

# Agricultural Lenders Conference



## FEATURING...

- Grain Market Prospects for 2014-2015
  - Kansas Land Values
  - The 2014 Farm Bill
- KFMA Net Farm Income Analysis
- Beef Cattle Market Outlook for 2014-2015

K-State SW Research Extension Center  
Garden City, October 7, 2014

International Grain Program Conference Center  
Manhattan, October 8, 2014

# Beef-Cattle Market Outlook

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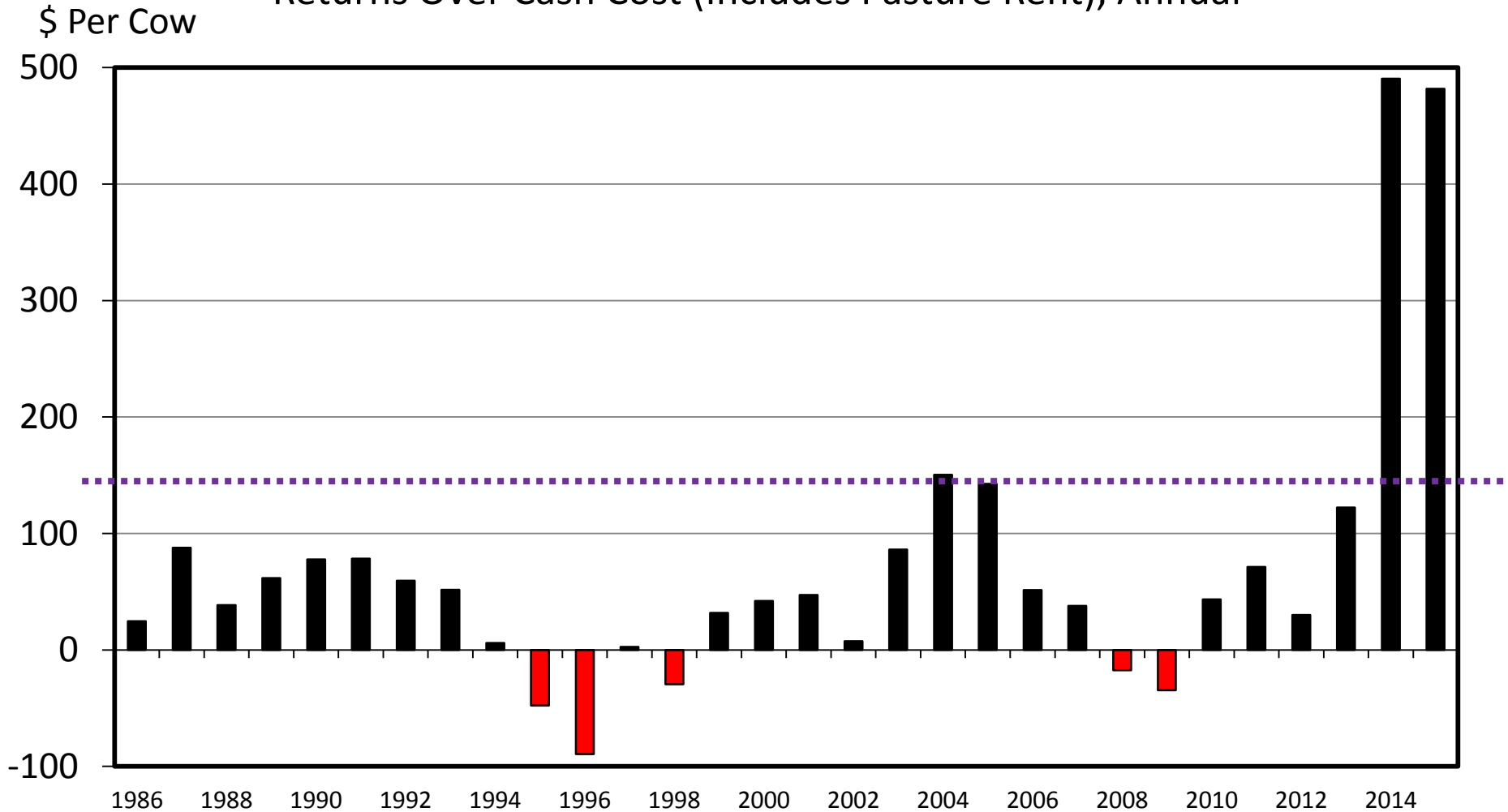


# Overarching Beef Industry Economic Outlook

- Supplies
  - Continued pull down, both in # of head & beef lbs
    - Mixed herd expansion signals...
- Demand
  - Confusing yet positive: Q2.2014 best since Q4.2004
    - Far less certain (and understood) than supply situation...
- Combined:
  - “Historic” price levels, excitement, & uncertainty...

# ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

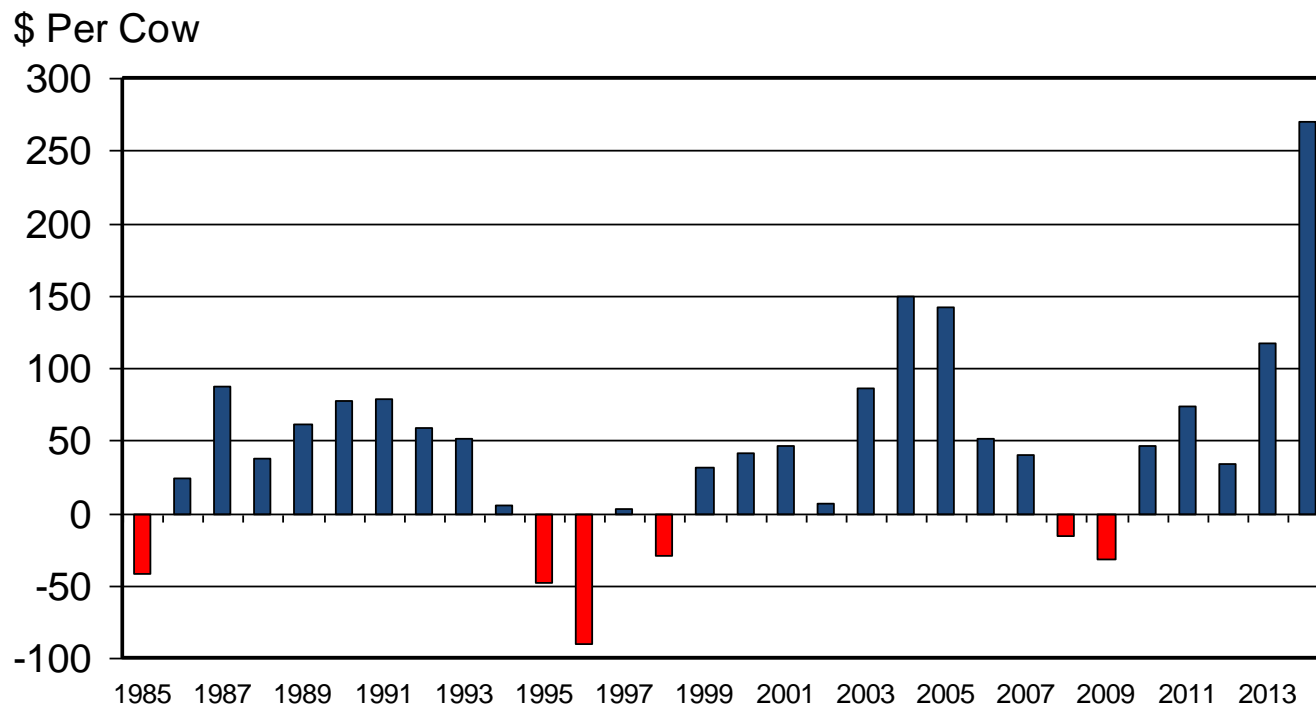


Data Source: USDA-AMS, Compiled and Analysis by LMIC  
Livestock Marketing Information Center

C-P-66  
09/02/14

# What will it take to trigger herd expansion?

## ESTIMATED AVERAGE COW CALF RETURNS Returns Over Cash Cost (Includes Pasture Rent), Annual



Livestock Marketing Information Center

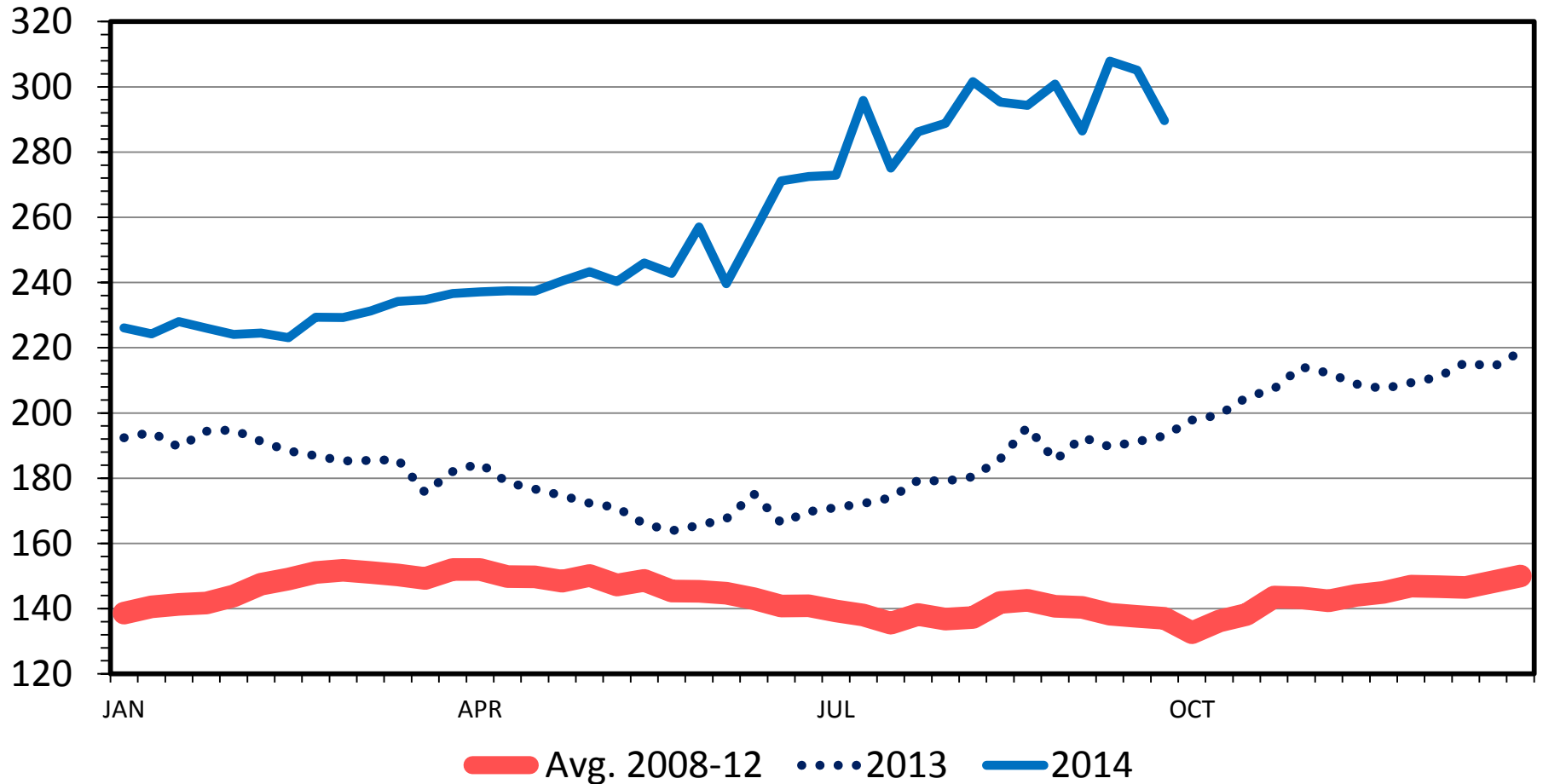
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

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07/31/13

# MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly

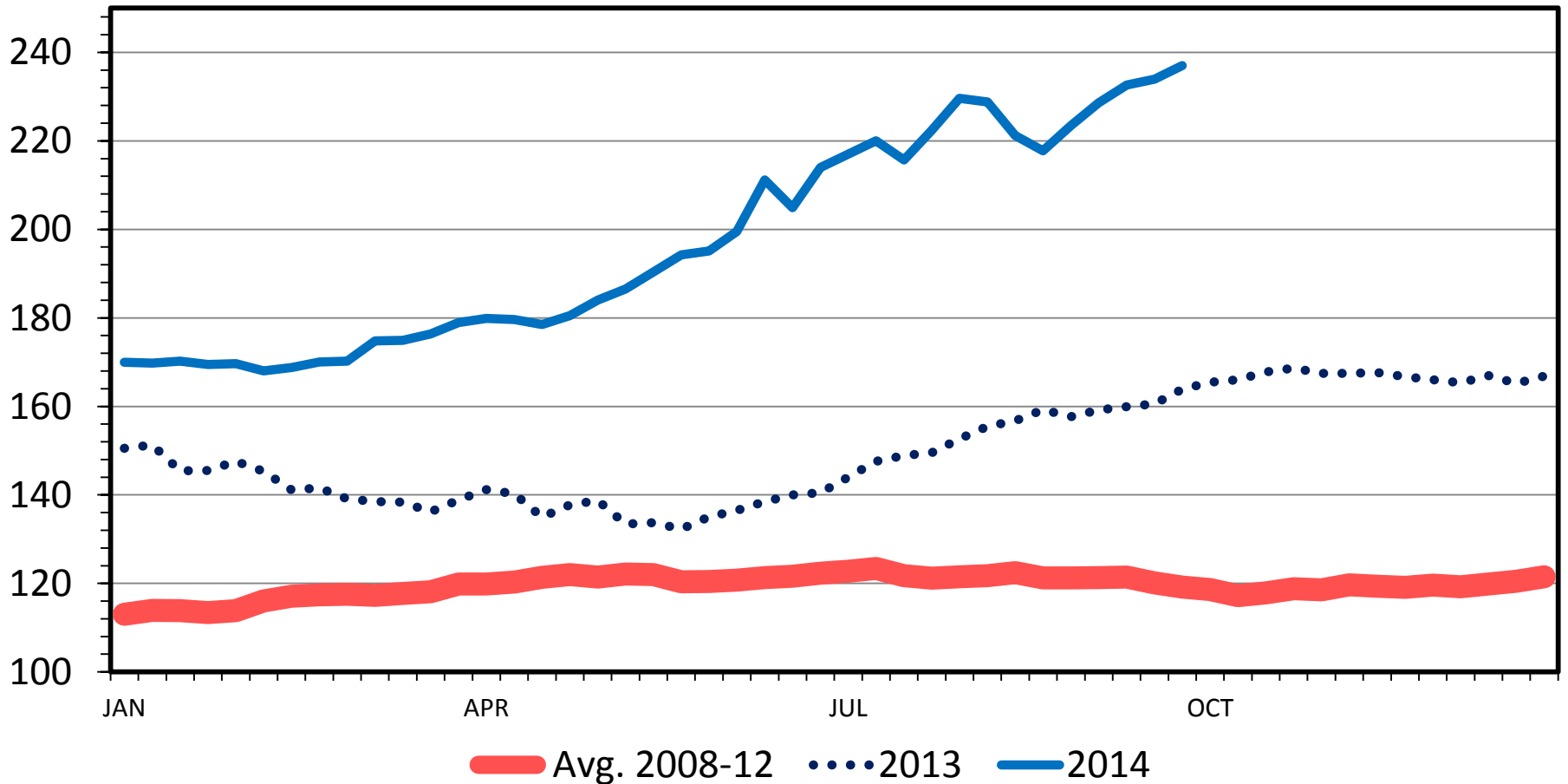
\$ Per Cwt.



# MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly

\$ Per Cwt.



# KS Steers Assessment

## 400-500 cwt vs. 700-800 cwt Relationships

- \$/cwt price spread has increased = sticker shock...
- BUT look at relative price ...
  - Old rules of thumb need not apply

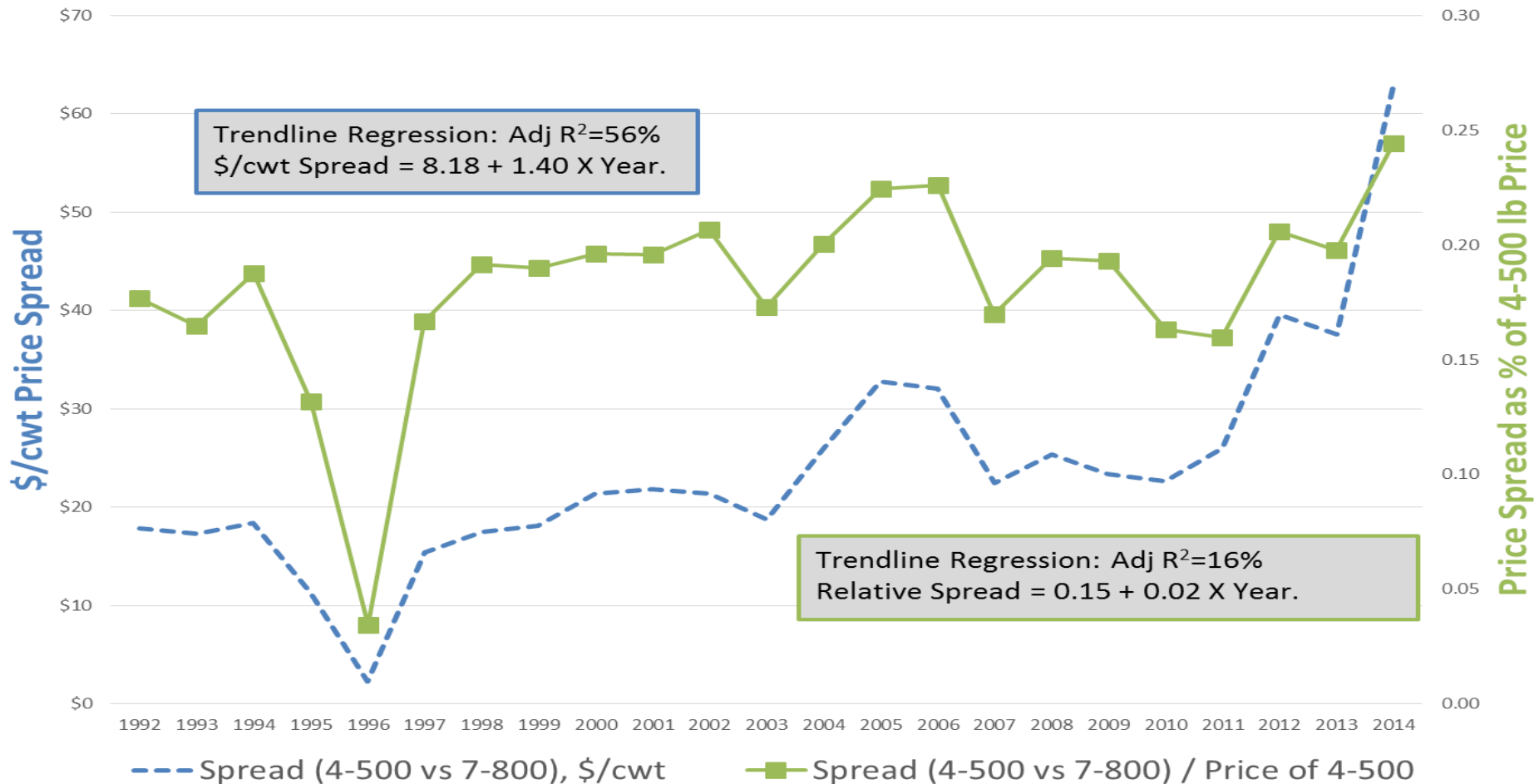
Year	Spread (4-500 vs 7-800), \$/cwt	Spread (4-500 vs 7-800) / Price of 4-500
1992-1995	16.20	0.17
1996-2000	14.92	0.16
2001-2005	24.13	0.20
2006-2010	25.17	0.19
2011	25.99	0.16
2012	39.53	0.21
2013	37.57	0.20
2014	62.69	0.24

# KS Steers Assessment

## 400-500 cwt vs. 700-800 cwt Relationships

– Old rules of thumb need not apply ([Peel, 9/22 Cow-Calf Corner](#))

KS Steers 400-500 cwt & 700-800 cwt,  
Relative Price Relationships

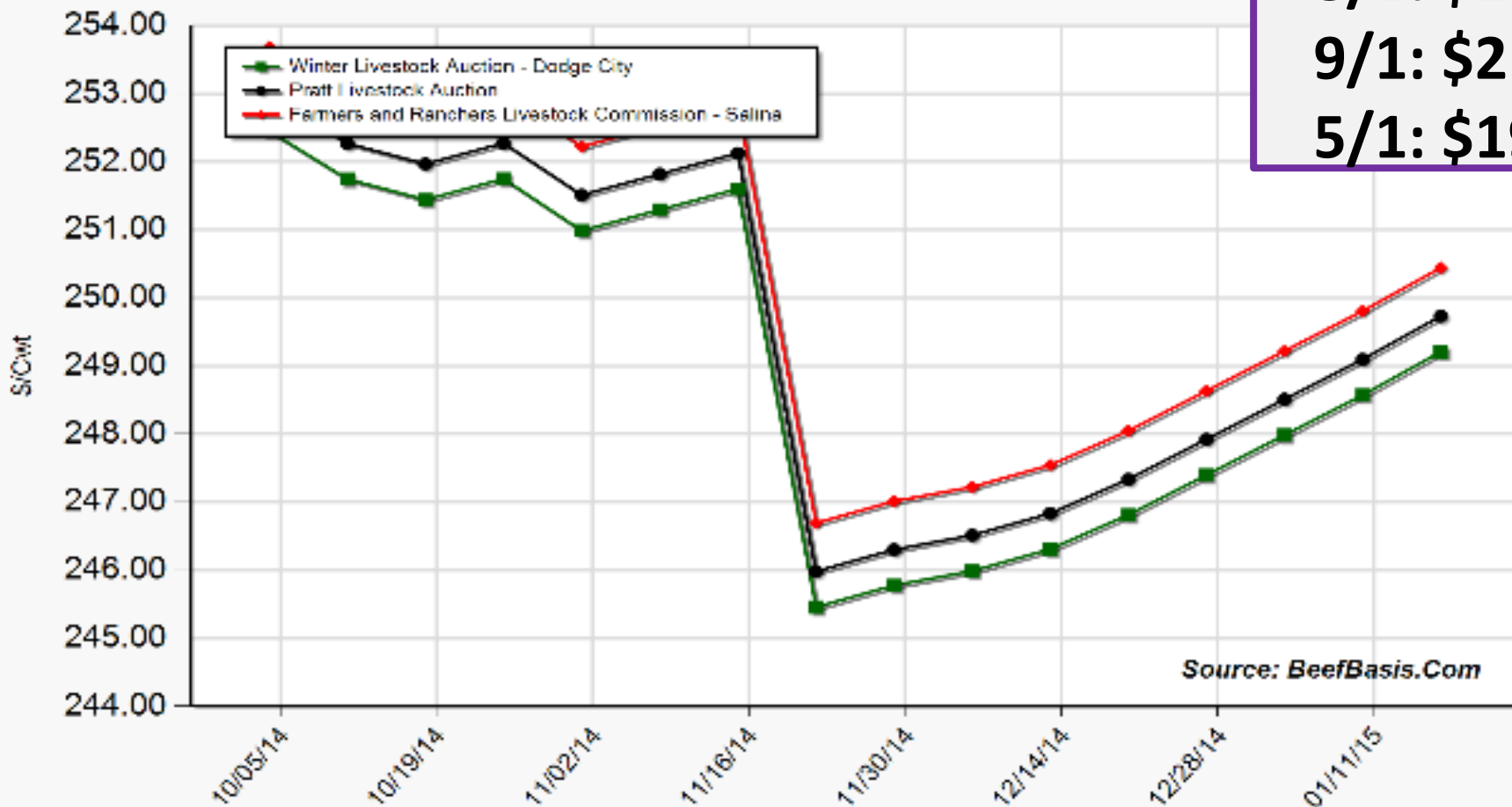




As of: 10/3/14'

**Oct FC:**  
**10/3: \$241**  
**8/1: \$220**  
**9/1: \$218**  
**5/1: \$190**

Projected Price for 550 Lb Steer at Selected Kansas Auctions



Source: BeefBasis.Com

G-NP-30

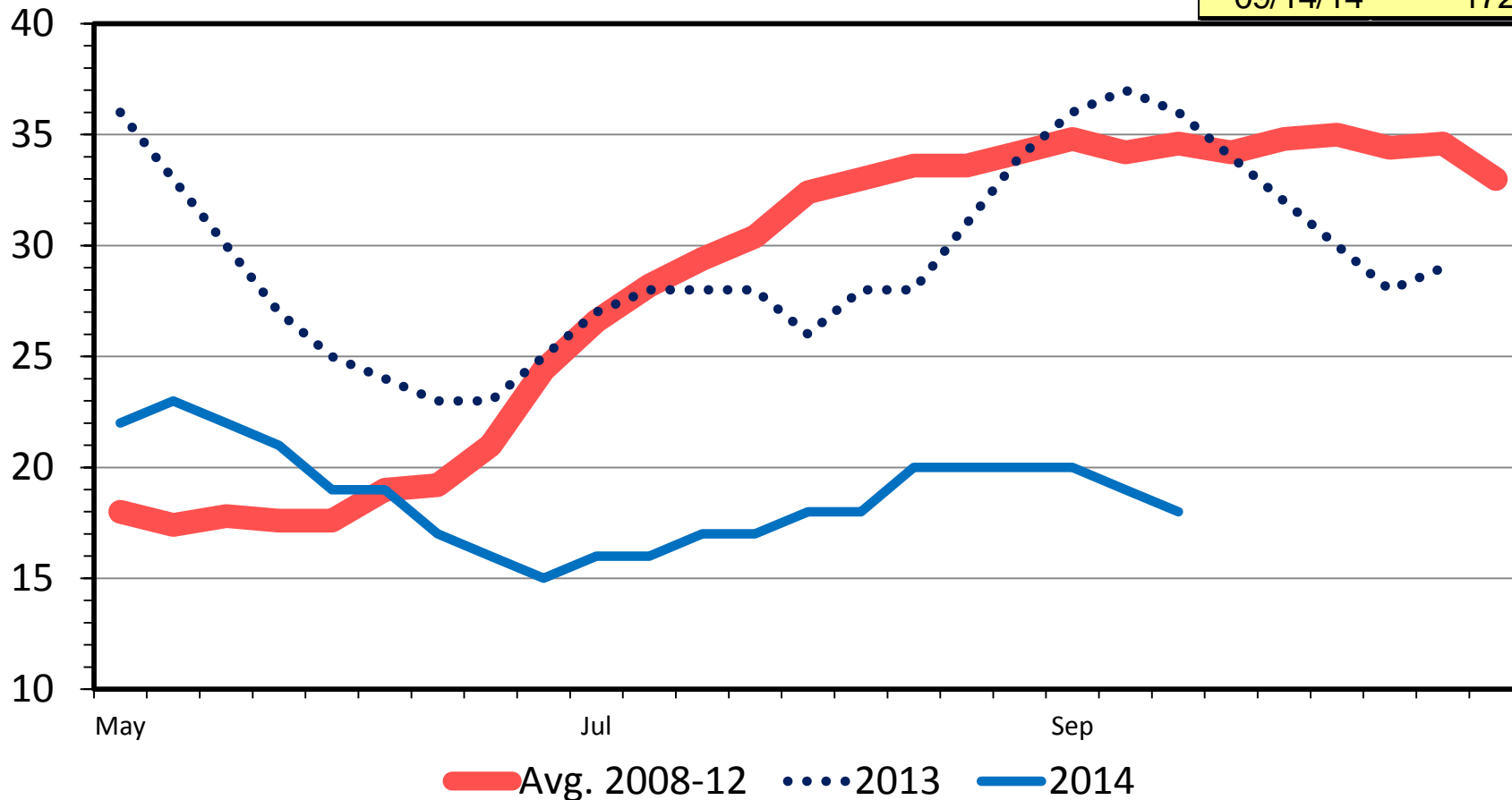
09/22/14

Beef Cows in states with 40% Poor to Very Poor		
Last year	Cows	% of Total
09/01/13	9427	<b>32.26%</b>
09/08/13	8917	<b>30.51%</b>
09/15/13	9789	<b>33.50%</b>
This Year		
08/31/14	1503	<b>5.19%</b>
09/07/14	1503	<b>5.19%</b>
09/14/14	1729	<b>5.97%</b>

## US RANGE AND PASTURE CONDITIO

Percent Poor and Very Poor, Weekly

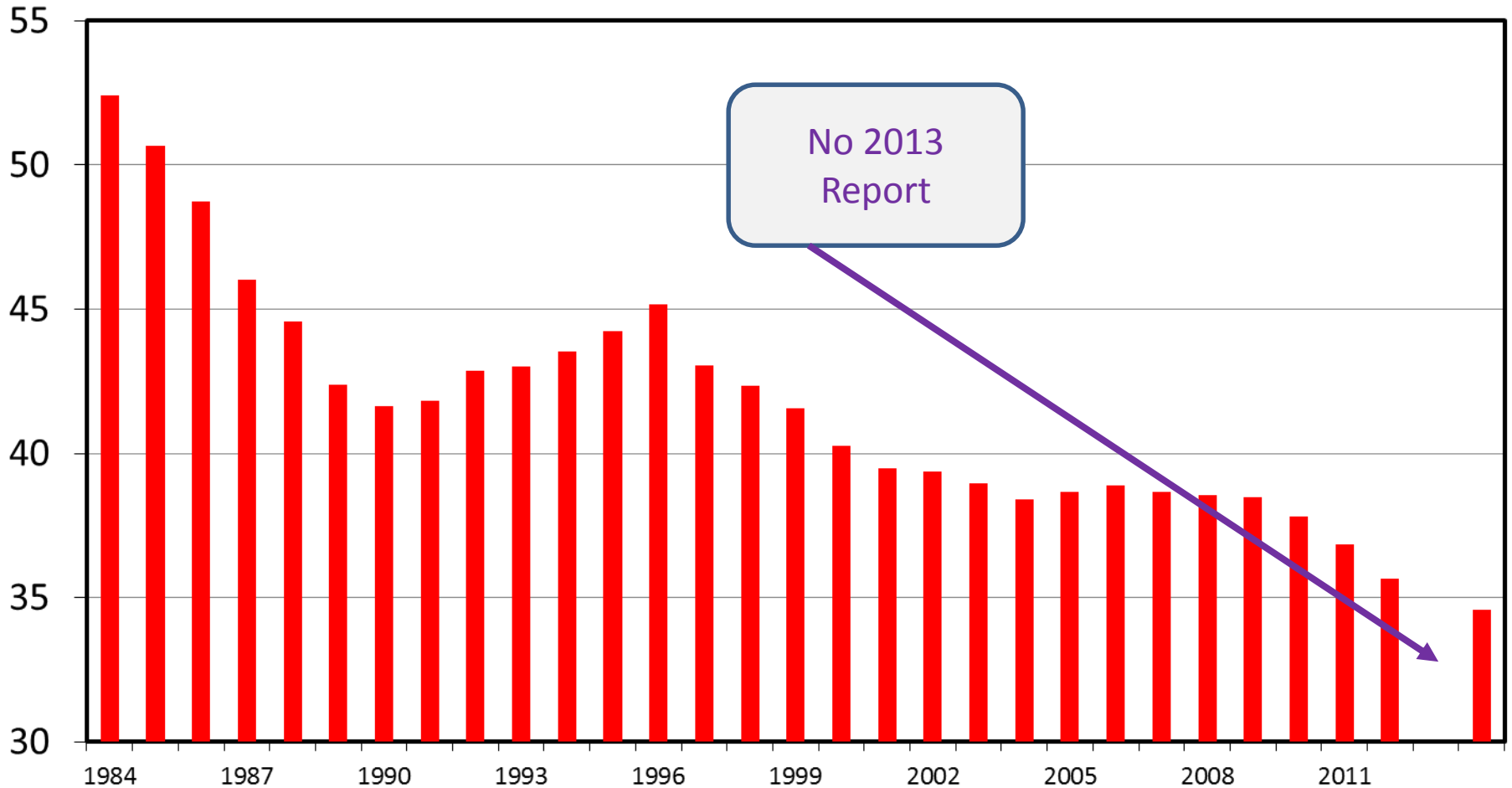
Percent



# JULY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.

Mil. Head



Data Source: USDA-NASS

Livestock Marketing Information Center

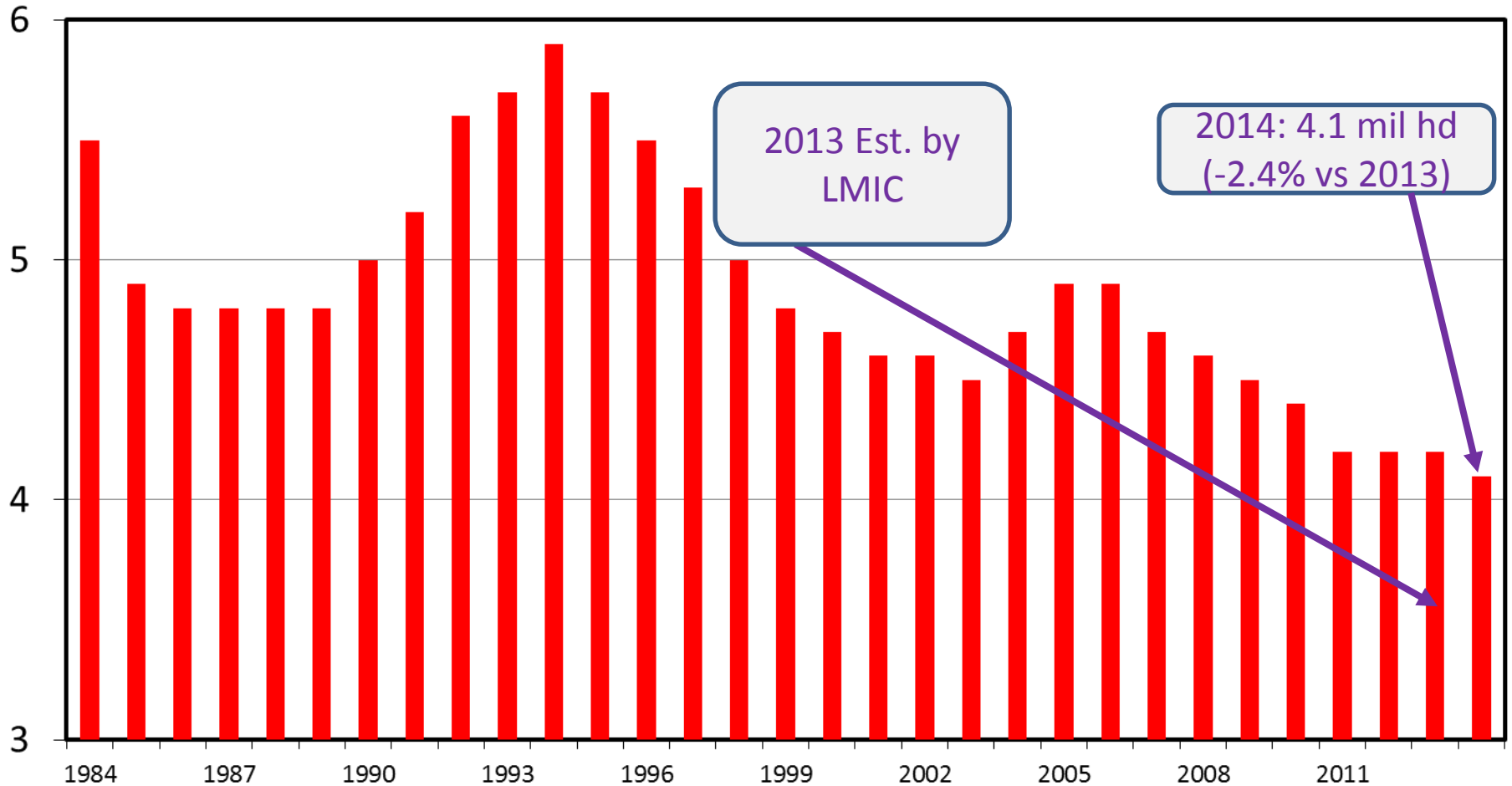
C-N-32

07/28/14

# HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.

Mil. Head



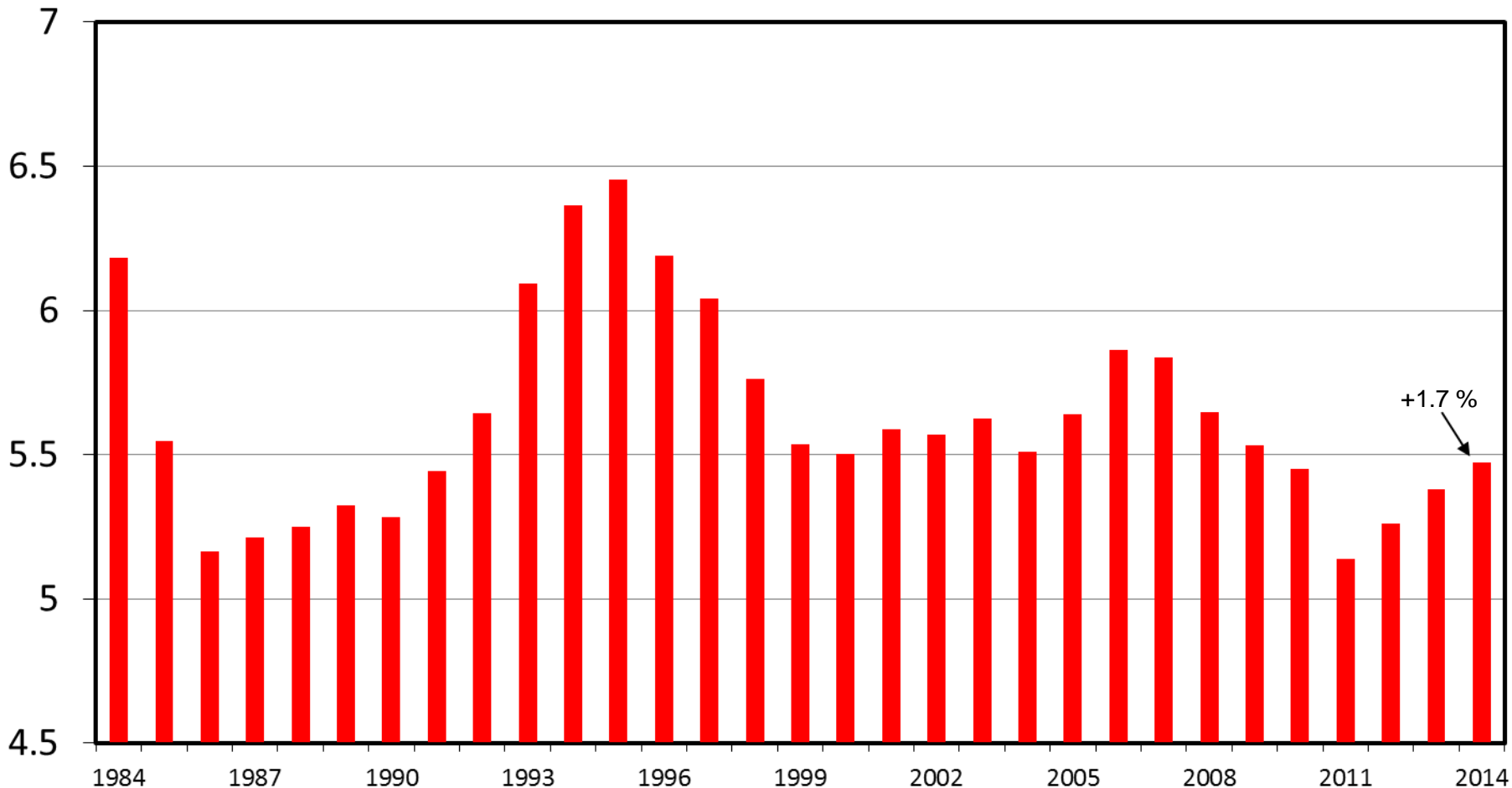
2013 Est. by LMIC

2014: 4.1 mil hd (-2.4% vs 2013)

# HEIFERS HELD AS BEEF COW REPLACEMENTS

January 1, U.S.

Mil. Head



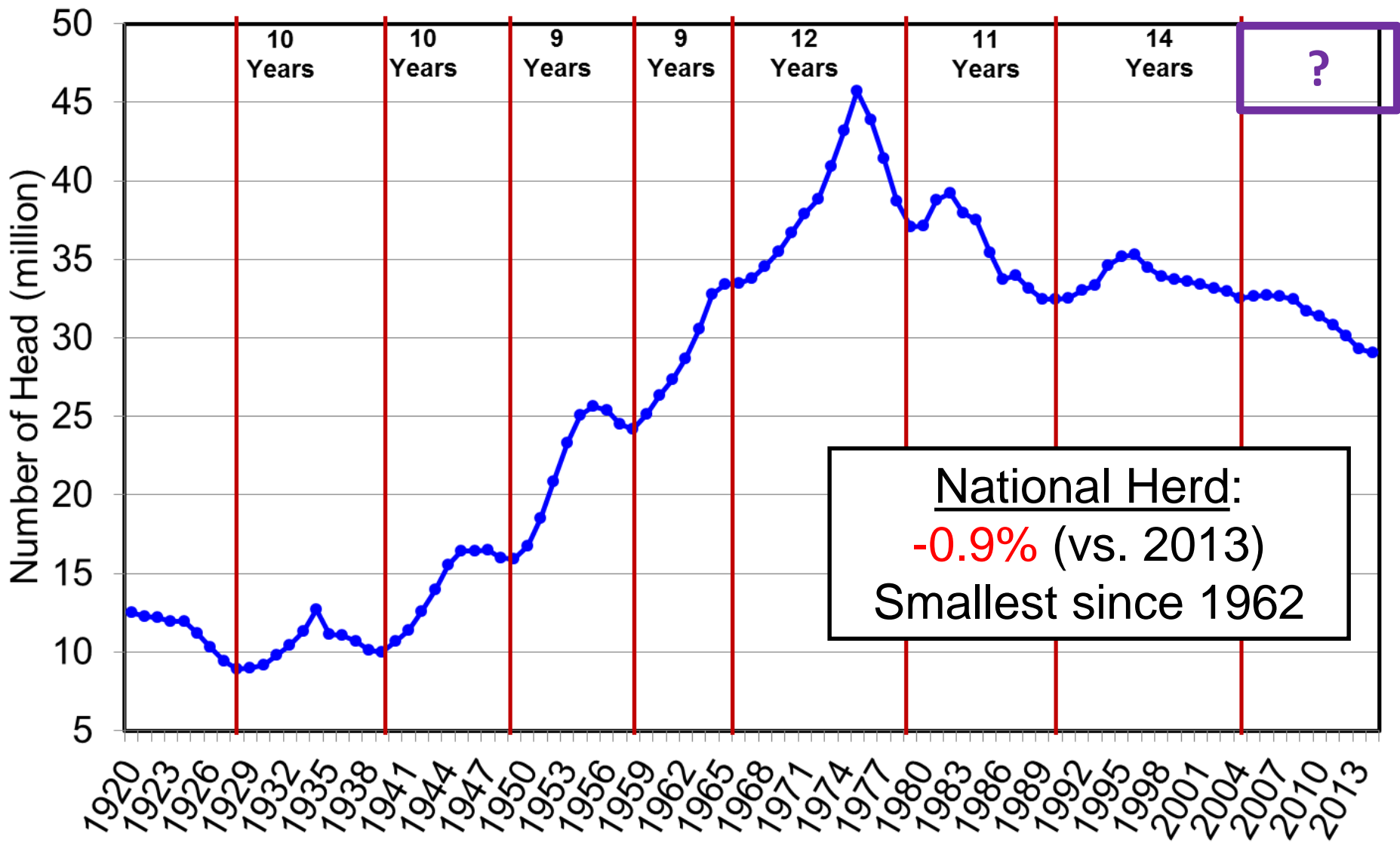
Data Source: USDA-NASS

Livestock Marketing Information Center

C-N-38  
07/28/14

# Pending Expansion? – How Fast?, How Large?, How Long?...

## January 1 U.S. Beef Cow Inventory

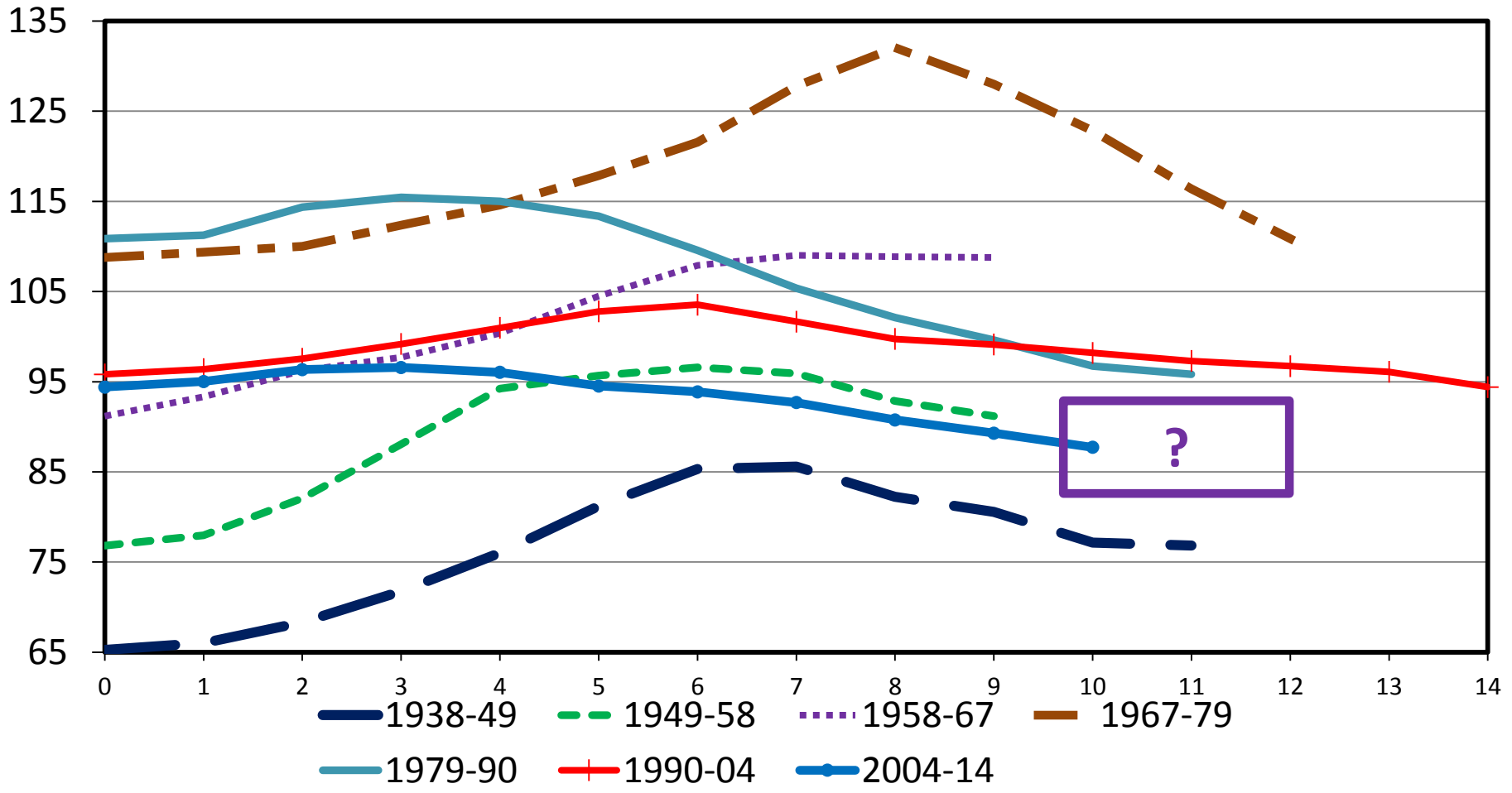


# Pending Expansion? – How Fast?, How Large?, How Long?...

## TOTAL CATTLE INVENTORY BY CYCLE

U.S., January 1

Mil. Head



# How Much Expansion? ERS & FAPRI Herd Projections

<http://www.ers.usda.gov/publications/oc-usda-agricultural-projections.aspx>

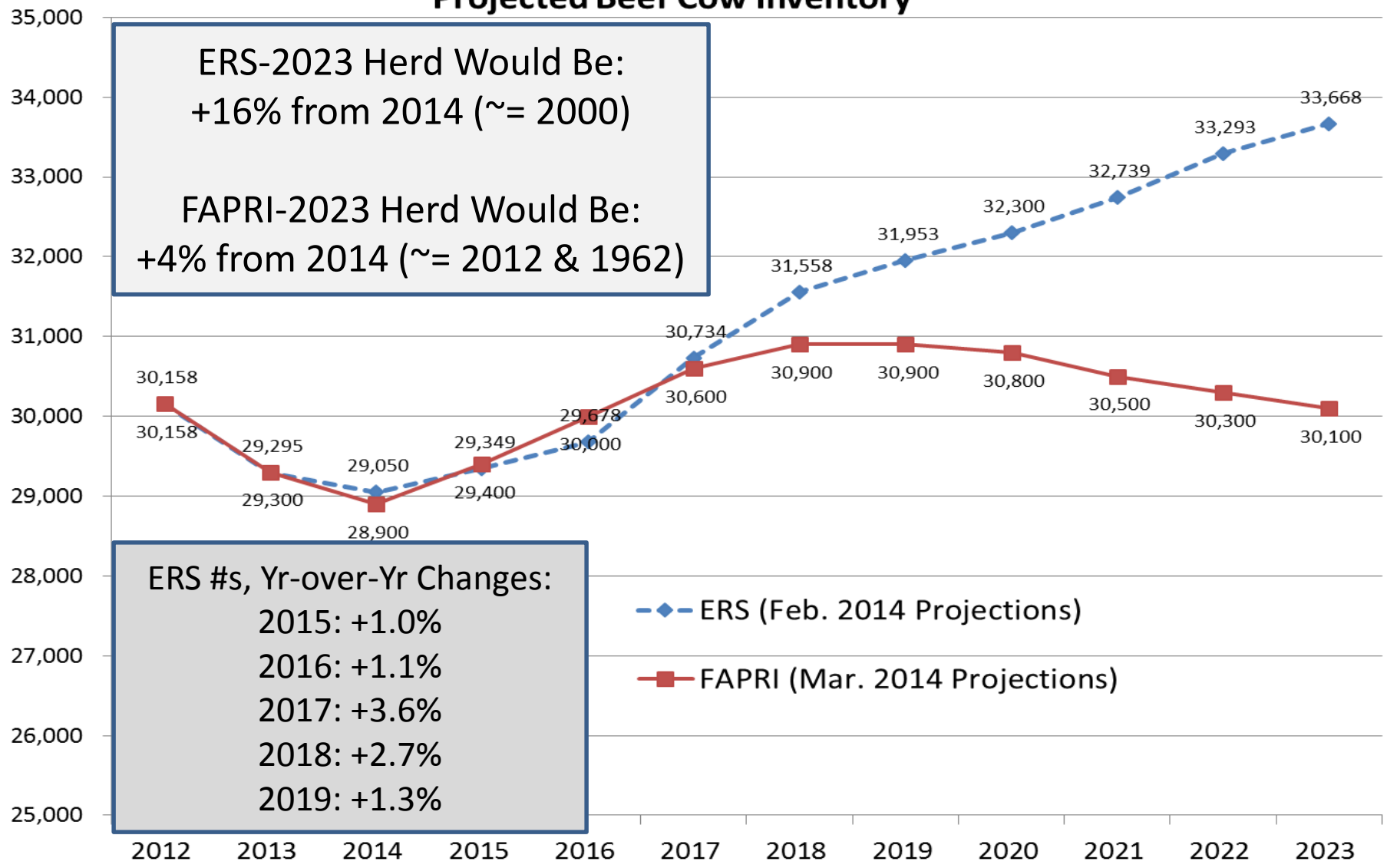
[http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI MU Report 02 14.pdf](http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI_MU_Report_02_14.pdf)

## Projected Beef Cow Inventory

ERS-2023 Herd Would Be:  
+16% from 2014 (~= 2000)

FAPRI-2023 Herd Would Be:  
+4% from 2014 (~= 2012 & 1962)

Beef Cow Inventory (1,000 head)



ERS #s, Yr-over-Yr Changes:

- 2015: +1.0%
- 2016: +1.1%
- 2017: +3.6%
- 2018: +2.7%
- 2019: +1.3%

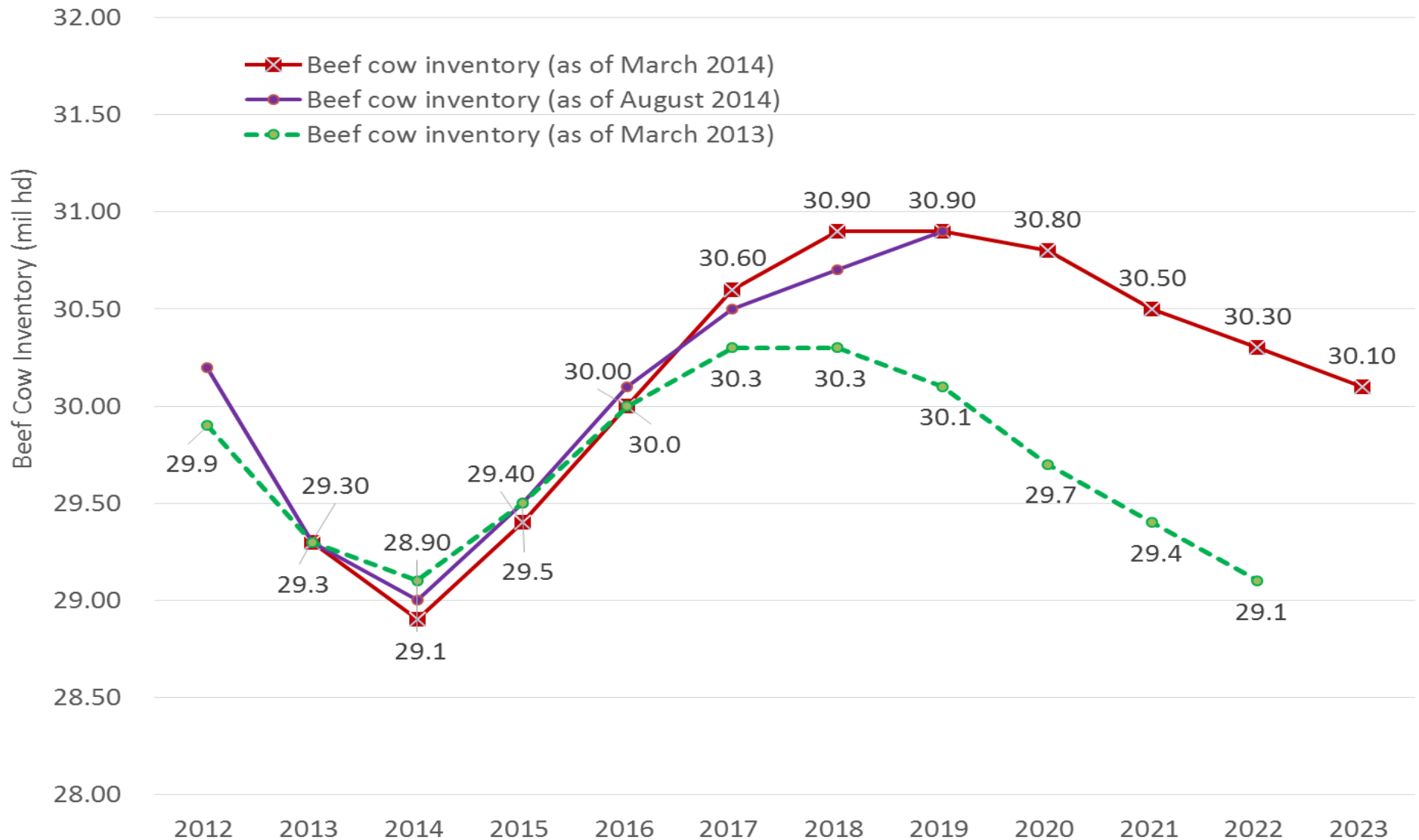
—◆— ERS (Feb. 2014 Projections)  
—■— FAPRI (Mar. 2014 Projections)



# Trends in FAPRI Projections

[http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI\\_MU\\_Report\\_04\\_14.pdf](http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI_MU_Report_04_14.pdf)

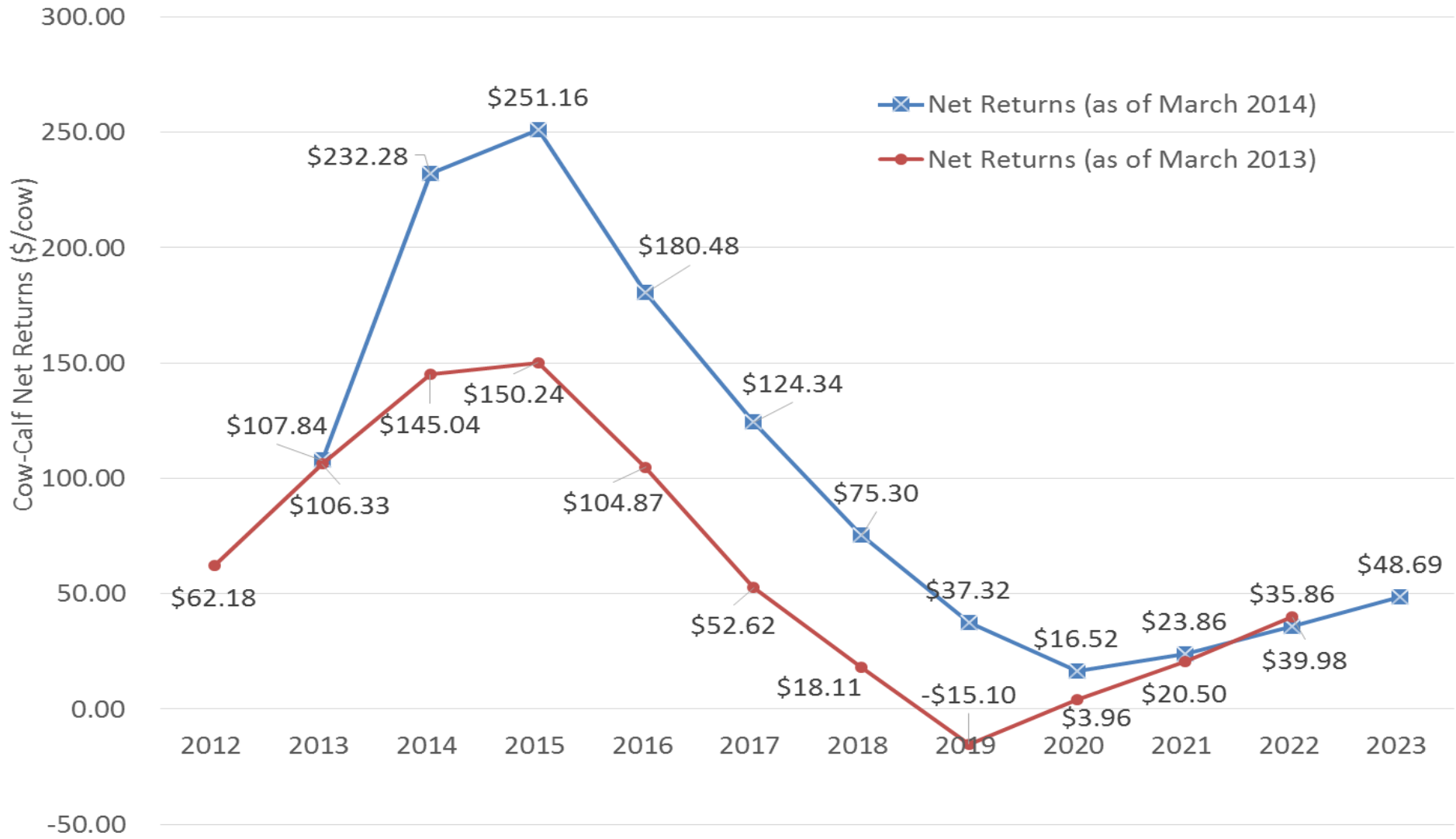
## Comparing FAPRI Forecasts, Beef Cow Inventories



# Trends in FAPRI Projections

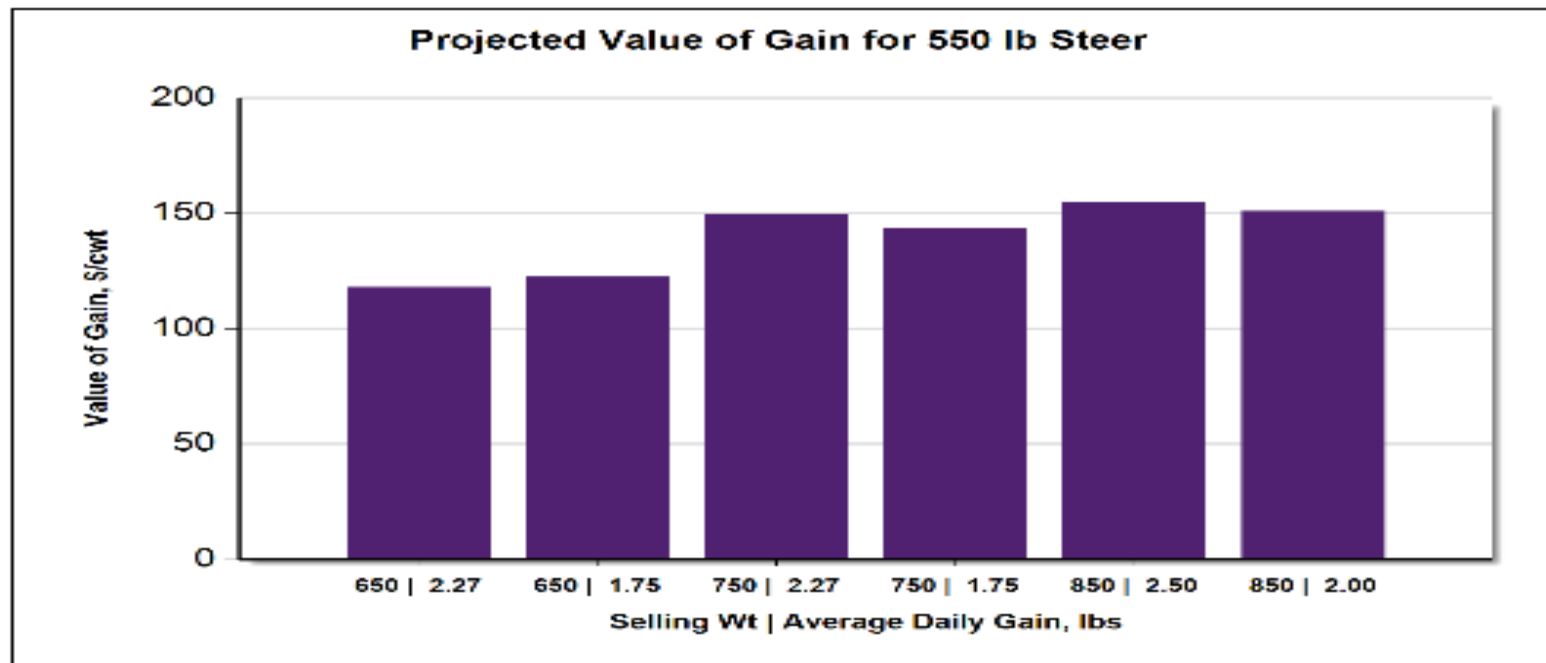
[http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI\\_MU\\_Report\\_04\\_14.pdf](http://www.fapri.missouri.edu/outreach/publications/2014/FAPRI_MU_Report_04_14.pdf)

## Comparing FAPRI Forecasts, Cow-Calf Net Returns



# Economic Outlook Overview: Stockers

- Attractive Values of Gain (VOG) vs. COG
  - For those in many stocker/backgrounding areas ...
  - Notably higher VOGs than feedlot COG projections...
- Salina, KS 10/03/14 situation:
  - Buy 550 lb steer on 10/10/14 (\$253.61)
  - Sell 750 lb steer on 1/16/15 (\$226.09) {2.02 ADG}
    - VOG: \$150.44/cwt
    - ***IF COG \$90/cwt*** THEN Expected Profit = \$120/hd
      - Note Total Cost > \$1,500/hd, reduces ROI for given \$X/hd



Projected Value of Gain					
Beginning Weight, lbs	Ending Weight, lbs	Date	Weight Gain, lbs/hd	ADG, lbs	Value of Gain, \$/cwt
550	650	11/17/2014	100	2.27	\$117.90
550	650	11/30/2014	100	1.75	\$122.32
550	750	12/31/2014	200	2.27	\$149.60
550	750	01/26/2015	200	1.75	\$143.83
550	850	02/01/2015	300	2.50	\$154.83
550	850	03/03/2015	300	2.00	\$150.84

Note: Projections derived for the Salina, KS market using BeefBasis.com  
 Related information is available at: BeefBasis.com

10/4/2014



# Economic Outlook Overview: Feedlots

- 2014 to-date has been MUCH better than 2013
- Fed-cattle break-even prices have risen rapidly...
- Excess capacity concerns persist:
  - Calf Crop, Heifer Retention, Plant Closures, & MCOOL...

# Historical and Projected Kansas Feedlot Net Returns (as of 9/10/14')

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

**July 14': +\$310/steer (best ever)**  
*(7<sup>th</sup> straight mo > \$125/steer – first sequence ever)*

**Oct LC:**  
**10/03: \$162**  
**9/1: \$152**  
**8/1: \$156**  
**5/1: \$140**

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

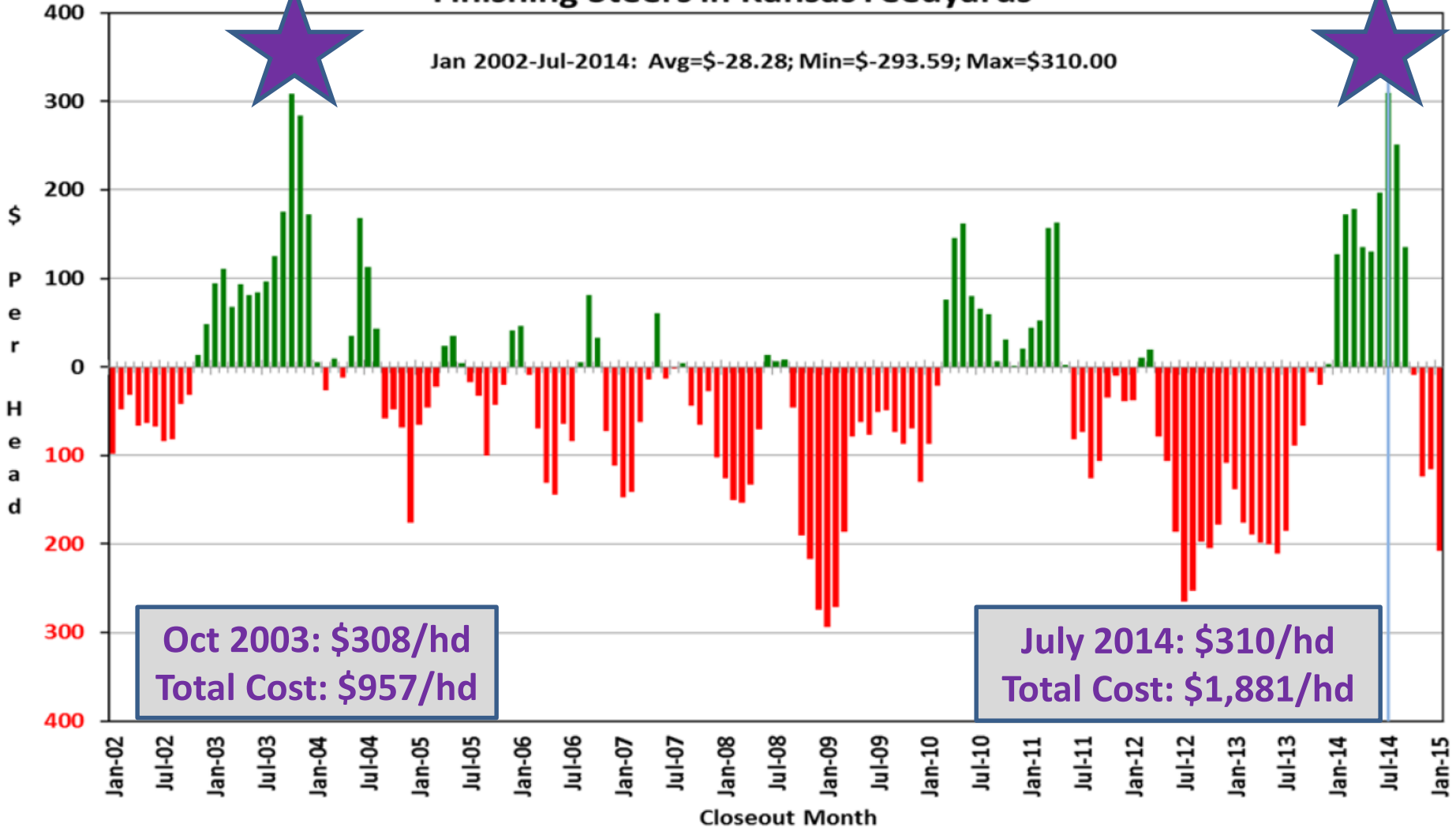
Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Aug-14	251.35	88.20	156.35	169.69	131.91	138.81	198.99
Sep-14	135.59	88.97	149.96	173.24	112.14	140.39	189.54
Oct-14	-9.31	88.07	152.64	191.44	86.38	153.29	190.36
Nov-14	-124.17	86.05	153.04	206.84	63.37	161.90	192.32
Dec-14	-115.91	84.97	152.92	211.02	65.89	160.88	197.38
Jan-15	-207.55	83.36	152.84	220.95	47.20	167.55	196.15

**Representative Barometer for Trends in Profitability**

# Historical and Projected Kansas Feedlot Net Returns (as of 9/10/14')

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

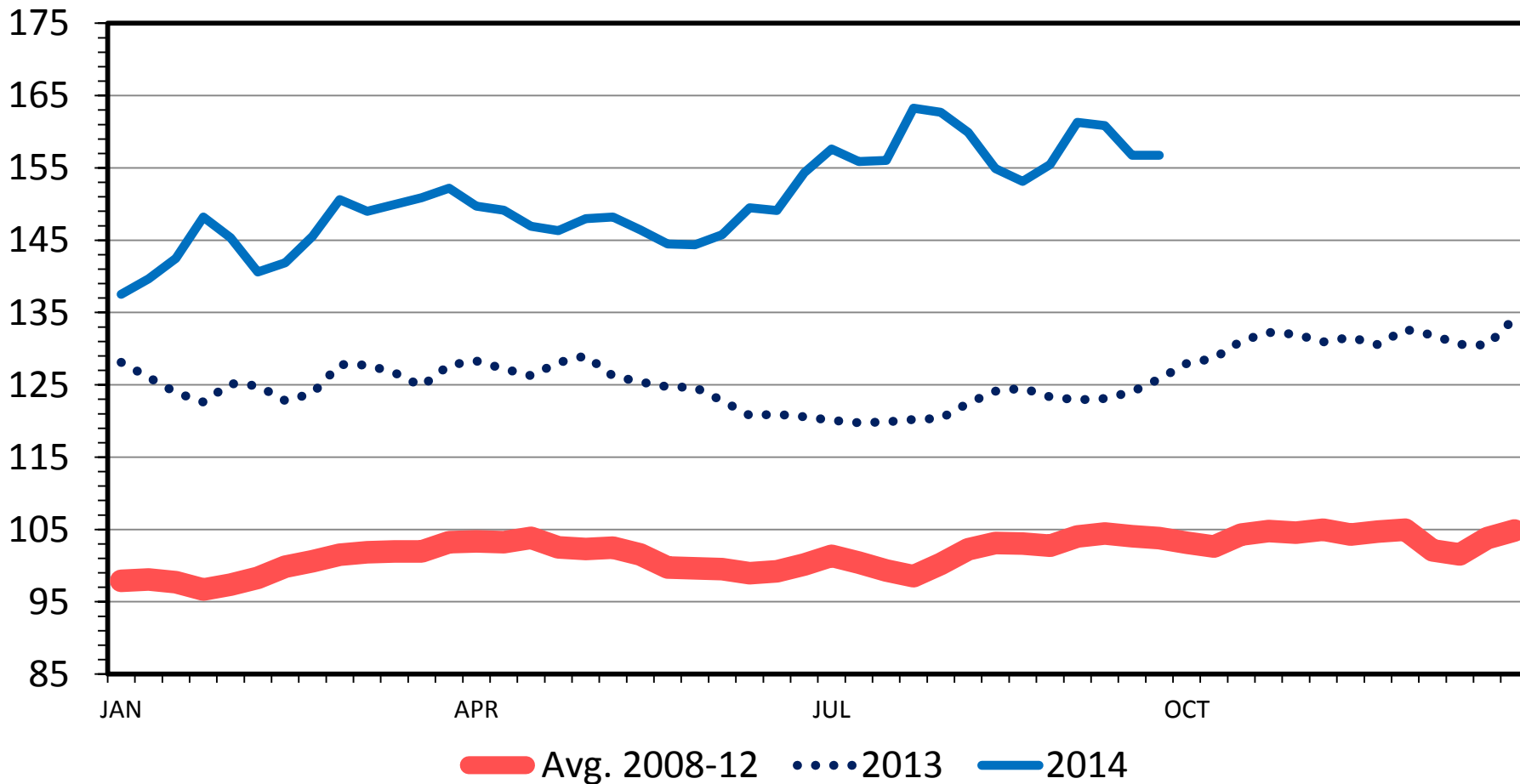
**Figure 1. Historical & Projected Average Net Returns for Finishing Steers in Kansas Feedyards**



# SLAUGHTER STEER PRICES

## 5 Market Weighted Average, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

Livestock Marketing Information Center

09/29/14



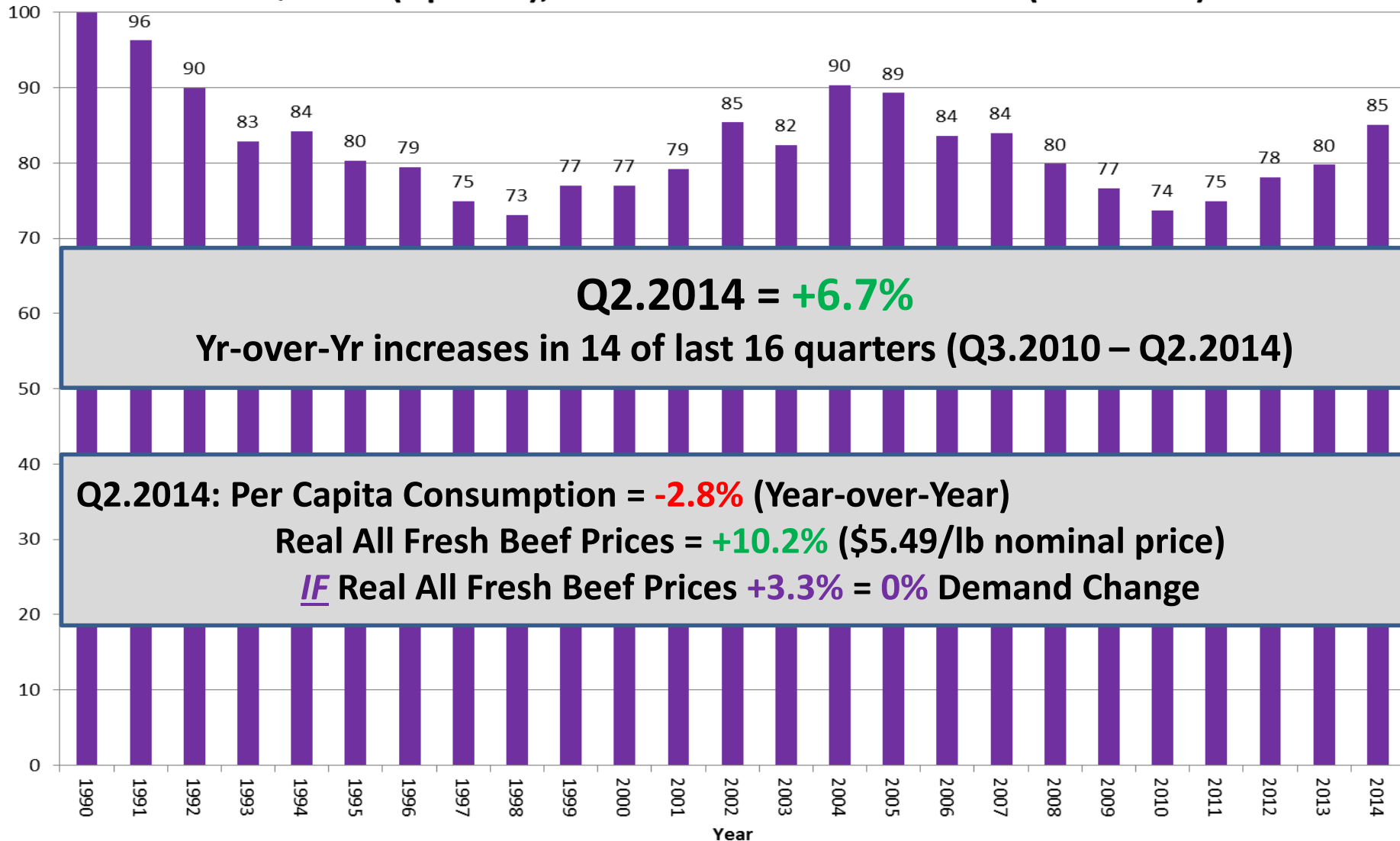
# Quarterly Forecasts (LMIC: 9/26/14)

Year	Comm'l	% Chg.	Average	% Chg.	Comm'l	% Chg.
Quarter	Slaughter	from	Dressed	from	Beef	from
		Year Ago	Weight	Year Ago	Production	Year Ago
<b>2014</b>						
I	7,375	-5.2	795.7	0.3	5,868	-5.0
II	7,836	-5.9	789.0	0.9	6,183	-5.1
III	7,625	-8.4	809.8	2.0	6,175	-6.6
IV	7,599	-5.4	813.7	1.8	6,183	-3.7
<b>Year</b>	<b>30,435</b>	<b>-6.2</b>	<b>802.0</b>	<b>1.2</b>	<b>24,410</b>	<b>-5.1</b>
<b>2015</b>						
I	7,139	-3.2	804.9	1.1	5,746	-2.1
II	7,602	-3.0	795.1	0.8	6,044	-2.2
III	7,439	-2.4	814.5	0.6	6,059	-1.9
IV	7,485	-1.5	816.7	0.4	6,113	-1.1
<b>Year</b>	<b>29,665</b>	<b>-2.5</b>	<b>807.8</b>	<b>0.7</b>	<b>23,962</b>	<b>-1.8</b>
<b>2016</b>						
I	7,147	0.1	809.6	0.6	5,786	0.7
II	7,325	-3.6	800.3	0.7	5,862	-3.0
III	7,561	1.6	822.0	0.9	6,215	2.6
IV	7,383	-1.4	822.3	0.7	6,071	-0.7
<b>Year</b>	<b>29,416</b>	<b>-0.8</b>	<b>813.6</b>	<b>0.7</b>	<b>23,934</b>	<b>-0.1</b>

# Quarterly Forecasts (LMIC: 9/26/14)

Year Quarter	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price Southern Plains	
	5-Mkt Avg	Year Ago	7-800#	5-600#
<b>2014</b>				
I	146.34	16.6	171.77	209.30
II	147.82	18.3	193.16	227.67
III	158-159	29.6	224-225	263-264
IV	159-161	22.4	217-220	254-258
<b>Year</b>	<b>152-154</b>	<b>21.5</b>	<b>200-204</b>	<b>237-241</b>
<b>2015</b>				
I	159-162	9.7	215-219	256-261
II	159-163	8.9	217-223	261-268
III	156-161	0.0	216-223	256-264
IV	158-164	0.6	211-219	252-261
<b>Year</b>	<b>158-162</b>	<b>4.6</b>	<b>215-221</b>	<b>256-264</b>
<b>2016</b>				
I	159-166	1.2	213-222	257-268
II	160-168	1.9	216-228	261-273
III	157-166	1.9	214-226	256-269
IV	157-167	0.6	209-221	252-266
<b>Year</b>	<b>159-166</b>	<b>1.6</b>	<b>215-223</b>	<b>258-268</b>

## 2nd Quarter (Apr-Jun), All Fresh Beef Demand Index (1990=100)



**Q2.2014 = +6.7%**

**Yr-over-Yr increases in 14 of last 16 quarters (Q3.2010 – Q2.2014)**

**Q2.2014: Per Capita Consumption = -2.8% (Year-over-Year)**

**Real All Fresh Beef Prices = +10.2% (\$5.49/lb nominal price)**

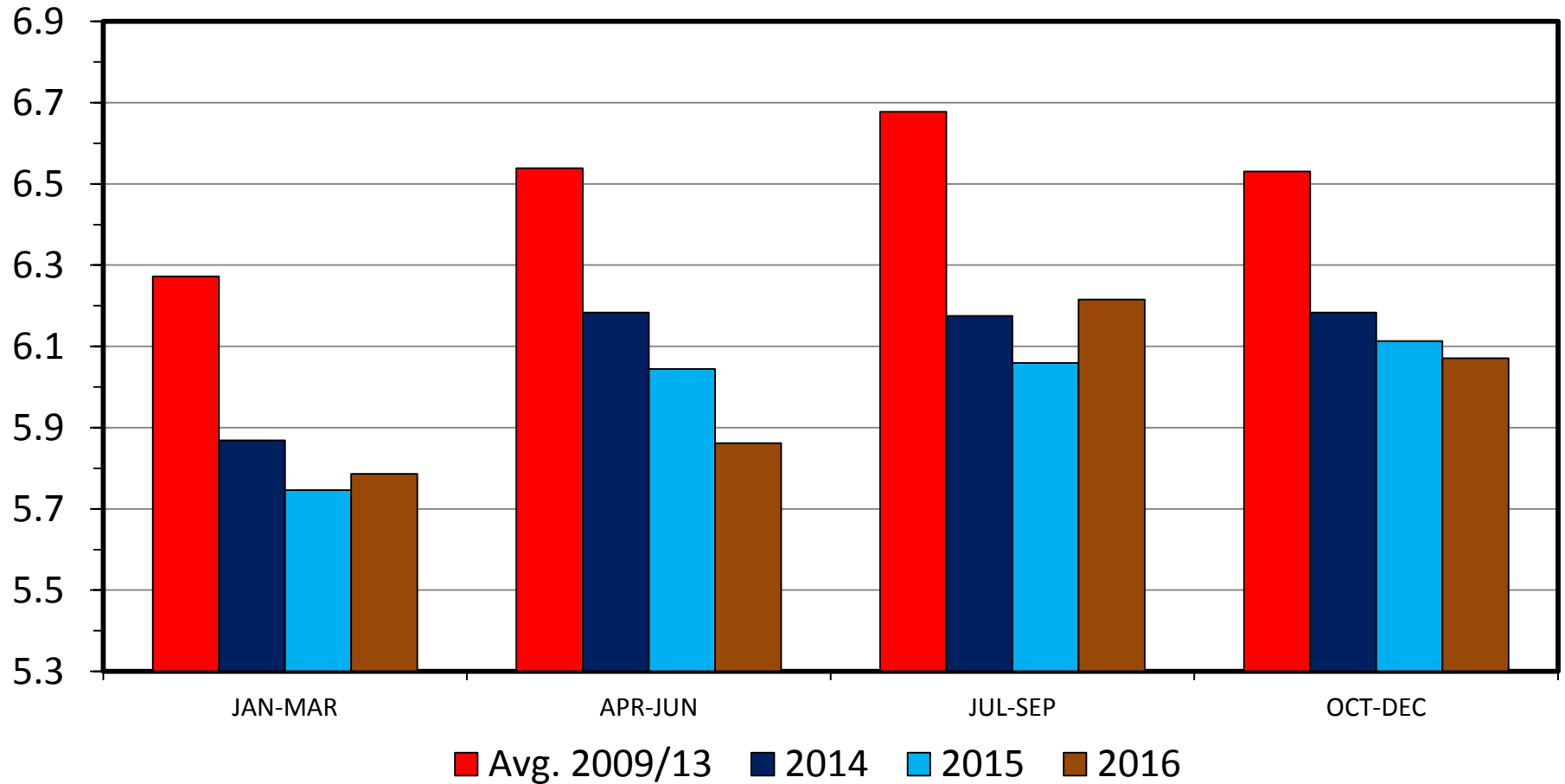
**IF Real All Fresh Beef Prices +3.3% = 0% Demand Change**

Source: Glynn T. Tonsor, Kansas State University, July 2014

# COMMERCIAL BEEF PRODUCTION

## Quarterly

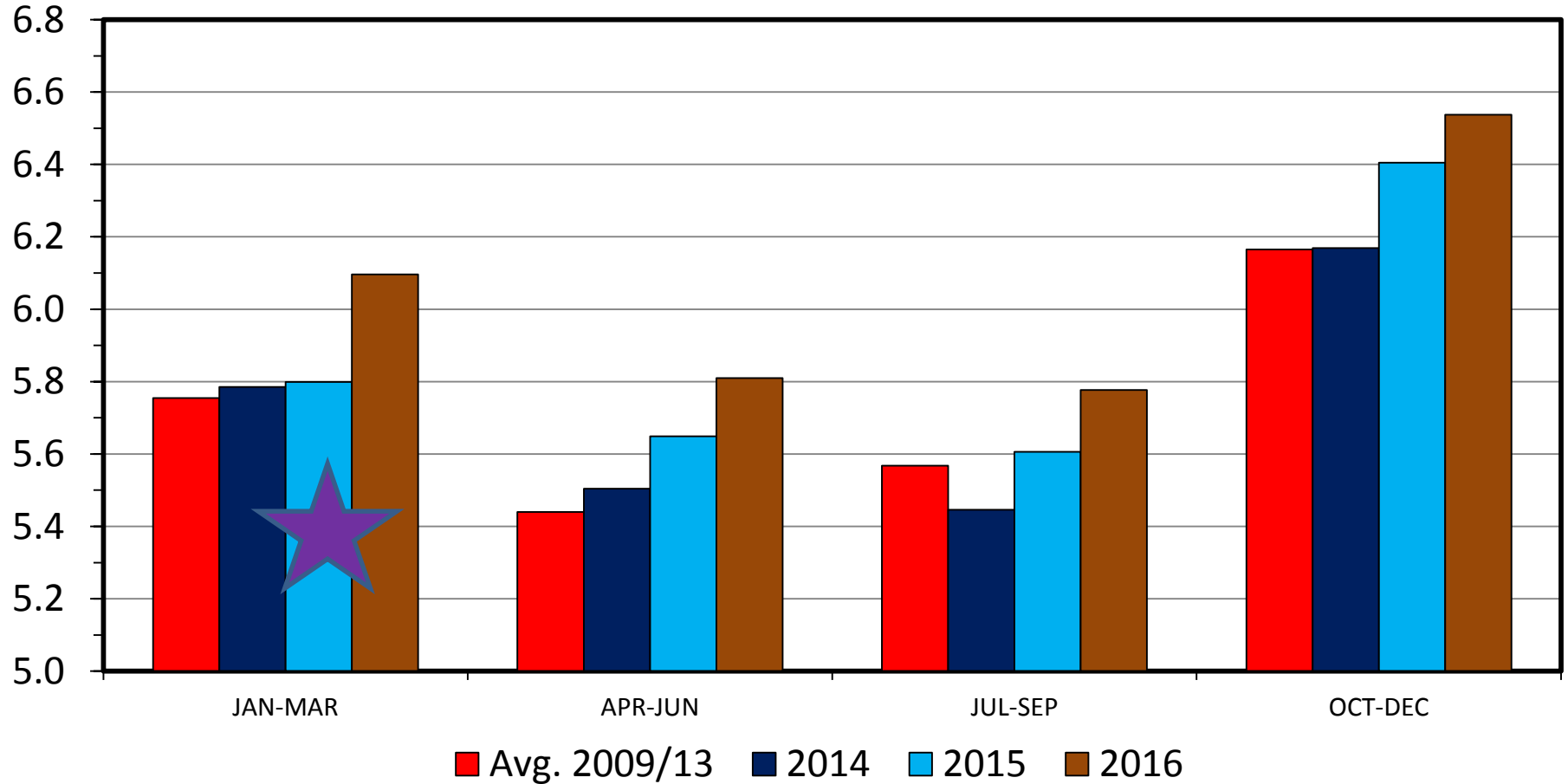
Bil. Pounds



# COMMERCIAL PORK PRODUCTION

## Quarterly

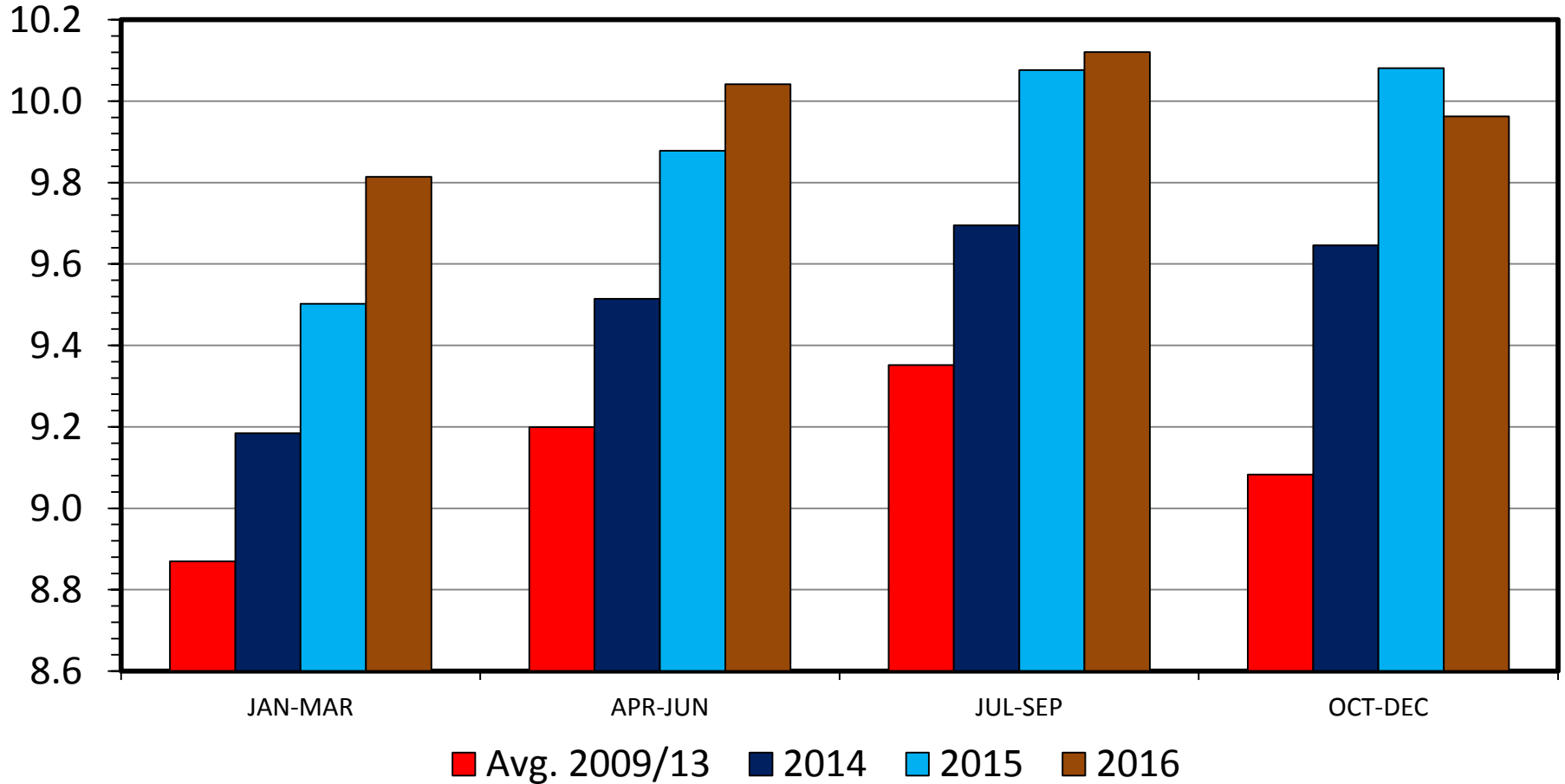
Bil. Pounds



# RTC BROILER PRODUCTION

## Quarterly

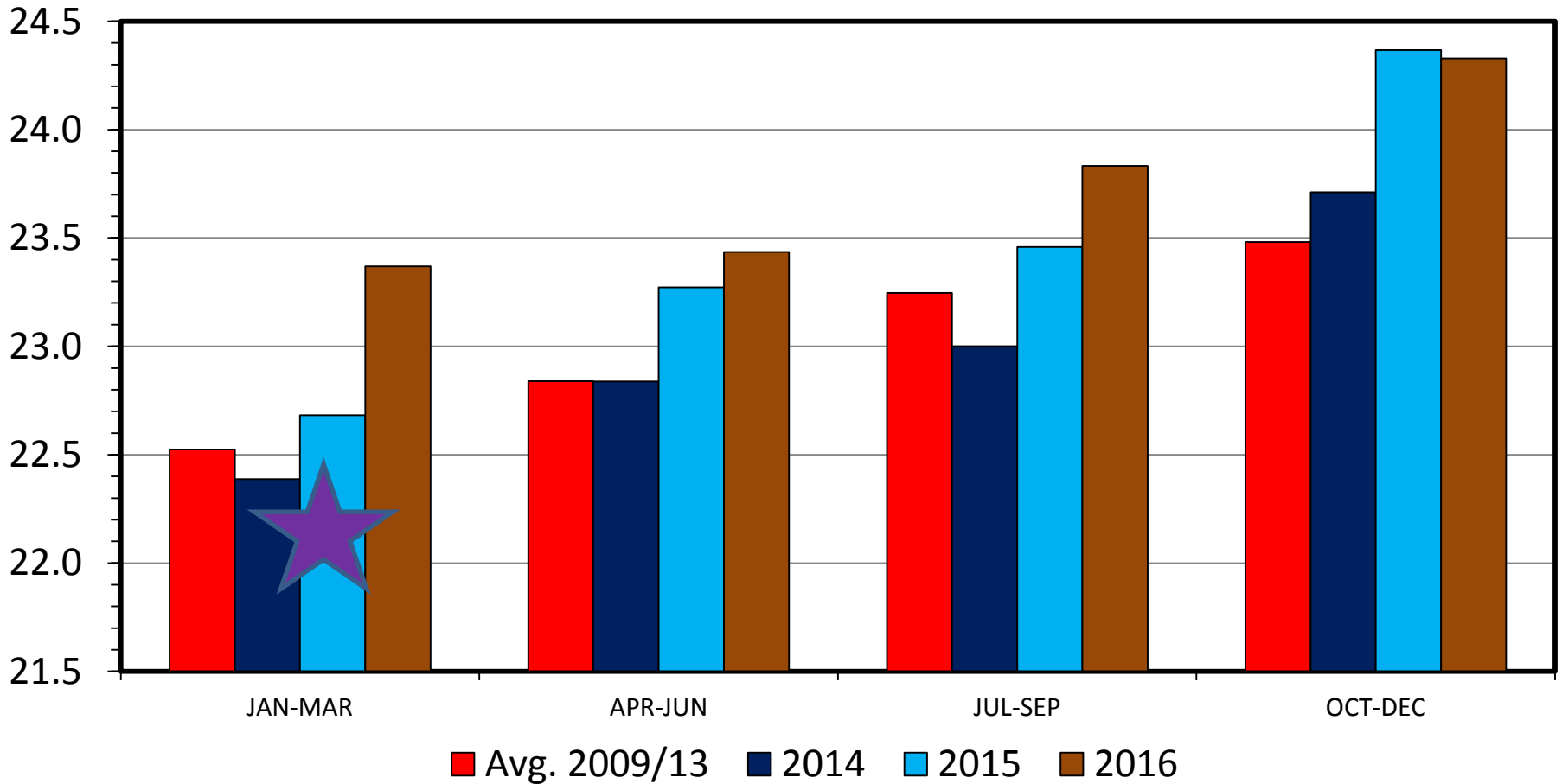
Bil. Pounds



# TOTAL RED MEAT & POULTRY PRODUCTION

## Quarterly

Bil. Pounds



# Take-Home Summary Points

- Tight meat & live animal supplies +
- Strong retail meat demand +
- Pending (slow?) herd expansion =
- Record:
  - Prices throughout industry
  - Cash at-stake (so ROI may not be record)
  - Opportunity/Threat ... in the eye of the beholder...



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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**Beef-Cattle Economics**

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

Remaining 2014 session:

November 11<sup>th</sup>

For details about specific topics and registering for webinars see additional information on [AgManager.info](http://AgManager.info) AND <http://www.meetingplace.com/Industry/Webinars>

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