Beef Stocker
Kansas State University

Field Day

September 25, 2014
Kansas State University
Manhattan, Kansas

K-STATE
Research and Extension

Forward Planning Implications for Herd Rebuilding: Where Does the Stocker Segment Fit?

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www.agmanager.info

Situation Summary
(Shared here last year)

- Historically tight supplies & high prices
- Industry is in midst of multiple changes
- Many "old" as well as "new" issues will guide profitability and characterize future of the industry…
- Stocker segment will have to adjust accordingly

Overarching Beef Industry Economic Outlook

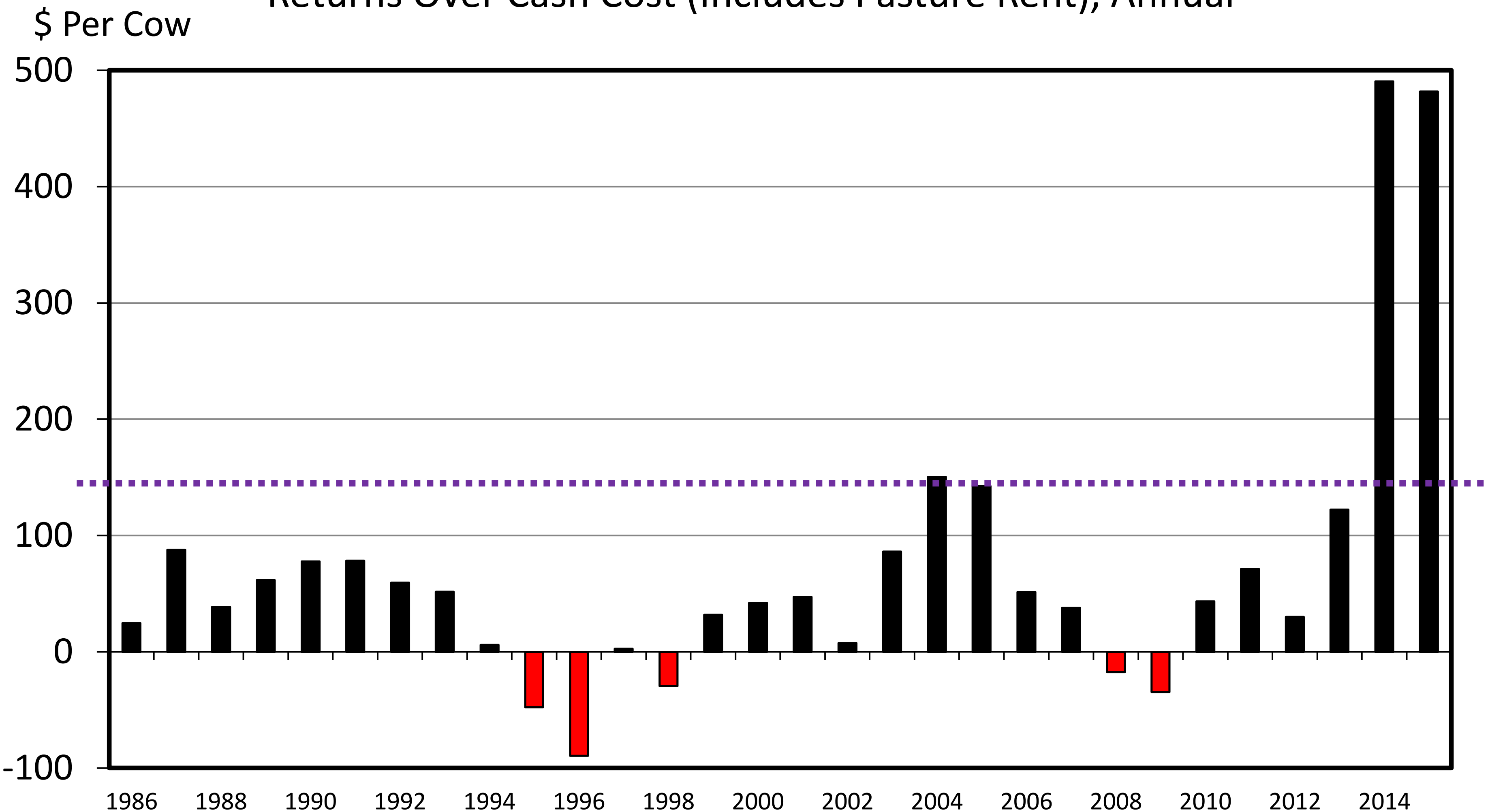
- Supplies
  - Continued pull down, both in # of head & beef lbs
    - <u>Mixed expansion signals…</u>

- 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



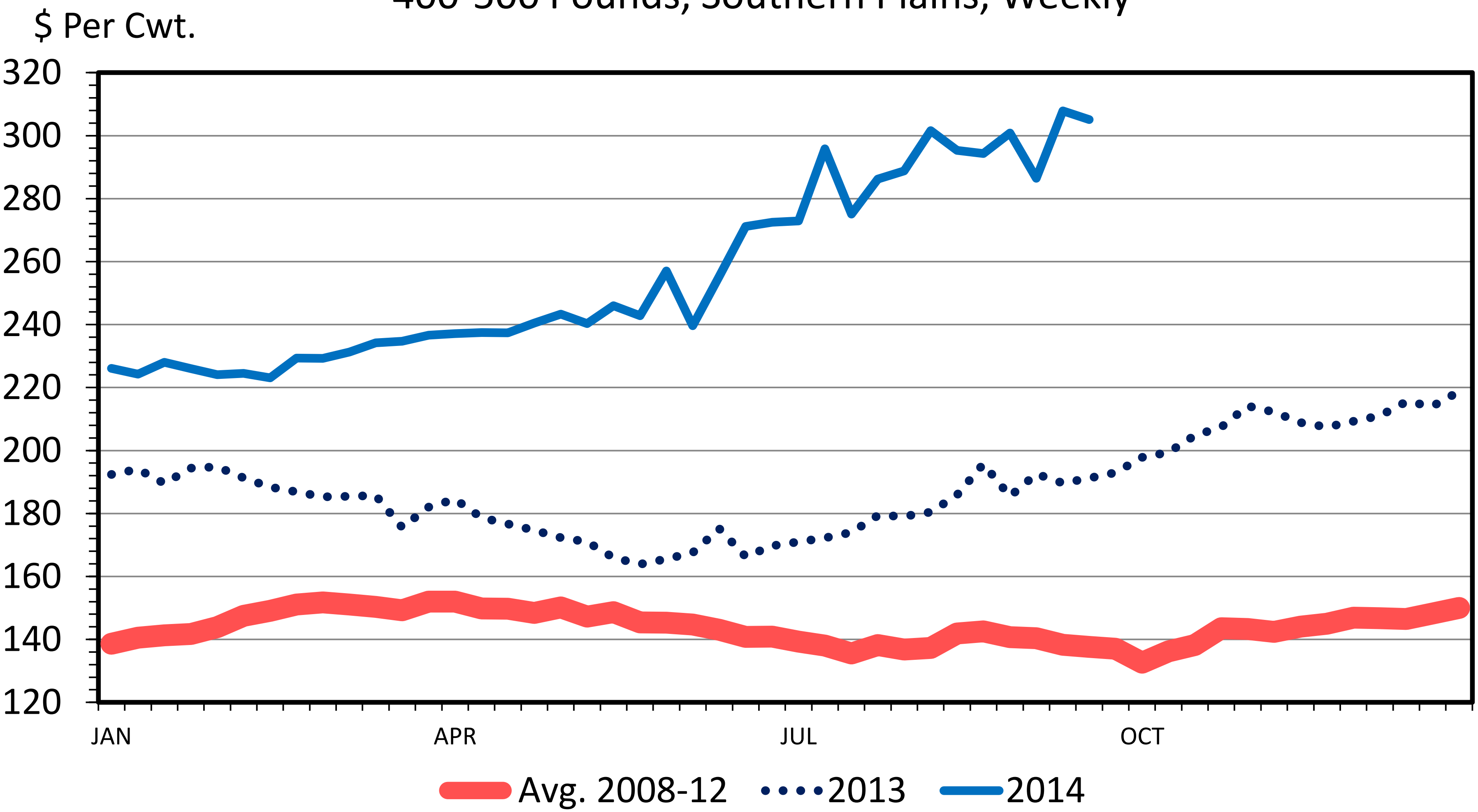
Data Source: USDA-AMS, Compiled and Analysis by LMIC

Livestock Marketing Information Center

C-P-66
09/02/14

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



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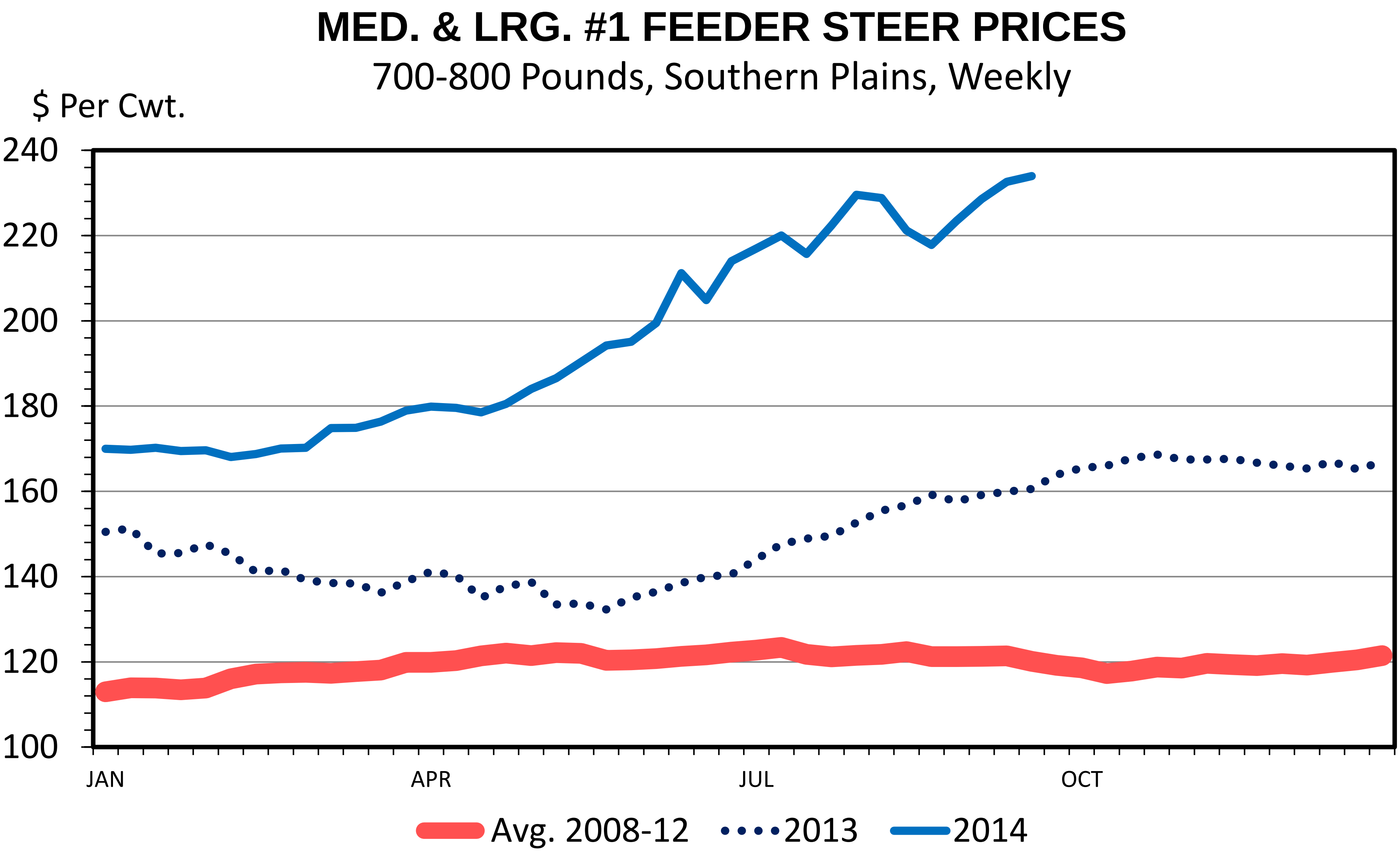
09/22/14



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

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C-P-49
09/22/14

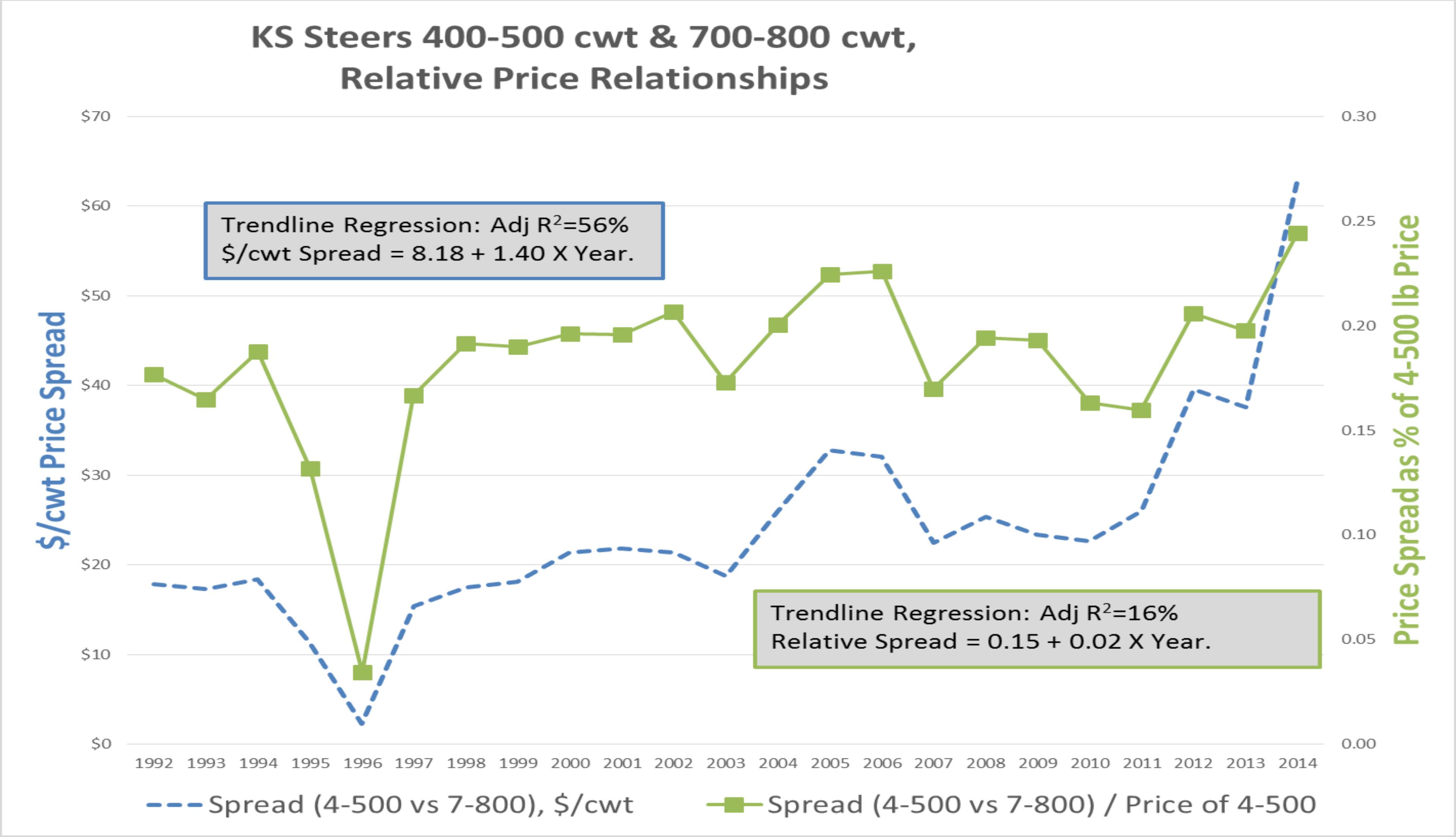
KS Steers Assessment
400-500 cwt vs. 700-800 cwt Relationships

- $/cwt price spread has increased = sticker shock…
- BUT look at relative price …
  - **Old rules of thumb need not apply**

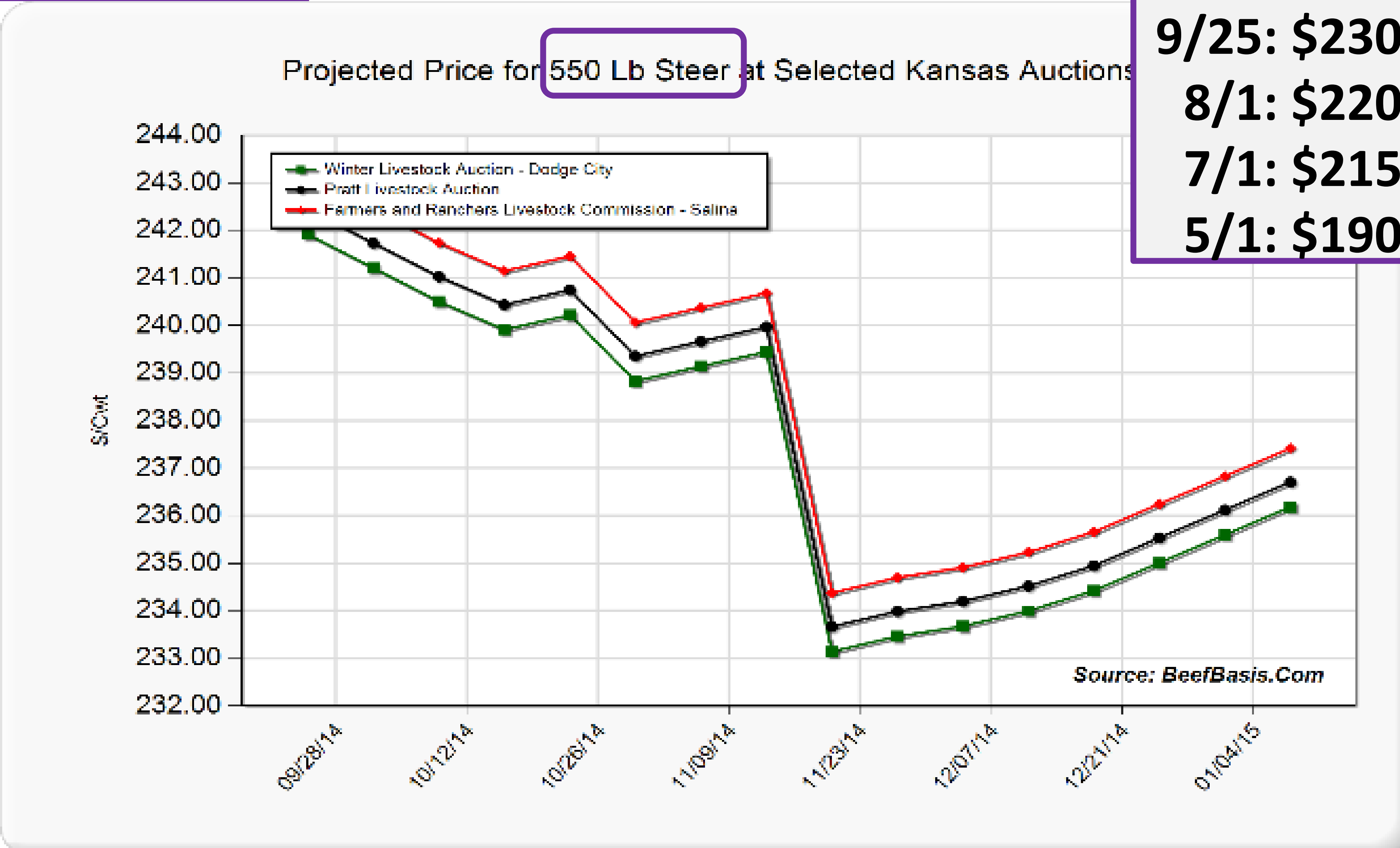
Year	Spread (4-500 vs 7-800), $/cwt	Spread (4-500 vs 7-800) / Price of 4-500
1992-1995	16.20	0.17
1996-2000	14.92	0.16
2001-2005	24.13	0.20
2006-2010	25.17	0.19
2011	25.99	0.16
2012	39.53	0.21
2013	37.57	0.20
2014	62.69	0.24

KS Steers Assessment
400-500 cwt vs. 700-800 cwt Relationships

– **Old rules of thumb need not apply** (Peel, 9/22 Cow-Calf Corner)



As of: 9/25/14'



Oct FC:
9/25: $230
8/1: $220
7/1: $215
5/1: $190

CAS Custom Ag Solutions

Agricultural Economics Kansas State University

http://www.agmanager.info/livestock/marketing/graphs/cattle/prices/default.asp

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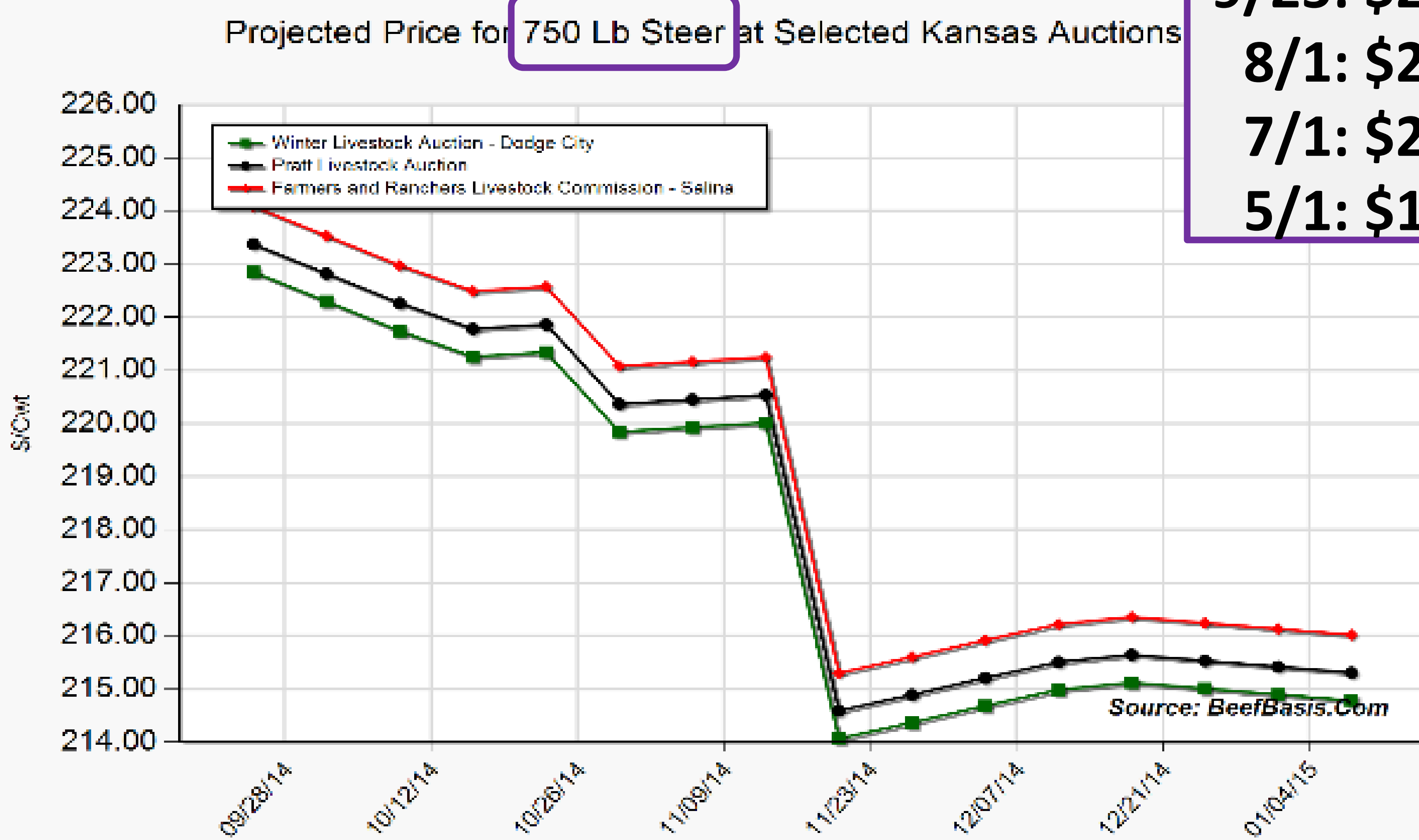

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Data Source: USDA-NASS, Compiled & Analysis by LMIC

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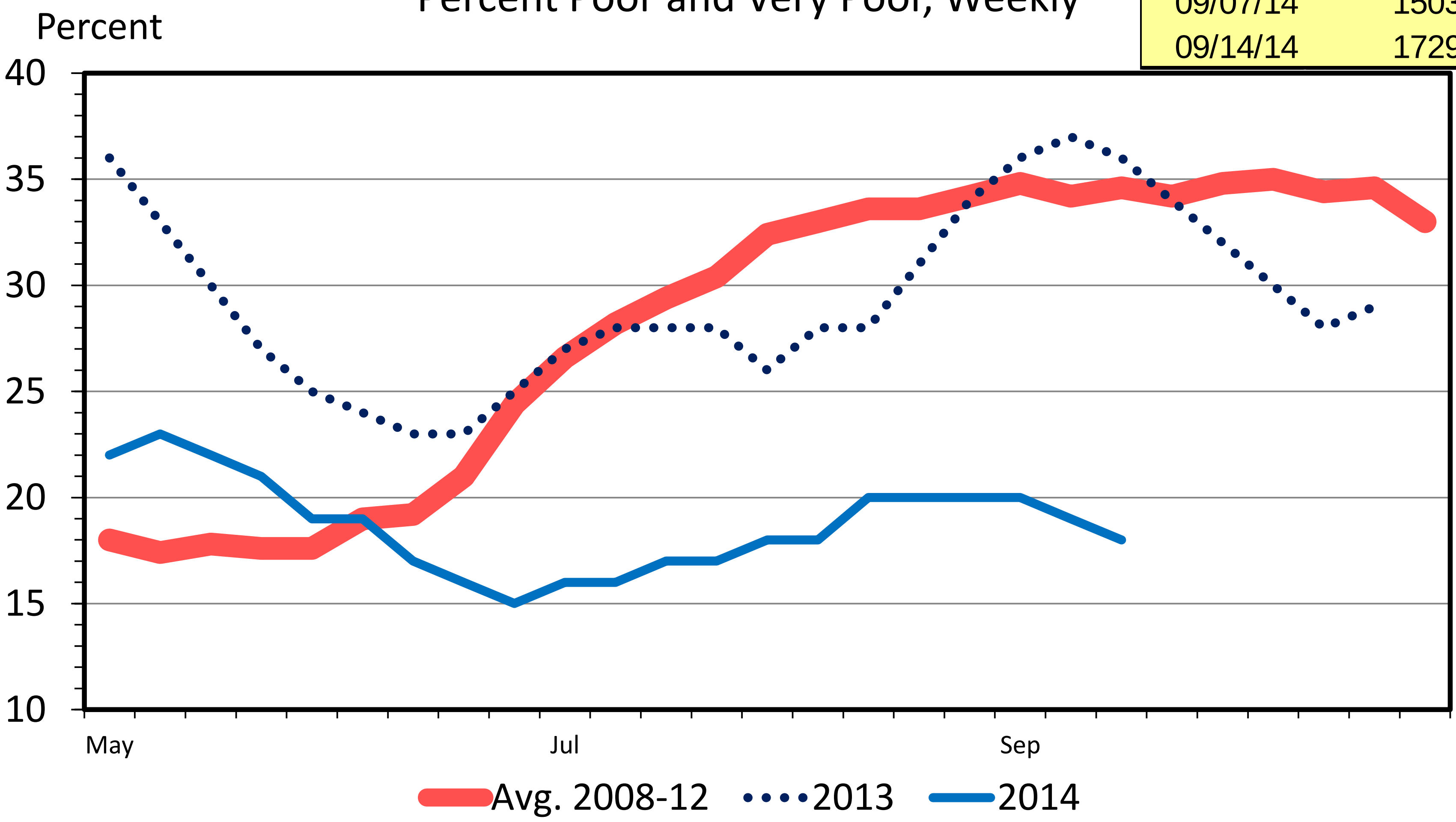
G-NP-30

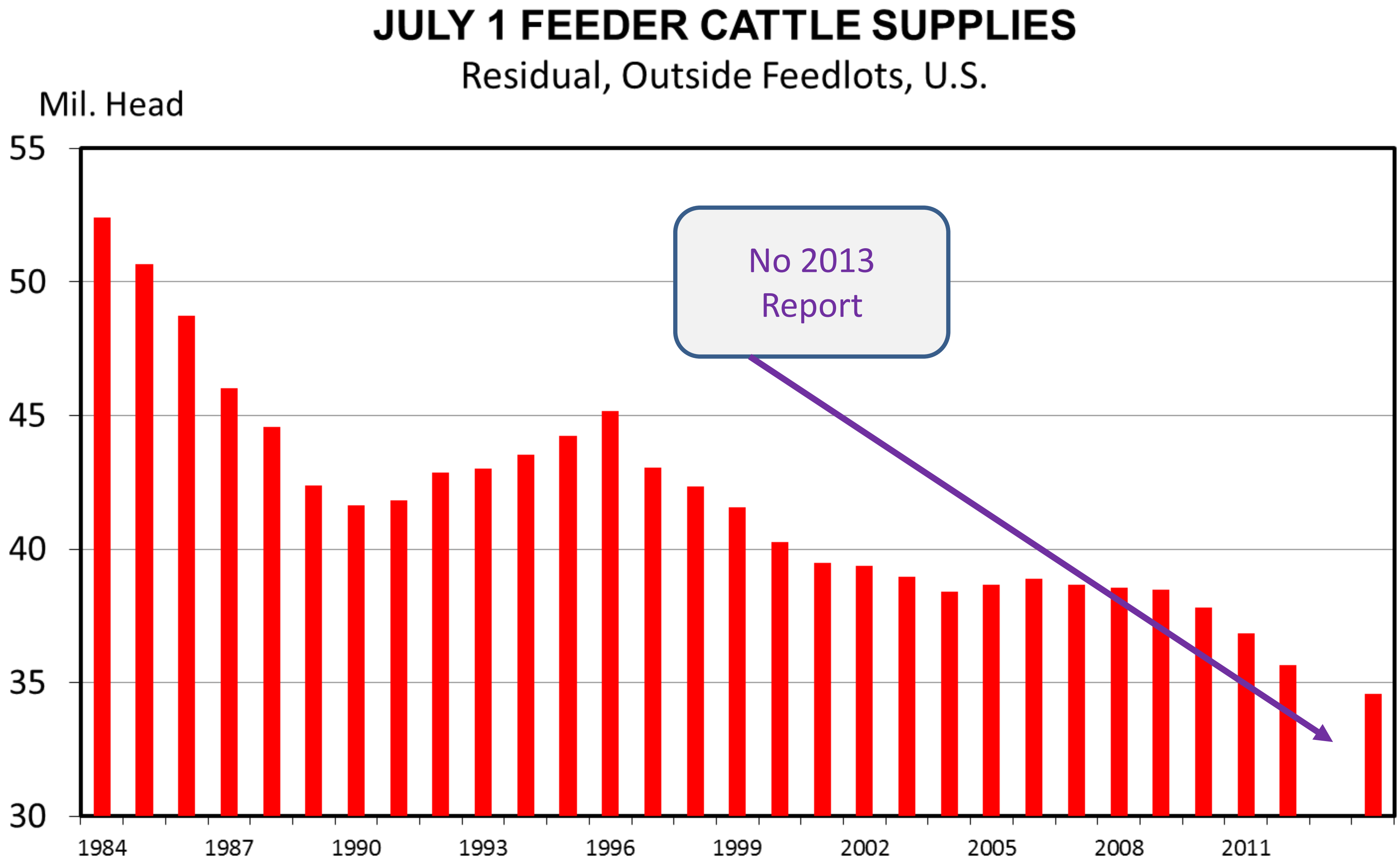
09/22/14

Beef Cows in states with 40% Poor to Very Poor		
Last year	Cows	% of Total
09/01/13	9427	**32.26%**
09/08/13	8917	**30.51%**
09/15/13	9789	**33.50%**
This Year		
08/31/14	1503	**5.19%**
09/07/14	1503	**5.19%**
09/14/14	1729	**5.97%**

US RANGE AND PASTURE CONDITIO

Percent Poor and Very Poor, Weekly





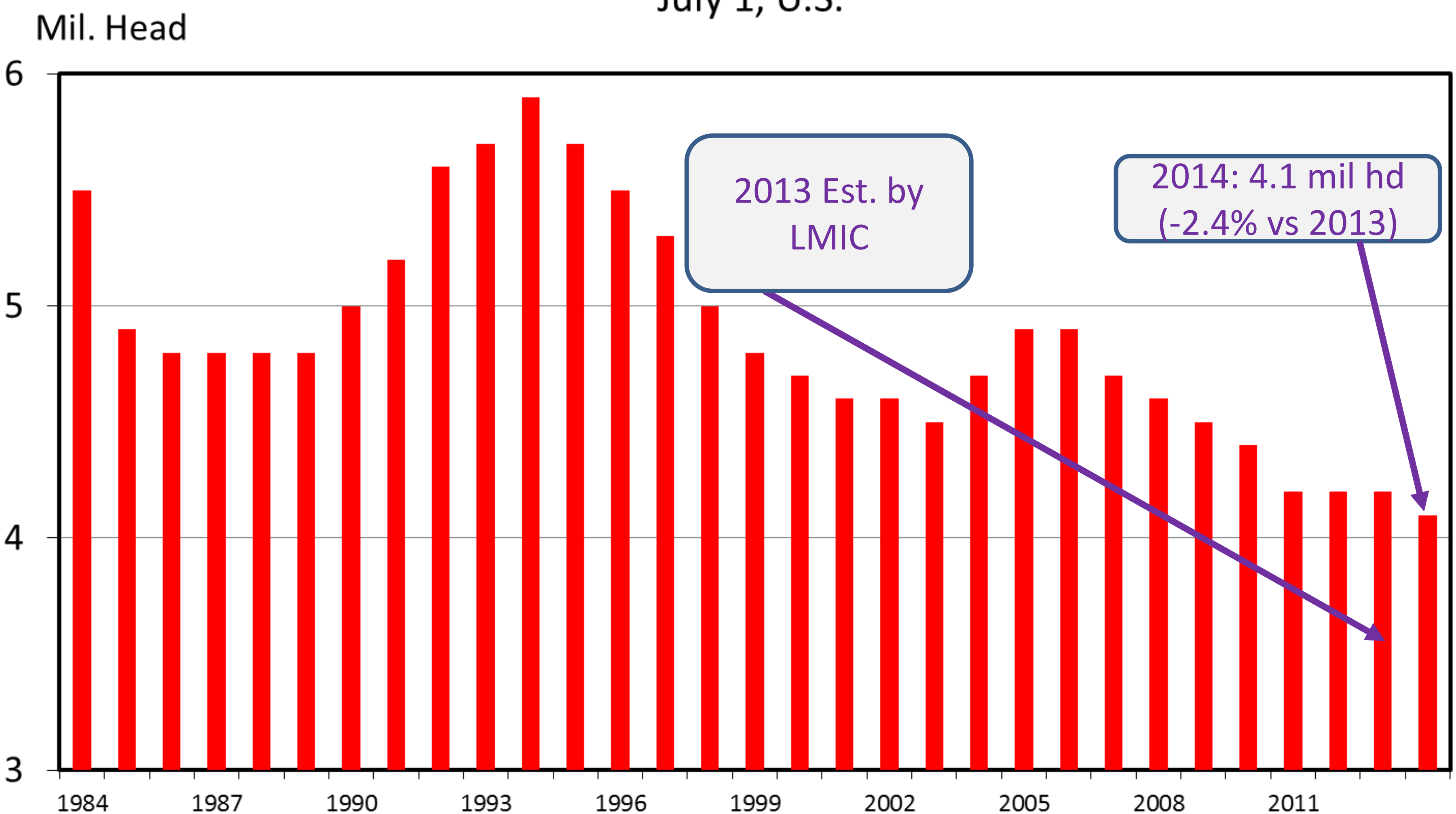
Data Source: USDA-NASS

Livestock Marketing Information Center

C-N-32
07/28/14

HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.



Data Source: USDA-NASS

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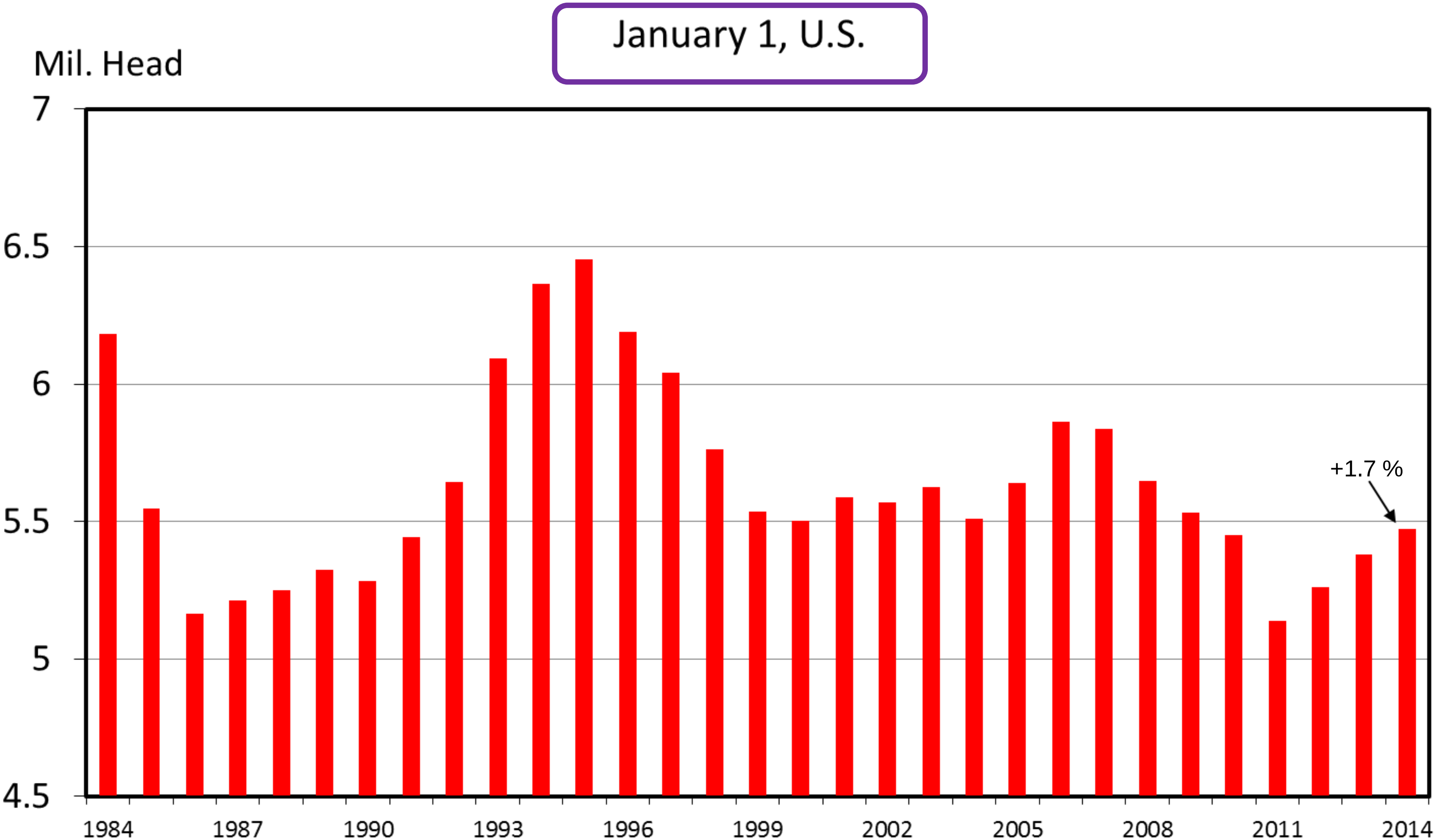
C-N-37
07/28/14

HEIFERS HELD AS BEEF COW REPLACEMENTS



Data Source: USDA-NASS

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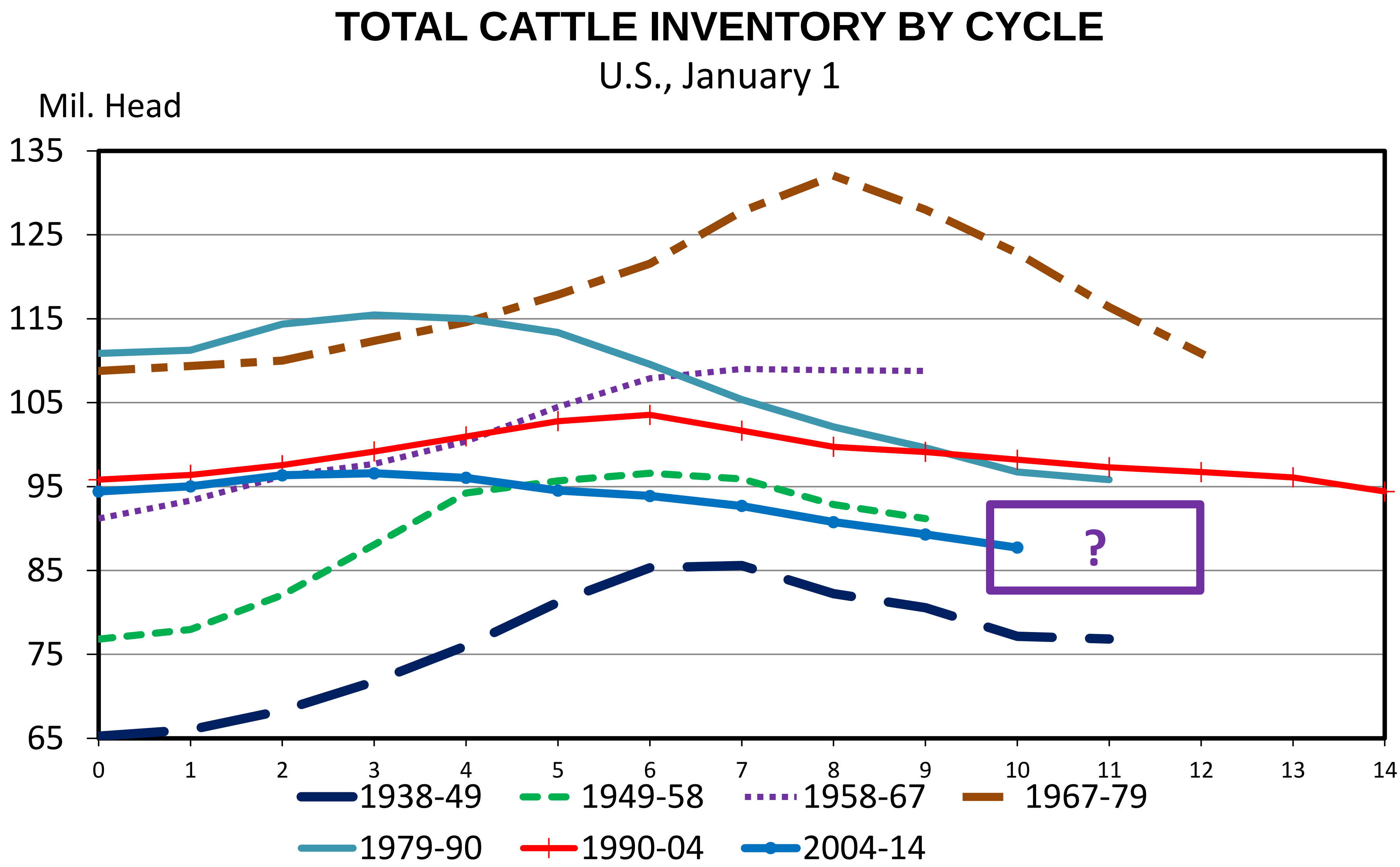
C-N-38
07/28/14

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



Data Source: USDA-NASS

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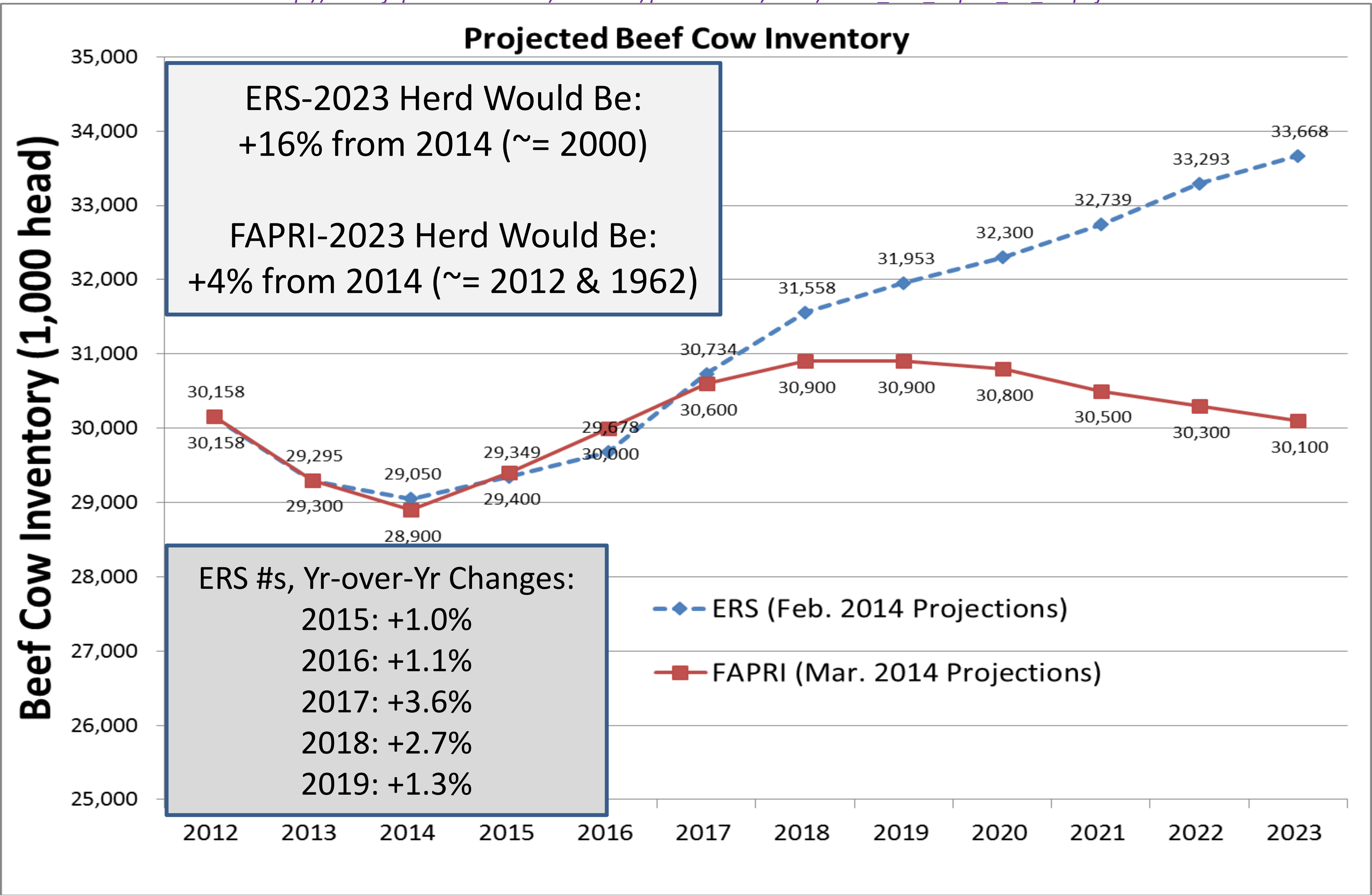
C-N-01
09/05/14

How Much Expansion? ERS & FAPRI Herd Projections

http://www.ers.usda.gov/publications/oce-usda-agricultural-projections.aspx
http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI_MU_Report_02_14.pdf



Economic Outlook Overview: Stockers

- Attractive Values of Gain (VOG) vs. COG
  - For those in many stocker/backgrounding areas …
  - <u>Notably higher VOGs than feedlot COG projections…</u>

- Salina, KS 9/25/14 situation:
  - Buy 550 lb steer on 10/1/14 ($246.09)

  - Sell 750 lb steer on 1/7/15 ($217.44) {2.02 ADG}
    - <u>VOG: $138.64/cwt</u>

    - ***IF COG $90/cwt*** THEN Expected Profit = $97/hd

      - <u>**Note Total Cost > $1,500/hd, reduces ROI for given $X/hd**</u>

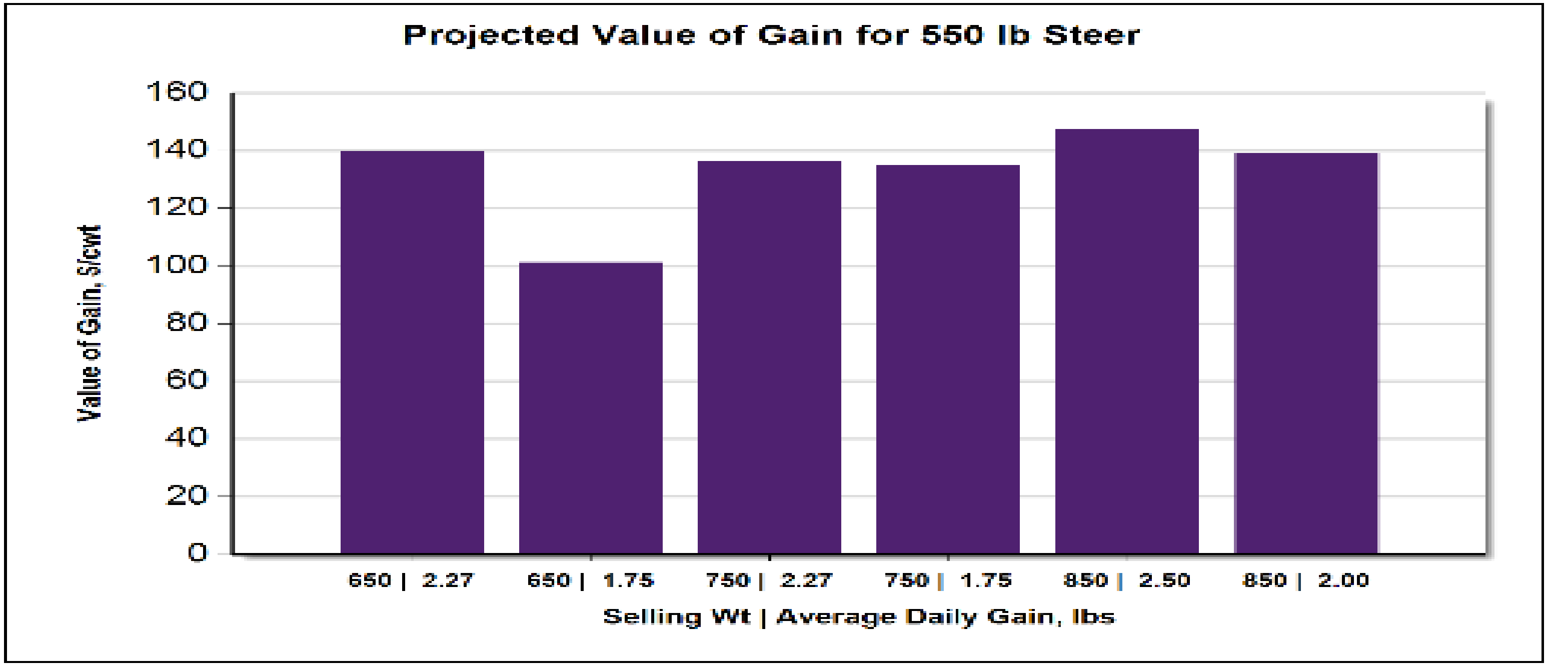
http://www.beefbasis.com/VOG.aspx

Economic Outlook Overview: Stockers

- Salina, KS 9/24/14 situation:

Buy Date	Buy Wt	Sell Wt	Sell Date	ADG	Proj. VOG ($/cwt)
10/1/14	550	650	11/25/14	1.8	105.85
10/1/14	550	750	1/20/15	1.8	137.08
10/1/14	550	850	3/16/15	1.8	136.82
10/1/14	550	650	11/11/14	2.4	143.26
10/1/14	550	750	12/23/14	2.4	138.05
10/1/14	550	850	2/3/15	2.4	142.48
10/1/14	450	650	1/20/15	1.8	144.42
10/1/14	450	750	3/16/15	1.8	144.23
10/1/14	450	850	5/11/15	1.8	145.76
10/1/14	650	750	11/11/14	2.4	152.71
10/1/14	650	850	12/23/14	2.4	152.08

http://www.beefbasis.com/VOG.aspx



Projected Value of Gain

Begining Weight, lbs	Ending Weight, lbs	Date	Weight Gain, lbs/hd	ADG, lbs	Value of Gain, $/cwt
550	650	11/08/2014	100	2.27	$139.55
550	650	11/21/2014	100	1.75	$101.19
550	750	12/22/2014	200	2.27	$136.44
550	750	01/17/2015	200	1.75	$135.13
550	850	01/23/2015	300	2.50	$147.62
550	850	02/22/2015	300	2.00	$138.89

Note: Projections dervied for the Salina, KS market using BeefBasis.com
Related information is available at: BeefBasis.com 9/25/2014

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http://www.agmanager.info/livestock/marketing/graphs/cattle/prices/VOG.asp

Economic Outlook Overview: Feedlots

- 2014 to-date has been <u>MUCH</u> better than 2013
- Fed-cattle break-even prices have risen rapidly…
- Excess capacity concerns persist:
  - Calf Crop, Heifer Retention, Plant Closures, & MCOOL…

Historical and Projected Kansas Feedlot Net Returns
(as of 9/10/14')

(http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingRetur

Oct LC:
9/25: $155
8/15: $146
8/1: $156
5/1: $140

July 14': +$310/steer (best ever)

(7th straight mo > $125/steer – first sequence ever)

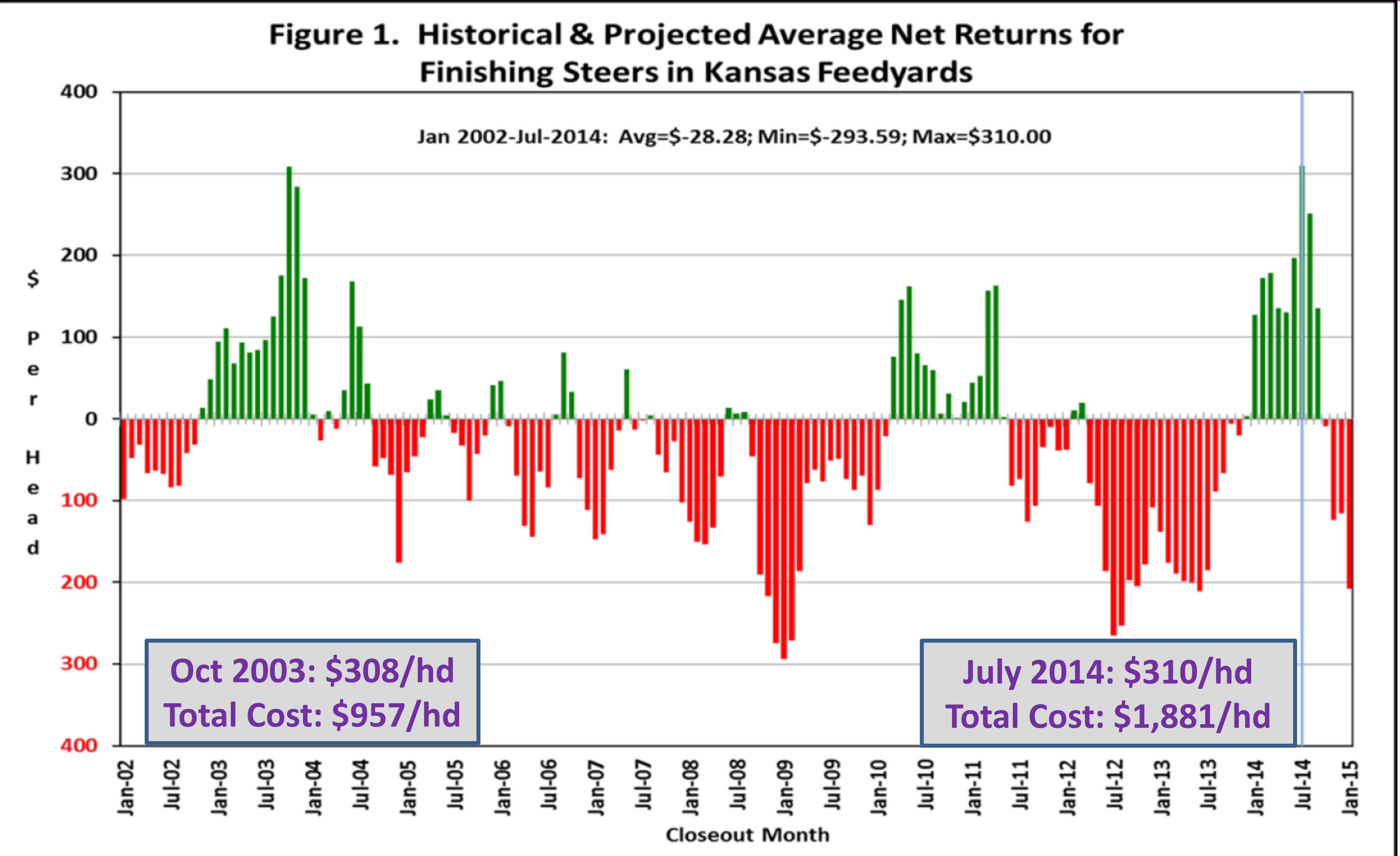
Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Aug-14	251.35	88.20	156.35	169.69	131.91	138.81	198.99
Sep-14	135.59	88.97	149.96	173.24	112.14	140.39	189.54
Oct-14	-9.31	88.07	152.64	191.44	86.38	153.29	190.36
Nov-14	-124.17	86.05	153.04	206.84	63.37	161.90	192.32
Dec-14	-115.91	84.97	152.92	211.02	65.89	160.88	197.38
Jan-15	-207.55	83.36	152.84	220.95	47.20	167.55	196.15

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 9/10/14')

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

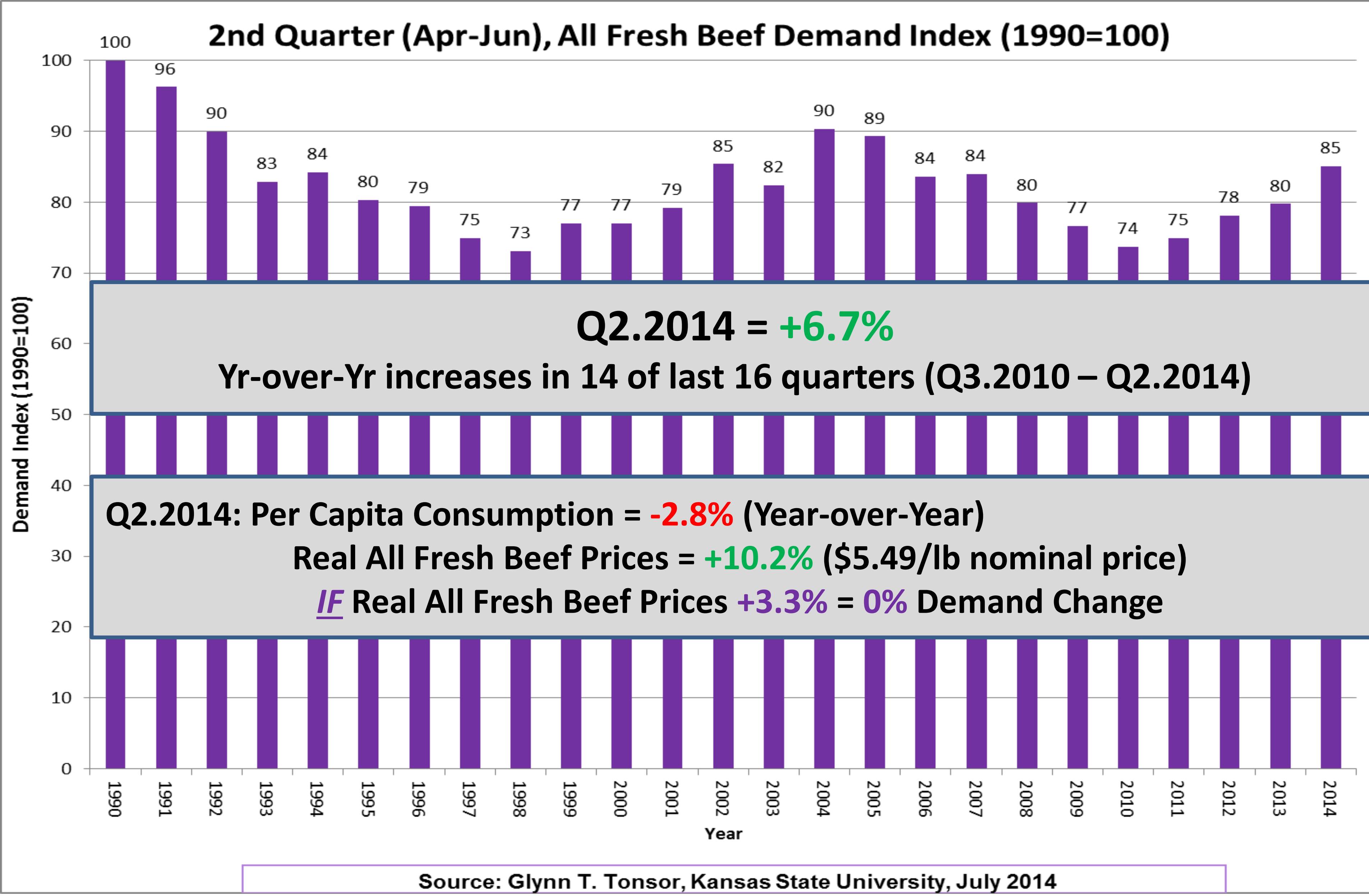


Quarterly Forecasts (LMIC: 8/31/14)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
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	7,685	-7.6	807.4	1.7	6,205	-6.1
IV	7,636	-5.0	807.8	1.0	6,168	-4.0
Year	30,532	-5.9	800.0	1.0	24,425	-5.0
2015						
I	7,137	-3.2	802.4	0.8	5,727	-2.4
II	7,602	-3.0	795.1	0.8	6,044	-2.2
III	7,494	-2.5	812.5	0.6	6,089	-1.9
IV	7,510	-1.7	812.5	0.6	6,102	-1.1
Year	29,743	-2.6	805.6	0.7	23,962	-1.9
2016						
I	7,143	0.1	807.9	0.7	5,771	0.8
II	7,325	-3.6	800.5	0.7	5,864	-3.0
III	7,581	1.2	820.1	0.9	6,217	2.1
IV	7,427	-1.1	819.2	0.8	6,084	-0.3
Year	29,476	-0.9	812.1	0.8	23,936	-0.1

Quarterly Forecasts (LMIC: 8/31/14)

	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2014				
I	146.34	16.6	171.77	209.30
II	147.82	18.3	193.16	227.67
III	155-157	27.6	216-220	257-262
IV	156-159	20.4	211-216	246-252
Year	151-153	20.7	198-200	235-238
2015				
I	156-160	8.0	210-216	249-256
II	156-161	7.2	212-220	254-263
III	154-160	0.6	211-220	250-260
IV	155-162	0.6	206-216	245-256
Year	156-160	3.9	211-217	250-258
2016				
I	156-164	1.3	208-219	251-264
II	157-166	1.9	211-225	255-269
III	154-164	1.3	209-223	250-265
IV	155-166	1.3	204-218	245-261
Year	157-163	1.3	210-219	252-263



Q2.2014 = +6.7%

Yr-over-Yr increases in 14 of last 16 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**

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

Expansion Implications for Stockers

- Short-Run, Impact of Lower Feeder Cattle Supplies
  - Be flexible in buy/sell decisions
    - Consider alternative weights and rates…
      - Can you increase ADG from 1.8 to 2.4 for less than $30/cwt?

Buy Date	Buy Wt	Sell Wt	Sell Date	ADG	Proj. VOG ($/cwt)	2.4 vs 1.8
10/1/14	550	650	11/25/14	1.8	105.85	
10/1/14	550	750	1/20/15	1.8	137.08	
10/1/14	550	850	3/16/15	1.8	136.82	
10/1/14	550	650	11/11/14	2.4	143.26	37.41
10/1/14	550	750	12/23/14	2.4	138.05	0.97
10/1/14	550	850	2/3/15	2.4	142.48	5.66

- Can you run 66 head from 550 to 850 lbs instead of 100 head from 550 to 750 lbs (*same total lbs added & similar VOG projections*)?

http://www.beefbasis.com/VOG.aspx

Expansion Implications for Stockers

- Long-Run Impacts **(Some shared here last year)**
  - Will stocker segment become ever more specialized?
    - Will former backgrounders focus on adding cows?
  - Will geographic origin of calves/yearlings shift NW?
  - Will geographic destination of feedyards shift NE?
  - Increasing social issues dialogue
    - Likely more changes in stocker production practices
  - Increasing quality signaling & coordination
    - Likely more changes in stocker production practices & information sharing/exchanging

Take-Home Summary Points

- Tight meat & live animal supplies +
- Strong retail meat demand +
- Pending (slow?) herd expansion =
- Record:
  - Prices throughout industry
  - Cash at-stake (so ROI may not be record)
  - Opportunity/Threat … in the eye of the beholder…

More information available at:

www.agmanager.info

This presentation will be available in PDF format at:

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

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