

Beef Cattle Outlook

Glynn Tonsor

Dept. of Agricultural Economics Kansas State University

Abilene, KS

December 5, 2016



“Interesting Times” in the Beef Industry

***TRADE w/
BRAZIL***

***TPP/TTIP & US
Election***

In China Beef Trade, U.S. Gain May
Mean Australia Pain

***CATTLE
MARKETS
“BROKEN”***

***Cease of Georgia Dock Price? / MPR
Discussions***

Q4 Hog Slaughter Capacity

***CME LC
CONTRACT
CHANGES***

***CME FC
INDEX
CHANGES***

***NO JULY CATTLE
INVENTORY
REPORT***

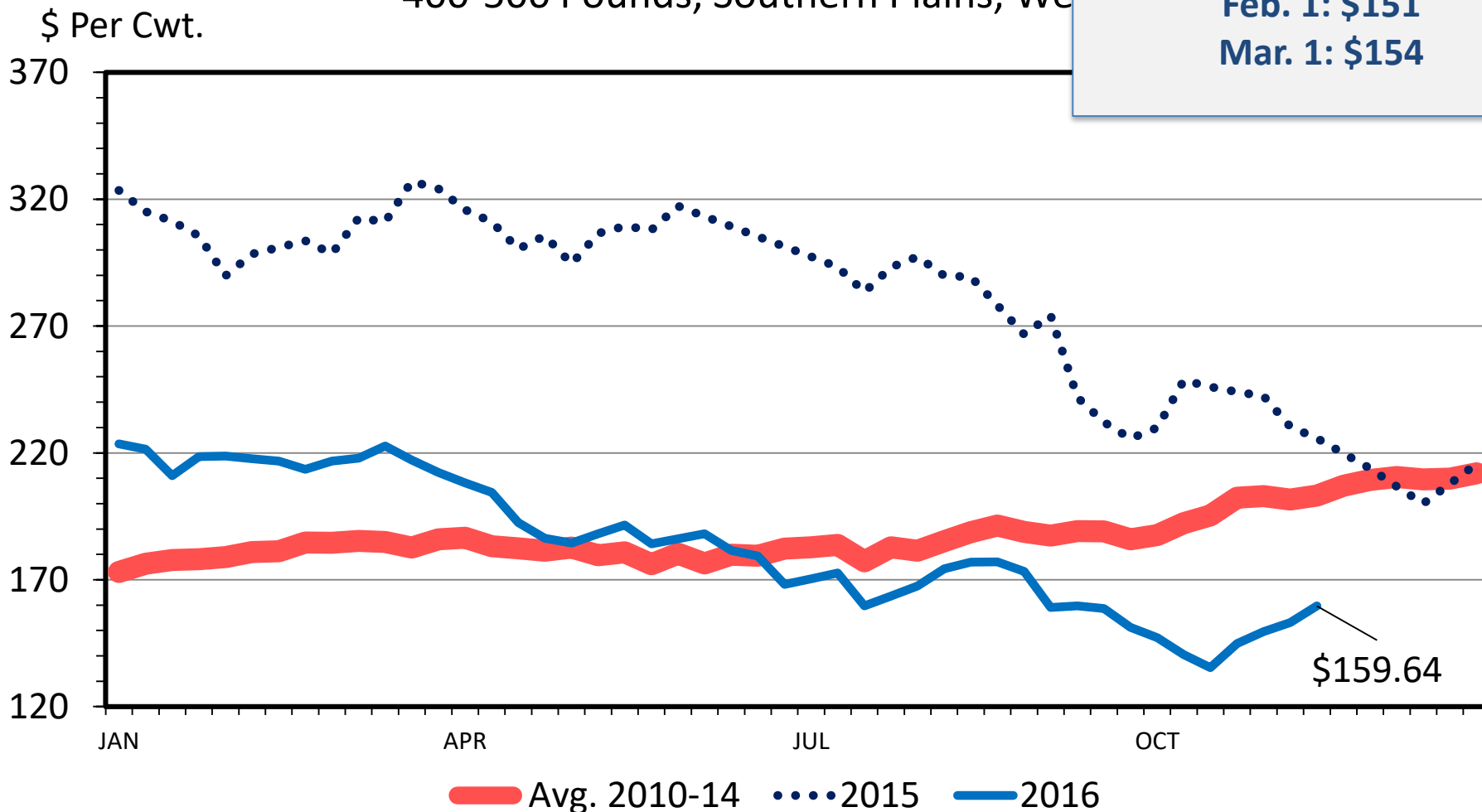
Overarching Beef Industry Economic Outlook

- Supplies
 - Growing across all proteins
 - Herd expansion stalled or stopped?
- Demand
 - Confusing & slowing in 2016
- Combined
 - “*opportunity or challenge*” depends on perspective...

MED. & LRG. #1 STEER CALF PR

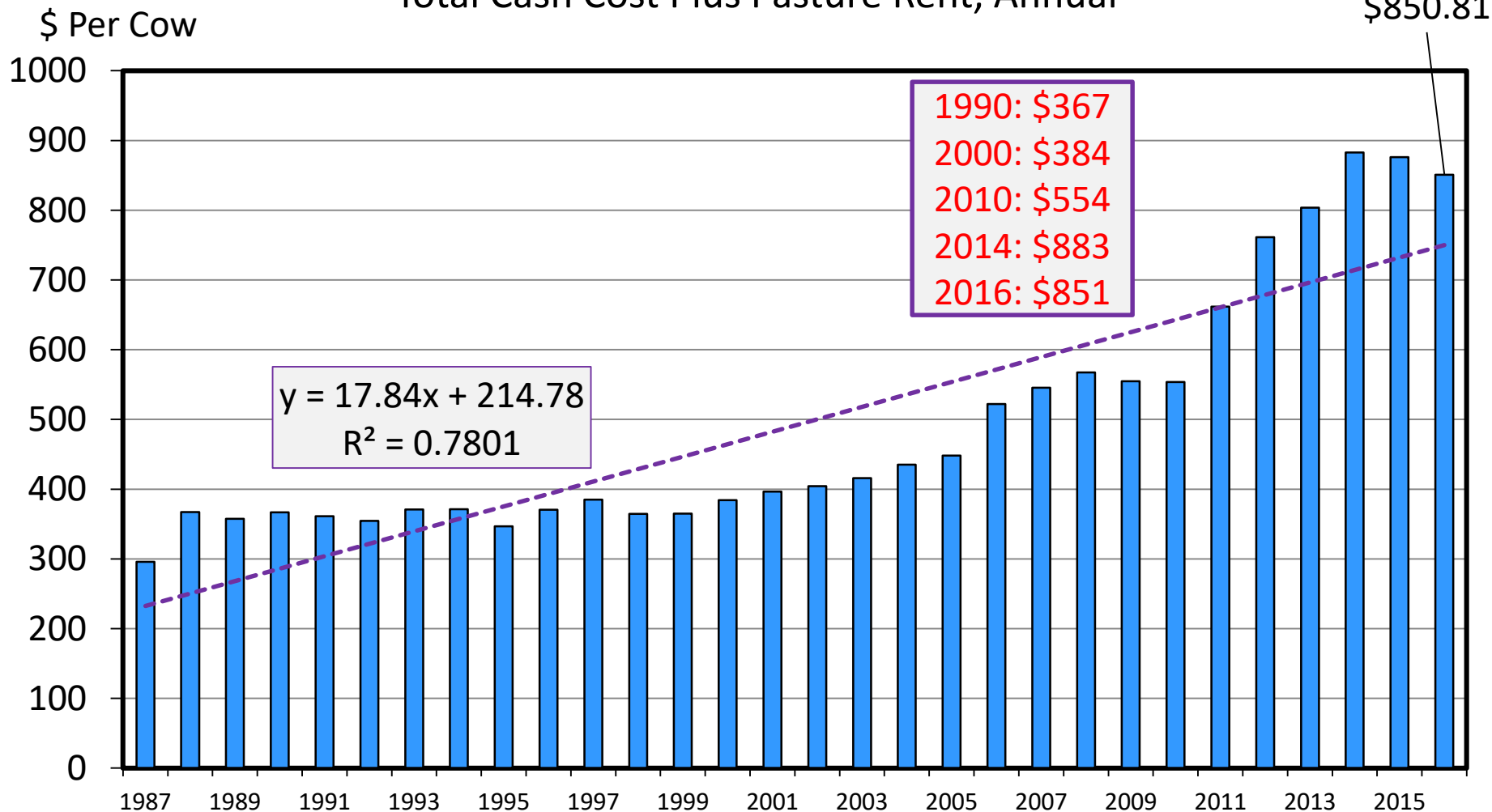
400-500 Pounds, Southern Plains, We

Beef Basis, Salina KS
Projections (as of 12/5):
Jan. 4: \$154
Feb. 1: \$151
Mar. 1: \$154



ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



Data Source: USDA & LMIC, Compiled by LMIC

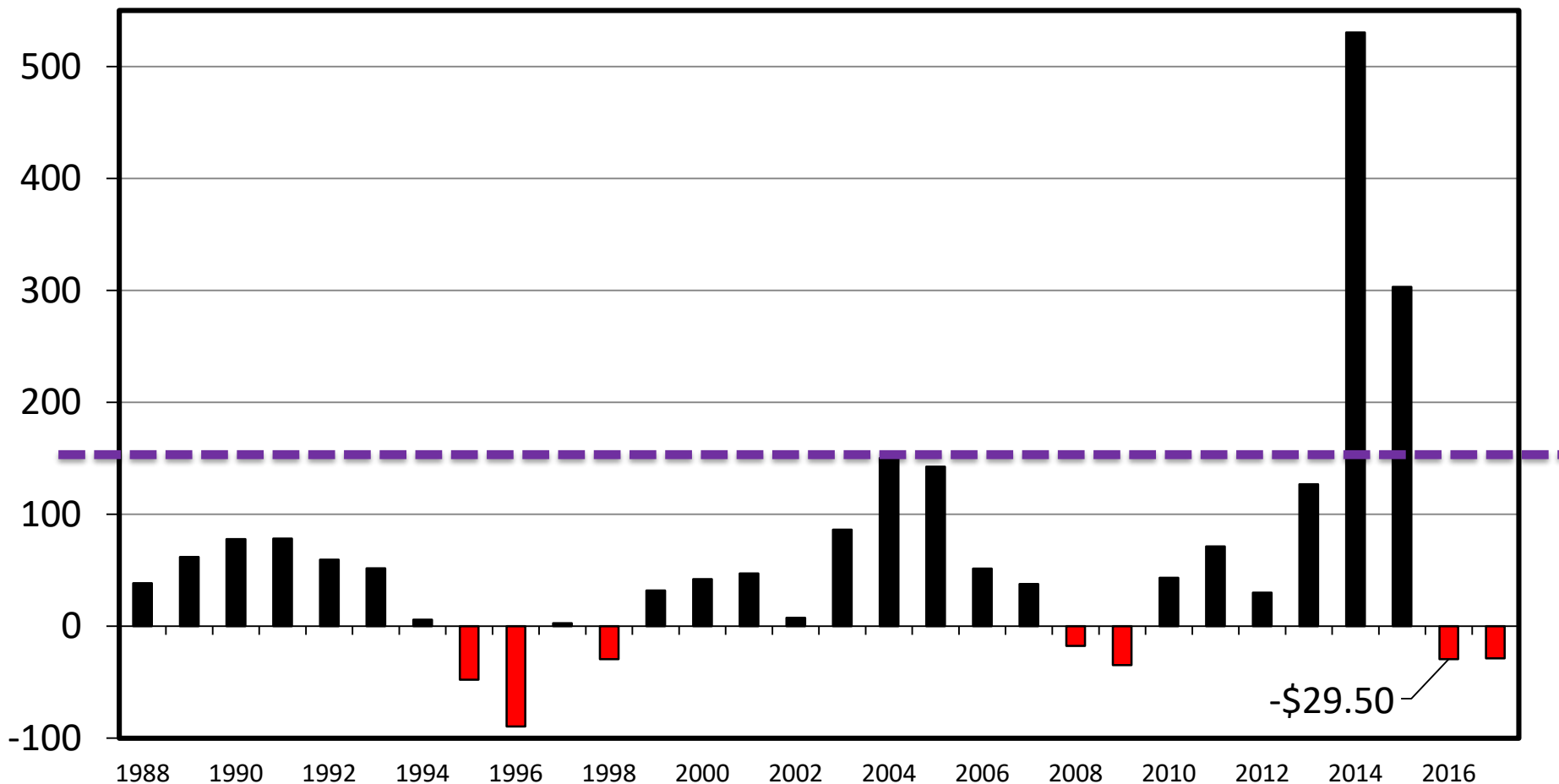
Livestock Marketing Information Center

08/02/16

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Data Source: USDA & LMIC, Compiled by LMIC

Livestock Marketing Information Center

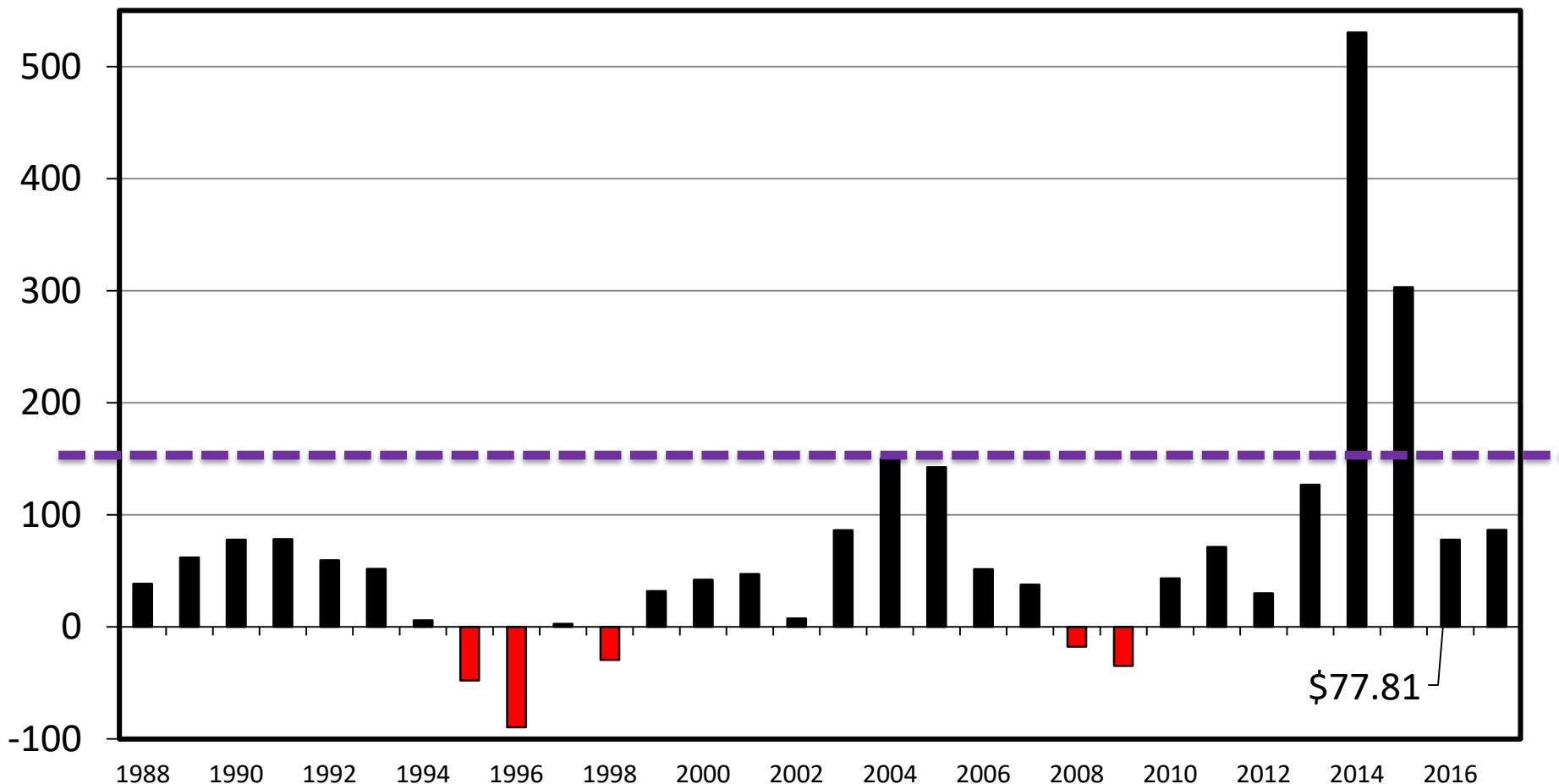
C-P-66

11/01/16

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Data Source: USDA & LMIC, Compiled by LMIC

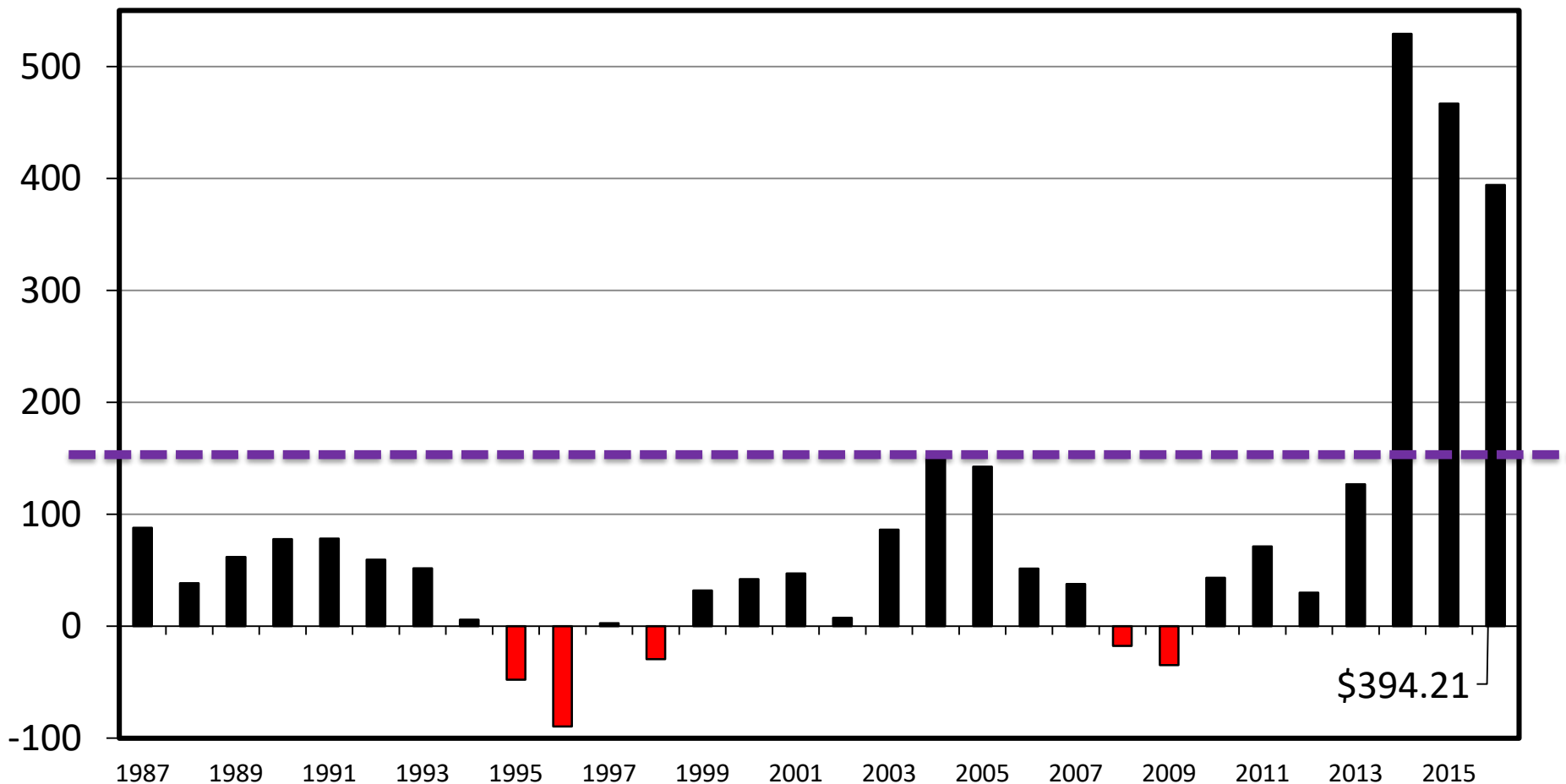
Livestock Marketing Information Center

C-P-66
09/02/16

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



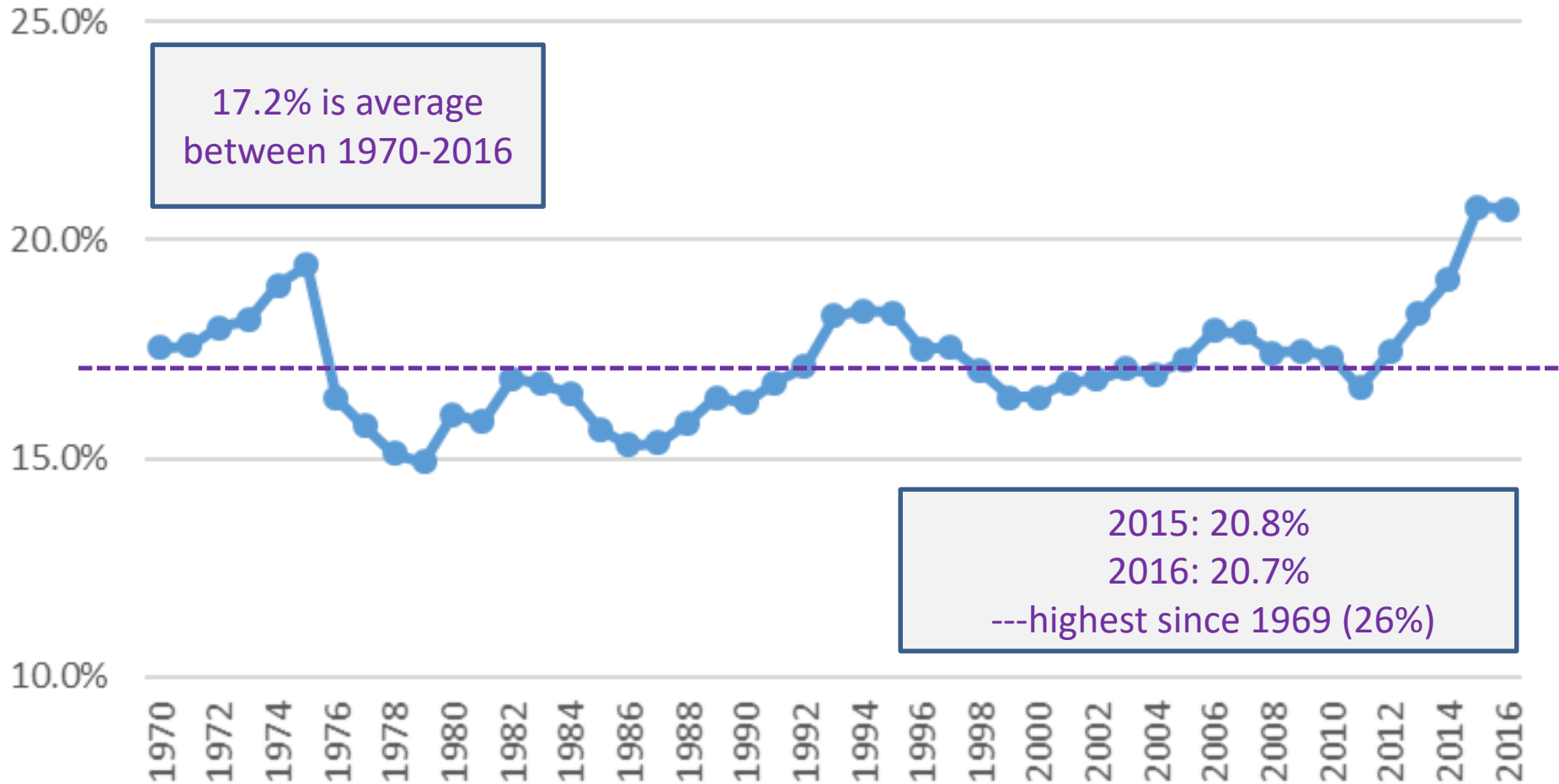
Data Source: USDA & LMIC, Compiled by LMIC

Livestock Marketing Information Center

C-P-66
09/04/15

Heifer Retention as % of Total Beef Cows

17.2% is average
between 1970-2016

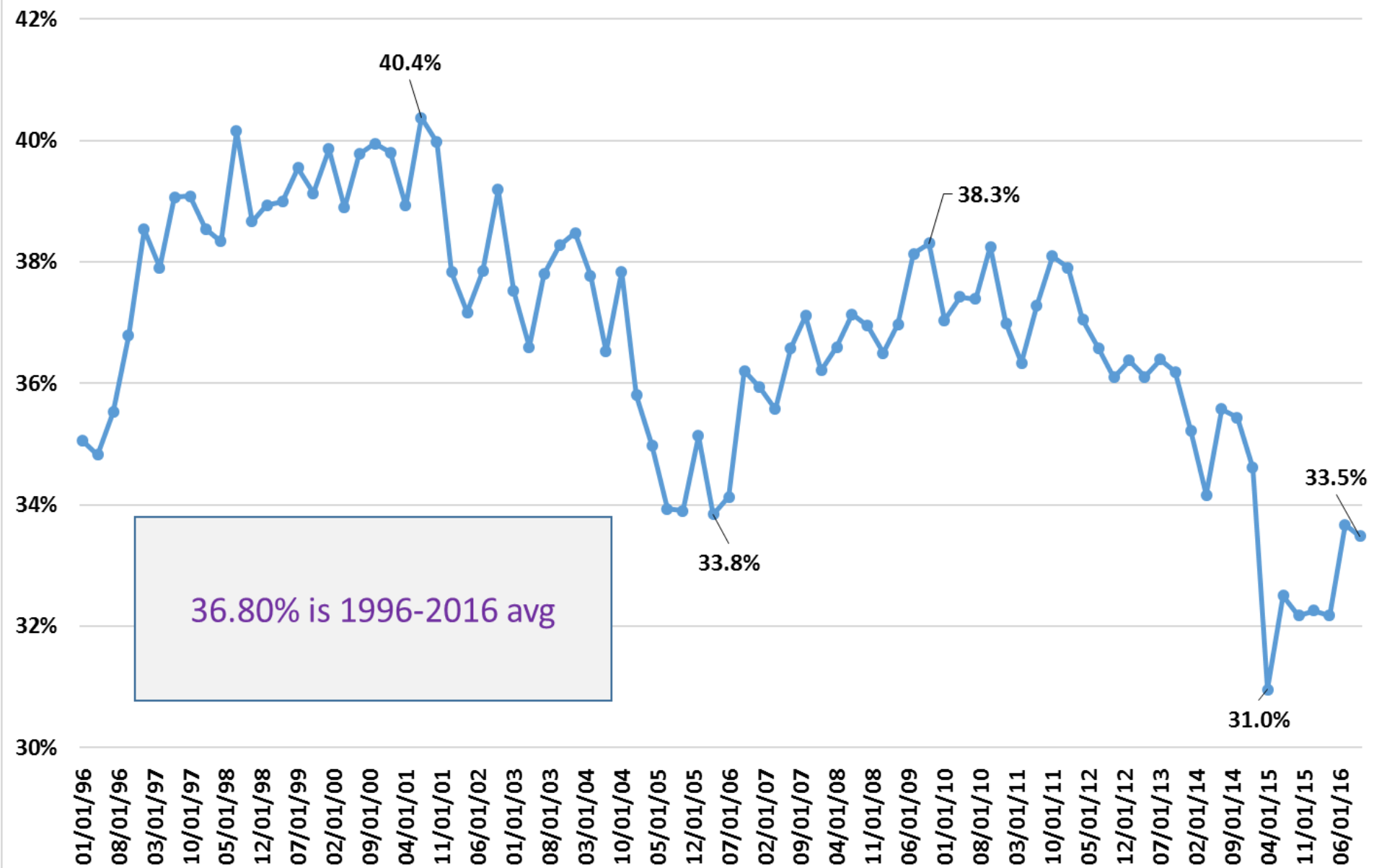


Data Source: USDA-NASS

Livestock Marketing Information Center

Heifers as % of Total Placements on Feed,

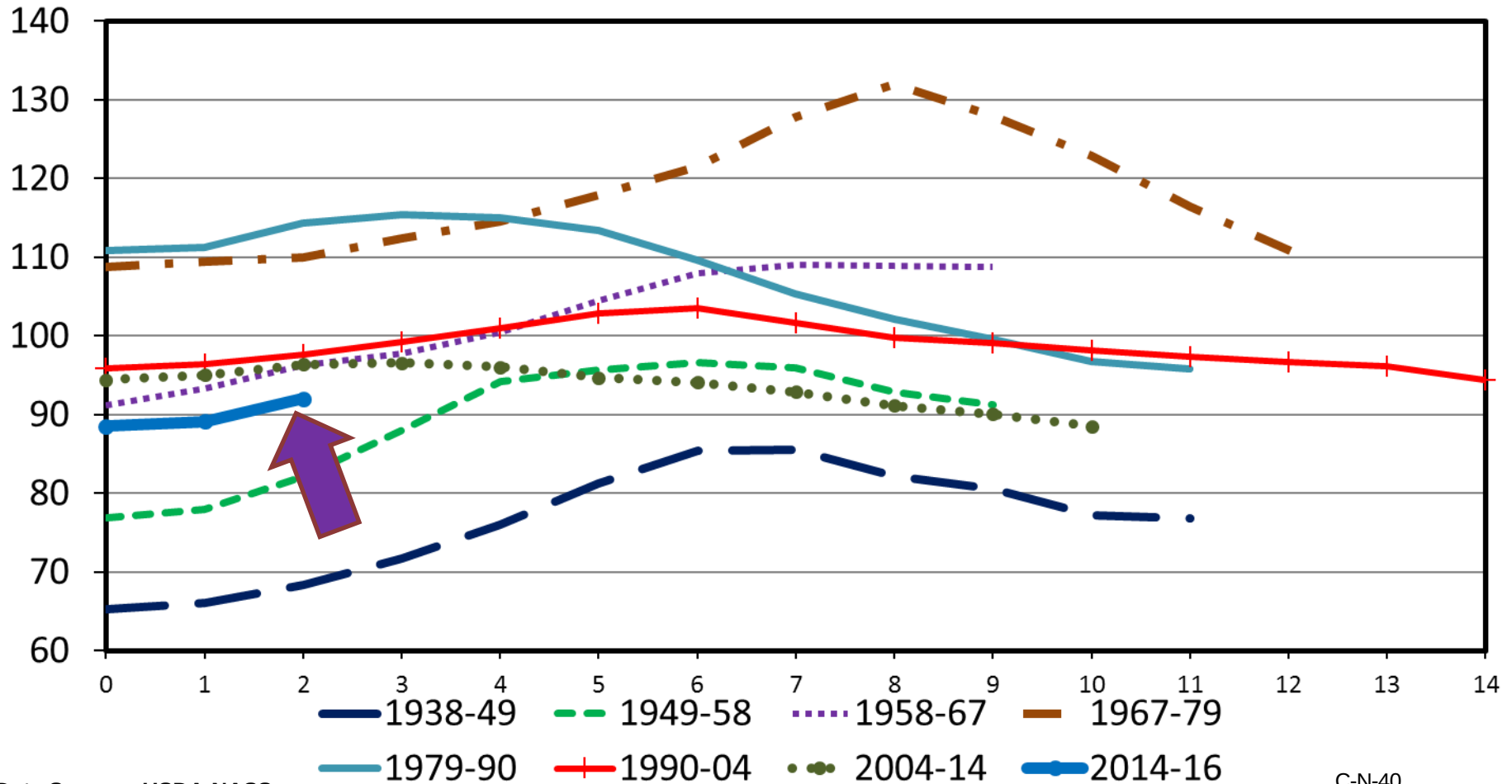
Source: Quarterly USDA NASS COF Reports



TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



Data Source: USDA-NASS

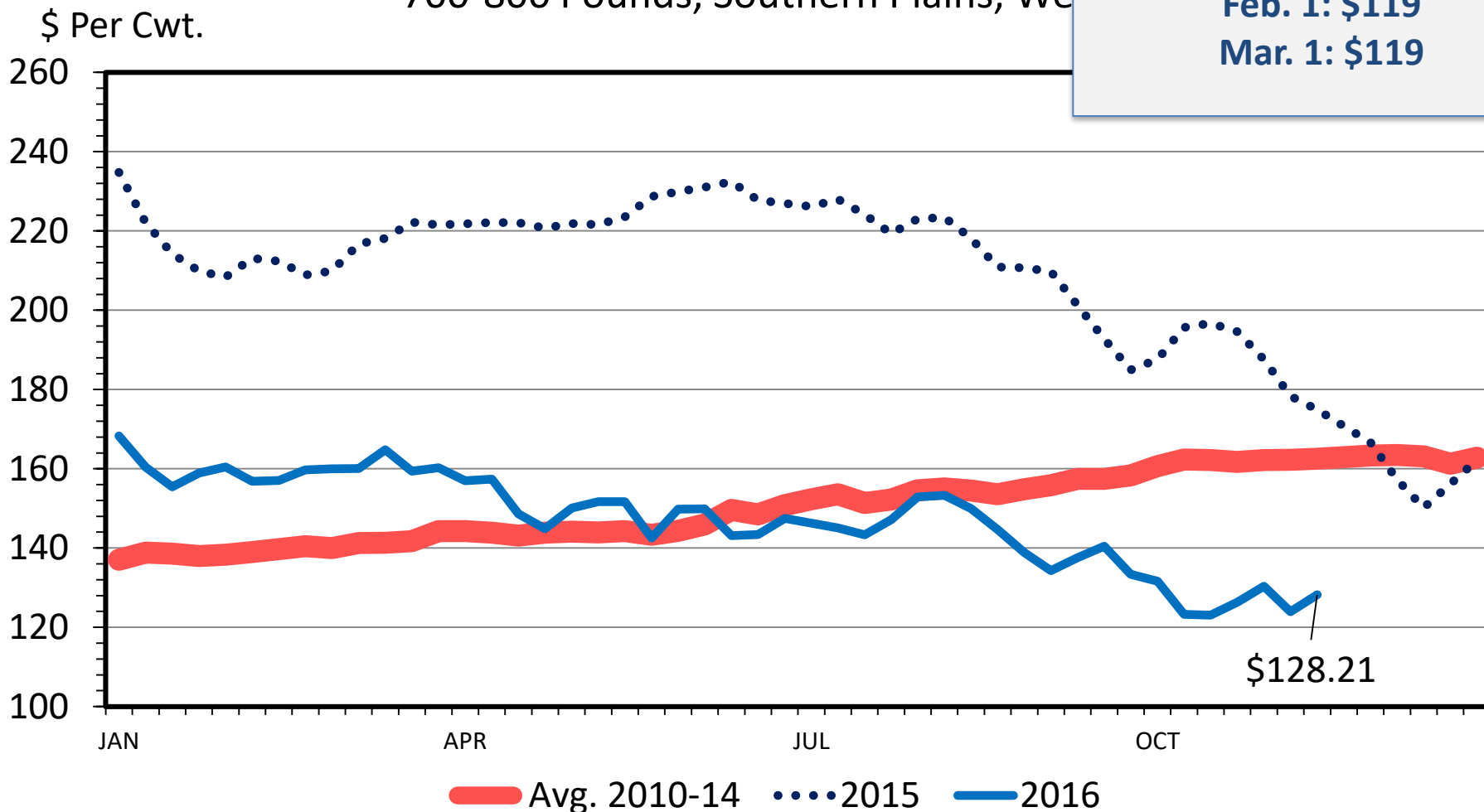
Livestock Marketing Information Center

C-N-40
02/01/16

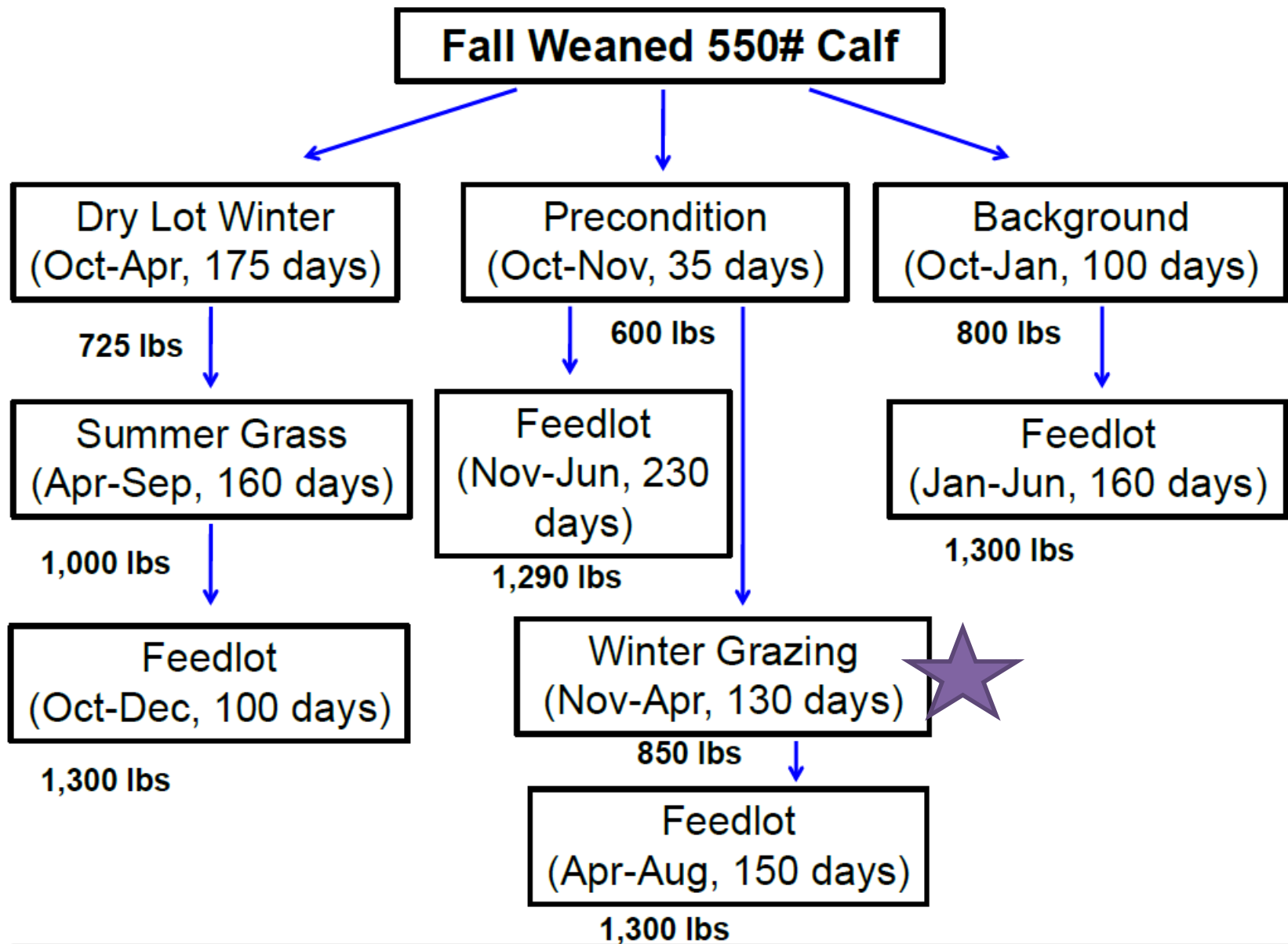
MED. & LRG. #1 FEEDER STEER P

700-800 Pounds, Southern Plains, We

Beef Basis, Salina KS
Projections (as of 12/5):
Jan. 4: \$121
Feb. 1: \$119
Mar. 1: \$119



Economic Outlook Overview: Backgrounding/Stockers



Economic Outlook Overview: Stockers

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

- Salina, KS 12/5/16 Winter Grazing, 127 DOF Case:
 - Buy 650 lb steer on 12/7/16 (\$126.81)
 - Sell 850 lb steer on 04/12/17 (\$111.77) {ADG 1.57}
 - VOG: \$62.89/cwt

CME FC Index Change

- Nov FC Contract
 - Settle against 700-899 lbs (vs 650-849 lbs) wtd avg
- *BeefBasis.com* Initial Assessment
 - New Index ~\$3.18 lower (avg over 2011-2015)

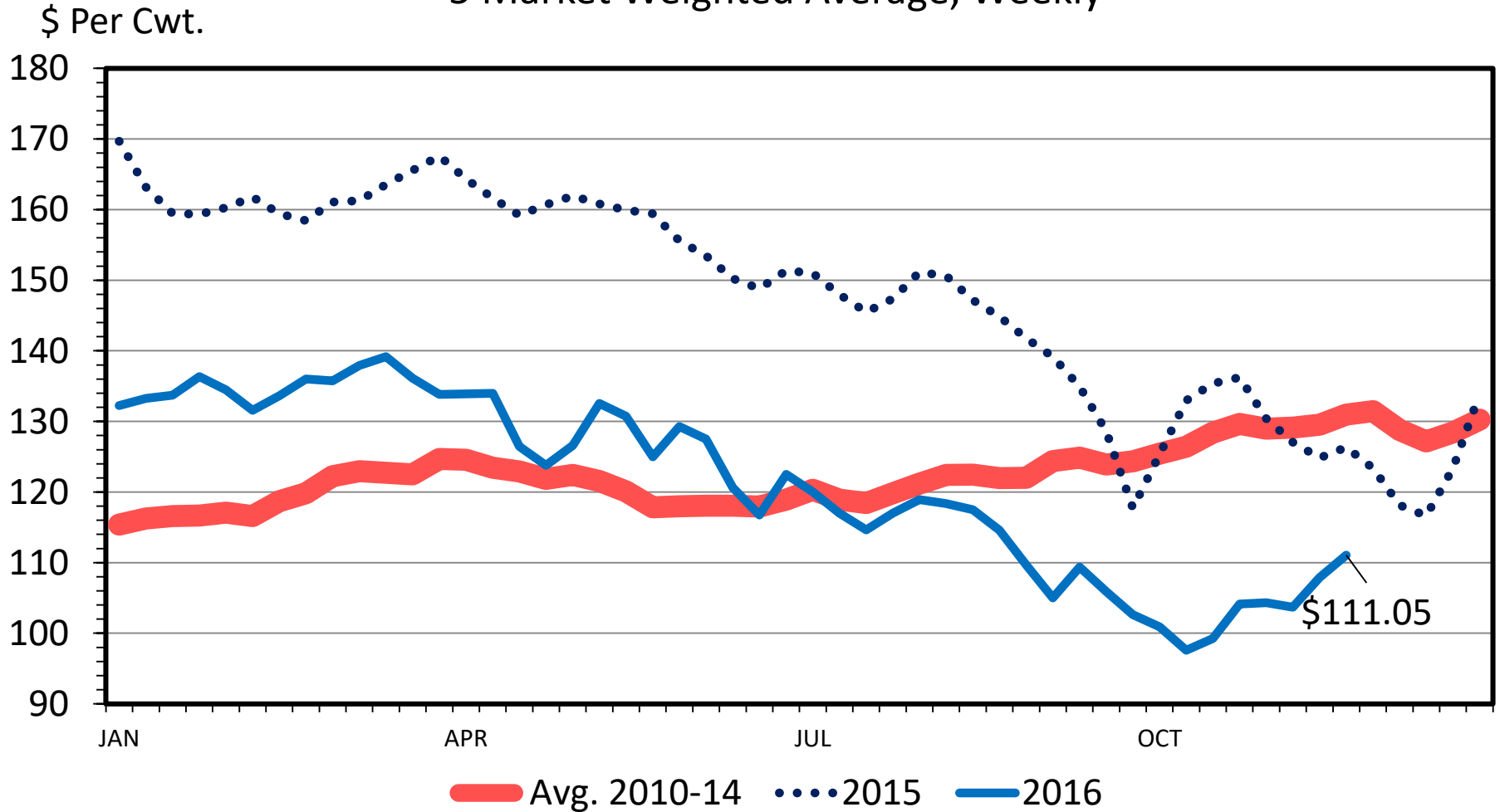
Nov FC Futures	\$ 130.00
"Old" 550 lb, Nov. 2nd KS Basis Expectation	\$ 8.81
Implied Nov Cash Price Forecast	\$ 138.81
"New" 550 lb, Nov. 2nd KS Basis Expectation	\$ 11.99
Implied Nov Cash Price Forecast	\$ 141.99

Economic Outlook Overview: Feedlots

- 2016 Has remained tough
- Structural concerns persist:
 - Excess capacity & Slowed/Stalled Herd Growth

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



Data Source: USDA-AMS

Livestock Marketing Information Center

11/30/16

Historical and Projected Kansas Feedlot Net Returns (as of 11/10/16')

(<http://www.agmanager.info/livestock-meat/cattle-finishing-historical-and-projected-returns>)

Sept. 16': -\$203/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
Oct-16	-231.27	76.32	101.82	145.08	39.47	117.52	117.72
Nov-16	-170.71	76.47	104.96	142.82	48.73	116.61	122.74
Dec-16	-154.31	77.37	106.01	140.08	50.78	116.64	122.38
Jan-17	-166.86	78.32	107.65	144.64	49.94	119.24	125.03
Feb-17	-110.06	77.62	106.61	137.92	59.14	114.34	124.63
Mar-17	-35.18	78.46	108.22	129.46	72.26	110.69	125.35
Apr-17	-94.88	79.17	99.36	122.55	62.47	106.22	110.91
May-17	5.20	78.40	103.80	118.26	79.32	103.42	118.90
Jun-17	-16.67	77.07	97.33	111.14	74.13	98.53	109.12
Jul-17	-36.23	77.97	97.16	111.86	71.52	99.71	107.64

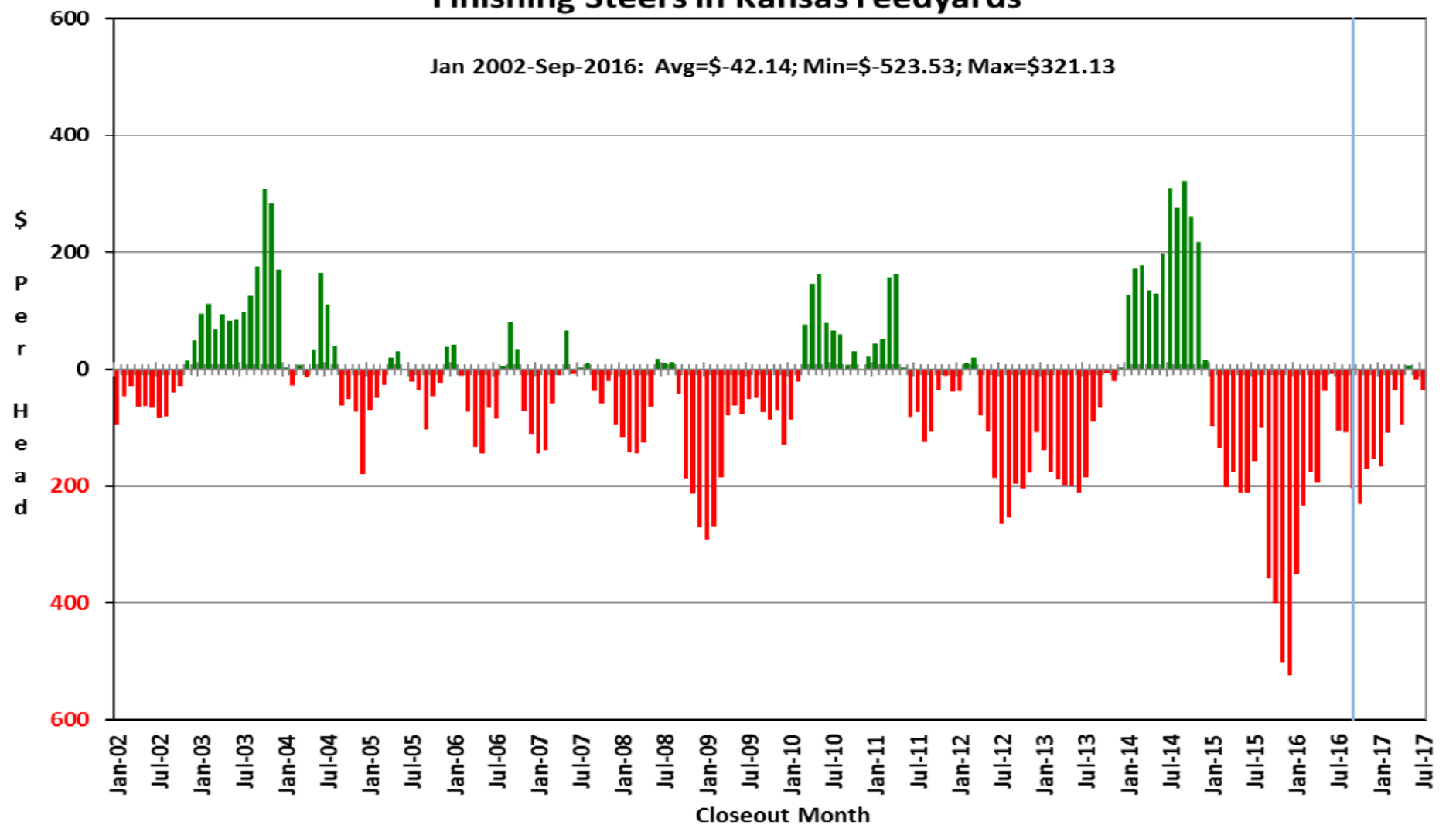
Representative Barometer for Trends in Profitability

CME LC up ~\$5/cwt since 11/10

Historical and Projected Kansas Feedlot Net Returns (as of 11/10/16')

(<http://www.agmanager.info/livestock-meat/cattle-finishing-historical-and-projected-returns>)

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



Quarterly Forecasts (LMIC: 11/28/16)

		% Chg.	Average	% Chg.	Comm'l	% Chg.
Year	Comm'l	from	Dressed	from	Beef	from
Quarter	Slaughter	Year Ago	Weight	Year Ago	Production	Year Ago
2016						
I	7,181	3.0	826.5	1.7	5,935	4.8
II	7,629	5.5	810.9	0.1	6,187	5.6
III	7,840	7.5	825.0	-0.9	6,468	6.6
IV	7,765	6.9	835.5	-0.7	6,488	6.2
Year	30,414	5.8	824.5	0.0	25,077	5.8
2017						
I	7,513	4.6	828.8	0.3	6,227	4.9
II	7,988	4.7	815.1	0.5	6,511	5.2
III	8,049	2.7	828.7	0.4	6,670	3.1
IV	8,004	3.1	837.7	0.3	6,705	3.3
Year	31,554	3.7	827.6	0.4	26,113	4.1
2018						
I	7,737	3.0	832.8	0.5	6,443	3.5
II	8,177	2.4	819.0	0.5	6,697	2.9
III	8,266	2.7	832.8	0.5	6,884	3.2
IV	8,275	3.4	841.5	0.4	6,963	3.8
Year	32,455	2.9	831.5	0.5	26,987	3.3

Quarterly Forecasts (LMIC: 11/28/16)

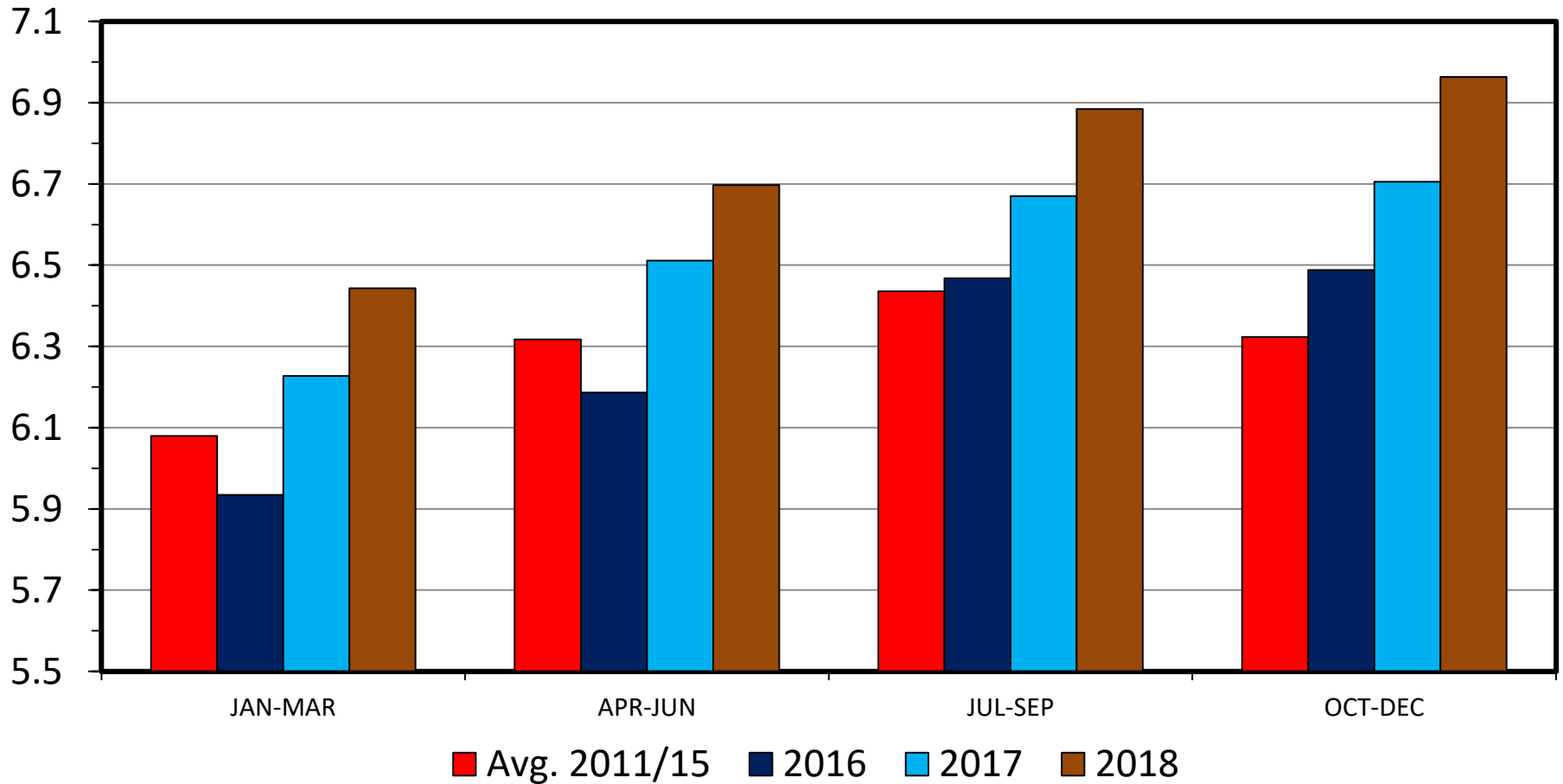
	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2016				
I	135	-17.0	160	196
II	128	-19.2	149	174
III	113	-21.5	144	157
IV	105-107	-17.0	130-132	135-138
Year	120-121	-18.6	145-147	165-167
2017				
I	109-113	-17.7	128-130	137-142
II	110-114	-12.3	129-134	141-148
III	106-111	-4.2	128-135	137-145
IV	106-112	2.8	126-134	132-142
Year	108-112	-8.7	127-134	139-145
2018				
I	107-114	-0.5	125-134	133-145
II	107-115	-0.9	128-138	136-149
III	103-112	-0.9	124-135	133-147
IV	104-114	0.0	123-135	129-144
Year	107-112	-0.5	126-134	135-144

Trade & Meat Supplies

COMMERCIAL BEEF PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

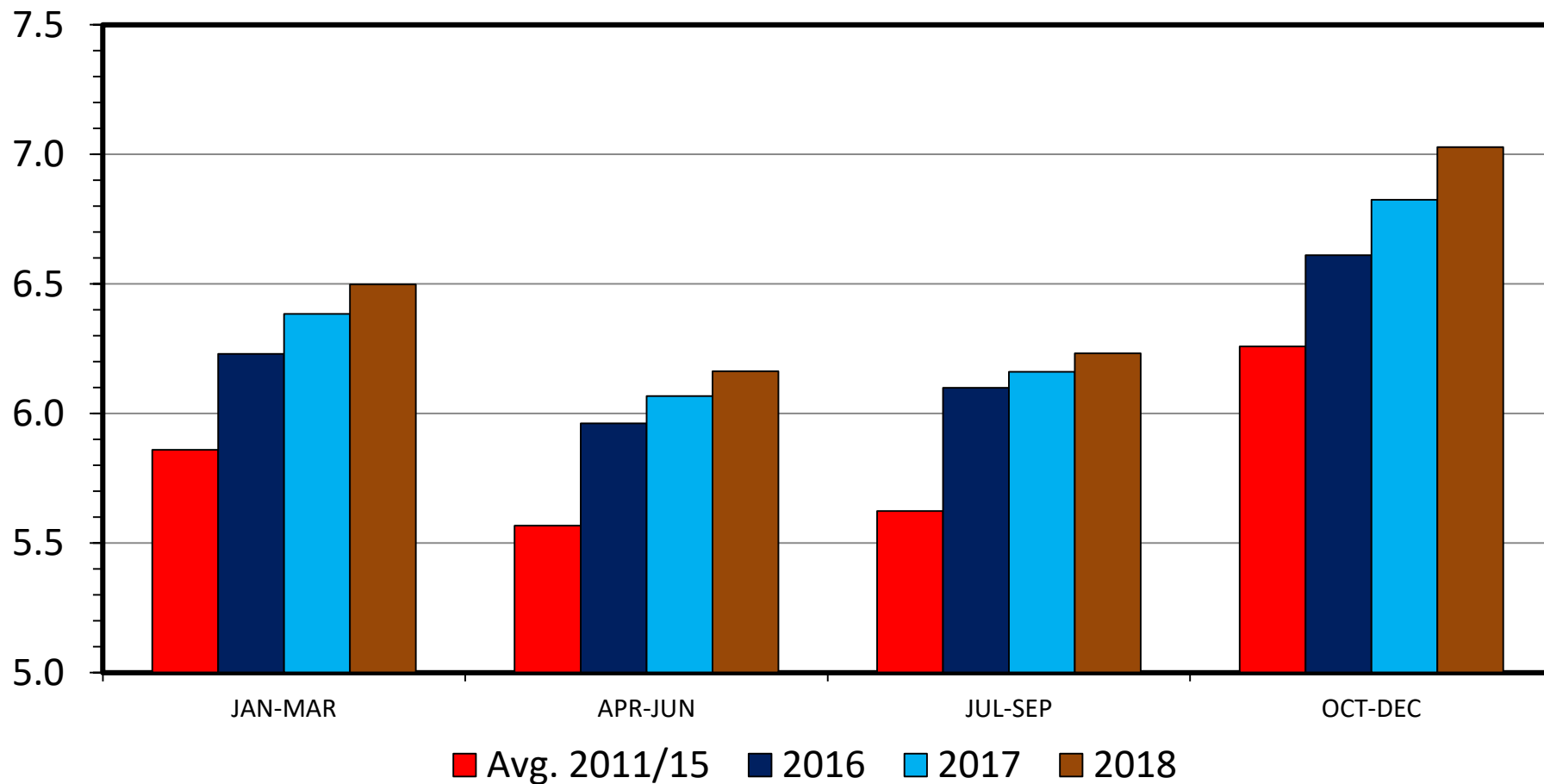
Livestock Marketing Information Center

M-S-01
11/28/16

COMMERCIAL PORK PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

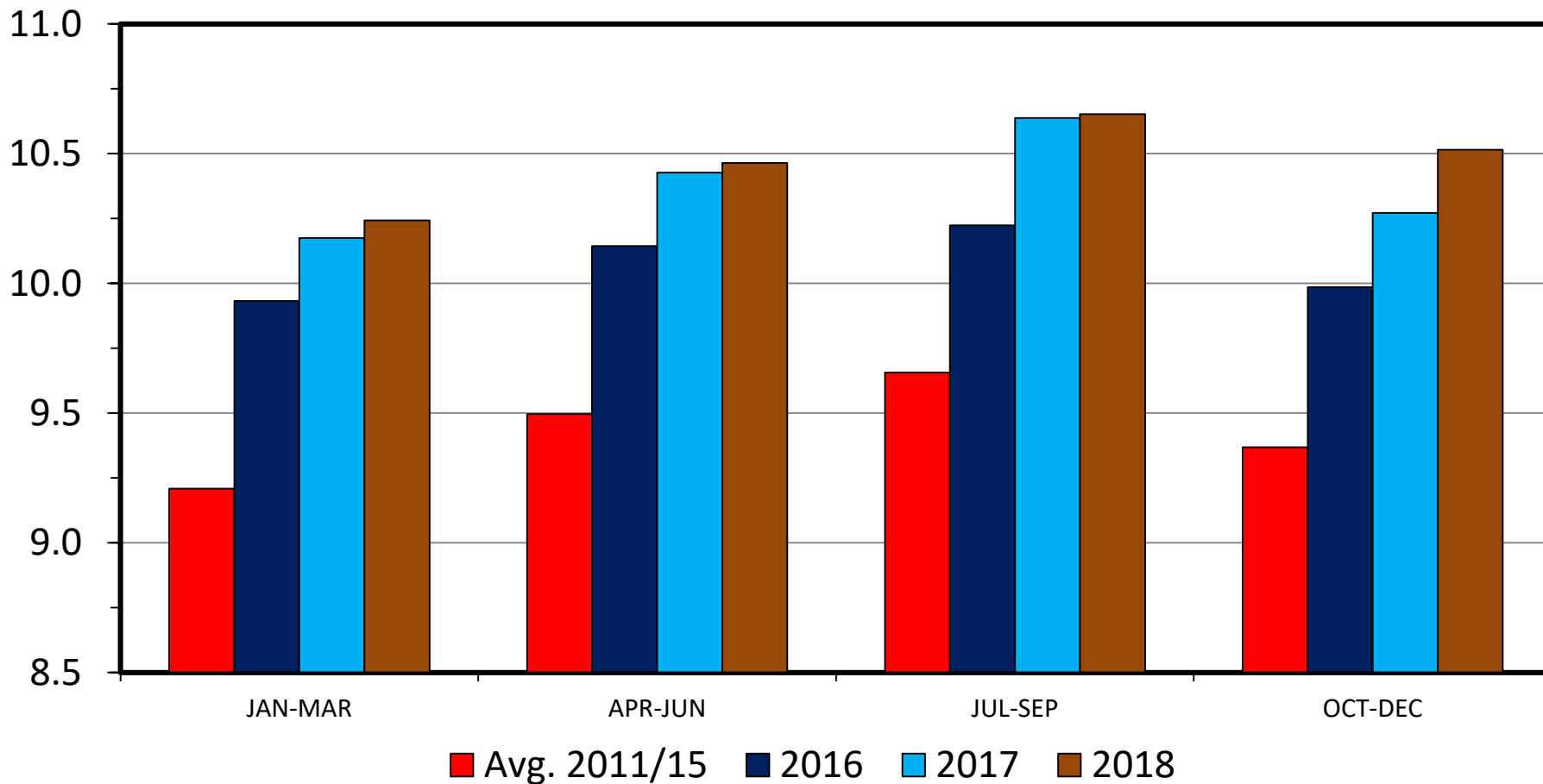
Livestock Marketing Information Center

M-S-06
11/28/16

RTC BROILER PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

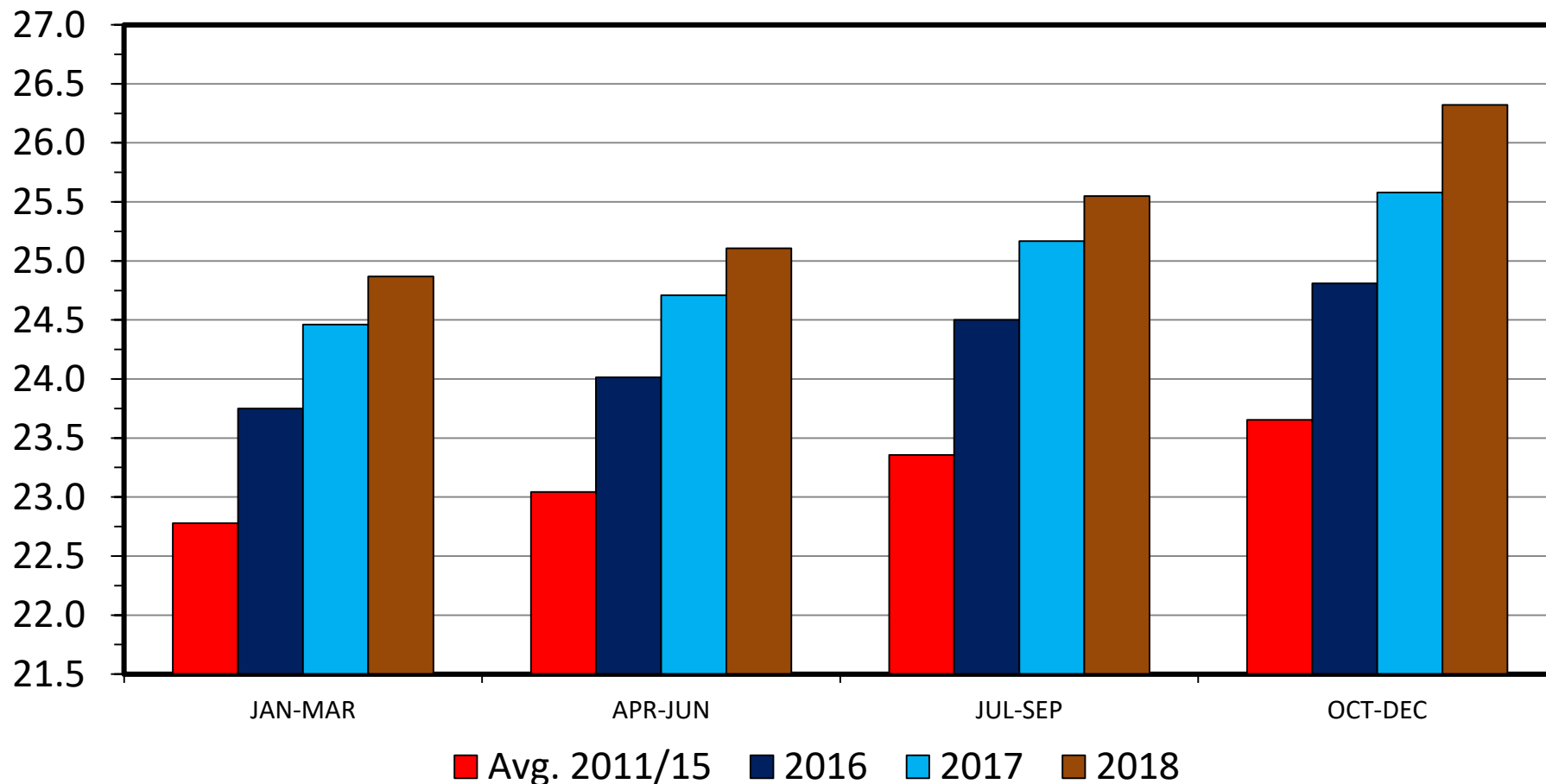
Livestock Marketing Information Center

M-S-30
11/28/16

TOTAL RED MEAT & POULTRY PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

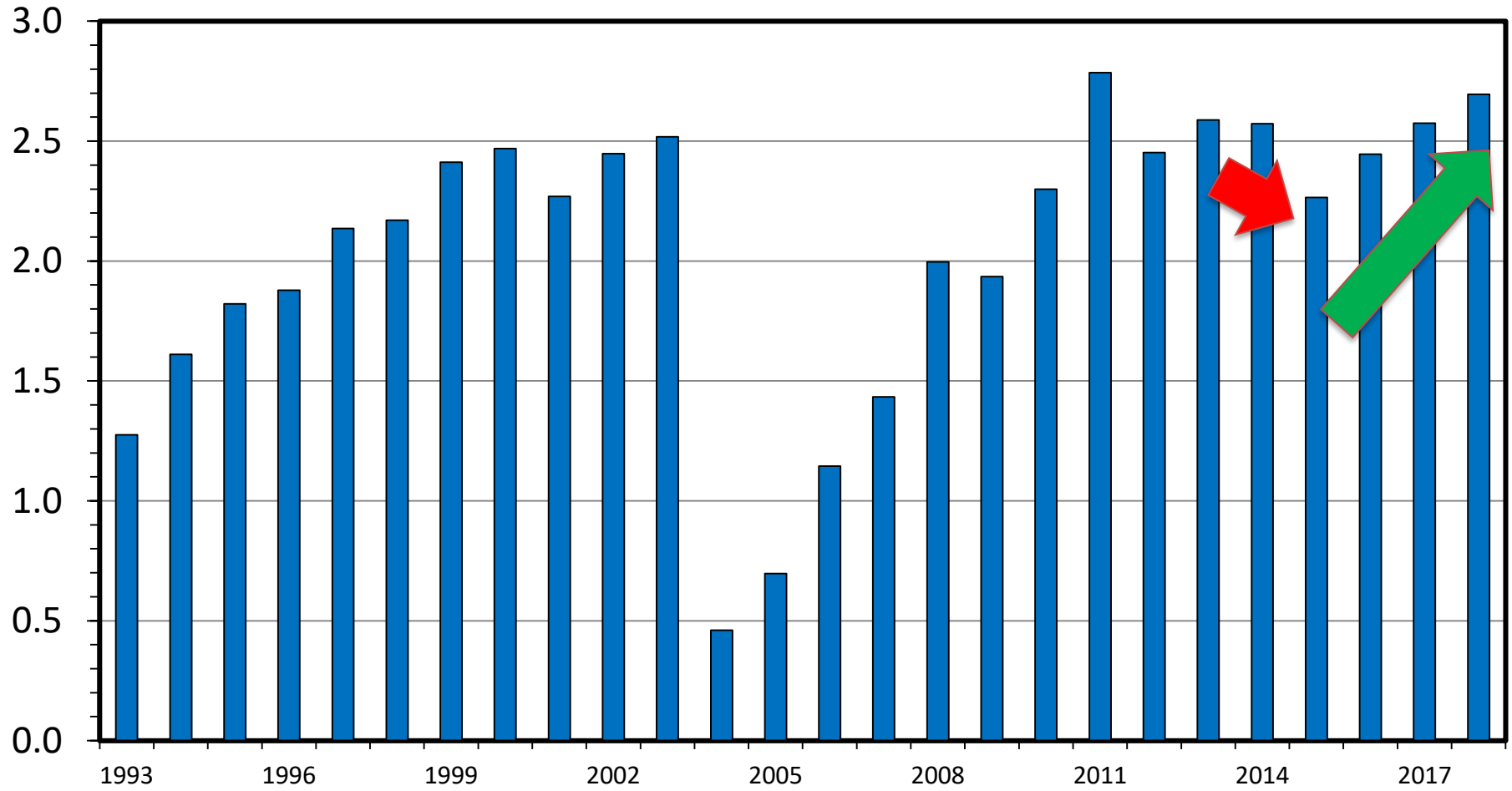
Livestock Marketing Information Center

M-S-31
11/28/16

US BEEF AND VEAL EXPORTS

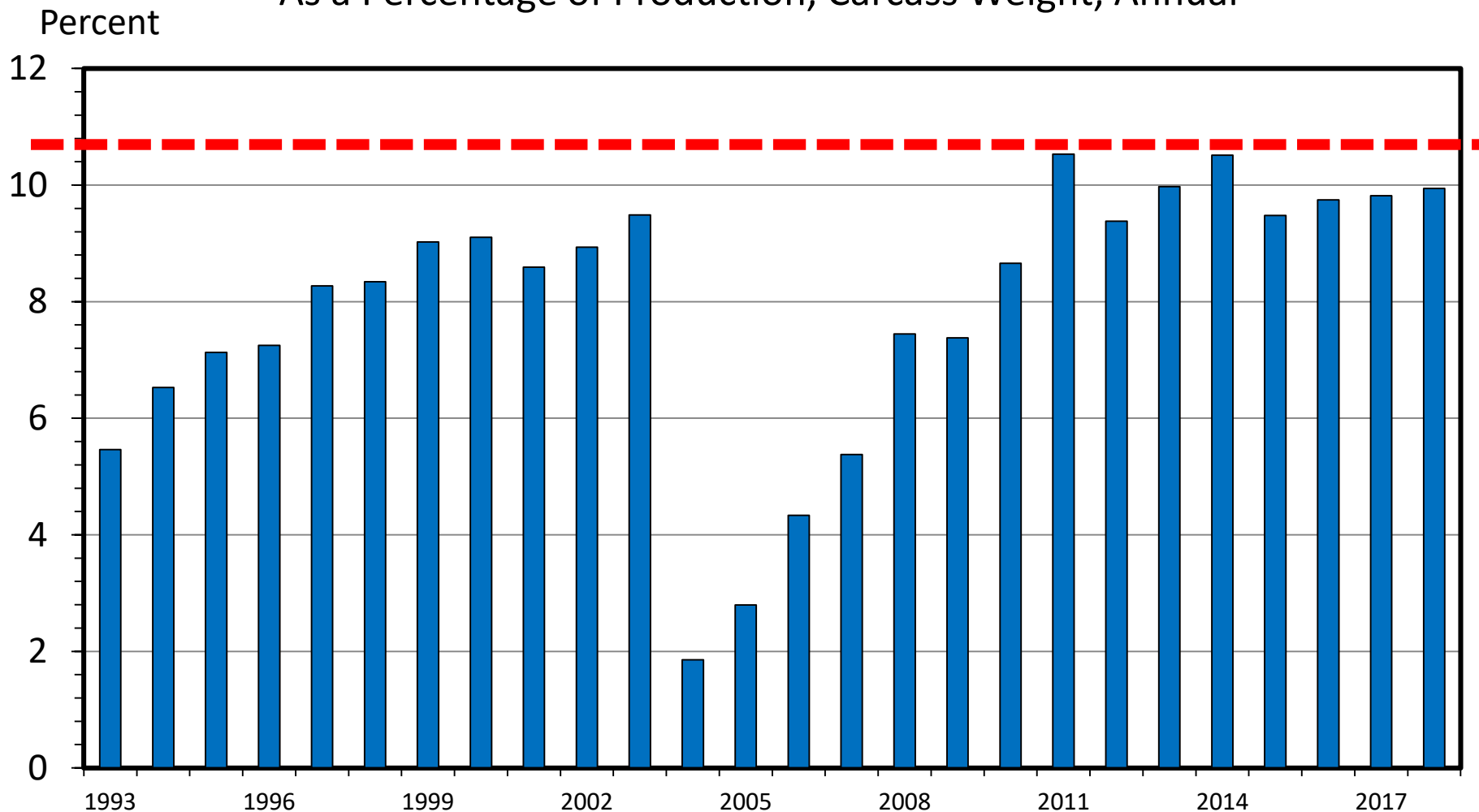
Carcass Weight, Annual

Bil. Pounds



US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



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

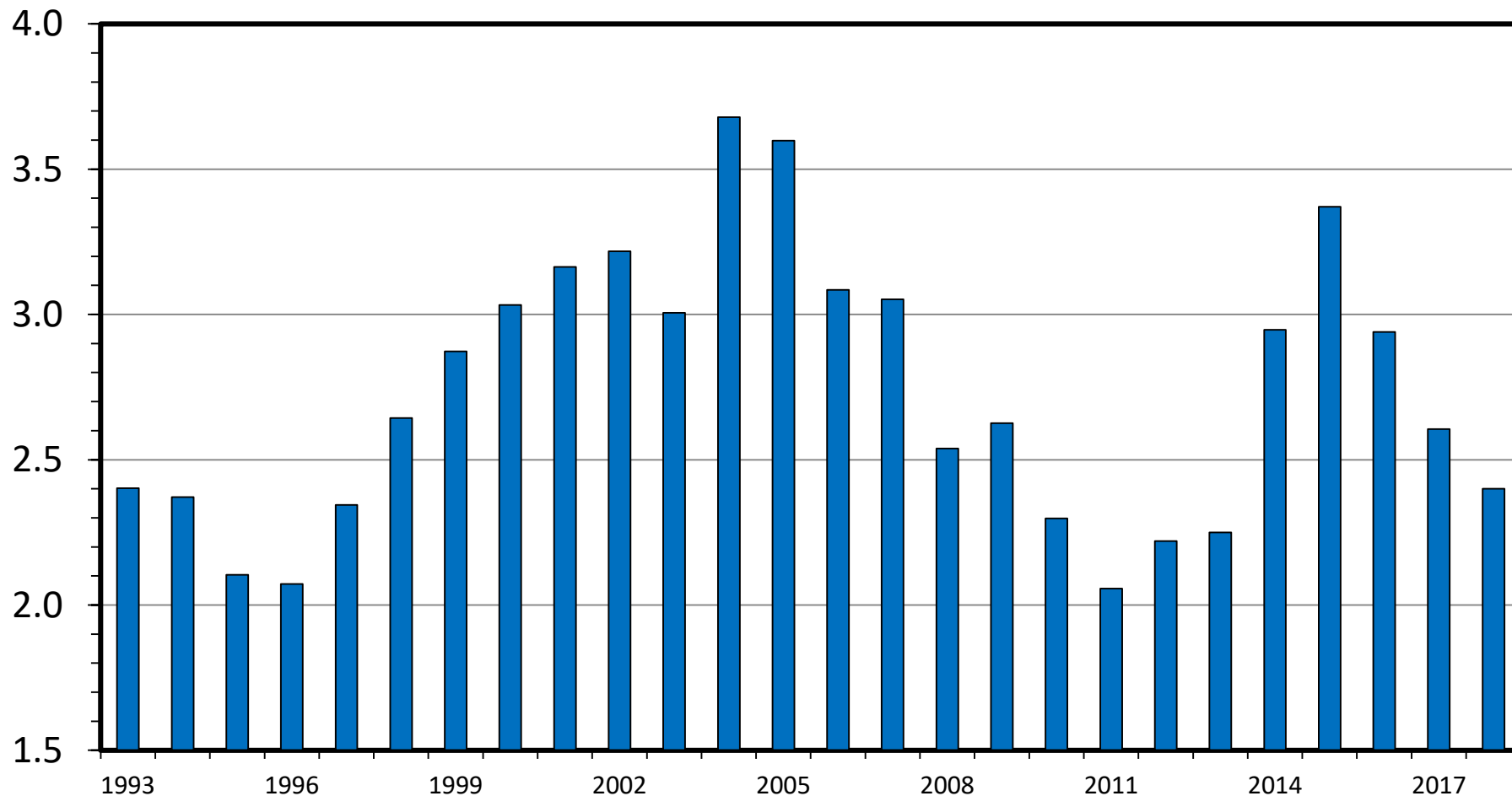
Livestock Marketing Information Center

I-N-07
11/01/16

US BEEF AND VEAL IMPORTS

Carcass Weight, Annual

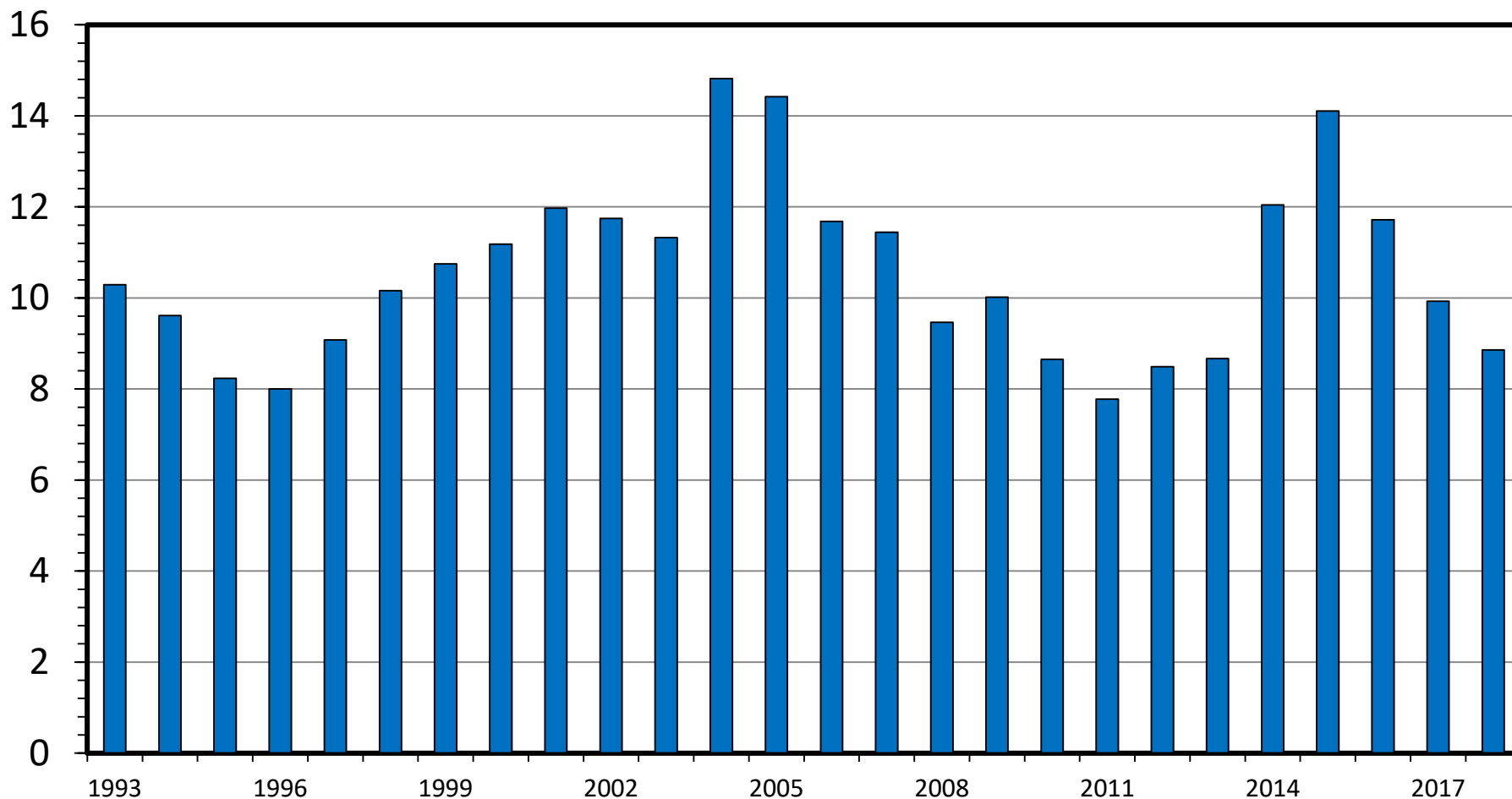
Bil. Pounds



US BEEF AND VEAL IMPORTS

As a Percentage of Production, Carcass Weight, Annual

Percent



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

Livestock Marketing Information Center

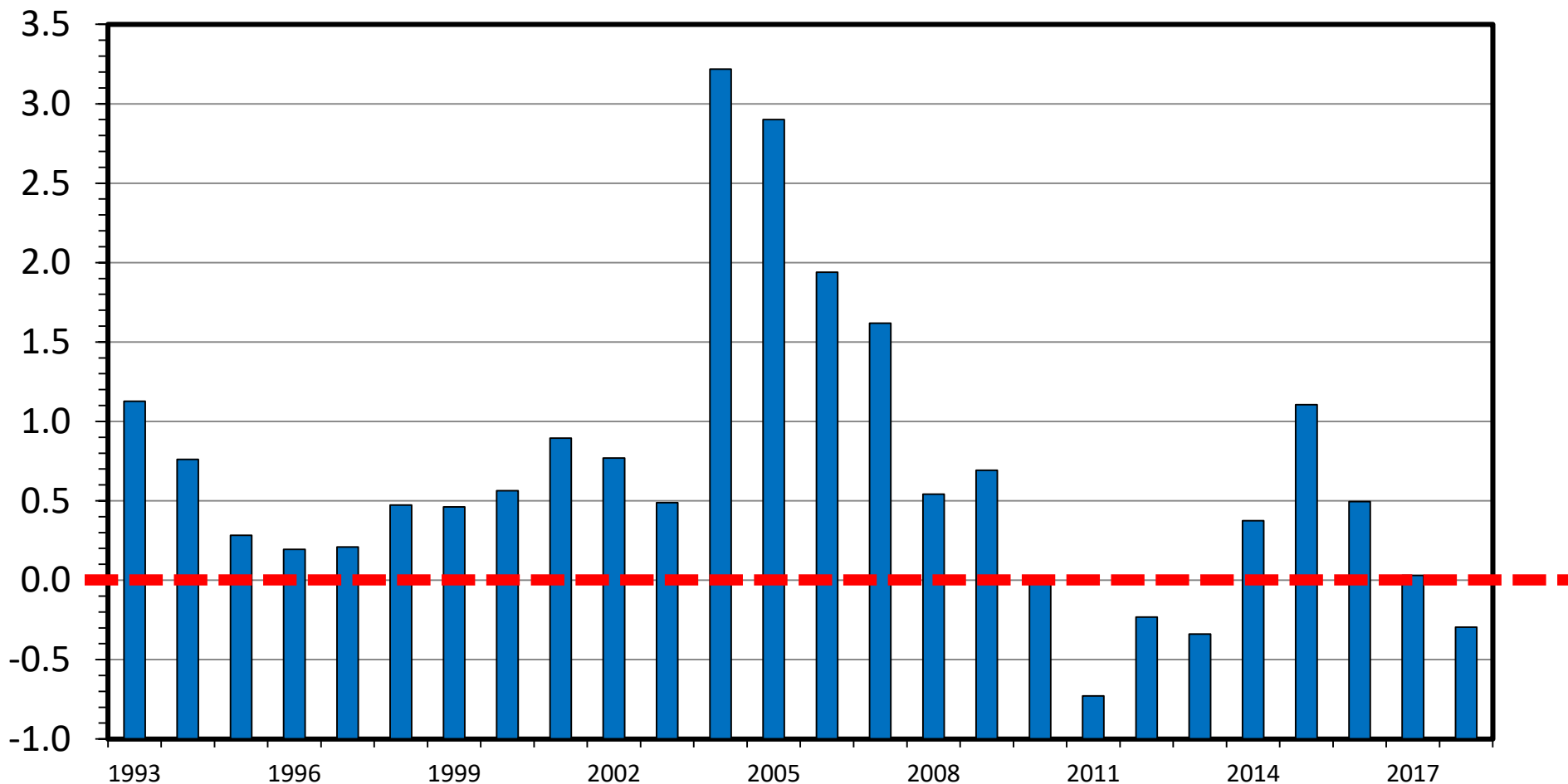
I-N-08

11/01/16

US BEEF AND VEAL NET IMPORTS

Carcass Weight, Annual

Bil. Pounds



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

Livestock Marketing Information Center

I-N-28
11/01/16

View on Trade & Technology

- Key is Diverse Products from Each Carcass
- Brazil-US: Top Sirloin Cap (Picanha) vs. Ground Beef



View on Trade & Technology

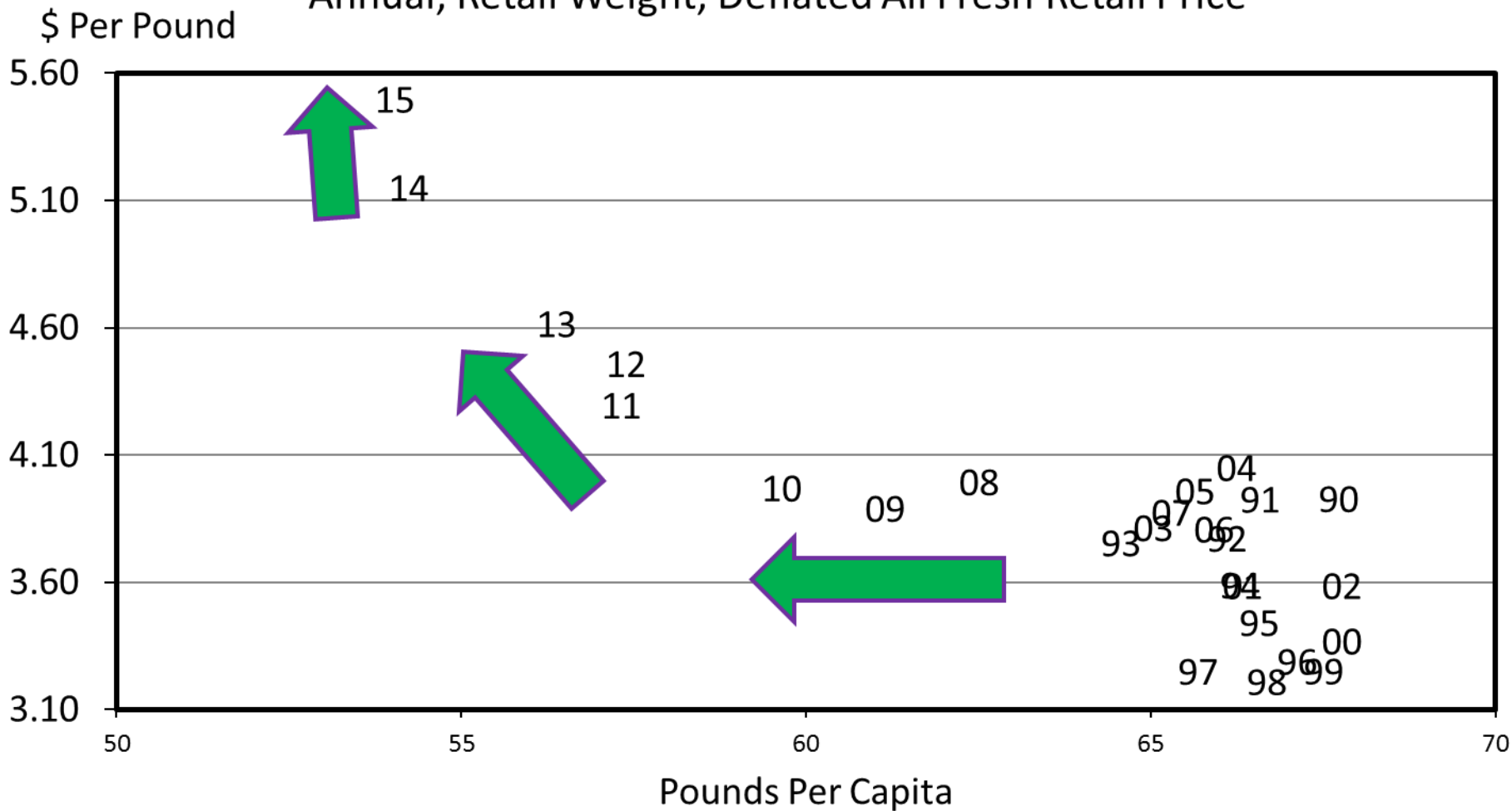
- Key is Diverse Products from Each Carcass
- Brazil-US: Picanha vs. Ground Beef



- Domestically:
 - “Large Steaks” vs. Cheaper Ground Beef

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

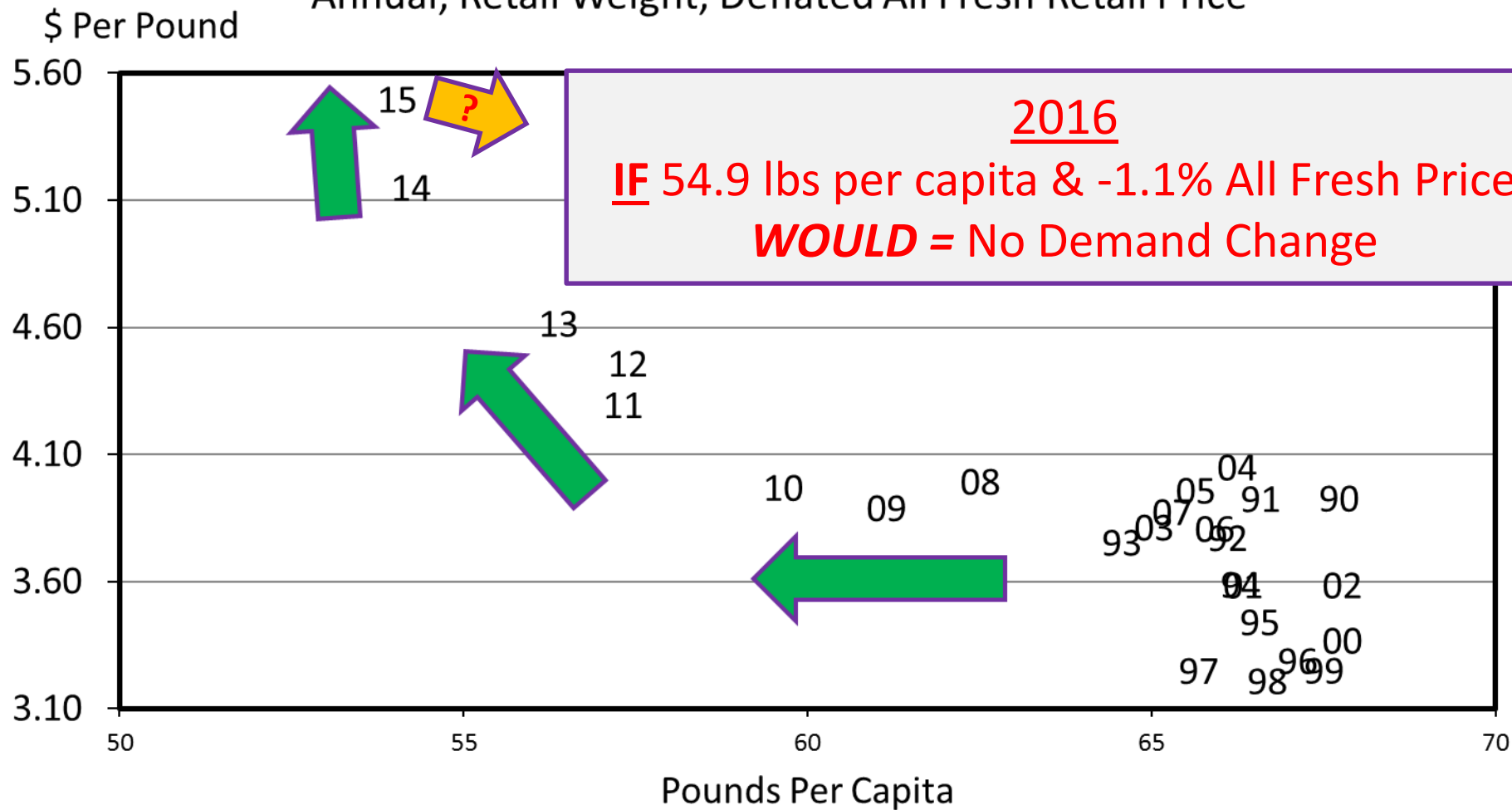


Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled and Analysis by LMIC
Livestock Marketing Information Center

C-P-65A
03/25/16

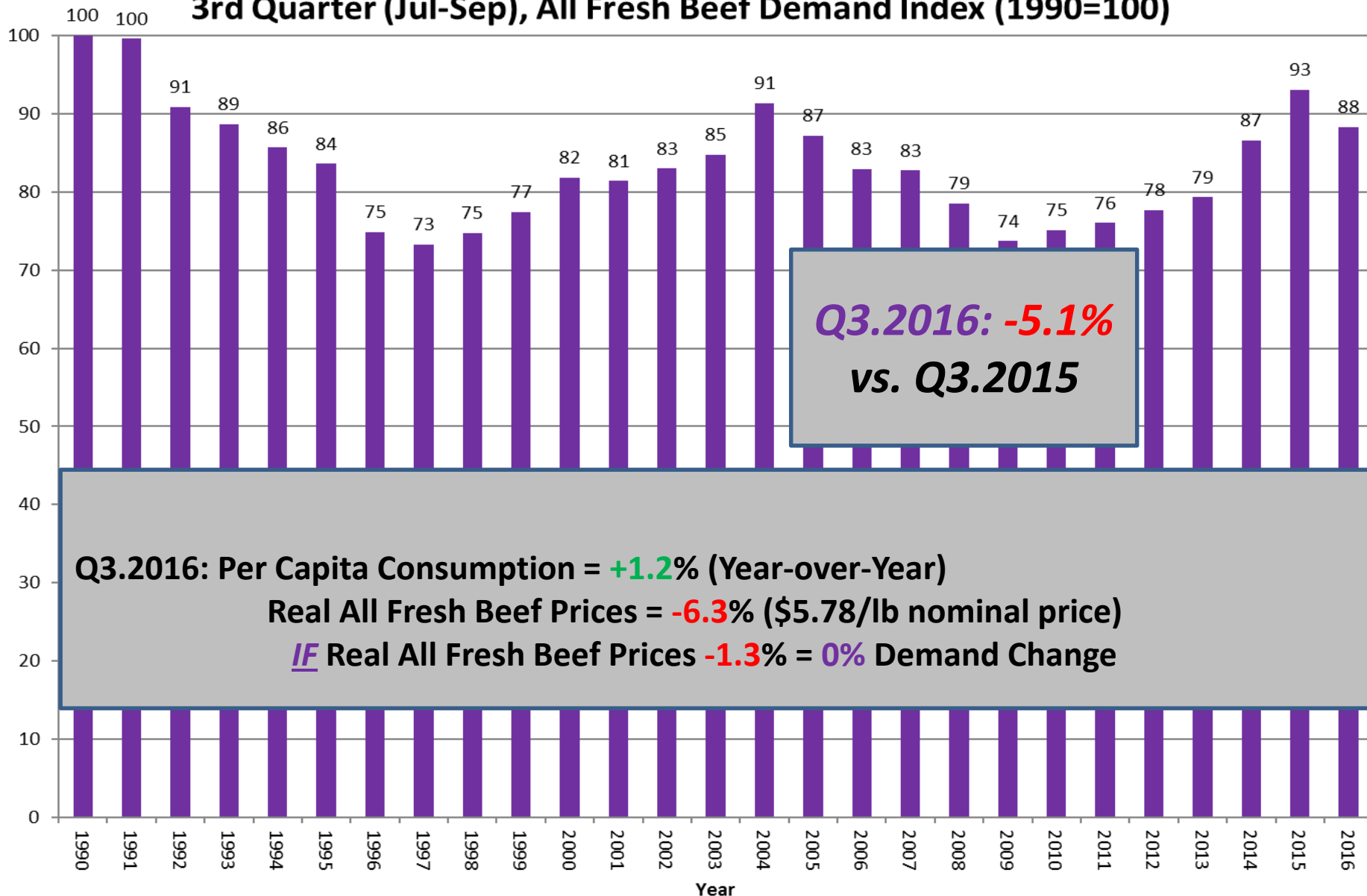
BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price



3rd Quarter (Jul-Sep), All Fresh Beef Demand Index (1990=100)

Demand Index (1990=100)

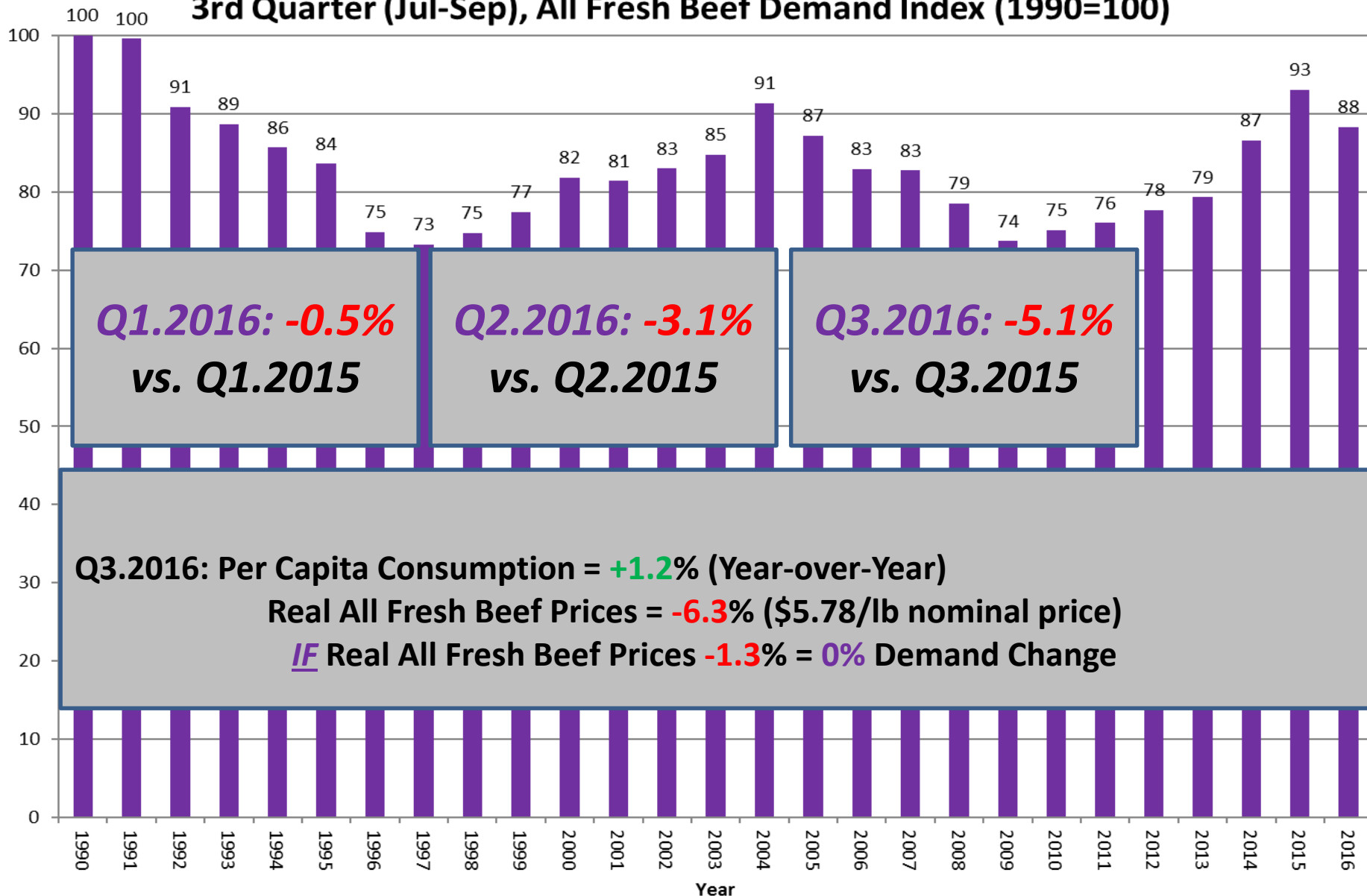


Source: Glynn T. Tonsor, Kansas State University, Oct. 2016

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

3rd Quarter (Jul-Sep), All Fresh Beef Demand Index (1990=100)

Demand Index (1990=100)



Source: Glynn T. Tonsor, Kansas State University, Oct. 2016

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

Relative Changes in Beef & Cattle Prices

	All	KS	KS
	Fresh	DIRECT	550 LB
	Retail	SLAUGHTER	CALF
	Beef		
Values (\$/lb or \$/cwt)			
2008	396.7	92.9	116.7
2009	389.3	83.4	110.0
2010	402.1	95.4	123.8
2011	444.0	114.4	149.7
2012	469.4	122.7	170.0
2013	493.8	125.6	169.7
2014	560.0	154.2	244.8
2015	603.8	148.3	252.1
2016	579.1	127.8	179.3
Yr-O-Yr Change (%)			
2009	-1.9%	-10.2%	-5.7%
2010	3.3%	14.3%	12.5%
2011	10.4%	19.9%	20.9%
2012	5.7%	7.3%	13.5%
2013	5.2%	2.3%	-0.2%
2014	13.4%	22.8%	44.3%
2015	7.8%	-3.8%	3.0%
2016	-4.1%	-13.8%	-28.9%

View on Market Share

- Would you rather have:
 - 10% of \$1million (\$100k)
 - or
 - 90% of \$100 (\$90)?

View on Market Share

- Would you rather have:
 - 10% of \$1million (\$100k)
 - or
 - 90% of \$100 (\$90)?
- Selecting \$100k requires “sharing”...

Wrap-Up

- Broad Profitability Outlook
 - Cow-calf: Converging toward Long-Term Levels
 - Stocker: Opportunity varies widely across situations
 - Feedlot: Worst behind us (I think)

More information available at:



This presentation will be available in PDF format at:

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

Glynn T. Tonsor

Professor

Dept. of Agricultural Economics

Kansas State University

Email: gtonsor@ksu.edu

Twitter: @TonsorGlynn

Utilize a Wealth of Information Available at AgManager.info

About AgManager.info

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.



Receive Weekly Email Updates for AgManager.Info:

[http://www.agmanager.info/about/
contact-agmanagerinfo](http://www.agmanager.info/about/contact-agmanagerinfo)



AgManager
.info

Projecting Stocker/Backgrounder VOG

- Should we use current cash market's implied VOG?
 - Dodge City, KS Sept 19th report:
 - 521 lbs @ \$160.43 & 761 lbs @ \$136.36
 - Implies VOG of \$202/hd; \$0.84/cwt
- Current cash market implied VOG vs. forward-looking, historical basis/CME VOG forecasts
 - KS, Sept 550 lb calves – April 725 lbs / 1995-2015 placements
 - 67% of time basis-adjusted, futures implied VOG forecast is more accurate
 - Average & Range in VOG forecasting errors (actual-realized)
 - Current Cash Mkt Approach: -\$15.26/hd (-\$349 Apr 2016, \$201 Apr 2011)
 - Hist. Basis + CME Approach: \$7.86/hd (-\$214 Apr 2016, \$160 Apr 2011)