

Beef Cattle Industry Outlook

**Extension Midwest
Outlook Conference**

**Glynn Tonsor
Dept. of Agricultural Economics
Kansas State University**

August 20, 2012



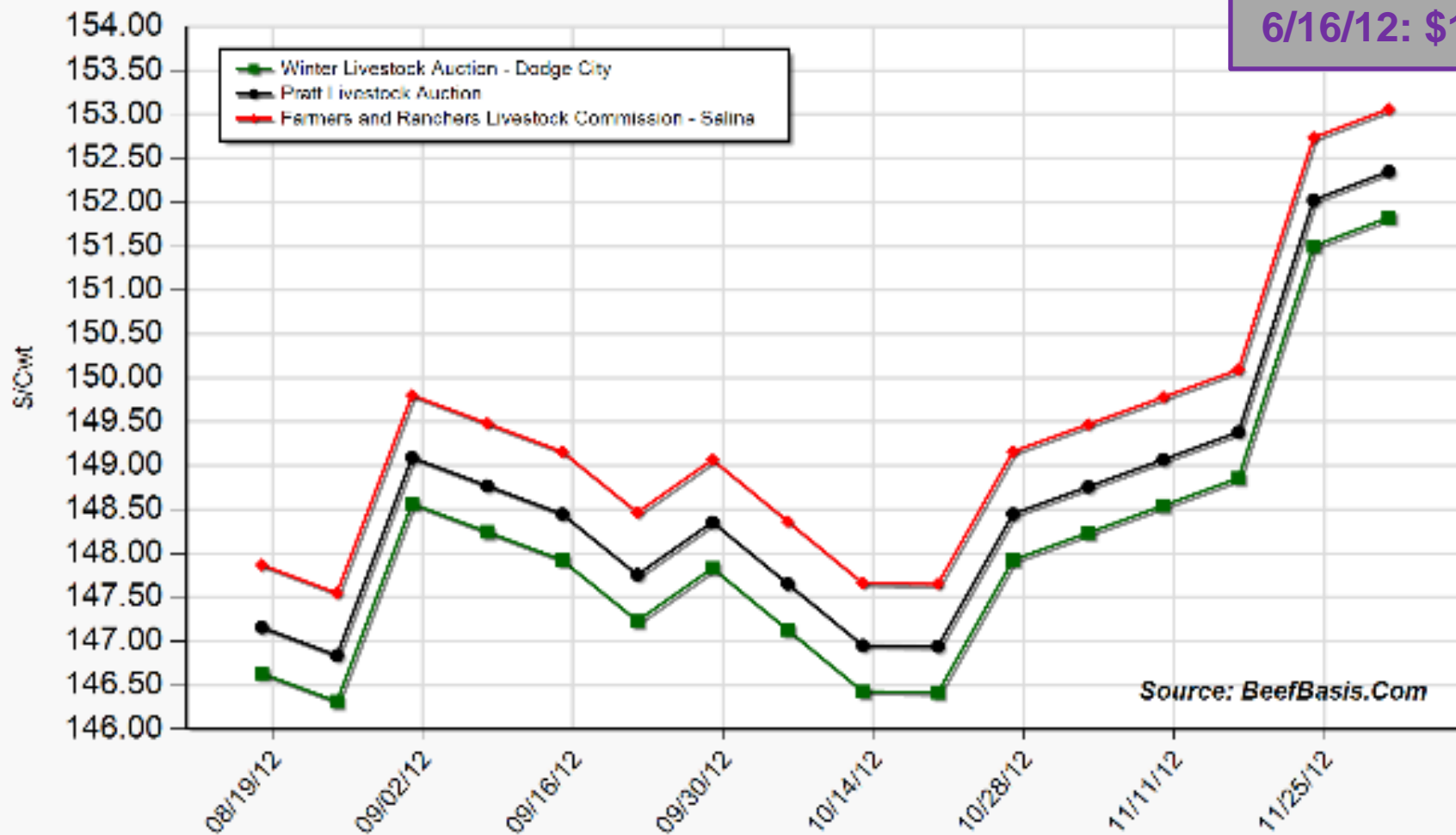
Economic Outlook Overview: Cow-Calf Sector

- Strong calf price pullback
 - National vs. regional drought magnified cattle market impact compared to 2011
- *Eventually*: return as beneficiary of tight supplies and probable expanded heifer retention...
- Returns over cash costs
 - 2012 estimates have fell \$100/cow in last 2 months
 - Will 2015 now be “the peak return year” ???
 - Widening between top 1/3 and bottom 1/3 of producers?
 - Cost management critical; even more so in period of drought response....



August FC:
 8/16/12: \$141
 7/16/12: \$134
 6/16/12: \$154

Projected Price for 550 Lb Steer at Selected Kansas Auctions

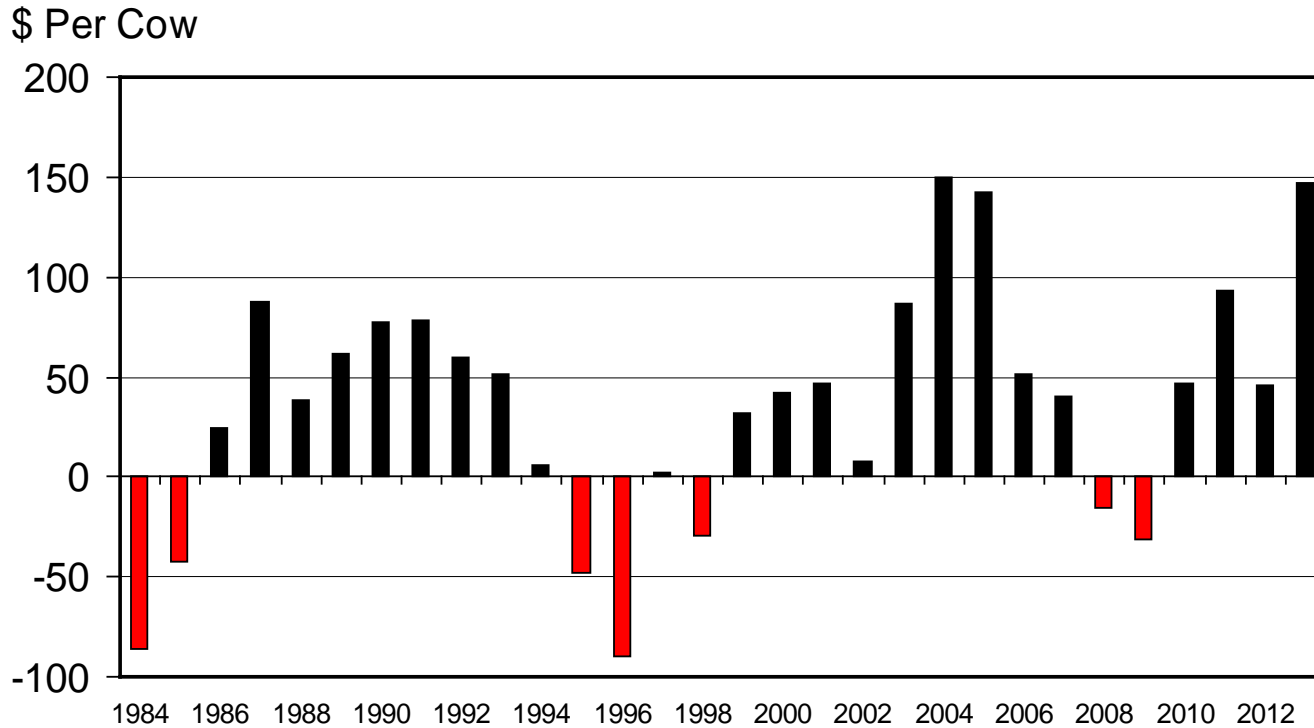


Source: BeefBasis.Com



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



C-P-66
08/09/12

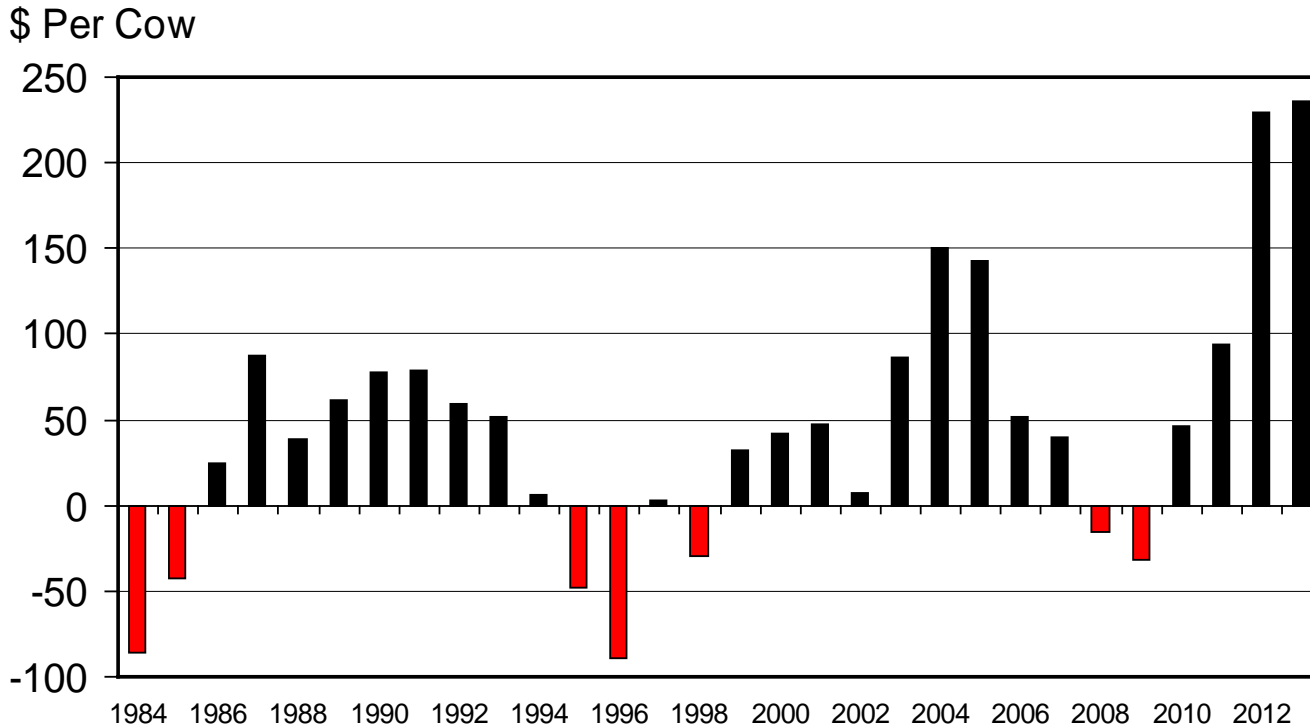
Livestock Marketing Information Center

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



ESTIMATED AVERAGE COW CALF RETURNS

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Livestock Marketing Information Center

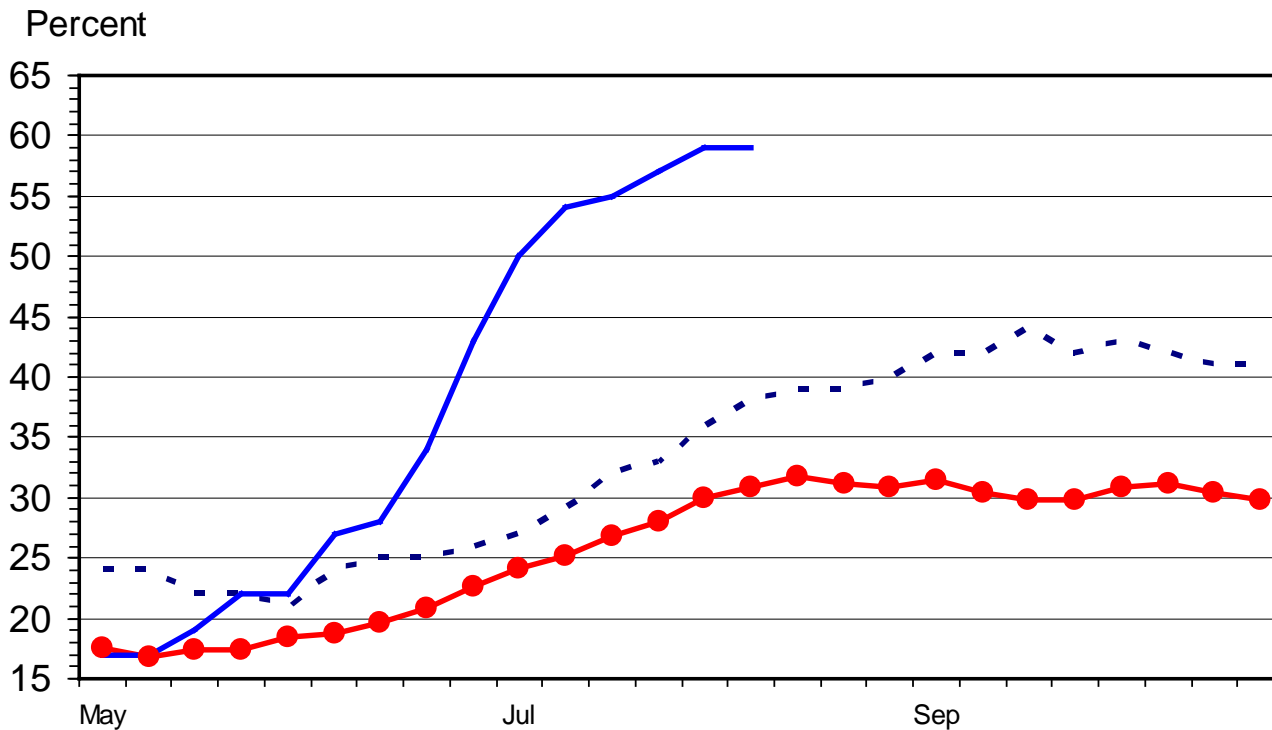
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
03/21/12



US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



Beef Cows in states with 40% Poor to Very Poor		
Last year	Cows	% of Total
07/31/11	12363	40.18%
08/07/11	12865	41.82%
08/14/11	13596	44.19%
This Year		
07/29/12	22809	76.54%
08/05/12	22731	76.28%
08/12/12	23030	77.28%

**8/15/10:
5.1% of Cows**

- Avg. 2006-2010
- - - 2011
- 2012

G-NP-30
08/13/12

Livestock Marketing Information Center

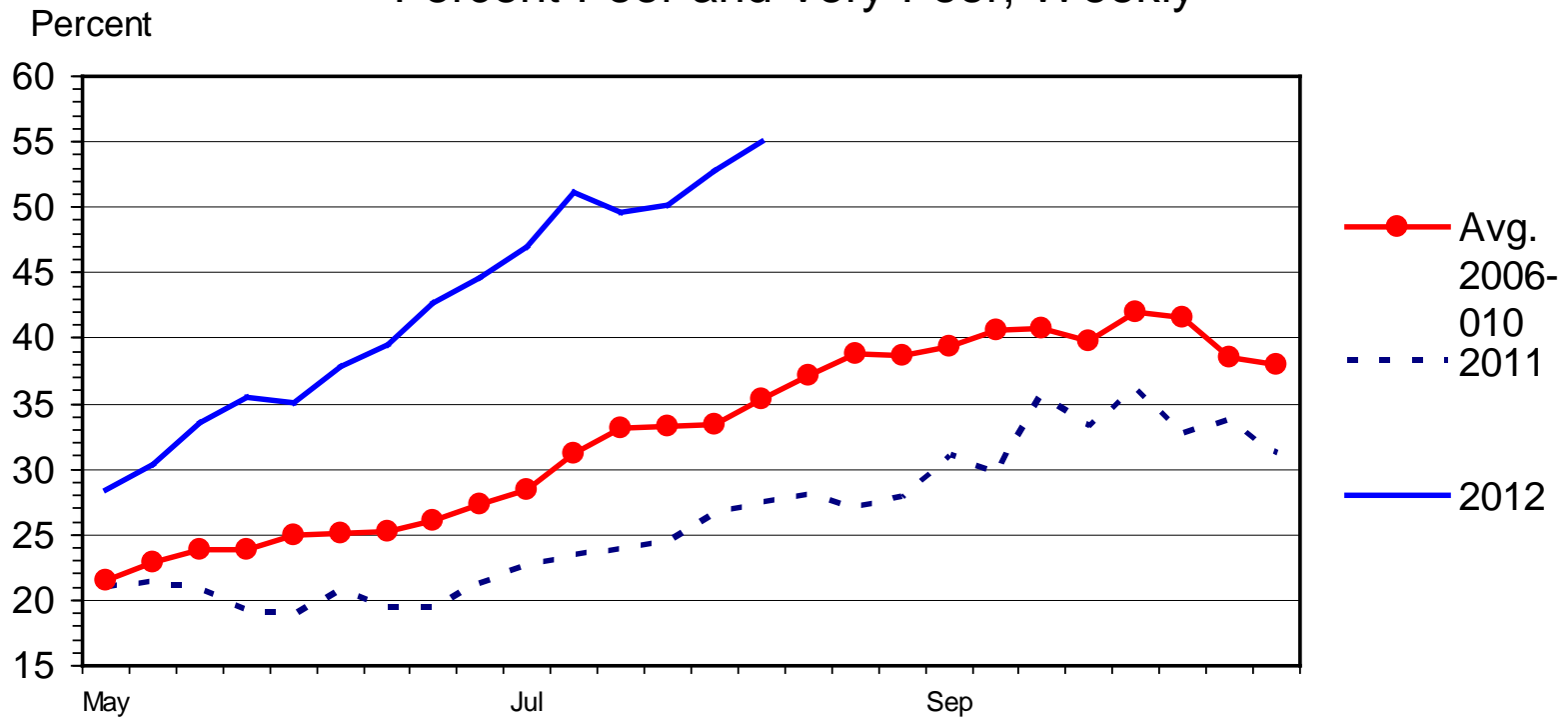
Data Source: USDA-NASS, Compiled & Analysis by LMIC



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
08/13/12

Livestock Marketing Information Center

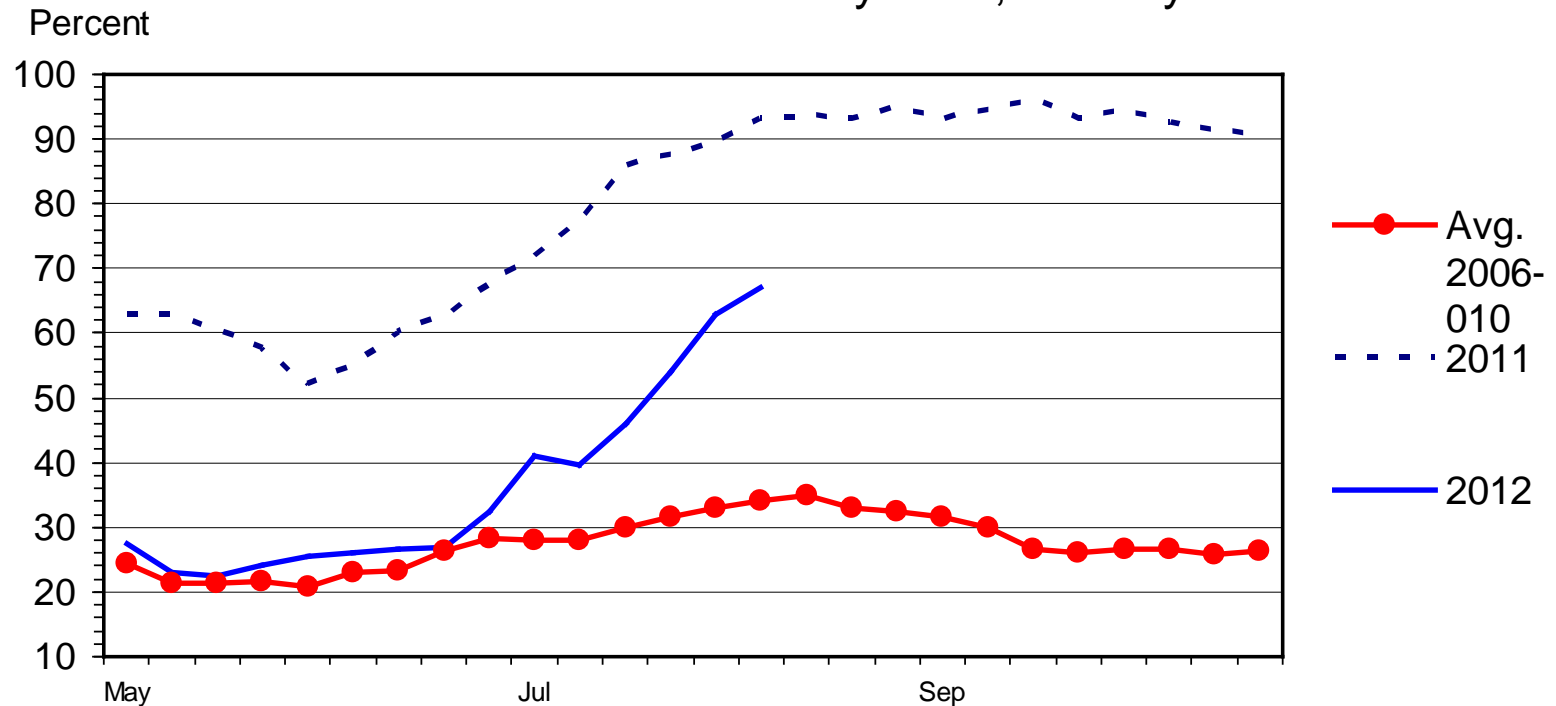
Data Source: USDA-NASS, Compiled & Analysis by LMIC



OK & TX
20.4% of Cows
(2012)

SOUTHERN PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-33
08/13/12

Livestock Marketing Information Center

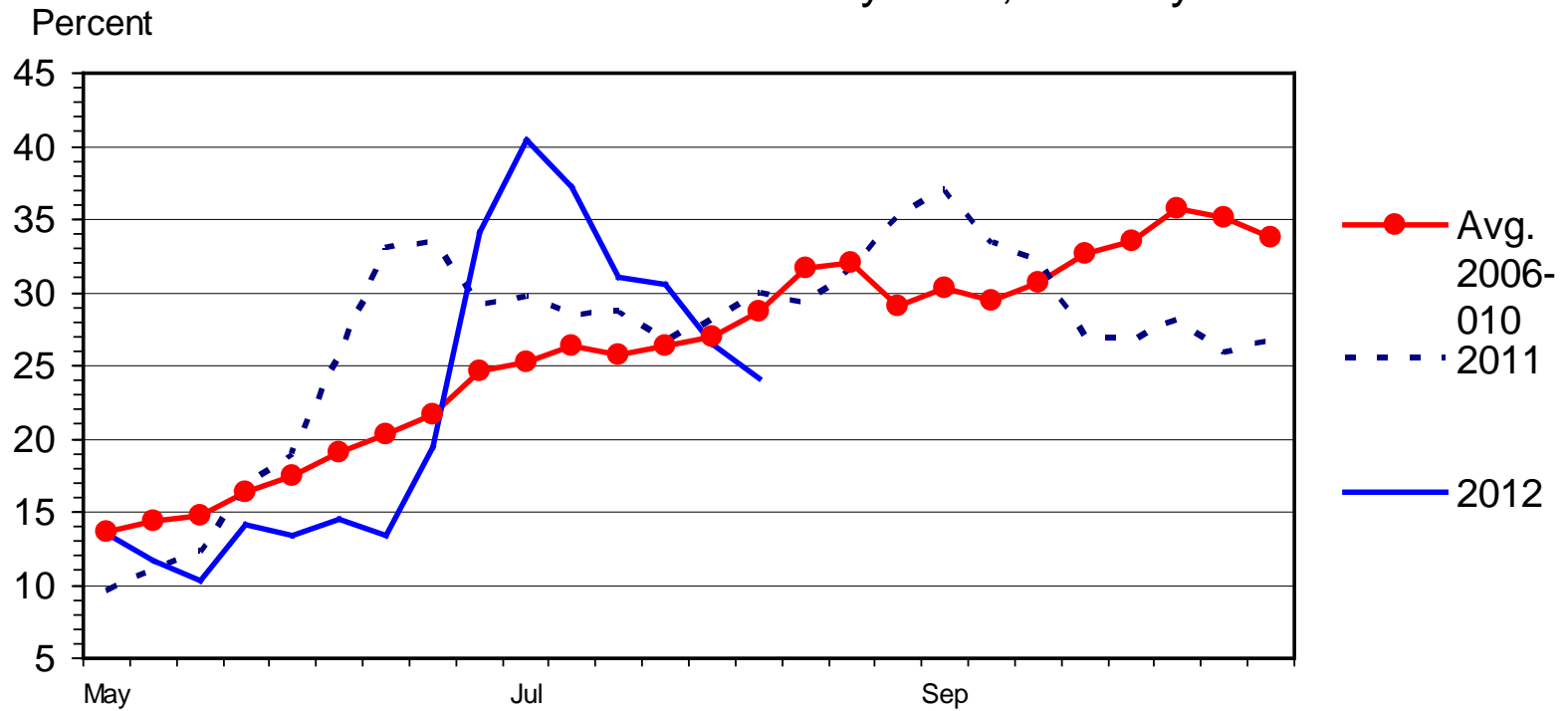
Data Source: USDA-NASS, Compiled & Analysis by LMIC



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
 08/13/12

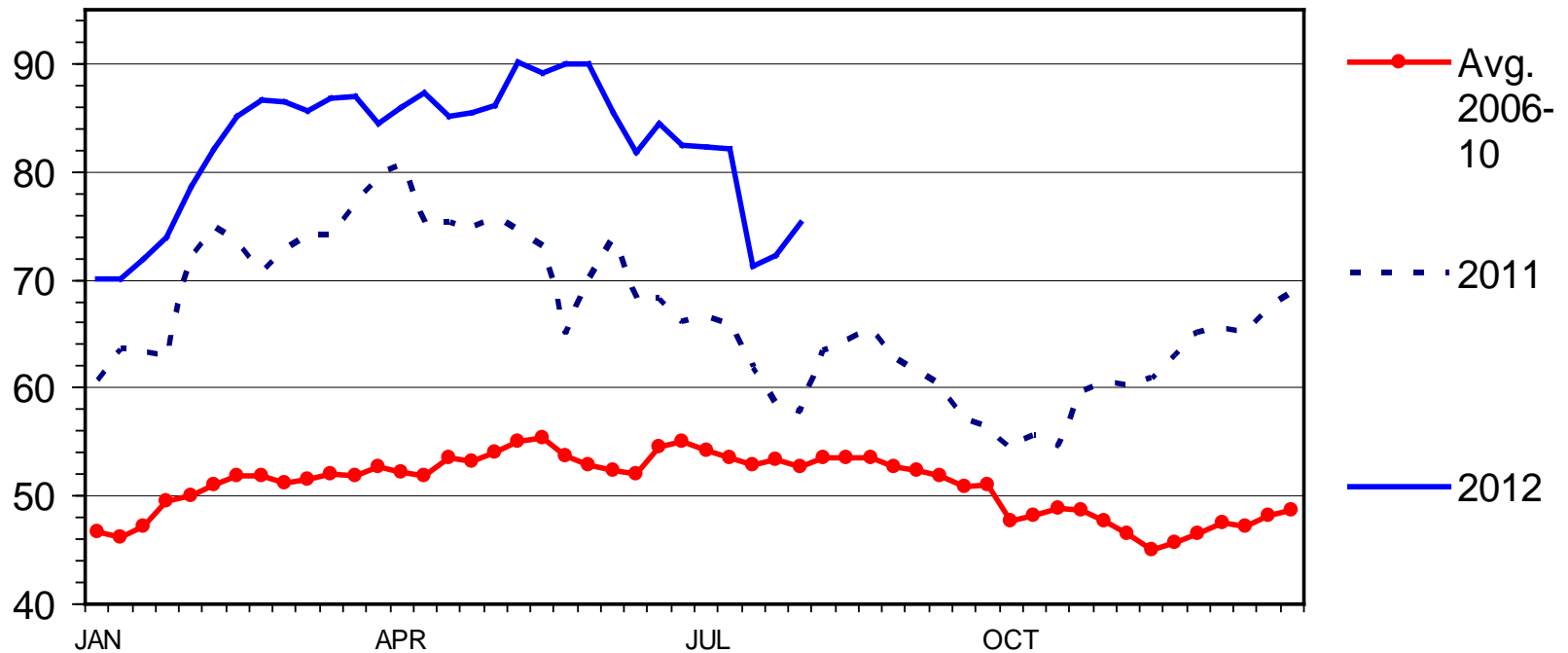
Livestock Marketing Information Center
 Data Source: USDA-NASS, Compiled & Analysis by LMIC



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly

\$ Per Cwt.



Livestock Marketing Information Center

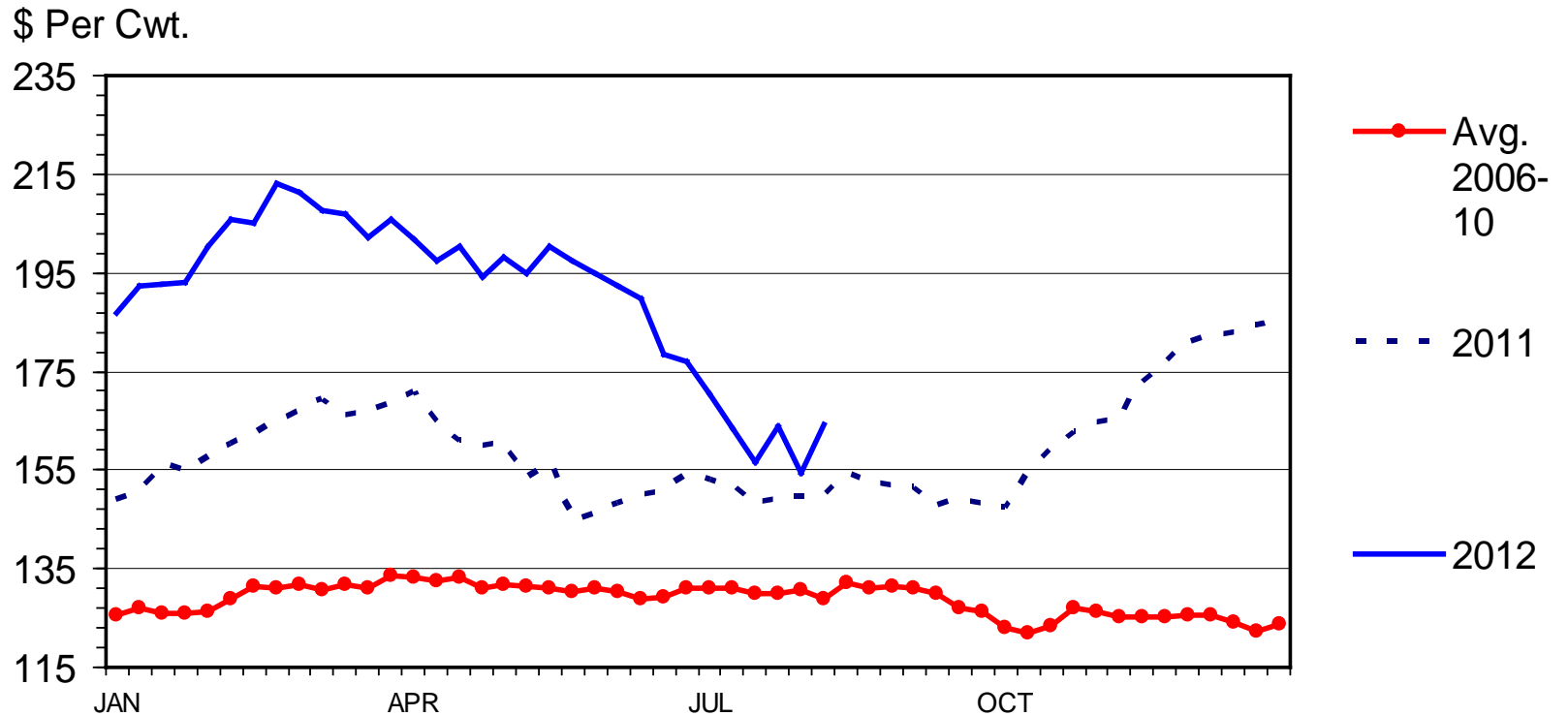
Data Source: USDA-AMS

C-P-35
08/13/12



MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

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

C-P-49A
08/13/12



July 1 Cattle Inventory Report

- Report was eliminated and then reinstated for 2012; future is unknown ...
- 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)



Economic Outlook Overview :

Stockers

- Margins have improved by fall in calf prices
 - During drought, weak basis has improved projected margins...
 - Recent increase in calf prices squeezing margins...
- Of course, not everyone has the necessary feedstuffs to successfully engage this fall/winter
 - Increased VOG = increased rewards for management
 - Pockets of “excess silage” resources = opportunity...



“Buy-Sell” spreadsheet tool

(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

- 8/16/12' Salina, KS Situation:
- BeefBasis.com forecasted price of 750 lb steer December 4, 2012 is \$146.71/cwt
- What is break-even purchase price of a 550 lb steer purchased on Sept. 4, 2012?
 - forecasted price is \$155.35/cwt
 - Up \$5 since last week...



“Buy-Sell” spreadsheet tool

(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

Purchase Weight ¹	Selling Price						
	\$140.71	\$142.71	\$144.71	\$146.71	\$148.71	\$150.71	\$152.71
	Breakeven Purchase Price ²						
450	165.01	168.18	171.36	174.53	177.71	180.88	184.06
500	158.22	161.09	163.96	166.83	169.70	172.58	175.45
550	152.71	155.33	157.96	160.58	163.20	165.82	168.45
600	148.16	150.58	152.99	155.41	157.83	160.24	162.66
650	144.35	146.59	148.83	151.07	153.32	155.56	157.80
700	141.13	143.22	145.31	147.40	149.49	151.58	153.67
750	N/A	N/A	N/A	N/A	N/A	N/A	N/A

¹ Enter the minimum purchase weight you are willing to consider.

² Based on a feeding cost of gain of \$90/cwt.

Expected Return: +\$10.46/head [2.0 * (\$160.58 - \$155.35)]

Feeding COG \$80 = +\$17.12/head Expected Return

Feeding COG \$100 = +\$3.80/head Expected Return

COG of \$105 = +/- Breakeven (550 lbs to 750 lbs)

+ Exp. Returns with only 100 lb gains (550 lbs to 650 lbs) if COG < \$100



Economic Outlook Overview: Feedlots

- Excess capacity concerns remain...
 - Drought improves this initially, makes it worse over coming years...
 - Mexican supplies may be drying up also...
- Forecasted losses persist...
 - Current closeouts are at historically high losses...
 - Elevated cost of gain



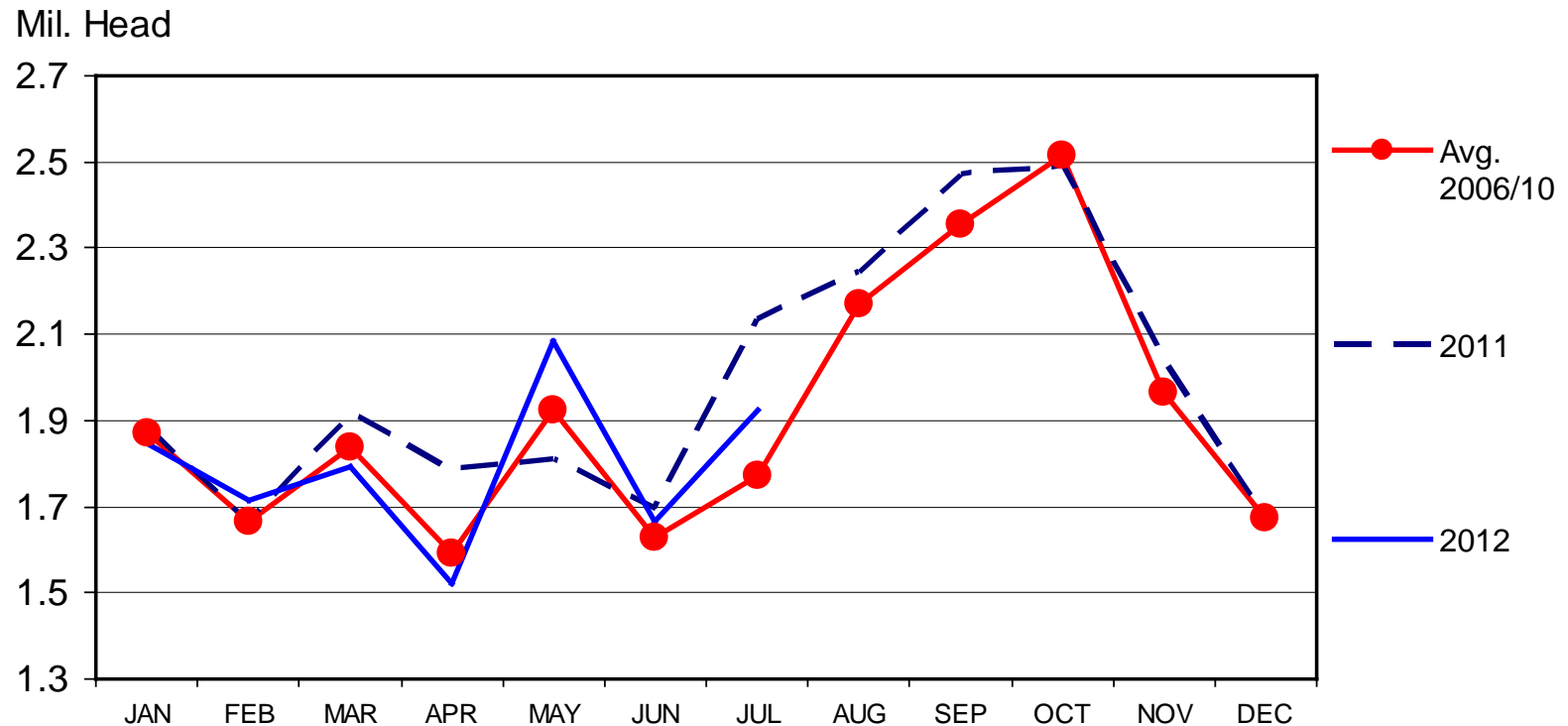
Pre- 8/17 COF Report Estimates:

Placed in July (down 8.6%) {-13.3% to -1.0%}

Actual Report: -10%

FEEDLOT PLACEMENTS

US Total, Monthly



C-N-08
08/17/12

Livestock Marketing Information Center

Data Source: USDA-NASS



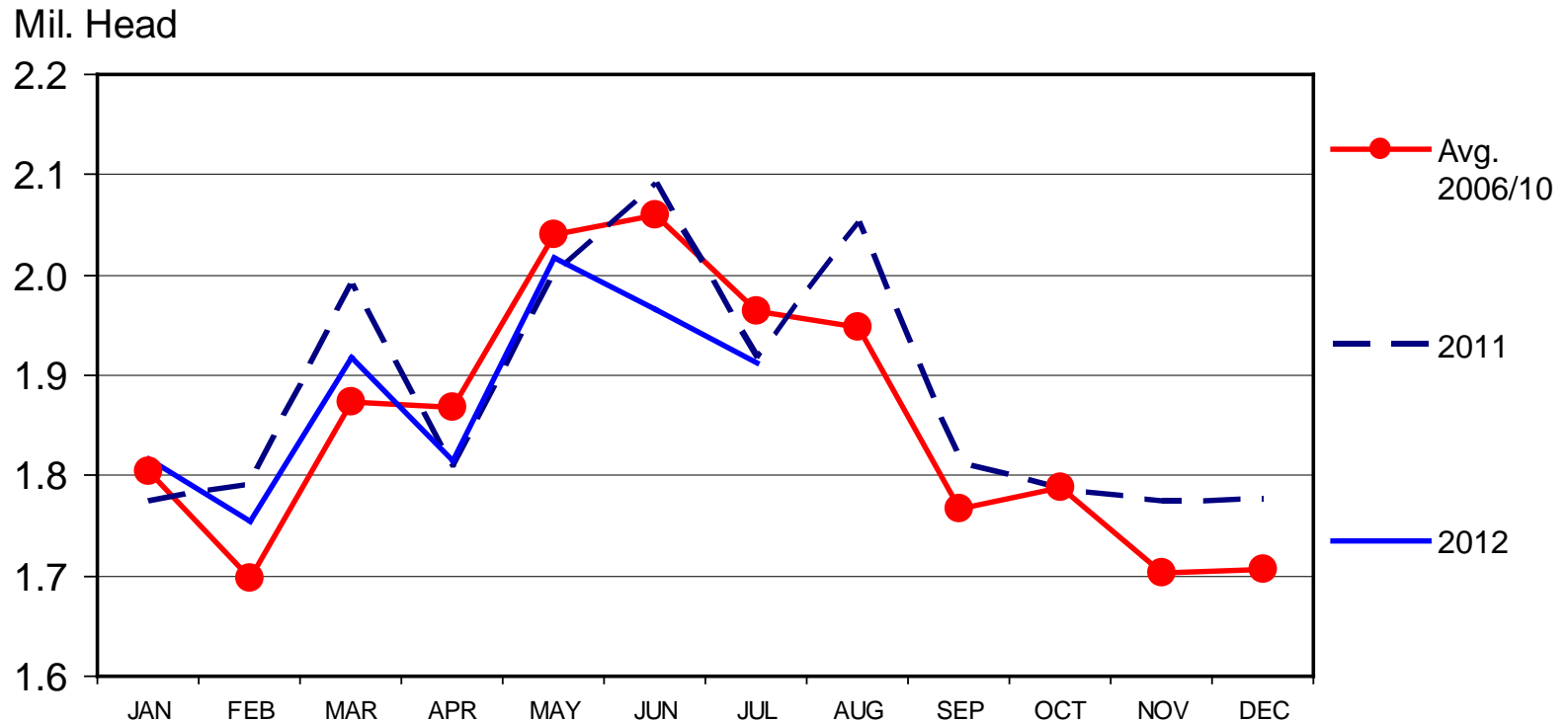
Pre- 8/17 COF Report Estimates:

Marketed in July (up 1.6%) {-0.4% to +4.0%}

Actual Report: -0%

FED CATTLE MARKETINGS

US Total, Monthly



Livestock Marketing Information Center

Data Source: USDA-NASS

C-M-11
08/17/12

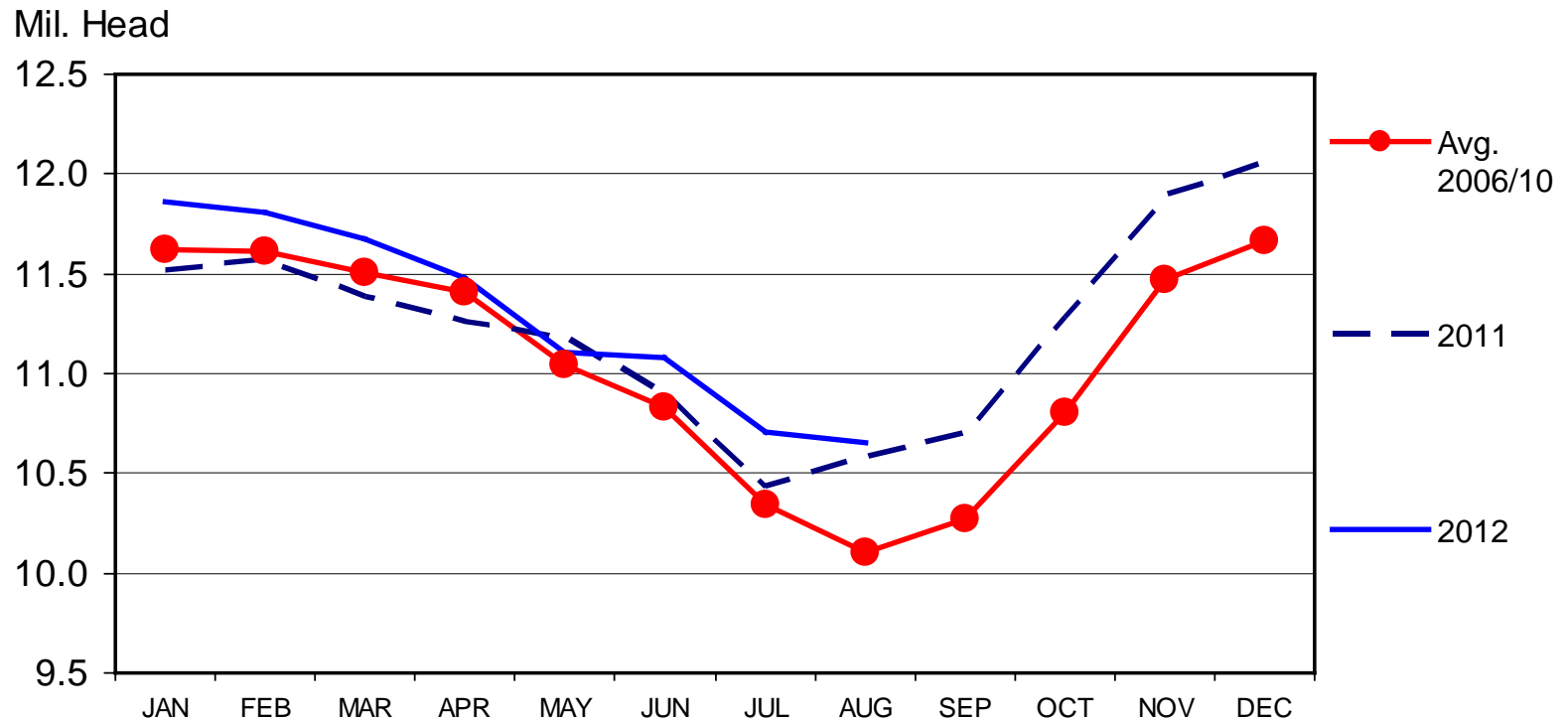


Pre- 8/17 COF Report Estimates:

On Feed Aug 1 (up 0.7%) {-0.4% to +1.5%}

Actual Report: +1%

CATTLE ON FEED US Total, Monthly



Livestock Marketing Information Center

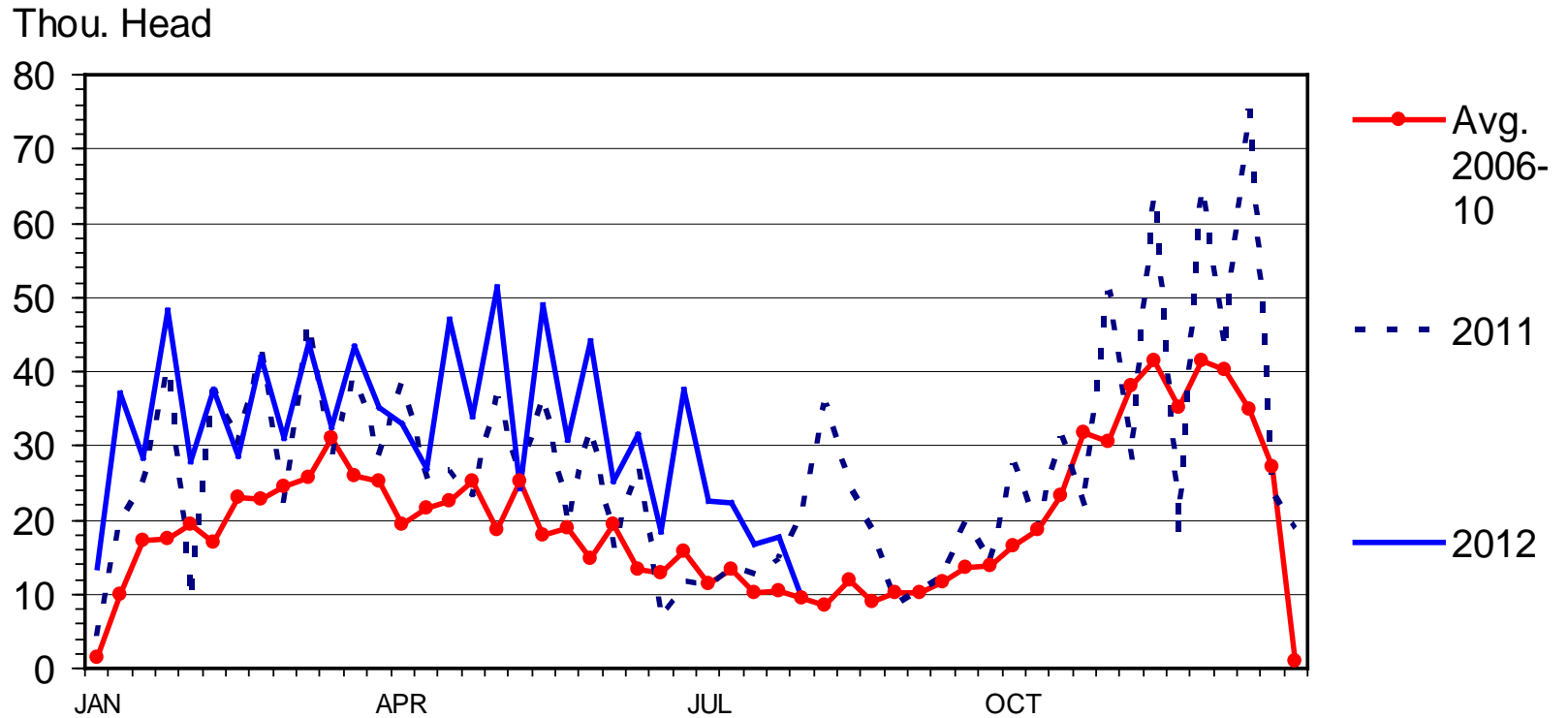
Data Source: USDA-NASS

C-N-10
08/17/12



FEEDER CATTLE IMPORTS FROM MEXICO

Weekly

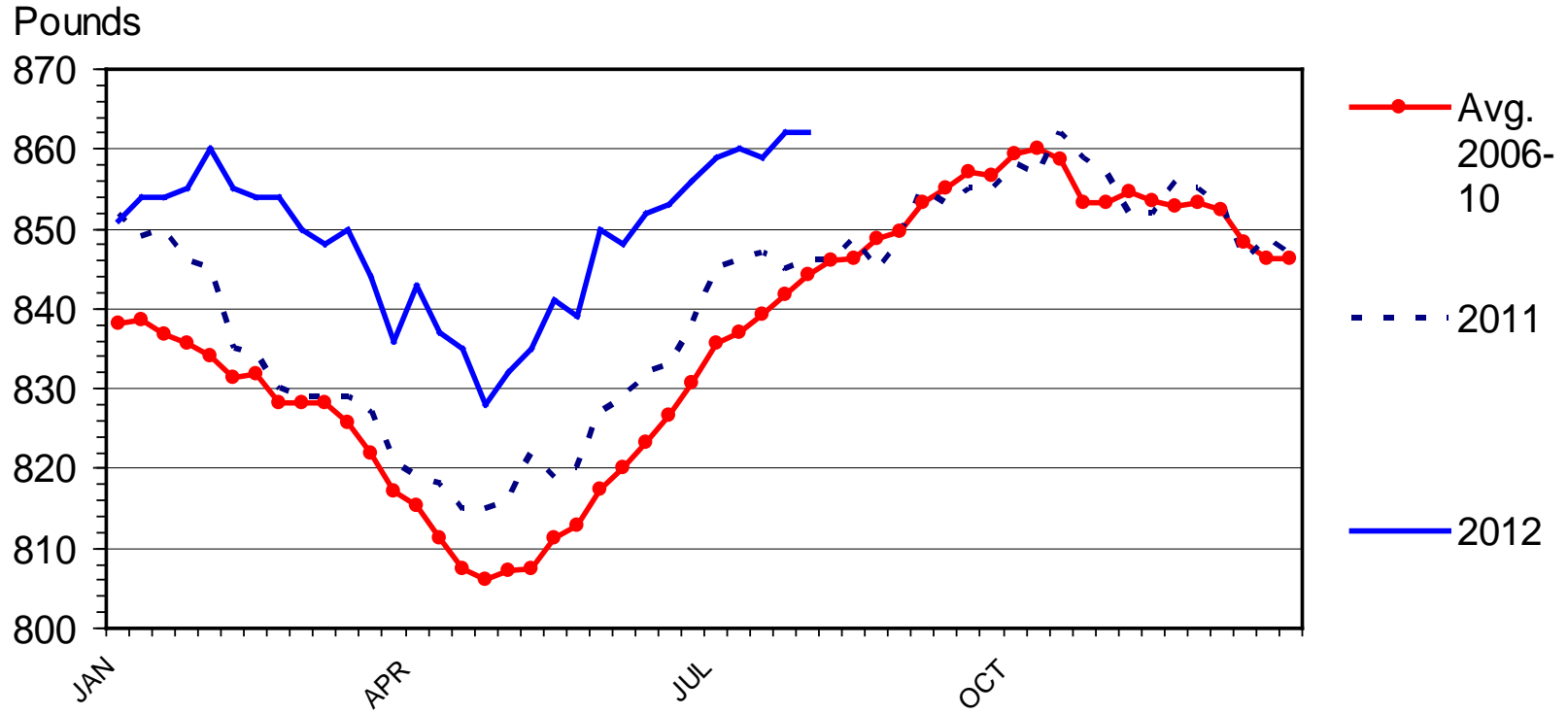


Data Source: USDA-AMS & APHIS



STEER DRESSED WEIGHT

Federally Inspected, Weekly



Livestock Marketing Information Center
 Data Source: USDA-AMS & USDA-NASS

C-S-18
 08/17/12

Historical and Projected Kansas Feedlot Net Returns (as of 8/6/12')

(<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
Jul-12	-290.98	105.26	114.04	152.33	52.18	135.25	117.00
Aug-12	-200.17	106.71	123.32	155.03	70.08	137.78	131.14
Sep-12	-209.61	110.00	123.14	153.01	70.52	138.33	128.33
Oct-12	-150.02	110.37	127.29	153.27	83.01	138.12	135.35
Nov-12	-85.95	111.48	128.02	147.11	96.49	134.16	136.72
Dec-12	14.34	113.23	130.43	138.62	115.74	129.36	140.48

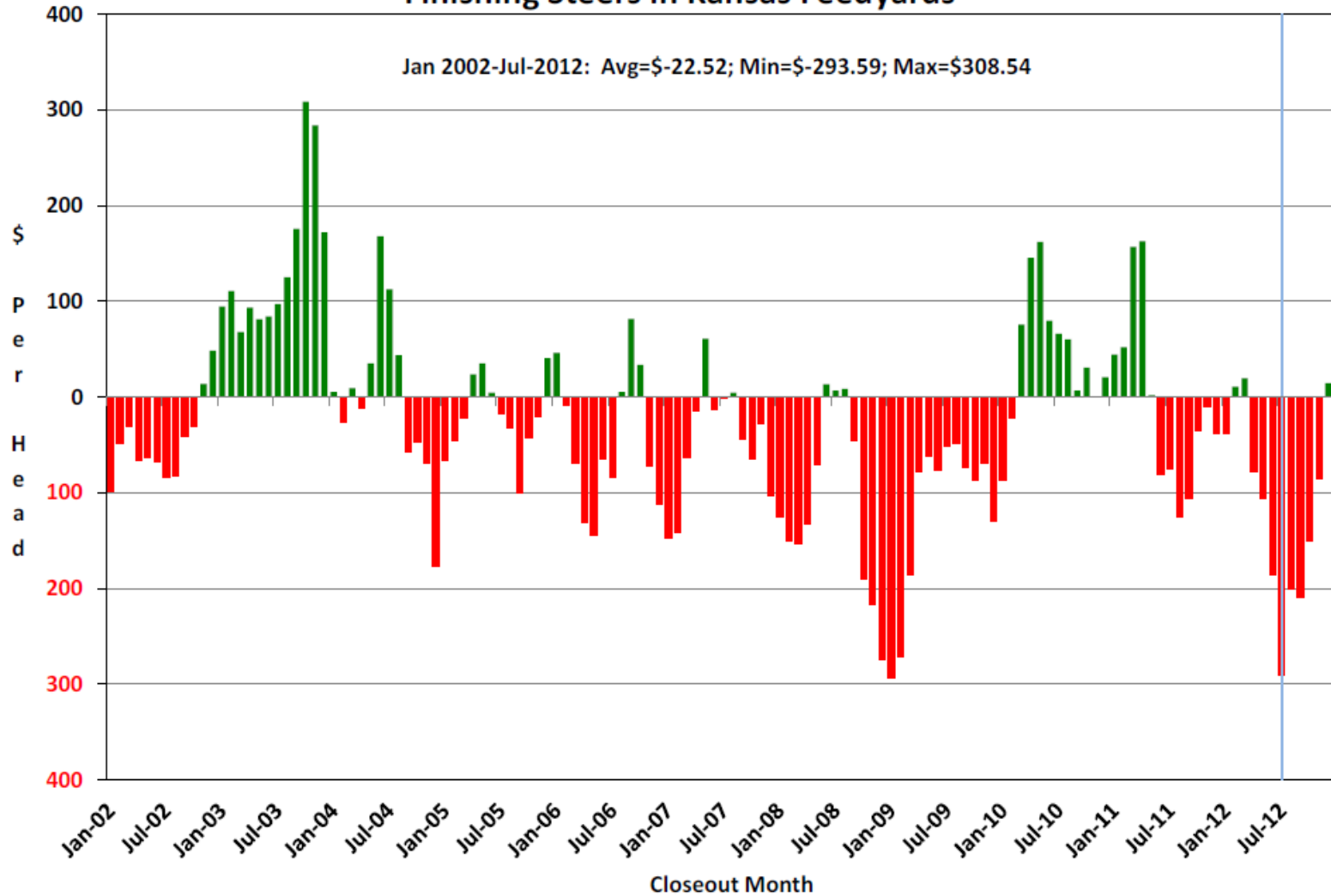
Representative Barometer for Trends in Profitability



Historical and Projected Kansas Feedlot Net Returns (as of 8/6/12')

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

Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards



QUARTERLY FORECASTS (LMIC: 8/10/12)

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	8,344	-4.5	787.2	2.1%	6,568	-2.5
IV	8,292	-1.2	784.0	1.4%	6,501	0.2
Year	32,974	-3.3	783.2	1.9%	25,826	-1.4
2013						
I	7,747	-3.5	783.7	0.1%	6,071	-3.4
II	7,985	-3.9	778.8	0.0%	6,219	-4.0
III	8,130	-2.6	792.9	0.7%	6,446	-1.9
IV	7,801	-5.9	793.1	1.2%	6,187	-4.8
Year	31,663	-4.0	787.1	0.5%	24,923	-3.5
2014						
I	7,321	-5.5	792.5	1.1%	5,802	-4.4
II	7,570	-5.2	785.6	0.9%	5,947	-4.4
III	7,709	-5.2	802.0	1.2%	6,183	-4.1
IV	7,321	-6.2	802.2	1.1%	5,873	-5.1
Year	29,921	-5.5	795.6	1.1%	23,805	-4.5



QUARTERLY FORECASTS (LMIC: 8/10/12)

Year Quarter	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price Southern Plains	
	5-Mkt Avg	Year Ago	7-800#	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	118-119	3.9	138-141	141-144
IV	122-124	0.8	137-140	140-145
Year	121-123	6.3	144-148	159-164
2013				
I	125-128	1.0	137-141	147-152
II	126-130	5.9	141-147	154-160
III	124-129	6.8	145-152	158-165
IV	126-132	4.9	146-153	158-166
Year	126-129	4.5	143-147	155-160
2014				
I	130-137	5.5	152-160	172-181
II	132-140	6.3	155-165	175-187
III	130-139	6.3	156-167	171-184
IV	132-142	6.2	154-166	168-183
Year	132-138	5.9	156-163	174-181



Economic Outlook Overview :

Beef Demand

- Meat prices rising w/i basket of purchases...
- Domestic demand has surprised analysts...
- Export success “tempered” but prospects remain bullish...
- Discussion on demand “getting complicated”
 - Growing interest in “how my food is produced”
 - Animal welfare, food safety, antibiotics, hormone use, local, organic, traceability...
 - LFTB (lean finely textured beef) discussion...
 - Customer vs. consumer distinction importance...



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?

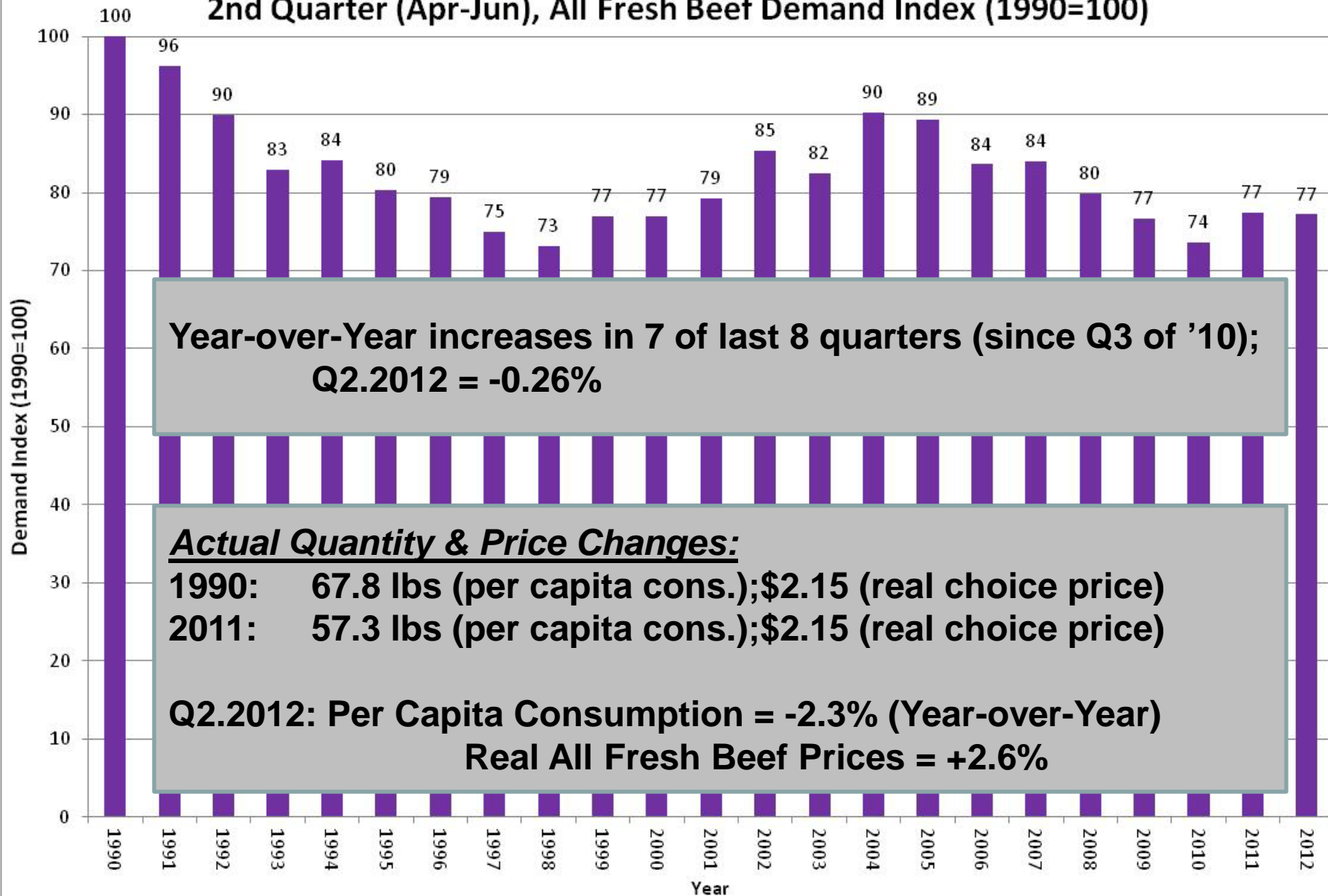


Comments, clockwise from left: Brontae Hunter, Miss M, Gian Robinson, Phil DiNuzzo

Source: March 12, 2012 TIME magazine



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



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



Big Picture Points of Consideration

- BEEF Magazine Poll (N=99 as of 8/17/11')
 - “If you had to liquidate cattle this year because of flooding or drought, what do you plan to do with the proceeds?”
 - 47% Restock with cows when conditions improve
 - 9% Restock but change production models (e.g., buy stockers rather than cows)
 - 27% Keep the cash; leave the business
 - 6% Reinvest the cash in another non-livestock ag enterprise
 - 10% Don't know

– How would a current survey look?

- *What expected profit is needed to trigger cow-calf expansion?*
 - *Is recent profit or expected profit more influential in decision?*
- *When, where, how will excess capacity begin to be resolved?*



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

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

- **“Developing World” Changes**
 - Increasing global \$, pop., & per capita meat cons.
 - **Africa & Middle East (4.4% GDP/yr)**
 - Arguably the least understood growth market...
 - **Latin America (4.2% GDP/yr)**
 - Growing producer & consumer...
 - **China (8.0% GDP/yr)**
 - Canada has access but US does not ...
 - **South Korea (3.7% GDP/yr – but 10x per capita inc. of China)**
 - US has access but Canada does not...



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

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

- “Developed World” Changes
 - Declining global economic prevalence, populations, & per capita meat consumption
 - US/Canada (2.5% GDP/yr)
 - Different dependence on domestic consumption...
 - Japan (1.0% GDP/yr):
 - Major meat importer currently but will exporters care less going forward?
 - Europe (1.9% GDP/yr):
 - Will influential role as “food thought leader” persist?



Critical issues for discussion

- Global beef demand growth & restrictions from domestic industry heterogeneity must be watched...
 - Comparative position of US beef globally is debatable...
- 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 influence industry excess capacity resolution?



More information available at:



This presentation is available in PDF format at:

<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

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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”*





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