

Economic Outlook Update, A Deeper Look at Beef Demand, & Engaging Exchange

**Kansas Beef Council – Executive Committee Meeting
February 18, 2014 Topeka, KS**

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Overarching Economic Outlook

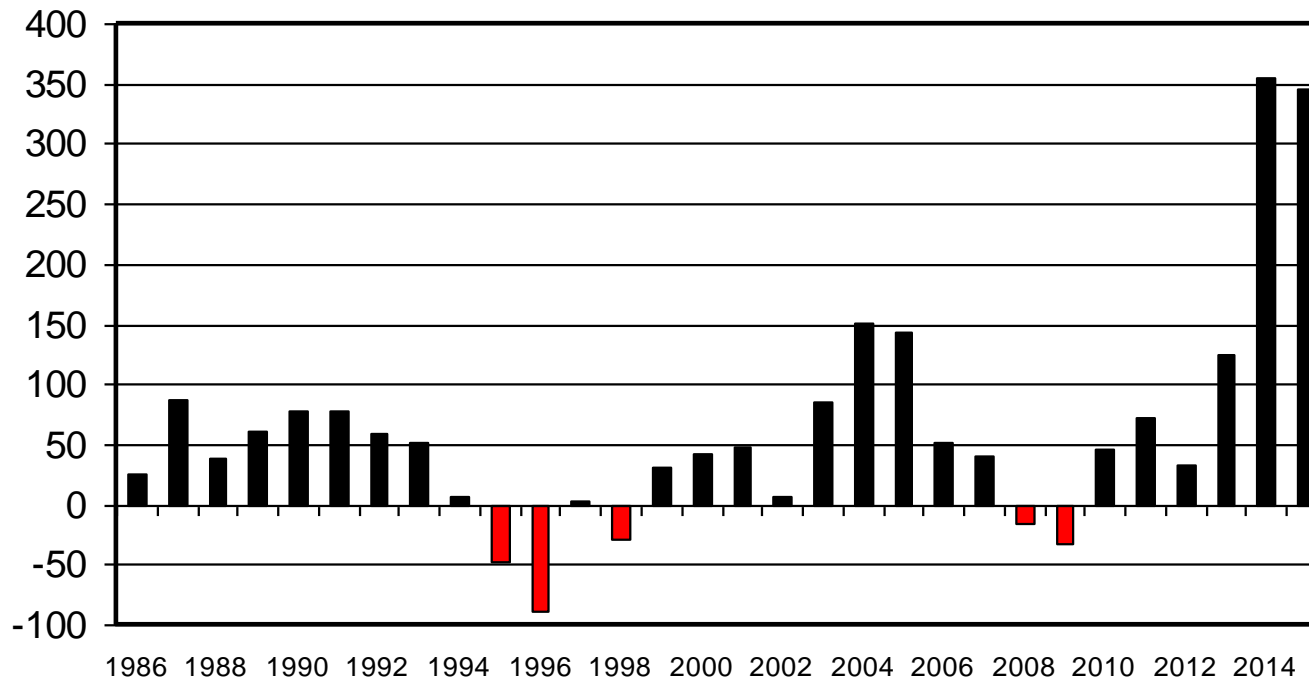
- Supplies
 - Continued pull down in overall # of head & beef lbs
- Demand
 - Confusing yet recently positive
- Combined:
 - 2014 started with record price levels & excitement

Economic Outlook Overview: Cow-Calf

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



C-P-66
01/29/14

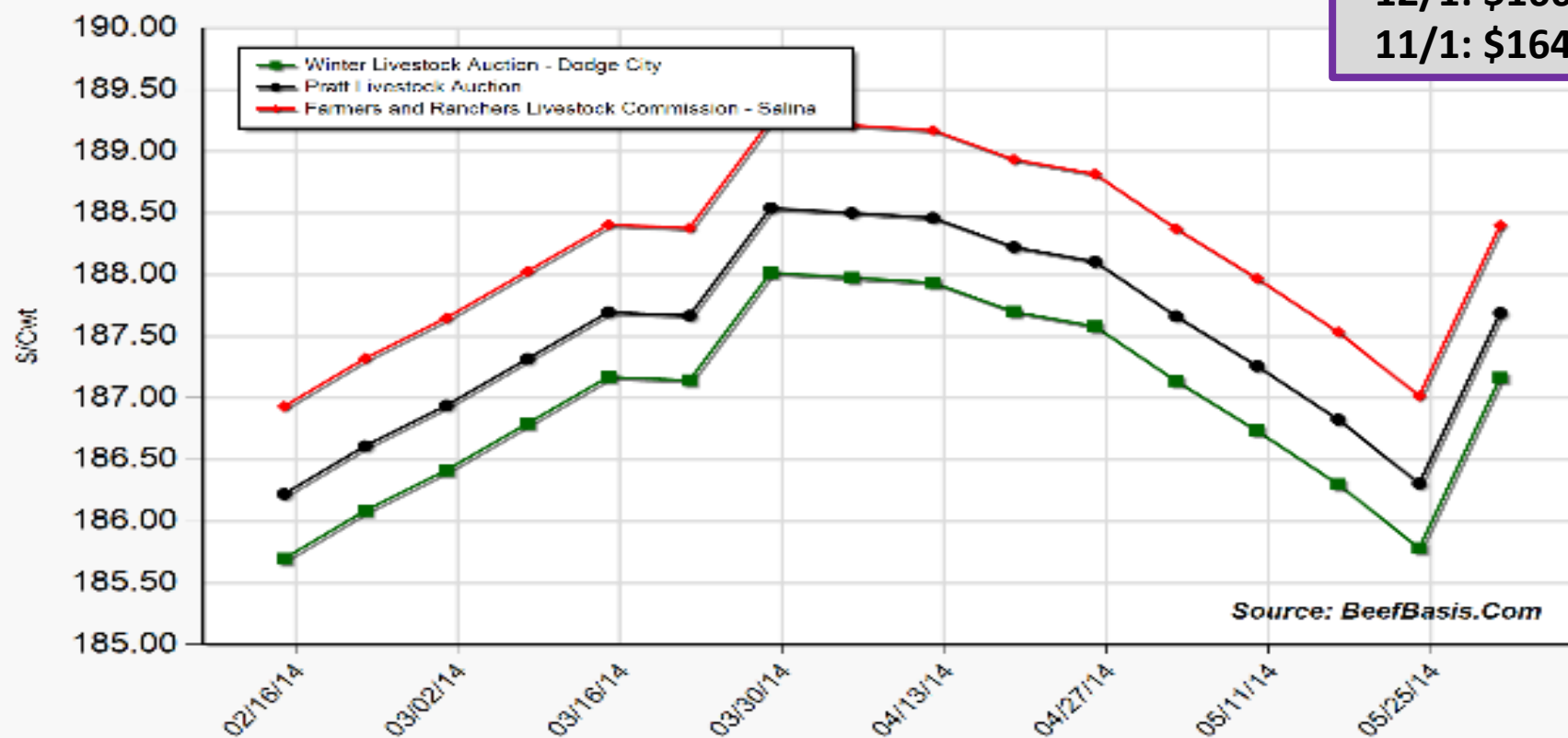
Economic Outlook Overview: Cow-Calf

- Several drivers of margin improvements:
 - Better pastures, lower input prices, higher calf prices...
- Are improvements sufficient to trigger expansion?
 - Jan. 2014 Cattle Inv. Report: small increase in retention
 - Feb. 13, 2014 ERS 10-yr projections
 - Feb. 14' projection: 2023 herd (33.7 mil hd) up 16% from 2012 levels
 - Feb. 13' projection: 2022 herd (33.5 mil hd) up 12% from 2012 levels
 - <http://www.ers.usda.gov/publications/oce-usda-agricultural-projections/oce131.aspx>

As of: 2/18/14'

Mar FC:
2/16: \$170.47
1/1: \$167.50
12/1: \$166.00
11/1: \$164.25

Projected Price for 550 Lb Steer at Selected Kansas Auctions



Economic Outlook Overview :

Stockers

- Attractive Values of Gain (VOG) vs. COG
 - For those in many stocker/backgrounding areas ...
- Salina, KS 2/18/14 situation

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

 - Buy 700 lb steer on 2/19/14 (\$171.72)
 - Sell 800 lb steer on 4/09/14 (\$164.82) {2.00 ADG}
 - VOG: \$116.55/cwt
 - Buy 550 lb steer on 9/17/14 (\$186.24)
 - Sell 750 lb steer on 12/24/14 (\$166.02) {2.02 ADG}
 - VOG: \$110.42/cwt

Economic Outlook Overview :

Feedlots

- Significant recent improvements in Dec-Mar closeout returns
- Excess capacity concerns persist

Historical and Projected Kansas Feedlot Net Return (as of 2/7/14')

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

Feb LC:
2/16: \$142.40
1/1: \$135.50
12/1: \$134.00
11/1: \$134.00

December 13': +\$3.18/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 |
|-------------------|------------|--------|-----------|--------------|---------------------|------------------------|---------------------------|
| Jan-14 | 124.37 | 100.53 | 141.26 | 151.78 | 122.11 | 132.37 | 166.89 |
| Feb-14 | 69.05 | 98.56 | 138.84 | 155.19 | 110.98 | 133.73 | 163.87 |
| Mar-14 | 79.43 | 94.12 | 140.07 | 158.50 | 108.52 | 134.19 | 168.45 |
| Apr-14 | -51.45 | 90.37 | 133.04 | 163.31 | 80.36 | 136.94 | 156.93 |
| May-14 | 12.82 | 87.41 | 135.97 | 164.12 | 89.80 | 135.00 | 165.76 |
| Jun-14 | -30.79 | 83.47 | 131.01 | 165.63 | 78.07 | 133.26 | 161.77 |

Representative Barometer for Trends in Profitability

Quarterly Forecasts (LMIC: 2/6/14)

| | | | % Chg. | Average | % Chg. | Comm'l | % Chg. |
|-----------------|--------------|--|----------|---------|----------|-------------|----------|
| Year | Comm'l | | from | Dressed | from | Beef | from |
| Quarter | Slaughter | | Year Ago | Weight | Year Ago | Production | Year Ago |
| | (1,000 Head) | | | (Lbs.) | | (Mil. Lbs.) | |
| 2013 | | | | | | | |
| I | 7779 | | -3.1 | 793 | 1.4 | 6172 | -1.7 |
| II | 8325 | | 0.2 | 783 | 0.5 | 6517 | 0.7 |
| III | 8322 | | -0.1 | 794 | 0.5 | 6609 | 0.4 |
| IV ^b | 8033 | | -3.0 | 799 | 0.7 | 6420 | -2.3 |
| Year | 32459 | | -1.5 | 792 | 0.8 | 25718 | -0.8 |
| 2014 | | | | | | | |
| I ^c | 7280 | | -6.4 | 796 | 0.4 | 5797 | -6.1 |
| II | 7711 | | -7.4 | 786 | 0.4 | 6061 | -7.0 |
| III | 7735 | | -7.1 | 799 | 0.6 | 6177 | -6.5 |
| IV | 7529 | | -6.3 | 802 | 0.4 | 6041 | -5.9 |
| Year | 30255 | | -6.8 | 796 | 0.4 | 24076 | -6.4 |
| 2015 | | | | | | | |
| I | 6985 | | -4.1 | 801 | 0.6 | 5595 | -3.5 |
| II | 7366 | | -4.5 | 792 | 0.8 | 5836 | -3.7 |
| III | 7453 | | -3.6 | 806 | 0.9 | 6006 | -2.8 |
| IV | 7362 | | -2.2 | 806 | 0.5 | 5937 | -1.7 |
| Year | 29166 | | -3.6 | 801 | 0.7 | 23374 | -2.9 |

Quarterly Forecasts (LMIC: 2/6/14)

| | | Live Sltr. | % Chg. | Feeder Steer Price | |
|-----------------|--|-------------|----------|------------------------------|---------|
| Year | | Steer Price | from | Southern Plains ^d | |
| Quarter | | 5-Mkt Avg | Year Ago | 7-800# | 5-600# |
| | | (\$/Cwt.) | | (\$/Cwt.) | |
| 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 ^b | | 130.77 | 4.2 | 167.04 | 187.56 |
| Year | | 125.88 | 2.5 | 150.69 | 172.15 |
| 2014 | | | | | |
| I ^c | | 139-142 | 11.9 | 169-172 | 200-205 |
| II | | 138-141 | 11.6 | 170-175 | 205-212 |
| III | | 133-137 | 10.4 | 171-177 | 199-207 |
| IV | | 136-141 | 5.9 | 168-175 | 195-204 |
| Year | | 137-140 | 10.0 | 169-175 | 199-208 |
| 2015 | | | | | |
| I | | 139-145 | 1.1 | 170-178 | 199-210 |
| II | | 140-147 | 2.9 | 171-180 | 205-217 |
| III | | 136-144 | 3.7 | 173-184 | 198-211 |
| IV | | 138-146 | 2.5 | 170-182 | 192-207 |
| Year | | 139-145 | 2.5 | 172-180 | 199-211 |

Beef Demand Kickoff Points

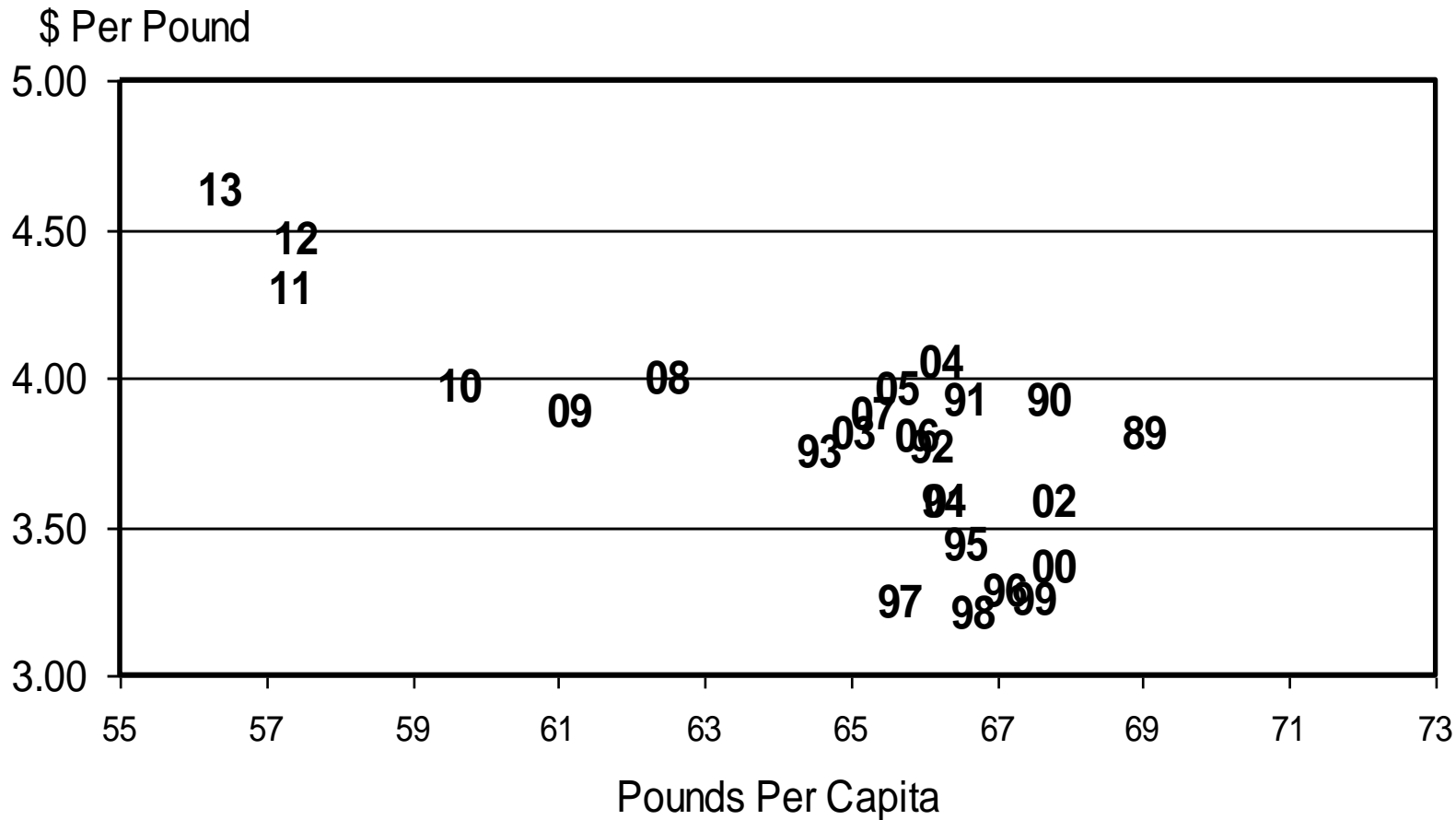
- *Critically Important, Yet Often Confused*
 - *Demand strength*
 - *reflects consumer valuation of beef*
 - *underlies total \$ available for the industry*
 - » *drives prices and profitability for all*
 - *“To Fix It You Have to Understand It”*
 - *Wayne Purcell, 1998 (<http://www.naiber.org/Publications/RILP/primer1.pdf>)*

What is History, Status, and Future of Beef Demand?

- Past: Multiple decades of decline
- Current: Post recession strength has been surprising
- Future: Optimism rational if industry engages

BEEF PRICE-QUANTITY RELATIONSHIP

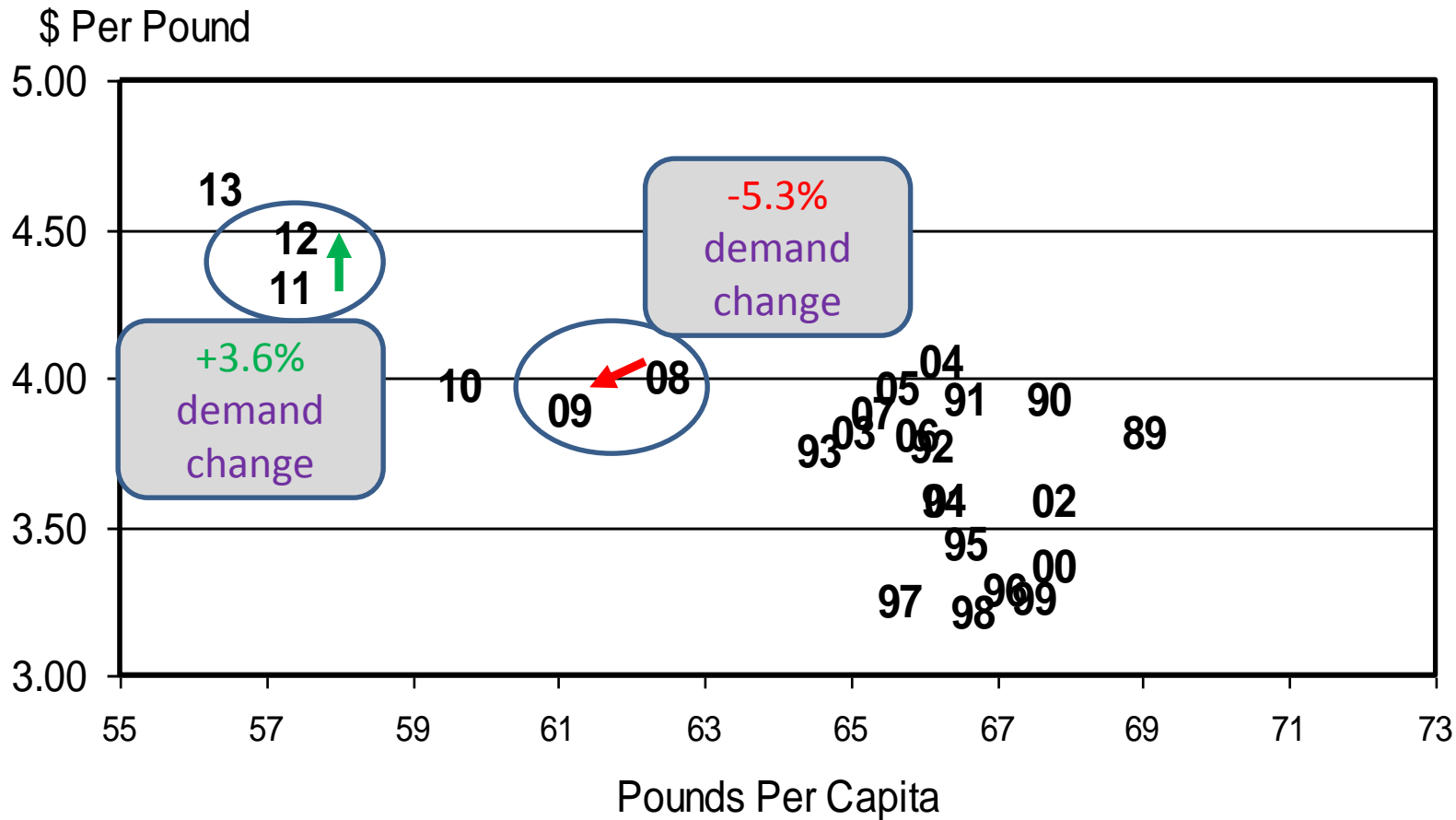
Annual, Retail Weight, Deflated All Fresh Retail Price



C-P-65A
02/10/14

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price



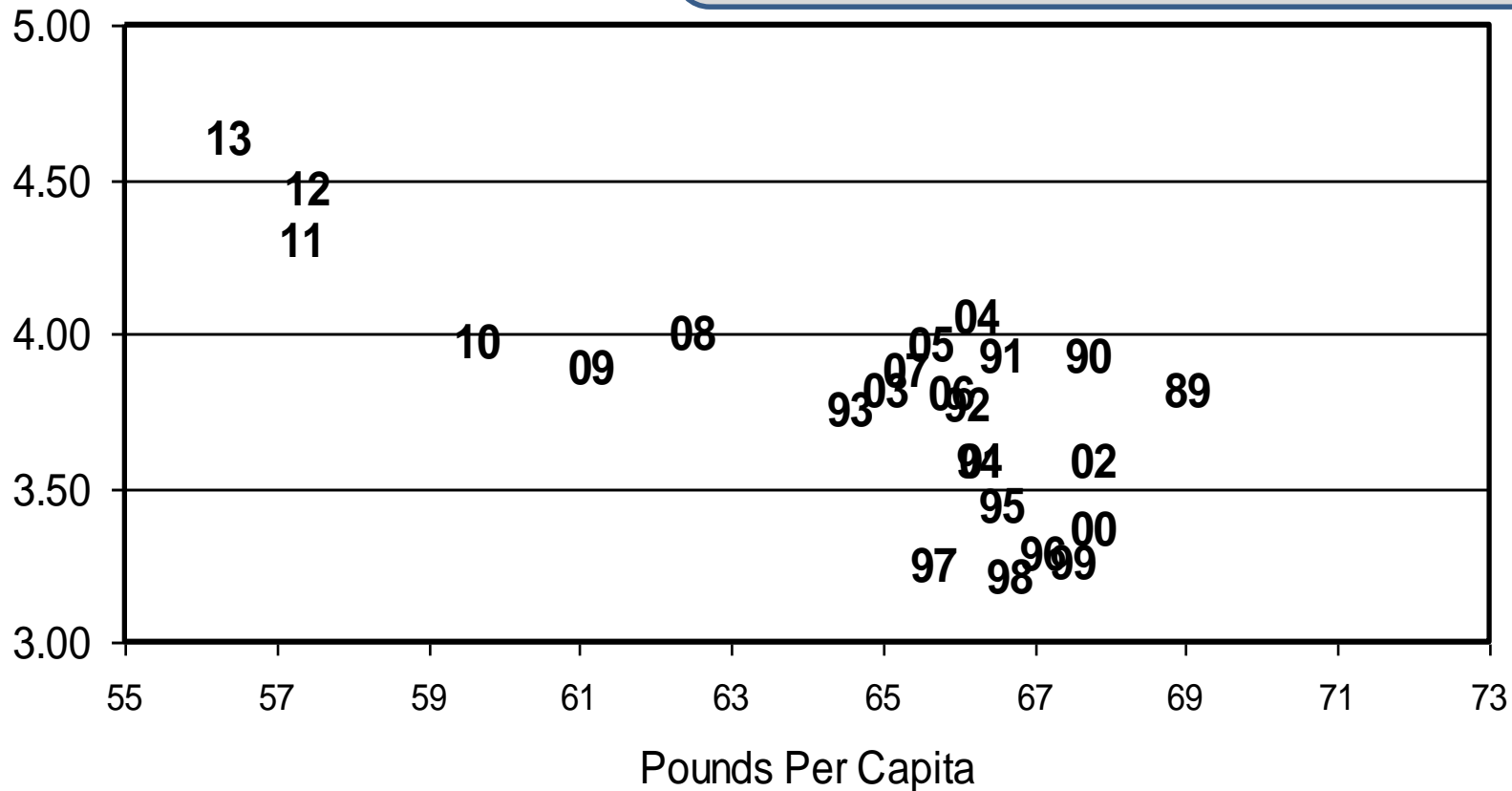
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BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

★
\$ Per Pound

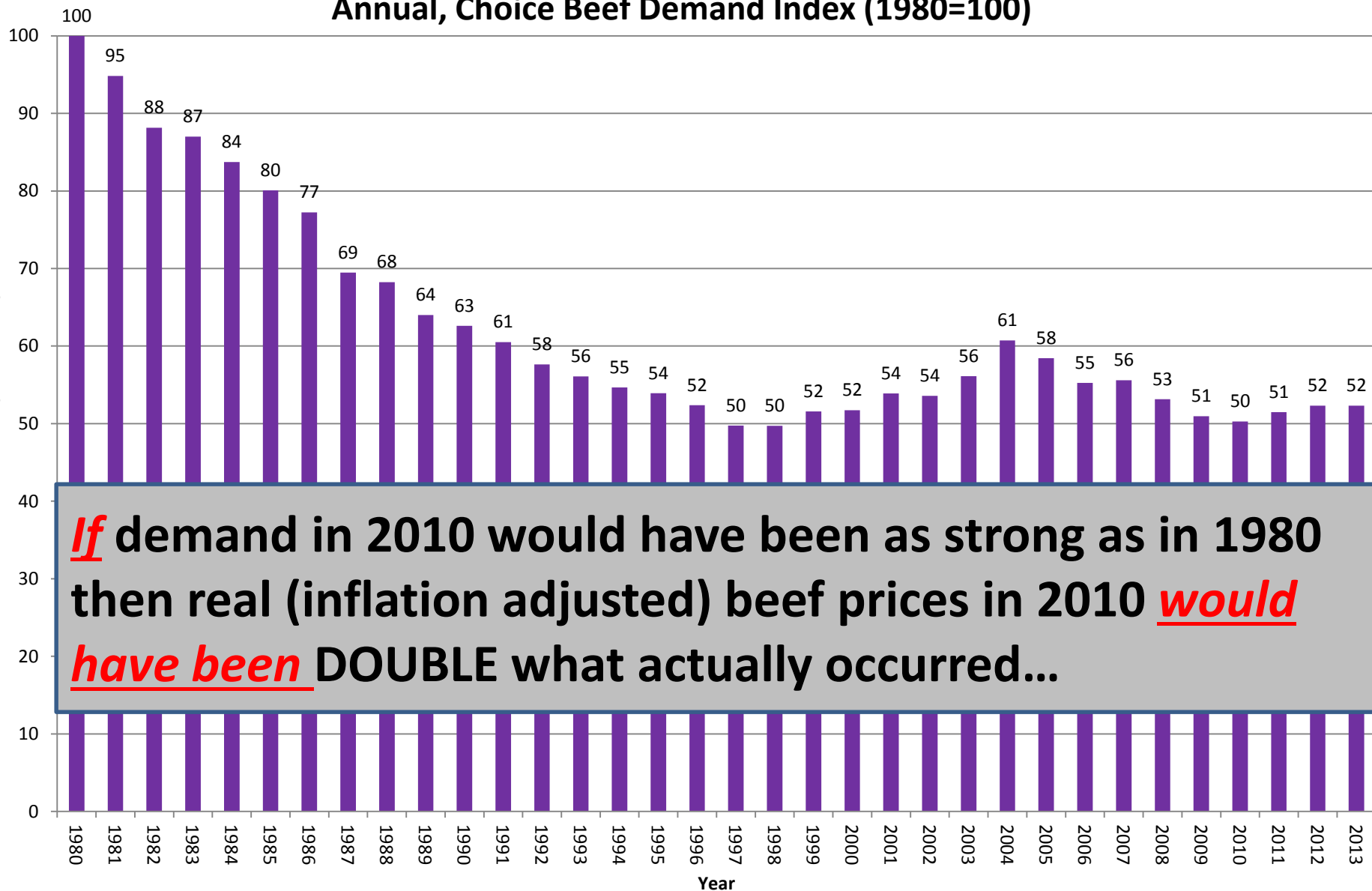
Given ERS forecast (53.0 lbs/capita) in 2014;
No demand change **IF** 2014 All Fresh Retail
Price = \$5.29/lb (+7.2% from 2013)



C-P-65A
02/10/14

Annual, Choice Beef Demand Index (1980=100)

Demand Index (1980=100)



If demand in 2010 would have been as strong as in 1980 then real (inflation adjusted) beef prices in 2010 would have been DOUBLE what actually occurred...

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

Annual, Choice Beef Demand Index (1980=100)

2013 Changes:

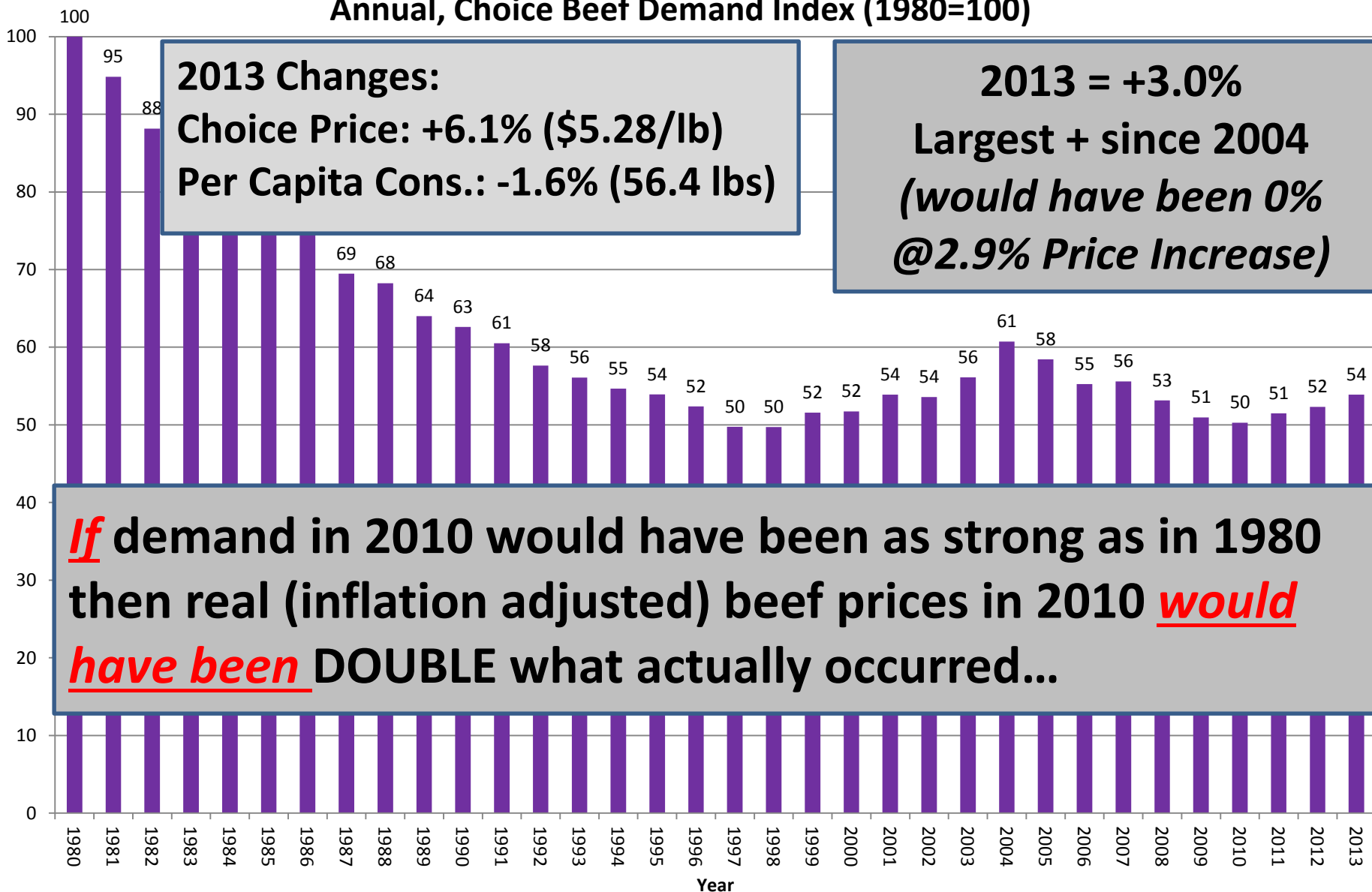
Choice Price: +6.1% (\$5.28/lb)

Per Capita Cons.: -1.6% (56.4 lbs)

2013 = +3.0%

Largest + since 2004
*(would have been 0%
@2.9% Price Increase)*

Demand Index (1980=100)

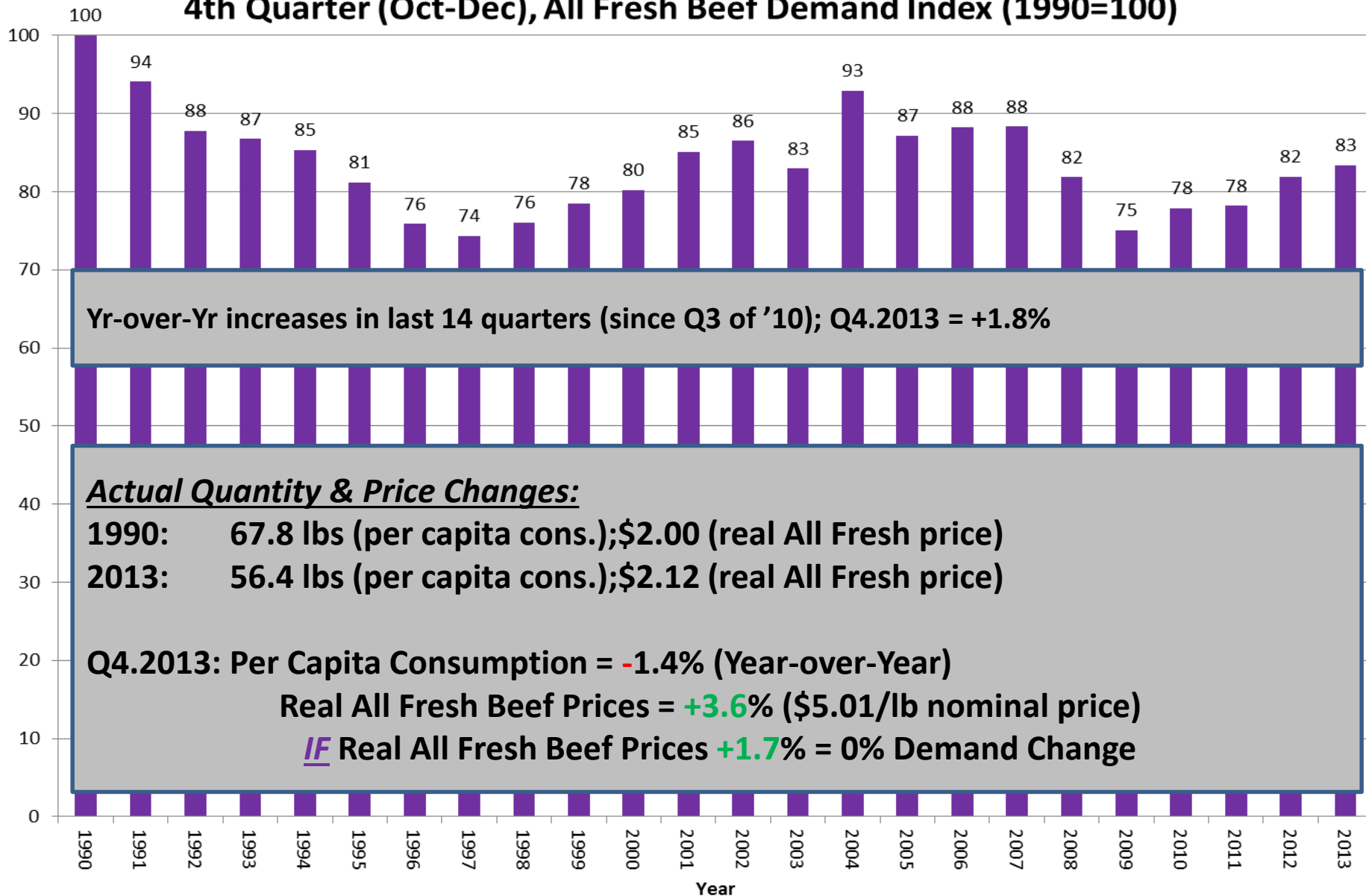


If demand in 2010 would have been as strong as in 1980 then real (inflation adjusted) beef prices in 2010 would have been DOUBLE what actually occurred...

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

4th Quarter (Oct-Dec), All Fresh Beef Demand Index (1990=100)

Demand Index (1990=100)



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

Beef Demand: Recent Determinants and Future Drivers

Ted Schroeder

Glynn Tonsor

James Mintert

**Research Project completed for the
Cattlemen's Beef Board**



Beef Board Project's Purpose

Our Goal

Identify drivers shaping future domestic beef demand
emphasizing factors industry can use to prioritize strategies

Objectives

1. Determine:

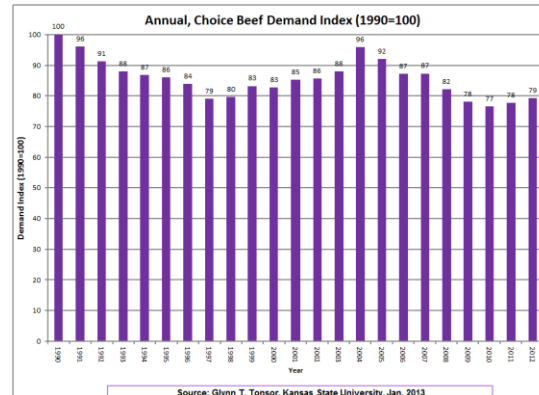
- beef demand drivers
- ability of industry to influence drivers

2. Provide recommendations for demand enhancement

Procedure

Importance & Feasibility to Influence Future Beef Demand 10 Years Forward

Published work
- 15 attribute rank
- 22 willing to pay
~25,000 respondents



Consumer Survey
- 975 respondents
Steak & Ground Beef

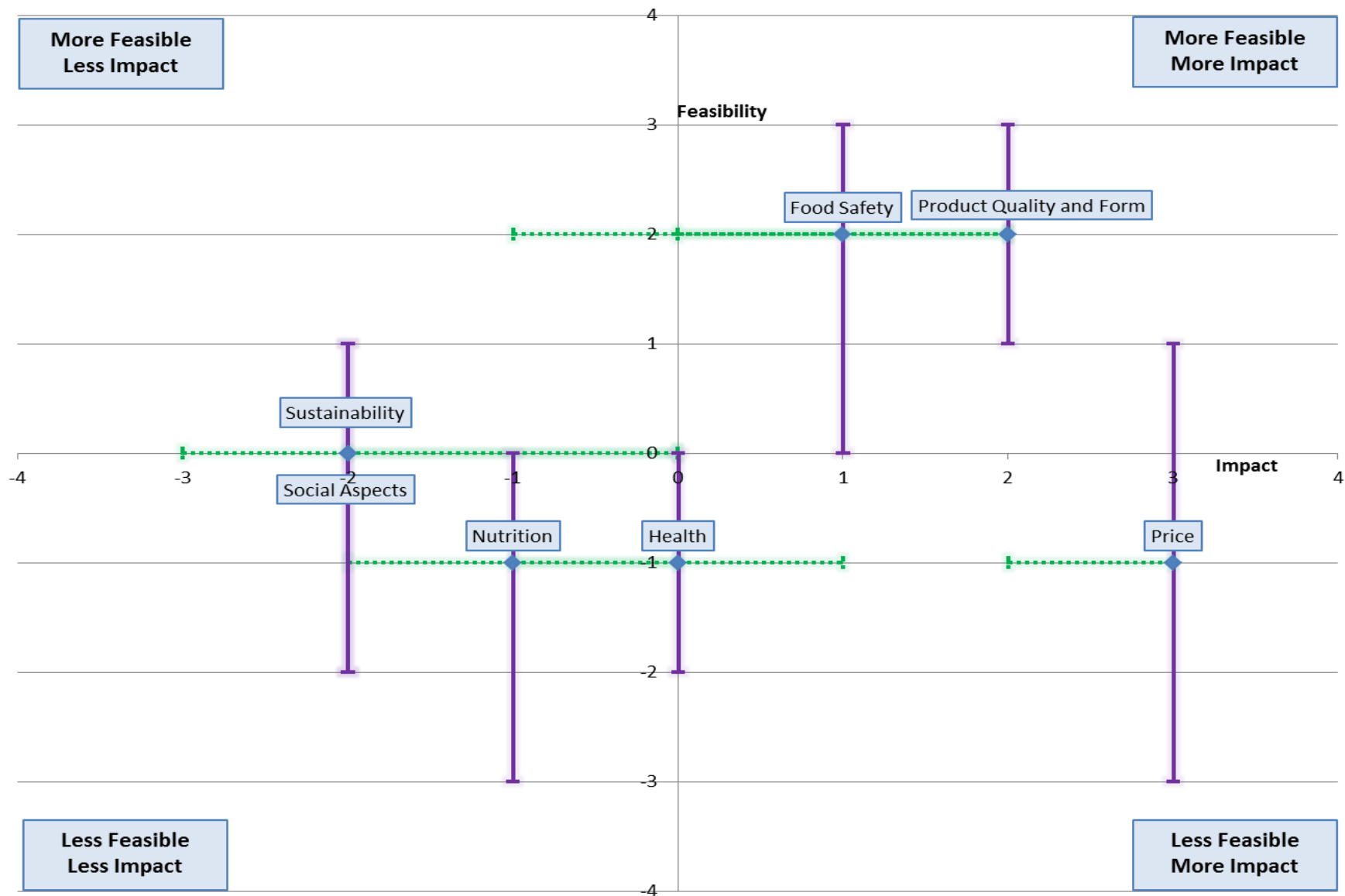


Demand Expert Survey
- 159 experts
Steak & Ground Beef

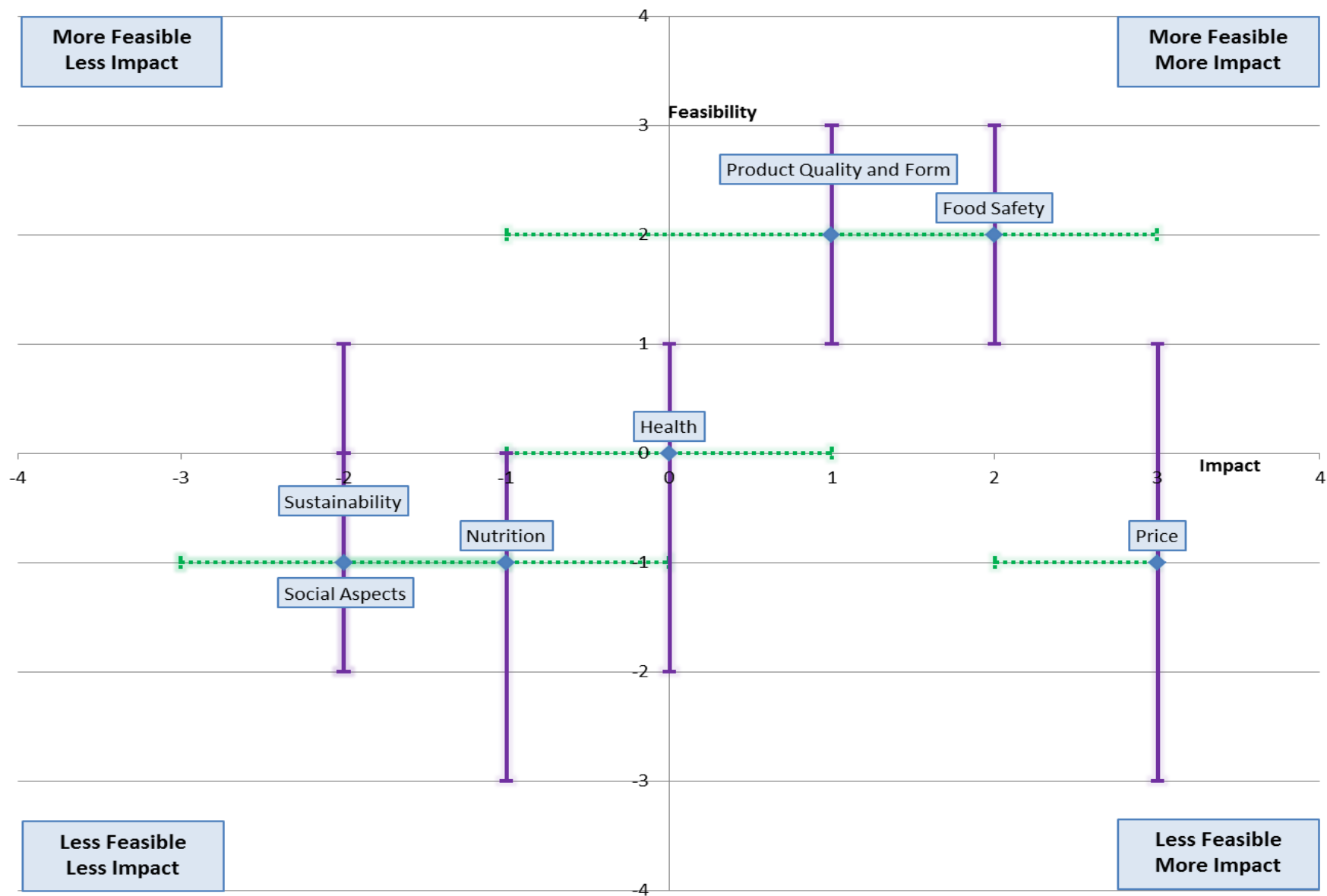
7 Salient Beef Demand Drivers

1. **Food Safety** (*E. coli, Salmonella, Listeria...*)
2. **Product Quality** (*Fresh, Taste, Tender, Convenience ...*)
3. **Price** (*\$ per pound*)
4. **Nutrition** (*Protein, Iron, Zinc...*)
5. **Health** (*Fat Amount & Type, Cholesterol, Sodium...*)
6. **Sustainability** (*Environment, Labor, Community...*)
7. **Social Aspects** (*Welfare, Country of Origin, Natural...*)

Demand Factors within Impact and Feasibility Space, Beef Steak (Medians and Quartile Ranges; Impact N=89, Feasibility N=81)



Demand Factors within Impact and Feasibility Space, Ground Beef (Medians and Quartile Ranges; Impact N=88, Feasibility N=81)



Ranked Priorities


**Highest
Priority**

- 
1. Food Safety
 2. Product Quality
 3. Price

**Middle
Priority**

- 
4. Nutrition
 5. Health

**Lower
Priority**

- 
6. Social Aspects
 7. Sustainability Dimensions

Recommendations (Ranked)

- 1. Invest in food safety enhancement & reassurance**
 - *Essential domestically; also critical for exports*
- 2. Emphasize product quality consistency**
 - *New products have role & certification programs*
- 3. Appreciate beef price and relative price sensitivity**
 - *Technology adoption critical for price competitiveness*
 - *Assess food safety and product quality impacts*
- 4. Health and Nutritional aspects warrant attention**
 - *Younger protein interest (tomorrow's high earners)*
- 5. Social and Sustainability issues cannot be ignored**
 - *Communication and consumer education critical but lower demand enhancement payoff relative to other key areas*



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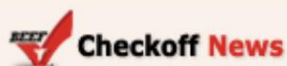
2013 Beef Demand Determinant Study



In Fiscal Year 2013, the Beef Checkoff Program commissioned a Beef Demand Determinant Study to identify the beef demand drivers on which the checkoff programs should focus to have the most compelling effects on beef demand moving forward.

Below you will find links to a one-page abstract, a summary report, and the full results of the study, authored by Dr. Ted Schroeder, professor of livestock marketing, and Dr. Glynn Tonsor, associate proessor of livestock marketing, both at Kansas State University, in addition to Dr. James Mintert, assistant director of Extension for Agriculture and Natural Resources at Purdue University:

- [One-page Summary Abstract: "Beef Demand: Determinants and Future Drivers"](#)
- [Beef Demand Summary Report 2013](#)
- [Chapter 2: Previous Research Preference Rankings](#)

[Beef and Sustainability](#)[Trend Bites](#)[Debunking Antibiotic Myths](#)[Engaging MBA Grads](#)

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



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| | | Management | | Policy | | |

Livestock & Meat Marketing: Meat Demand Tables, Charts and Videos

| Demand Drivers | HTML | Date |
|---|----------------------|---------|
| 2013 Beef Demand Determinant Study (fact sheet, full report, etc.) HTML Link | View | 6/14/13 |
| U.S. Meat Demand: Household Dynamics and Media Information Impacts: <i>Journal of Agricultural and Resource Economics</i> | View | 4/01/10 |
| U.S. Beef Demand Drivers and Enhancement Opportunities: A Research Summary (four-page KSU Fact Sheet) | View | 1/30/09 |
| U.S. Beef Demand Drivers and Enhancement Opportunities: A Research Report (22 page report) | View | 6/15/09 |
| Beef Demand Determinants Slide Presentation, NCBA Annual Convention, Phoenix, AZ | View | 1/30/09 |

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| Demand Indices | Table | Chart | Date |
|--|----------------------------|----------------------|---------|
| Intuition and Creation Detail of Beef Demand Indices: Index Overview | View Paper | | 9/24/10 |
| Annual Choice Beef Demand Index (1980=100) | View | View | 1/22/14 |
| Annual Choice Beef Demand Index (1990=100) | View | View | 1/22/14 |

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Other Issues We Could Discuss...

- Technology Feasibility & Acceptance Distinction
 - CFI 9/4/13 Tweet: “Science tells us if we can do something. Society tells us if we should do it.”
- Role of Uncertainty
 - *Economic Policy Uncertainty Indices*
(<http://www.policyuncertainty.com/index.html>)
 - *Farm Bills, Shutdowns, MCOOL, Future Regulation*
- Herd Expansion Variants: Within & Across Regions
- Beef Market Share, Pork/Poultry Expansion
- Alignment of Export Opportunities & Knowledge

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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Series of quarterly webinars on beef-cattle markets and other industry-related issues.

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- **August 5**
- **November 11**

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AND
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About AgManager.info

AgManager.info website is a comprehensive source of information, analysis, and decision-making tools for agricultural producers, agribusinesses, and others. The site serves as a clearinghouse for applied outreach information emanating from the Department of Agricultural Economics at Kansas State University. It was created by combining departmental and faculty sites as well as creating new features exclusive to the AgManager.info site. The goal of this coordination is to improve the organization of web-based material and allow greater access for agricultural producers and other clientele.



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