



Field Day

September 26, 2013

Kansas State University
Manhattan, Kansas



30,000-Ft. View: What's in Store for the Stocker Segment

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Overarching Economic Outlook

- Supplies
 - “Certain” Cattle Supplies (hd)
 - Less Certain Beef Supplies (lbs)
- Demand
 - Confusing for decades yet recently positive
 - Recent Beef Board Project; Must be ongoing
- ***Is there general sentiment of industry-wide structural change occurring?***



Economic Outlook Overview :

Cow-Calf

- Compared to last year:
 - Better pastures (nationally), lower forage prices, and higher calf prices...
- Will this trigger breeding herd expansion?
 - To-date I'd say expansion has NOT been initiated
 - Wait for Jan. 2014 Cattle Inventory Report ...



Economic Outlook Overview : Stockers

- Attractive Values of Gain (VOG) vs. COG
 - For those in many stocker/backgrounding areas ...
- Salina, KS 9/26/13 situation:
 - Buy 550 lb steer on 10/16/13 (\$172.44)
 - Sell 750 lb steer on 1/15/14 (\$158.08) {2.17 ADG}
 - VOG: \$118.58/cwt
 - IF COG=\$90/cwt; Expected profit = +/- \$57/hd

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



How Should VOG Be Projected?

Incorporate Recent Forecasting Error

- **Use forward-looking approach**
- Salina, KS 9/26/13 situation with adjustments:
 - Buy 550 lb steer on 10/16/13 (\$172.44)
 - **Currently have low forecast: \$1.66**
 - Sell 750 lb steer on 1/15/14 (\$158.08)
 - **Currently have low forecast: \$1.24**
 - VOG: \$118.58/cwt



How Should VOG Be Projected?

Incorporate Recent Forecasting Error

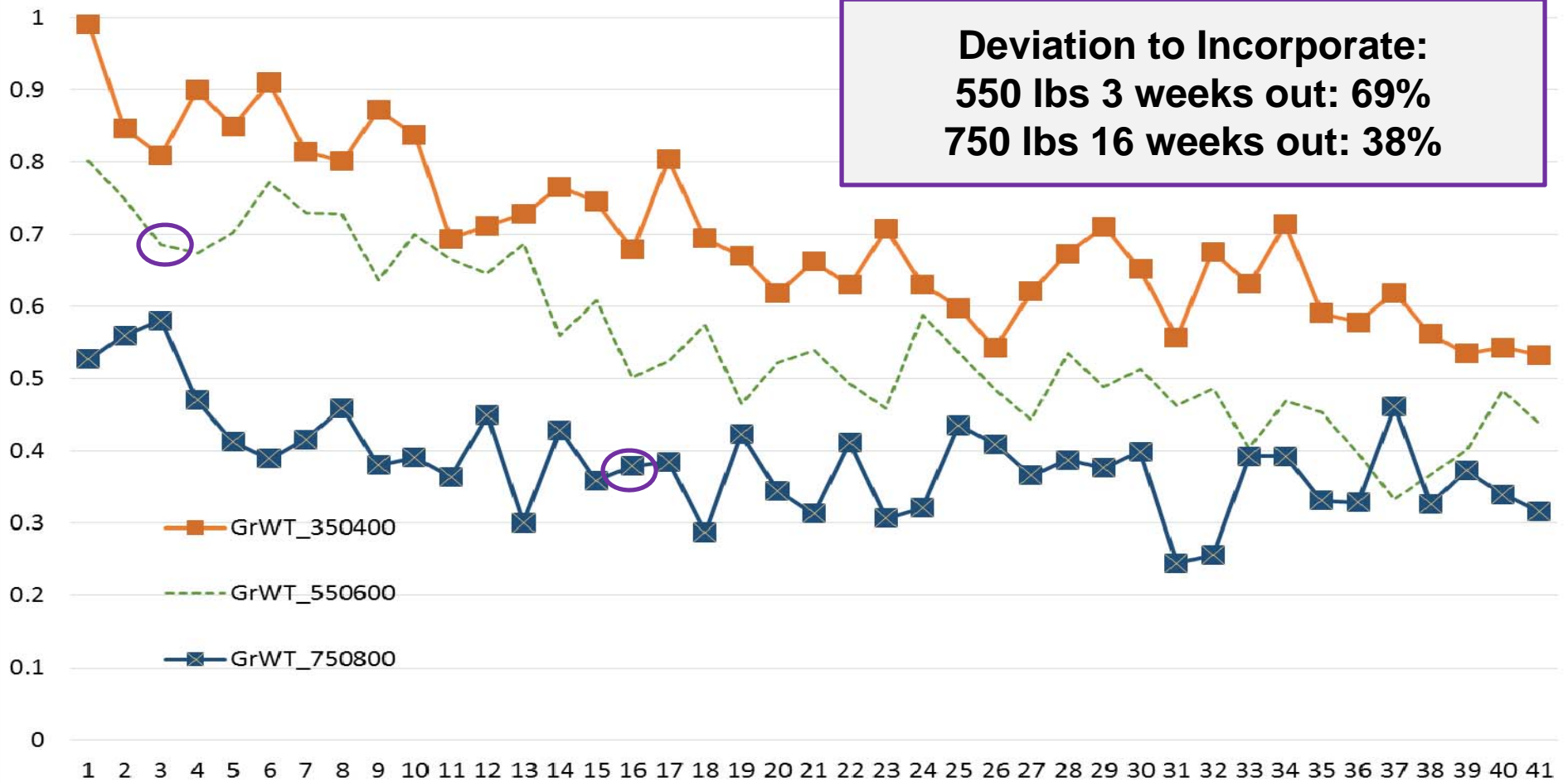
- Salina, KS 9/26/13 situation with adjustments:
 - Buy 550 lb steer on 10/16/13 (\$172.44)
 - Currently have low forecast: $\$1.66^* 69\% = \1.15
 - **Updated purchase price forecast: \$173.21**
 - Sell 750 lb steer on 1/15/14 (\$158.08)
 - Currently have low forecast: $\$1.24^* 38\% = \0.47
 - **Updated sales price forecast: \$158.55**
 - VOG: \$118.58/cwt
 - **Updated VOG forecast: \$117.21**



VOG Projections: Incorporating Recent Forecasting Error

Portion of Current Forecasting Error to Include
Across Forecasting Time Horizons

Deviation to Incorporate:
550 lbs 3 weeks out: 69%
750 lbs 16 weeks out: 38%



Economic Outlook Overview :

Feedlots

- Sector under most current pressure
- Excess capacity concerns continue to grow:
 - Heifer Retention (?), MCOOL, Mexico, etc.
- Closeouts been at historically high losses...
 - Recent improvements



Historical and Projected Kansas Feedlot Net Returns (as of 9/10/13')

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

July 13': -\$185.42/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
Aug-13	-112.02	119.01	121.80	133.88	98.16	129.79	120.92
Sep-13	-27.89	116.38	126.77	133.46	110.85	128.78	130.31
Oct-13	28.63	111.66	129.77	134.36	117.32	127.73	137.55
Nov-13	14.29	105.88	130.16	141.02	108.53	129.15	142.66
Dec-13	-7.53	100.31	130.54	148.83	98.98	131.07	147.94
Jan-14	-12.74	96.26	130.13	151.36	93.99	131.04	149.84

Representative Barometer for Trends in Profitability



Zilmax® Use

- Beef production direction 'certain'
 - +/- 29 lbs on steer carcass; 23 lbs for heifers
 - Zilmax® adds 6-8 lbs more than Optaflexx®
- Magnitude of impact is very uncertain
 - Ultimately, how does % of fed cattle on Zilmax®, Optaflexx®, Neither change?
 - How long will these changes last???



Broader Perspective on *Zilmax*®

Discussion

- The Center For Food Integrity (@foodintegrity) tweeted on Wed, Sep 04, 2013:

“Science tells us if we
can do something.

Society tells us if we
should do it.”

-- See recent *In the Cattle Markets* article:

<http://www.lmic.info/memberspublic/InTheCattleMarket.html>



Broader Perspective on *Zilmax*®

Discussion

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“Science tells us if we can do something. (*Supply side*)

Society tells us if we should do it.” (*Demand side*)



Quarterly Forecasts (LMIC: 09/10/13)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2012						
I	8,026	-3.5	782.7	1.5	6,282	-2.0
II	8,309	-3.8	779.0	2.6	6,473	-1.3
III	8,333	-4.6	790.3	2.5	6,586	-2.2
IV	8,283	-1.3	793.5	2.6	6,572	1.3
Year	32,951	-3.3	786.4	2.3	25,913	-1.1
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	8,208	-1.5	796.5	0.8	6,538	-0.7
IV	7,660	-7.5	798.6	0.6	6,117	-6.9
Year	31,972	-3.0	792.7	0.8	25,344	-2.2
2014						
I	7,216	-7.2	801.3	1.0	5,782	-6.3
II	7,750	-6.9	790.6	1.0	6,127	-6.0
III	7,589	-7.5	804.3	1.0	6,104	-6.6
IV	7,155	-6.6	806.0	0.9	5,767	-5.7
Year	29,710	-7.1	800.4	1.0	23,780	-6.2
2015						
I	6,882	-4.6	806.0	0.6	5,547	-4.1
II	7,383	-4.7	797.5	0.9	5,888	-3.9
III	7,311	-3.7	812.3	1.0	5,939	-2.7
IV	6,979	-2.5	811.6	0.7	5,664	-1.8
Year	28,555	-3.9	806.8	0.8	23,038	-3.1



Quarterly Forecasts (LMIC: 09/10/13)

Year Quarter	Live Sltr. Steer Price	% Chg. from Year Ago	Feeder Steer Price Southern Plains	
	5-Mkt Avg		7-800#	5-600#
2012				
I	125.30	13.8	154.25	182.41
II	120.91	7.2	152.65	178.65
III	119.69	4.9	141.82	150.57
IV	125.54	2.9	146.50	161.42
Year	122.86	7.1	148.81	168.26
2013				
I	125.51	0.2	142.41	170.13
II	124.95	3.3	137.34	159.71
III	122-123	2.3	155-156	172-174
IV	127-130	2.4	153-156	169-174
Year	125-126	2.1	147-148	167-170
2014				
I	129-133	4.4	154-158	179-185
II	131-136	6.8	157-163	185-192
III	128-134	6.9	160-167	182-190
IV	131-138	4.7	158-166	178-188
Year	130-135	5.6	159-162	183-187
2015				
I	133-141	4.6	161-170	183-194
II	134-143	3.7	162-173	186-198
III	130-140	3.1	163-175	187-200
IV	134-145	3.7	160-173	182-196
Year	134-141	3.8	163-171	186-196



Situation Summary

- 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



30,000-Ft Points: Beef Demand

- Critical Concept – Yet Frequently Confused
- Positive recent story warrants appreciation
- Imperative to move away from:
 - Per capita consumption focus
 - Typical consumer focus
 - Aggregated demand analyses
 - Steak vs. Ground; Generational
 - Sunbelt vs Rustbelt; Domestic vs. Export
 - FAFH vs. FAH





search GO

- Promotion
- Research
- Consumer Information
- Industry Information
- Foreign Marketing



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](#)**

- [Producer Communications](#)
- [Compliance](#)
- [Evaluation](#)
- [Financial & Audit](#)

Checkoff News

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

Ranked Priorities

**Highest
Priority**

1. Food Safety
2. Product Quality
3. Price

**Middle
Priority**

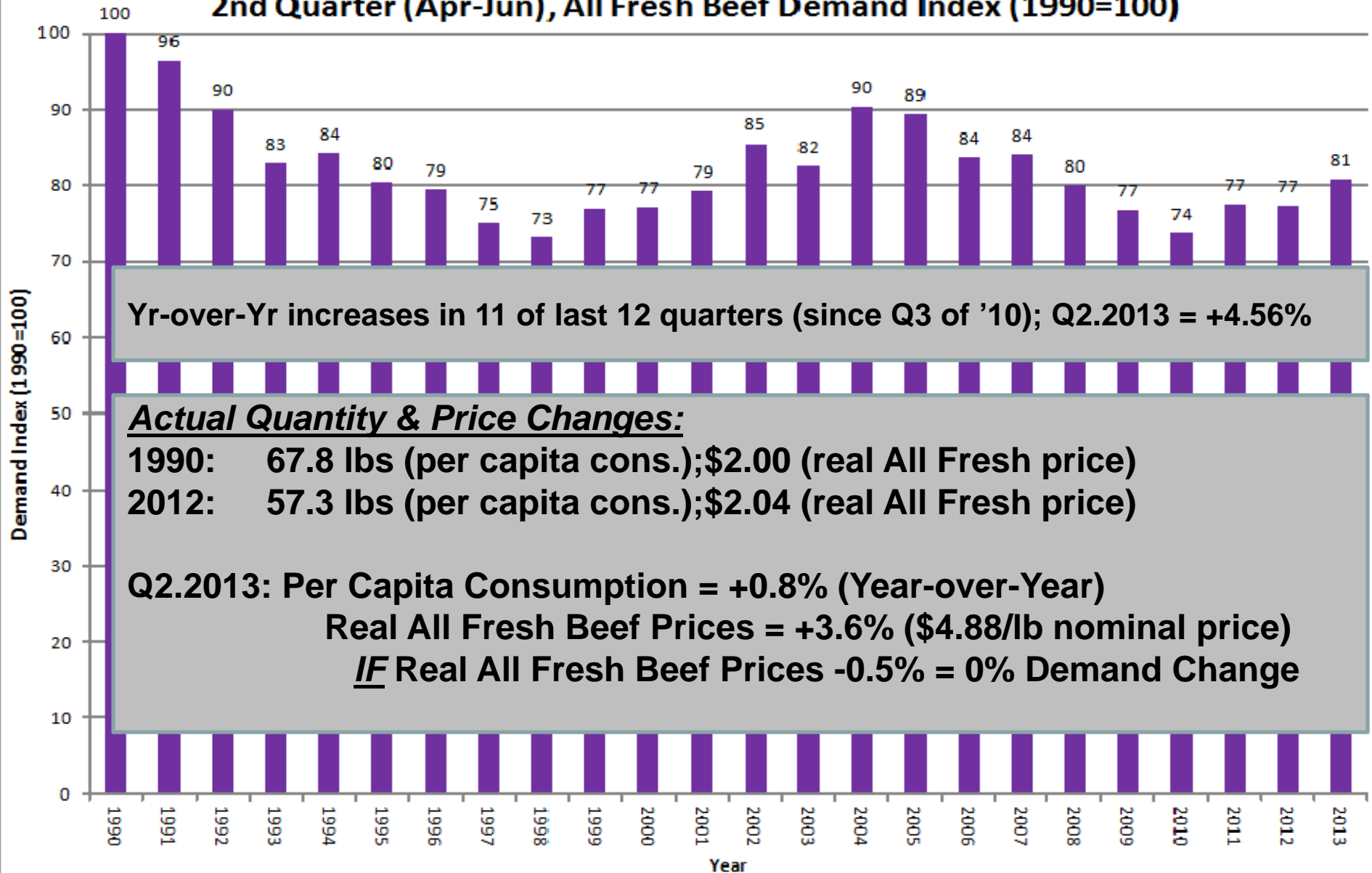
4. Nutrition
5. Health

**Lower
Priority**

6. Social Aspects
7. Sustainability Dimensions



2nd Quarter (Apr-Jun), All Fresh Beef Demand Index (1990=100)



Yr-over-Yr increases in 11 of last 12 quarters (since Q3 of '10); Q2.2013 = +4.56%

Actual Quantity & Price Changes:

1990: 67.8 lbs (per capita cons.); \$2.00 (real All Fresh price)

2012: 57.3 lbs (per capita cons.); \$2.04 (real All Fresh price)

Q2.2013: Per Capita Consumption = +0.8% (Year-over-Year)

Real All Fresh Beef Prices = +3.6% (\$4.88/lb nominal price)

IF Real All Fresh Beef Prices -0.5% = 0% Demand Change

Source: Glynn T. Tonsor, Kansas State University, July 2013

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

30,000-Ft Points: Learn from Past

- See Purcell (2002; <http://ag.arizona.edu/arec/wemc/cattlemarket/BeefIndustry%27sFuture.pdf>)
 - 1979 - 1986 (demand decline)
 - +/- constant per capita cons. & real price decline of 30%
 - 1986 - 1991 (demand decline)
 - +/- constant real price & reduced per capita cons. of 12 lbs
 - 1992 - 1998 (demand decline)
 - +/- constant per capita cons. & real price declines
 - 1999 – 2004 (demand increase)
 - reduced per capita cons. & real price increases
 - 2005 – 2010 (demand decline)
 - reduced per capita cons. & real price declines
 - 2011 – ???? (demand increase thru 12')
 - reduced per capita cons. & real price increases



30,000-Ft Points: Herd Growth

- LMIC 14' returns forecast: \$270/cow
 - Prior high of \$150/cow in 2004
- ERS (Feb. 13'): 32.2 mil beef cows in 2018
- FAPRI (Aug. 13'): 31.0 mil beef cows in 2018
 - 2015 first year of increases in both forecasts
- Distinguish agg. herd (hd) and operation (#) growth
 - \$100 dif. in COP = \$400 NPV of replacements
- Relative movement of national herd to NW?



30,000-Ft Points: Excess Capacity

- 12% herd growth (ERS by 22')
 - Likely not sufficient to “resolve” issue
- Will feedlot industry “move” northeast?
- Expanded specialized feedlot backgrounding?
 - Firm level: historically low fixed costs opportunity?
 - Macro level: industry response to “losing pasture?”



30,000-Ft Points: Reduce In-Fighting

- Country of Origin Labeling
- Animal Identification & Traceability
- “Commodity” Marketing vs. Product Differentiation
 - +/- 750,000 cow-calf producers
 - 50% < 20 cows /// 80% < 50 cows
 - +/- 75,000 feedlot operations
 - 2,100 > 1,000 hd capacity /// 790 > 4,000 hd capacity
 - ? Stocker/backgrounding producers
 - *Coordinating efforts is like “herding cats” at times...*



30,000-Ft Points: Social Issues

- Scientific Feasibility vs. Public Acceptance
 - Here to stay so you must appreciate it
 - Has important R&D implications
 - Also may require willingness to change from “tradition”
 - Quickly leads to unproductive exchanges
 - Producer-Consumer
 - Producer-Customer
 - Internally between production firms within the industry



30,000-Ft Points: Purcell (02')

Prescriptions for Positive Future

1. Improve efficiency & reduce COP
2. Increase quality signaling (align prod & cons)
3. Invest in new products & market development
4. More open perspective on trade
5. Continued support for checkoff program
6. Increase pricing of fed cattle by ind. carcass
7. Elect sound industry leadership



30,000-Ft Points: Purcell (02') Prescriptions for Positive Future

“Overall, the key will be to remember that the industry is providing a consumer product and that the only dollars financing the various players along the supply chain are the consumers’ dollars.”



Setting the Stage: Upcoming Speakers

- “Creative destruction”
 - Commodity market industries are often pushed forward by innovations and ingenuity of the minority
- Alternative or more active management
 - X% savings worth more on higher valued animals
- Scientific feasibility, public acceptance distinction
 - A “new normal” and cost of doing business in U.S.
- Value creation across market levels
 - Stocker segment will increasingly respond to consumer valuation signals



Stocker Synthesis

- Increasing herd
 - less stockers initially, more later
- Decreasing bunks
 - less # of customers than in the past
- Increasing social issue dialogue
 - Likely more changes in stocker prod. practices
- Increasing quality signaling & coordination
 - Likely more changes in stocker prod. practices



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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For details about specific topics and registering for webinars see additional information on AgManager.info AND <http://www.meatingplace.com/Industry/Webinars>

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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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