Kansas Society
of
Farm Managers
and
Rural Appraisers
52st Annual
Winter Meeting

February 26-27, 2015

and
Pre-Meeting Seminar
conducted by
Kansas Chapter
ASFMRA

February 25, 2015

Courtyard by Marriott
Salina, Kansas

Beef-Cattle Market Outlook

Dr. Glynn Tonsor,
Kansas State Univ.

Overarching Beef Industry Economic Outlook

- Supplies
  - Continue to be historically tight
    - Herd expansion underway…
- Demand
  - Confusing yet very positive in 2014
    - Far less certain (and understood) than supply situation…
- Combined:
  - Record levels of $ at steak and mixed excitement

LMIC Beef Production and Price Quarterly Forecasts (2/24/15)

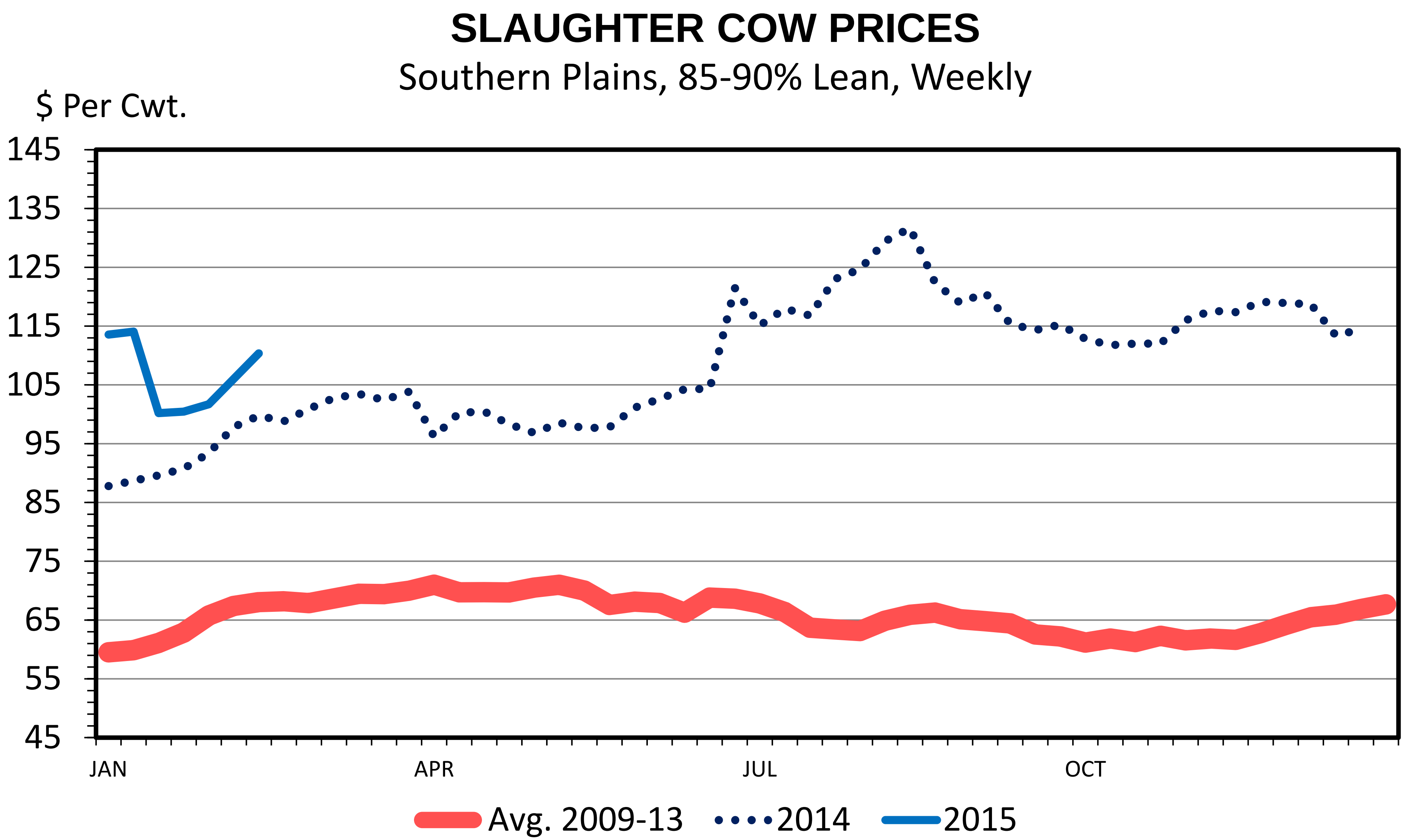
Sources: Livestock Slaughter - USDA/NASS; Steer Prices - USDA/AMS Livestock Market News; Projections and Forecasts by LMIC

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	7,630	-8.3	809.6	1.9	6,178	-6.5
IV	7,329	-8.8	821.7	2.8	6,023	-6.2
Year	30,171	-7.1	803.8	1.5	24,252	-5.7
2015						
I	7,095	-3.8	809.9	1.8	5,746	-2.1
II	7,620	-2.8	801.2	1.5	6,105	-1.3
III	7,520	-1.4	819.7	1.2	6,164	-0.2
IV	7,288	-0.6	822.7	0.1	5,996	-0.4
Year	29,523	-2.1	813.3	1.2	24,011	-1.0
2016						
I	7,144	0.7	814.4	0.6	5,818	1.3
II	7,369	-3.3	806.6	0.7	5,944	-2.6
III	7,679	2.1	827.1	0.9	6,351	3.0
IV	7,344	0.8	828.2	0.7	6,082	1.4
Year	29,536	0.0	819.2	0.7	24,195	0.8

LMIC Beef Production and Price Quarterly Forecasts (2/24/15)

Sources: Livestock Slaughter - USDA/NASS; Steer Prices - USDA/AMS Livestock Market News; Projections and Forecasts by LMIC

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#
2014				
I	146.34	16.6	171.77	209.30
II	147.82	18.3	193.16	227.67
III	158.49	29.6	225.93	263.14
IV	165.59	26.6	239.81	285.63
Year	154.56	22.8	207.67	246.44
2015				
I	162-163	11.0	213-215	268-272
II	162-164	10.3	214-217	272-277
III	158-161	0.6	213-217	266-272
IV	159-163	-2.8	210-216	257-264
Year	160-163	4.5	212-217	265-272
2016				
I	159-164	-0.6	210-217	260-269
II	160-166	0.0	211-219	264-274
III	154-161	-1.3	207-216	260-269
IV	155-165	-0.6	204-215	251-263
Year	158-163	-0.6	209-216	259-269



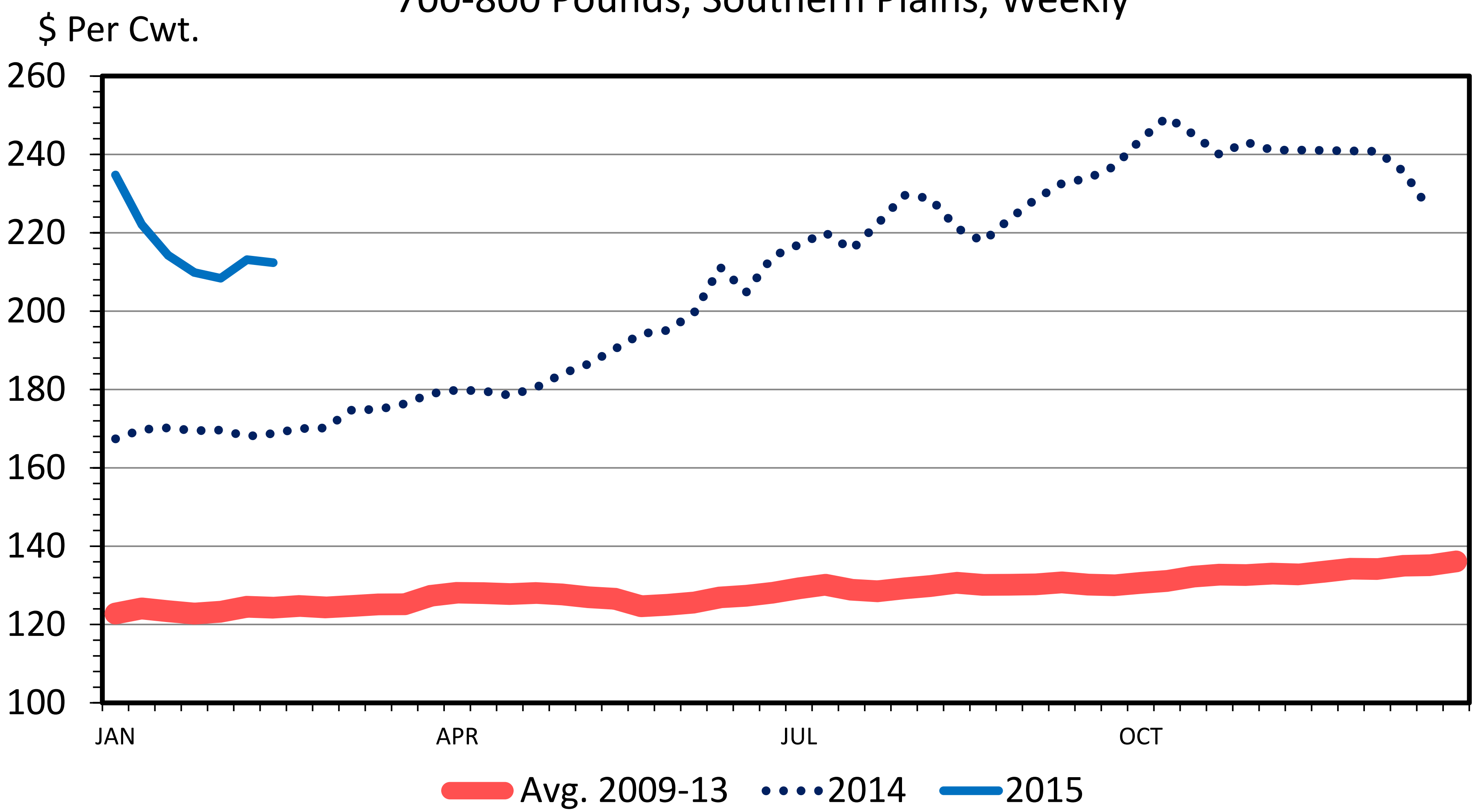
Data Source: USDA-AMS

Livestock Marketing Information Center

C-P-35
02/23/15

MED. & LRG. #1 FEEDER STEER PRICES

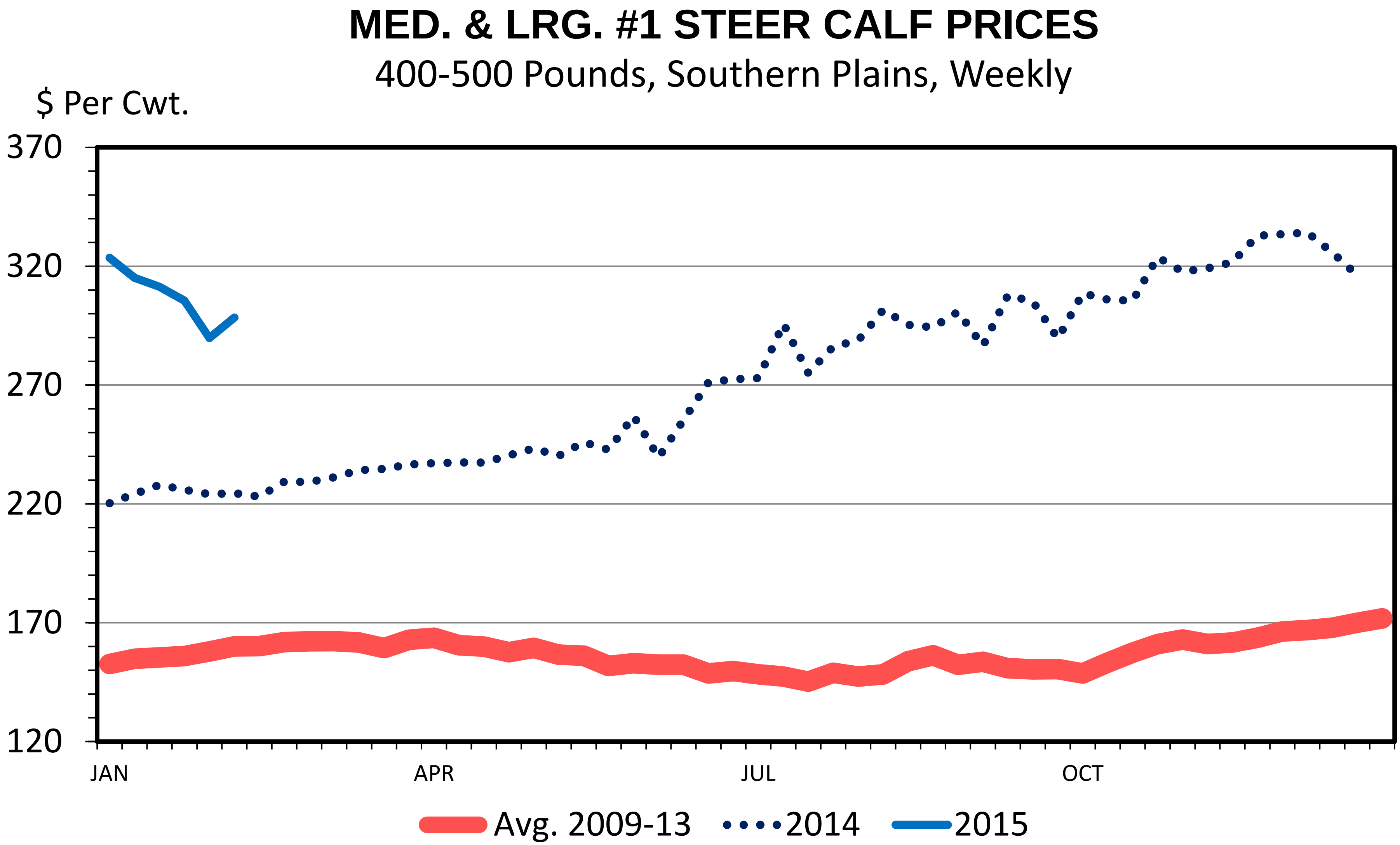
700-800 Pounds, Southern Plains, Weekly



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

Livestock Marketing Information Center

C-P-49
02/23/15

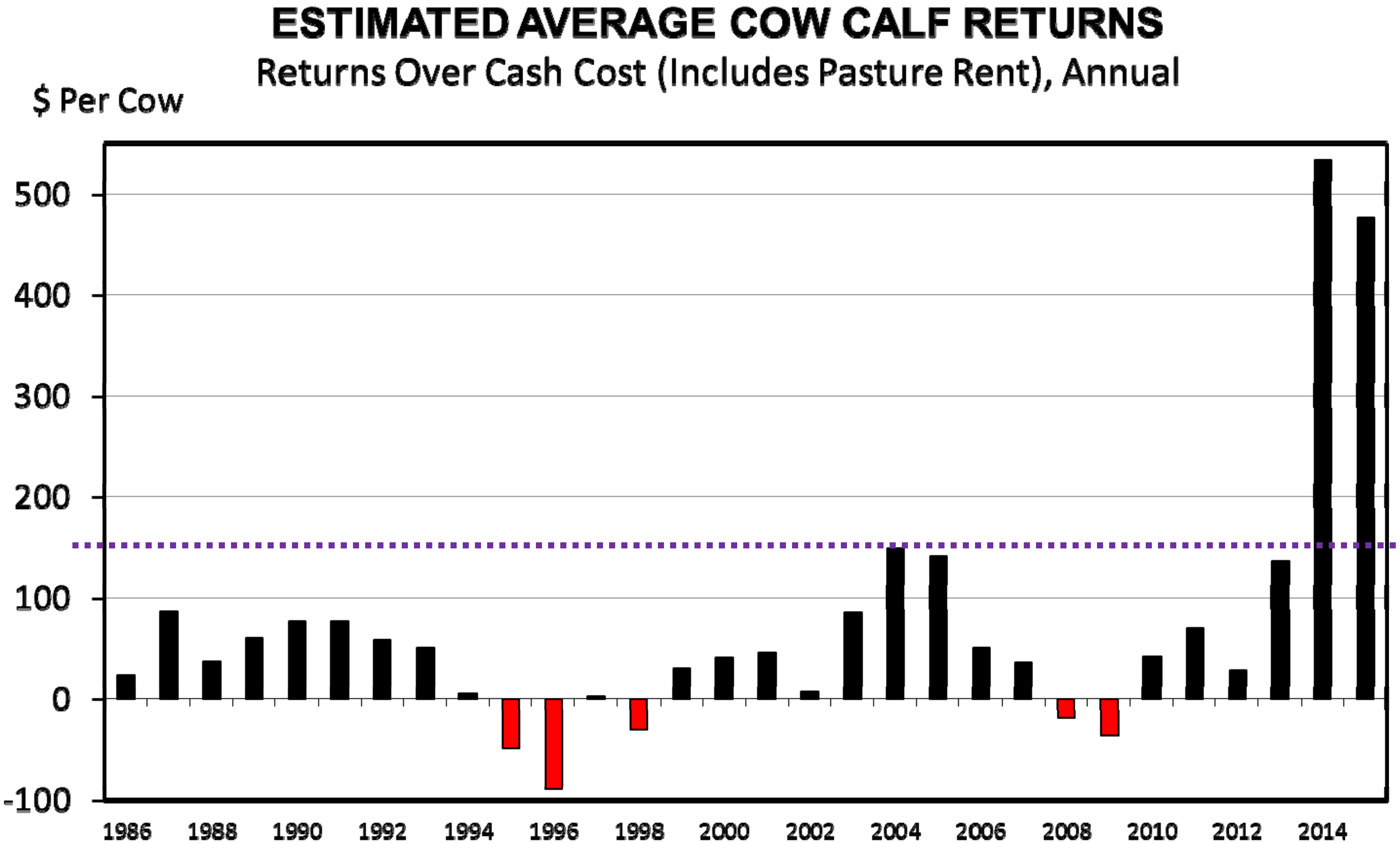


Data Source: USDA-AMS, Compiled & Analysis by LMIC

Livestock Marketing Information Center

C-P-49A
02/23/15

Historically high 2014-2015 cow-calf return projections…



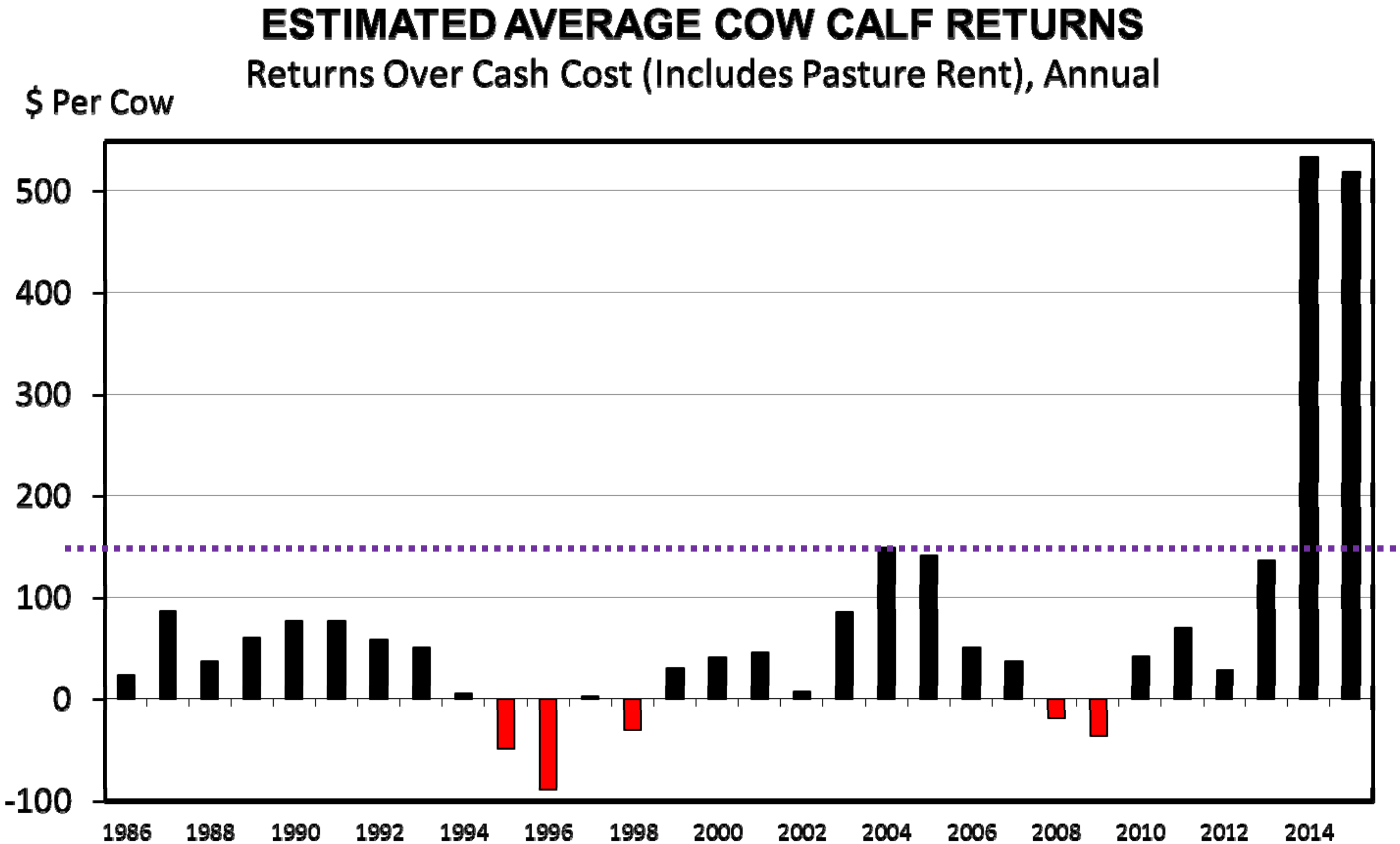
Data Source: USDA-AMS, Compiled and Analysis by LMIC

Livestock Marketing Information Center

C-P-66

02/08/15

Historically high 2014-2015 cow-calf return projections…

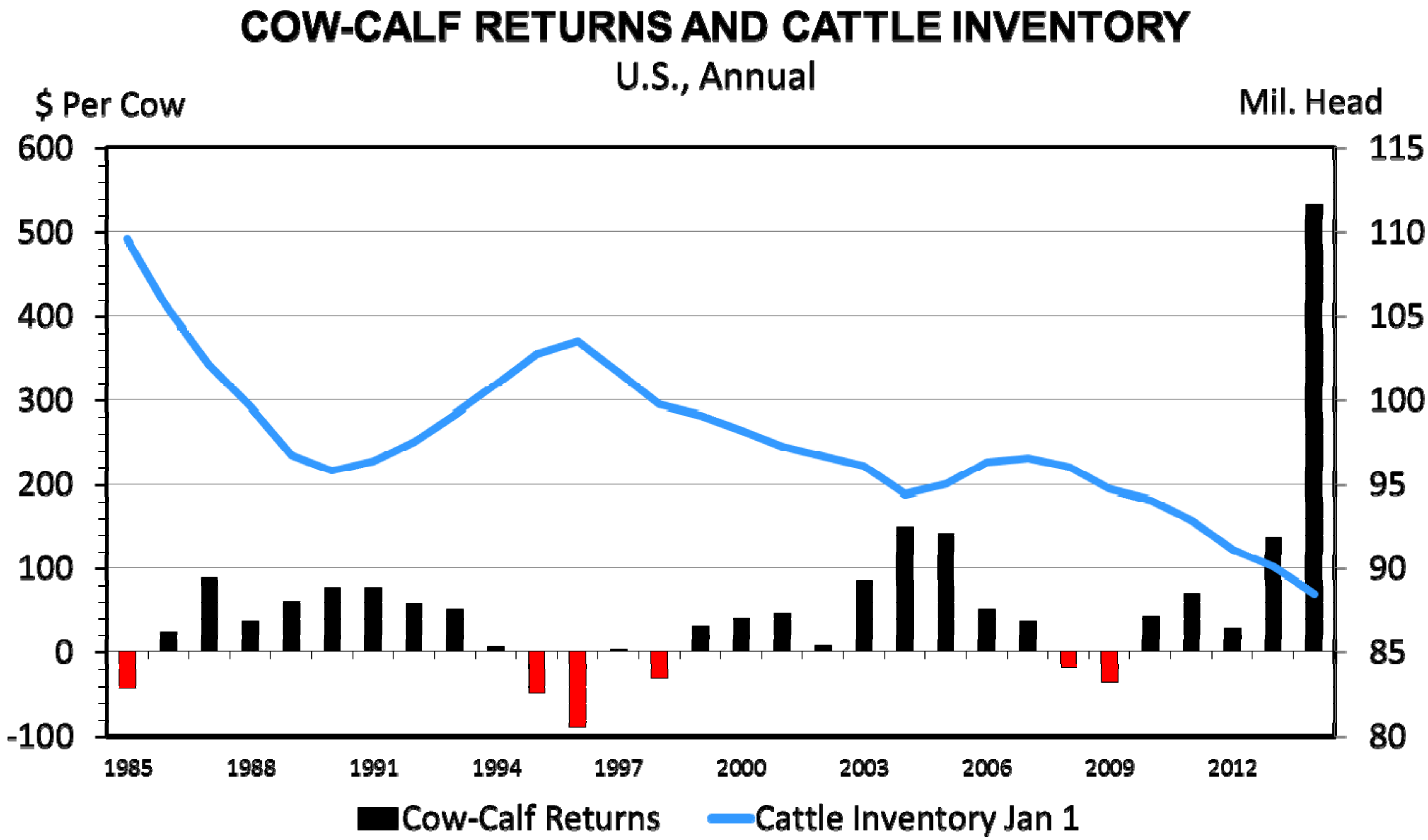


Data Source: USDA-AMS, Compiled and Analysis by LMIC

Livestock Marketing Information Center

What do cow-calf producers do following "high return" years???

What do cow-calf producers do following "high" returns?

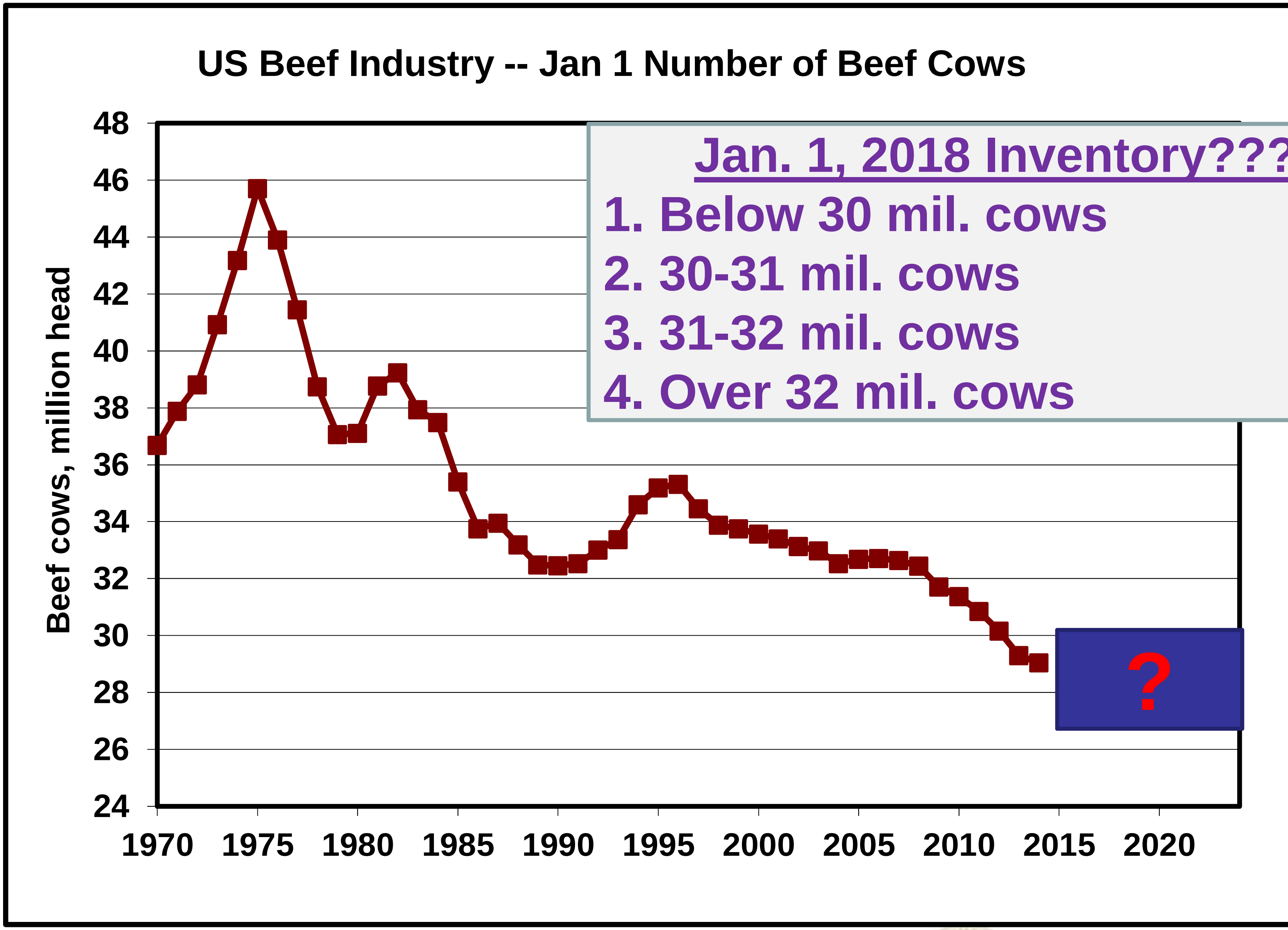


Data Source: USDA-AMS & USDA-NASS, Compiled and Analysis by LMIC

Livestock Marketing Information Center

C-P-67

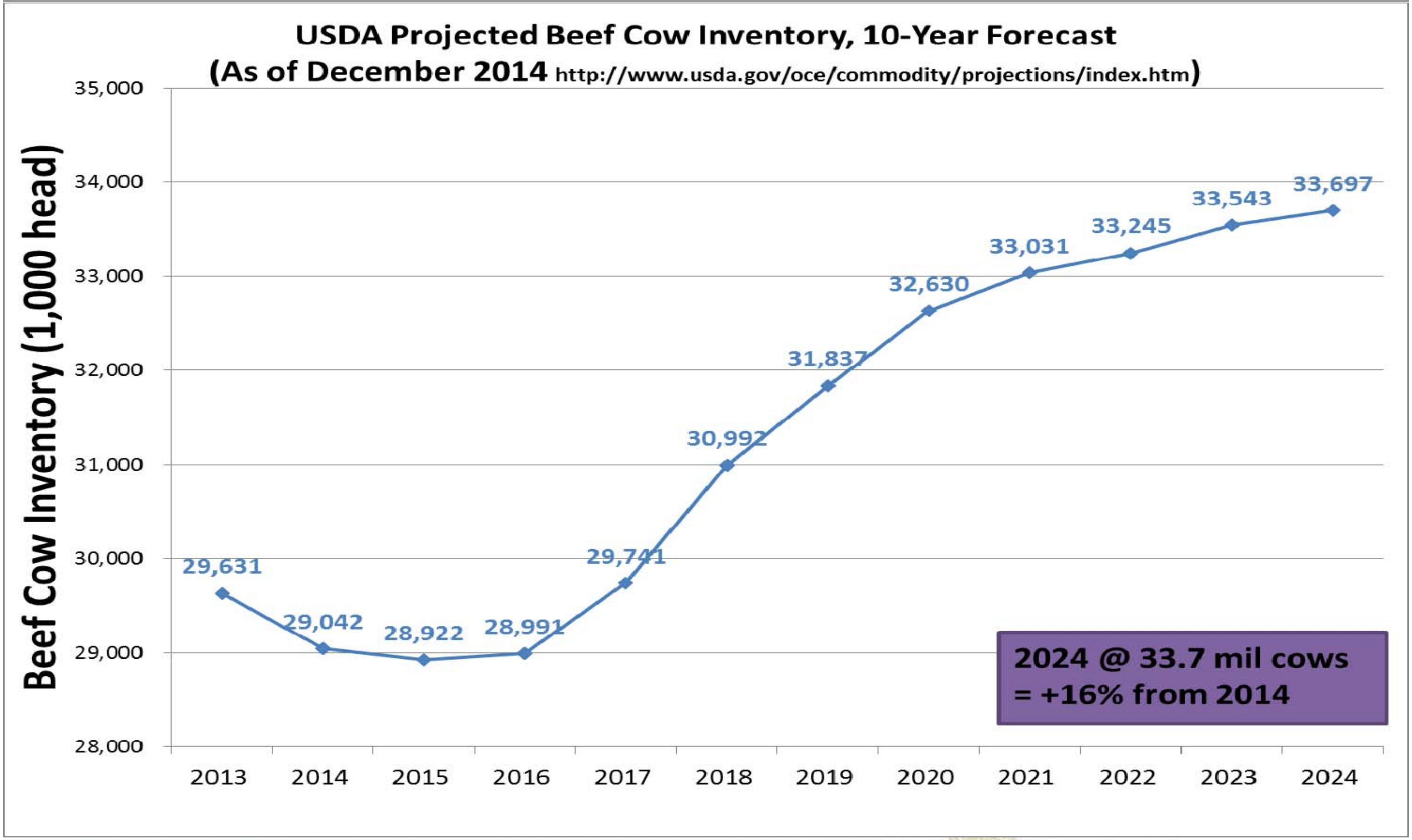
Where will cow numbers go from current levels?



Jan. 1, 2018 Inventory???

1. Below 30 mil. cows
2. 30-31 mil. cows
3. 31-32 mil. cows
4. Over 32 mil. cows

Longer-term projections (*as of Dec. 2014*)



What is happening to KS's share of US Beef Cow Herd?

1. Increasing
2. Holding Steady
3. Decreasing

Table 1. Beef Cows that Calved (1,000 hd)								
State / Region	*1996*	*2006*	*2010*	*2015*	*1996 (% of US)*	*2006 (% of US)*	*2010 (% of US)*	*2015 (% of US)*
TX	5,900	5,350	5,140	4,180	16.7%	16.4%	16.3%	14.1%
OK	1,986	2,045	2,073	1,900	5.6%	6.3%	6.6%	6.4%
MO	2,185	2,166	1,968	1,881	6.2%	6.6%	6.3%	6.3%
NE	1,930	1,930	1,781	1,786	5.5%	5.9%	5.7%	6.0%
SD	1,705	1,719	1,637	1,632	4.8%	5.3%	5.2%	5.5%
MT	1,570	1,401	1,465	1,506	4.4%	4.3%	4.7%	5.1%
KS	1,497	1,550	1,434	1,477	4.2%	4.7%	4.6%	5.0%
KY	1,200	1,118	1,070	1,007	3.4%	3.4%	3.4%	3.4%
IA	1,055	1,000	895	920	3.0%	3.1%	2.8%	3.1%
FL	1,115	916	958	916	3.2%	2.8%	3.0%	3.1%
US	35,319	32,703	31,440	29,693				
Great Plains	9,301	8,936	8,594	8,744	26.3%	27.3%	27.3%	29.4%
Southern Plains	7,886	7,395	7,213	6,080	22.3%	22.6%	22.9%	20.5%
Cornbelt	5,084	4,877	4,497	4,395	14.4%	14.9%	14.3%	14.8%
Northeast	372	332	343	354	1.1%	1.0%	1.1%	1.2%
Southeast	8,868	7,787	7,560	7,119	25.1%	23.8%	24.0%	24.0%
West	3,808	3,376	3,233	3,001	10.8%	10.3%	10.3%	10.1%

Source: 2/15 In The Cattle Markets:
http://lmic.info/sites/default/files/publications/cattlemarkets021615.pdf

Table 2. Heifers for Beef Cow Replacement (1,000 hd)

State / Region	*1996*	*2006*	*2010*	*2015*	*1996 (% of US)*	*2006 (% of US)*	*2010 (% of US)*
TX	880	820	760	710	14.2%	14.0%	14.0%
MT	330	445	340	425	5.3%	7.6%	6.2%
OK	390	430	405	405	6.3%	7.3%	7.4%
NE	285	295	320	390	4.6%	5.0%	5.9%
SD	270	295	290	380	4.4%	5.0%	5.3%
MO	345	340	280	310	5.6%	5.8%	5.1%
KS	240	255	240	260	3.9%	4.3%	4.4%
WY	150	180	145	183	2.4%	3.1%	2.7%
IA	150	140	140	170	2.4%	2.4%	2.6%
ND	175	157	165	164	2.8%	2.7%	3.0%
US	6,189	5,864	5,443	5,777			
Great Plains	1,610	1,742	1,620	1,962	26.0%	29.7%	29.8%
Southern Plains	1,270	1,250	1,165	1,115	20.5%	21.3%	21.4%
Cornbelt	847	856	762	822	13.7%	14.6%	14.0%
Northeast	107	94	99	114	1.7%	1.6%	1.8%
Southeast	1,598	1,288	1,213	1,133	25.8%	22.0%	22.3%
West	757	633	584	632	12.2%	10.8%	10.7%

Source: 2/15 In The Cattle Markets:
http://lmic.info/sites/default/files/publications/cattlemarkets021615.pdf

Cow-Calf – Expansion Discussion

- *Why Did Herd Shrink?*
  - *Beef Demand Declines (long-term)*
  - *Drought & Feed Costs (more recent)*

- *What Can I pay for a Replacement?*
  - ***KSU-Beef Replacement*** spreadsheet (12/24/2014 update)
  - Two fact sheets and video tutorial also available online:
    - http://www.agmanager.info/livestock/budgets/production/default.asp

Cow-Calf – Expansion Discussion

- *KSU-Beef Replacement* spreadsheet
  - http://www.agmanager.info/livestock/budgets/production/default.asp

Net Present Value of Beef Replacements (Dec. 2014 version)

Year	Number of Calves	Base Case
2015	1	$1,725
2016	2	$1,936
2017	3	$2,074
2018	4	$2,203
2019	5	$2,274
2020	6	$2,322
2021	7	$2,359
2022	8	$2,384
2023	9	$2,407
2024	10	$2,428

Key Inputs Varied Across Scenarios:

Annual cow costs, $/year		$700
Discount rate, interest rate		7.50%
Calf Price, $/cwt	2015	$225.32
	2016	$212.69
	2017	$200.58
	2018	$197.92
	2019	$189.27
	2020	$182.87
	2021	$180.96
	2022	$178.48
	2023	$180.93

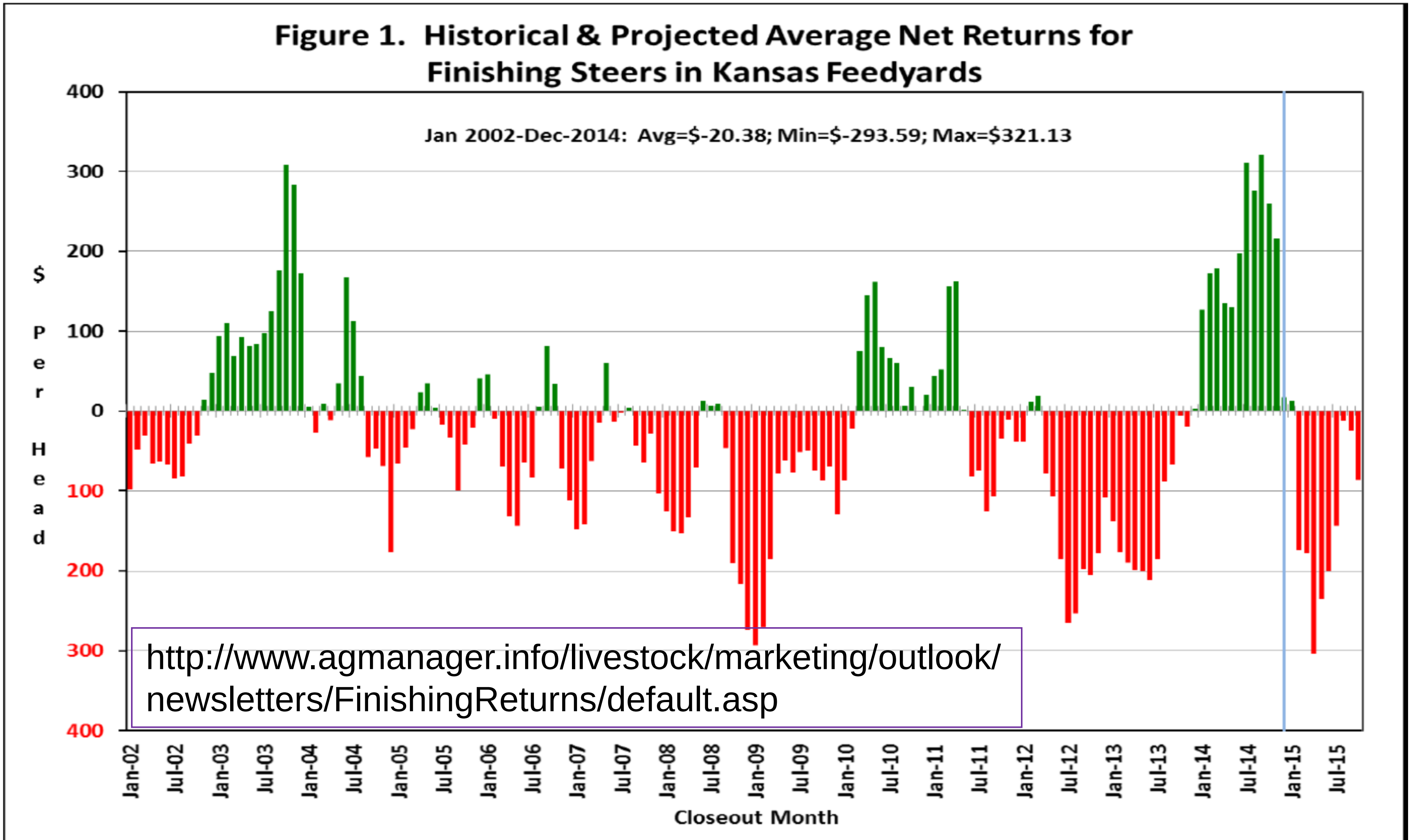
* NPV is Net Present Value of a replacement expected to produce the number of saleable calves listed in the "Number of Calves" column before a cow is culled for age-related reasons.

VE

Economic Outlook Overview: Stockers

- Decent Values of Gain (VOG) vs. COG
- Salina, KS 2/25/15 situation (http://www.beefbasis.com/ForecastingTools/ValueofGain/tabid/1132/Default.aspx):
  - Buy 700 lb steer on 3/6/15 ($196.30)
  - Sell 750 lb steer on 4/3/15 ($190.84) {1.72 ADG}
    - VOG: $114/cwt
  - Buy 550 lb steer on 9/16/15 ($211.60)
  - Sell 750 lb steer on 12/24/15 ($186.23) {2.00 ADG}
    - VOG: $116/cwt

Economic Outlook Overview: Feedlots



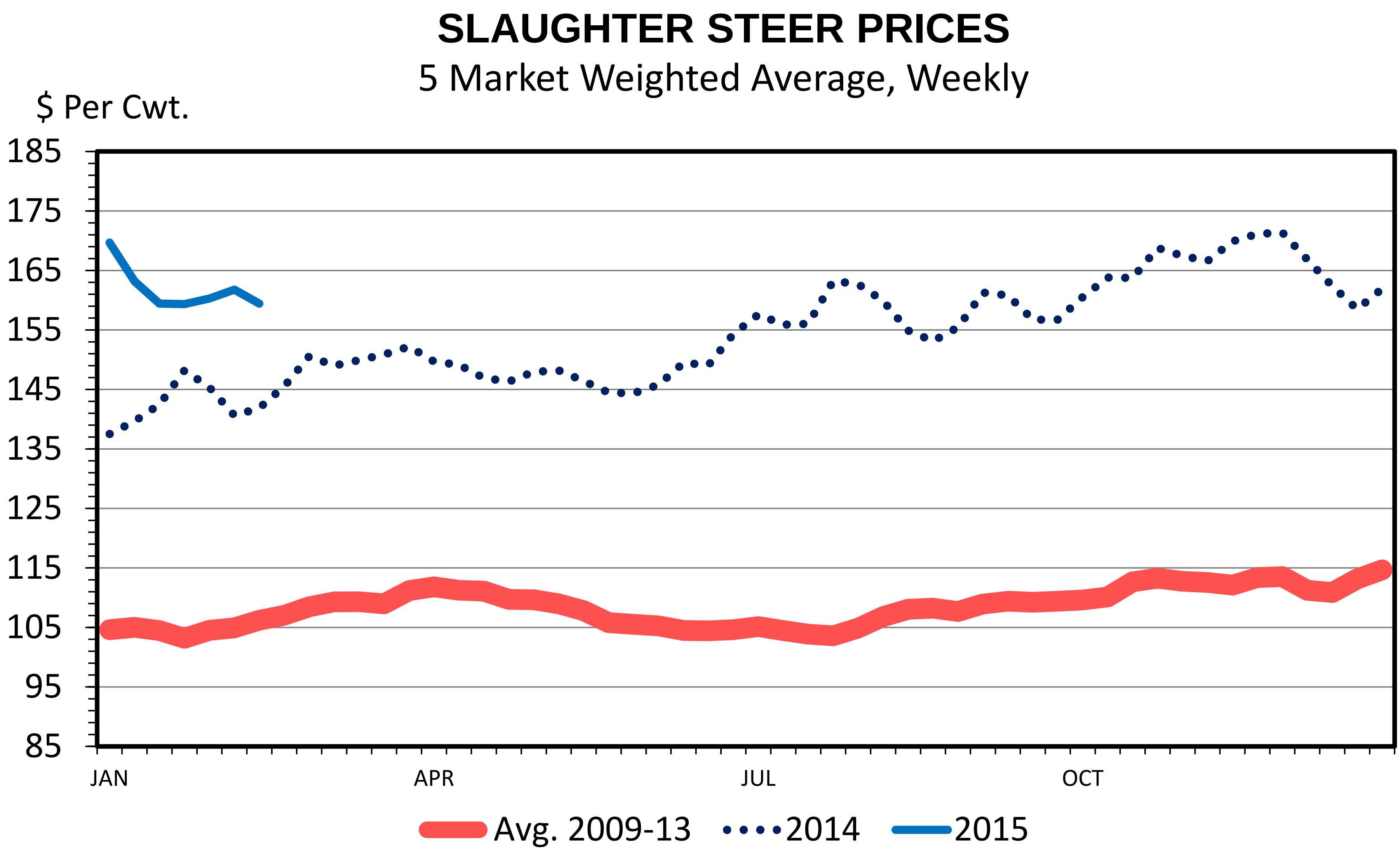
Historical and Projected Kansas Feedlot Net Returns (as of 2/9/15')

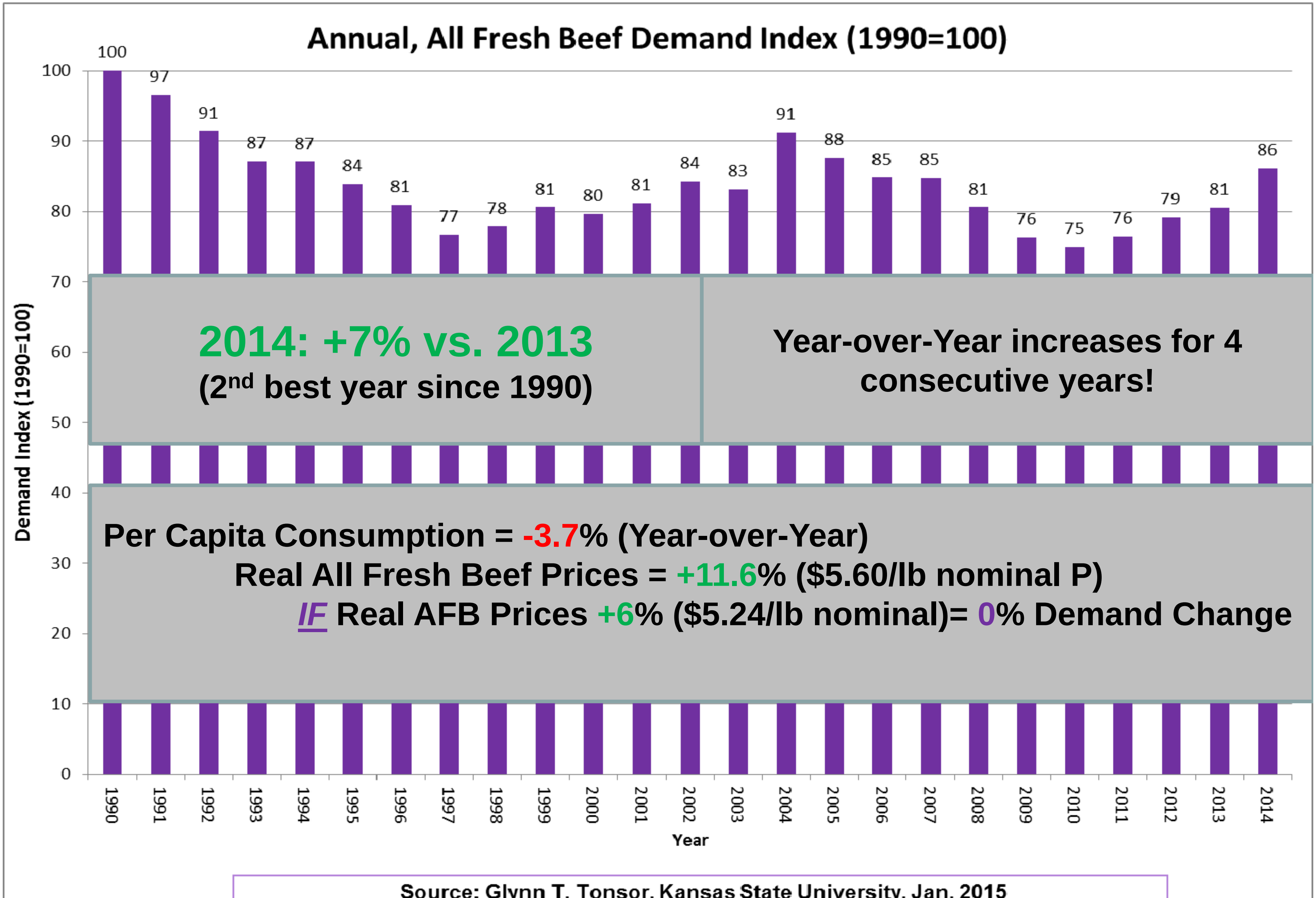
(http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp)

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
Jan-15	13.04	85.24	164.33	216.70	87.43	163.39	218.32
Feb-15	-174.53	85.14	154.88	225.33	56.54	167.27	203.48
Mar-15	-177.29	85.41	156.59	229.08	55.91	169.43	206.34
Apr-15	-303.13	85.39	149.57	234.06	34.42	171.91	194.28
May-15	-234.28	83.75	152.52	237.86	46.07	169.87	205.69
Jun-15	-199.54	82.55	147.51	223.33	50.90	161.93	196.85
Jul-15	-143.61	82.44	145.50	212.60	59.91	155.78	193.70
Aug-15	-12.81	83.48	148.02	199.94	81.50	148.93	198.27
Sep-15	-24.59	84.99	147.86	200.98	81.23	149.60	197.73
Oct-15	-85.98	87.89	148.89	204.69	74.35	154.94	193.74

Representative Barometer for Trends in Profitability


SLAUGHTER STEER PRICES
5 Market Weighted Average, Weekly
$ Per Cwt.
185
175
165
155
145
135
125
115
105
95
85
JAN
APR
JUL
OCT
Avg. 2009-13
2014
2015



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

USDA Long-Term projections (2015-2024)

Early release on Dec. 18, 2014

Feb. 11, 2015 report (http://www.usda.gov/oce/commodity/projections/index.htm)

	Recent		NEXT 5 YEARS					10 Yrs Out
Per capita meat consumption, retail weight								
Item	2013	2014	2015	2016	2017	2018	2019	2024
						Pounds		
Beef	56.3	54.6	52.2	49.4	48.5	49.1	49.8	52.4
Pork	46.8	45.3	46.6	48.5	48.8	49.1	49.3	49.5
Total red meat	104.4	101.1	99.9	99.0	98.4	99.3	100.1	102.9
Broilers	81.9	83.4	85.4	86.7	88.1	89.2	90.2	93.1
Turkeys	16.0	15.7	15.8	16.2	16.5	16.7	16.8	17.3
Total poultry	99.2	100.3	102.5	104.2	106.0	107.3	108.4	111.9
Red meat & poultry	203.6	201.4	202.3	203.2	204.4	206.5	208.5	214.8

2024 (215 lbs) < 2008 (216 lbs)

USDA Long-Term projections (2015-2024)

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Beef long-term projections

Item	Units	2013	2014	2015	2016	2017	2018	2019	2024
		Recent		NEXT 5 YEARS					10 Yrs Out
Commercial production	Mil. lbs.	25,720	24,459	23,665	22,667	22,536	22,986	23,550	25,947
Change from previous year	Percent	-0.7	-4.9	-3.2	-4.2	-0.6	2.0	2.5	0.8
Total production	Mil. lbs.	25,791	24,530	23,736	22,738	22,607	23,057	23,621	26,018
Imports	Mil. lbs.	2,250	2,823	2,700	2,600	2,600	2,725	2,775	3,025
Total supply	Mil. lbs.	28,649	27,937	26,931	25,823	25,697	26,282	26,896	29,543
Exports	Mil. lbs.	2,590	2,599	2,525	2,543	2,662	2,800	2,935	3,475
Total consumption	Mil. lbs.	25,475	24,843	23,921	22,790	22,535	22,982	23,461	25,568
Per capita, retail weight	Pounds	56.3	54.6	52.2	49.4	48.5	49.1	49.8	52.4
Change from previous year	Percent	-1.8	-3.2	-4.4	-5.4	-1.8	1.3	1.4	0.0

USDA Long-Term projections (2015-2024)

Early release on Dec. 18, 2014

Feb. 11, 2015 report (http://www.usda.gov/oce/commodity/projections/index.htm)

Beef long-term projections

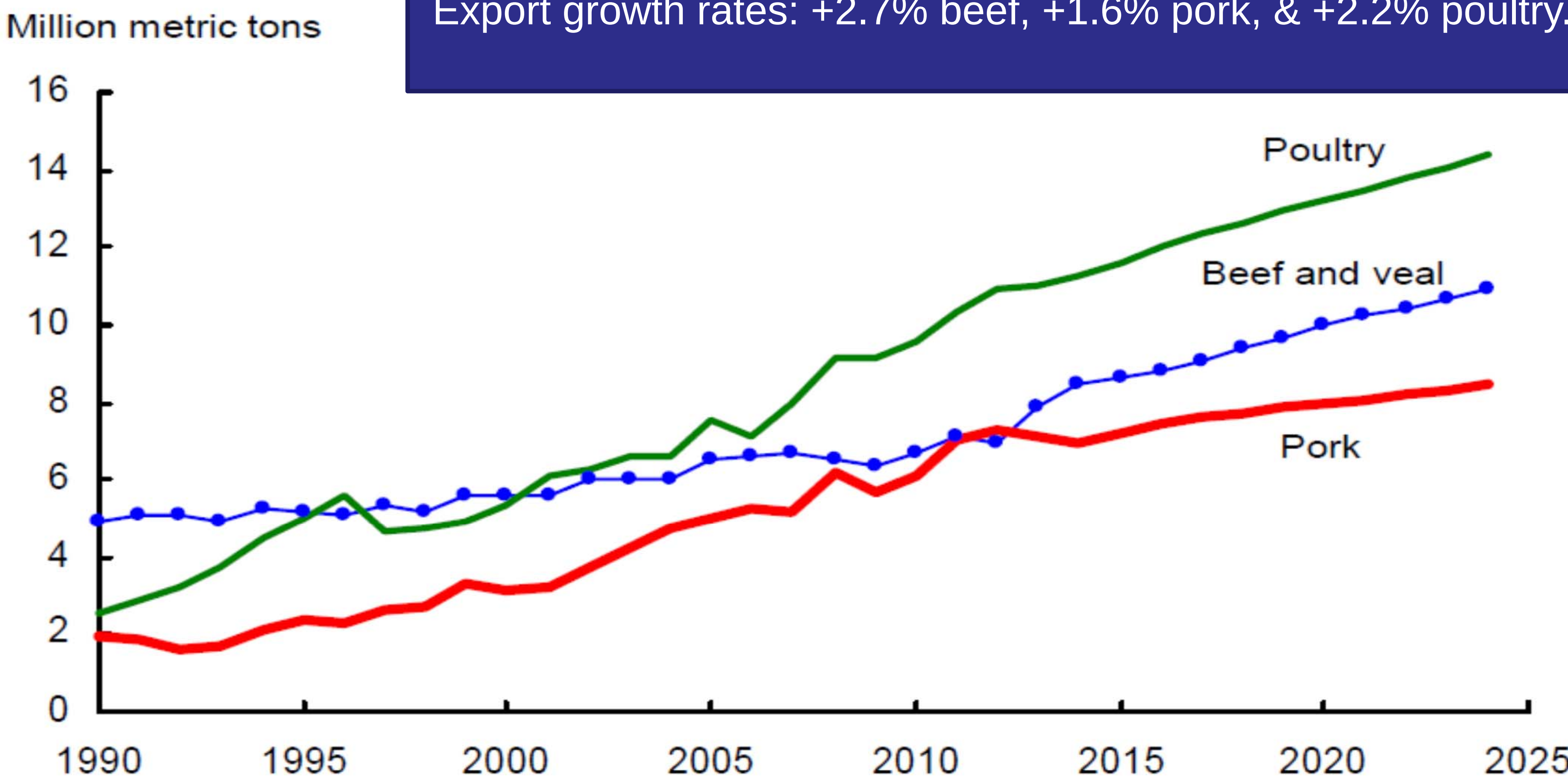
Item	Units	2013	2014	2015	2016	2017	2018	2019	2024
		Recent		NEXT 5 YEARS					10 Yrs Out
Prices:									
Beef cattle, farm	$/cwt	124.67	152.52	157.54	161.69	163.00	161.85	156.47	156.17
Calves, farm	$/cwt	174.25	247.86	278.24	263.78	249.96	247.21	237.11	231.42
Steers, 5-area	$/cwt	125.89	154.41	159.50	163.70	165.03	163.86	158.42	158.11
Feeder steers, Oklahoma City	$/cwt	147.06	202.51	226.75	214.96	203.70	201.46	193.23	188.59
Feed price ratio:									
Beef cattle-corn	Ratio	18.1	34.2	45.0	47.6	46.6	46.2	44.7	42.2
Beef cow inventory	1,000 head	29,631	29,042	28,922	28,991	29,741	30,992	31,837	33,697

USDA Long-Term projections (2015-2024)

Feb. 11, 2015 report (http://www.usda.gov/oce/commodity/projections/index.htm)

Meat exports 1/

Export growth rates: +2.7% beef, +1.6% pork, & +2.2% poultry.



1/ Major exporters (see tables 14-16).

Key factors in 2015 for livestock & meat markets

CME DLR Dec. 31, 2014: http://www.dailylivestockreport.com/documents/DLR%2012-31-2014.pdf

1. Meat & Poultry Demand
   - 2014 prices reflect more than just tight supplies…
2. U.S. Economy
   - Lower gas prices & perhaps wage increases…
3. Broiler Sector Growth
   - 2nd half of 2014 expansion = MUCH more ckn in 15'
4. Number of pigs saved per litter
   - Breeding herd expanding; PEDv & PRRS impact?
5. Pasture and Range Conditions
   - Required for feasible beef herd expansion

Other “Big Issues” to Note

- Industry Physical Capacity vs. Herd Size
- MCOOL
- Poultry Trade Bans (NW Wild Birds AI)
- Mixed impact of lower oil prices
- Disconnects in voting & buying behavior
- “Science working” ≠ Public acceptance
  - ***Combined = MORE Uncertainty & LESS Interest in Expansion***

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