

Risk & Profit CONFERENCE



K-State Dept. of Agricultural Economics

August 17-18, 2017

K-State Alumni Center
Manhattan, KS

Livestock Industry Outlook Overview

Glynn Tonsor

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

*The Ag Economy
New Farm Bill and A Lot
More*

K-STATE
Research and Extension



AgManager
.info

Overarching Beef Industry Economic Outlook

- Supplies
 - Expansion continues, but has moderated
- Demand
 - Mixed signals
 - Role of export demand has become clear

Overarching Beef Industry Economic Outlook

BEEF

How the Trans-Pacific Partnership will benefit U.S. beef

The benefits of the Trans-Pacific Partnership for U.S. beef are mainly in Japan, Vietnam.

By Joe Schuele | Nov 02, 2015



Beef Labels

Cattle Groups Sue USDA Over Country-of-Origin Labeling

Victoria G. Myers, Progressive Farmer Senior Editor
6/26/2017 | 12:30 PM CDT



NAFTA Benefits Beef Trade Across U.S.-Canada Border

By Wyatt Bechtel (/users/wbechtel) May 23, 2017 | 7:39 pm EDT



Market Highlights: Should JBS Scandal Concern Cattlemen?

By Andrew P. Griffith, University of Tennessee June 12, 2017 | 11:01 am EDT

CNNMoney (London)

U.S. bans imports of Brazilian beef over safety concerns

by Ivana Kottasová @ivanakottasova

June 30, 2017: 5:07 AM ET

Recommend 4.5K



Overarching Beef Industry Economic Outlook

The New York Times | <https://nyti.ms/2uLdlDw>

BUSINESS DAY

ABC's 'Pink Slime' Report Tied to \$177 Million in Settlement Costs

By CHRISTINE HAUSER AUG. 10, 2017

The New York Times | <https://nyti.ms/2vyuK1Z>

ASIA PACIFIC

North Korea Says It Will Wait 'a Little More' Before Acting on Guam Threat

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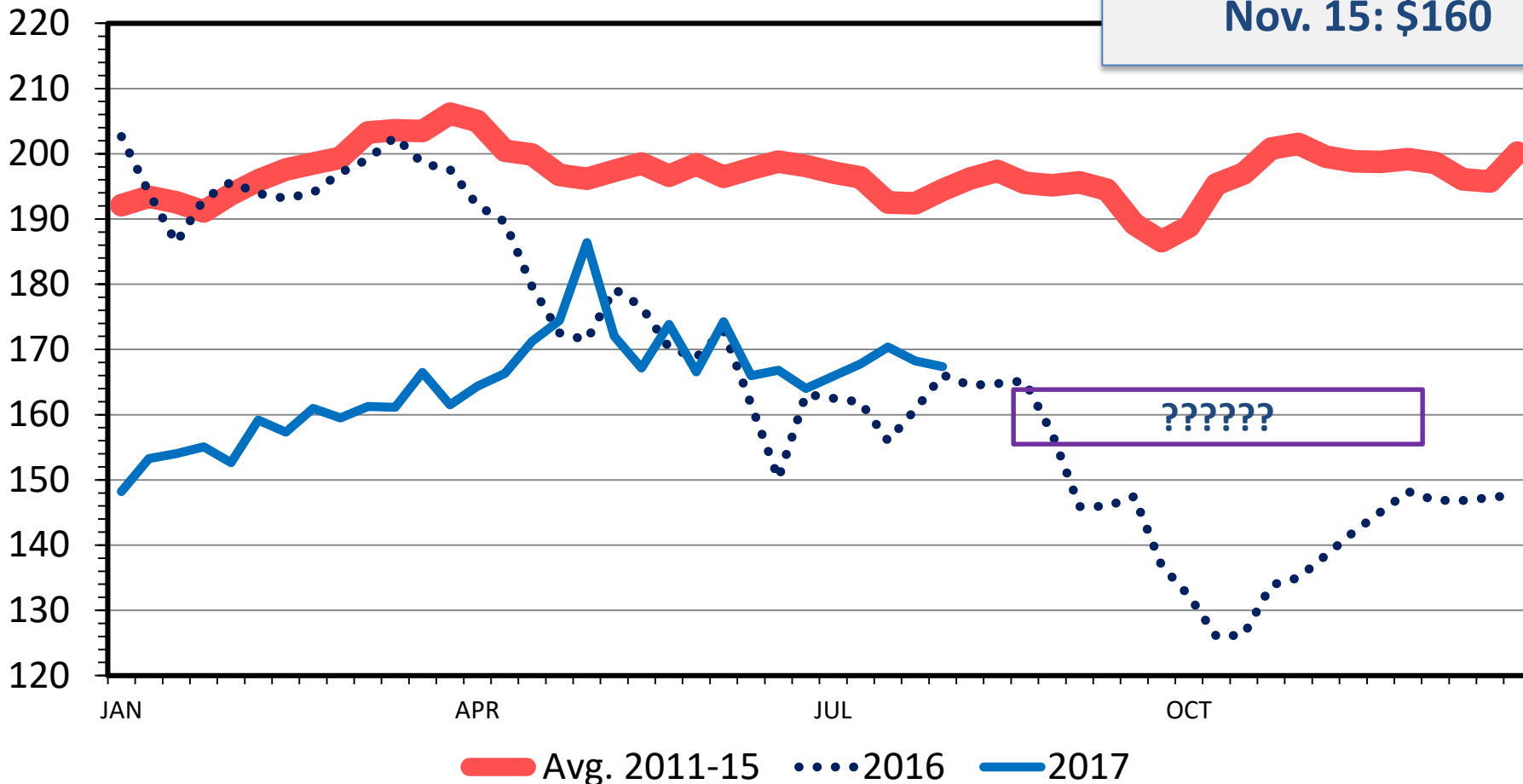
By CHOE SANG-HUN AUG. 15, 2017

Beef Basis, Salina KS
Projections (as of 8/16):
Sept. 13: \$164
Oct. 11: \$160
Nov. 15: \$160

MED. & LRG. #1 STEER CALF PRICES

500-600 Pounds, Southern Plains, Weekly

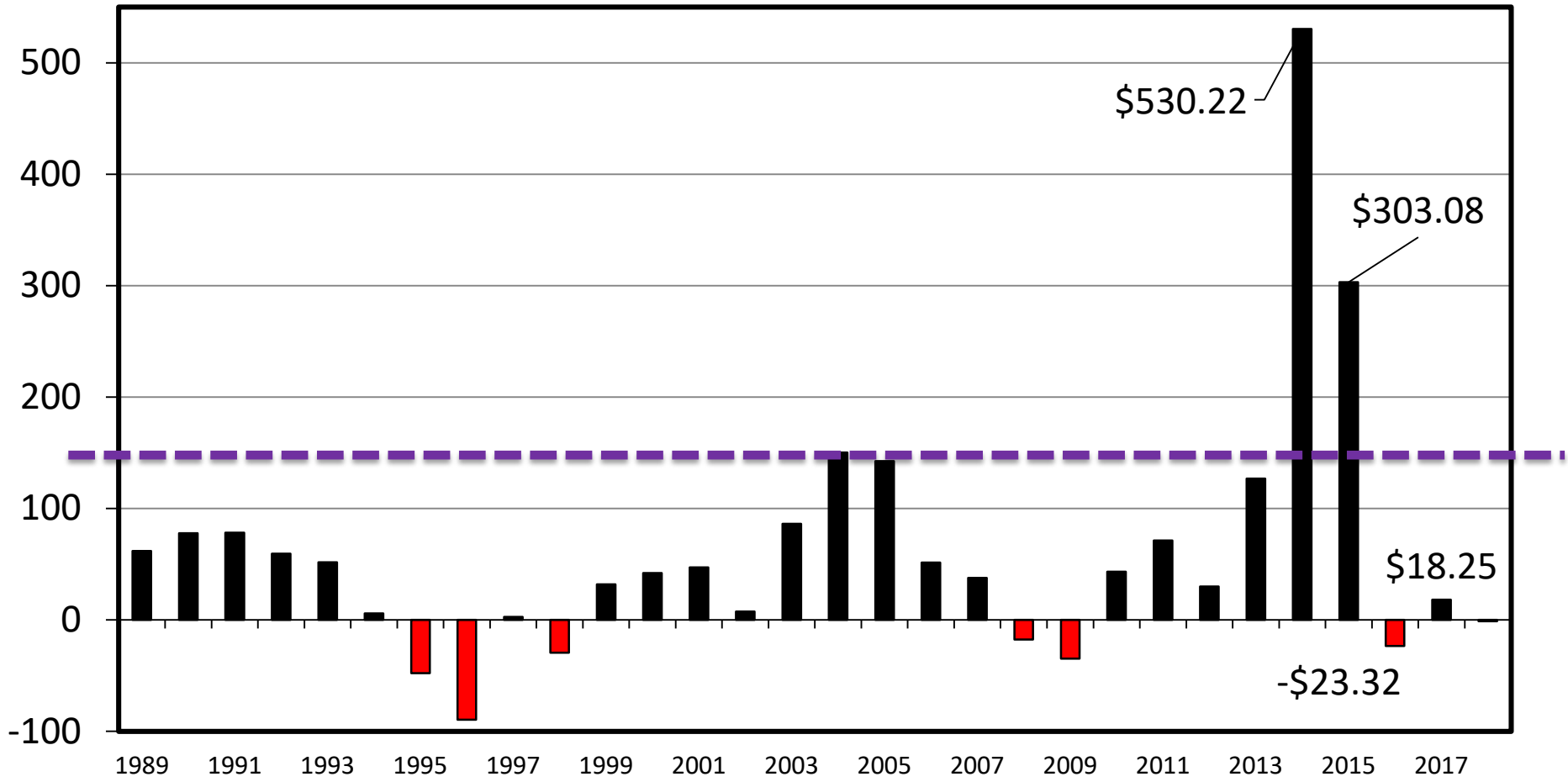
\$ Per Cwt.



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

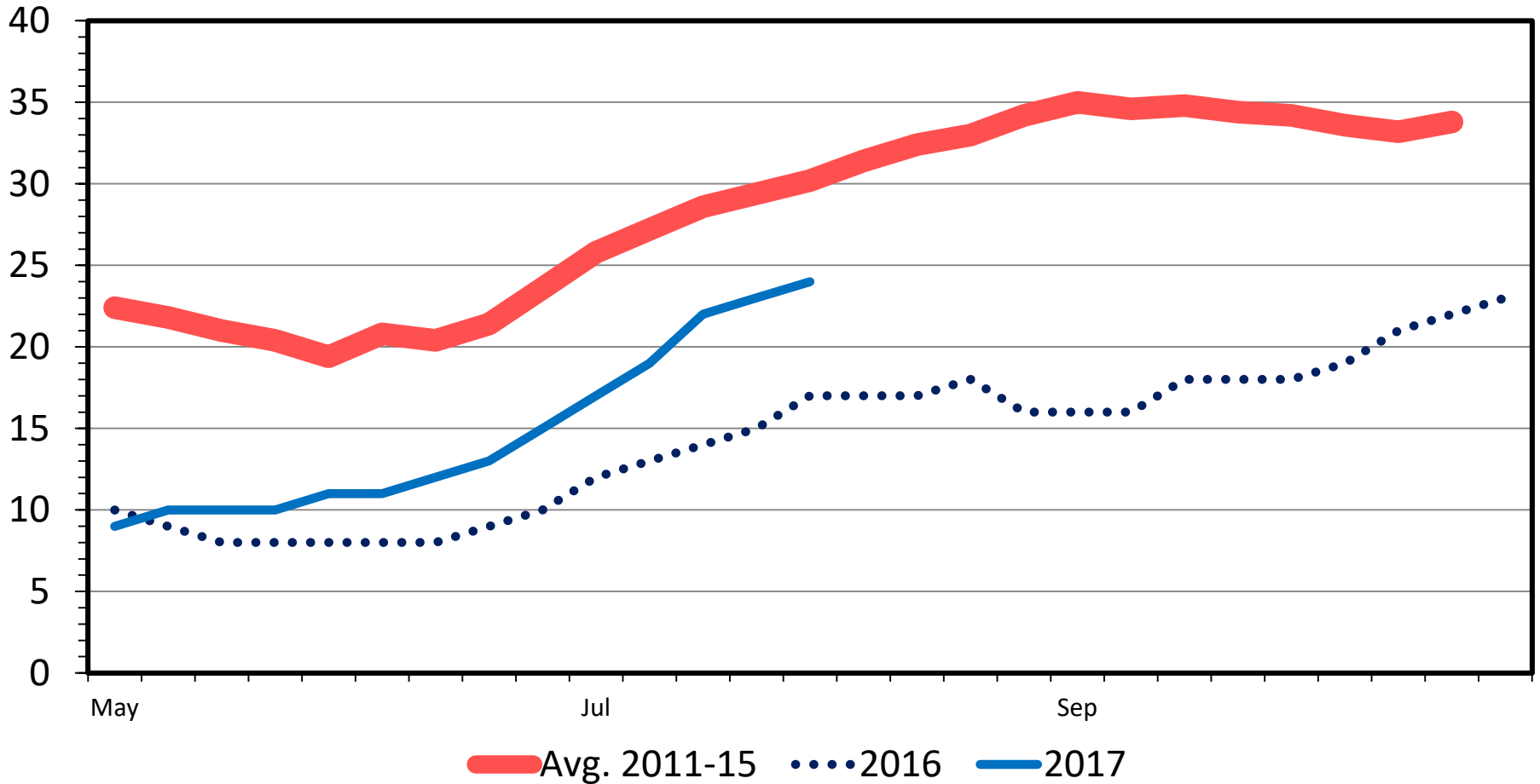
C-P-66

08/13/17

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

Percent



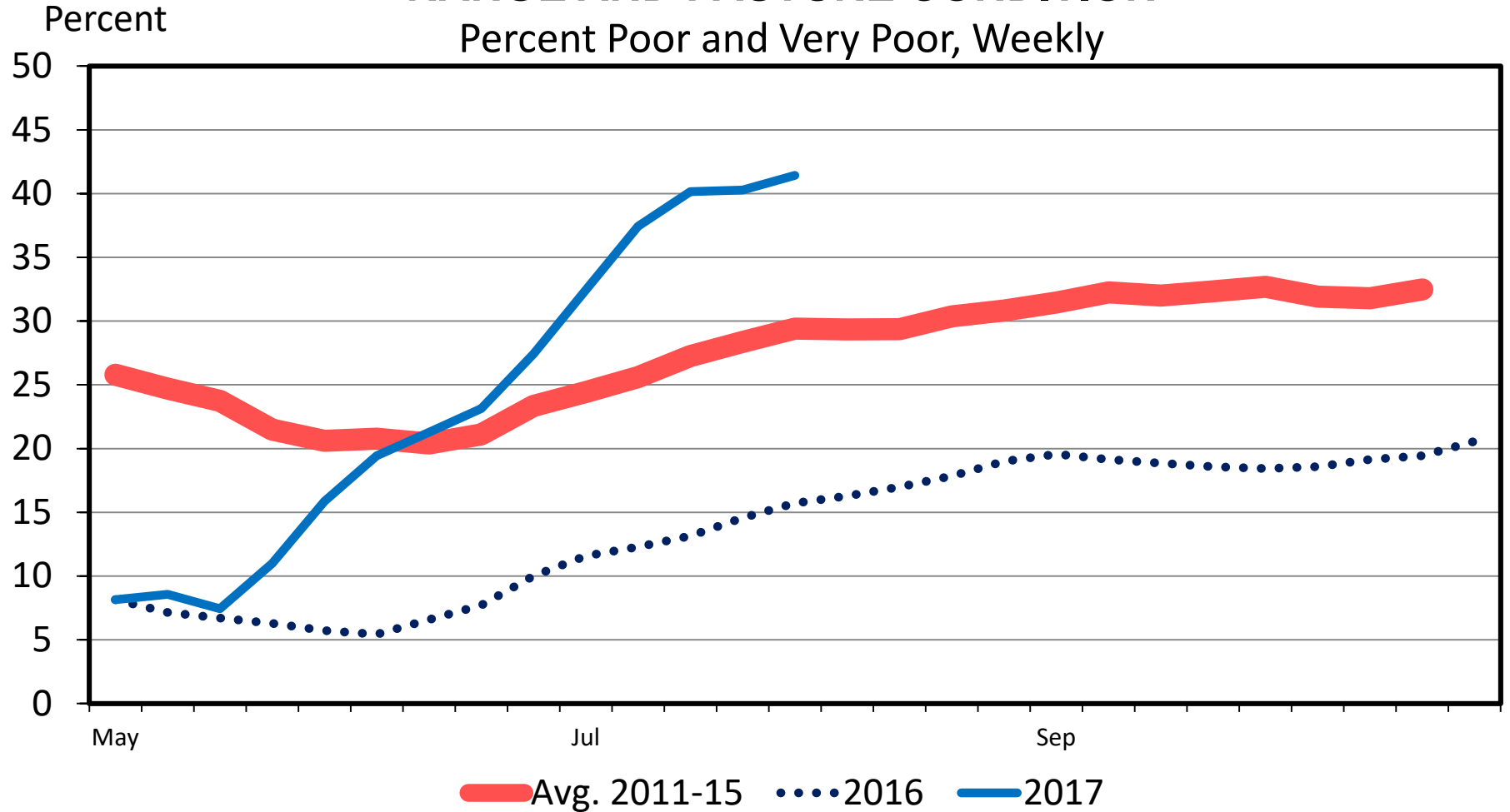
Data Source: USDA-NASS, Compiled & Analysis by LMIC

Livestock Marketing Information Center

G-NP-30
08/08/17

GREAT PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



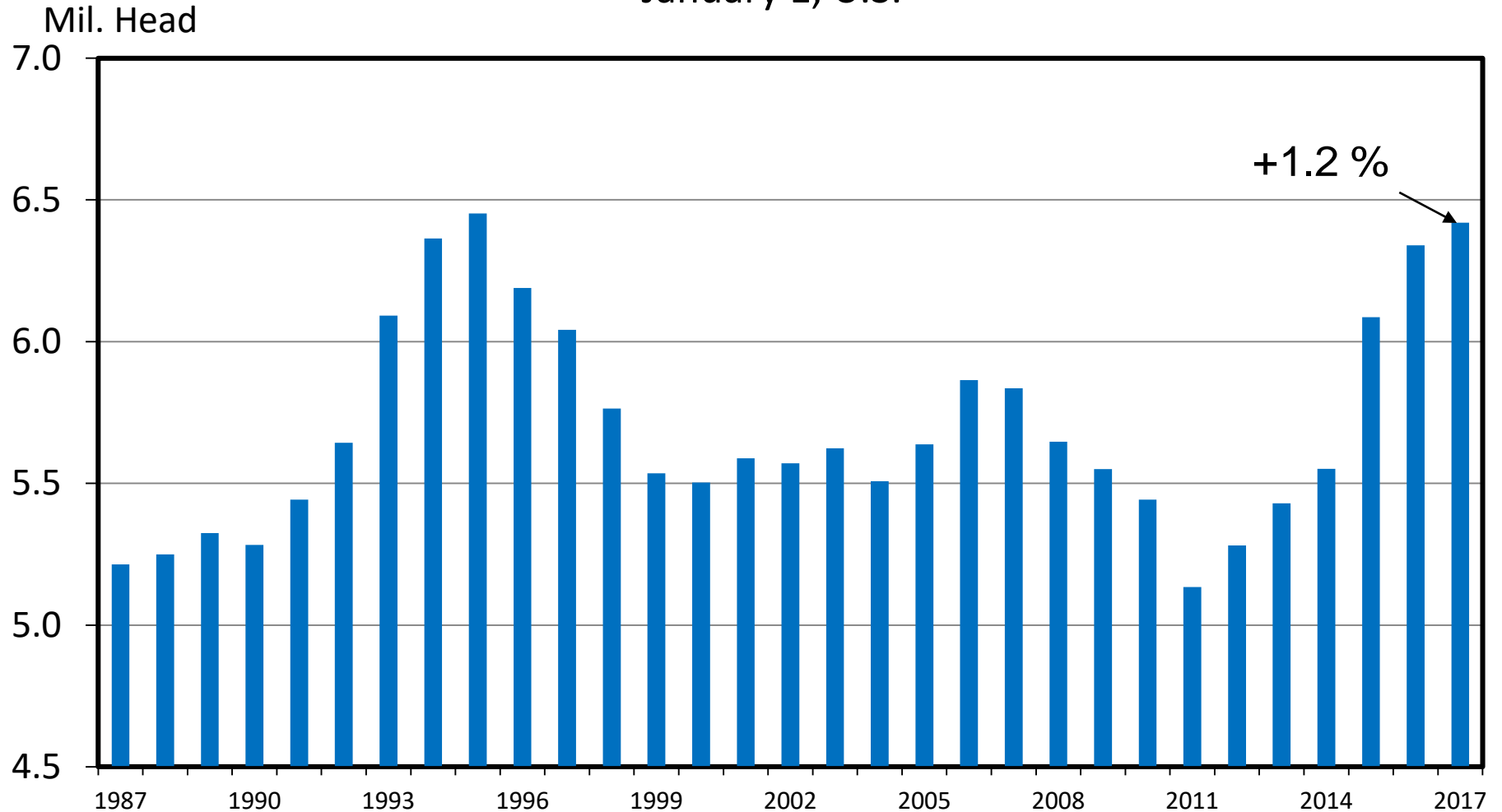
Data Source: USDA-NASS, Compiled & Analysis by LMIC

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08/08/17

HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.



+1.2 %

Data Source: USDA-NASS

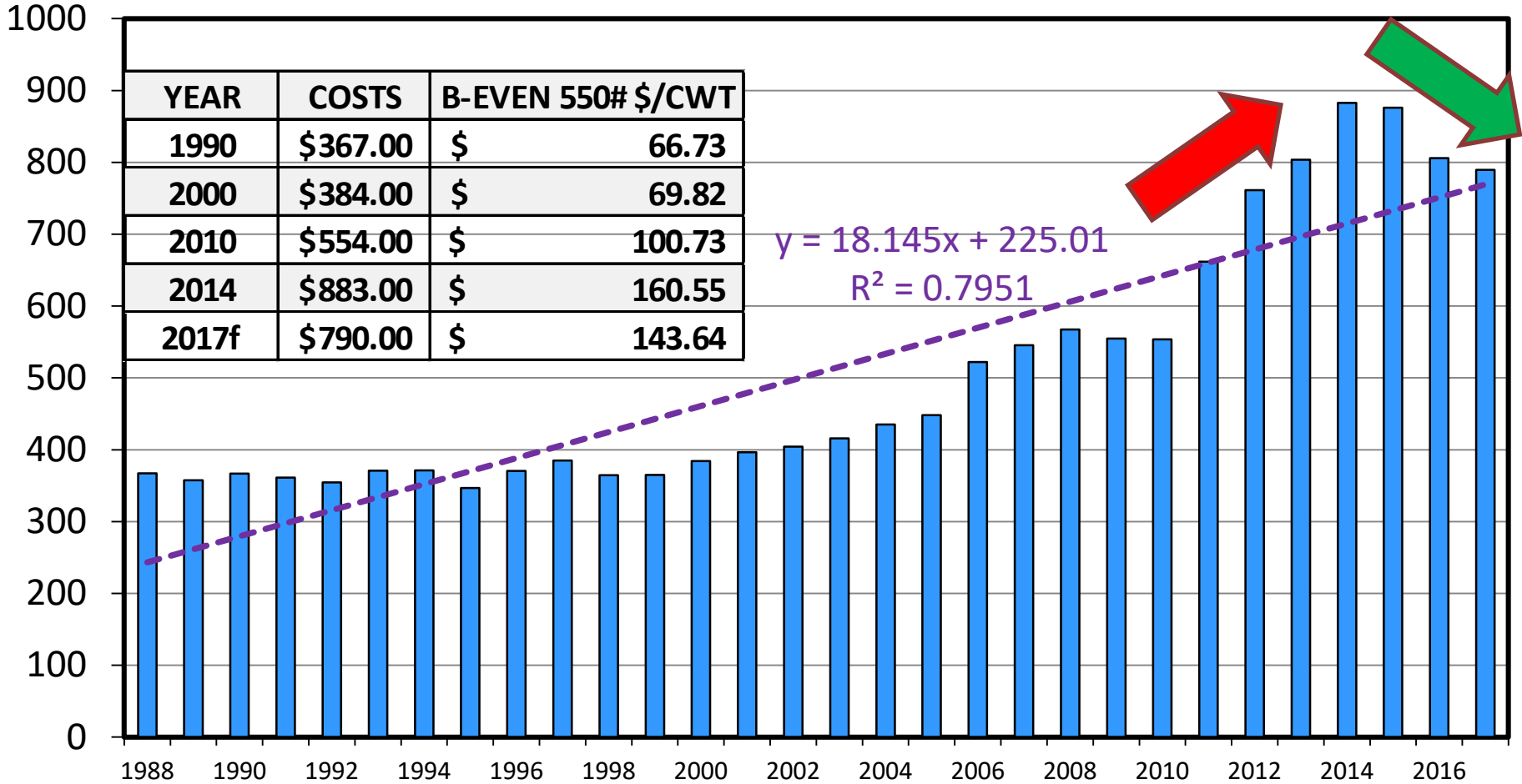
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ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual

\$ Per Cow



Data Source: USDA & LMIC, Compiled by LMIC

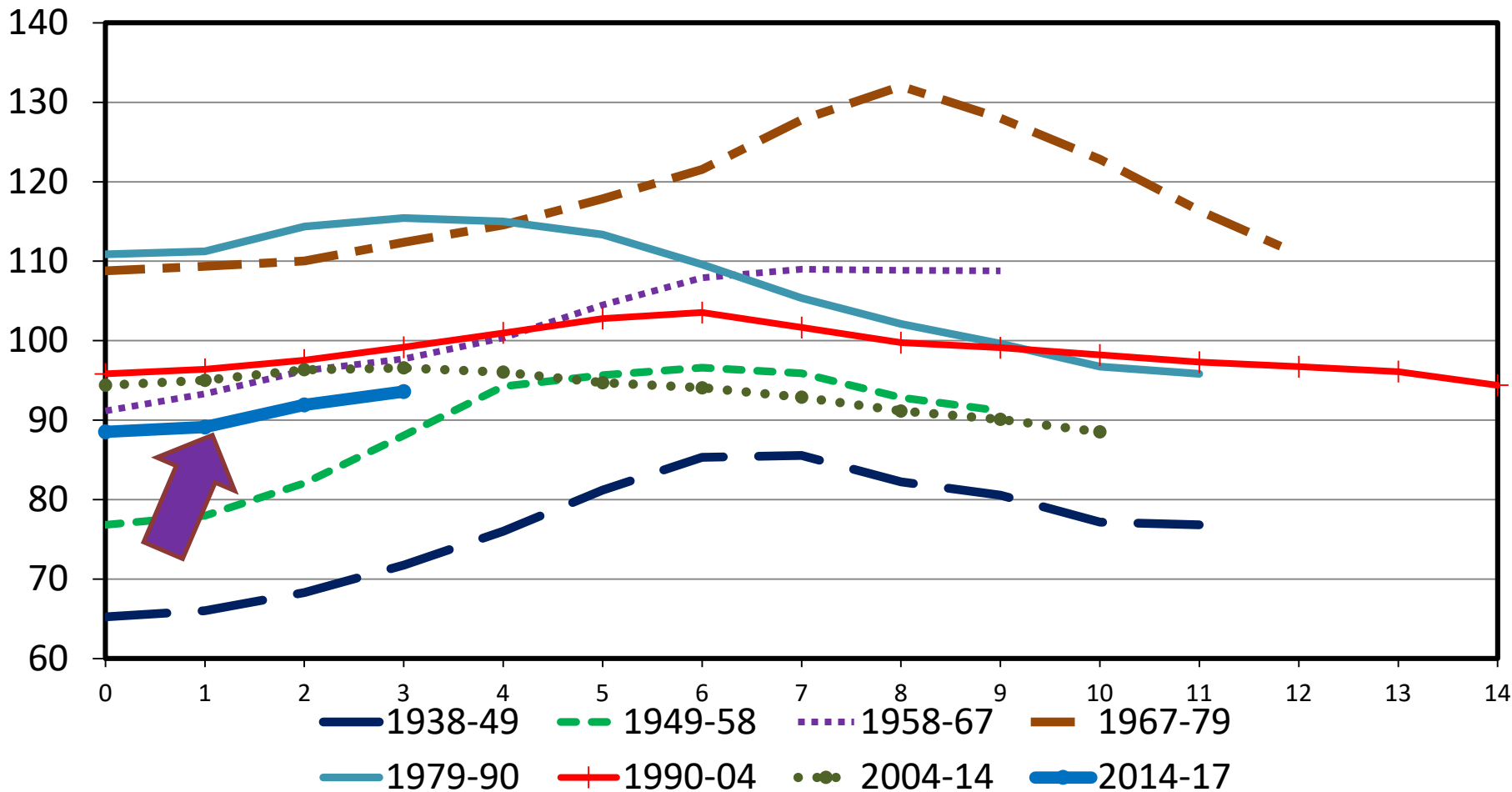
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TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

C-N-40

08/13/17

Feeder Cattle Price Protection Considerations (as of 8/16/17)

- Salina, KS 8/16/17 situation :
 - Sell 550 lb calves on 9/13/17 (\$160)
- Considering price protection on Sept. sale
 - Or for buyer, consider protection for future sale
 - ***USE: K-State Feeder Cattle Risk Mgmt Tool.xlsx***

<http://www.agmanager.info/k-state-feeder-cattle-risk-management-tool>

Feeder Cattle Price Protection Considerations (as of 8/16/17)

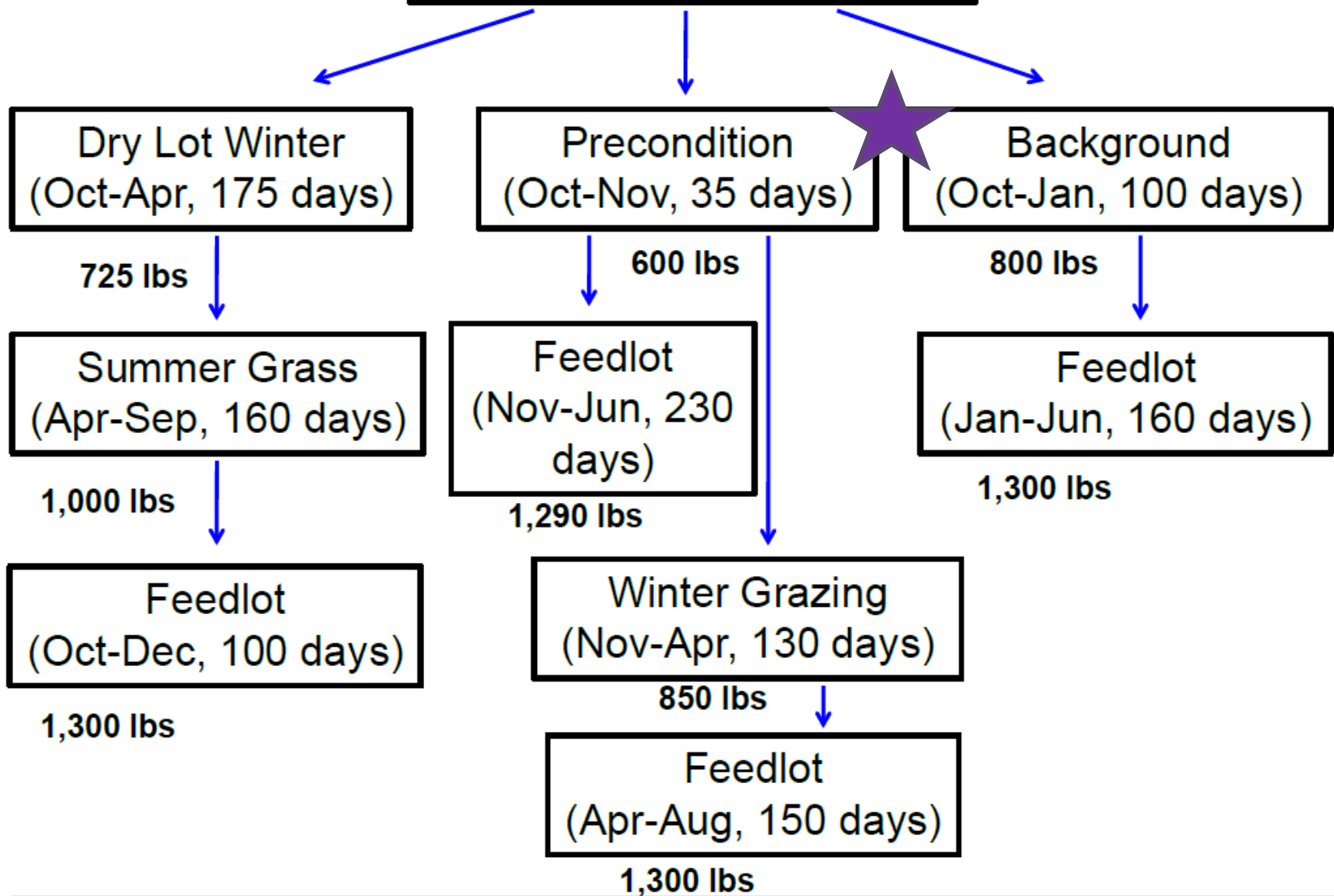
K-State Feeder Cattle Risk Mgmt Tool.xlsx (updated 8/14/17)

	Futures	LRP	Put	Call	Put	Call
Number of contracts	1	90	1	1	1	1
Strike price(s), \$/cwt		\$147.41	\$138.00	\$146.00	\$138.00	\$146.00
Premium, \$/cwt		\$4.422	\$4.225	\$3.875	\$4.225	\$3.875

Expected Net Selling Prices

Futures price	Cash	Hedge	LRP	Put	Hedge & Call	Put & Call
\$100.00	\$110.23	\$152.13	\$143.22	\$144.22	\$148.15	\$148.08
\$110.00	\$120.23	\$152.03	\$142.22	\$144.12	\$148.05	\$147.98
\$120.00	\$130.23	\$151.93	\$141.22	\$144.02	\$147.95	\$147.88
\$130.00	\$140.23	\$151.83	\$140.22	\$143.92	\$147.85	\$147.78
\$140.00	\$150.23	\$151.72	\$145.81	\$145.90	\$147.75	\$149.76
\$150.00	\$160.23	\$151.62	\$155.81	\$155.90	\$151.63	\$155.65
\$160.00	\$170.23	\$151.52	\$165.81	\$165.90	\$161.63	\$155.55
\$170.00	\$180.23	\$151.42	\$175.81	\$175.90	\$171.63	\$155.45
\$180.00	\$190.23	\$151.32	\$185.81	\$185.90	\$181.63	\$155.35
\$10.00	<= futures price increment				Signifies maximum price in row	

Fall Weaned 550# Calf

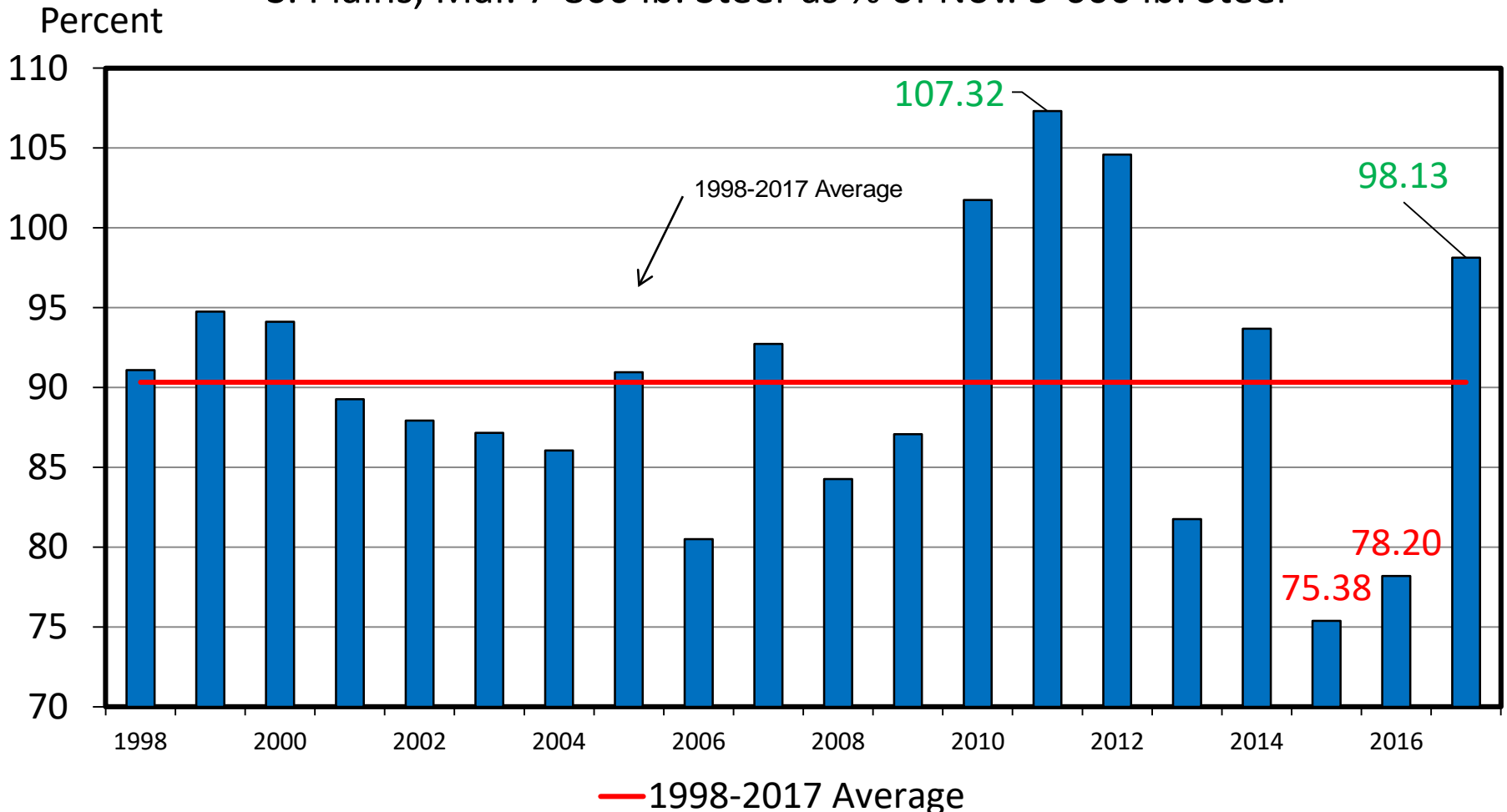


Economic Outlook Overview: Stockers

Historical Margin Perspective

BUY/SELL MARGINS

S. Plains, Mar. 7-800 lb. Steer as % of Nov. 5-600 lb. Steer



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

Livestock Marketing Information Center

C-P-60
08/13/17

Economic Outlook Overview: Stockers

Forward-Looking Margin Perspective

<http://www.beefbasis.com/VOG.aspx>

- Salina, KS 8/16/17 situation:

PRE-CONDITIONING

- Buy 550 lb steer on 10/11/17 (\$160)
- Sell 750 lb steer on 11/15/17 (\$154) {1.4 ADG}
 - VOG: \$89/cwt (w/o any extra pre-conditioned premium)

BACKGROUNDING

- Buy 550 lb steer on 10/11/17 (\$160)
- Sell 800 lb steer on 1/31/18 (\$137) {2.21 ADG}
 - VOG: \$87/cwt
 - If COG=\$65/cwt then Exp Profit = \$55/hd

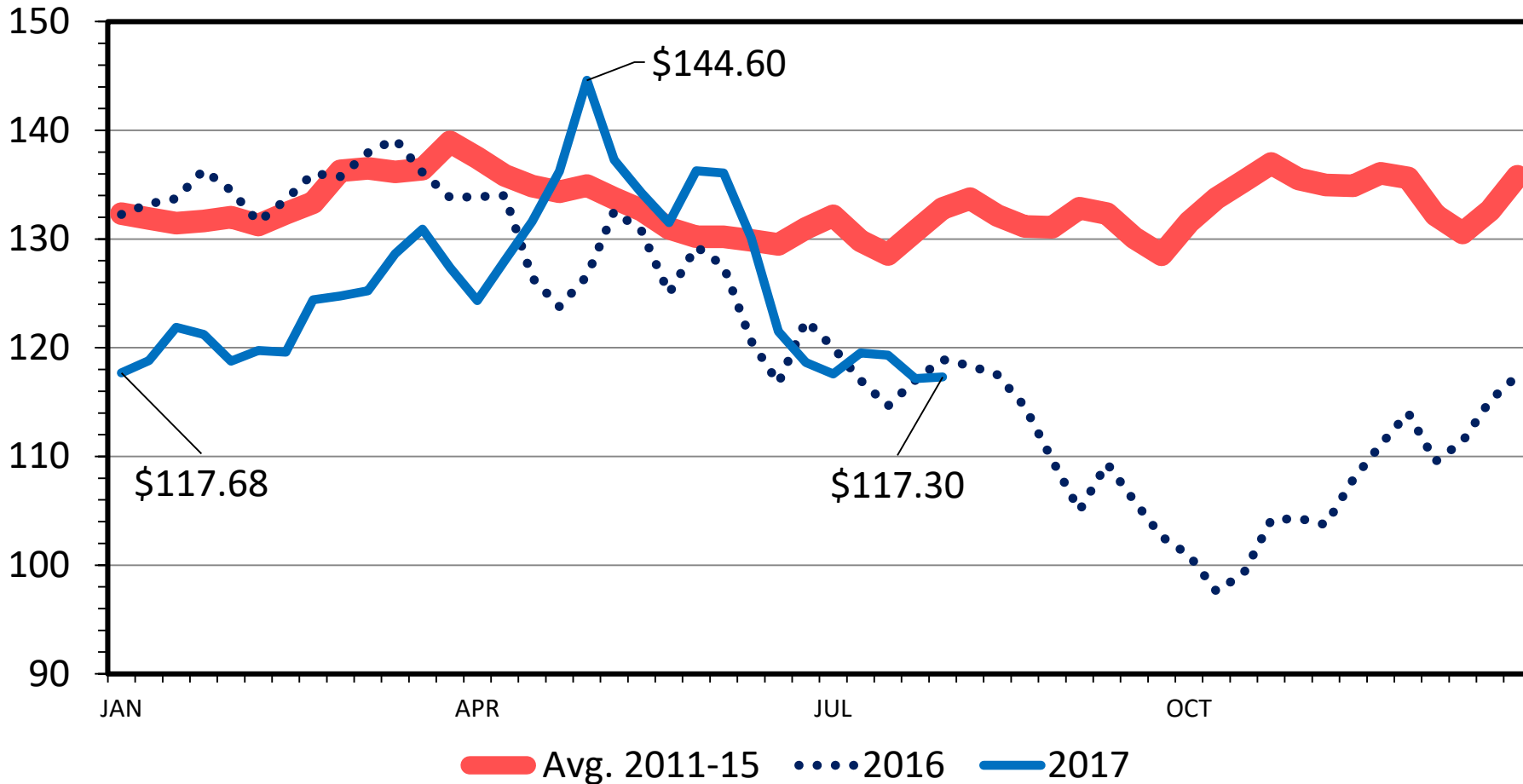
Economic Outlook Overview: Feedlots

- 2017
 - Jan-July very strong
 - BUT**
 - Q4 declined fast

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

Livestock Marketing Information Center

08/08/17

Historical and Projected Kansas Feedlot Net Returns (as of 8/11/17')

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

June 17': +\$263/steer

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

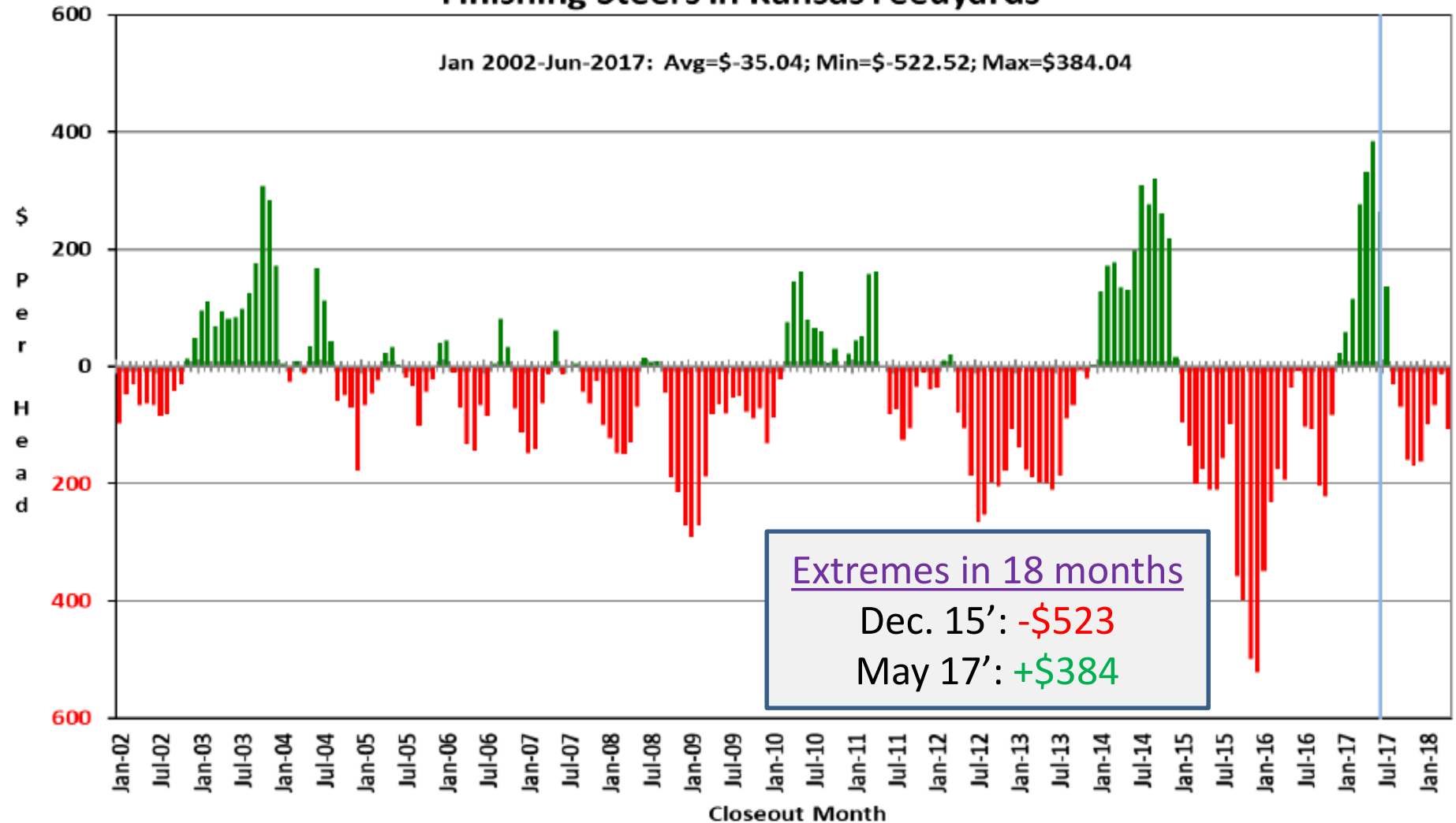
Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Fed Futures	Fed Basis	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Jul-17	135.60	77.74	118.80	115.15	3.65	127.57	102.06	108.99	144.00
Aug-17	-30.75	77.74	108.95	107.40	1.55	130.08	72.01	111.19	126.41
Sep-17	-68.91	77.76	108.76	107.40	1.36	136.06	65.62	113.75	127.60
Oct-17	-160.15	80.08	109.72	109.32	0.39	145.79	50.93	121.34	126.47
Nov-17	-168.77	81.24	110.56	109.32	1.23	149.12	52.06	122.70	128.31
Dec-17	-162.86	81.36	112.25	111.18	1.07	151.19	52.82	124.06	131.04
Jan-18	-98.40	84.55	113.68	111.18	2.51	143.15	67.03	120.86	130.98
Feb-18	-66.65	84.44	113.49	112.07	1.41	139.47	72.62	118.40	131.08
Mar-18	-13.31	82.80	115.78	112.07	3.70	139.38	80.51	116.77	137.65
Apr-18	-107.10	84.19	109.29	106.63	2.66	138.96	64.67	117.52	124.71

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 8/11/17')

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

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

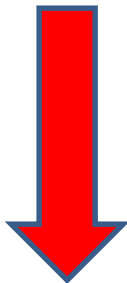


Quarterly Forecasts (LMIC: 8/13/17)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2016						
I	7,184	3.1	826.5	1.7	5,938	4.8
II	7,631	5.6	810.9	0.1	6,187	5.7
III	7,845	7.6	824.9	-0.9	6,472	6.6
IV	7,919	9.0	836.6	-0.5	6,625	8.4
Year	30,578	6.4	824.8	0.1	25,221	6.4
2017						
I	7,711	7.3	817.0	-1.1	6,300	6.1
II	8,074	5.8	793.2	-2.2	6,404	3.5
III	8,115	3.4	818.1	-0.8	6,639	2.6
IV	8,151	2.9	833.1	-0.4	6,791	2.5
Year	32,051	4.8	815.4	-1.1	26,134	3.6
2018						
I	7,993	3.7	821.5	0.5	6,566	4.2
II	8,291	2.7	807.9	1.8	6,698	4.6
III	8,393	3.4	824.6	0.8	6,921	4.2
IV	8,386	2.9	837.5	0.5	7,023	3.4
Year	33,063	3.2	822.9	0.9	27,208	4.1

Quarterly Forecasts (LMIC: 8/13/17)

Year Quarter	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price Southern Plains	
	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	108	-15.7	129	138
Year	121	-18.4	146	166
2017				
I	123	-8.8	133	157
II	133	4.0	149	170
III	117-118	3.8	150-152	164-166
IV	117-119	9.6	137-140	148-153
Year	122-124	1.8	142-144	159-163
2018				
I	118-121	-2.8	138-142	152-158
II	120-124	-8.1	135-140	155-162
III	112-117	-2.6	130-137	148-156
IV	113-119	-1.7	126-134	141-150
Year	116-120	-4.1	133-137	150-156



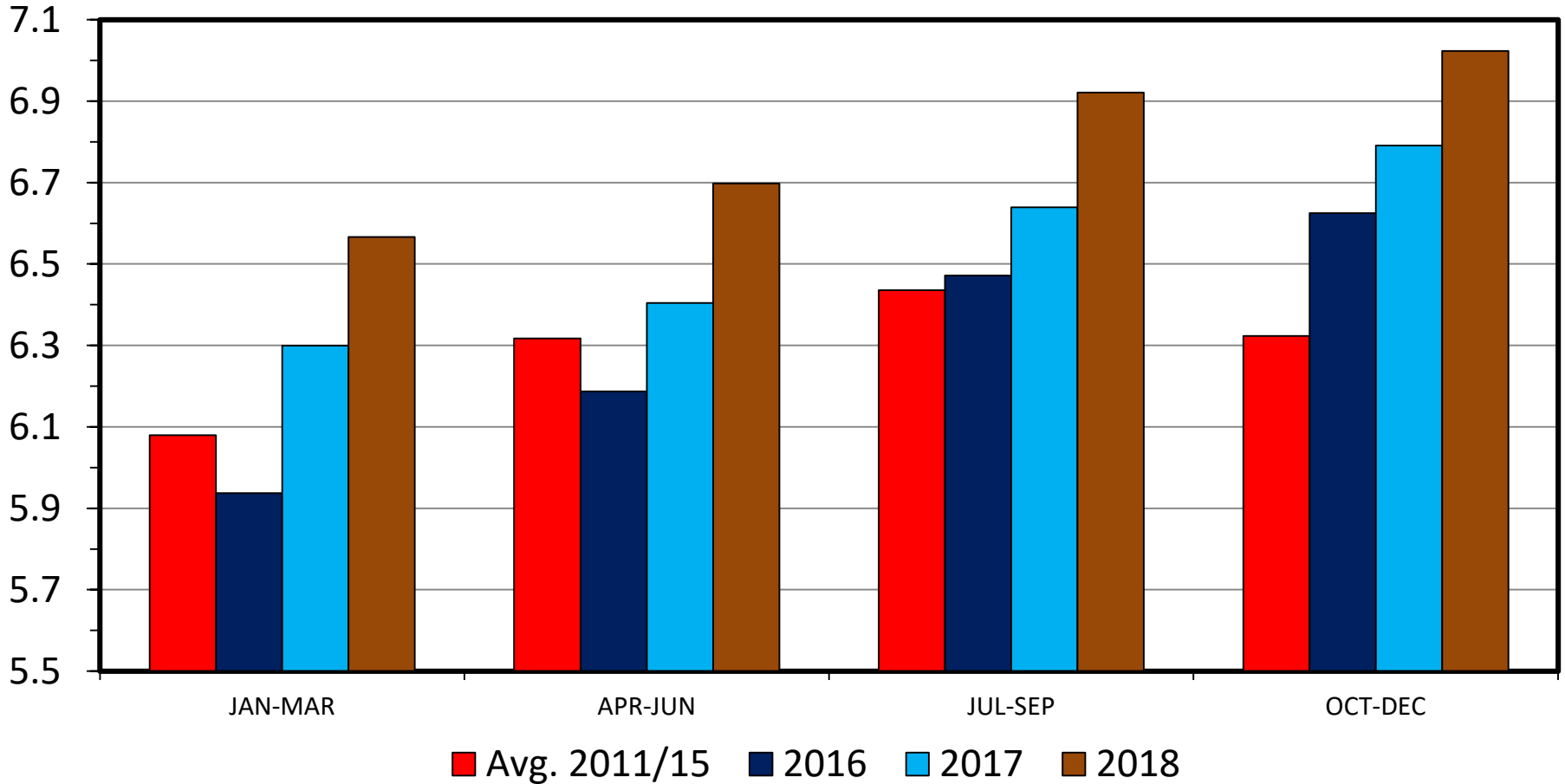
CME LC + ~\$1.50 & FC + ~\$3.00 over 8/13-8/15

Meat Supplies & Trade

COMMERCIAL BEEF PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

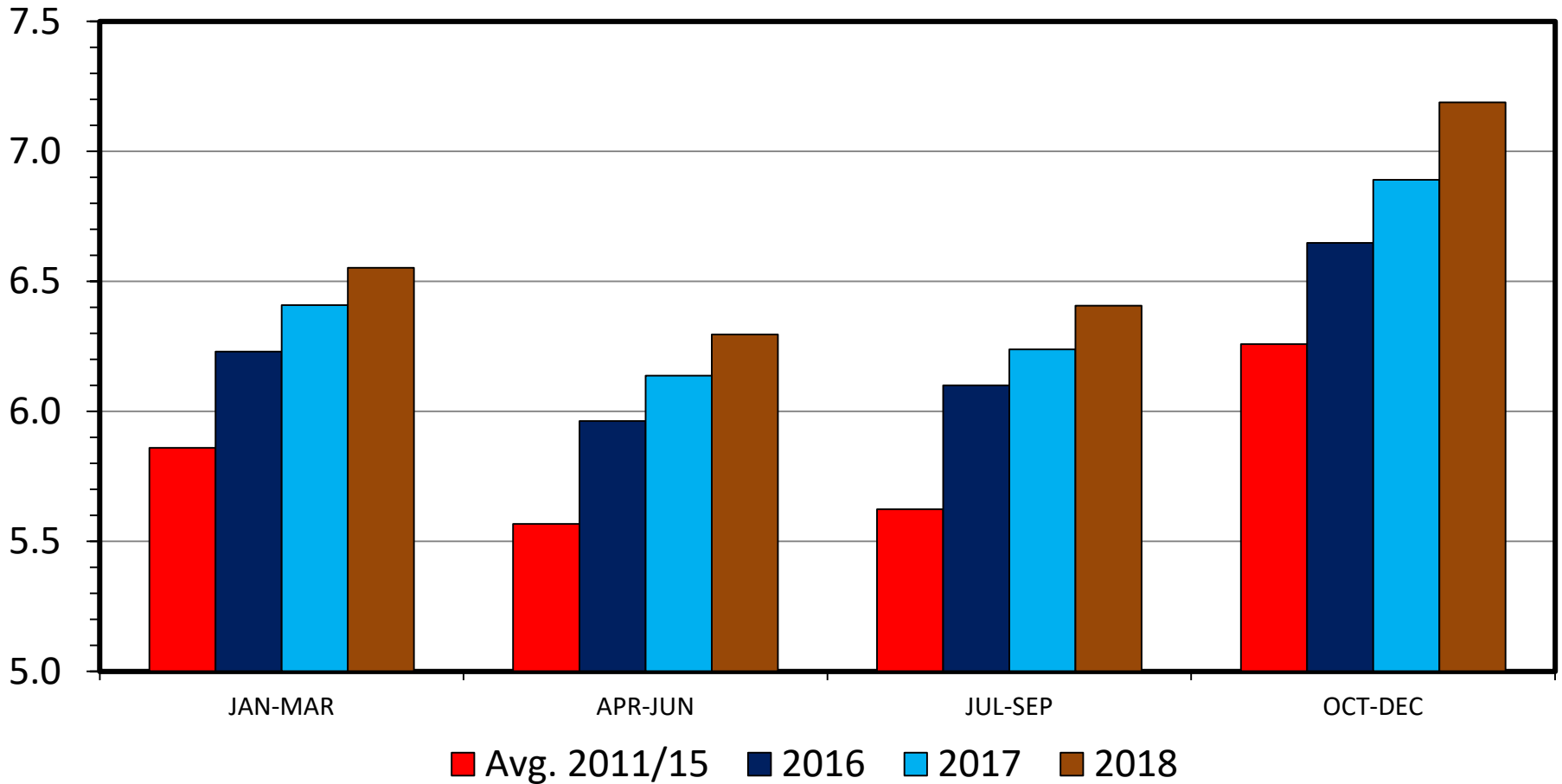
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M-S-01
08/10/17

COMMERCIAL PORK PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

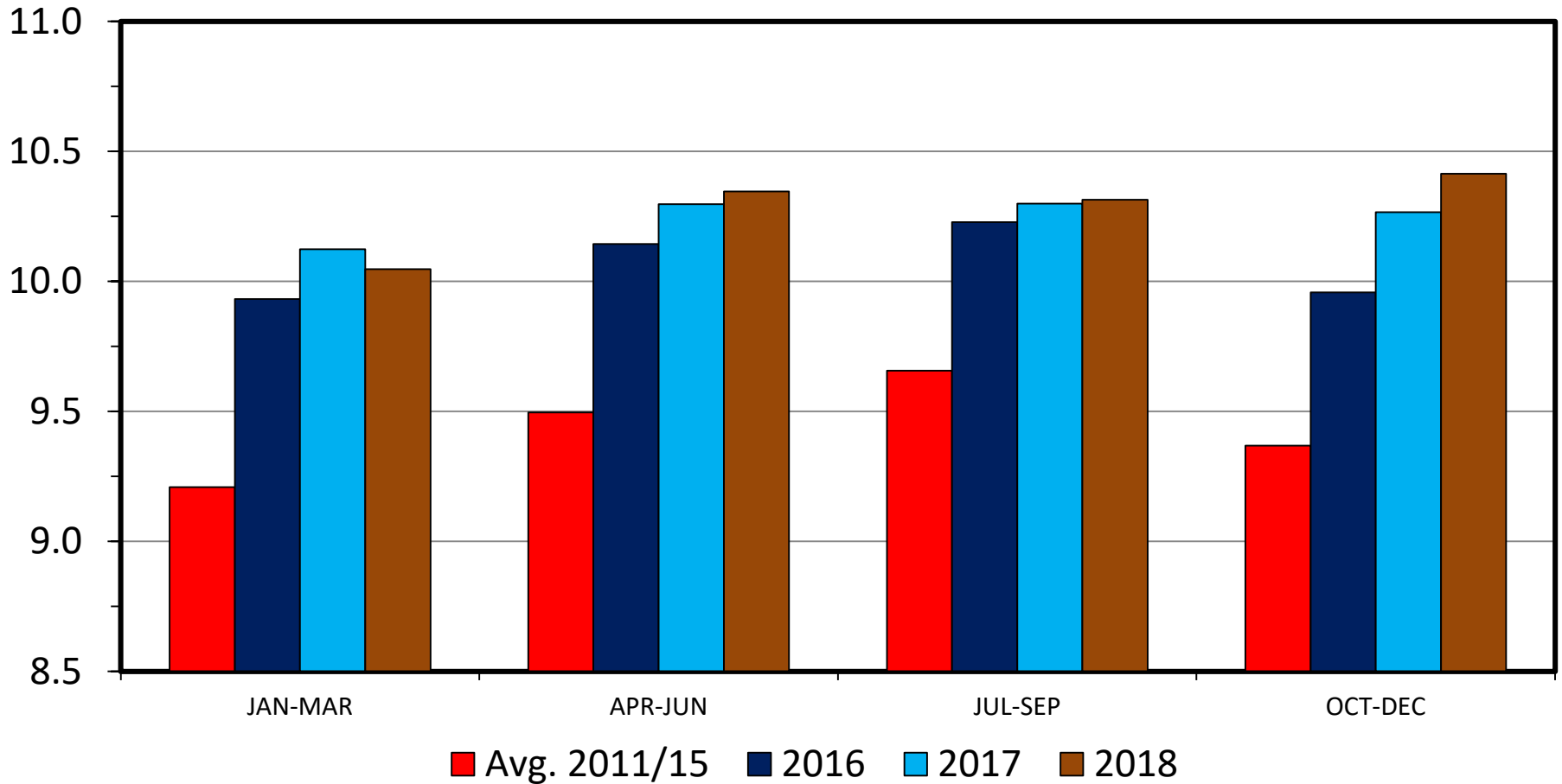
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08/10/17

RTC BROILER PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

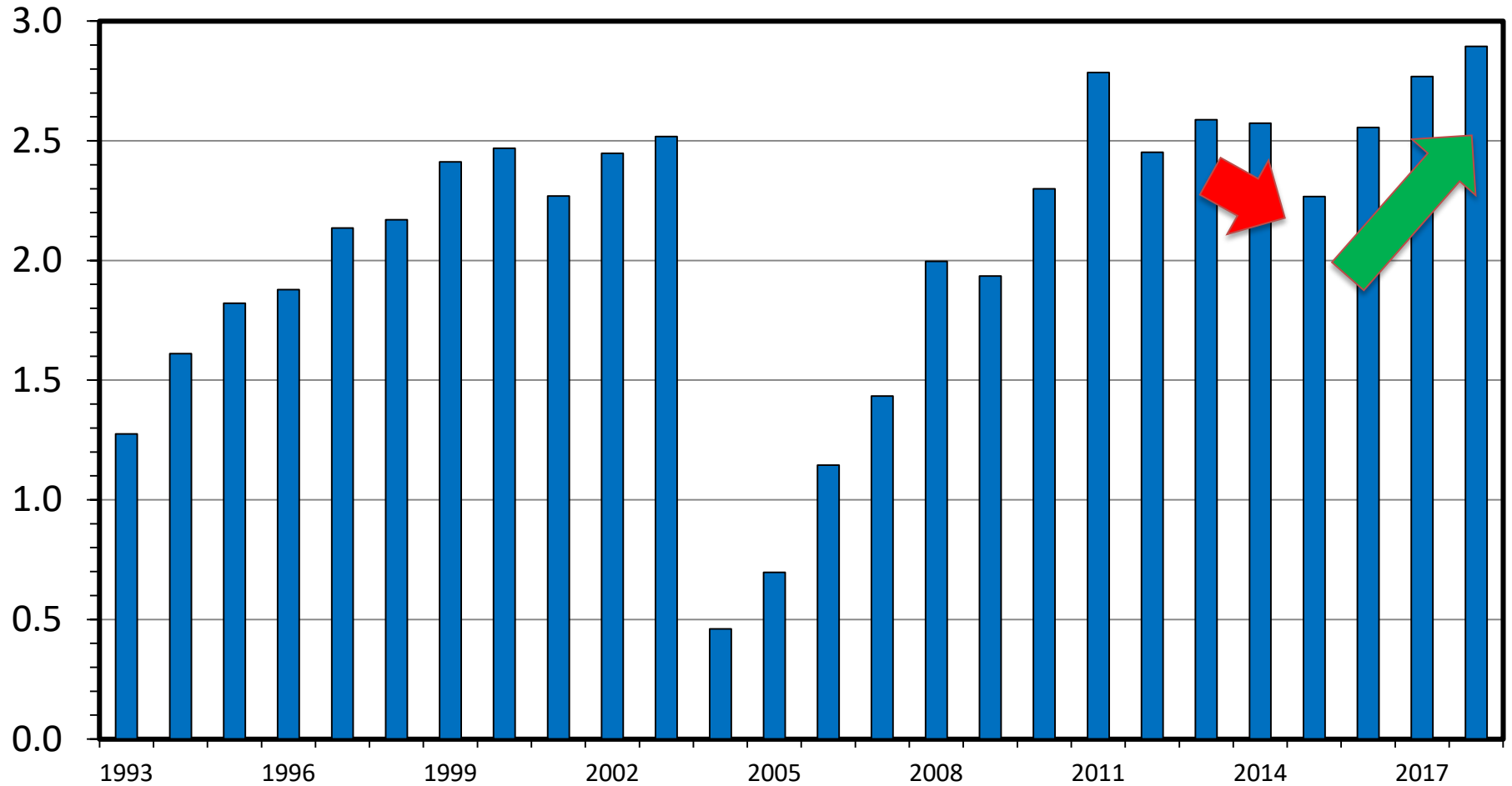
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08/10/17

US BEEF AND VEAL EXPORTS

Carcass Weight, Annual

Bil. Pounds



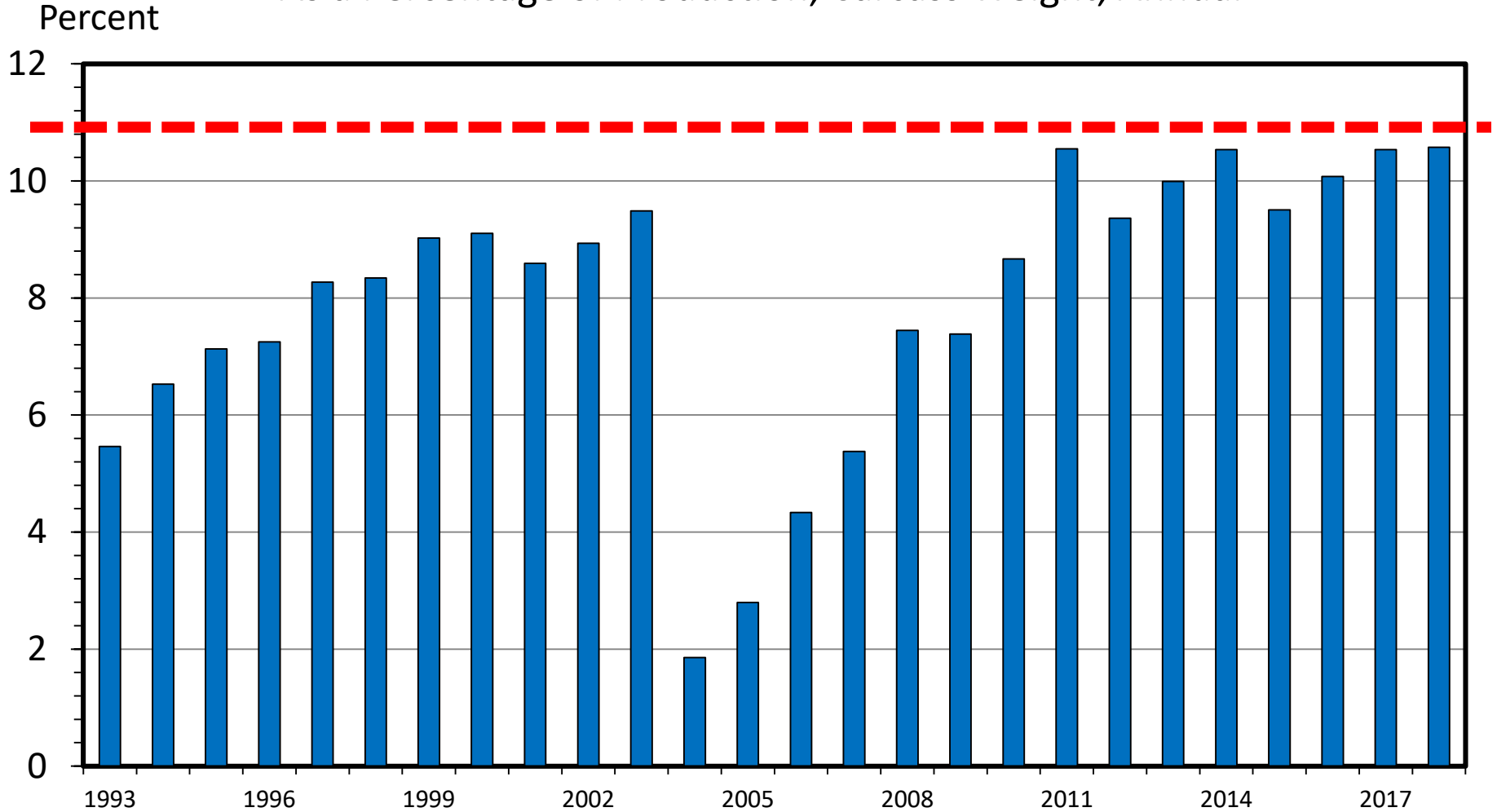
Data Source: USDA-ERS & USDA-FAS, Compiled by LMIC

Livestock Marketing Information Center

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08/10/17

US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



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

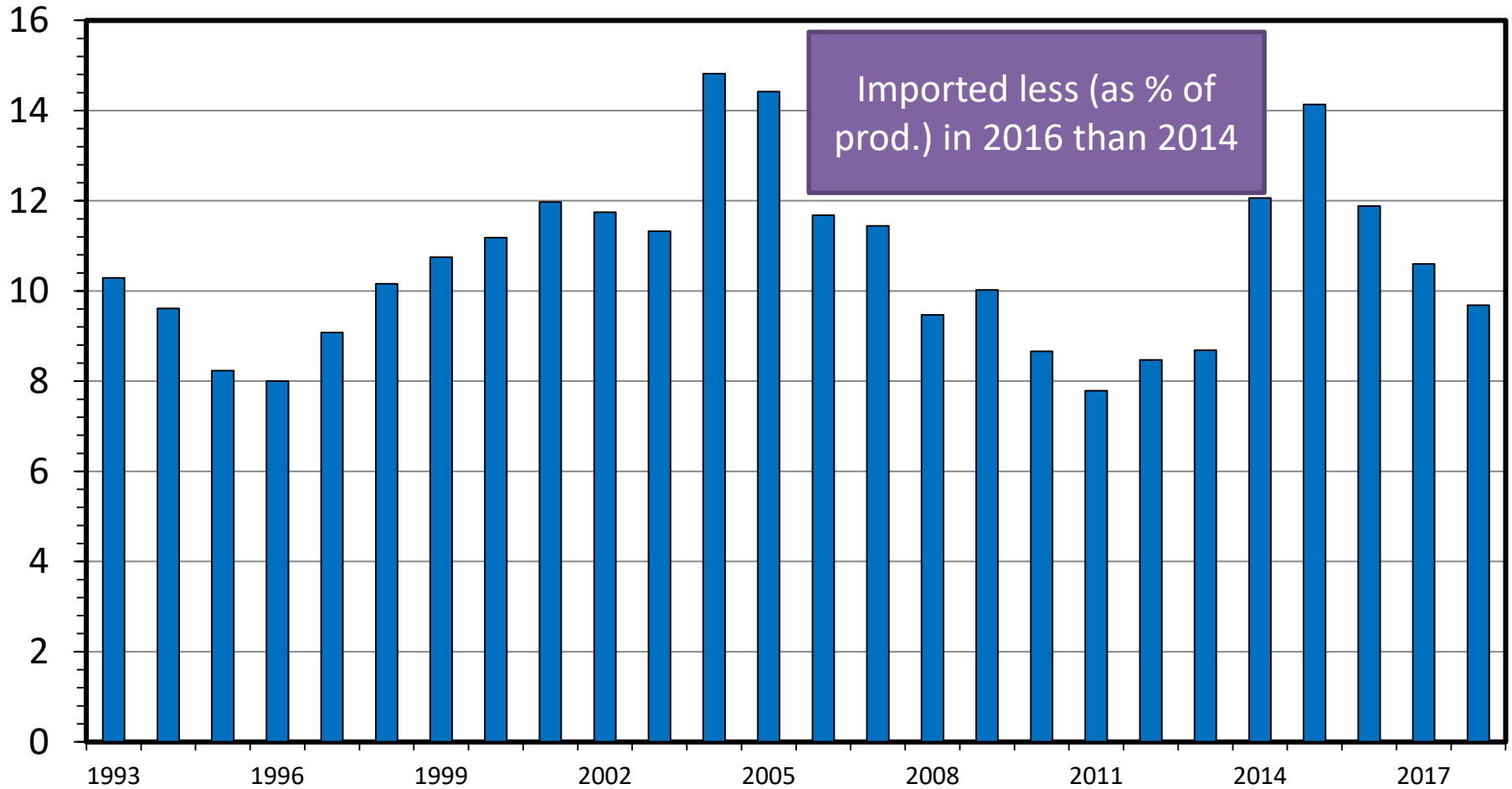
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I-N-07
08/10/17

US BEEF AND VEAL IMPORTS

As a Percentage of Production, Carcass Weight, Annual

Percent



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

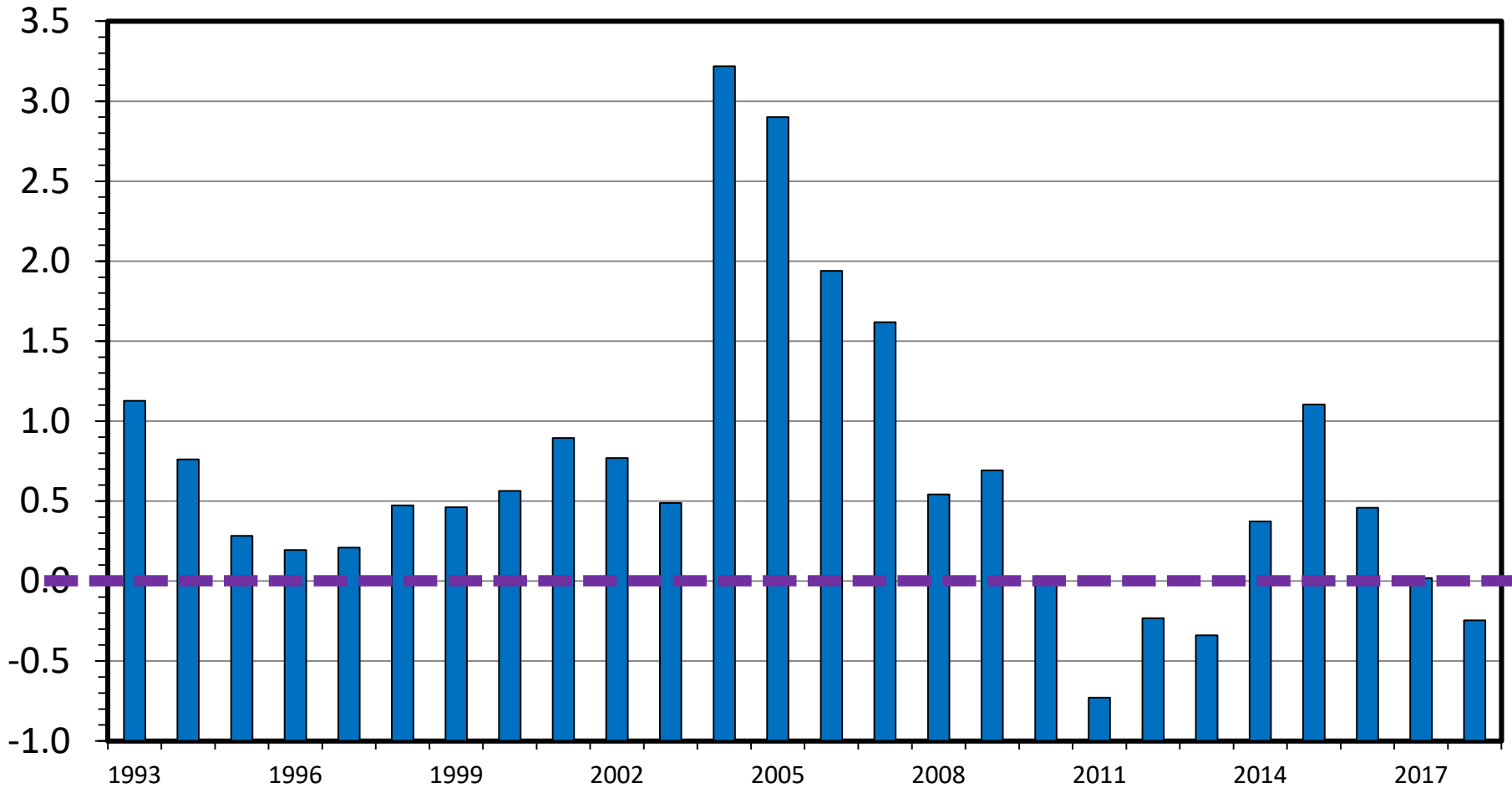
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I-N-08
08/10/17

US BEEF AND VEAL NET IMPORTS

Carcass Weight, Annual

Bil. Pounds



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

Livestock Marketing Information Center

I-N-28
08/10/17

USDA Long-Term projections

Feb. 2017 release (<http://www.usda.gov/oce/commodity/projections/>)

Table 17. Per capita meat consumption, retail weight

Item		2016	2017	2018	2019	2020	2026
		<i>Pounds</i>					
Beef		55.4	56.6	57.9	57.1	56.8	56.0
Pork		49.9	51.0	50.0	50.3	50.4	51.4
Total red meat		106.6	108.8	109.0	108.5	108.4	108.4
Broilers		89.6	90.4	88.3	88.5	89.0	89.5
Total poultry		107.7	108.7	106.7	107.0	107.5	108.0
Red meat & poultry		214.3	217.5	215.7	215.5	215.8	216.5
	Yr-O-Yr % Ch.		1.5%	-0.8%	-0.1%	0.1%	0.0%

Projections INCLUDE growing export forecasts...

USDA Long-Term projections

Feb. 2017 release (<http://www.usda.gov/oce/commodity/projections/>)

Table 18. Beef long-term projections

Item	Units	2016	2017	2018	2019	2020	2026
Commercial production	Mil. lbs.	25,055	26,160	27,143	26,853	26,844	27,742
Change from previous year	Percent	5.7	4.4	3.8	-1.1	0.0	0.8
Total production	Mil. lbs.	25,119	26,224	27,207	26,917	26,908	27,806
Imports	Mil. lbs.	3,011	2,680	2,748	2,820	2,854	2,994
Total supply	Mil. lbs.	28,813	29,604	30,555	30,297	30,322	31,360
Exports	Mil. lbs.	2,459	2,630	2,747	2,639	2,621	2,857
Change from previous year			7.0%	4.4%	-3.9%	-0.7%	0.4%
Total consumption	Mil. lbs.	25,654	26,374	27,248	27,098	27,141	27,943
Per capita, retail weight	Pounds	55.4	56.6	57.9	57.1	56.8	56.0
Prices:							
Beef cattle, farm	\$/cwt	119.47	105.87	117.57	118.15	114.88	104.16
Calves, farm	\$/cwt	171.85	165.24	172.03	169.23	156.15	138.81
Steers, 5-area	\$/cwt	119.94	106.25	117.99	118.57	115.28	104.52
Feeder steers, Oklahoma City	\$/cwt	144.25	139.00	144.71	142.36	131.36	116.77
Cattle inventory	1,000 head	91,988	93,300	93,700	94,200	94,600	95,450
Beef cow inventory	1,000 head	30,331	30,944	30,616	31,121	31,328	31,246

USDA Long-Term projections

Feb. 2017 release (<http://www.usda.gov/oce/commodity/projections/>)

Table 36. Beef trade long-term projections

	2016	2017	2018	2019	2020	2026
	<i>Exports, thousand metric tons, carcass weight</i>					
Exporters						
Australia	1,385	1,325	1,384	1,419	1,439	1,572
New Zealand	580	550	527	514	524	562
India	1,850	1,925	2,017	2,077	2,155	2,497
European Union ¹	330	350	344	344	344	346
Argentina	210	235	231	227	224	200
Brazil	1,850	1,950	2,019	2,144	2,204	2,646
Other Latin America	861	856	590	670	754	783
Canada	430	445	441	442	441	435
United States	1,115	1,193	1,246	1,197	1,189	1,296
		7%	4%	-4%	-1%	0%
Major exporters	9,083	9,278	9,287	9,534	9,779	10,947
		2%	0%	3%	3%	2%

USDA Long-Term projections

Feb. 2017 release (<http://www.usda.gov/oce/commodity/projections/>)

Table 19. Pork long-term projections

Item	Units	2016	2017	2018	2019	2020	2026
Commercial production	Mil. lbs.	24,946	25,800	25,653	26,009	26,447	28,443
Change from previous year	Percent	1.8	3.4	-0.6	1.4	1.7	1.4
Total production	Mil. lbs.	24,961	25,816	25,669	26,025	26,463	28,459
Total supply	Mil. lbs.	26,657	27,536	27,304	27,700	28,156	30,277
Exports	Mil. lbs.	5,179	5,440	5,445	5,566	5,778	6,458
Total consumption	Mil. lbs.	20,853	21,461	21,224	21,499	21,738	23,129
Per capita, retail weight	Pounds	49.9	51.0	50.0	50.3	50.4	51.4
Change from previous year	Percent	0.5	2.2	-2.0	0.5	0.3	0.5
Prices:							
National base, live equivalent	\$/cwt	45.65	40.00	40.64	41.50	42.50	49.91
Feed price ratio:							
Hog-corn	Ratio	13.6	13.2	12.9	13.0	13.3	14.4
Hog inventory,							
December 1, previous year	1,000 head	68,919	69,925	69,900	70,429	71,080	74,043

USDA Long-Term projections

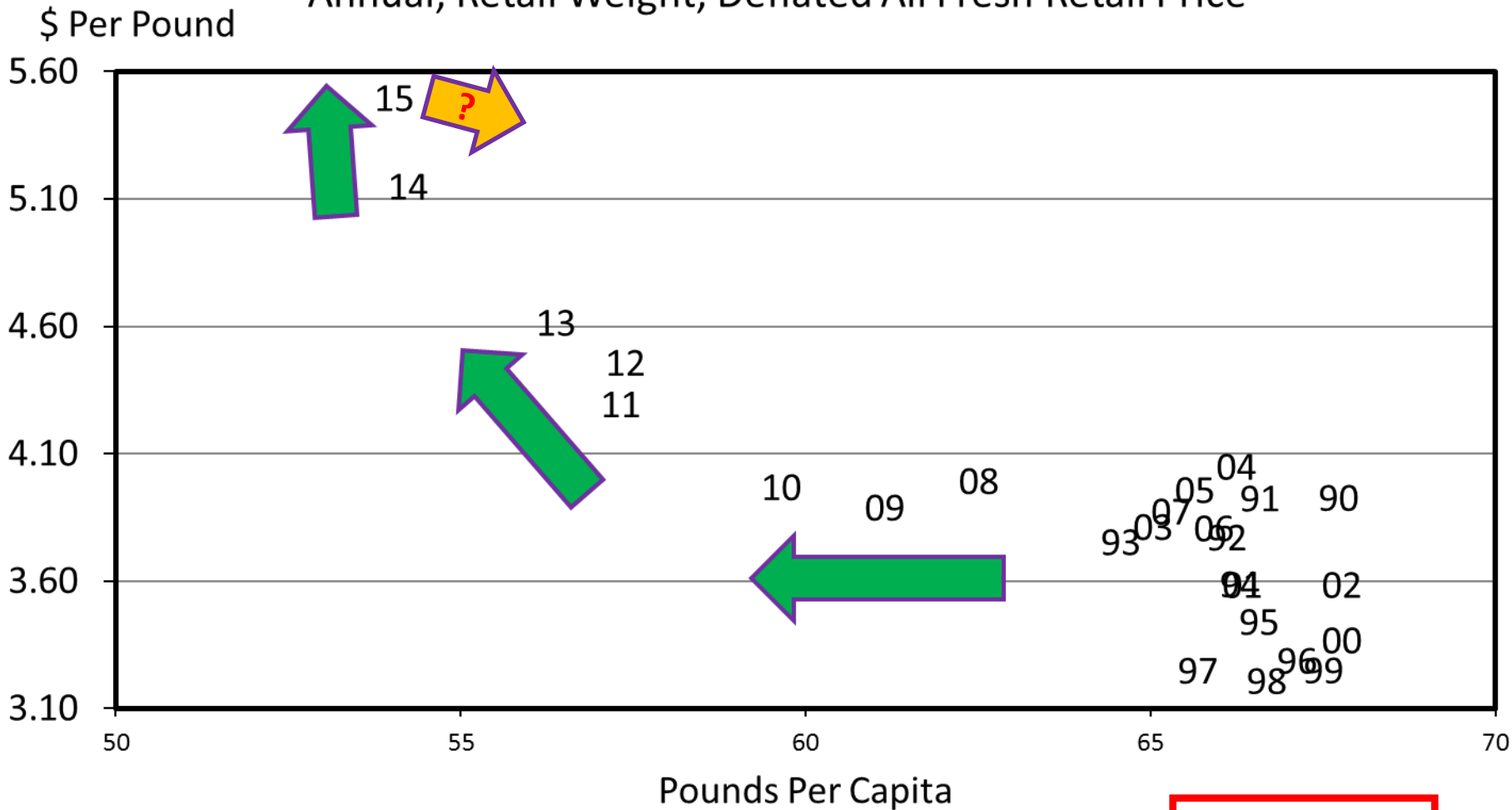
Feb. 2017 release (<http://www.usda.gov/oce/commodity/projections/>)

Table 20. Young chicken long-term projections

Item	Units	2016	2017	2018	2019	2020	2026
Federally inspected slaughter	Mil. lbs.	40,725	41,550	41,567	42,053	42,643	44,796
Change from previous year	Percent	1.7	2.0	0.0	1.2	1.4	0.3
Production	Mil. lbs.	40,289	41,105	41,123	41,603	42,187	44,317
Change from previous year	Percent	2.0	1.8	-0.1	1.1	1.4	0.3
Exports	Mil. lbs.	6,666	6,925	7,402	7,530	7,678	8,066
Consumption	Mil. lbs.	33,823	34,357	33,854	34,207	34,644	36,392
Per capita, retail weight	Pounds	89.6	90.4	88.3	88.5	89.0	89.5
Change from previous year	Percent	0.9	0.9	-2.4	0.3	0.5	-0.4
Prices:							
Broilers, National composite	Cents/lb.	83.1	80.5	82.4	83.7	84.2	84.7
Feed price ratio:							
Broiler-feed 1/	Ratio	4.8	4.7	4.9	5.0	5.0	4.9

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

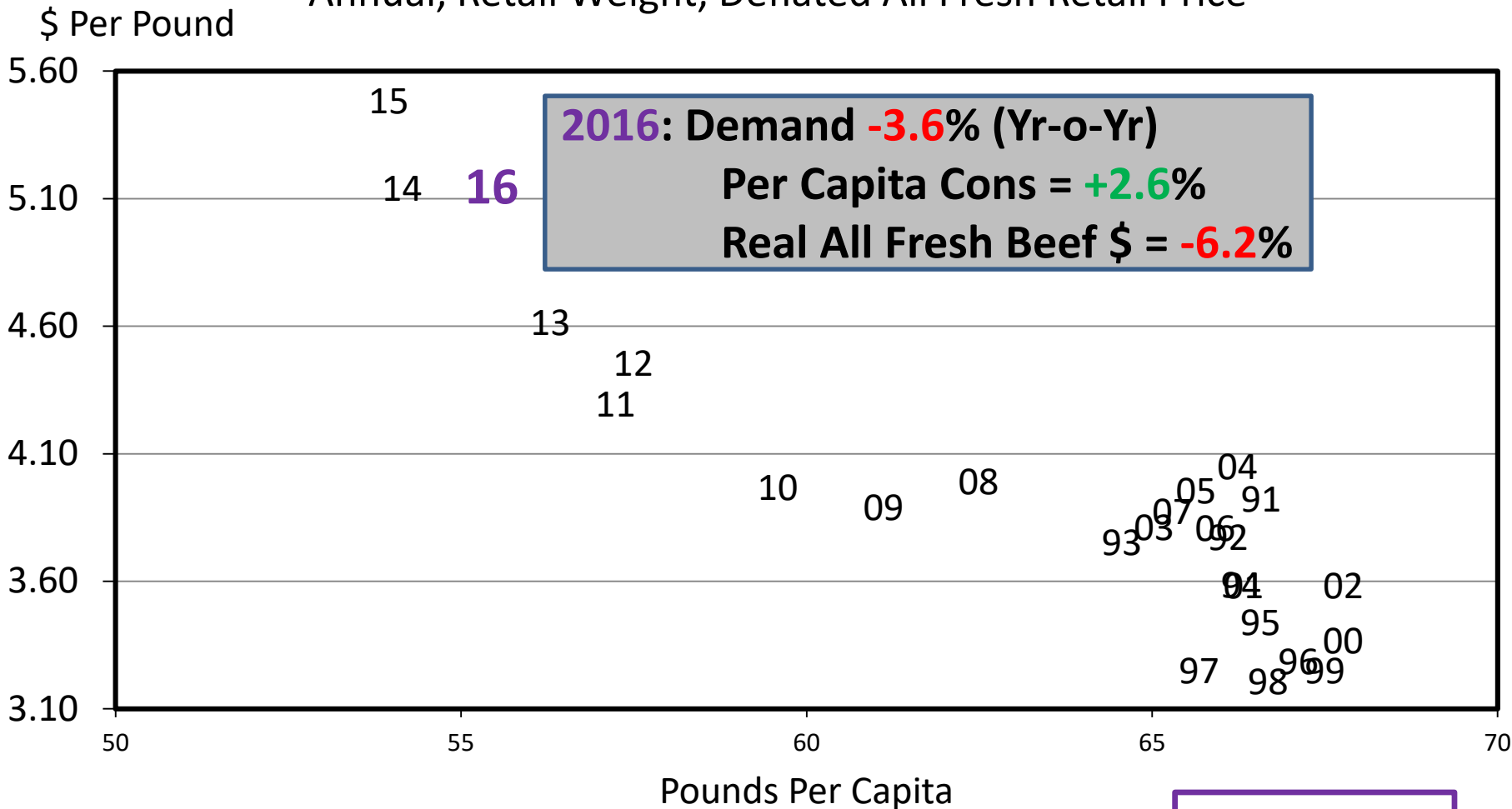


Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled and Analysis by LMIC
Livestock Marketing Information Center

C-P-65A
03/25/16

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

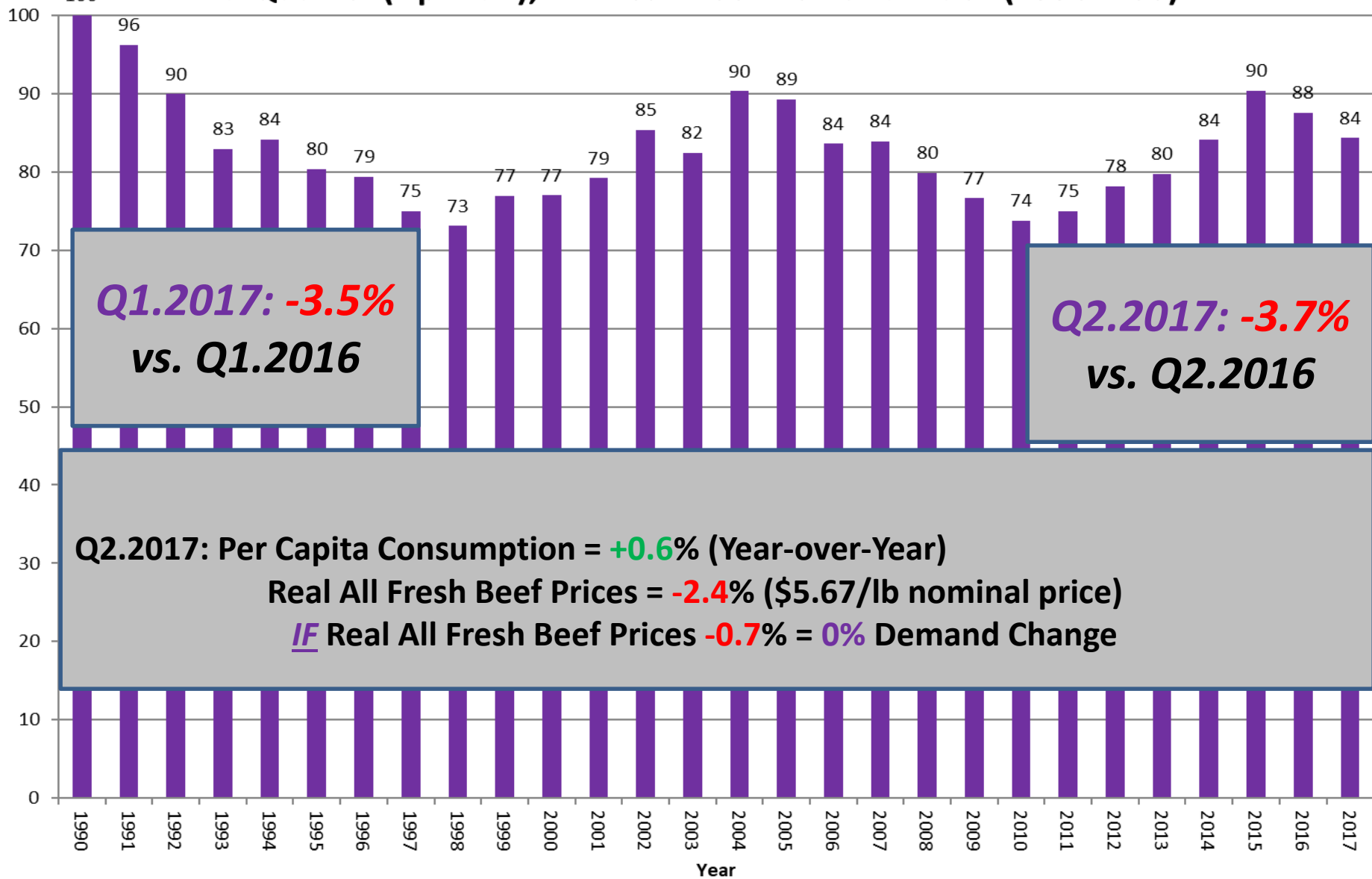


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Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled by LMIC

Livestock Marketing Information Center

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



Q1.2017: -3.5%
vs. Q1.2016

Q2.2017: -3.7%
vs. Q2.2016

Q2.2017: Per Capita Consumption = +0.6% (Year-over-Year)
Real All Fresh Beef Prices = -2.4% (\$5.67/lb nominal price)
IF **Real All Fresh Beef Prices -0.7% = 0% Demand Change**

Source: Glynn T. Tonsor, Kansas State University, July 2017

Assessing Beef Demand Determinants

Glynn T. Tonsor, Ted C. Schroeder, and Jayson L. Lusk

Interim Research Project Update

Cattlemen's Beef Board

July 12, 2017

Presentation at 2017 Cattle Industry Summer Business Meeting

Denver, CO

Wrap-Up

- Broad 2017-2018 Profitability Outlook

- Cow-calf:

- Converging toward Long-Term Levels
- 2017/18 Better than Expected

- Stocker:

- \$ at stake has moderated
- Margins vary widely across situations

- Feedlot:

- Early 2017 offered notable equity recovery
- Aug. 2017 forward present challenges

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

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