

Cattle Market Outlook & Role of Consumer in U.S. Livestock Industry

**Mississippi Farm Bureau ® Federation
Winter Commodity Conference
Livestock and Row Crop Segments
MFBF Offices – 6311 Ridgewood Road, Jackson, MS
January 23-24, 2017**

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“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*

*CATTLE
MARKETS
“BROKEN”*

*CME FC
INDEX
CHANGES*

Overarching Beef Industry Economic Outlook

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

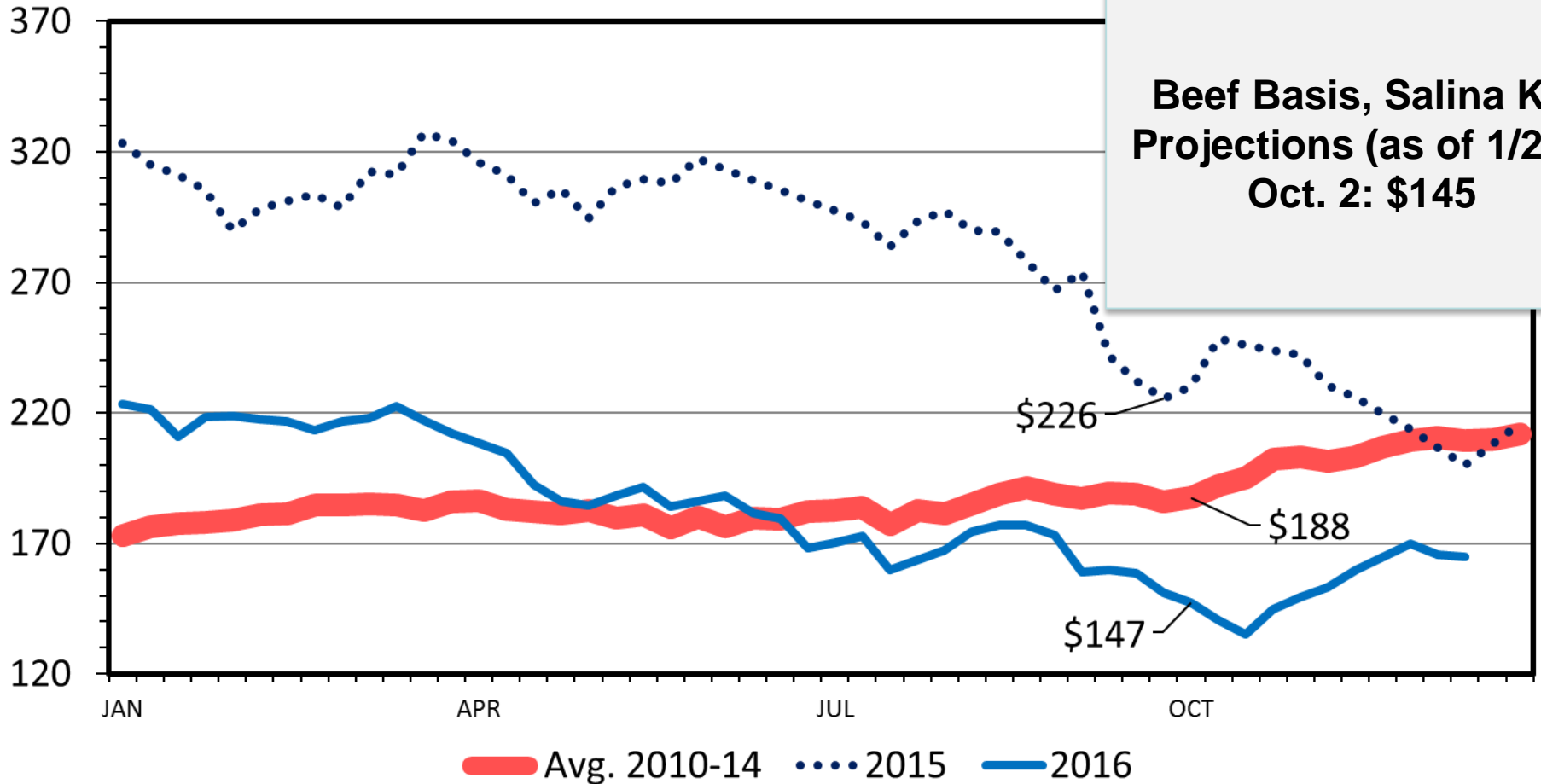
- Demand
 - Confusing & slower in 2016



MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

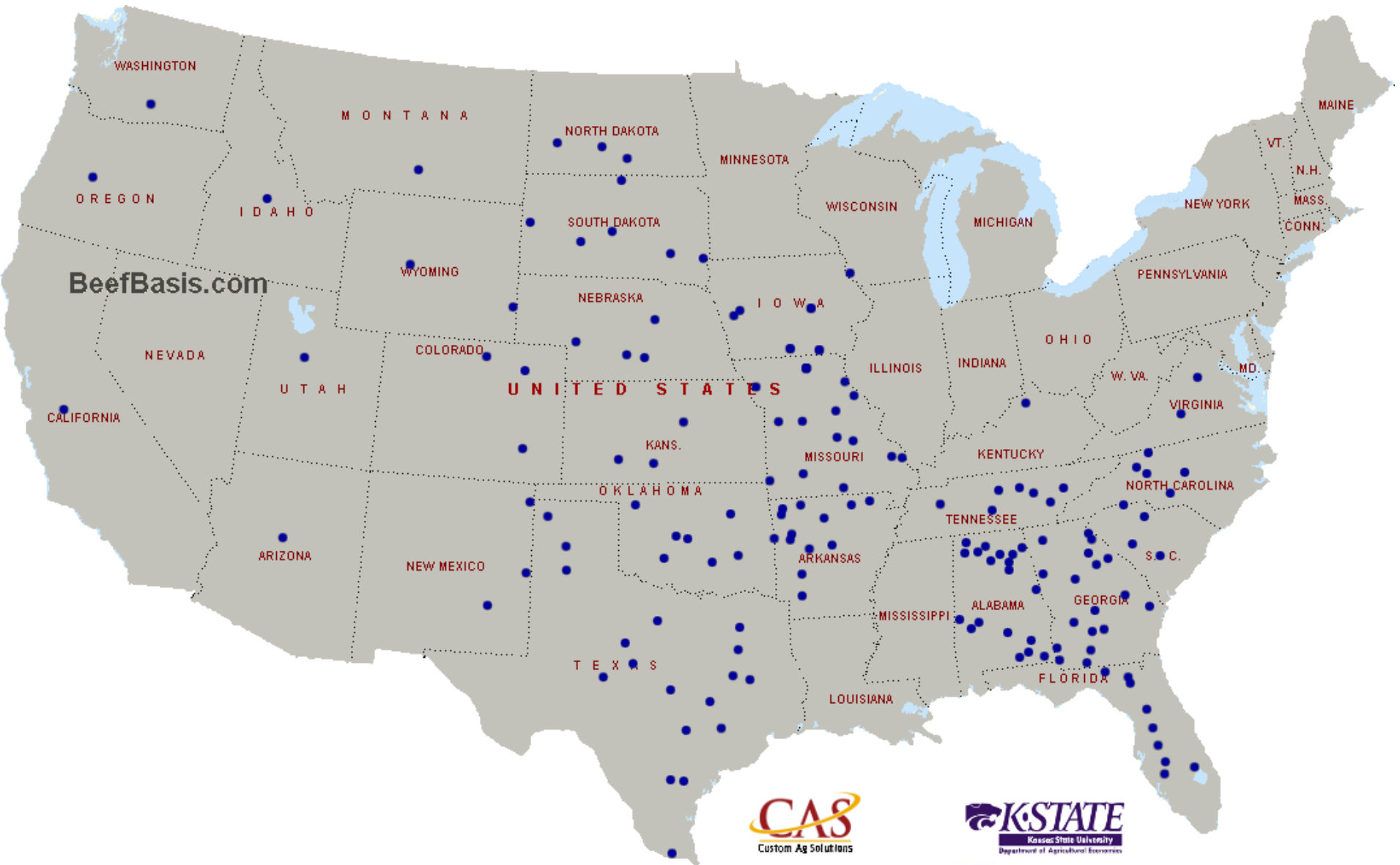
\$ Per Cwt.



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

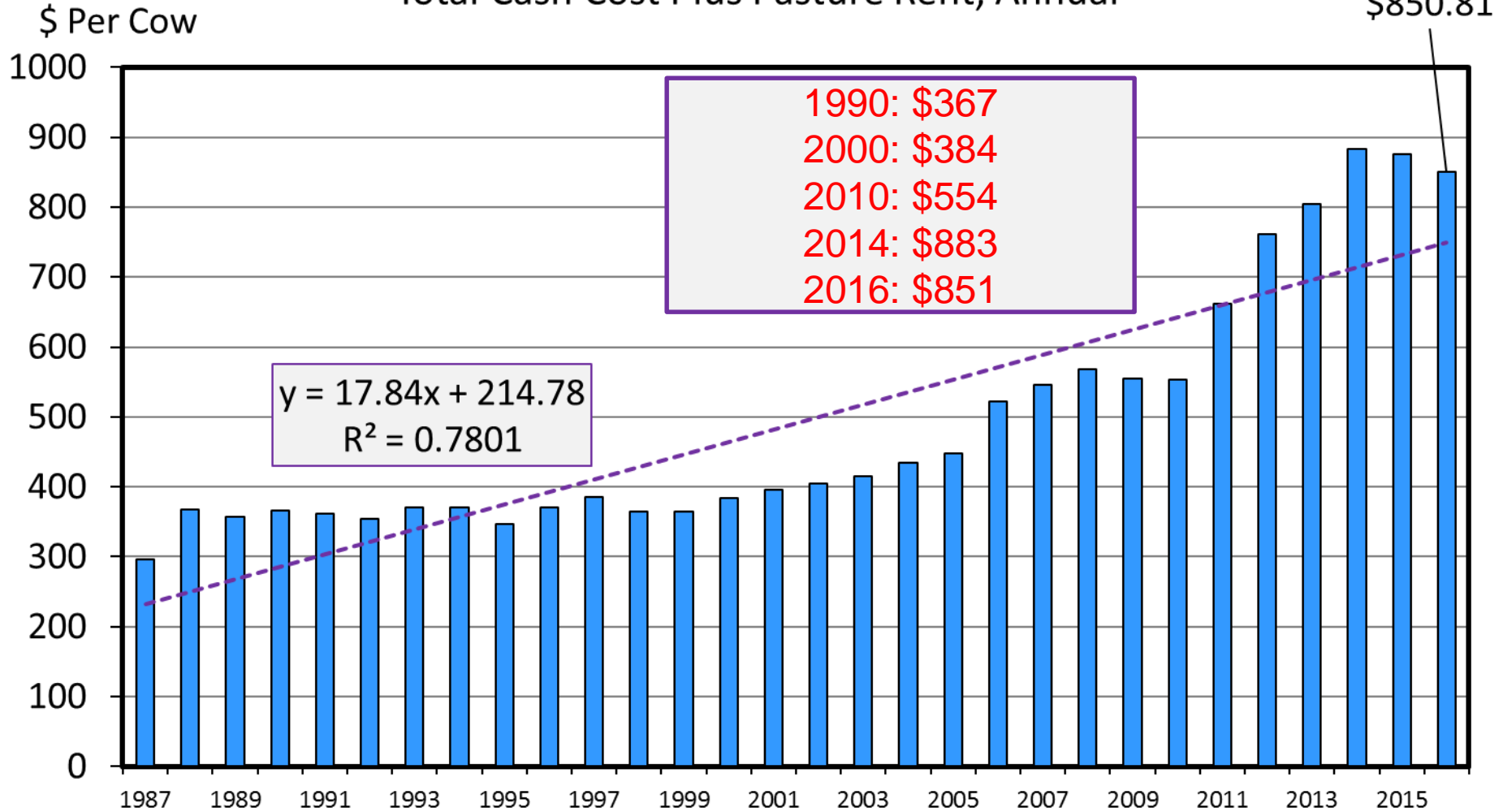
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ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



Data Source: USDA & LMIC, Compiled by LMIC

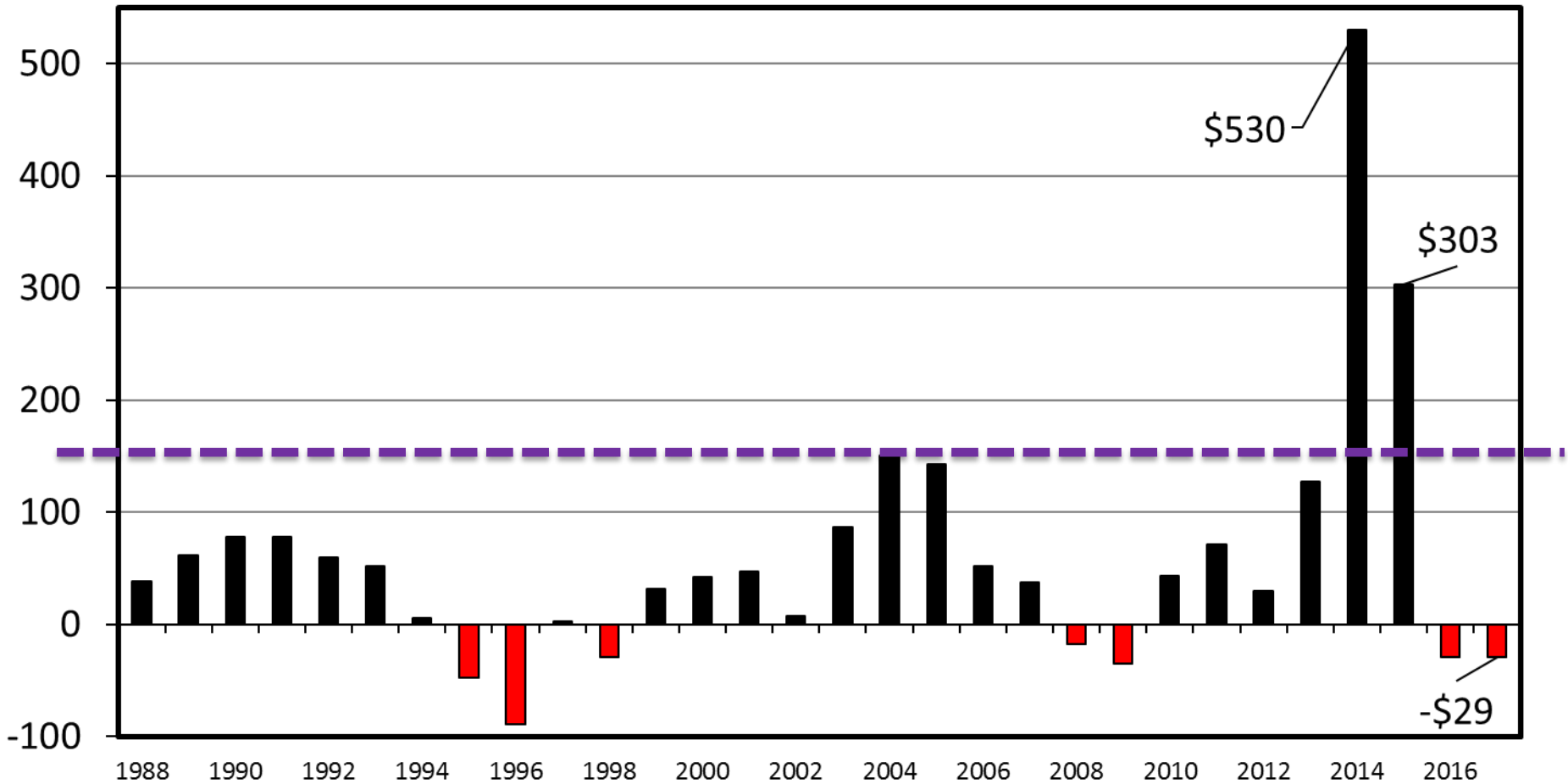
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ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



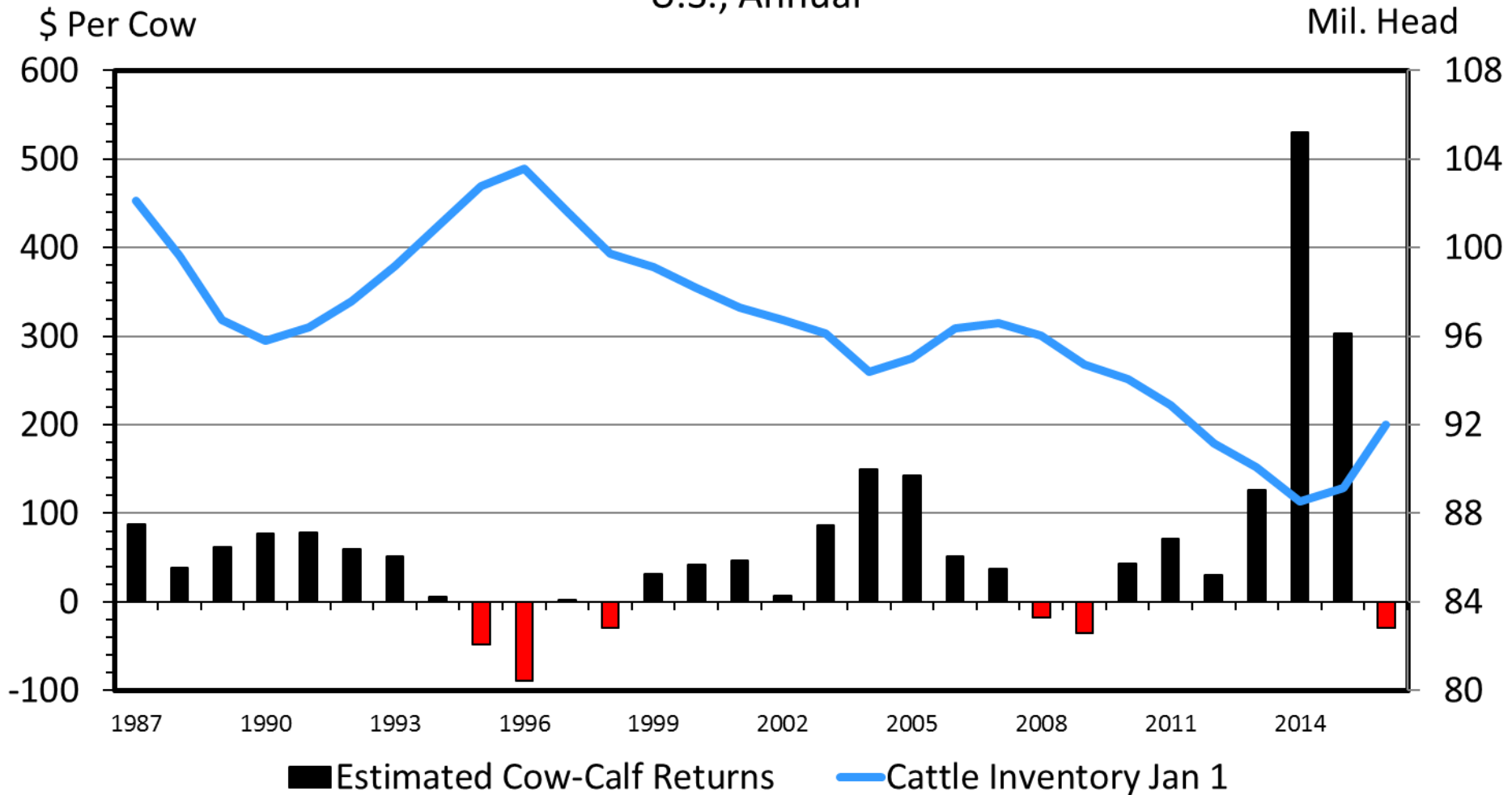
Data Source: USDA & LMIC, Compiled by LMIC

Livestock Marketing Information Center



COW-CALF RETURNS AND CATTLE INVENTORY

U.S., Annual



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

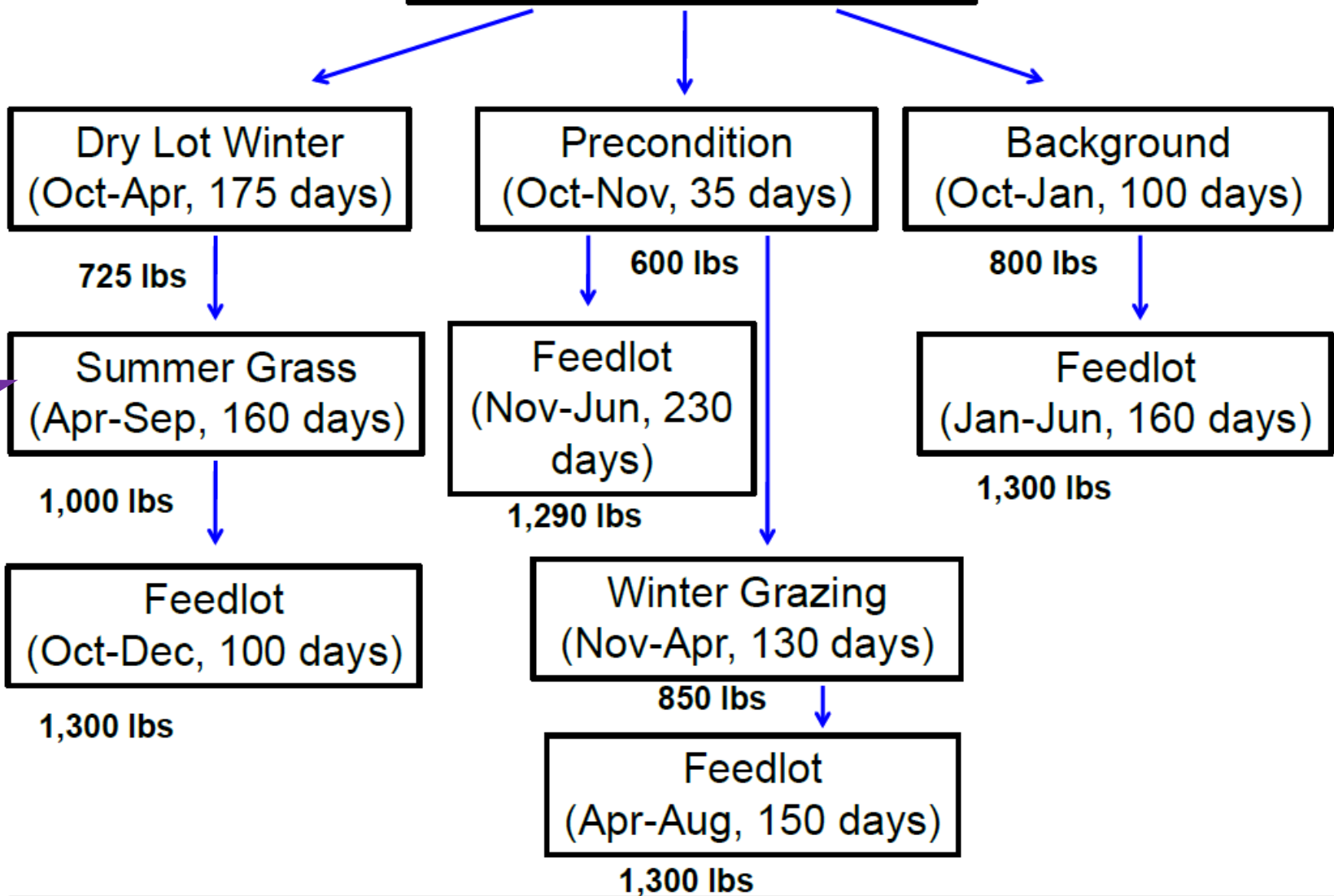
Jan. Cattle Inv. Report:
 Herd Expansion Done?

C-P-67
 12/29/16

Economic Outlook Overview: Backgrounding/Stockers



Fall Weaned 550# Calf



Economic Outlook Overview: Stockers

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

- Salina, KS 1/22/17 Summer Grass, 155 DOF Case:
 - Buy 725 lb steer on 04/05/17 (\$130)
 - Sell 900 lb steer on 09/06/17 (\$120) {ADG 1.13}
 - VOG: \$79/cwt (\$138/hd)



Economic Outlook Overview: Feedlots

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



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

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

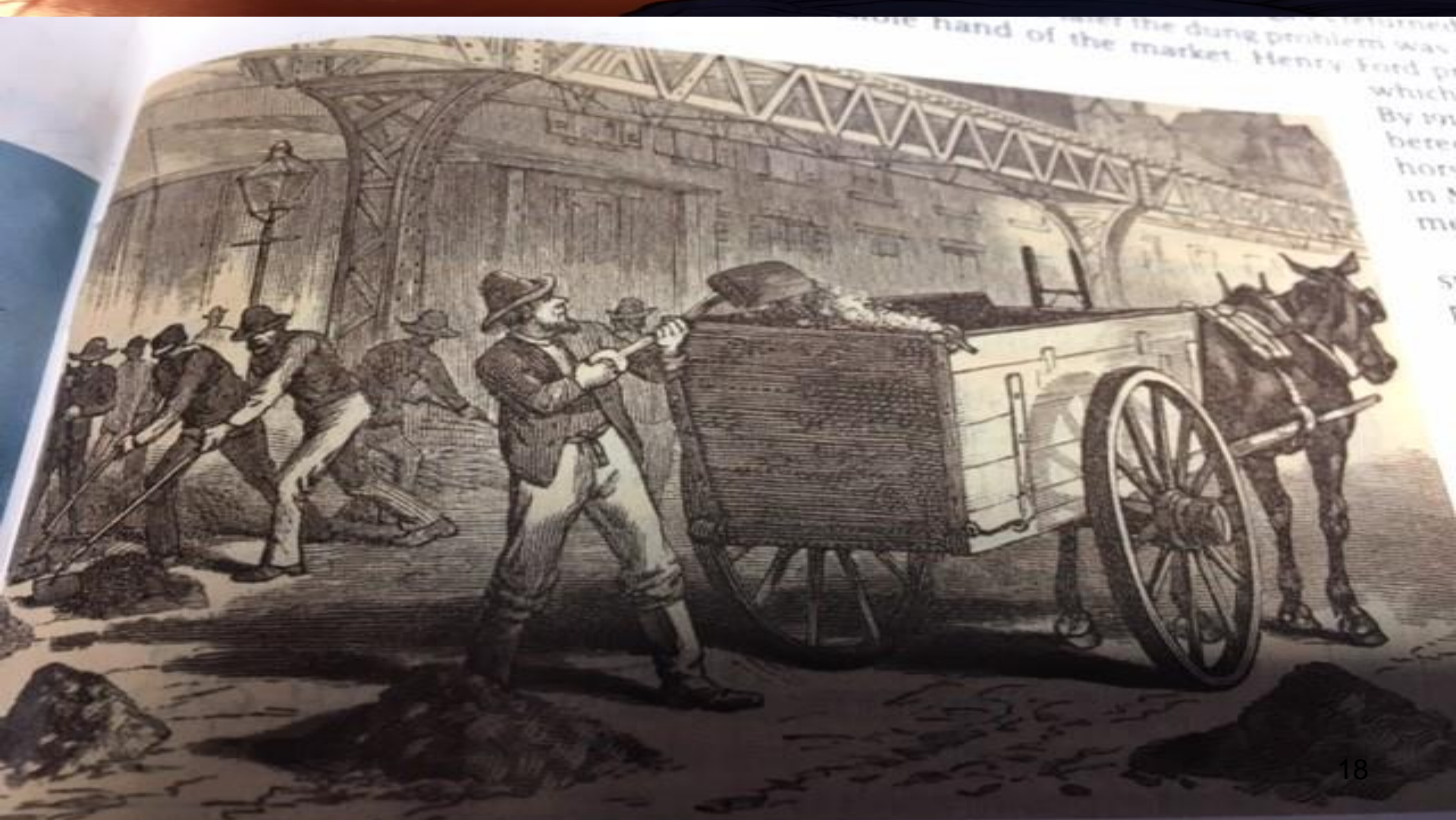


What is the Role of Consumers & Technology in U.S. Livestock Production?



The Economist

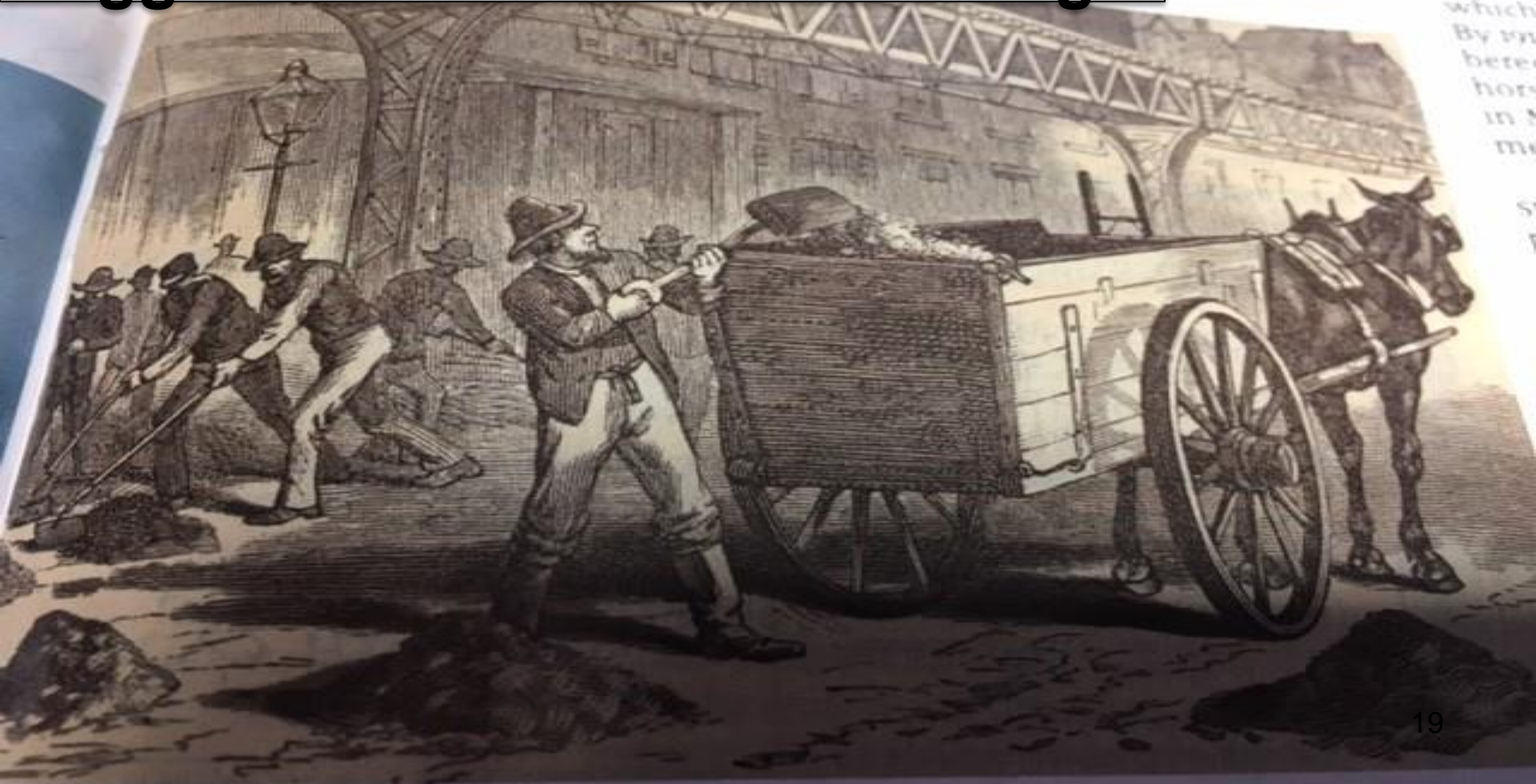
NOVEMBER 26TH - DECEMBER 2ND 2016



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...the dung problem was
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By 1900
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300k horses in London in 1900

“most malodorous environmental challenge facing the world’s biggest cities ... was horse dung”



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One decade later problem was addressed
by the invisible hand of the market:
Henry Ford's Model T – by 1912 cars
outnumbered horses in NYC

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**100 Years after being viewed as an
environmental savior:**

**oil is viewed increasingly as horse dung used
to be – a menace to public health and the
environment**

Horses in NYC & Animal Ag

- Current challenges can be addressed **IF** we:
 - 1) Accurately recognize the challenge
 - 2) Actively pursue acceptable solutions
 - 3) Identify technology & “let markets work”



Changes in Consumer “Signals”

- We must appreciate essential role of consumer demand & customer product acceptance
 - Complex and changing all the time



Changes in Consumer “Signals”

- We must appreciate essential role of consumer demand & customer product acceptance
 - Complex and changing all the time
 - **In agriculture:**
 - **increasingly involves “social issues”**
 - **calls to document, verify, and adjust “conventional” production practices**



Ongoing calls for change, verification, &/or improvement:

Credence Attributes

- Food safety
- Environmental impact
- Animal Welfare
- Origin labeling
- Antibiotic use

Other Attributes

- Price
- Freshness
- Taste
- Nutrition
- Health
- Convenience



Food Values Applied to Livestock Products (Lister et al., 2017)

- “Social Issues” less important in purchasing decisions than:
 - Safety
 - Freshness
 - Taste
 - Nutrition
 - Health
 - Price

Source: http://www.agmanager.info/livestock/marketing/WorkingPapers/WP1_FoodValues-LivestockProducts.pdf



Lister et al. (forthcoming)

Importance Shares	
	<i>Ground Beef</i>
Safety	21%
Freshness	20%
Taste	12%
Health	12%
Nutrition	8%
Price	7%
Hormone Free/Antibiotic Free	7%
Animal Welfare	5%
Origin/Traceability	3%
Environmental Impact	3%
Convenience	2%

41%

18%



Lister et al. (forthcoming)

➤ “Social Issues” < safety, freshness, taste, price...

Importance Shares by Product				
	<i>Ground Beef</i>	<i>Beef Steak</i>	<i>Chicken Breast</i>	<i>Milk</i>
Safety & Freshness	41%	37%	39%	38%
Taste, Health, Nutrition, Price, Conv	41%	47%	44%	45%
HF/AF, AW, Origin/Tr, Env	18%	16%	17%	17%



Current Situation

- Importance of attributes is clear
- **HOW** public wants outcomes achieved is less clear
 - May also be changing over time...



Economic Realities Going Forward

- Center for Food Integrity's Sept. 4, 2013 tweet:

“Science tells us if we can do something.

Society tells us if we should do it.”

- Think about VFD, beta-agonists, feeding GM corn, gestation stalls, laying hen cages, handling techniques, euthanasia practices, ...



Economic Realities Going Forward

- Outcomes will only partially align with “best science” approaches or recommendations
 - Public will give license to utilize only a subset of available production options that ‘technically work’
 - Economic & political optimality critical to see



Economic Realities Going Forward

- Outcomes will only partially align with “best science” approaches or recommendations
 - Vote-buy disconnect will persist



Economic Realities Going Forward

- Outcomes will only partially align with “best science” approaches or recommendations
 - Vote-buy disconnect will persist

Table 2. Willingness to Vote for Restrictions and to Pay Premiums, December 2013

Production Practice	Vote to Ban/Limit	Pay a Premium
Limit antibiotic use for cattle to only disease treatment	70.9%	48.0%
Ban cattle castration without use of pain control	66.1%	35.9%
Ban use of sow gestation stalls in the swine industry	51.3%	34.9%
Ban use of laying hen cages in the egg industry	49.7%	40.5%

- Short-term “unfunded mandates” will continue...



Will Consumers Pay for Changes?

➤ **Not the only question we must consider...**

Will we survive if we do not recognize, adapt, and evolve to changes?



Who wants to go home with a new phone?



Who wants to go home with **THIS** phone:



Sources: <http://imgkid.com/old-rotary-phone.shtml> <http://www.gizmag.com/mobile-ponne-40-year-anniversary-photos/25677/>
<http://www.cellphonereviews.com/who-invented-the-cell-phone/> <http://science.howstuffworks.com/innovation/inventions/who-invented-the-cell-phone.htm>



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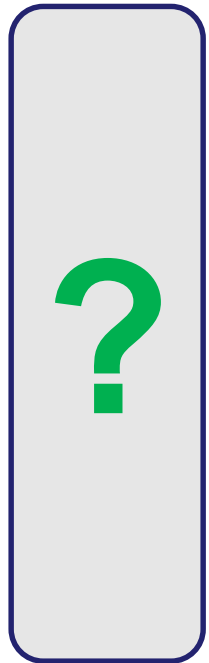
Consider how much phones have changed...



Sources: <http://imgkid.com/old-rotary-phone.shtml> <http://www.gizmag.com/mobile-ponne-40-year-anniversary-photos/25677/>
<http://www.cellphonereviews.com/who-invented-the-cell-phone/> <http://science.howstuffworks.com/innovation/inventions/who-invented-the-cell-phone.htm>



Consider how much MORE phones WILL change...



Sources: <http://www.techradar.com/us/news/wearables/apple-iwatch-release-date-news-and-rumours-1131043>



How should we think about responding to changing consumer demands?

Must directly consider:

1) Effectiveness

2) Feasibility

3) Acceptability



Effectiveness & Feasibility



- Why create something with limited odds of industry adoption?
 - *How would investors react?*

Effectiveness & Feasibility

- Just because something “works” doesn’t mean it will be 100% implemented
 - Feasibility, effectiveness, & net econ. value (reflects acceptance) are key
 - *E.coli vaccines for fed cattle are prime example*



“If you think you can, you can.

***And if you think you can't,
you're right.”***

Henry Ford (1863-1947)



Take-Home Message

- Market outlook remains dynamic



Take-Home Message

- Market outlook remains dynamic
- Our approach to changing consumer demands adjusts with:
 - Technology availability
 - Dynamic consumer perceptions & preferences
 - Market signals & Regulations



Take-Home Message

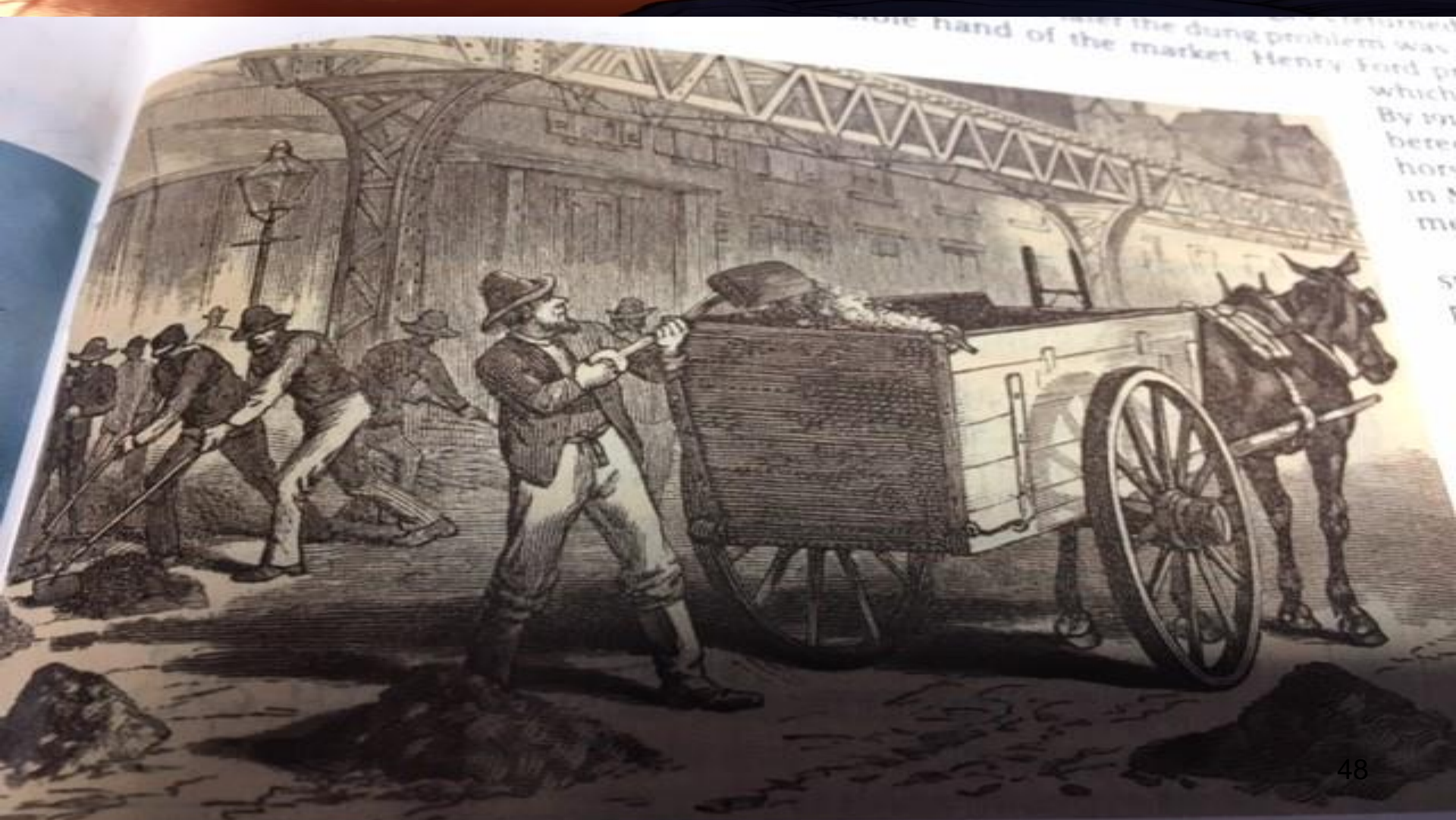
- Market outlook remains dynamic
- Our approach to changing consumer demands adjusts with:
 - Technology availability
 - Dynamic consumer perceptions & preferences
 - Market signals & Regulations

AND THAT'S OKAY!!!



The Economist

NOVEMBER 26TH - DECEMBER 2ND 2016



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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>

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