Beef Stocker
Kansas State University

Field Day

September 27, 2012
Kansas State University
Manhattan, Kansas

K-STATE
Research and Extension

Beef & Cattle Market Outlook: Implications for Stockers

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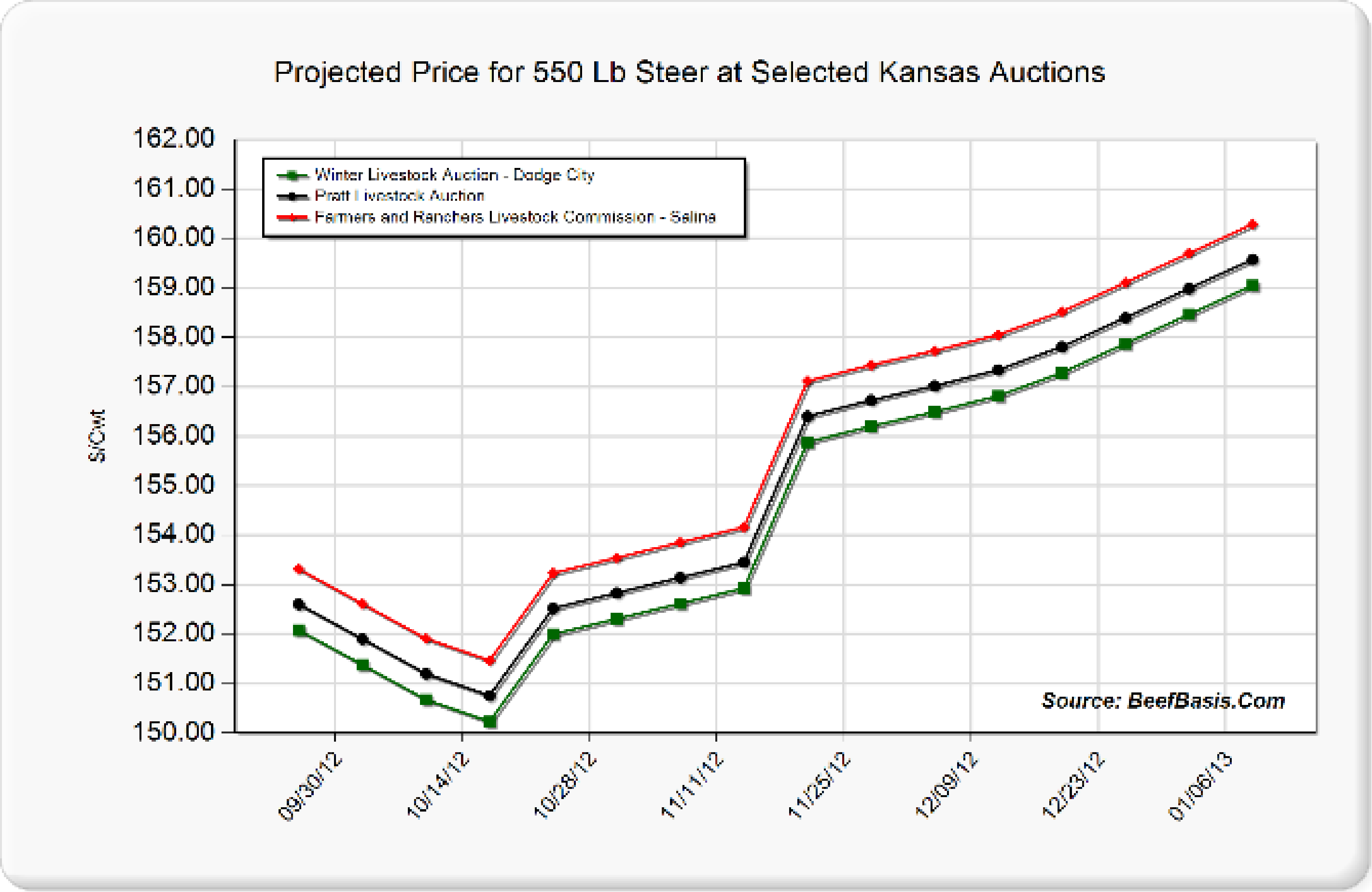
www.agmanager.info

Economic Outlook Overview: Cow-Calf Sector

- Strong calf price pullback during 2012
  - National vs. regional drought magnified cattle market impact compared to 2011
- *Eventually:* return as beneficiary of tight supplies and probable expanded heifer retention…
  - But note majority of owners (not industry share of cows) are not necessarily seeking to maximize profits as core goal …
- Returns over cash costs
  - 2012 (2013) estimates have fell over $170/cow ($75) since early spring
  - Will 2015 now be “the peak return year” ?
    - Further widening between top 1/3 and bottom 1/3 of producers?
      - Cost management drives majority of differences in returns and likely is even more critical in period of drought response ….

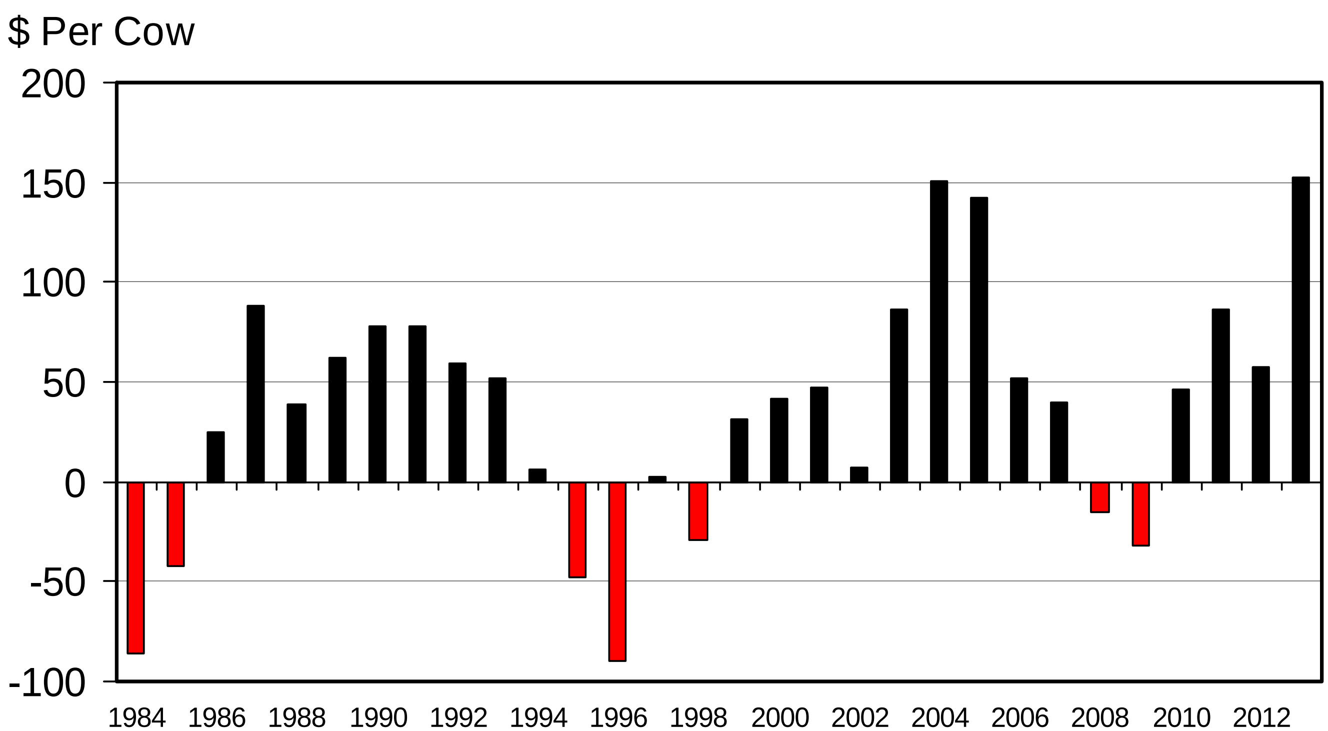
As of: 9/26/12



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

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



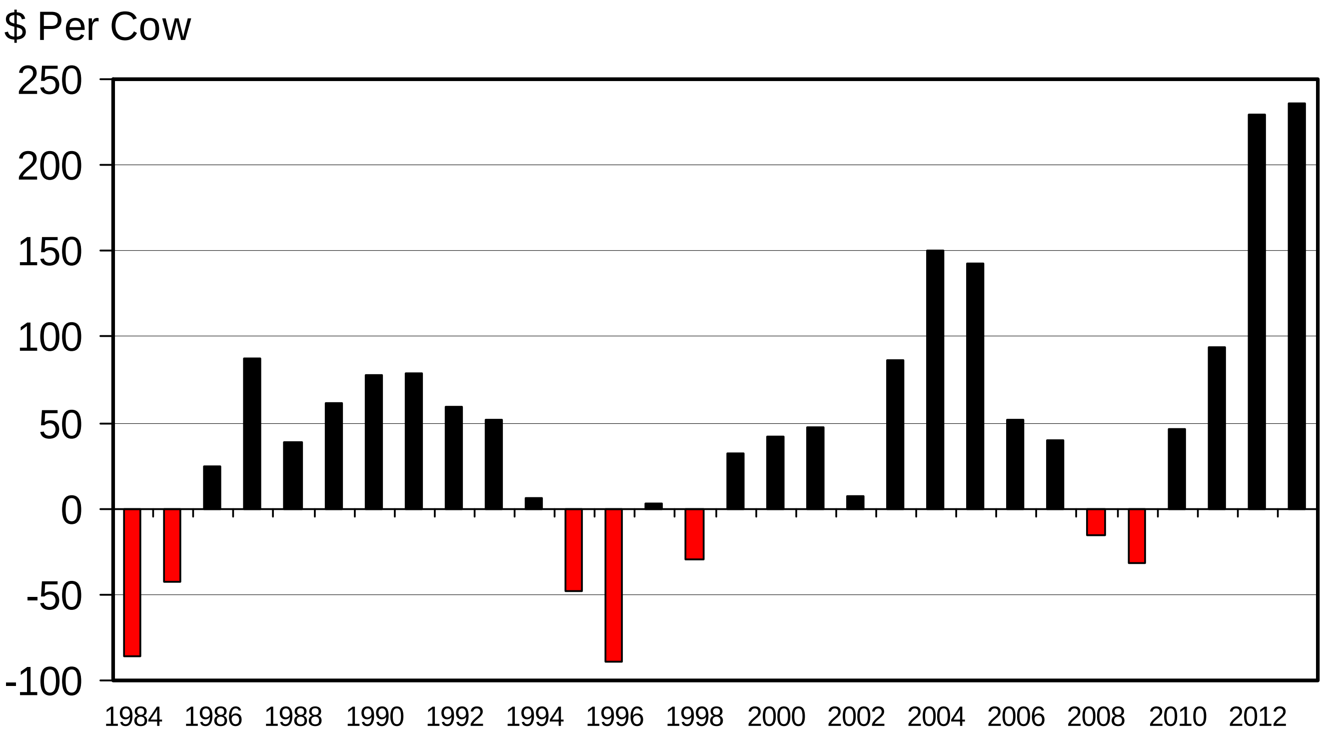
C-P-66
09/20/12

Livestock Marketing Information Center

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

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



C-P-66
03/21/12

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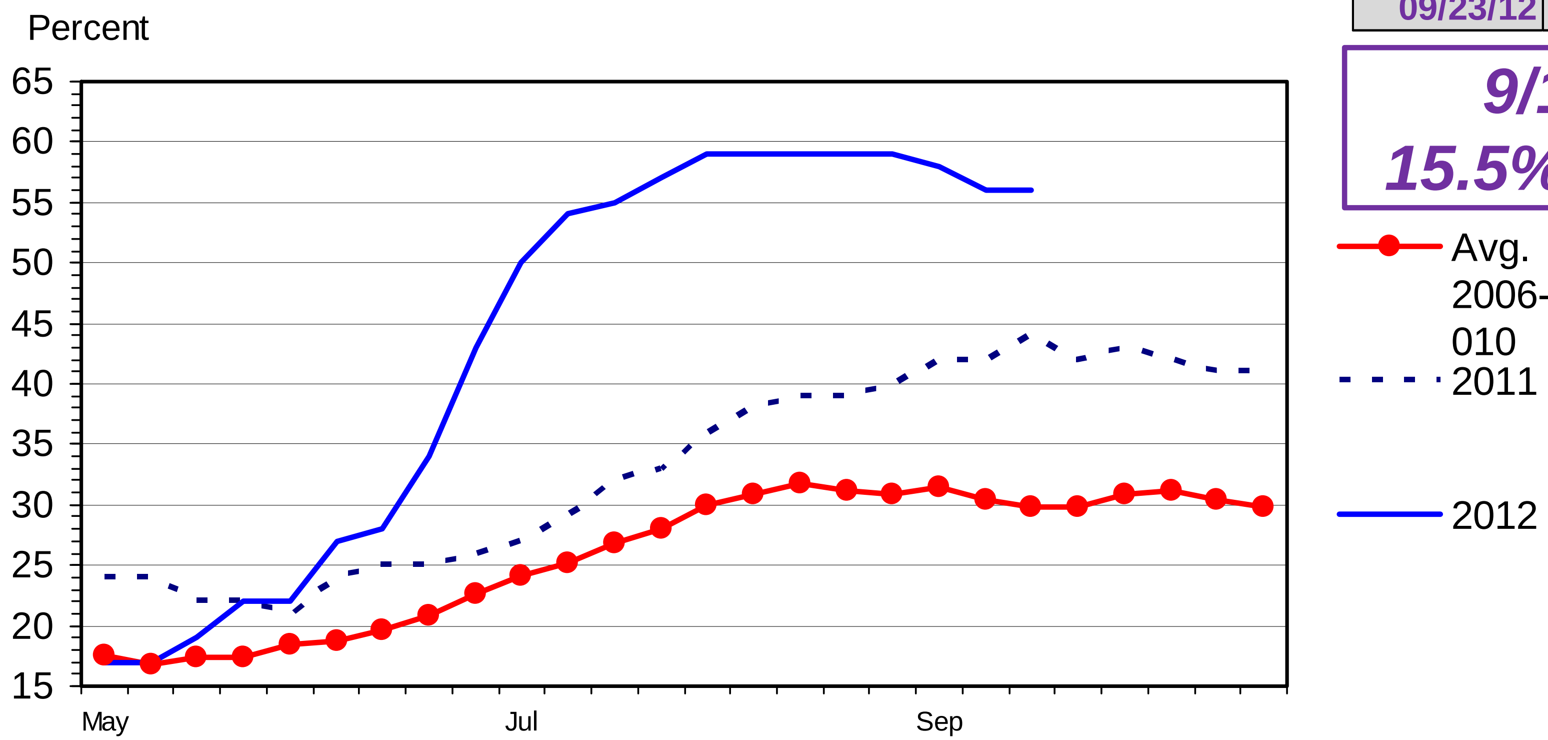
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

Beef Cows in states		
with 40% Poor to Very Poor		
Last year	Cows	% of Total
09/11/11	13,962	45.38%
09/18/11	14,380	46.74%
09/25/11	14,558	47.32%
This Year		
09/09/12	23,182	77.79%
09/16/12	22,328	74.93%
09/23/12	22,404	75.18%

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

9/19/10': 15.5% of Cows



G-NP-30
09/24/12

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

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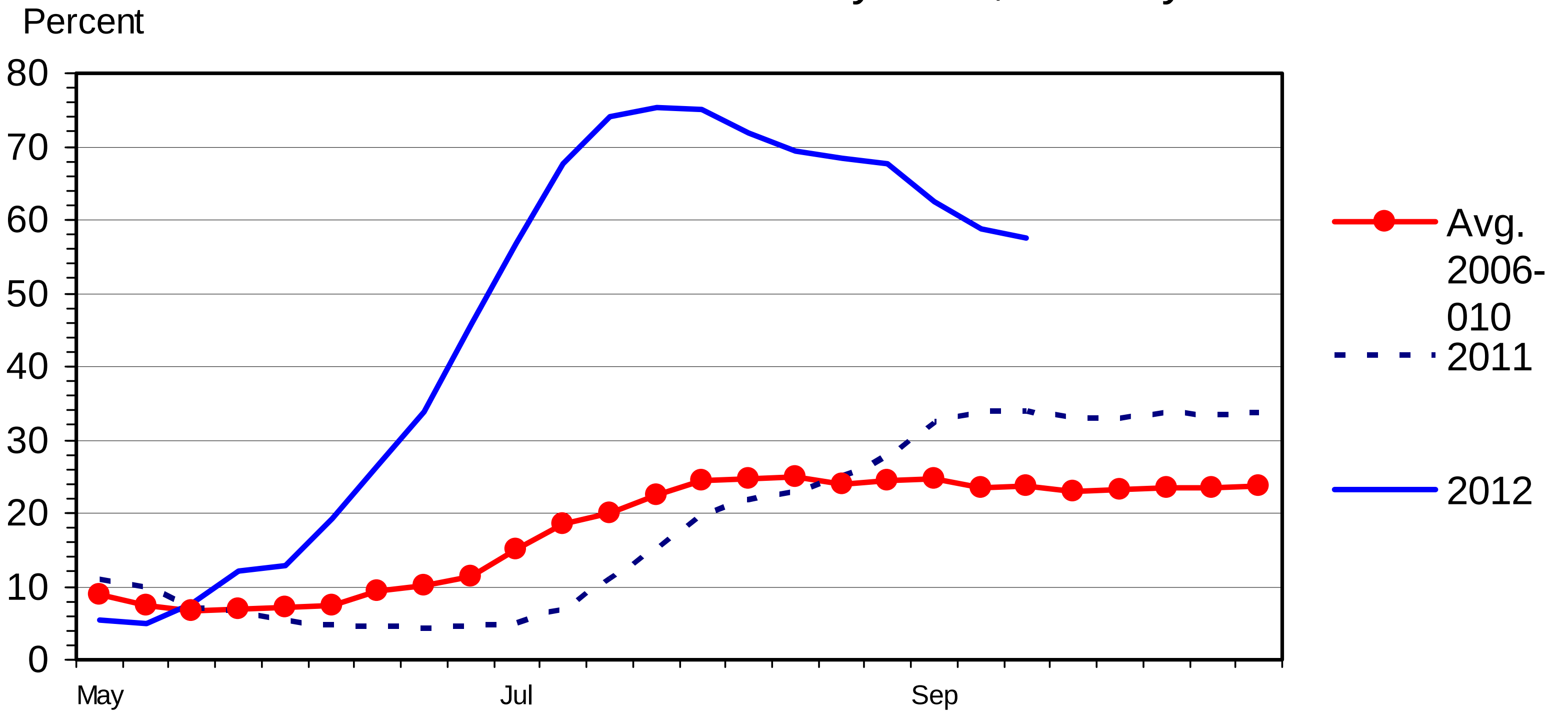
IL, IN, IA, MI, MN, MO, OH, & WI
14.5% of Cows
(2012)

CORNBELT REGION
RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-34
09/24/12

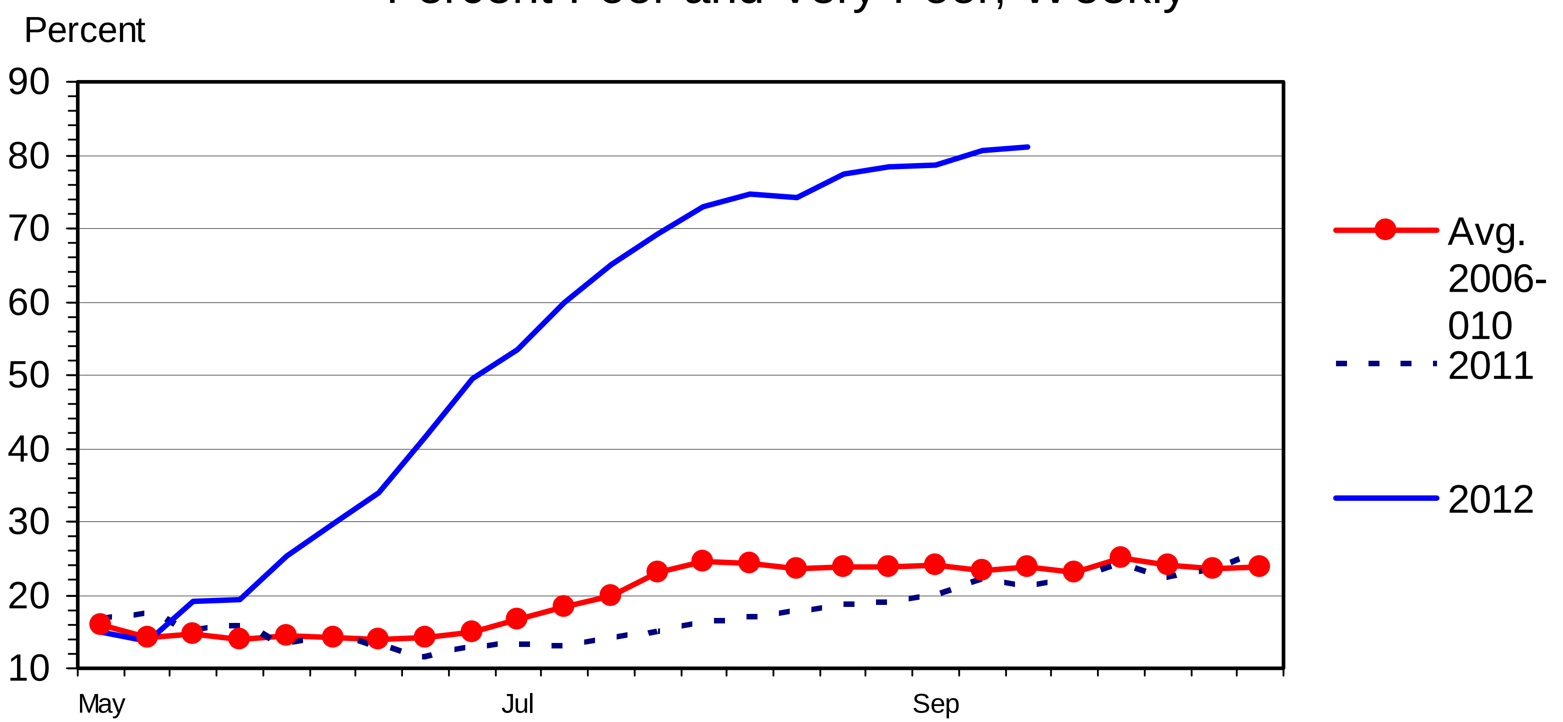
Livestock Marketing Information Center

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

CO, KS, MT, NE, ND, SD, & WY
29.2% of Cows
(2012)

GREAT PLAINS REGION
RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-32
09/24/12

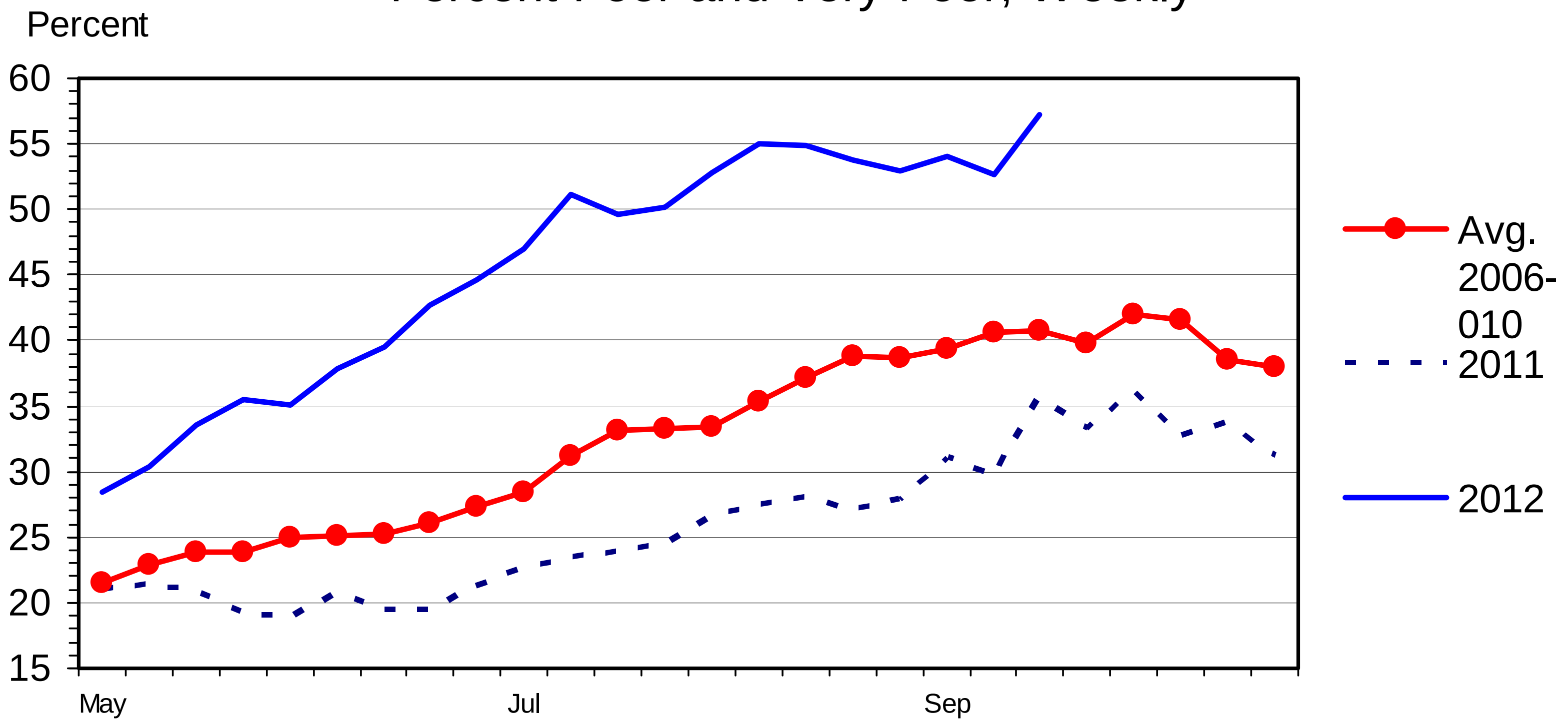
Livestock Marketing Information Center

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

AZ, CA, ID, NV, NM, OR, UT, & WA
10.2% of Cows
(2012)

WESTERN REGION
RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-31
09/24/12

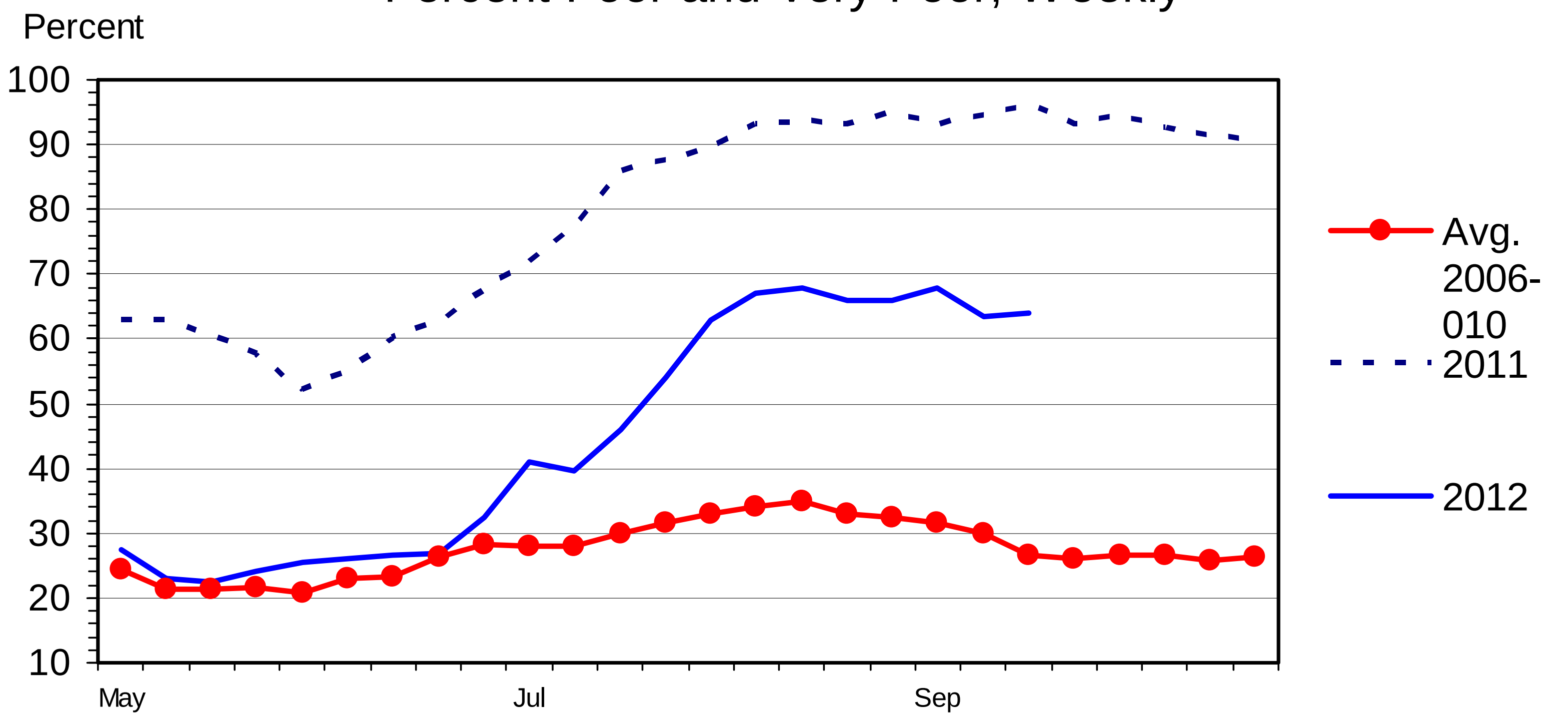
Livestock Marketing Information Center

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

OK & TX
20.4% of Cows
(2012)

SOUTHERN PLAINS REGION
RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-33
09/24/12

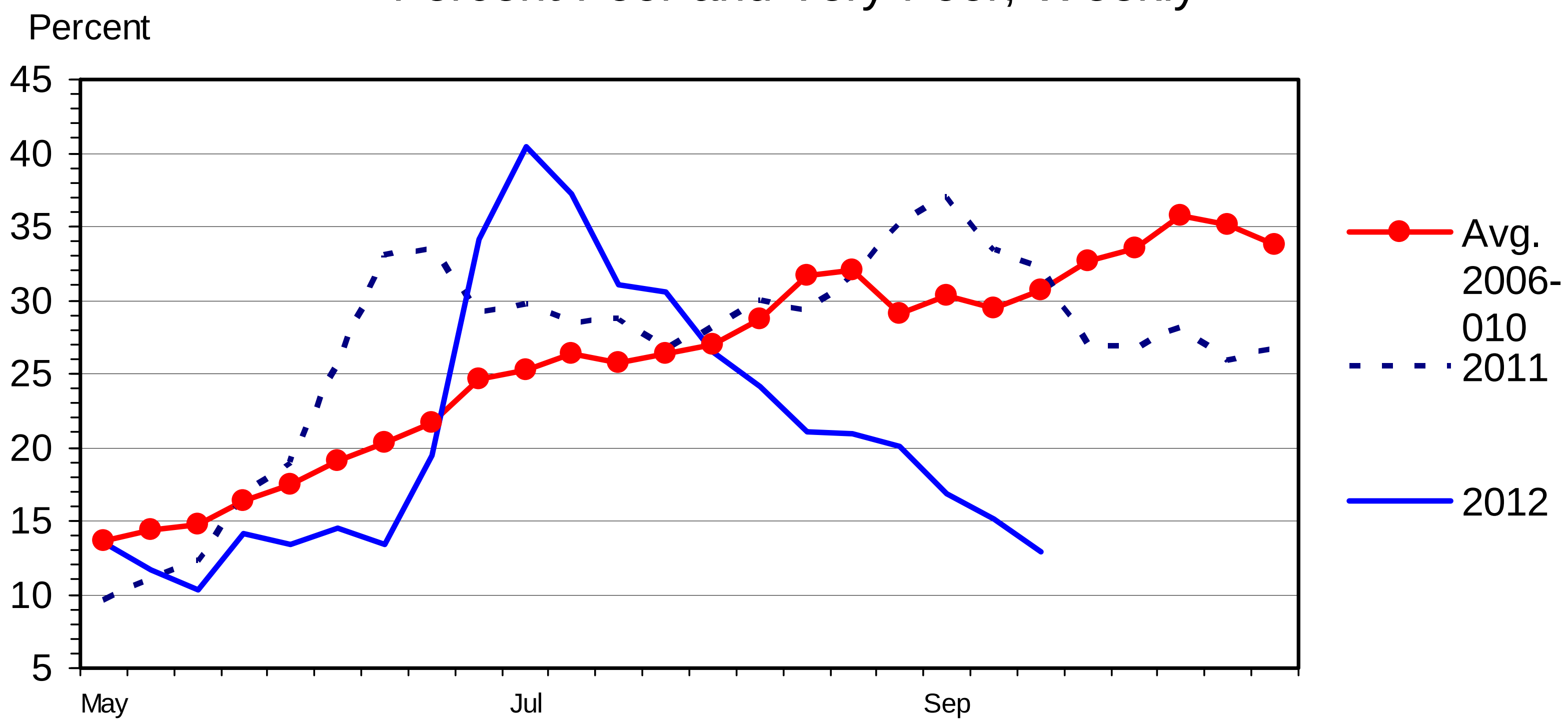
Livestock Marketing Information Center

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

AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, & WV
24.5% of Cows (2012)

SOUTHEAST REGION
RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-36
09/24/12

Livestock Marketing Information Center

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

Economic Outlook Overview : Stockers

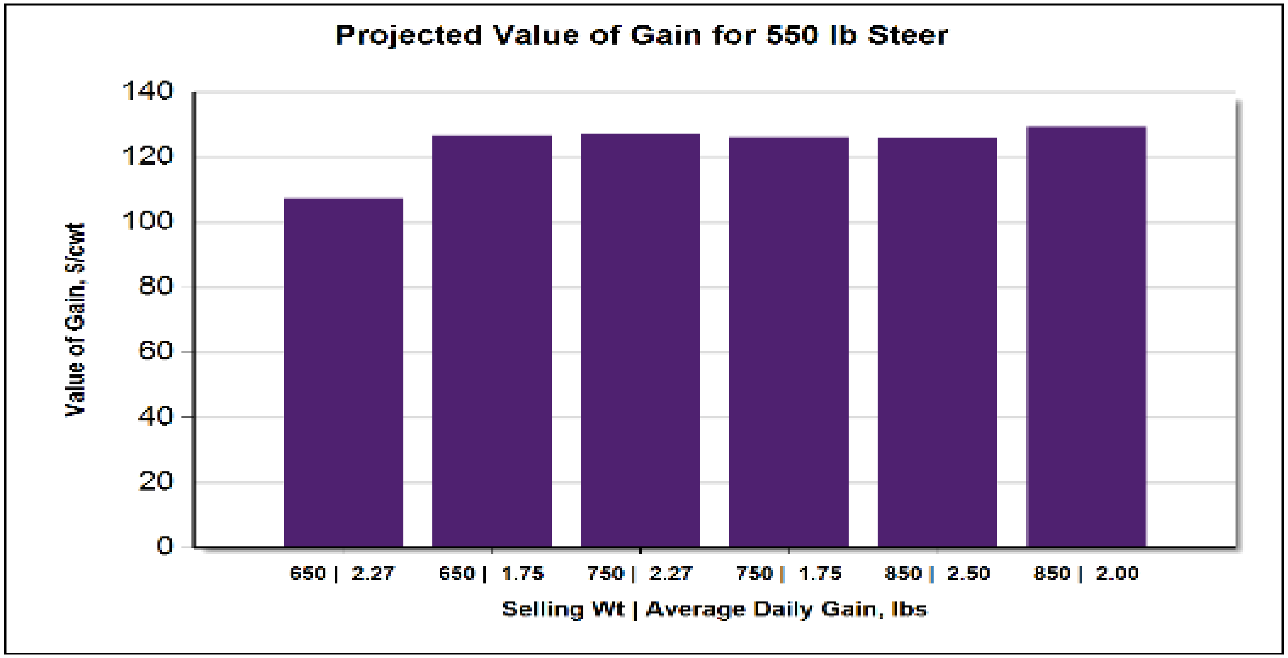
- Historically high Values of Gain (VOG)
  - But also historically high Costs of Gain (COG)…

- Of course, not everyone has their typical feedstuffs/resources to engage this fall/winter
  - ↑ VOG = ↑ rewards for sound management
  - ↑ COG = ↑ pain of hiccups or poor management
    - Many producers feeding something new…

How Should VOG Be Projected?

- Naïve (current cash market offering) vs. Forward Looking (futures market & basis)
  - Important to recognize no crystal ball exist
  - Salina, KS / 550 to 750 lb in 3 month case / Jan. 07' to July 12' period: naïve is less accurate
  - Forward-looking based VOG projections are now updated daily on AgManager

http://www.agmanager.info/livestock/budgets/production/beef/KSU_FactSheet_ValueOfGainForecastingApproaches.pdf



Projected Value of Gain					
Begining Weight, lbs	Ending Weight, lbs	Date	Weight Gain, lbs/hd	ADG, lbs	Value of Gain, $/cwt
550	650	11/09/2012	100	2.27	$107.29
550	650	11/22/2012	100	1.75	$126.79
550	750	12/23/2012	200	2.27	$127.34
550	750	01/18/2013	200	1.75	$126.25
550	850	01/24/2013	300	2.50	$125.75
550	850	02/23/2013	300	2.00	$129.29

Note: Projections dervied for the Salina, KS market using BeefBasis.com
Related information is available at: BeefBasis.com
9/26/2012

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

Projected Value of Gain					
Begining Weight, lbs	Ending Weight, lbs	Date	Weight Gain, lbs/hd	ADG, lbs	Value of Gain, $/cwt
550	650	11/09/2012	100	2.27	$107.29
550	650	11/22/2012	100	1.75	$126.79
550	750	12/23/2012	200	2.27	$127.34
550	750	01/18/2013	200	1.75	$126.25
550	850	01/24/2013	300	2.50	$125.75
550	850	02/23/2013	300	2.00	$129.29

Note: Projections dervied for the Salina, KS market using BeefBasis.com
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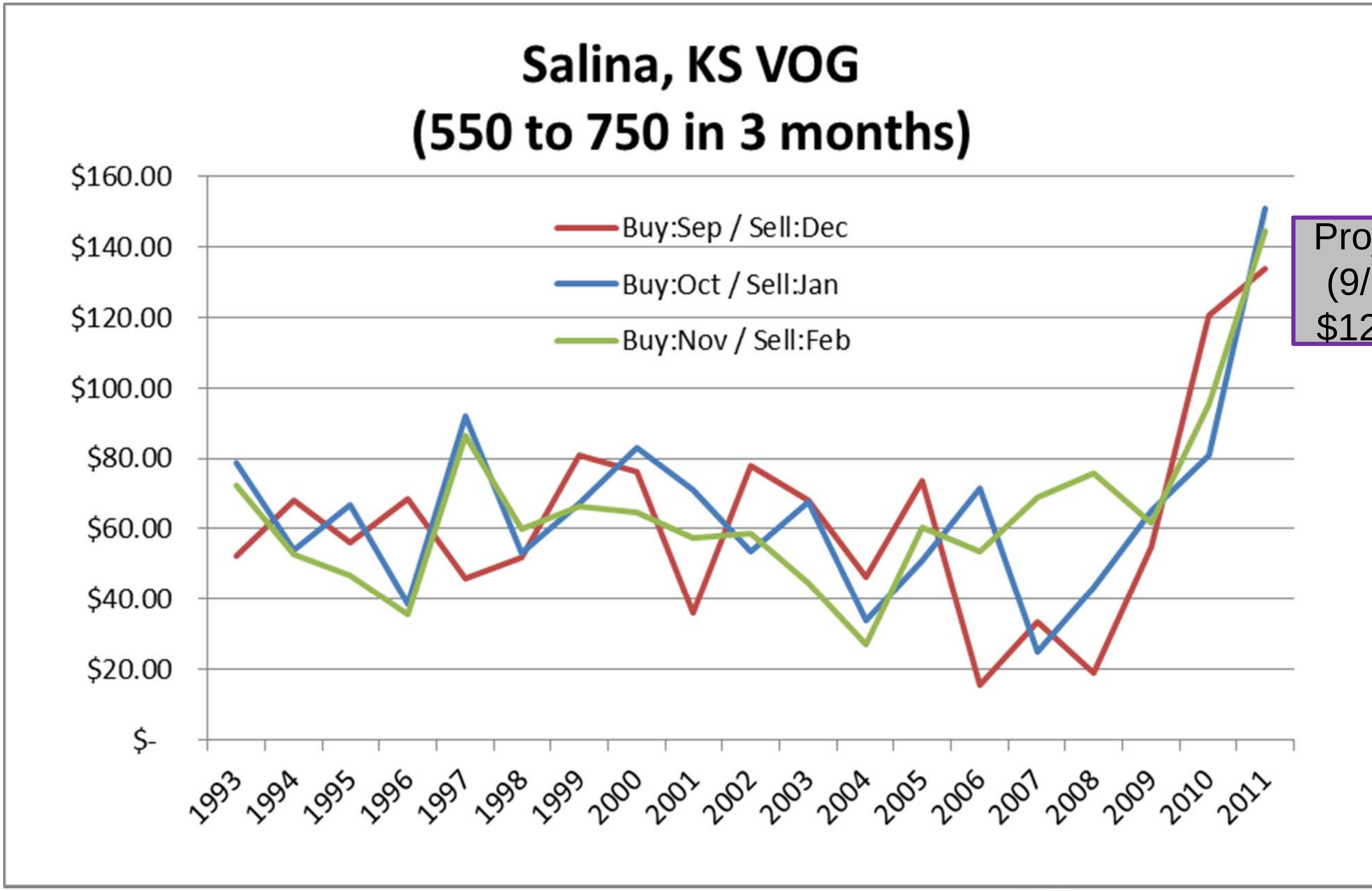
http://www.agmanager.info/livestock/marketing/graphs/cattle/prices/VOG.asp

Historical VOG



Projections (9/26/12): $125-$130

Know your cost of gain (COG) …

	Increased Value ($/hd):	
	Projected VOG	***80% of Projected VOG***
COG ($/cwt)	$ 127.34	$ 101.87
$ 85.00	$84.68	$33.74
$ 100.00	$54.68	$3.74
$ 115.00	$24.68	($26.26)
$ 130.00	($5.32)	($56.26)
$ 145.00	($35.32)	($86.26)
Trucking, interest, etc. must be subtracted to identify returns.		

- Factsheet resources and examples:
  - "Buy-Sell" spreadsheet/web dashboard: http://www.agmanager.info/livestock/budgets/production/
  - http://www.agmanager.info/livestock/budgets/production/beef/KSU_FactSheet_ValueOfGainForecastingApproaches.pdf
  - http://www.agmanager.info/livestock/budgets/production/beef/Value-of-Gain_FactSheet_AM-GTT_2011.pdf

Economic Outlook Overview: Feedlots

- Excess capacity concerns remain & will be growing…
  - Drought: mitigates this initially / magnifies it later …
  - Mexican supplies: mitigates this recently / magnifies it soon

- Losses persist…
  - Recent closeouts are at historically high losses…
    - Elevated cost of gain + Feeders purchased before spring pullback

- Recent placements closer to break-even projections…
  - Important to watch response to shrinking available supplies

Historical and Projected Kansas Feedlot Net Returns

(as of 9/6/12')

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

July -12: -$265.35/steer

Rolling 12 month average thru July:-$89.33/steer

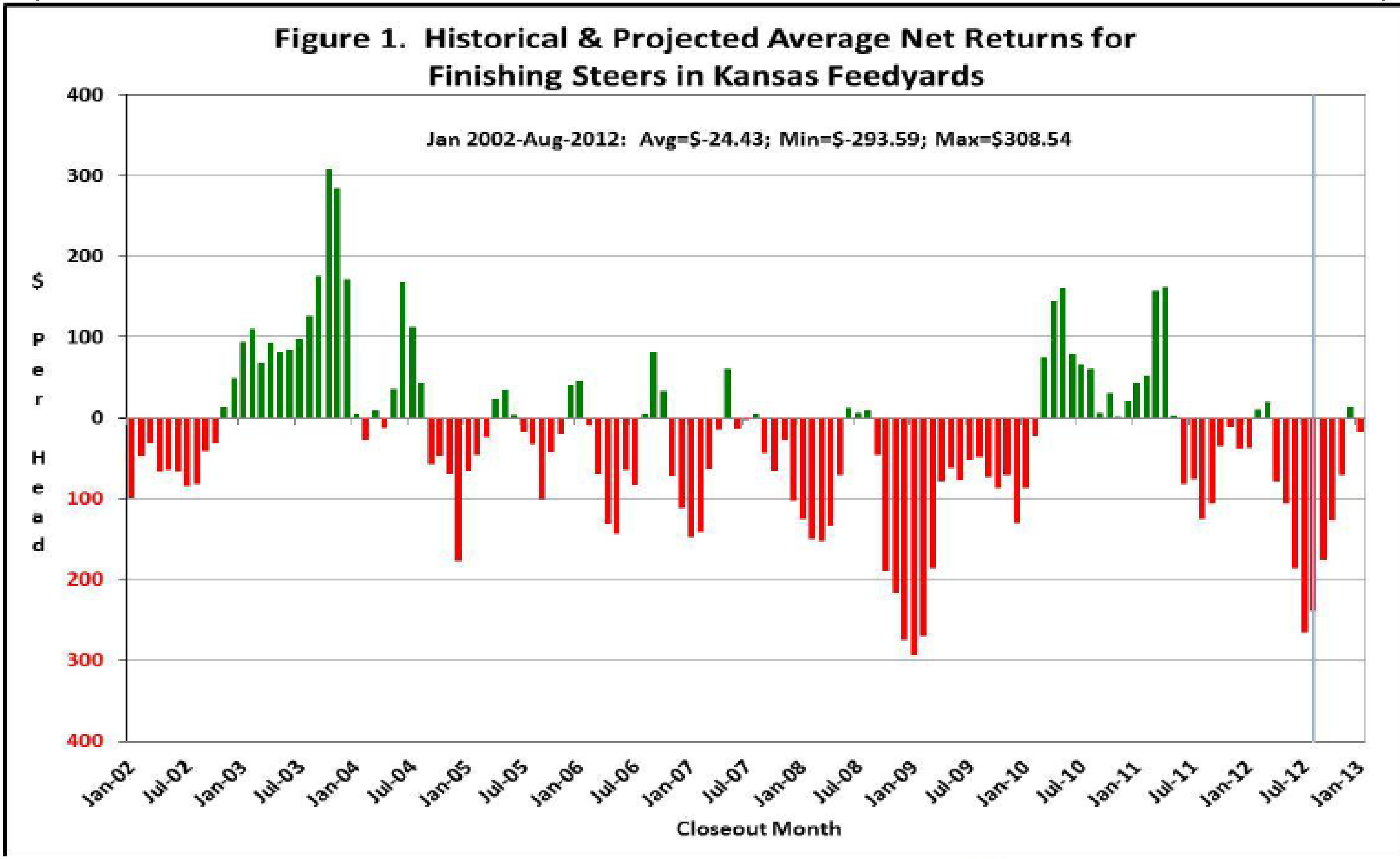
Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Aug-12	-238.35	106.68	120.31	154.97	63.38	137.55	126.35
Sep-12	-174.94	109.23	125.16	153.02	76.58	137.84	132.28
Oct-12	-127.50	110.68	128.75	153.17	87.65	137.96	137.82
Nov-12	-70.47	112.92	129.50	147.09	100.76	134.53	138.50
Dec-12	14.00	115.78	132.06	139.89	118.19	131.01	141.72
Jan-13	-18.30	120.52	131.36	138.88	117.34	132.71	136.53

<u>Representative Barometer for Trends in Profitability</u>

Historical and Projected Kansas Feedlot Net Returns (as of 9/6/12')

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



QUARTERLY FORECASTS (LMIC: 9/23/12)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2011						
I	8,314	1.8	770.9	0.7%	6,410	2.6
II	8,640	-0.5	759.2	0.7%	6,559	0.2
III	8,738	-0.2	770.9	-0.3%	6,736	-0.5
IV	8,395	-3.0	773.1	-0.8%	6,490	-3.7
Year	34,087	-0.5	768.5	0.1%	26,195	-0.4
2012						
I	8,027	-3.5	782.7	1.5%	6,283	-2.0
II	8,311	-3.8	779.1	2.6%	6,475	-1.3
III	8,325	-4.7	789.7	2.4%	6,574	-2.4
IV	8,319	-0.9	784.2	1.4%	6,524	0.5
Year	32,982	-3.2	783.9	2.0%	25,855	-1.3
2013						
I	7,739	-3.6	781.9	-0.1%	6,051	-3.7
II	7,995	-3.8	778.9	0.0%	6,227	-3.8
III	8,041	-3.4	793.1	0.4%	6,377	-3.0
IV	7,752	-6.8	792.3	1.0%	6,142	-5.9
Year	31,527	-4.4	786.5	0.3%	24,797	-4.1
2014						
I	7,288	-5.8	791.2	1.2%	5,766	-4.7
II	7,516	-6.0	785.7	0.9%	5,905	-5.2
III	7,582	-5.7	801.5	1.1%	6,077	-4.7
IV	7,287	-6.0	801.2	1.1%	5,838	-4.9
Year	29,673	-5.9	794.9	1.1%	23,586	-4.9

QUARTERLY FORECASTS (LMIC: 9/23/12)

Year Quarter	Live Sltr. Steer Price 5-Mkt Avg	% Chg. from Year Ago	Feeder Steer Price Southern Plains 7-800#	Feeder Steer Price Southern Plains 5-600#
2011				
I	110.12	23.1	129.06	150.07
II	112.79	17.1	132.03	148.61
III	114.05	19.5	135.93	141.69
IV	121.99	21.7	143.15	153.11
Year	114.74	20.3	135.04	148.37
2012				
I	125.29	13.8	154.25	182.41
II	120.91	7.2	152.65	178.65
III	119-120	4.8	141-142	150-151
IV	125-127	3.3	142-144	150-153
Year	122-124	7.2	147-149	165-167
2013				
I	128-131	3.4	139-143	154-158
II	128-132	7.5	144-149	159-165
III	126-131	7.5	147-153	163-170
IV	128-134	4.0	148-155	161-168
Year	128-132	5.7	145-149	159-165
2014				
I	132-139	4.6	153-161	173-182
II	134-142	6.2	156-166	176-188
III	132-140	5.8	157-168	172-185
IV	133-143	5.3	155-167	169-184
Year	134-140	5.4	157-164	175-182

Economic Outlook Overview : Beef Demand

- Meat prices rising w/i basket of purchases…
  - "bacon shortage" discussions are exaggerations; record retail meat prices in 2013 are not…
  - as prices increase, public will require more quality to remain active consumers…
    - Debates on various technologies may intensify…
- Discussion on demand "getting complicated"
  - Growing interest in "how my food is produced"
    - Animal welfare, food safety, antibiotics, hormone use, local, organic, traceability…


Yuck…

Beats eating GMO. Reduces animal slaughter. Solves world hunger. Looks promising.

Your move, Taco Bell!

Americans have been proven to eat anything that comes in a nice package with the right marketing.

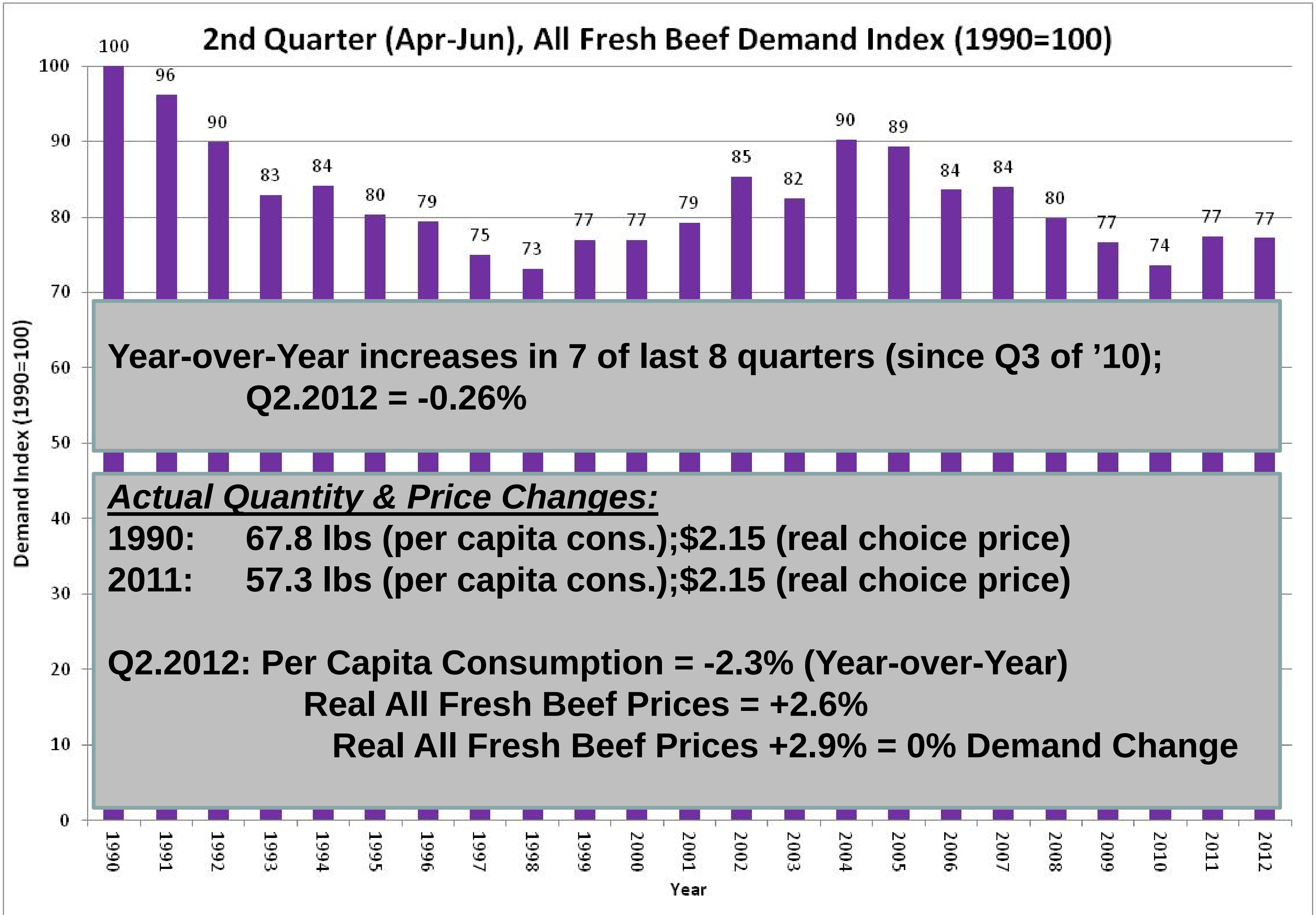
SOCIAL MEDIA

Man-Made Meat

A TIME.com piece on the world's first lab-grown burger, to be served in 2012, got our Google+ followers so riled up that they maxed out the site's 500-comment limit, with many answering our question, Would you eat test-tube meat?

Comments, clockwise from left: Brontae Hunter, Miss M, Gian Robinson, Phil DiNuzzo

Source: March 12, 2012 TIME magazine



Year-over-Year increases in 7 of last 8 quarters (since Q3 of ’10);
Q2.2012 = -0.26%

<u>Actual Quantity & Price Changes:</u>

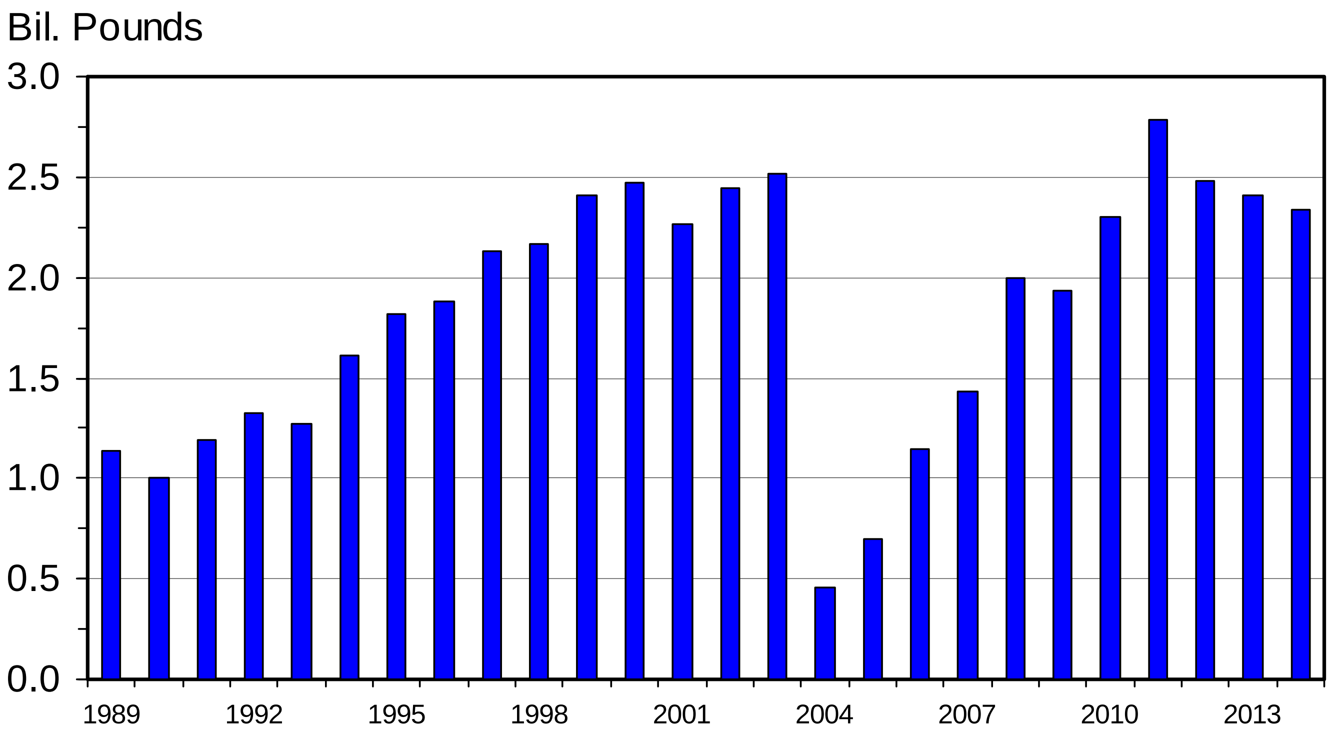
1990: 67.8 lbs (per capita cons.);$2.15 (real choice price)
2011: 57.3 lbs (per capita cons.);$2.15 (real choice price)

Q2.2012: Per Capita Consumption = -2.3% (Year-over-Year)
Real All Fresh Beef Prices = +2.6%
Real All Fresh Beef Prices +2.9% = 0% Demand Change

Source: Glynn T. Tonsor, Kansas State University, July 2012

U S BEEF AND VEAL EXPORTS

Carcass Weight, Annual



I-N-06
08/10/12

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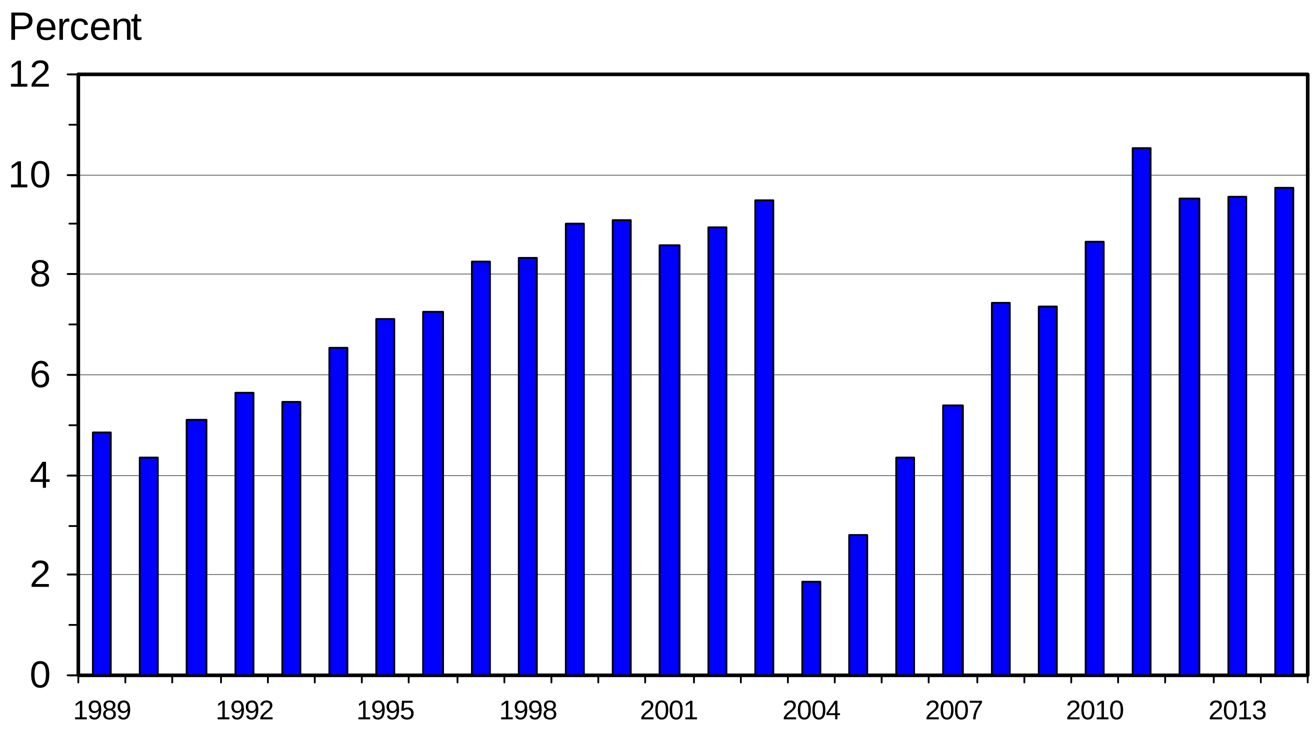
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



I-N-07
08/10/12

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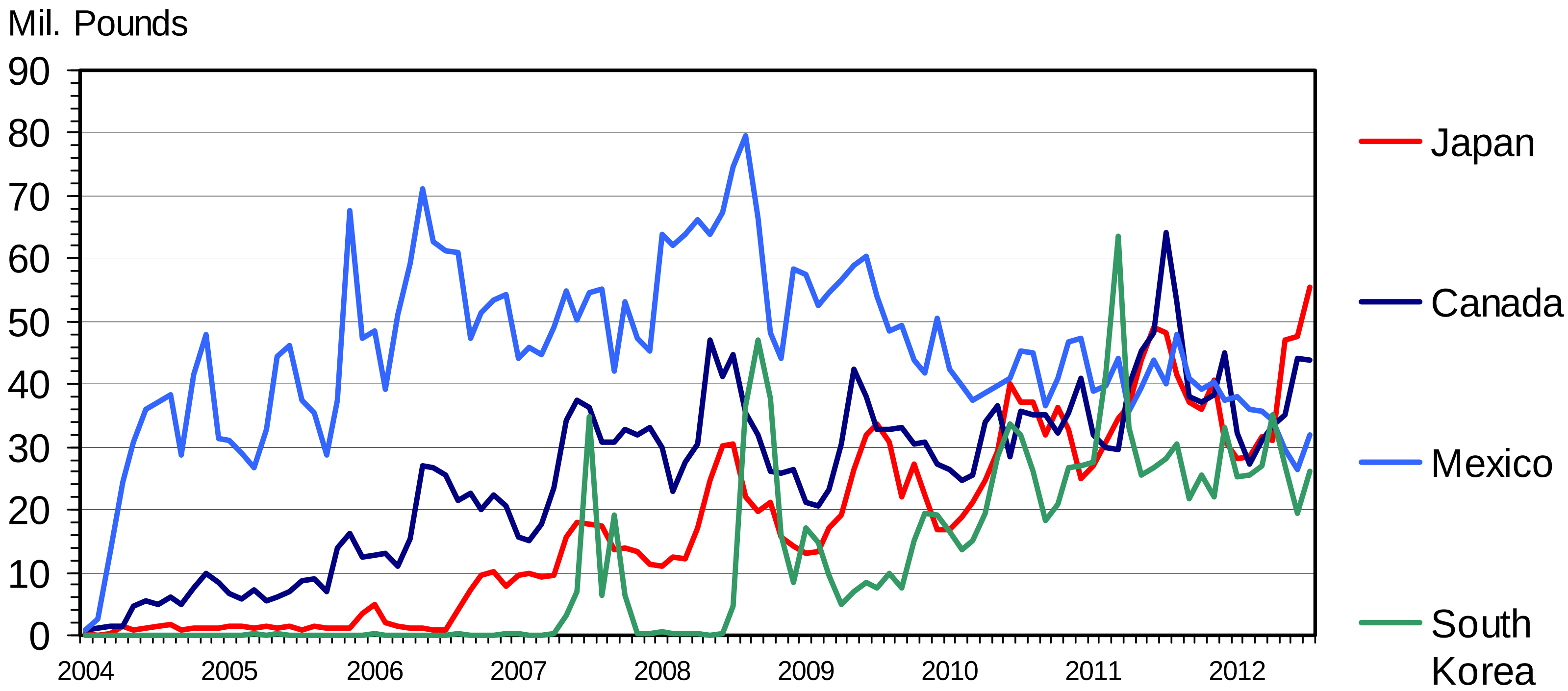
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



MCOOL:
Consumers are unaware;
No aggregate demand +;
WTO resolution pending

I-N-35
09/12/12

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Data Source: USDA-ERS & USDA-FAS

Setting the Stage for our Panel…

- The U.S. beef cow industry has been downsizing for a long time…

- Alignment with those "in it for the long haul" is increasingly important

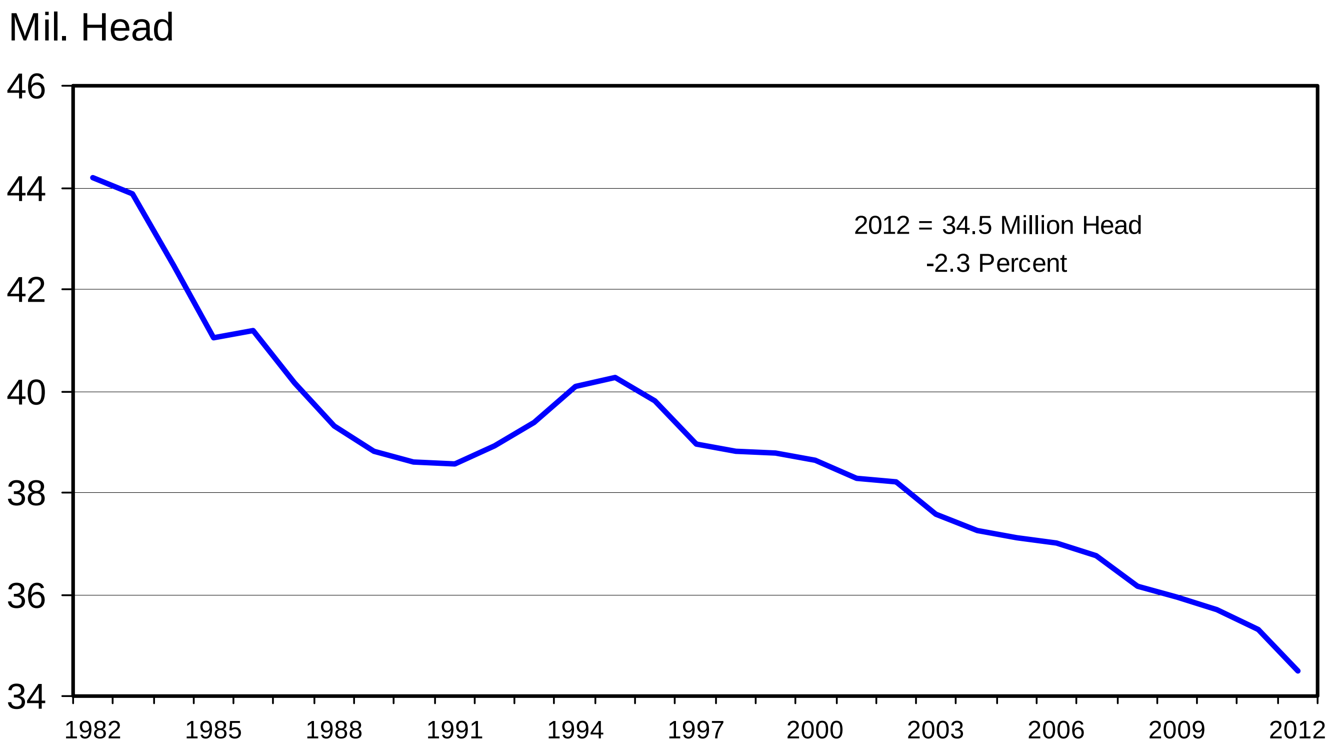
July 1 Cattle Inventory Report

- Report was eliminated, reinstated for 2012, and future availability is unknown …
  - Example of ongoing public/private data discussions

- Downsizing of herd continues (yr-on-yr changes)
  - Beef cows: -3% (900,000 hd)
  - Beef heifer replacements: 0% (was +1.4% in Jan.)
  - 2012 calf crop estimate: -2.3% (800,000 hd)
  - Feeder supplies outside feedlots: -3.2% (1.18 mil. Hd)

CALF CROP

July 1 Estimates, U.S., Annual



C-N-18B
07/20/12

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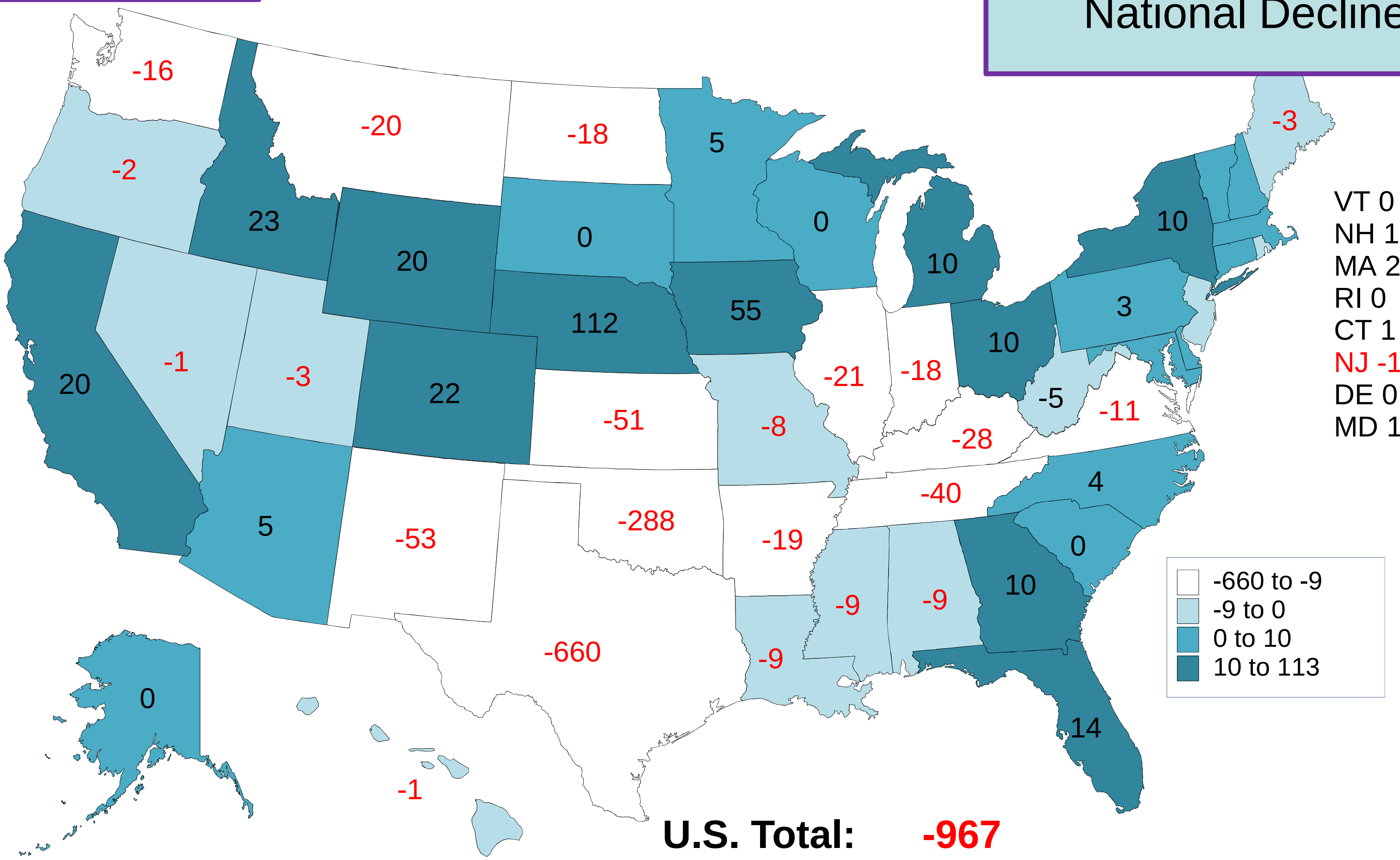
Data Source: USDA-NASS

National Herd:
- 3.1% (vs. 2011)
Smallest since 1962

CHANGE IN BEEF COWS NUMBERS JANUARY 1, 2011 TO JANUARY 2012

(1000 Head)

OK + TX = 98.1% of National Decline



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Data Source: USDA-NASS

01/27/12

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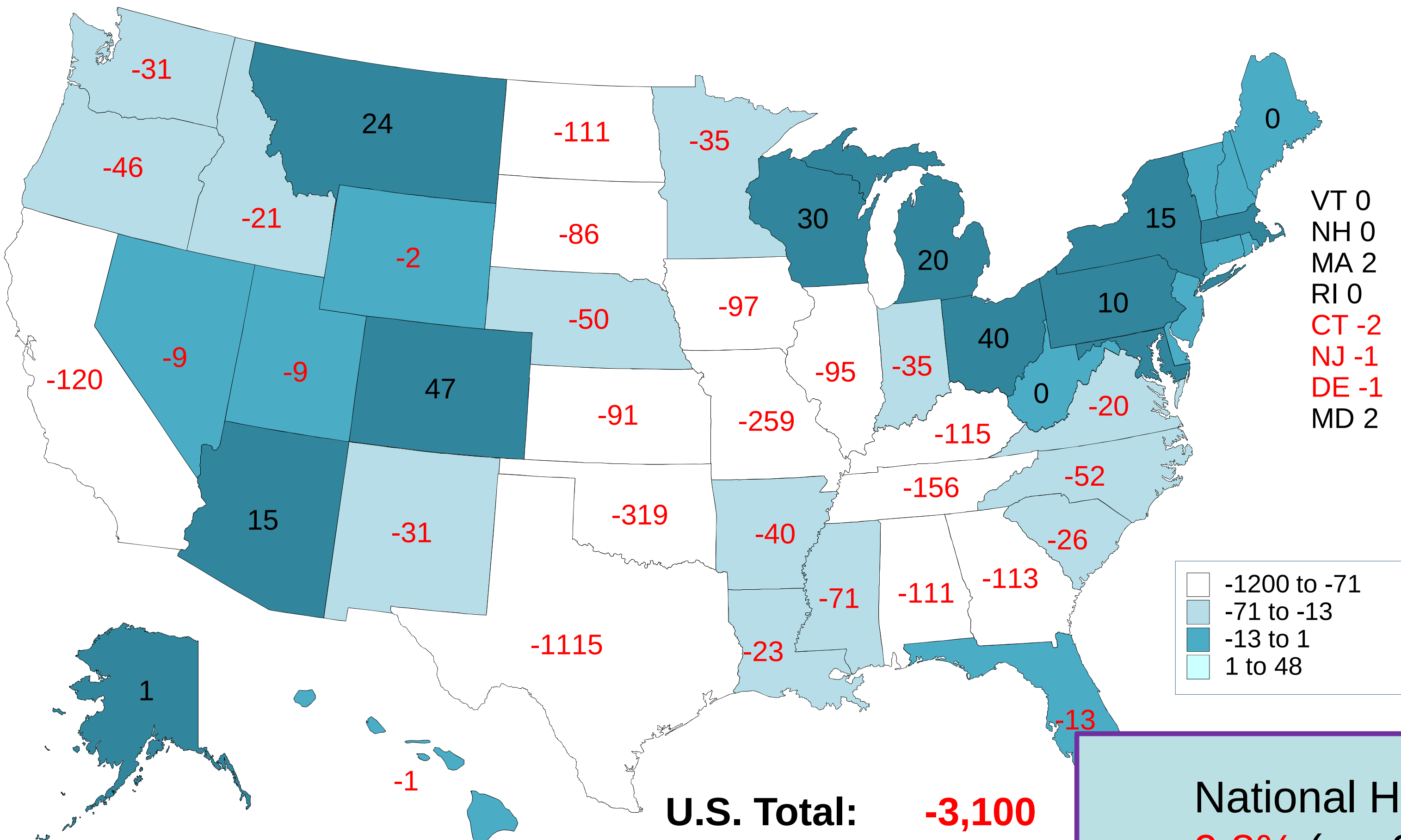
OK + TX = 46.2%
of National Decline

CHANGE IN BEEF COWS NUMBERS JANUARY 1, 2002 TO JANUARY 2012

(1000 Head)



U.S. Total: -3,100

National Herd:
- 9.8% (vs. 2002)

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Data Source: USDA-NASS

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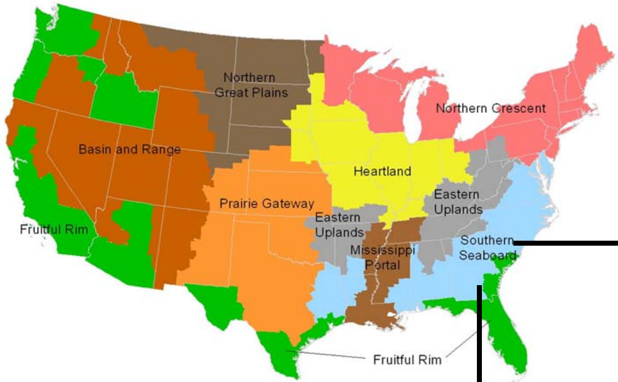
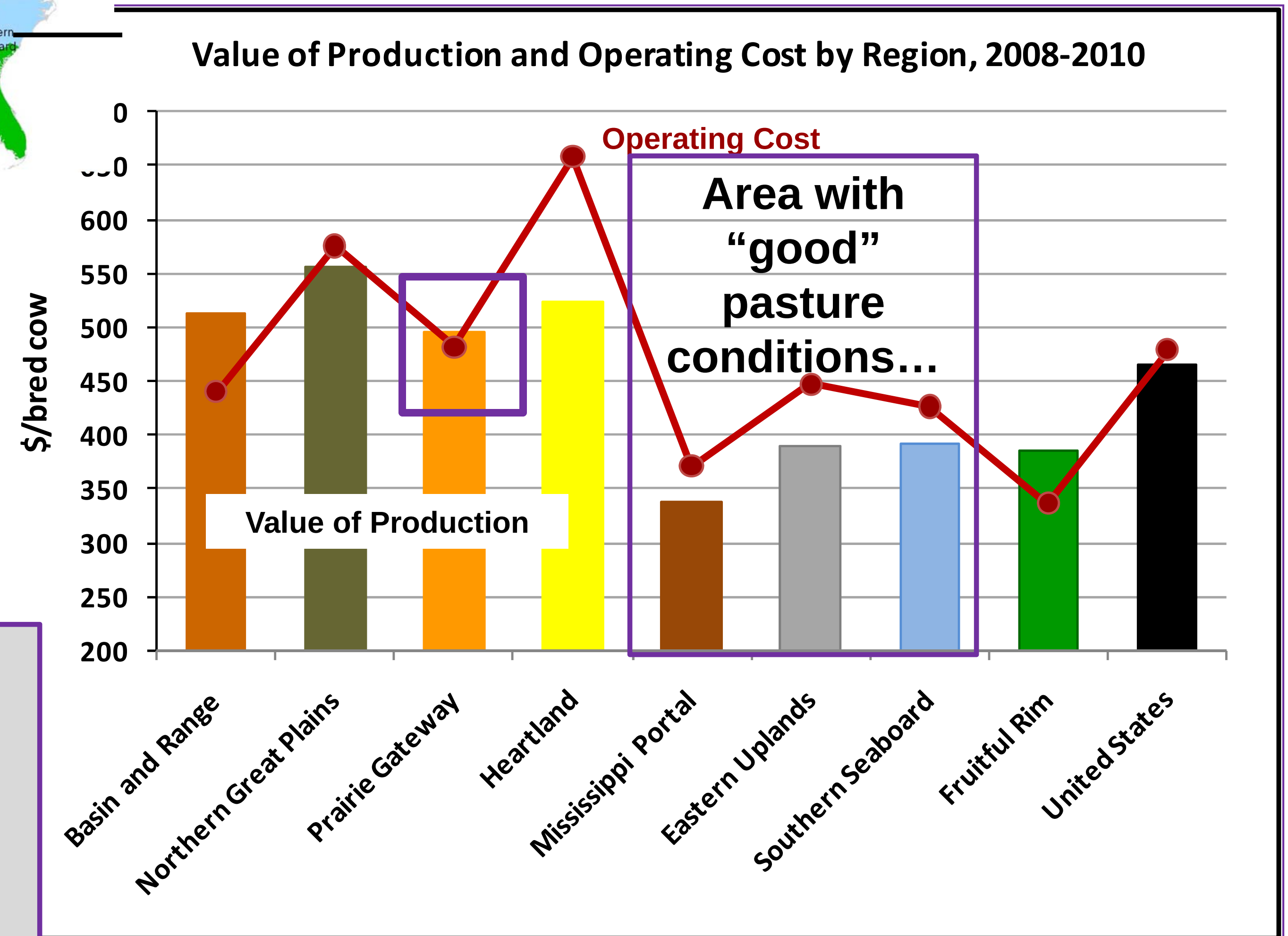
Do some regions have an economic advantage for expansion?



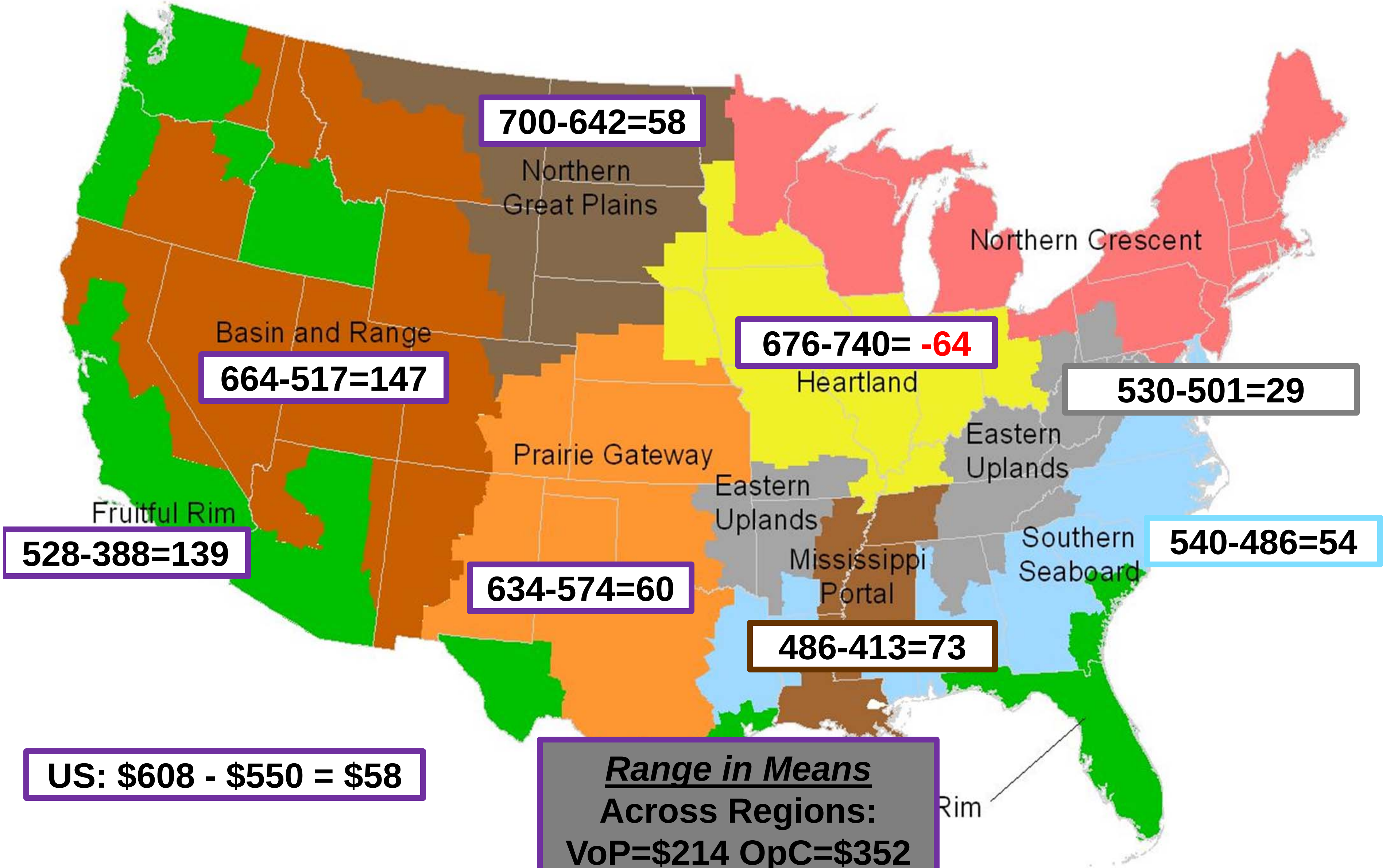


Herds > 20 cows

Operating Costs = 37% (MP) to 52% (NGP) of Total Costs

Data source: USDA-ERS

ERS 2011 ($/cow): Value of Production LESS Operating Costs



Range in Means
Across Regions:
VoP=$214 OpC=$352

Data source: USDA-ERS

http://www.ers.usda.gov/Data/CostsAndReturns/testpick.htm#recent

USDA's longer-term projections (as of Feb. 2012) …

http://www.ers.usda.gov/Publications/OCE121/

- **U.S. beef cow inventory:**
  - **29.8 million in 2012**
  - **34.5 million in 2021 (+/- 1997 levels) / was 39.3 million in 1982**
    - **Beef Production (billion lbs) : 25.4 (1997), 26.2 (2011)**
      - ***More beef per cow will continue = less throughput in # hd…***

- **Domestic per capita red meat & poultry consumption:**
  - **221 lbs in 04-07 (Beef=65.7 lbs; Pork=50.4 lbs; Poultry=103.8 lbs)**
  - **198 lbs in 2013 (Beef=51.3 lbs; Pork=46.3 lbs; Poultry=98.5 lbs)**
  - **213 lbs in 2021 (Beef=58.7 lbs; Pork=47.2 lbs; Poultry=105.8 lbs)**
    - ***These lower per capita volumes will be purchased with more consumer requests and hence requirements for industry-wide investment (& collaboration) in beef quality …***

Final points for discussion

- Global beef demand growth & restrictions from domestic industry heterogeneity must be watched…
  – Comparative position of U.S. is critical…
- Growth of cow-herd vs. # of operations
  – Will traits of those who expand be more aligned with changing consumer requirements???
- How does regionally varying cow-calf expansion & feedlot excess capacity resolution influence your stocker business?

What To Do?

- Utilize available resources
  - VOG projections, decision aides, these KSU events
- Do you know your comparative advantage?
  - Having a favorable cost structure is imperative…
- I encourage you to:
  - Recognize this “isn’t your father’s world” anymore and manage accordingly…
  - “Think globally, manage locally, and stay informed”

More information available at:

www.agmanager.info

This presentation is available in PDF format at:
http://www.agmanager.info/about/contributors/individual/tonsor.asp

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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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K-State Decision Aides: Cattle Price Oriented

(http://www.agmanager.info/Tools/default.asp)

- Expectations on Future Cash Prices
  - http://www.beefbasis.com/
- Examine Feeder Cattle Risk Management Alternatives
  - *"K-State Feeder Cattle Risk Management Tool"*
- Project Premium/Discount of Calf/Steer Attributes
  - "*K-State Feeder Cattle Price Analyzer*"
- Stocker Breakeven Selling/Purchasing Prices
  - *"Cattle Breakeven Selling and Purchase Prices"*

Other K-State Decision Aides

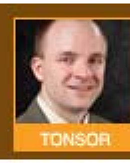
(http://www.agmanager.info/Tools/default.asp)

- NPV of Beef Replacements
  - *"KSU-Beef Replacements"*

- Beef Cow Lease Agreements
  - *"KSU-CowLease"*

- Determining Flint Hills Pasture Rents
  - "*KSU-Graze.xls*"

webinars



WEBINAR
Beef-Cattle Economics

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2012 schedule (all webinars begin at 1:30 CST)

February 7
May 1
August 7
November 6

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