

GENERAL SESSION I
Livestock Market Situation and Outlook

Glynn Tonsor, Kansas State University

Glynn T. Tonsor joined the Dept. of Agricultural Economics at Kansas State University in March 2010 as an Assistant Professor. He obtained his Ph.D. from KSU in 2006 and was an Assistant Professor in the Dept. of Agricultural, Food, and Resource Economics at Michigan State University from May 2006 to March 2010. Glynn's current efforts are primarily devoted to a range of integrated research and extension activities with particular focus on the cattle/beef and swine/pork industries. He has broad interests and experiences which span issues throughout the meat supply chain. Through both applied research and first-hand knowledge with livestock production, Glynn has expertise in topics including animal identification and traceability, animal welfare and handling, food safety, and price risk management and analysis.

Abstract/Summary

2015 has been a memorable year so far for the entire meat and livestock industry. The combination of changing meat and livestock supplies, animal health developments, adverse export market changes, and ongoing domestic meat demand strength have underpinned market developments and prospects for upcoming months. This session will primarily focus on the U.S. beef and cattle industry and summarize this situation and highlight "big picture factors" that will notably influence upcoming profitability. The session will include time for informal exchange of thoughts on broader economic issues facing the entire livestock and meat industry – so bring your questions!

Risk & Profit
CONFERENCE



K-State Dept. of Agricultural Economics
August 20-21, 2015
K-State Alumni Center
Manhattan, KS

Dealing With Drought:
The Effects and Economics of Drought in Agriculture

KANSAS STATE UNIVERSITY
Department of Agricultural Economics

Livestock Industry Outlook Overview

Glynn Tonsor
Dept. of Agricultural Economics
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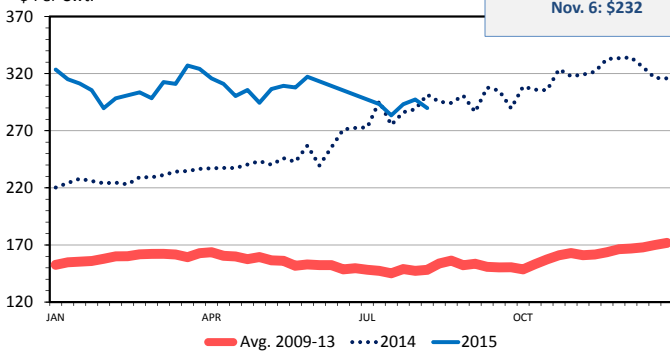
Overarching Beef Industry Economic Outlook

- **Supplies**
 - Historically tight; but expansion well underway
 - Competing meat supplies growing; context needed...
- **Demand**
 - Confusing yet positive; Q2.2015 continued trend
 - Far less certain, understood, & appreciated than supply...
- **Combined**
 - Heartburn or excitement depending on perspective...

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

Beef Basis, Salina KS
Projections (as of 8/20):
Sept. 4: \$238
Oct. 2: \$233
Nov. 6: \$232

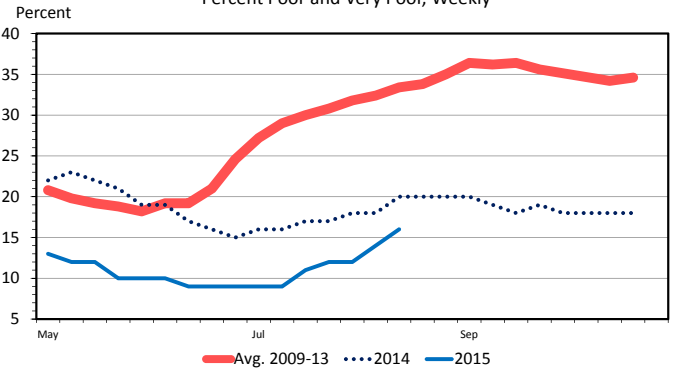


Data Source: USDA-AMS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

C-P-49A
08/17/15

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

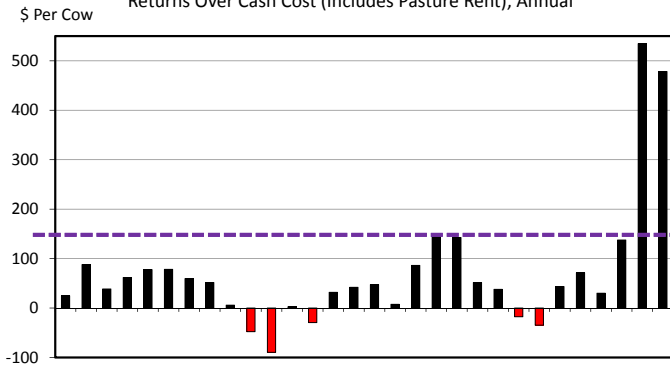


Data Source: USDA-NASS, Compiled & Analysis by LMIC
Livestock Marketing Information Center

G-NP-30
08/17/15

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

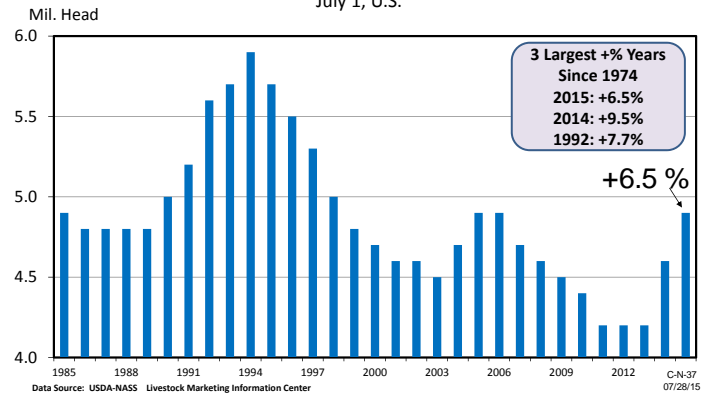


Data Source: USDA-AMS, Compiled and Analysis by Livestock Marketing Information Center

C-P-66
08/05/15

HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.



Data Source: USDA-NASS Livestock Marketing Information Center

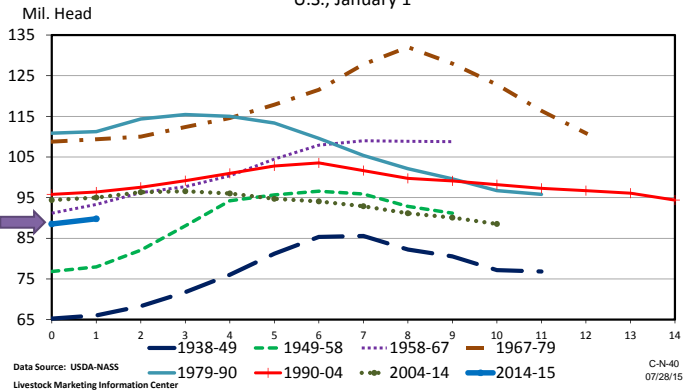
C-N-37
07/28/15

Feeder Cattle Price Hedging Considerations (as of 8/20/15)

- Salina, KS 8/20/15 situation :
 - Sell 550 lb calves on 9/16/15 (\$222)
- Considering price protection on Sep sale
 - Or for stocker, consider protection for buy in Sep
- **USE: [FeederCattleRiskMgmtTool.xlsx](#)**

<http://www.agmanager.info/Tools/default.asp#LIVESTOCK>

TOTAL CATTLE INVENTORY BY CYCLE
U.S., January 1



Economic Outlook Overview: Stockers

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

- Salina, KS 8/20/15 situation:
 - Buy 550 lb steer on 09/16/15 (\$222)
 - Sell 750 lb steer on 12/16/15 (\$191) {2.17 ADG}
 - VOG: \$104/cwt
- IF COG \$80/cwt THEN Exp. Profit = +/- \$50/hd
 - Note Total Cost > \$1,300/hd = low % ROI

Economic Outlook Overview: Feedlots

- 2015 has been rough
- Structural concerns persist:
 - Excess capacity
 - Heifer Retention, Plant Closures, MCOOL, ...

Historical and Projected Kansas Feedlot Net Returns (as of 8/7/15')

<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>

June 15': -\$210/steer

Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

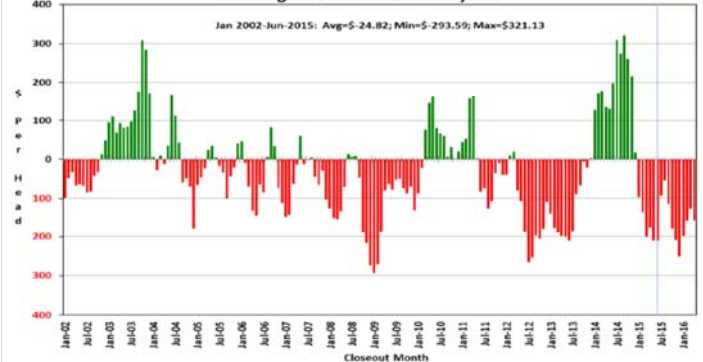
| Closeout Mo-Yr | Net Return | FCOG** | Fed Price | Feeder Price | Breakeven FCOG** | Breakeven Fed Price | Breakeven Feeder Price |
|----------------|------------|--------|-----------|--------------|------------------|---------------------|------------------------|
| Jul-15 | -92.96 | 82.98 | 149.25 | 206.86 | 67.60 | 155.89 | 195.19 |
| Aug-15 | -53.41 | 82.90 | 149.10 | 202.30 | 74.22 | 152.86 | 195.65 |
| Sep-15 | -114.66 | 83.48 | 148.81 | 209.48 | 65.03 | 156.87 | 195.15 |
| Oct-15 | -176.89 | 85.90 | 151.48 | 215.77 | 56.48 | 163.82 | 194.50 |
| Nov-15 | -209.00 | 86.36 | 151.04 | 219.05 | 51.26 | 165.79 | 193.63 |
| Dec-15 | -250.05 | 88.20 | 150.12 | 217.95 | 45.49 | 167.55 | 188.50 |
| Jan-16 | -198.23 | 89.56 | 151.31 | 210.90 | 54.17 | 165.33 | 187.67 |
| Feb-16 | -156.09 | 90.63 | 150.12 | 208.23 | 64.29 | 161.23 | 189.00 |
| Mar-16 | -126.14 | 89.79 | 151.33 | 204.26 | 67.25 | 160.46 | 188.91 |
| Apr-16 | -156.02 | 88.18 | 143.92 | 201.06 | 61.99 | 155.14 | 181.41 |

Representative Barometer for Trends in Profitability

Historical and Projected Kansas Feedlot Net Returns (as of 8/7/15')

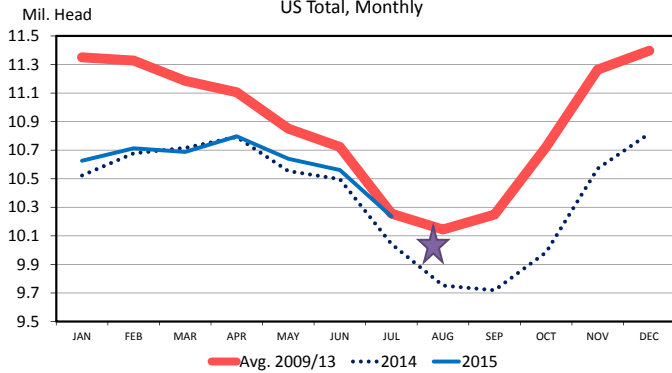
<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp>

Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards



Pre-8/21 COF Report Estimates:
On Feed Aug 1: +2.6% {+1.6% to +3.5%}

CATTLE ON FEED
US Total, Monthly

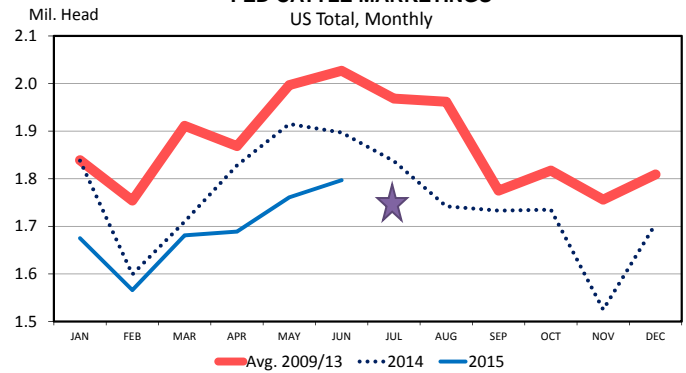


Data Source: USDA-NASS
Livestock Marketing Information Center

C-N-10
07/24/15

Pre-8/21 COF Report Estimates:
Marketed in July: -3.0% {-7.6% to -2.1%}

FED CATTLE MARKETINGS
US Total, Monthly

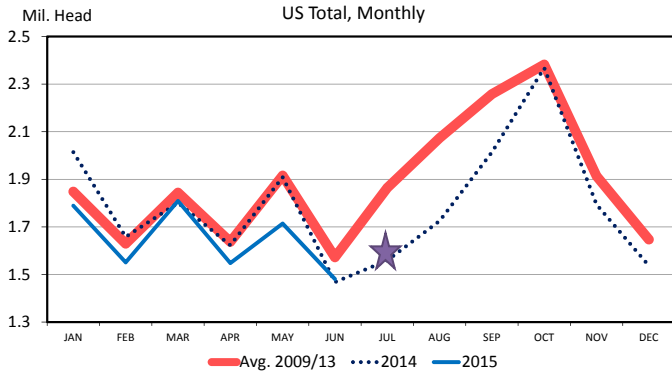


Data Source: USDA-NASS
Livestock Marketing Information Center

C-M-11
07/24/15

Pre-8/21 COF Report Estimates:
Placed in July: +0.9% {-4.9% to +5.2%}

FEEDLOT PLACEMENTS
US Total, Monthly



Data Source: USDA-NASS
Livestock Marketing Information Center

C-N-08
07/24/15

Quarterly Forecasts (LMIC: 8/17/15)

| Year | Comm'l Slaughter | % Chg. from Year Ago | Average Dressed Weight | % Chg. from Year Ago | Comm'l Beef Production | % Chg. from Year Ago |
|-------------|------------------|----------------------|------------------------|----------------------|------------------------|----------------------|
| 2014 | | | | | | |
| I | 7,374 | -5.2 | 795.7 | 0.3 | 5,868 | -5.0 |
| II | 7,837 | -5.9 | 789.0 | 0.9 | 6,184 | -5.1 |
| III | 7,632 | -8.3 | 809.6 | 1.9 | 6,179 | -6.5 |
| IV | 7,326 | -8.8 | 821.8 | 2.8 | 6,021 | -6.3 |
| Year | 30,170 | -7.1 | 803.8 | 1.5 | 24,252 | -5.7 |
| 2015 | | | | | | |
| I | 6,967 | -5.5 | 813.0 | 2.2 | 5,664 | -3.5 |
| II | 7,227 | -7.8 | 810.1 | 2.7 | 5,855 | -5.3 |
| III | 7,470 | -2.1 | 824.6 | 1.9 | 6,160 | -0.3 |
| IV | 7,375 | 0.7 | 826.2 | 0.5 | 6,093 | 1.2 |
| Year | 29,039 | -3.7 | 818.6 | 1.8 | 23,772 | -2.0 |
| 2016 | | | | | | |
| I | 7,116 | 2.1 | 822.4 | 1.2 | 5,852 | 3.3 |
| II | 7,389 | 2.2 | 813.2 | 0.4 | 6,009 | 2.6 |
| III | 7,667 | 2.6 | 831.0 | 0.8 | 6,371 | 3.4 |
| IV | 7,468 | 1.3 | 830.6 | 0.5 | 6,203 | 1.8 |
| Year | 29,640 | 2.1 | 824.4 | 0.7 | 24,435 | 2.8 |

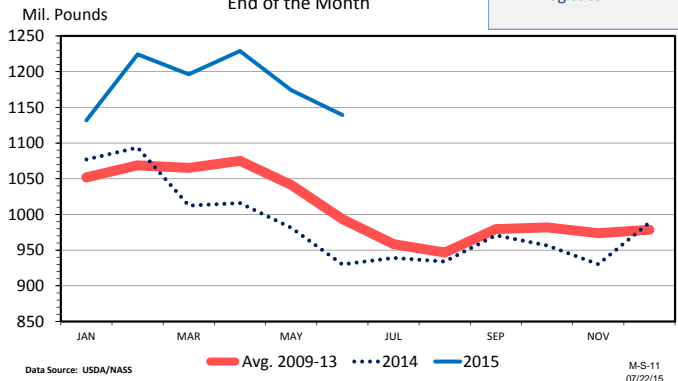
Quarterly Forecasts (LMIC: 8/17/15)

| Year | Live Str. Steer Price 5-Mkt Avg | % Chg. from Year Ago | Feeder Steer Price Southern Plains | |
|-------------|---------------------------------|----------------------|------------------------------------|----------------|
| Quarter | | | 7-800# | 5-600# |
| 2014 | | | | |
| I | 146.34 | 16.6 | 171.77 | 209.30 |
| II | 147.82 | 18.3 | 193.16 | 227.67 |
| III | 158.49 | 29.6 | 225.93 | 263.14 |
| IV | 165.59 | 26.6 | 239.81 | 285.63 |
| Year | 154.56 | 22.8 | 207.67 | 246.44 |
| 2015 | | | | |
| I | 162.43 | 11.0 | 215.87 | 276.14 |
| II | 158.11 | 7.0 | 225.29 | 279.32 |
| III | 149-151 | -5.4 | 220-222 | 254-258 |
| IV | 153-156 | -6.7 | 207-211 | 251-256 |
| Year | 156-157 | 1.3 | 217-219 | 264-268 |
| 2016 | | | | |
| I | 154-158 | -4.0 | 205-211 | 260-267 |
| II | 152-157 | -2.3 | 208-215 | 262-268 |
| III | 147-153 | 0.0 | 202-210 | 253-262 |
| IV | 151-158 | 0.0 | 198-207 | 247-258 |
| Year | 153-155 | -1.6 | 205-209 | 257-262 |

Trade & Meat Supplies
Maintain Context

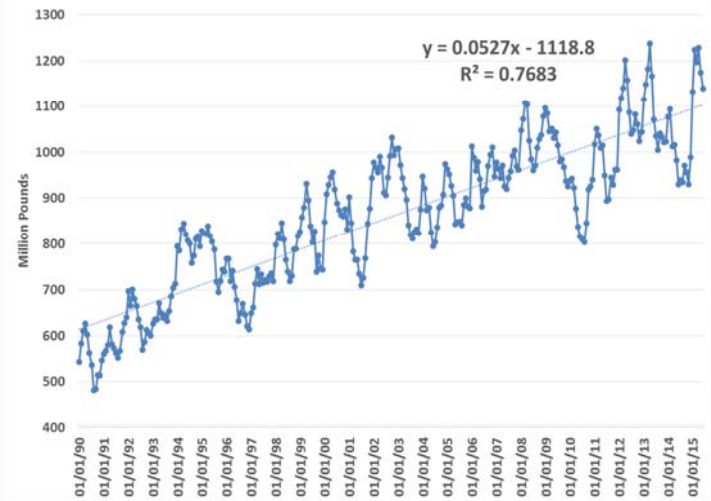
TOTAL RED MEAT IN COLD STORAGE End of the Month

Expanding Production +
High USD + Q1 West Coast
Logistics + AI...

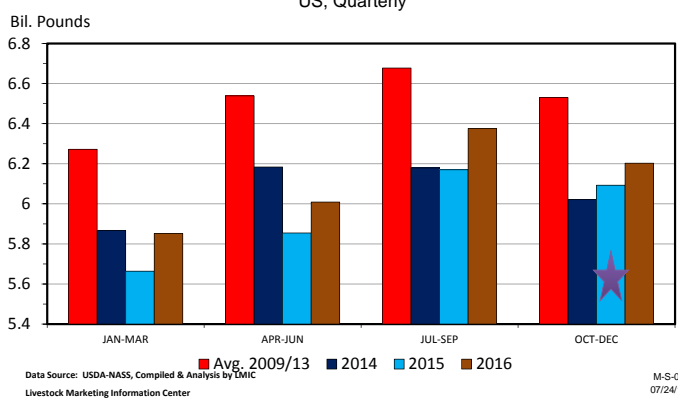


Data Source: USDA/NASS Livestock Marketing Information Center M-S-11 07/22/15

Total Red Meat in Cold Storage (End of Month)

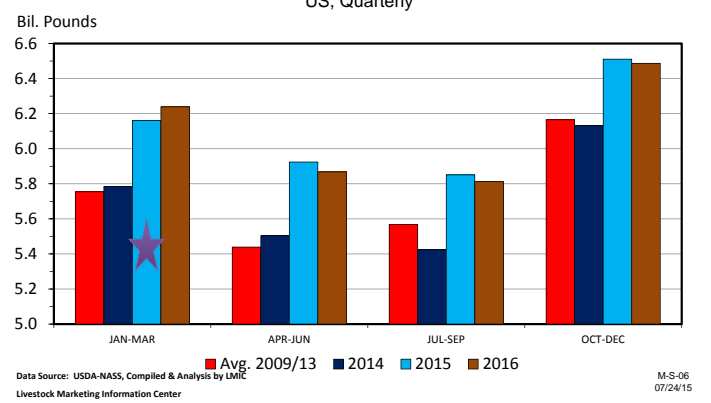


COMMERCIAL BEEF PRODUCTION US, Quarterly



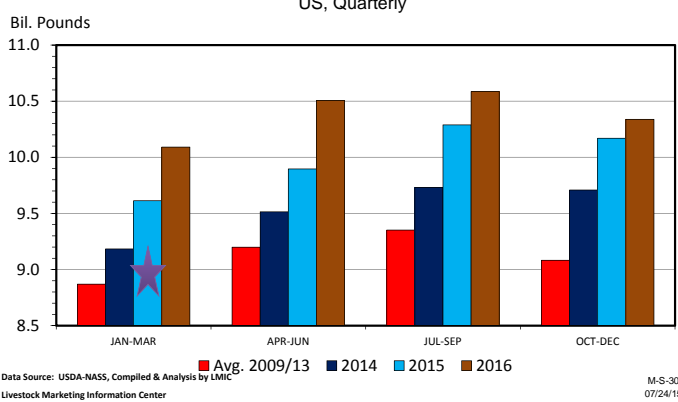
Data Source: USDA-NASS, Compiled & Analysis by LMIC Livestock Marketing Information Center M-S-01 07/24/15

COMMERCIAL PORK PRODUCTION US, Quarterly



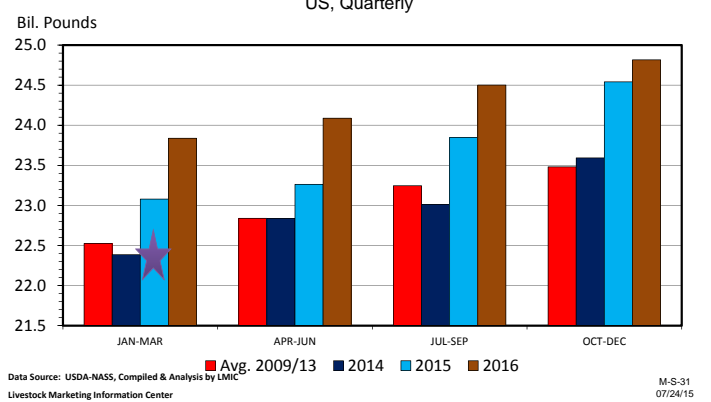
Data Source: USDA-NASS, Compiled & Analysis by LMIC Livestock Marketing Information Center M-S-06 07/24/15

RTC BROILER PRODUCTION US, Quarterly



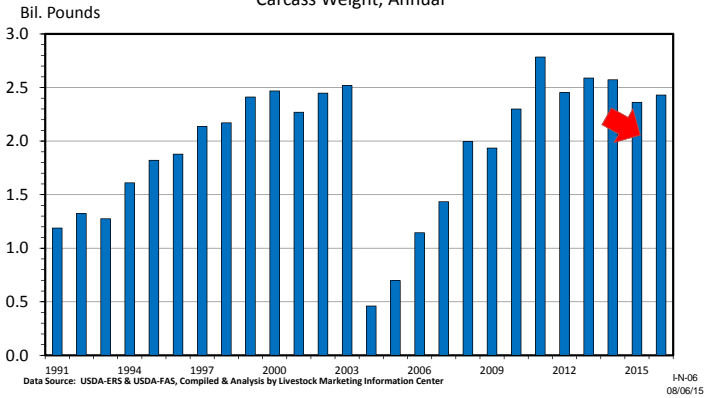
Data Source: USDA-NASS, Compiled & Analysis by LMIC Livestock Marketing Information Center M-S-30 07/24/15

TOTAL RED MEAT & POULTRY PRODUCTION US, Quarterly

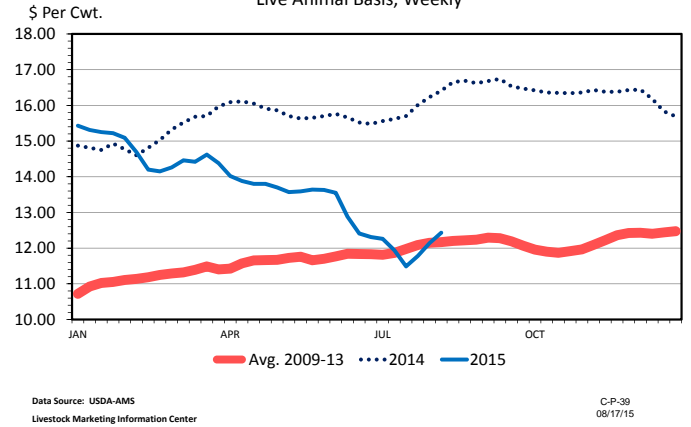


Data Source: USDA-NASS, Compiled & Analysis by LMIC Livestock Marketing Information Center M-S-31 07/24/15

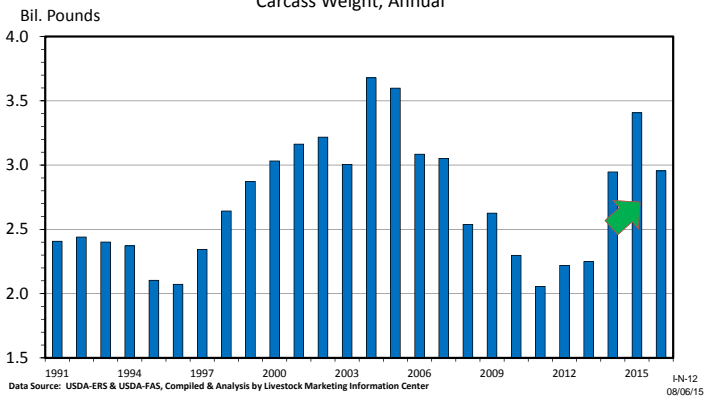
US BEEF AND VEAL EXPORTS Carcass Weight, Annual



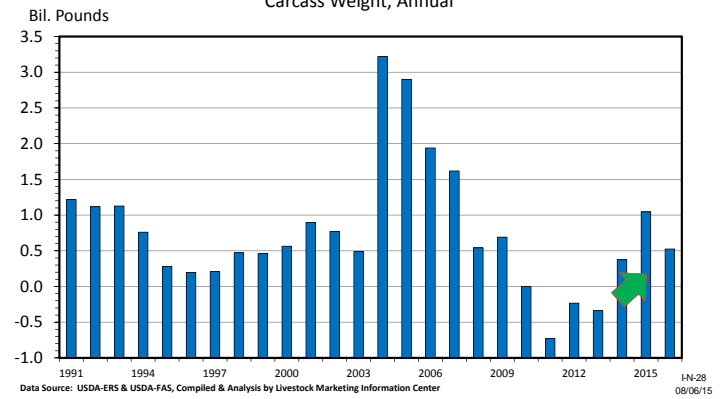
STEER HIDE AND OFFAL VALUE Live Animal Basis, Weekly



US BEEF AND VEAL IMPORTS Carcass Weight, Annual



US BEEF AND VEAL NET IMPORTS Carcass Weight, Annual



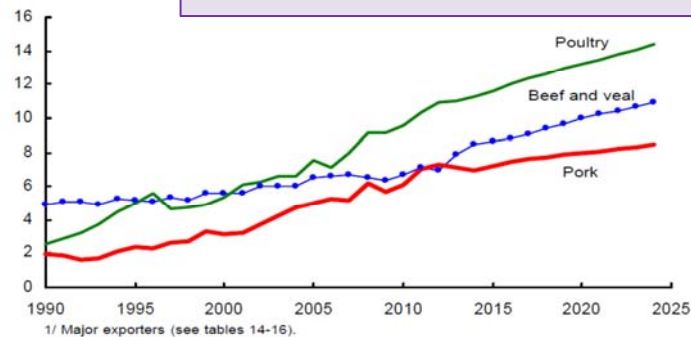
USDA Long-Term projections (2015-2024)

Feb. 11, 2015 report (<http://www.usda.gov/oce/commodity/projections/index.htm>)

Meat exports 1/

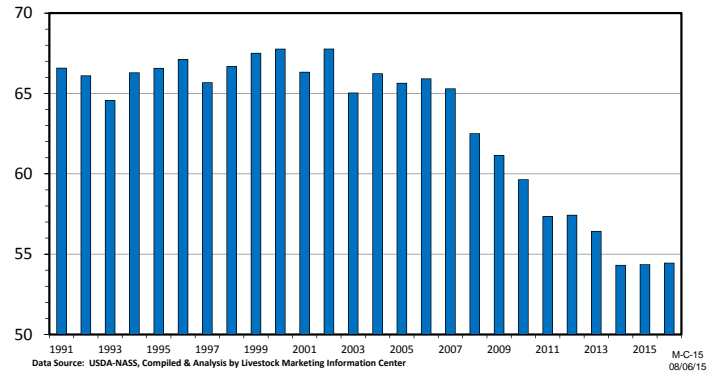
Million metric tons

Export growth rates: +2.7% beef, +1.6% pork, & +2.2% poultry.

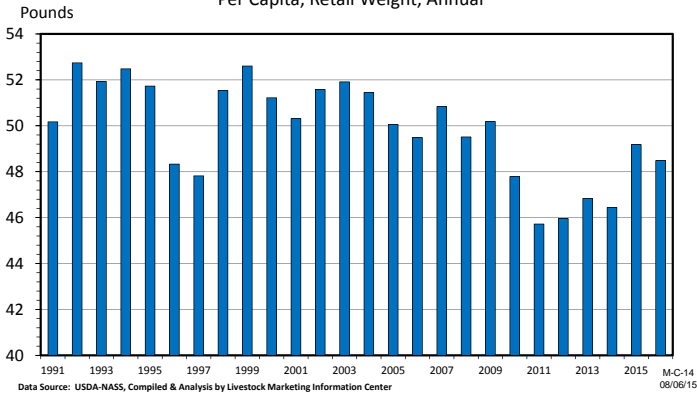


US BEEF CONSUMPTION Per Capita, Retail Weight, Annual

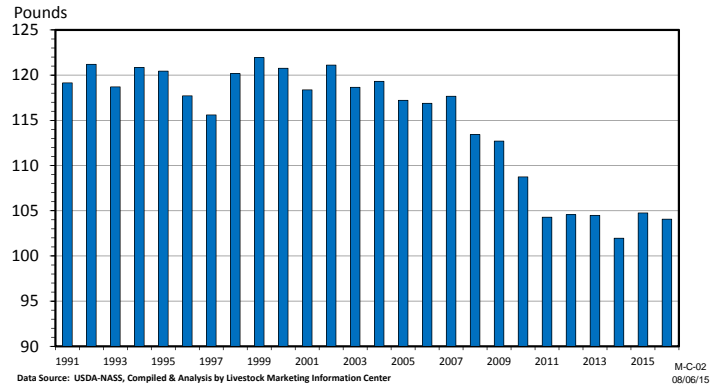
Pounds



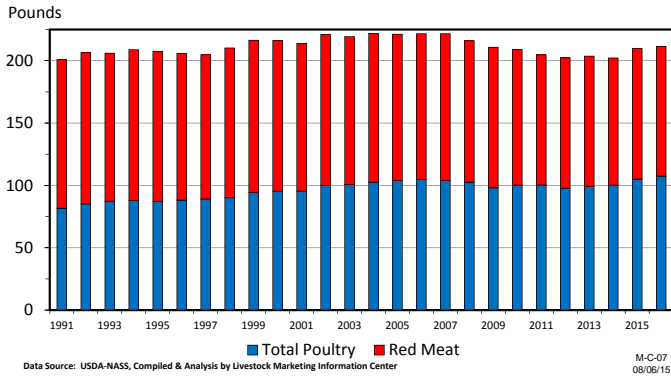
US PORK CONSUMPTION Per Capita, Retail Weight, Annual



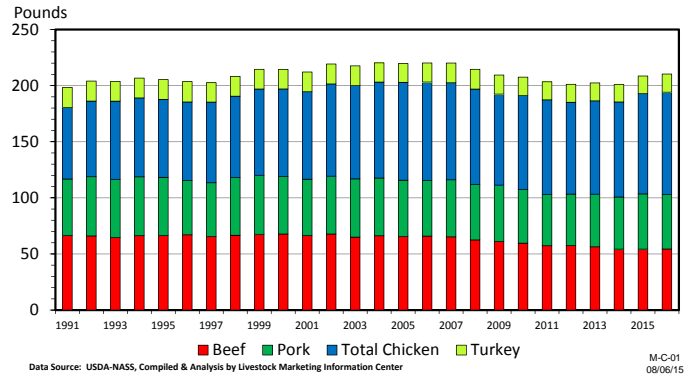
US TOTAL RED MEAT CONSUMPTION Per Capita, Retail Weight, Annual



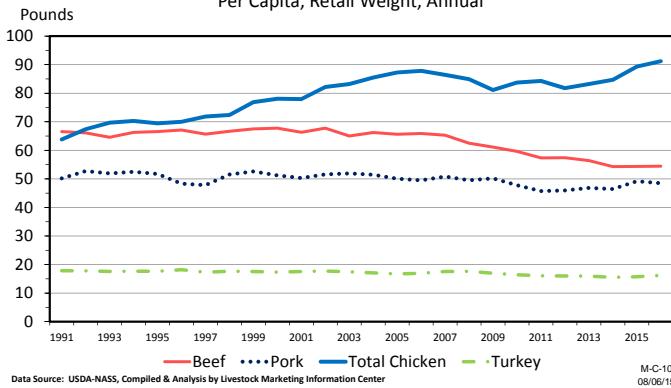
US RED MEAT & POULTRY CONSUMPTION Per Capita, Retail Weight, Annual



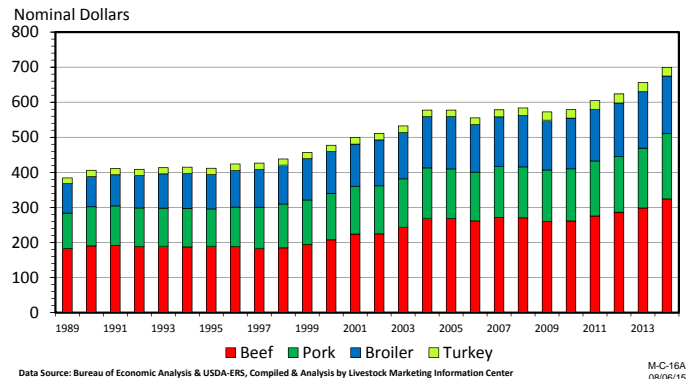
US RED MEAT & POULTRY CONSUMPTION Per Capita, Retail Weight, Annual

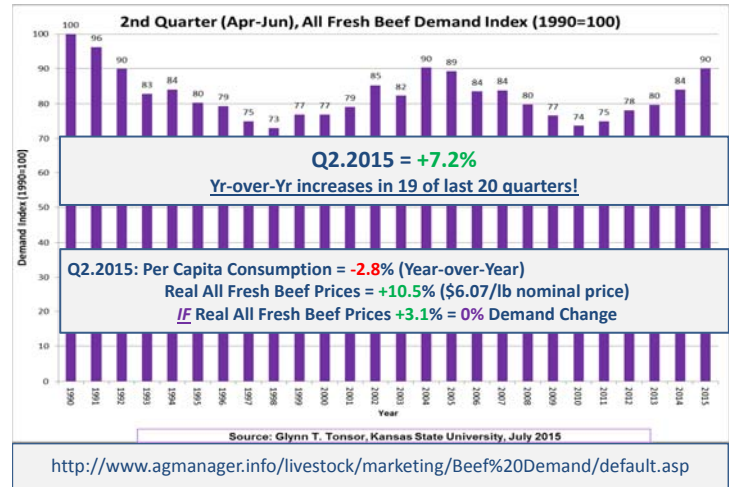
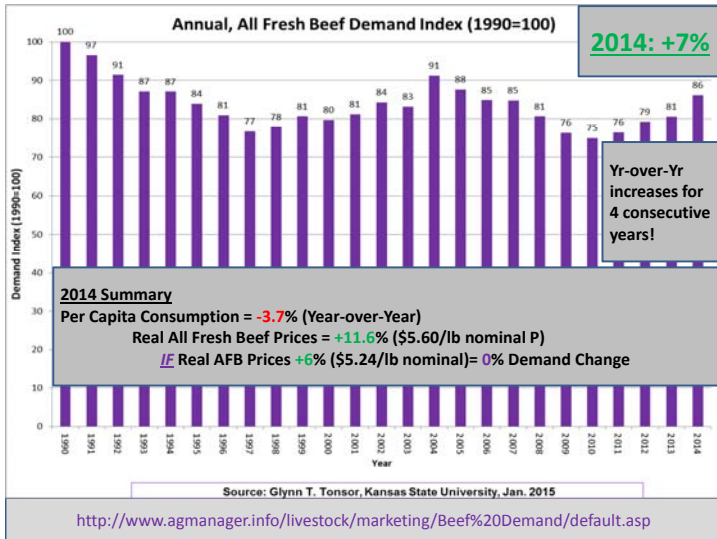


US RED MEAT & POULTRY CONSUMPTION Per Capita, Retail Weight, Annual



US EXPENDITURES FOR MEAT & POULTRY Per Capita, By Type of Meat, Annual





Take-Home Summary Points

- Industry at tipping point on role of tight supplies
- **Demand's role will become clearer going forward**
- Identifying & acting upon comparative advantage will increasingly be key!

Issues We Could Discuss...

- Physical Capacity/Infrastructure
- Regional shifts in production
- Avian Influenza & PEDv
- Mandatory Country of Origin Labeling
- Persistence of 2015 Export "constraints"
- Public acceptance of new food technology
 – And many more.....

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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