

2018 Kansas State University

Agricultural Lenders Conference



FEATURING...

- Beef Cattle Market Outlook for 2019
- Cropping Systems and Profitability
- Grain Market Outlook for 2019
 - 2018 Farm Bill
- Using ROA/ROE to Forecast Ag Loan Delinquency
- Land Values and Rental Rates in Kansas

Finnup Center
Garden City, October 9, 2018

K-State Alumni Center
Manhattan, October 10, 2018

Beef Cattle Market Outlook

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Kansas State University
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Twitter: @TonsorGlynn



Overarching Beef Industry Economic Outlook

➤ Supplies

– Commercial Beef Prod.
Up, Increases
Moderating

- +6.4% in 2016
- +3.8% in 2017
- +3.3% in 2018 (?)
- +1.7% in 2019 (?)
- +0.8% in 2020 (?)



Overarching Beef Industry Economic Outlook

- Supplies
 - Commercial Beef Production Up, Increases Moderating

- Demand

- Key to surprising prices in 2018



Overarching Beef Industry Economic Outlook

- Demand Illustration: Q3.2018

- Production +2%
- Yearling Prices +1%
- Calf Prices +2%

- ❖ *Exports are key & yet ongoing arena of uncertainty*

All-Fresh Beef Retail Demand Index

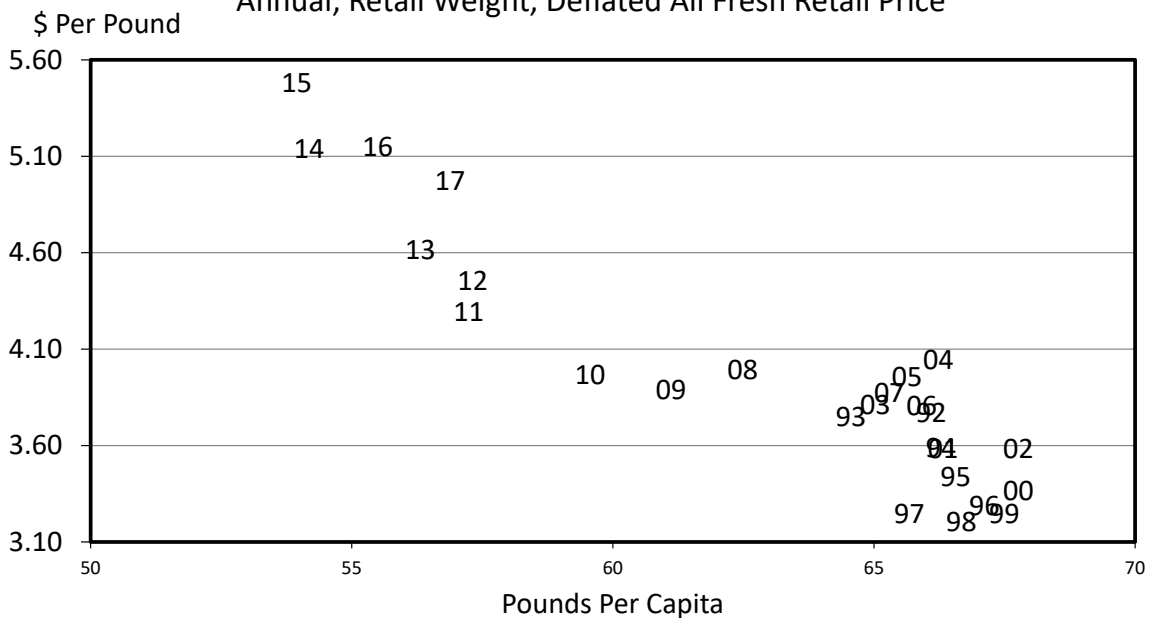
(Quarterly, Price-Index Approach, 1990=100)

Q2.2018: +0.4%
vs. Q2.2017

<http://agmanager.info/livestock-meat/meat-demand>

BEEF PRICE-QUANTITY RELATIONSHIP

Annual, Retail Weight, Deflated All Fresh Retail Price



Demand is **NOT** Per Capita Consumption

2013 Beef Demand Determinants Study



<http://www.beefboard.org/evaluation/130612demanddeterminantstudy.asp>

Assessing Beef Demand Determinants

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

Checkoff Program Update

February 1, 2018

Presentation at 2018 Cattle Industry Convention

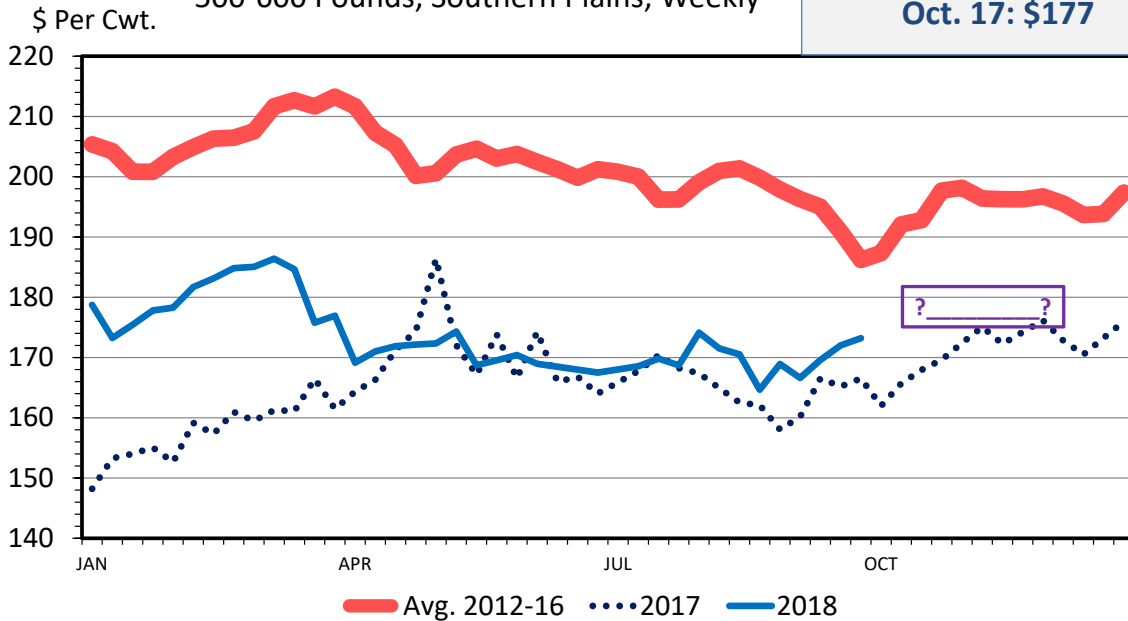
Phoenix, AZ

Full Project Report

<https://www.beefboard.org/news/180131Tonsor-beef-demand-print.asp>

BeefBasis.com, Dodge City, KS 2018 Projections (as of 10/4/18):
Oct. 17: \$177

MED. & LRG. #1 STEER CALF PRICES
 500-600 Pounds, Southern Plains, Weekly

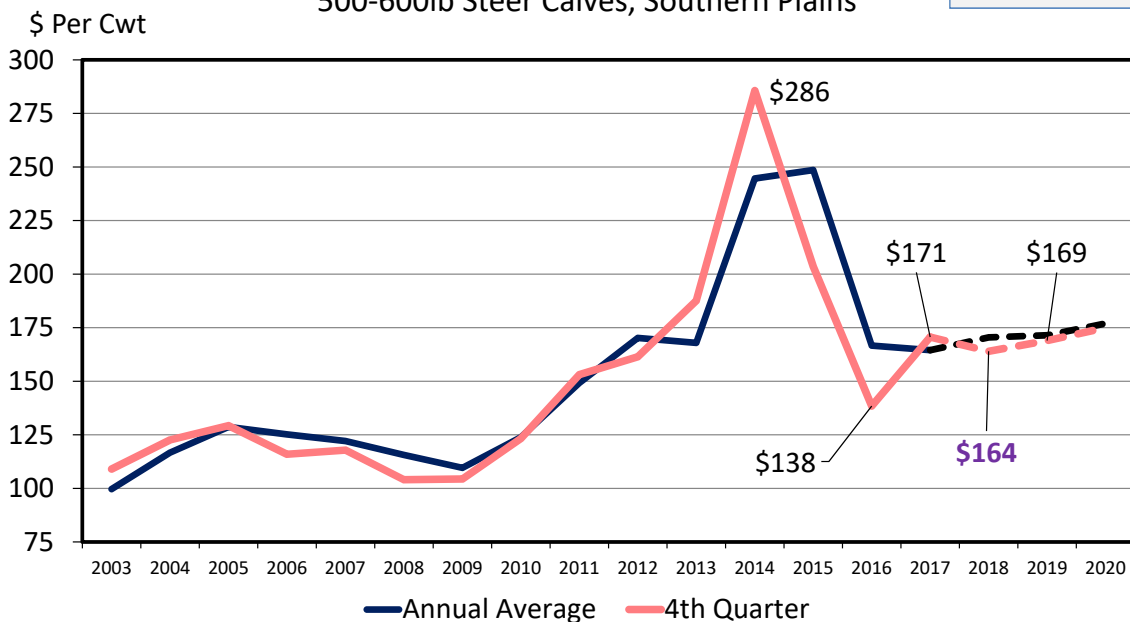


Data Source: USDA-AMS
 Livestock Marketing Information Center

C-P-54
 10/02/18

AVERAGE CALF PRICES
 500-600lb Steer Calves, Southern Plains

Oct CME FC
+\$5 since
8/18/18

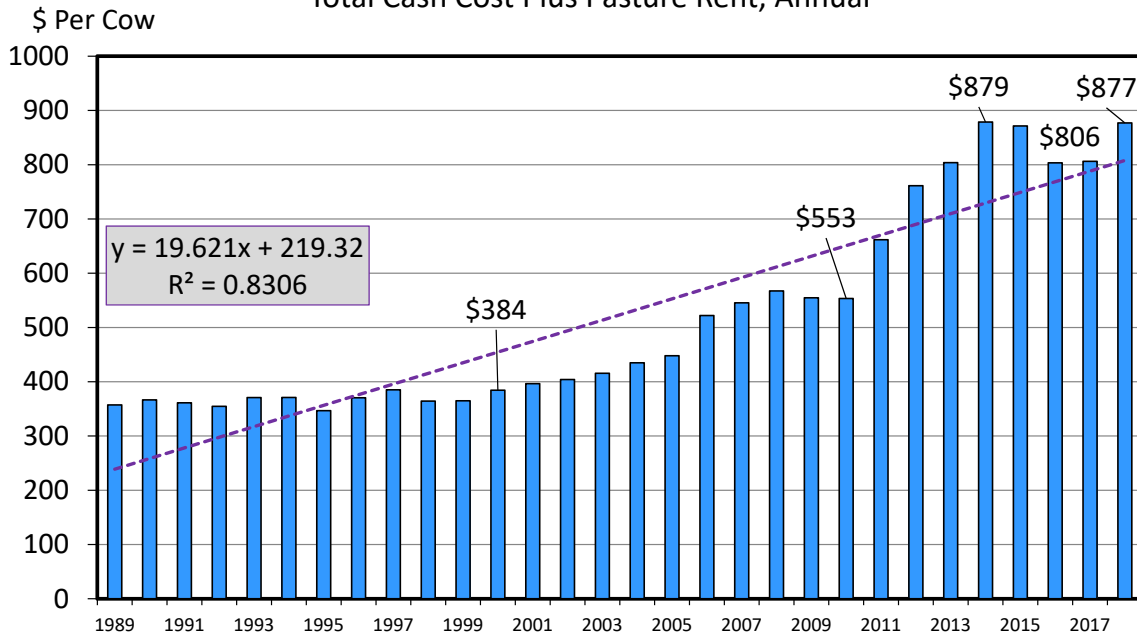


Data Source: USDA-AMS, Compiled and Forecasts by LMIC
 Livestock Marketing Information Center

as of 8/18/18

ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual

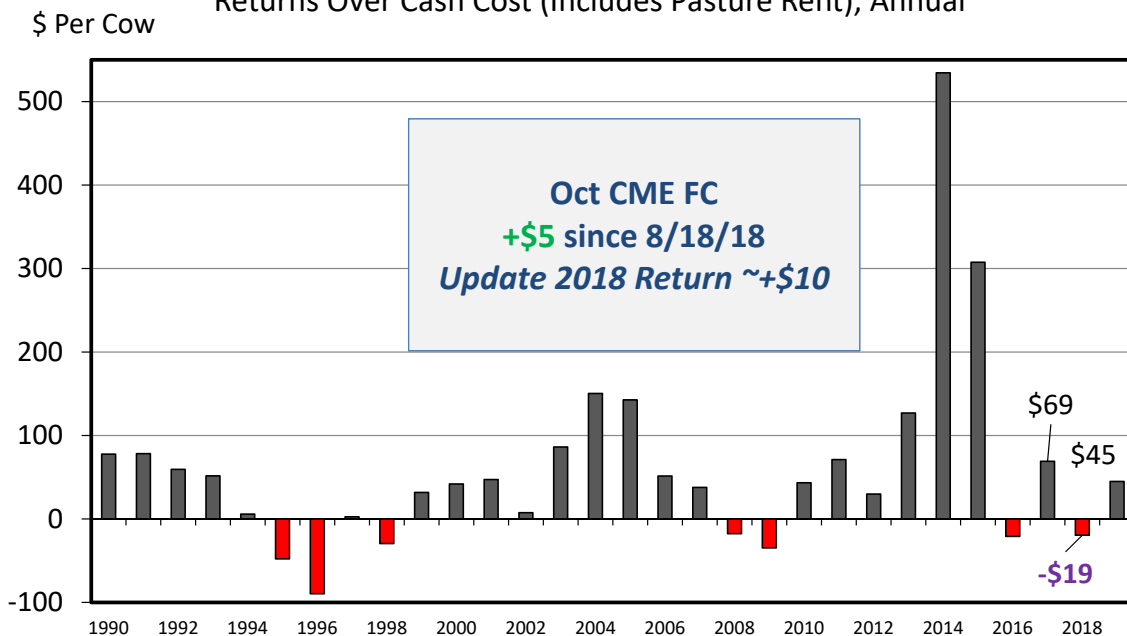


Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center

08/18/18

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

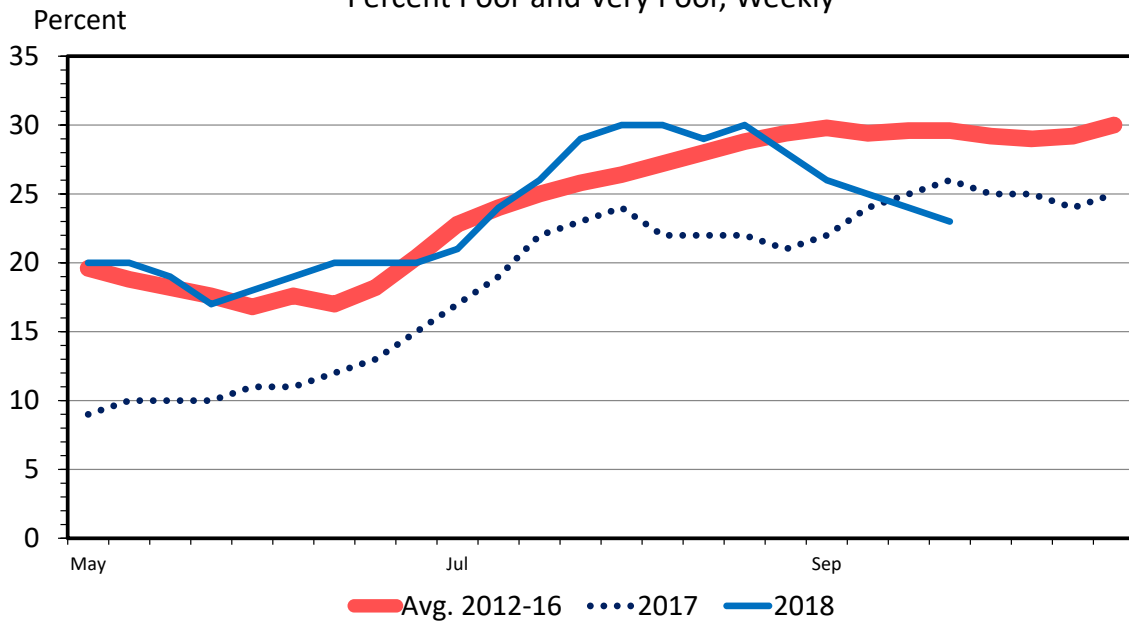


Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center

C-P-66
08/18/18

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

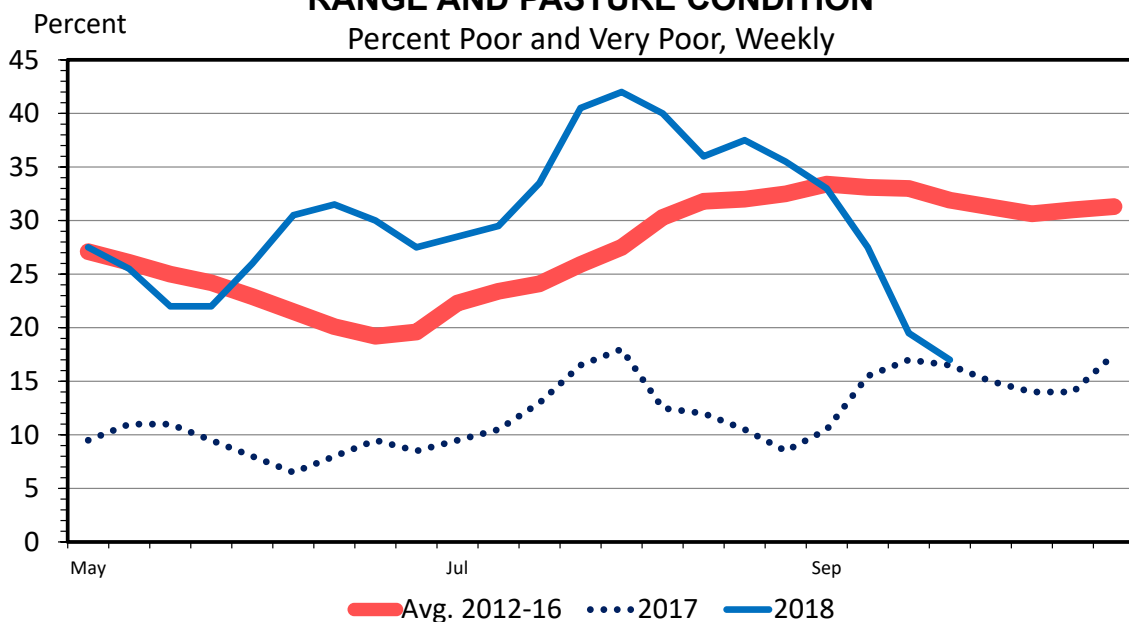


Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

G-NP-30
10/01/18

SOUTHERN PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

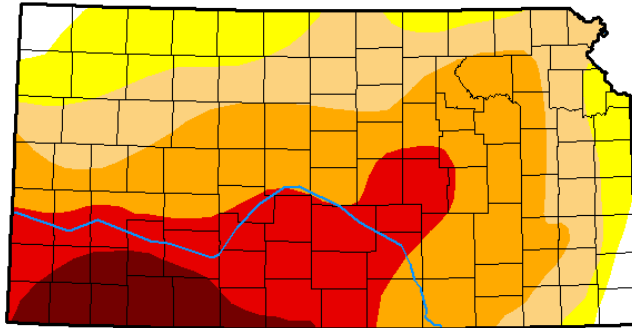


Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

G-NP-33
10/01/18

U.S. Drought Monitor Kansas

April 10, 2018
(Released Thursday, Apr. 12, 2018)
Valid 8 a.m. EDT



Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	2.64	97.36	83.37	59.47	27.06	7.09
Last Week 04-03-2018	2.64	97.36	81.66	56.19	25.59	4.32
3 Months Ago 01-09-2018	0.00	100.00	52.43	17.23	1.50	0.00
Start of Calendar Year 01-02-2018	0.00	100.00	32.70	8.75	0.00	0.00
Start of Water Year 09-26-2017	59.89	40.11	10.08	1.35	0.00	0.00
One Year Ago 04-11-2017	49.35	50.65	8.55	0.00	0.00	0.00

Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:

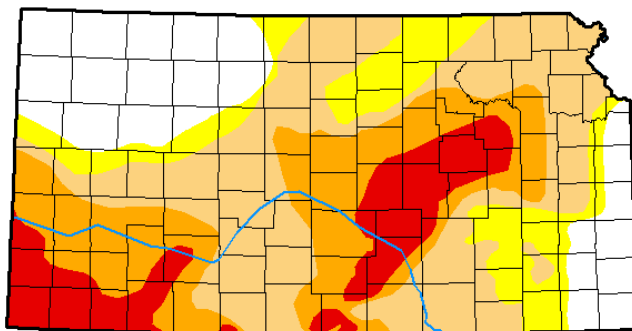
David Miskus
NOAA/NWS/NCEP/CPC



<http://droughtmonitor.unl.edu/>

U.S. Drought Monitor Kansas

June 12, 2018
(Released Thursday, Jun. 14, 2018)
Valid 8 a.m. EDT



Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	20.40	79.60	66.48	33.63	12.65	0.00
Last Week 06-05-2018	15.19	84.81	69.40	45.96	15.86	1.42
3 Months Ago 03-12-2018	1.22	98.78	81.77	56.19	19.33	0.30
Start of Calendar Year 01-02-2018	0.00	100.00	32.70	8.75	0.00	0.00
Start of Water Year 09-26-2017	59.89	40.11	10.08	1.35	0.00	0.00
One Year Ago 06-12-2017	91.68	8.32	0.00	0.00	0.00	0.00

Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:

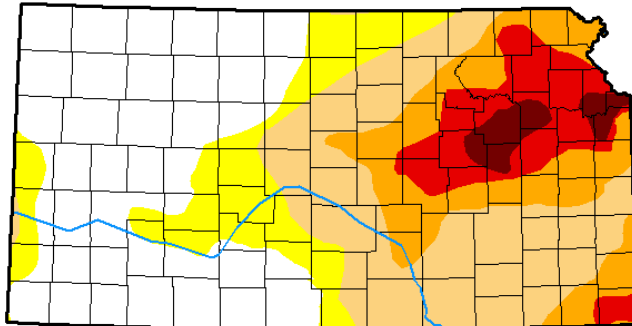
Brian Fuchs
National Drought Mitigation Center



<http://droughtmonitor.unl.edu/>

U.S. Drought Monitor Kansas

August 14, 2018
(Released Thursday, Aug. 16, 2018)
Valid 8 a.m. EDT



Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	37.68	62.32	48.99	24.40	11.32	2.53
Last Week 08-07-2018	36.00	64.00	52.83	26.31	8.88	1.21
3 Months Ago 05-15-2018	3.02	96.98	80.15	50.32	21.75	4.60
Start of Calendar Year 01-02-2018	0.00	100.00	32.70	8.75	0.00	0.00
Start of Water Year 09-26-2017	59.89	40.11	10.08	1.35	0.00	0.00
One Year Ago 08-15-2017	63.16	36.84	13.87	0.00	0.00	0.00

Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

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Author:

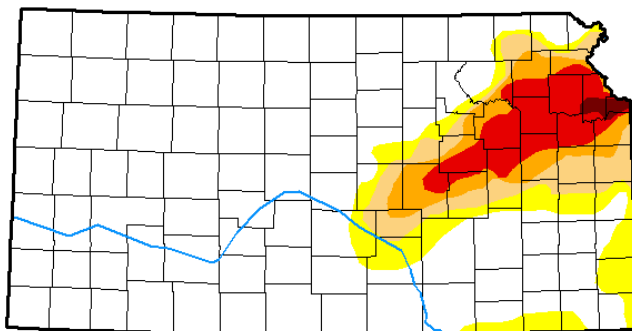
Richard Heim
NCEI/NOAA



<http://droughtmonitor.unl.edu/>

U.S. Drought Monitor Kansas

October 2, 2018
(Released Thursday, Oct. 4, 2018)
Valid 8 a.m. EDT



Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	77.69	22.31	14.80	9.73	5.67	0.38
Last Week 09-25-2018	78.54	21.46	14.80	9.73	5.67	0.38
3 Months Ago 07-03-2018	27.21	72.79	56.68	28.82	5.67	0.00
Start of Calendar Year 01-02-2018	0.00	100.00	32.70	8.75	0.00	0.00
Start of Water Year 09-25-2018	78.54	21.46	14.80	9.73	5.67	0.38
One Year Ago 10-03-2017	59.19	40.81	10.08	1.35	0.00	0.00

Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:

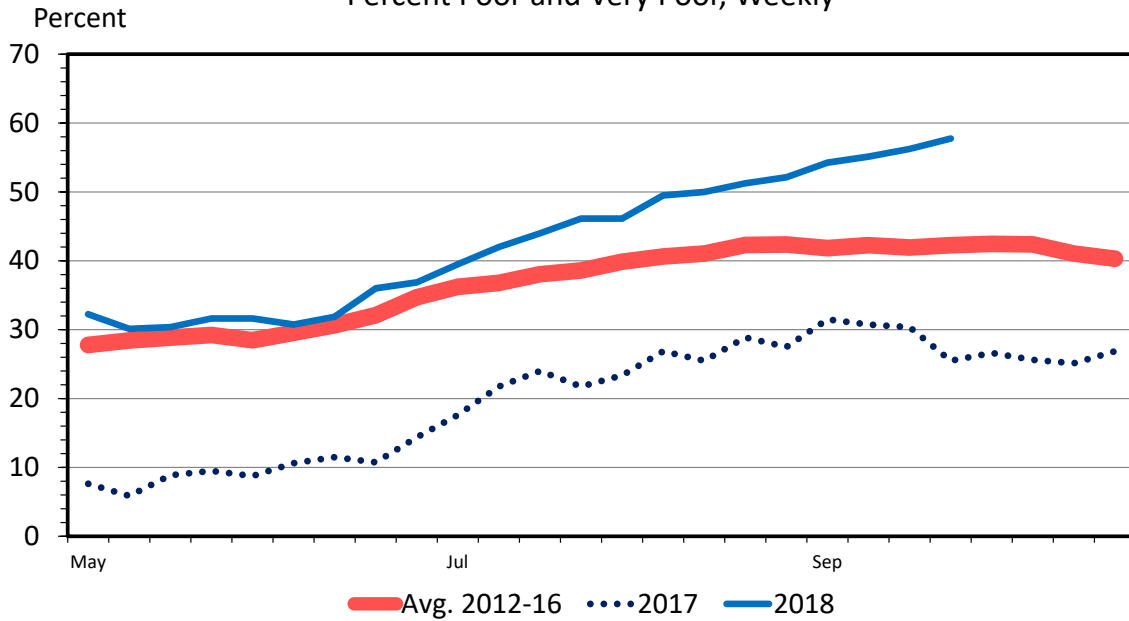
David Miskus
NOAA/NWS/NCEP/CPC



<http://droughtmonitor.unl.edu/>

WESTERN REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

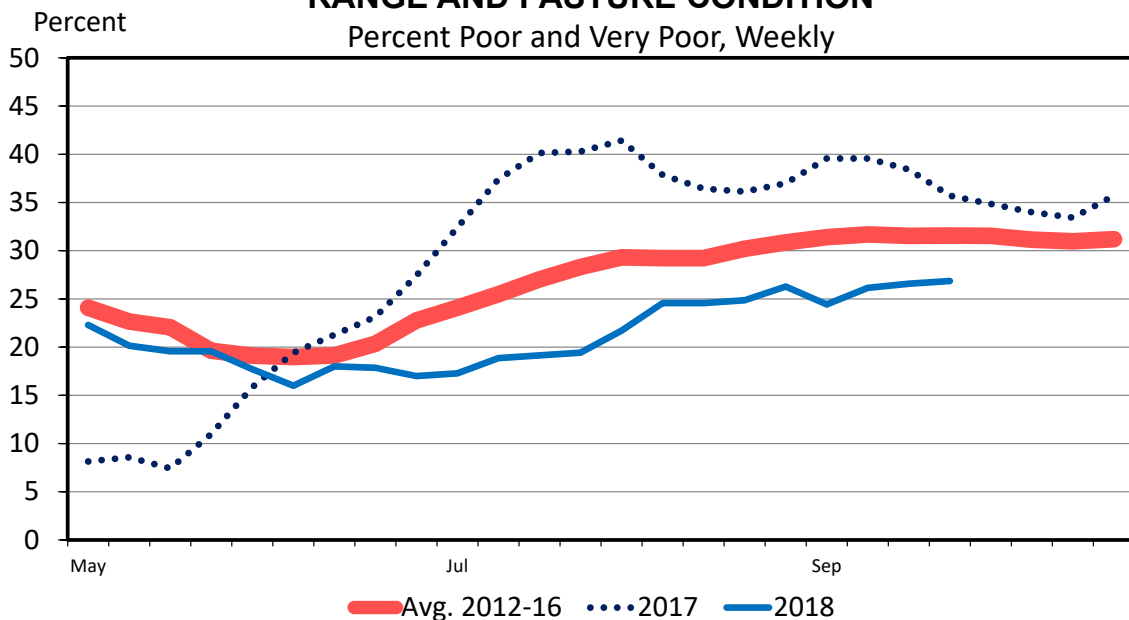


Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

G-NP-31
10/01/18

GREAT PLAINS REGION RANGE AND PASTURE CONDITION

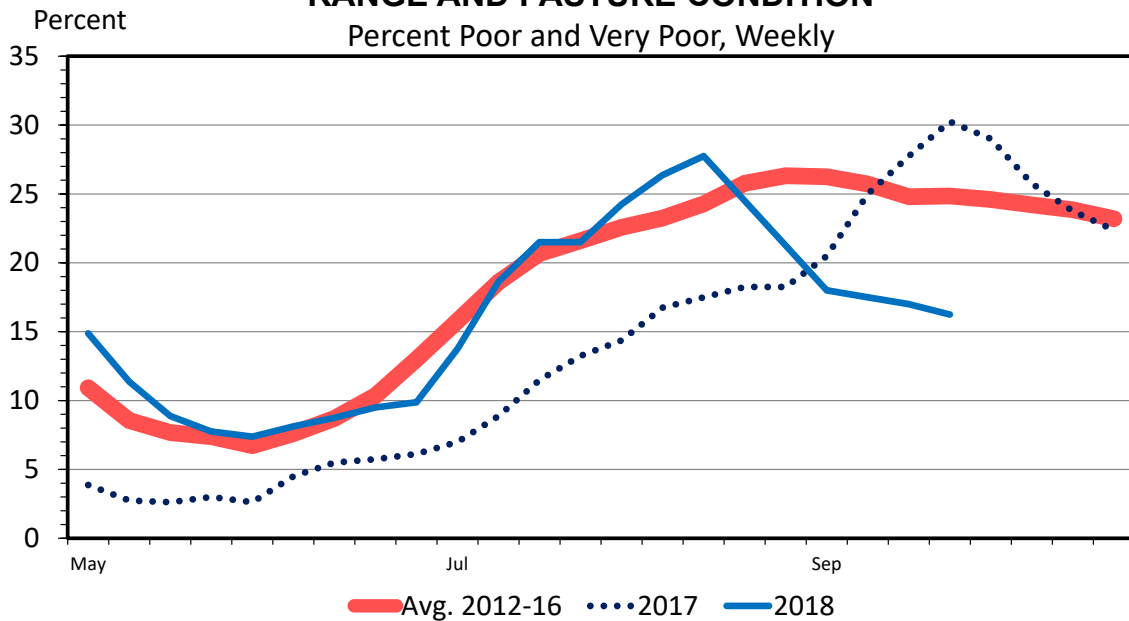
Percent Poor and Very Poor, Weekly



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

G-NP-32
10/01/18

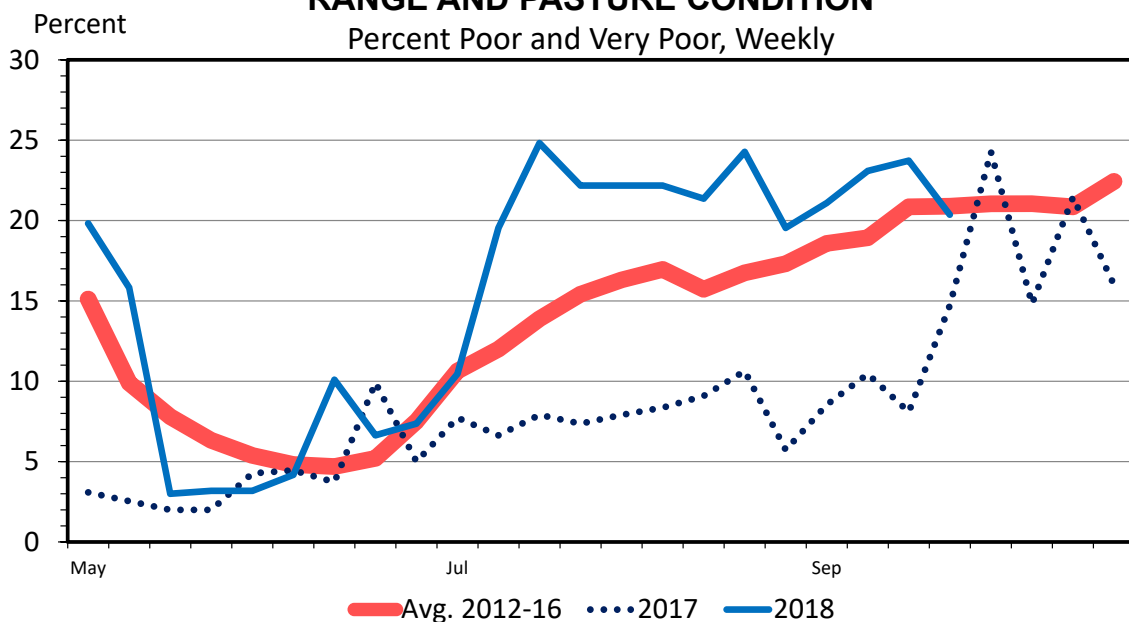
CORNBELT REGION RANGE AND PASTURE CONDITION



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

G-NP-34
10/01/18

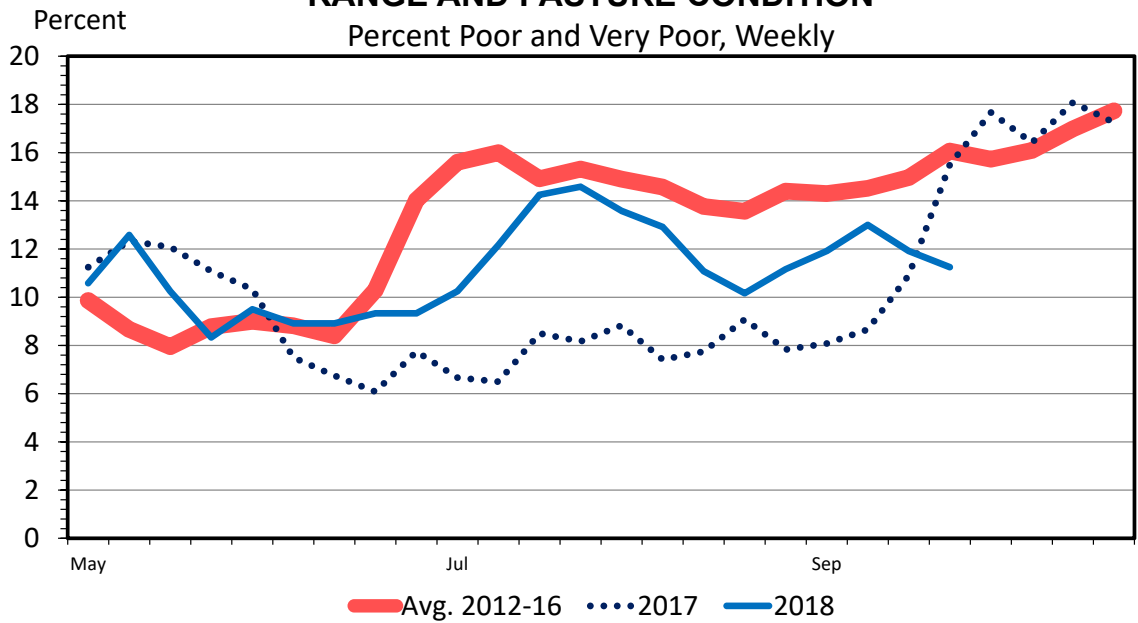
NORTHEAST REGION RANGE AND PASTURE CONDITION



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

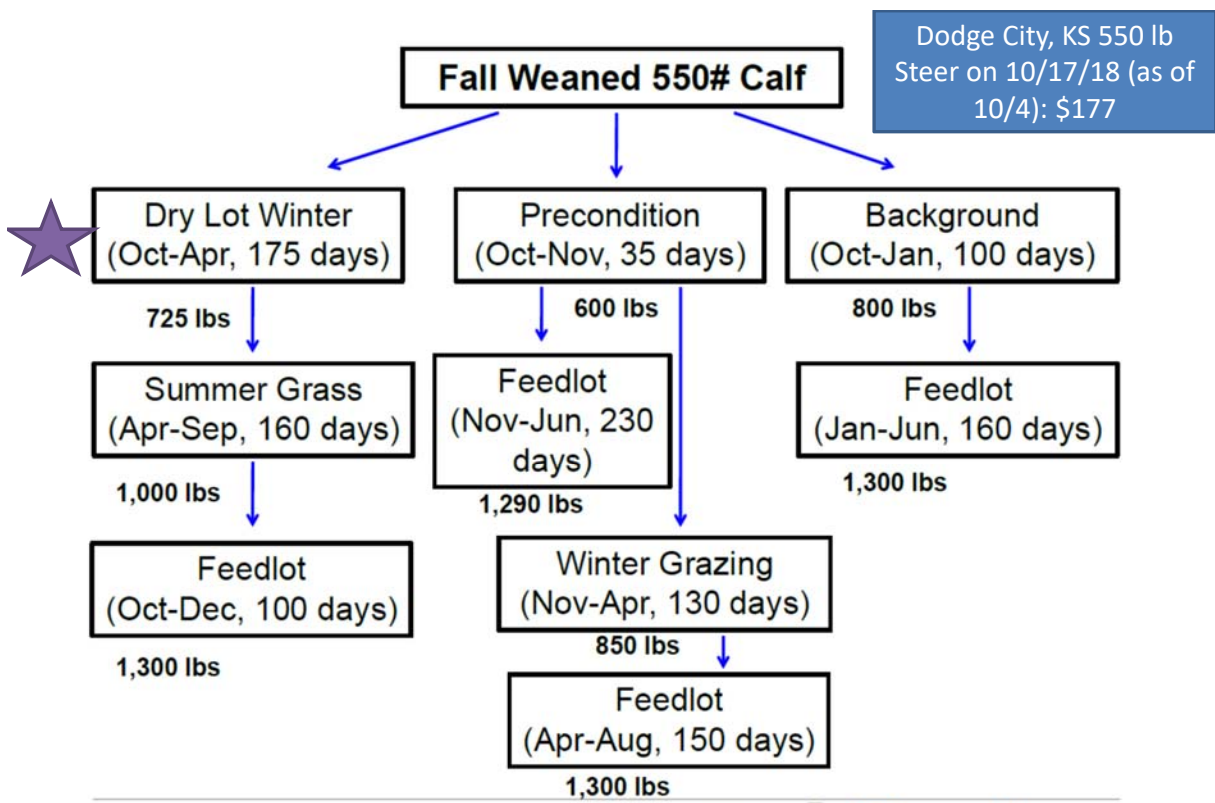
G-NP-35
10/01/18

SOUTHEAST REGION RANGE AND PASTURE CONDITION



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

G-NP-36
10/01/18



Economic Outlook Overview: Stockers

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

- Dodge City, KS 10/4/18 Dry Lot Winter, 175 DOF:
 - Buy 550 lb steer on 10/17/18 (\$177)
 - Sell 725 lb steer on 04/16/19 (\$160) {ADG 1.0}
 - VOG: \$104/cwt

U.S. Drought Monitor Continental U.S. (CONUS)

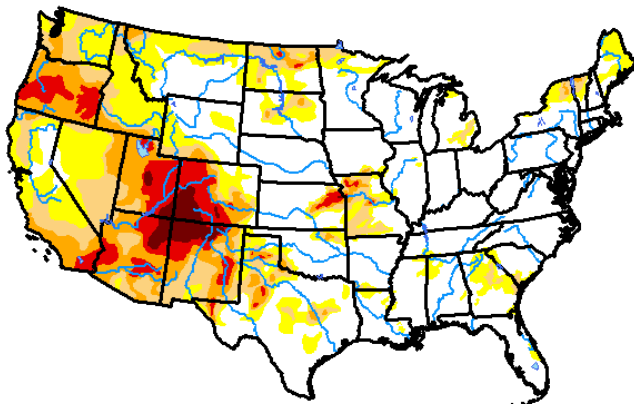
October 2, 2018

(Released Thursday, Oct. 4, 2018)

Valid 8 a.m. EDT

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	52.65	47.35	28.96	17.03	7.27	1.73
Last Week 09-25-2018	51.36	48.64	29.54	17.46	7.49	1.73
3 Months Ago 07-02-2018	51.00	49.00	29.72	16.64	8.33	1.88
Start of Calendar Year 01-02-2018	44.46	55.54	27.70	7.46	0.83	0.00
Start of Water Year 09-25-2018	51.36	48.64	29.54	17.46	7.49	1.73
One Year Ago 10-02-2017	61.15	38.85	14.36	4.73	1.39	0.50



Intensity:

■ D0 Abnormally Dry ■ D3 Extreme Drought
■ D1 Moderate Drought ■ D4 Exceptional Drought
■ D2 Severe Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:

David Miskus
NOAA/NWS/NCEP/CPC



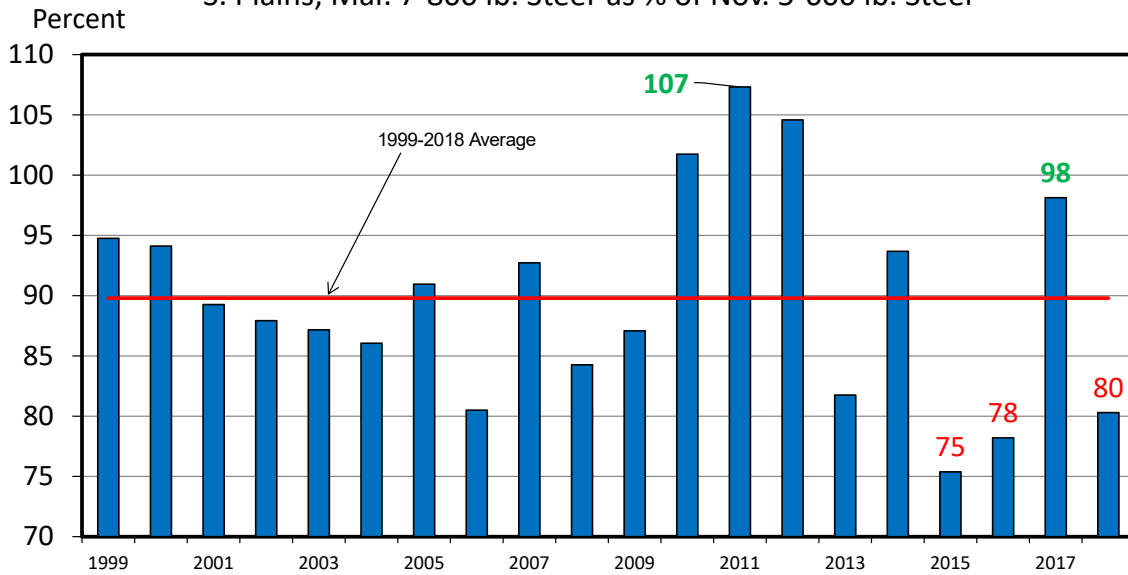
<http://droughtmonitor.unl.edu/>

Economic Outlook Overview: Stockers

Historical Margin Perspective

BUY/SELL MARGINS

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

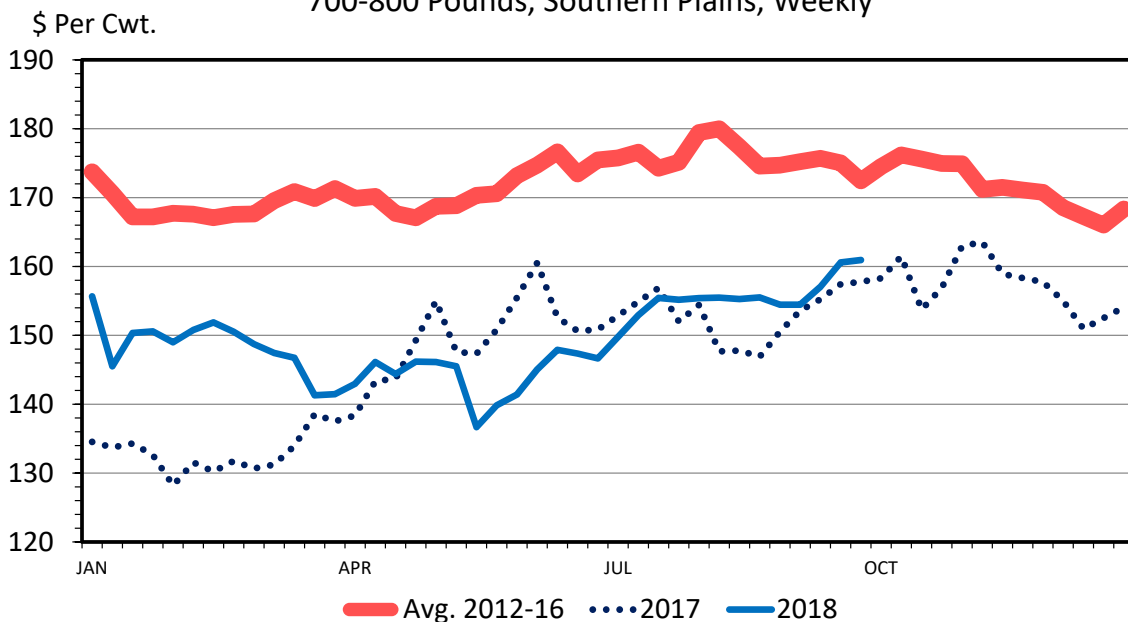


— 1999-2018 Average
 Data Source: USDA-AMS, Compiled and Analysis by LMIC
 Livestock Marketing Information Center

C-P-60
 07/05/18

MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly

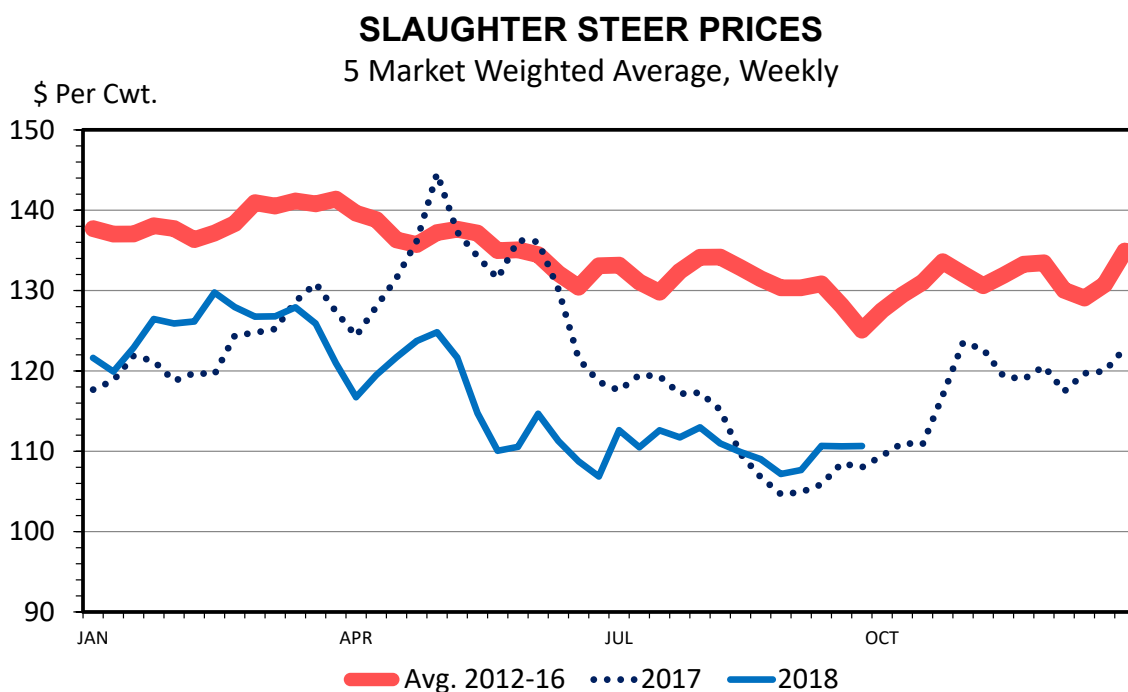


Data Source: USDA-AMS
 Livestock Marketing Information Center

C-P-49
 10/02/18

Economic Outlook Overview: Feedlots

- 2017 was better than anticipated
- 2018 has been rougher
 - Q4 return prospects have improved



Historical and Projected Kansas Feedlot Net Returns (as of 9/11/18')

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

July 18': **-\$84/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
Aug-18	-104.20	81.98	110.81	108.63	2.18	147.01	65.79	118.33	132.98
Sep-18	-108.96	83.04	109.79	109.35	0.44	143.54	66.15	117.50	129.35
Oct-18	-31.30	83.32	114.75	114.05	0.70	137.33	77.90	116.94	133.66
Nov-18	-9.72	82.54	114.96	114.05	0.91	141.02	81.08	115.63	139.78
Dec-18	14.87	83.11	120.01	118.35	1.66	146.93	85.35	118.97	148.86
Jan-19	-38.29	83.43	120.16	118.35	1.81	152.32	77.48	122.85	147.40
Feb-19	-51.85	84.36	121.12	119.93	1.20	156.16	76.33	124.83	149.28
Mar-19	18.75	83.02	123.64	119.93	3.71	154.22	85.88	122.28	156.80
Apr-19	-63.24	83.64	116.16	112.95	3.21	150.04	73.77	120.77	141.39
May-19	-20.08	82.96	121.59	112.95	8.64	150.14	79.61	123.02	147.63

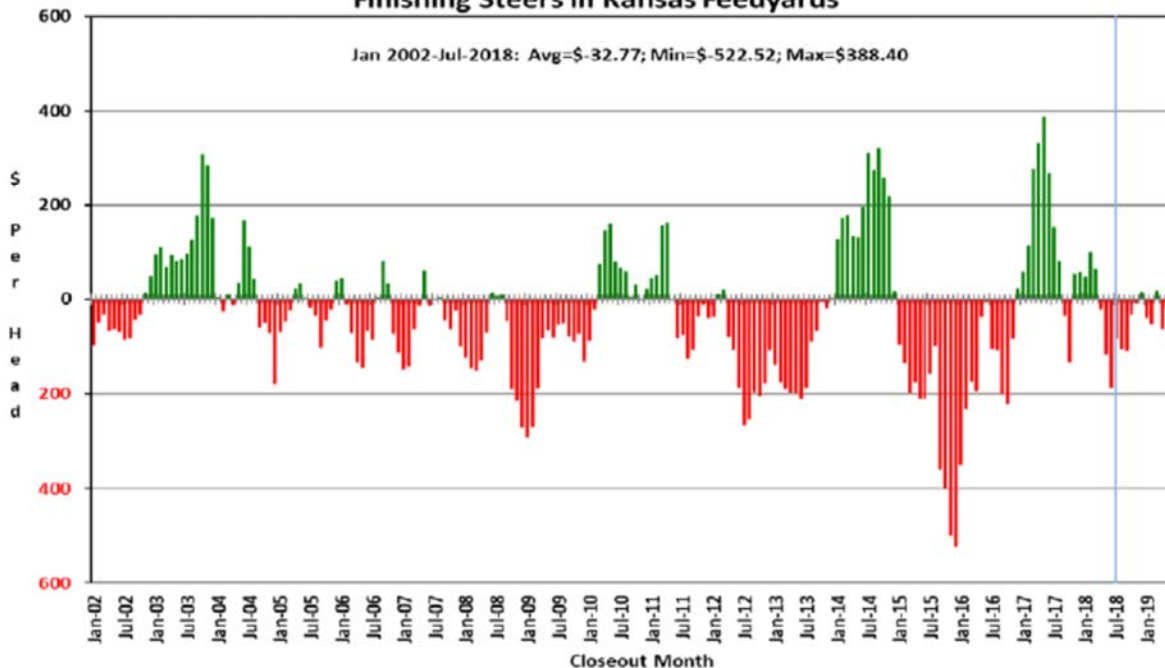
Representative Barometer for Trends in Profitability

CME LC
+\$4 since 9/11/18

Historical and Projected Kansas Feedlot Net Returns (as of 9/11/18')

(<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: 9/17/18)

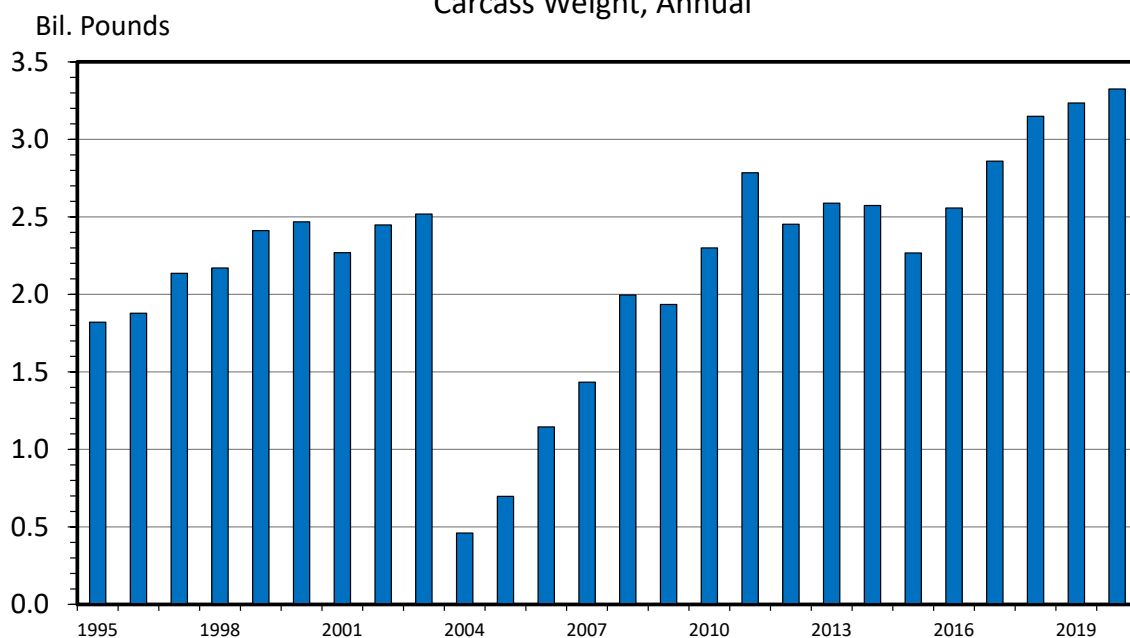
Year	Comm'l	% Chg.	Average	% Chg.	Comm'l	% Chg.
Quarter	Slaughter	from	Dressed	from	Beef	from
		Year Ago	Weight	Year Ago	Production	Year Ago
2018						
I	7,877	2.1	820.8	0.5	6,465	2.6
II	8,424	4.3	798.2	0.6	6,724	4.9
III	8,395	1.7	816.8	0.1	6,857	1.8
IV	8,428	3.5	832.6	0.6	7,017	4.1
Year	33,124	2.9	817.0	0.4	27,063	3.3
2019						
I	7,892	0.2	825.7	0.6	6,517	0.8
II	8,503	0.9	807.7	1.2	6,868	2.1
III	8,540	1.7	826.6	1.2	7,059	2.9
IV	8,474	0.5	837.0	0.5	7,092	1.1
Year	33,409	0.9	824.2	0.9	27,536	1.7
2020						
I	8,059	2.1	829.6	0.5	6,686	2.6
II	8,513	0.1	812.2	0.6	6,914	0.7
III	8,489	-0.6	831.4	0.6	7,058	0.0
IV	8,447	-0.3	841.2	0.5	7,106	0.2
Year	33,508	0.3	828.6	0.5	27,763	0.8

Quarterly Forecasts (LMIC: 9/17/18)

Year	Live Sltr.	% Chg.	Feeder Steer Price	
Quarter	Steer Price	from	Southern Plains	
	5-Mkt Avg	Year Ago	7-800#	5-600#
2018				
I	125.60	2.1	148.73	180.01
II	116.72	-12.1	144.52	170.11
III	111-112	-0.9	154-155	168-169
IV	115-117	-1.6	148-151	162-166
Year	117-118	-3.3	149-150	170-172
2019				
I	119-122	-4.1	147-151	168-173
II	116-120	1.1	148-153	172-178
III	108-113	-0.9	145-151	169-174
IV	113-119	0.0	145-154	165-173
Year	114-118	-1.3	147-151	169-174
2020				
I	118-125	0.8	145-155	171-180
II	116-124	1.7	147-158	174-184
III	110-119	3.6	147-159	173-185
IV	114-124	2.6	146-159	169-181
Year	117-121	2.6	149-155	173-181

Trade Context Update

US BEEF AND VEAL EXPORTS Carcass Weight, Annual

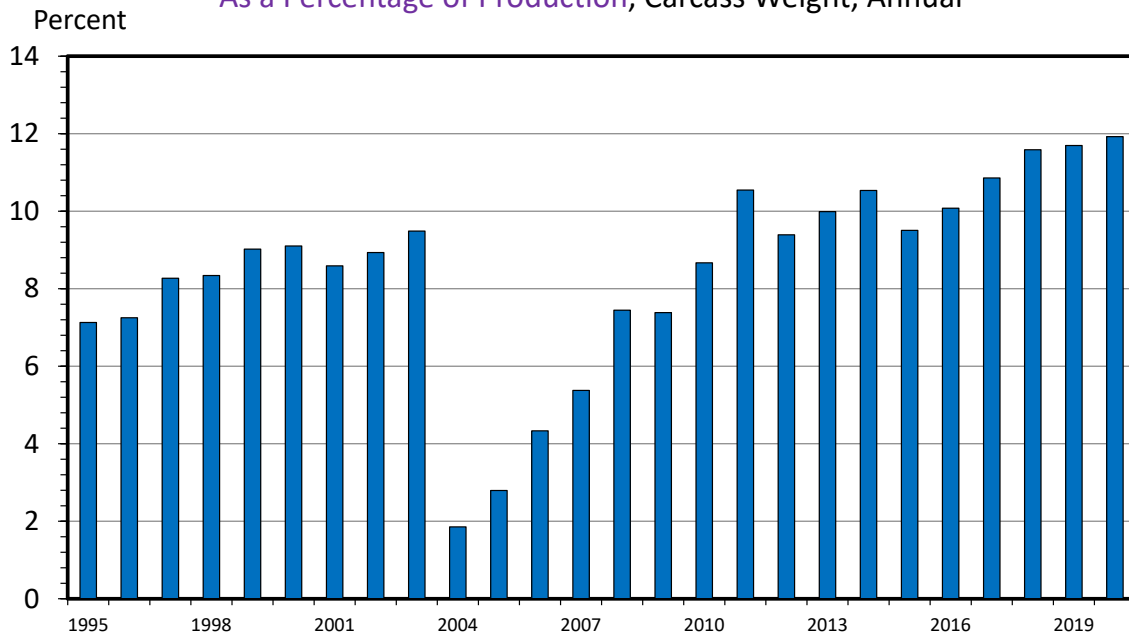


Data Source: USDA-ERS & USDA-FAS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

I-N-06
10/03/18

US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual

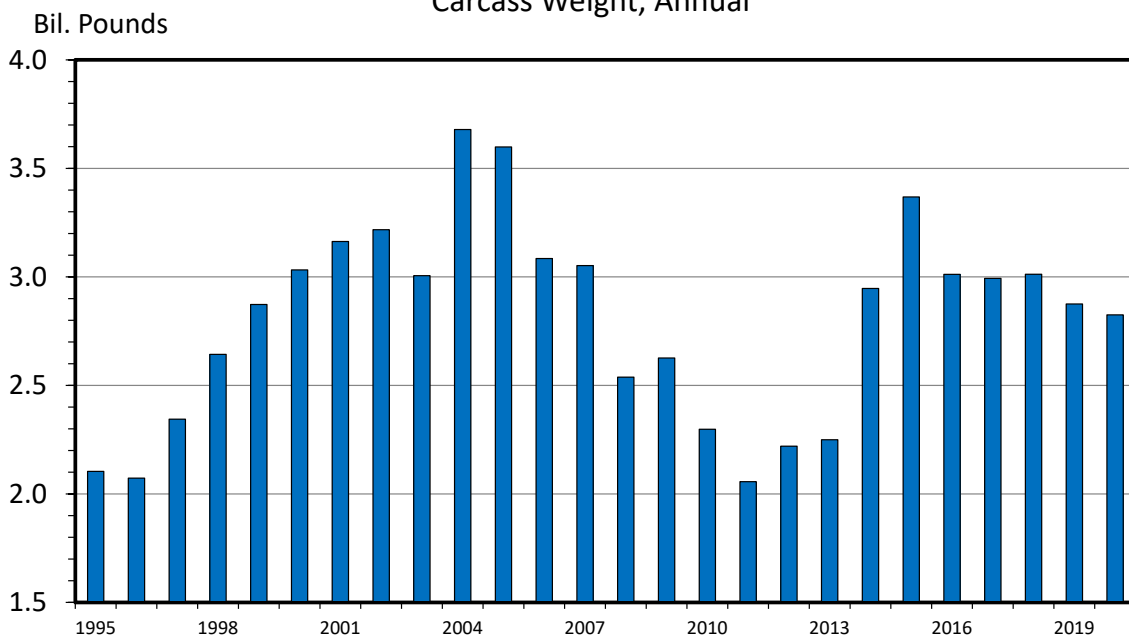


Data Source: USDA-ERS & USDA-FAS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

I-N-07
10/03/18

US BEEF AND VEAL IMPORTS

Carcass Weight, Annual

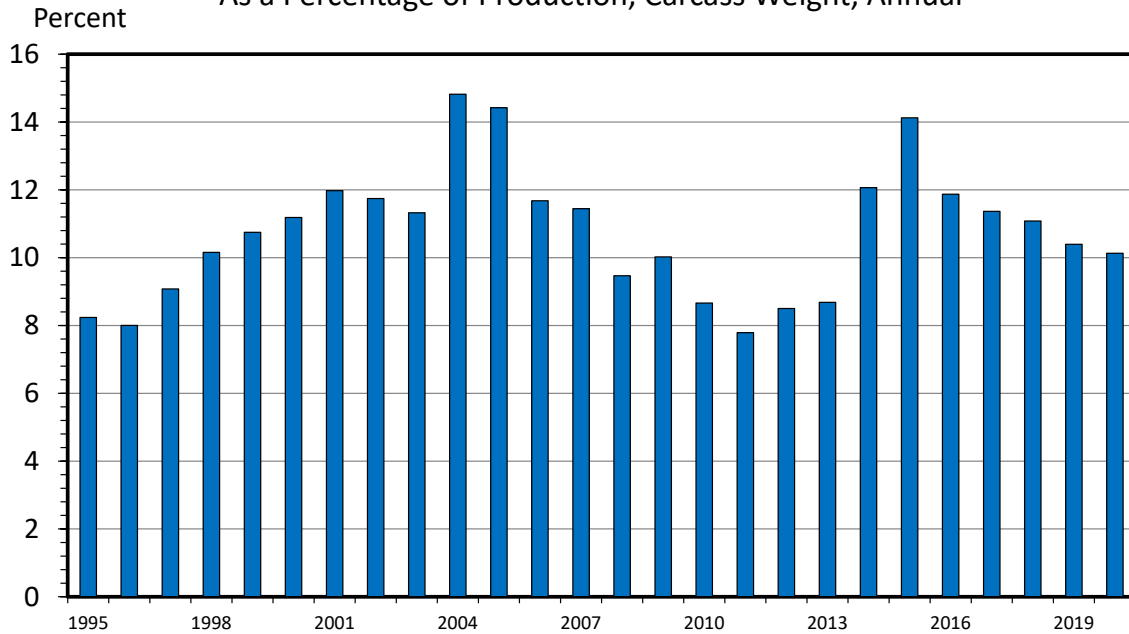


Data Source: USDA-ERS & USDA-FAS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

I-N-12
10/03/18

US BEEF AND VEAL IMPORTS

As a Percentage of Production, Carcass Weight, Annual

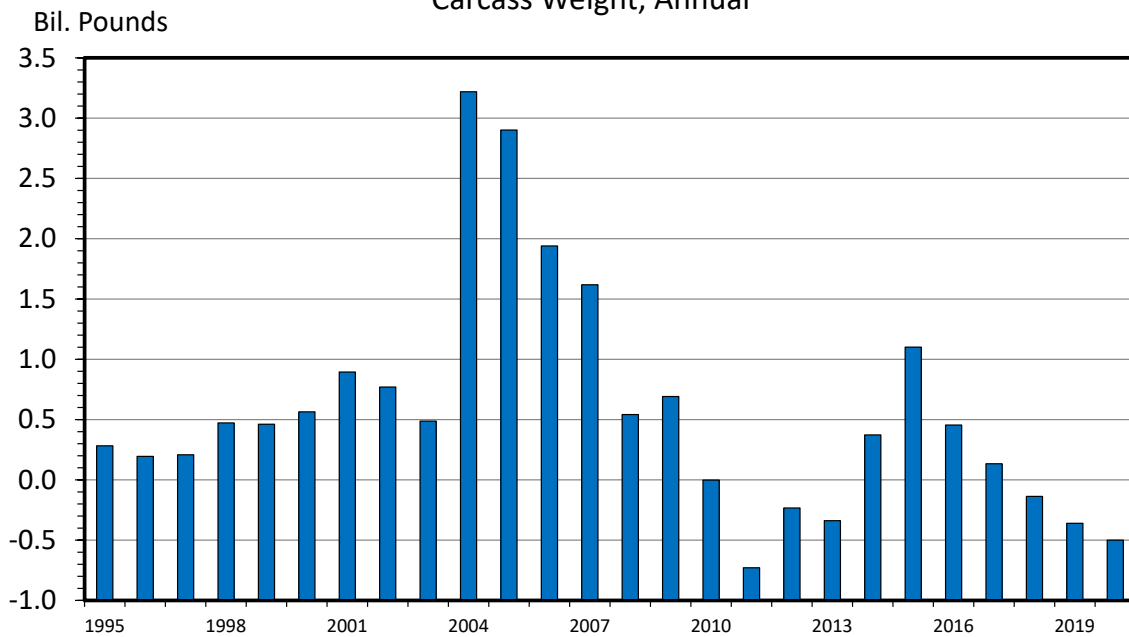


Data Source: USDA-ERS & USDA-FAS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

I-N-08
10/03/18

US BEEF AND VEAL NET IMPORTS

Carcass Weight, Annual

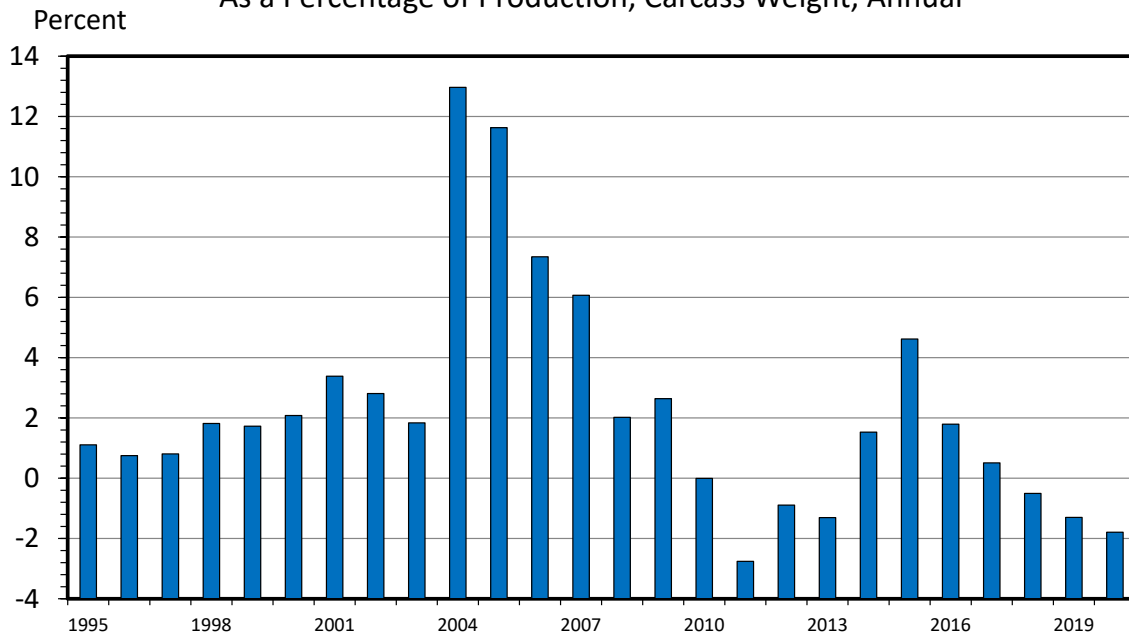


Data Source: USDA-ERS & USDA-FAS, Compiled and Forecasts by LMIC
Livestock Marketing Information Center

I-N-28
10/03/18

US BEEF AND VEAL NET IMPORTS

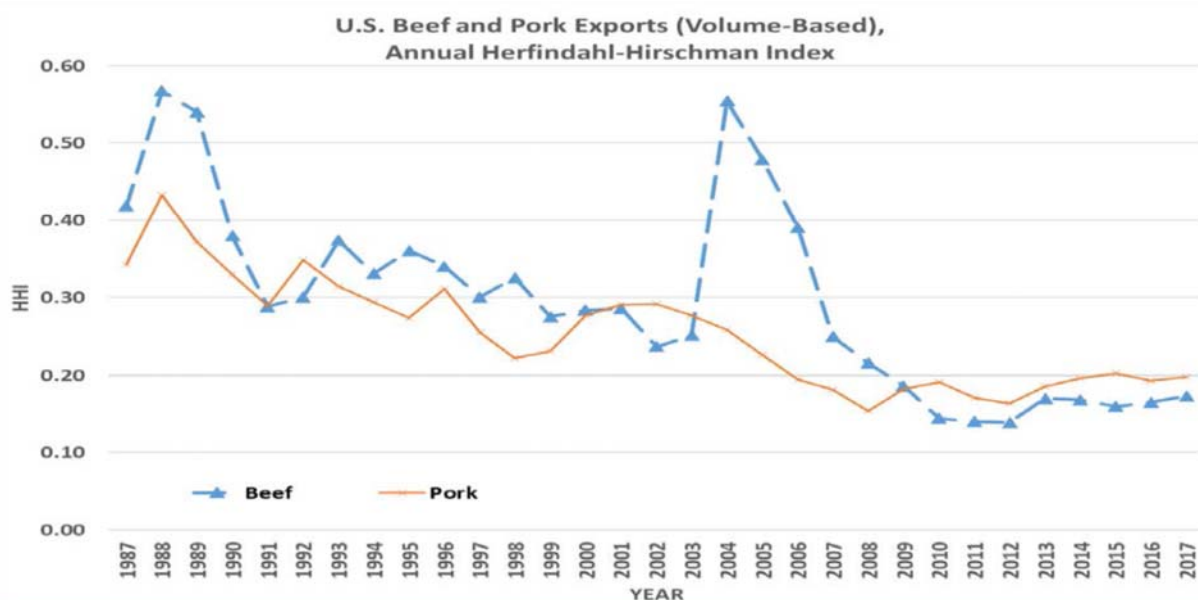
As a Percentage of Production, Carcass Weight, Annual



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

I-N-11
10/03/18

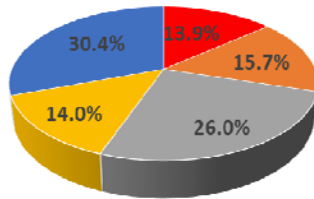
Concentration of U.S. Red Meat Exports



Source: USDA ERS & USDA FAS Data, Tensor Calculations

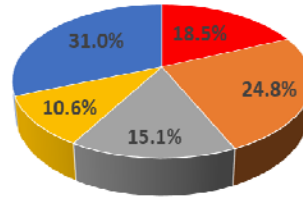
U.S. Beef Export Portfolio (by vol.)

U.S. Beef Export Portfolio, Average Annual Shares: 2013-2017



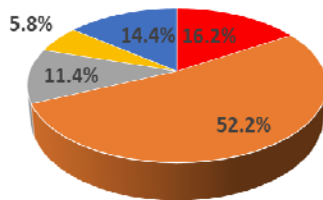
■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

U.S. Beef Export Portfolio, Average Annual Shares: 2008-2012



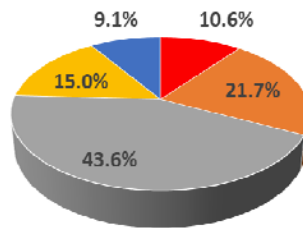
■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

U.S. Beef Export Portfolio, Average Annual Shares: 2003-2007



■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

U.S. Beef Export Portfolio, Average Annual Shares: 1998-2002



■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

USDA Long-Term projections

Feb. 2018 report (<http://www.usda.gov/oce/commodity/projections/>)

Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
Pork	50.1	50.4	52.1	52.2	51.9	52.0	
Total red meat	107.0	109.0	112.6	114.4	114.1	112.2	
Broilers	89.8	91.0	91.8	91.6	92.4	92.2	
Total poultry	107.6	108.8	109.6	109.2	109.9	109.3	
Red meat & poultry	214.6	217.8	222.2	223.6	224.0	221.5	
Note: Totals may not add due to rounding.							

USDA Long-Term projections

Feb. 2018 report (<http://www.usda.gov/oce/commodity/projections/>)

2019 would be highest for beef since 2009

Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
Pork	50.1	50.4	52.1	52.2	51.9	52.0	
Total red meat	107.0	109.0	112.6	114.4	114.1	112.2	
Broilers	89.8	91.0	91.8	91.6	92.4	92.2	
Total poultry	107.6	108.8	109.6	109.2	109.9	109.3	
Red meat & poultry	214.6	217.8	222.2	223.6	224.0	221.5	

Note: Totals may not add due to rounding.

Year	Total Red Meat & Poultry
1995	205.4
2000	214.4
2005	219.7
2010	207.5
2014	200.1

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USDA Long-Term projections

Feb. 2018 report (<http://www.usda.gov/oce/commodity/projections/>)

Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
Pork	50.1	50.4	52.1	52.2	51.9	52.0	
Total red meat	107.0	109.0	112.6	114.4	114.1	112.2	
Broilers	89.8	91.0	91.8	91.6	92.4	92.2	
Total poultry	107.6	108.8	109.6	109.2	109.9	109.3	
Red meat & poultry	214.6	217.8	222.2	223.6	224.0	221.5	

Note: Totals may not add due to rounding.

Projections INCLUDE trade dependency, PRESUME no China pork tariffs, etc.

Wrap-Up

- Broad Profitability Outlook
 - Cow-calf:
 - Converging toward Long-Term Levels
 - Situation Better than Expected, Hope Demand's Role is Recognized!
 - Stocker:
 - Margins vary widely across situations
 - Drought/feasibility impact likely substantial for many attendees
 - Feedlot:
 - 2017 offered notable equity recovery
 - Q4 2018 has improved

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Wrap-Up

- Broad Profitability Outlook
 - Supply side factors are “well established”
 - Demand factors are key and uncertain
 - What will be beef (and meat broadly) export situation?
 - When will next U.S. recession occur?

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More information available at:



This presentation will be available in PDF format at:
<http://www.agmanager.info/contributors/tonsor>

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