

Beef and Cattle Market Situation & Outlook

Glynn Tonsor

**Dept. of Agricultural Economics
Kansas State University**

June 12, 2012

**Presentation for New Generation Feeds
Manhattan, KS**



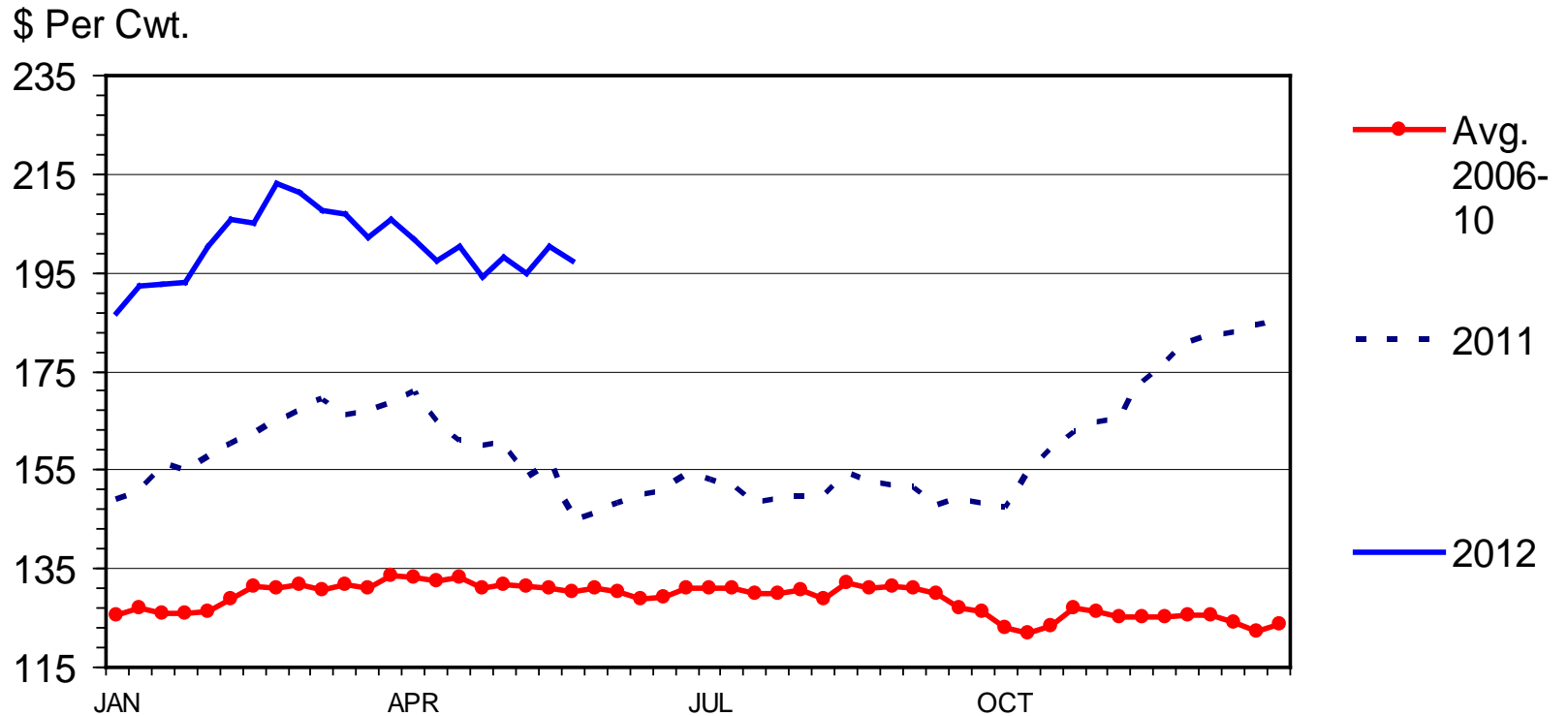
Economic Outlook Overview: Cow-Calf

- Calf price pullback since early March; BUT
- 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



Livestock Marketing Information Center

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

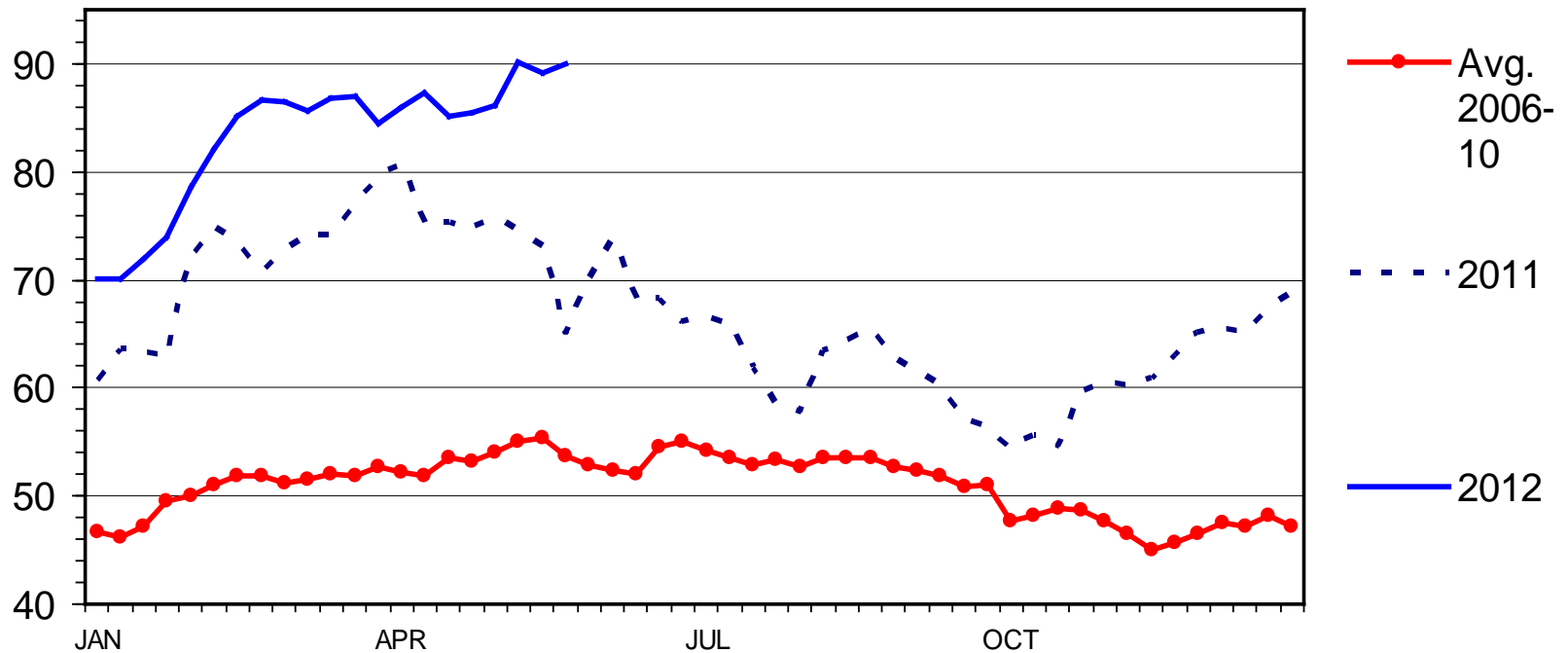
C-P-49A
06/04/12



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly

\$ Per Cwt.



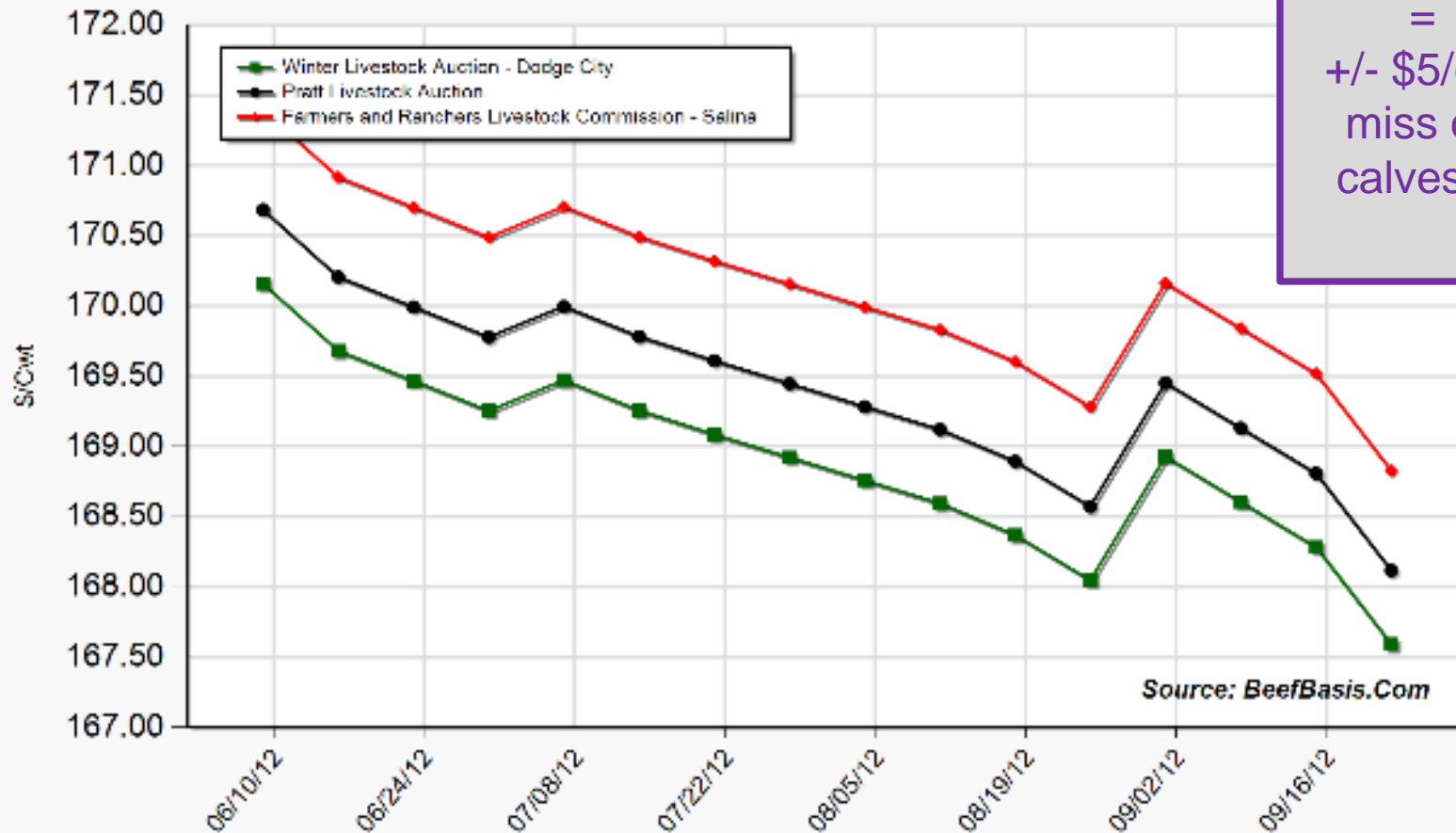
Livestock Marketing Information Center

Data Source: USDA-AMS

C-P-35
06/04/12



Projected Price for 550 Lb Steer at Selected Kansas Auctions



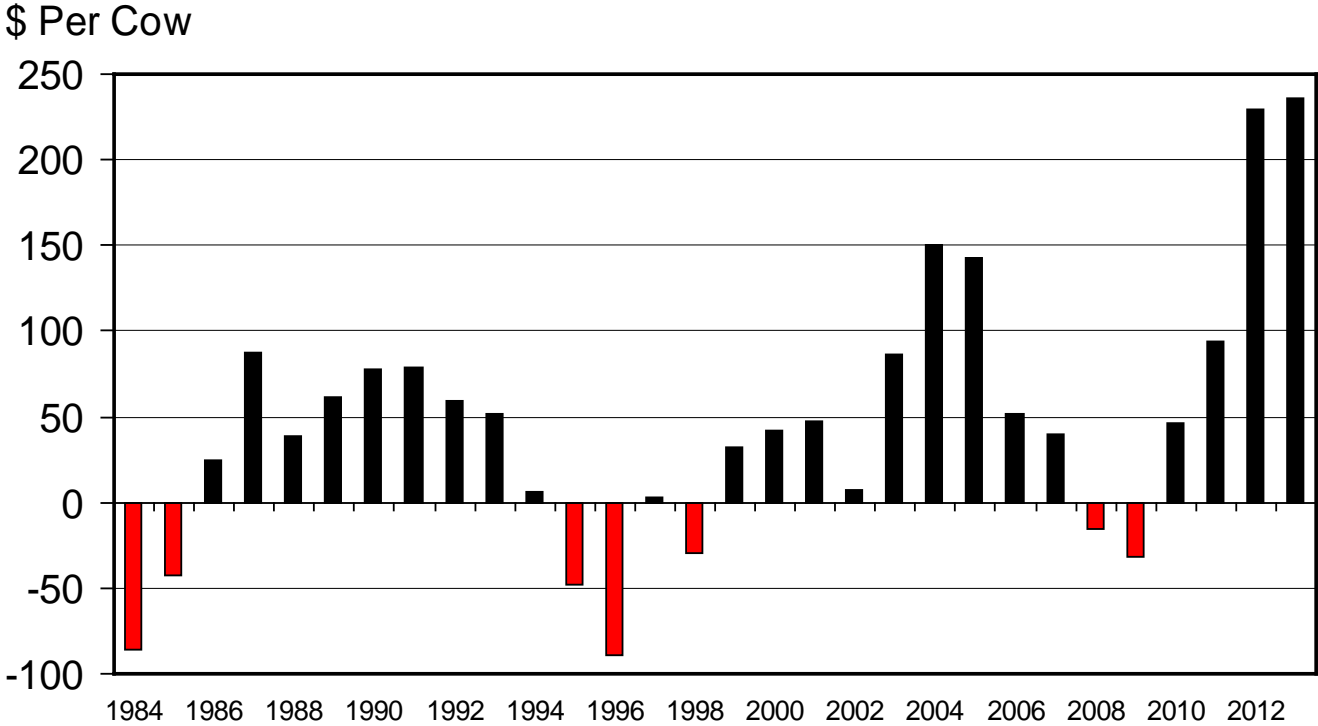
Source: BeefBasis.Com

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



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



Livestock Marketing Information Center

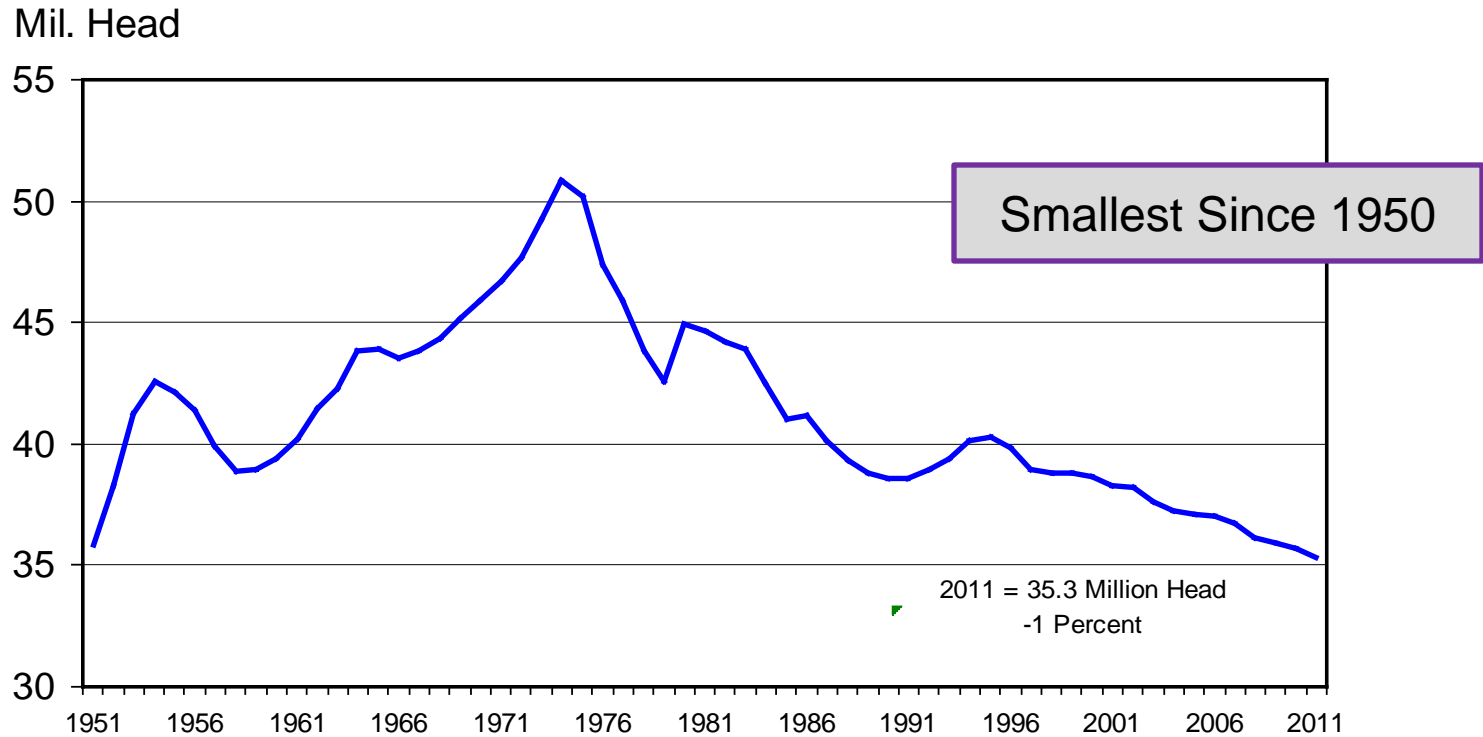
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
03/21/12



CALF CROP

U.S., Annual



Livestock Marketing Information Center

Data Source: USDA-NASS

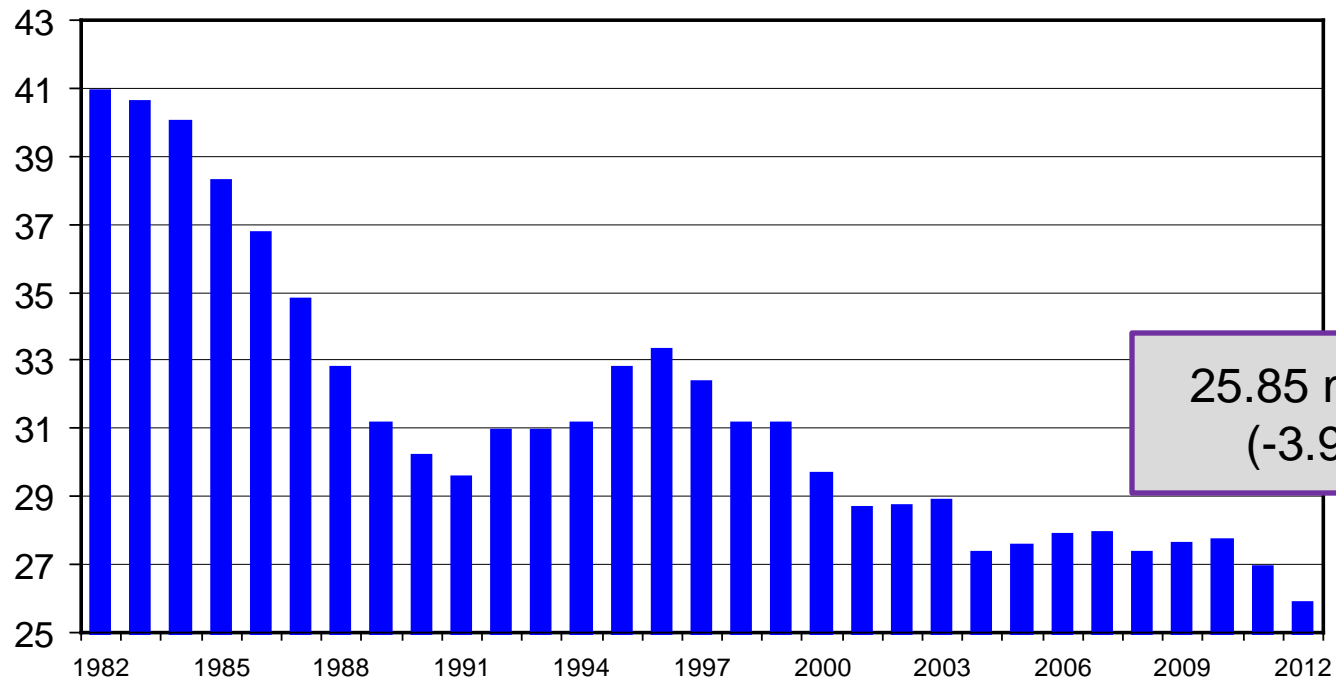
C-N-18A
01/29/12



JANUARY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.

Mil. Head



25.85 million
(-3.9%)

Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-30
01/29/12



When will U.S. national herd expand?

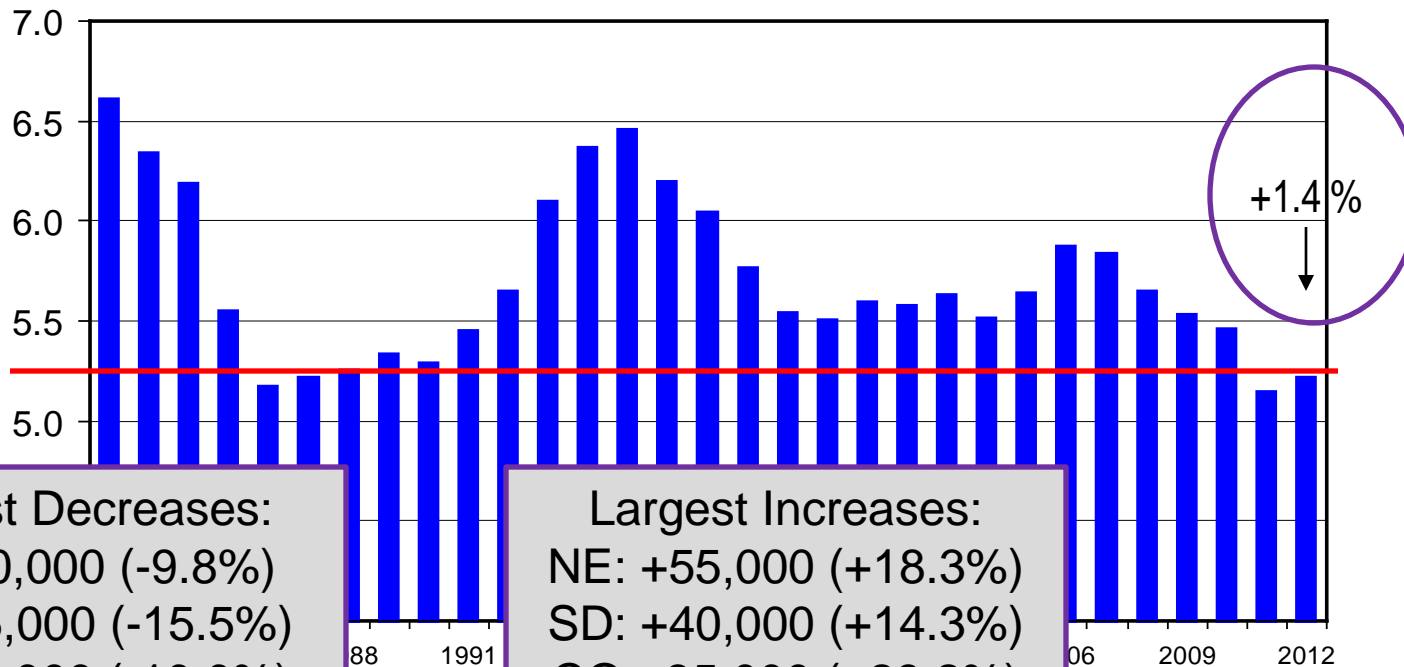
-- by 2014??? -- who & where will expansion occur???

HEIFERS HELD AS BEEF COW REPLACEMENTS

KS: +5,000 (+2.0%)

January 1, U.S.

Mil. Head



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%)

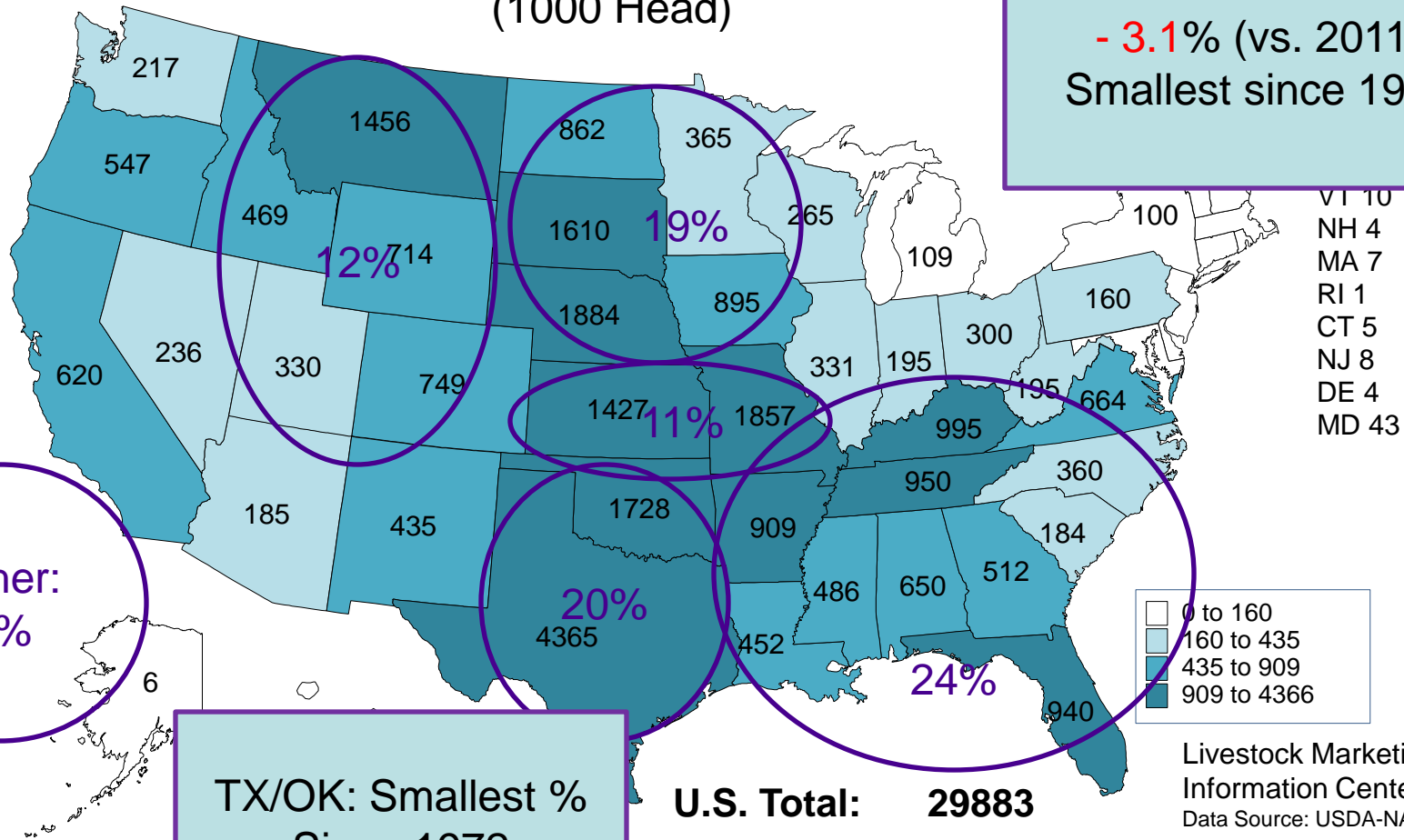
C-N-38
01/29/12

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



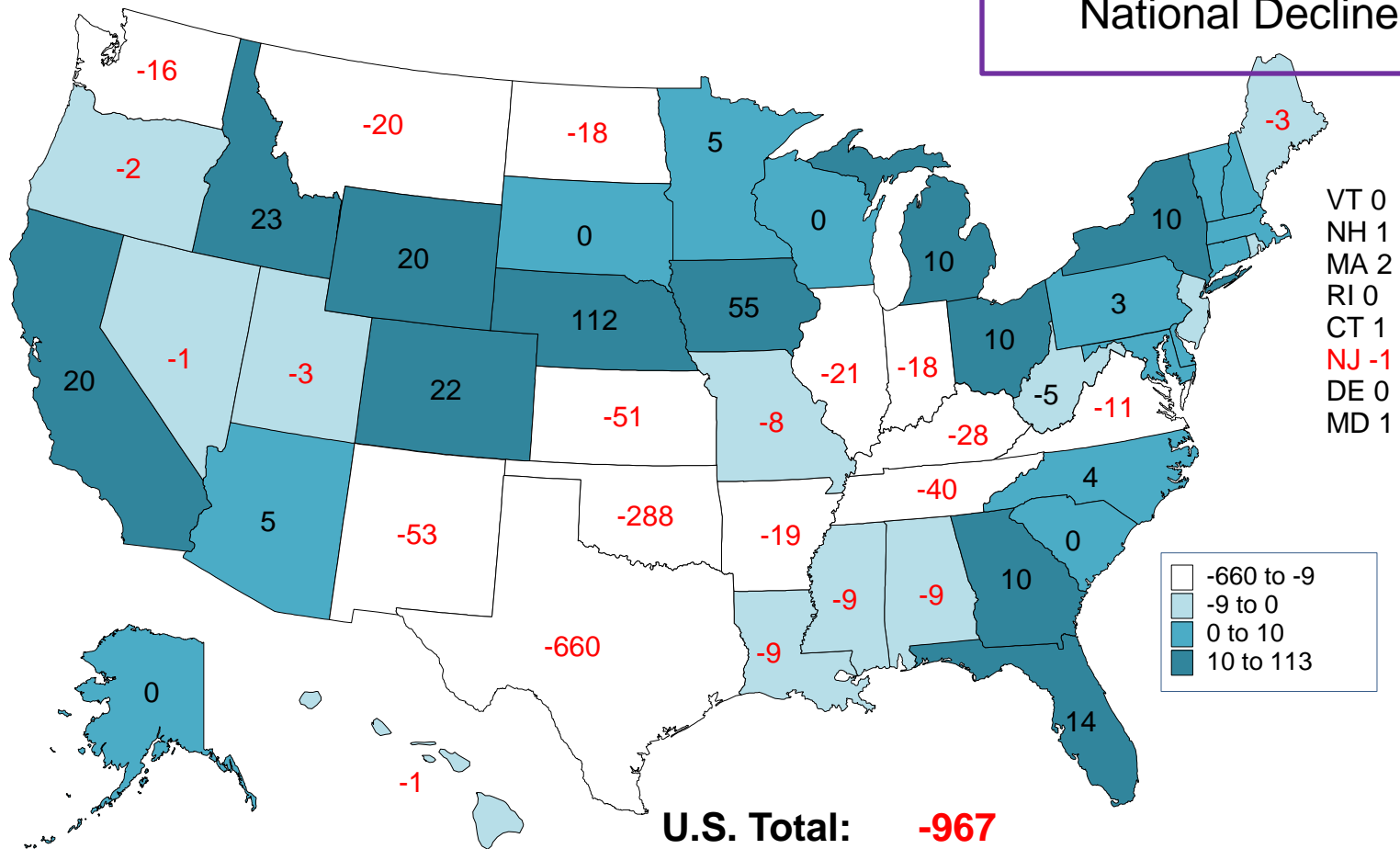
01/27/12



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

(1000 Head)

OK + TX = 98.1% of
National Decline

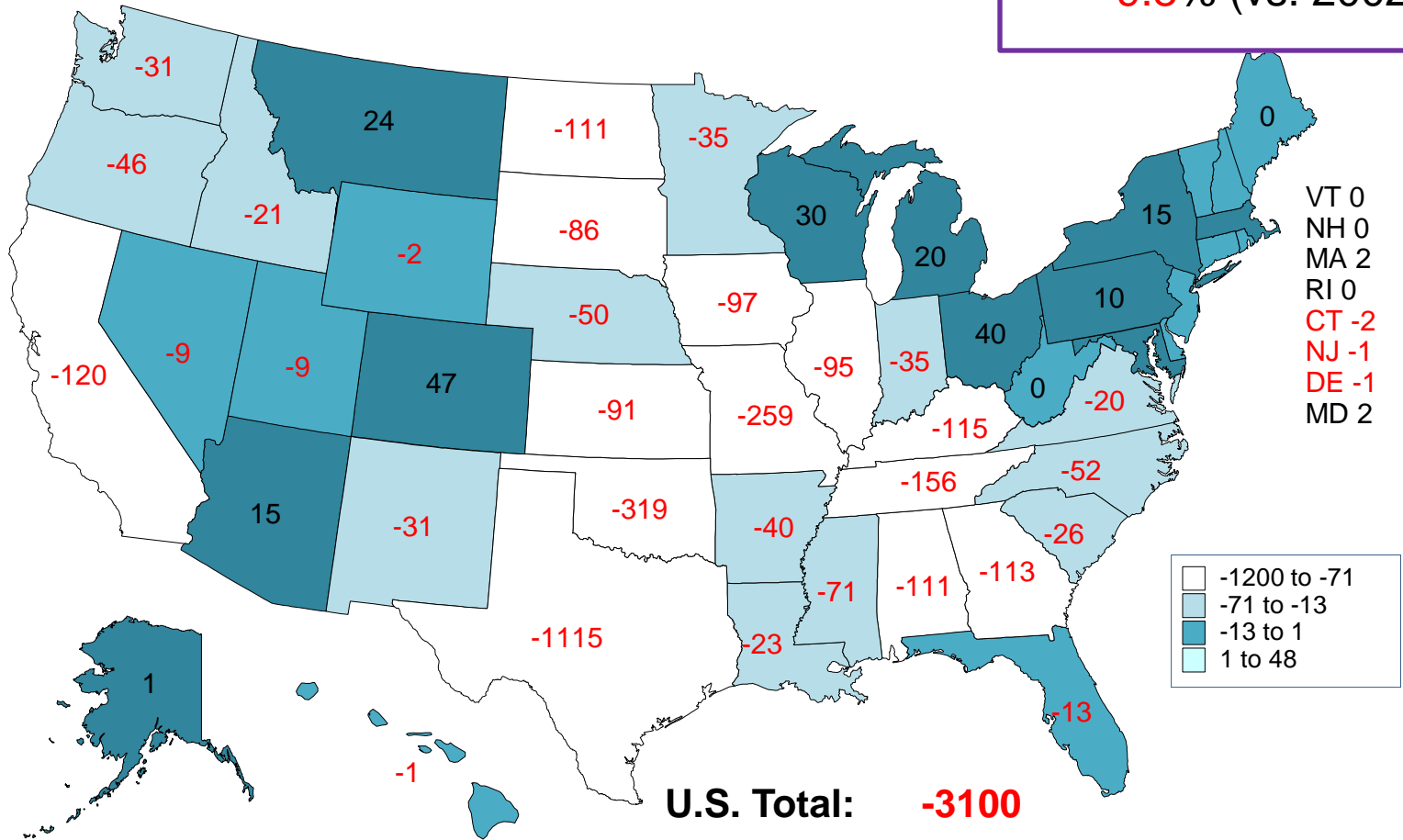


CHANGE IN BEEF COWS NUMBERS JANUARY 1, 2002 TO JANUARY 2012

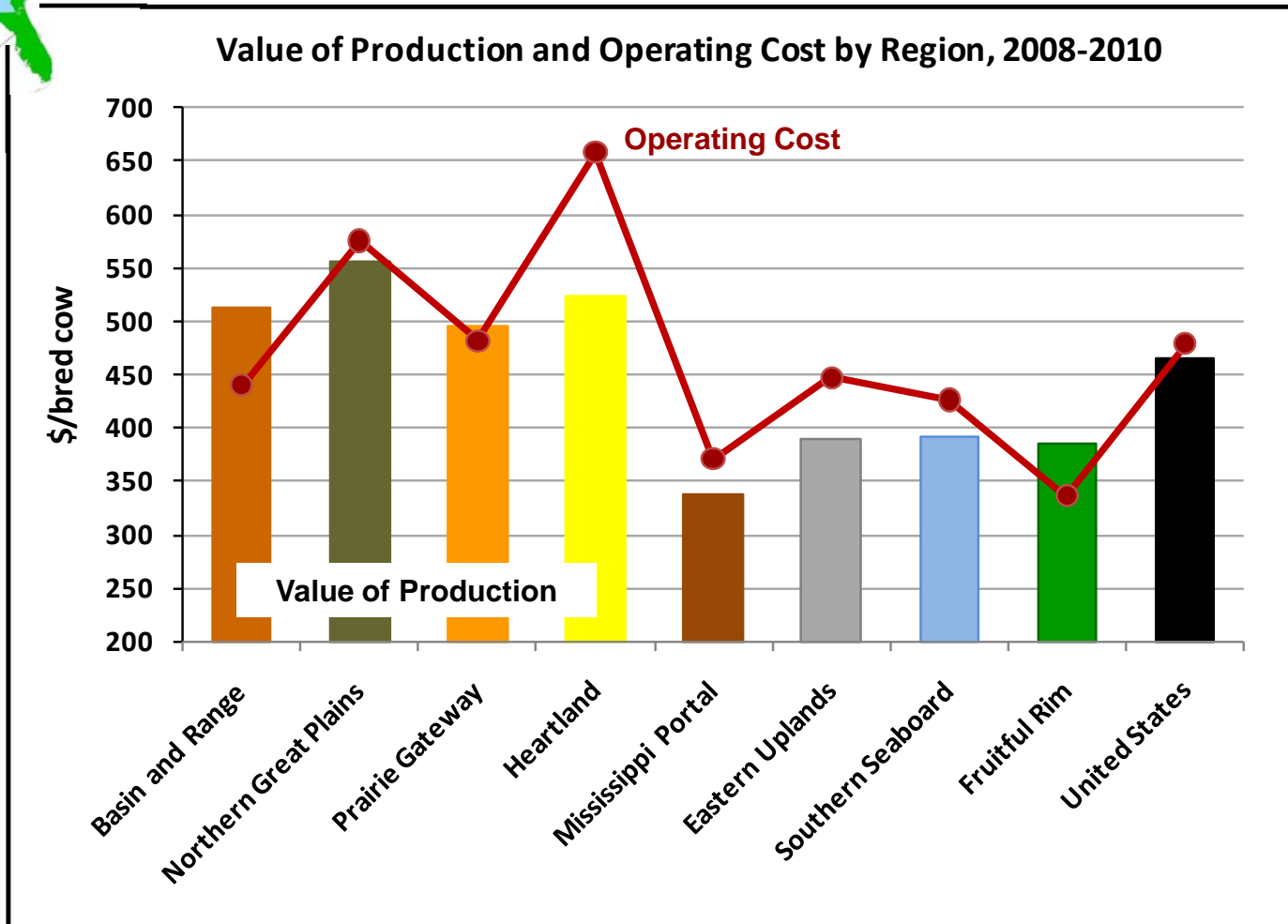
(1000 Head)

OK + TX = 46.2%
of National Decline

National Herd:
- 9.8% (vs. 2002)



Do some regions have an economic advantage for expansion?

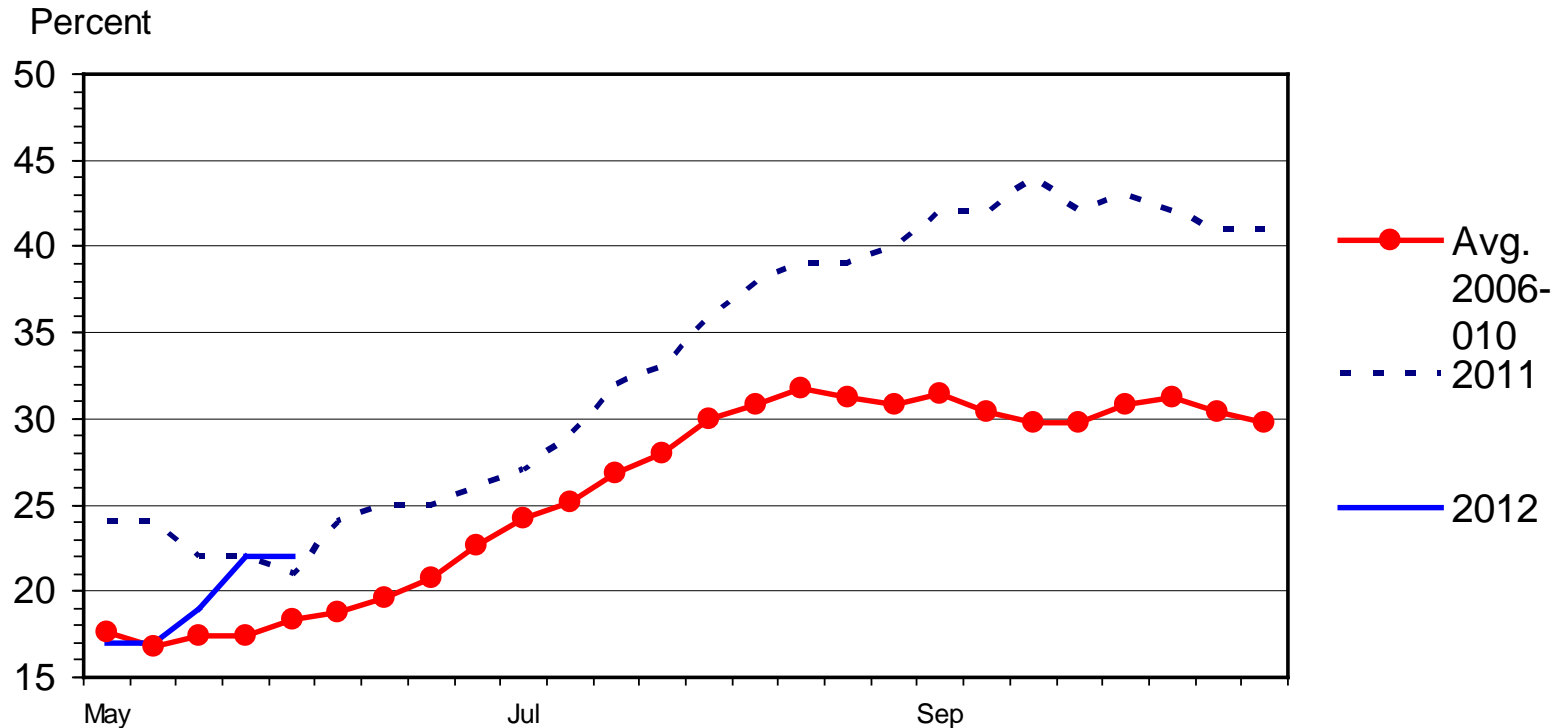


Data source: USDA-ERS



US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-30
06/04/12

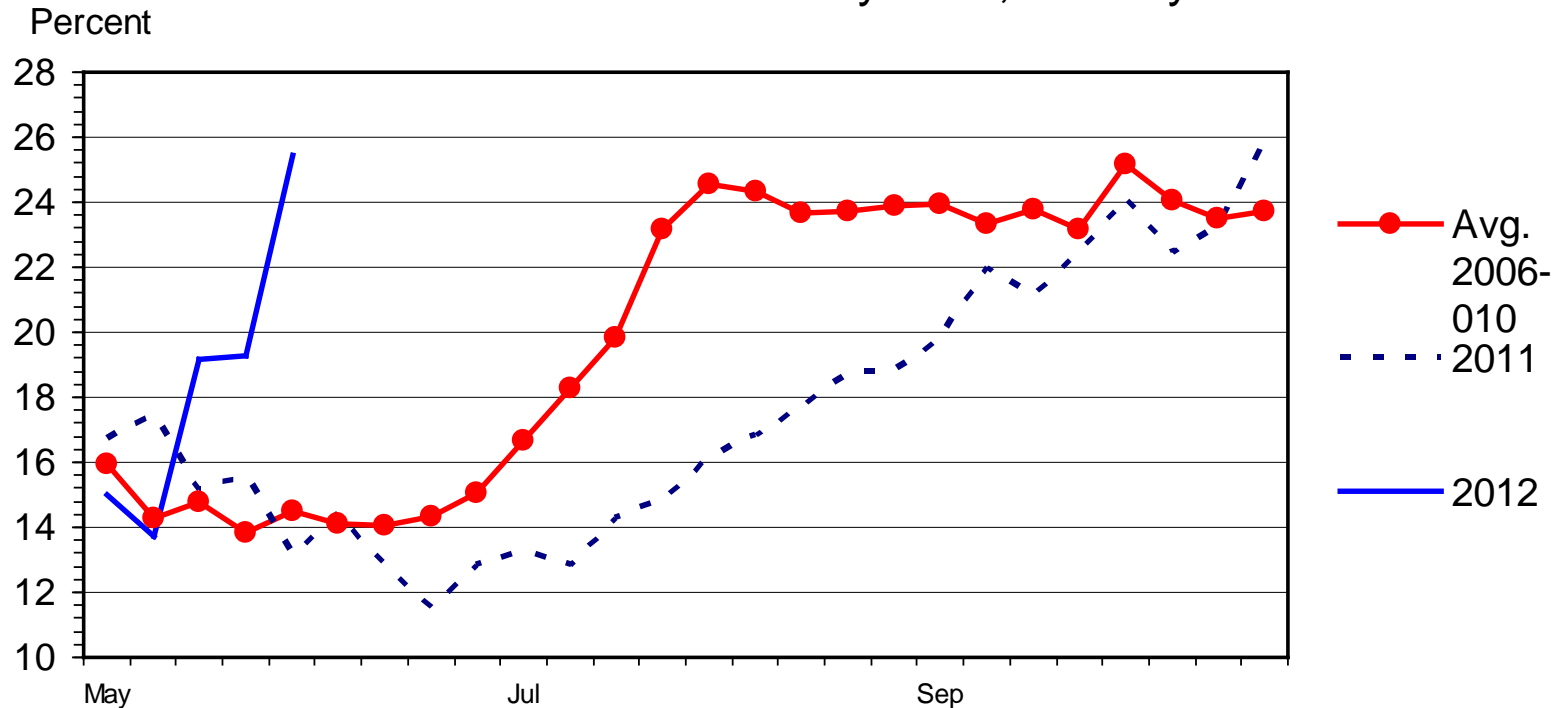
Livestock Marketing Information Center

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



GREAT PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-32
06/04/12

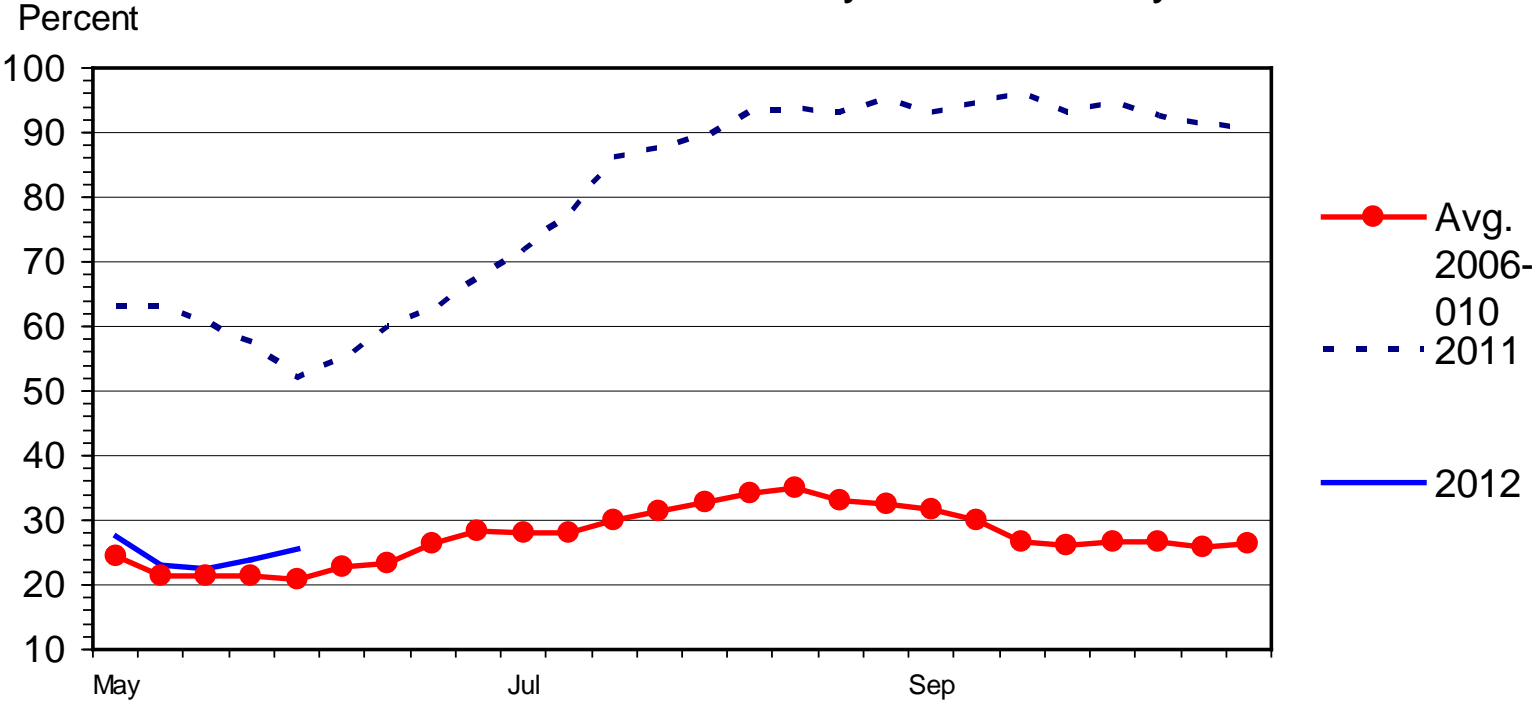
Livestock Marketing Information Center

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



SOUTHERN PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

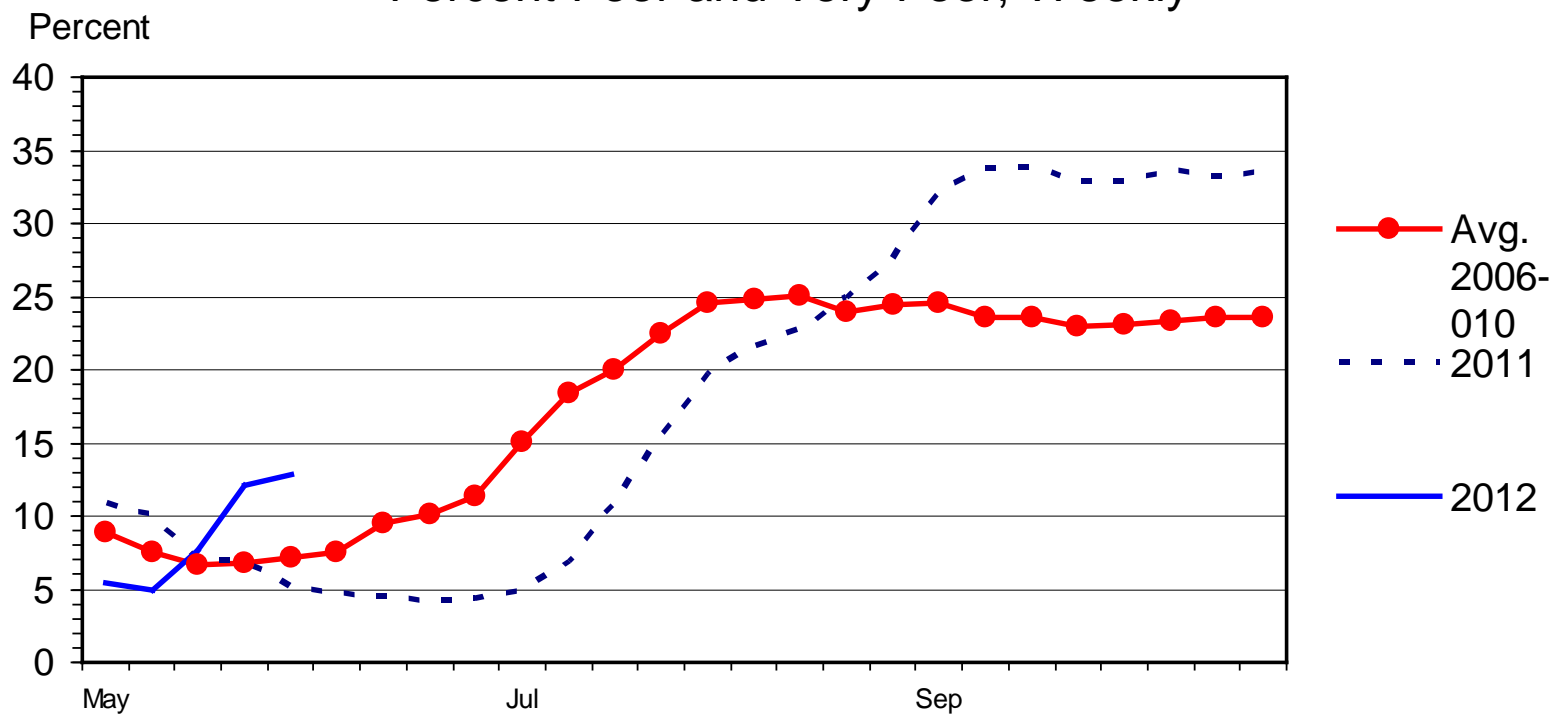


Livestock Marketing Information Center
Data Source: USDA-NASS, Compiled & Analysis by LMIC

G-NP-33
06/04/12

CORNBELT REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-34
06/04/12

Livestock Marketing Information Center

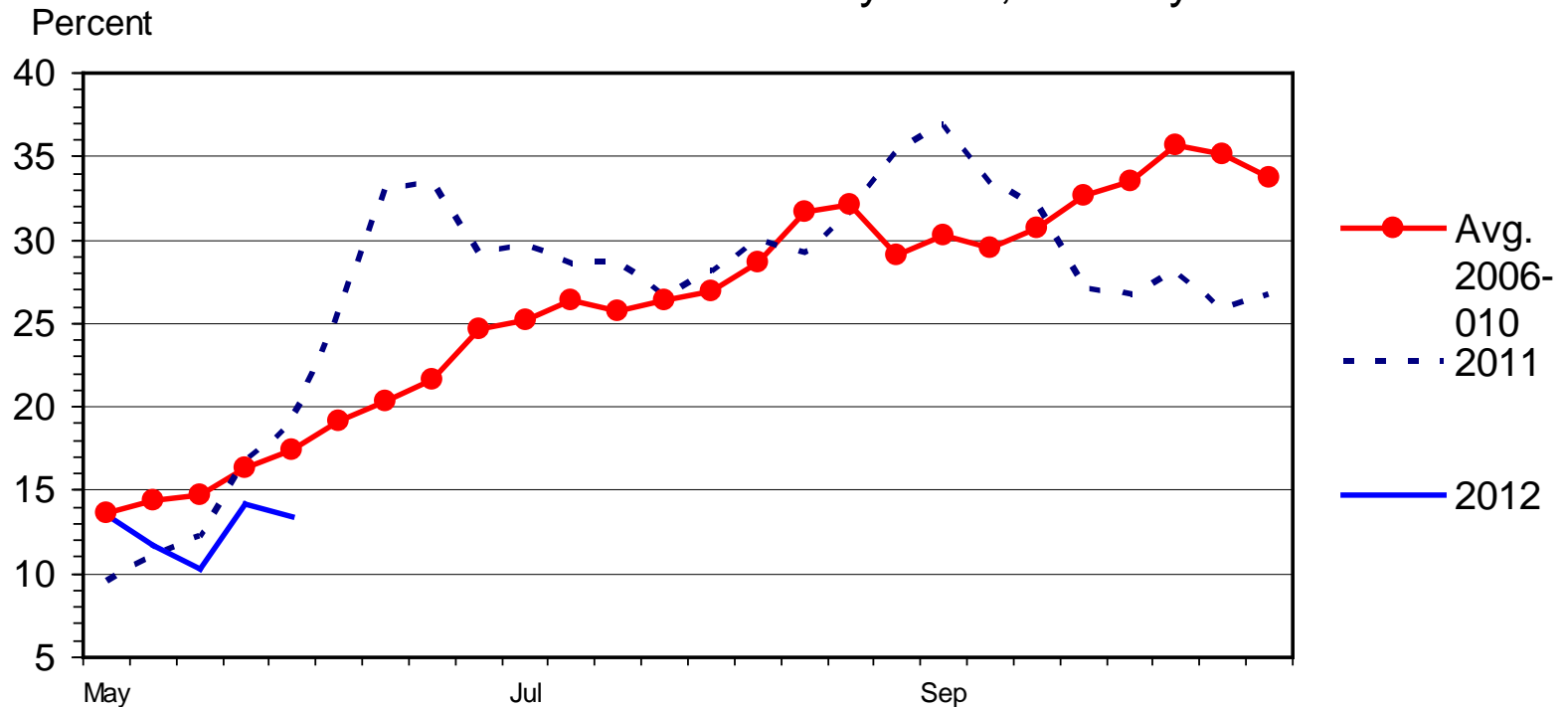
Data Source: USDA-NASS, Compiled & Analysis by LMIC



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

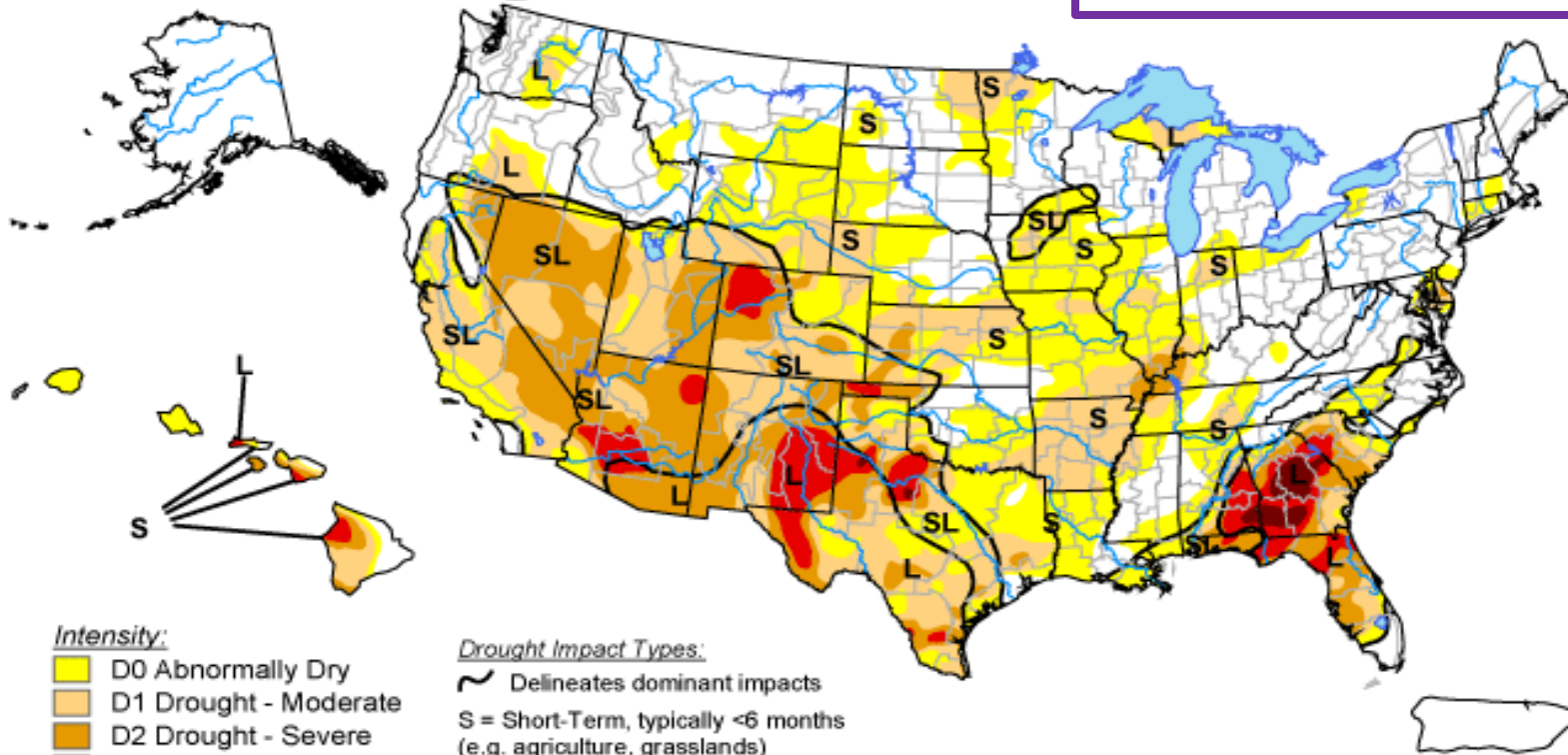
Data Source: USDA-NASS, Compiled & Analysis by LMIC



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

U.S. Drought Monitor

June 5, 2012
Valid 7 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
- 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>



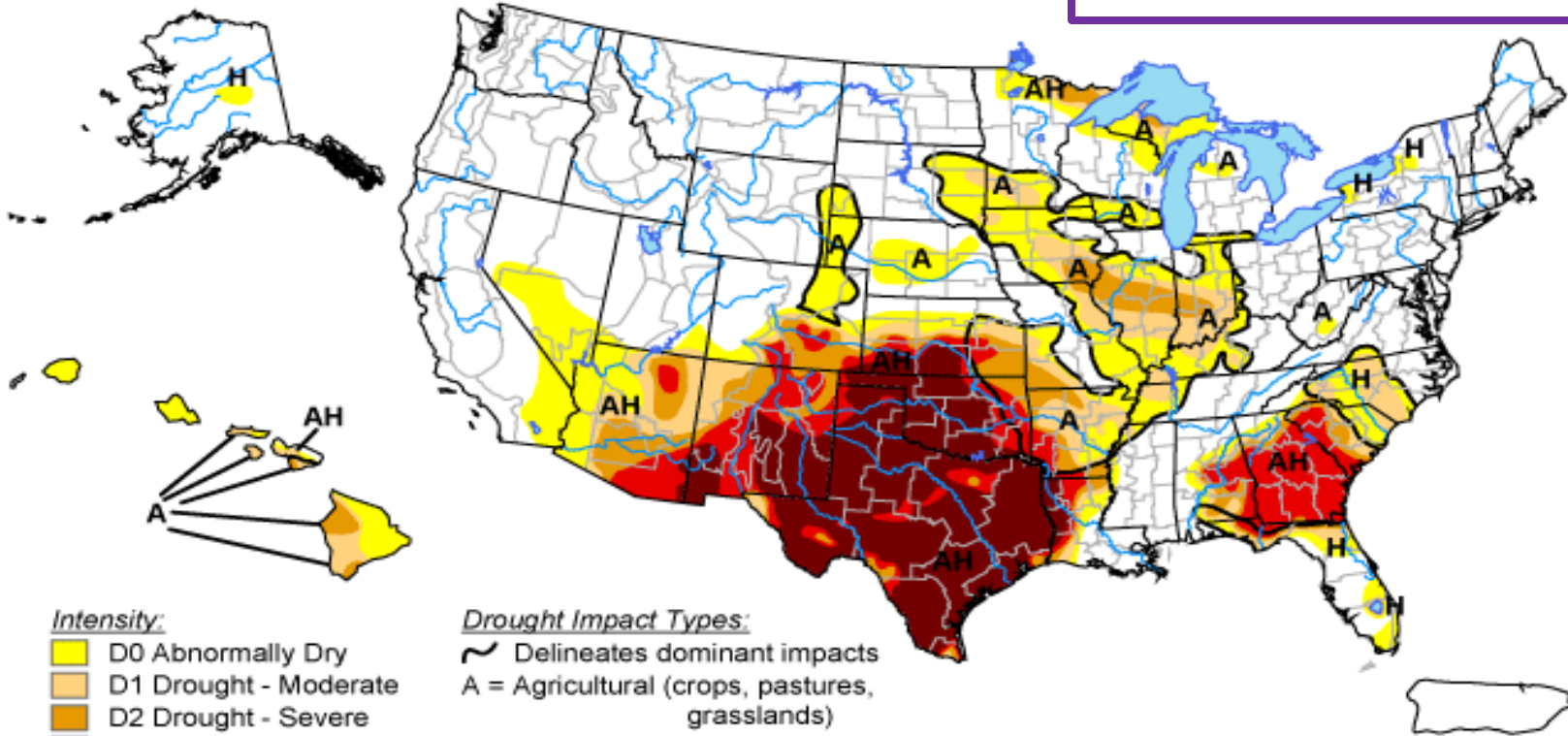
Released Thursday, June 7, 2012
Author: David Miskus, NOAA/NWS/NCEP/CPC



July 2011: 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)

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

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

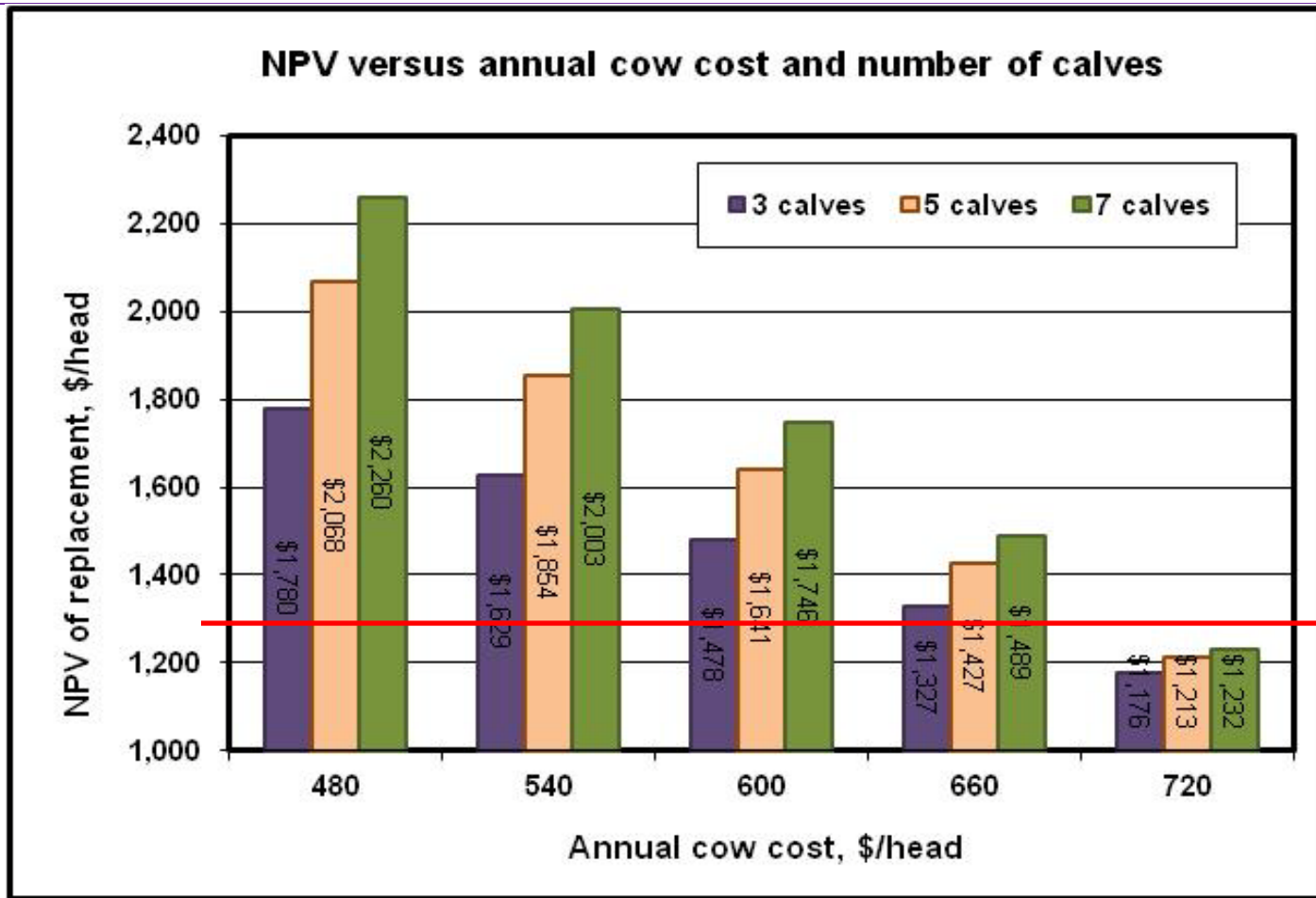


Released Thursday, September 15, 2011

Author: Mark Svoboda, National Drought Mitigation Center



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



6/8/12'

Young Bred
 Cow Prices:
 \$1,000 to
 \$1,600

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 :

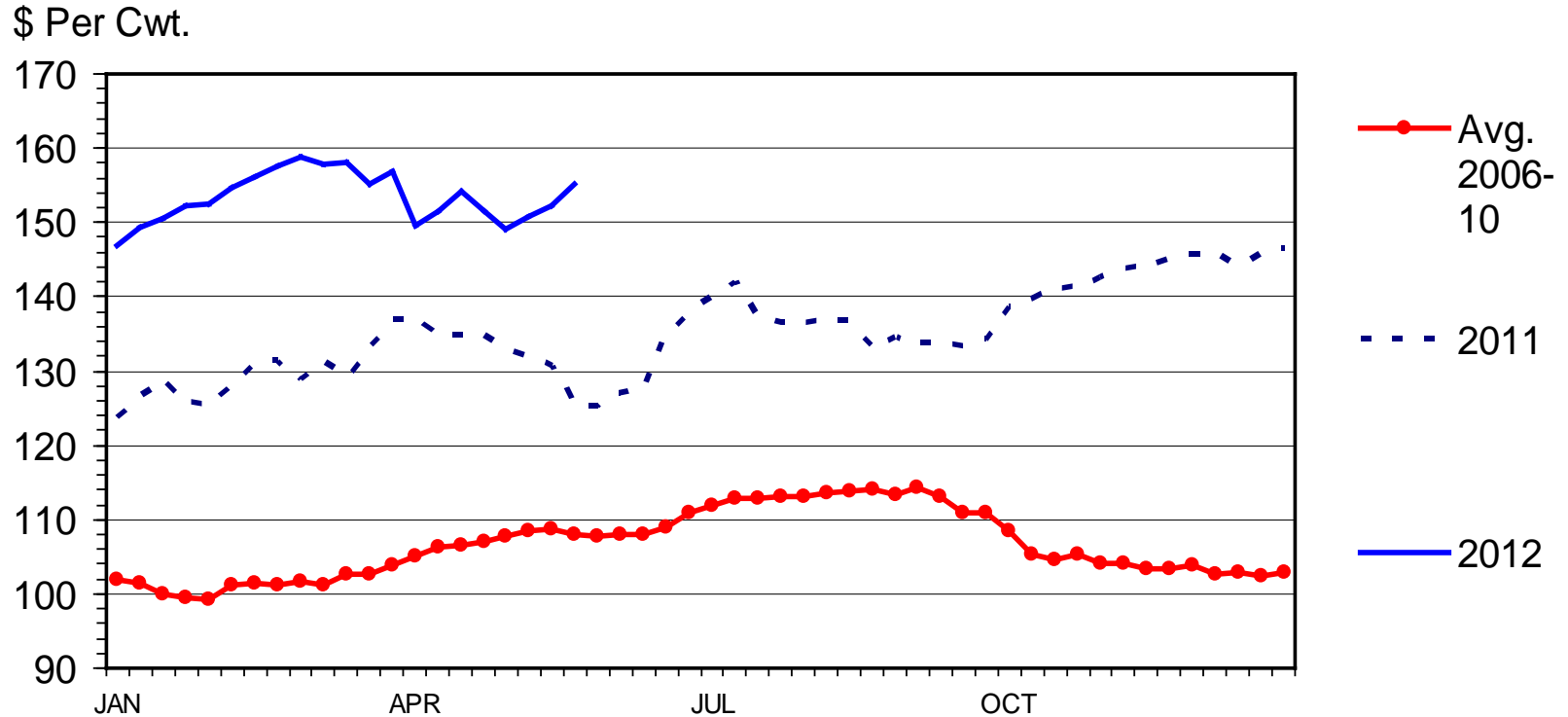
Stockers

- 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



Livestock Marketing Information Center

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

C-P-49
06/04/12





“Buy-Sell” spreadsheet tool

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

6/11/12' Salina, KS Situation:

- BeefBasis.com forecasted price of 750 lb steer September 15, 2012 is \$158.02/cwt
- What is break-even purchase price of a 550 lb steer purchased on June 15, 2012?
 - forecasted price is \$174.24/cwt



“Buy-Sell” spreadsheet tool

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

Purchase Weight ¹	<u>Selling Price</u>						
	\$152.02	\$154.02	\$156.02	\$158.02	\$160.02	\$162.02	\$164.02
	Breakeven Purchase Price ²						
450	182.96	186.14	189.31	192.49	195.66	198.84	202.01
500	174.46	177.33	180.20	183.07	185.94	188.81	191.68
550	167.54	170.16	172.79	175.41	178.03	180.65	183.28
600	161.82	164.24	166.65	169.07	171.48	173.90	176.31
650	157.02	159.26	161.50	163.74	165.98	168.22	170.46
700	152.94	155.03	157.12	159.21	161.30	163.39	165.48
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: +\$2.34/head [2.0 * (\$175.41-\$174.24)]

Feeding COG \$80 = +\$9.00/head Expected Return

Feeding COG \$100 = - \$4.32/head Expected Return

But “true” expected purchase price may not be \$174 ...

Economic Outlook Overview :

Feedlots

- Excess capacity 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

	<i>Capacity (mil. Hd)</i>				
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

	<i>Capacity (mil. Hd)</i>				
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%

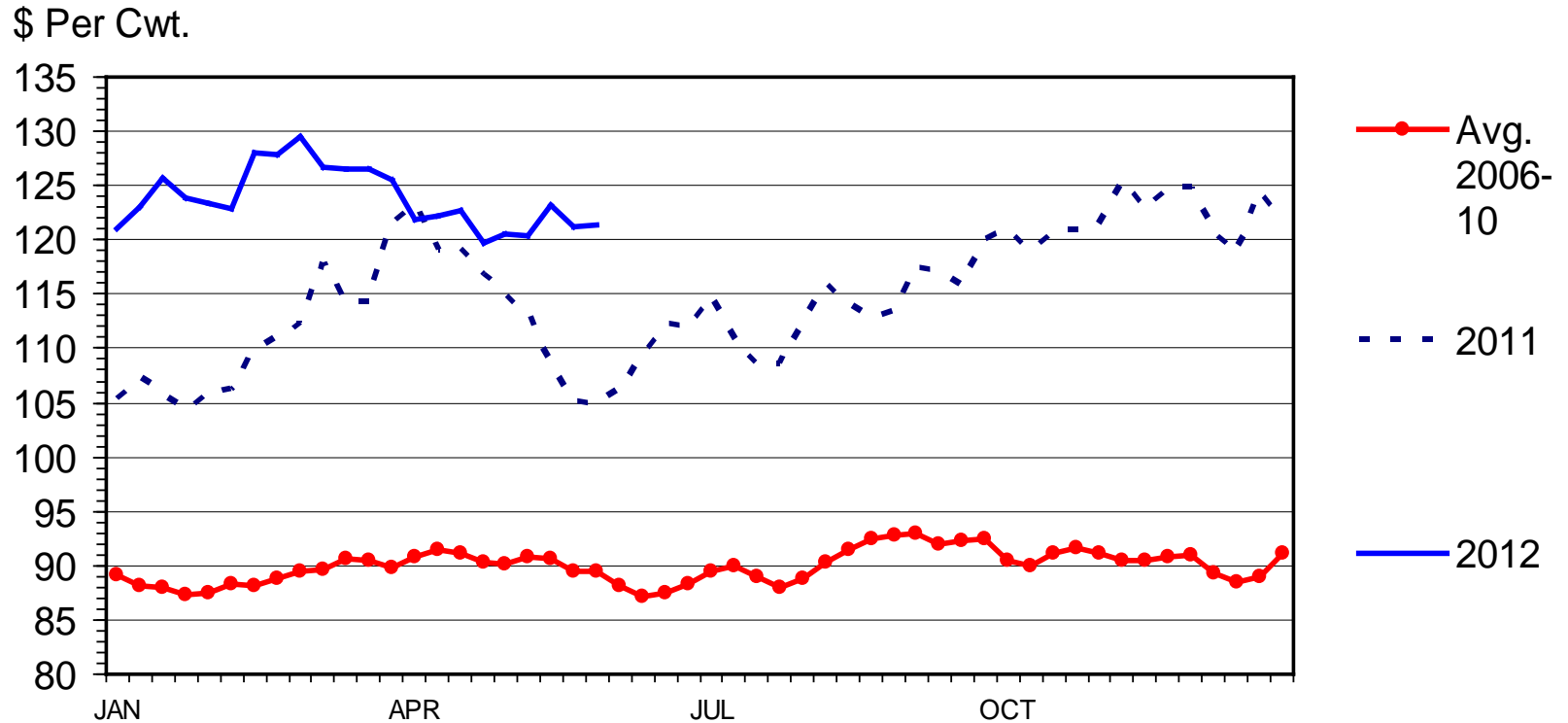
Feedlots: Over 1,000 Head Capacity

	# 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



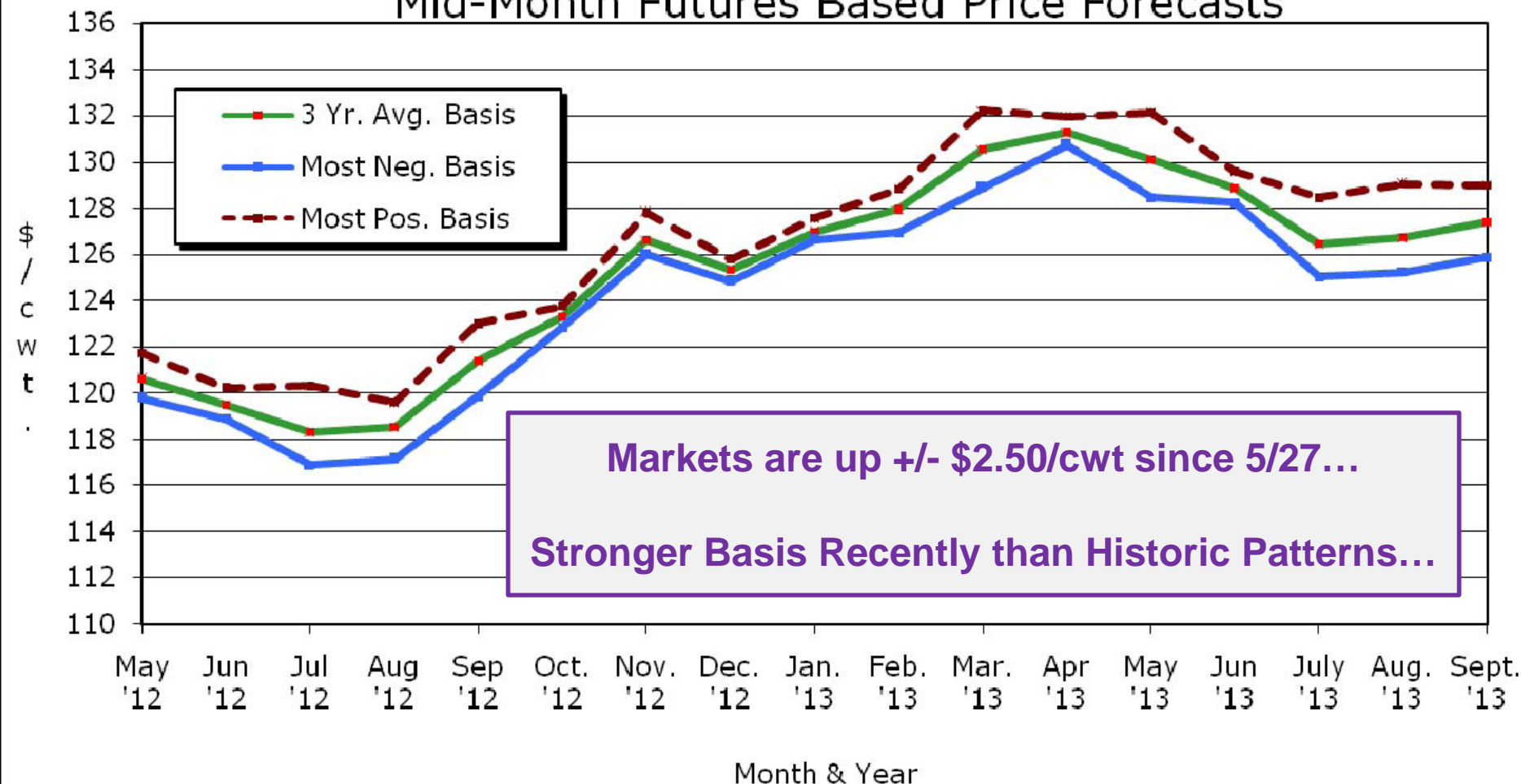
Livestock Marketing Information Center

Data Source: USDA-AMS



Kansas Slaughter Steer Price Forecasts

Mid-Month Futures Based Price Forecasts



Source: USDA-AMS, CME, & K-State Ag. Economics
Based on 5.27.12 CME Live Cattle settlement prices

KSU Dept. of Ag Econ
www.agmanager.info

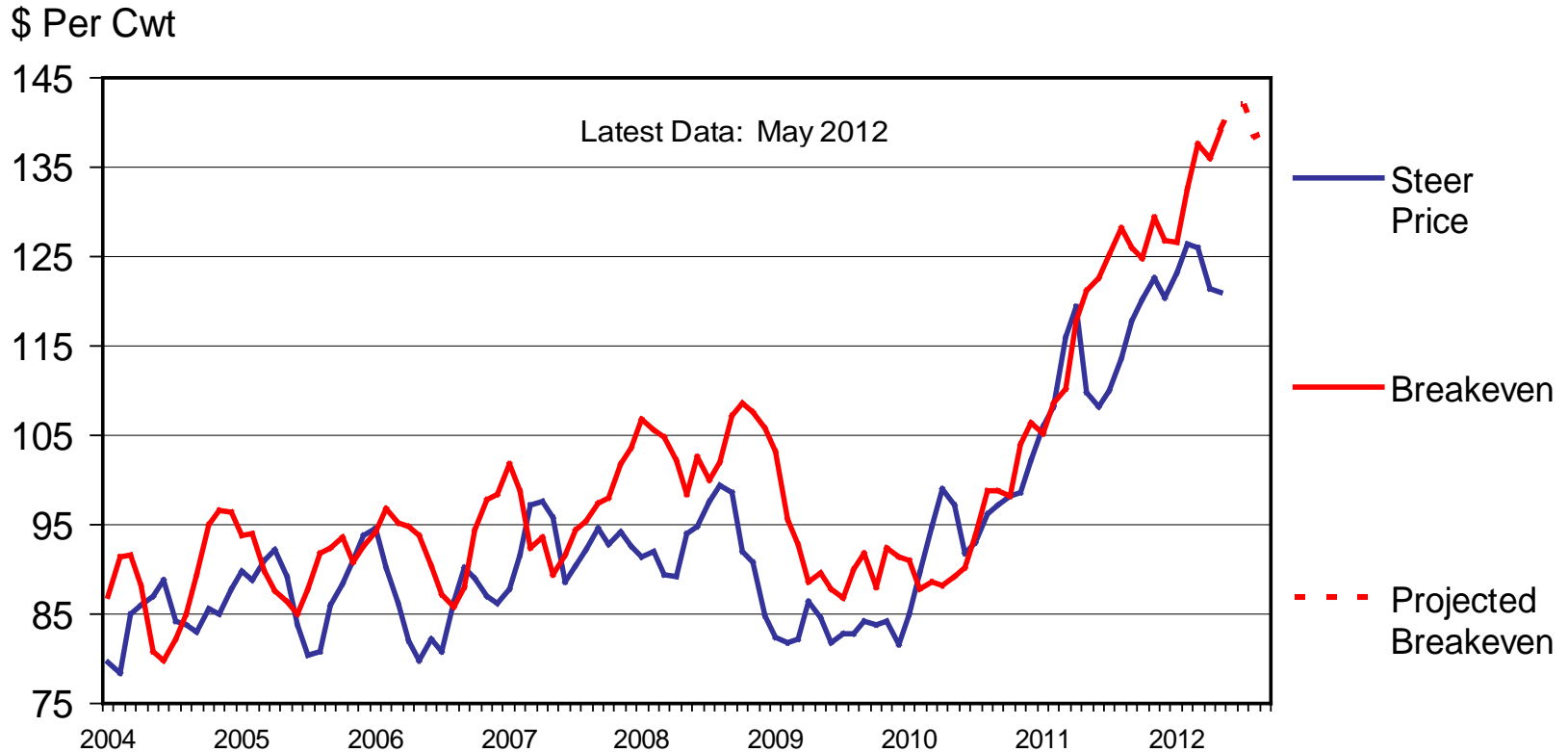


NAIBER (<http://www.naiber.org/>) 6/11/12' Forecasts:

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



C-P-21
06/04/12

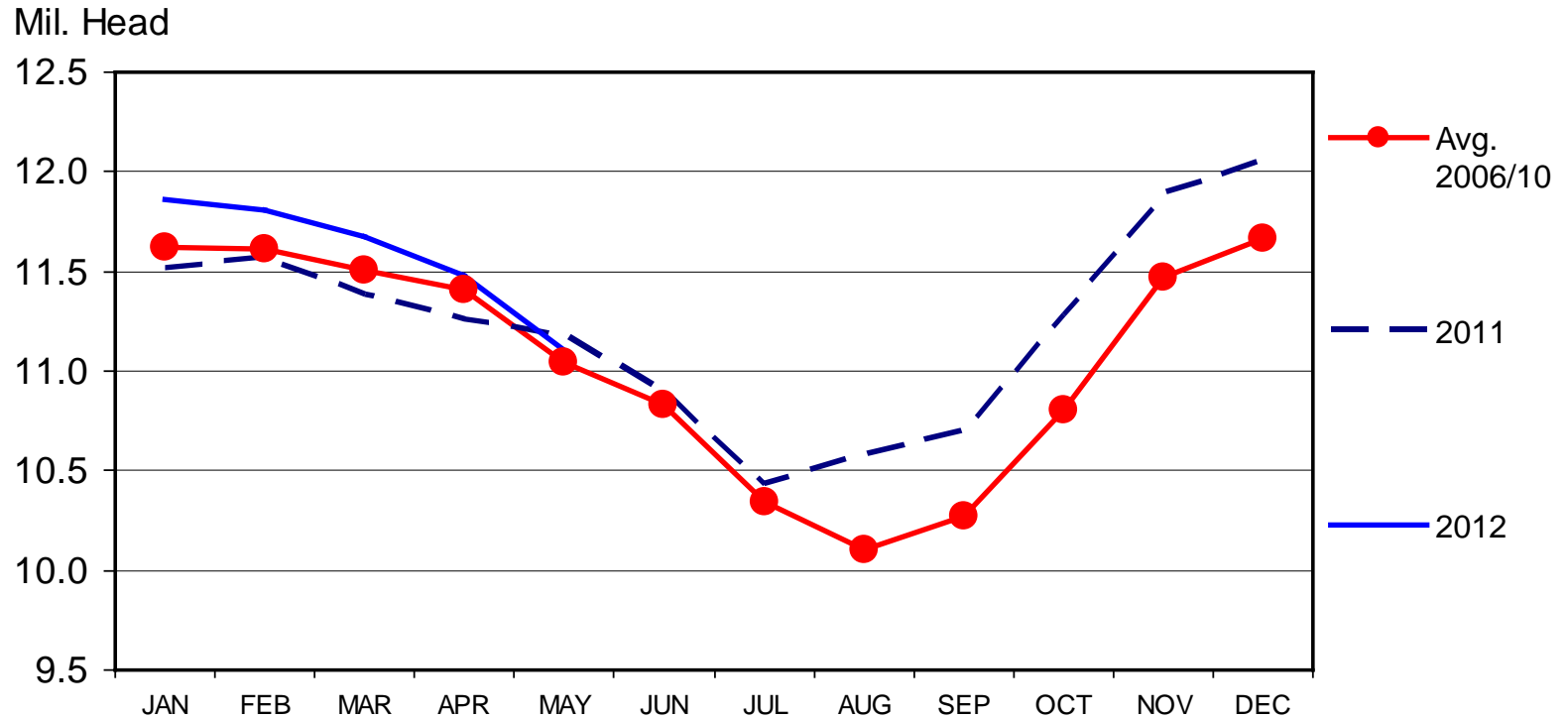
Livestock Marketing Information Center

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



CATTLE ON FEED

US Total, Monthly



Livestock Marketing Information Center

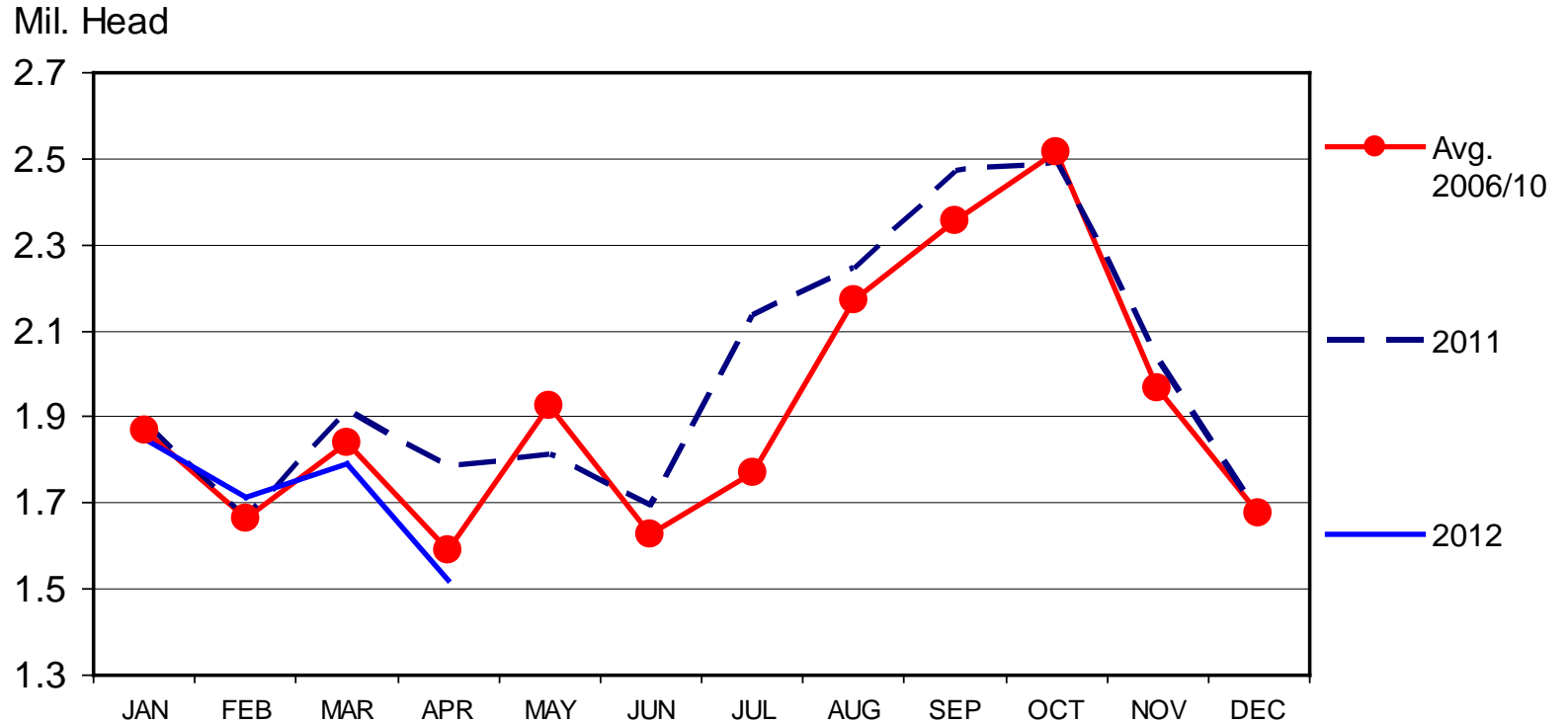
Data Source: USDA-NASS

C-N-10
05/18/12



FEEDLOT PLACEMENTS

US Total, Monthly



Livestock Marketing Information Center

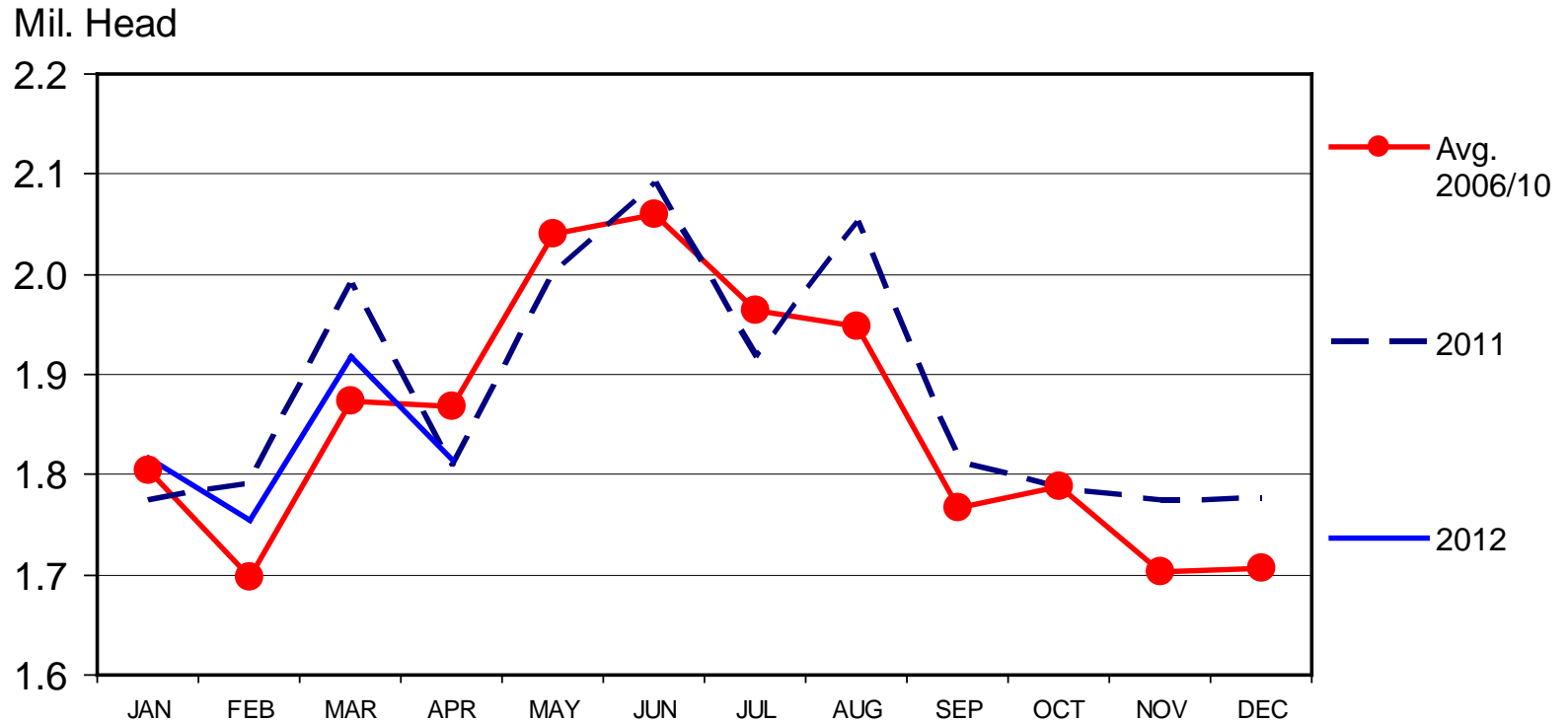
Data Source: USDA-NASS

C-N-08
05/18/12



FED CATTLE MARKETINGS

US Total, Monthly



Livestock Marketing Information Center

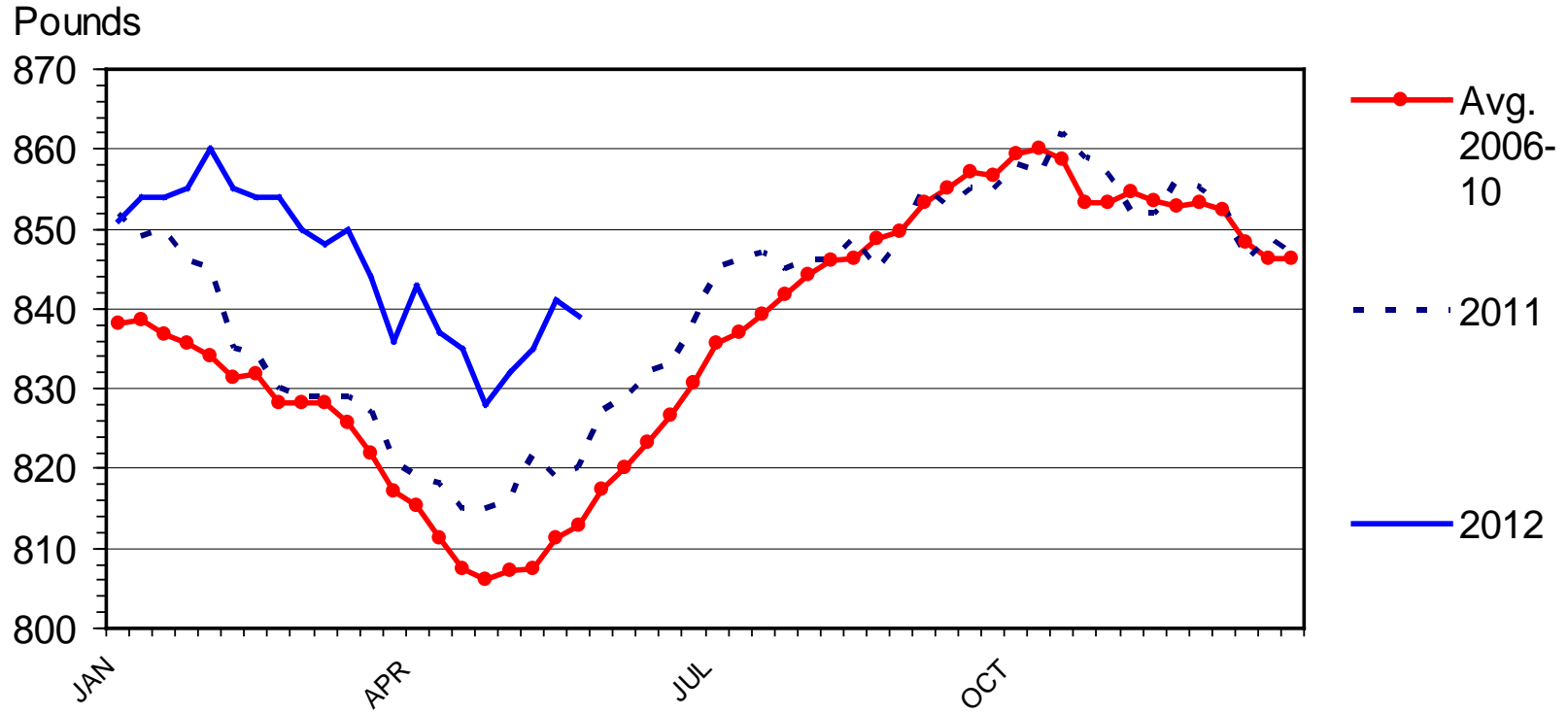
Data Source: USDA-NASS

C-M-11
05/18/12



STEER DRESSED WEIGHT

Federally Inspected, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS

C-S-18
06/08/12



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)

	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	23.1	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...



Yuck...

Beats eating
GMO. Reduces
animal slaughter.
Solves world
hunger. Looks
promising.

Your
move,
Taco
Bell!

Americans
have been proven
to eat anything that
comes in a nice
package with
the right
marketing.

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?

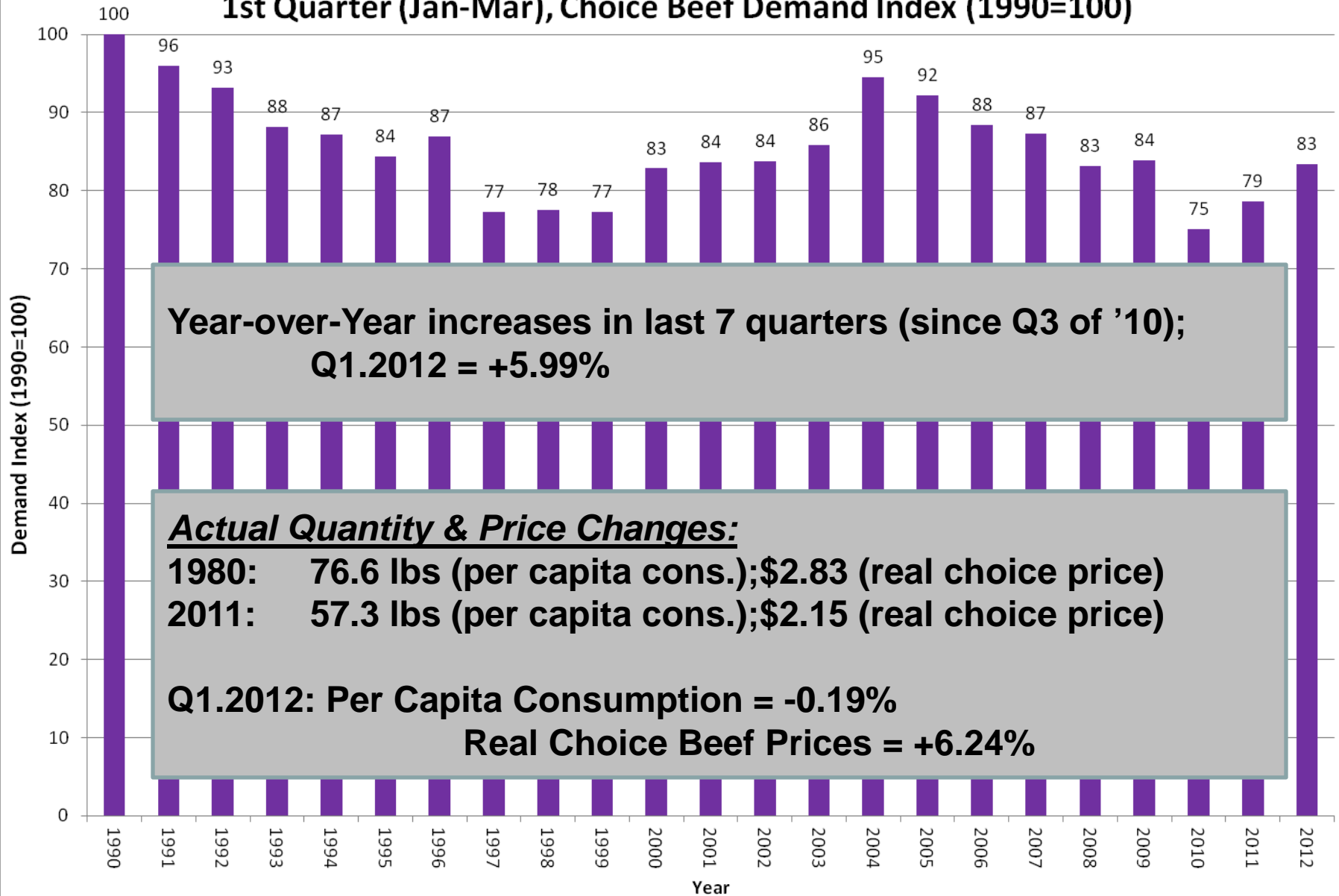


Comments, clockwise from left: Brontae Hunter, Miss M, Gian Robinson, Phil DiNuzzo

Source: March 12, 2012 TIME magazine



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

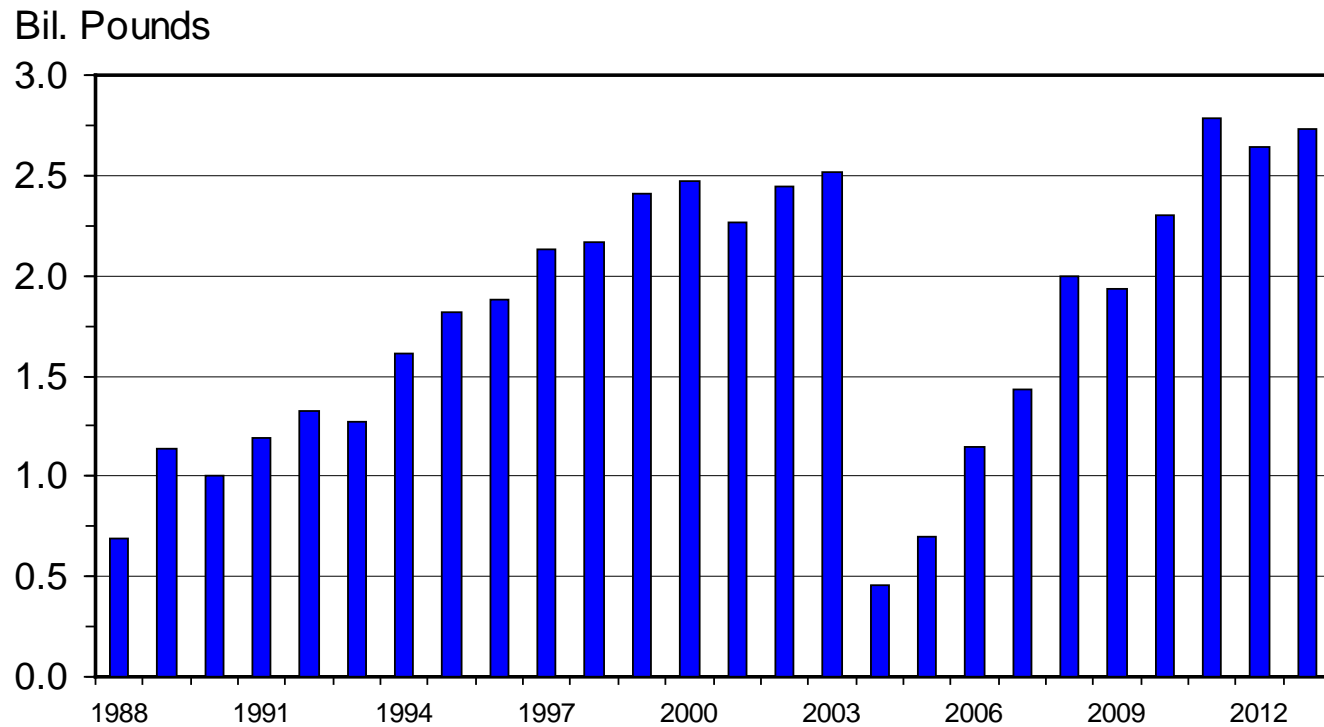


Source: Glynn T. Tonsor, Kansas State University, Apr. 2012



U S BEEF AND VEAL EXPORTS

Carcass Weight, Annual



Livestock Marketing Information Center

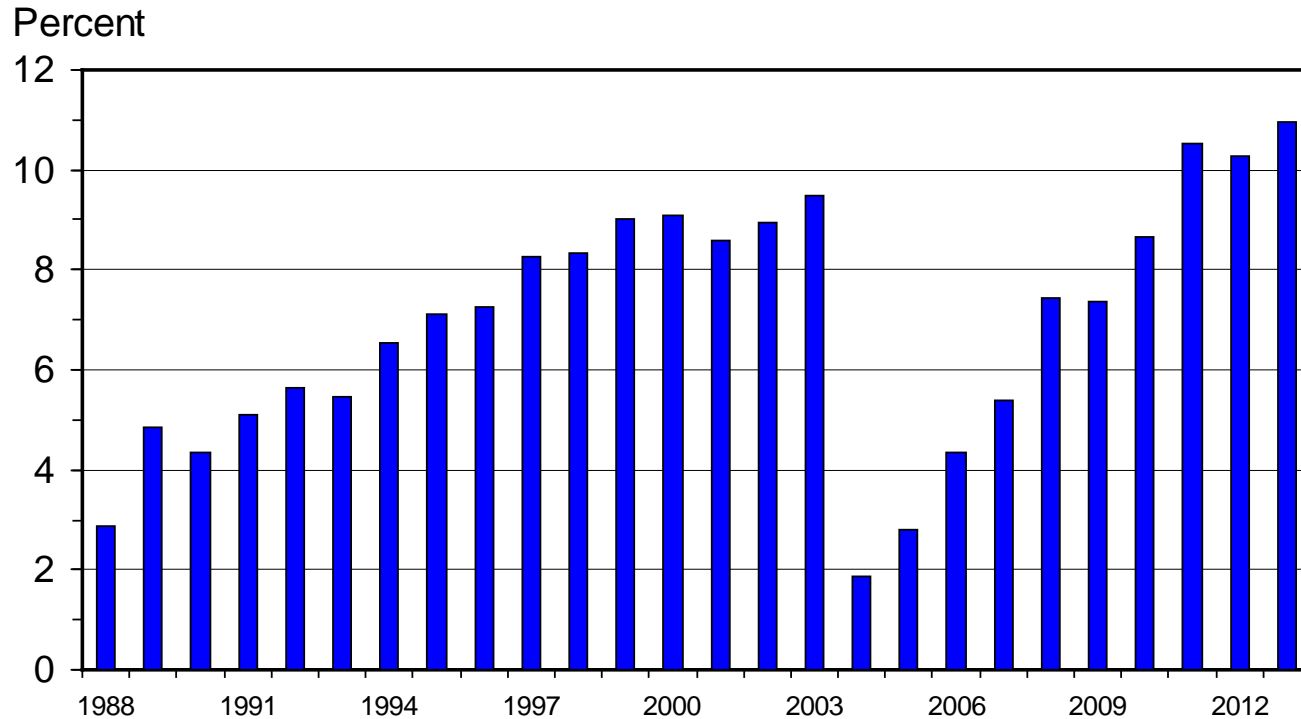
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-06
05/11/12



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
05/11/12



“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/>



United States
Department of
Agriculture

Office of the
Chief Economist

World Agricultural
Outlook Board

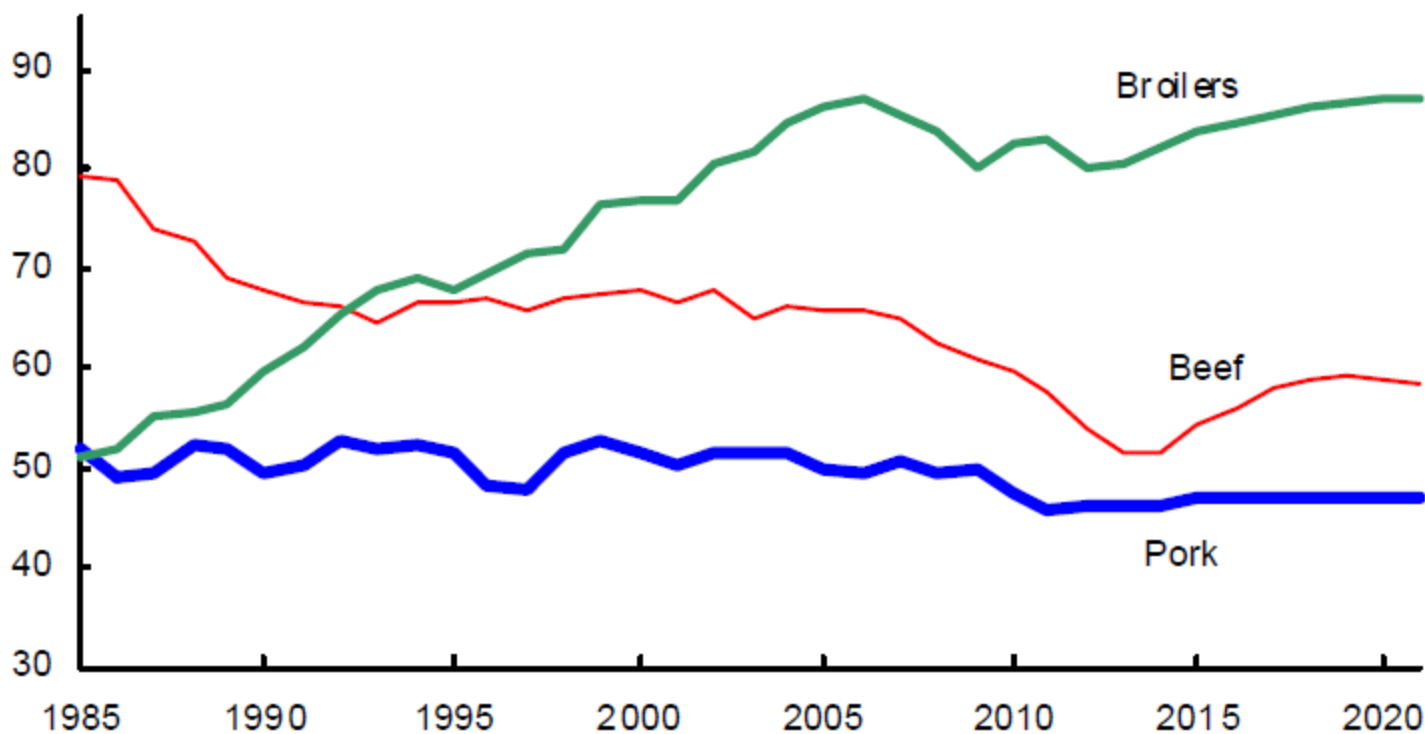
Long-term
Projections Report
OCE-2012-1

February 2012

USDA Agricultural Projections to 2021

U.S. per capita meat consumption

Pounds per capita, retail weight



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
- Excess capacity (feedlot & packing) may take time to resolve ...



Bottom-line Summary

- 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:



This presentation is available in PDF format at:

<http://www.agmanager.info/about/contributors/individual/tonsor.asp>

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 - <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

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 - *“KSU-Beef Replacements”*
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