
35th Midwest Processed/Cured Meat Workshop
Friday, March 30, 2012

Kansas State University
146 Weber Hall
Manhattan, KS

“Processing Strategies to Maximize Profit”

Meat Industry Macroeconomics

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Economic Outlook Overview: Cattle

- Cow-Calf:
 - Beneficiary of tight supplies
 - Returns over cash costs may set records
- Feedlot:
 - Excess capacity = margin squeeze
 - Under 1,000 hd/yards exiting; marketings down 21% in 2011
- Packers
 - Same excess capacity issue...



Economic Outlook Overview: Hogs

- Strong futures-implied 12' Far-Fin returns
 - 2010 = \$12.92/hd
 - 2011 = \$ 4.59/hd
 - 2012 = \$15.00/hd ???
- Expansion possible/probable
 - How much is broader uncertainty at play?
 - What about packing capacity constraint on expansion?



Economic Outlook Overview :

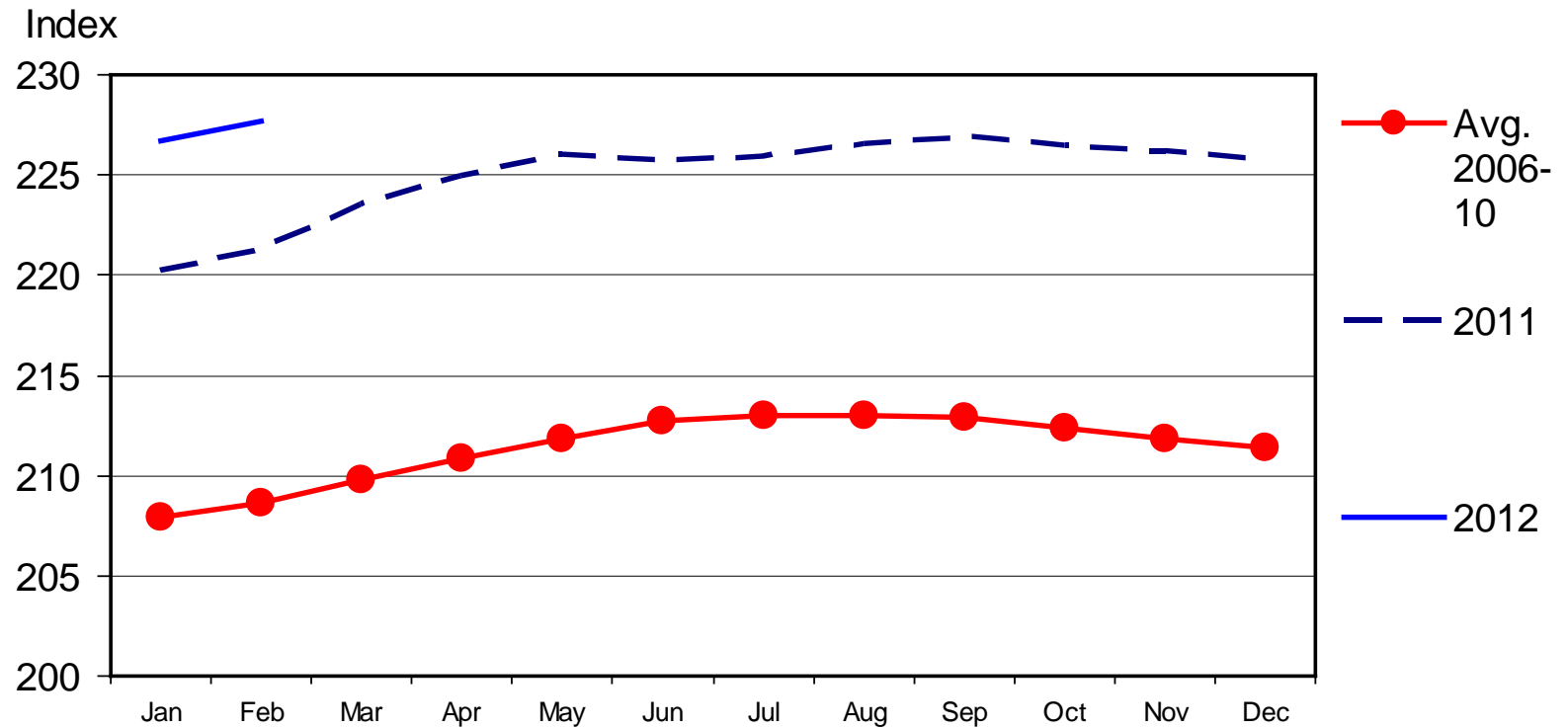
Beef & Pork Demand

- Meat prices rising w/i basket of purchases...
- Domestic demand has surprised analysts...
- Bullish aspects of exports...
- 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...



CONSUMER PRICE INDEX - ALL ITEMS

1982-1984 Base, Monthly



Livestock Marketing Information Center

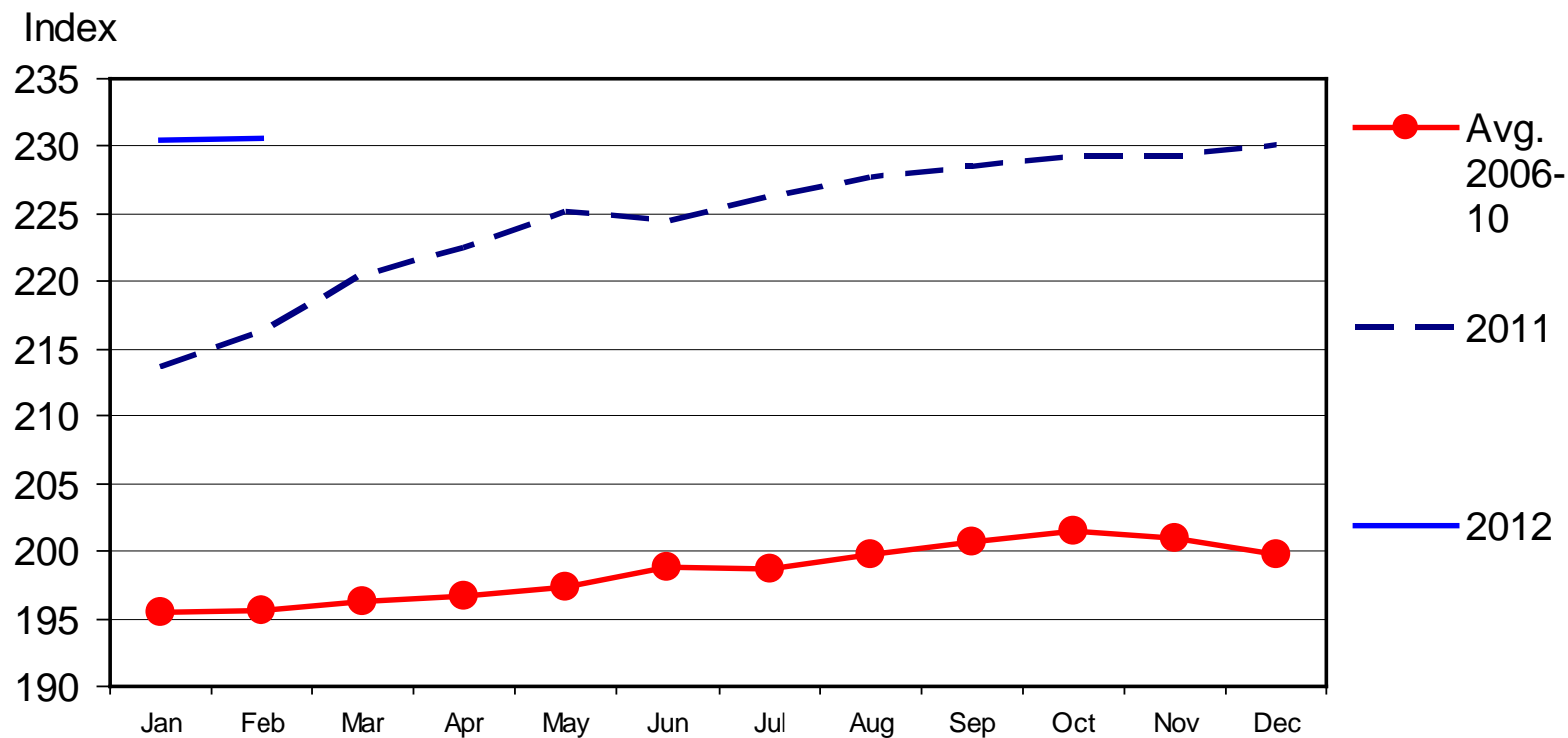
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Data Source: Bureau of Labor Statistics



CPI - MEATS

1982-1984 Base, Monthly



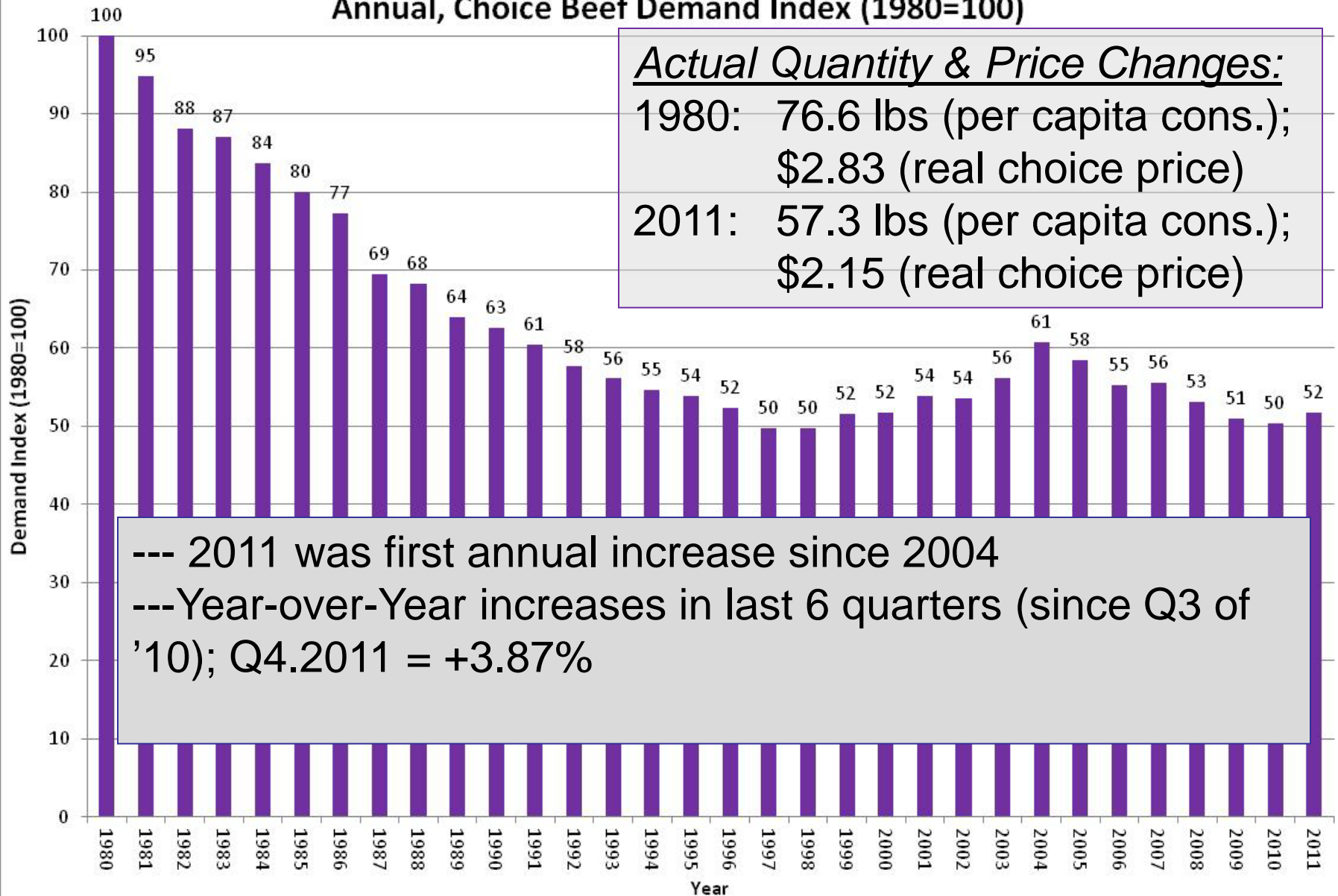
Livestock Marketing Information Center

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Data Source: Bureau of Labor Statistics



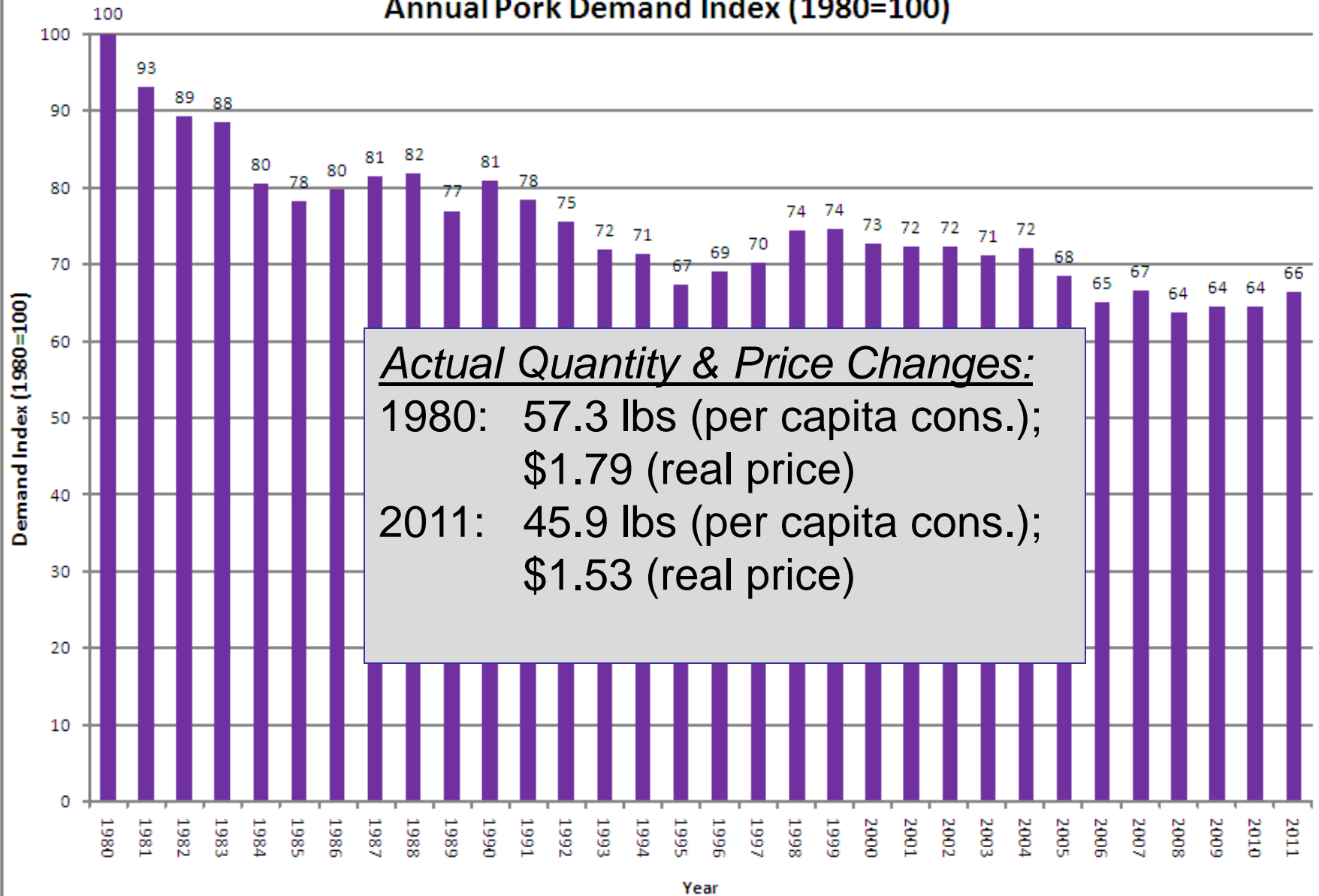
Annual, Choice Beef Demand Index (1980=100)



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



Annual Pork Demand Index (1980=100)

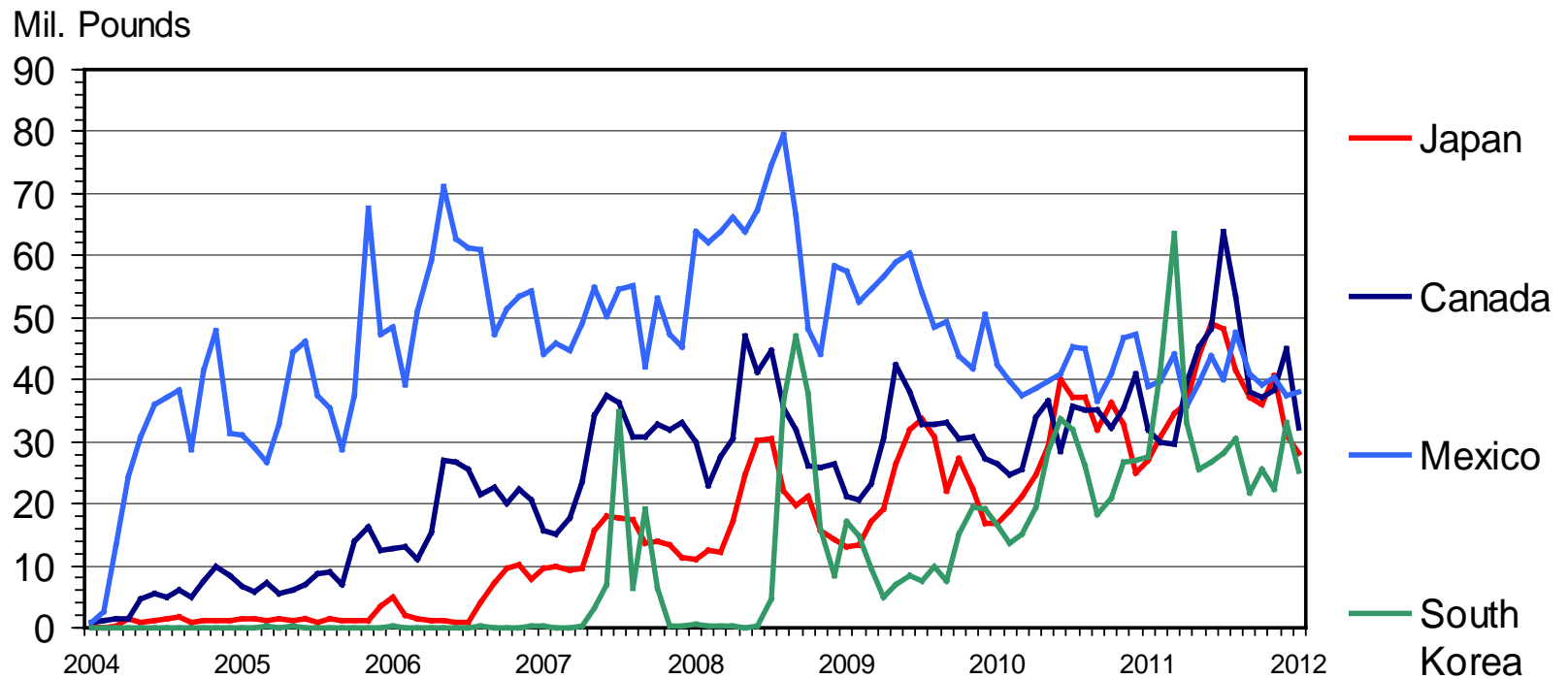


Source: Glynn T. Tonsor, Kansas State University, Jan. 2012



U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



Livestock Marketing Information Center

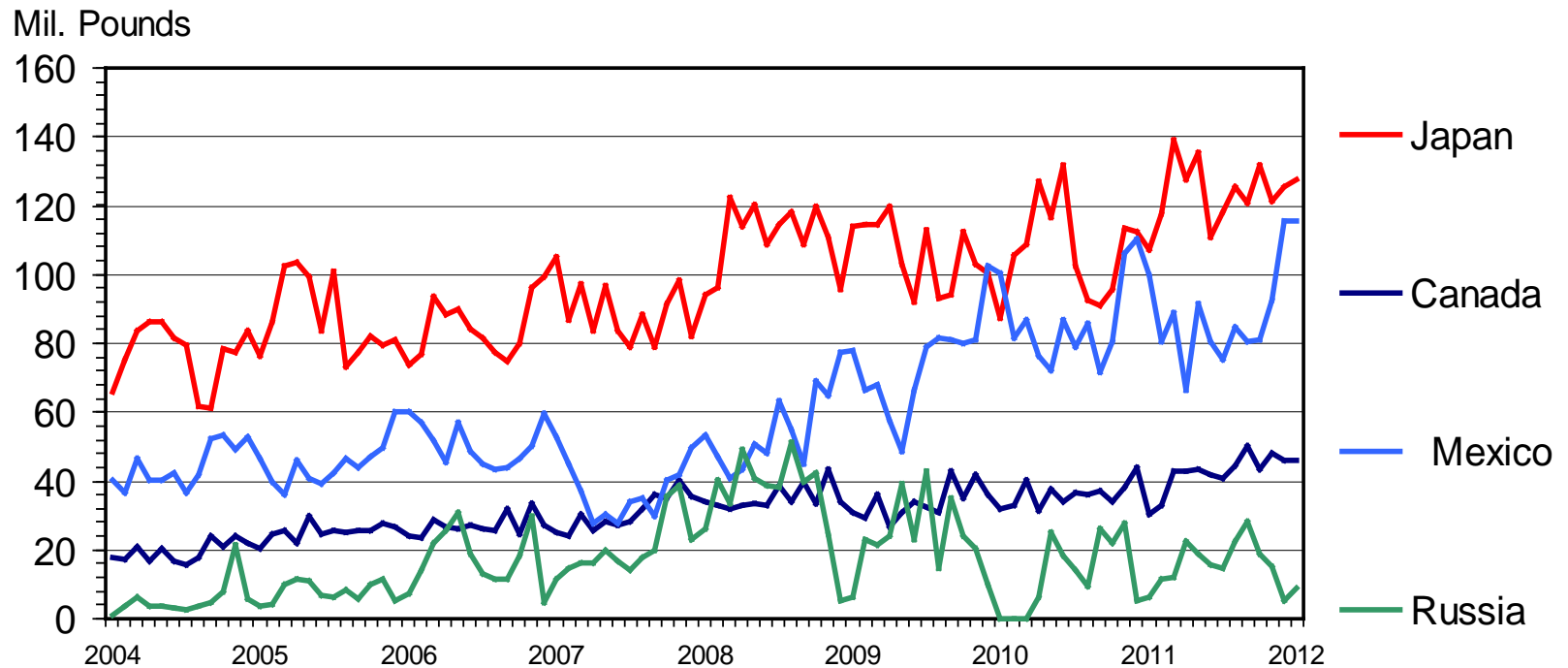
Data Source: USDA-ERS & USDA-FAS

I-N-35
03/12/12



U S PORK EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



Livestock Marketing Information Center

Data Source: USDA-ERS & USDA-FAS

I-N-64
03/12/12



Ongoing trade discussions are the “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 ...
 - Will Mexico penalize U.S. pork imports?



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

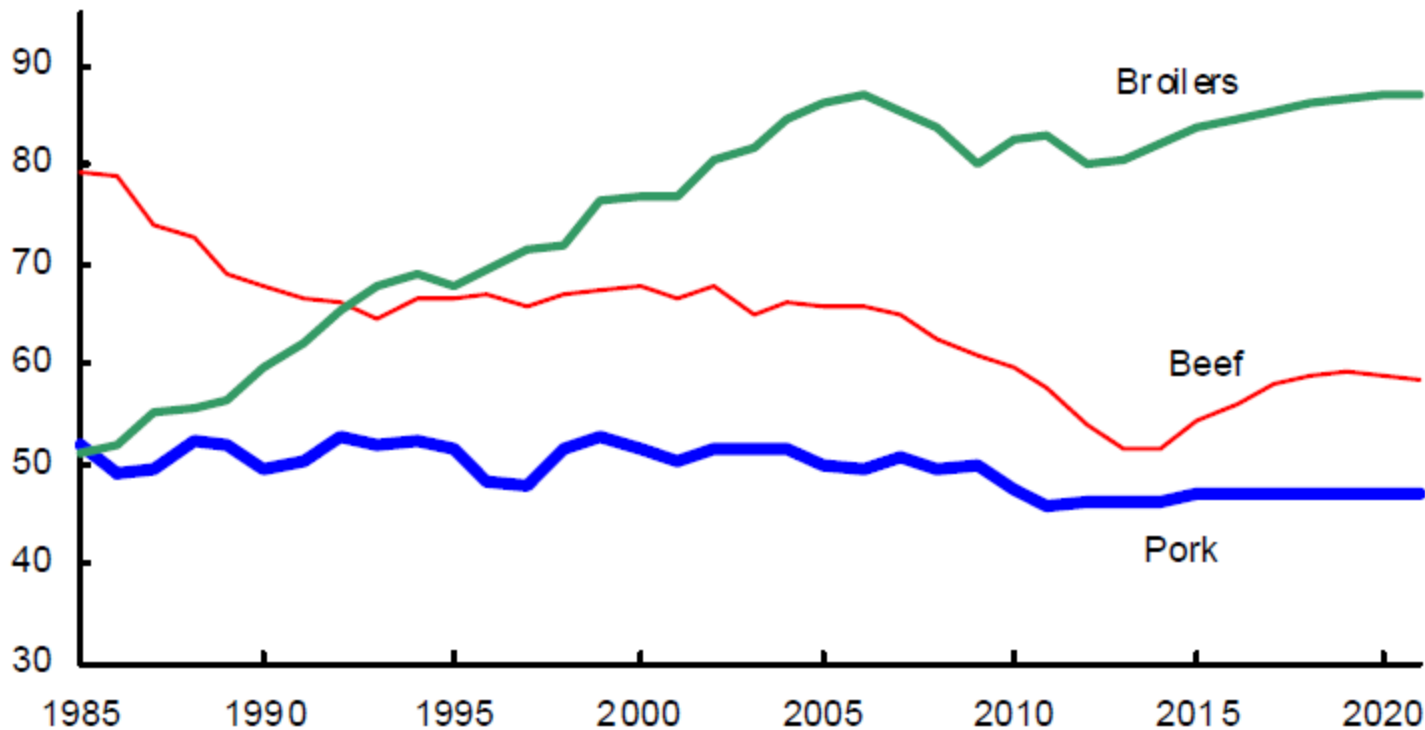
Long-term
Projections Report
OCE-2012-1

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)
 - 206 lbs in 2011 (**Beef=57.5 lbs**; Pork=45.8 lbs; Poultry=100.8 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



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

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

- **Dec. 1 Hog Inventory:**
 - 64.9 million in 2011
 - 65.9 million in 2012
 - 72.8 million in 2021
- **Domestic per capita red meat and poultry consumption:**
 - 221 lbs in 2004-2007 (**Pork=50.4 lbs**; Poultry=103.8 lbs; Beef=65.7 lbs)
 - 206 lbs in 2011 (**Pork=45.8 lbs**; Poultry=100.8 lbs; Beef=57.5 lbs)
 - 198 lbs in 2013 (**Pork=46.3 lbs**; Poultry=98.5 lbs; Beef=51.3 lbs)
 - 213 lbs in 2021 (**Pork=47.2 lbs**; Poultry=105.8 lbs; Beef=58.7 lbs)
- **Pork exports:**
 - 4.98 billion lbs in 2011
 - 5.09 billion lbs in 2012
 - 6.09 billion lbs in 2021



Is overall uncertainty holding back investment???

- WTO MCOOL ruling
- 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???



Implications Summary

- Meat demand is dynamic = “keep up or get out”
 - Export growth = reduced domestic per capita consumption, changing customer base for smaller processors...
- Beef & pork industry capacity differences
 - Beef processors being squeezed
 - Pork processors may benefit from expansion
- Multiple studies suggest product convenience growing in importance = “processor opportunity”



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

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