2011-2012
Kansas State University

AG PROFITABILITY CONFERENCE

February 14, 2012

Wm. Carpenter 4-H Building
Scott City, Kansas

Kansas State University
Department of Agricultural Economics

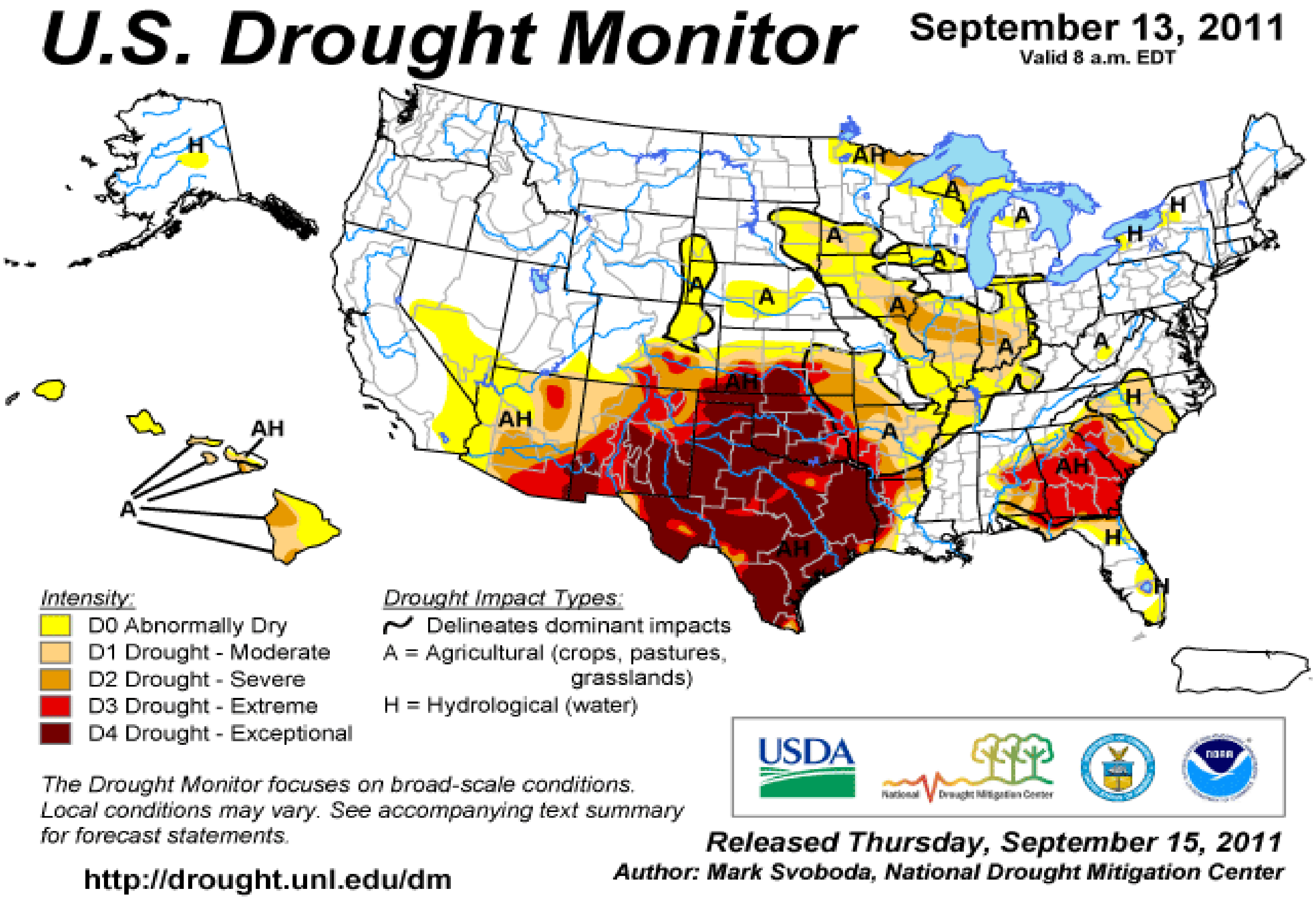
Beef & Cattle Market Outlook

Glynn Tonsor
Dept. of Agricultural Economics
Kansas State University

OVERVIEW

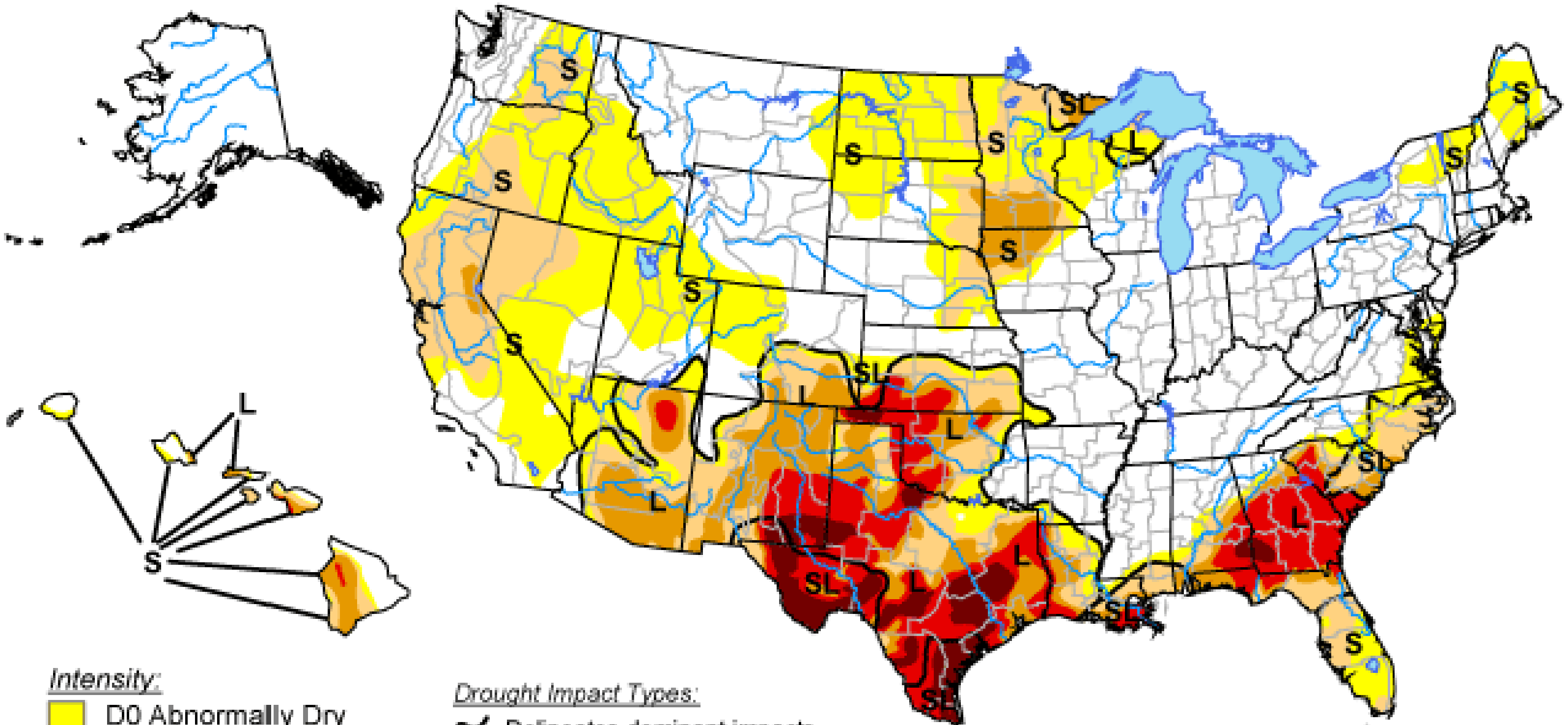
- FEEDSTUFFS:
  - Drought triggered liquidations; recent relief & associated wheat pasture changes…
  - “Expensive” and “hard to find” feed/forage …
- SUPPLY:
  - Shrinking cow herd; expansion initiation???
  - Structural changes underway…
- DEMAND:
  - Export demand remains strong
  - Domestic demand surpassing expectations

July ’11: 40% of Beef Cows in States with > 40% Poor to Very Poor Pasture Conditions (was 4% in 2010)…



U.S. Drought Monitor

January 17, 2012
Valid 7 a.m. EST



Intensity:

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

Drought Impact Types:

- Delineates dominant impacts
- S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically >6 months (e.g. hydrology, ecology)

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

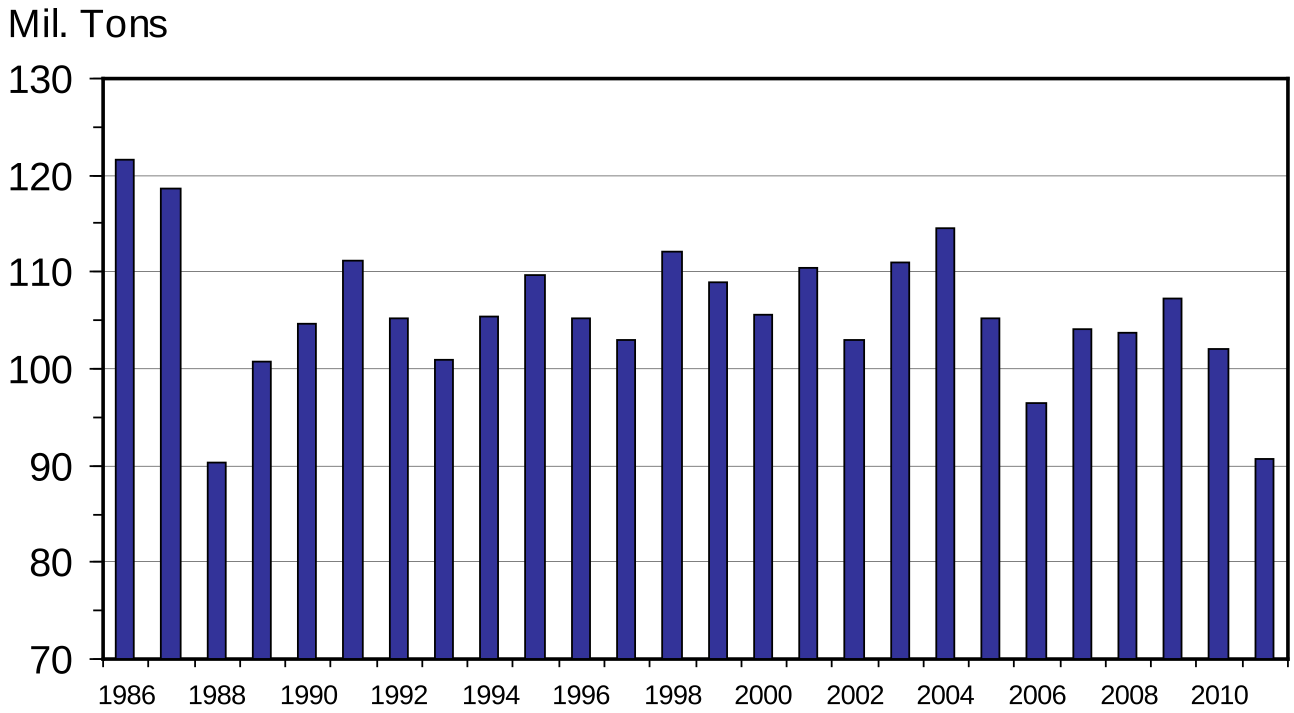
http://droughtmonitor.unl.edu/

USDA National Drought Mitigation Center

Released Thursday, January 19, 2012

Author: Laura Edwards, WRCC, South Dakota State University

U S ALL HAY STOCKS
December 1



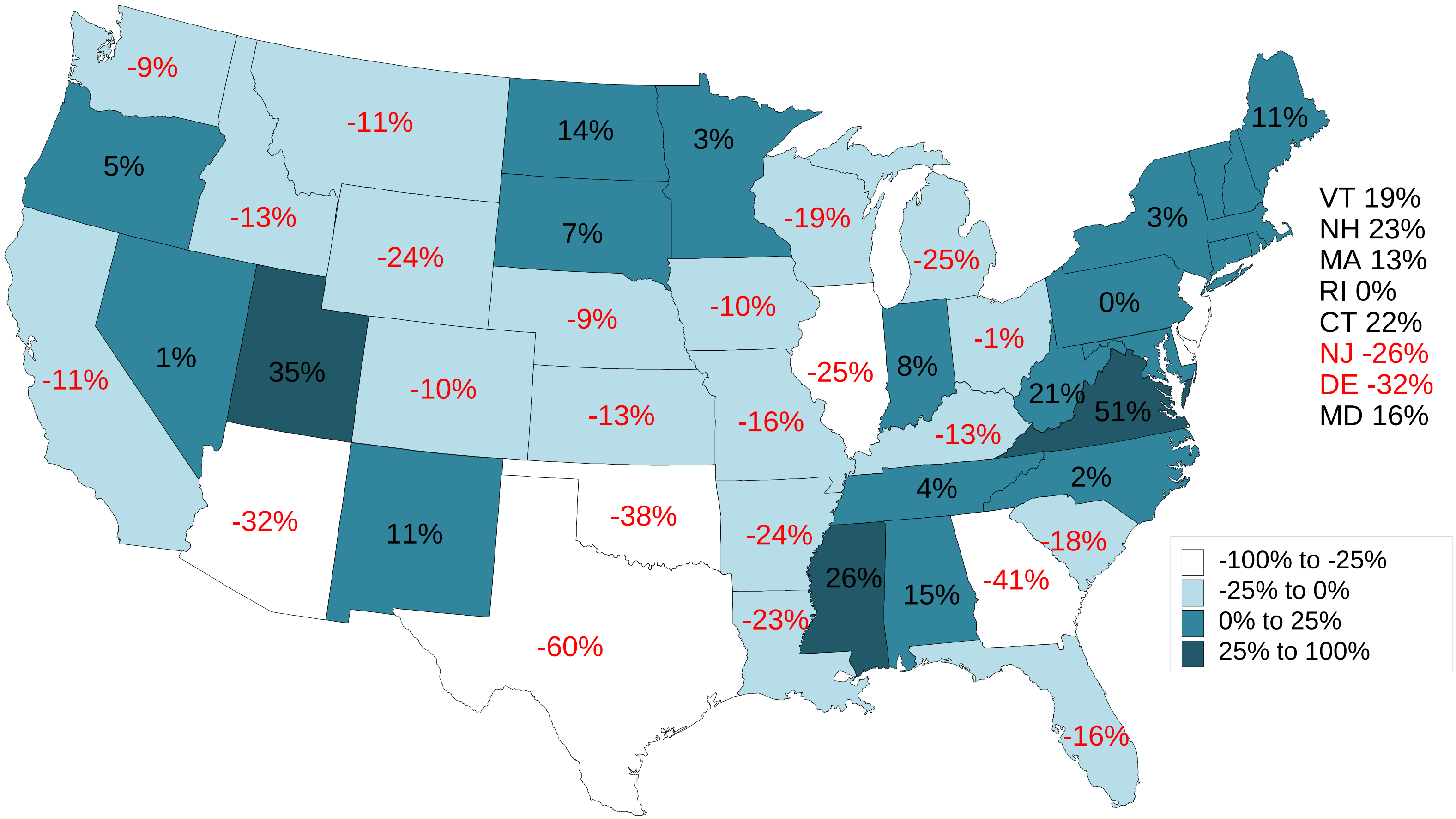
G-NP-22
01/12/12

Livestock Marketing Information Center

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

PERCENT CHANGE DECEMBER 1 HAY STOCKS

(2011-2010)



Livestock Marketing Information Center

Data Source: USDA-NASS

1/17/2012

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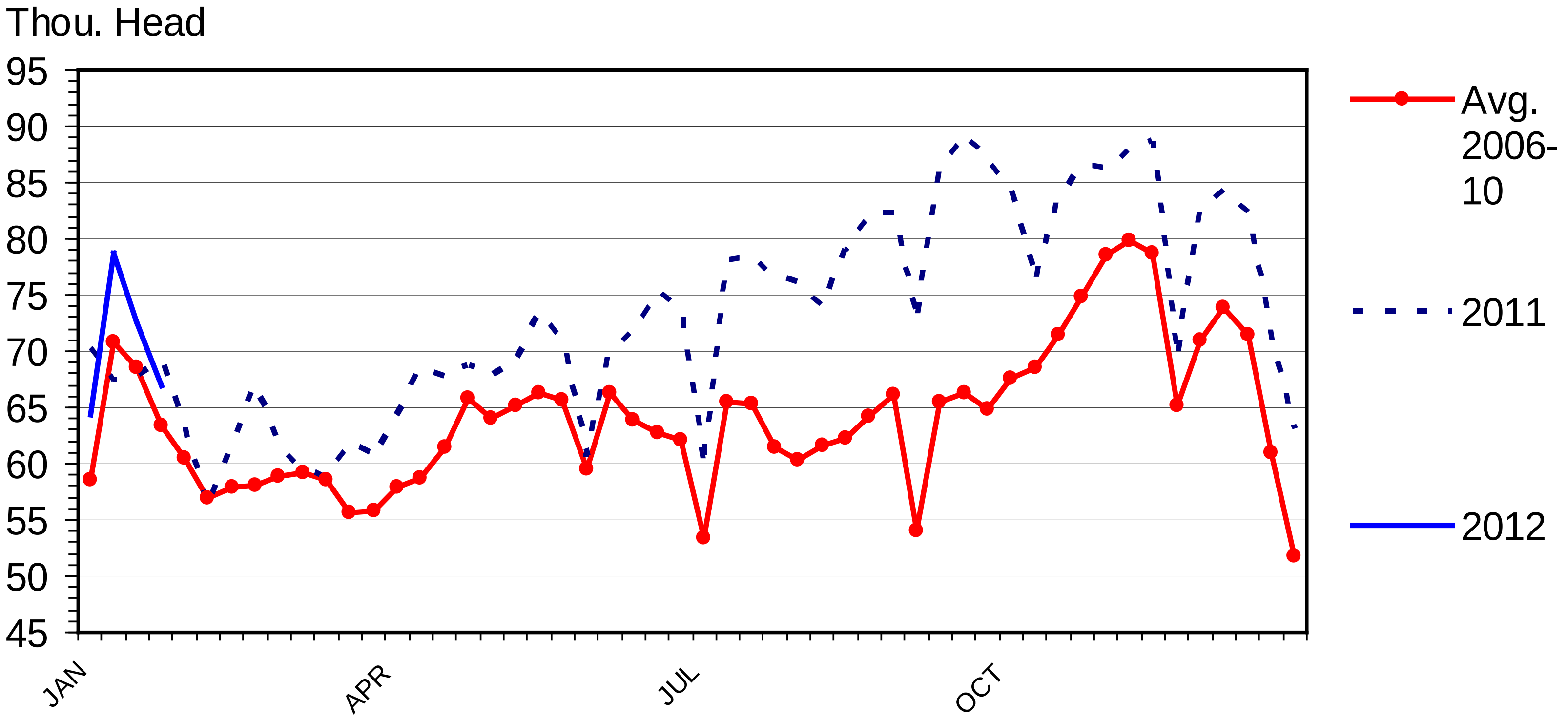
BEEF COW SLAUGHTER

Federally Inspected, Weekly



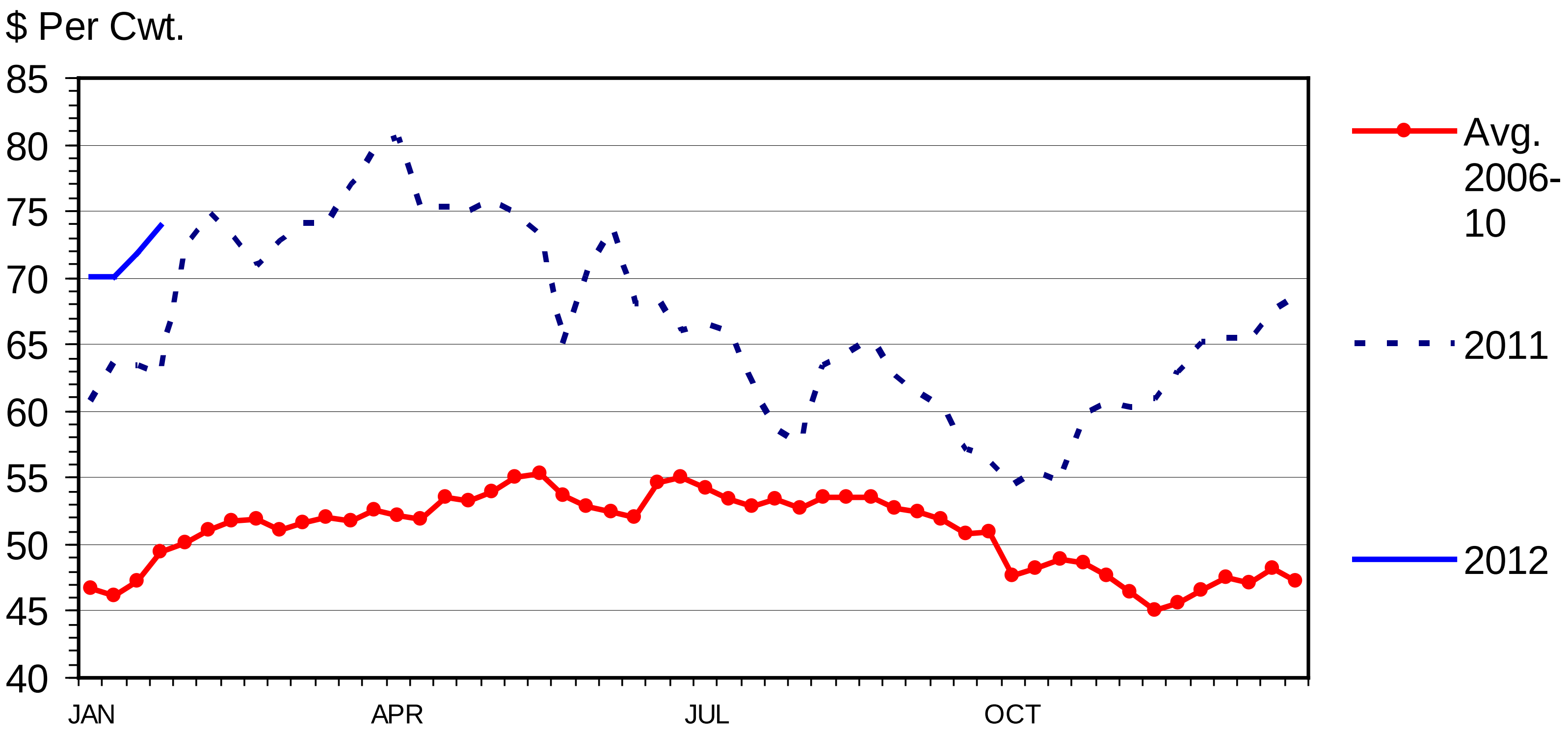
C-S-34
02/10/12

Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS

SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



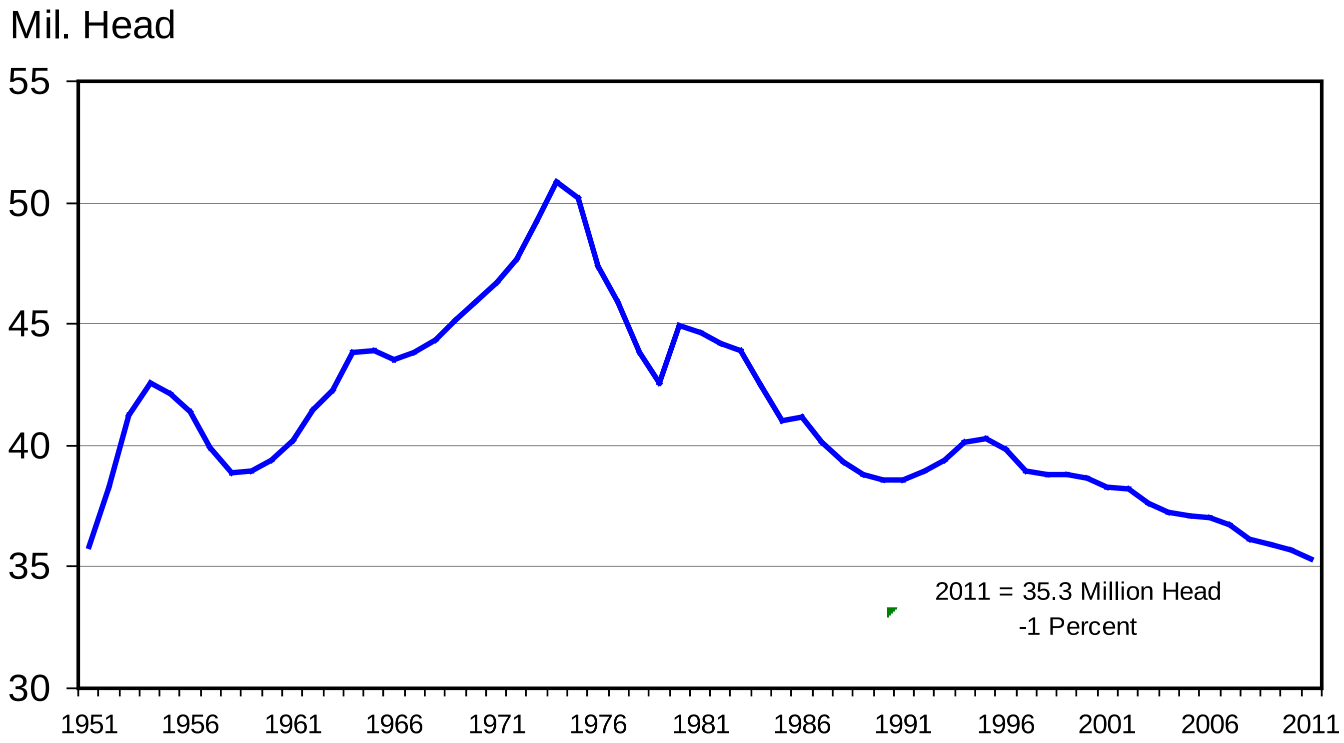
C-P-35
02/06/12

Livestock Marketing Information Center

Data Source: USDA-AMS

CALF CROP

U.S., Annual



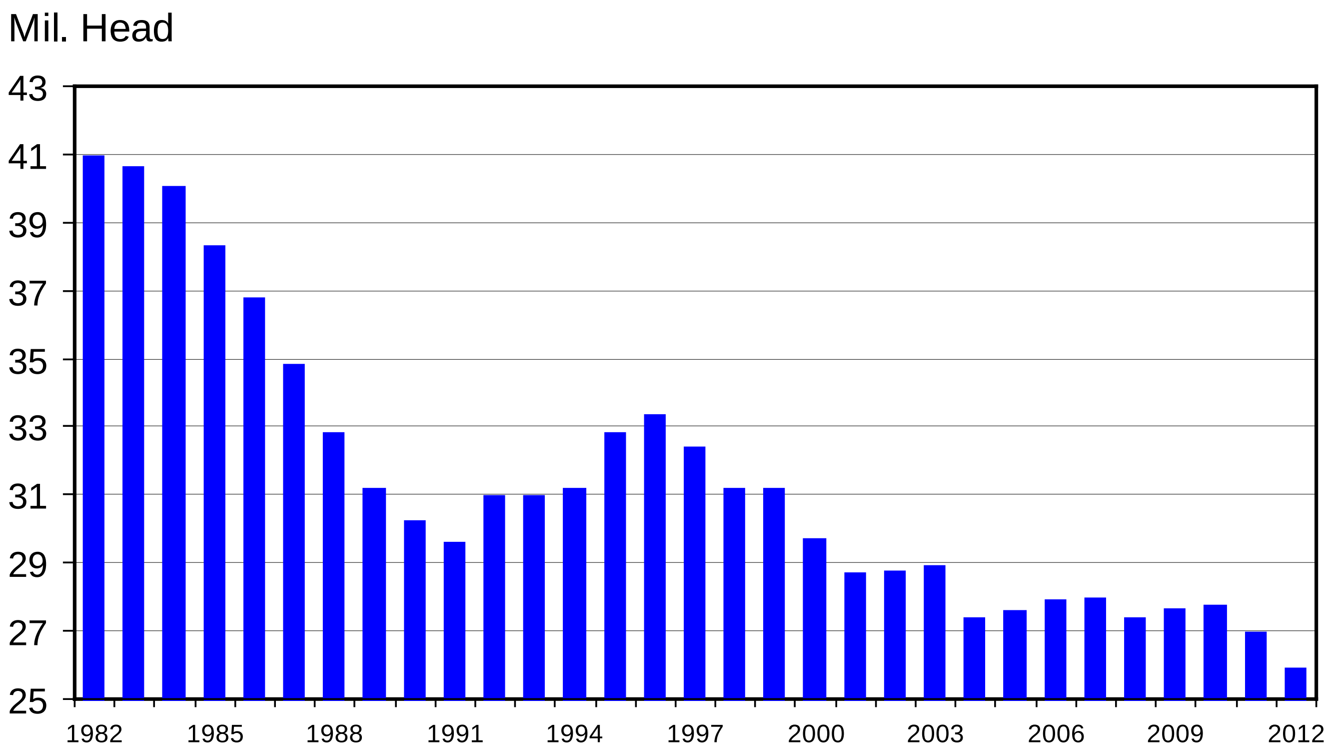
C-N-18A
01/29/12

Livestock Marketing Information Center

Data Source: USDA-NASS

JANUARY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.



C-N-30
01/29/12

Livestock Marketing Information Center

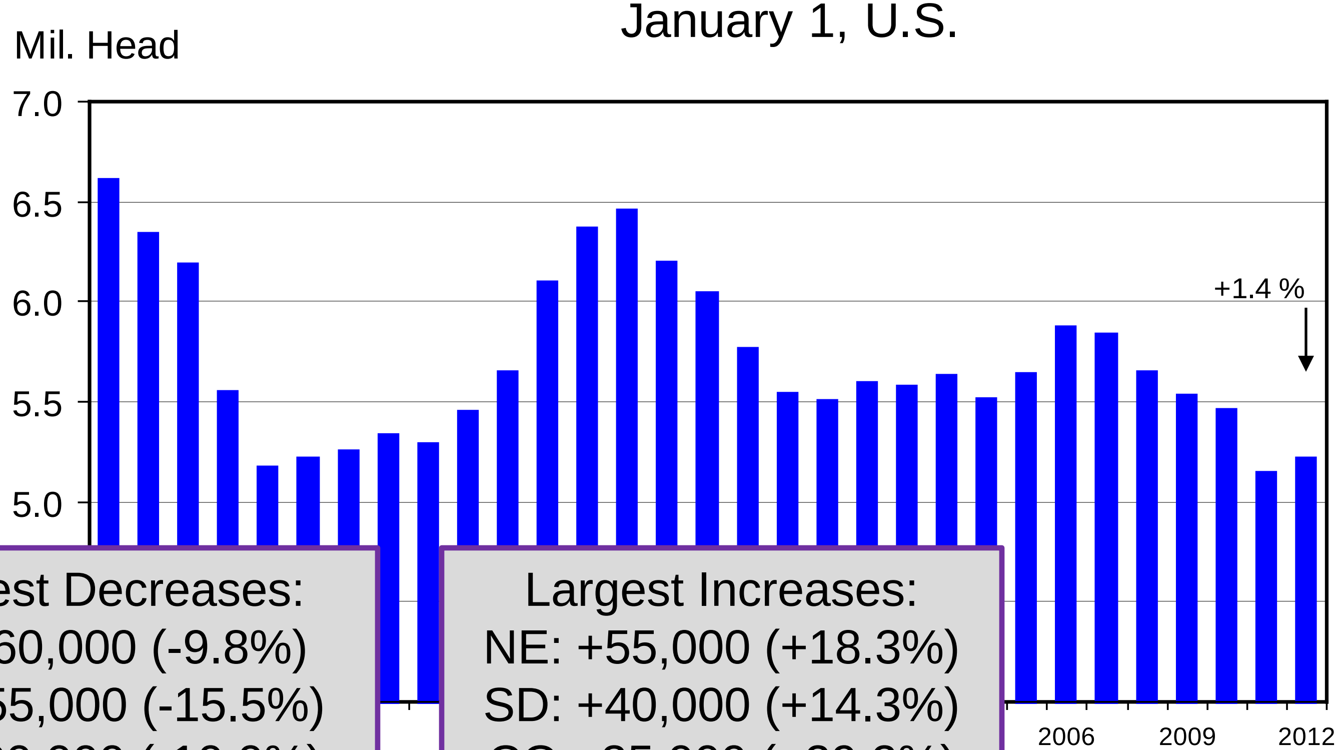
Data Source: USDA-NASS

When will U.S. national herd expand?
-- by 2014??? -- who & where will expansion occur???

KS: +5,000 (+2.0%)

HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.



Largest Decreases:
TX: -60,000 (-9.8%)
OK: -55,000 (-15.5%)
MO:-30,000 (-10.0%)
AR: -21,000 (-15.4%)
NM: -20,000 (-21.1%)

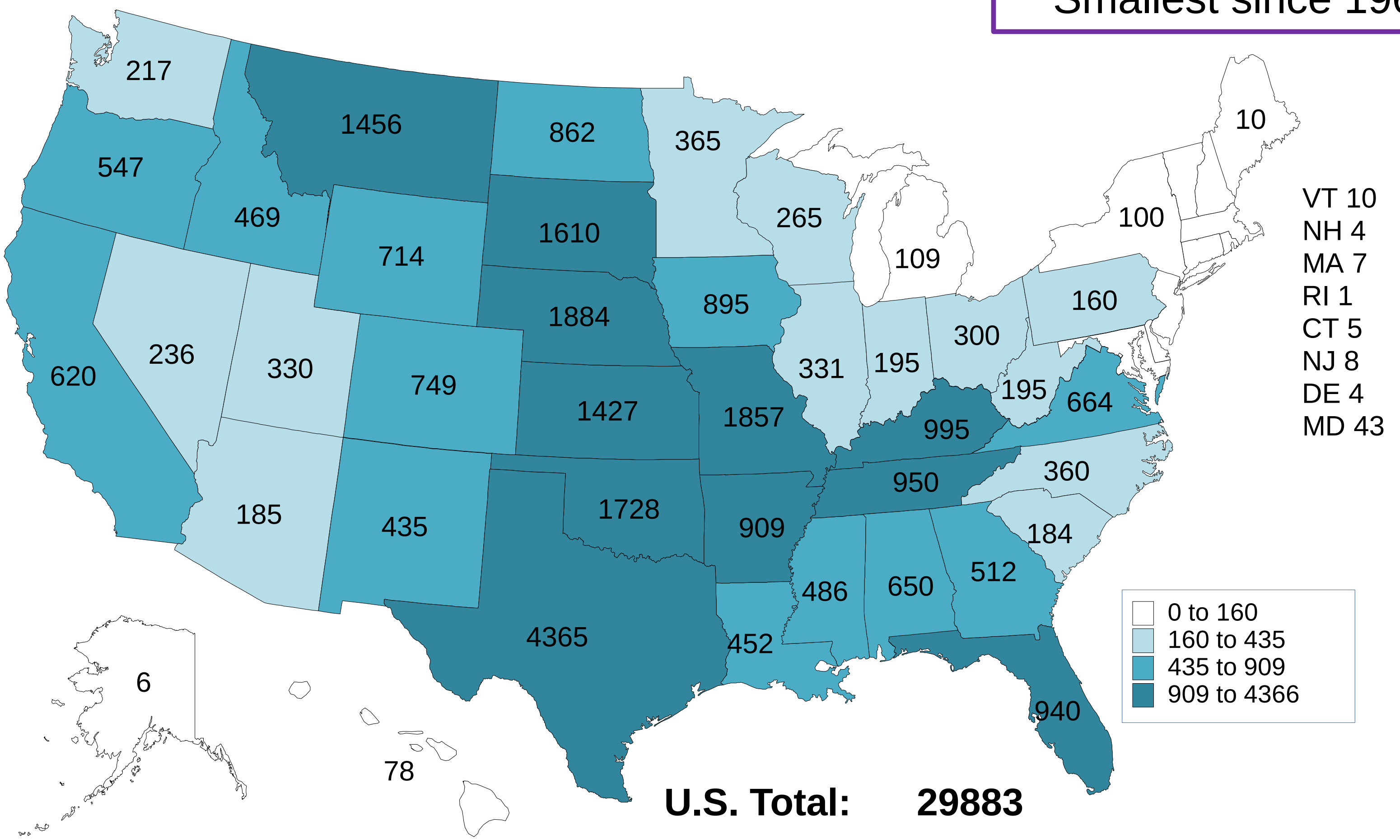
Largest Increases:
NE: +55,000 (+18.3%)
SD: +40,000 (+14.3%)
CO:+35,000 (+29.2%)
WY: +25,000 (+17.9%)
IA: +20,000 (+16.7%)

C-N-38
01/29/12

Livestock Marketing Information Center Data Source: USDA-NASS

BEEF COWS THAT CALVED
JANUARY 1, 2012
(1000 Head)

National Herd:
- 3.1% (vs. 2011)
Smallest since 1962



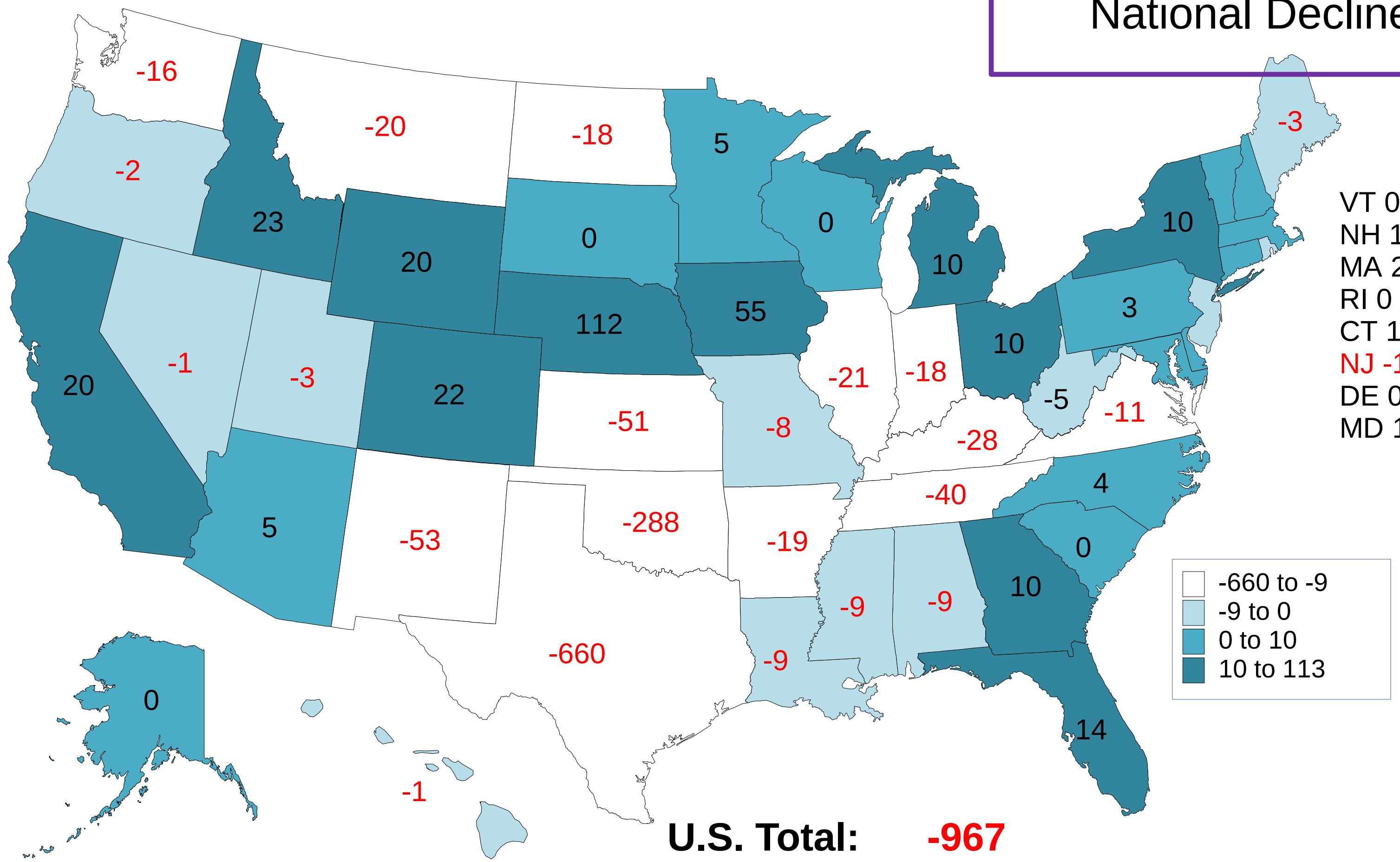
01/27/12

Livestock Marketing Information Center
Data Source: USDA-NASS

CHANGE IN BEEF COWS NUMBERS JANUARY 1, 2011 TO JANUARY 2012

(1000 Head)

OK + TX = 98.1% of National Decline



U.S. Total: -967

Livestock Marketing Information Center

Data Source: USDA-NASS

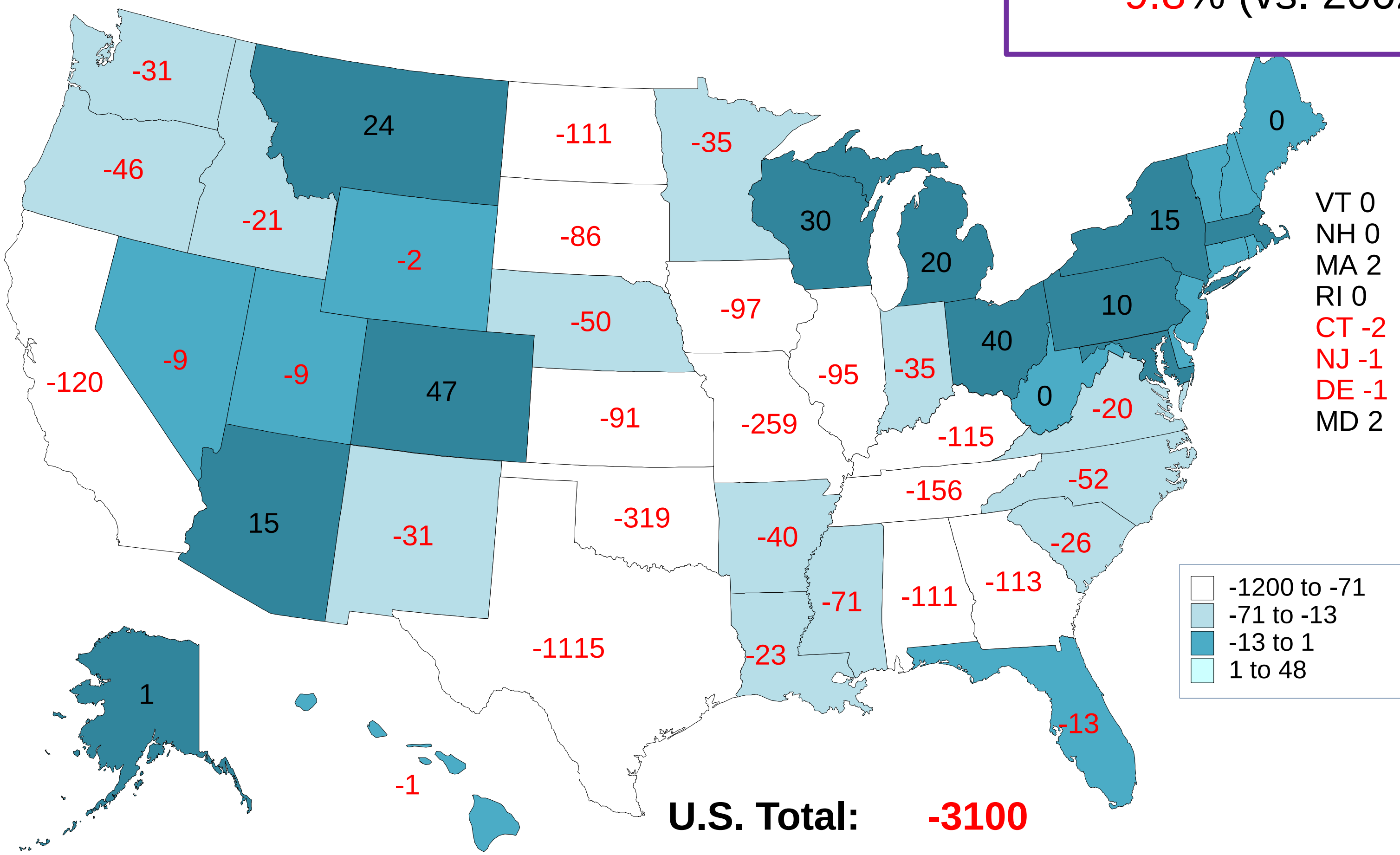
01/27/12

CHANGE IN BEEF COWS NUMBERS
JANUARY 1, 2002 TO JANUARY 2012

(1000 Head)

OK + TX = 46.2%
of National Decline

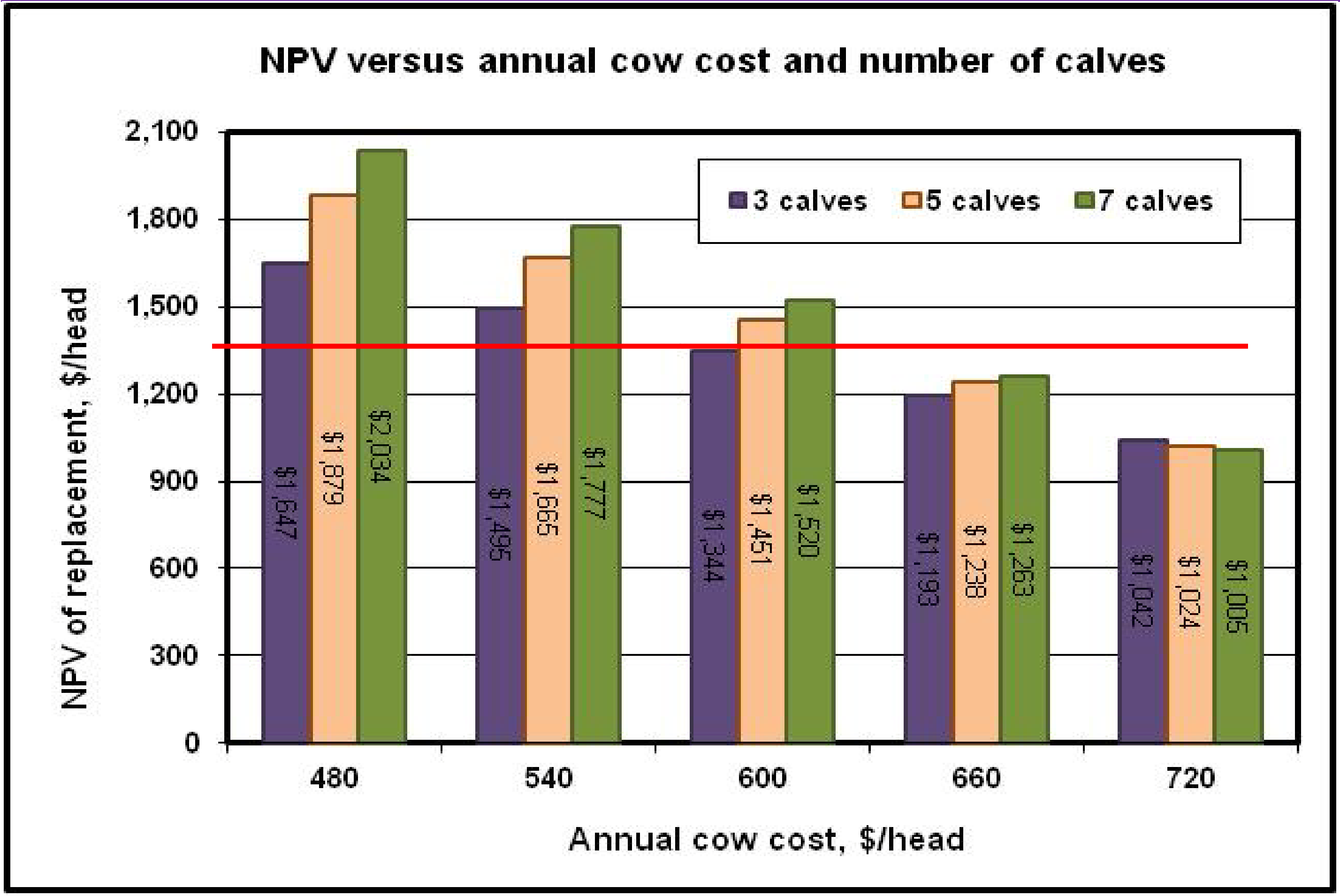
National Herd:
- 9.8% (vs. 2002)



Livestock Marketing Information Center
Data Source: USDA-NASS

01/27/12

KSU – Beef Replacement; Excel Spreadsheet Decision Tool (http://www.agmanager.info/livestock/budgets/production/default.asp)



1/18/12'

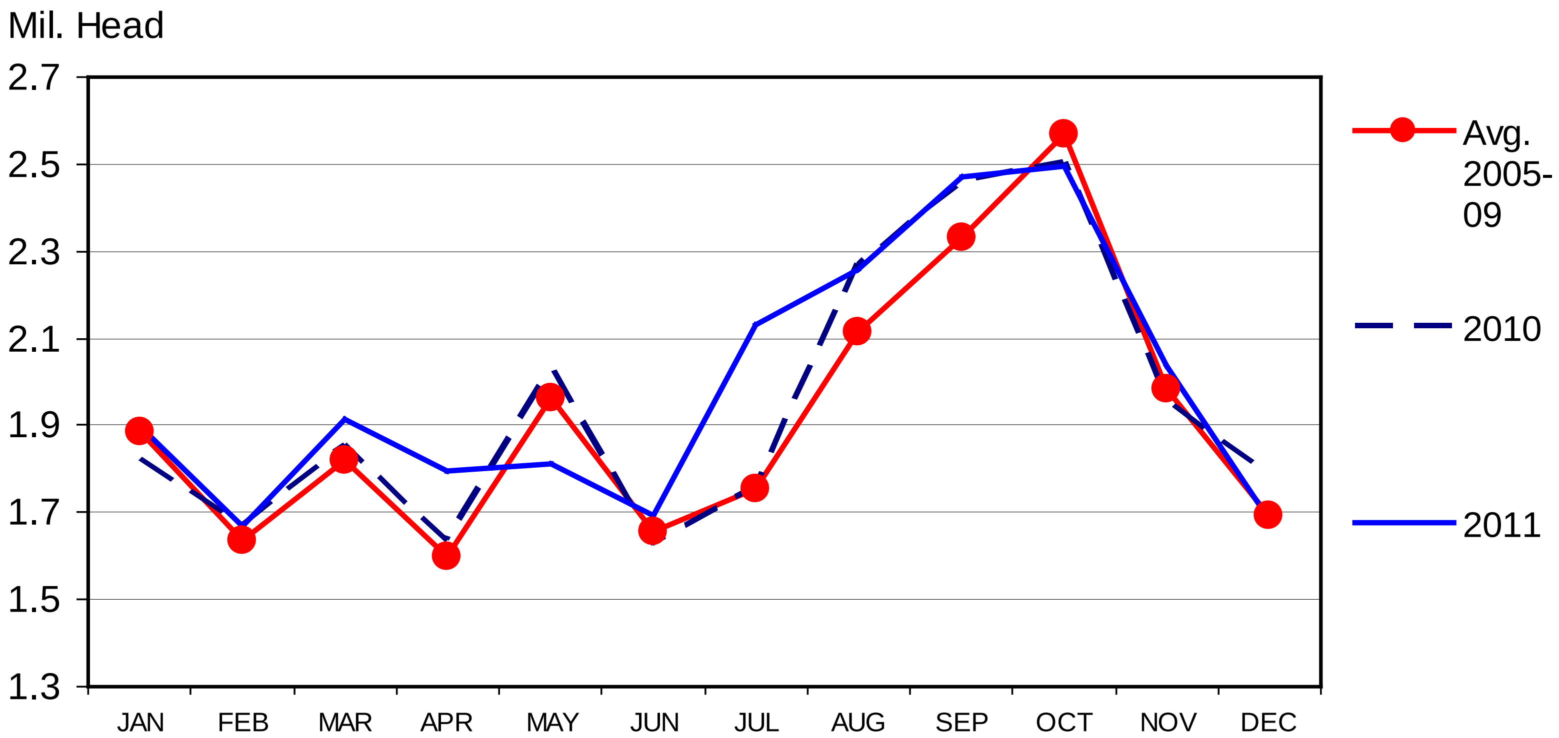
Salina, KS Auction: Young, Bred Cows (Med-Lg 1-2, 3rd stage) $1,400 to $1,600

Notable regional variation…

Scenario1: FARPI Adjusted $/cwt (550 lbs calves @ $148 in 2012 to $151 in 2021) 6.5% interest/discount rate; 3% calf death loss

FEEDLOT PLACEMENTS

US Total, Monthly



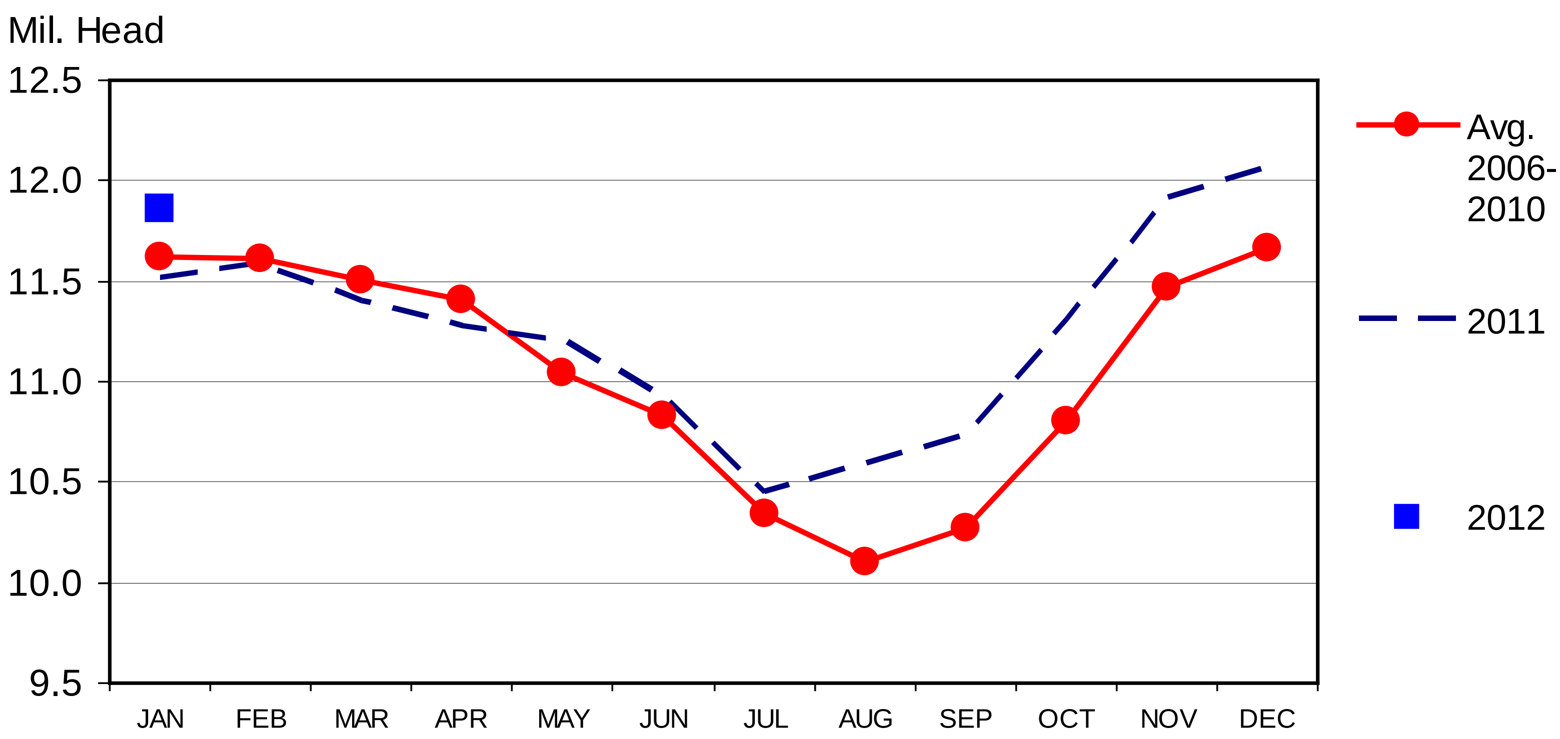
C-N-08
01/20/12

Livestock Marketing Information Center

Data Source: USDA-NASS

CATTLE ON FEED

US Total, Monthly



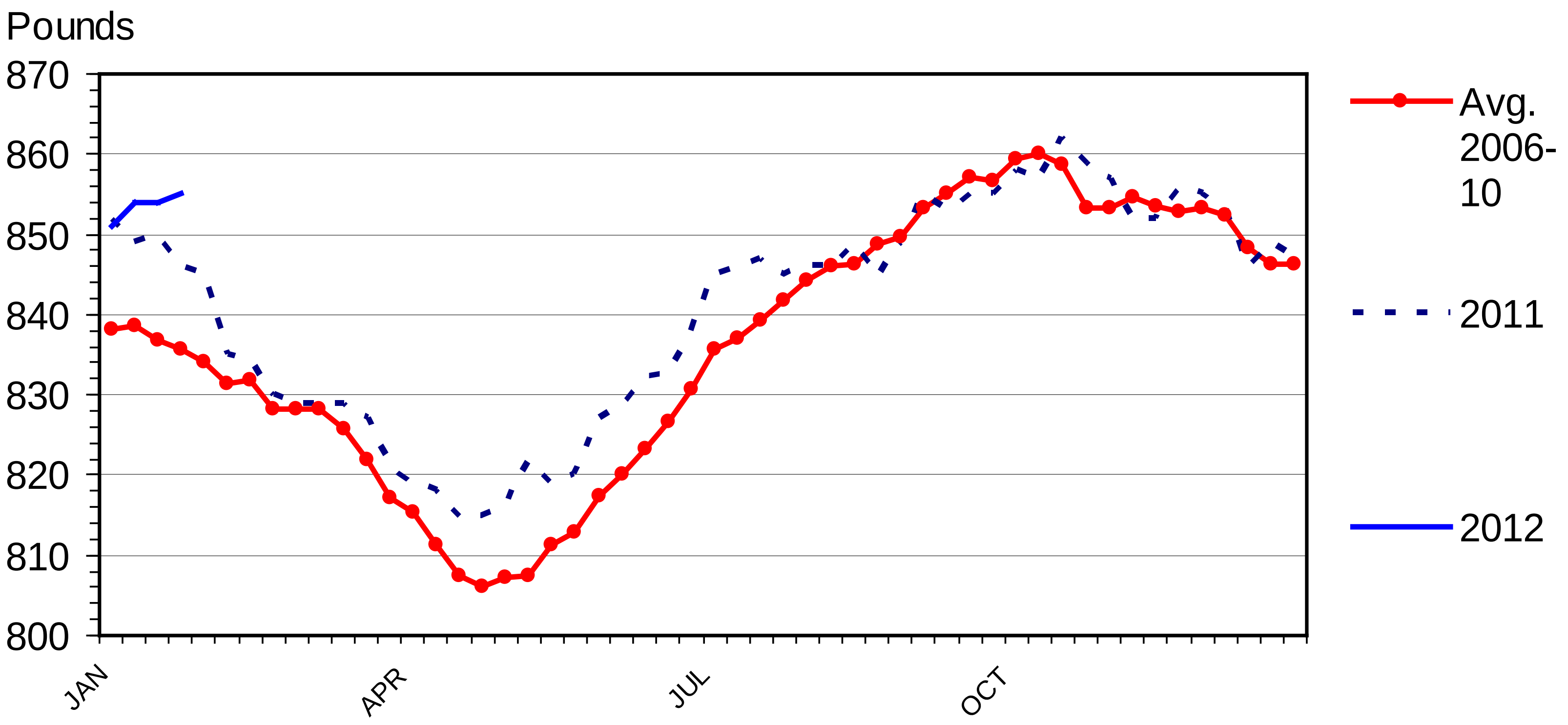
C-N-10
01/20/12

Livestock Marketing Information Center

Data Source: USDA-NASS

STEER DRESSED WEIGHT

Federally Inspected, Weekly



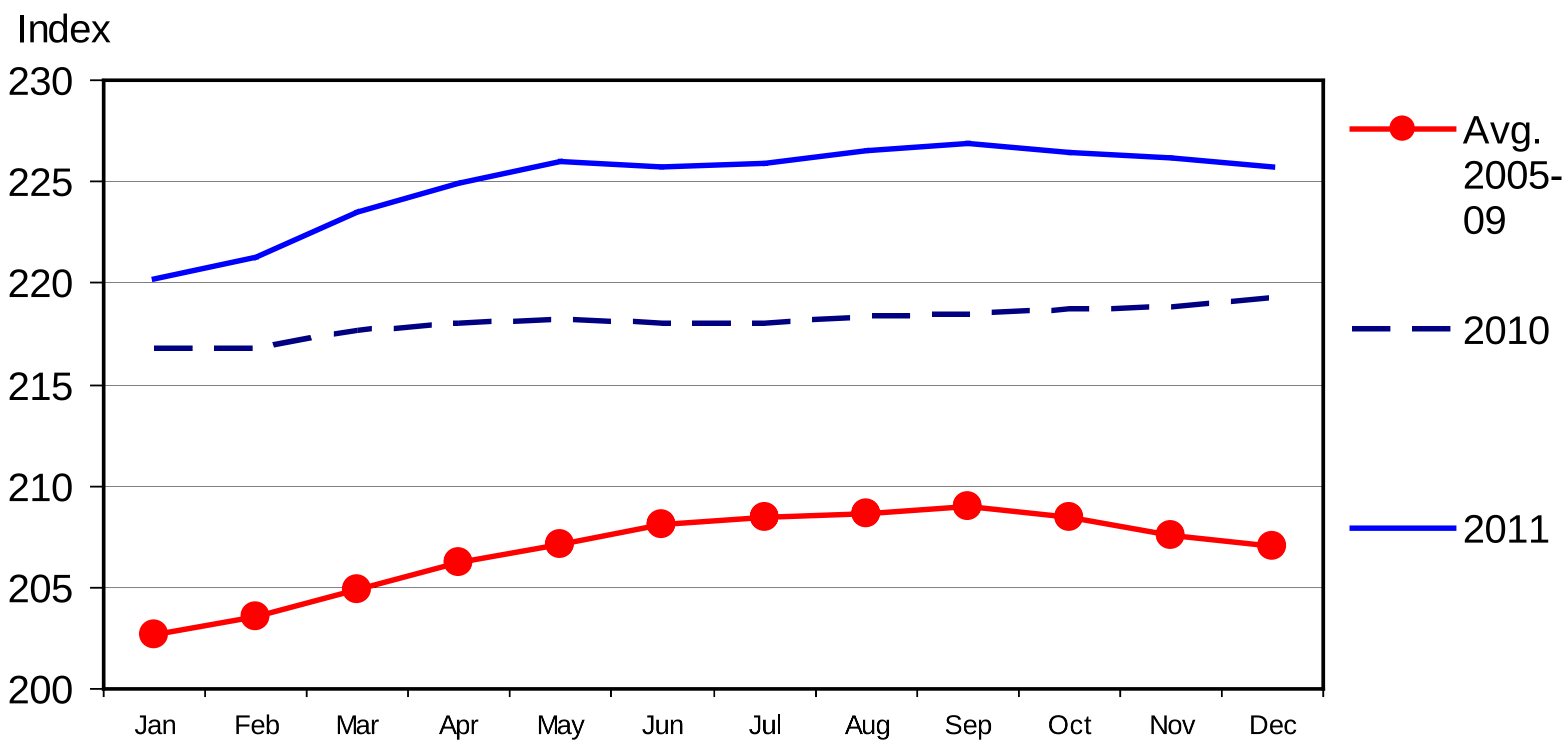
C-S-18
02/10/12

Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS

CONSUMER PRICE INDEX - ALL ITEMS

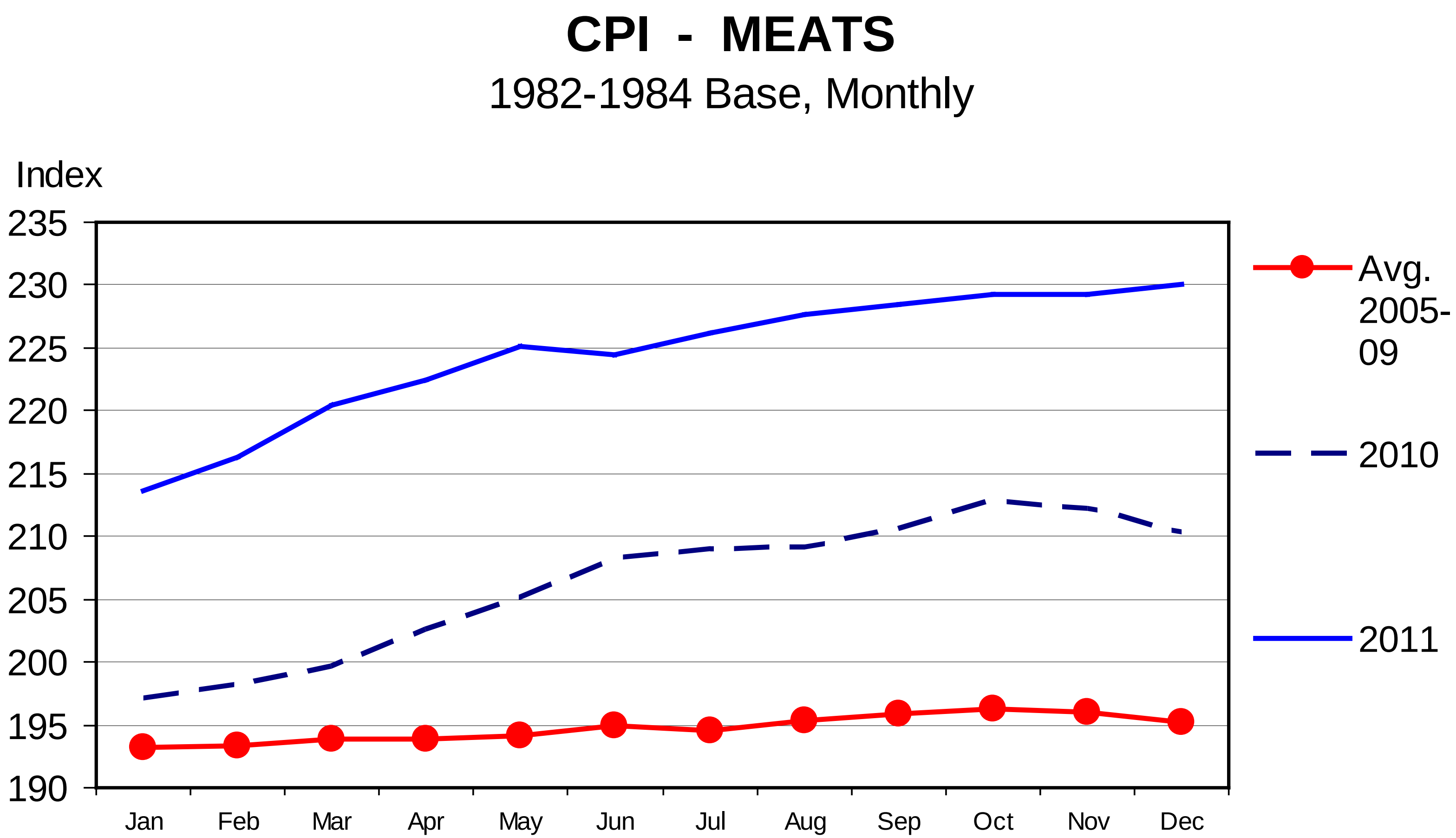
1982-1984 Base, Monthly



Livestock Marketing Information Center

Data Source: Bureau of Labor Statistics

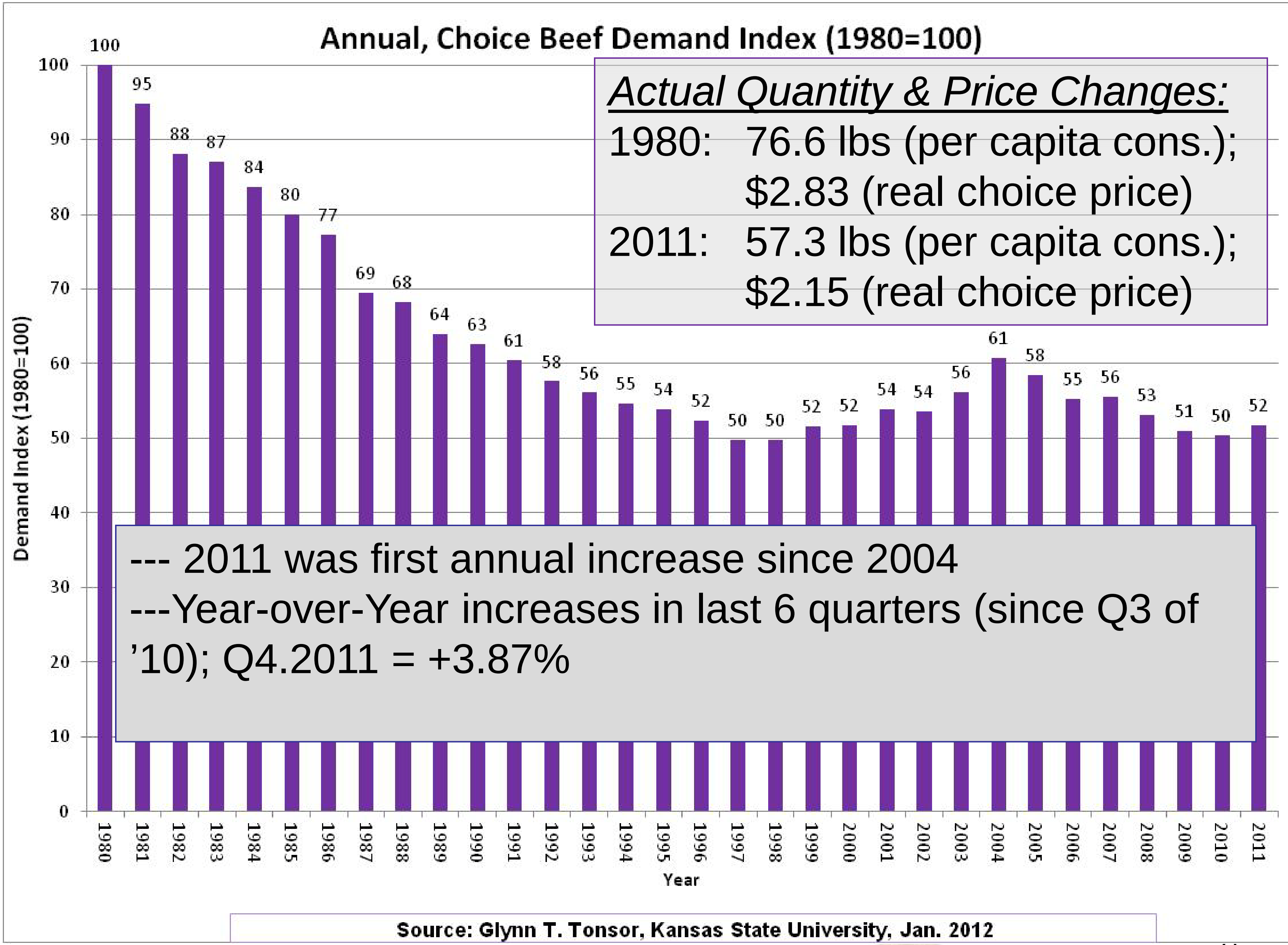
01/19/12



Livestock Marketing Information Center

Data Source: Bureau of Labor Statistics

01/19/12



Actual Quantity & Price Changes:

1980: 76.6 lbs (per capita cons.);
$2.83 (real choice price)

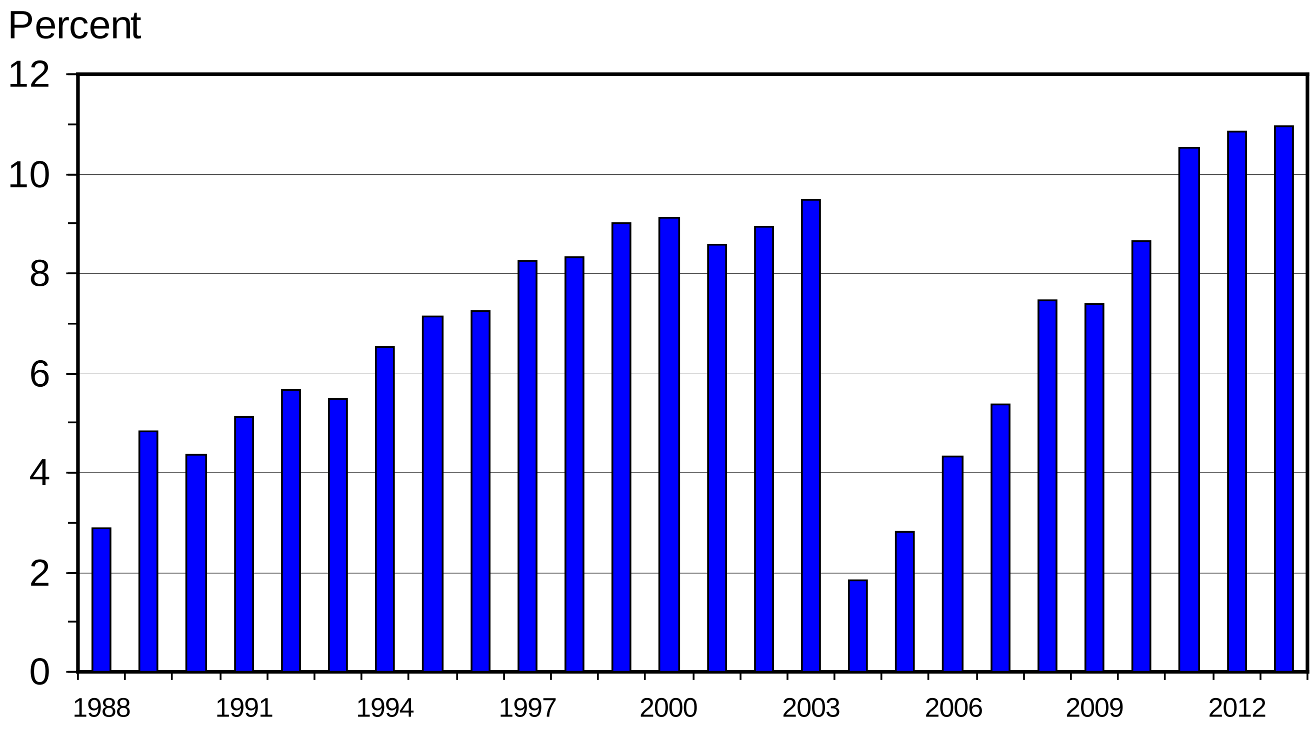
2011: 57.3 lbs (per capita cons.);
$2.15 (real choice price)

--- 2011 was first annual increase since 2004

---Year-over-Year increases in last 6 quarters (since Q3 of '10); Q4.2011 = +3.87%

U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



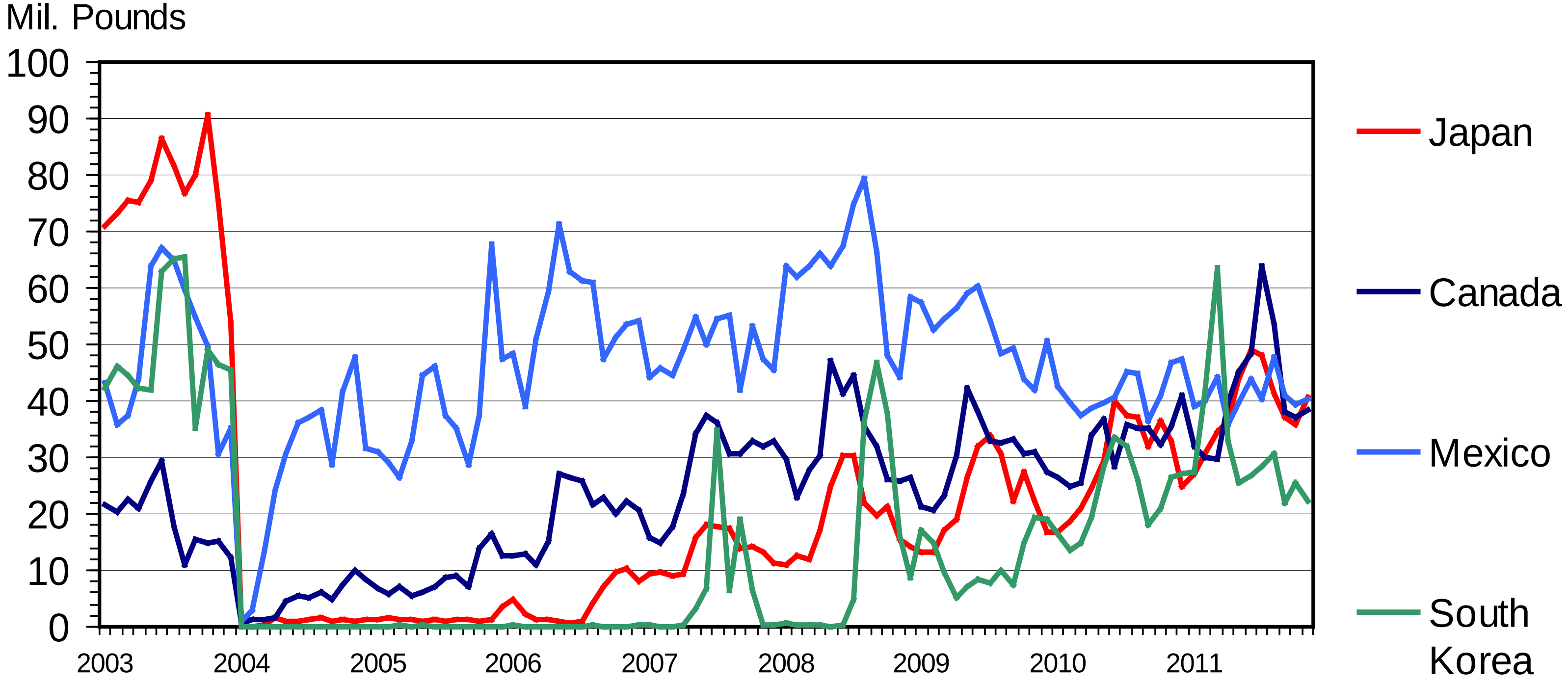
I-N-07
01/25/12

Livestock Marketing Information Center

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

U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



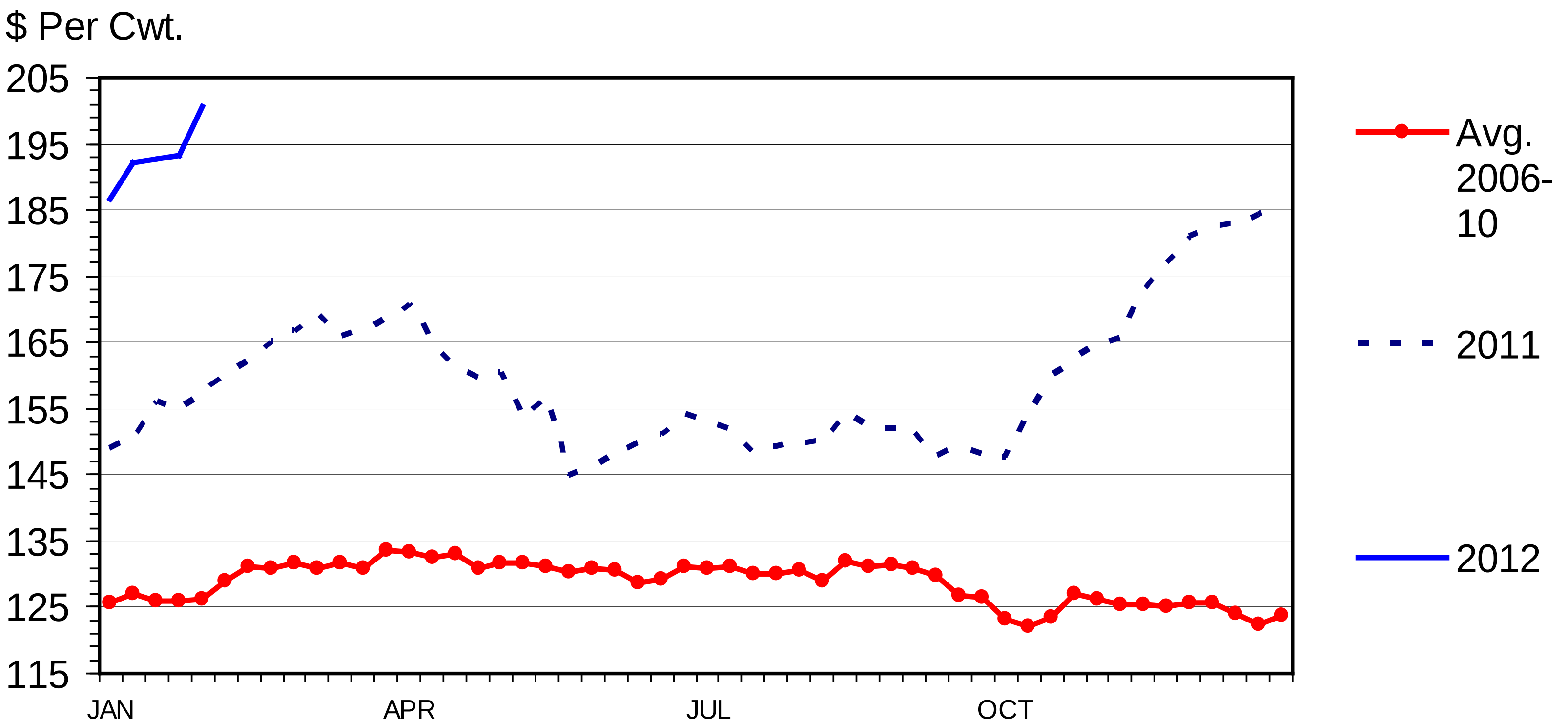
I-N-35
01/17/12

Livestock Marketing Information Center

Data Source: USDA-ERS & USDA-FAS

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



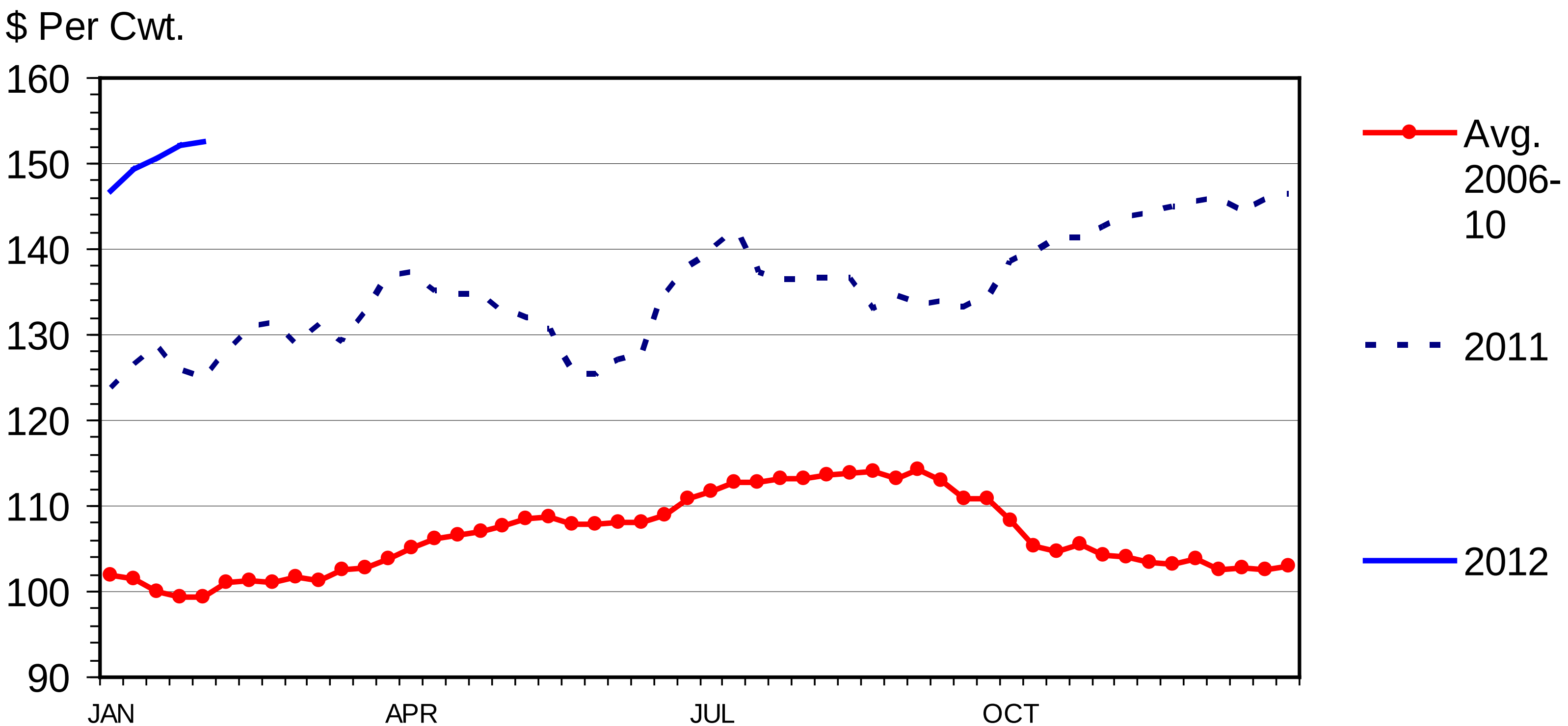
C-P-49A
02/06/12

Livestock Marketing Information Center

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

MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly



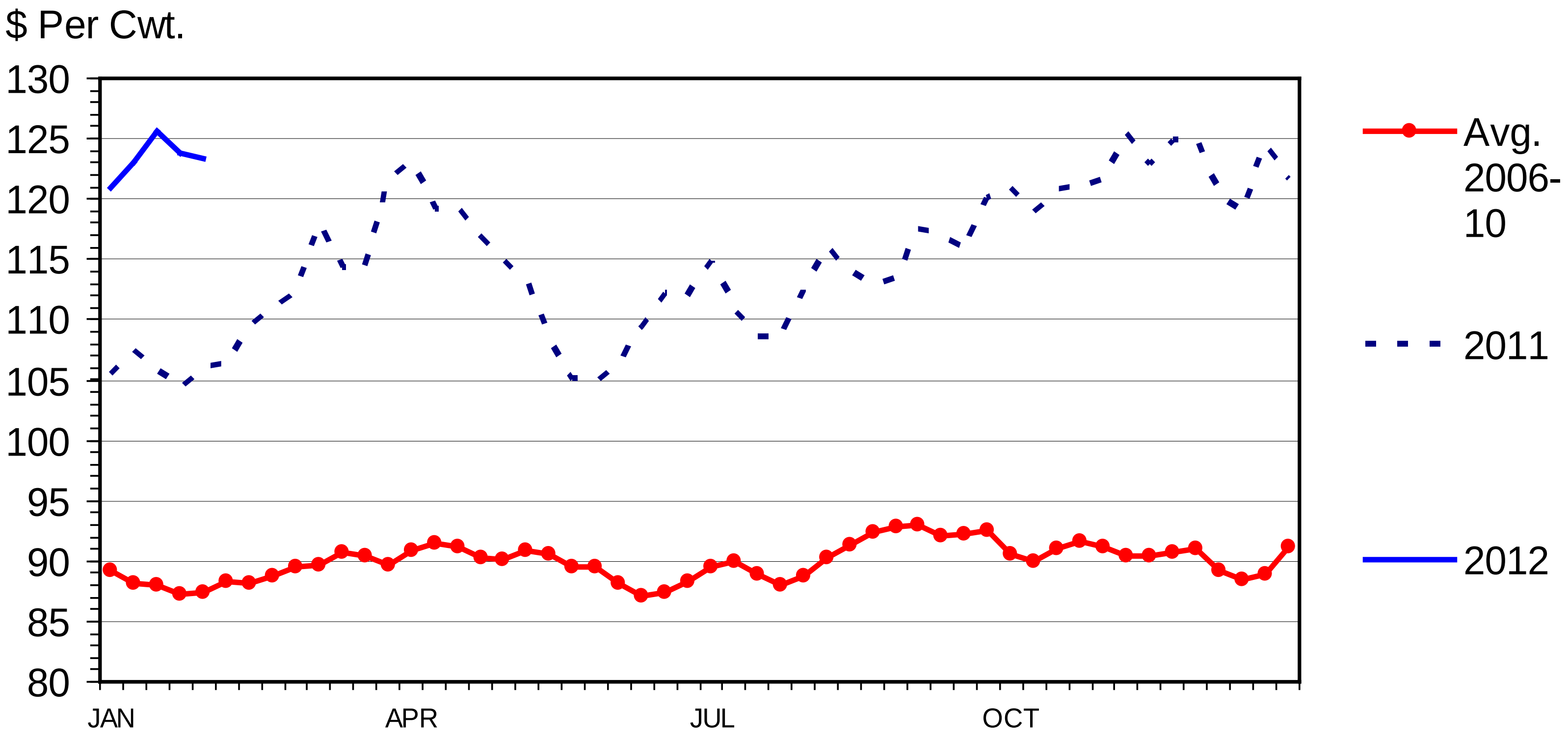
C-P-49
02/06/12

Livestock Marketing Information Center

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

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly

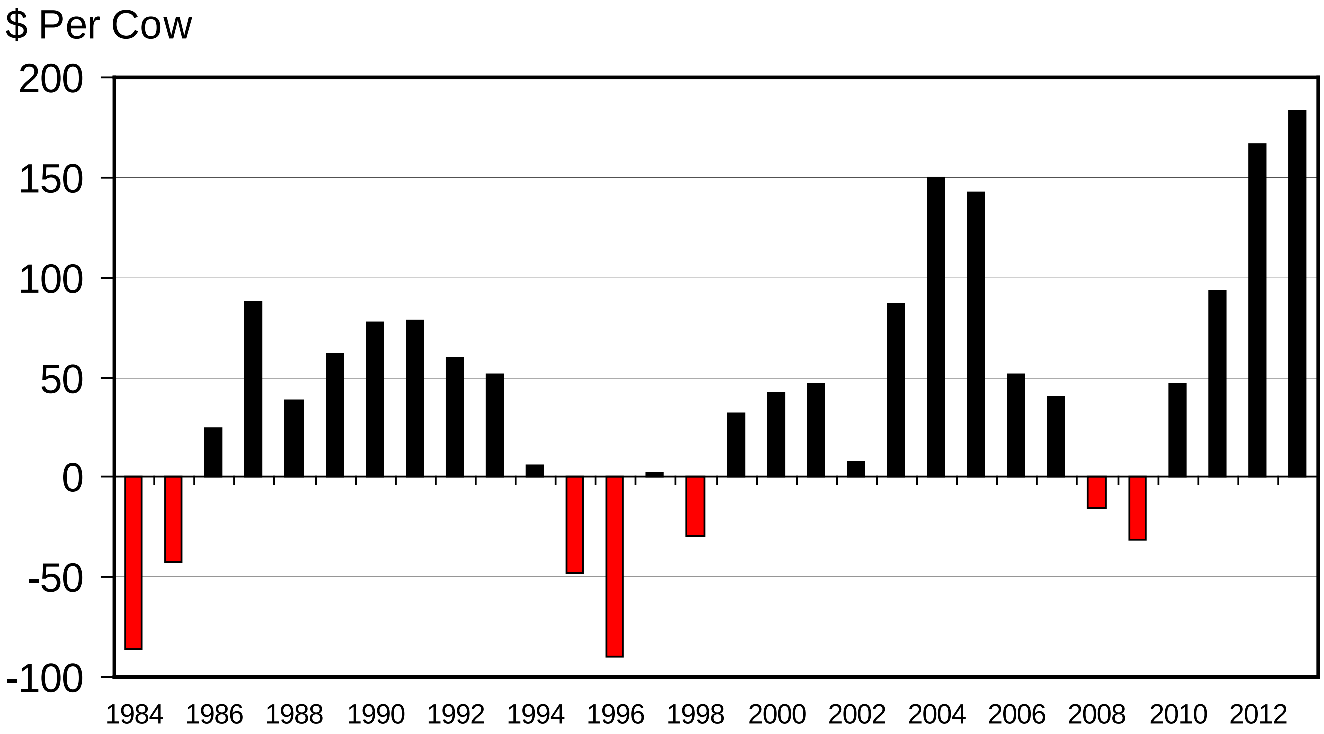


Livestock Marketing Information Center

Data Source: USDA-AMS

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



C-P-66
12/28/11

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

KANSAS STATE UNIVERSITY

Value of Gain Factsheet and Decision Tool Overview (http://www.agmanager.info/livestock/budgets/production/beef/Value-of-Gain_FactSheet_AM-GTT_2011.pdf)

"Buy-Sell" spreadsheet tool (http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf)

2/13/12 Salina, KS Situation:

- BeefBasis.com forecasted price of 750 lb steer May 14, 2012 is $155.94/cwt
    - What is break-even purchase price of a 550 lb steer purchased on Feb. 14, 2012?
        - forecasted price is $171.33/cwt

“Buy-Sell” spreadsheet tool
(http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf)

Purchase Weight[1]	Selling Price $149.94	$151.94	$153.94	$155.94	$157.94	$159.94	$161.94
	Breakeven Purchase Price[2]						
450	179.66	182.83	186.01	189.19	192.36	195.54	198.71
500	171.47	174.34	177.21	180.08	182.95	185.83	188.70
550	164.81	167.44	170.06	172.68	175.30	177.93	180.55
600	159.31	161.73	164.14	166.56	168.97	171.39	173.80
650	154.69	156.93	159.17	161.41	163.65	165.89	168.13
700	150.77	152.86	154.95	157.04	159.13	161.22	163.31
750	N/A	N/A	N/A	N/A	N/A	N/A	N/A

[1] Enter the minimum purchase weight you are willing to consider.

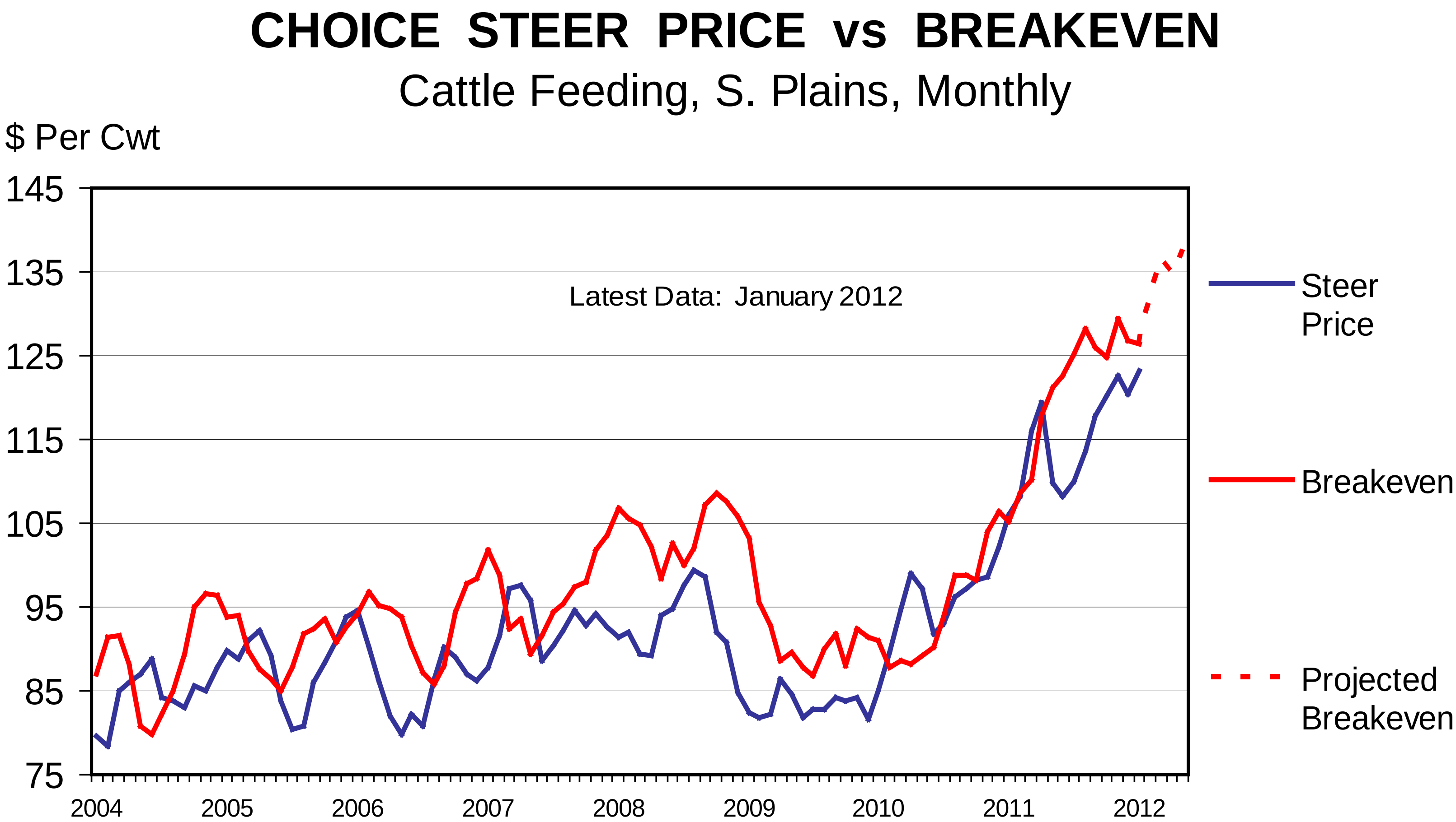
[2] Based on a feeding cost of gain of $90/cwt.

Expected Return: +$2.70/head [2.0 *($172.68-$171.33)]

Feeding COG $80 = +$9.36/head Expected Return

Feeding COG $100 = - $3.96/head Expected Return

NAIBER (2/13/12): 750 lb placed on 2/14, sold at 1,243 lbs on 7/14/12 = - $95/hd

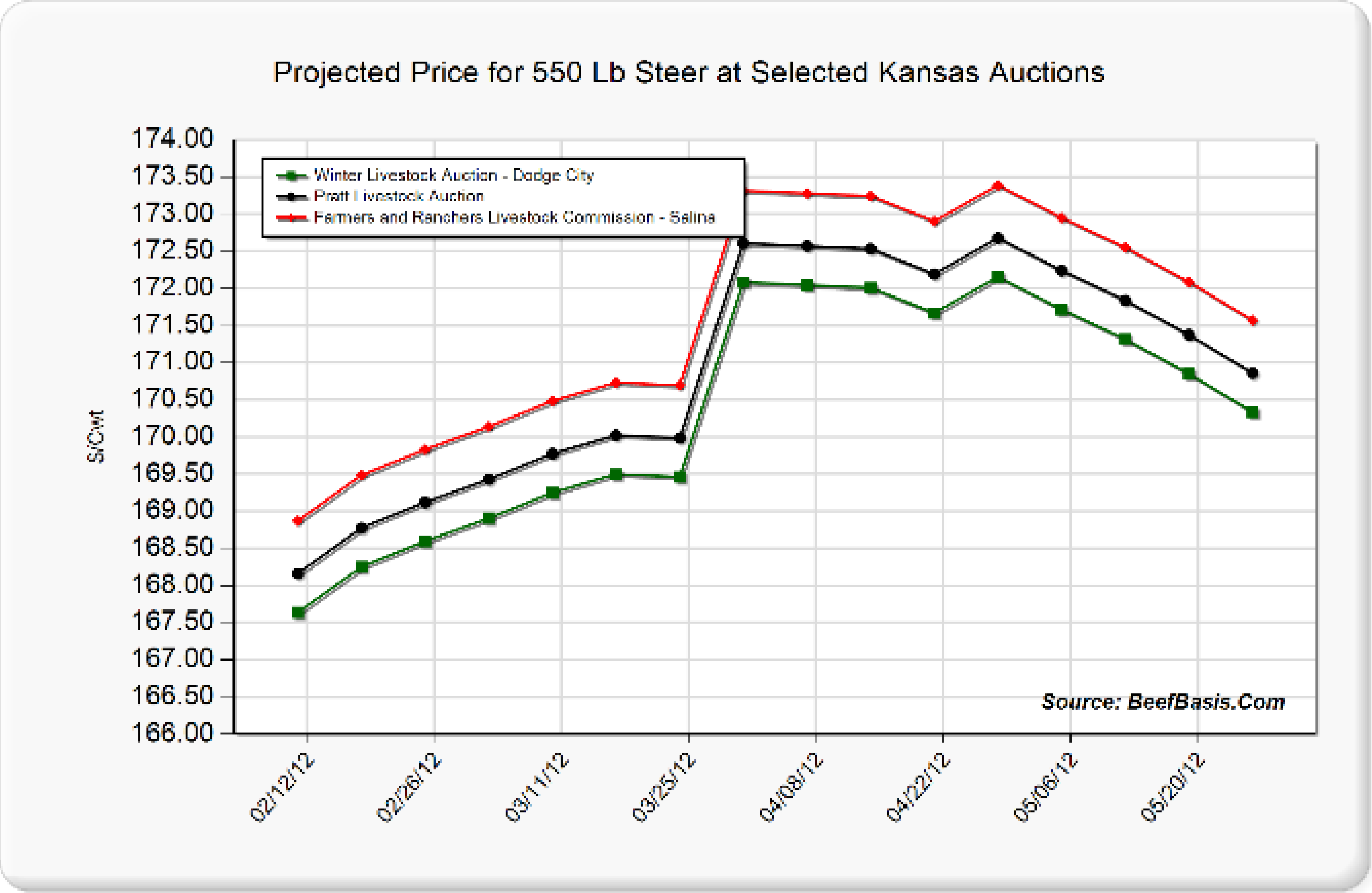


C-P-21
02/04/12

Livestock Marketing Information Center

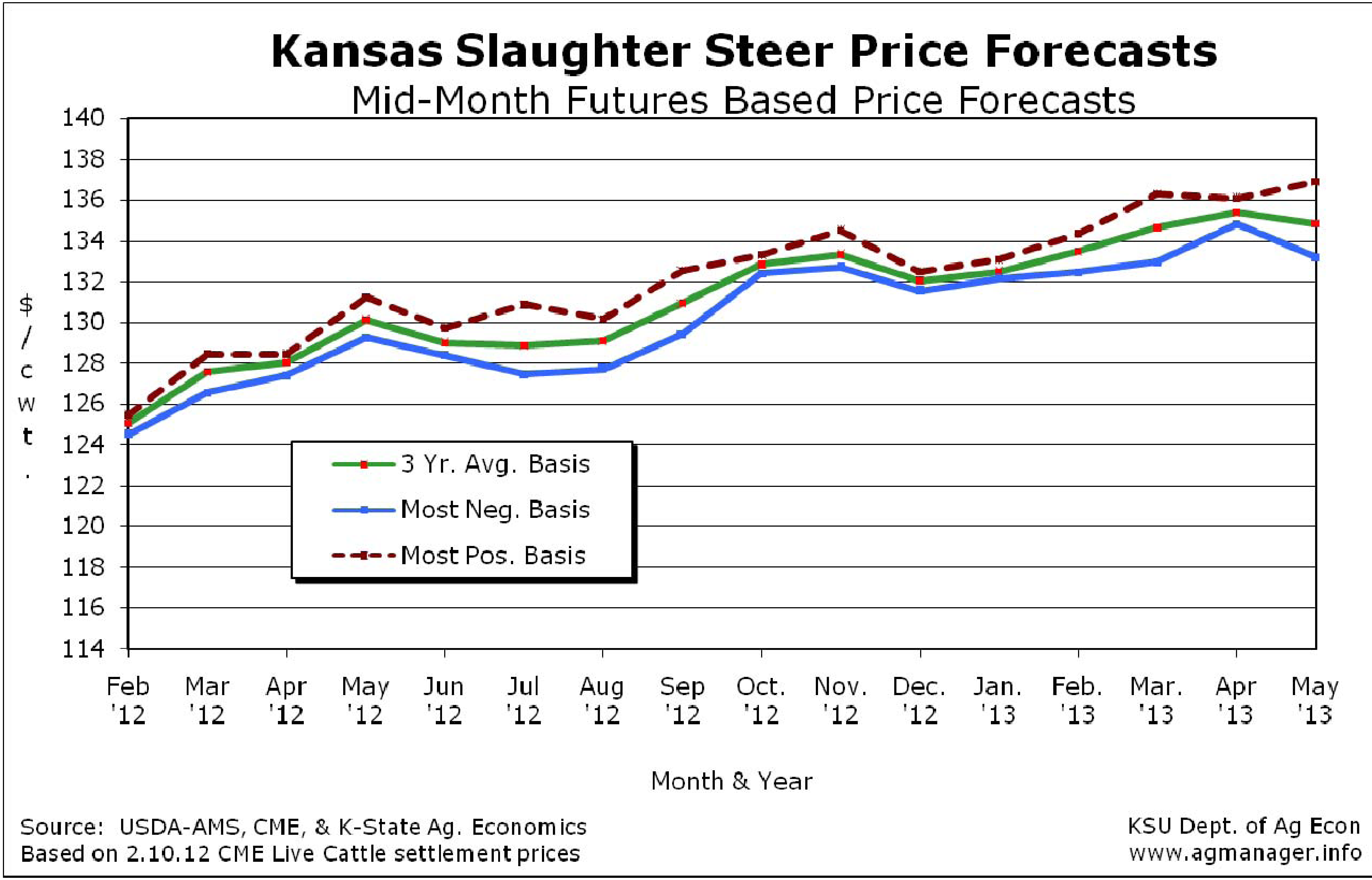
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

As of: 2/13/12



CAS Custom Ag Solutions

Agricultural Economics Kansas State University


Kansas Slaughter Steer Price Forecasts
Mid-Month Futures Based Price Forecasts
$/cwt.
140
138
136
134
132
130
128
126
124
122
120
118
116
114
3 Yr. Avg. Basis
Most Neg. Basis
Most Pos. Basis
Feb '12
Mar '12
Apr '12
May '12
Jun '12
Jul '12
Aug '12
Sep '12
Oct. '12
Nov. '12
Dec. '12
Jan. '13
Feb. '13
Mar. '13
Apr '13
May '13
Month & Year
Source: USDA-AMS, CME, & K-State Ag. Economics
Based on 2.10.12 CME Live Cattle settlement prices
KSU Dept. of Ag Econ
www.agmanager.info

QUARTERLY FORECASTS (LMIC:2/1/12)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2011						
I	8,317	1.87	770.9	0.72	6,411	2.61
II	8,639	-0.47	759.2	0.66	6,559	0.19
III	8,739	-0.14	771.0	-0.32	6,737	-0.46
IV	8,397	-2.97	773.1	-0.76	6,492	-3.70
Year	34,092	-0.46	768.5	0.06	26,199	-0.40
2012						
I	7,991	-3.92	778.5	0.99	6,221	-2.97
II	8,237	-4.65	766.3	0.93	6,312	-3.77
III	8,129	-6.98	785.5	1.88	6,385	-5.23
IV	7,958	-5.23	785.9	1.66	6,254	-3.66
Year	32,315	-5.21	779.0	1.36	25,172	-3.92
2013						
I	7,512	-5.99	787.9	1.21	5,919	-4.85
II	7,820	-5.06	772.0	0.74	6,037	-4.36
III	8,043	-1.06	794.2	1.12	6,388	0.05
IV	7,719	-3.00	793.2	0.94	6,123	-2.09
Year	31,094	-3.78	786.9	1.02	24,467	-2.80

QUARTERLY FORECASTS (LMIC: 2/1/12)

Year Quarter	Live Sltr. Steer Price 5-Mkt Avg	% Chg. from Year Ago	Feeder Steer Price Southern Plains 7-800#	5-600#
2011				
I	110.12	23.11	129.06	150.07
II	112.79	17.08	132.03	148.61
III	114.05	19.47	135.93	141.69
IV	121.99	21.66	143.15	153.11
Year	114.74	20.29	135.04	148.37
2012				
I	122-124	11.70	144-147	157-162
II	125-128	12.16	145-149	158-164
III	122-126	8.72	146-152	157-165
IV	125-130	4.51	143-150	153-163
Year	123-127	8.94	144-150	156-164
2013				
I	127-133	5.69	140-149	156-168
II	129-136	4.74	144-154	159-172
III	125-133	4.03	146-157	156-170
IV	128-137	3.92	143-155	153-168
Year	129-133	4.80	144-153	158-168

Looking Beyond Today's Ps & Qs

Policy/Regulation Issues & Trends

- GIPSA "fair market" proposed rules / "anti-competition" listening sessions …
  – Ultimately little action w/r/t beef cattle industry
  – **BUT** lots of wasted time & energy…
- Environmental regulation concerns
- WTO MCOOL ruling – U.S. response?
- Animal welfare - mandatory labeling?
  – *<u>Is overall uncertainty holding back investment throughout supply chain???</u>*

Beef industry changes underway

- Growth of stocker segment
  - Larger operations least likely to exit already are retaining ownership more…
  - Association with public grazing, value of gain, etc. makes this trend likely to continue…
- Reduced farmer-feeders (2010 vs 2009)
  - <1,000 hd yards; reduced total capacity by 150,000 hd (5,000 operations exited)
  - >50,000 hd yards; increased total capacity by 370,000 hd (4 more operations)
    - w/ +/- 20% feedlot over-capacity, will '11 be different ???

Demand Side Issues & Trends

- Long run decline in domestic overall meat consumption
  - Retail price impacts of shrinking beef supplies remain ...
- Global growth likely to exceed domestic
  - Heightens industry fragmentation issues such as animal ID/traceability, marketing arrangements,…
    - Non-price factors increasingly important for beef…
      - Prevalence of E-coli vs. irradiation acceptance
      - Incomes, convenience, health information, recalls matter…

Recent Events / Possible Discussion Points

- Japan <u>may</u> start accepting older cattle…
- FTA = reduction of S.Korea tariffs
- USMEF – ID/Traceability study == U.S. falling behind

More information available at:

AgManager (http://www.agmanager.info/)

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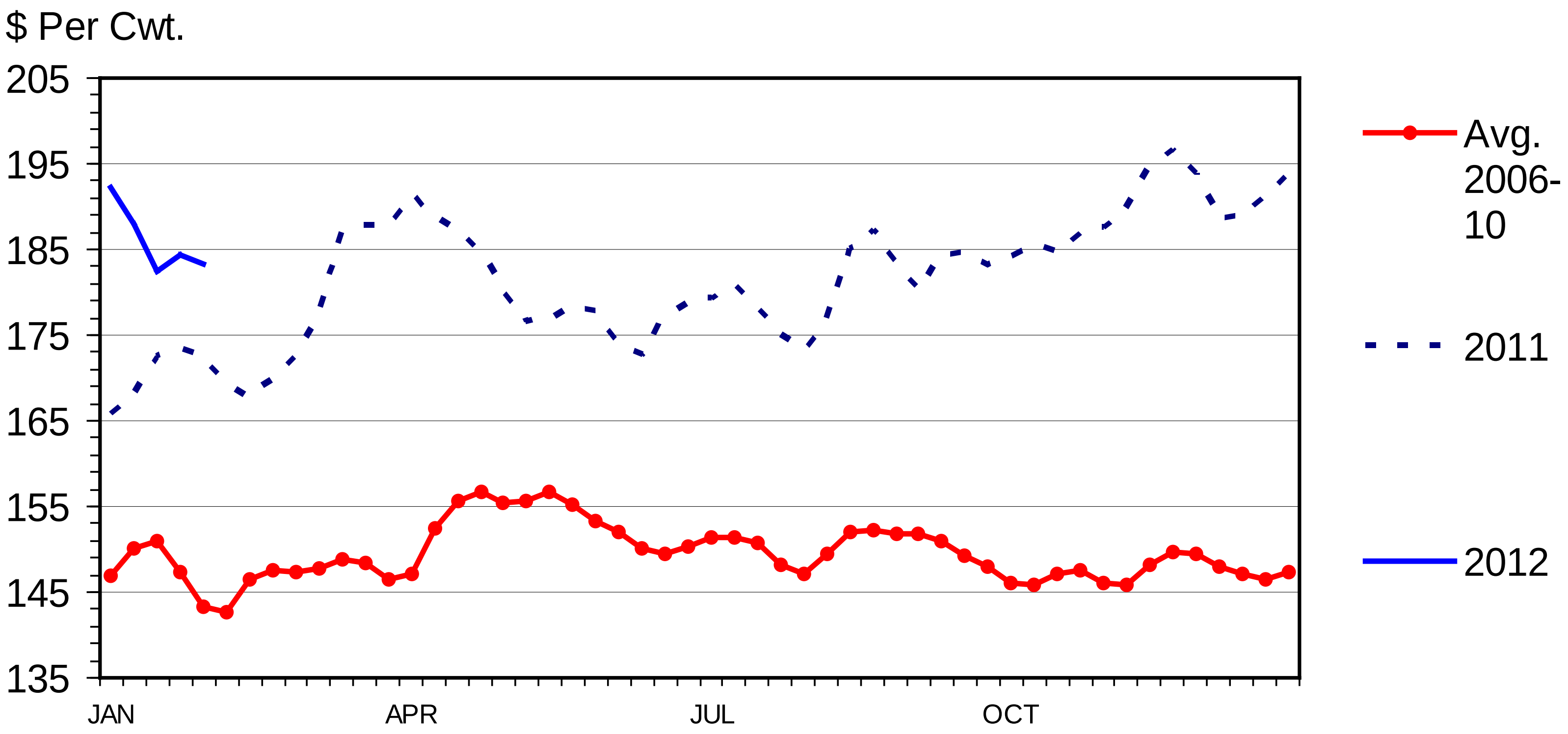
MANAGER.INFO
Kansas State Research & Extension
www.agmanager.info

BOXED BEEF CUTOUT VALUE

Choice 600-900 Lbs. Carcass, Weekly



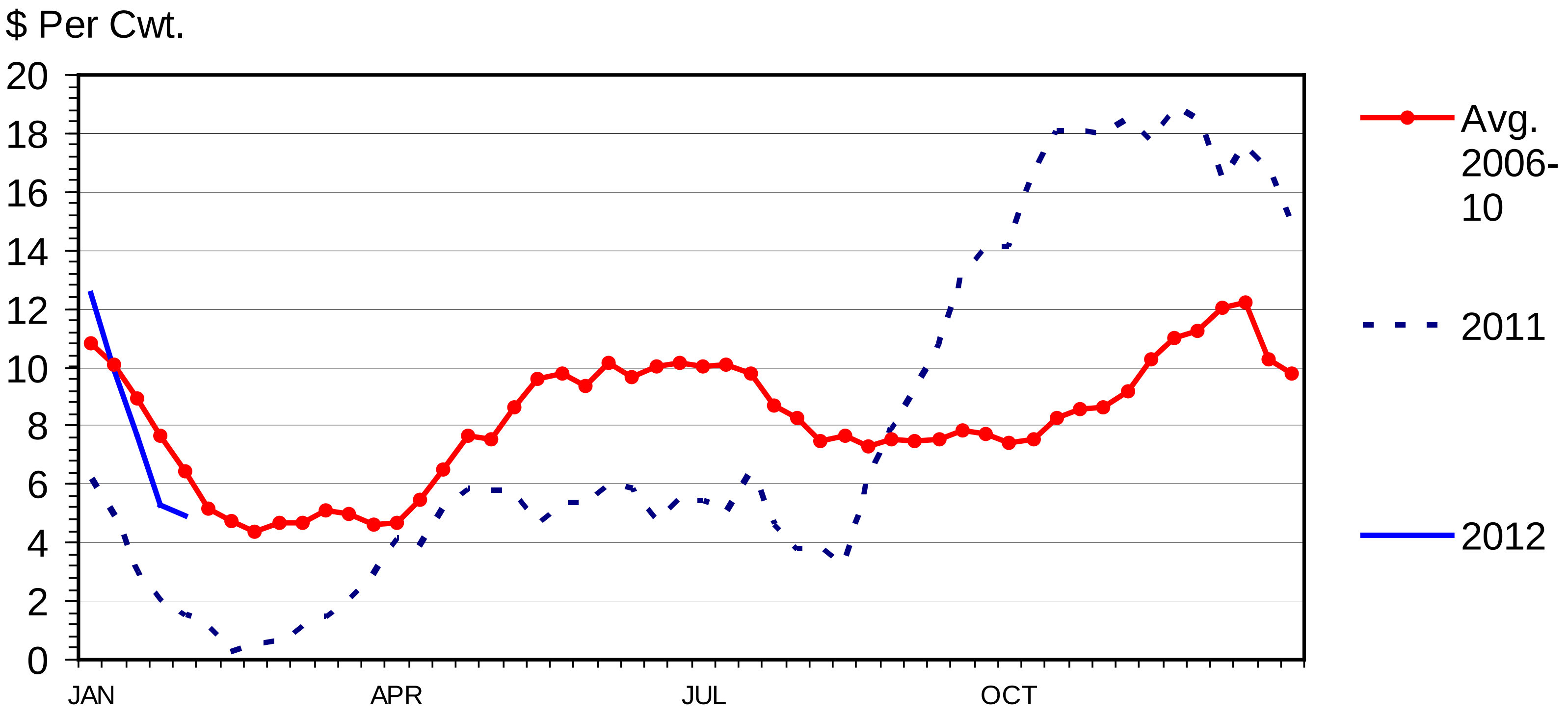
C-P-62
02/06/12

Livestock Marketing Information Center

Data Source: USDA-AMS

CHOICE MINUS SELECT BEEF PRICES

Carcass Cutout Value 600-900 Lbs., Weekly



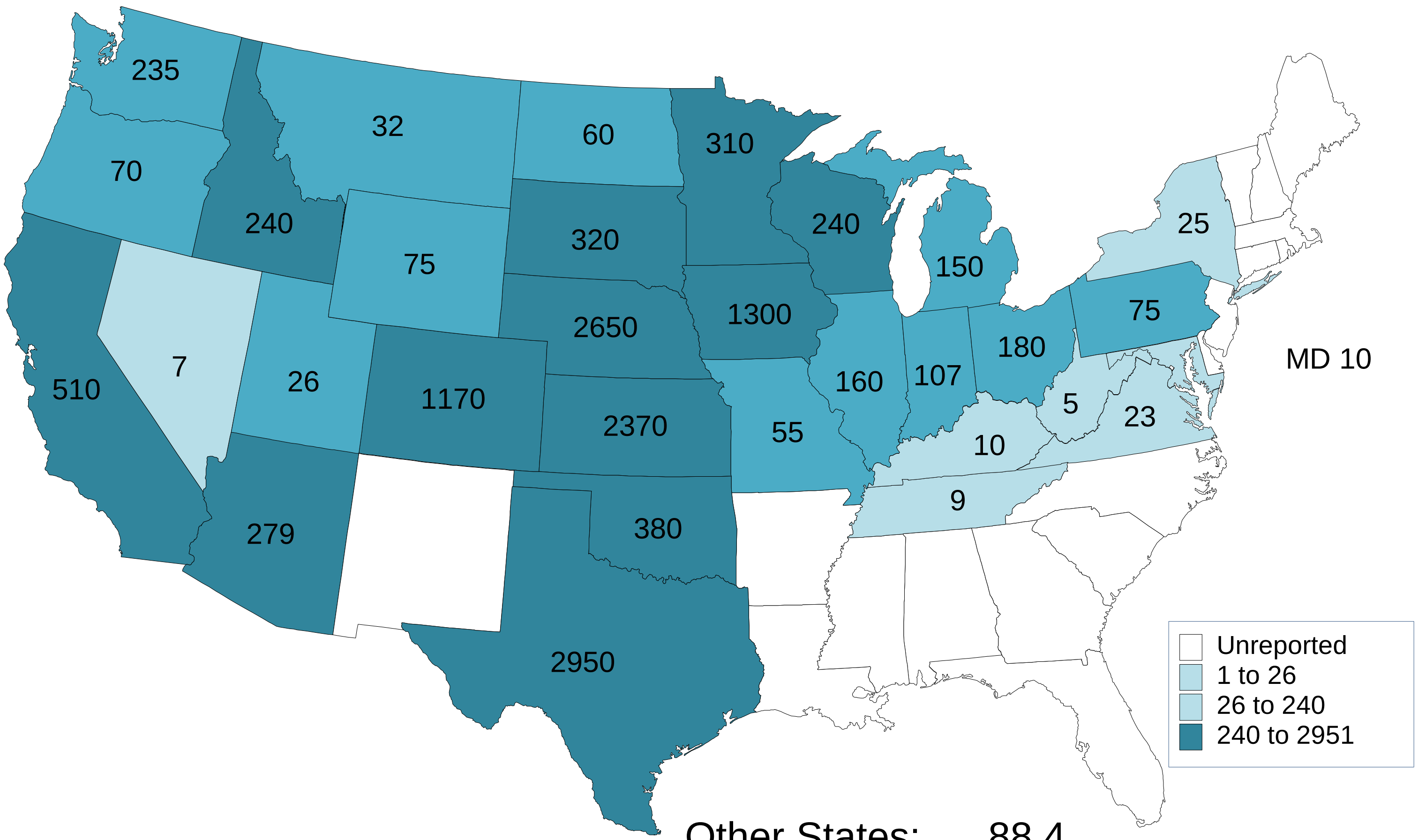
C-P-68
02/06/12

Livestock Marketing Information Center

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

CATTLE ON FEED JANUARY 1, 2012

(1000 Head)



Other States: 88.4

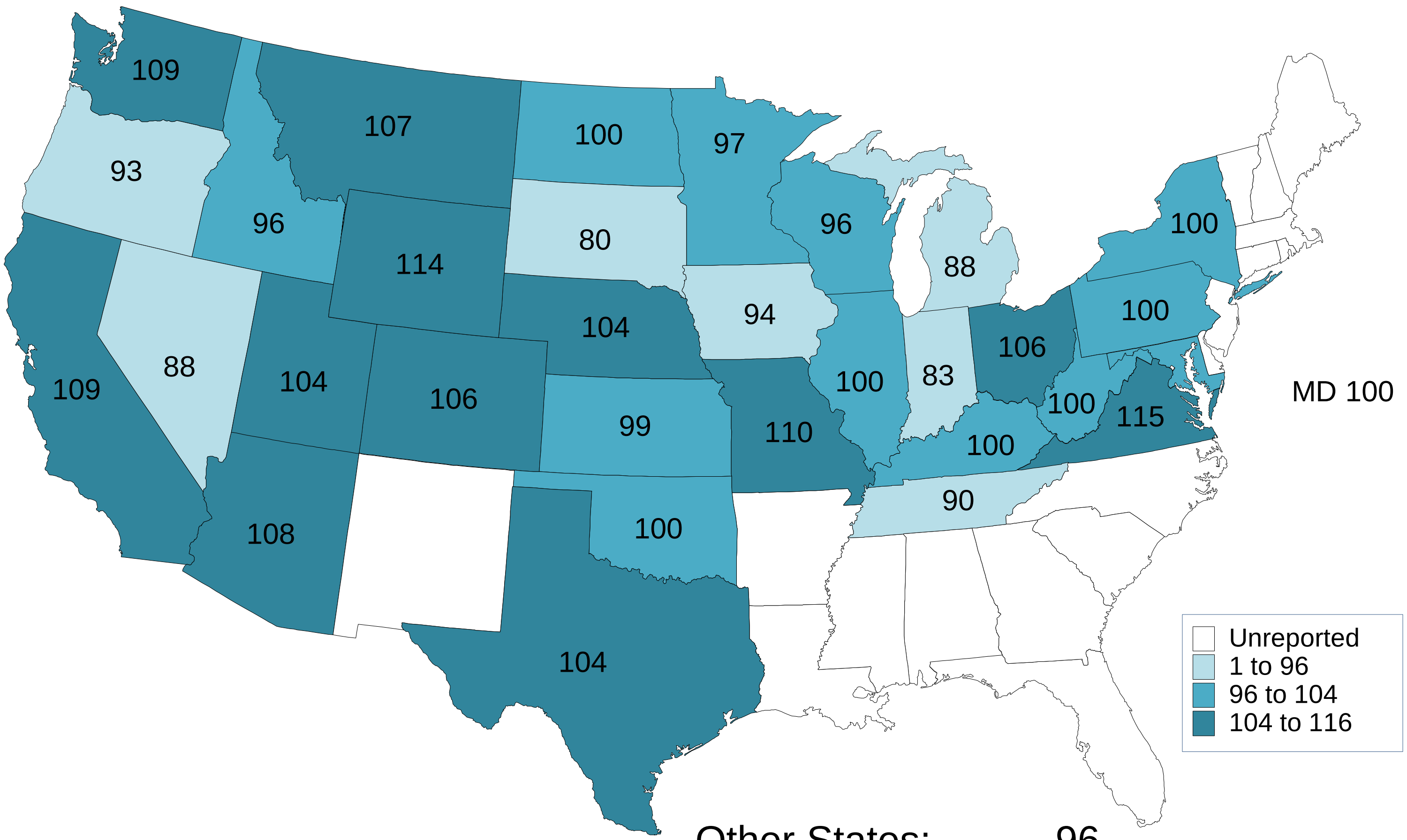
U.S. Total: 14121

Livestock Marketing Information Center

Data Source: USDA-NASS

01/27/12

CATTLE ON FEED JANUARY 1, 2012
AS A % OF 2011

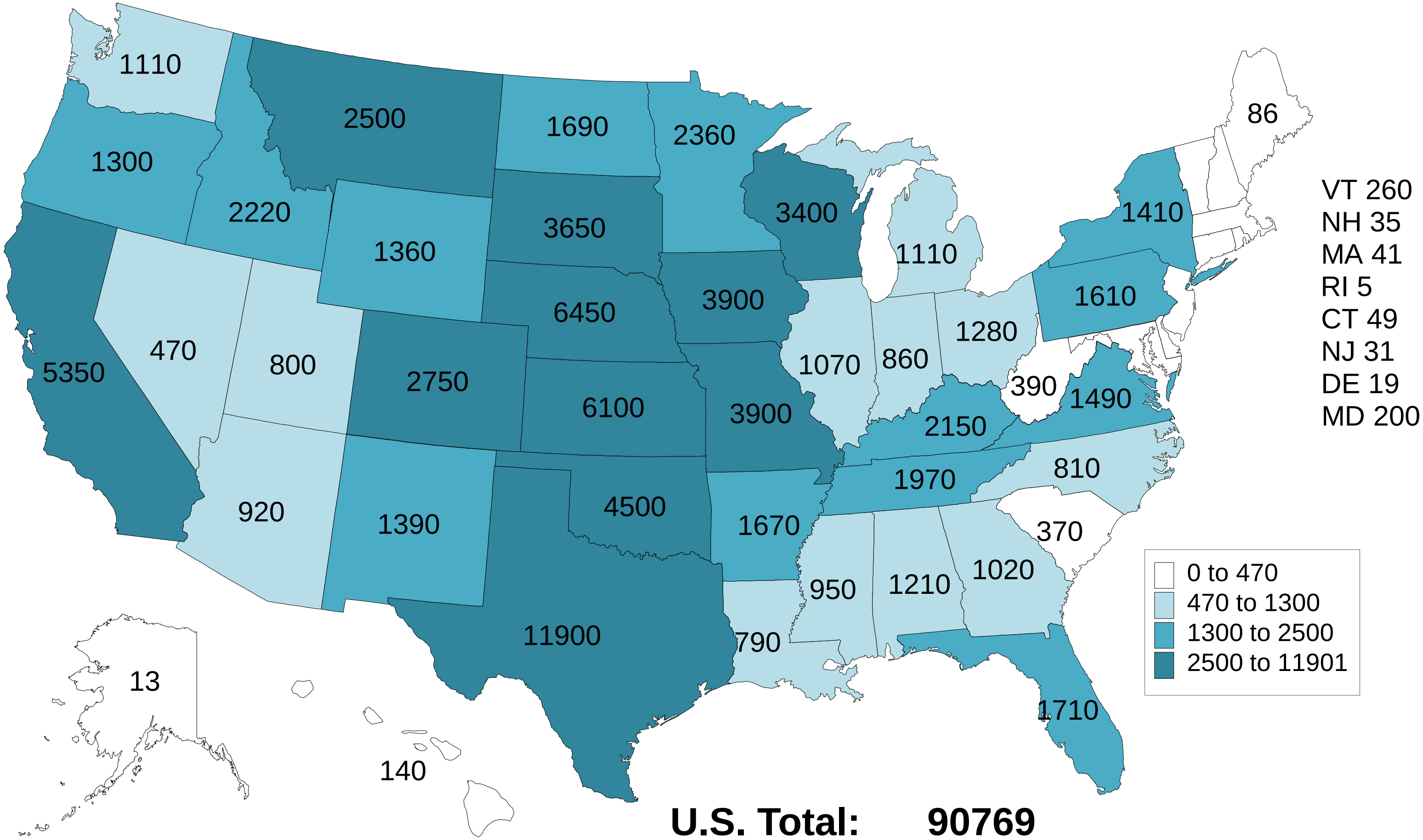


Other States: 96
U.S. Total: 101

01/27/12

TOTAL CATTLE NUMBERS JANUARY 1, 2012

(1000 Head)



U.S. Total: 90769

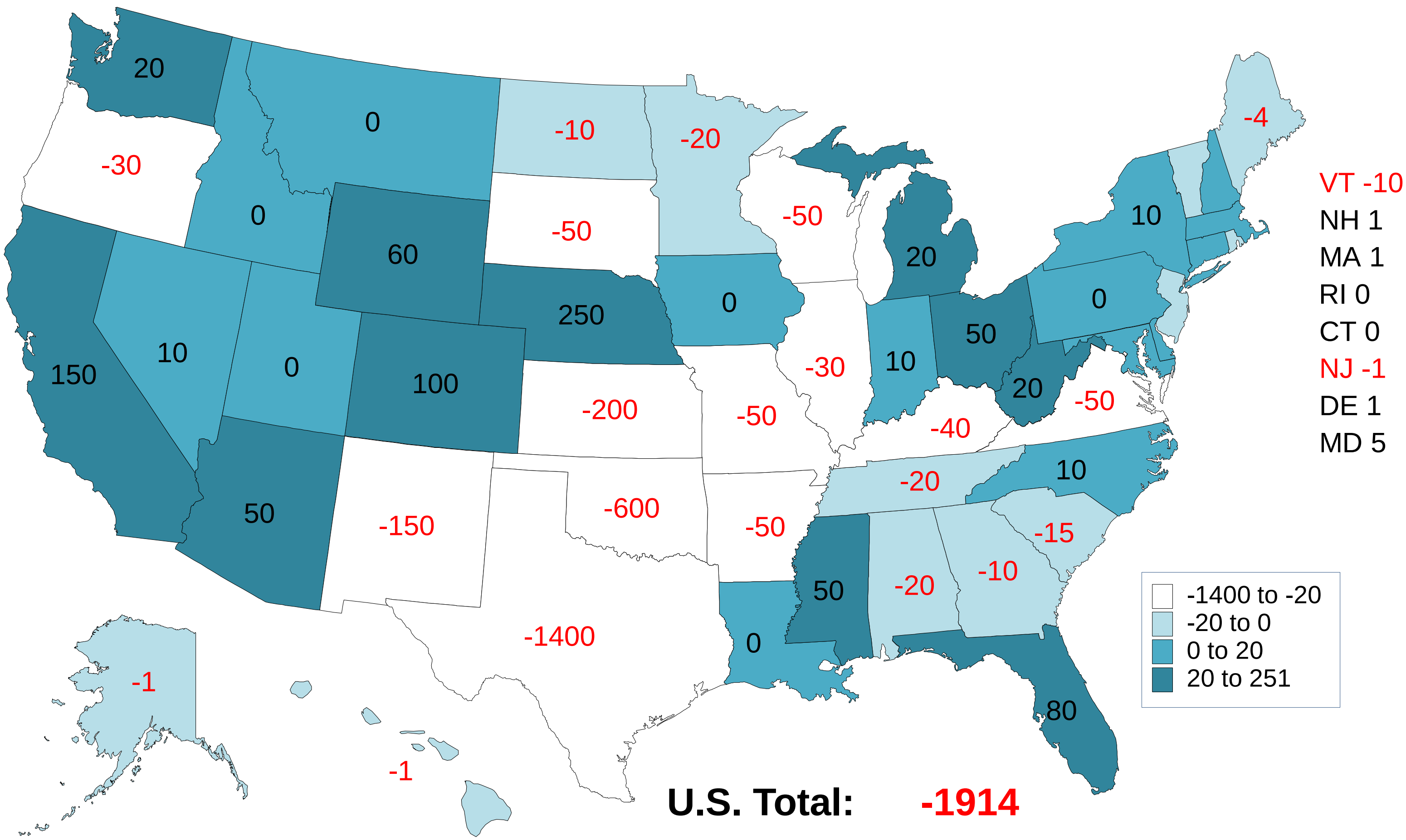
01/27/12

Livestock Marketing Information Center

Data Source: USDA-NASS

CHANGE IN TOTAL CATTLE NUMBERS 2011 - 2012

(1000 Head)



Livestock Marketing Information Center

Data Source: USDA-NASS

01/27/12