

Beef Cattle Market Outlook & Cow-Calf Decision-Making Overview



PUTTING THE PIECES TOGETHER
FOR HERD HEALTH



**Boehringer
Ingelheim**

**Ord, NE
January 24, 2017**

**Glynn Tonsor
Dept. of Ag. Economics
Kansas State University**



AgManager
.info

“Interesting Times” in the Beef Industry

*Veterinary Feed
Directive*

*Cease of Georgia Dock Price/ MPR
Discussions*

*TRADE w/
BRAZIL*

*TPP/TTIP & US
Election*

*Q4-2016 Hog Slaughter
Capacity*

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

*Re-emergence of
MCOOL?*

*CME LC
CONTRACT
CHANGES*

*CME FC
INDEX
CHANGES*

*CATTLE
MARKETS
“BROKEN”*

Overarching Beef Industry Economic Outlook

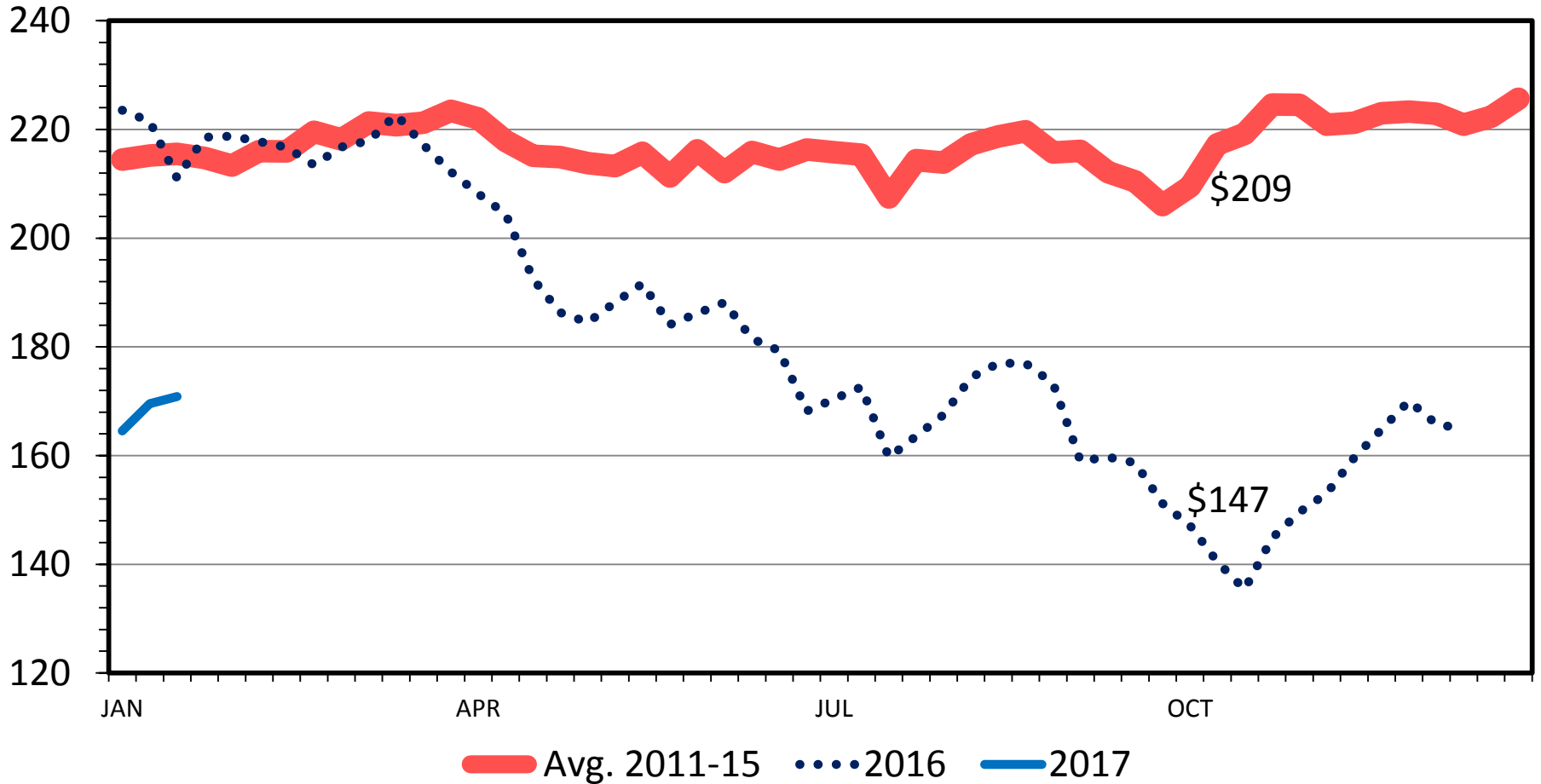
- Supplies
 - Larger across all proteins
 - Herd expansion stopped?

- Demand
 - Confusing & slower in 2016

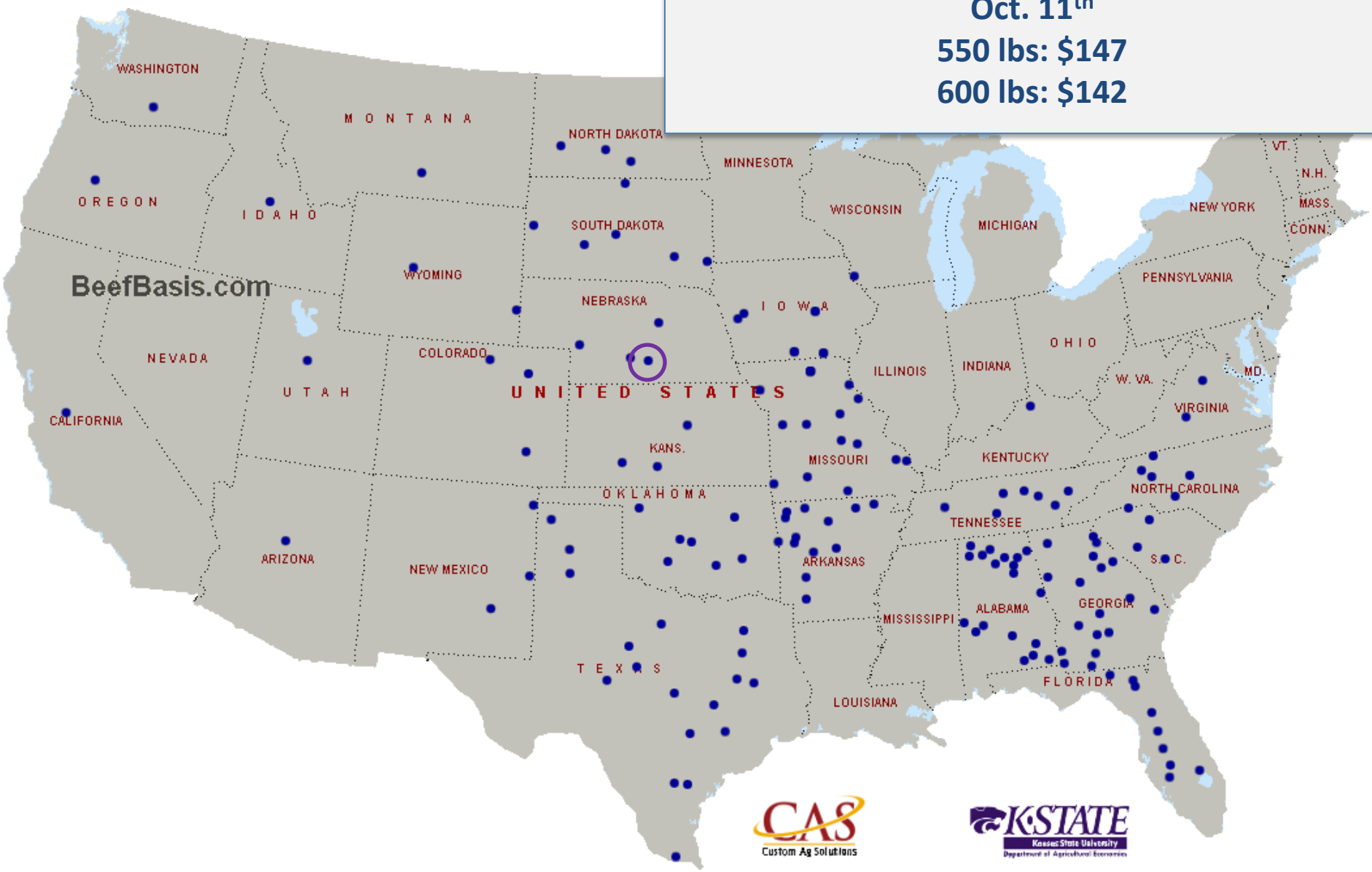
MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

\$ Per Cwt.

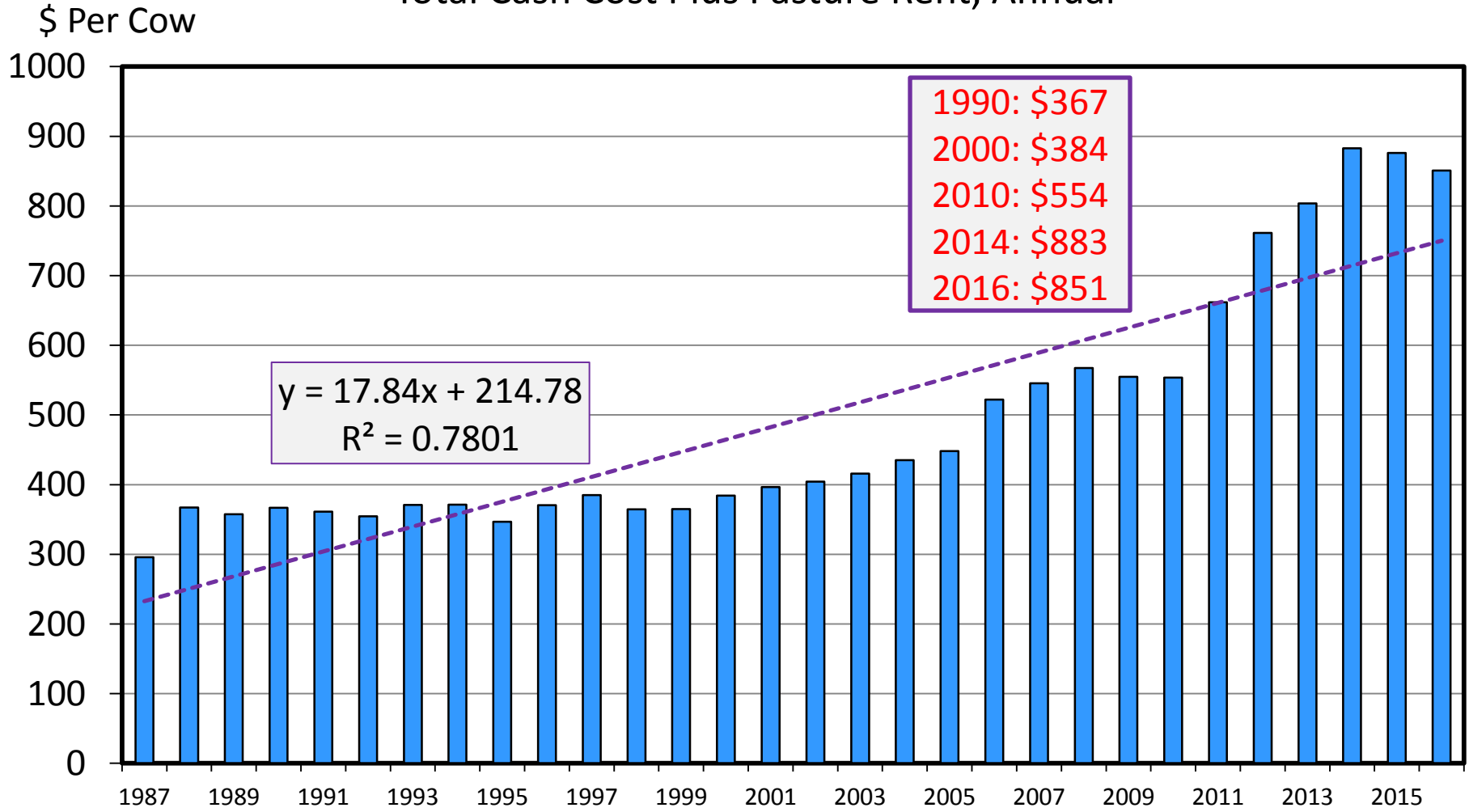


Beef Basis, Kearny, NE Projections (as of 1/23):
Oct. 11th
550 lbs: \$147
600 lbs: \$142



ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



Data Source: USDA & LMIC, Compiled by LMIC

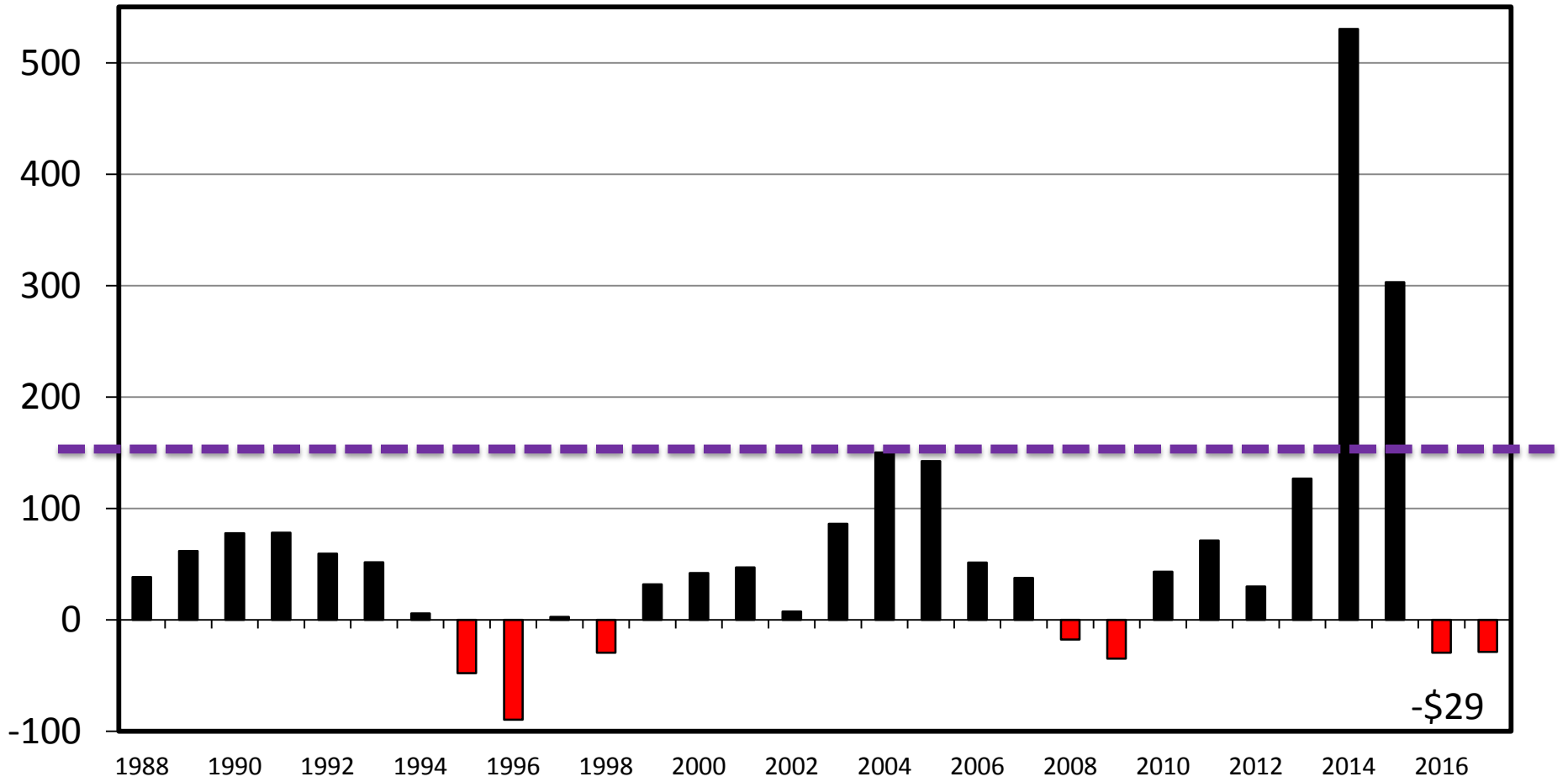
Livestock Marketing Information Center

08/02/16

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow

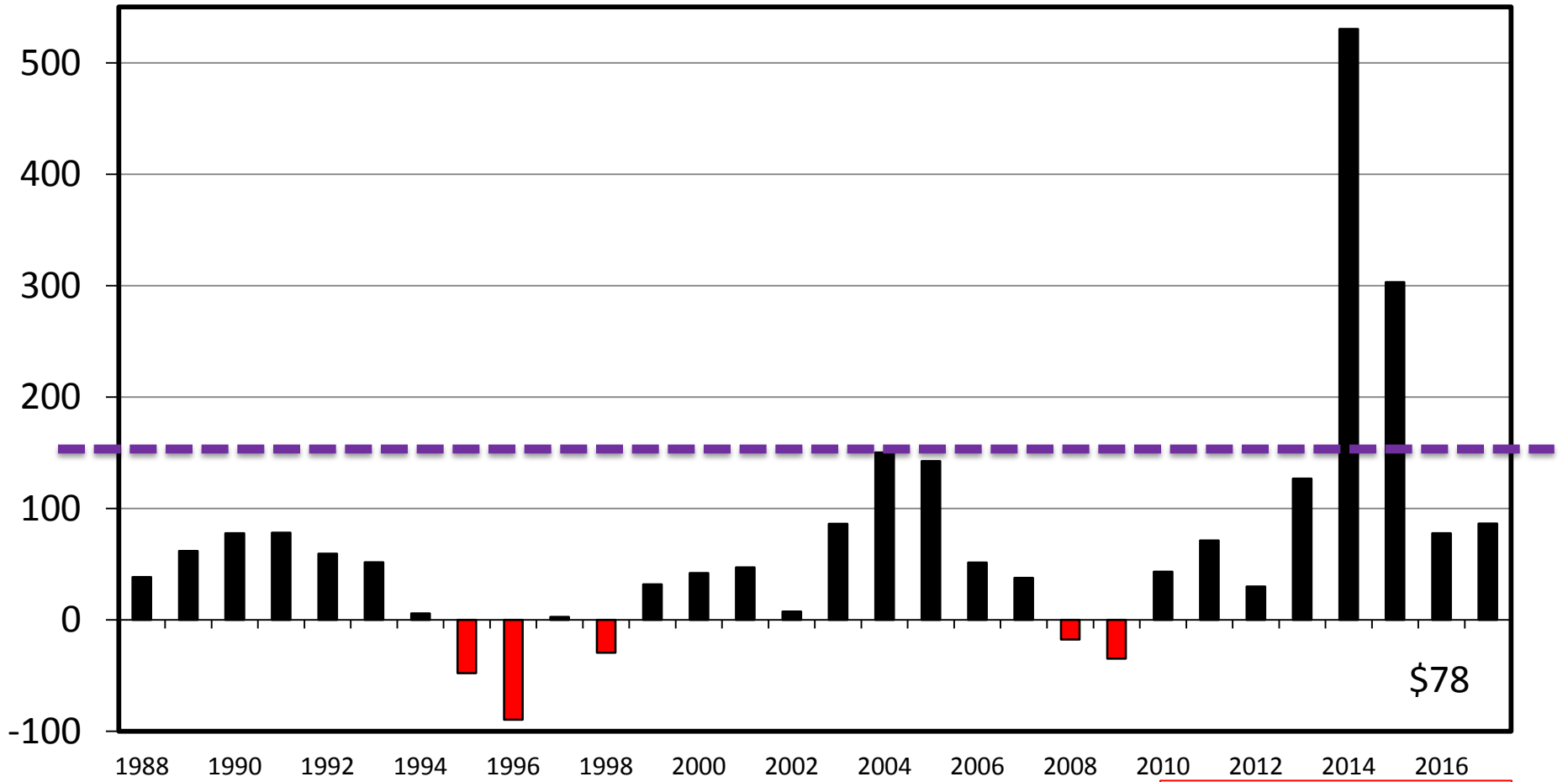


-\$29

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow

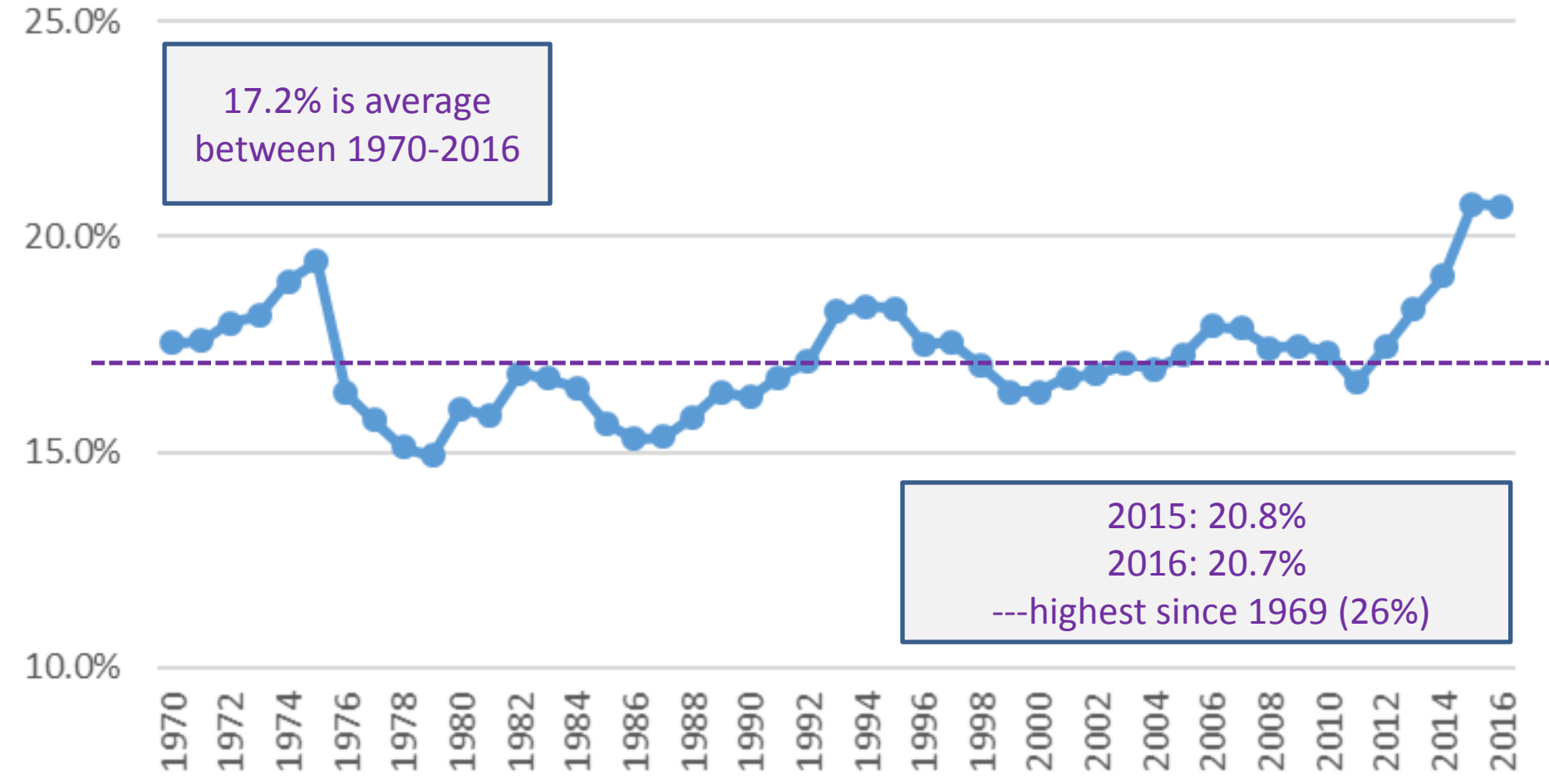


\$78

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

C-P-66
09/02/16

Heifer Retention as % of Total Beef Cows



Data Source: USDA-NASS
Livestock Marketing Information Center

Differences Between High-, Medium-, and Low-Profit Cow-Calf Producers: An Analysis of 2011-2015 Kansas Farm Management Association Cow-Calf Enterprise

Dustin L. Pendell (dpendell@ksu.edu) and Kevin L. Herbel (kherbel@ksu.edu)

Kansas State University Department of Agricultural Economics – November 2016

http://www.agmanager.info/sites/default/files/pdf/DifferencesBetweenHighMediumLowProfitCow-CalfProducers_2011-2015.pdf

Variability of Cow-Calf Returns

- Variability over 41 Years
 - Avg Returns Over Total Cost: $-\$91/\text{cow}$
 - Low of $-\$306$ & High of $+\$226$
- Greater Variability ACROSS PRODUCERS

Variability of Cow-Calf Returns

Table 1. Beef Cow-Calf Enterprise Returns over Total Costs, 2011-2015 (minimum of 3 years)*

	All Farms	Profit Category			Difference between High 1/3 and Low 1/3	
		High 1/3 Head / \$	Mid 1/3 Head / \$	Low 1/3 Head / \$	Absolute	%
Number of Farms	72	24	24	24		
Labor allocated to livestock, %	33.7	39.9	29.7	31.5	8	27%
Number of Cows in Herd	140	200	120	101	99	98%
Number of Calves Sold	128	184	111	91	93	103%
Calves Sold per Cow in Herd	0.916	0.919	0.926	0.897	0.02	2%
Weight of Calves Sold, lbs.	618	642	619	594	48	8%
Calf Sales Price / Cwt	\$167.22	\$166.39	\$164.51	\$170.75	-\$4.36	-3%
Gross Income	\$1,005.67	\$1,049.70	\$1,008.67	\$958.64	\$91.06	9%
Feed	\$369.31	\$279.89	\$378.70	\$449.33	-\$169.44	-38%
Pasture	\$164.33	\$170.88	\$164.82	\$157.28	\$13.60	9%
Interest	\$149.09	\$142.96	\$151.16	\$153.16	-\$10.21	-7%
Vet Medicine / Drugs	\$28.40	\$23.63	\$29.61	\$31.97	-\$8.34	-26%
Livestock Marketing / Breeding	\$19.15	\$10.52	\$23.41	\$23.53	-\$13.02	-55%
Depreciation	\$57.89	\$44.25	\$56.54	\$72.88	-\$28.63	-39%
Machinery	\$96.39	\$86.38	\$93.75	\$109.05	-\$22.66	-21%
Labor	\$172.28	\$152.55	\$161.36	\$202.93	-\$50.38	-25%
Other	\$48.65	\$43.15	\$41.30	\$61.50	-\$18.34	-30%
Total Cost	\$1,105.49	\$954.20	\$1,100.65	\$1,261.63	-\$307.43	-24%
Net Return to Management	-\$99.83	\$95.50	-\$91.98	-\$302.99	\$398.49	

*Sorted by Net Returns over Total Costs per Cow

Variability of Cow-Calf Returns

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*Sorted by Net Returns over Total Costs per Cow

Cow-Calf – Expansion Discussion

- *What Can I pay for a Replacement?*
 - *KSU-Beef Replacement* spreadsheet
 - Two fact sheets and video tutorial also available online:
 - <http://www.agmanager.info/livestock/budgets/production/default.asp>

Cow-Calf – Expansion Discussion

• *What Can I pay for a Replacement?*

KSU-Beef Replacement spreadsheet (<http://www.agmanager.info/livestock/budgets/production/default.asp>)

[Print information](#)

Input Assumptions

Number of replacements purchased	100	Percent marketable calves (1 - death loss)	97.0%
Year of purchase	2017	Annual cow death loss	0.5%
First year for calf sales	2018	Annual cull rate	15.0%
Cull cow weight, lbs/hd	1,250	Annual inflation rate on costs	1.0%
Annual cow costs, \$/year	\$800	Annual increase in average weaning weight	0.0%
Price scenario to use (1-3) (USDA (As of Dec. '16))	1	Discount rate (interest rate)	7.5%
Weaning weight scenario to use (1-3)	1		

Net Present Value Analysis

Year	Cows at		Prices, \$/cwt		Calf Income	Cull Income			Cost Adj.	Net Income	Discount factor	NPV**	
	BOY*	Calf	Calf wt	Calf		Cull	Annual	Age					Cost
2018	100.0	1	542	\$170.60	\$75.69	\$897	\$141.92	\$800	\$808	\$0	\$231	0.9302	\$958
2019	84.5	2	552	\$166.96	\$74.46	\$755	\$117.97	\$665	\$690	\$0	\$184	0.8653	\$949
2020	71.4	3	562	\$153.03	\$68.71	\$596	\$91.98	\$518	\$589	\$0	\$99	0.8050	\$871
2021	60.3	4	567	\$149.27	\$67.24	\$495	\$76.06	\$428	\$502	\$0	\$69	0.7488	\$826
2022	51.0	5	572	\$141.37	\$63.95	\$400	\$61.13	\$344	\$429	\$0	\$32	0.6966	\$768
2023	43.1	6	572	\$141.14	\$63.84	\$337	\$51.57	\$291	\$366	\$0	\$23	0.6480	\$731
2024	36.4	7	567	\$138.12	\$62.33	\$277	\$42.54	\$240	\$312	\$0	\$7	0.6028	\$691
2025	30.8	8	565	\$137.19	\$61.85	\$231	\$35.67	\$201	\$266	\$0	\$0	0.5607	\$660
2026	26.0	9	562	\$135.69	\$61.08	\$192	\$29.77	\$168	\$227	\$0	-\$5	0.5216	\$632
2027	22.0	10	559	\$135.95	\$61.08	\$162	\$25.15	\$142	\$194	\$0	-\$7	0.4852	\$610

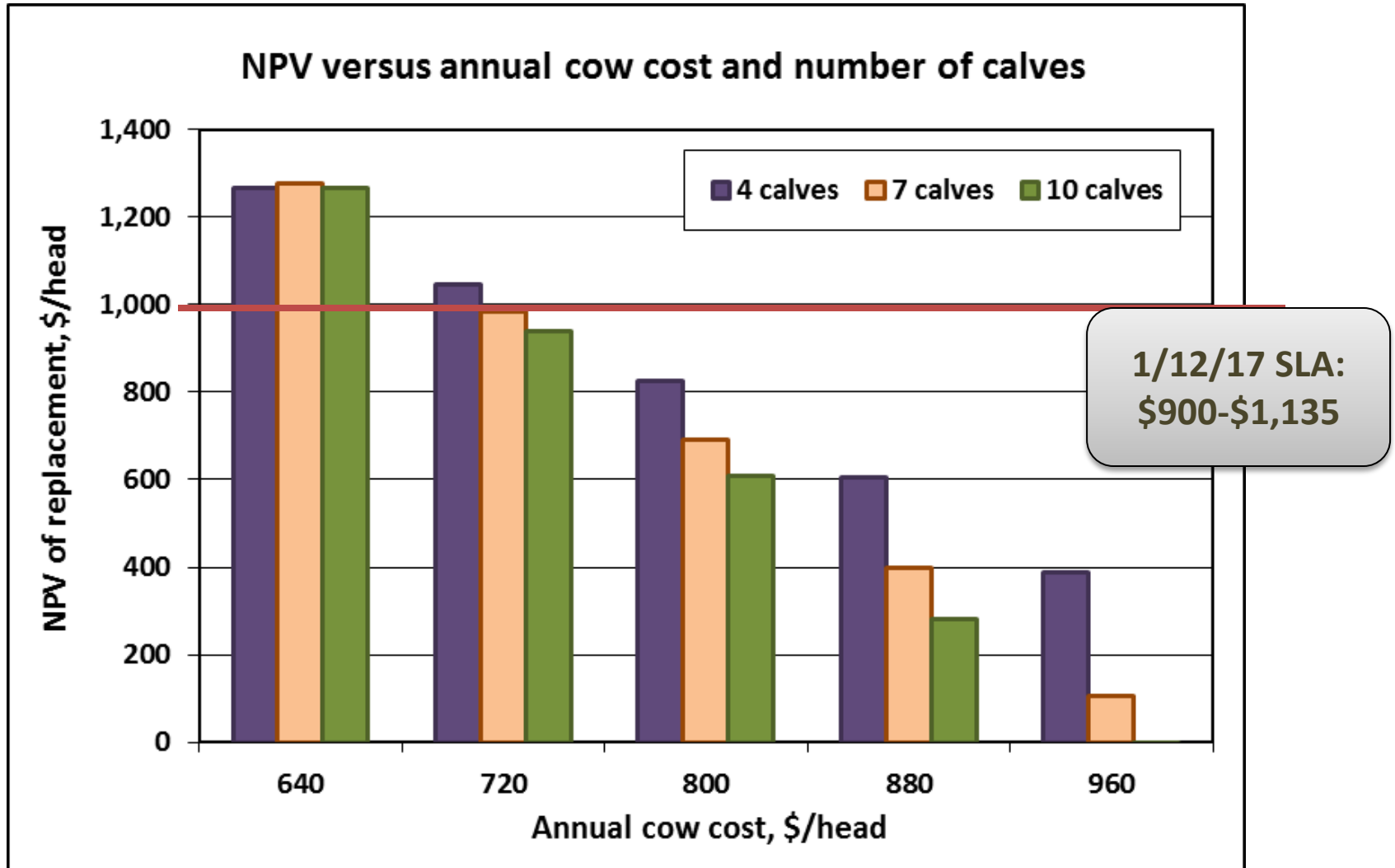
* BOY = Beginning of year

** Net present value if replacement is sold in this year

Cow-Calf – Expansion Discussion

- *What Can I pay for a Replacement?*

KSU-Beef Replacement spreadsheet (<http://www.agmanager.info/livestock/budgets/production/default.asp>)



Cow-Calf – Expansion Discussion

- *What Can I pay for a Replacement?*

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Table 1. Net Present Value of Beef Replacements, Sensitivity Analysis Summary*

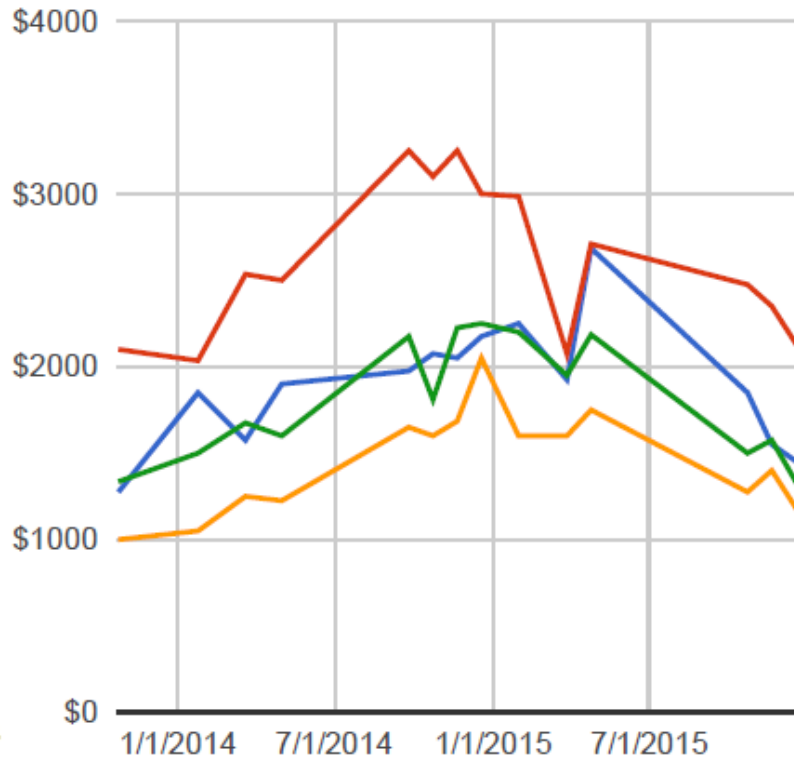
	Number		10% Lower	10% Lower	10% Higher
Year	of Calves	Base Case	Cow Costs/yr	Discount Rate	Calf Prices
2018	1	\$958	\$1,034	\$965	\$1,130
2019	2	\$949	\$1,084	\$961	\$1,180
2020	3	\$871	\$1,053	\$885	\$1,143
2021	4	\$826	\$1,046	\$842	\$1,132
2022	5	\$768	\$1,017	\$784	\$1,098
2023	6	\$731	\$1,004	\$748	\$1,082
2024	7	\$691	\$984	\$707	\$1,058
2025	8	\$660	\$967	\$675	\$1,039
2026	9	\$632	\$951	\$646	\$1,020
2027	10	\$610	\$938	\$623	\$1,005

“Just How Bad Did the Replacement Heifer Market Crash?”

JANUARY 23, 2016 10:19 PM

[HTTP://WWW.AGWEB.COM/ARTICLE/JUST-HOW-BAD-DID-THE-REPLACEMENT-HEIFER-MARKET-CRASH-NAA-WYATT-BECHTEL/](http://www.agweb.com/article/just-how-bad-did-the-replacement-heifer-market-crash-naa-wyatt-bechtel/)

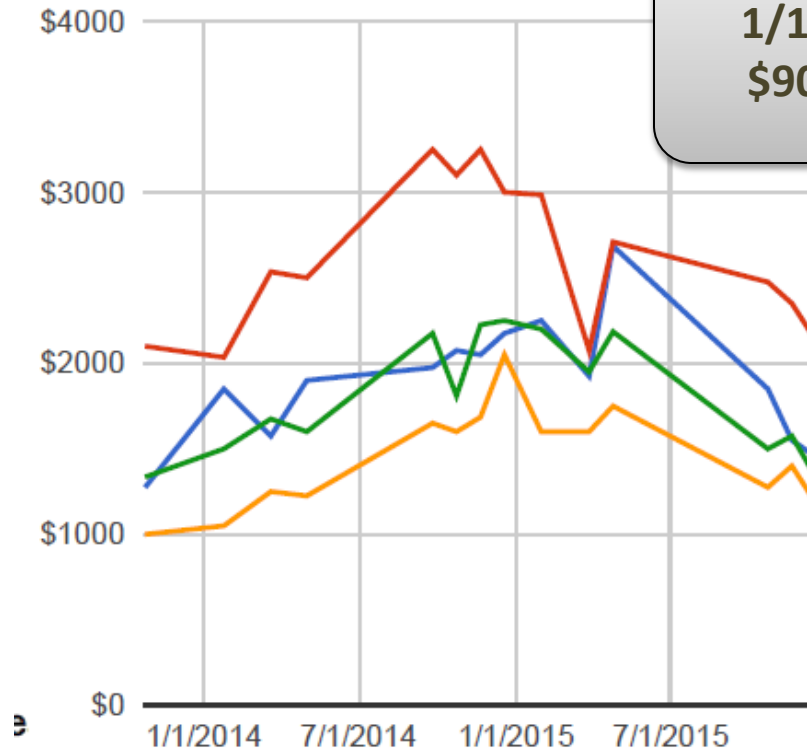
Superior Select Female Auction Prices



Prices from Superior Livestock's Select Female Auction show the rise and fall of the heifer market for bred and open females the last two years.

■ Bred Heifer Low
 ■ Bred Heifer High
 ◀ 1/2 ▶

Superior Select Female Auction Prices



**1/12/17 SLA:
\$900-\$1,135**

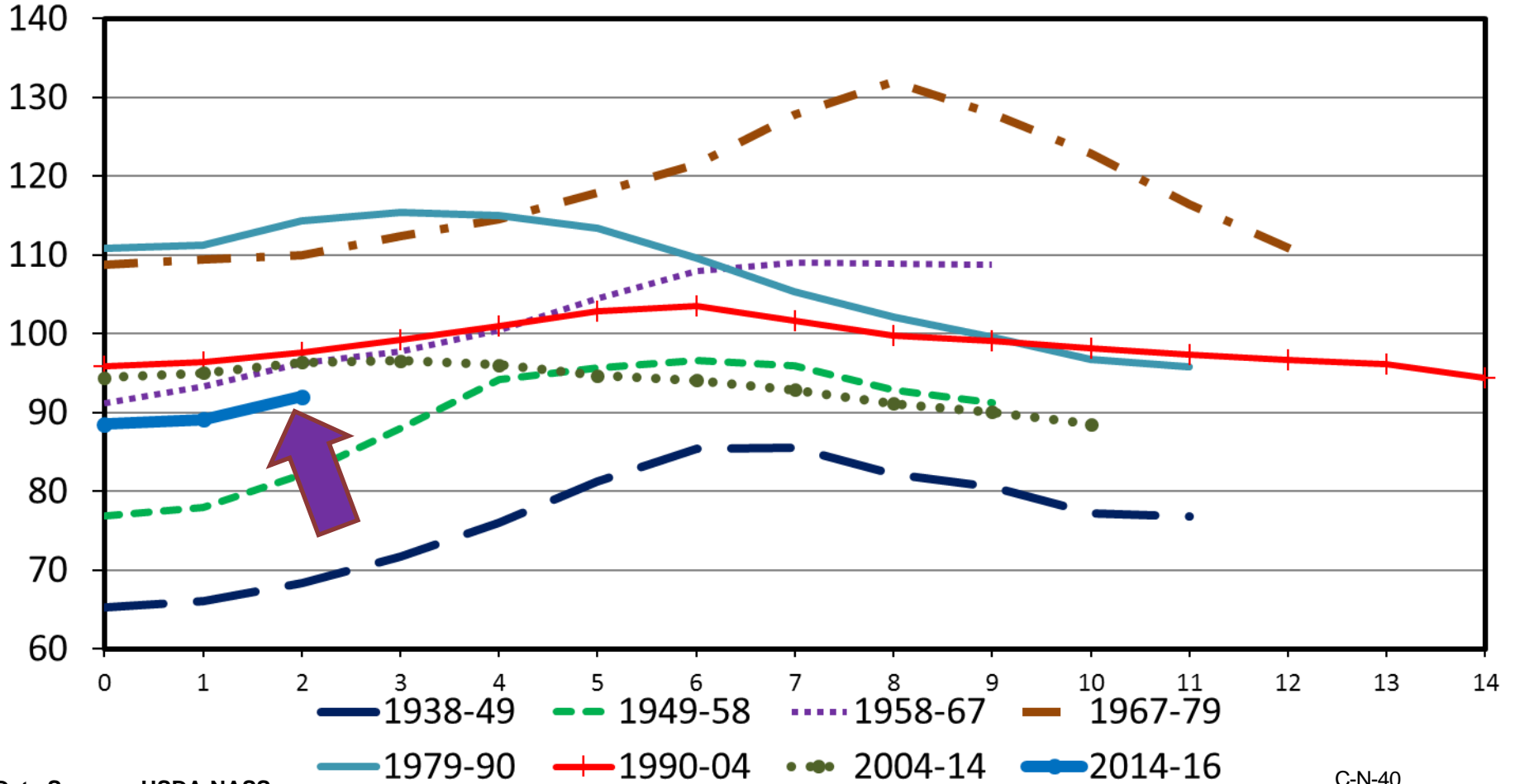
Prices from Superior Livestock's Select Female Auction show the rise and fall of the heifer market for bred and open females the last two years.

■ Replacement L...
 ■ Replacement...
 ◀ 2/2 ▶

TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

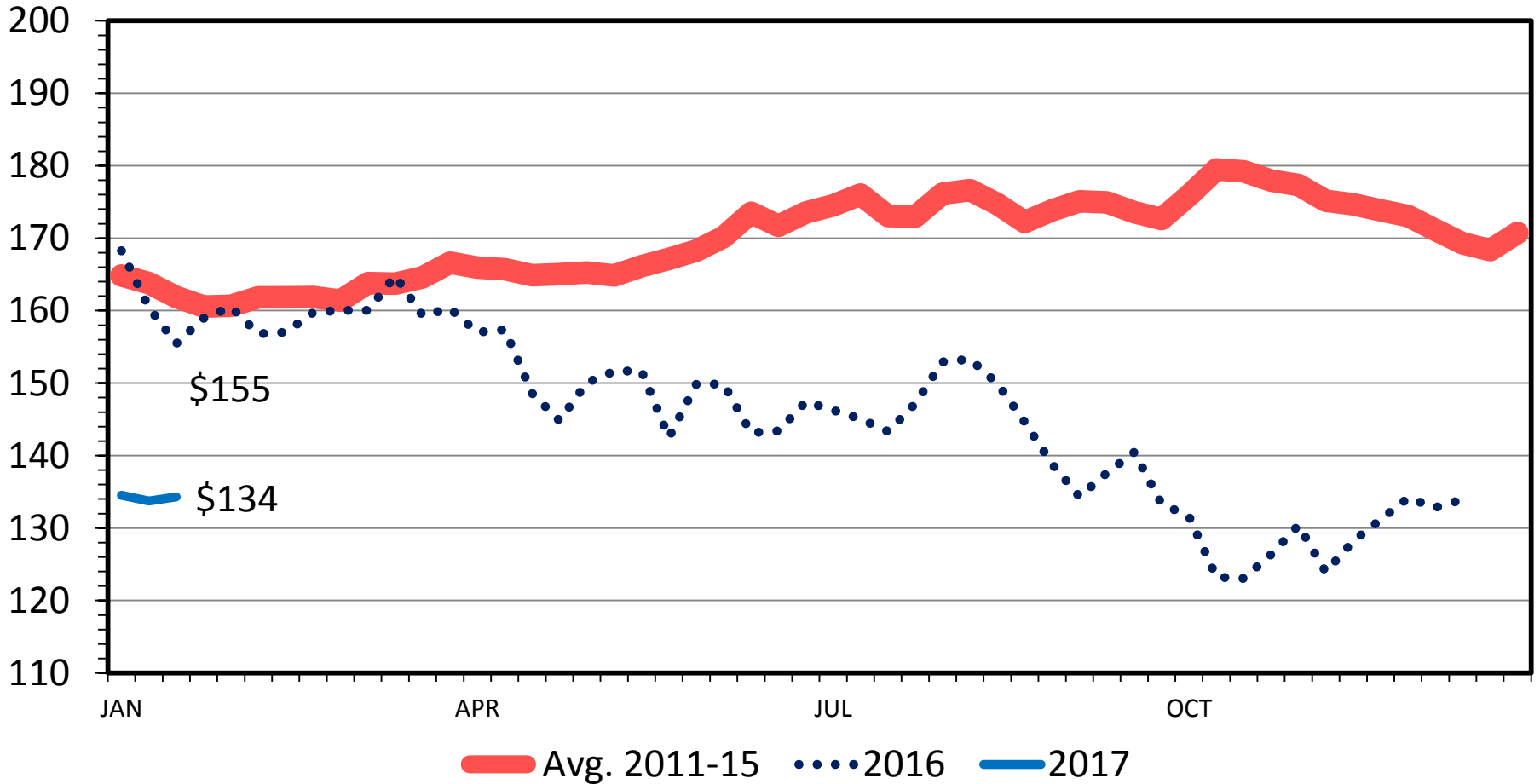
C-N-40
02/01/16

Economic Outlook Overview: Backgrounding/Stockers

MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly

\$ Per Cwt.



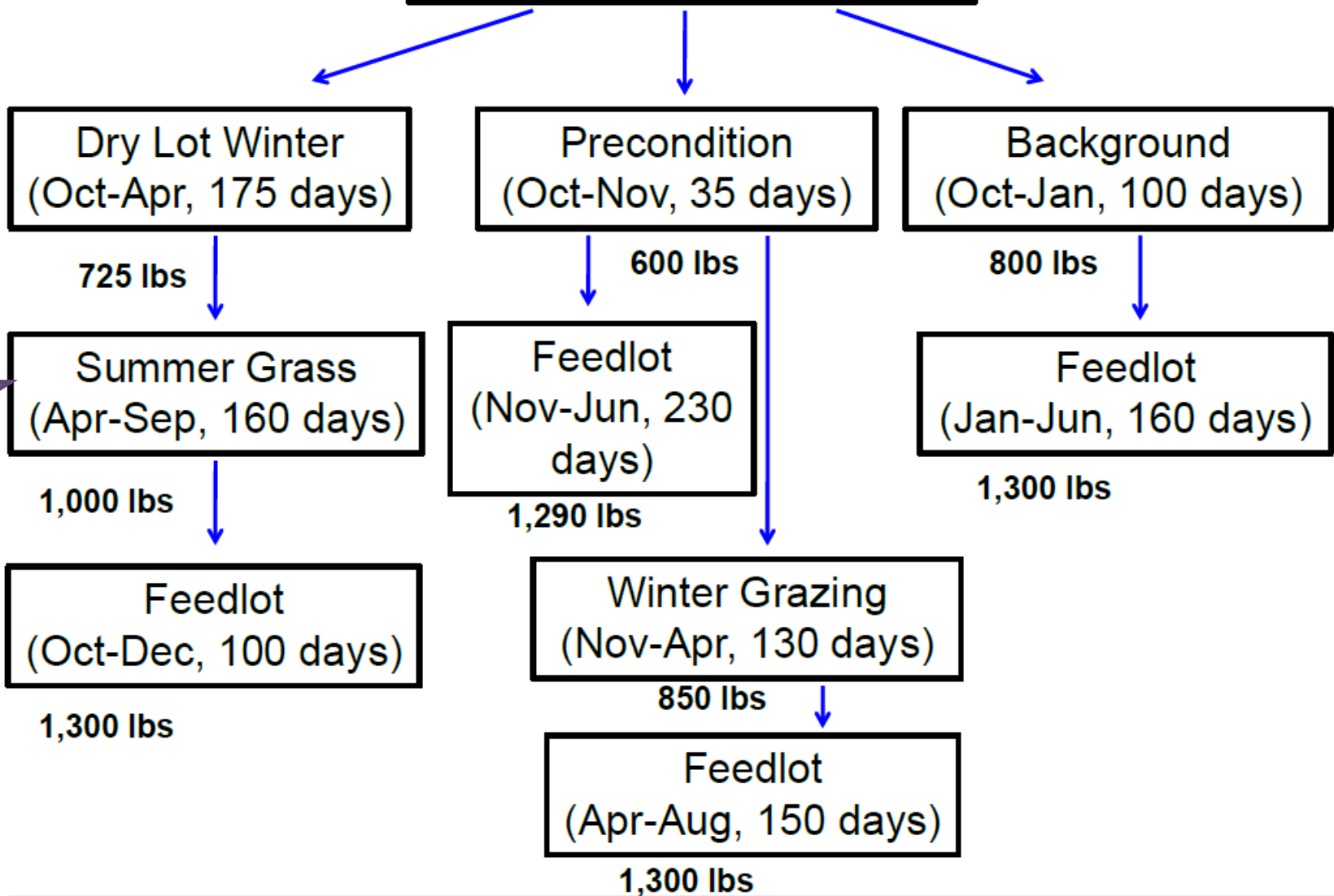
Beef Basis, Kearny, NE Projections (as of 1/23):

Feb 15th: \$140

Mar 15th: \$140

Apr 12th: \$139

Fall Weaned 550# Calf



Economic Outlook Overview: Stockers

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

- Kearney, NE 1/23/17 Summer Grass, 155 DOF Case:
 - Buy 725 lb steer on 04/05/17 (\$142)
 - Sell 900 lb steer on 09/06/17 (\$124) {ADG 1.13}
 - VOG: \$50/cwt

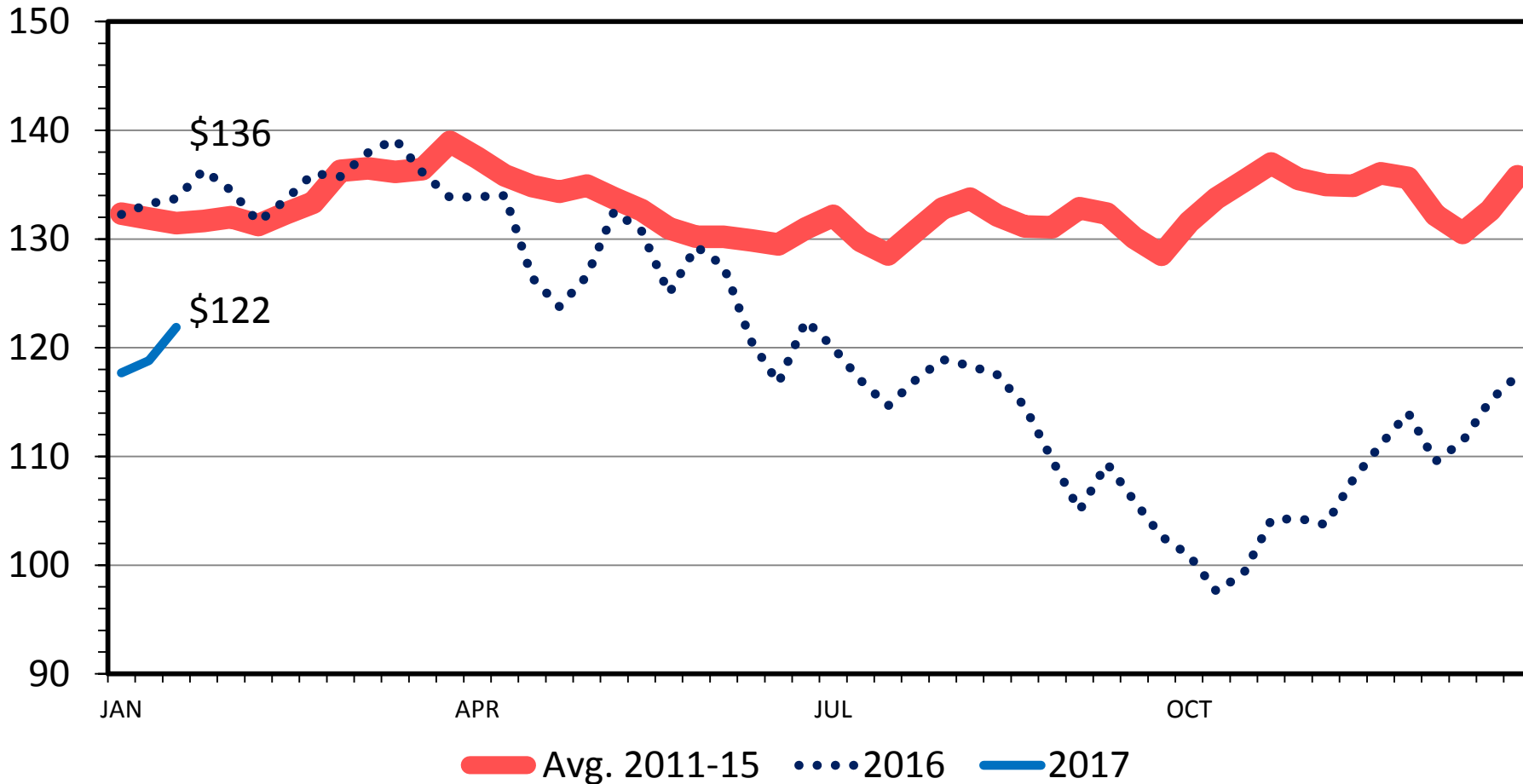
Economic Outlook Overview: Feedlots

- 2016 remained tough
 - 2017 showing improvement
- Structural concerns persist:
 - Excess capacity & Slowed/Stalled Herd Growth

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

Livestock Marketing Information Center

01/23/17

Historical and Projected Kansas Feedlot Net Returns

(as of 1/12/17')

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

Nov. 16': -\$83/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
Dec-16	-34.34	76.37	114.24	140.08	70.31	116.62	136.14
Jan-17	10.84	76.18	119.66	144.71	78.07	118.89	145.99
Feb-17	55.25	75.58	117.82	137.76	85.14	113.89	144.43
Mar-17	128.09	76.50	119.43	129.27	99.91	110.30	144.22
Apr-17	-10.45	77.29	108.92	128.64	75.38	109.68	127.36
May-17	27.28	77.56	113.35	131.24	82.54	111.36	134.56
Jun-17	-5.37	77.55	105.10	121.73	76.58	105.49	121.08
Jul-17	-25.94	78.50	104.93	122.38	73.72	106.79	119.35
Aug-17	-29.73	80.27	103.66	118.78	74.55	105.79	115.37
Sep-17	-39.58	79.89	103.48	120.95	72.68	106.30	116.32

Representative Barometer for Trends in Profitability

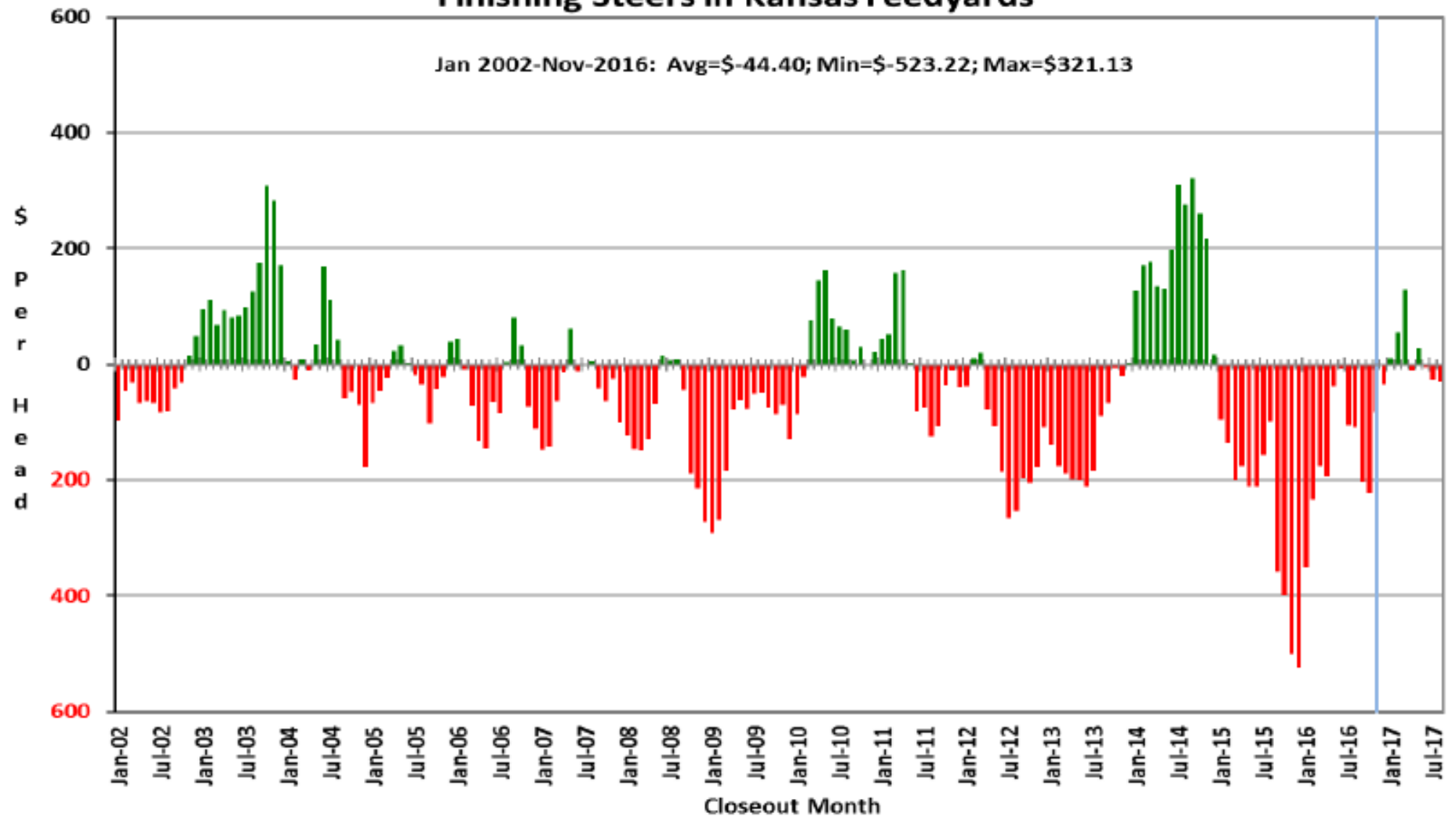
CME LC up ~\$2/cwt since 1/12

Historical and Projected Kansas Feedlot Net Returns

(as of 1/12/17')

(<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: 1/11/17)

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	7,181	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	7,910	8.9	836.5	-0.5	6,617	8.3
Year	30,559	6.3	824.8	0.1	25,206	6.4
2017						
I	7,494	4.4	828.7	0.3	6,210	4.6
II	7,974	4.5	815.0	0.5	6,499	5.1
III	8,049	2.7	828.7	0.4	6,670	3.1
IV	8,088	2.3	838.0	0.2	6,778	2.4
Year	31,605	3.4	827.6	0.3	26,157	3.8
2018						
I	7,724	3.1	832.7	0.5	6,432	3.6
II	8,163	2.4	818.9	0.5	6,685	2.9
III	8,266	2.7	832.7	0.5	6,883	3.2
IV	8,313	2.8	841.7	0.4	6,997	3.2
Year	32,466	2.7	831.5	0.5	26,997	3.2

Quarterly Forecasts (LMIC: 1/11/17)

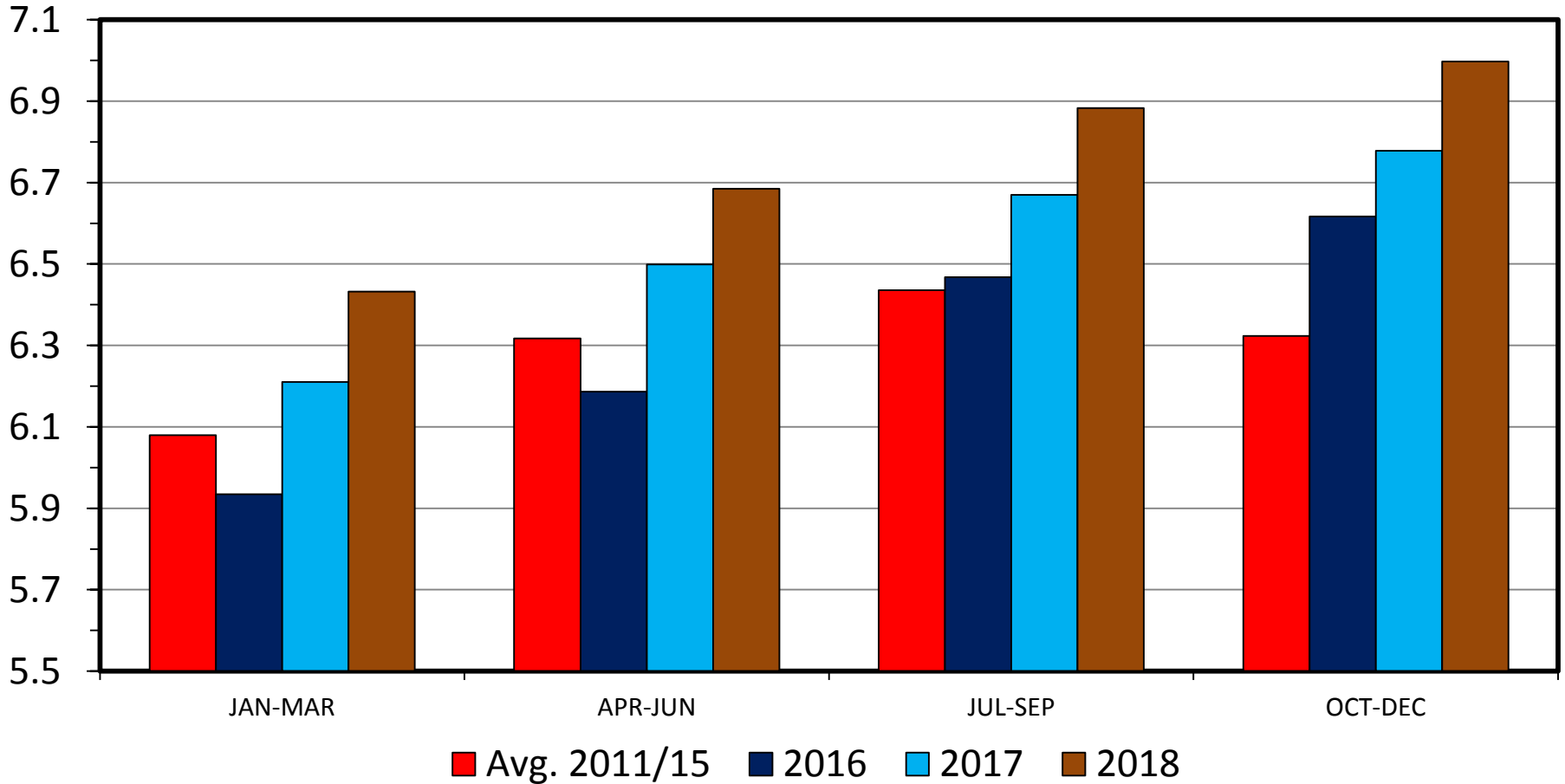
Year Quarter	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price	
	5-Mkt Avg	Year Ago	7-800#	5-600#
2016				
I	135	-17.0	160	196
II	128	-19.2	149	174
III	113	-21.5	144	157
IV	108	-15.7	129	138
Year	121	-18.6	146	166
2017				
I	115-117	-14.0	127-129	139-142
II	112-115	-11.1	129-133	142-148
III	106-110	-4.6	128-134	138-145
IV	107-112	1.7	126-133	133-142
Year	110-114	-7.3	127-133	137-145
2018				
I	108-114	-4.3	124-132	134-145
II	107-114	-2.6	127-136	137-149
III	103-111	-0.9	123-133	134-147
IV	104-113	-0.9	122-133	130-144
Year	107-111	-2.7	126-132	136-144

Trade & Meat Supplies

COMMERCIAL BEEF PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

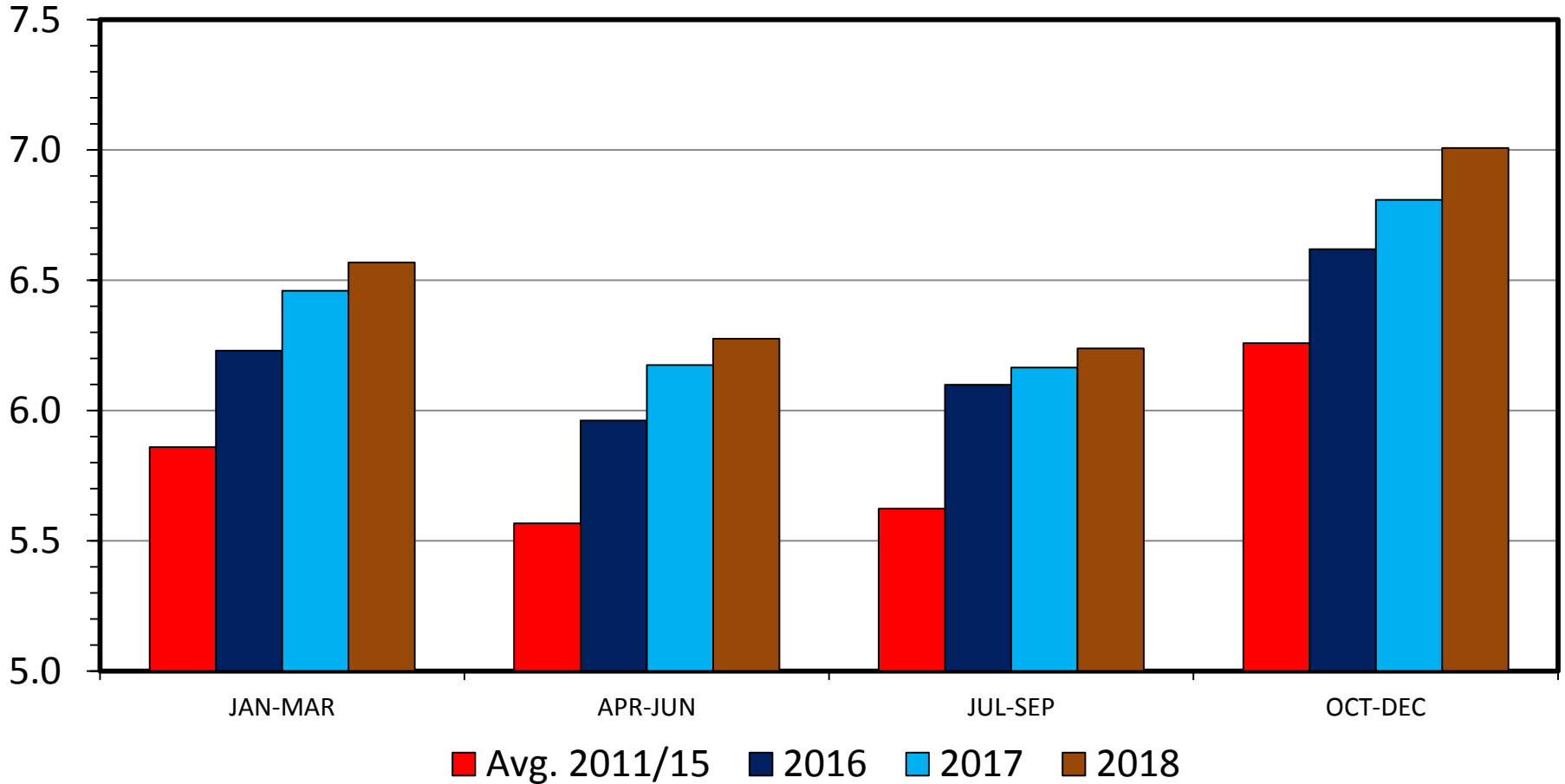
Livestock Marketing Information Center

M-S-01
01/12/17

COMMERCIAL PORK PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

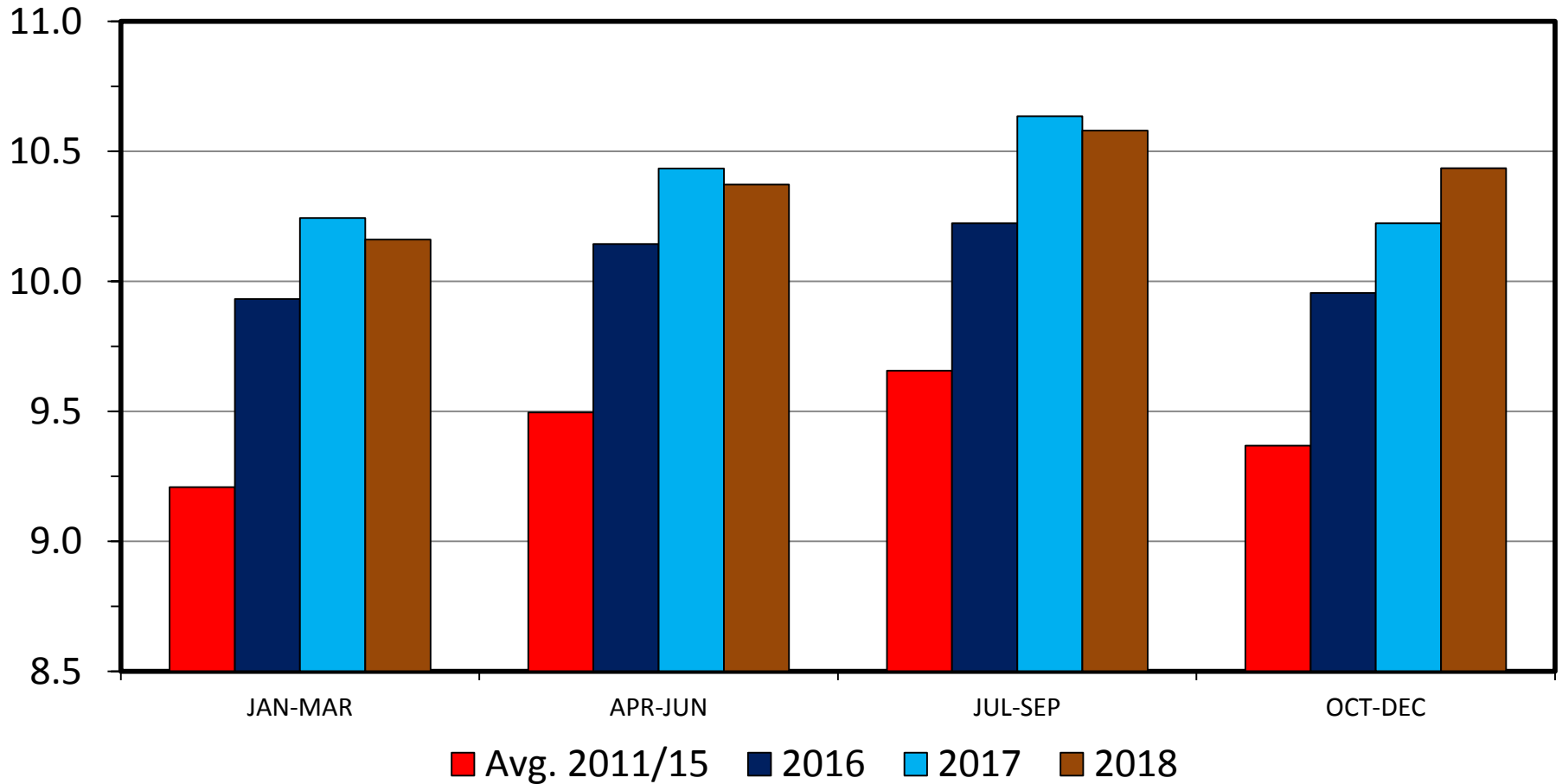
Livestock Marketing Information Center

M-S-06
01/12/17

RTC BROILER PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

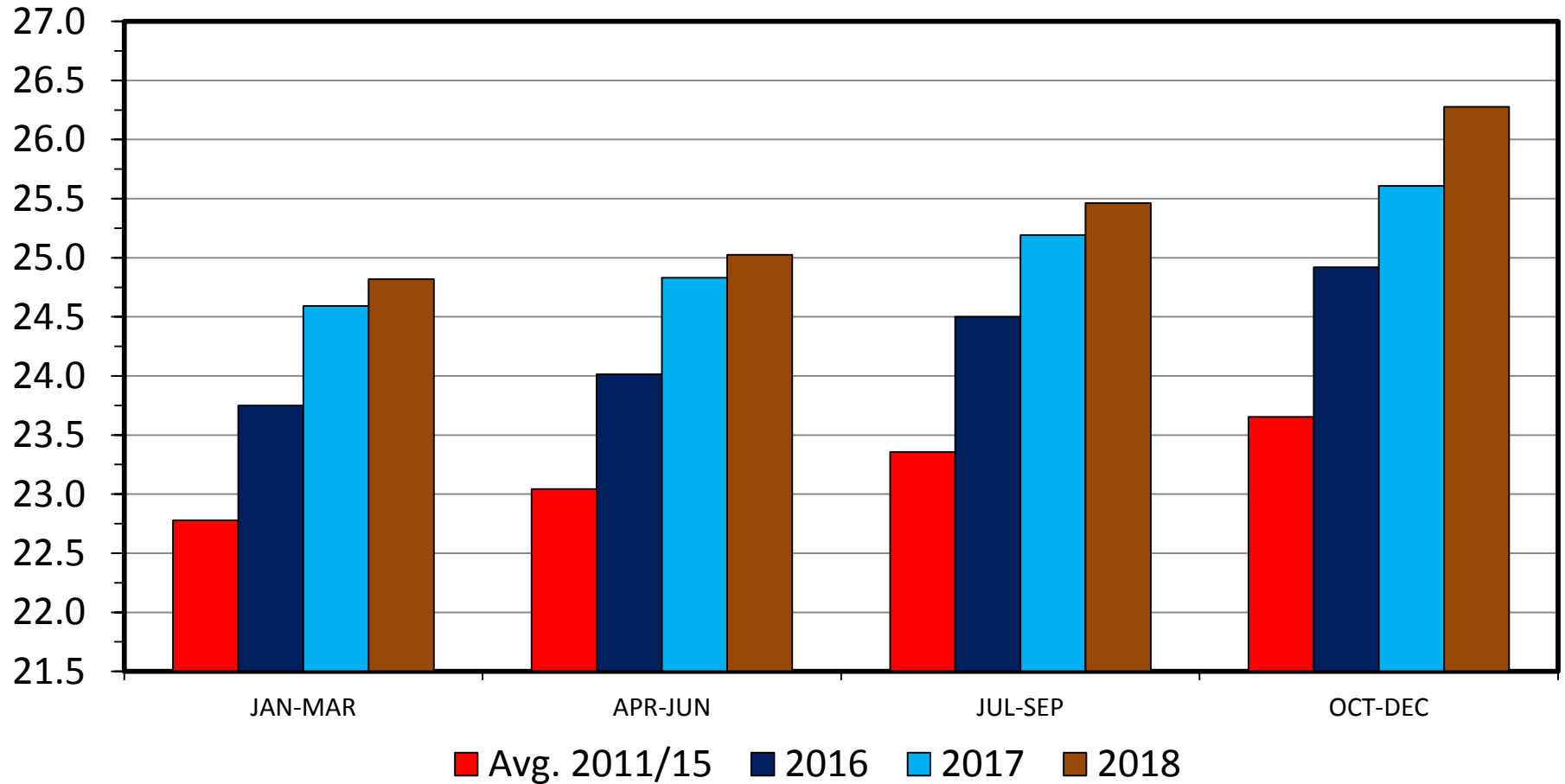
Livestock Marketing Information Center

M-S-30
01/12/17

TOTAL RED MEAT & POULTRY PRODUCTION

US, Quarterly

Bil. Pounds



Data Source: USDA-NASS, Forecasts by LMIC

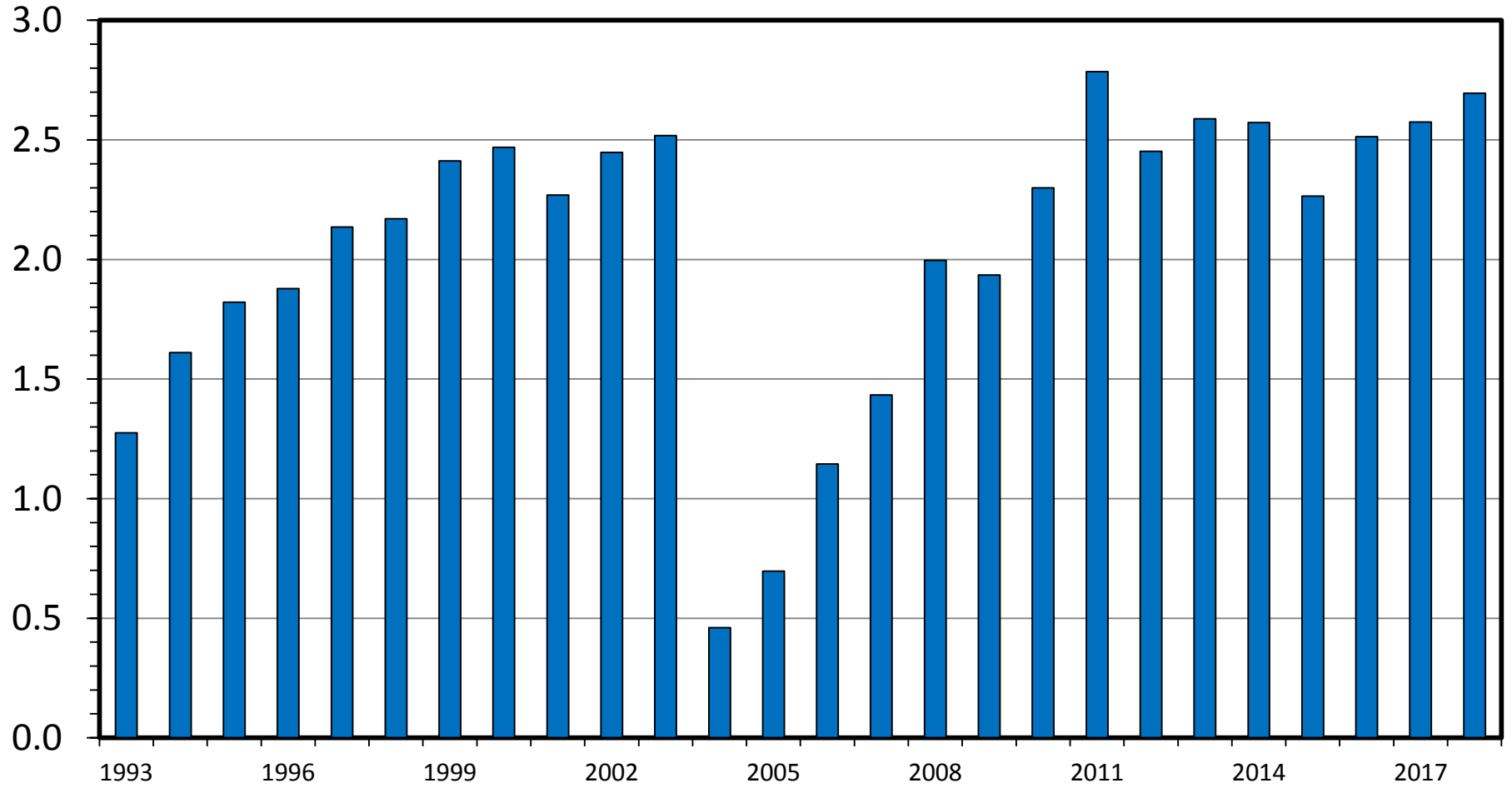
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M-S-31
01/12/17

US BEEF AND VEAL EXPORTS

Carcass Weight, Annual

Bil. Pounds



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

Livestock Marketing Information Center

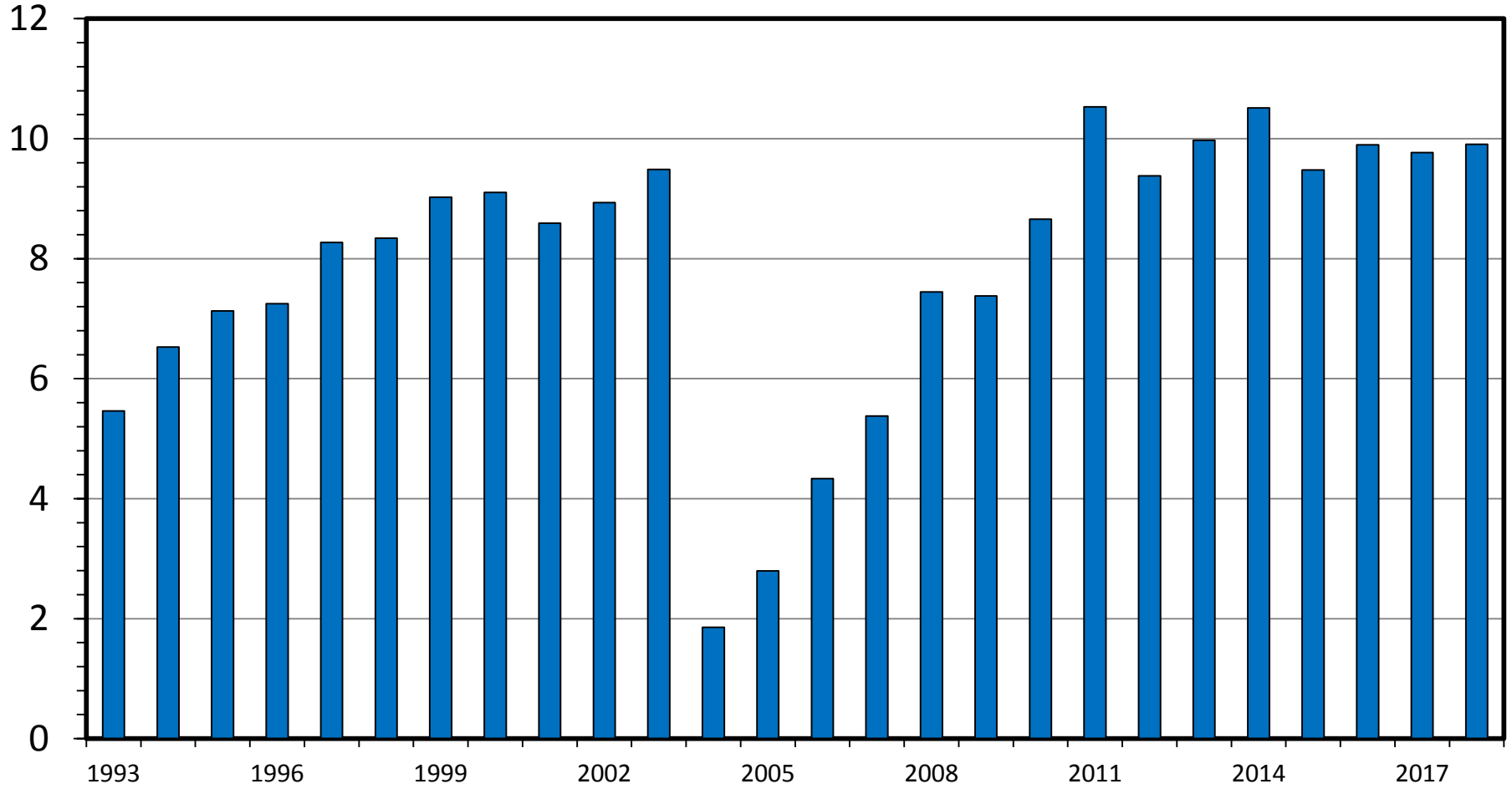
I-N-06

01/12/17

US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual

Percent



View on Trade & Technology

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



View on Trade & Technology

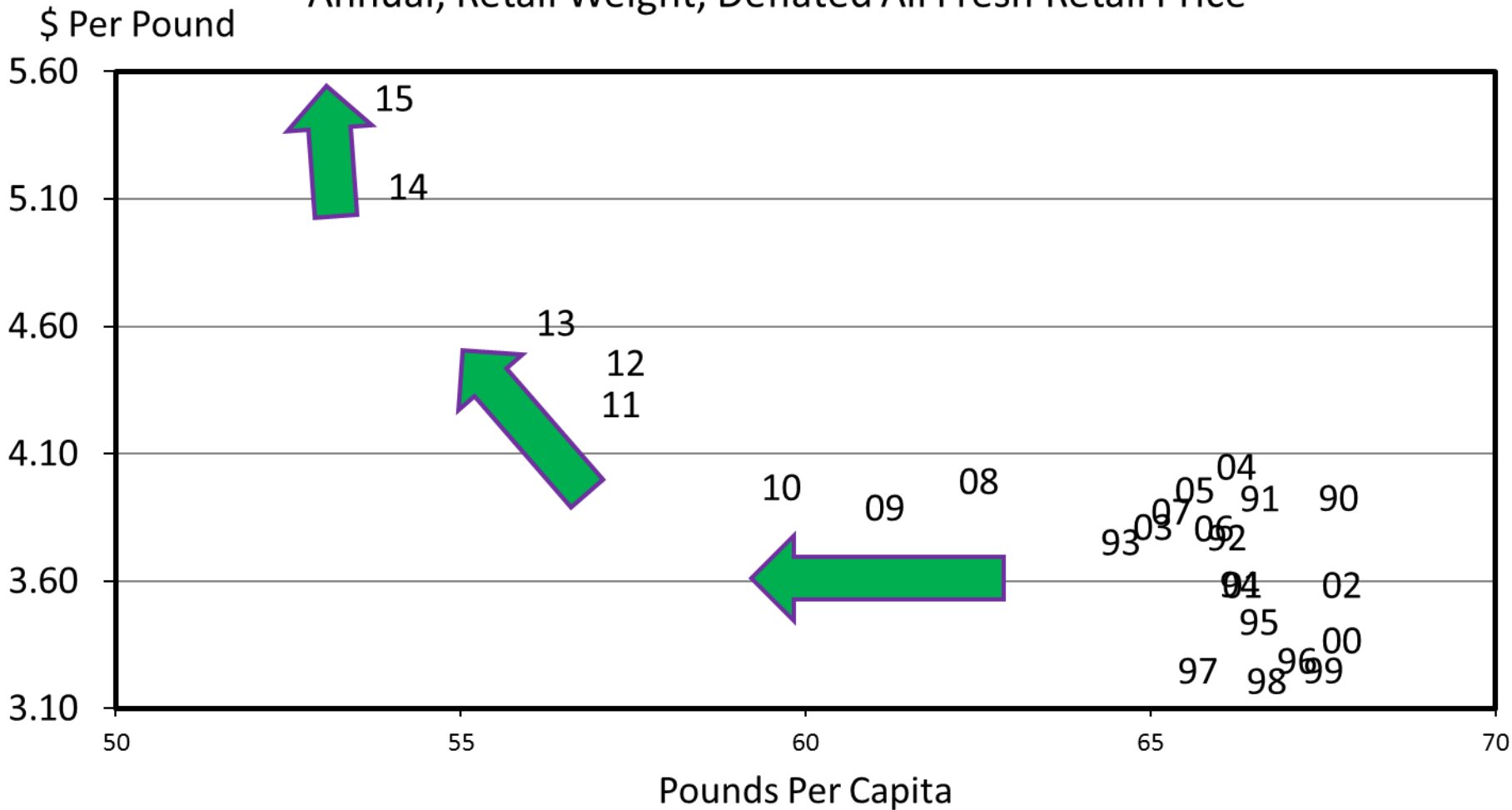
- Key is Diverse Products from Each Carcass
- Brazil-US: Picanha vs. Ground Beef



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

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price

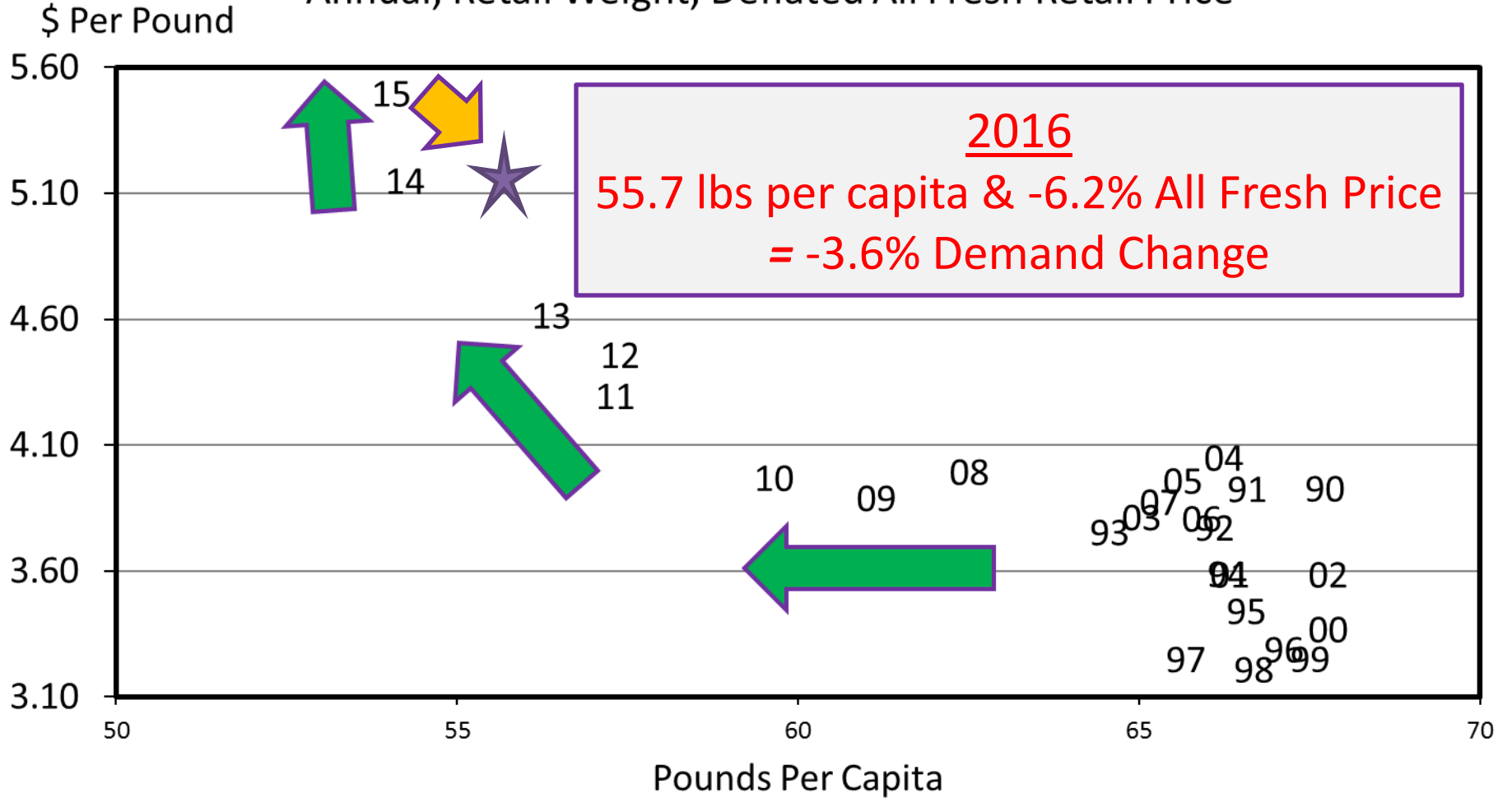


Data Source: Bureau of Economic Analysis & USDA-ERS, Compiled and Analysis by LMIC
Livestock Marketing Information Center

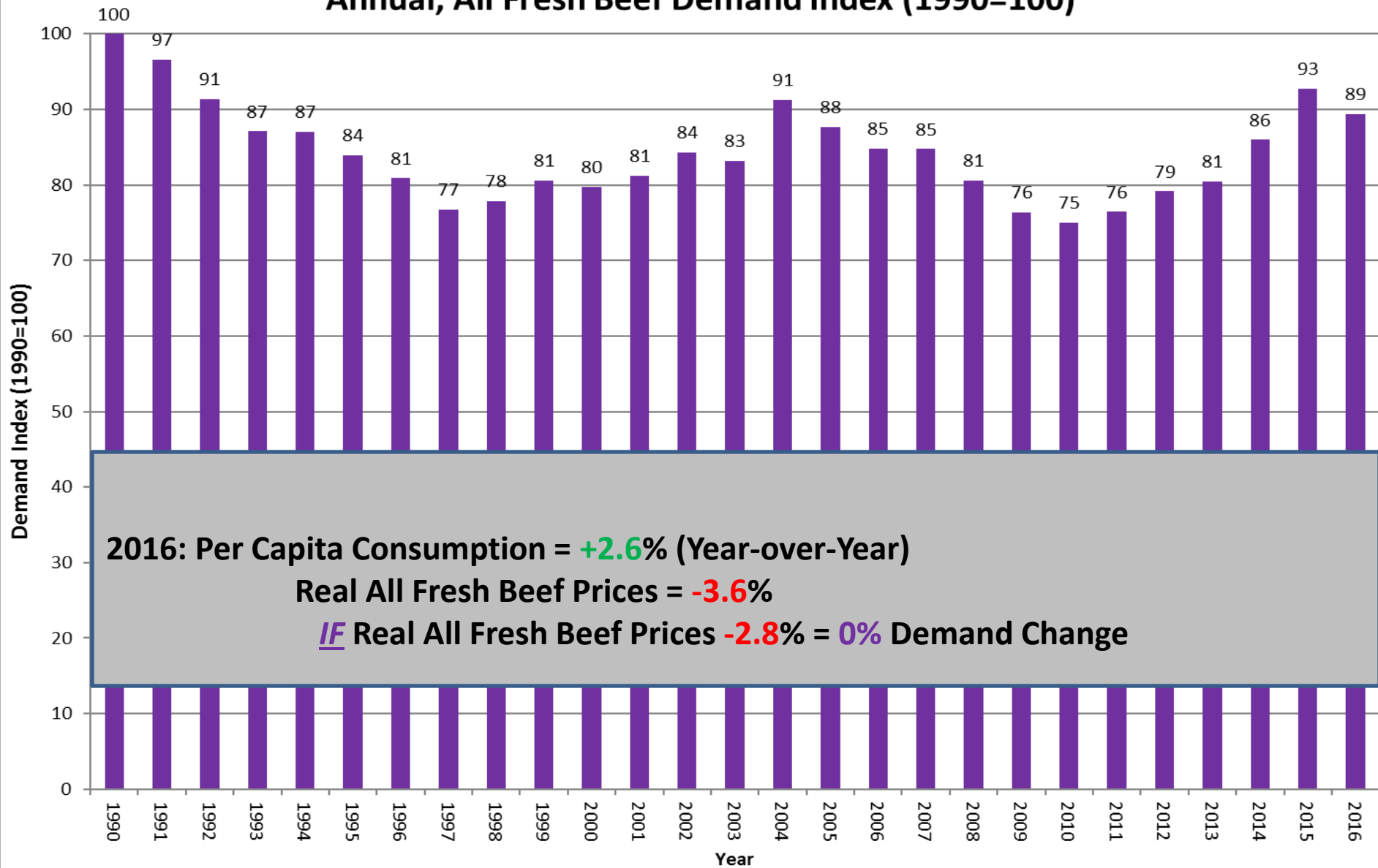
C-P-65A
03/25/16

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price



Annual, All Fresh Beef Demand Index (1990=100)



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

Wrap-Up

- Broad 2014 vs 2016 Comparison
 - 2014
 - Tight Meat Supplies & Strong Red Meat Demand
 - **BOTH** Supportive of prices
 - 2016
 - Expanding Meat Supplies & Weaker Red Meat Demand
 - **BOTH** Pressure prices

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>

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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: $-\$15.26/\text{hd}$ ($-\$349$ Apr 2016, $\$201$ Apr 2011)
 - Hist. Basis + CME Approach: $\$7.86/\text{hd}$ ($-\$214$ Apr 2016, $\$160$ Apr 2011)