

2011-2012

Kansas State University

**AG
PROFITABILITY
CONFERENCE**

February 21, 2012

**Civic Center
Lawson Room
1000 W. Patterson Ave.
Ulysses, Kansas**



Kansas State University
Department of Agricultural Economics

Beef & Cattle Market Outlook

Glynn Tonsor
Dept. of Agricultural Economics
Kansas State University



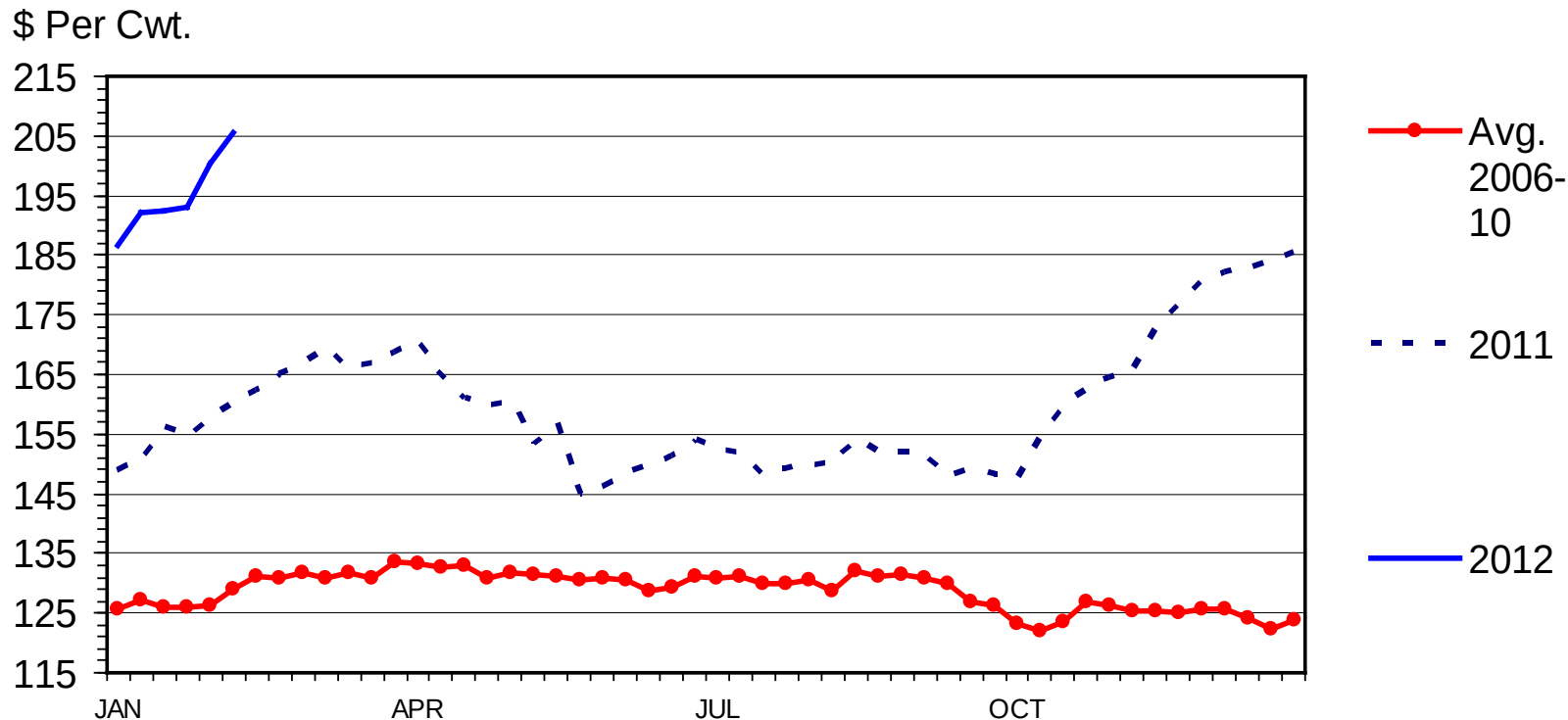
Economic Outlook Overview: Cow-Calf

- Continued beneficiary of tight supplies and expanded heifer retention...
 - What expected return is needed for expansion?
- Returns over cash costs may set historic records
- 2013 or 2014 may prove to be “peak return year”



MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



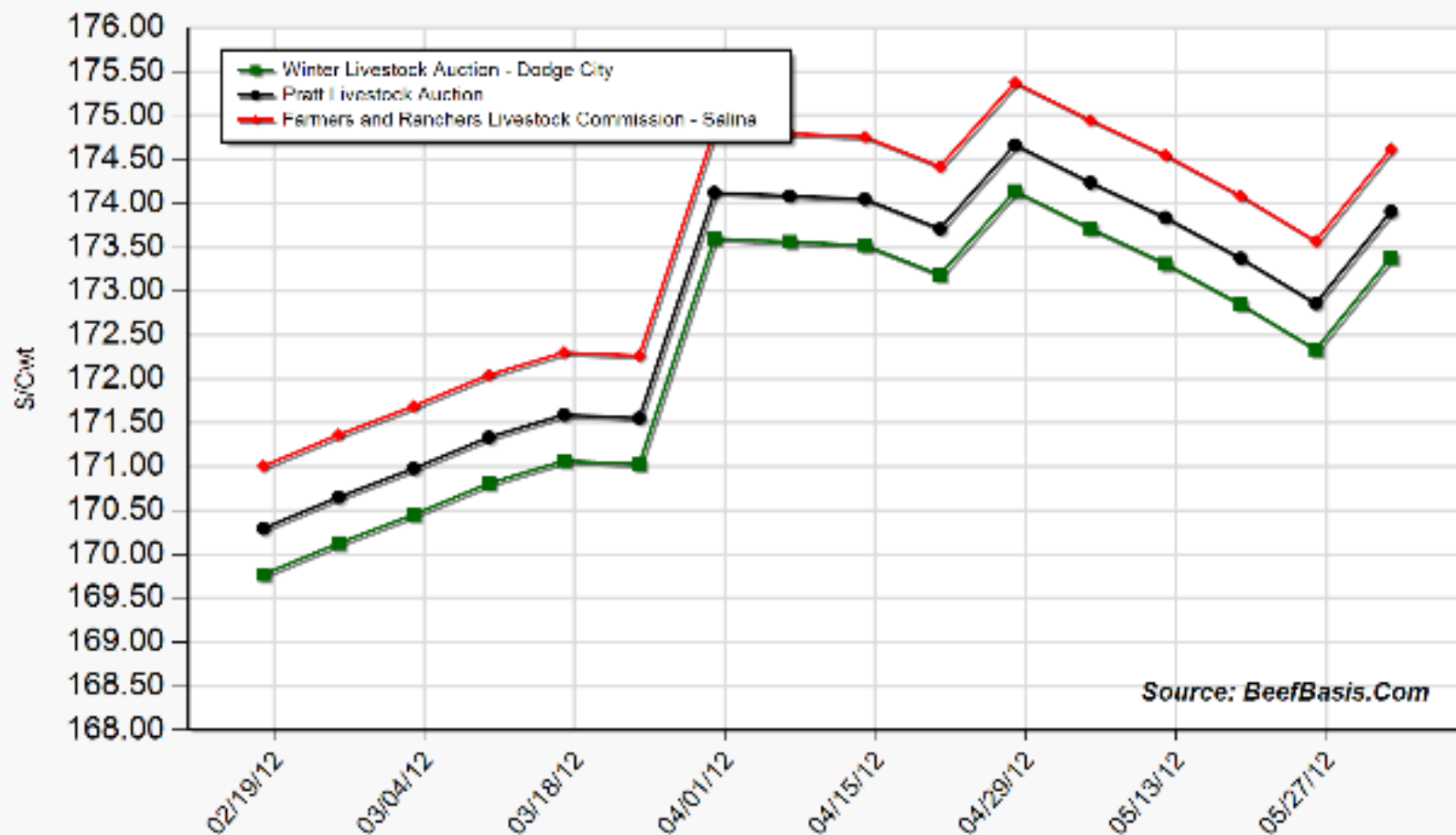
Livestock Marketing Information Center

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

C-P-49A
02/13/12

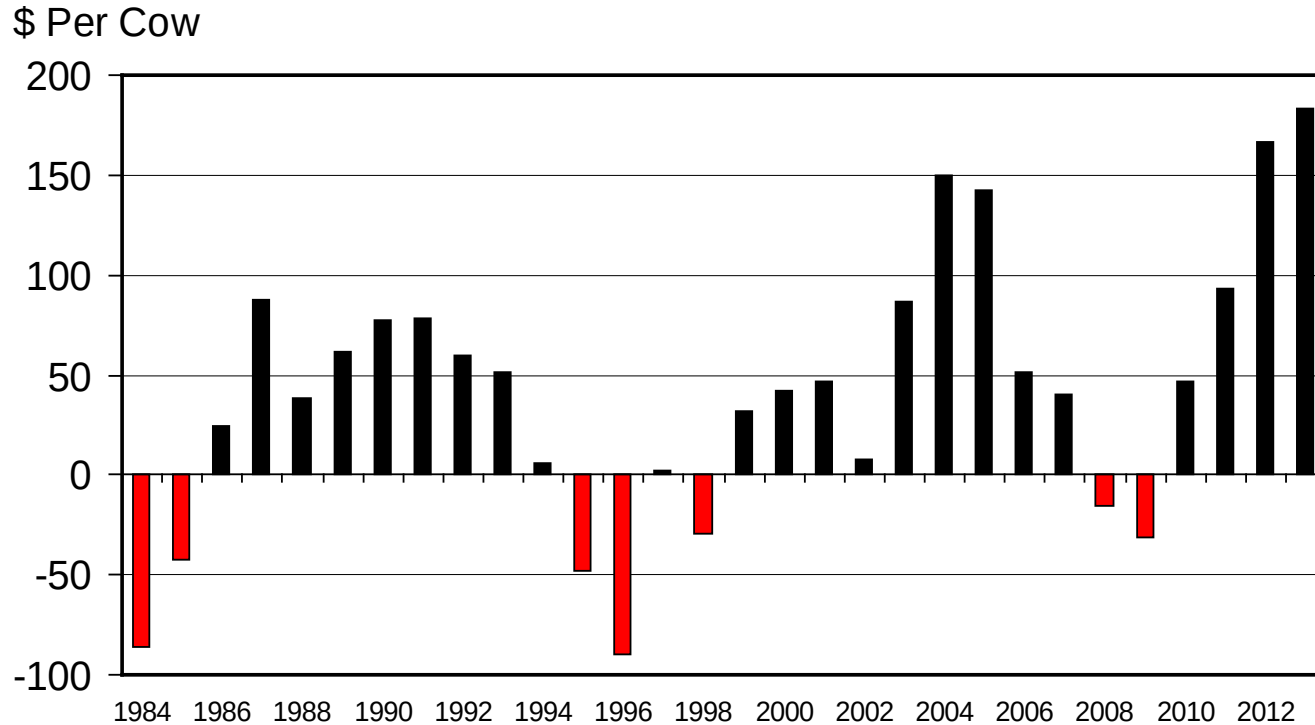


Projected Price for 550 Lb Steer at Selected Kansas Auctions



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



Livestock Marketing Information Center

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

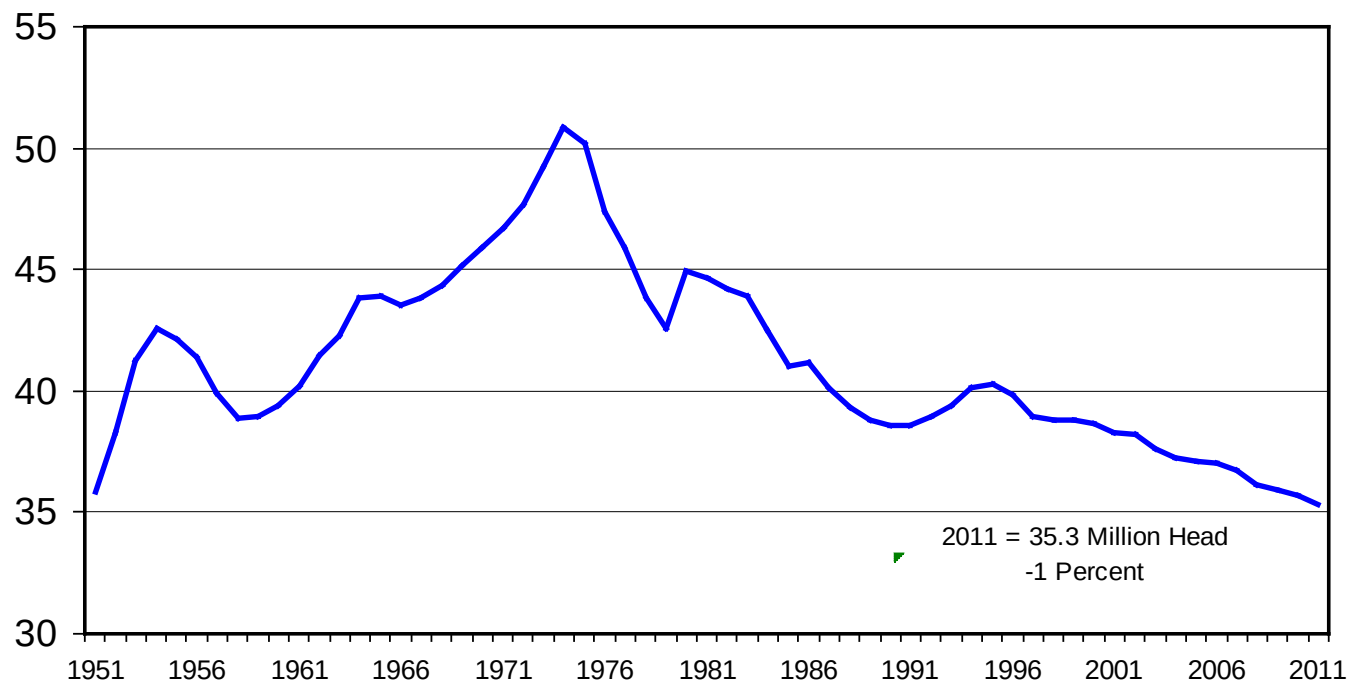
C-P-66
12/28/11



CALF CROP

U.S., Annual

Mil. Head



Livestock Marketing Information Center

Data Source: USDA-NASS

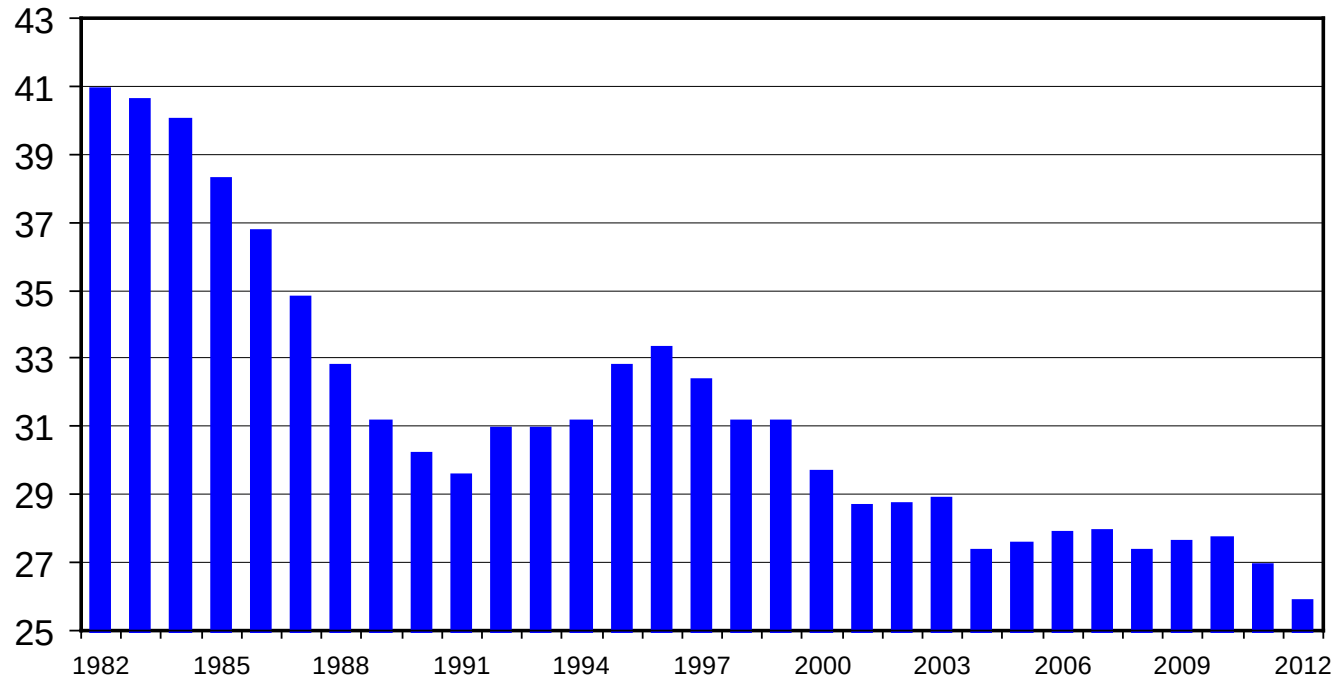
C-N-18A
01/29/12



JANUARY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.

Mil. Head



Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-30
01/29/12



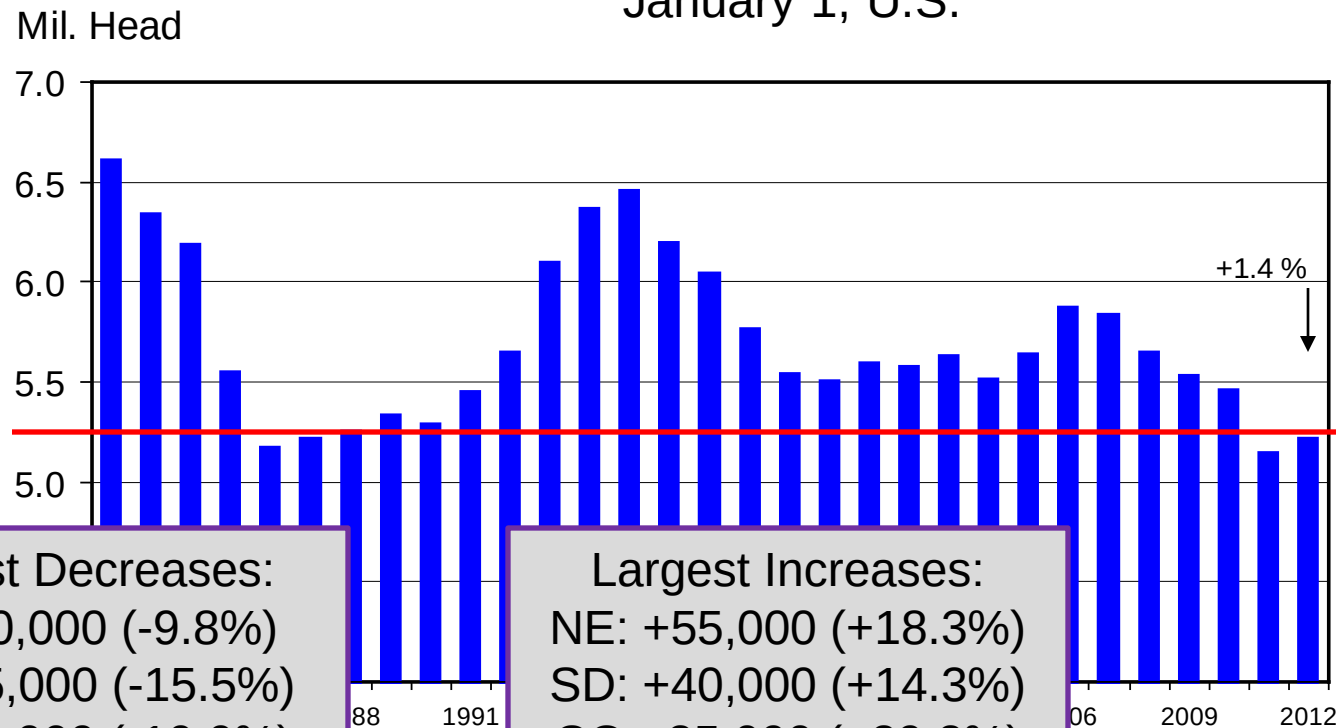
When will U.S. national herd expand?

-- by 2014??? -- who & where will expansion occur???

HEIFERS HELD AS BEEF COW REPLACEMENTS

KS: +5,000 (+2.0%)

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%)

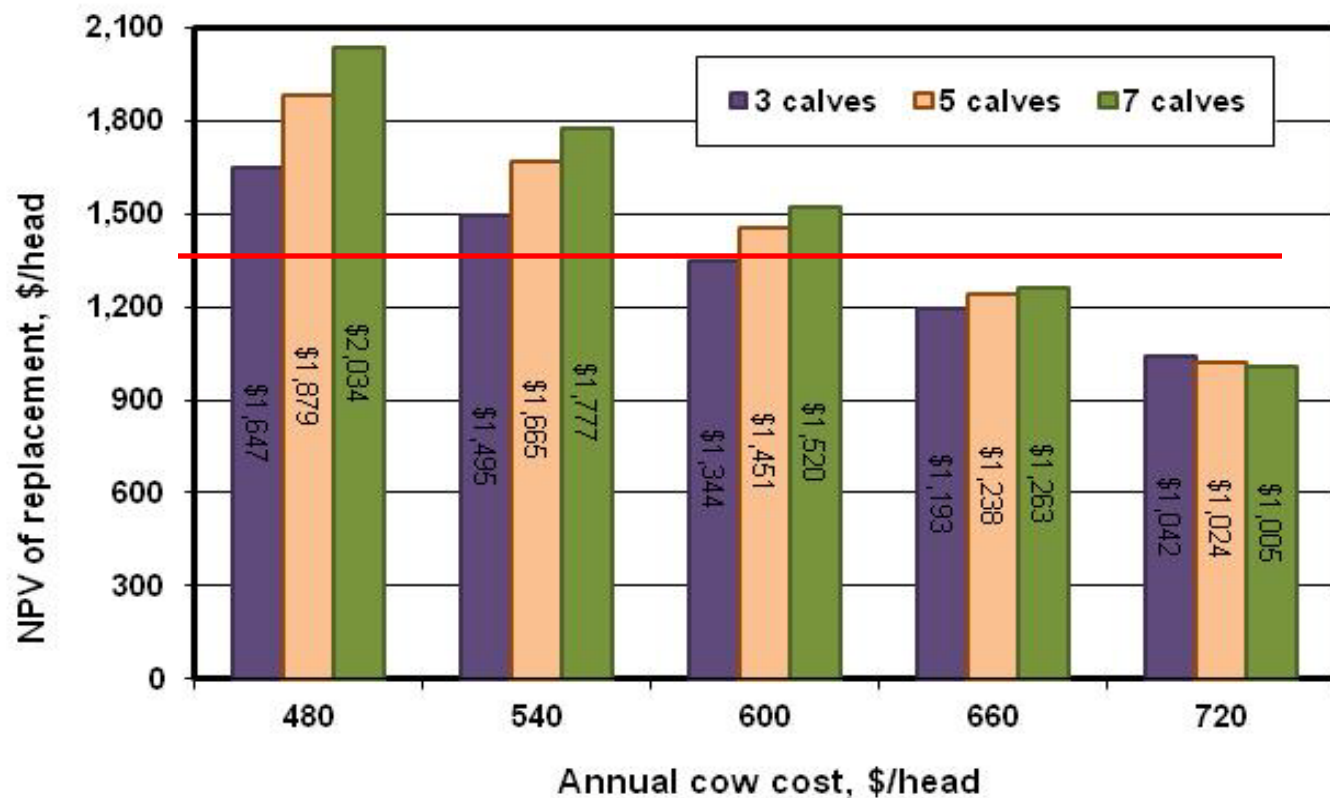
C-N-38
01/29/12

Livestock Marketing Information
Center Data Source: USDA-NASS



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

NPV versus annual cow cost and number of calves



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



Economic Outlook Overview :

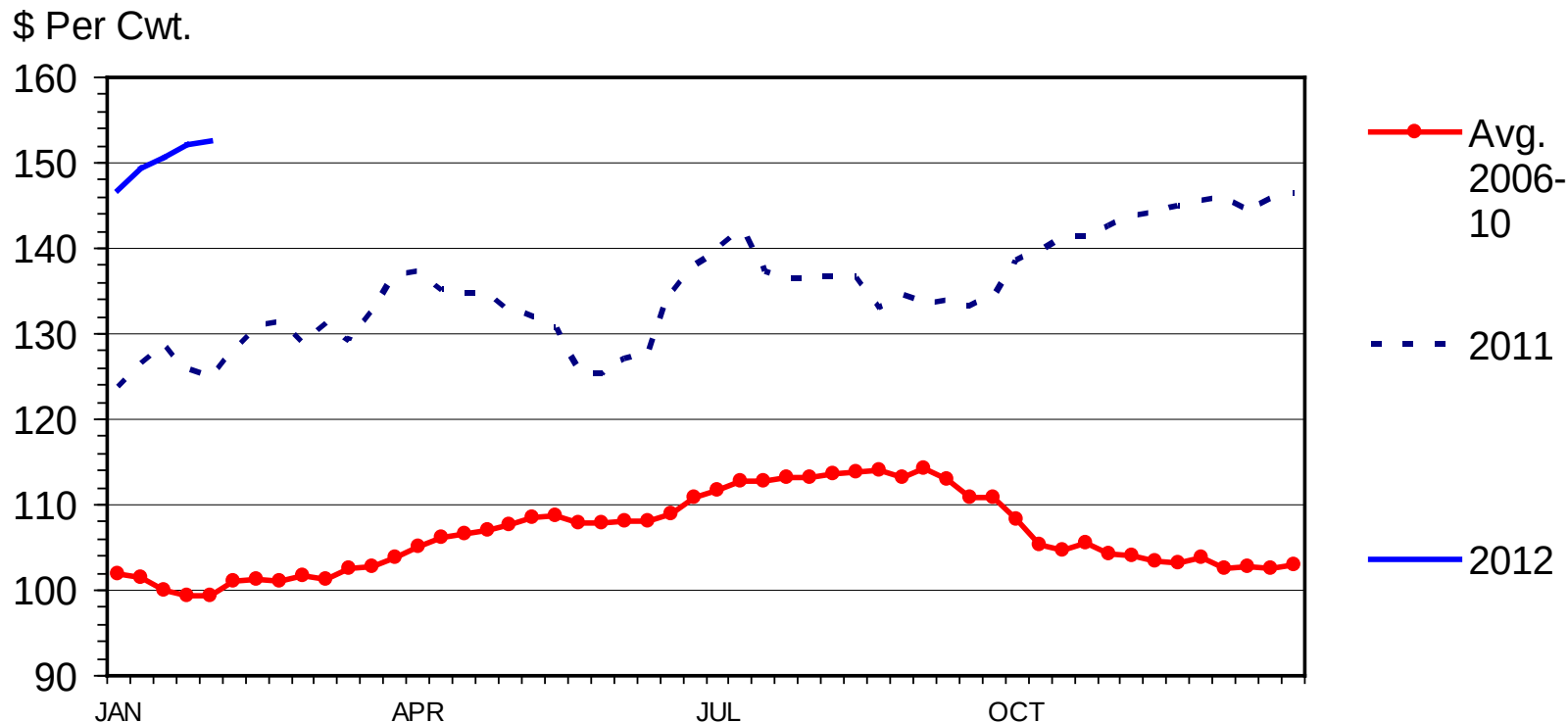
Stockers

- Continued sophistication of this segment
 - “cheap corn days” are unlikely to return
- Expected margins have been squeezed by run on calves
 - Historically strong basis on calves...
- Easiest segment to “start and stop” so “sitting tight” may be prudent at times...
 - Flexibility in what type/weight class is purchased appears important currently...



MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

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

C-P-49
02/06/12



“Buy-Sell” spreadsheet tool

(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

2/20/12 Salina, KS Situation:

- BeefBasis.com forecasted price of 750 lb steer May 22, 2012 is \$158.94/cwt
- What is break-even purchase price of a 550 lb steer purchased on Feb. 22, 2012?
 - forecasted price is \$174.48/cwt



“Buy-Sell” spreadsheet tool

(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

Purchase Weight ¹	Selling Price						
	\$152.94	\$154.94	\$156.94	\$158.94	\$160.94	\$162.94	\$164.94
	Breakeven Purchase Price ²						
450	184.42	187.60	190.77	193.95	197.12	200.30	203.47
500	175.78	178.65	181.52	184.39	187.26	190.13	193.00
550	168.75	171.37	173.99	176.62	179.24	181.86	184.48
600	162.93	165.35	167.76	170.18	172.59	175.01	177.43
650	158.05	160.29	162.53	164.77	167.01	169.25	171.49
700	153.91	156.00	158.09	160.18	162.27	164.36	166.45
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: +\$4.28/head [2.0 * (\$176.62 - \$174.48)]

Feeding COG \$80 = +\$10.94/head Expected Return

Feeding COG \$100 = - \$2.40/head Expected Return



Economic Outlook Overview :

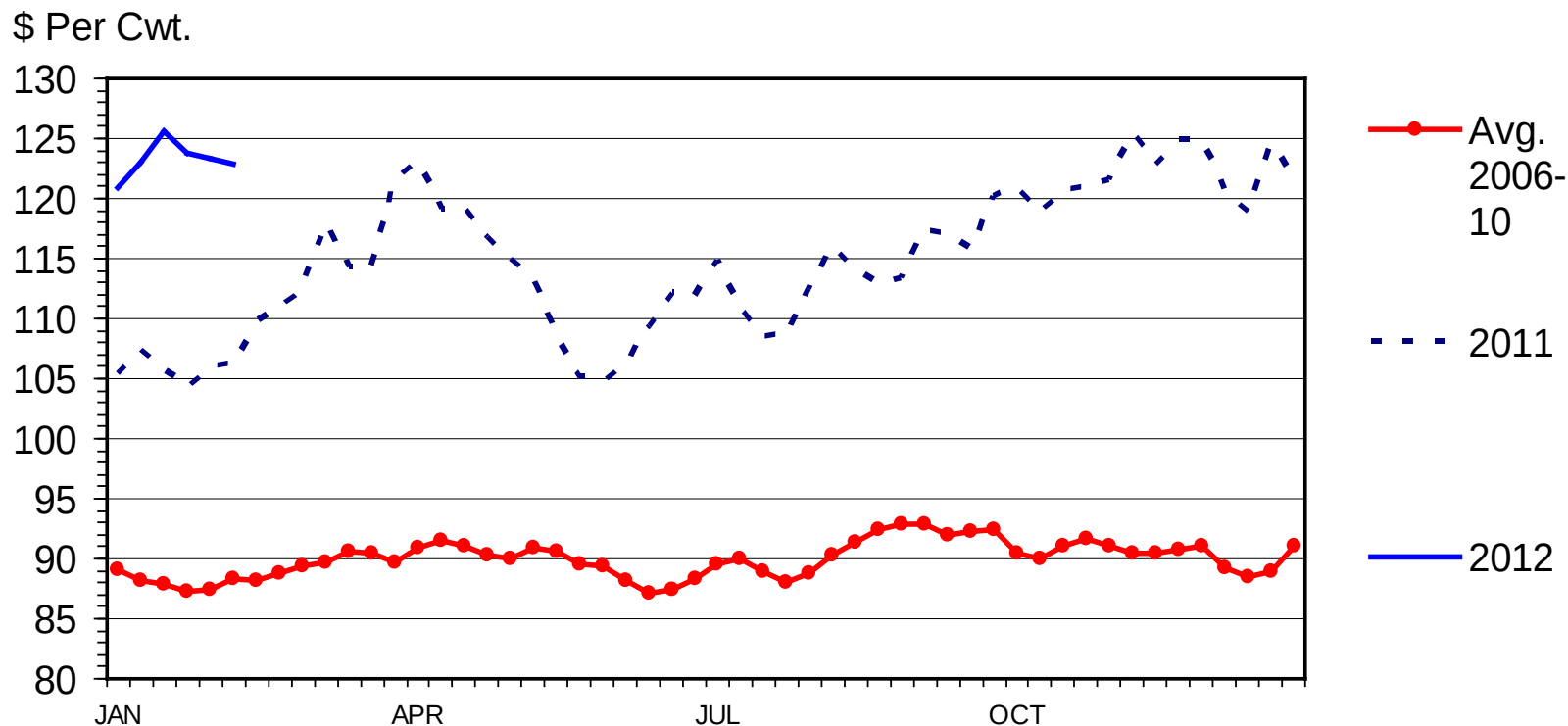
Feedlots

- Excess capacity and packer margin concerns will remain an issue
- Growing relevance of premiums and diversity across operations
- Probable losses for the year, but markets suggest potential improvement over 2011



SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



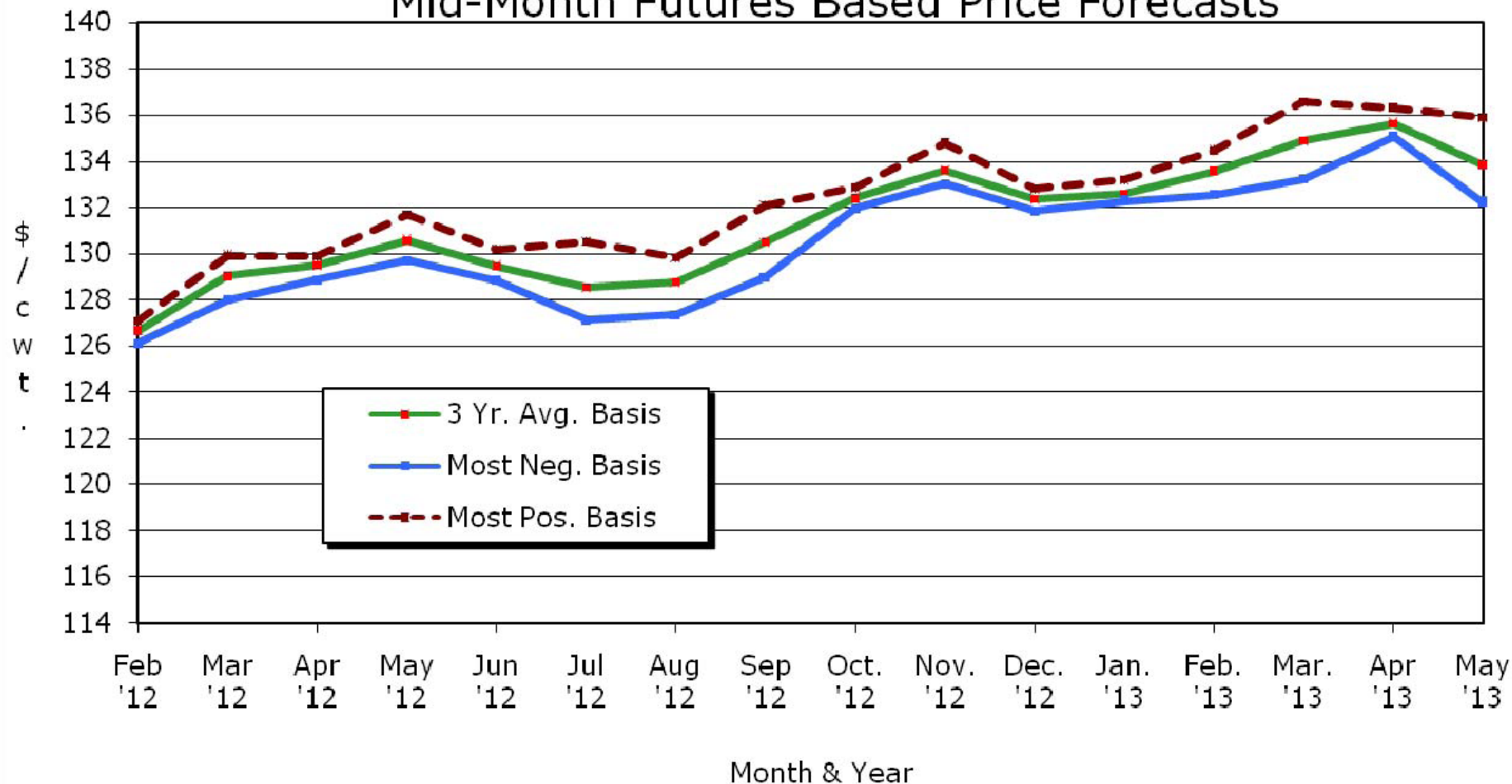
Livestock Marketing Information Center

Data Source: USDA-AMS



Kansas Slaughter Steer Price Forecasts

Mid-Month Futures Based Price Forecasts



Source: USDA-AMS, CME, & K-State Ag. Economics
Based on 2.17.12 CME Live Cattle settlement prices

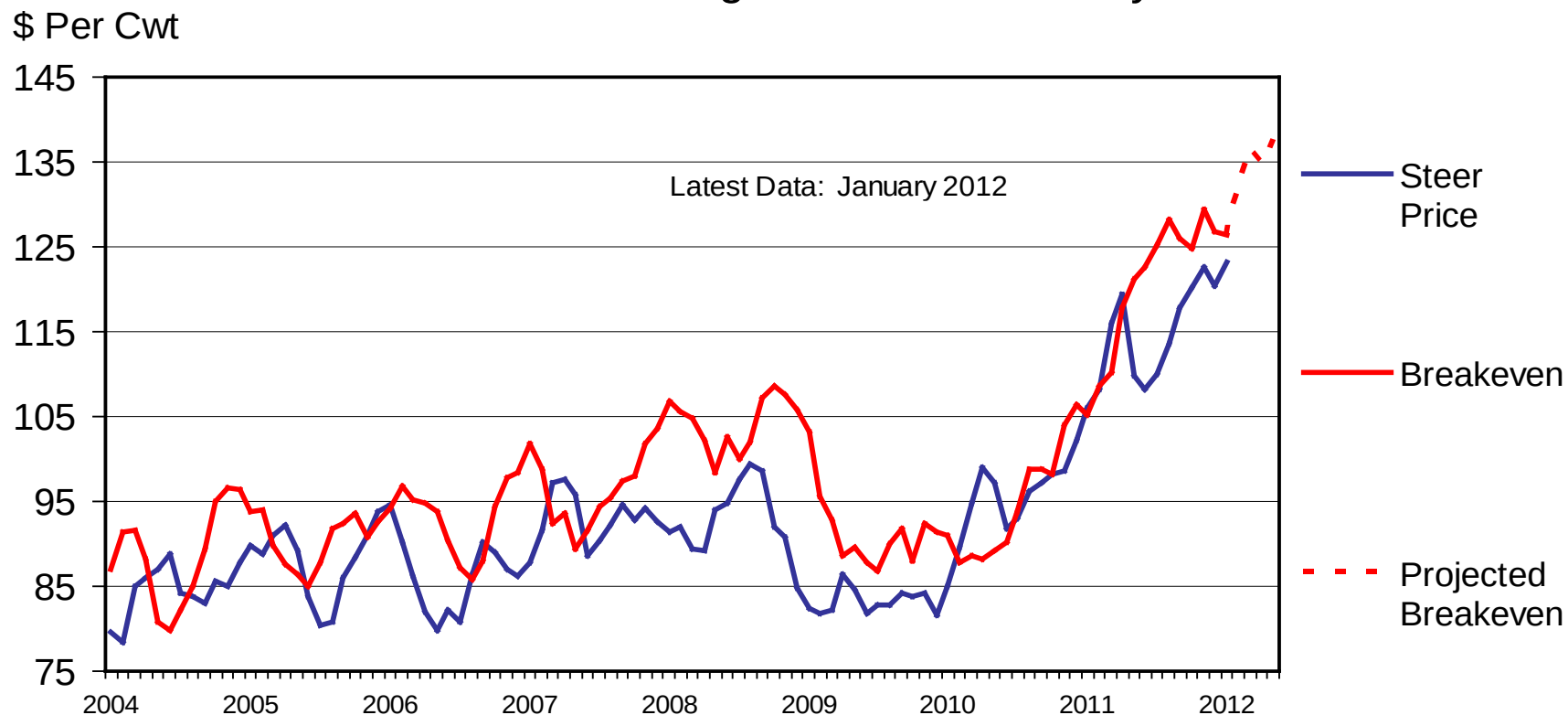
KSU Dept. of Ag Econ
www.agmanager.info



NAIBER (2/20/12): 750 lb placed on 2/20, sold at 1,243 lbs on 7/20/12 = ■ \$74/hd

CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly



Livestock Marketing Information Center

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

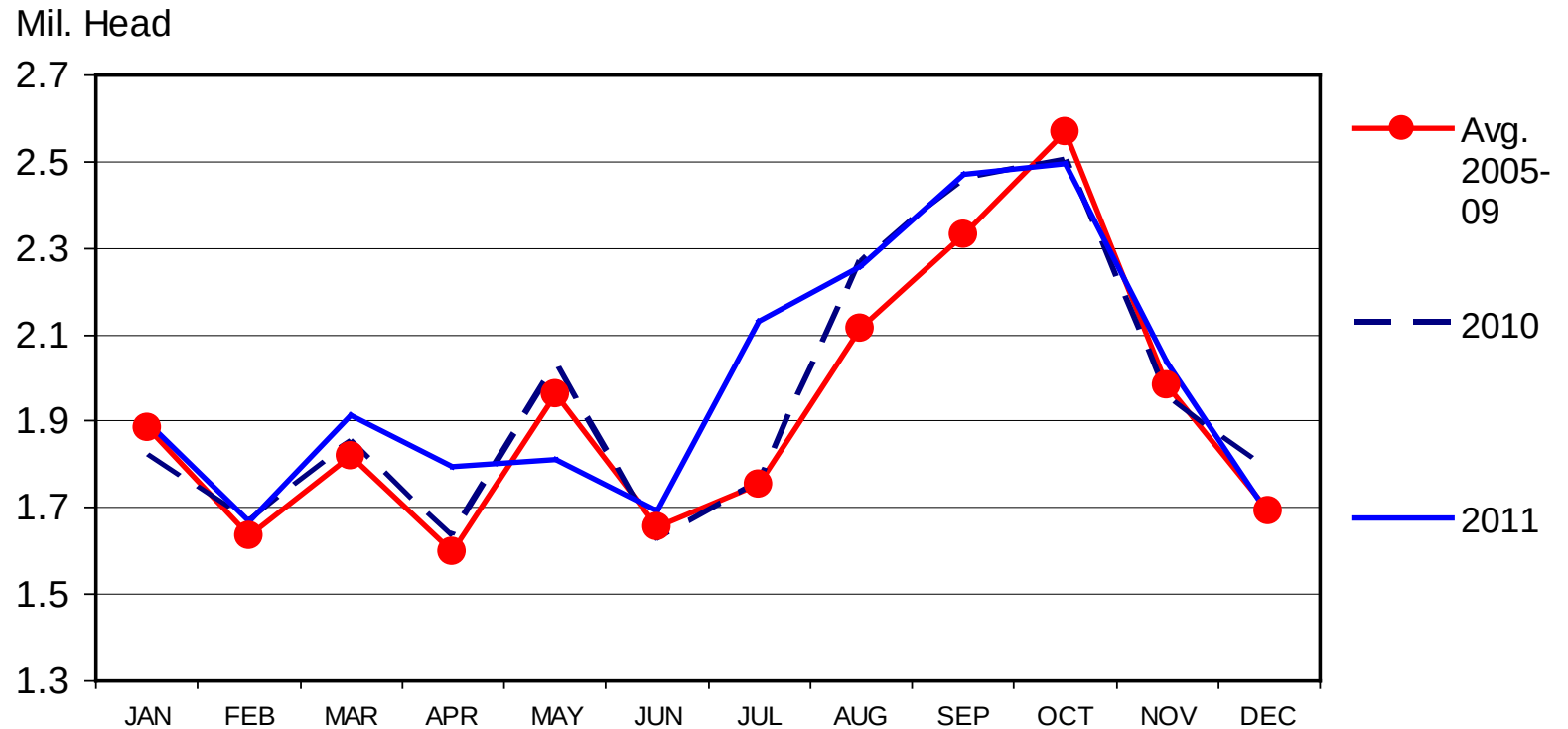
C-P-21

02/04/12



FEEDLOT PLACEMENTS

US Total, Monthly



Livestock Marketing Information Center

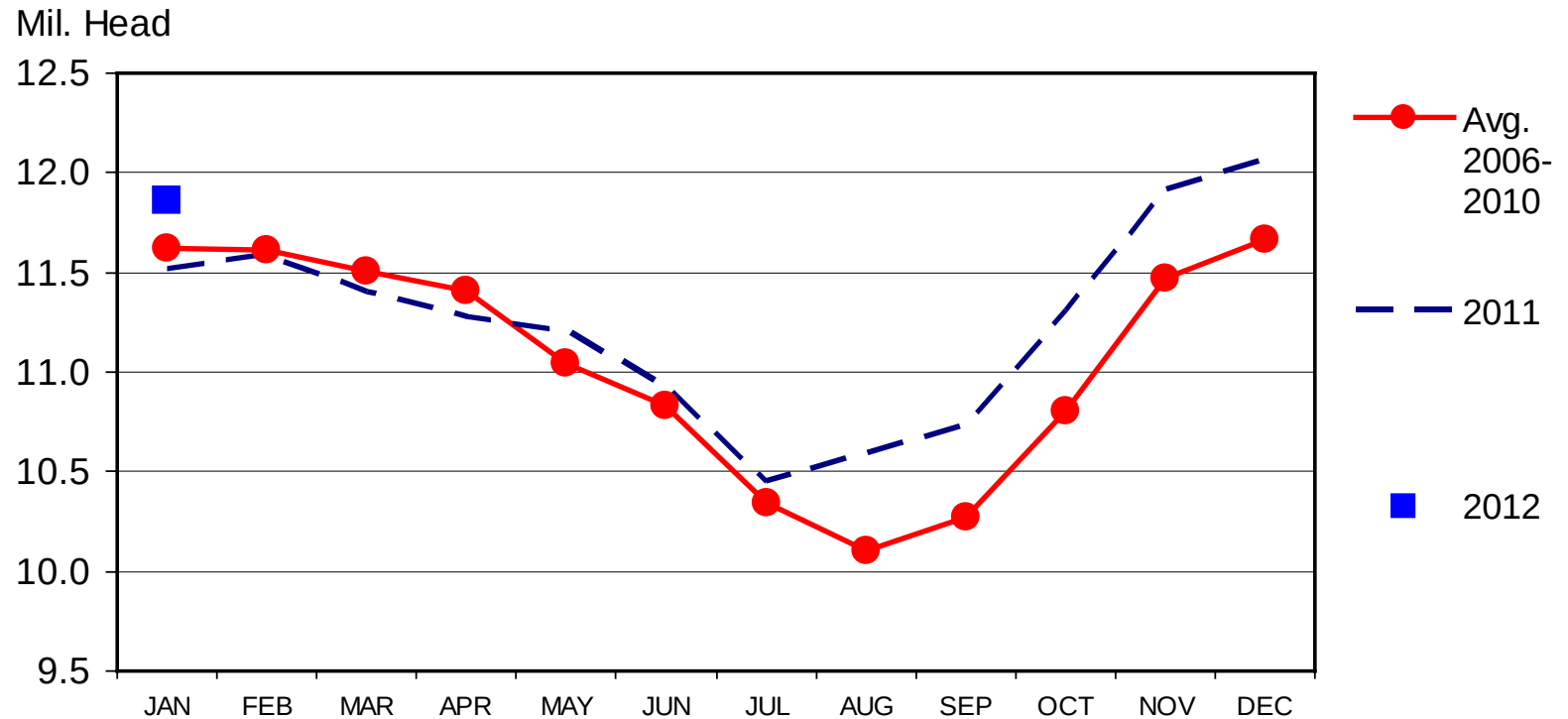
Data Source: USDA-NASS

C-N-08
01/20/12



CATTLE ON FEED

US Total, Monthly



Livestock Marketing Information Center

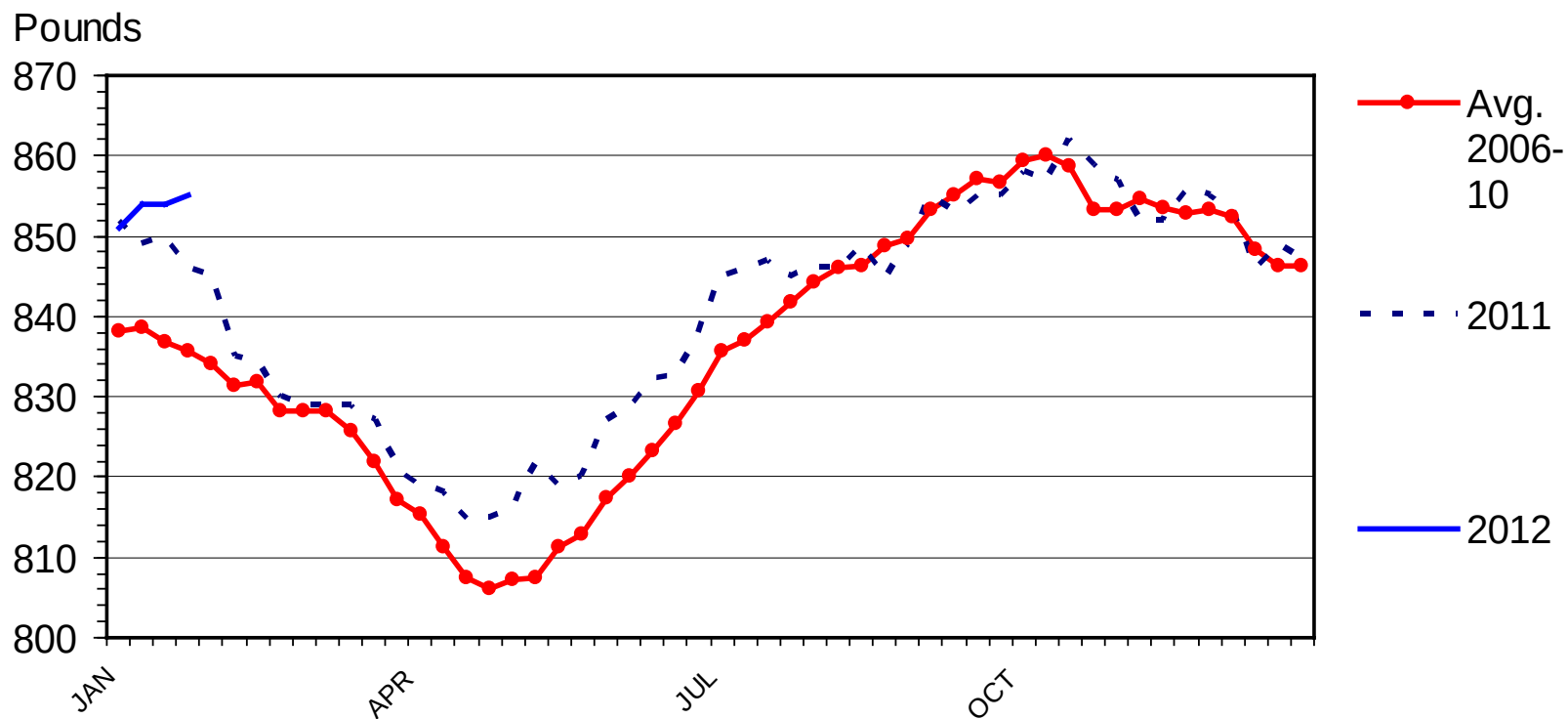
Data Source: USDA-NASS

C-N-10
01/20/12



STEER DRESSED WEIGHT

Federally Inspected, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS

C-S-18
02/10/12



QUARTERLY FORECASTS (LMIC:2/20/12)

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%	771	0.72%	6411.2	2.61%
II	8,639	-0.47%	759	0.66%	6559	0.19%
III	8,739	-0.14%	771	-0.32%	6737.4	-0.46%
IV	8,397	-2.97%	773	-0.76%	6491.8	-3.70%
Year	34,092	-0.46%	768	0.06%	26199.4	-0.40%
2012						
I	8,095	-2.67%	774	0.40%	6265	-2.28%
II	8,237	-4.65%	766	0.93%	6312	-3.77%
III	8,129	-6.98%	785	1.88%	6385	-5.23%
IV	7,952	-5.30%	787	1.81%	6259	-3.59%
Year	32,413	-4.93%	778	1.25%	25221	-3.73%
2013						
I	7,596	-6.16%	784	1.31%	5956	-4.93%
II	7,820	-5.06%	772	0.74%	6037	-4.36%
III	8,043	-1.06%	794	1.12%	6388	0.05%
IV	7,714	-2.99%	795	0.94%	6129	-2.08%
Year	31,173	-3.83%	786	1.05%	24510	-2.82%



QUARTERLY FORECASTS (LMIC: 2/20/12)

	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	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	124-125	13.06	151-153	174-177
II	126-129	13.05	151-154	173-177
III	123-128	10.04	153-159	171-178
IV	126-131	5.33	152-158	162-170
Year	125-128	10.25	151-157	169-177
2013				
I	128-134	5.22	150-158	166-177
II	131-137	5.10	154-163	171-182
III	126-134	3.59	155-165	169-184
IV	129-138	3.89	153-165	163-178
Year	130-134	4.35	154-162	169-179



Economic Outlook Overview :

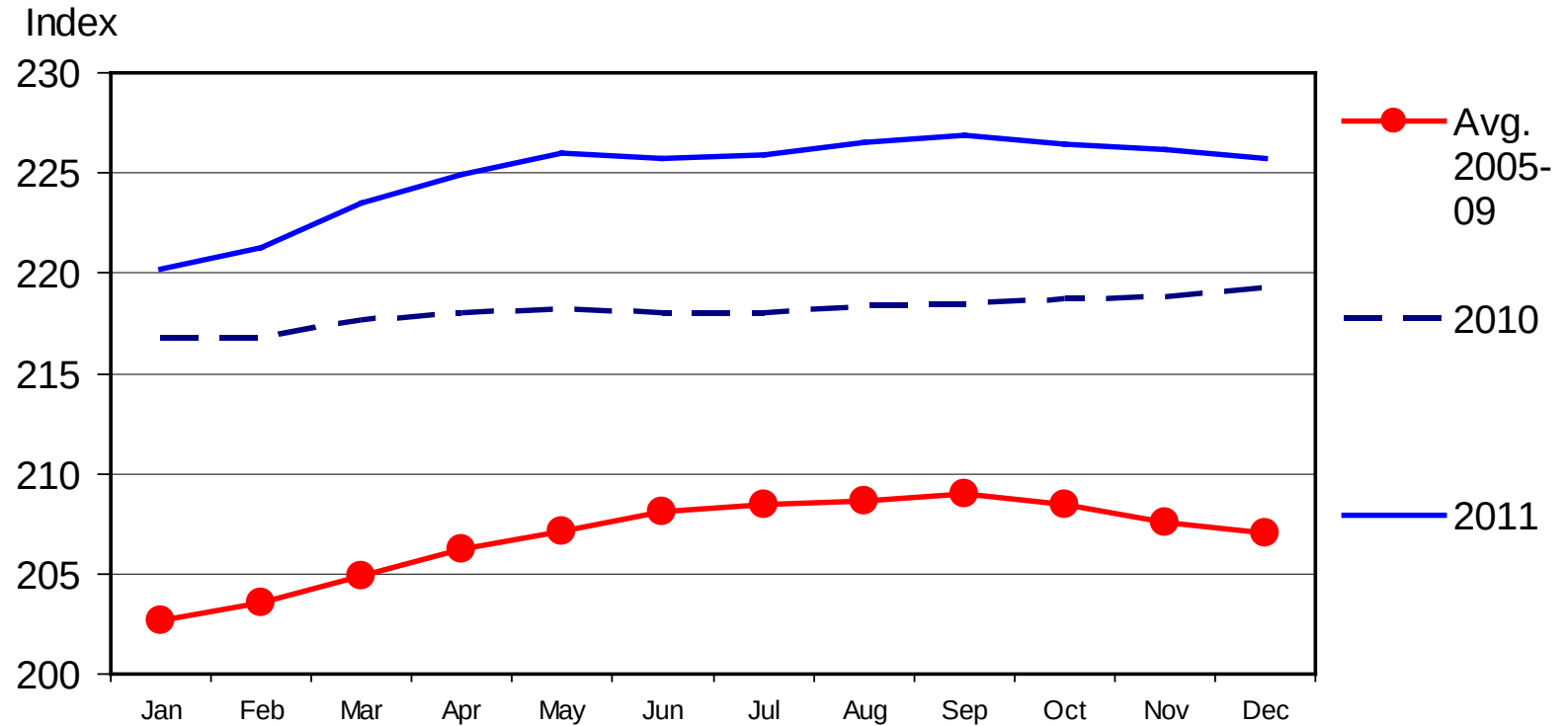
Demand

- Meat prices rising within household basket of purchases...
- Beef demand has surprised analysts...
- Bullish aspects of export success and prospects...



CONSUMER PRICE INDEX - ALL ITEMS

1982-1984 Base, Monthly



Livestock Marketing Information Center

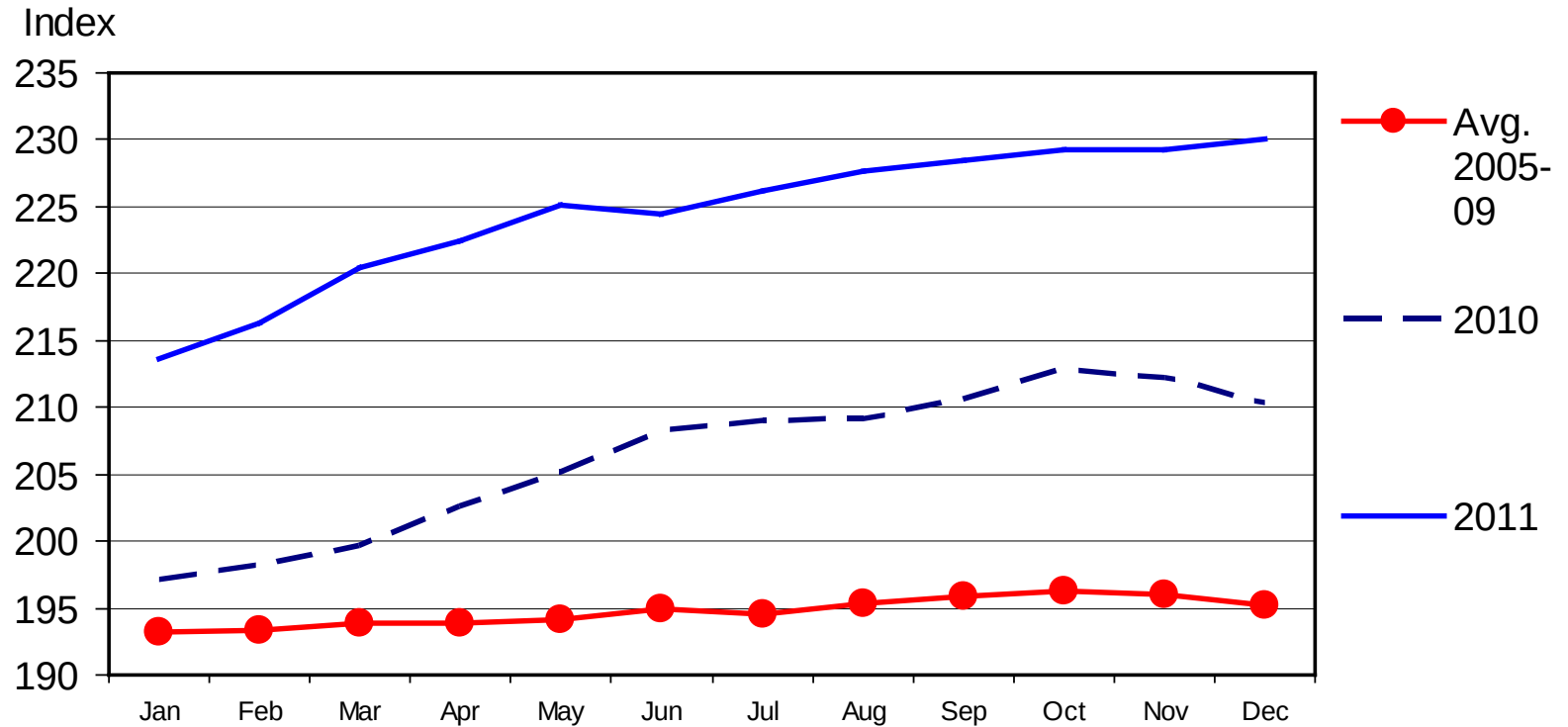
01/19/12

Data Source: Bureau of Labor Statistics



CPI - MEATS

1982-1984 Base, Monthly



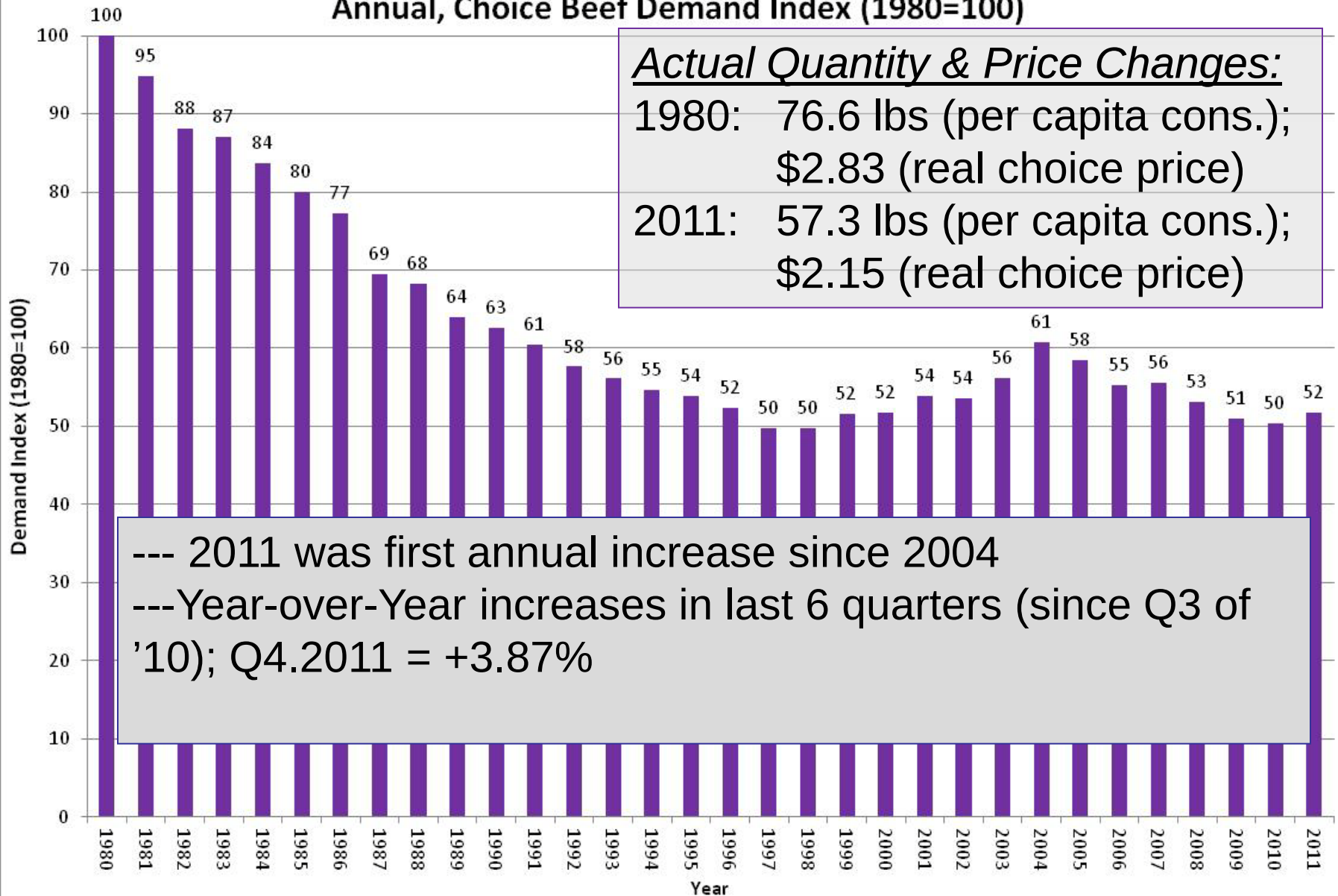
Livestock Marketing Information Center

01/19/12

Data Source: Bureau of Labor Statistics



Annual, Choice Beef Demand Index (1980=100)

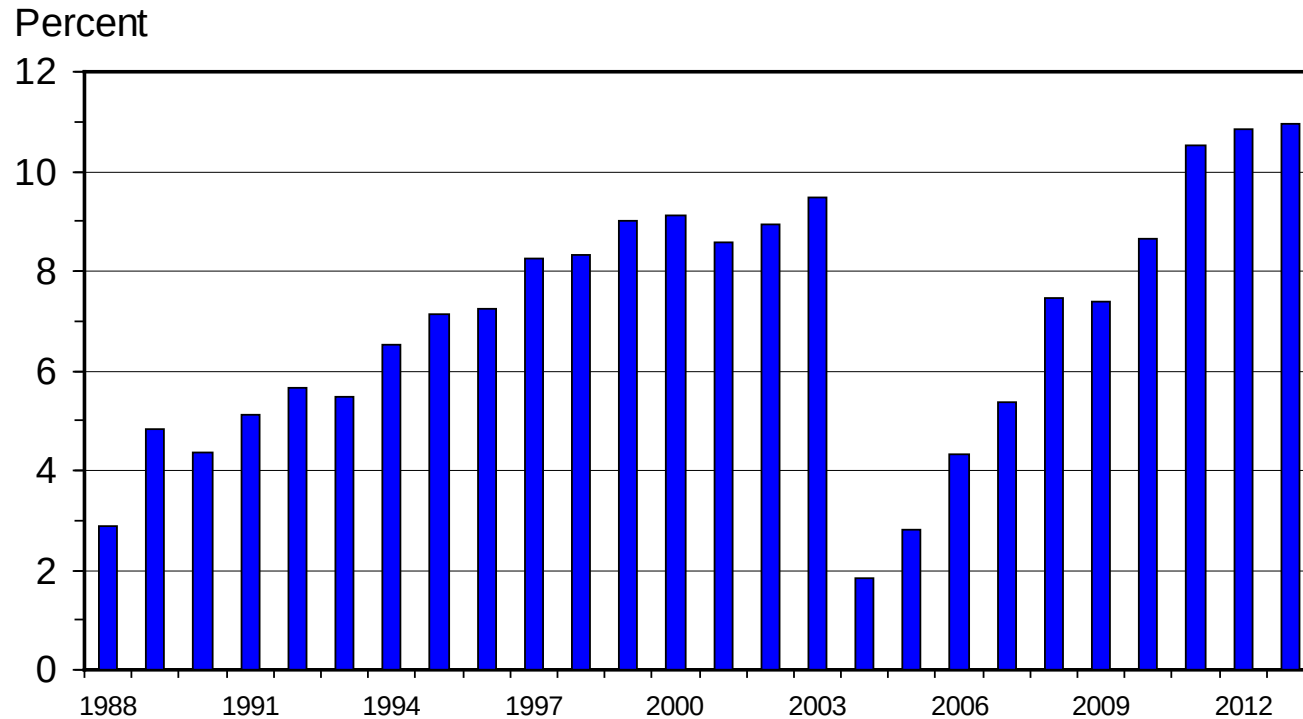


Source: Glynn T. Tonsor, Kansas State University, Jan. 2012



U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



Livestock Marketing Information Center

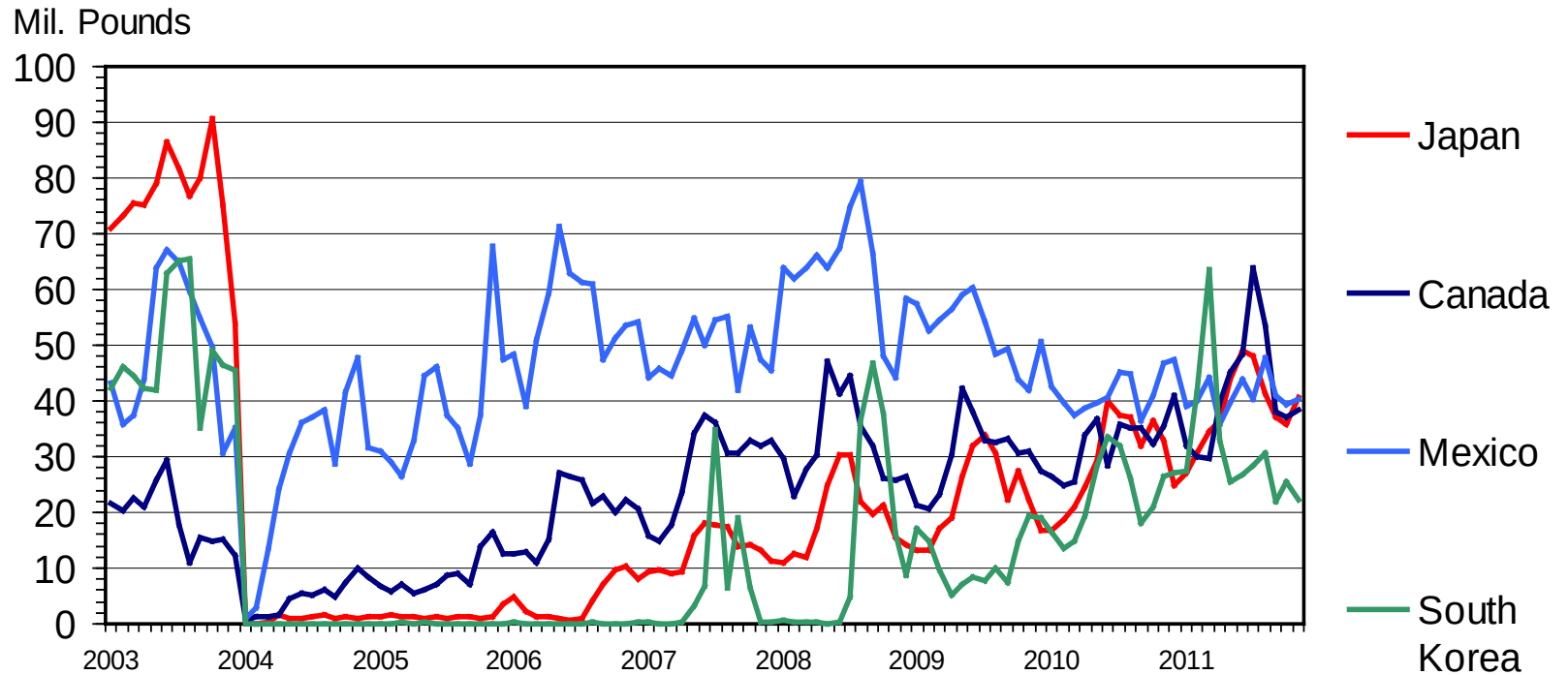
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-07
01/25/12



U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



Livestock Marketing Information Center

Data Source: USDA-ERS & USDA-FAS

I-N-35
01/17/12



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?
 - *Is overall uncertainty holding back investment throughout supply chain???*



More information available at:
AgManager (<http://www.agmanager.info/>)

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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

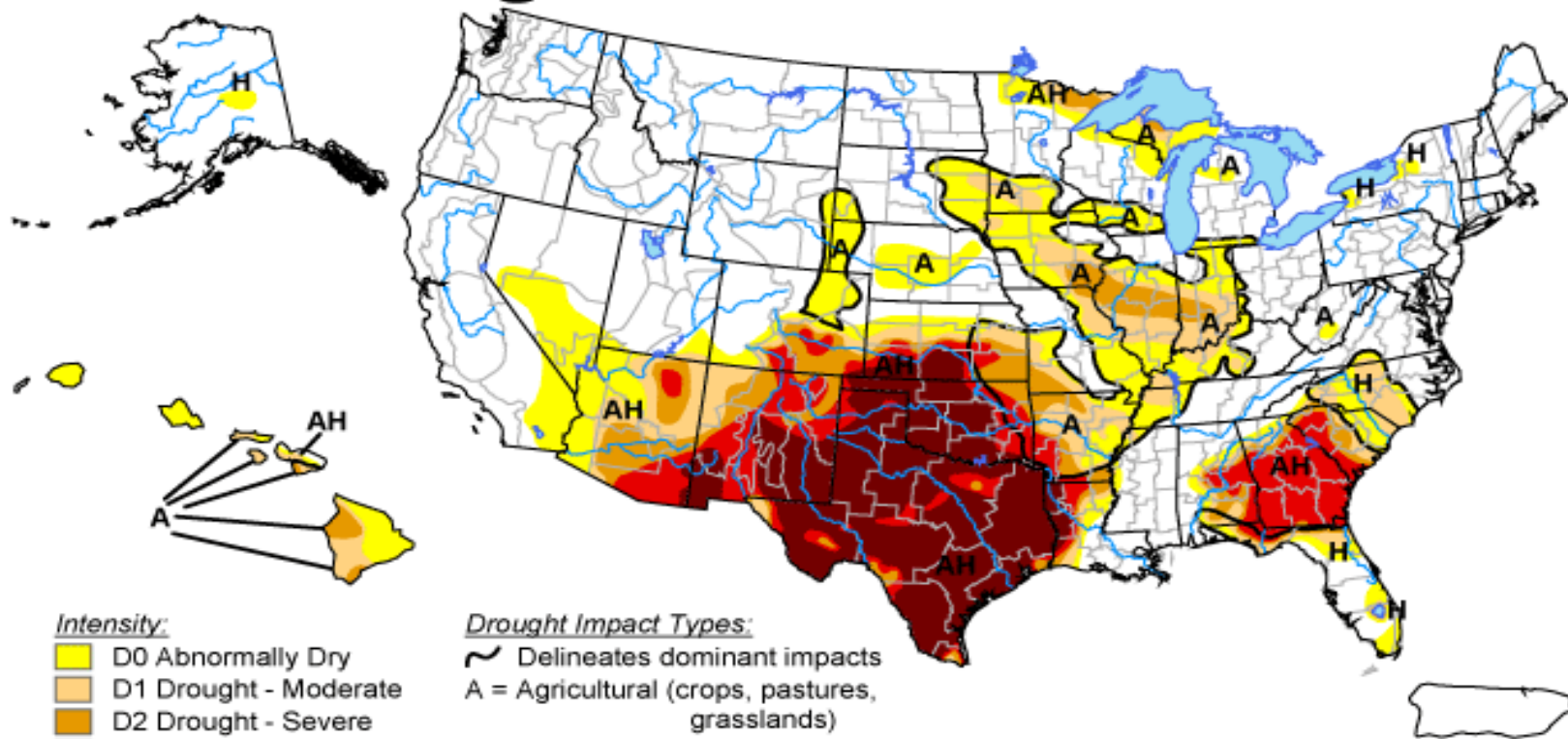
- Japan may start accepting older cattle...
- FTA = reduction of S.Korea tariffs
- USMEF – ID/Traceability study == U.S. falling behind



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

U.S. Drought Monitor

September 13, 2011
Valid 8 a.m. EDT



Intensity:

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

Drought Impact Types:

- ~ Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)



Released Thursday, September 15, 2011

Author: Mark Svoboda, National Drought Mitigation Center

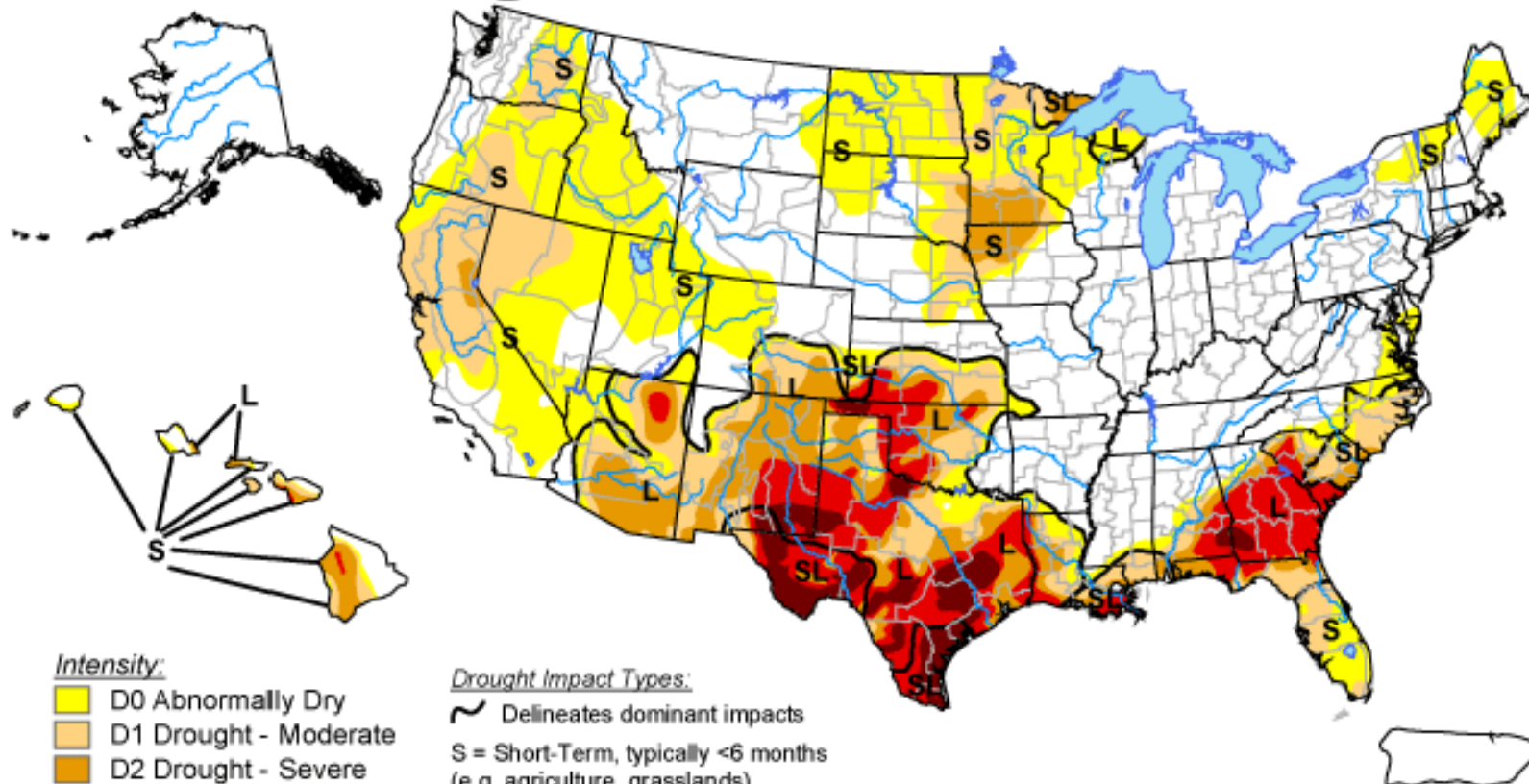
<http://drought.unl.edu/dm>



U.S. Drought Monitor

January 17, 2012

Valid 7 a.m. EST



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

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



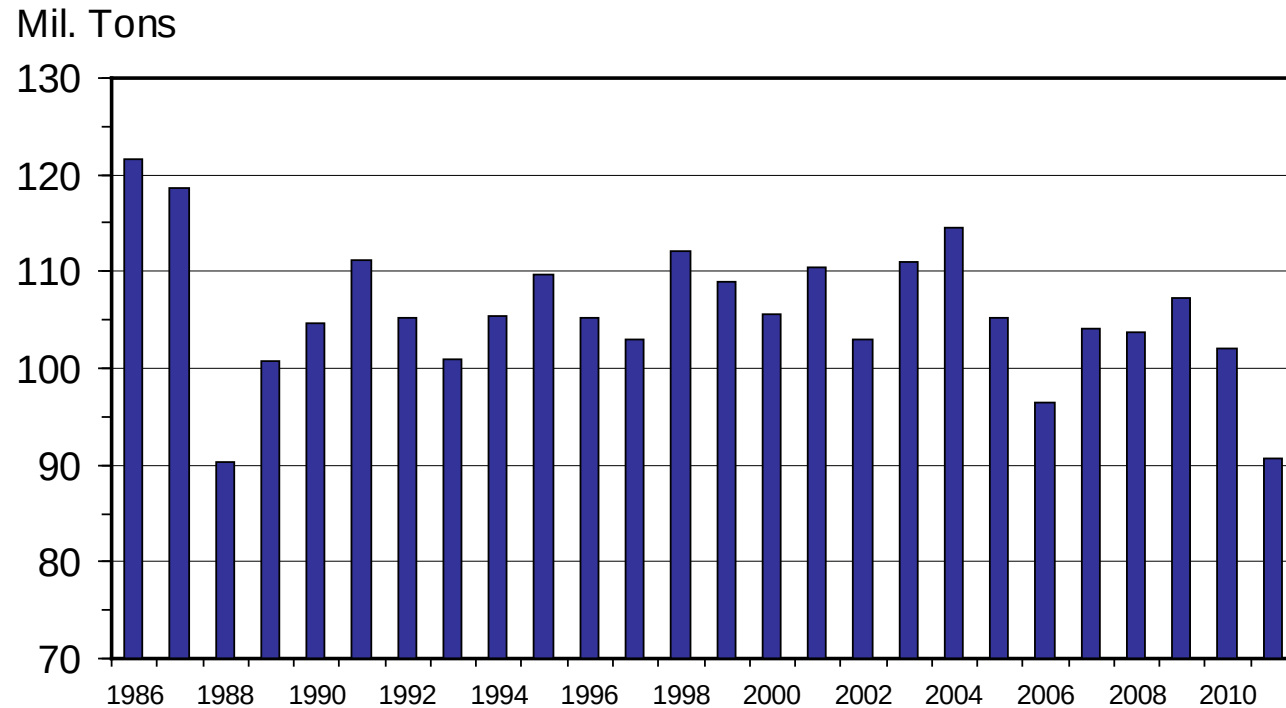
Released Thursday, January 19, 2012

Author: Laura Edwards, WRCC, South Dakota State University



U S ALL HAY STOCKS

December 1



Livestock Marketing Information Center

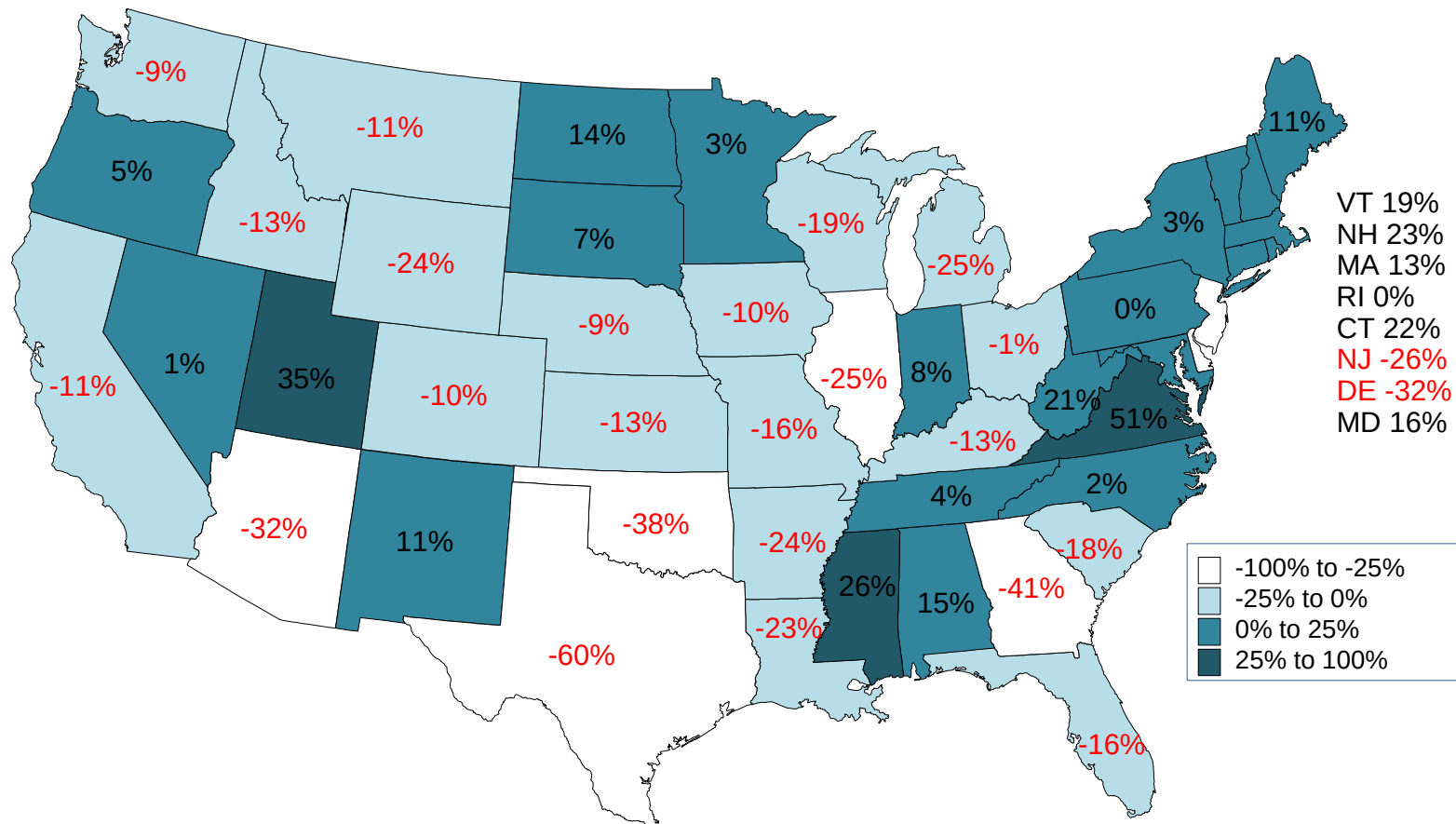
Data Source: USDA-NASS, Compiled & Forecasts by LMIC

G-NP-22

01/12/12

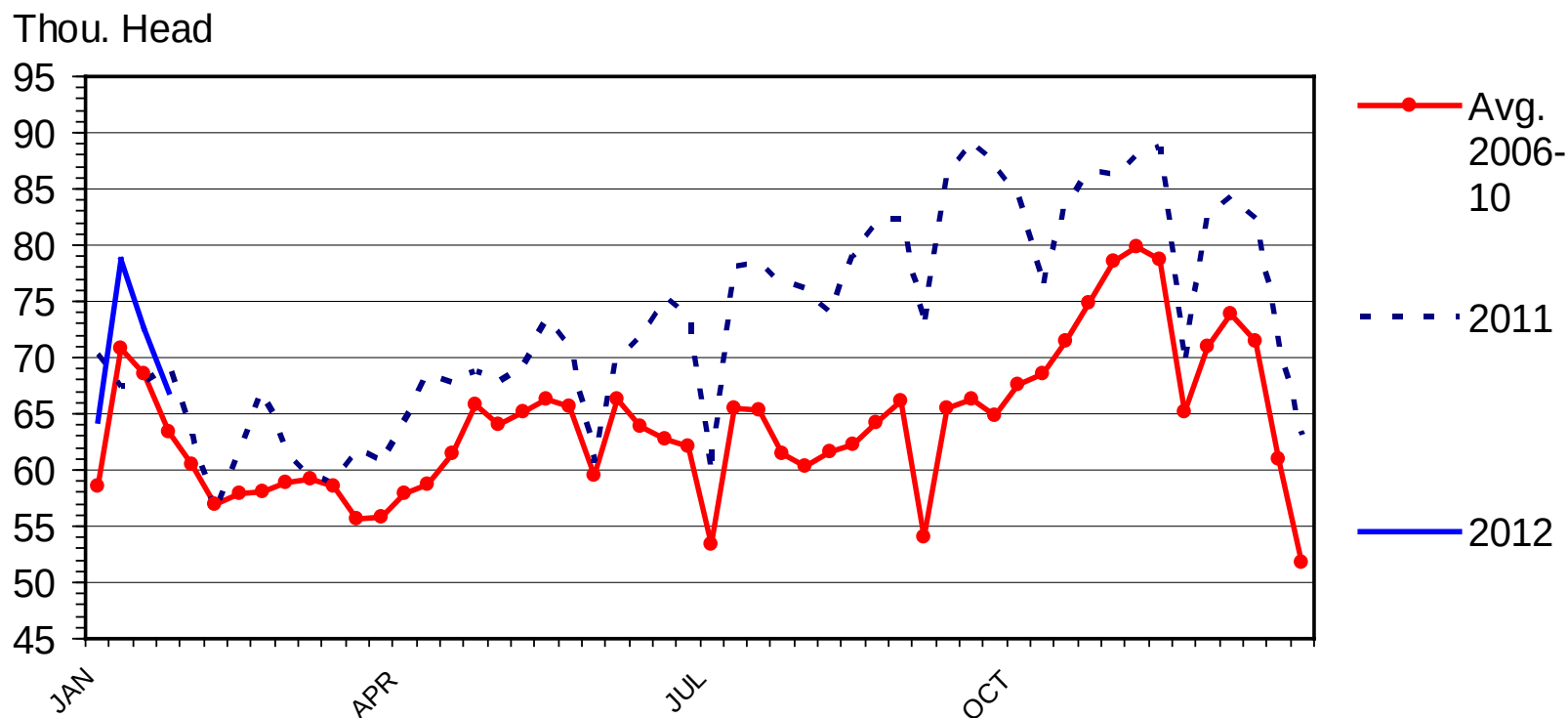


PERCENT CHANGE DECEMBER 1 HAY STOCKS
(2011-2010)



BEEF COW SLAUGHTER

Federally Inspected, Weekly



Livestock Marketing Information Center

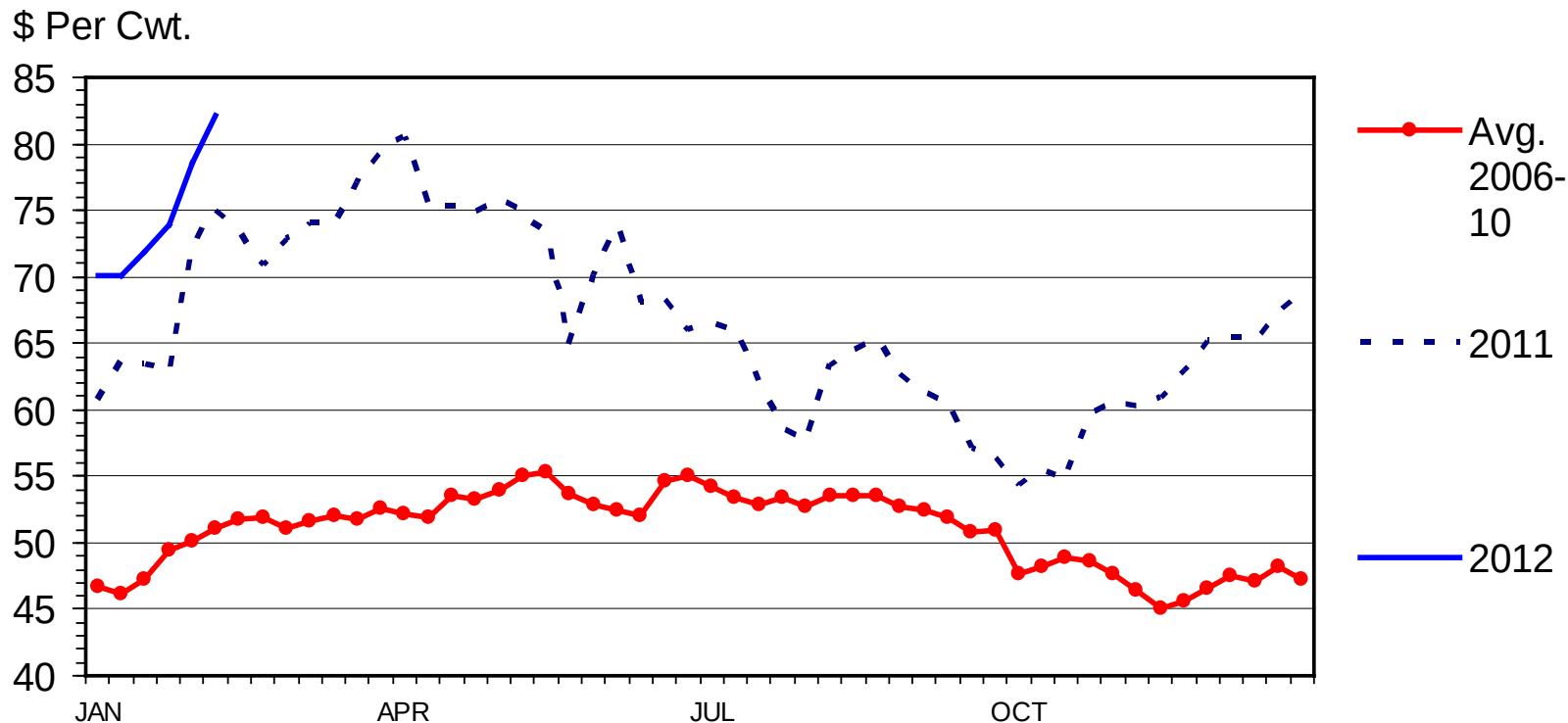
Data Source: USDA-AMS & USDA-NASS

C-S-34
02/10/12



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



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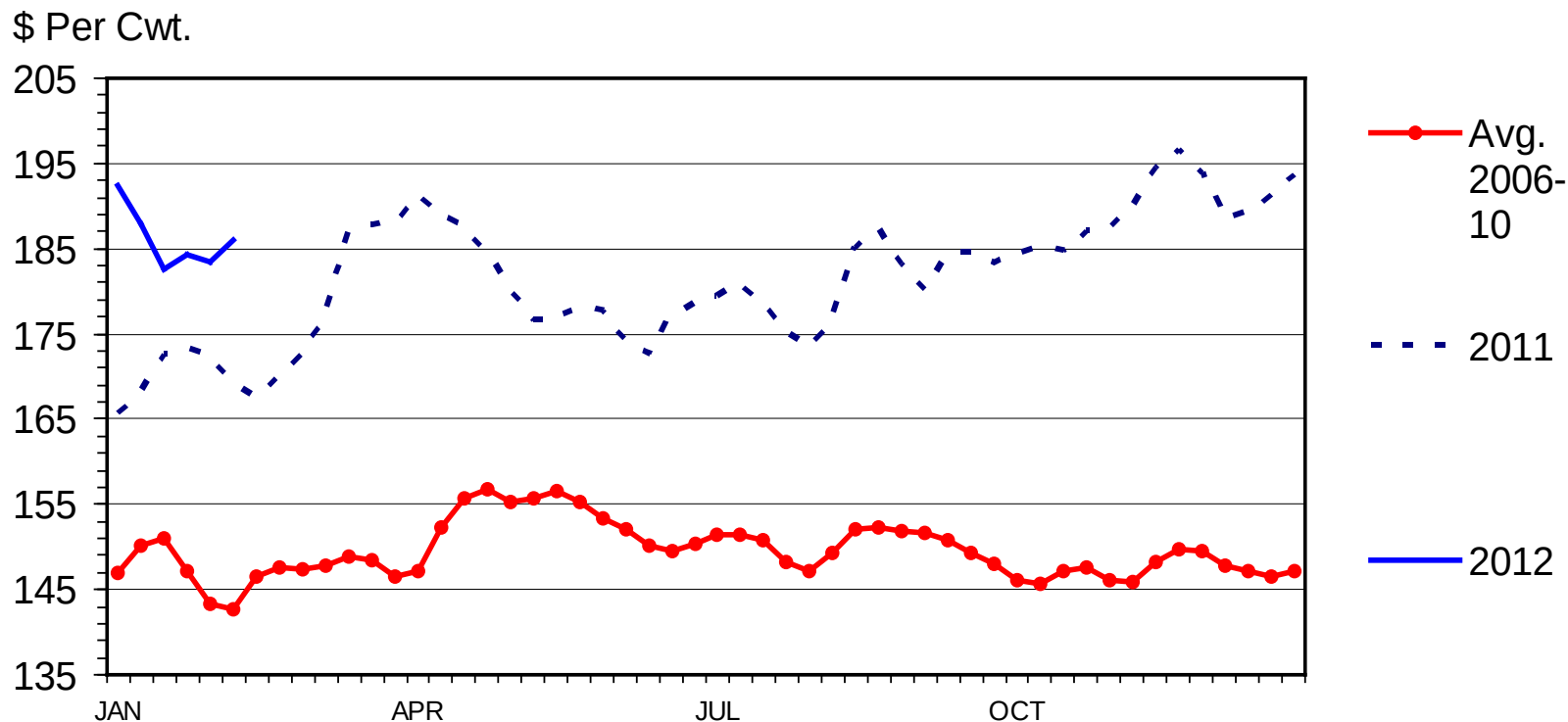
Data Source: USDA-AMS

C-P-35
02/13/12



BOXED BEEF CUTOUT VALUE

Choice 600-900 Lbs. Carcass, Weekly



Livestock Marketing Information Center

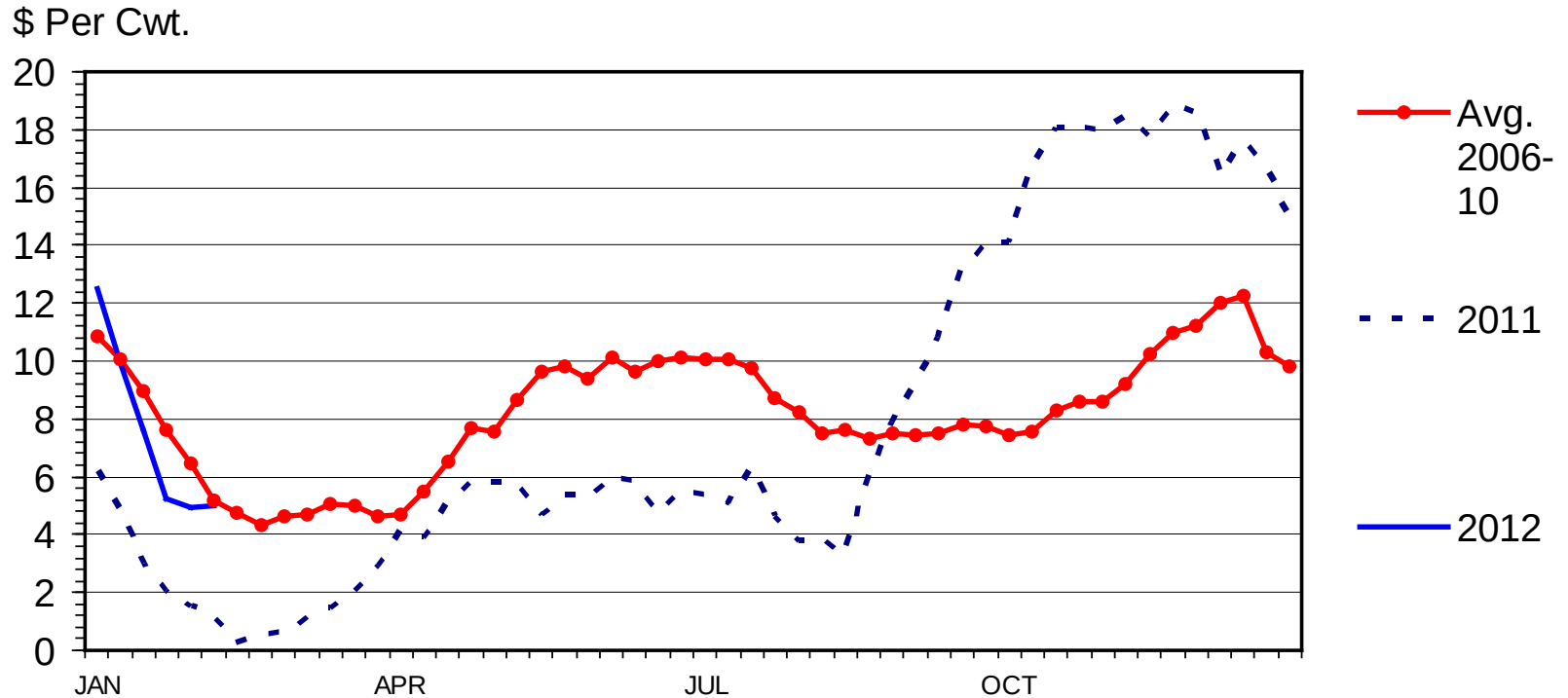
Data Source: USDA-AMS

C-P-62
02/13/12



CHOICE MINUS SELECT BEEF PRICES

Carcass Cutout Value 600-900 Lbs., Weekly



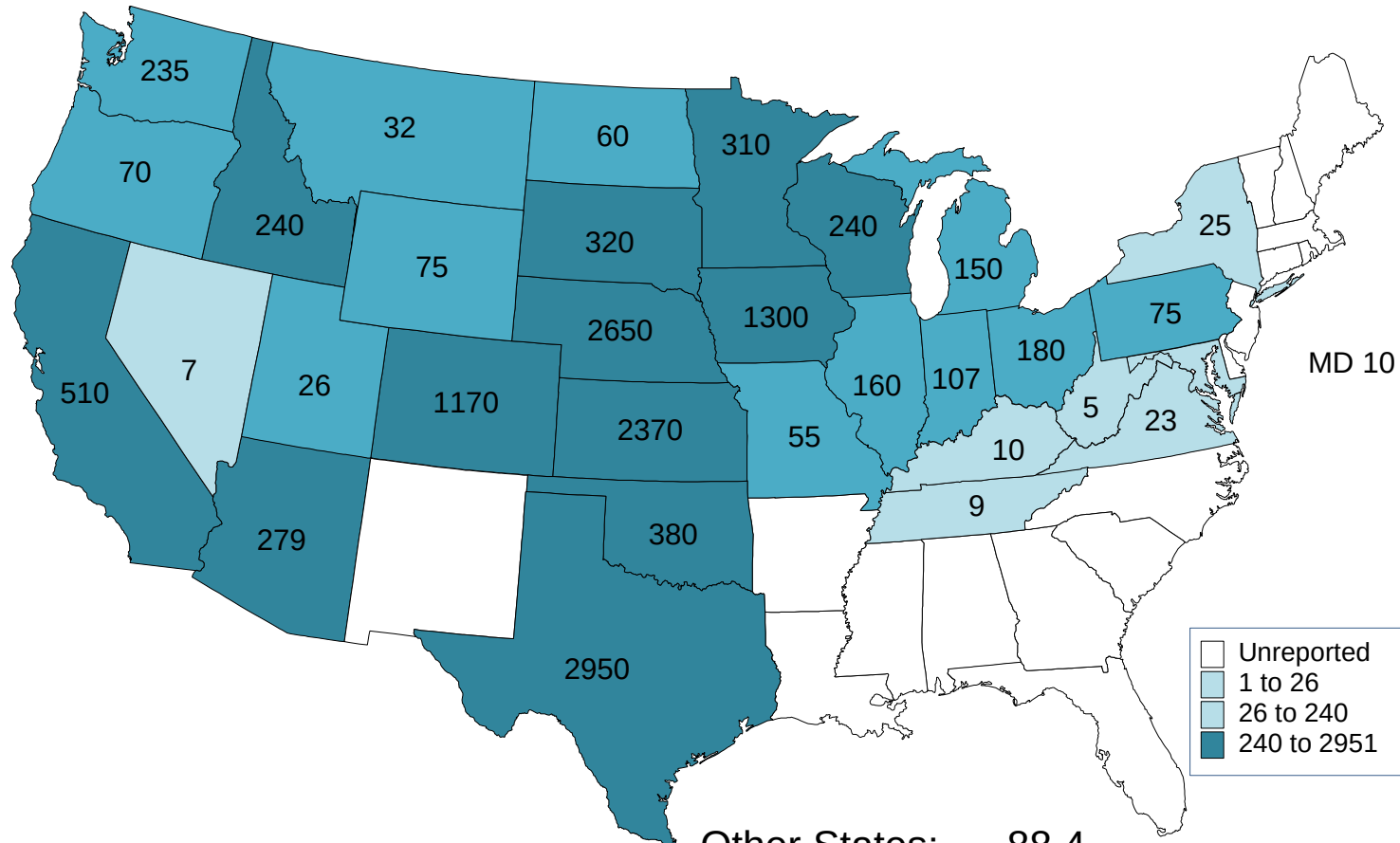
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Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-68
02/13/12



(1000 Head)



Other States: 88.4
U.S. Total: 14121

Livestock Marketing Information Center

Data Source: USDA-NASS

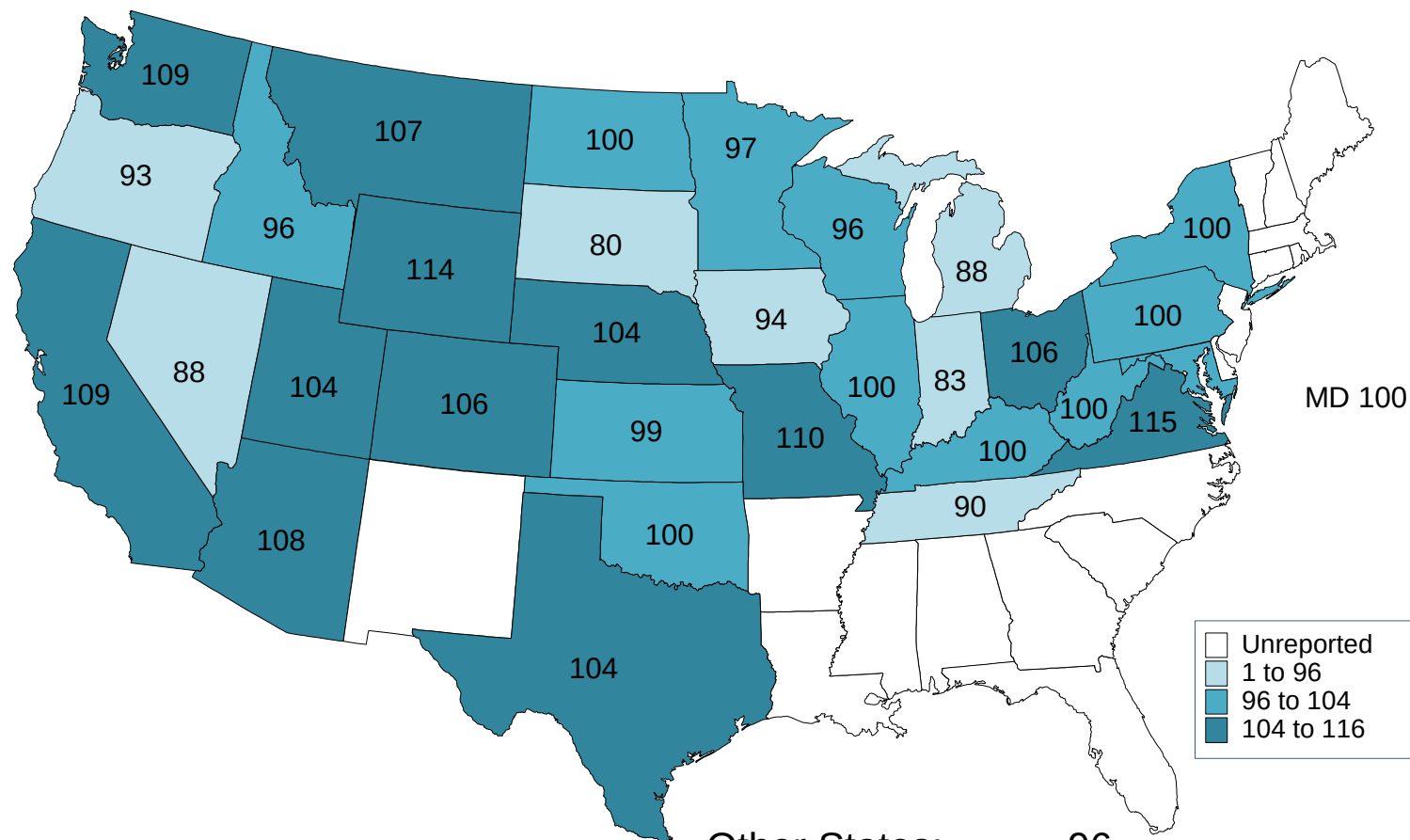
Data Source: USDA-NASS

KANSAS STATE UNIVERSITY



01/27/12

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



Livestock Marketing Information Center

Data Source: USDA-NASS

Other States:
U.S. Total:

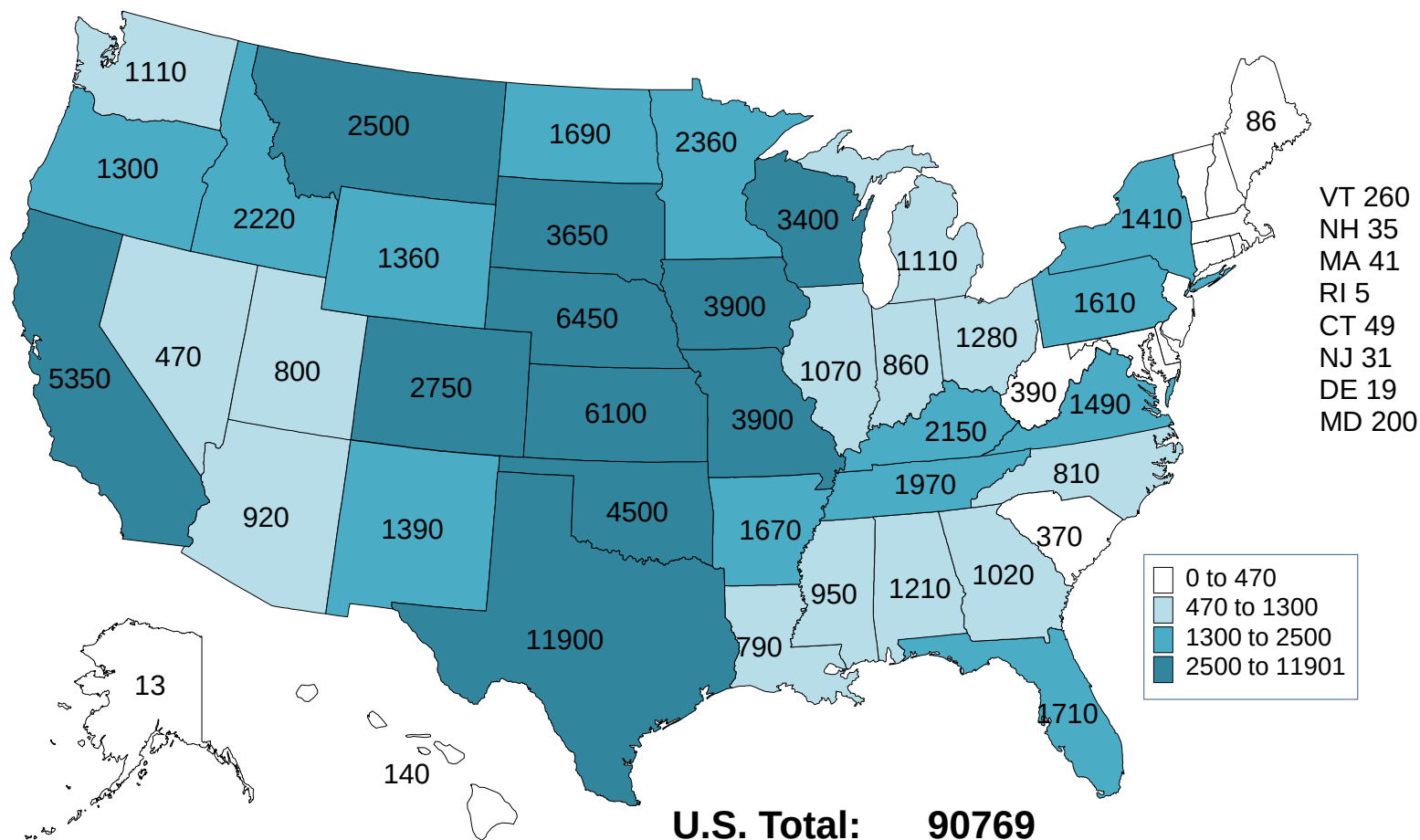
96
101

01/27/12



TOTAL CATTLE NUMBERS JANUARY 1, 2012

(1000 Head)



CHANGE IN TOTAL CATTLE NUMBERS 2011 - 2012 (1000 Head)

