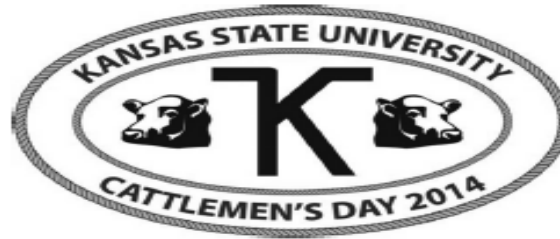


CATTLEMEN'S DAY 2014

101ST ANNUAL

Kansas State University
Agricultural Experiment Station
Cooperative Extension Service



Animal Sciences & Industry
Weber Hall
Manhattan, Kansas

Beef-Cattle Industry Outlook & Economics of Evolving Technology and Regulations

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Dept. of Agricultural Economics, Kansas State University

March 7, 2014

KANSAS STATE UNIVERSITY



Overarching Economic Outlook

- Supplies
 - Continued pull down in overall # of head & beef lbs
 - Very current marketings & limited calf crop
- Demand
 - Confusing yet positive
 - Less certain than supply
- Combined:
 - Record price levels & notable industry excitement

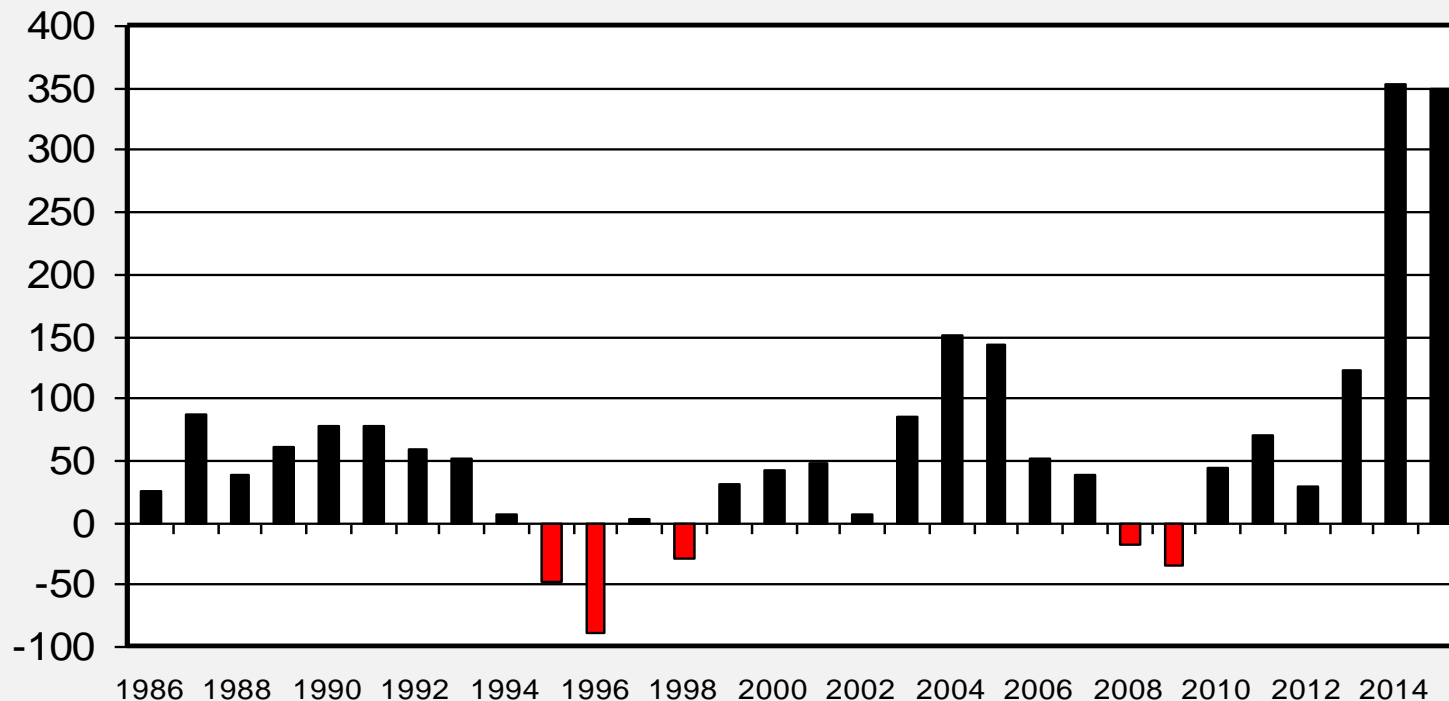


Economic Outlook Overview: Cow-Calf

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
02/25/14

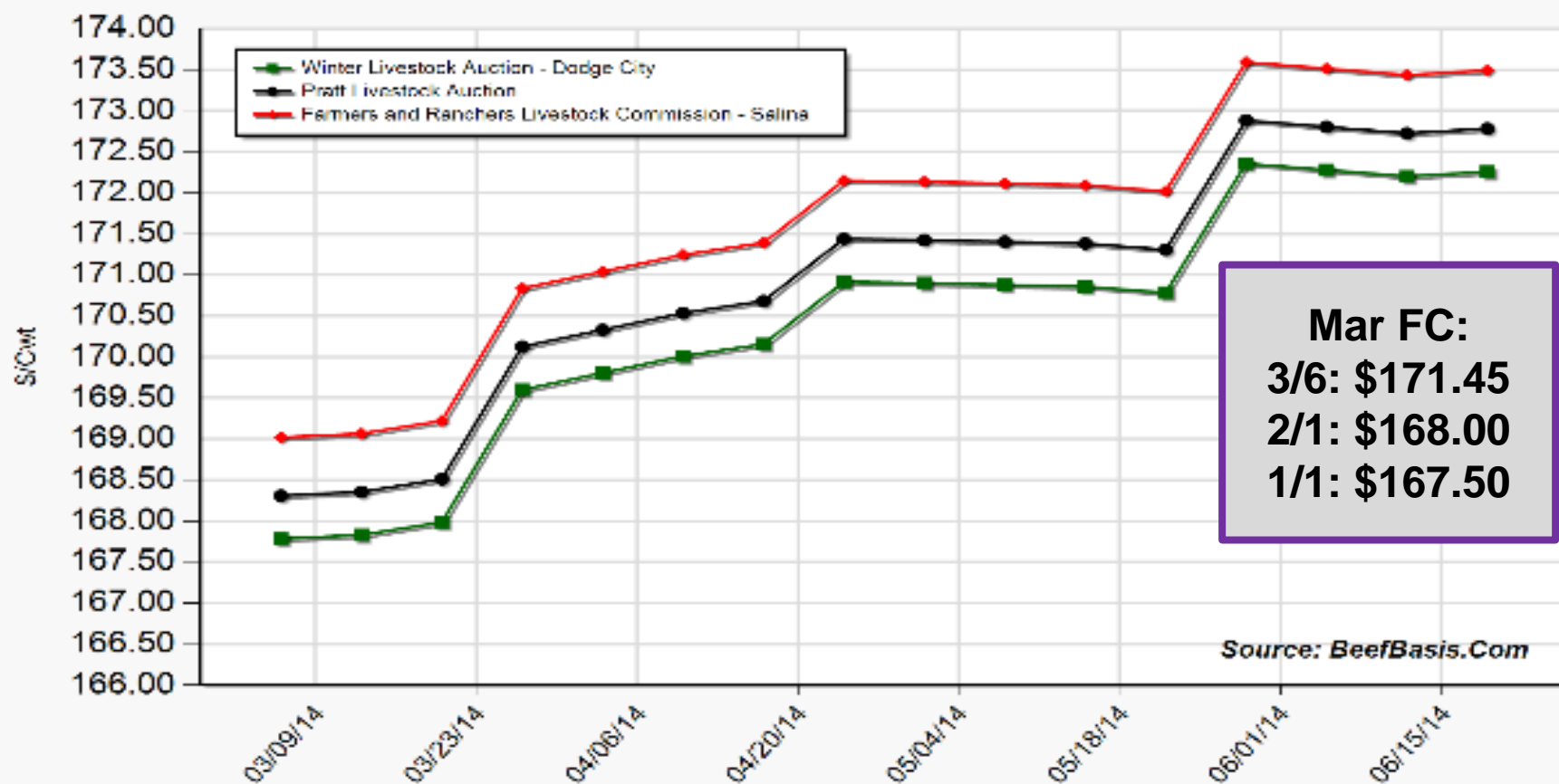


Economic Outlook Overview: Cow-Calf

- 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
 - 2023 herd (33.7 mil hd) up 16% from 2012 levels
 - <http://www.ers.usda.gov/publications/oce-usda-agricultural-projections/oce131.aspx>
 - National (yes), regional (yes/no) as variation persist



Projected Price for 750 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 3/6/14 situation

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

 - Buy 700 lb steer on 3/10/14 (\$173.92)
 - Sell 750 lb steer on 4/07/14 (\$171.65) {1.72 ADG}
 - VOG: \$139.86/cwt
 - Buy 550 lb steer on 9/17/14 (\$189.66)
 - Sell 750 lb steer on 12/24/14 (\$169.44) {2.02 ADG}
 - VOG: \$113.85/cwt



Economic Outlook Overview: Feedlots

- Significant recent improvements in closeouts
- Excess capacity concerns persist



Historical and Projected Kansas Feedlot Net Returns (as of 3/3/14')

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

Apr LC:
3/4: \$142.90
2/1: \$139.50
1/1: \$135.50

January 14': +\$127/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
Feb-14	169.75	98.59	146.41	155.13	129.32	133.83	176.42
Mar-14	109.75	95.31	142.91	158.38	115.34	134.77	172.09
Apr-14	-42.50	92.00	134.56	163.29	83.65	137.78	158.04
May-14	18.39	89.45	137.47	164.10	92.92	136.07	166.44
Jun-14	-19.39	85.92	132.85	165.07	82.48	134.26	162.65
Jul-14	-24.96	83.87	130.31	165.87	79.71	132.12	162.67

Representative Barometer for Trends in Profitability



Quarterly Forecasts (LMIC: 3/5/14)

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	7,779	-3.1	793.4	1.4	6,172	-1.7
II	8,325	0.2	782.8	0.5	6,517	0.7
III	8,322	-0.1	794.1	0.5	6,609	0.4
IV	8,033	-3.0	799.2	0.7	6,420	-2.3
Year	32,459	-1.5	792.3	0.8	25,718	-0.8
2014						
I	7,341	-5.6	795.0	0.2	5,836	-5.4
II	7,719	-7.3	785.9	0.4	6,066	-6.9
III	7,743	-7.0	798.8	0.6	6,185	-6.4
IV	7,530	-6.3	802.3	0.4	6,041	-5.9
Year	30,333	-6.5	795.4	0.4	24,128	-6.2
2015						
I	7,022	-4.3	799.9	0.6	5,617	-3.8
II	7,373	-4.5	792.1	0.8	5,840	-3.7
III	7,457	-3.7	806.1	0.9	6,011	-2.8
IV	7,378	-2.0	805.9	0.5	5,946	-1.6
Year	29,230	-3.6	801.0	0.7	23,414	-3.0



Quarterly Forecasts (LMIC: 3/5/14)

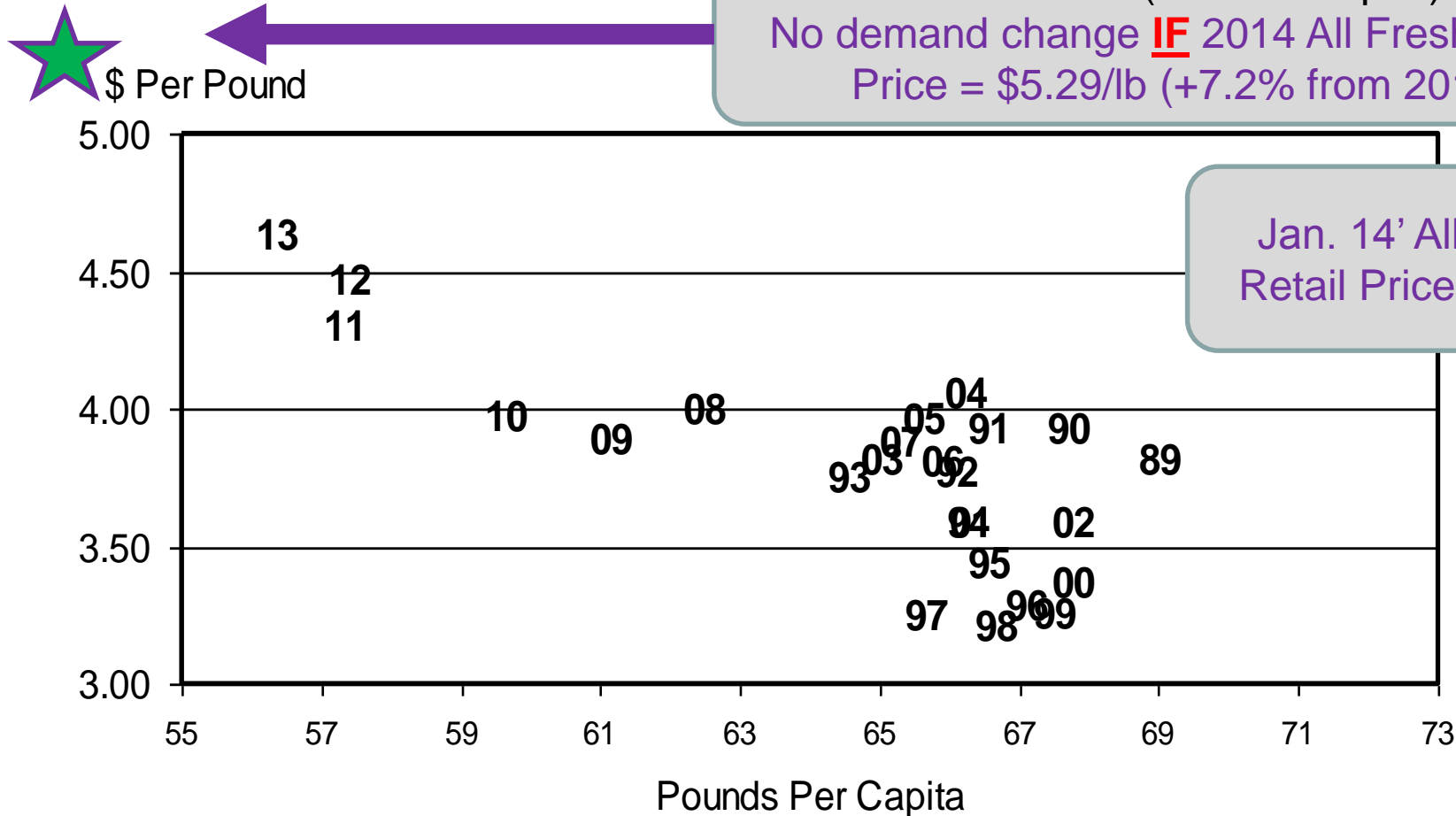
Year Quarter	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price	
	5-Mkt Avg	Year Ago	Southern Plains 7-800#	5-600#
2013				
I	125.51	0.2	142.41	170.13
II	124.95	3.3	137.34	159.71
III	122.30	2.2	155.95	171.19
IV	130.77	4.2	167.04	187.56
Year	125.88	2.5	150.69	172.15
2014				
I	144-145	15.1	170-171	206-208
II	140-142	12.8	171-174	210-214
III	136-139	12.4	174-178	203-208
IV	139-143	7.8	170-175	199-205
Year	140-142	12.0	170-176	203-210
2015				
I	142-147	0.0	172-178	205-212
II	143-149	3.5	174-181	211-219
III	139-146	3.6	176-184	204-214
IV	141-149	2.8	172-182	198-210
Year	142-147	2.5	174-181	203-215



BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

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

Livestock Marketing Information Center

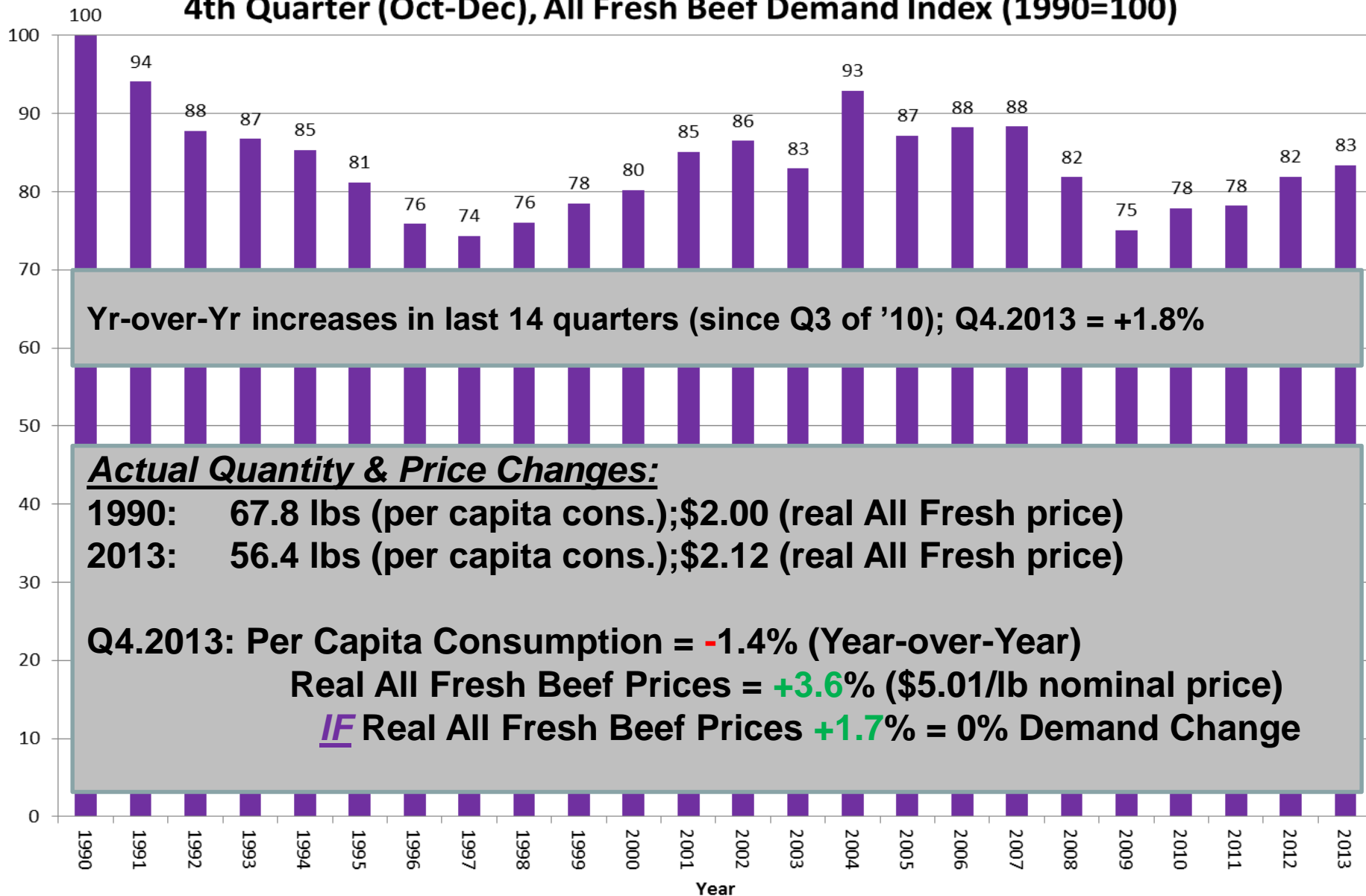
Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled & Analysis by LMIC

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

Demand Index (1990=100)



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



Phil Frigon Photography

Beef Production in an Era of Technology Challenges

What was once
fringe characters.....

80% OF ALL
antibiotics are used on
FACTORY FARM animals
Source: EcoNews



Beef Production in an Era of Technology Challenges

...has become mainstream

 **REUTERS**

“Special Report: Lost hooves, dead cattle before Merck halted Zilmax sales” Dec 2013



THE WALL STREET JOURNAL.
FDA Moves to Cut Use of Antibiotics in Food-Producing Livestock
Agency Says Goal is to Reduce Outbreaks of Drug-Resistant Bacteria Dec 2013

FRONTLINE

Dr. Arjun Srinivasan: We've Reached "The End of Antibiotics, Period" Oct 2013

Antibiotic Use on Farm Animals to Be Phased Out in U.S. Dec. 2013
Bloomberg

Beef Production in an Era of Technology Challenges

....industry responds

ANTIBIOTICS

Pound for pound, **humans and their pets use 10 times** the amount of antibiotics than what is used in food animal production.



SOURCE: <http://www.ahi.org/Files/Resources/AHI%20Antibiotics%20Brochure%20FINAL.pdf>

Why use antibiotics in beef production?



**Treat Sick
Animals**

Mitigation



**Animal
Health
Maintenance**

Prevention



**Promote
Efficient
Growth**

Enhancement

Advantages of these Technologies

- Healthier cattle
- Enhanced gain efficiency
- Economies of scale – lots of animals together
- Co-mingle cattle & realize fewer health problems
- Operate not knowing cattle background
- Animals can endure greater stress
- Can substitute management with drugs

Result

- **Lower overall production risk and cost**



Drawbacks

- Can lose efficacy of some drugs
- Use of some can affect meat quality
- Consumers raising concerns
- Regulatory & Policy Agents raising concerns

Result

- **Increased scrutiny & regulation**
- **You will have greater accountability**



Nature of Concerns has Expanded

- **Food safety perceptions**
- **Product quality and nutritional concerns**
- **Animal welfare concerns**
- **Environmental concerns**
- **Antibiotic resistance – super bugs**
- **Resistance impacts on human health**



Before we dismiss this as simply idiocracy...

Supply → “Science tells us if we can do something.

Demand → Society tells us if we should do it.”

The Center For Food Integrity (@foodintegrity) tweet Sep 04, 2013



What Can you do?

Some facts:

- **Consumers trust USDA, FDA, AMA**
(OSU FooDS survey)
- **But, no room for industry mess ups**
(e.g., social media, mainstream press)

**If industry does not increase self-regulation
....someone else will regulate you**

**This is the threat, but it represents a
sizeable opportunity**



Self Regulation, an Opportunity?

Commitment to assuring trust:

- **Develop and adopt industry standards**
 - Written operating procedures around technology
 - Certifications, Audits, Traceability, Increase Information
- **Defensiveness does not work,
listen and address concerns**
- **Scientific and economic jargon does
not engender trust, performance does**
- **Demonstrate to the world your sincere
commitment and actions – promote it!**



**In everything you do producing beef,
ask yourself “what do they think about this?”**



**This is your
Opportunity**



More information available at:



This presentation will be available in PDF format at:
[http://www.agmanager.info/about/contributors/individual/
tonsor.asp](http://www.agmanager.info/about/contributors/individual/tonsor.asp)

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