

# ***Livestock & Meat Market Outlook***

**Glynn Tonsor**

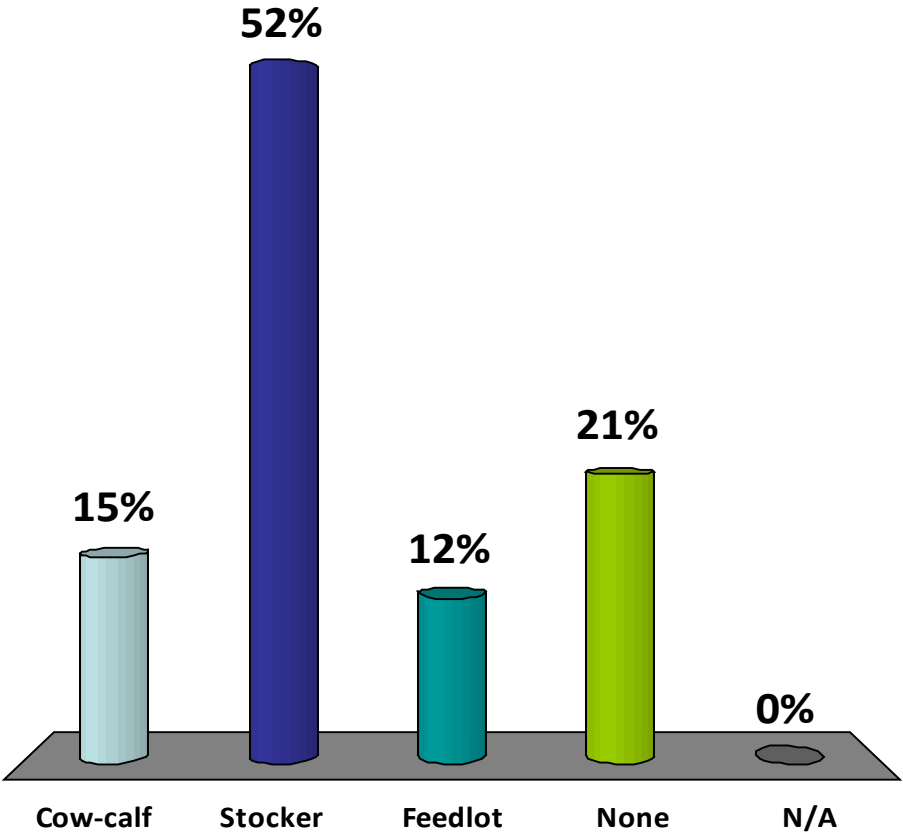
**Dept. of Agricultural Economics  
Kansas State University**

***Wichita, KS (March 15, 2011)***



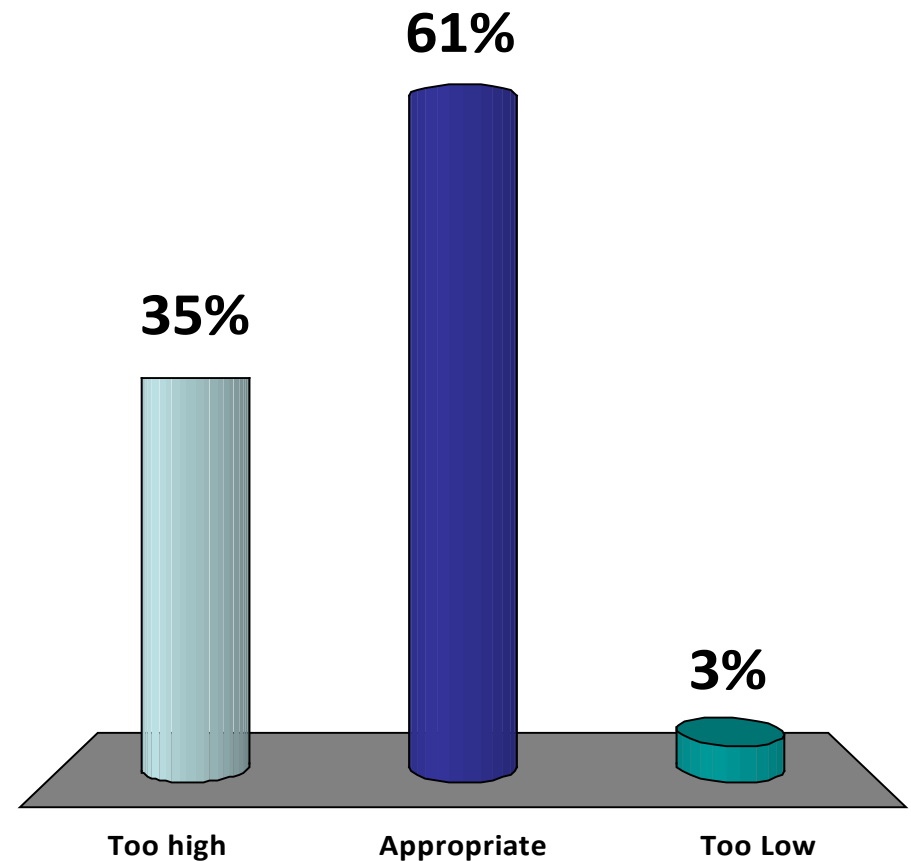
# What best describes your role/interest in the U.S. beef/cattle industry?

- 1. Cow-calf producer
- 2. Backgrounder/Stocker
- 3. Feedlot operator
- 4. None of the above, but I'm involved
- 5. Not applicable



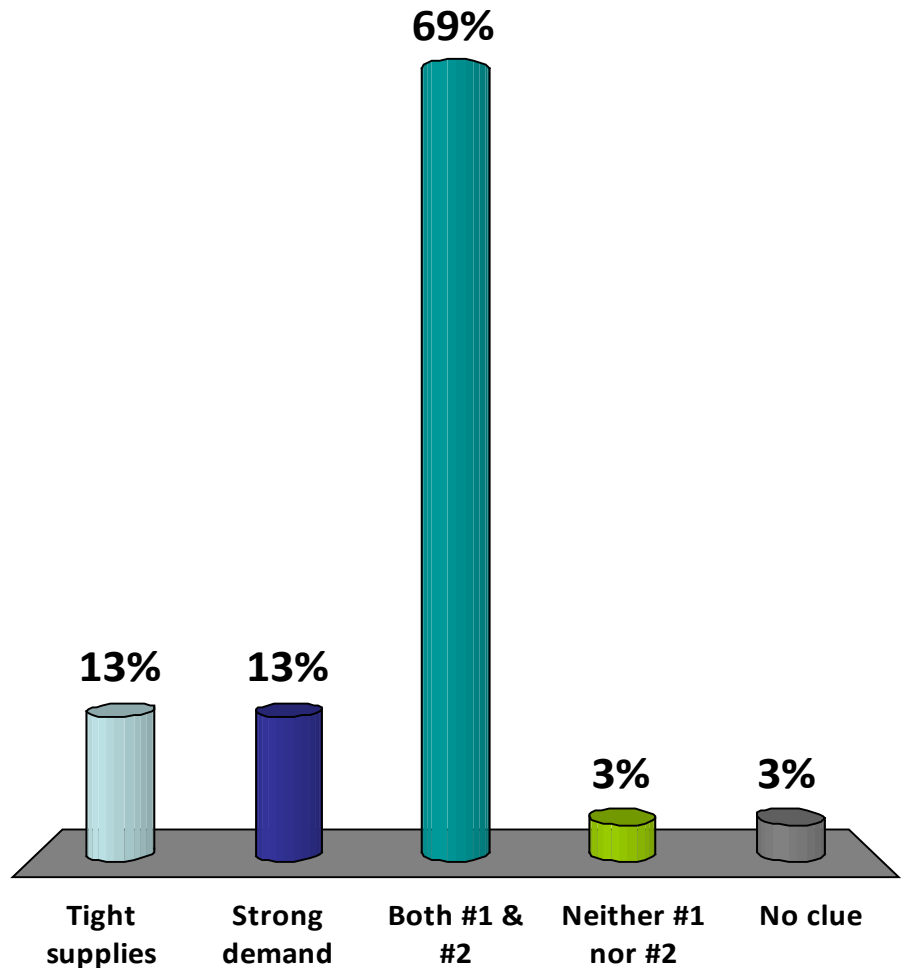
# What best describes your sentiment regarding the current cattle marketplace?

1. Current prices are too high given fundamentals
2. Current prices are appropriate given fundamentals
3. Current prices are too low given fundamentals



# What best describes forces shaping the current cattle marketplace?

1. Tight supplies
2. Strong demand
3. Both #s 1 & 2
4. Neither #1 nor #2
5. "I have no clue"



# OVERVIEW

- SUPPLY:
  - Historically tight supplies
    - Shrinking cow herd, expansion uncertainty
    - Feedlot consolidation underway...
- DEMAND:
  - Export demand has been strong
  - Domestic demand strengthening
- FEEDS:
  - Growing role of forage & hence stocker segment
- “OTHER” PRESSURES
  - Growing in relevance...



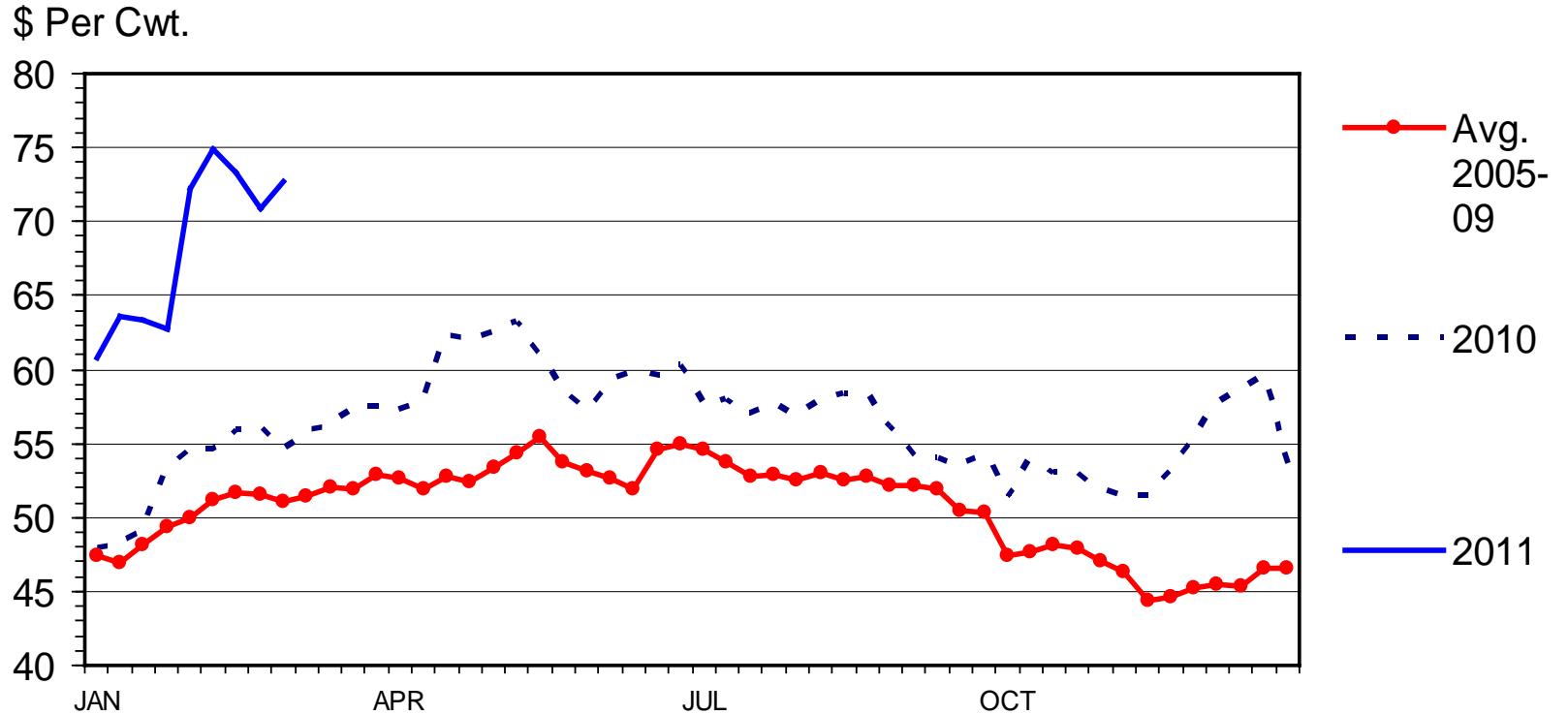
# Cow herd dynamics

- Expected Profits, Typically = Expansion
- Producers largely taking current “high” prices & not retaining for future...
  - Are cow-calf producers cash strapped?
  - Is the age of operators at hand and retirement decisions at play?
  - Is “heightened uncertainty” at play?
    - If \$50/head expected profit used to “normally trigger expansion” what does it take today???



# SLAUGHTER COW PRICES

## Southern Plains, 85-90% Lean, Weekly



Livestock Marketing Information Center

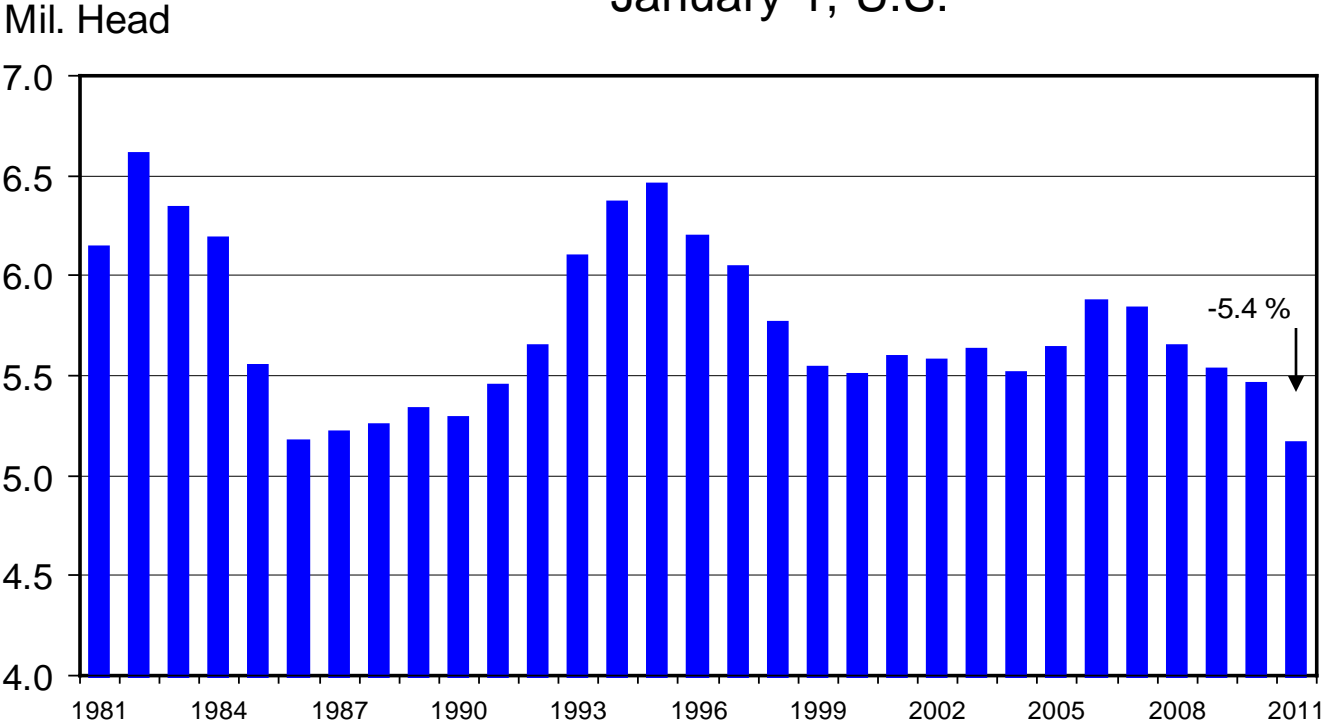
Data Source: USDA-AMS

C-P-35  
03/07/11



# HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.



Livestock Marketing Information Center

Data Source: USDA-NASS

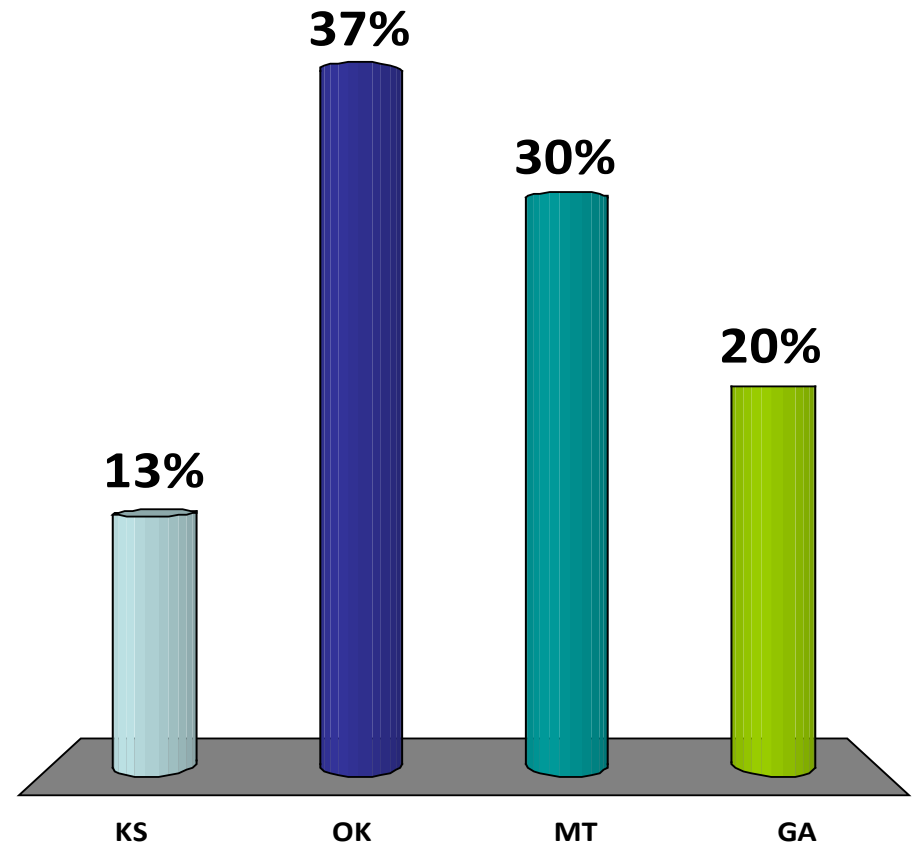
C-N-38  
01/28/11



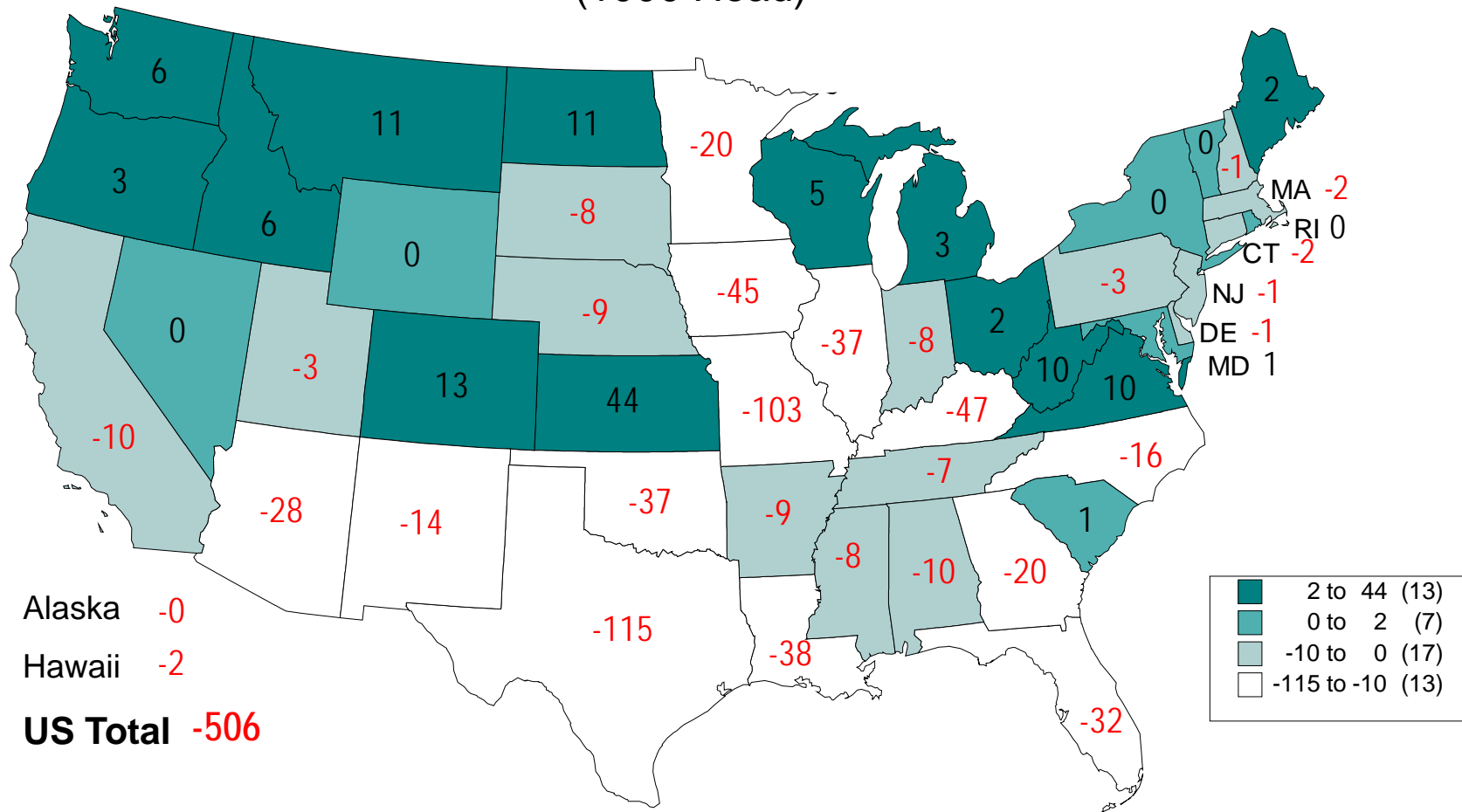


# Which state added the most beef cows between Jan. 2002 and Jan. 2011?

1. Kansas
2. Oklahoma
3. Montana
4. Georgia



# CHANGE IN BEEF COW NUMBERS JANUARY 1, 2010 TO JANUARY 1, 2011 (1000 Head)



Livestock Marketing Information Center

Data Source: USDA/NASS

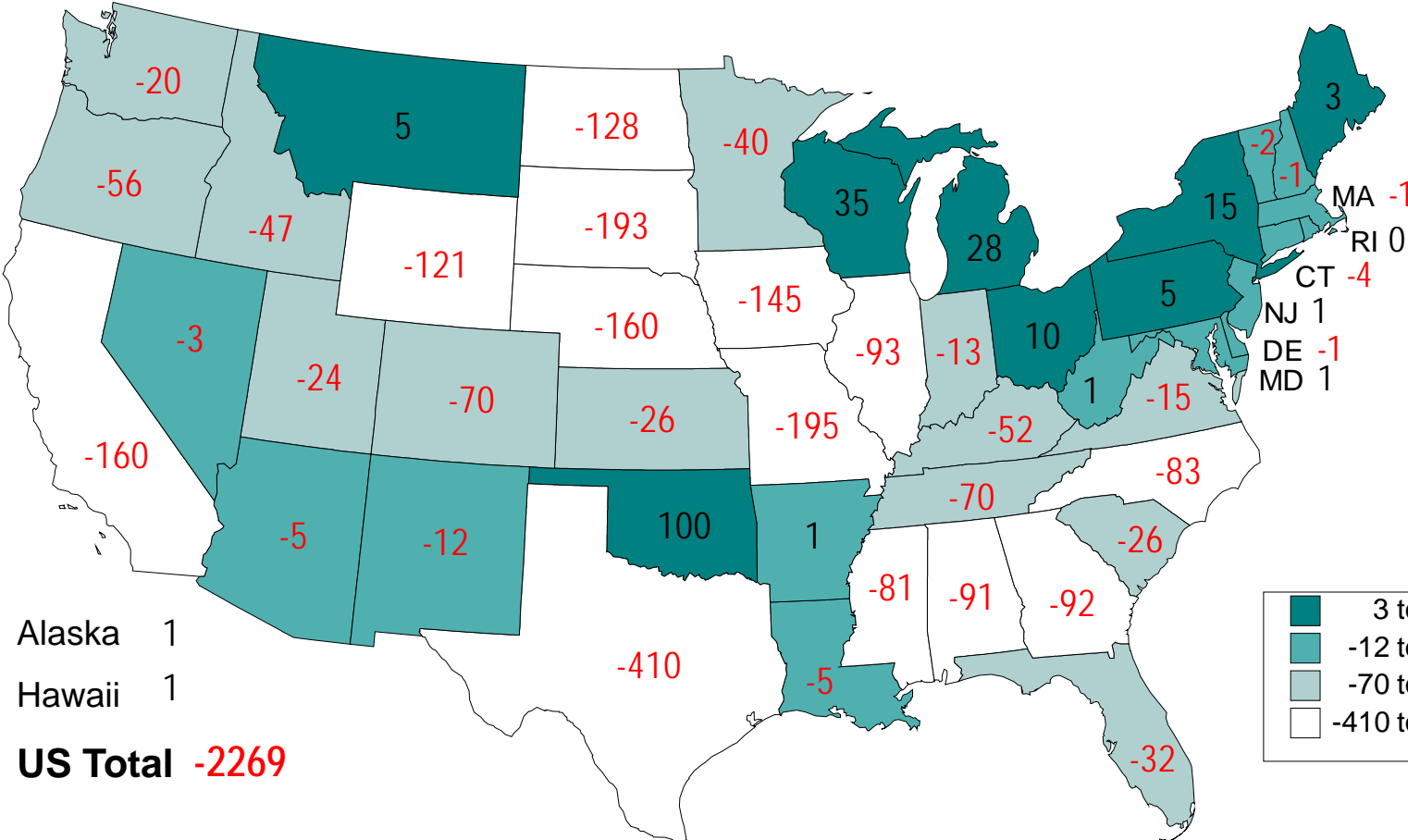
C-N-28  
01/28/11



# CHANGE IN BEEF COW NUMBERS

## JANUARY 1, 2002 TO JANUARY 1, 2011

(1000 Head)

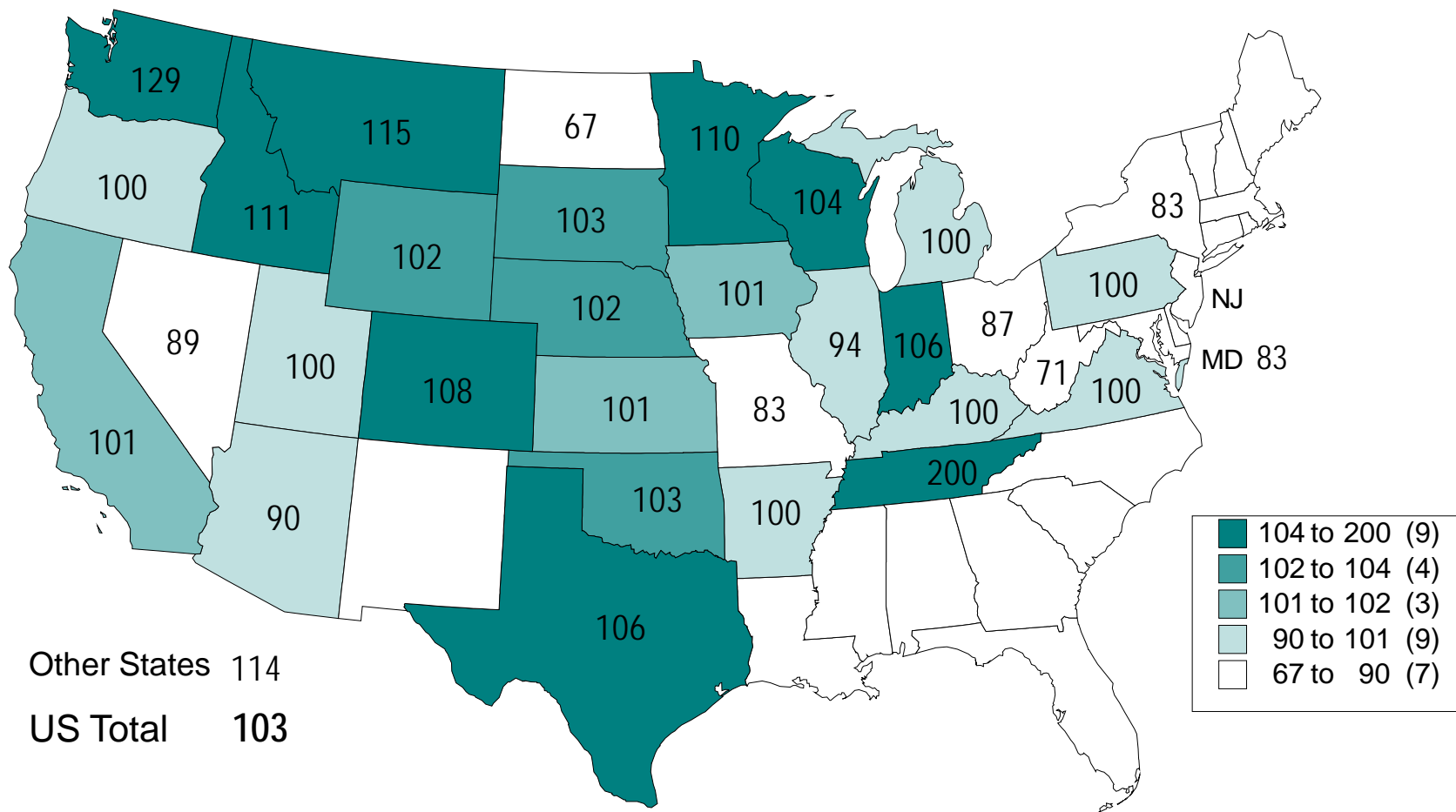


Livestock Marketing Information Center  
 Data Source: USDA/NASS

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# CATTLE ON FEED JANUARY 1, 2011 AS A % OF 2010



Livestock Marketing Information Center

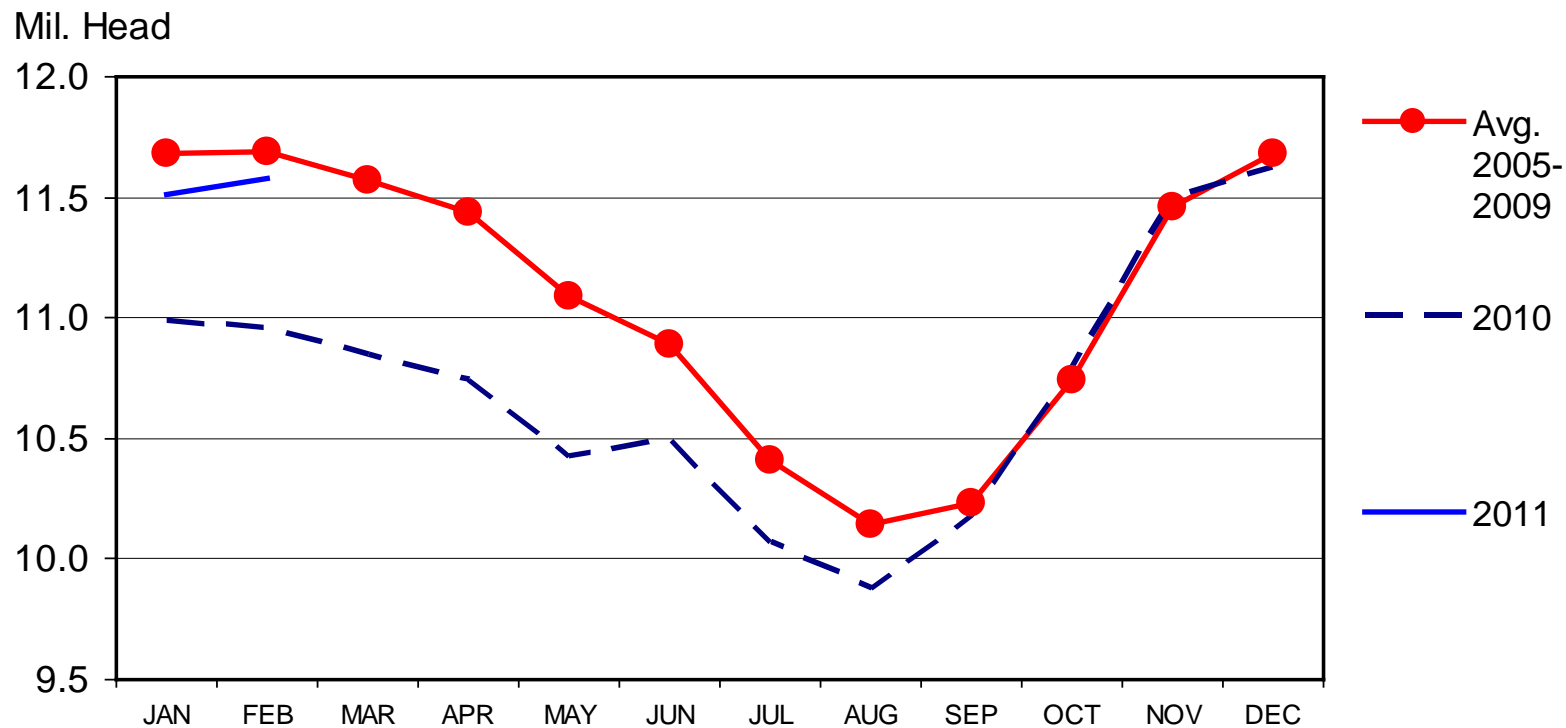
Data Source: USDA/NASS

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# CATTLE ON FEED

## US Total, Monthly



Livestock Marketing Information Center

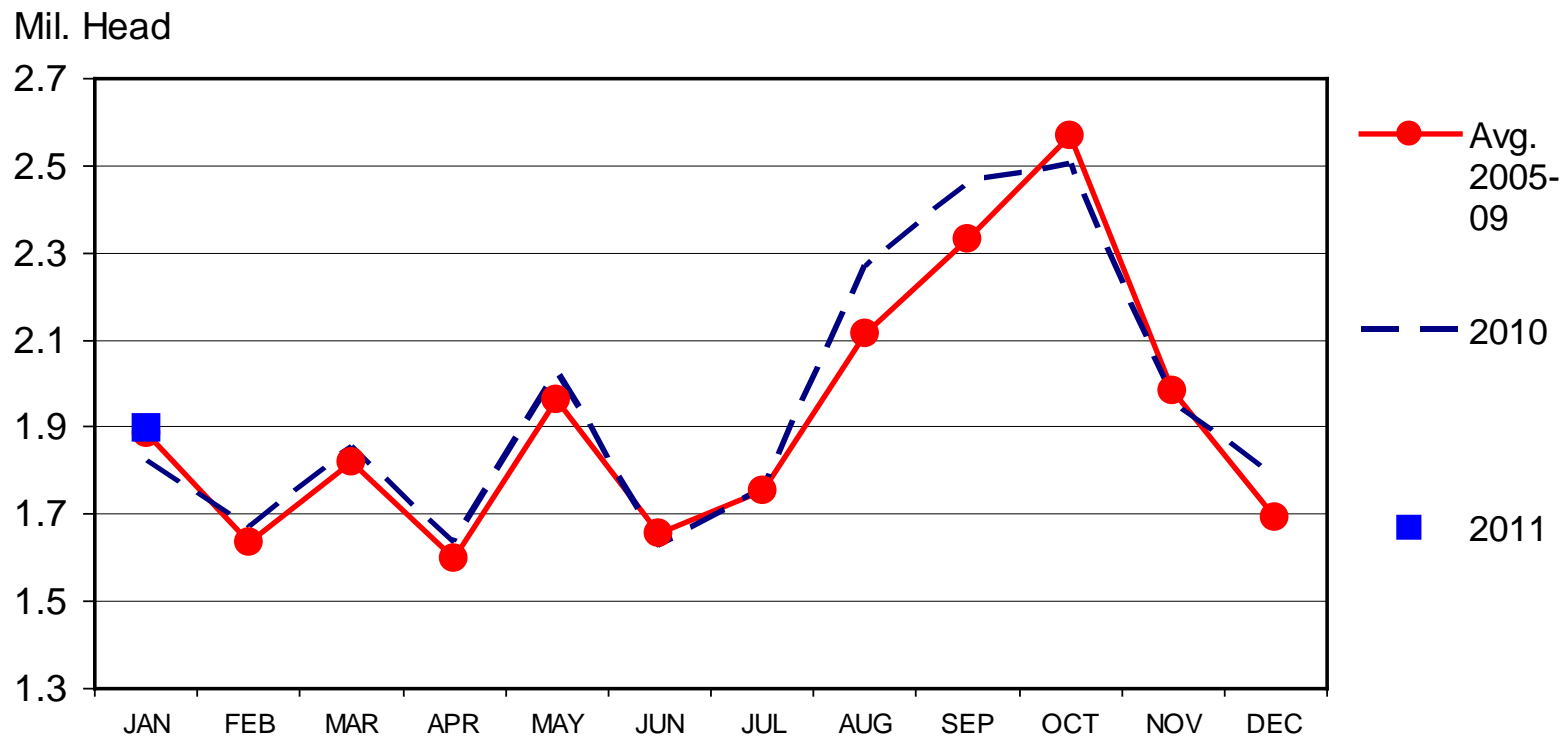
Data Source: USDA-NASS

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02/18/11



# FEEDLOT PLACEMENTS

## US Total, Monthly



Livestock Marketing Information Center

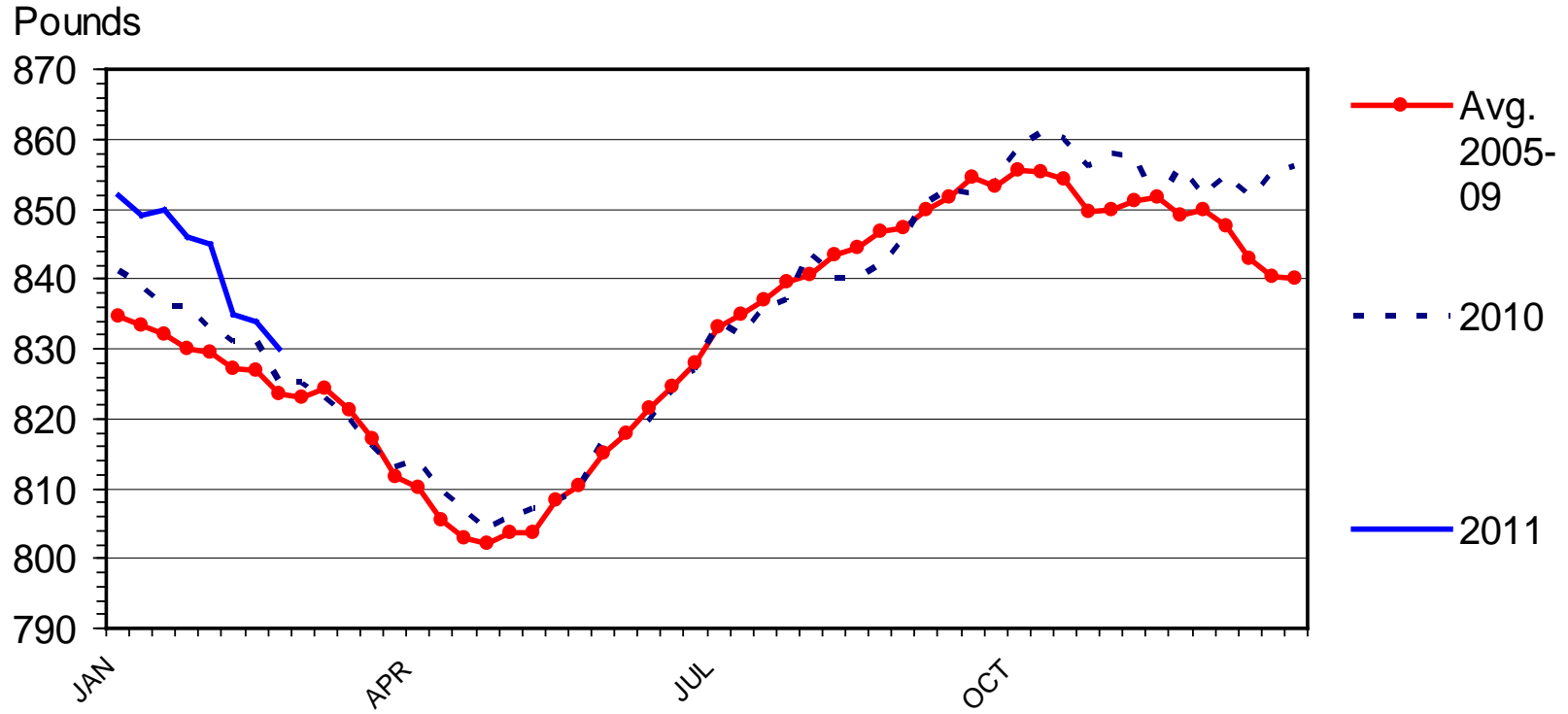
Data Source: USDA-NASS

C-N-08  
02/18/11



# STEER DRESSED WEIGHT

## Federally Inspected, Weekly

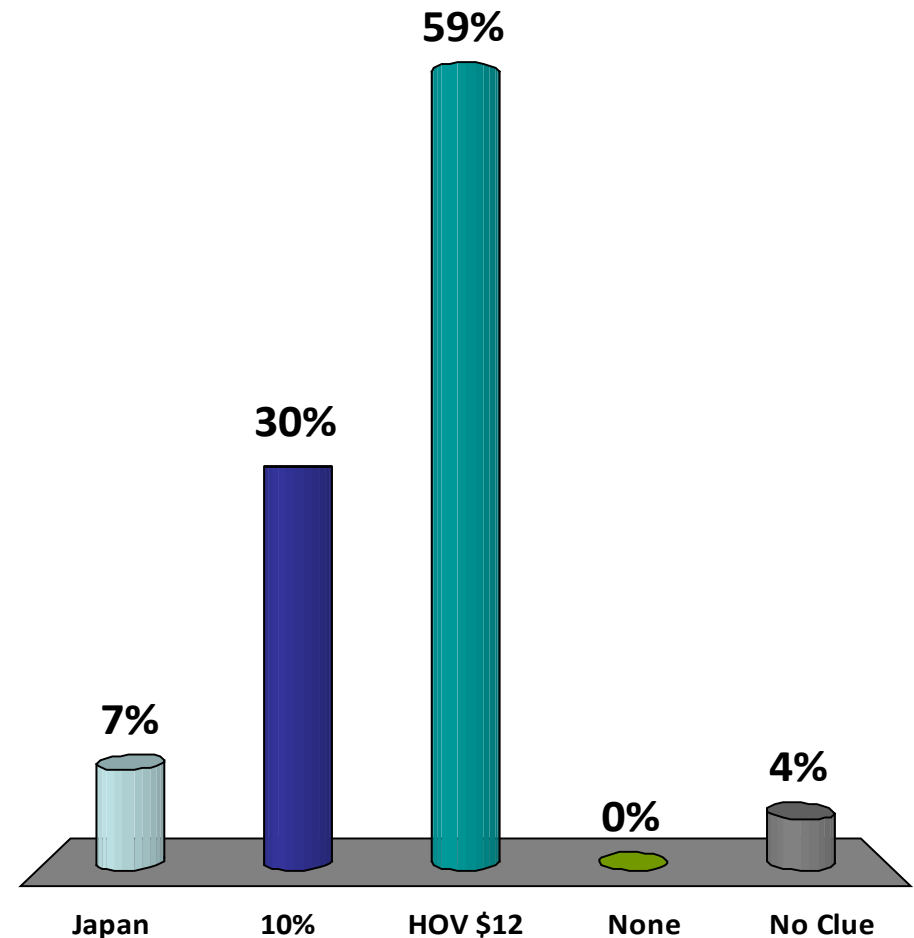


Livestock Marketing Information Center  
 Data Source: USDA-AMS & USDA-NASS

C-S-18  
 03/11/11

# What statement is most accurate regarding current U.S. beef exports?

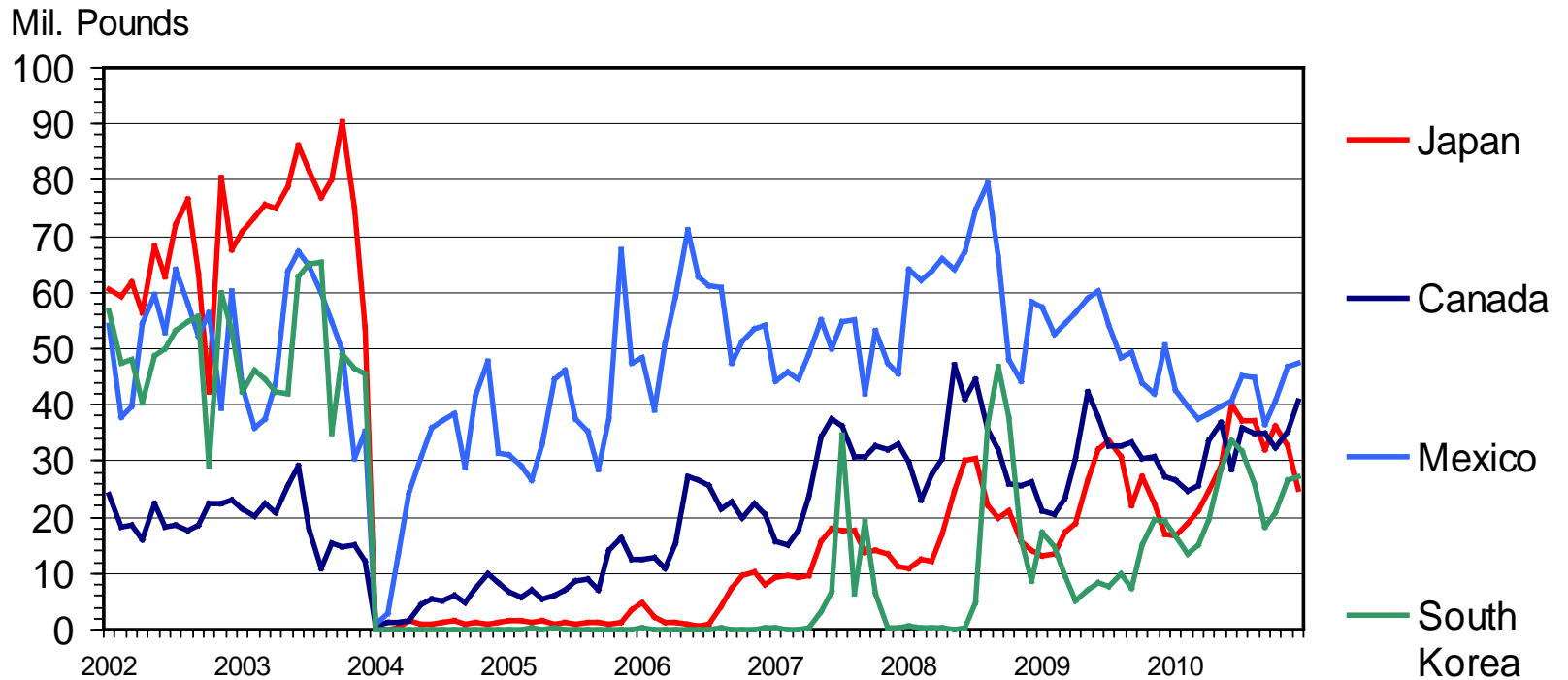
1. Japan is our largest market (volume)
2. We export over 10% of production
3. Hide & offal values exceed \$12/cwt (live animal basis)
4. None of the above
5. "I have no clue"





# U S BEEF EXPORTS TO MAJOR MARKETS

## Carcass Weight, Monthly



Livestock Marketing Information Center

Data Source: USDA-ERS & USDA-FAS

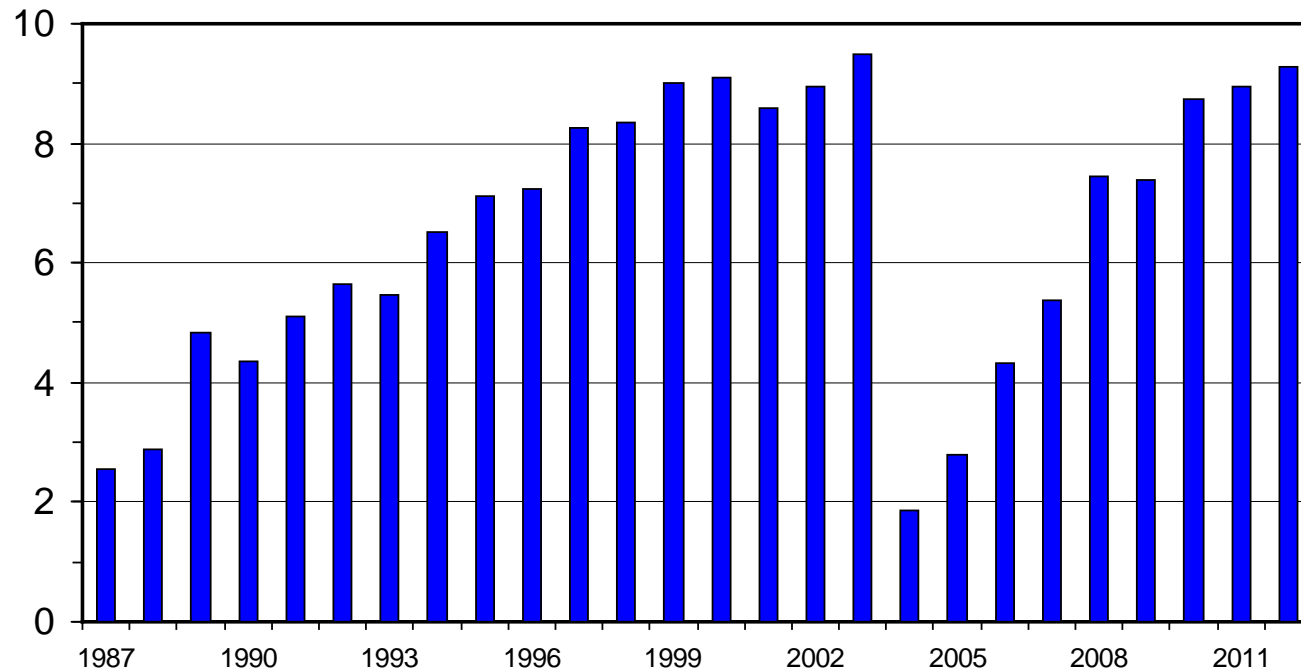
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# U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual

Percent



Livestock Marketing Information Center

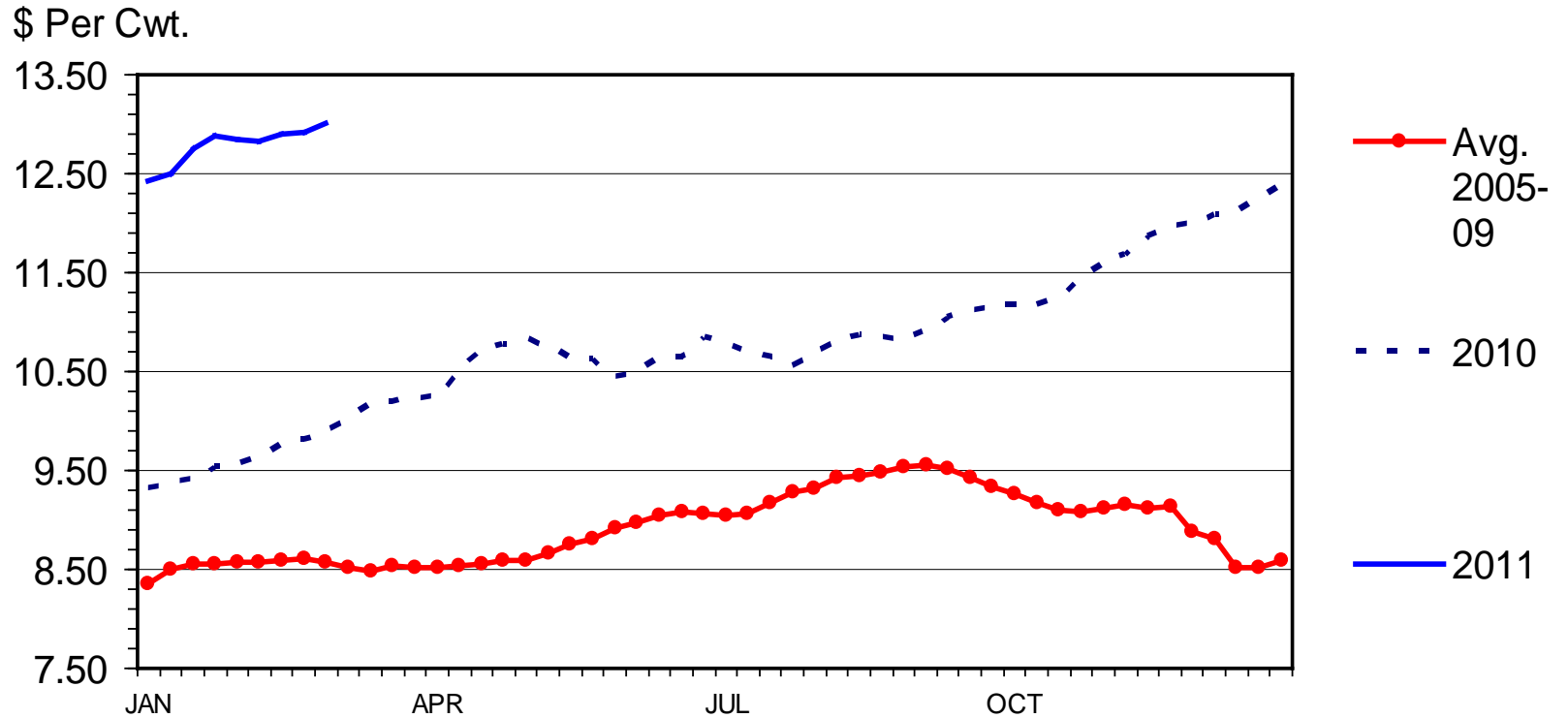
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-07  
01/04/11



# STEER HIDE AND OFFAL VALUE

## Live Animal Basis, Weekly



Livestock Marketing Information Center

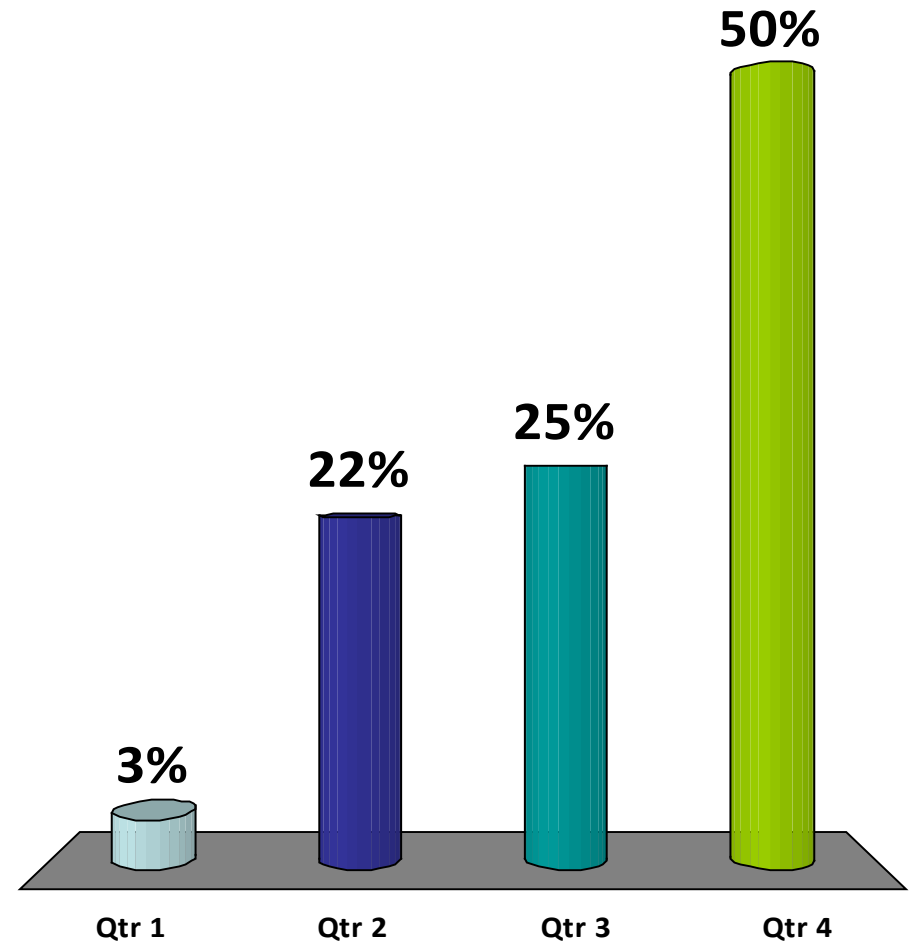
Data Source: USDA-AMS

C-P-39  
03/07/11



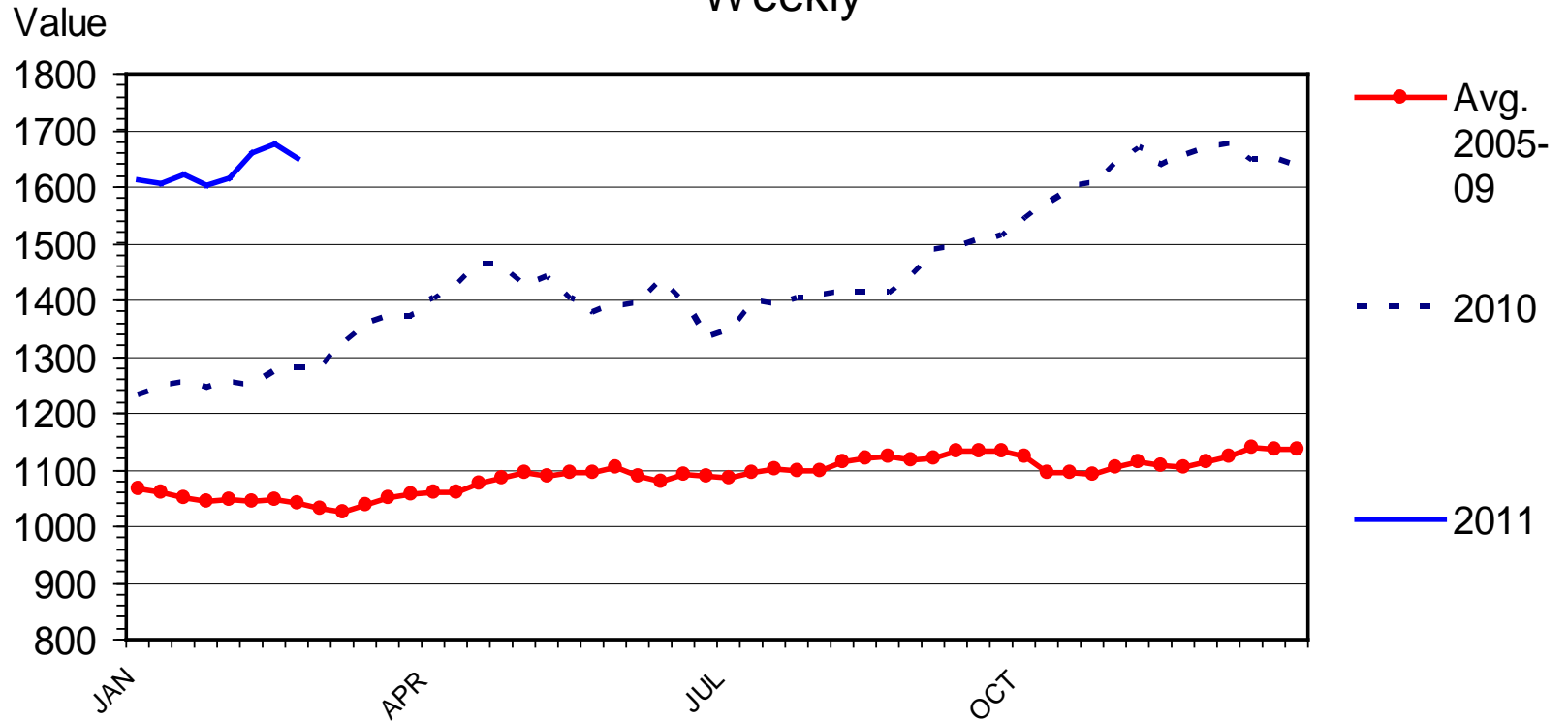
# What quarter of 2010 had the strongest domestic beef demand (relative to previous year)?

1. Qtr 1 (Jan-Mar)
2. Qtr 2 (Apr-Jun)
3. Qtr 3 (Jul-Sep)
4. Qtr 4 (Oct-Dec)



# NATIONAL RESTAURANT NEWS STOCK MARKET INDEX

Weekly



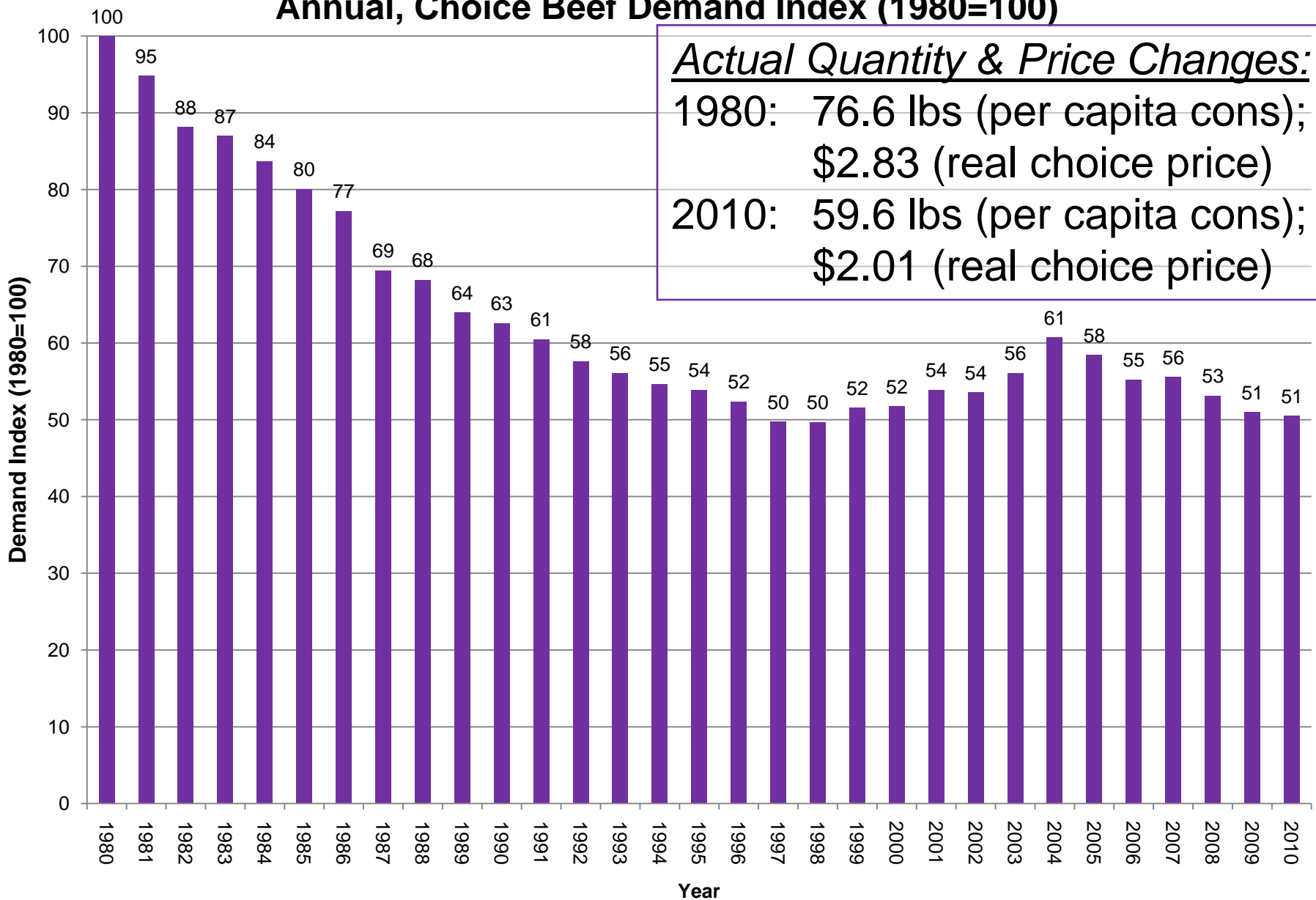
Livestock Marketing Information Center

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Data Source: National Restaurant News, Compiled & Analysis by LMIC



## Annual, Choice Beef Demand Index (1980=100)



### Actual Quantity & Price Changes:

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

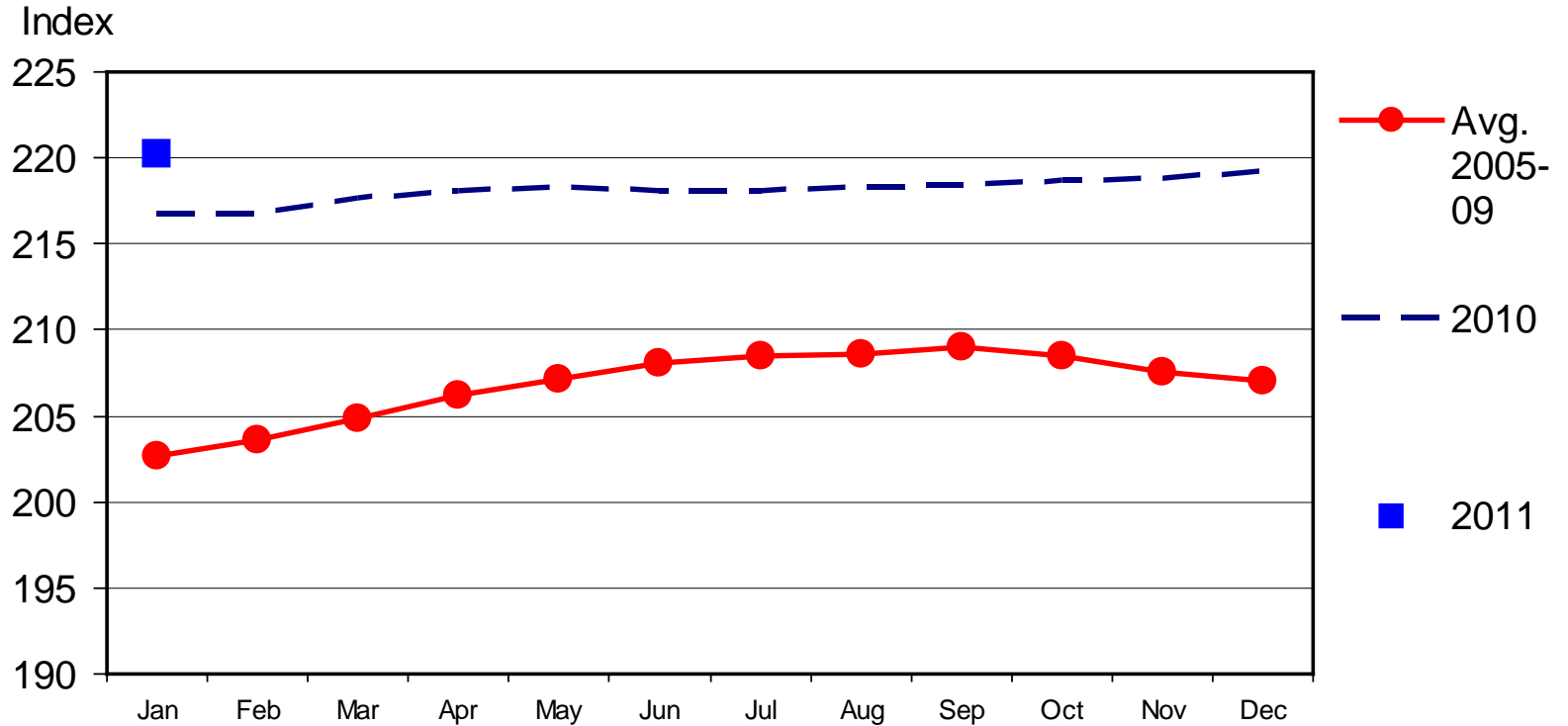
2010: 59.6 lbs (per capita cons);  
\$2.01 (real choice price)

Source: Glynn T. Tonsor, Kansas State University, Jan. 2011



# CONSUMER PRICE INDEX - ALL ITEMS

1982-1984 Base, Monthly



Livestock Marketing Information Center

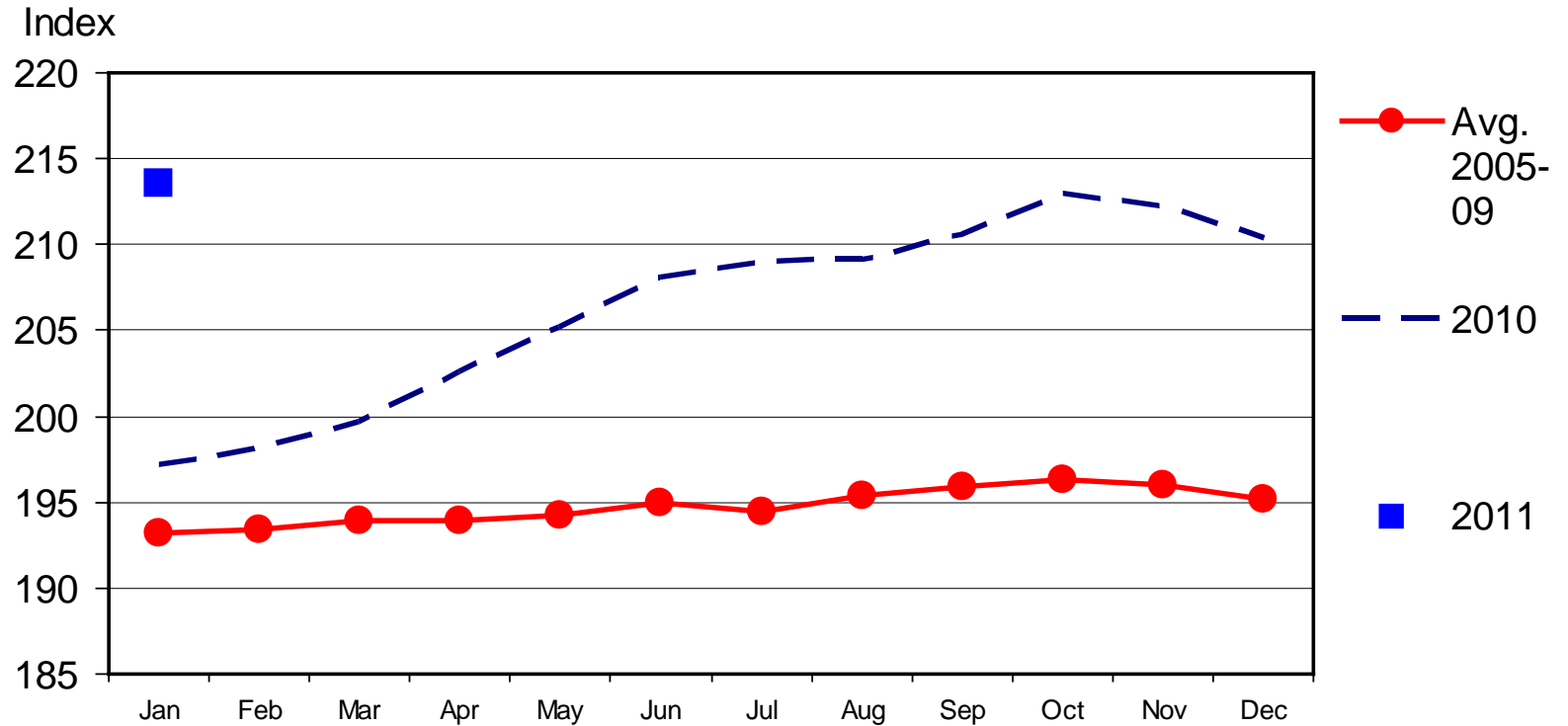
02/17/11

Data Source: Bureau of Labor Statistics



# CPI - MEATS

1982-1984 Base, Monthly



Livestock Marketing Information Center

02/17/11

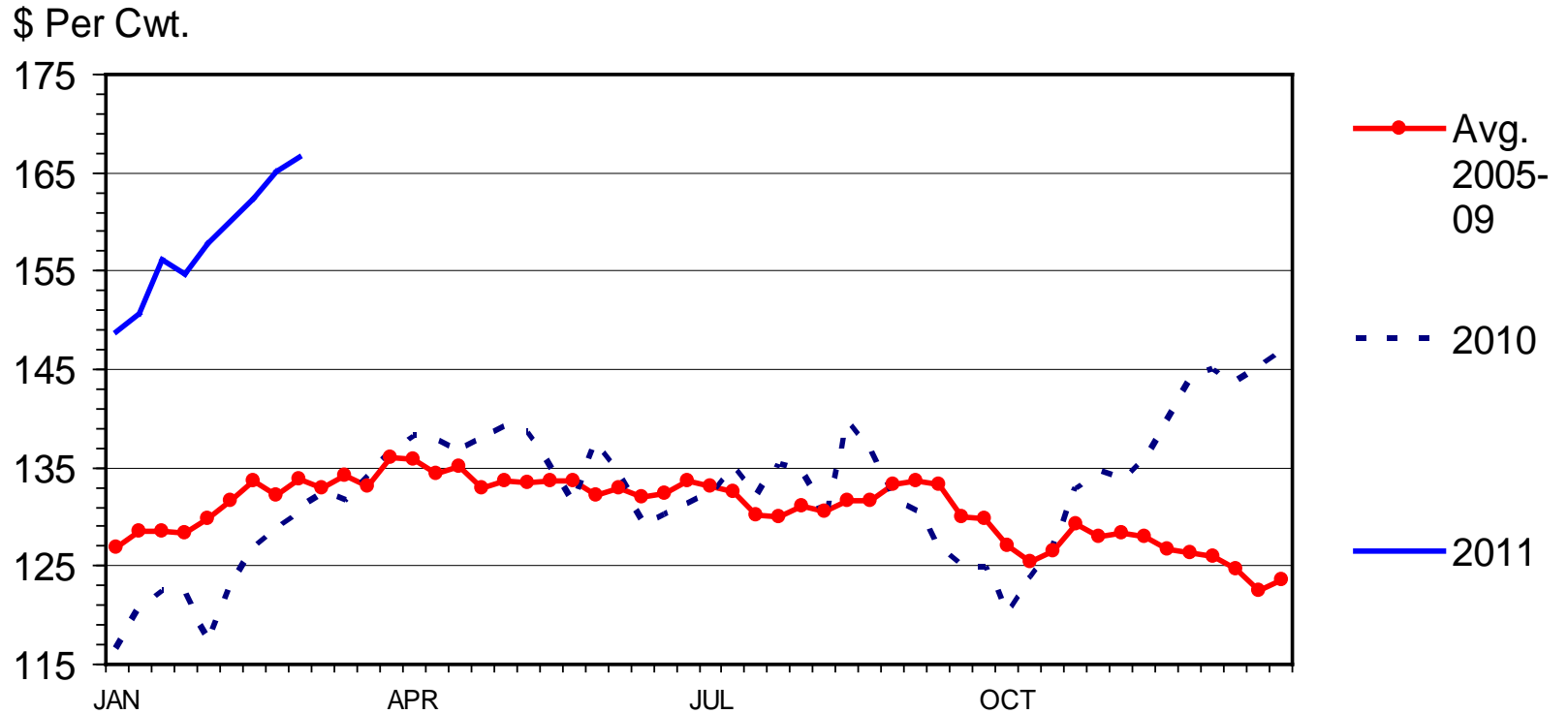
Data Source: Bureau of Labor Statistics





# MED. & LRG. #1 STEER CALF PRICES

## 400-500 Pounds, Southern Plains, Weekly



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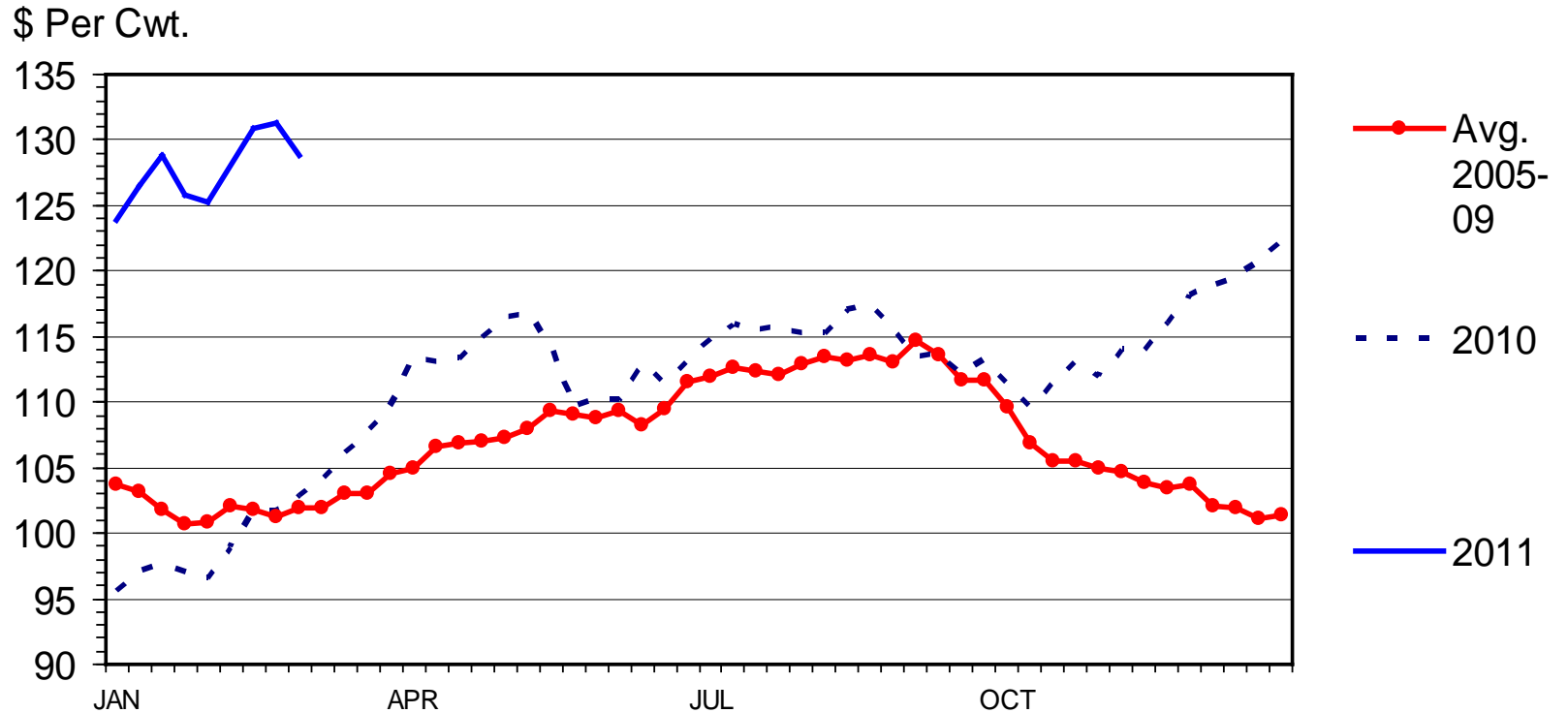
Data Source: USDA-AMS, Compiled & Analysis by LMIC

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03/07/11



# MED. & LRG. #1 FEEDER STEER PRICES

## 700-800 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

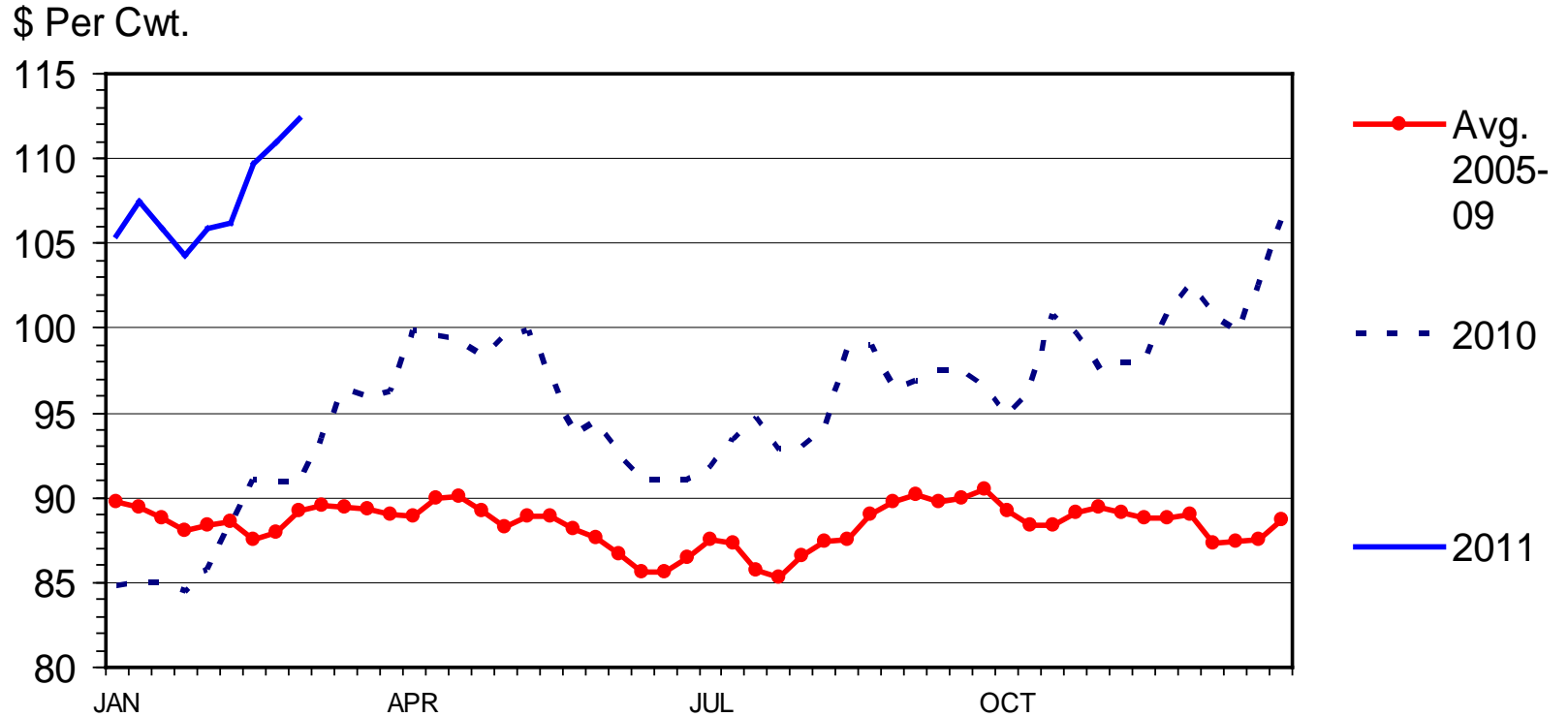
Data Source: USDA-AMS, Compiled & Analysis by LMIC

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# SLAUGHTER STEER PRICES

## 5 Market Weighted Average, Weekly



Livestock Marketing Information Center

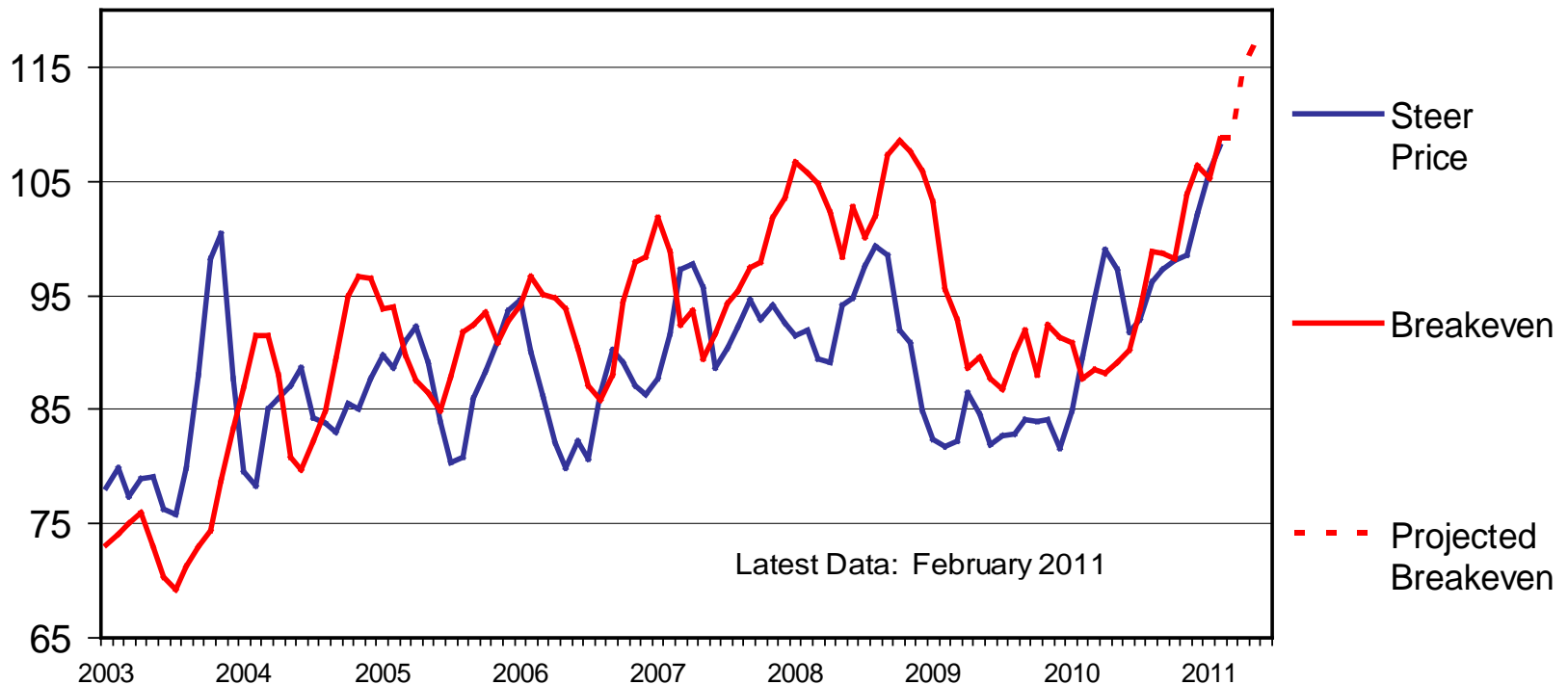
Data Source: USDA-AMS



# CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly

\$ Per Cwt



Livestock Marketing Information Center

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

C-P-21  
02/28/11



# NAIBER – Feedlot Return/Risk

<http://www.naiber.org/>

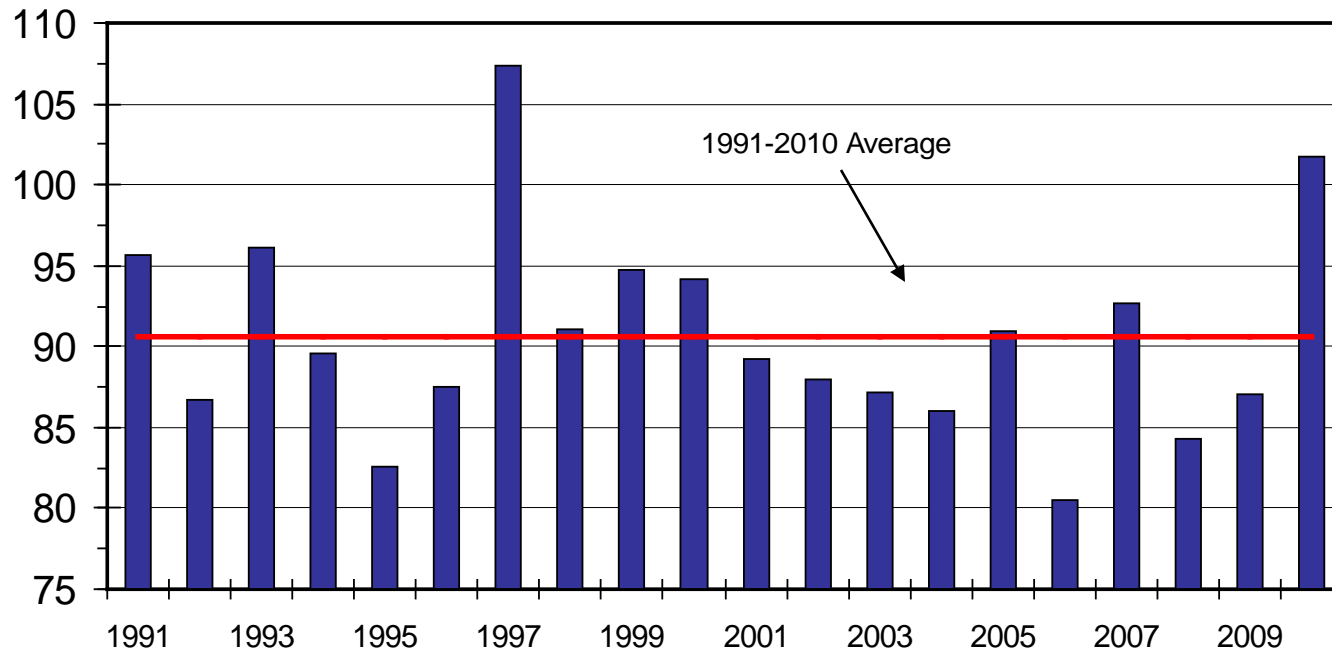
- April 1<sup>st</sup> place a 750 lb steer (\$133/cwt)
- Aug. 18 sell at 1,283 lbs (140 DOF)
- 3.49 lbs/hd daily gain
- 5.87 lbs fed dry/lb gain
  
- Expected Profit: - \$93/head
- Two-thirds range: {- \$375/hd to \$194/hd}



# BUY/SELL MARGINS

S. Plains, Mar. 7-800 lb. Steer as % of Nov. 5-600 lb. Steer

Percent



Livestock Marketing Information Center

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

C-P-60  
03/04/11



## BUY/SELL MARGINS

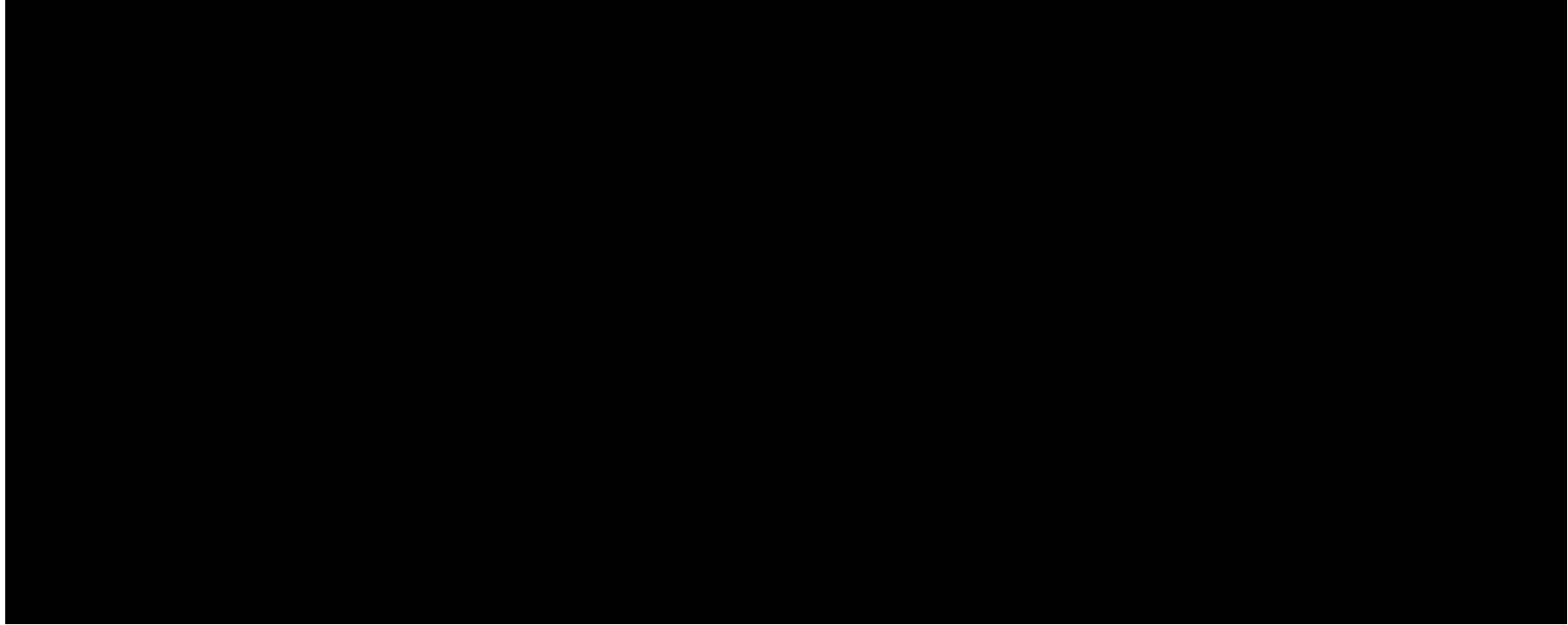
### 3/15 Dodge City, KS Situation

Using BeefBasis.com we identify:

- PURCHASE:
  - Basis (\$13.30) adj. futures for 500 lb steer in November 2011: \$149
- SALE:
  - Basis (-\$3.30) adj. futures for 700 lb steer in March 2012: \$133

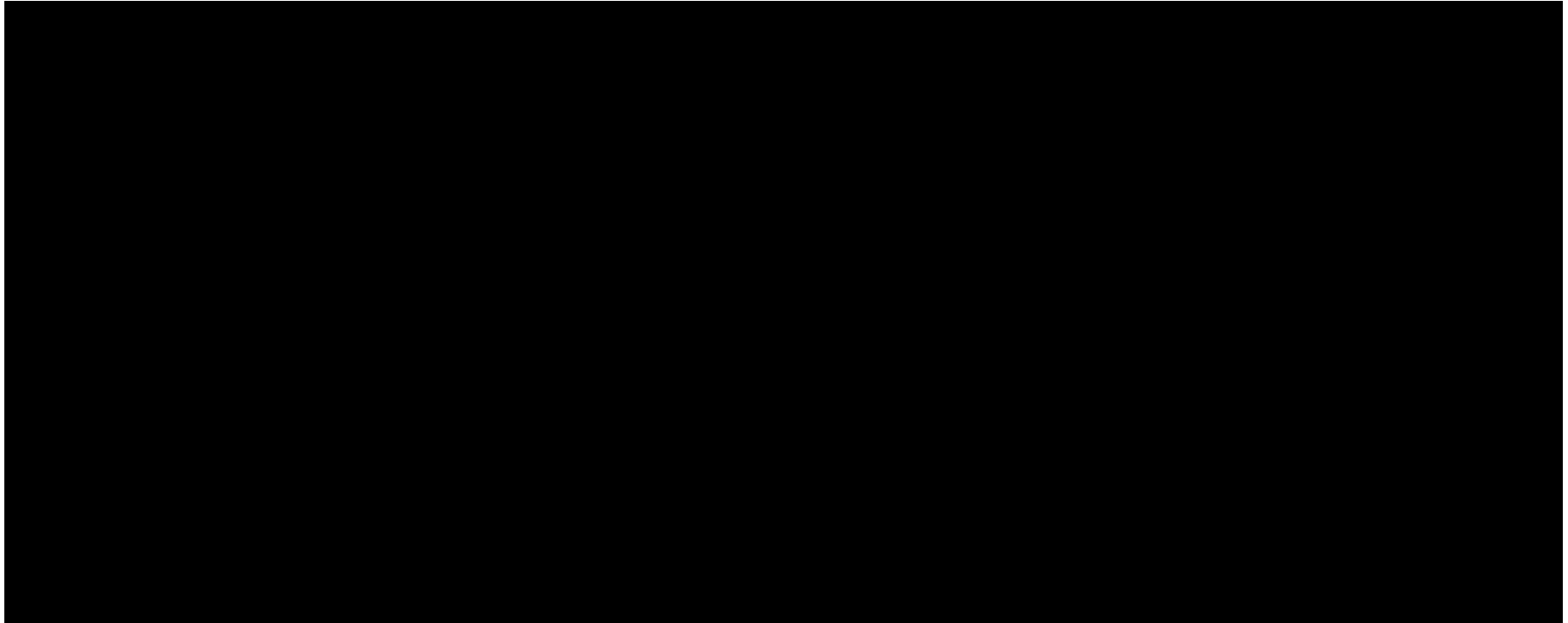


Kevin Dhuyvetter's "Buy-Sell" spreadsheet tool  
(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)





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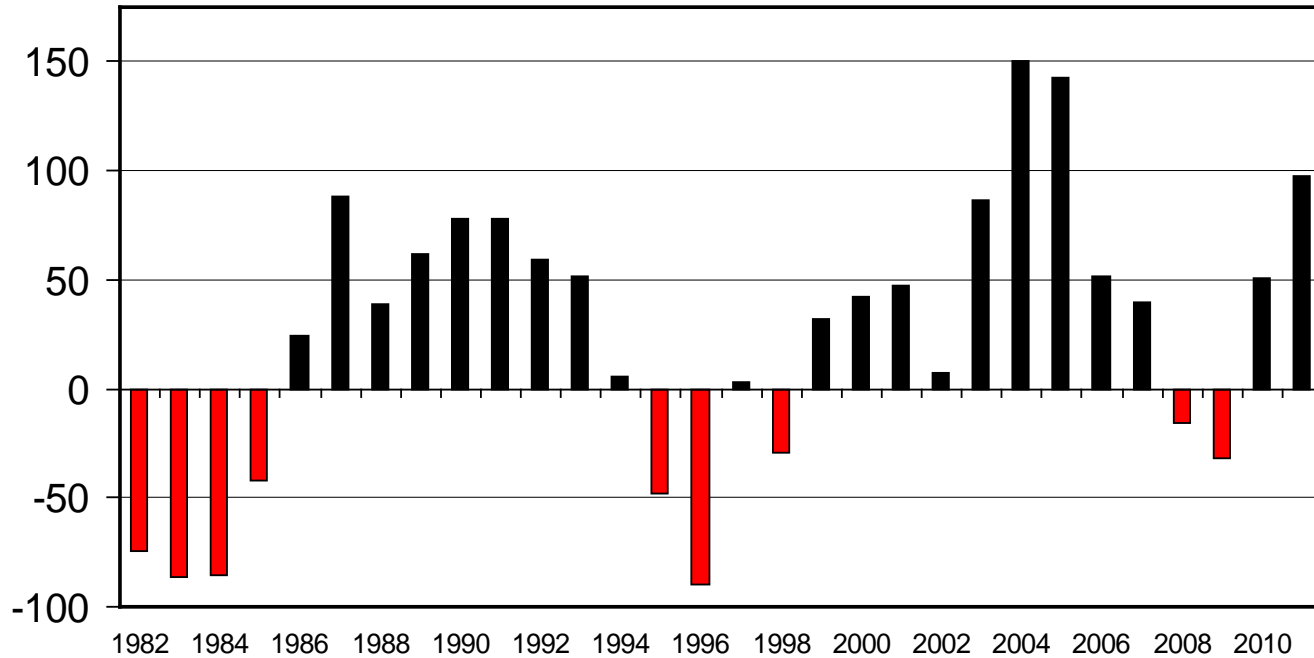
Expected Sales Price: \$133/cwt ;  
Expected Return (700 lbs) of +/- \$1/cwt; +/- \$7/head



# ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



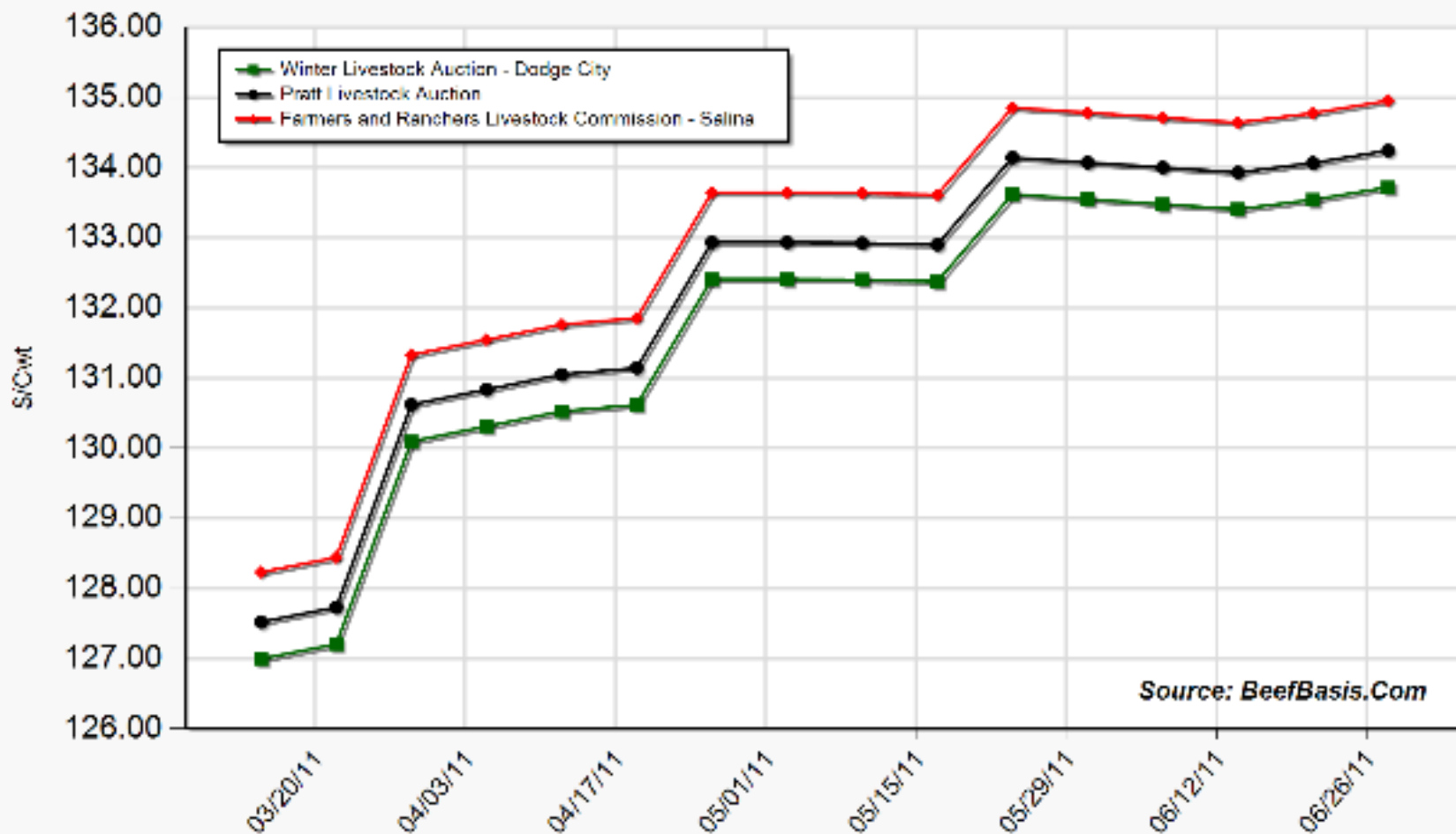
Livestock Marketing Information Center

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

C-P-66  
03/04/11

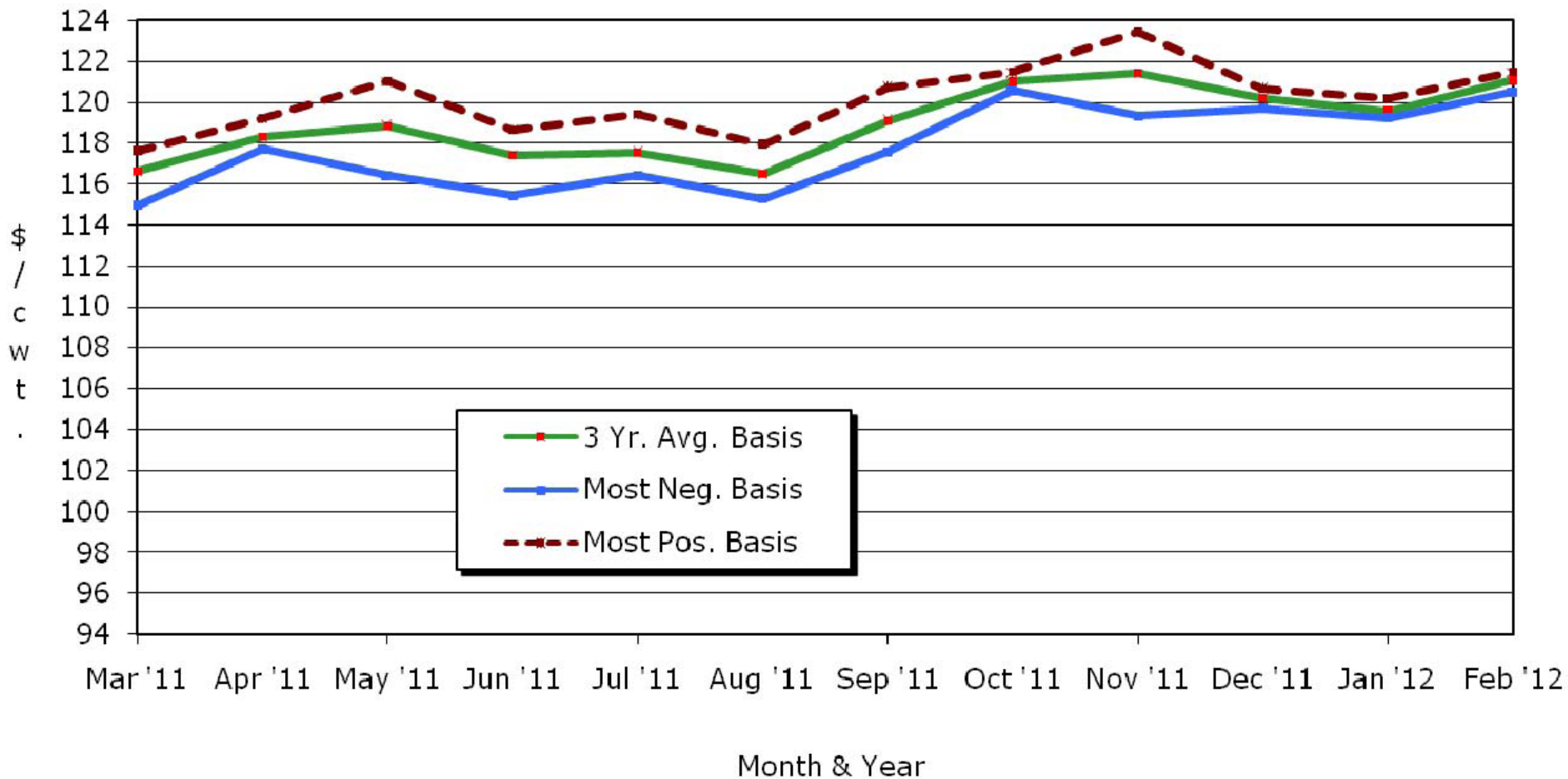


## Projected Price for 750 Lb Steer at Selected Kansas Auctions



# Kansas Slaughter Steer Price Forecasts

## Mid-Month Futures Based Price Forecasts



Source: USDA-AMS, CME, & K-State Ag. Economics  
Based on 3.11.11 CME Live Cattle settlement prices

KSU Dept. of Ag Econ  
[www.agmanager.info](http://www.agmanager.info)



# QUARTERLY FORECASTS (LMIC: 3/1/11')

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2010						
I	8,168	2.4	765	-2.3	6,251	0.0
II	8,683	0.9	754	-1.7	6,549	-0.8
III	8,754	2.8	773	-1.5	6,771	1.2
IV	8,660	5.1	779	-0.1	6,746	5.0
Year	34,265	2.8	768	-1.4	26,316	1.4
2011						
I	8,211	0.5	775	1.2	6,361	1.8
II	8,559	-1.4	765	1.4	6,548	0.0
III	8,505	-2.8	782	1.1	6,651	-1.8
IV	8,109	-6.4	785	0.7	6,363	-5.7
Year	33,384	-2.6	777	1.1	25,923	-1.5
2012						
I	7,928	-3.4	783	1.1	6,211	-2.4
II	8,156	-4.7	771	0.8	6,292	-3.9
III	8,135	-4.4	791	1.2	6,437	-3.2
IV	7,868	-3.0	791	0.8	6,223	-2.2
Year	32,087	-3.9	784	1.0	25,163	-2.9



# QUARTERLY FORECASTS (LMIC: 3/1/11')

Year Quarter	Live Sltr.	% Chg.	Feeder Steer Price	
	Steer Price 5-Mkt Avg	from Year Ago	Southern Plains 7-800#	5-600#
2010				
I	89.44	8.84	100.88	116.23
II	96.33	14.04	113.04	127.77
III	95.47	14.95	115.12	124.10
IV	100.28	20.39	114.52	123.26
<b>Year</b>	<b>95.38</b>	<b>14.72</b>	<b>110.89</b>	<b>122.84</b>
2011				
I	105-107	18.5	125-127	139-142
II	106-109	11.6	124-128	138-144
III	101-105	7.9	126-132	138-145
IV	105-110	7.2	120-127	131-141
<b>Year</b>	<b>104-108</b>	<b>11.0</b>	<b>123-129</b>	<b>136-144</b>
2012				
I	107-113	3.8	121-130	135-146
II	110-117	5.6	126-136	137-149
III	106-114	6.8	129-139	138-150
IV	108-118	5.1	122-133	132-146
<b>Year</b>	<b>108-115</b>	<b>5.2</b>	<b>125-134</b>	<b>136-147</b>



# Summary

- Duration of supply situation:
  - Cow herd liquidation continuing in face of expected profits...
  - Battle over limited feeders may be intense...
  - Continued stocker segment incentives likely...
- Duration of demand situation:
  - Domestic concerns w/r/t relative meat prices may emerge
  - Export growth vital both in short run & long run



*Looking Beyond Today's  
Ps & Qs*





# Long-Run Implications of “New Cost of Production Situation”

- Long run decline in overall meat consumption
- Beef industry changes and consolidation:
  - Growth of stocker segment
  - 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)
- Driving “high net farm income” (farm bill discussion...) – crop vs. livestock producers...



# “USDA Agricultural Projections to 2020”

<http://www.ers.usda.gov/Publications/OCE111/OCE111.pdf>

- Summary of Changes (lbs per capita):
  - 2018 poultry consumption > (beef + pork)
    - Poultry grows every year from 2011-2020
  - 216 lbs red meat & poultry in 2020 (221 in 04--07’)
  - Beef & pork minimize in 2013 at 55.7 & 45.2
  
  - What is per capita consumption?
  - How does it differ from demand?



# Export Growth & Dependence= Global Comparative Advantage Assessment is Needed

- State of National Animal ID & Traceability
  - Current & future roles in trade negotiations:
    - South Korea: has 12/2010 rule of all imported meat being traceable...
    - Canada: national program facilitating age verification...
  - Industry fragmentation (+/- 10% SAV eligible) vs. united program and engagement...



# Impacts of New/Potential Policy on Markets is Needed

- Multiple regulation discussions:
  - “fair market” proposed rules / “anti-competition” listening sessions ...
    - No timetable on USDA’s ben-cost assessment...
  - environmental regulation concerns arguably higher than in other core meat exporting countries...
  - more broadly uncertainty holding back investment throughout supply chain???



# Additional Demand Drivers/Issues in need of Evaluation:

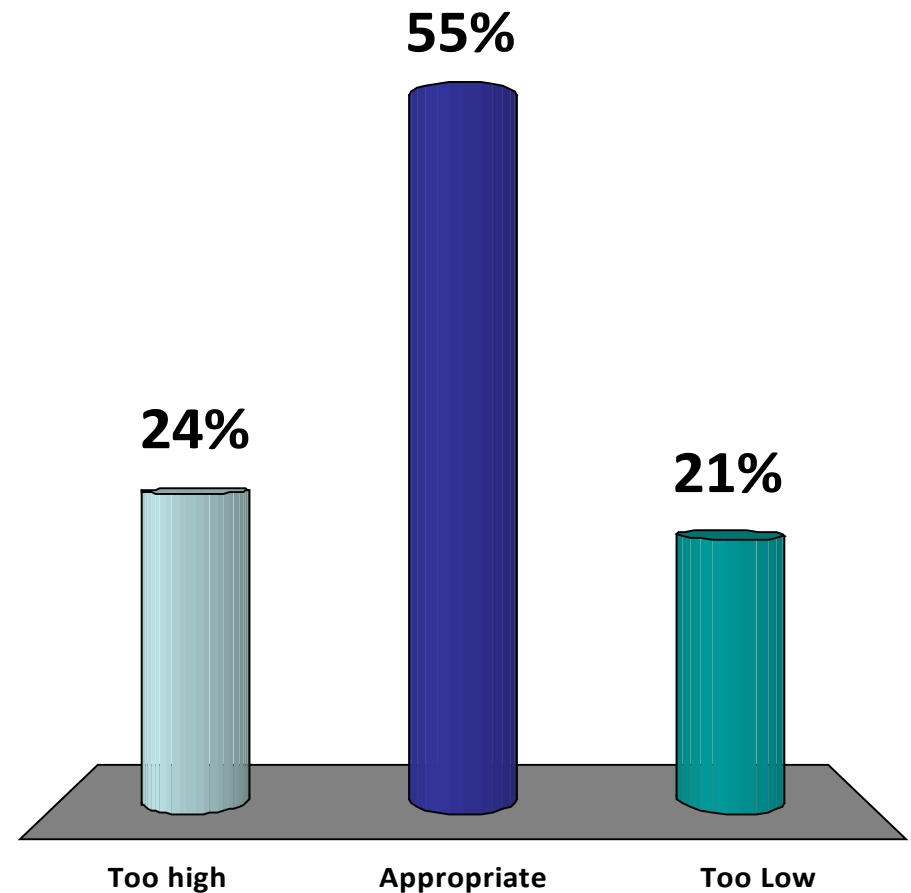
- Animal welfare

- “social pressures” are here to stay ...
  - Oprah’s recent show talked more about AW than food safety...
- beef/cattle are not immune:
  - Recent analysis suggests meat expenditures reallocate to non-meat in response to increasing media attention...
- ballot initiatives not necessary to force change...



# What best describes your sentiment regarding the current cattle marketplace?

1. Current prices are too high given fundamentals
2. Current prices are appropriate given fundamentals
3. Current prices are too low given fundamentals



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

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# Notable AgManager Resources

(<http://www.agmanager.info/livestock/marketing/> )

- Weekly commentary & newsletters
- Current & historical price information
- Risk management/forecasting tools





# Weekly Email Distribution of AgManager Updates

- <http://listserv.ksu.edu/web?SUBED1=AGMANAGERUPDATE&A=1>

OR email your request to:

- Rich Llewelyn  
[rllewely@AGECON.KSU.EDU]



# Regular Newsletters & Commentary

- KSU Radio Interview

- (<http://www.agmanager.info/livestock/marketing/outlook/newsletters/default.asp>)
- OR (<http://www.ksre.k-state.edu/news/DesktopDefault.aspx?tabid=66> )
- Weekly, released on Mondays  
(Tonsor, Mark, Peel, LMIC)

- “In the Cattle Markets”

- (<http://www.lmic.info/memberspublic/InTheCattleMarket/CattleMktsframe.html> )
- Weekly (Mark, Feuz, Petry, Riley/Anderson)

- Recent Cattle Finishing Returns

- (<http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp> );
- monthly updates based on *Focus on Feedlots* newsletter



# Regular “Situation Update” Commentary: LMIC

- “Chart of the Week”
  - (<http://www.lmic.info/index.shtml>)
- “Weekly Price & Production Summary”
  - (<http://www.lmic.info/priprod/pandp.html>)
- “Quick Market Reports”
  - (<http://www.lmic.info/quick/quickdr.html>)



# Current Price & Basis Information

- Futures Markets

- (<http://www.cmegroup.com/trading/commodities/> ) OR  
(<http://www.agmanager.info/livestock/marketing/futures/default.asp> )
- LC, FC, LH & C, SB, S, W

- Cash Markets

- [http://www.agmanager.info/livestock/marketing/graphs/default.asp#Price Charts](http://www.agmanager.info/livestock/marketing/graphs/default.asp#Price%20Charts)
- [http://www.agmanager.info/livestock/marketing/database/default.asp#Cattle and Beef Databases](http://www.agmanager.info/livestock/marketing/database/default.asp#Cattle%20and%20Beef%20Databases)
  - Dodge City, Pratt, & Salina 700-800 lb steer; KS Direct Slaughter steer prices

- Basis (Cash - Futures) Information

- [http://www.agmanager.info/livestock/marketing/graphs/default.asp#Basis Charts](http://www.agmanager.info/livestock/marketing/graphs/default.asp#Basis%20Charts)
- BeefBasis.com (<http://www.beefbasis.com/> )

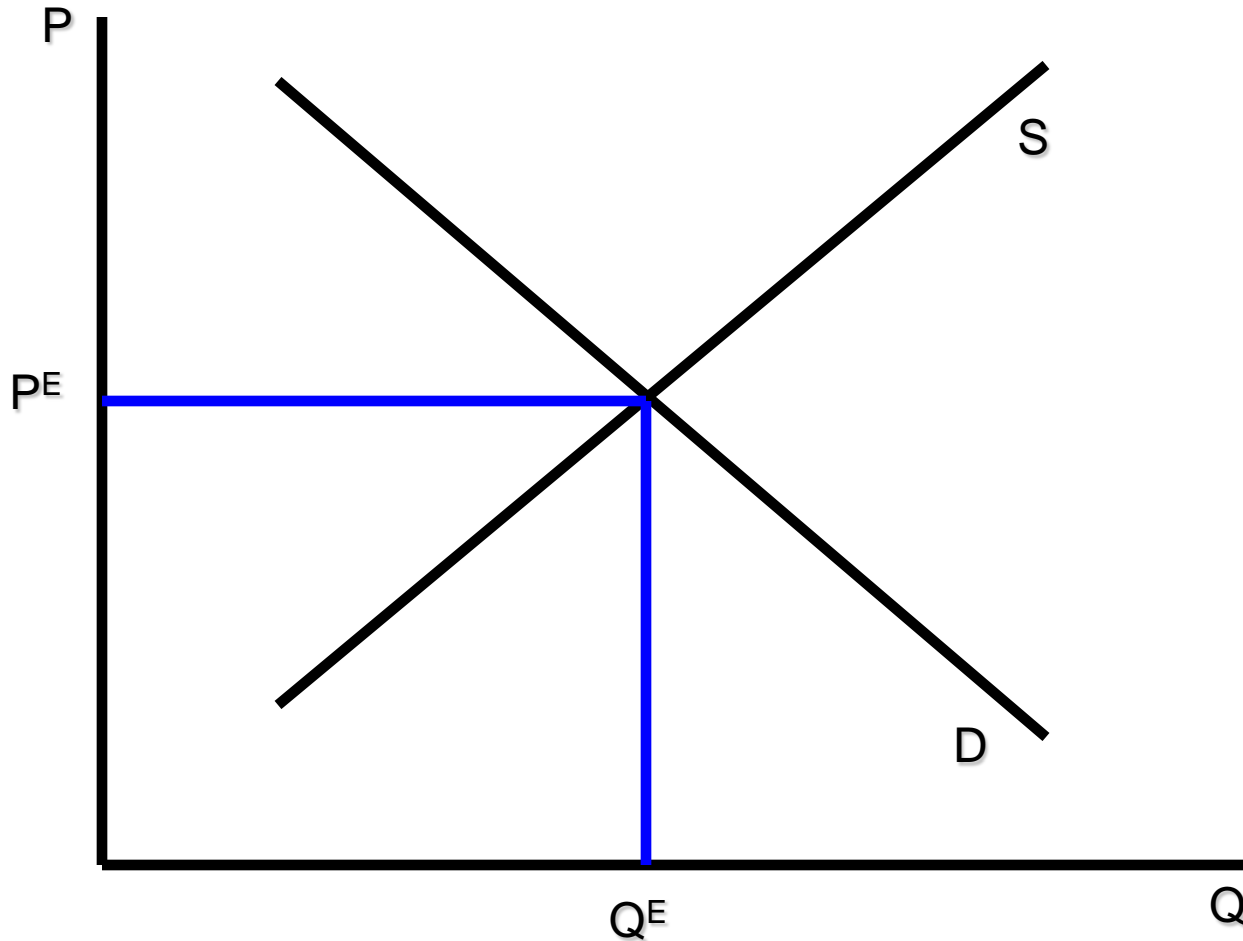


# Risk Management and Return Forecasting Tools Available:

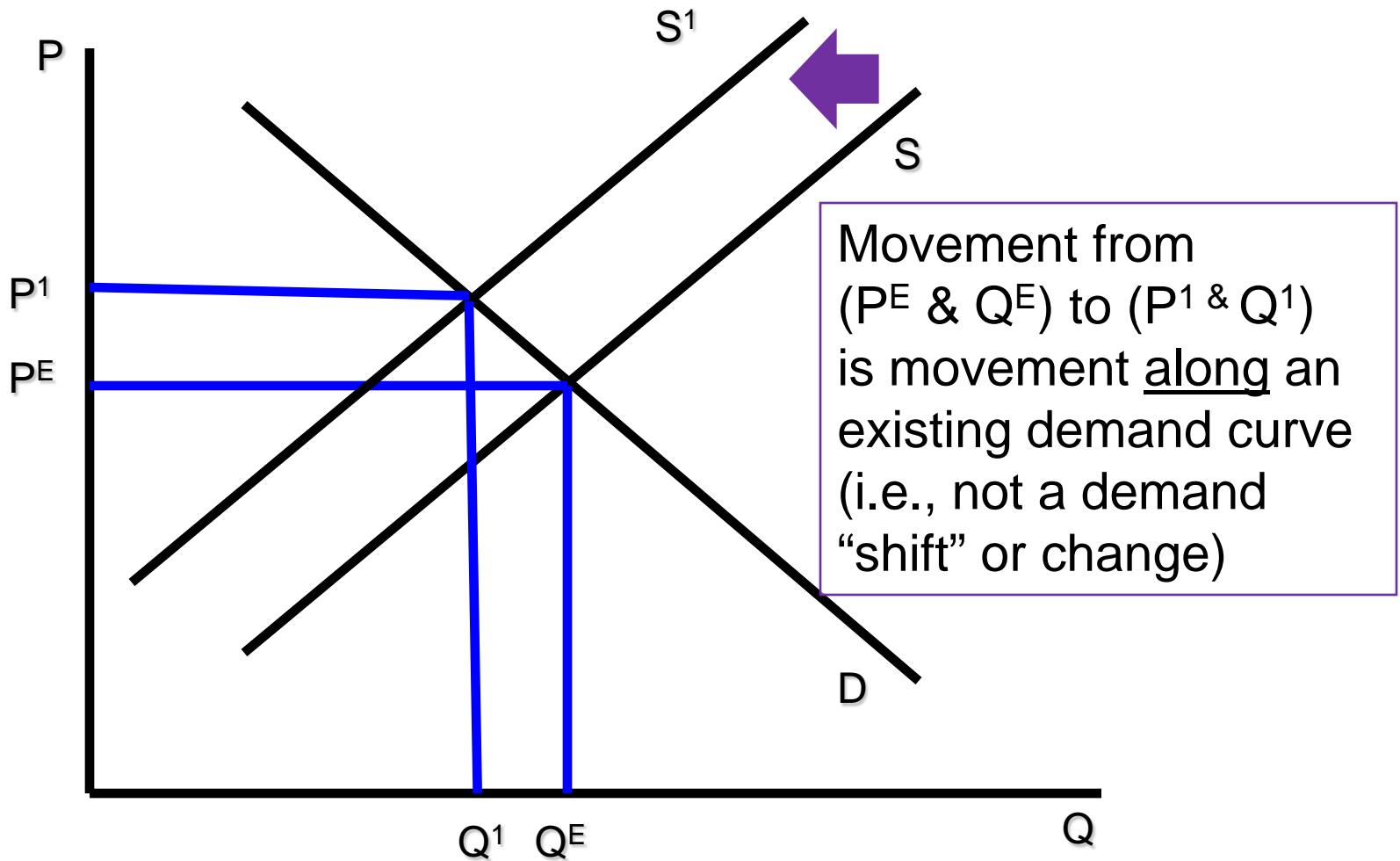
- Feeder Cattle Sales Risk Management Tool,
  - Compare expected sales prices of alternative FC marketing strategies
  - (<http://www.agmanager.info/livestock/marketing/LRP/default.asp>)
- Feedlot Profitability Tool: NAIBER's Feeding Risk Analyzer
  - Forecasts feedlot returns and variability in returns for future placements
  - (<http://www.naiber.org/cattleriskanalyzer/> )
- BeefBasis.com
  - Decision support for hedging feeder cattle (output for cow-calf; input for feedlots)
  - (<http://www.beefbasis.com/Home/tabid/53/Default.aspx>)



# Beef Market Equilibrium



# Beef Market Equilibrium



# Measuring Demand Shifts

