

GENERAL SESSION IV
Livestock Market Situation and Outlook

Glynn Tonsor, Kansas State University

Glynn Tonsor is a Professor in the Department of Agricultural Economics at Kansas State University (KSU). Glynn grew up on a farrow-to-finish swine farm in Monroe City, Missouri. Tonsor obtained a B.S. from Missouri State University and Ph.D. from KSU. He was a faculty member at Michigan State University from May 2006 to March 2010 when he joined the KSU faculty.


Tonsor has broad interests and experiences which span issues throughout the meat supply chain. Through active research, engaged outreach with industry, and first-hand knowledge with livestock production, Glynn has economic expertise in an array of topics of importance to Kansas, U.S. and global stakeholders. These topics include animal identification and traceability, animal well-being and welfare, commodity market analysis, consumer demand, food safety, meat labeling policies, producer perceptions and preferences, risk management, and technology acceptance. Glynn's integrated research and extension program has resulted in multiple journal article publications and numerous outreach contributions.

Glynn and his wife, Shauna, live in Saint George, Kansas with their children Ethan, Levi, and Aubree.

Abstract/Summary

This session will include a broad market outlook update for the beef-cattle industry with a focus on the status of herd expansion, profitability/margins in each sector, and beef demand strength. The session will include time for informal exchange of thoughts on broader economic issues facing the entire livestock and meat industry – so bring your questions!

Risk & Profit
CONFERENCE



K-State Dept. of Agricultural Economics
August 18-19, 2016
K-State Alumni Center
Manhattan, KS

*The Farm Financial
Situation*
*Navigating a Struggling Ag
Economy*
K-STATE
Research and Extension

Livestock Industry Outlook Overview

Glynn Tonsor
Dept. of Agricultural Economics
Kansas State University



Overarching Beef Industry Economic Outlook

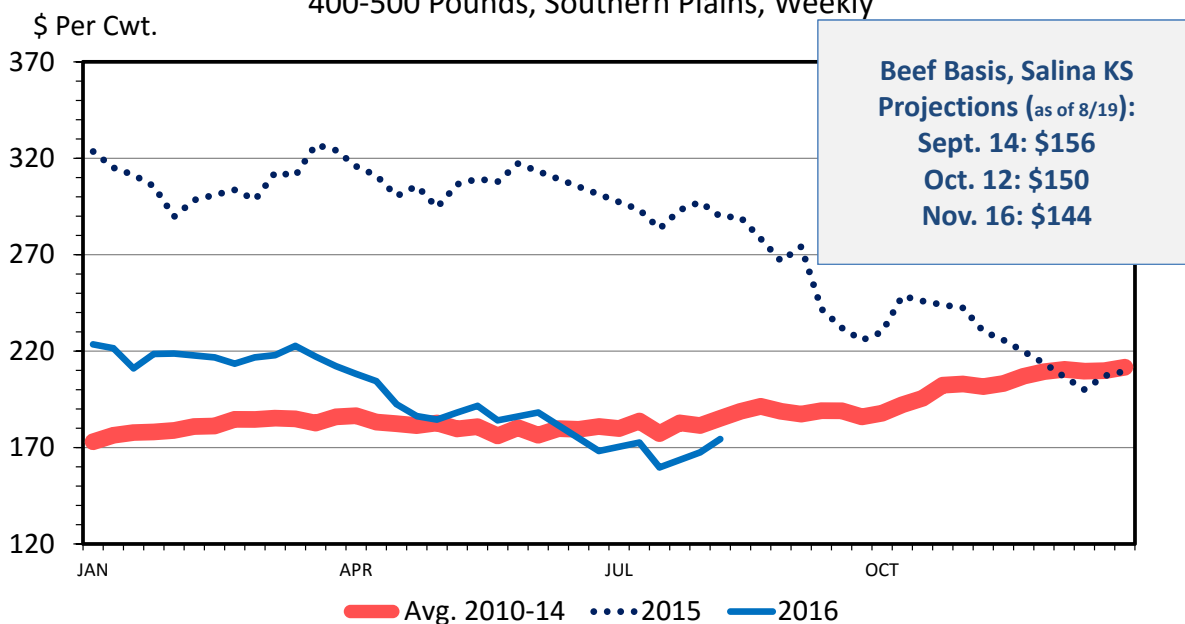
- Supplies
 - Expansion well underway
 - Competing meat supplies growing
- Demand
 - Confusing & slowing
 - Far less certain, understood, & appreciated than supply...

Overarching Beef Industry Economic Outlook

| | | | |
|--------------------------------|----------------------------------|----------------------------------------|--------------------------------------------|
| BREXIT | IMPORTS FROM BRAZIL | JULY JOBS: +255k | DEC CORN: -\$1.15/bu Since mid-June |
| CATTLE MARKETS "BROKEN" | CME LC CONTRACTS CHANGING | NO JULY CATTLE INVENTORY REPORT | |

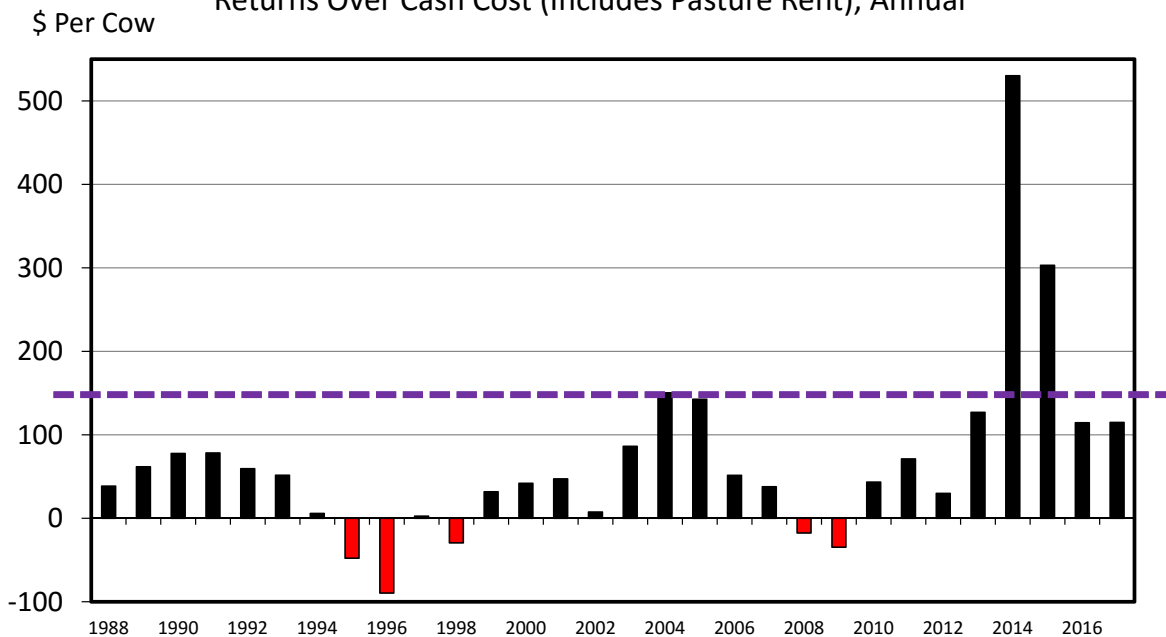
MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

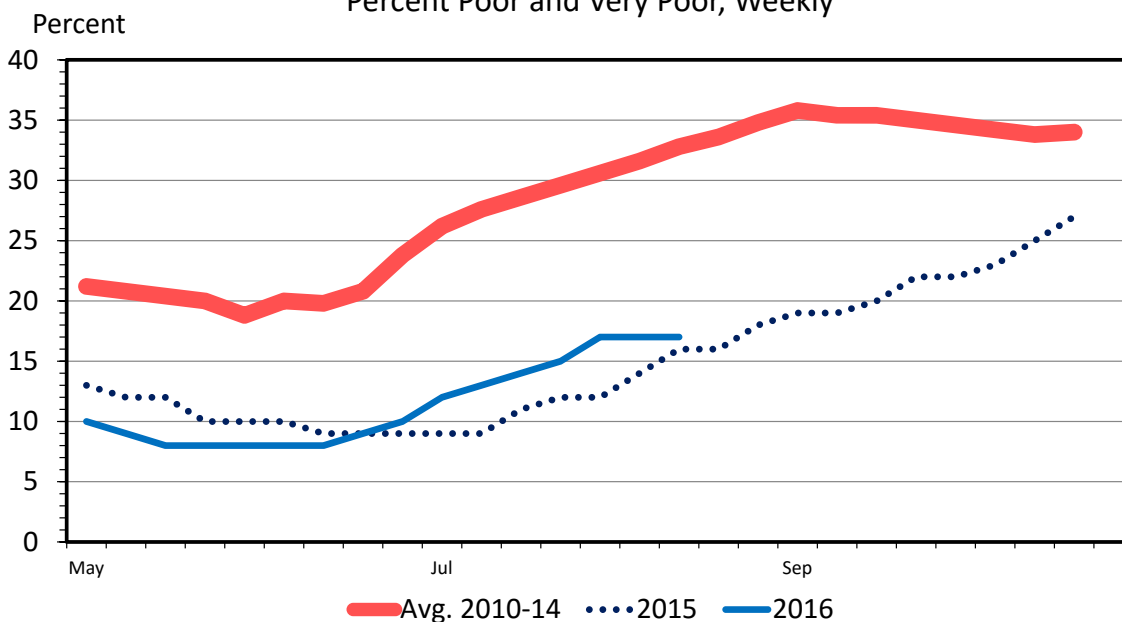


Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center

C-P-66
08/02/16

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

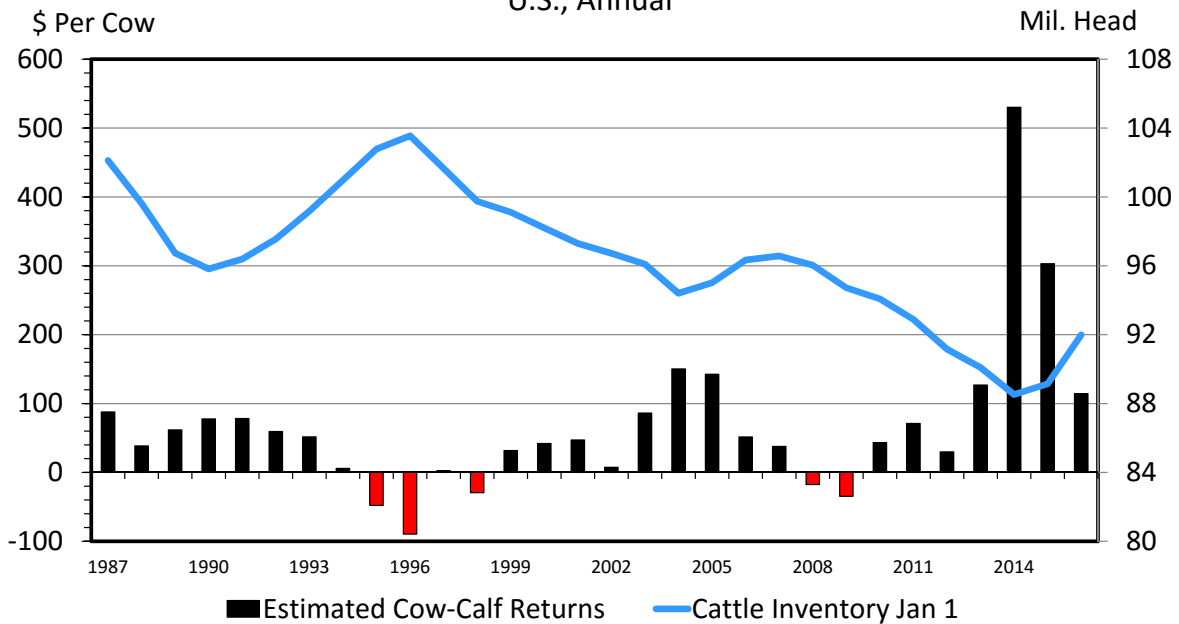


Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

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08/16/16

COW-CALF RETURNS AND CATTLE INVENTORY

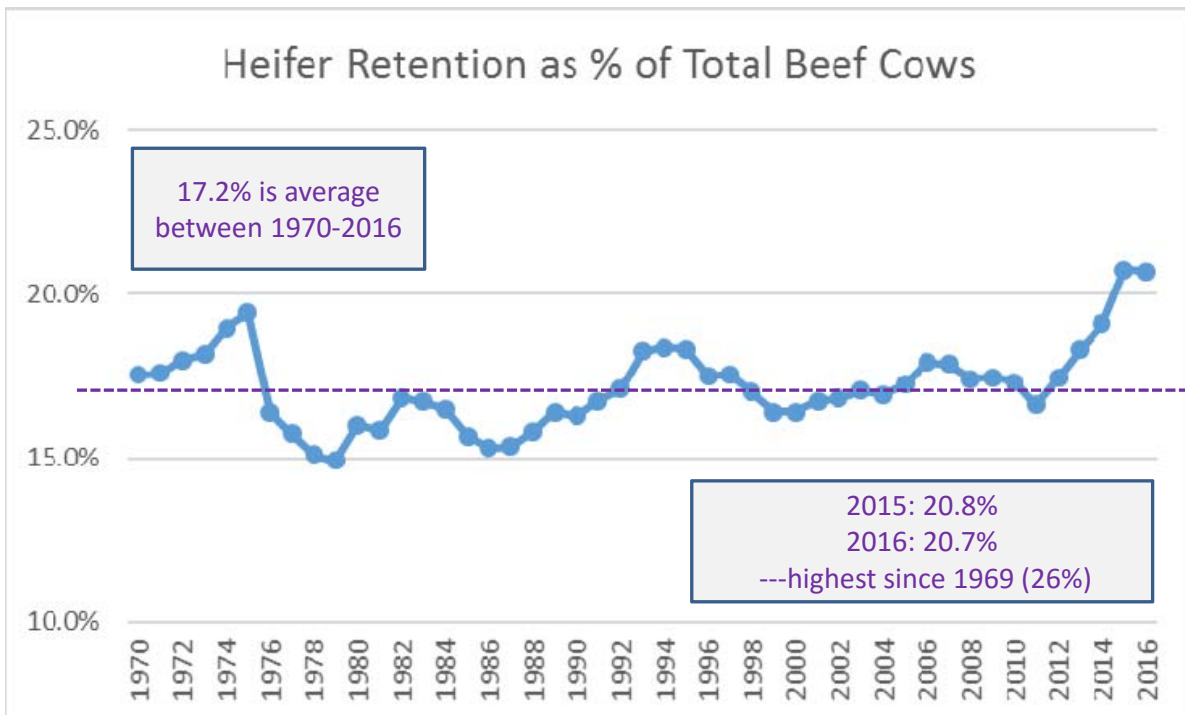
U.S., Annual



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

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08/02/16

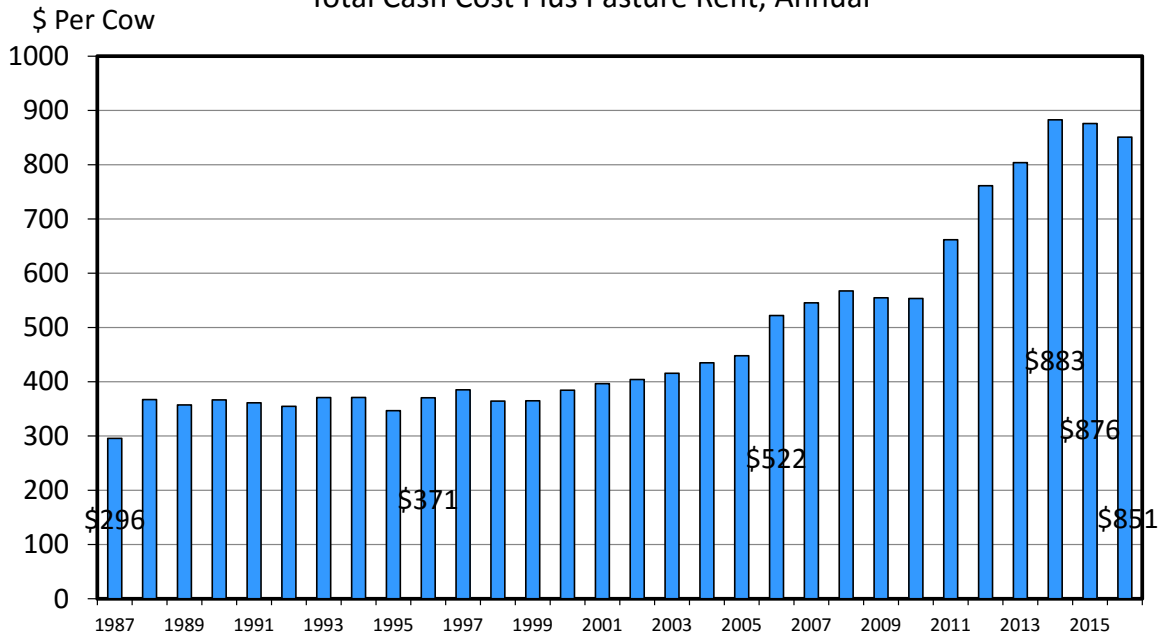
Heifer Retention as % of Total Beef Cows



Data Source: USDA-NASS
Livestock Marketing Information Center

ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual

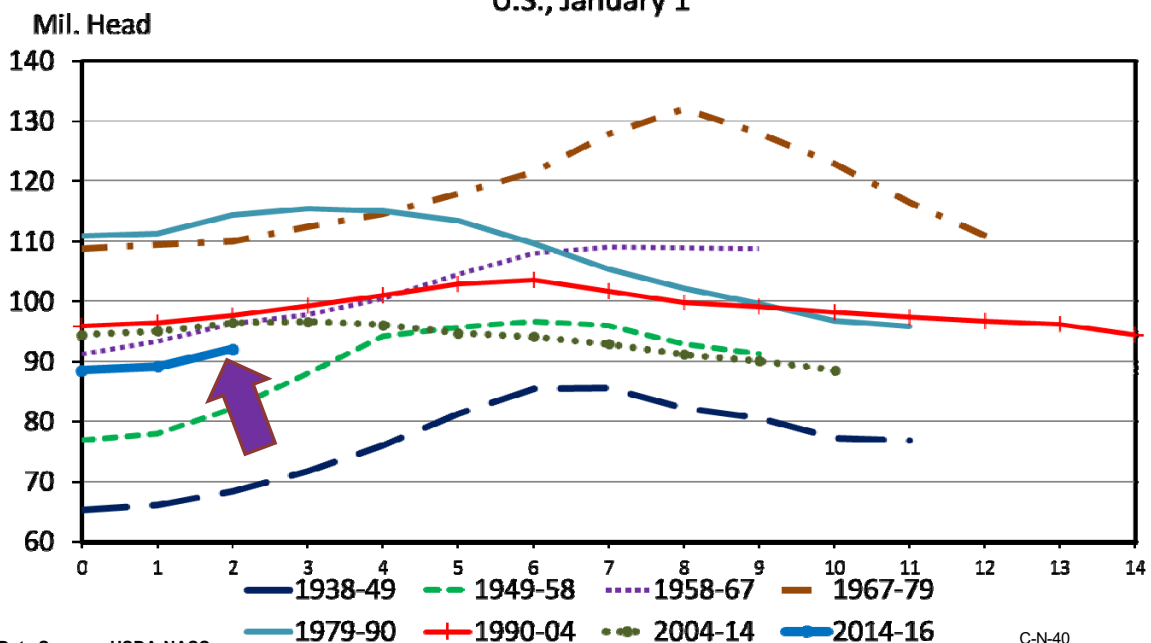


Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center

08/02/16

TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1



Data Source: USDA-NASS
Livestock Marketing Information Center

C-N-40
02/01/16

Feeder Cattle Price Hedging Considerations (as of 8/19/16)

- Salina, KS 8/19/16 situation :
 - Sell 550 lb calves on 9/14/16 (\$156)
- Considering price protection on Sep sale
 - Or for stocker, consider protection for buy in Sep
 - **USE: K-State Feeder Cattle Risk Mgmt Tool.xlsx**

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

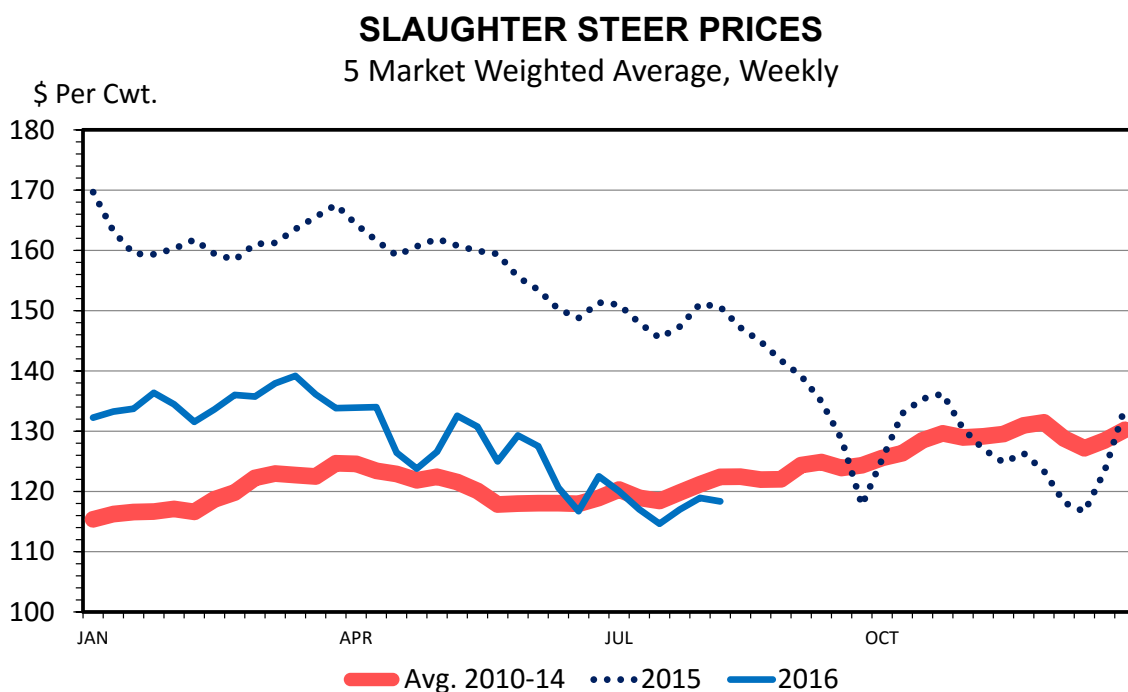
Economic Outlook Overview: Stockers

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

- Salina, KS **8/8/16** situation:
 - Buy 550 lb steer on 09/14/16 (\$160)
 - Sell 750 lb steer on 12/14/16 (\$134) {2.17 ADG}
 - VOG: \$61/cwt
 - Buy 550 lb steer on 11/16/16 (\$148)
 - Sell 800 lb steer on 3/15/17 (\$128) {2.08 ADG}
 - VOG: \$85/cwt
 - If COG=\$65/cwt then Exp Profit = \$50/hd

Economic Outlook Overview: Feedlots

- 2016 has been rough, but better than 2015



Historical and Projected Kansas Feedlot Net Returns (as of 8/8/16')

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

June 16': -\$8/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 |
|----------------|------------|--------|-----------|--------------|------------------|---------------------|------------------------|
| Jul-16 | -135.31 | 80.06 | 117.50 | 154.62 | 56.85 | 126.82 | 139.06 |
| Aug-16 | -112.04 | 77.83 | 115.85 | 151.89 | 59.00 | 123.54 | 138.92 |
| Sep-16 | -96.01 | 77.38 | 115.58 | 148.79 | 61.13 | 122.08 | 137.97 |
| Oct-16 | -48.67 | 77.97 | 115.35 | 145.87 | 70.35 | 118.61 | 140.17 |
| Nov-16 | -28.49 | 79.27 | 115.88 | 142.96 | 74.74 | 117.79 | 139.65 |
| Dec-16 | -34.14 | 80.03 | 115.71 | 140.71 | 74.29 | 118.01 | 136.85 |
| Jan-17 | -21.71 | 80.90 | 117.25 | 142.18 | 77.31 | 118.73 | 139.67 |
| Feb-17 | -21.38 | 79.17 | 115.43 | 141.39 | 75.69 | 116.89 | 138.85 |
| Mar-17 | 13.86 | 78.89 | 117.08 | 138.04 | 81.27 | 116.13 | 139.63 |
| Apr-17 | -69.70 | 78.43 | 109.49 | 136.81 | 66.46 | 114.43 | 128.39 |

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 8/8/16')

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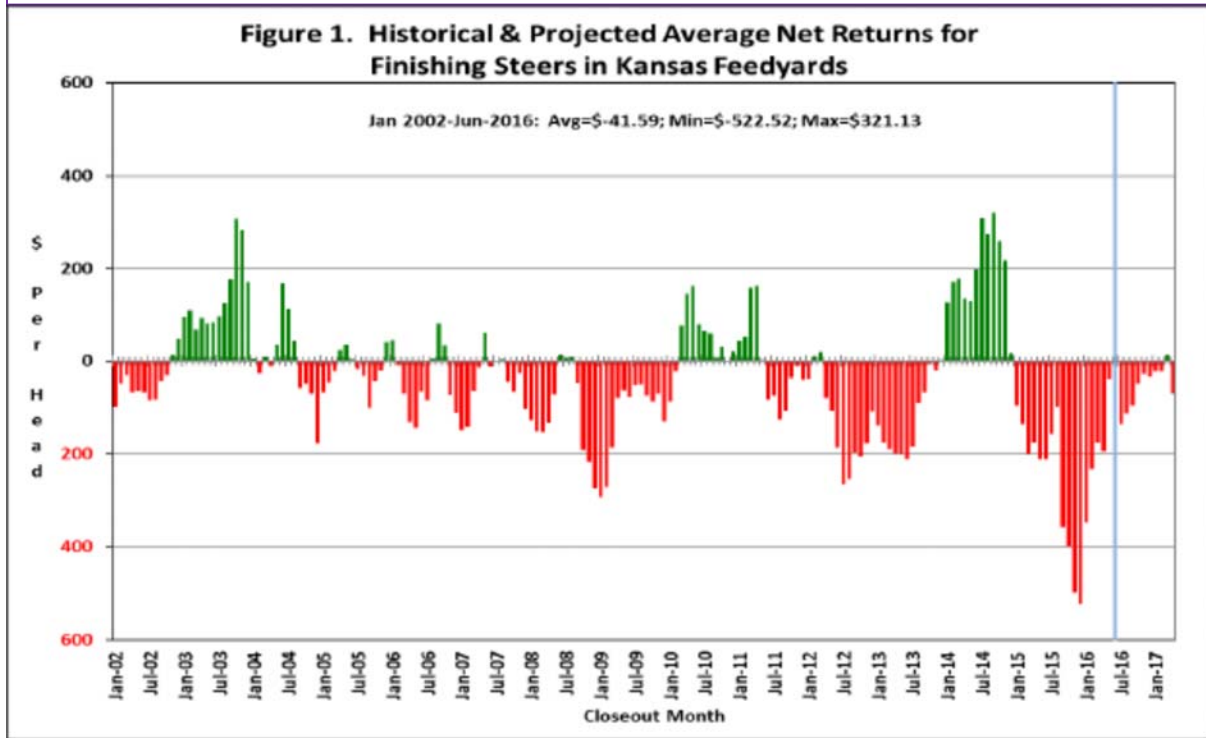
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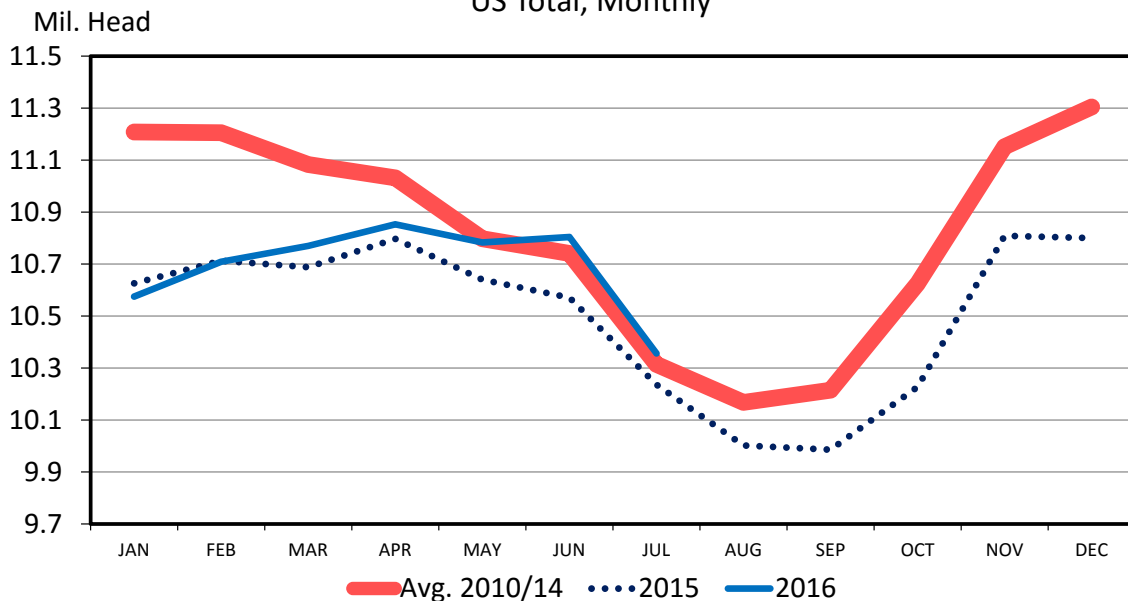


Pre-8/20 COF Report Estimates:

On Feed Aug 1: +1.3% {+0.4% to +2.0%}

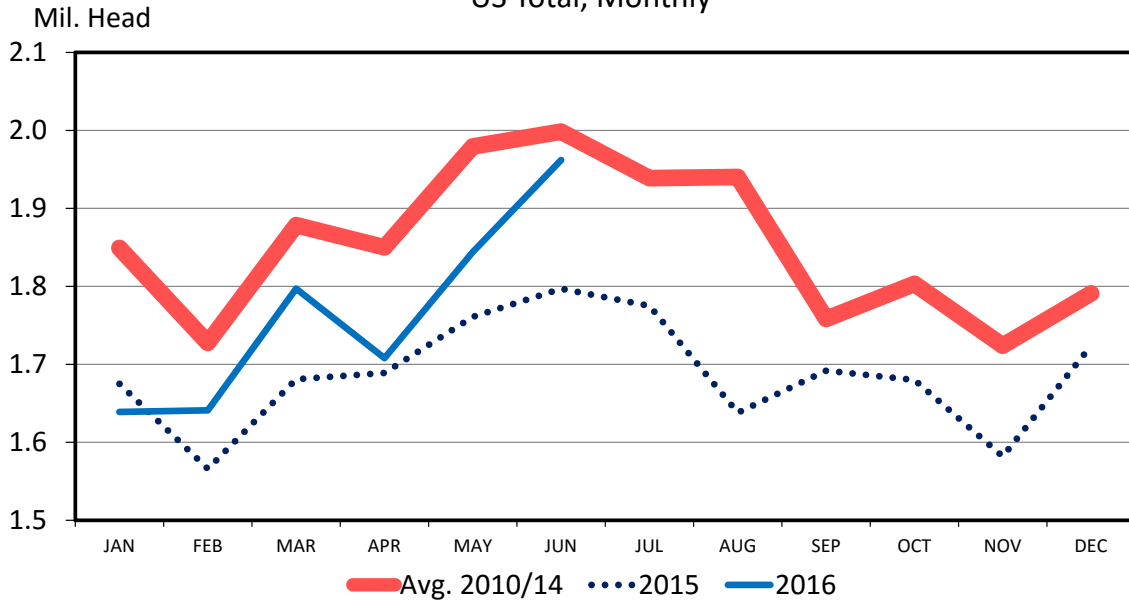
CATTLE ON FEED

US Total, Monthly



Pre-8/20 COF Report Estimates:
 Marketed in July: -0.7% {-1.5% to +0.5%}

FED CATTLE MARKETINGS
 US Total, Monthly

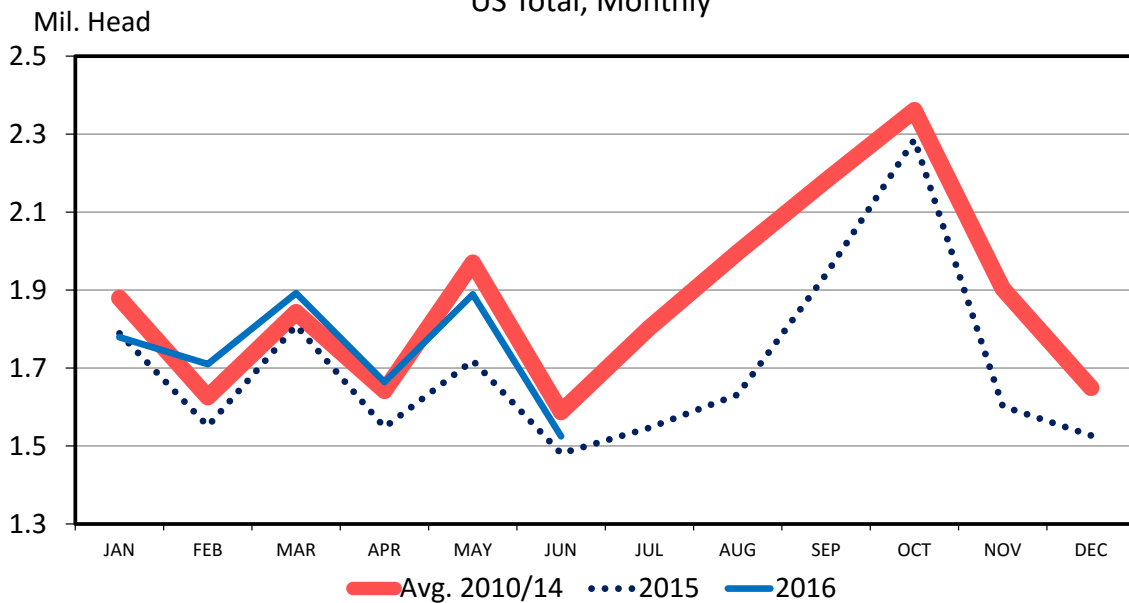


Data Source: USDA-NASS
 Livestock Marketing Information Center

C-M-11
 07/22/16

Pre-8/20 COF Report Estimates:
 Placed in July: -0.4% {-5.0% to +4.2%}

FEEDLOT PLACEMENTS
 US Total, Monthly



Data Source: USDA-NASS
 Livestock Marketing Information Center

C-N-08
 07/22/16

Quarterly Forecasts (LMIC: 8/2/16)

| Year | Comm'l | % Chg. | Average | % Chg. | Comm'l | % Chg. |
|-------------|---------------|-------------|--------------|------------|---------------|-------------|
| Quarter | Slaughter | from | Dressed | from | Beef | from |
| | | Year Ago | Weight | Year Ago | Production | Year Ago |
| 2015 | | | | | | |
| I | 6,969 | -5.5 | 812.9 | 2.2 | 5,665 | -3.5 |
| II | 7,229 | -7.8 | 810.1 | 2.7 | 5,856 | -5.3 |
| III | 7,291 | -4.5 | 832.3 | 2.8 | 6,068 | -1.8 |
| IV | 7,263 | -0.9 | 841.1 | 2.3 | 6,109 | 1.5 |
| Year | 28,752 | -4.7 | 824.2 | 2.5 | 23,698 | -2.3 |
| 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 | 7,634 | 4.7 | 827.6 | -0.6 | 6,318 | 4.1 |
| IV | 7,443 | 2.5 | 834.6 | -0.8 | 6,212 | 1.7 |
| Year | 29,886 | 3.9 | 824.8 | 0.1 | 24,651 | 4.0 |
| 2017 | | | | | | |
| I | 7,524 | 4.8 | 829.3 | 0.3 | 6,240 | 5.1 |
| II | 7,944 | 4.1 | 814.6 | 0.4 | 6,471 | 4.6 |
| III | 7,825 | 2.5 | 831.4 | 0.5 | 6,506 | 3.0 |
| IV | 7,788 | 4.6 | 837.4 | 0.3 | 6,522 | 5.0 |
| Year | 31,081 | 4.0 | 828.1 | 0.4 | 25,739 | 4.4 |

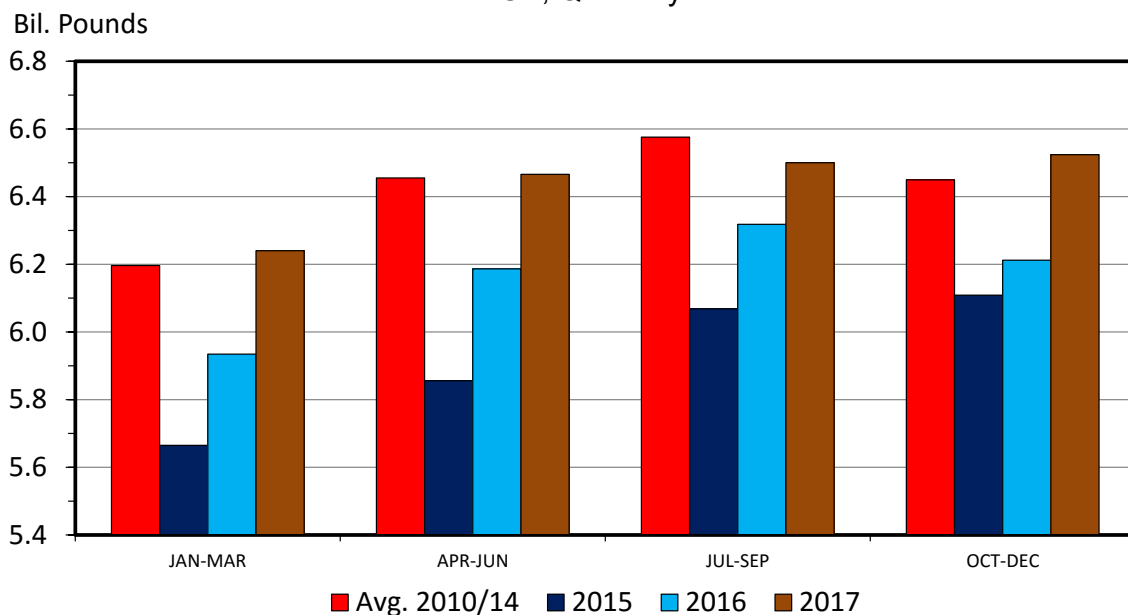
Quarterly Forecasts (LMIC: 8/2/16)

| Year | Live Sltr. | % Chg. | Feeder Steer Price | |
|-------------|----------------|--------------|--------------------|----------------|
| Quarter | Steer Price | from | Southern Plains | |
| | 5-Mkt Avg | Year Ago | 7-800# | 5-600# |
| 2015 | | | | |
| I | 162.43 | 11.0 | 215.87 | 276.14 |
| II | 158.11 | 7.0 | 225.29 | 279.32 |
| III | 144.22 | -9.0 | 214.38 | 246.04 |
| IV | 127.72 | -22.9 | 177.29 | 203.51 |
| Year | 148.12 | -4.2 | 208.21 | 251.25 |
| 2016 | | | | |
| I | 134.81 | -17.0 | 160.06 | 195.73 |
| II | 127.68 | -19.2 | 149.22 | 173.86 |
| III | 121-123 | -15.4 | 145-148 | 172-176 |
| IV | 122-125 | -3.3 | 145-149 | 172-178 |
| Year | 126-128 | -14.3 | 149-152 | 178-181 |
| 2017 | | | | |
| I | 123-127 | -7.3 | 145-150 | 174-181 |
| II | 122-127 | -2.5 | 147-153 | 176-183 |
| III | 118-124 | -0.8 | 144-151 | 173-181 |
| IV | 119-126 | -0.8 | 142-150 | 171-180 |
| Year | 121-125 | -3.1 | 145-151 | 174-181 |

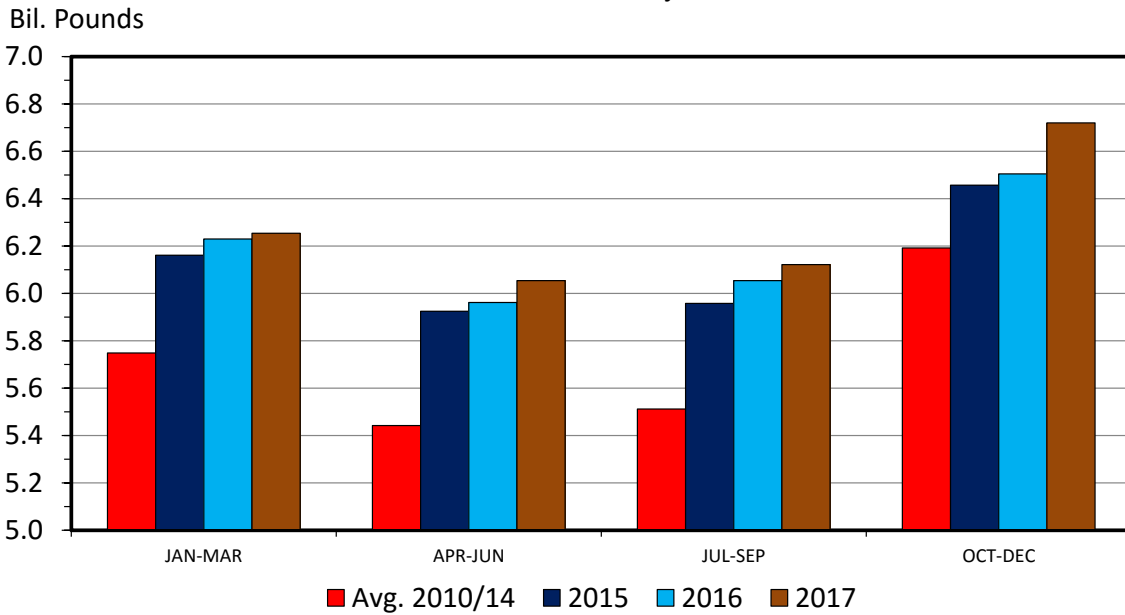
LC & FC Contracts Down ~\$3/cwt since 8/2

Trade & Meat Supplies

COMMERCIAL BEEF PRODUCTION US, Quarterly



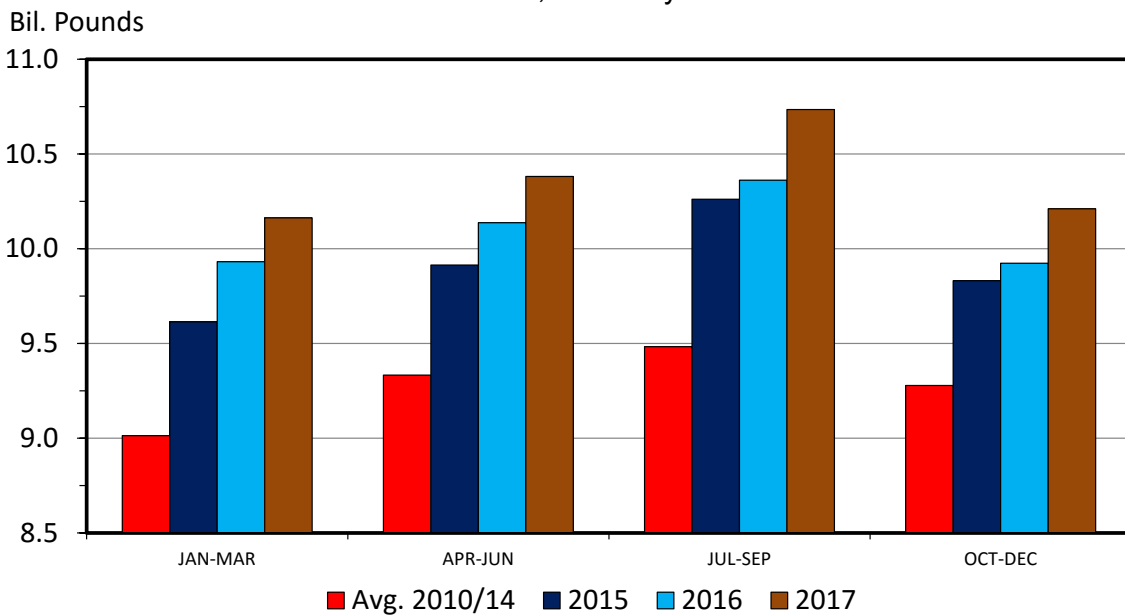
COMMERCIAL PORK PRODUCTION US, Quarterly



Data Source: USDA-NASS, Forecasts by LMIC
Livestock Marketing Information Center

M-S-06
07/30/16

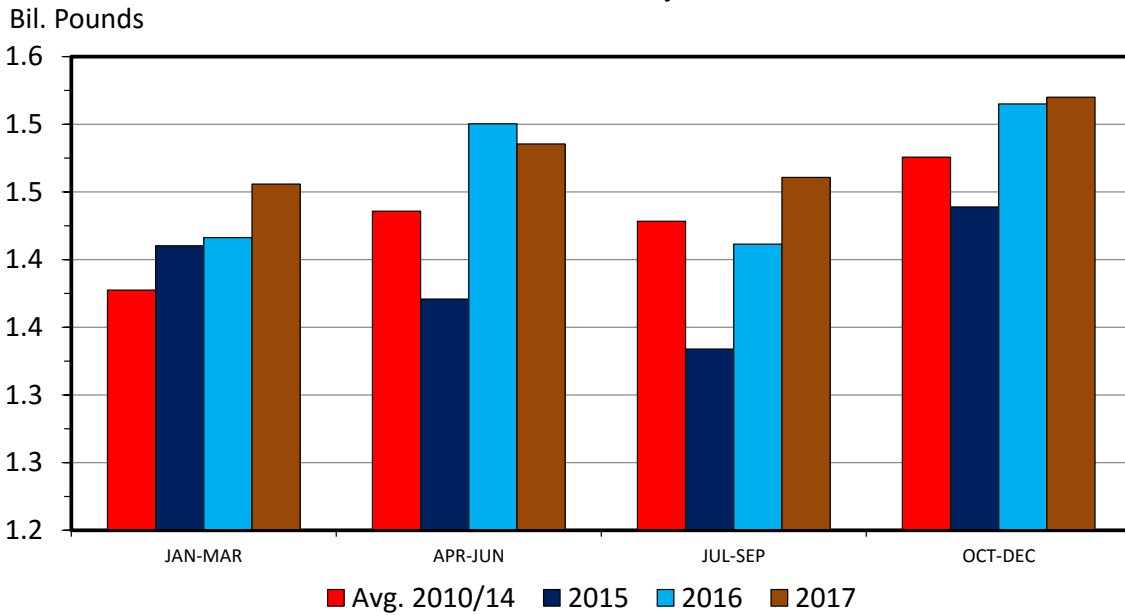
RTC BROILER PRODUCTION US, Quarterly



Data Source: USDA-NASS, Forecasts by LMIC
Livestock Marketing Information Center

M-S-30
07/30/16

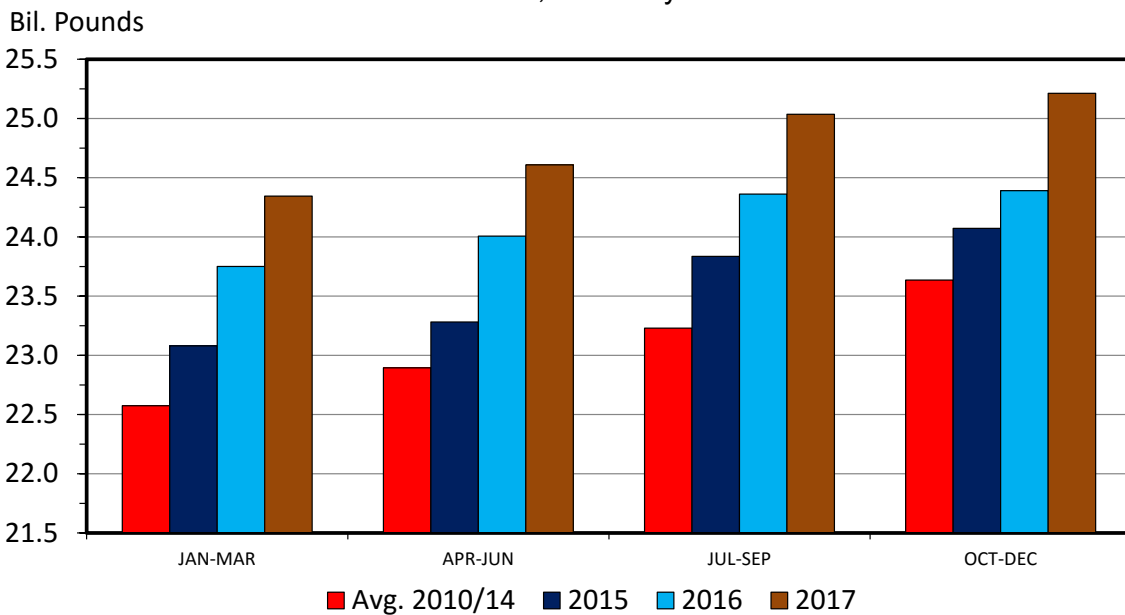
RTC TURKEY PRODUCTION US, Quarterly



Data Source: USDA-NASS, Forecasts by LMIC
Livestock Marketing Information Center

07/30/16

TOTAL RED MEAT & POULTRY PRODUCTION US, Quarterly

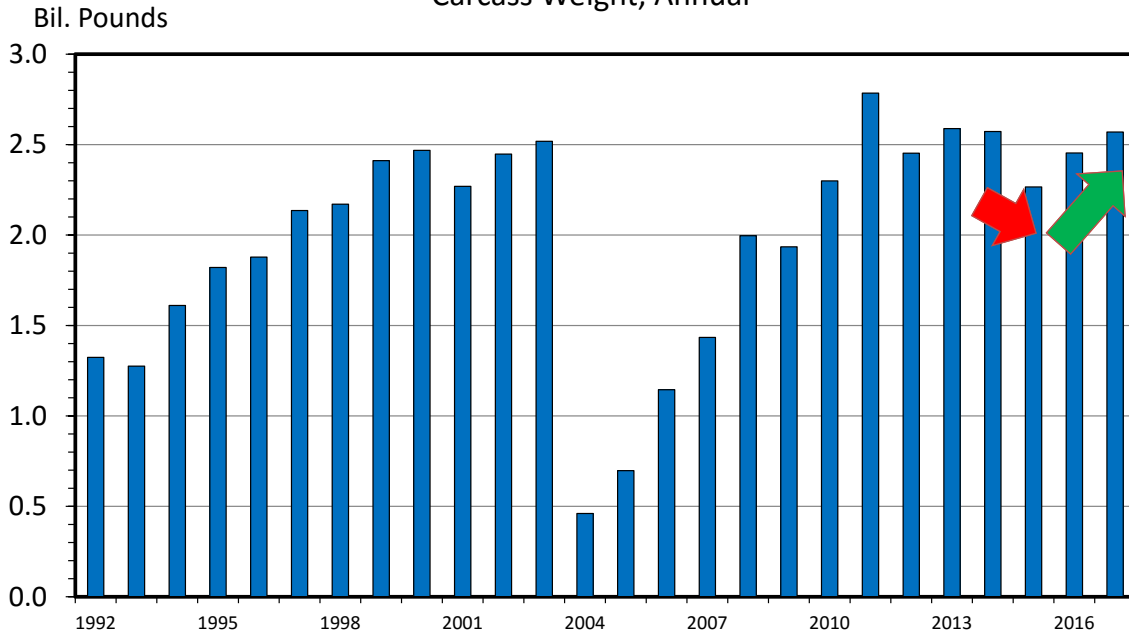


Data Source: USDA-NASS, Forecasts by LMIC
Livestock Marketing Information Center

M-S-31
07/30/16

US BEEF AND VEAL EXPORTS

Carcass Weight, Annual

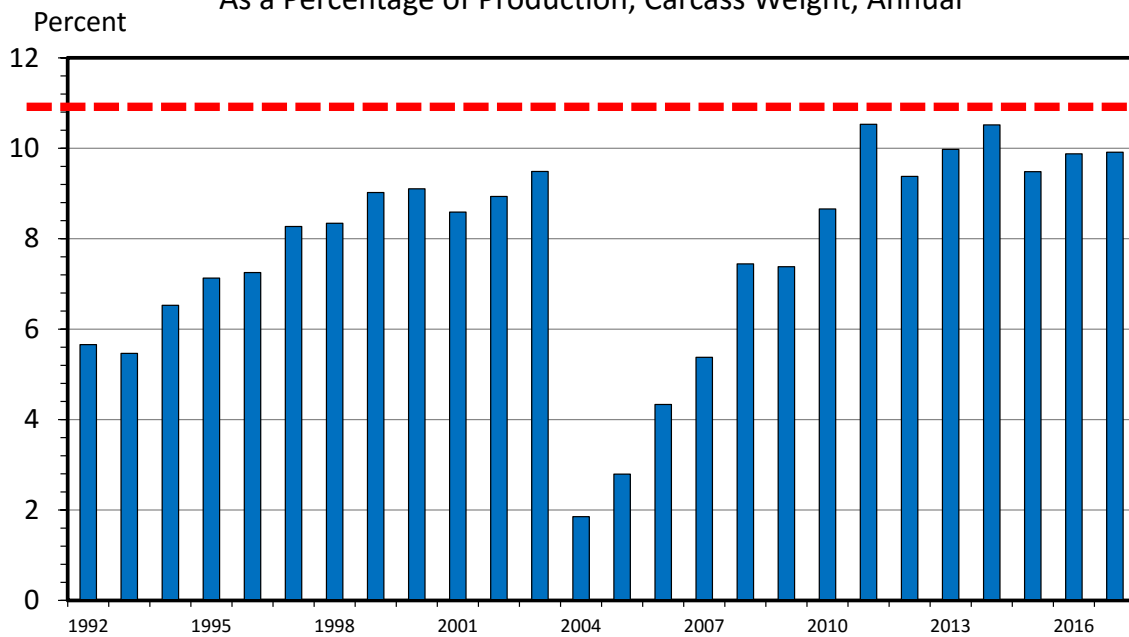


Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

I-N-06
07/30/16

US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual

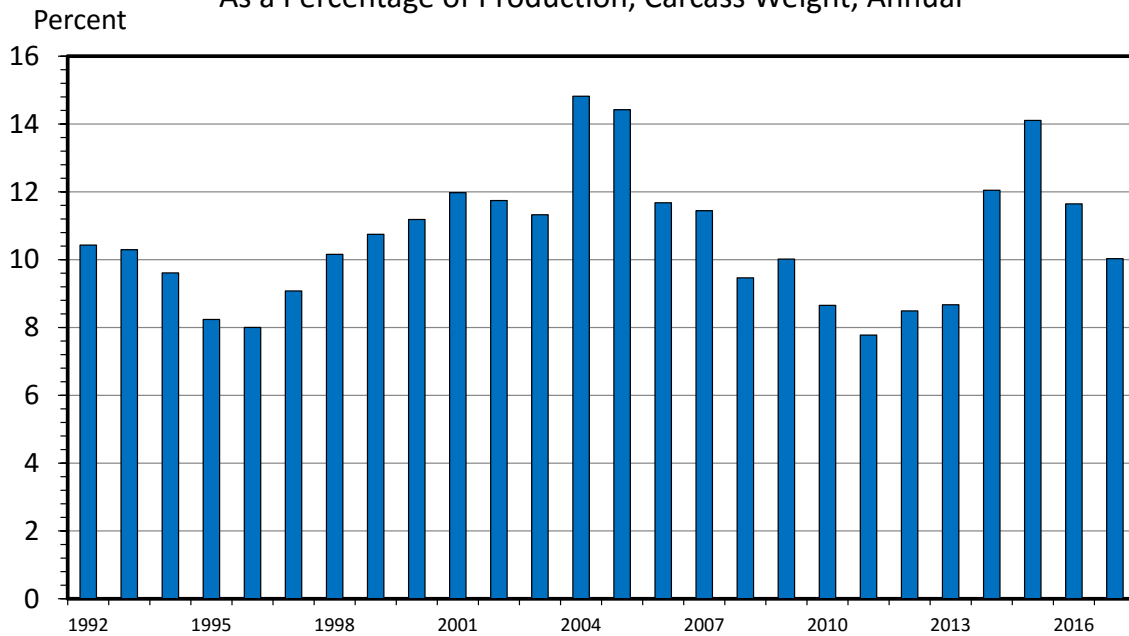


Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

I-N-07
07/30/16

US BEEF AND VEAL **IMPORTS**

As a Percentage of Production, Carcass Weight, Annual

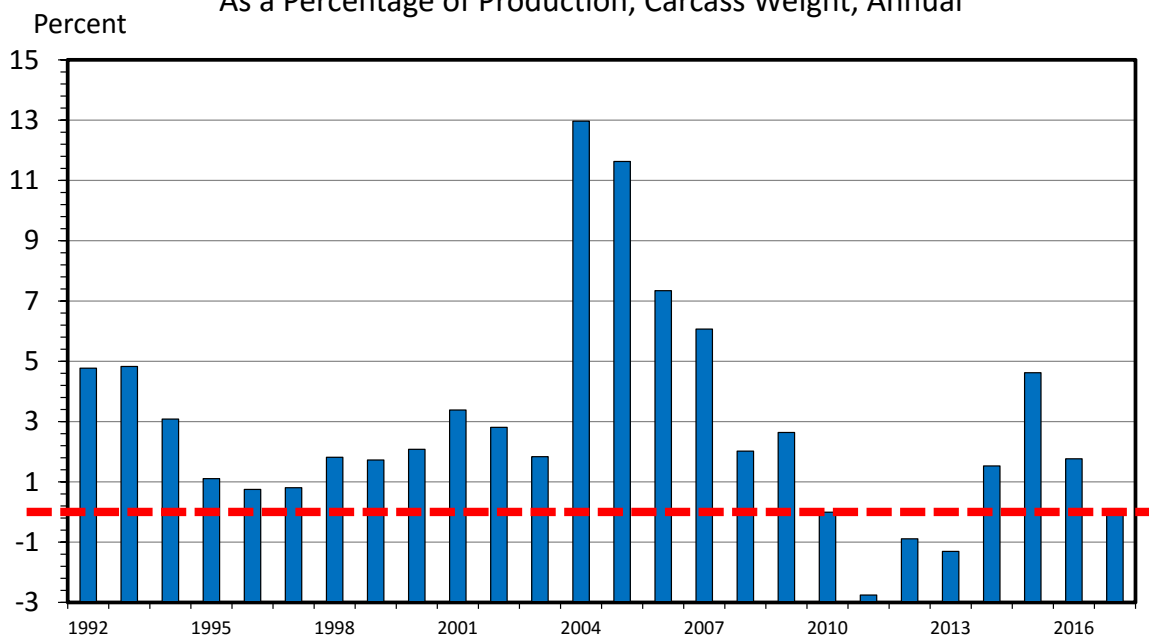


Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

I-N-08
07/30/16

US BEEF AND VEAL **NET IMPORTS**

As a Percentage of Production, Carcass Weight, Annual

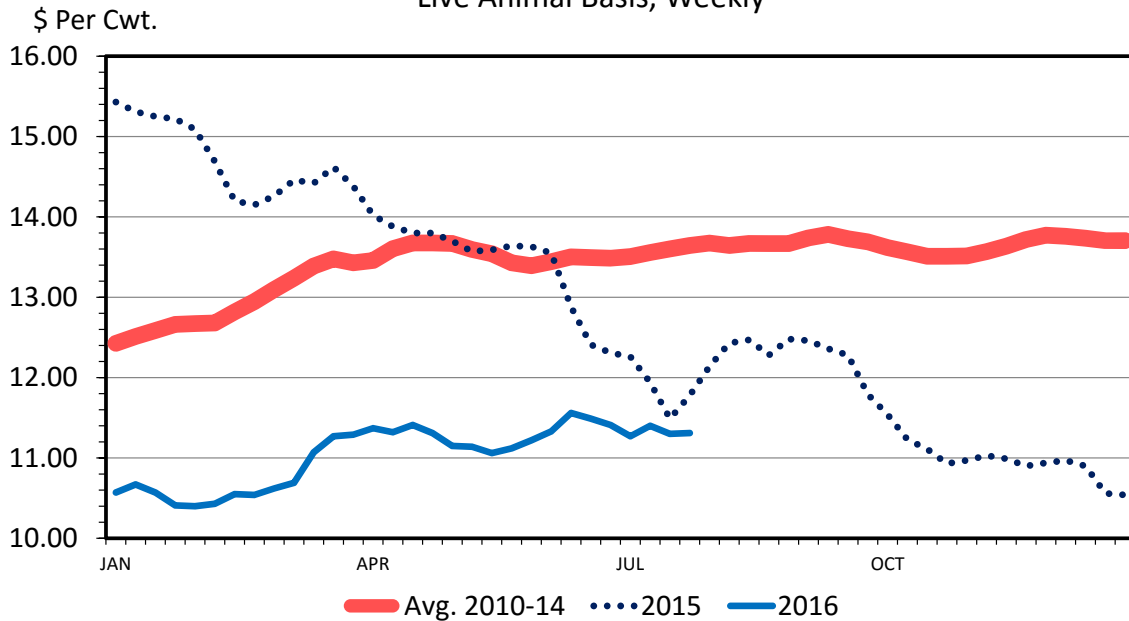


Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

I-N-11
07/30/16

STEER HIDE AND OFFAL VALUE

Live Animal Basis, Weekly



Data Source: USDA-AMS
Livestock Marketing Information Center

C-P-39
08/01/16

USDA Long-Term projections

Nov. 2015 pre-report release (<http://www.usda.gov/oce/commodity/projections/index.htm>)

| Per capita meat cons., retail wt | Recent | | Next 5 Years | | | | | 10 Years Out |
|----------------------------------|---------------|-------|--------------|-------|-------|-------|-------|--------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
| Item | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
| | <i>Pounds</i> | | | | | | | |
| Beef | 54.1 | 54.4 | 55.3 | 55.2 | 55.6 | 56.1 | 56.3 | 56.8 |
| Pork | 46.4 | 49.5 | 49.7 | 50.1 | 50.5 | 50.8 | 50.9 | 51.1 |
| Total red meat | 101.7 | 105.2 | 106.1 | 106.5 | 107.2 | 108.0 | 108.3 | 108.9 |
| Broilers | 83.3 | 89.1 | 89.6 | 89.5 | 89.8 | 90.2 | 90.7 | 91.5 |
| Turkeys | 15.7 | 15.8 | 16.2 | 16.7 | 17.0 | 17.1 | 17.2 | 17.3 |
| Total poultry | 100.3 | 106.1 | 107.1 | 107.5 | 108.1 | 108.7 | 109.3 | 110.3 |
| Red meat & poultry | 202.1 | 211.2 | 213.2 | 214.0 | 215.3 | 216.7 | 217.6 | 219.2 |

| PC Red Meat & Poultry | |
|-----------------------|-------|
| 1995 | 207.5 |
| 2000 | 216.2 |
| 2005 | 221.2 |
| 2010 | 208.9 |
| 2014 | 201.9 |

lowest since 1990

USDA Long-Term projections

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| Per capita meat cons., retail wt | Recent | | Next 5 Years | | | | | 10 Years Out |
|----------------------------------|---------------|-------|--------------|-------|-------|-------|-------|--------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
| Item | <i>Pounds</i> | | | | | | | |
| Beef | 54.1 | 54.4 | 55.3 | 55.2 | 55.6 | 56.1 | 56.3 | 56.8 |
| Pork | 46.4 | 49.5 | 49.7 | 50.1 | 50.5 | 50.8 | 50.9 | 51.1 |
| Total red meat | 101.7 | 105.2 | 106.1 | 106.5 | 107.2 | 108.0 | 108.3 | 108.9 |
| Broilers | 83.3 | 89.1 | 89.6 | 89.5 | 89.8 | 90.2 | 90.7 | 91.5 |
| Turkeys | 15.7 | 15.8 | 16.2 | 16.7 | 17.0 | 17.1 | 17.2 | 17.3 |
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Projections INCLUDE growing export forecasts...

35

USDA Long-Term projections

Nov. 2015 pre-report release (<http://www.usda.gov/oce/commodity/projections/index.htm>)

| Beef long-term projections | | Recent | | Next 5 Years | | | | | 10 Years Out |
|----------------------------|-----------|--------|--------|--------------|--------|--------|--------|--------|--------------|
| Item | Units | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
| Total production | Mil. lbs. | 24,320 | 23,780 | 24,914 | 25,295 | 25,761 | 26,296 | 26,684 | 28,057 |
| Imports | Mil. lbs. | 2,947 | 3,432 | 3,045 | 2,950 | 2,975 | 3,000 | 3,050 | 3,300 |
| Total supply | Mil. lbs. | 27,851 | 27,803 | 28,559 | 28,805 | 29,296 | 29,856 | 30,294 | 31,917 |
| Exports | Mil. lbs. | 2,573 | 2,223 | 2,425 | 2,500 | 2,650 | 2,800 | 2,925 | 3,400 |
| Total consumption | Mil. lbs. | 24,687 | 24,980 | 25,574 | 25,745 | 26,086 | 26,496 | 26,809 | 27,957 |
| Per capita, retail weight | Pounds | 54.1 | 54.4 | 55.3 | 55.2 | 55.6 | 56.1 | 56.3 | 56.8 |
| Change from previous year | Percent | -3.8 | 0.5 | 1.6 | -0.1 | 0.6 | 0.9 | 0.5 | 0.0 |

2025 vs 2015 Exports

➤ +53% in Volume

➤ 12% (2025) vs.9% (2015) of Production

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USDA Long-Term projections

Nov. 2015 pre-report release (<http://www.usda.gov/oce/commodity/projections/index.htm>)

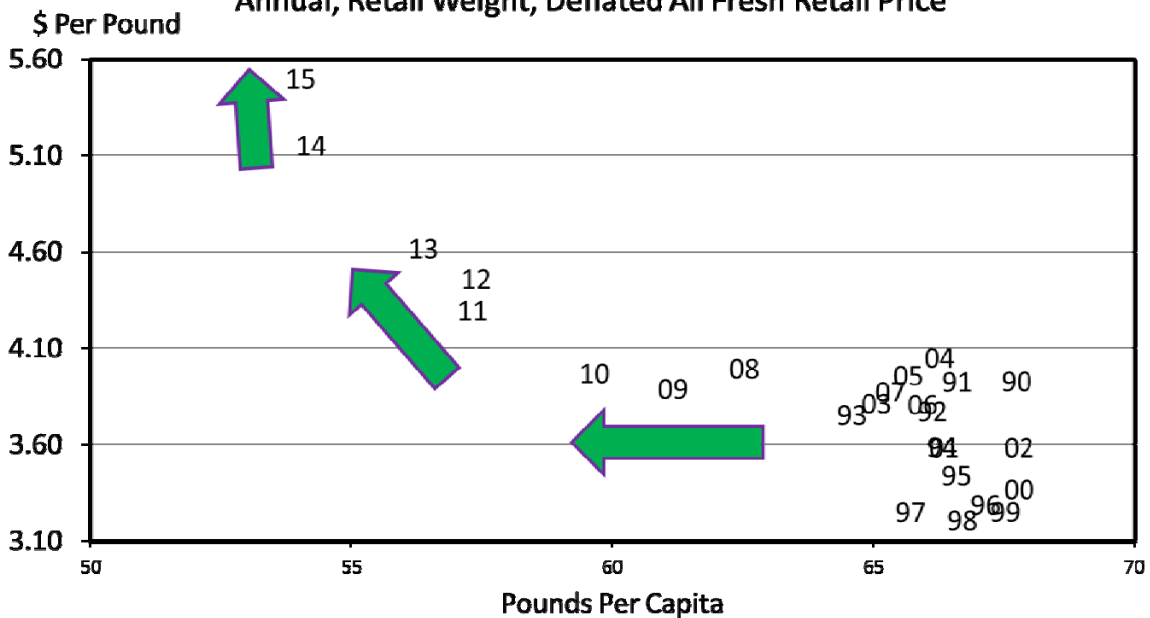
| Beef long-term projections | | Recent | Next 5 Years | | | | | | 10 Years Out |
|------------------------------|------------|--------|--------------|--------|--------|--------|--------|--------|--------------|
| Item | Units | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
| Prices: | | | | | | | | | |
| Beef cattle, farm | \$/cwt | 152.83 | 149.01 | 141.58 | 136.49 | 132.89 | 130.59 | 126.55 | 121.49 |
| Calves, farm | \$/cwt | 254.58 | 271.83 | 268.86 | 222.39 | 207.48 | 198.81 | 189.92 | 183.95 |
| Steers, 5-area | \$/cwt | 154.56 | 149.19 | 141.75 | 136.65 | 133.05 | 130.75 | 126.70 | 121.63 |
| Feeder steers, Oklahoma City | \$/cwt | 202.82 | 207.12 | 205.00 | 169.57 | 158.20 | 151.59 | 144.81 | 140.26 |
| Feed price ratio: | | | | | | | | | |
| Beef cattle-corn | Ratio | 34.3 | 40.3 | 38.8 | 37.9 | 36.4 | 35.3 | 34.2 | 32.4 |
| Cattle inventory | | | | | | | | | |
| Cattle inventory | 1,000 head | 88,526 | 89,800 | 92,900 | 95,200 | 95,700 | 96,200 | 96,600 | 97,400 |
| Beef cow inventory | 1,000 head | 29,086 | 29,675 | 30,382 | 30,800 | 31,300 | 31,800 | 32,200 | 33,200 |
| Total cow inventory | 1,000 head | 38,293 | 39,000 | 39,800 | 40,102 | 40,602 | 41,102 | 41,502 | 42,547 |

Note: Cwt = hundredweight.

2025 @ 33.2 million beef cows
 ➤ +14% from 2014
 ➤ Would be largest herd since 2001

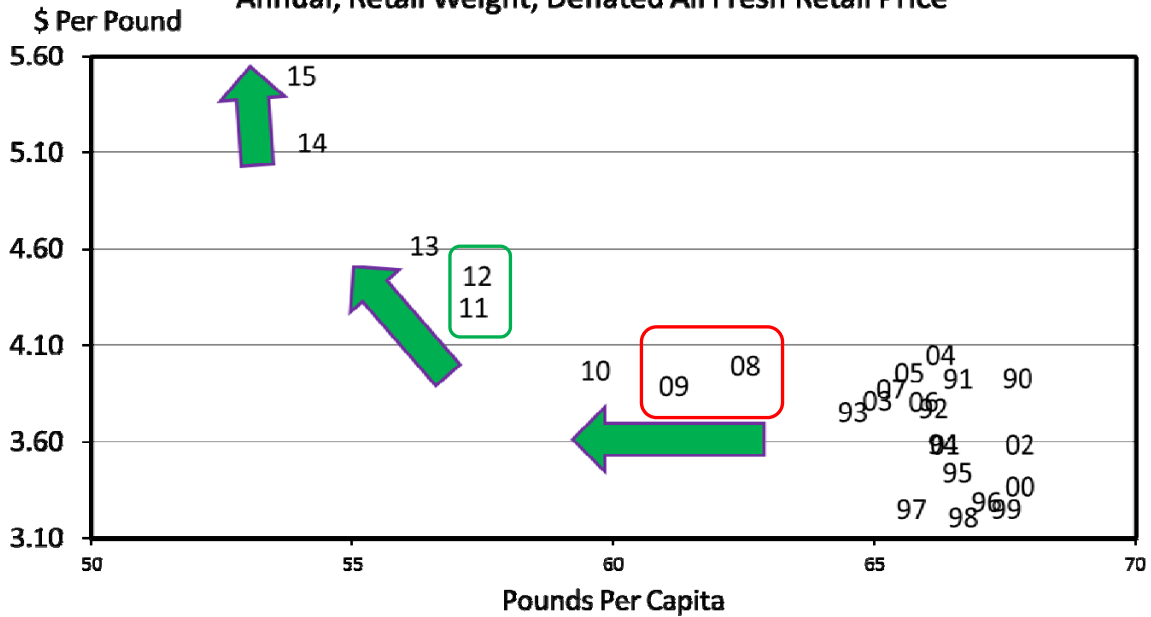
BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price



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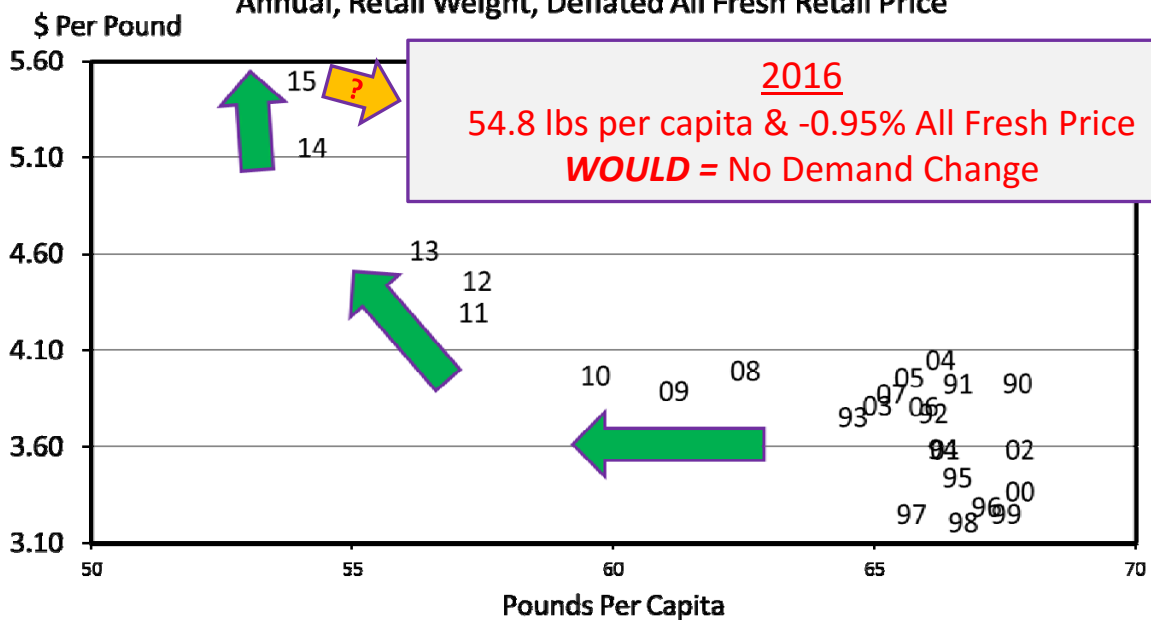


Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled and Analysis by LMIC
Livestock Marketing Information Center

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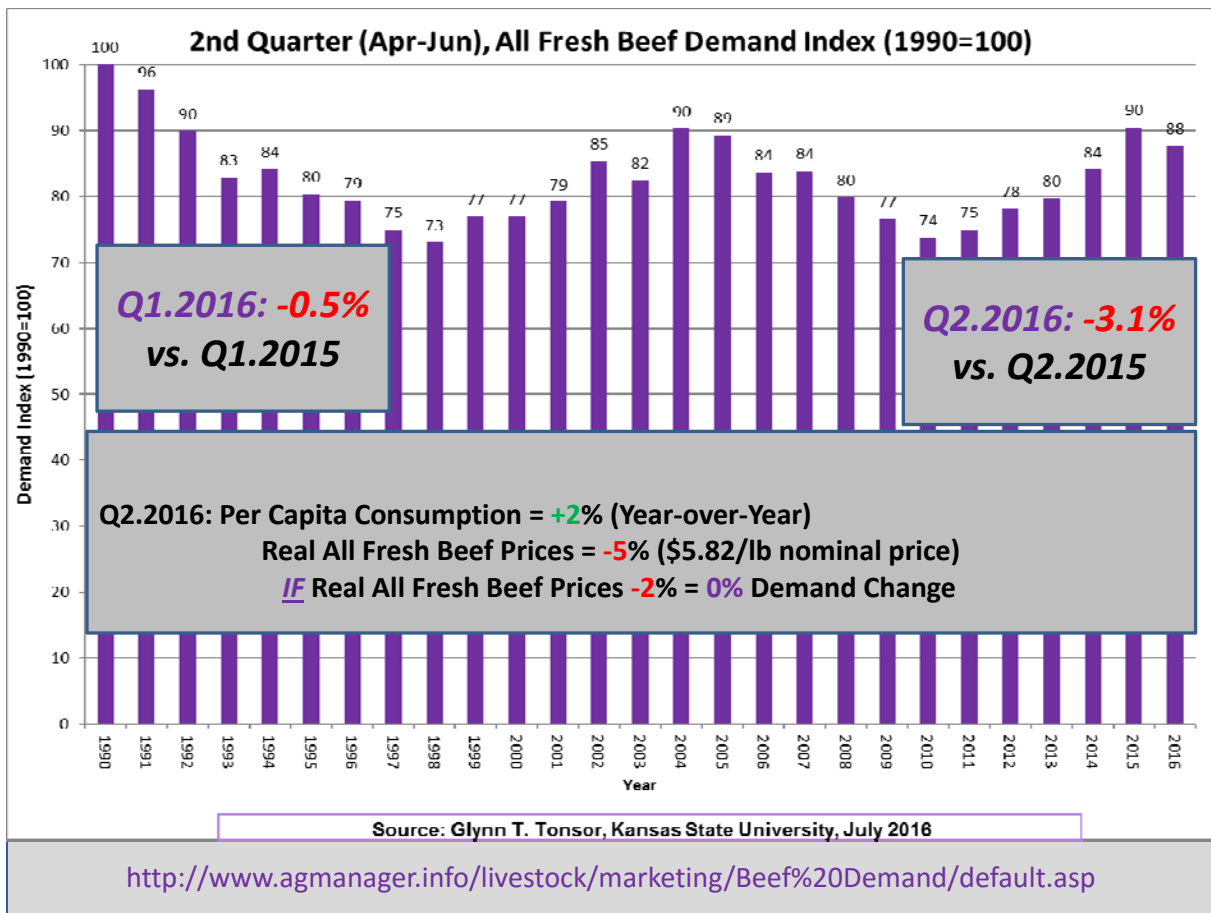
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Wrap-Up

- Broad 2016-2017 Profitability Outlook
 - Cow-calf: Converging toward Long-Term Levels
 - Stocker: Tough; Varies widely across situations
 - Feedlot: Ongoing struggle; worst behind us (I think)

Wrap-Up

- Industry past tipping point on tight supplies

–Demand's role will become clearer

http://www.agmanager.info/livestock/marketing/Beef%20Demand/BeefDemand_08-28-15.pdf

- Identifying & acting upon comparative advantage will increasingly be key to profit!

More information available at:



This presentation will be available in PDF format at:

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

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