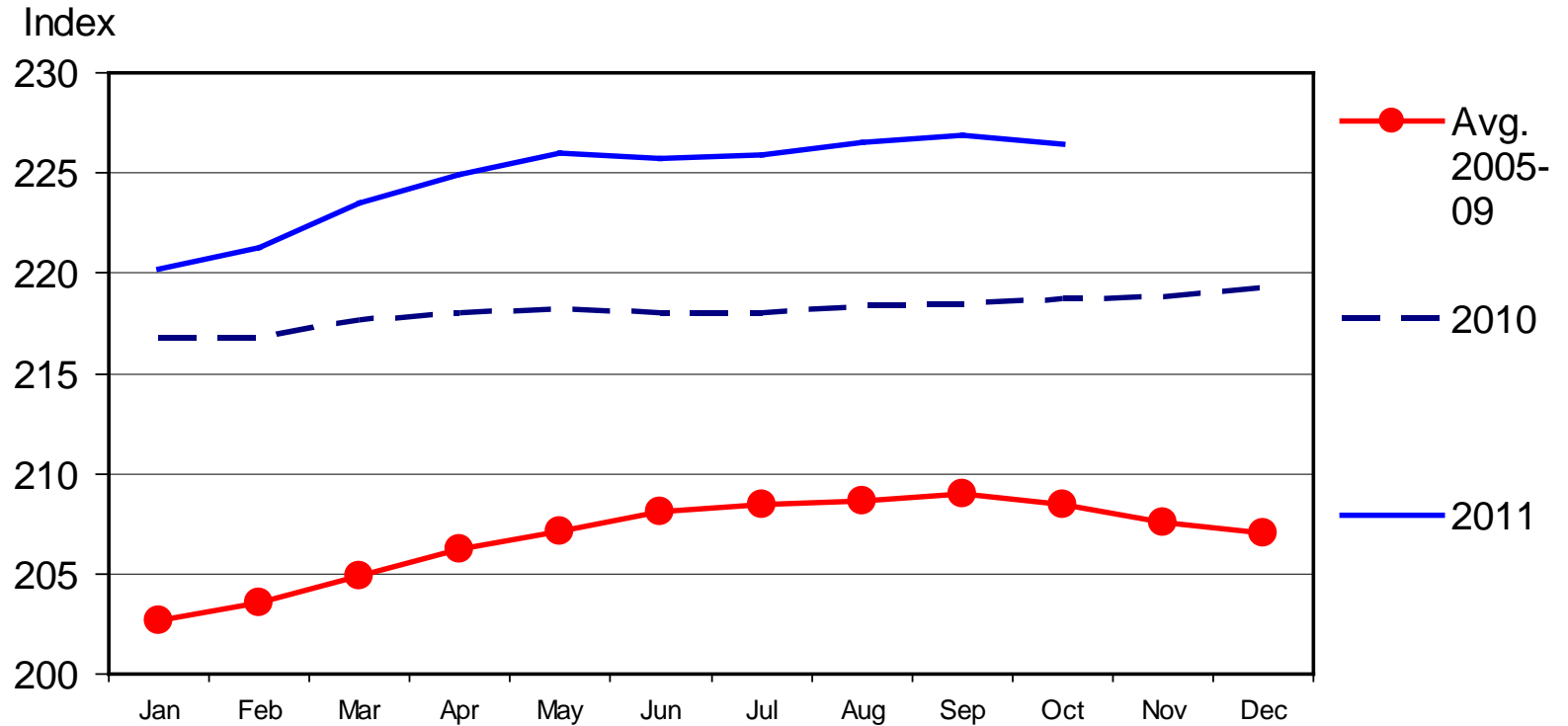


Livestock Marketing Information Center
 Data Source: USDA-AMS & USDA-NASS

C-S-18
 12/02/11

CONSUMER PRICE INDEX - ALL ITEMS

1982-1984 Base, Monthly



Livestock Marketing Information Center

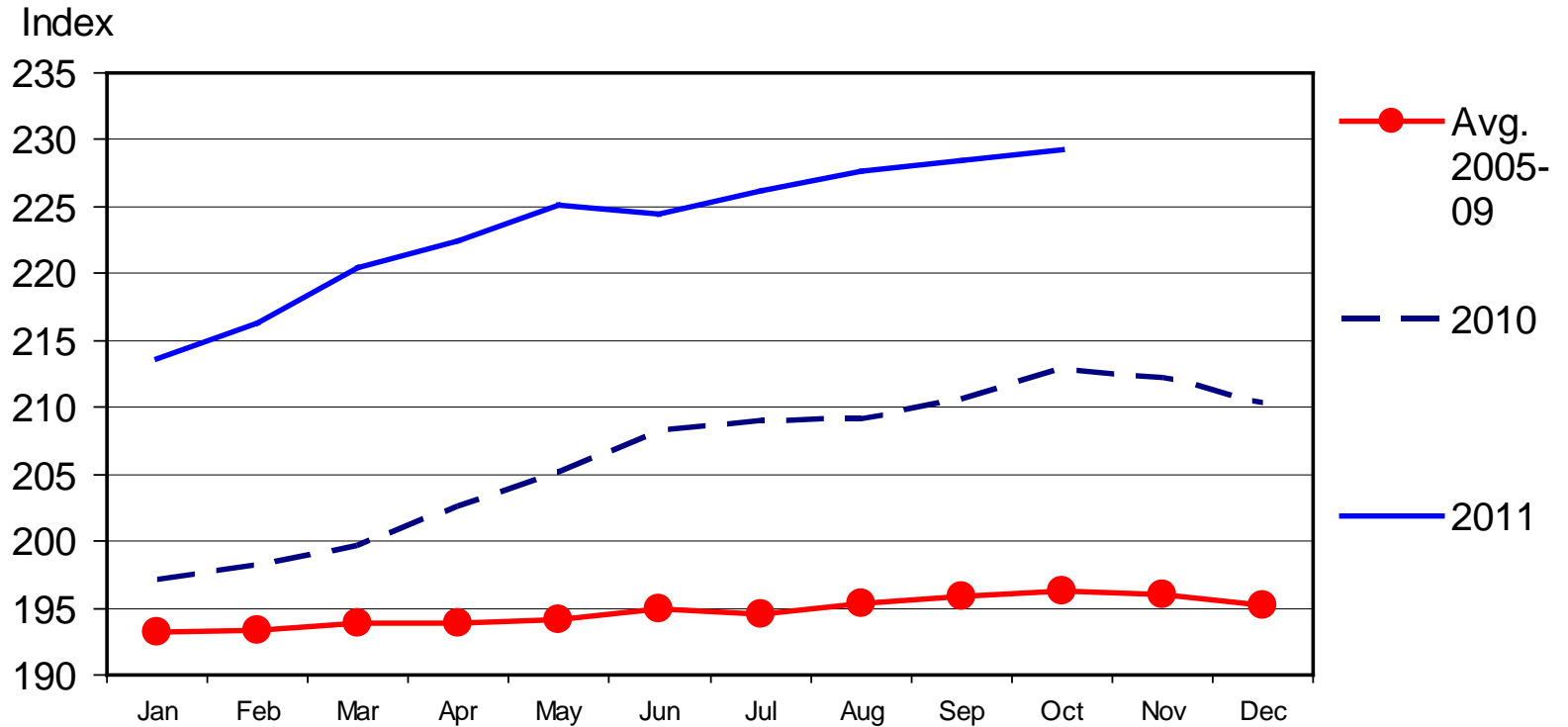
11/16/11

Data Source: Bureau of Labor Statistics



CPI - MEATS

1982-1984 Base, Monthly



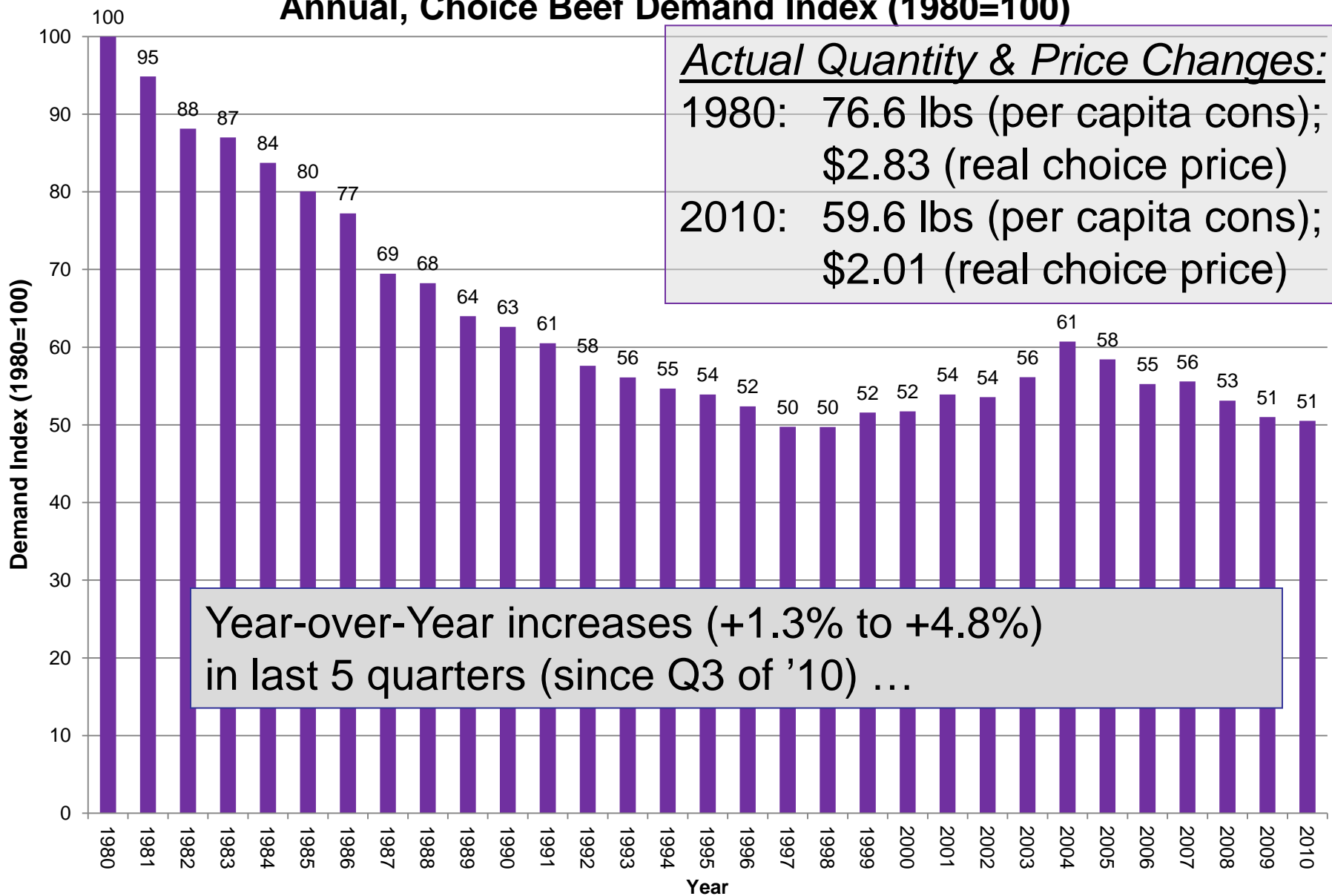
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11/16/11

Data Source: Bureau of Labor Statistics



Annual, Choice Beef Demand Index (1980=100)

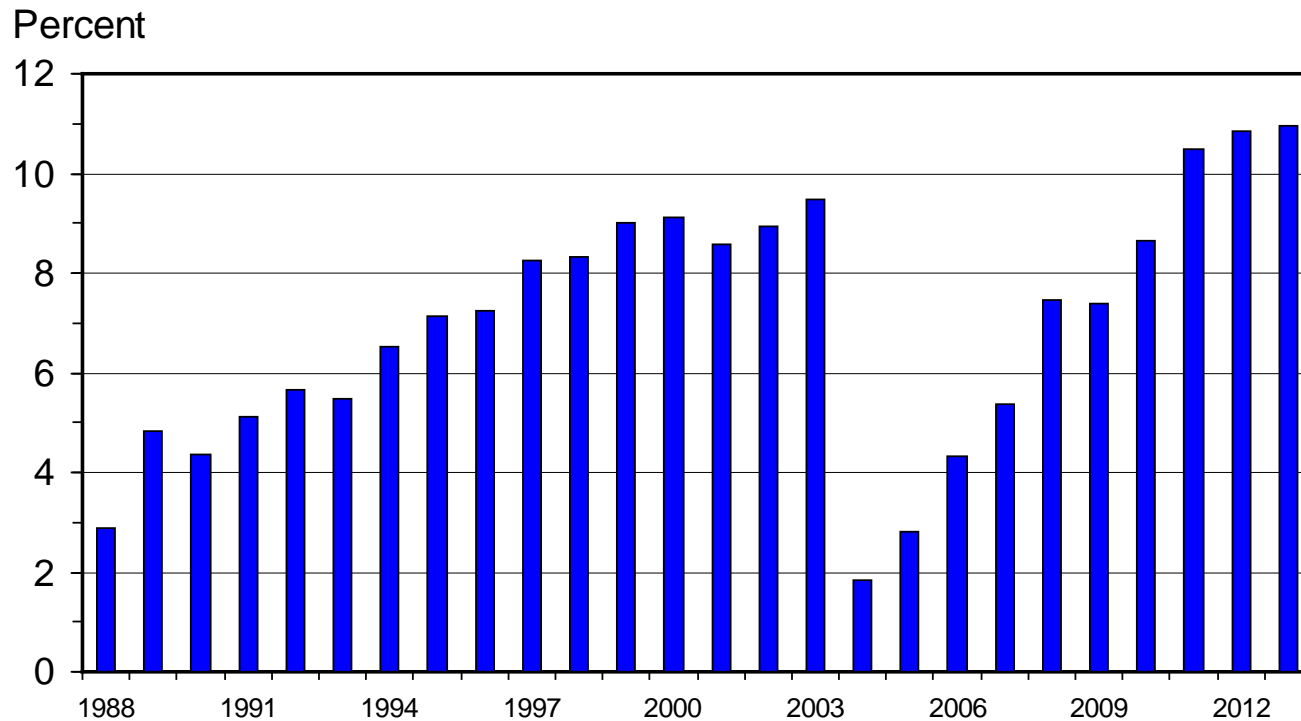


Source: Glynn T. Tonsor, Kansas State University, Jan. 2011



U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



Livestock Marketing Information Center

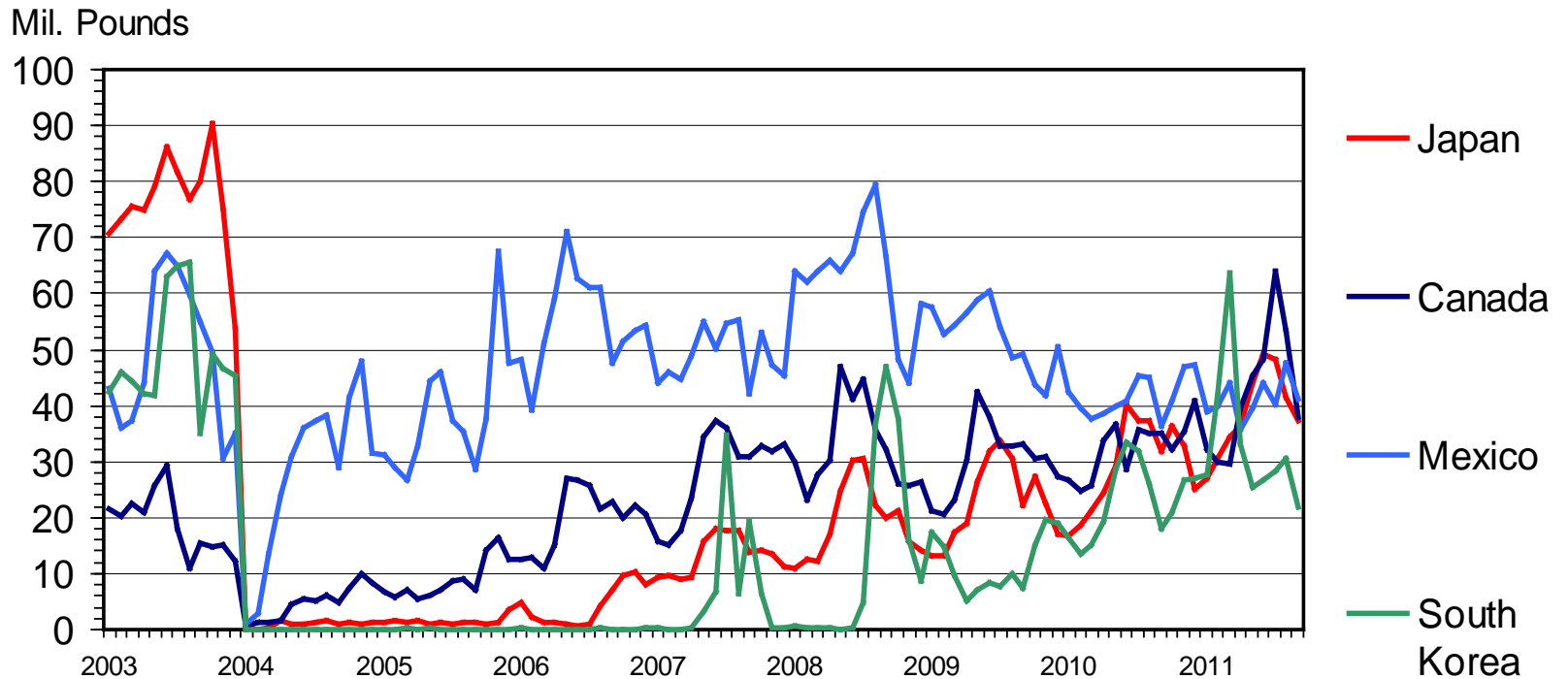
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-07
11/15/11



U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



Livestock Marketing Information Center

Data Source: USDA-ERS & USDA-FAS

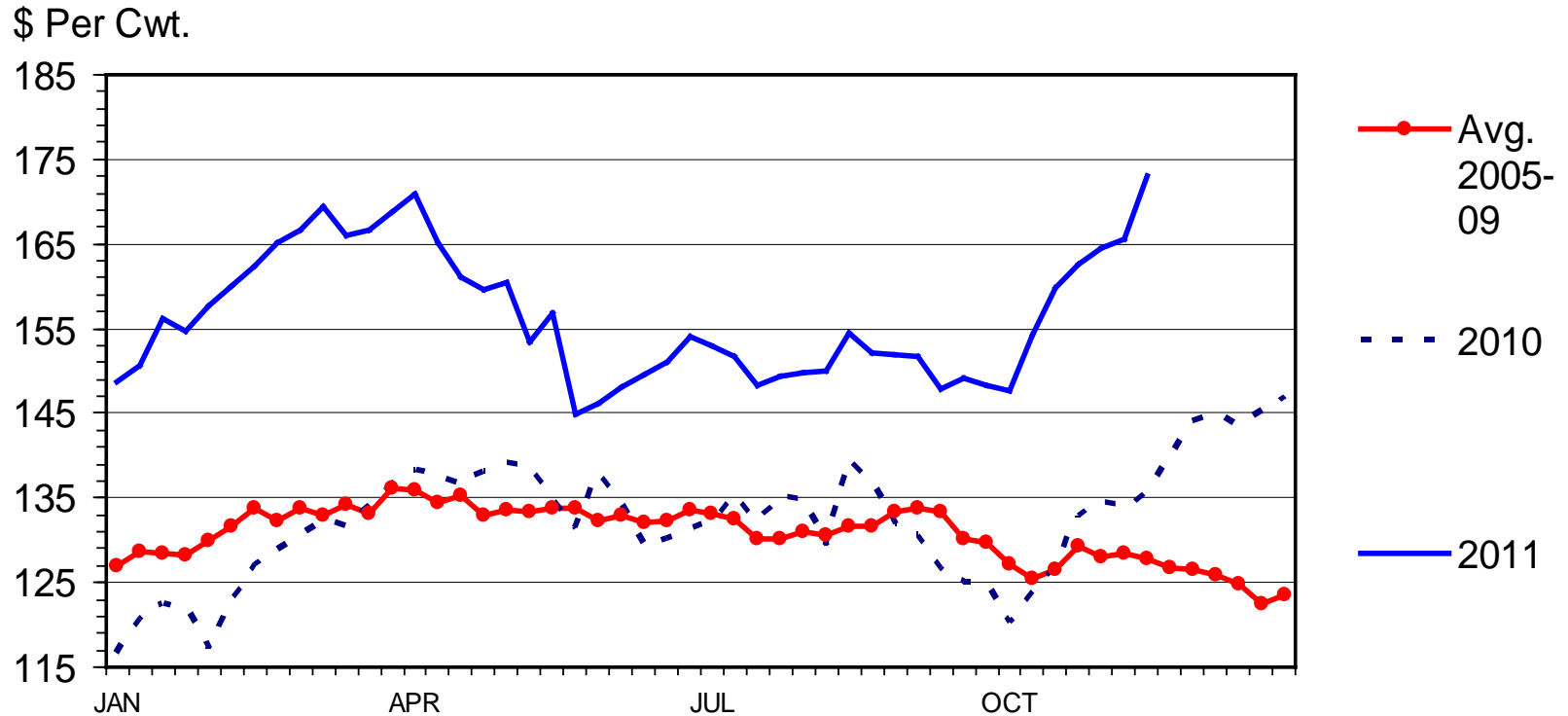
I-N-35
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39% of exports to Canada & Mexico in 2010...



MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

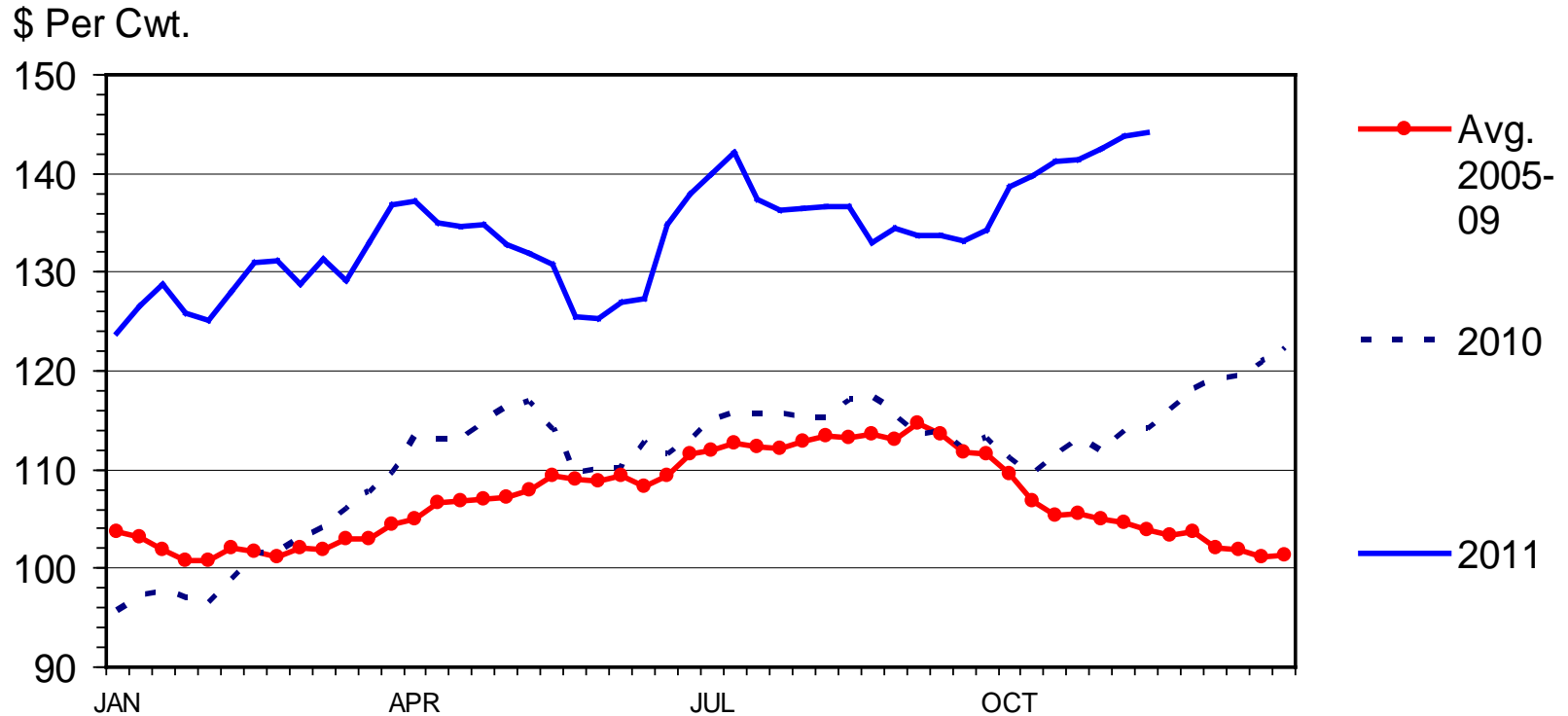
Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-49A
11/28/11



MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly



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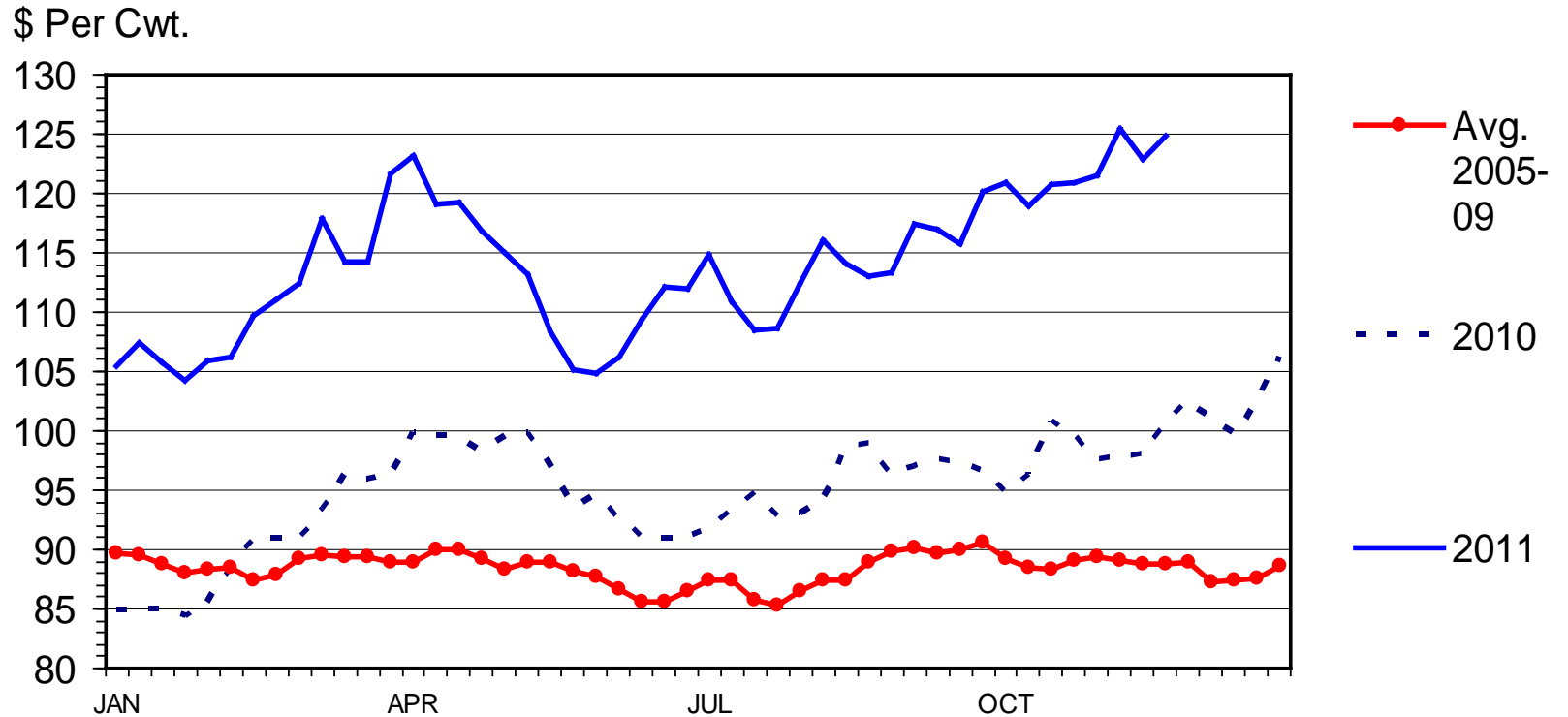
Data Source: USDA-AMS, Compiled & Analysis by LMIC

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SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



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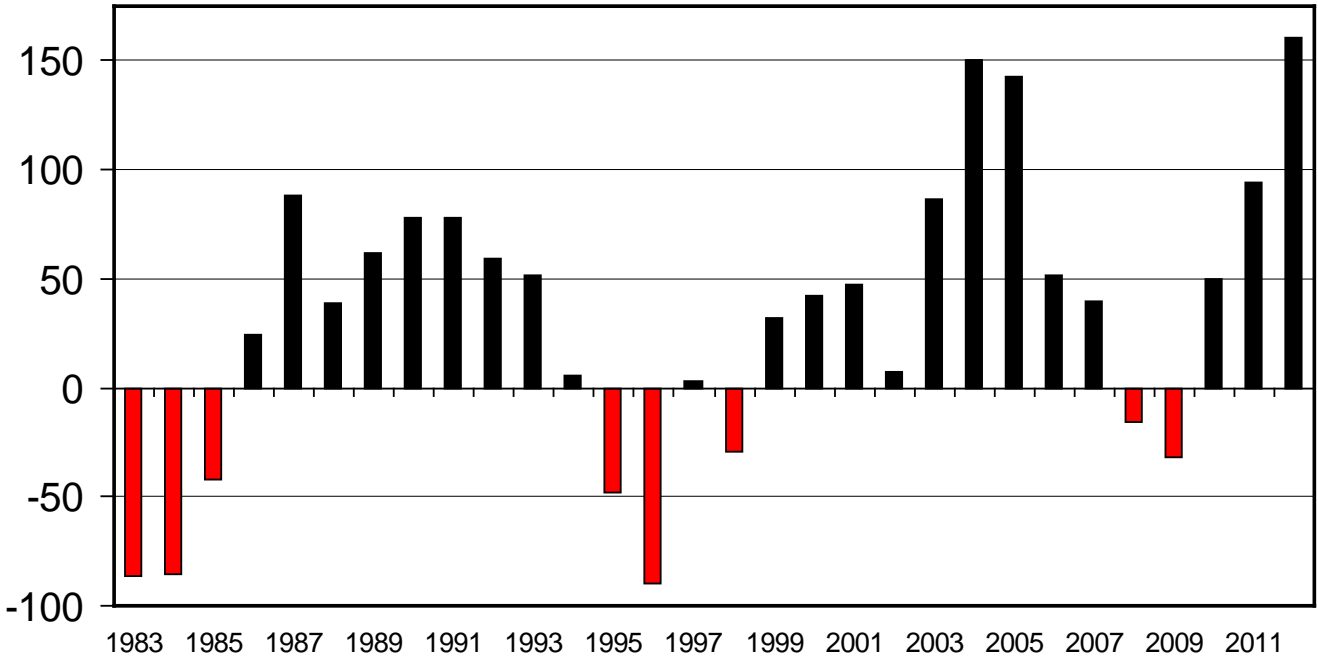
Data Source: USDA-AMS



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Livestock Marketing Information Center

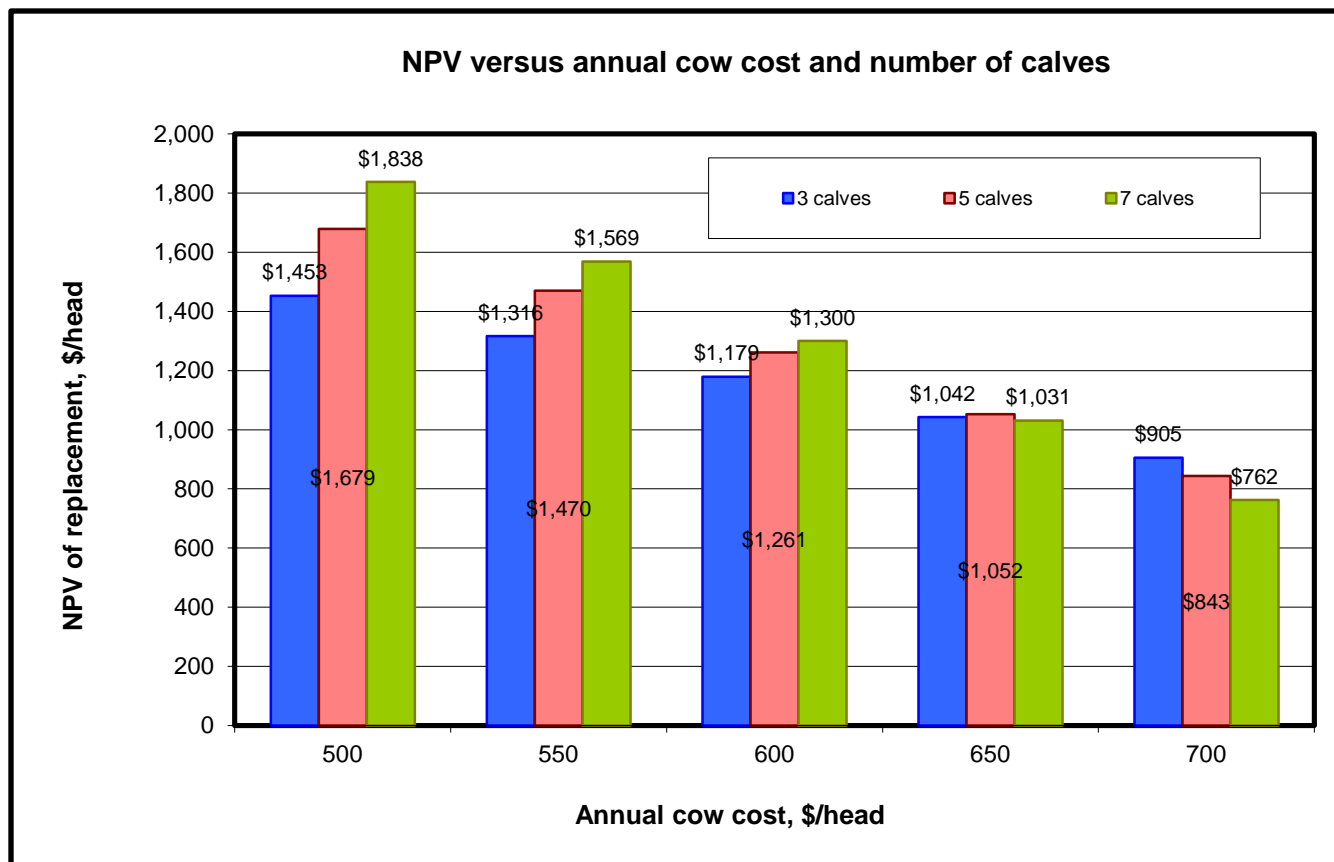
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
11/17/11



KSU – Beef Replacement, Excel Spreadsheet Decision Tool

(<http://www.agmanager.info/livestock/budgets/production/default.asp>)



11/25/11'

Oklahoma City
Auction:
Bred Cows
\$900 - \$1,200

Notable
regional
variation...

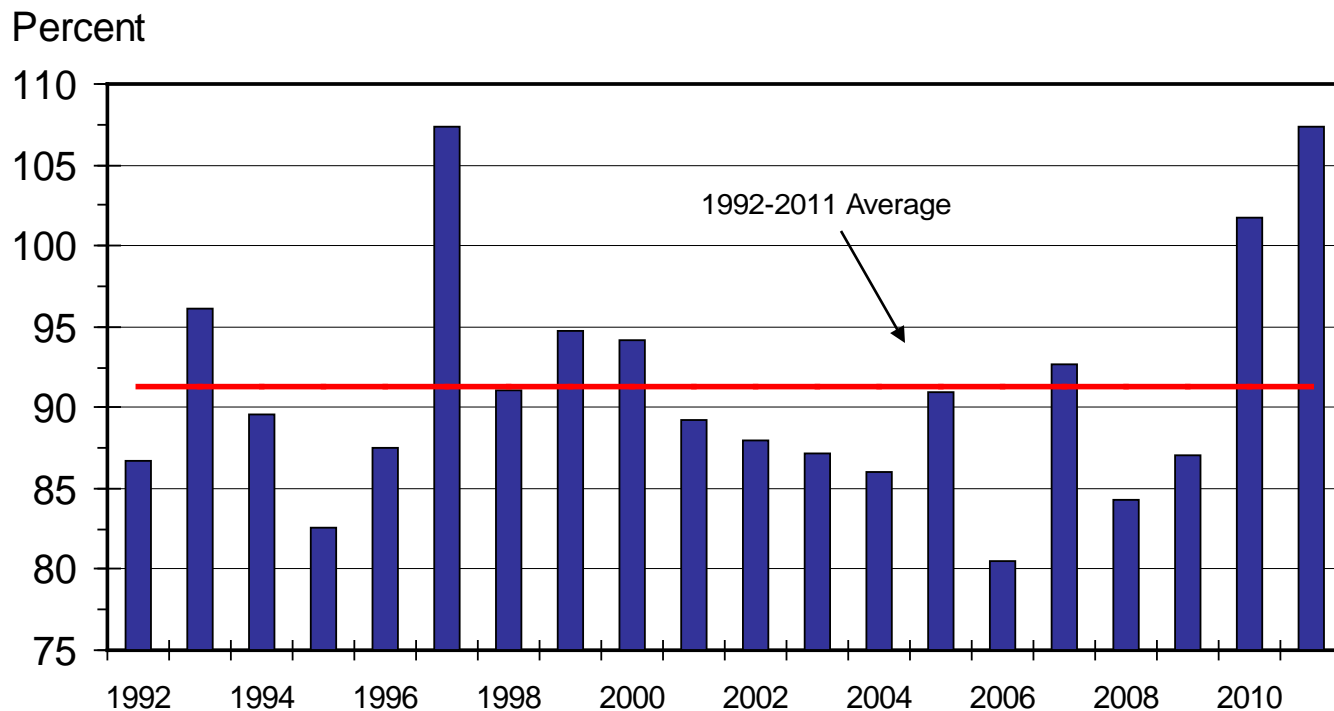
Scenario: FARPI \$/cwt (550 lbs calves @ \$140 in 2012 to \$131 in 2021)
6.5% interest/discount rate; 3% calf death loss



Also see: *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 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
11/17/11



12/5/11 Salina, KS Situation:

- BeefBasis.com forecasted price of 800 lb steer April 1, 2012 is \$144.14/cwt
- What is break-even purchase price of a 550 lb steer purchased on Dec. 7, 2011?
 - forecasted price is \$156.80/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)	800
Expected selling price (\$/cwt)	\$144.14
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>						
	\$138.14	\$140.14	\$142.14	\$144.14	\$146.14	\$148.14	\$150.14
	Breakeven Purchase Price ²						
450	164.95	168.33	171.70	175.07	178.44	181.81	185.18
500	158.17	161.22	164.27	167.31	170.36	173.41	176.46
550	152.66	155.45	158.23	161.02	163.80	166.58	169.37
600	148.12	150.68	153.24	155.81	158.37	160.94	163.50
650	144.31	146.68	149.06	151.44	153.82	156.20	158.57
700	141.08	143.30	145.51	147.73	149.95	152.17	154.39
750	138.31	140.39	142.47	144.55	146.64	148.72	150.80

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

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

Expected Return: +\$23.21/head [5.5 * (\$161.02 - \$156.80)]

Feeding COG \$80 = +\$46/head Expected Return

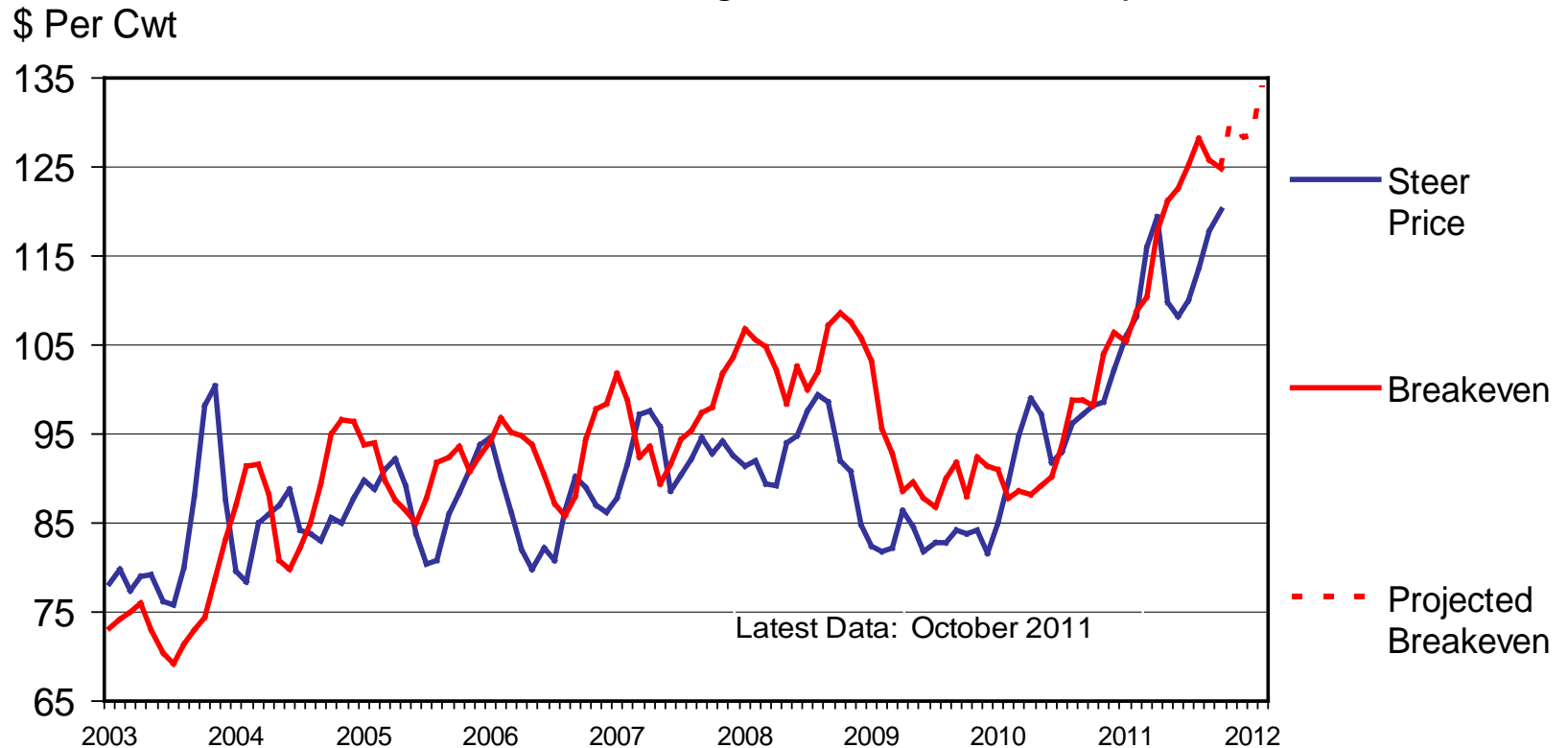
Feeding COG \$100 = +\$0/head Expected Return



NAIBER (12/5/11): 750 lb placed on 12/5, sold at 1,235 lbs on 4/29/12 = +\$32/hd

CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly



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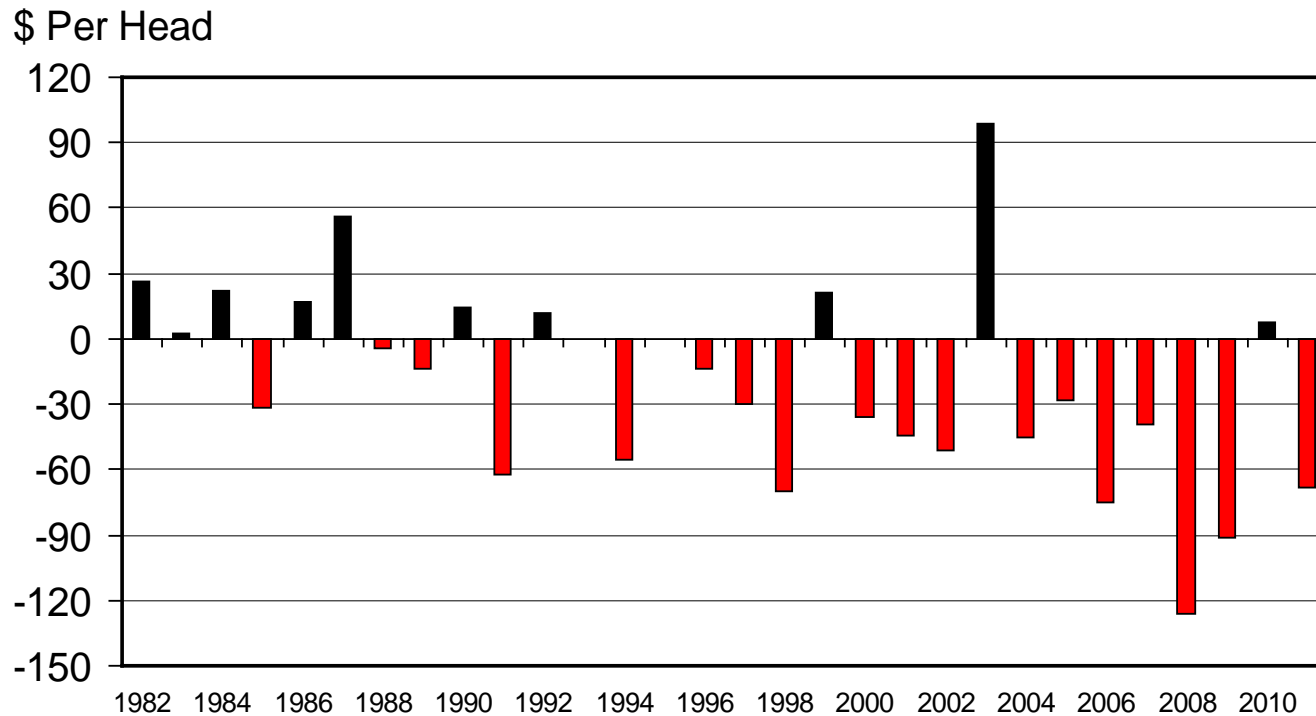
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-21
11/16/11



AVERAGE RETURNS TO CATTLE FEEDERS

Feeding 725 Lb. Steers, S. Plains, Annual



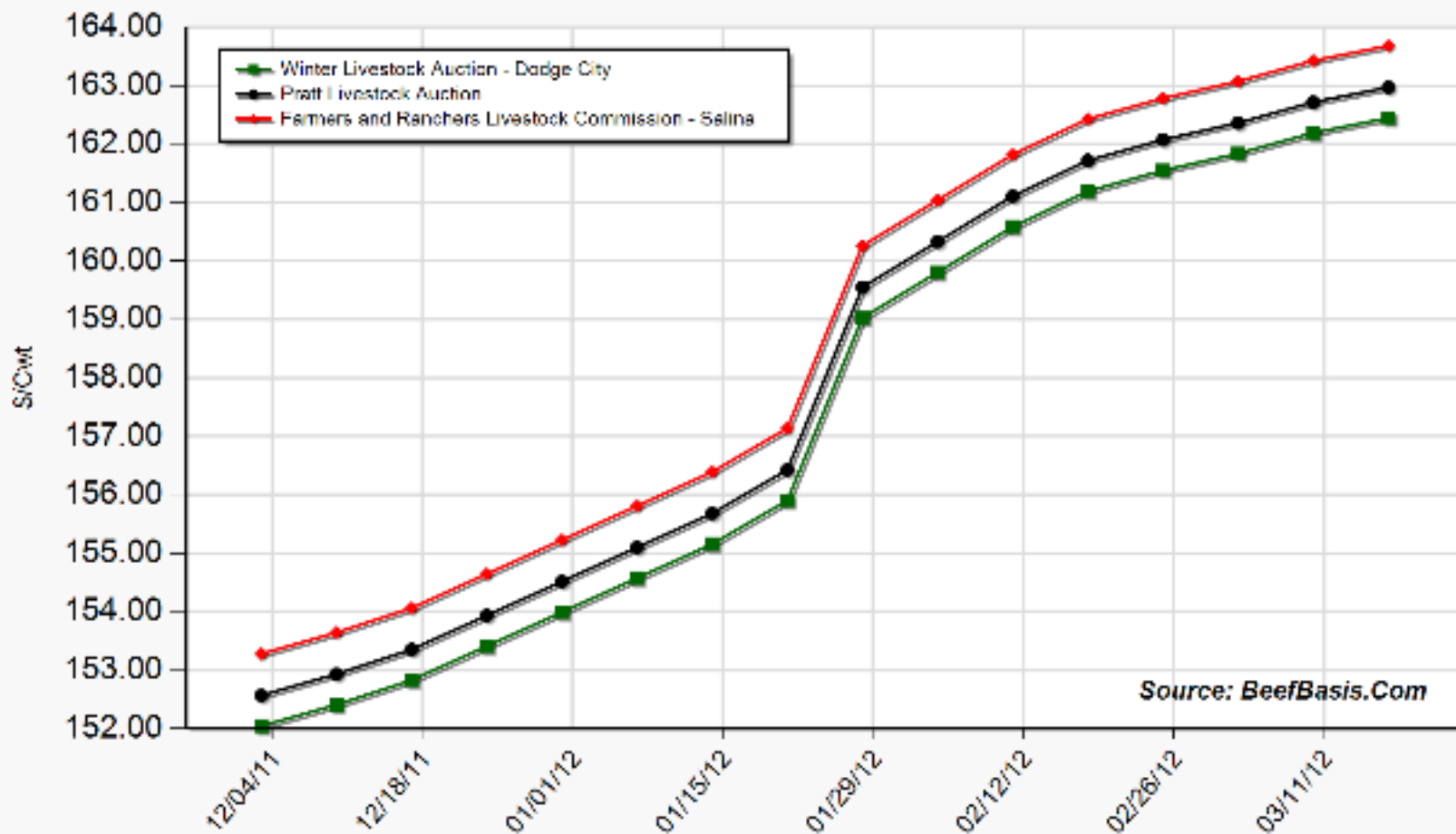
Livestock Marketing Information Center

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

C-P-10
11/14/11

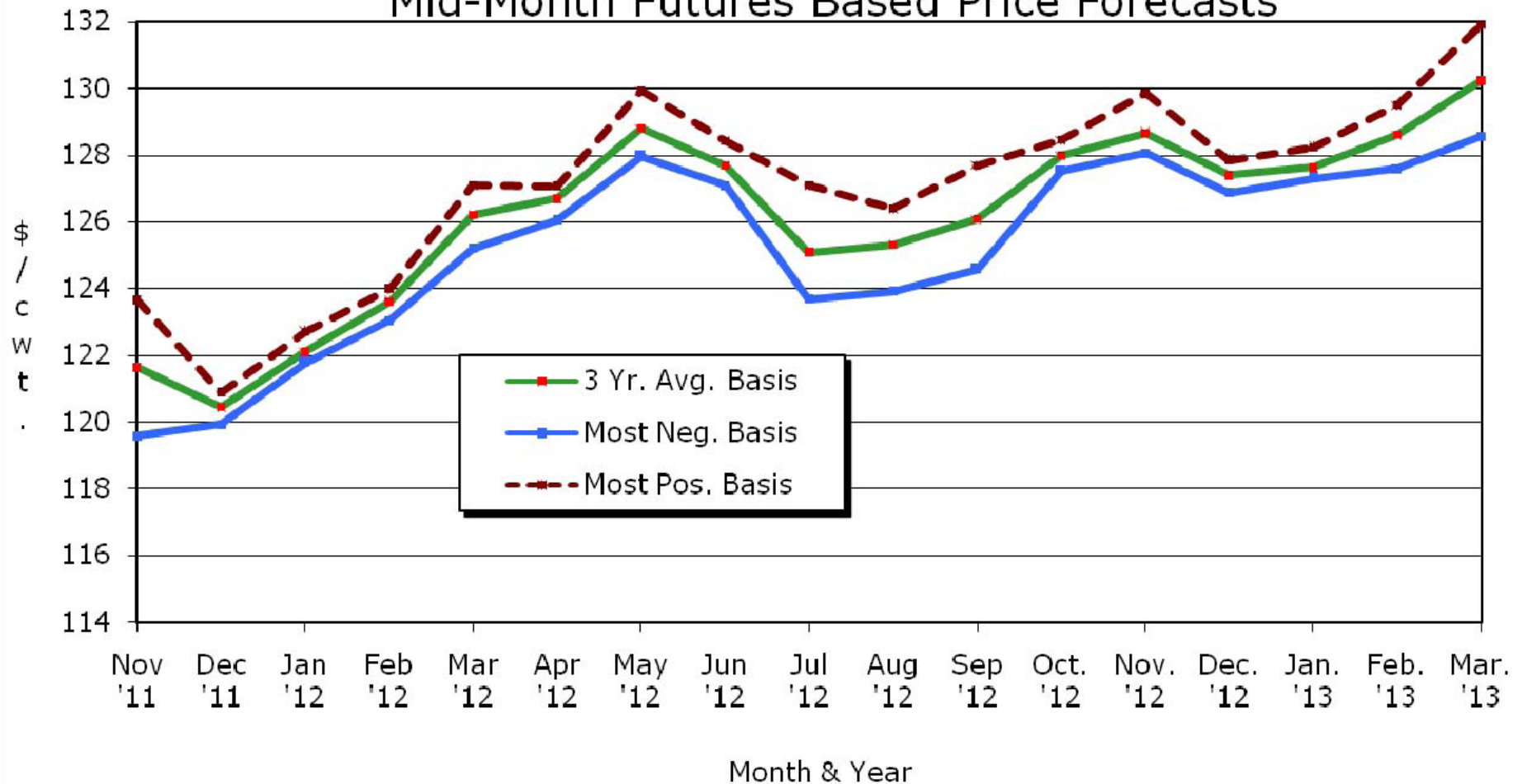


Projected Price for 550 Lb Steer at Selected Kansas Auctions



Kansas Slaughter Steer Price Forecasts

Mid-Month Futures Based Price Forecasts



Source: USDA-AMS, CME, & K-State Ag. Economics
 Based on 12.2.11 CME Live Cattle settlement prices

KSU Dept. of Ag Econ
www.agmanager.info



QUARTERLY FORECASTS (LMIC: 12/5/11)

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	771	0.7	6,411	2.6
II	8,639	-0.5	759	0.7	6,559	0.2
III	8,739	-0.1	771	-0.3	6,737	-0.5
IV	8,357	-3.4	777	-0.2	6,494	-3.7
Year	34,051	-0.6	769	0.2	26,202	-0.4
2012						
I	7,957	-4.3	779	1.1	6,199	-3.3
II	8,196	-5.1	766	1.0	6,282	-4.2
III	8,140	-6.9	786	1.9	6,395	-5.1
IV	7,963	-4.7	788	1.4	6,273	-3.4
Year	32,256	-5.3	780	1.3	25,149	-4.0
2013						
I	7,509	-5.6	788	1.1	5,917	-4.5
II	7,781	-5.1	772	0.7	6,007	-4.4
III	8,055	-1.0	794	1.1	6,398	0.0
IV	7,721	-3.0	794	0.8	6,131	-2.3
Year	31,066	-3.7	787	1.0	24,453	-2.8



QUARTERLY FORECASTS (LMIC: 12/5/11)

	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	119-121	19.67	140-144	148-152
Year	113-115	19.52	134-136	146-149
2012				
I	120-123	10.34	139-144	150-155
II	123-127	10.83	140-146	151-158
III	120-125	7.41	143-149	152-160
IV	123-129	5.00	140-148	148-158
Year	122-126	8.77	140-147	150-158
2013				
I	125-132	5.76	138-148	149-160
II	127-135	4.80	142-153	152-165
III	123-132	4.08	144-156	152-166
IV	126-136	3.97	140-153	148-163
Year	127-132	4.44	144-150	152-162



*Looking Beyond Today's
Ps & Qs*



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
 - 2018 poultry consumption > (beef + pork)
 - Poultry grows every year from 2011-2020
- 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
- USDA NASS may cease
 - July cattle inventory report
 - Annual livestock operations/farm #s report



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

Glynn T. Tonsor
Assistant Professor
Dept. of Agricultural Economics
Kansas State University
gtt@agecon.ksu.edu



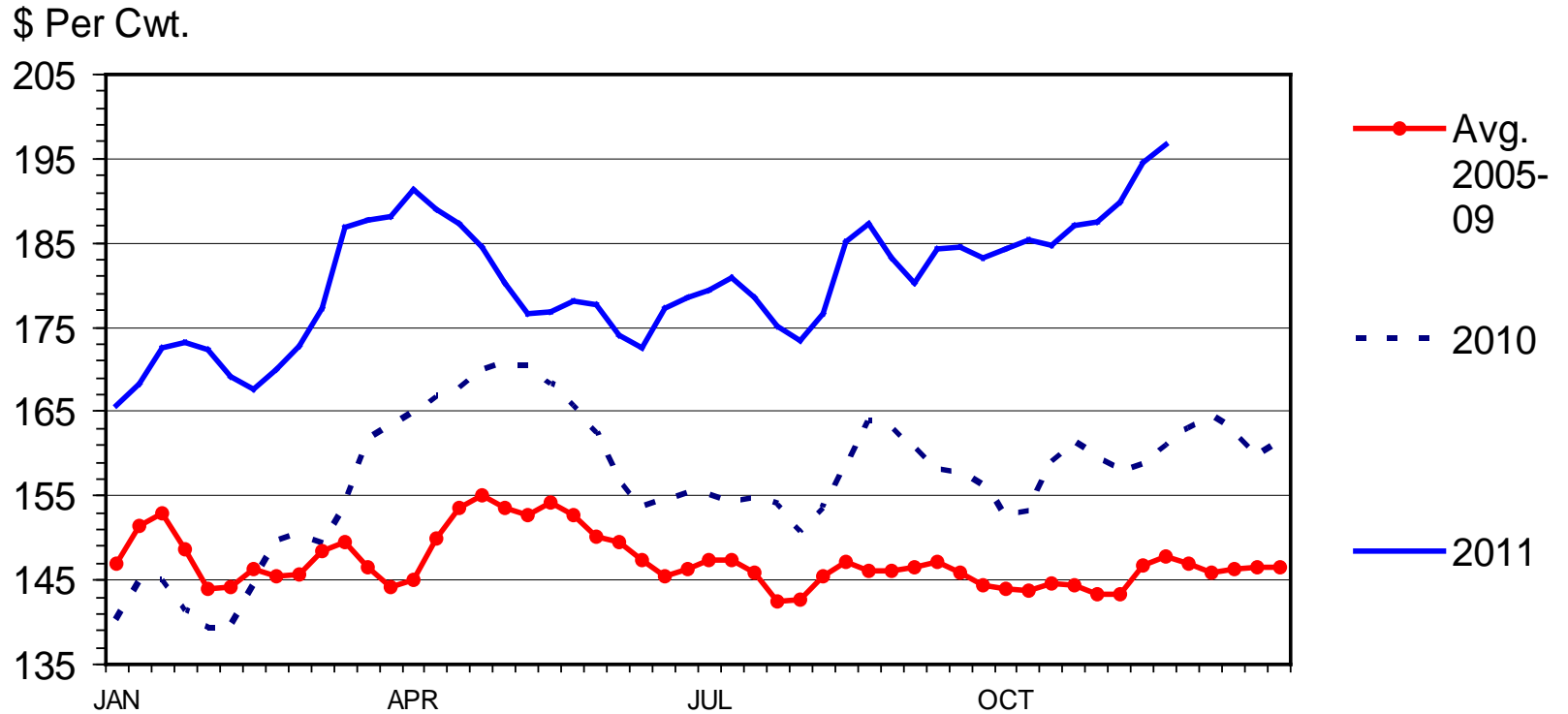
Beef industry changes underway...

- 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...



BOXED BEEF CUTOUT VALUE

Choice 600-900 Lbs. Carcass, Weekly



Livestock Marketing Information Center

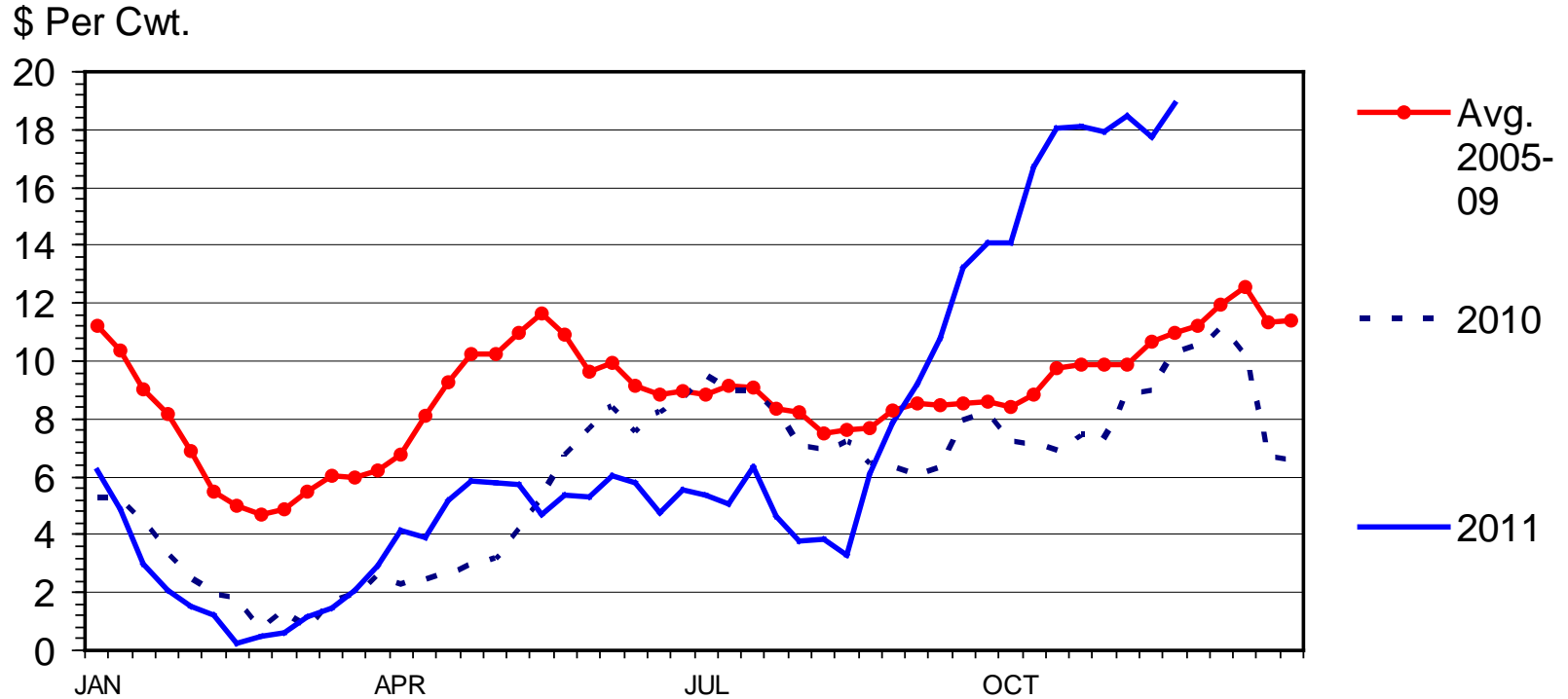
Data Source: USDA-AMS

C-P-62
11/28/11



CHOICE MINUS SELECT BEEF PRICES

Carcass Cutout Value 600-900 Lbs., Weekly



Livestock Marketing Information Center

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

C-P-68
11/28/11

