

# **Beef-Cattle Industry Outlook & Broader Economic Discussion**

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**AGEC 420 Guest Lecture**



# 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

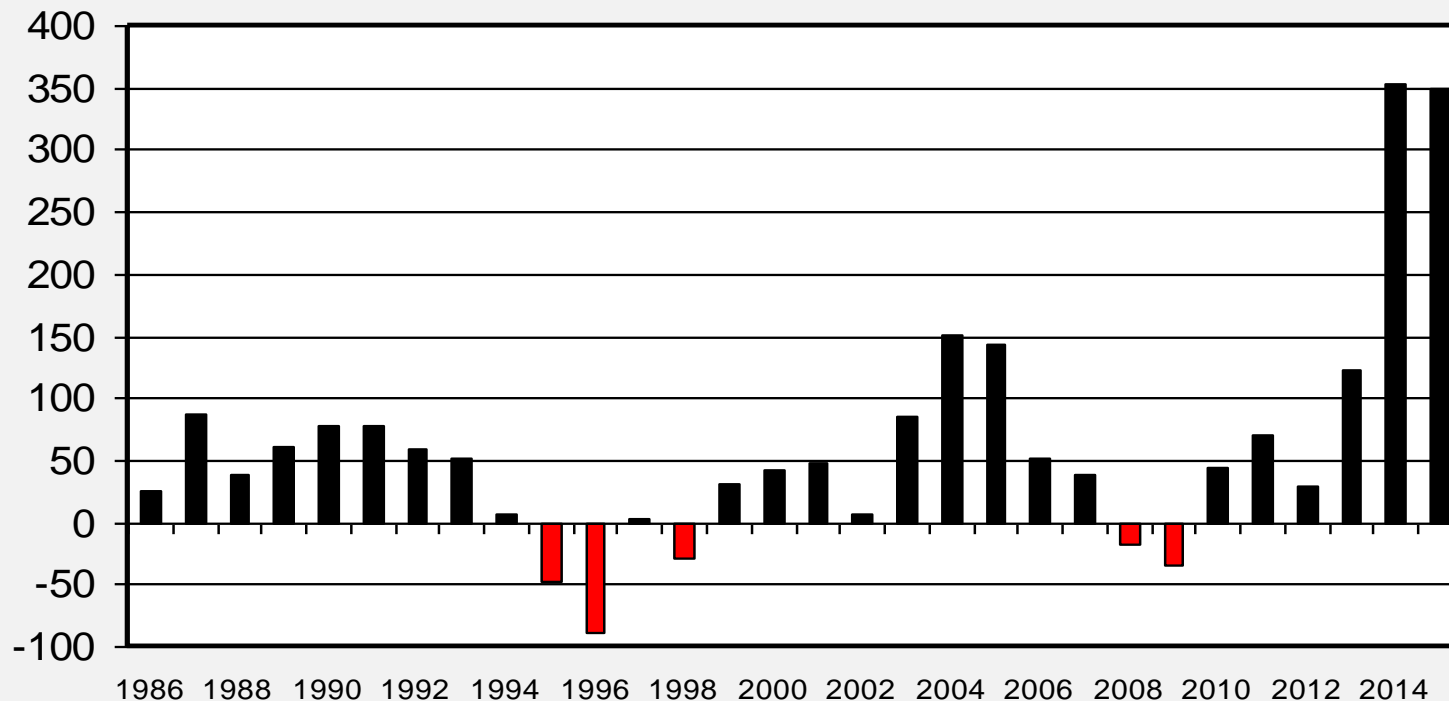


# Economic Outlook Overview: Cow-Calf

## 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

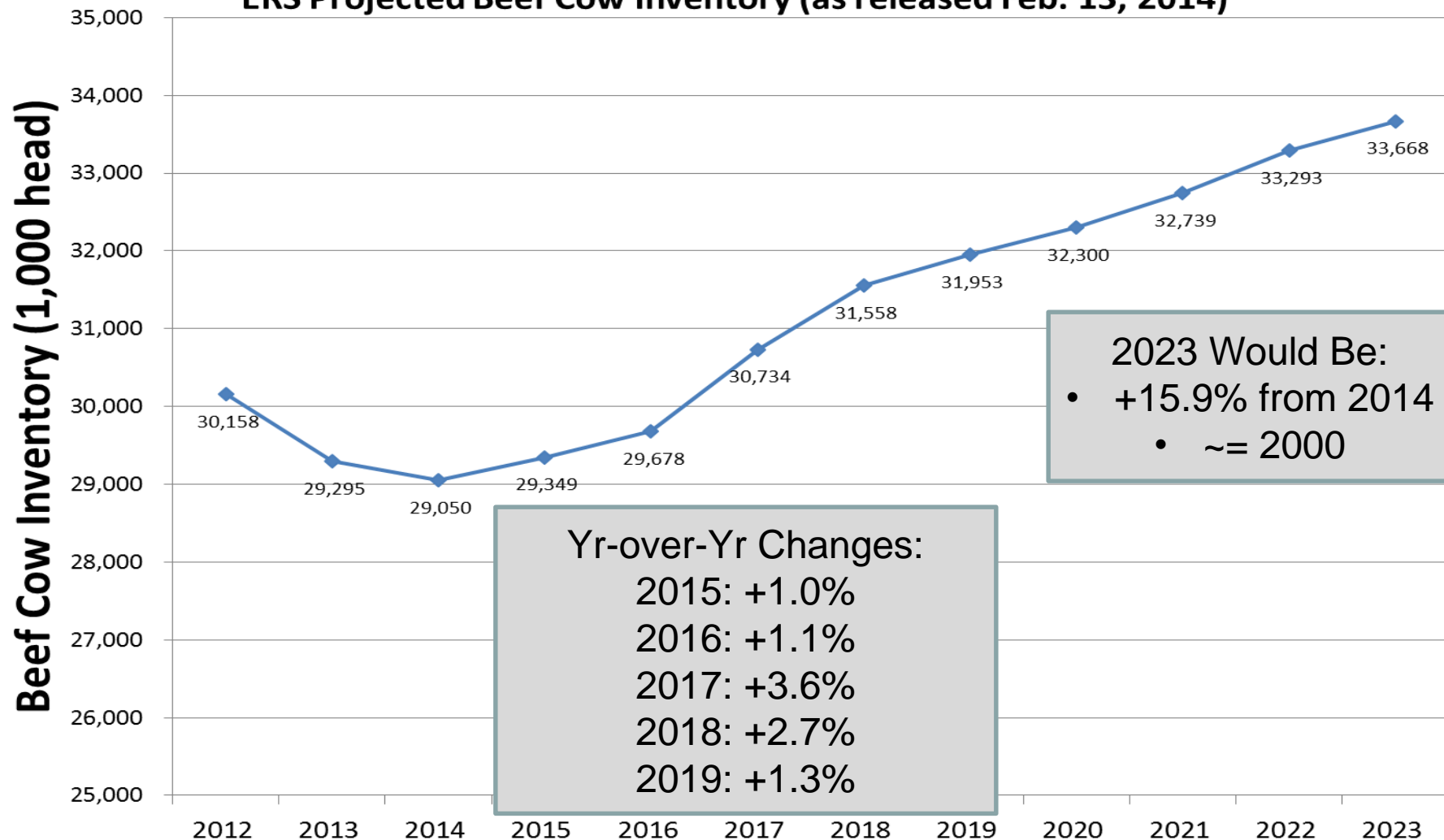
- Several drivers of margin improvements:
  - Better pastures, lower input prices, higher calf prices...
- Are improvements sufficient to trigger expansion?
  - Jan. 2014 Cattle Inv. Report: small increase in retention
  - Feb. 13, 2014 ERS 10-yr projections
    - 2023 herd (33.7 mil hd) up 16% from 2012 levels
      - <http://www.ers.usda.gov/publications/oce-usda-agricultural-projections/oce131.aspx>
  - National (yes), regional (yes/no) as variation persist



# ERS Projects Herd Expansion

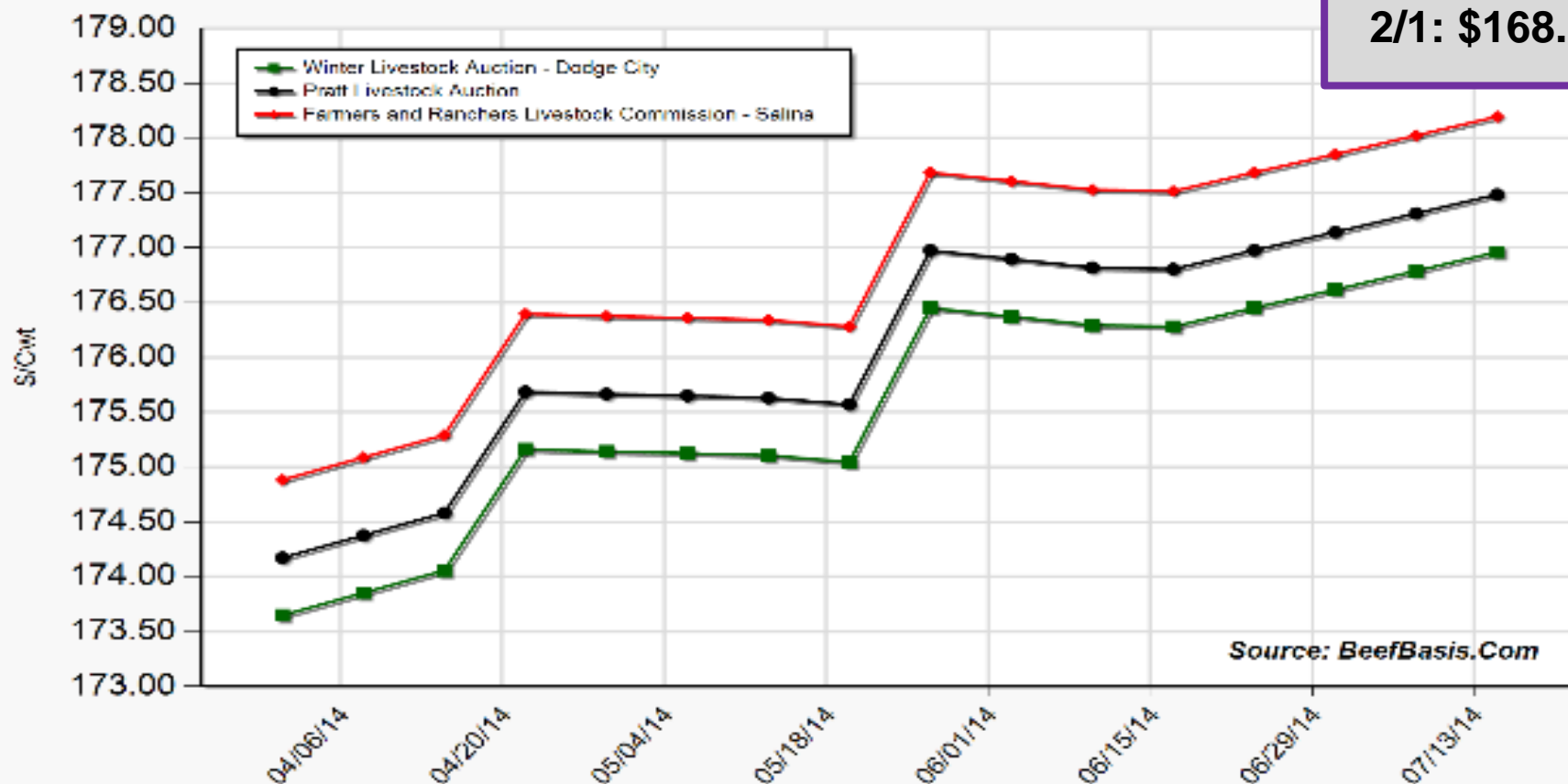
<http://www.ers.usda.gov/publications/oce-usda-agricultural-projections.aspx>

ERS Projected Beef Cow Inventory (as released Feb. 13, 2014)



**Apr FC:**  
**4/1: \$176.85**  
**3/1: \$172.50**  
**2/1: \$168.50**

Projected Price for 750 Lb Steer at Selected Kansas Auctions



Source: BeefBasis.Com

# Economic Outlook Overview: Stockers

- Attractive Values of Gain (VOG) vs. COG
  - For those in many stocker/backgrounding areas ...
- Salina, KS 4/1/14 situation  
(<http://www.beefbasis.com/ForecastingTools/ValueofGain/tabid/1132/Default.aspx>):
  - Buy 700 lb steer on 4/04/14 (\$180.64)
  - Sell 750 lb steer on 5/02/14 (\$177.21) {1.72 ADG}
    - VOG: \$129.22/cwt
  - Buy 550 lb steer on 9/17/14 (\$194.19)
  - Sell 750 lb steer on 12/24/14 (\$171.88) {2.02 ADG}
    - VOG: \$110.55/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>)

January 14': **+\$127/steer**

**Apr LC:**  
**4/1: \$145.73**  
**3/1: \$144.50**  
**2/1: \$139.50**  
**1/1: \$135.50**

**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: 3/24/14)

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	7,778	-3.1	793.5	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	32,458	-1.5	792.3	0.8	25,718	-0.8
2014						
I	7,352	-5.5	796.7	0.4	5,857	-5.1
II	7,719	-7.3	786.0	0.4	6,067	-6.9
III	7,765	-6.7	799.0	0.6	6,204	-6.1
IV	7,573	-5.7	802.6	0.4	6,078	-5.3
Year	30,409	-6.3	796.0	0.5	24,206	-5.9
2015						
I	7,038	-4.3	800.9	0.5	5,637	-3.8
II	7,390	-4.3	792.3	0.8	5,855	-3.5
III	7,459	-3.9	806.0	0.9	6,012	-3.1
IV	7,422	-2.0	806.3	0.5	5,984	-1.5
Year	29,309	-3.6	801.4	0.7	23,488	-3.0



# Quarterly Forecasts (LMIC: 3/24/14)

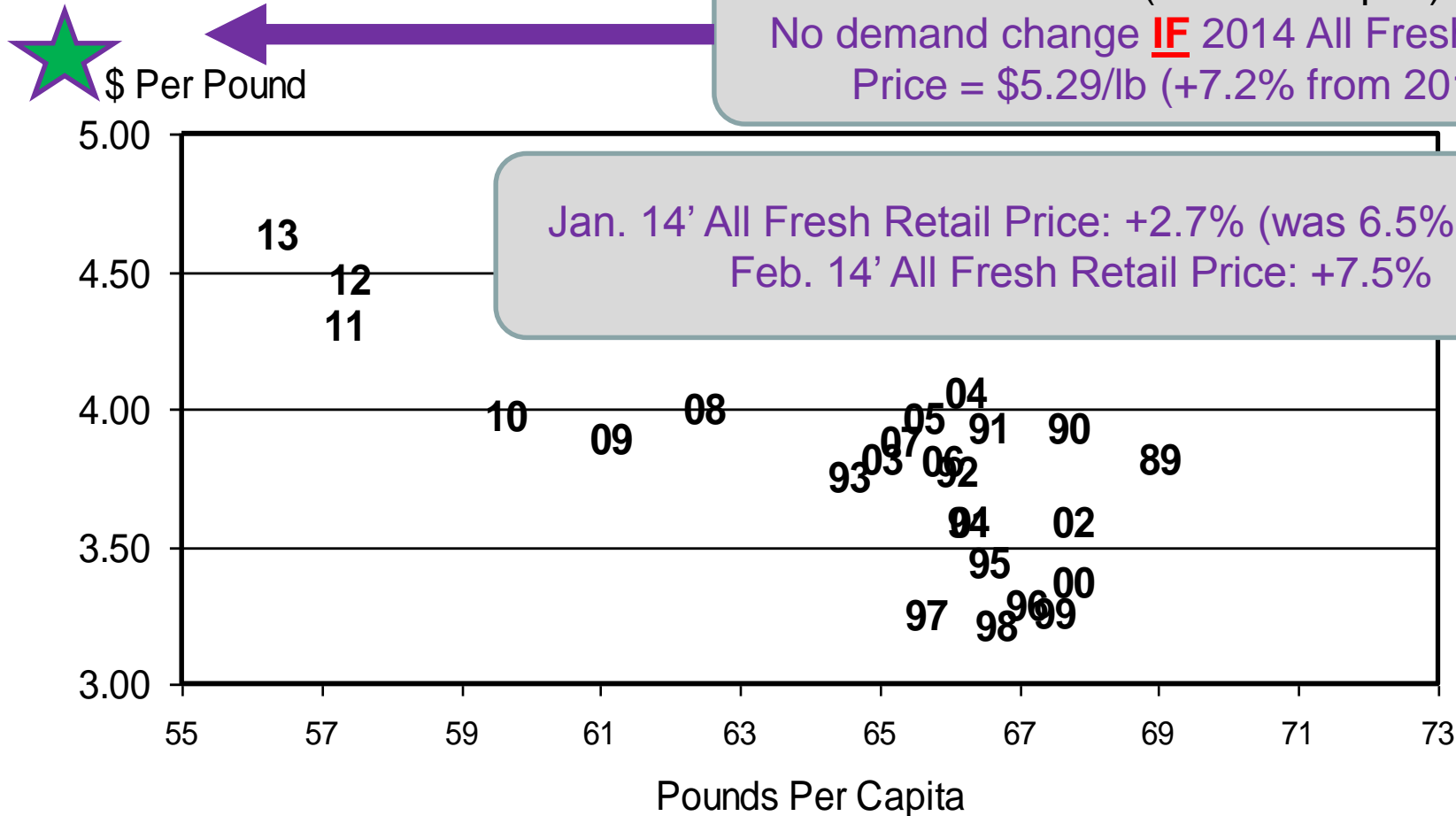
	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
<b>2013</b>				
I	125.51	0.2	142.41	170.13
II	124.95	3.3	137.34	159.71
III	122.30	2.2	155.95	171.19
IV	130.77	4.2	167.04	187.56
<b>Year</b>	<b>125.88</b>	<b>2.5</b>	<b>150.69</b>	<b>172.15</b>
<b>2014</b>				
I	144-145	15.1	170-172	208-210
II	140-142	12.8	171-174	211-215
III	136-139	12.4	174-178	204-209
IV	139-143	7.8	170-175	200-206
<b>Year</b>	<b>140-142</b>	<b>12.0</b>	<b>170-176</b>	<b>204-212</b>
<b>2015</b>				
I	143-148	0.7	172-178	205-212
II	144-150	4.3	174-181	211-219
III	140-147	4.4	176-184	204-214
IV	142-150	3.5	172-182	198-210
<b>Year</b>	<b>143-148</b>	<b>3.2</b>	<b>174-181</b>	<b>203-215</b>



# 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

KANSAS STATE UNIVERSITY



# Lean Hog Hedging Example

- Suppose on December 27<sup>th</sup> :
  - You have 2,000 pigs expected to hit market in June
  - You observe:
    - June LH contract has rallied \$5/cwt since Oct. 1
    - May C contract has declined \$0.25/bu since Oct. 1
  - Would you place a hedge given improved profitability situation?



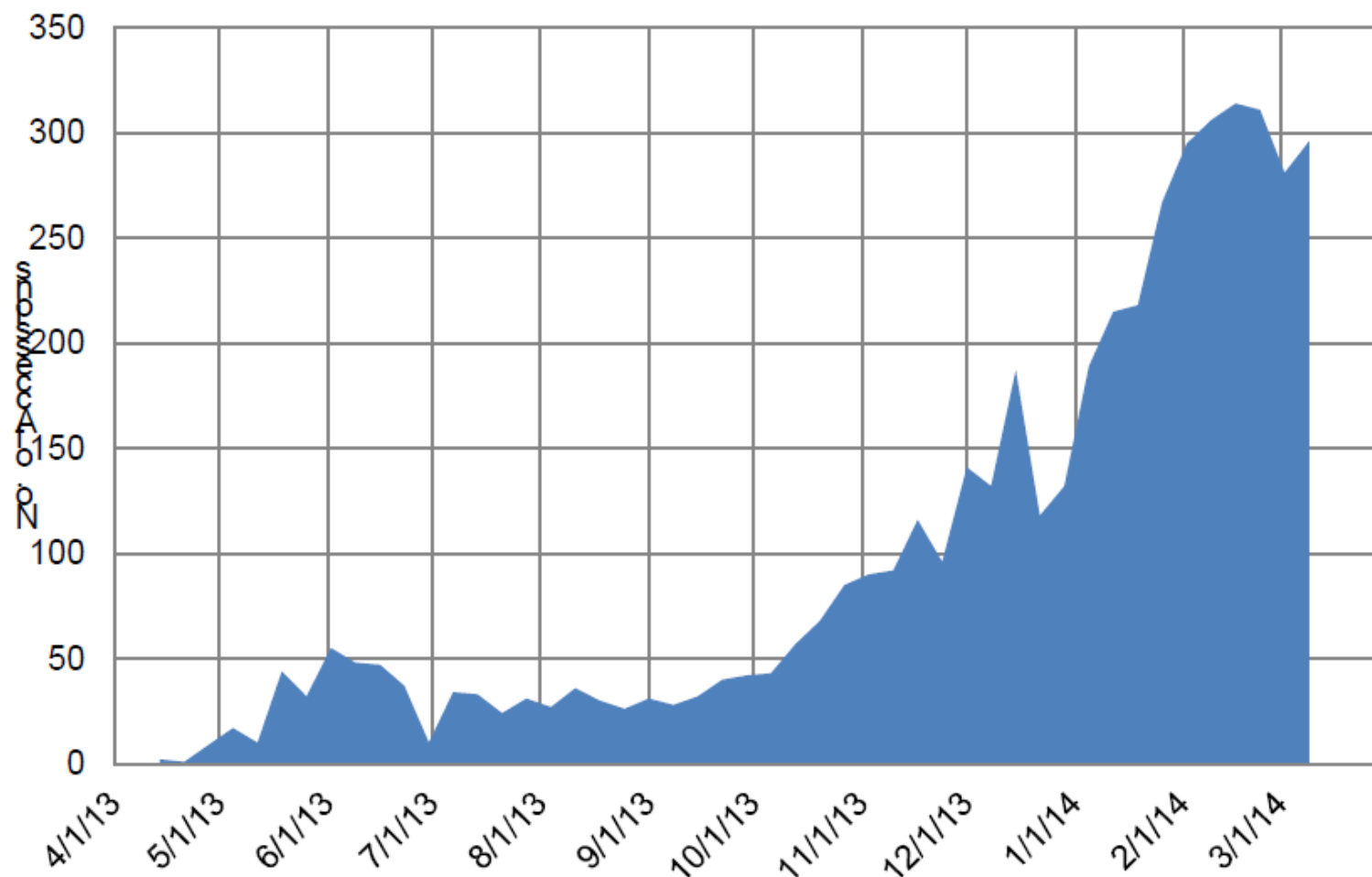
# Impact of PEDv (Porcine epidemic diarrhea virus)

- Never in U.S. until spring of 2013
- Deadly for pre-weaned pigs, 100% mortality common for pigs under 3 weeks of age
- Slaughter hog impact is +/- 6 months later
- No preventative vaccine is currently available

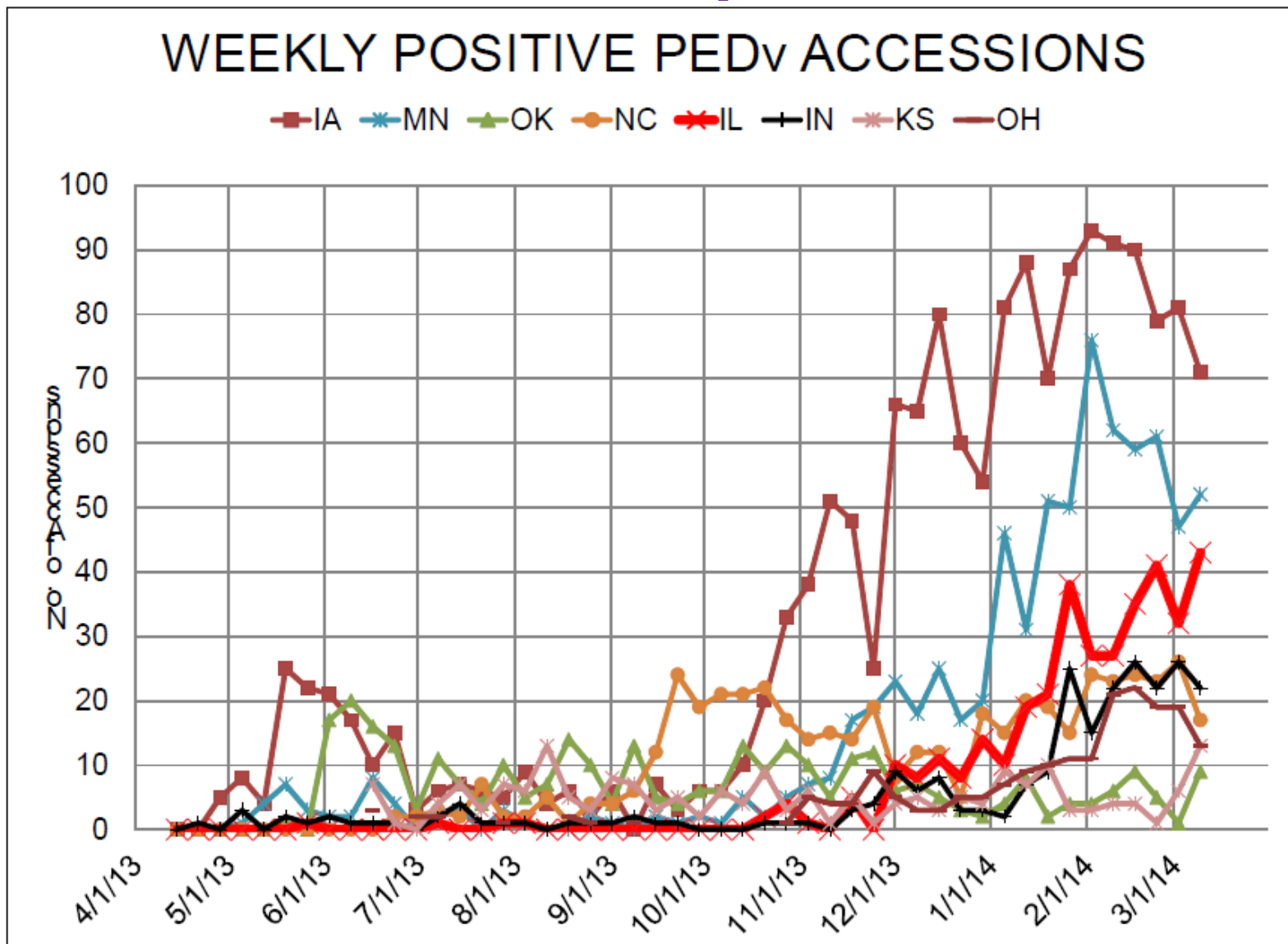


# PEDv: Accessions per 3/21/14 DLR

## WEEKLY POSITIVE PEDv ACCESSIONS



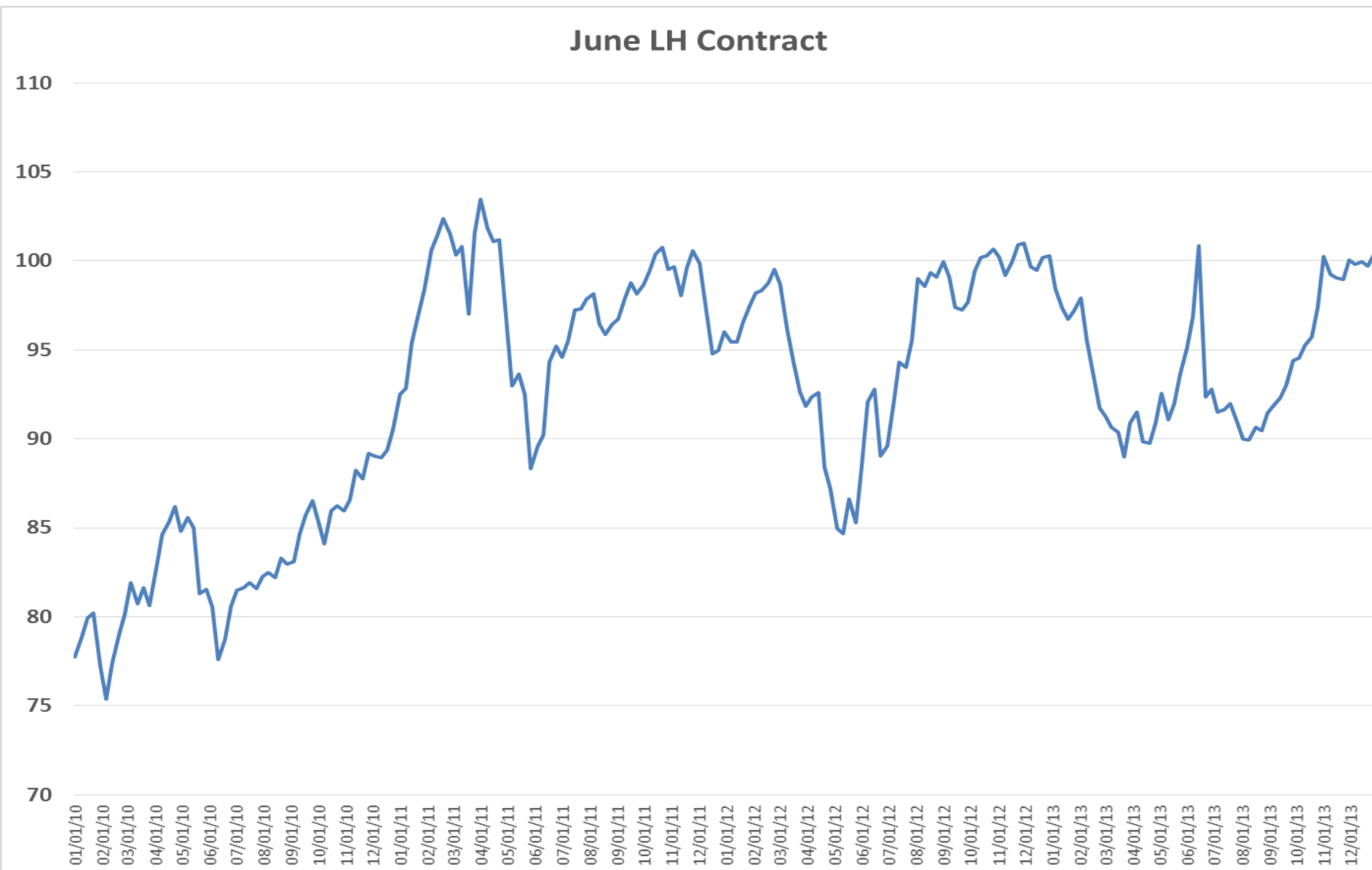
# PEDv: Accessions per 3/21/14 DLR





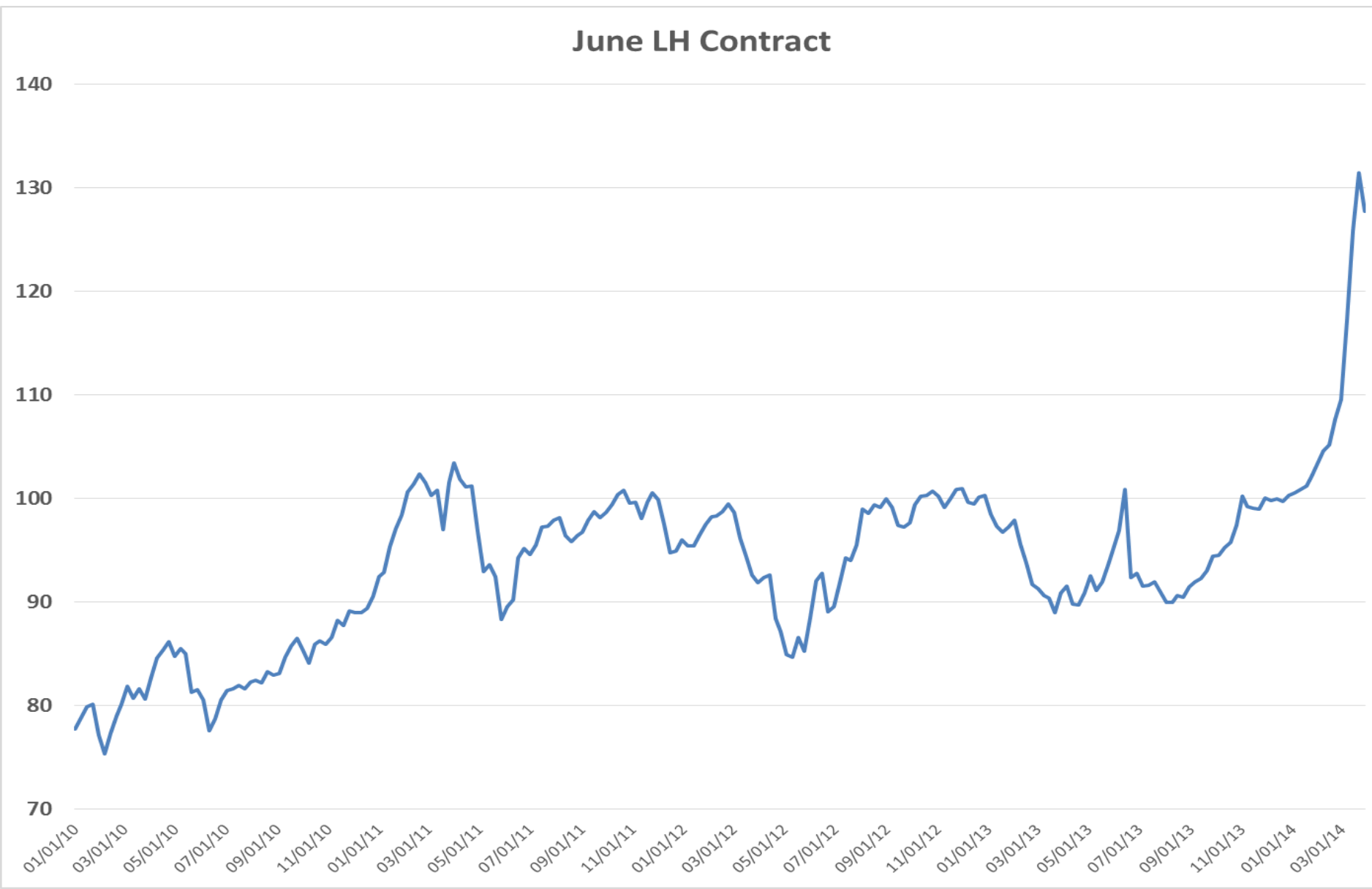
# Impact of PEDv

## June LH Contracts – thru 12/27/2013



# Impact of PEDv

## June LH Contracts – thru 3/28/14



# Impact of PEDv (Porcine epidemic diarrhea virus)

- Historically high profits expected for “lucky” or “clean” operations
  - Even those with moderate losses may well benefit given magnitude of market response so far
- Historically high margin calls for those who placed hedges in Dec-Feb time period on summer sales
- Pork price impact & media attention yet to come...



# Assessing Food Production Technologies: Distinguishing Feasibility from Acceptance

**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

- Consider in context of industry debates:
  - irradiation, rbST, growth hormones, beta-agonists, gestation stalls,...



# More information available at:



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

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