

BEEF- CATTLE OUTLOOK

2020 RISK & PROFIT CONFERENCE

Economics of Agriculture During the COVID-19 Pandemic:
An Ongoing Discussion

August 10-14, 2020

ONLINE

See schedule below.

Details

- Daily sessions, beginning August 10.
- Two sessions daily on Monday, Tuesday, Wednesday, Friday from 12:00—1:30 pm
- Four sessions on Thursday, starting at 10:30
- All sessions recorded and available later
- Registration=\$30. Includes all live sessions, plus exclusive access to recordings and slides.

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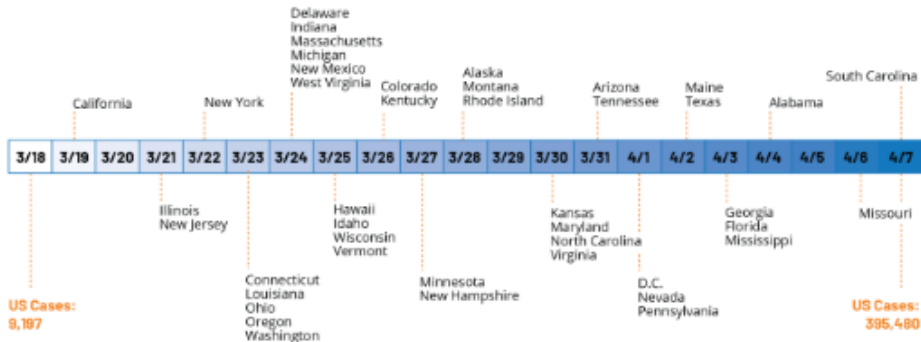


3 LARGE & (partially?) ONGOING COVID-19 SHOCKS



Stay-at-Home Orders

When State Stay-at-Home Orders Due to Coronavirus Went into Effect



SOURCE: KFF, State Data and Policy Actions to Address Coronavirus, <https://www.kff.org/health-costs/issue-brief/state-data-and-policy-actions-to-address-coronavirus/#note-3-10> and state government websites.



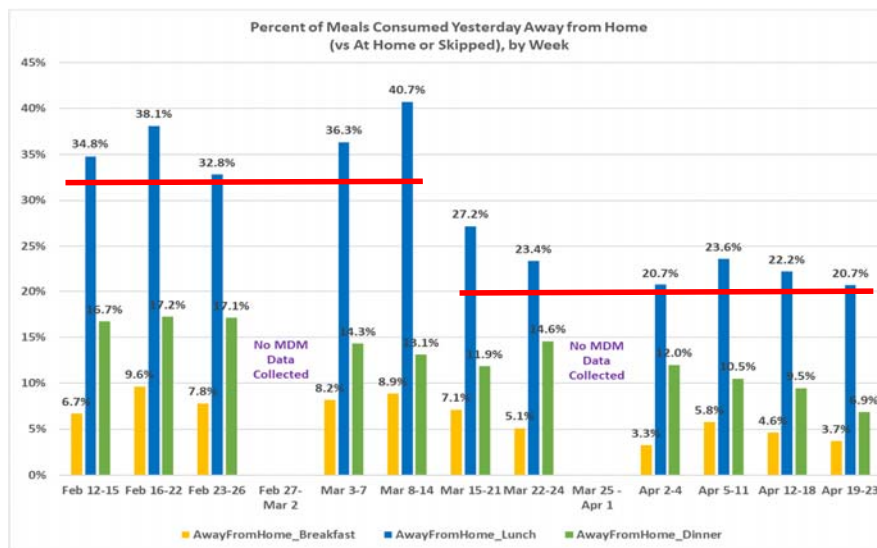
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<https://www.kff.org/other/slide/when-state-stay-at-home-orders-due-to-coronavirus-went-into-effect/>

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SHOCK #1: Shift to At-Home: Mid-March thru April



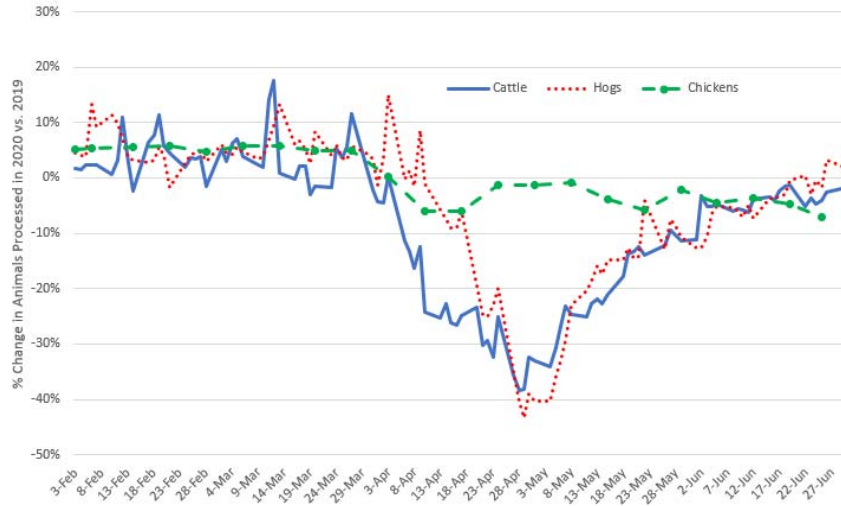
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<https://www.agmanager.info/livestock-meat/meat-demand/monthly-meat-demand-monitor-survey-data/meat-demand-monitor-coronavirus>

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Beef & Pork Packing Challenges Develop



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<https://static1.squarespace.com/static/502c267524aca01df475f9ec/t/5f33fb8996534b02af31fa86/1597242250084/Marketing+Margin+s+during+COVID19+revised+2.pdf>

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SHOCK #2: Animal-to-Meat Bottleneck in April-May Societal Calls: *Where's my Meat?*



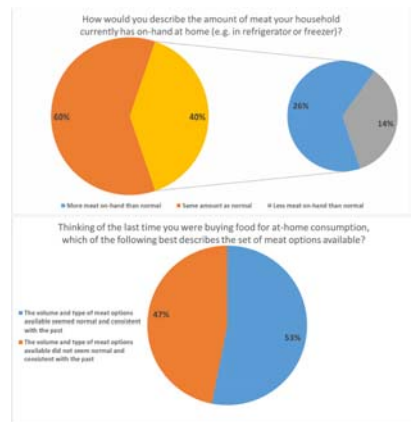
TIME

COVID-19 Meat Shortages Could Last for Months. Here's What to Know Before Your Next Grocery Shopping Trip

<https://time.com/5830178/meat-shortages-coronavirus/>



Meat shortages as virus forces plants to close
The effects of the coronavirus pandemic continue to ripple through the food industry. Dean Reynolds reports. 6/19/20, 2020.
<https://www.cbsnews.com/video/meat-shortages-as-virus-forces-plants-to-close/>



<https://www.purdue.edu/newsroom/releases/2020/Q2/questions-and-answers-about-the-road-from-farm-to-table.html>

<https://www.agmanager.info/livestock-meat/meat-demand/monthly-meat-demand-monitor-survey-data/meat-demand-monitor-coronavirus>



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Consumer Demand Response

- Recession = Weaker Demand (typically)
- Stimulus = Supports Demand
- Growing Importance of At-Home Supplies = Supports Demand



SHOCK #3? Will Meat Demand Weaken ? / TBD!

Table 2.1. Aggregate Meat Demand Elasticities Summary

Period	Beef Price Used	Beef Demand			Pork Demand			Chicken Demand	
		Own-Price	Pork Cross-Price	Chicken Cross-Price	Exp.	Own-Price	Exp.	Own-Price	Exp.
1988-2017	All-Fresh	-0.479	0.087	0.023	0.803	-0.307	0.141	-0.339	0.425
1988-2007	All-Fresh	-0.645	0.145	0.026	0.790	-0.229	-0.262	-0.345	0.371
2008-2017	All-Fresh	-0.450	-0.032	0.083	0.959	-0.089	1.231	-0.378	0.856
1970-2017	Choice	-0.593	0.120	0.041	0.118	-0.973	-0.170	-0.133	0.218
1988-2017	Choice	-0.490	0.085	0.021	0.781	-0.313	0.146	-0.345	0.430
1970-1994	Choice	-0.594	0.138	0.039	0.118	-0.924	-0.004	-0.159	0.003
1995-2017	Choice	-0.468	0.049	-0.044	0.867	-0.287	0.634	-0.469	0.960

Assessing Beef Demand Determinants

Prepared for the Cattlemen's Beef Board

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Jayson L. Lusk, Purdue University (jayson.lusk@gmail.com)

and Ted C. Schroeder, Kansas State University (tc@ksu.edu)

January 18, 2018

<https://www.agmanager.info/livestock-meat/meat-demand/past-meat-demand-research-studies>

Note: "Exp." is Expenditure abbreviated. All Rotterdam models were estimated using iterative three-stage least squares.

WTP Lower for Those Expecting Worse

RETAIL		Ribeye Steak	Ground Beef	Pork Chop	Bacon	Chicken Breast	Plant-Based Patty	Shrimp	Beans and Rice	Something Else
Finances will be Worse in 1 Year	WTP (\$/lb)	\$ 15.64	\$ 6.80	\$ 5.31	\$ 4.36	\$ 6.57	\$ 8.63	\$ 8.56	\$ 1.90	
	Market Share	6.4%	24.0%	11.6%	6.9%	26.4%	3.1%	4.3%	7.0%	10.4%
Finances will NOT be Worse in 1 Year	WTP (\$/lb)	\$ 16.65	\$ 7.96	\$ 6.60	\$ 5.25	\$ 7.85	\$ 8.12	\$ 9.10	\$ 2.75	
	Market Share	7.3%	23.3%	13.2%	7.5%	26.2%	2.5%	4.5%	7.5%	8.1%
FOOD SERVICE		Ribeye Steak	Beef Hamburger	Pork Chop	Baby Back Ribs	Chicken Breast	Plant-Based Patty	Shrimp	Salmon	Something Else
Finances will be Worse in 1 Year	WTP (\$/lb)	\$ 20.92	\$ 15.20	\$ 12.45	\$ 14.37	\$ 13.86	\$ 7.29	\$ 14.39	\$ 16.53	
	Market Share	10.2%	24.1%	4.1%	9.0%	14.2%	2.0%	14.3%	10.5%	11.6%
Finances will NOT be Worse in 1 Year	WTP (\$/lb)	\$ 25.94	\$ 18.48	\$ 13.97	\$ 18.00	\$ 17.07	\$ 12.80	\$ 17.34	\$ 17.38	
	Market Share	15.3%	21.9%	4.2%	11.0%	14.4%	4.8%	13.8%	7.6%	7.1%



<https://www.agmanager.info/livestock-meat/meat-demand/monthly-meat-demand-monitor-survey-data/meat-demand-monitor-coronavirus>

Market Implications

SHOCK #1: Shift to At-Home: Mid-March thru April

- “Not all meat is equal”
 - Weeks of beef round > loin

- ✓ GT #1: Need to better appreciate differences in ground & muscle product demand

- ✓ GT #2: Market channel differences underlie AGGREGATE data/info



Market Implications

SHOCK #2: Animal-to-Meat Bottleneck

- Surplus of animals & “shortage” of meat
 - Elevated SOCIETAL interest

- Bottleneck = lower livestock prices & higher meat prices
 - THIS IS WHAT ECONOMISTS EXPECT!!!

- Multiple, growing pushes on myriad of policies
 - ✓ GT #1: Need to CAREFULLY balance possible gains in system robustness with peace-time efficiency

 - ✓ GT #2: Assessment needed and any action based on data/info, not emotion



Market Implications

SHOCK #3: Will Meat Demand Weaken ?

- Weaker demand = less \$ for industry and ultimately smaller livestock and meat production
 - ✓ GT #1: Ongoing mis-understanding of demand is problematic
 - ✓ GT #2: Recognition of US comparative advantages, growing role of exports, and “fit” with policy and industry strategy must improve
 - ❖ Homework Assignment: Google “Smoot-Hawley Tariff Act of 1930”



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<https://www.agmanager.info/livestock-meat/meat-demand/monthly-meat-demand-monitor-survey-data/meat-demand-monitor-coronavirus>

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Updated Outlook Situation



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Fed Cattle Flows – April 28th

Week ending May 2 = 425k FI

May 1st: 510k that “should” have been marketed in April?

Kansas State University Department Of Agricultural Economics Extension Publication

04/28/2020

Fed Cattle Flows: Demonstrative Scenario Examples

Glynn Tonsor (gtonsor@ksu.edu) Kansas State University Department of Agricultural Economics
Lee Schulz (lschulz@iastate.edu) Iowa State University Department of Economics

Demonstrative Possible June 1st, Fed Cattle Overflow Situations (1,000 hd)		
	Scenario Description	Overflow
Scenario 1	450k constant week-ending 5/2 to 5/30	1,219
Scenario 2	425k constant week-ending 5/2 to 5/30	1,344
Scenario 3	450k constant week-ending 5/2 to week-ending 5/9 and then 500k to 5/30	1,069
Scenario 4	425k constant week-ending 5/2 to 5/9 and then 450k to 5/30	1,269

Ultimately, did a bit better than Scenario 3



<https://www.agmanager.info/livestock-meat/marketing-extension-bulletins/marketing-strategies-and-livestock-pricing/fed-cattle>

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Fed Cattle Flows – July 31st

Presuming 625k/week FI slaughter (on average) thru end of August:

- Aug 1st “overflow” of ~849k head
- **Sept 1st overflow of ~421k head**
- *Punchline:* by Labor Day COULD be in much better situation

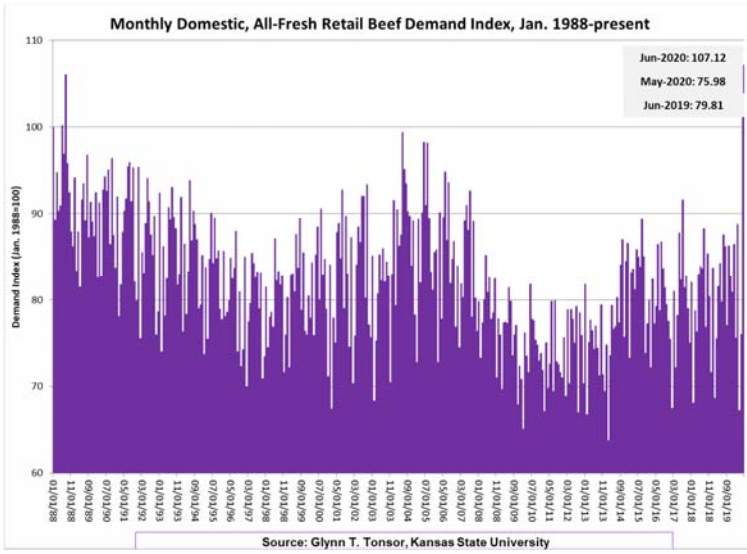
Main risks/unknowns

1. Can industry sustain “nearly full” FI volumes?
 - Drop by 25k/week = 100k more carryover one month later
2. Is there actually 20% of total feedlot inventory in small (<1k head) yards?



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Domestic Beef Demand



- ✓ Apr & May: Weaker than 2019 (Restaurant Weakness > Retail Strength?)
- ✓ June: Strong Recovery
- ❖ USDA may revise Retail prices 3 months later...



<https://www.agmanager.info/livestock-meat/meat-demand/monthly-domestic-meat-demand-indices-usdabls-data>

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Domestic Beef Demand: Additional Retail Improvement in July?

KANSAS STATE
Department of
Agricultural Economics
Vol. 1, Issue 6 • July 2020

MDM: Meat Demand Monitor

The MDM tracks U.S. consumer preferences, views, and demand for meat with separate analysis for retail and food service channels. MDM is a monthly online survey with a sample of over 2,000 respondents reflecting the national population.

Willingness to Pay & Projected Market Share

RETAIL	Ribeye Steak	Ground Beef	Pork Chop	Bacon	Chicken Breast	Plant-Based Patty	Shrimp	Beans and Rice	Something Else
Jun-20 WTP (\$/lb)	\$15.92	\$7.41	\$5.71	\$4.50	\$7.20	\$7.52	\$8.22	\$1.98	
Market Share	7%	23%	12%	7%	25%	3%	4%	7%	10%
Jul-20 WTP (\$/lb)	\$16.17	\$7.59	\$6.38	\$5.17	\$7.48	\$7.71	\$8.80	\$2.19	
Market Share	7%	23%	14%	8%	27%	2%	4%	7%	9%

FOOD SERVICE	Ribeye Steak	Beef Hamburger	Pork Chop	Baby Back Ribs	Chicken Breast	Plant-Based Patty	Shrimp	Salmon	Something Else
Jun-20 WTP (\$/meal)	\$25.43	\$18.69	\$15.64	\$18.35	\$17.48	\$12.63	\$17.25	\$18.14	
Market Share	14%	23%	5%	11%	15%	4%	13%	8%	7%
Jul-20 WTP (\$/meal)	\$25.65	\$18.40	\$14.41	\$17.75	\$17.30	\$12.52	\$17.48	\$17.80	
Market Share	15%	22%	4%	10%	15%	5%	14%	8%	7%

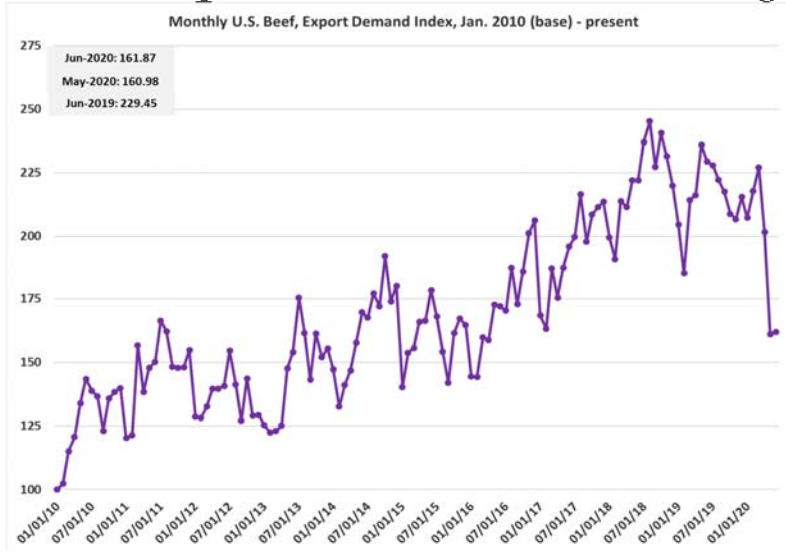
- MDM (July vs June)
- ✓ Retail: Ribeye & Ground up
- ✓ FS: Ribeye up & Ground down



<https://www.agmanager.info/livestock-meat/meat-demand/monthly-meat-demand-monitor-survey-data>

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Beef Export Demand Recovery Needed!



- Points of Optimism**
- ✓ Weaker USD recently,
 - ✓ Stronger Asian econ (?),
 - ✓ US FI volume recovery



<https://www.agmanager.info/livestock-meat/meat-demand/monthly-export-meat-demand-indices-usdabls-data>

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Quarterly Forecasts (LMIC: 7/31/20)

Year	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2019						
I	7,935	0.7	808.3	-1.5	6,414	-0.8
II	8,576	1.8	794.8	-0.4	6,817	1.4
III	8,542	2.2	810.5	-0.6	6,923	1.5
IV	8,503	1.9	823.4	0.1	7,001	2.0
Year	33,555	1.7	809.2	-0.6	27,155	1.1
2020						
I	8,399	5.9	825.0	2.1	6,929	8.0
II	7,393	-13.8	818.9	3.0	6,054	-11.2
III	8,786	2.9	835.7	3.1	7,342	6.1
IV	8,534	0.4	833.7	1.2	7,115	1.6
Year	33,112	-1.3	828.7	2.4	27,440	1.1
2021						
I	8,009	-4.6	831.2	0.8	6,657	-3.9
II	8,132	10.0	815.9	-0.4	6,634	9.6
III	8,227	-6.4	830.7	-0.6	6,834	-6.9
IV	8,095	-5.1	842.1	1.0	6,817	-4.2
Year	32,463	-2.0	829.9	0.2	26,942	-1.8

2020 Per Capita Consumption: +0.1%!!!

Q1: +5.5%
 Q2: -8.8%
 Q3: +3.3%
 Q4: +0.5%

Trade continues to smoothing role: (compare Domestic Production & Domestic PC Cons by quarter)

Also see:
<https://www.agmanager.info/livestock-meat/marketing-extension-bulletins/trade-and-demand/overview-us-beef-production-export>



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Quarterly Forecasts: Cattle (LMIC: 7/31/20)

Year	Live Sltr.	% Chg. from	Feeder Steer Price	
	Steer Price		Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2019				
I	125.27	-0.3	142.87	171.41
II	118.79	1.8	143.23	167.22
III	108	-2.4	144	157
IV	115	-0.4	148	158
Year	117	-0.3	145	163
2020				
I	118.32	-6.6	138.90	166.38
II	105.79	-11.2	129.45	152.55
III	99-102	-7.1	142-145	154-156
IV	108-112	-4.2	140-144	157-161
Year	107-109	-7.5	137-140	157-160
2021				
I	113-118	-2.4	140-145	163-168
II	116-122	12.5	142-148	169-175
III	114-121	16.9	151-161	165-175
IV	117-125	10.0	153-163	166-176
Year	117-120	9.7	148-152	167-171



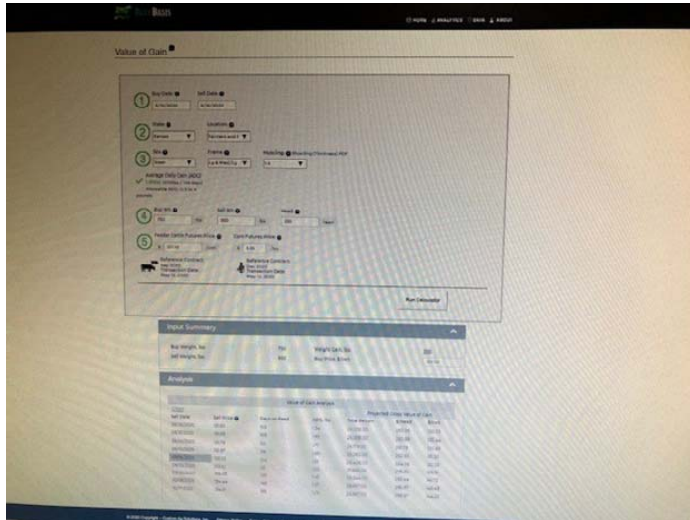
KS Feedlot Returns (cash-2-cash), as of August 11, 2020

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

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Fed Futures	Fed Basis	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Jul-20	-302.33	81.33	95.37	100.76	-5.39	143.61	37.74	116.09	104.12
Aug-20	-72.22	80.21	109.85	108.30	1.55	141.01	69.68	114.76	131.83
Sep-20	50.40	79.12	108.55	108.30	0.25	124.98	86.45	105.10	131.52
Oct-20	108.19	78.95	112.01	111.68	0.33	122.24	95.37	104.72	135.34
Nov-20	69.18	79.28	112.32	111.68	0.64	128.25	89.26	107.79	136.54
Dec-20	88.25	78.51	116.20	115.15	1.05	135.26	90.79	110.43	146.14
Jan-21	50.67	77.84	115.43	115.15	0.28	137.30	85.17	112.08	143.44
Feb-21	24.73	79.40	118.66	117.50	1.16	146.09	82.92	117.02	149.17
Mar-21	44.38	79.31	121.30	117.50	3.80	148.20	85.64	118.36	153.68
Apr-21	-47.40	80.26	114.99	110.95	4.04	148.43	73.49	118.22	142.23



Feeder Cattle Price, Basis, & VOG Use BeefBasis.com



Salina Market, as of August 11th

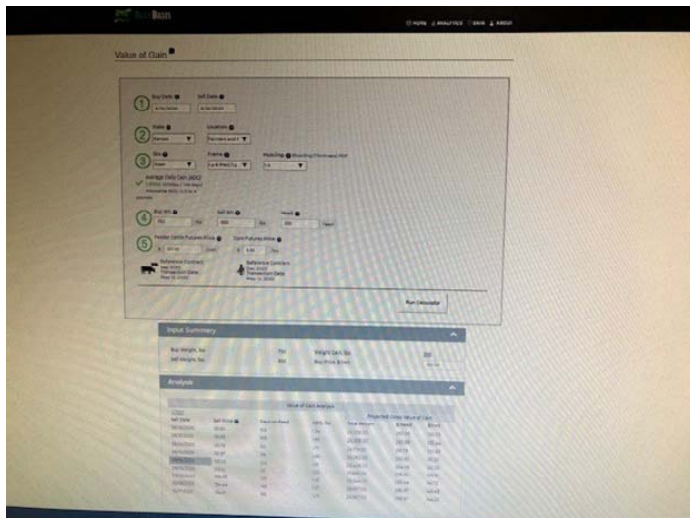
10/7 Sell @ 550 lbs

- **Expected Cash Price: \$169/cwt**



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Feeder Cattle Price, Basis, & VOG Use BeefBasis.com



Salina Market, as of August 11th

10/7 Buy/Retain @ 550 lbs

1/13 Sell @ 725 lbs

DOF=98 & ADG=1.8

- **Expected Buy Price: \$169/cwt**
- **Expected Sales Price: \$152/cwt**

➤ **VOG: \$95.40/cwt (\$167/hd)**



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More information available at:



This presentation will be available in PDF format at:

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

Host of additional industry resources are cross-linked as well

