Current Livestock and Meat Issues

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Crop Insurance Workshop
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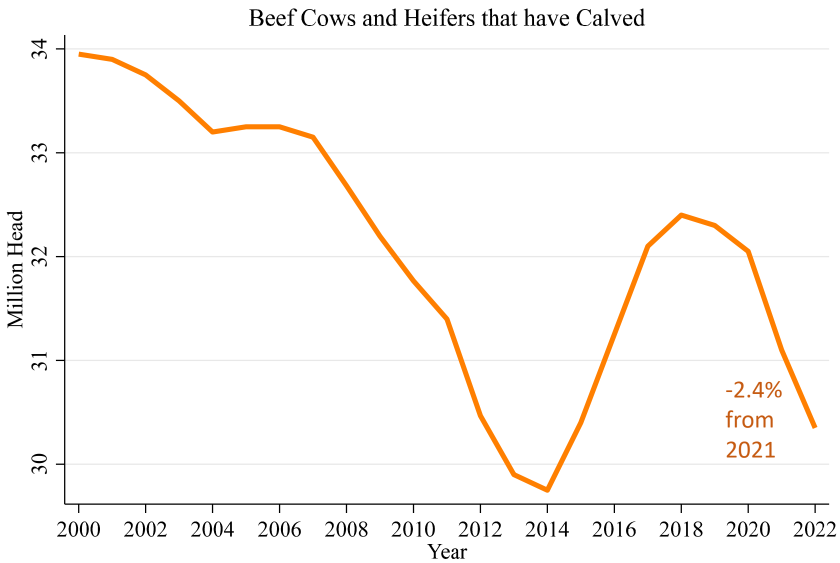
Kansas State University Agricultural Economics

Some Issues to Consider for 2022

- Beef Cow Herd Liquidation
- Capacity/Supply Chain Issues
- Livestock and Meat Demand
  - Exports
  - Domestic
- Political
  - Live Cattle Markets
  - Meat Packing Sector

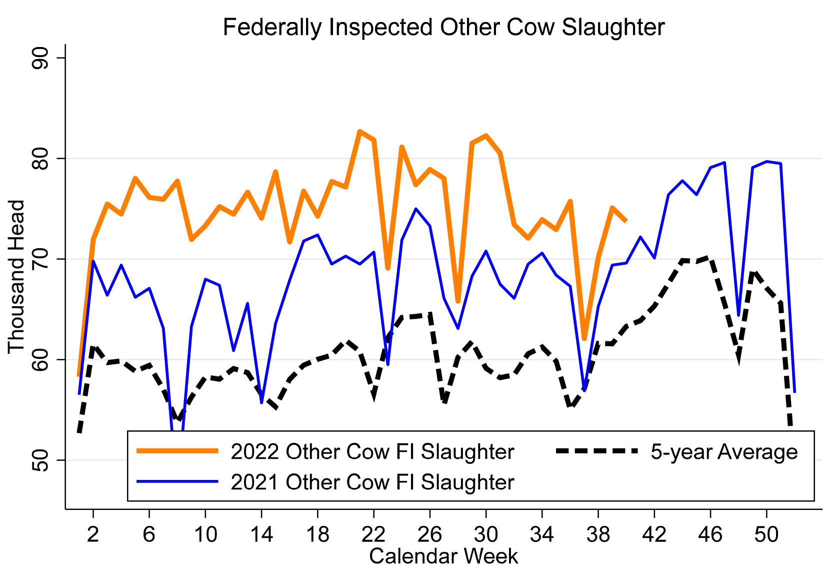
US Beef Cow Herd: July Inventory



Data Source: USDA NASS July Inventory Survey, data compiled by LMIC

Year	Million Head	% of 2019
2019	32.3	100%
2020	32.1	99.2%
2021	31.1	96.3%
2022	30.4	94.0%

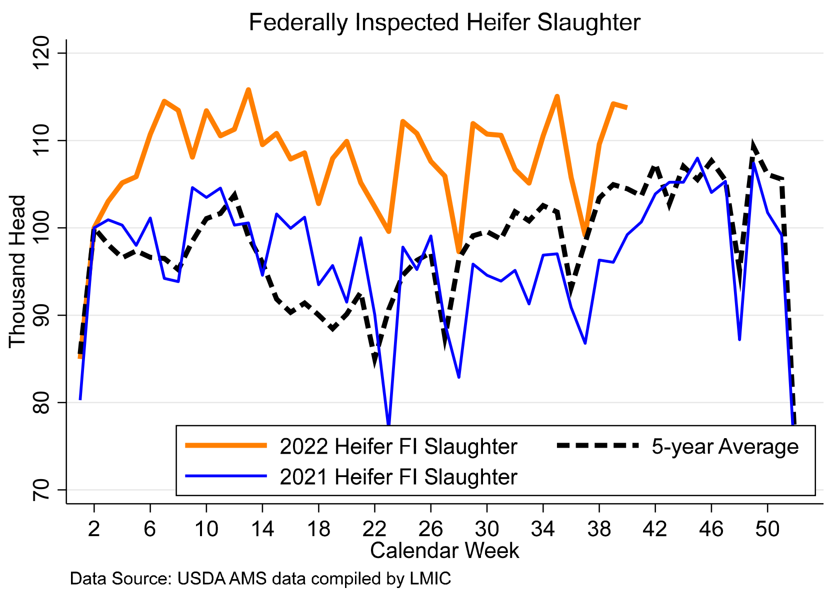
US Beef Cow Herd



Data Source: USDA AMS data compiled by LMIC

Historically large beef cow slaughter levels continuing so far in 2022

US Beef Cow Herd



Heifer Slaughter is substantially above the 5-year average and 2021 levels

Supply and Capacity

- Two dimensions of meat packing capacity:

1. Physical capacity/Facilities

2. Operational Capacity

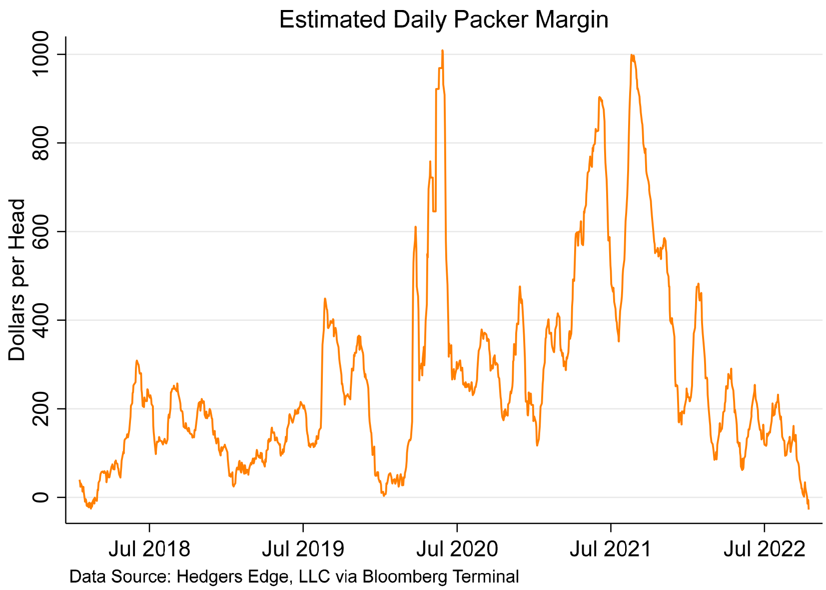
Supply and Capacity: Physical Capacity

- Since 2015/2016 fed cattle supply has been at or above capacity (Peel, OSU)
- Herd liquidation, combined with new capacity should improve situation from the producer perspective
- Over the next few years, plans indicate at least 20-25K head per week of capacity could be added (source: CattleFax and others), that is almost 5% of current fed slaughter levels
- However, additions still not certain and regional conditions will vary

Supply and Capacity: Physical Capacity

- Increased interest and government support for small to medium-scale processors
- Attention on direct to consumer, local, or niche processing

Supply and Capacity

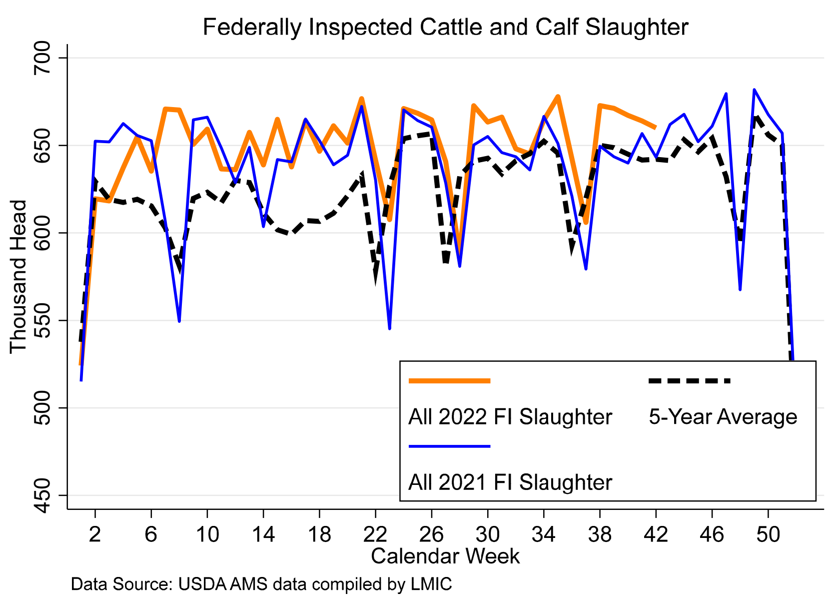


Packer margins have received a lot of attention since 2020

Packer Margin ≠ Profit

Margins are at pre-Covid disruption levels

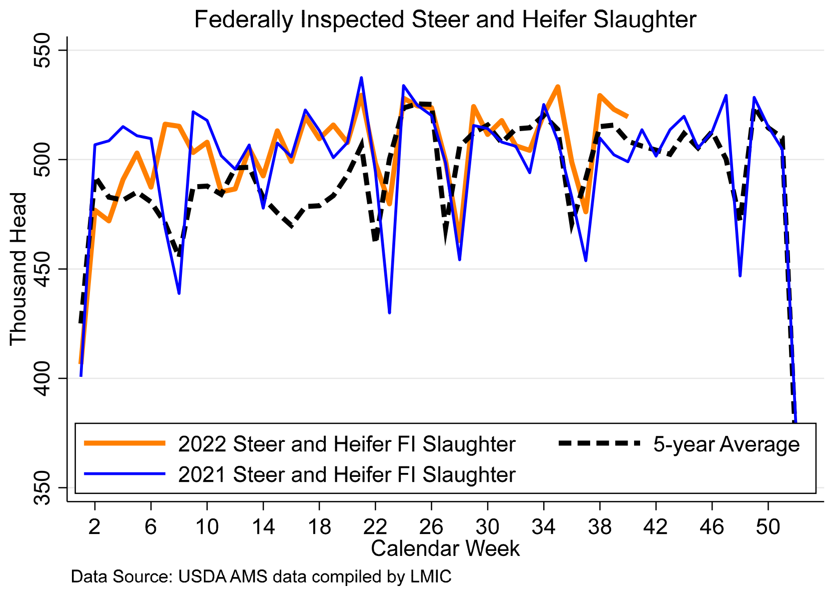
Supply and Capacity: Operational Capacity



All Federally Inspected Slaughter is slightly higher than 2021 and the 5-year average

All FI Slaughter includes cows, bulls, calves

Supply and Capacity: Operational Capacity



Fed Steer and Heifer Slaughter is above 2021 and the 5-year average

Supply and Capacity: Operational Capacity

- Transportation/Trucking Issues
- Labor
  - Availability and consistency
  - Cost
- Continuing Covid-19/Health Concerns and Plant Precautions
- These problems impact all proteins

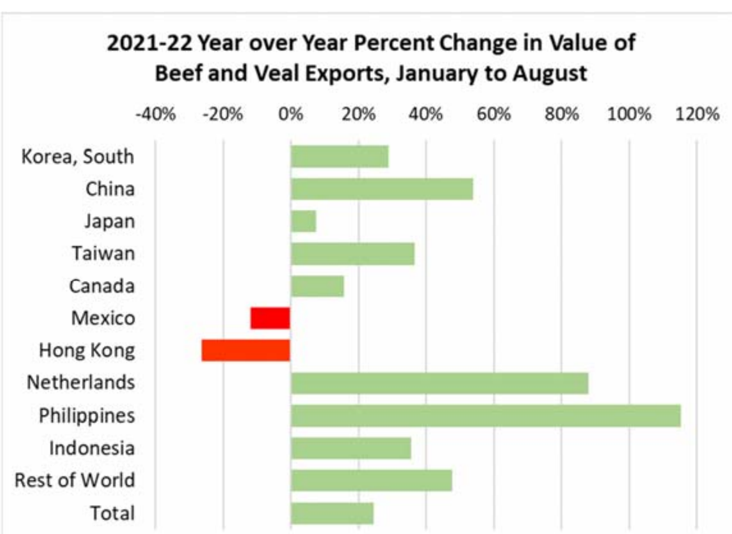
Exports: Value of Beef and Veal Exported (thousands of dollars)

Trading Partner	2017	2018	2019	2020	2021	2022(Jan to Aug)
Korea, South	$1,148,798	$1,673,118	$1,772,950	$1,653,646	$2,321,209	$1,899,623
Japan	$1,528,494	$1,753,891	$1,563,703	$1,572,352	$1,858,286	$1,294,927
China	$30,774	$60,333	$85,331	$299,594	$1,550,942	$1,427,264
Mexico	$746,029	$828,755	$829,715	$624,881	$793,744	$453,118
Canada	$774,747	$726,728	$638,203	$708,605	$756,130	$559,578
Taiwan	$408,166	$551,301	$568,356	$551,276	$662,059	$560,929
Hong Kong	$833,169	$882,537	$688,571	$608,519	$449,502	$219,526
Netherlands	$140,693	$124,988	$120,368	$120,130	$124,236	$132,965
Chile	$63,669	$62,083	$64,408	$47,562	$89,697	$44,415
Indonesia	$40,367	$48,659	$59,484	$54,704	$88,126	$80,173
Rest of World	$673,770	$749,488	$729,433	$521,782	$747,320	$716,806
Total	**$6,388,676**	**$7,461,881**	**$7,120,522**	**$6,763,051**	**$9,441,251**	**$7,389,324**

Data Source: USDA Foreign Ag Service GATS; no variety meats, offal, or hides

- 2021 was a record for value of exports
- Position of US beef in China looks promising

Exports: Value of Beef and Veal Exported



Increase in Value of Jan to Aug Trade for Eight of the Top Ten Partners Compared to Jan to Jun 2021

Partners are ranked by Jan to Aug 2022 values

Increase of ~25% in Value of Jan to Aug Trade for All Partners Compared to same period 2021

Data Source: USDA Foreign Ag Service GATS; no variety meats, offal, or hides

Choice Retail Beef Demand

- Meat Demand Index (maintained by Glynn Tonsor, Kansas State University Ag Economics)
- Analyzes price and quantity changes to determine how demand has changed

2022 Month	% Change from Previous Month	% Change from Previous Year
March	12.56	13.67
April	-10.89	4.17
May	-4.11	6.76
June	5.27	-7.99
July	-9.09	-12.02

Prices for Food at Home

- Inflationary pressure is substantial
- The inflation news is "less bad" for beef

Food Group	Change in CPI 2021	Change in CPI 2022 (ERS Forecast)
All Food	3.9%	9% to 10%
Food at Home	3.5%	10.5% to 11.5%
Beef and veal	6.8%	5.5% to 6.5%
Poultry	5.1%	9% to 10%

- In 2022, inflation in beef prices has been lower than inflation in all food and poultry prices (USDA ERS)

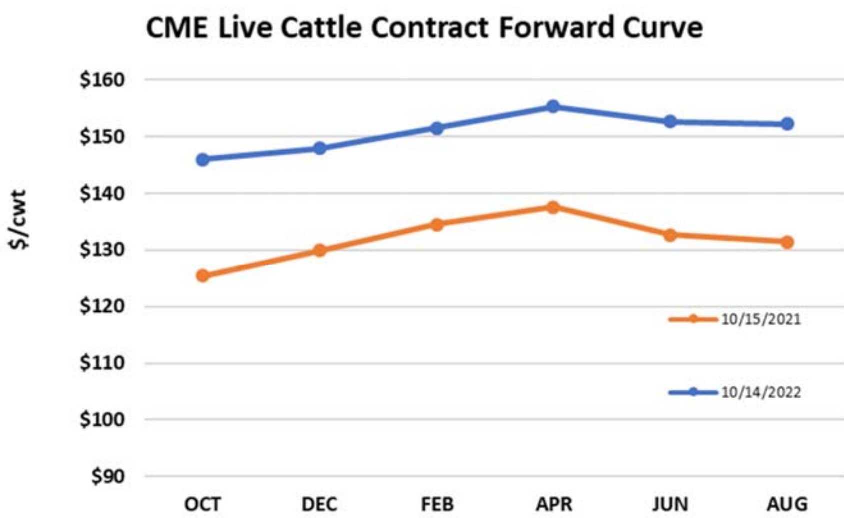
Food Away from Home

- Restaurants were creative and innovative to survive 2020-2021
- Lessons learned will be valuable long term
- Given higher prices and labor issues, some good news for 2022
  - Open Table: Reservations at 2019 levels
  - Placer.ai: Foot traffic at steakhouses higher than 2019 levels
  - Positive Q2 outlooks from many higher-end restaurants (e.g., Texas Roadhouse, Ruth's, Longhorns)

Political

- Current political environment has focus on competitiveness of the meatpacking sector
  - Potential boost in cattle feeder confidence
  - Potential increased risk exposure to meat packers
  - Some general uncertainty for investments
- Several legislative efforts in process that aim to regulate marketing of live cattle
  - Cattle Contracts Library Pilot Program has started
  - Other efforts directed at marketing methods and price discovery
  - Uncertainty around benefit/cost ratio of these measures abounds
  - Rigidity in marketing methods is likely harmful for the sector, longer term
  - With a boost in prices, these discussions have cooled

Livestock Prices



Based on weekly averages of futures settlement prices as reported by LMIC
Updated 10/14/22

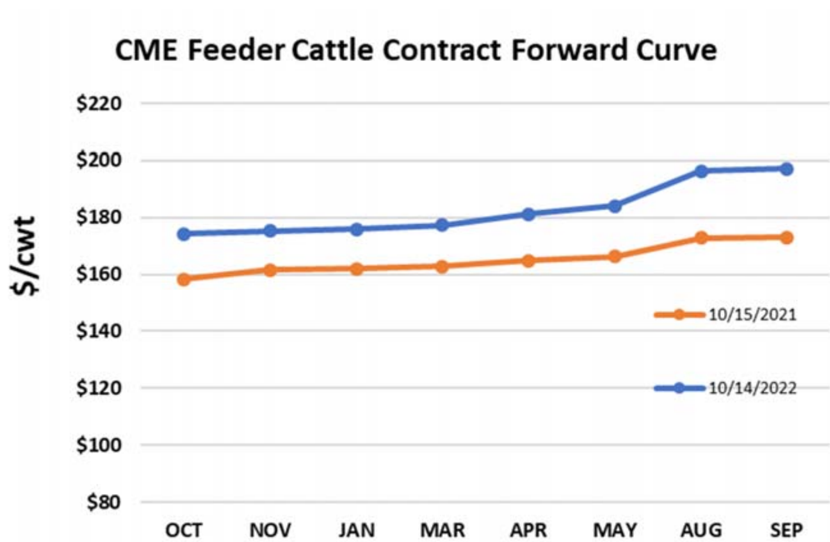
Forward curve similar to 2021 but at a higher level

USDA ERS October 2022 projection for 5-area steer prices:

Q4 2022 $148/cwt
Q1 2023 $151/cwt
Q2 2023 $152/cwt

Q4 22 and Q1 23 Oct forecasts up from July report

Livestock Prices



Based on weekly averages of futures settlement prices as reported by LMIC
Updated 10/17/22

Forward curve similar to 2021 but at a higher level

USDA ERS October 2022 projection OK City Med Frame 1 feeder steer prices:

Q4 2022 $173/cwt
Q1 2023 $175/cwt
Q2 2023 $190/cwt

All up from July report

Concluding Thoughts

- Beef cow herd liquidation seems to be ongoing…perhaps starting to slow after the seasonal decline
- Market optimism in cattle prices and feeding margin
- Higher input prices and supply chain issues
- Strong export demand for US meat continues to support prices
- Expect higher meat prices at retail and restaurants to persist
- Focus on consumer demand and trade remains key

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