2012 ALABAMA
COW-CALF
CONFERENCE

Meeting Global Beef Demand One Cow and Calf at a Time

Friday, June 15, 2012

Ham Wilson Livestock Arena on the Auburn University Campus

There is Excitement and Opportunity for Top Managers in the Cattle Industry

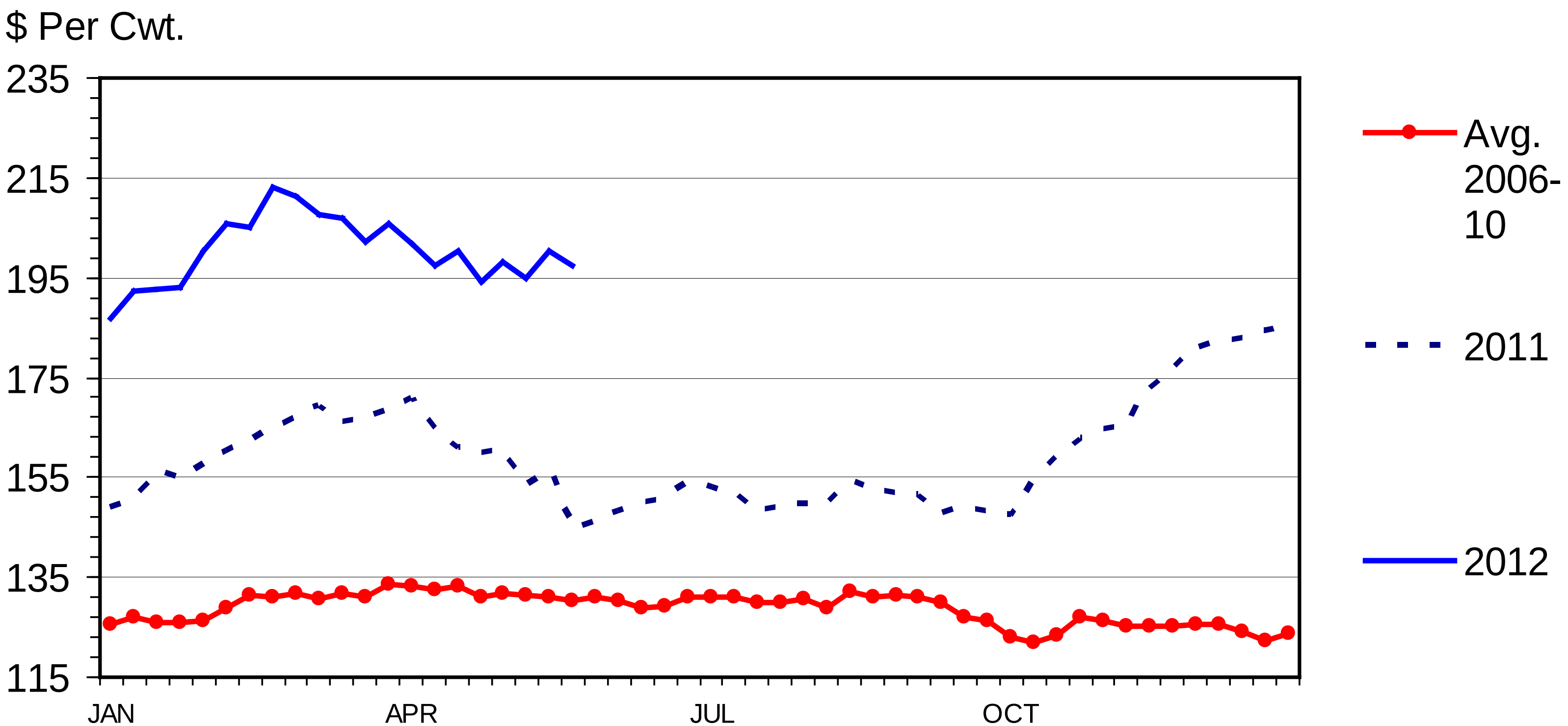
Glynn Tonsor
Dept. of Agricultural Economics
Kansas State University

Economic Outlook Overview: Cow-Calf

- Calf price pullback since early March; <u>BUT</u>
- Continued beneficiary of tight supplies and expanded heifer retention…
  - On the “right side” of industry capacity underutilization…
- Returns over cash costs may set historic records
  - 2013 may prove to be “peak return year” …
- Business environment continues to change – not everyone is comfortable with this…

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



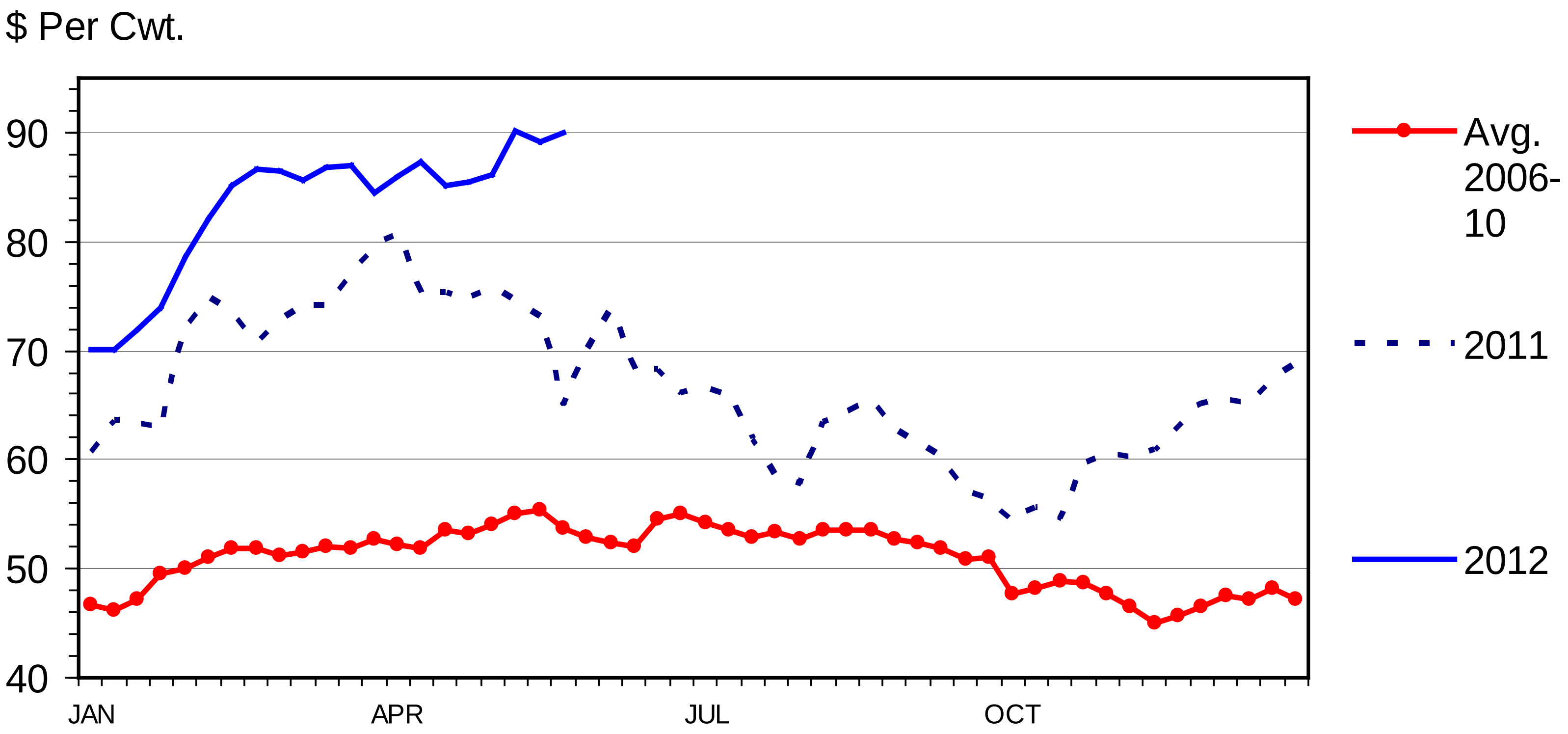
C-P-49A
06/04/12

Livestock Marketing Information Center

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

SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



C-P-35
06/04/12

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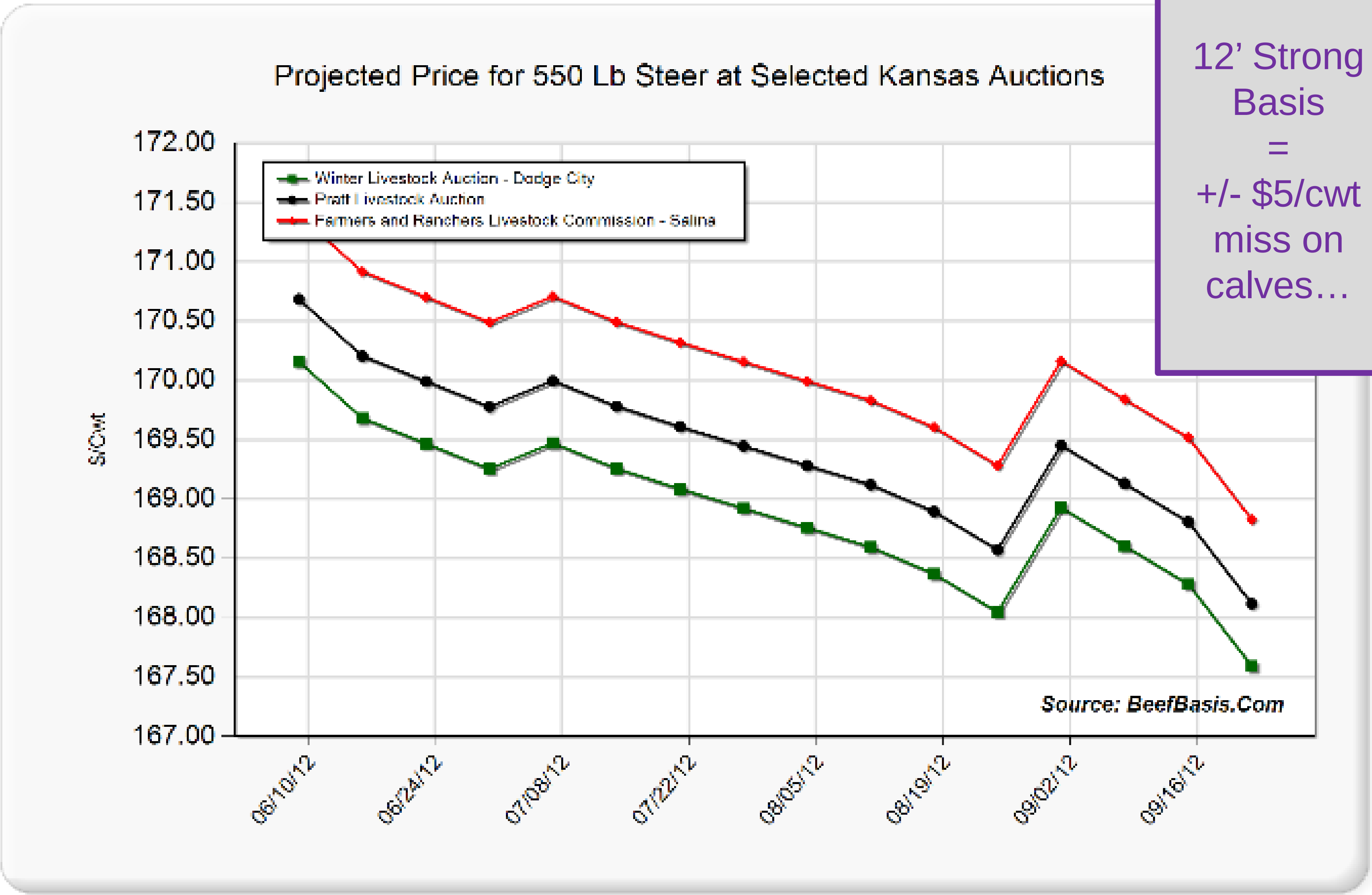
Data Source: USDA-AMS

As of: 6/11/12

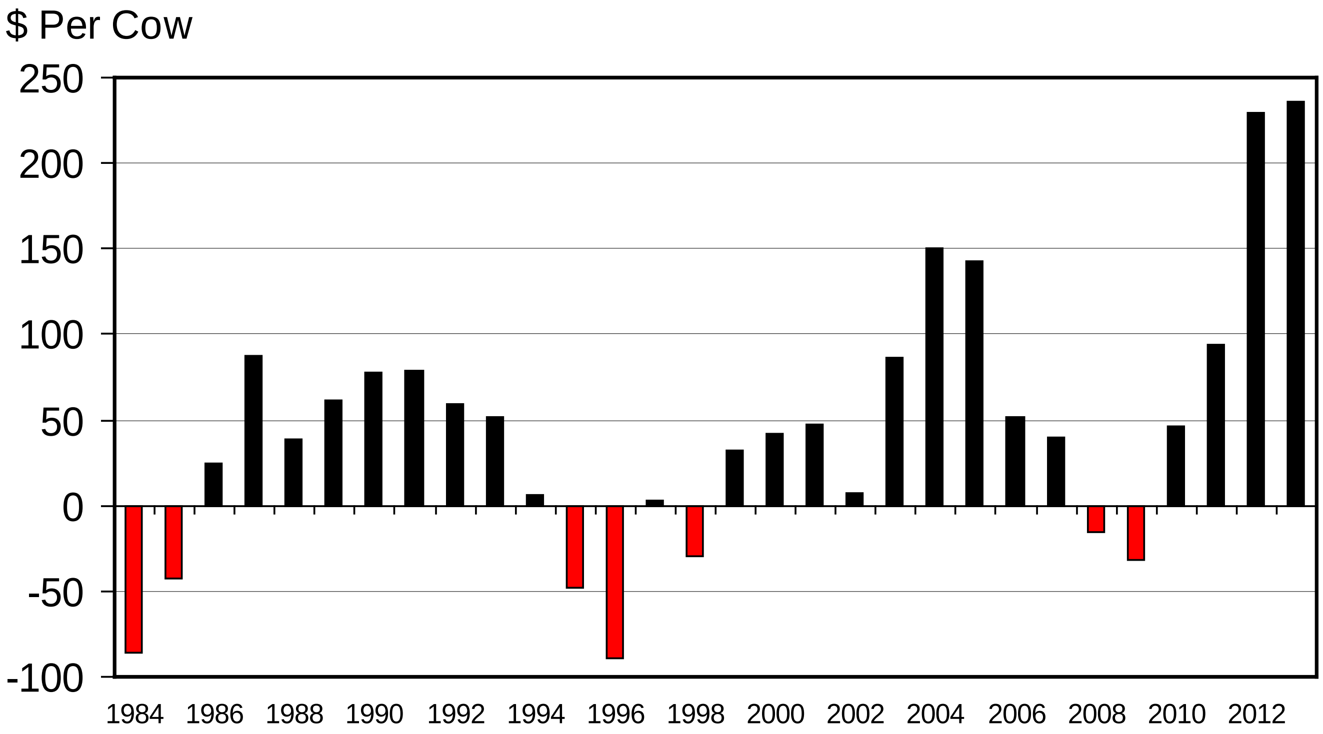


12' Strong Basis = +/- $5/cwt miss on calves…

Roanoke, AL Values: 6/15: $155; 7/8: $154; 8/5: $153; 9/2: $152

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



C-P-66
03/21/12

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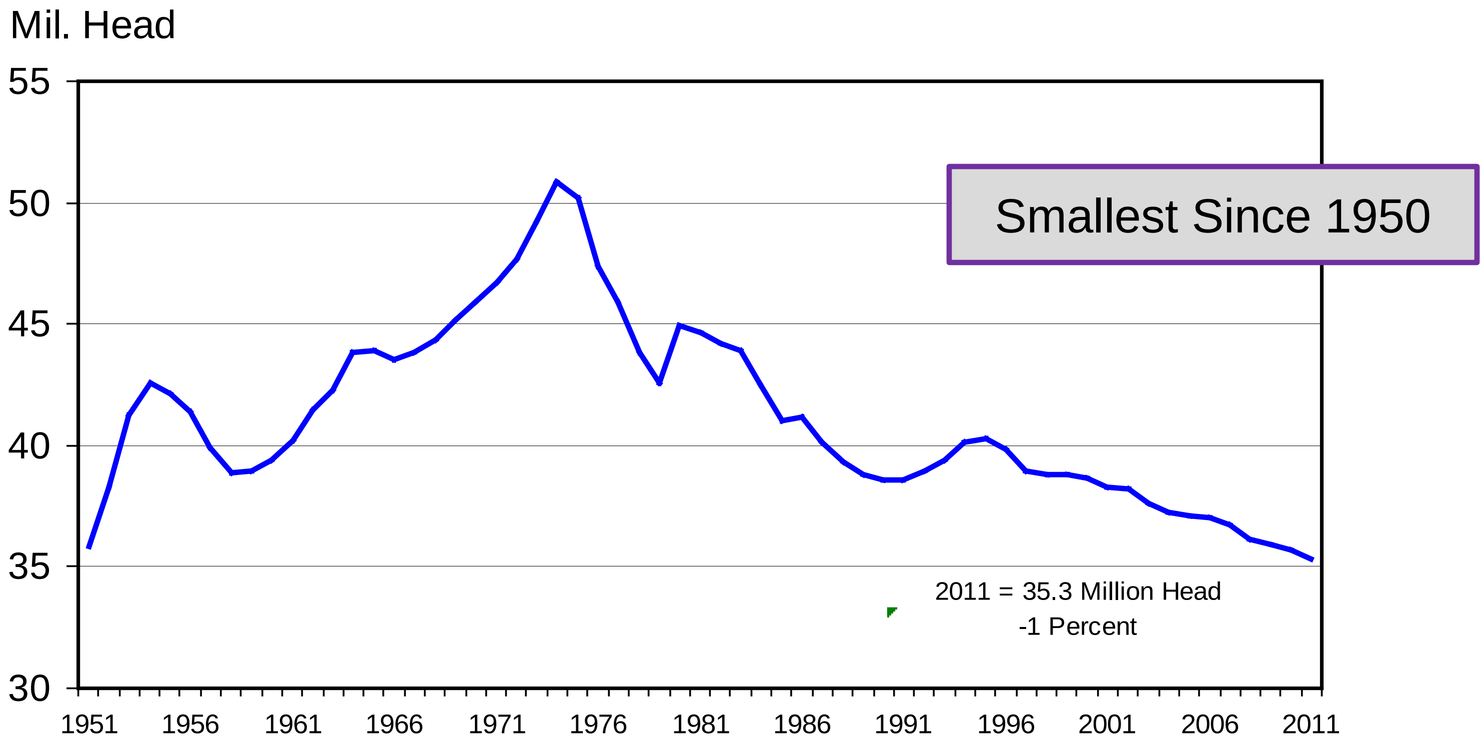
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

CALF CROP

U.S., Annual



C-N-18A
01/29/12

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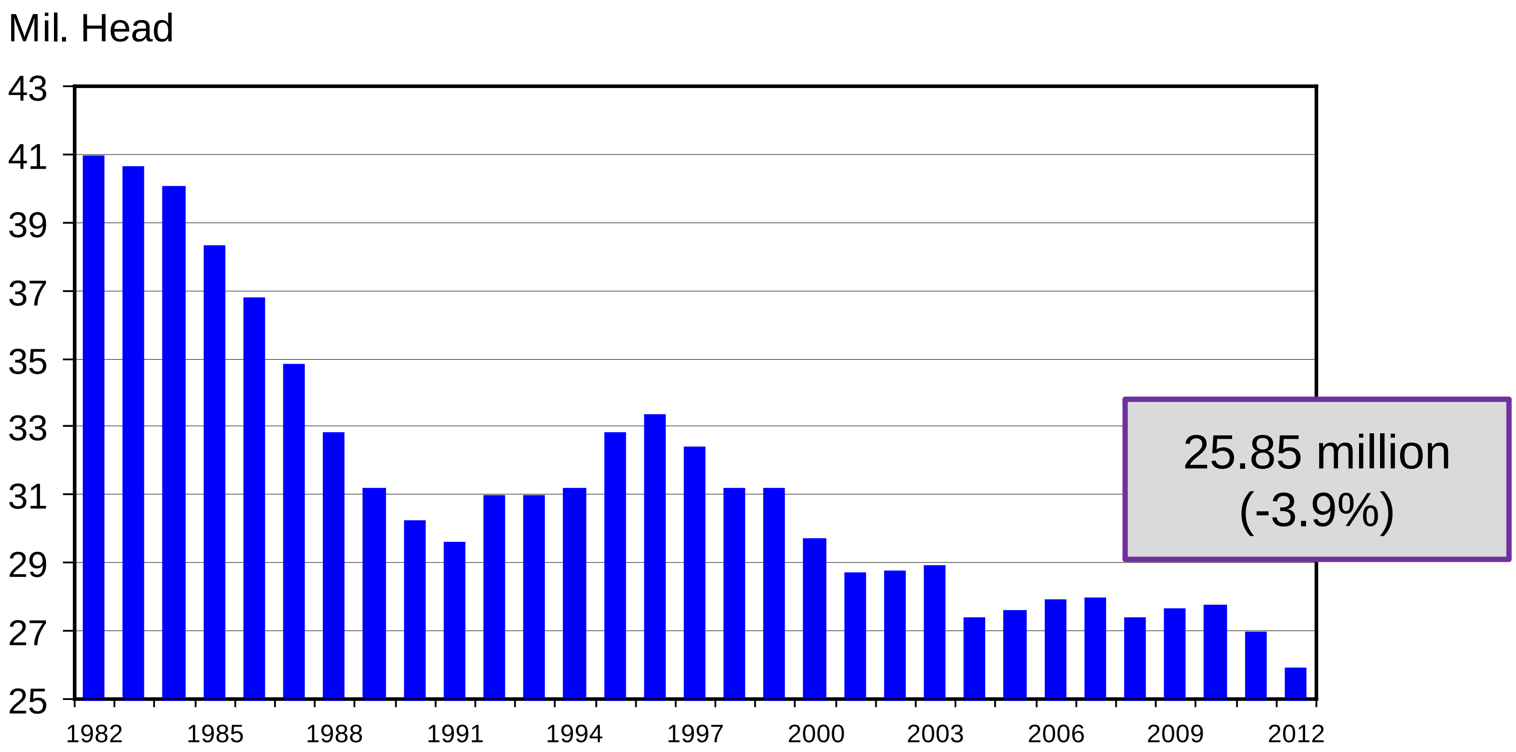
Data Source: USDA-NASS

JANUARY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.



C-N-30
01/29/12

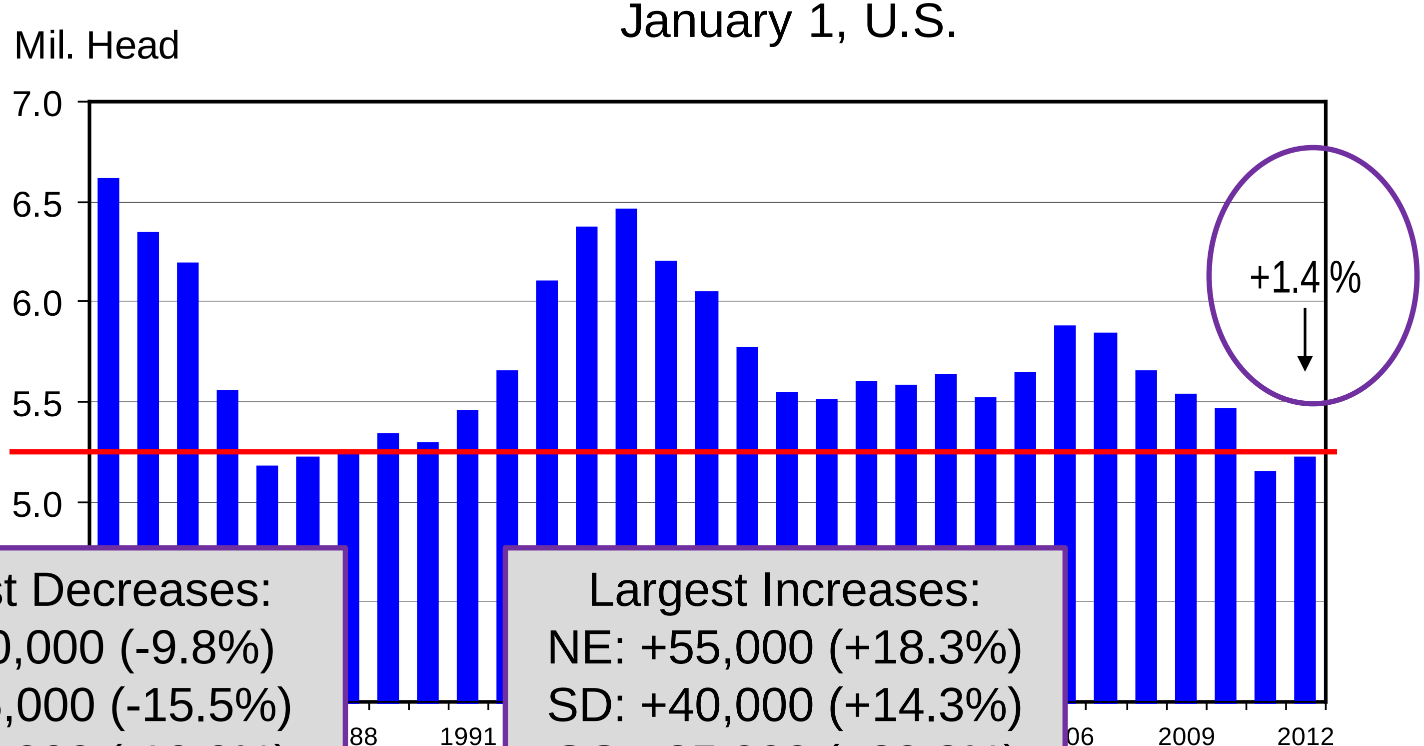
Livestock Marketing Information Center

Data Source: USDA-NASS

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

HEIFERS HELD AS BEEF COW REPLACEMENTS
January 1, U.S.

AL: +6,000 (+6.7%)



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%)

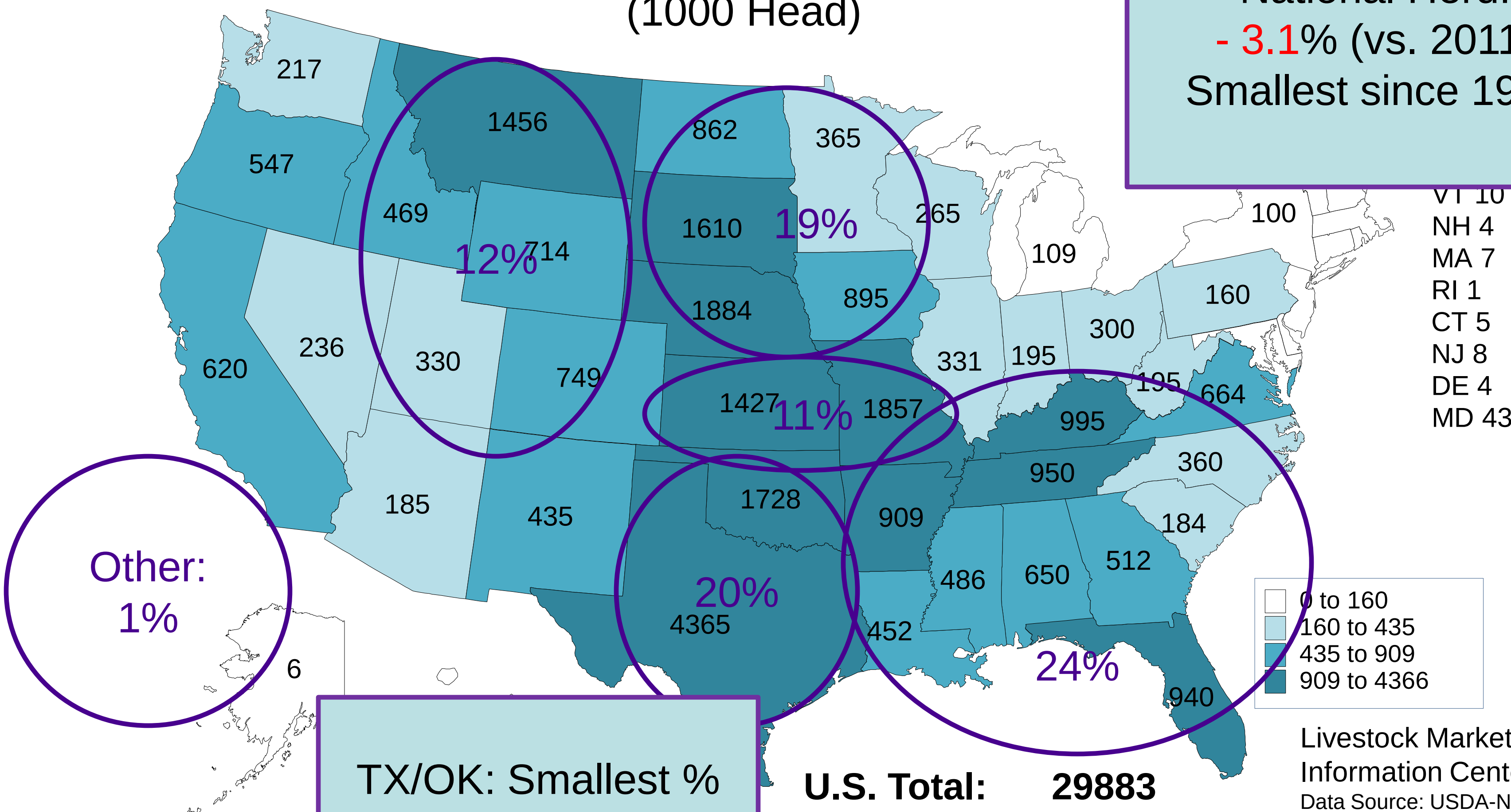
Largest Increases:
NE: +55,000 (+18.3%)
SD: +40,000 (+14.3%)
CO:+35,000 (+29.2%)
WY: +25,000 (+17.9%)
IA: +20,000 (+16.7%)

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

TX/OK: Smallest %
Since 1972

U.S. Total: 29883

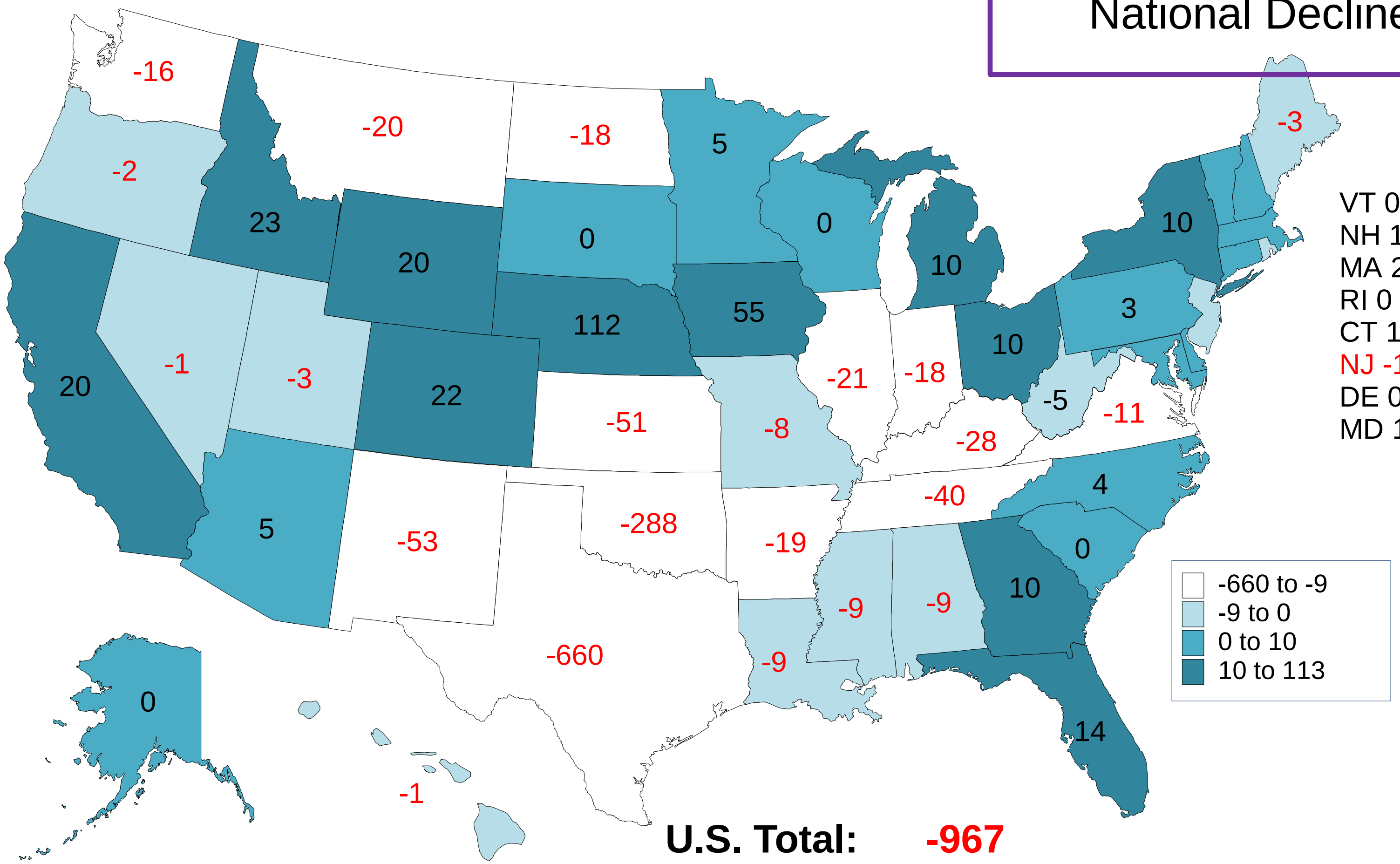
Livestock Marketing Information Center
Data Source: USDA-NASS

01/27/12

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

(1000 Head)

OK + TX = 98.1% of National Decline



U.S. Total: -967

01/27/12

Livestock Marketing Information Center

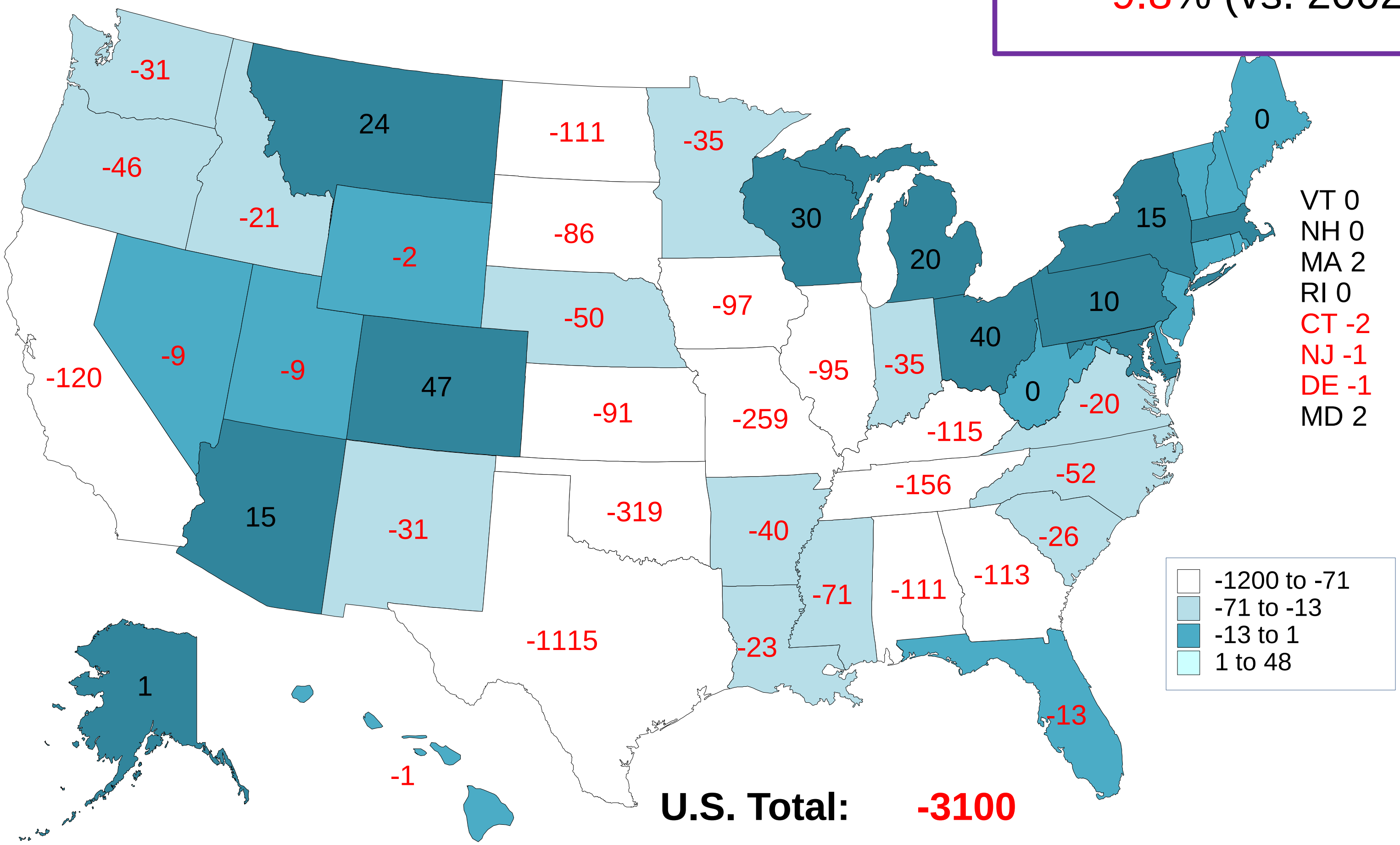
Data Source: USDA-NASS

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)



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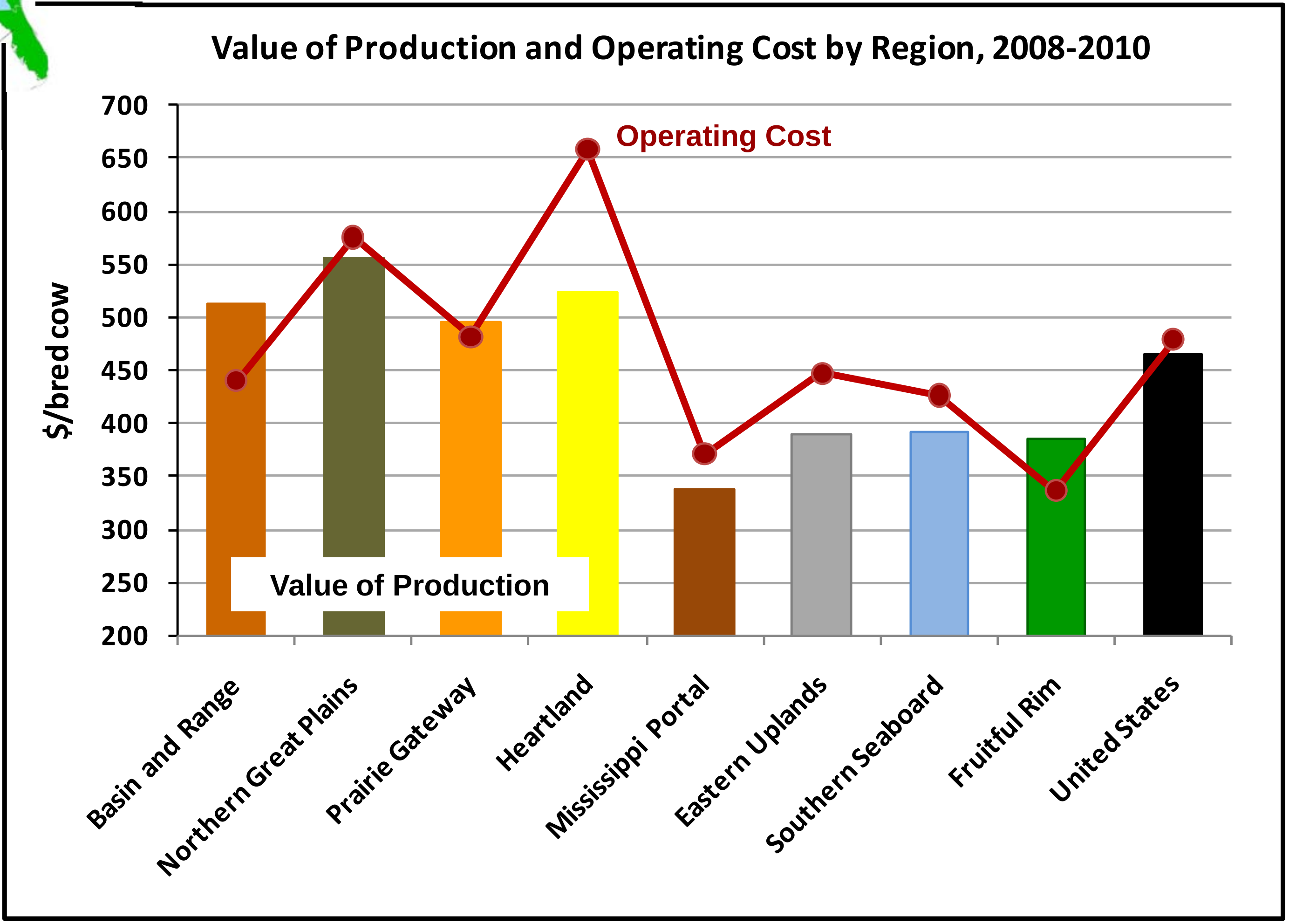
Data Source: USDA-NASS

01/27/12

KANSAS STATE UNIVERSITY

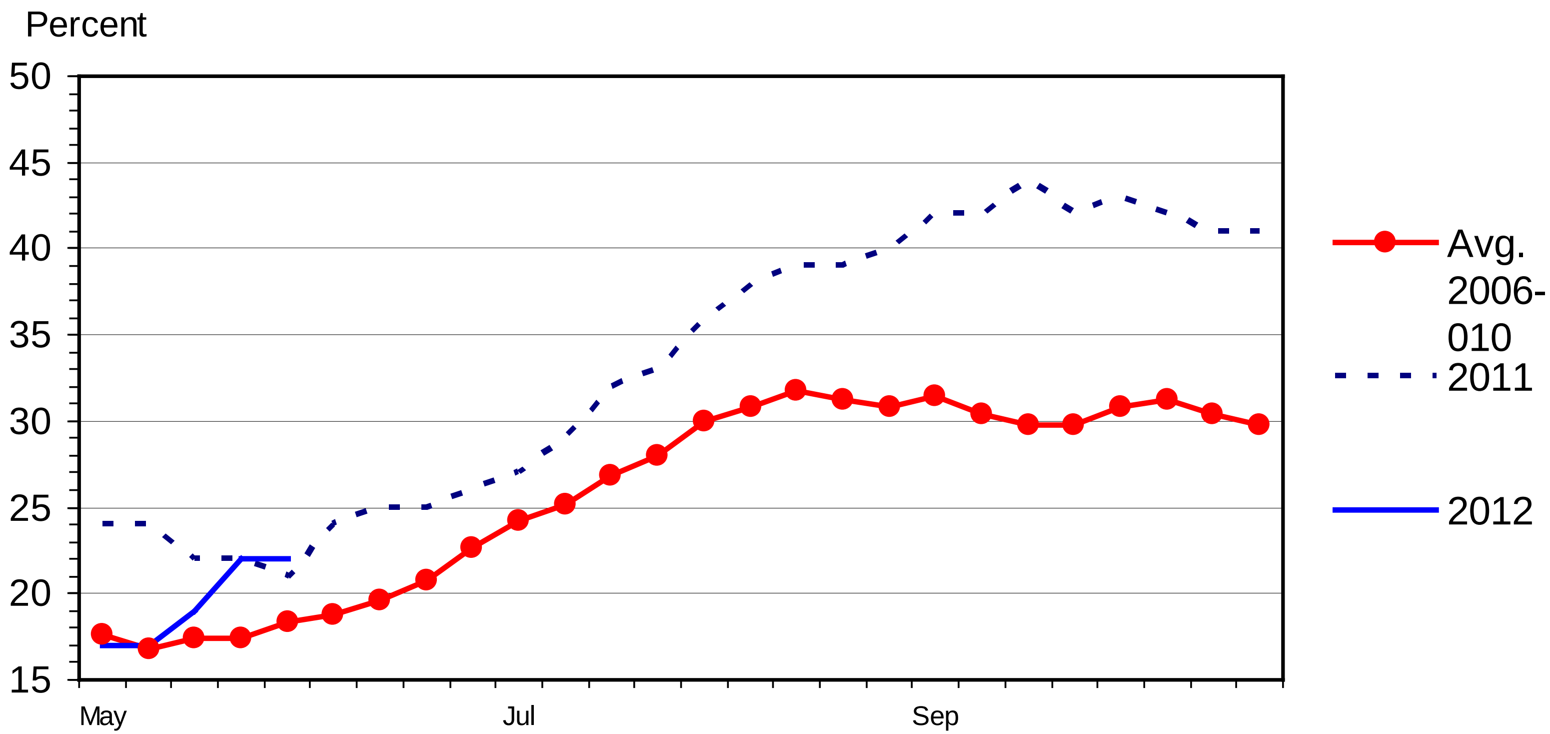
Do some regions have an economic advantage for expansion?



Data source: USDA-ERS

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-30
06/04/12

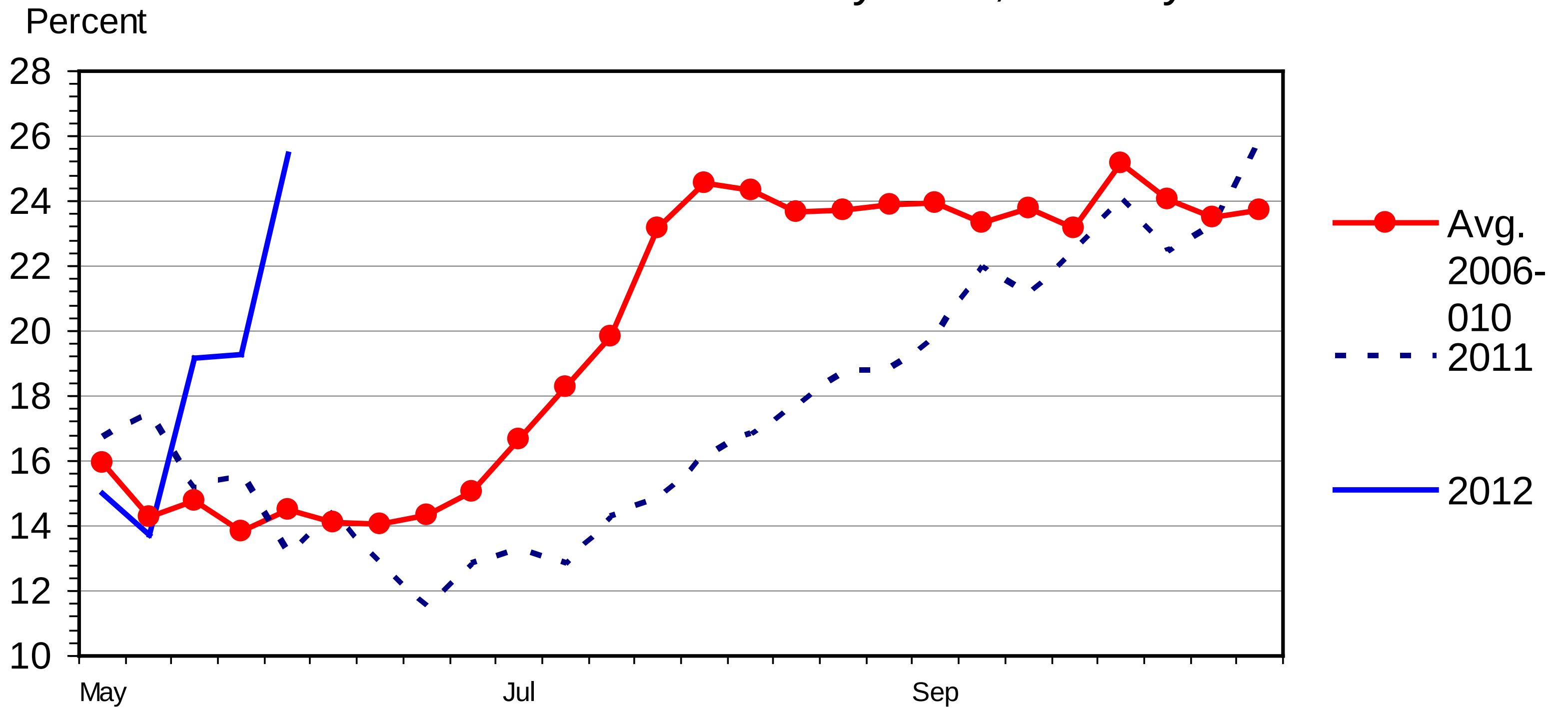
Livestock Marketing Information Center

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

CO, KS, MT, NE, ND, SD, & WY

GREAT PLAINS REGION
RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-32
06/04/12

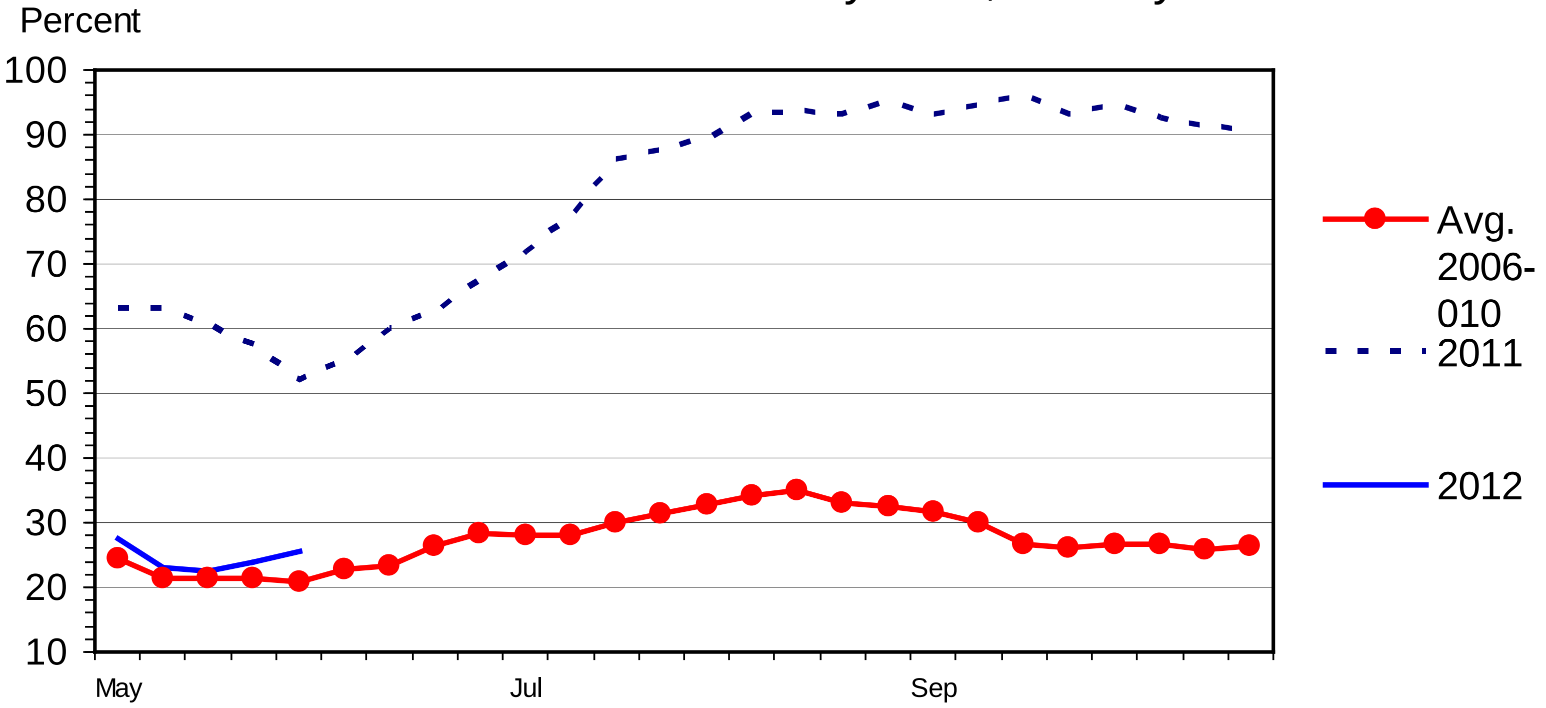
Livestock Marketing Information Center

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

OK & TX

SOUTHERN PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-33
06/04/12

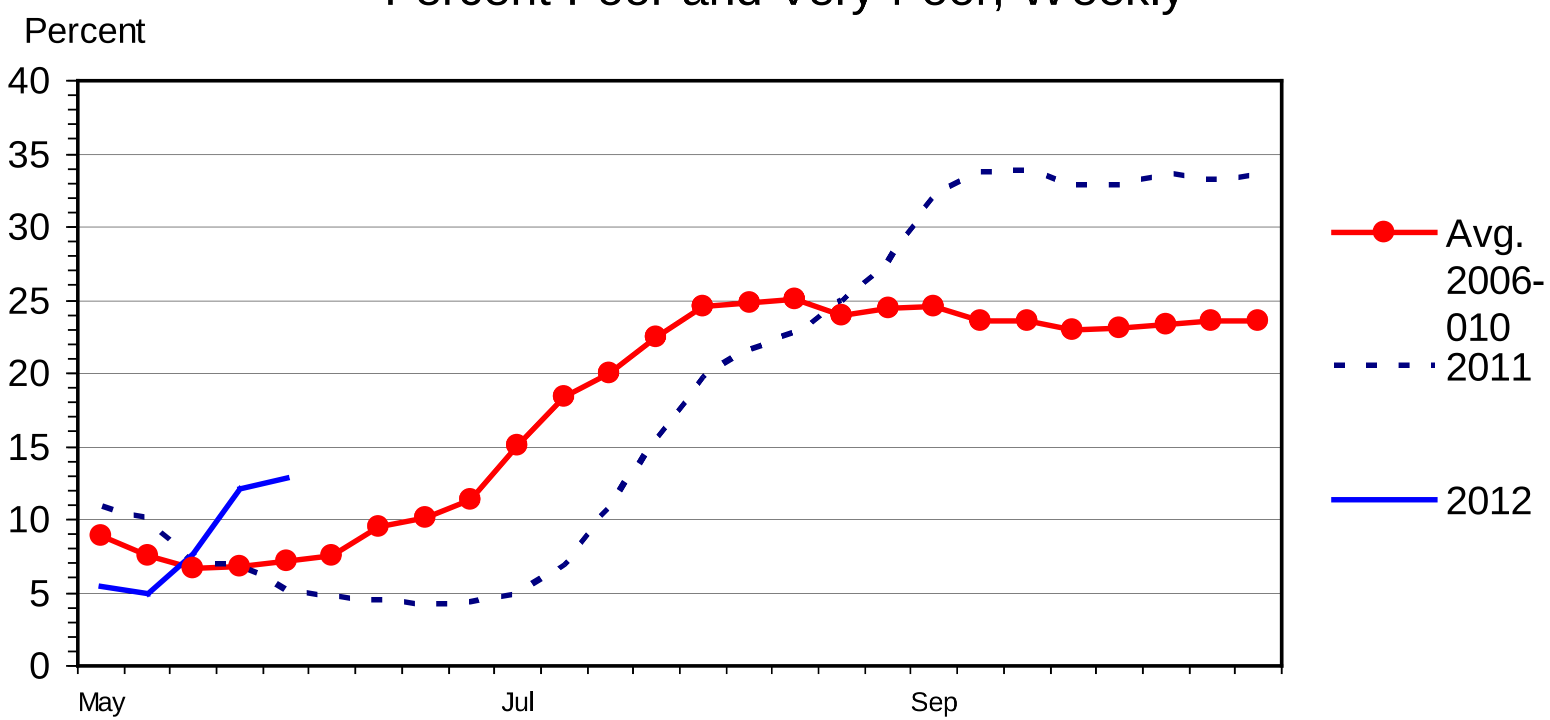
Livestock Marketing Information Center

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

IL, IN, IA, MI, MN, MO, OH, & WI

CORNBELT REGION
RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-34
06/04/12

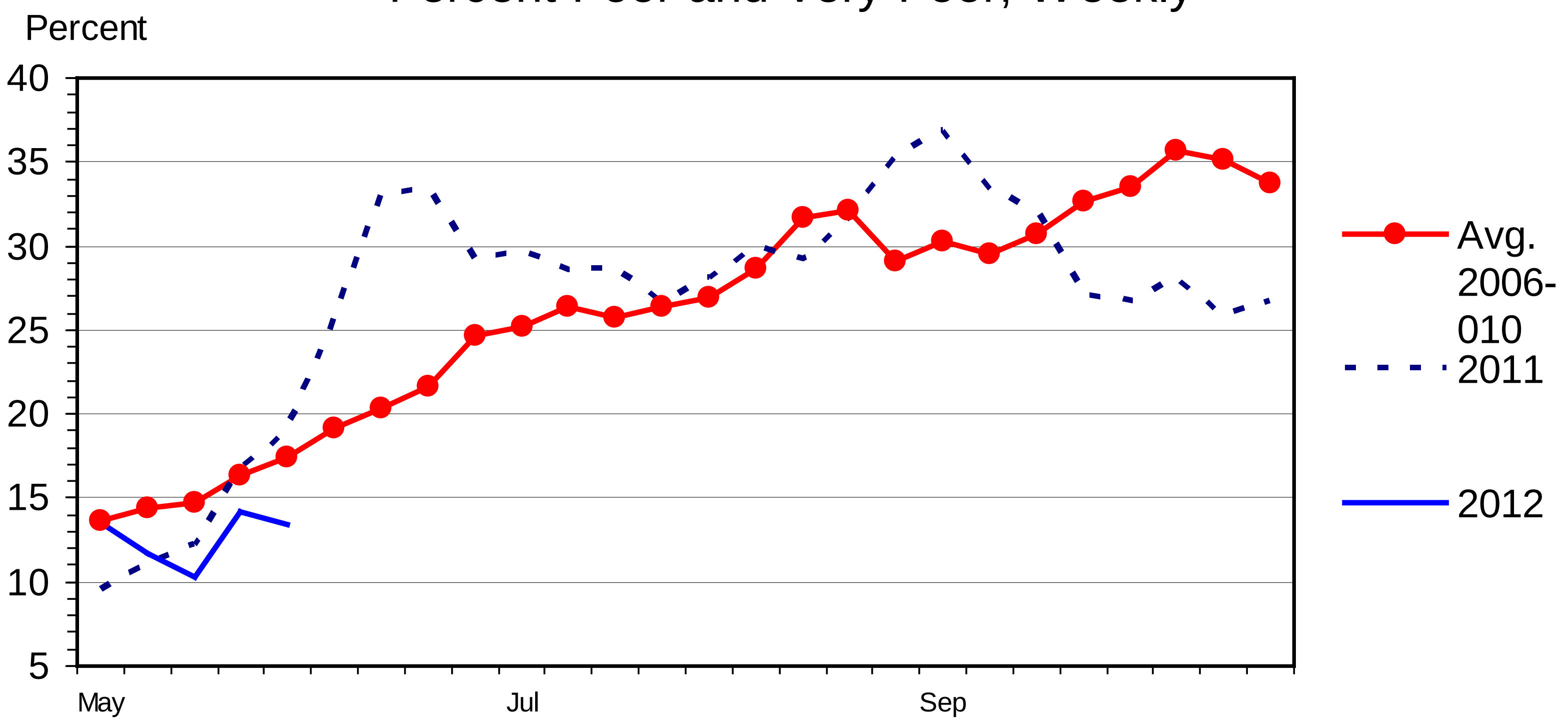
Livestock Marketing Information Center

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

AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, & WV

SOUTHEAST REGION
RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

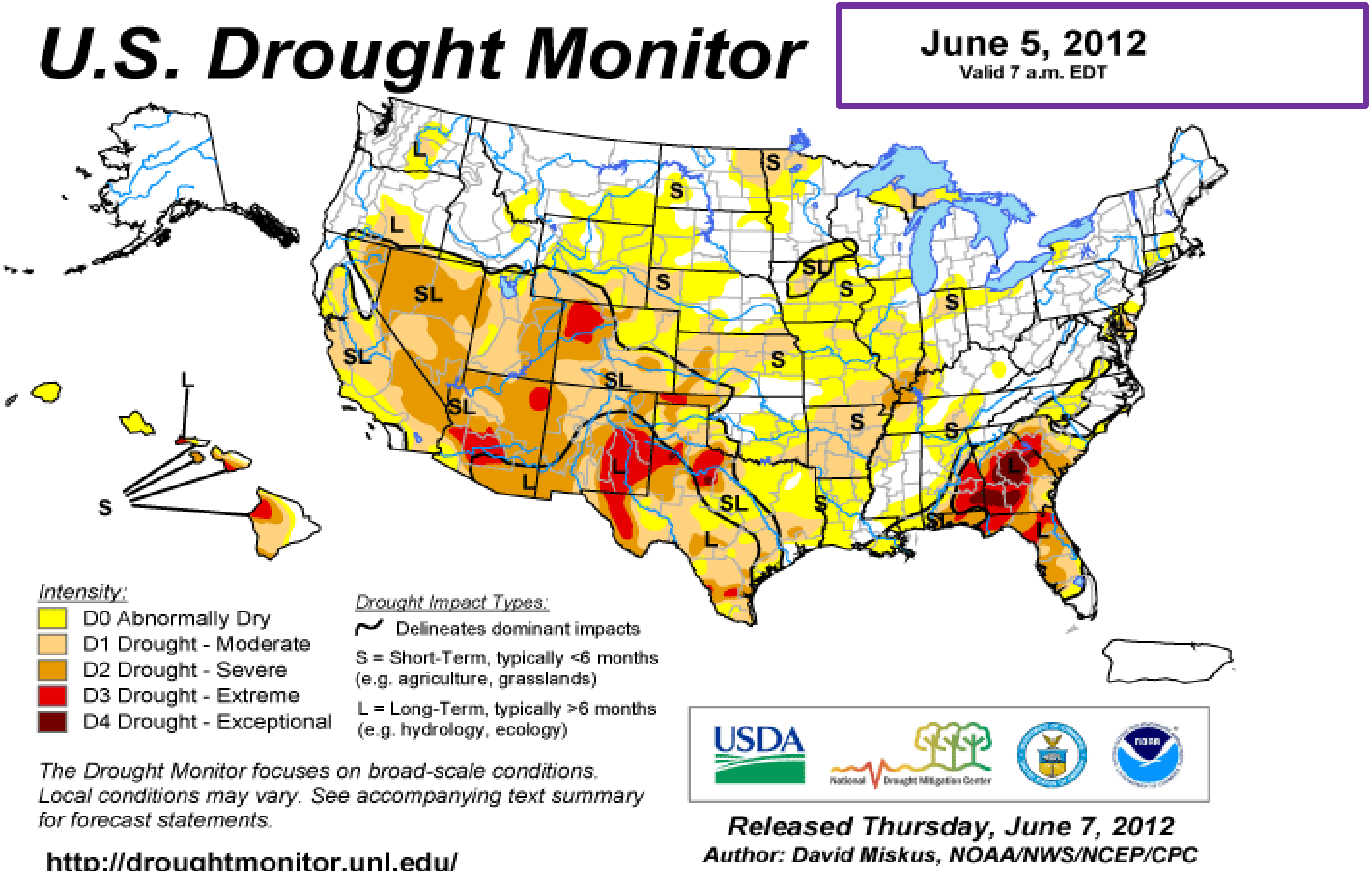


G-NP-36
06/04/12

Livestock Marketing Information Center

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

June 2012: 13% of Beef Cows in States with > 40%
Poor to Very Poor Pasture Conditions (was 28% in 2011)…



Notable variation within Southeast region …

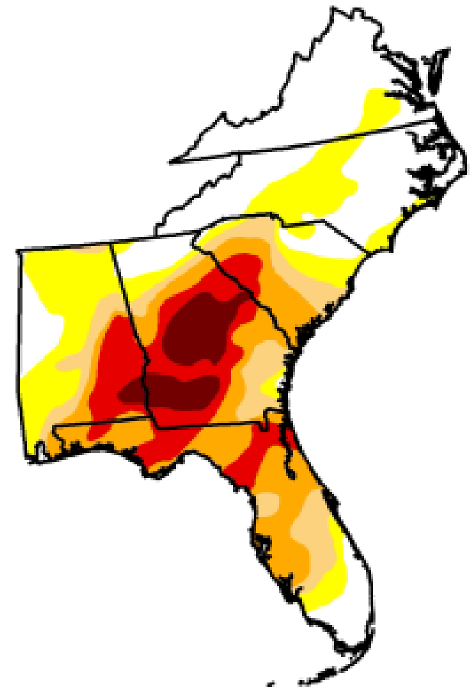
U.S. Drought Monitor

June 5, 2012
Valid 7 a.m. EST

Southeast

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	33.85	66.15	46.50	35.63	18.39	5.92
Last Week (05/29/2012 map)	25.65	74.35	50.85	39.20	24.46	6.20
3 Months Ago (03/06/2012 map)	26.24	73.76	59.02	32.47	19.04	1.62
Start of Calendar Year (12/27/2011 map)	40.38	59.62	43.05	28.62	18.71	0.00
Start of Water Year (09/27/2011 map)	42.24	57.76	41.82	31.77	23.48	0.00
One Year Ago (05/31/2011 map)	27.03	72.97	50.55	34.62	19.75	0.46



Intensity:

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

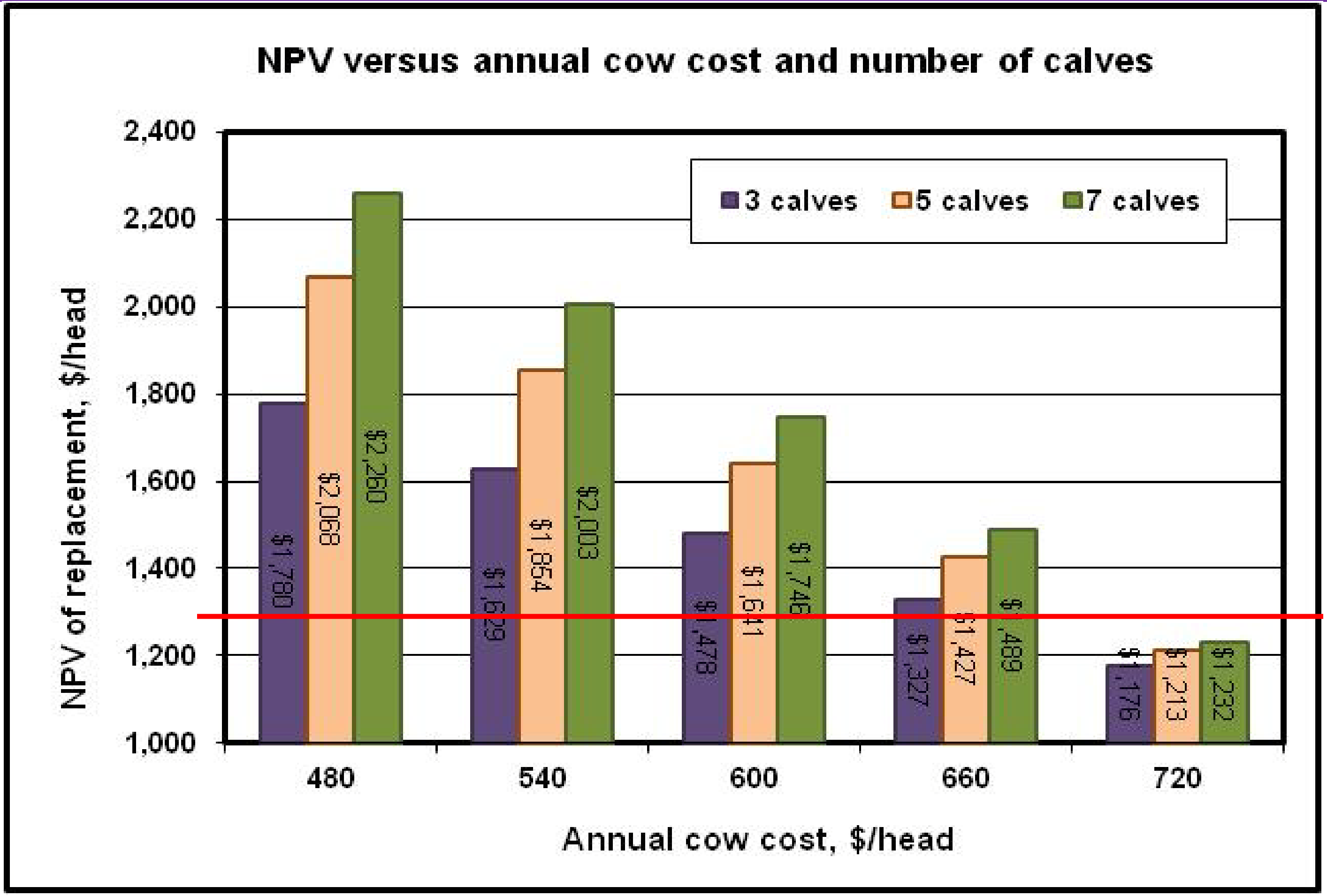
The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://droughtmonitor.unl.edu

USDA National Drought Mitigation Center

Released Thursday, June 7, 2012
National Drought Mitigation Center,

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



6/8/12'

AL Weekly Summary (MG_LS145): Young Bred Cows $1,000 to $1,400

Notable variation…

Scenario1: FARPI Adjusted $/cwt (550 lbs calves @ $158 in 2012 to $161 in 2021) 6.5% interest/discount rate; 3% calf death loss

Economic Outlook Overview : Stockers

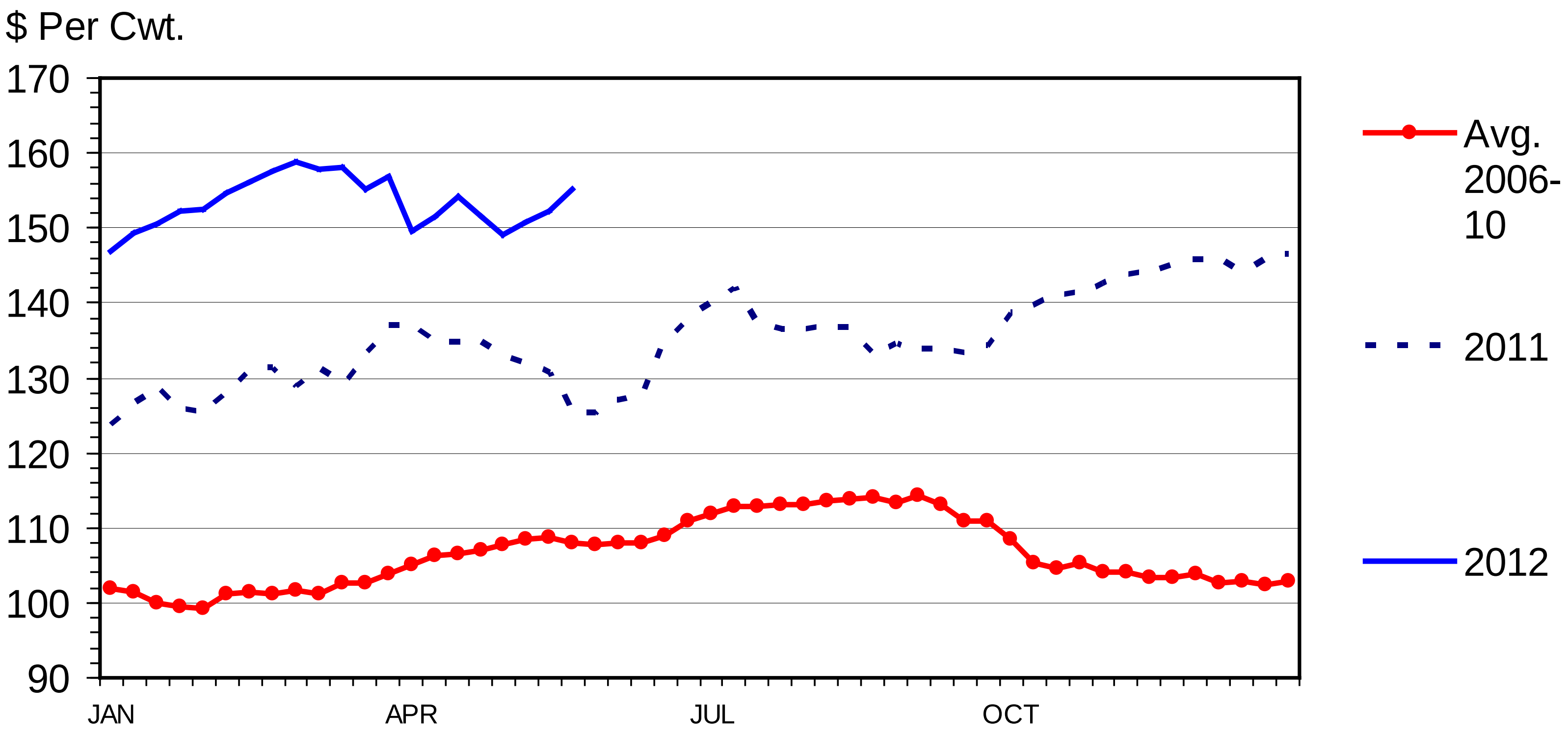
- Continued sophistication of this segment
  – "cheap corn days" are unlikely to return

- Expected margins squeezed early this spring by run on calves
  – Note historically strong basis on calves…

- Accounting and economic profit divergence
  – Increased value of consumed forage …

MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly



C-P-49
06/04/12

Livestock Marketing Information Center

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

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

6/11/12’ Roanoke, AL Situation:

- BeefBasis.com forecasted price of 750 lb steer September 15, 2012 is $148.78/cwt
    - What is break-even purchase price of a 550 lb steer purchased on June 15, 2012?
        - forecasted price is $154.86/cwt

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

	Selling Price						
Purchase Weight[1]	$142.78	$144.78	$146.78	$148.78	$150.78	$152.78	$154.78
	Breakeven Purchase Price[2]						
450	168.29	171.47	174.64	177.82	180.99	184.17	187.34
500	161.19	164.06	166.93	169.80	172.68	175.55	178.42
550	155.43	158.05	160.67	163.29	165.92	168.54	171.16
600	150.66	153.08	155.49	157.91	160.33	162.74	165.16
650	146.67	148.91	151.15	153.39	155.63	157.87	160.11
700	143.29	145.38	147.47	149.56	151.65	153.74	155.83
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: +$16.86/head [2.0 *($163.29-$154.86)]

Feeding COG $80 = +$23.54/head Expected Return

Feeding COG $100 = +$10.20/head Expected Return

Economic Outlook Overview : Feedlots

- Excess capacity and packer margin concerns will remain an issue

- Growing relevance of premiums, by-product values, and diversity across operations…
  - Great weather this winter = strong growth rates

- Probable losses for the year…

Feedlot Capacity – to - Calf Crop Ratio

Assuming: 2011 Calf crop of 35.3 mil. hd

	Capacity (mil. Hd)				
DOF	15.5	16	16.5	**17**	17.5
138	1.16	1.20	1.24	1.27	1.31
148	1.08	1.12	1.15	1.19	1.22
158	1.01	1.05	1.08	1.11	1.15
168	0.95	0.98	1.02	1.05	1.08

Assuming: 2021 Calf crop of 40.6 mil. hd

	Capacity (mil. Hd)				
DOF	15.5	16	16.5	**17**	17.5
138	1.01	1.04	1.08	1.11	1.14
148	0.94	0.97	1.00	1.03	1.06
158	0.88	0.91	0.94	0.97	1.00
168	0.83	0.86	0.88	0.91	0.94

Feedlot Operations and Marketings

Feedlots: Less than 1,000 Head Capacity

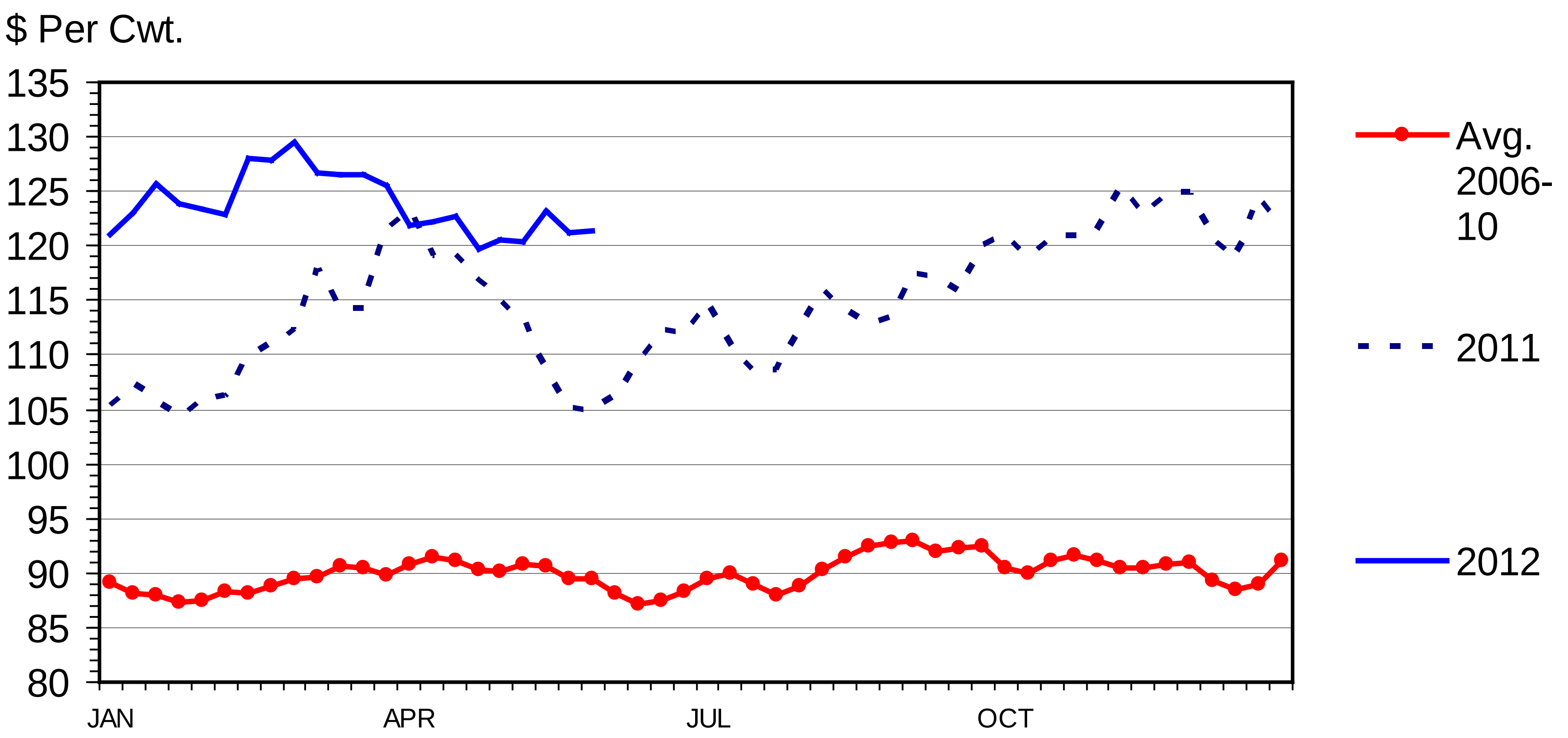
	Operations	Marketings (mil. hd)	Annual Change in Marketings	% of Total Marketings
2006	86,000	3.64		13.94%
2007	85,000	3.70	1.6%	14.14%
2008	80,000	4.05	9.5%	15.31%
2009	80,000	3.91	-3.5%	15.27%
2010	75,000	4.03	3.1%	15.43%
2011	75,000	3.17	-21.3%	12.31%

Feedlots: Over 1,000 Head Capacity

	# Operations	Marketings (mil. Hd)	Annual Change in Marketings	% of Total Marketings
2006	2,165	22.48		86.06%
2007	2,160	22.46	-0.1%	85.86%
2008	2,170	22.40	-0.3%	84.69%
2009	2,170	21.69	-3.2%	84.73%
2010	2,140	22.08	1.8%	84.57%
2011	2,120	22.58	2.3%	87.69%

SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



Livestock Marketing Information Center

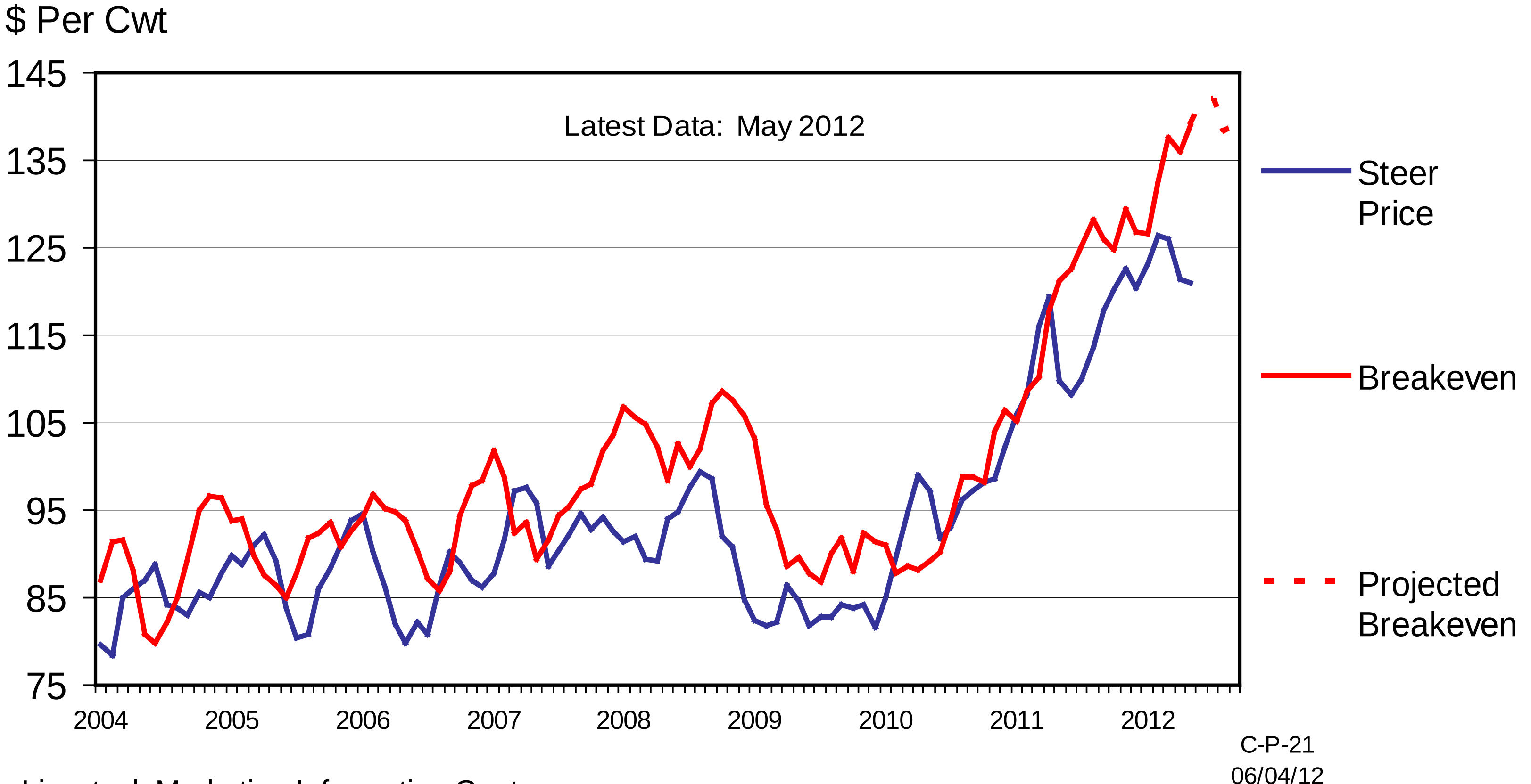
Data Source: USDA-AMS

NAIBER (http://www.naiber.org/) 6/11/12' Forecasts:

750 lb KS Steer placed on 6/15 & sold at 1,268 lbs on 11/15/12' = -$43/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

QUARTERLY FORECASTS (LMIC:6/7/12)

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	8,314	1.8	771	0.7	6,410	2.6
II	8,640	-0.5	759	0.7	6,559	0.2
III	8,738	-0.2	771	-0.3	6,736	-0.5
IV	8,395	-3.0	773	-0.8	6,490	-3.7
Year	34,087	-0.5	768	0.1	26,195	-0.4
2012						
I	8,027	-3.5	783	1.5	6,283	-2.0
II	8,295	-4.0	779	2.6	6,461	-1.5
III	8,098	-7.3	793	2.8	6,421	-4.7
IV	7,938	-5.4	791	2.3	6,276	-3.3
Year	32,358	-5.1	786	2.3	25,441	-2.9
2013						
I	7,556	-5.9	790	0.9	5,968	-5.0
II	7,898	-4.8	782	0.3	6,173	-4.5
III	8,006	-1.1	800	0.9	6,404	-0.3
IV	7,694	-3.1	797	0.8	6,129	-2.3
Year	31,154	-3.7	792	0.7	24,674	-3.0

QUARTERLY FORECASTS (LMIC: 6/7/12)

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	23.1	129.06	150.07
II	112.79	17.1	132.03	148.61
III	114.05	19.5	135.93	141.69
IV	121.99	21.7	143.15	153.11
Year	114.74	20.3	135.04	148.37
2012				
I	125.29	13.8	154.25	182.41
II	121-122	7.7	152-153	183-185
III	120-122	6.1	151-154	179-182
IV	124-127	2.9	153-157	173-178
Year	122-125	7.6	152-155	178-183
2013				
I	126-130	2.2	152-157	178-184
II	129-134	8.2	156-162	181-189
III	125-131	5.8	159-166	179-188
IV	128-135	4.8	157-166	174-185
Year	128-132	5.3	157-162	178-185

Economic Outlook Overview : Beef Demand

- Meat prices rising w/i basket of purchases…
- Domestic demand has surprised analysts…
- Export success “tempered” but prospects remain bullish…
- Discussion on demand “getting complicated”
  - Growing interest in “how my food is produced”
    - Animal welfare, food safety, antibiotics, hormone use, local, organic, traceability…
  - LFTB (lean finely textured beef) discussion…
  - Customer vs. consumer distinction importance…

SOCIAL MEDIA

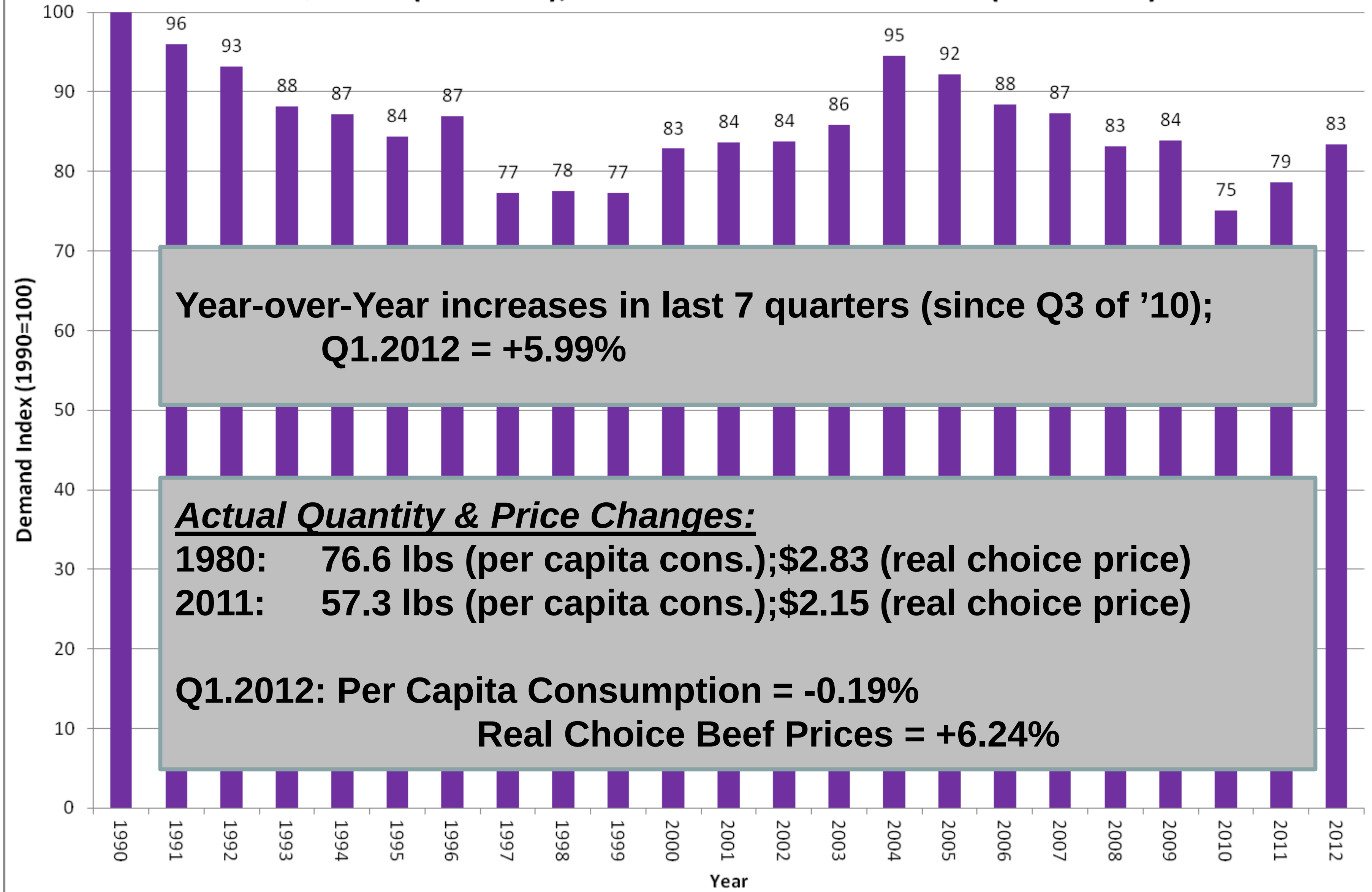
Man-Made Meat

A TIME.com piece on the world's first lab-grown burger, to be served in 2012, got our Google+ followers so riled up that they maxed out the site's 500-comment limit, with many answering our question, Would you eat test-tube meat?

Comments, clockwise from left: Brontae Hunter, Miss M, Gian Robinson, Phil DiNuzzo

Source: March 12, 2012 TIME magazine

1st Quarter (Jan-Mar), Choice Beef Demand Index (1990=100)



Year-over-Year increases in last 7 quarters (since Q3 of '10);
Q1.2012 = +5.99%

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)

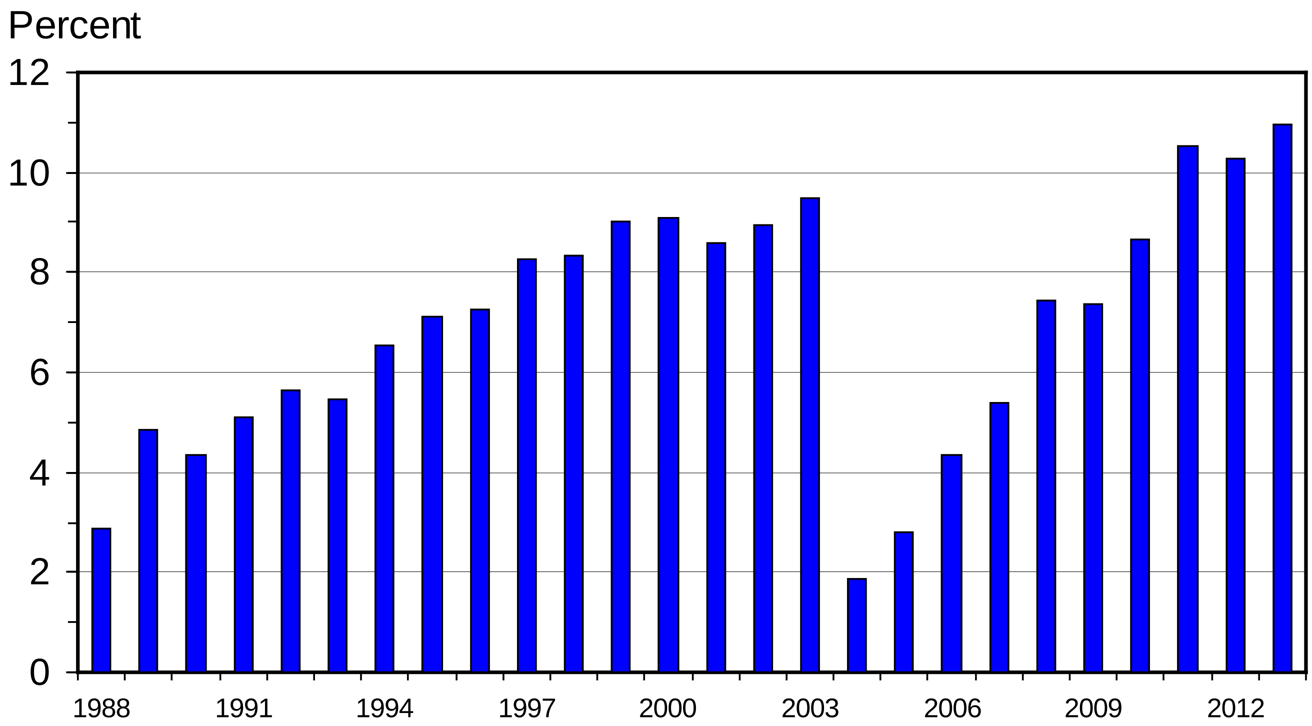
Q1.2012: Per Capita Consumption = -0.19%

Real Choice Beef Prices = +6.24%

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

U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



I-N-07
05/11/12

Livestock Marketing Information Center

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

“Developing” trade discussions are new normal …

- Japan may start accepting older cattle…
- FTA = reduction of South Korea tariffs
- USMEF – ID/Traceability study == U.S. falling behind
- WTO MCOOL ruling & U.S. response(s)
    - Will Mexico ultimately place tariffs on U.S. pork?
    - Limited U.S. consumer awareness …

USDA's longer-term projections (as of Feb. 2012) …

http://www.ers.usda.gov/Publications/OCE121/

- **Beef cow inventory:**
  - **29.8 million in 2012**
  - **34.5 million in 2021 (+/- 1997 levels)**
- **Domestic per capita red meat and poultry consumption:**
  - **221 lbs in 2004-2007 (Beef=65.7 lbs; Pork=50.4 lbs; Poultry=103.8 lbs)**
  - **198 lbs in 2013 (Beef=51.3 lbs; Pork=46.3 lbs; Poultry=98.5 lbs)**
  - **213 lbs in 2021 (Beef=58.7 lbs; Pork=47.2 lbs; Poultry=105.8 lbs)**
- **Beef exports:**
  - **2.30 billion lbs in 2010**
  - **2.77 billion lbs in 2011**
  - **3.16 billion lbs in 2021**

Is overall uncertainty holding back investment???

- WTO MCOOL ruling, response, next steps…
- Animal welfare
- 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 persist
- Farm bill and tax code/policy uncertainties…
  - *If cow-calf herd used to expand when Exp. Profit=$100/cow, what trigger is needed today???*

Beef industry changes underway

- BEEF Magazine Poll (N=99 as of 8/17/11')
  - "If you had to liquidate cattle this year because of flooding or drought, what do you plan to do with the proceeds?
    - 47% Restock with cows when conditions improve
    - 9% Restock but change production models (e.g., buy stockers rather than cows)
    - 27% Keep the cash; leave the business
    - 6% Reinvest the cash in another non-livestock ag enterprise
    - 10% Don't know
- Sales value of cull cows is about = for all
  - Those with higher costs, opportunities to row crop, etc. increasingly exit
  - Expansion will not come from those with higher costs and notable alternative opportunities…

Bottom-line Summary for Cow-Calf Producers

- New normal includes heightened uncertainty and volatility
  - Signals opportunity to many = expansion
  - Triggers discomfort to many = exist/status quo
    - within industry variations in views and comparative advantages will determine the ability to profit and shape future of industry…

- Industry is dynamic = “keep up or get out”
  - Export growth = reduced domestic per capita consumption, changing customer base …
  - Increasing demand for “higher quality” for consumers worldwide to justify higher costs of consumed protein…

More information available at:

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About AgManager.info

AgManager.info website is a comprehensive source of information, analysis, and decision-making tools for agricultural producers, agribusinesses, and others. The site serves as a clearinghouse for applied outreach information emanating from the Department of Agricultural Economics at Kansas State University. It was created by combining departmental and faculty sites as well as creating new features exclusive to the AgManager.info site. The goal of this coordination is to improve the organization of web-based material and allow greater access for agricultural producers and other clientele.

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K-State Decision Aides: Cattle Price Oriented

(http://www.agmanager.info/Tools/default.asp)

- Expectations on Future Cash Prices
  - http://www.beefbasis.com/
- Examine Feeder Cattle Risk Management Alternatives
  - *"K-State Feeder Cattle Risk Management Tool"*
- Project Premium/Discount of Calf/Steer Attributes
  - *"K-State Feeder Cattle Price Analyzer"*
- Stocker Breakeven Selling/Purchasing Prices
  - *"Cattle Breakeven Selling and Purchase Prices"*

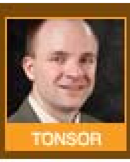
Other K-State Decision Aides
(http://www.agmanager.info/Tools/default.asp)

- NPV of Beef Replacements
  - *"KSU-Beef Replacements"*

- Beef Cow Lease Agreements
  - *"KSU-CowLease"*

- Determining Flint Hills Pasture Rents
  - "*KSU-Graze.xls*"

webinars



WEBINAR
Beef-Cattle Economics

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Series of quarterly webinars on beef-cattle markets and other industry-related issues.

2012 schedule (all webinars begin at 1:30 CST)

- **February 7**
- **May 1**
- **August 7**
- **November 6**

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