

# *Beef/Cattle Industry Outlook Overview, Drought Impacts, Structural Changes, OH MY...*

Hosted by K-State Agricultural Economics  
**August 16-17, 2012**  
K-State Alumni Center  
1720 Alumni Center | Manhattan, KS

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Kansas State University

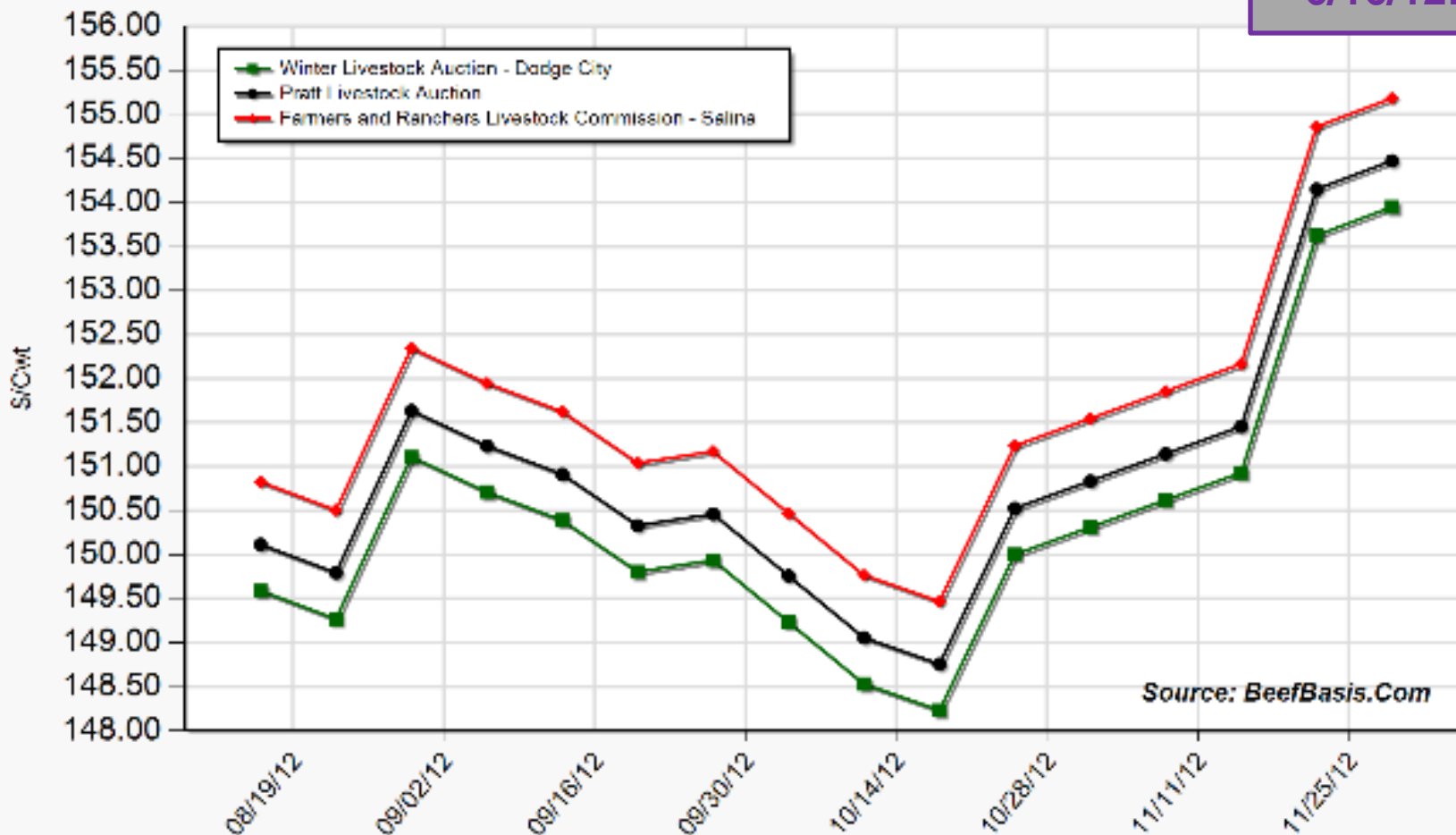
# Economic Outlook Overview: Cow-Calf Sector

- Strong calf price pullback
  - National vs. regional drought magnified cattle market impact compared to 2011
- *Eventually*: return as beneficiary of tight supplies and probable expanded heifer retention...
- Returns over cash costs
  - 2012 estimates have fell \$100/cow in last 2 months
  - Will 2015 now be “the peak return year” ???
    - Widening between top 1/3 and bottom 1/3 of producers?
      - Cost management critical; even more so in period of drought response....



August FC:  
8/16/12: \$141  
7/16/12: \$134  
6/16/12: \$154

Projected Price for 550 Lb Steer at Selected Kansas Auctions

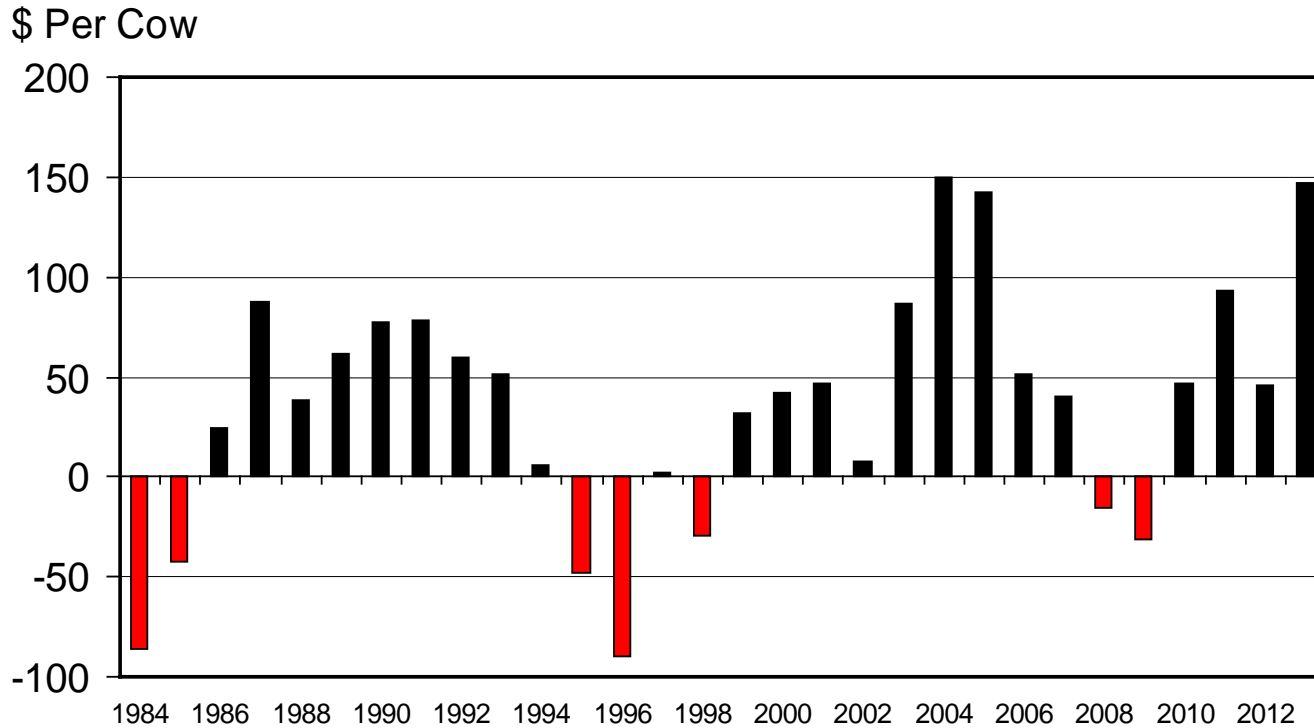


Source: BeefBasis.Com



# ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



C-P-66  
08/09/12

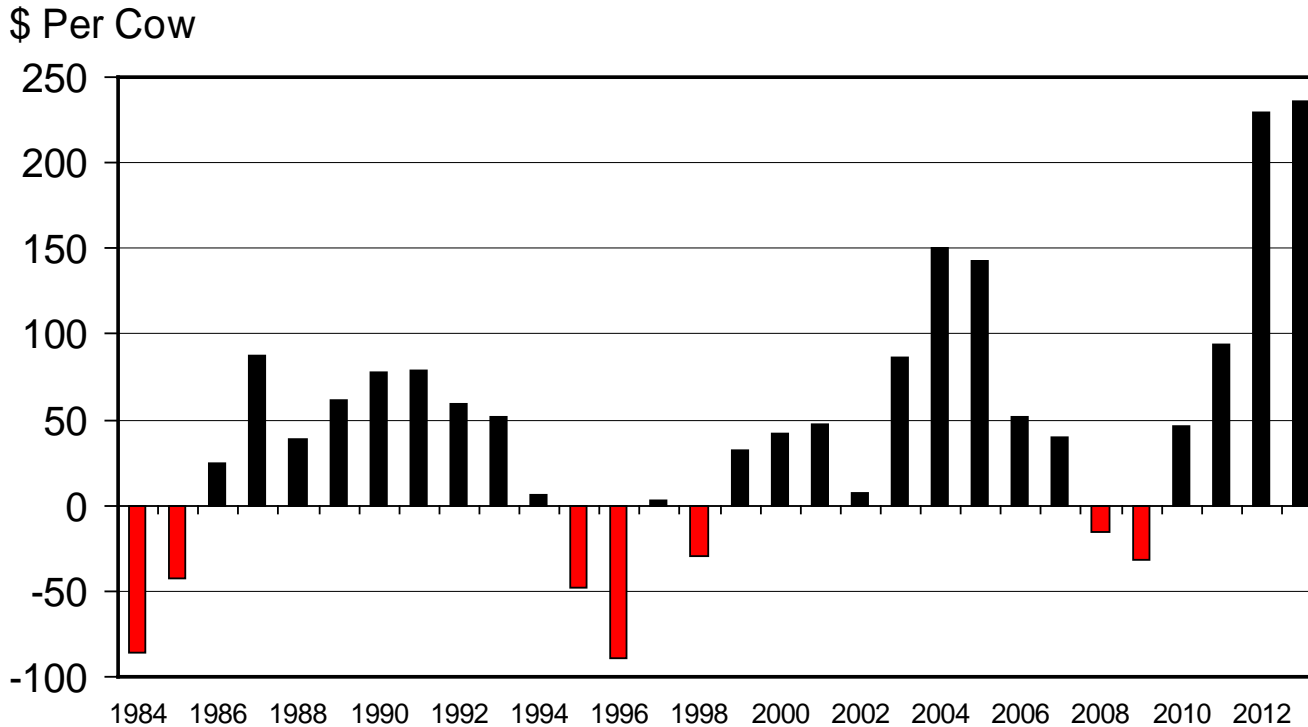
Livestock Marketing Information Center

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



# ESTIMATED AVERAGE COW CALF RETURNS

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Livestock Marketing Information Center

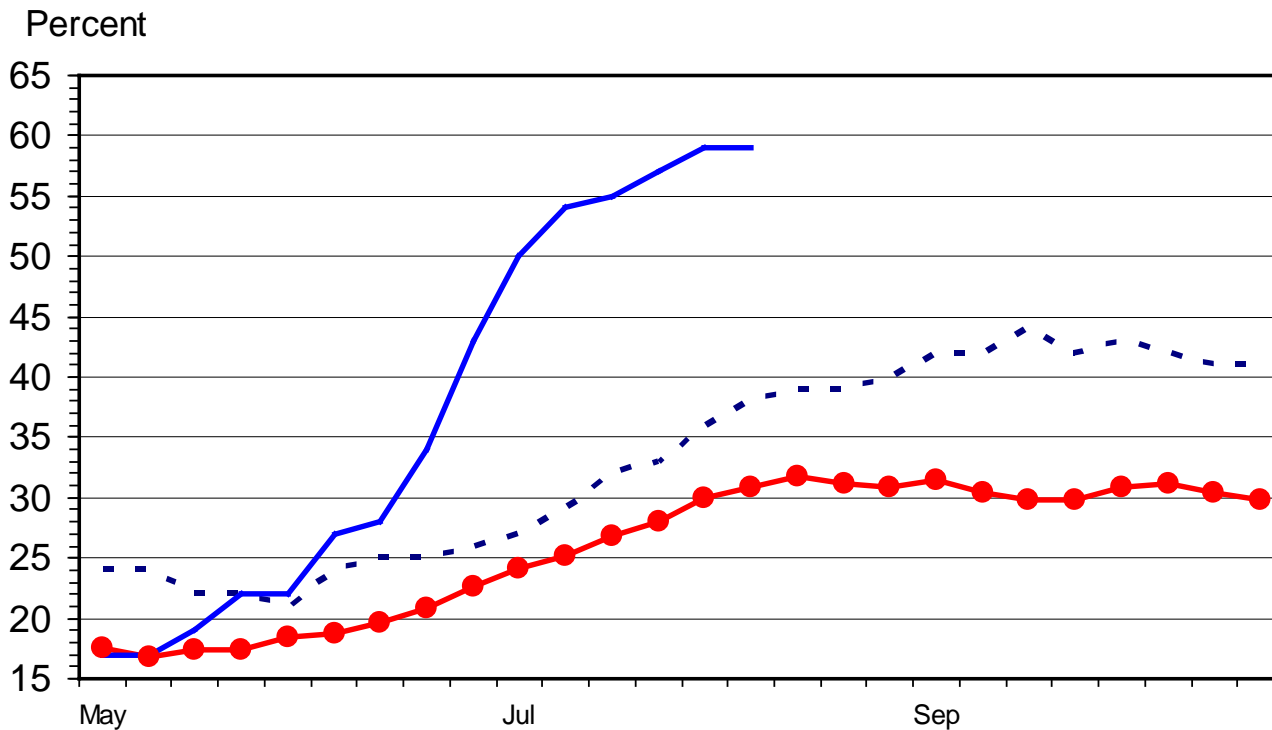
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66  
03/21/12



# US RANGE AND PASTURE CONDITION

## Percent Poor and Very Poor, Weekly



Beef Cows in states with 40% Poor to Very Poor		
Last year	Cows	% of Total
07/31/11	12363	40.18%
08/07/11	12865	41.82%
08/14/11	13596	44.19%
This Year		
07/29/12	22809	76.54%
08/05/12	22731	76.28%
08/12/12	23030	77.28%

**8/15/10:**  
**5.1% of Cows**

- Avg. 2006-2010
- - - 2011
- 2012

Livestock Marketing Information Center

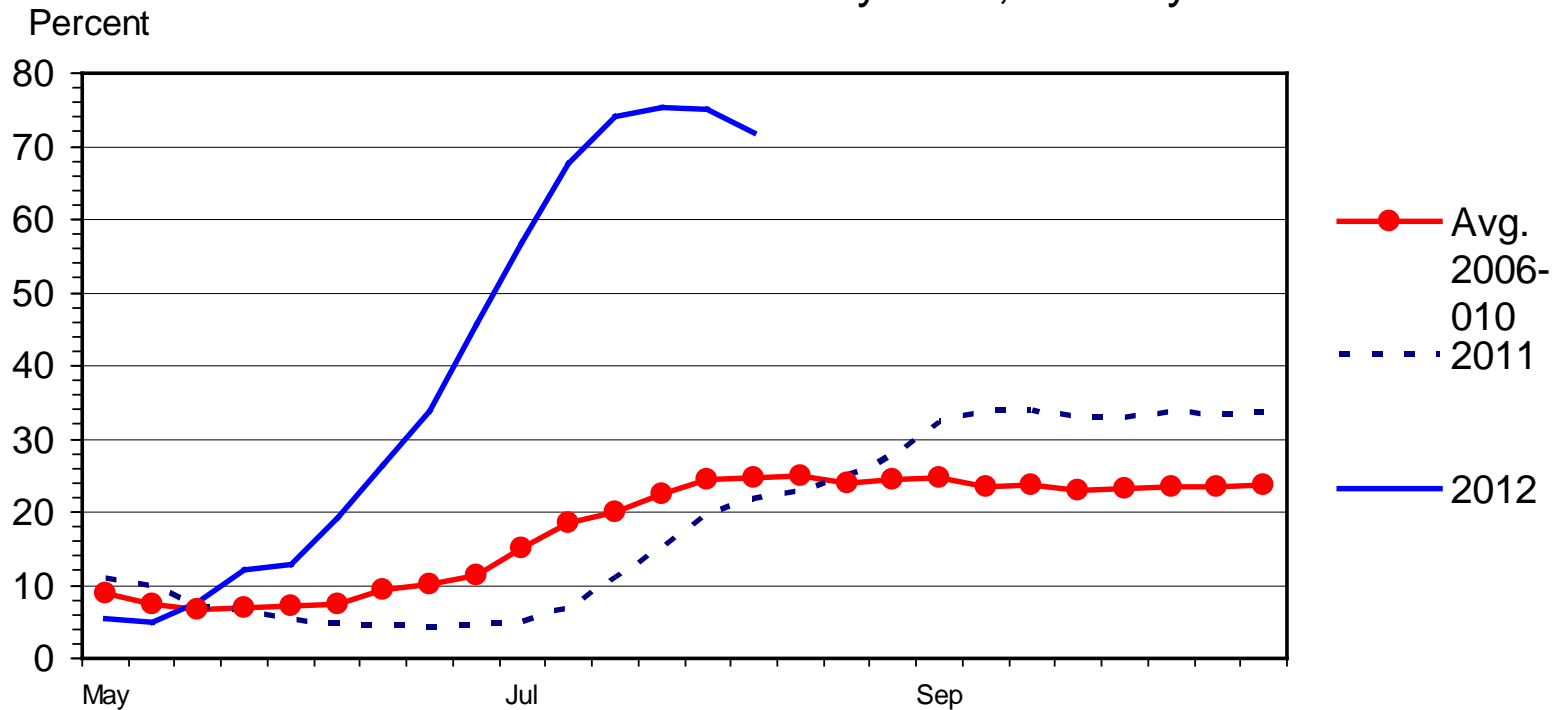
Data Source: USDA-NASS, Compiled & Analysis by LMIC

G-NP-30  
08/13/12



IL, IN, IA, MI, MN,  
MO, OH, & WI  
14.5% of Cows  
(2012)

## CORNBELT REGION RANGE AND PASTURE CONDITION Percent Poor and Very Poor, Weekly



G-NP-34  
08/13/12

Livestock Marketing Information Center

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



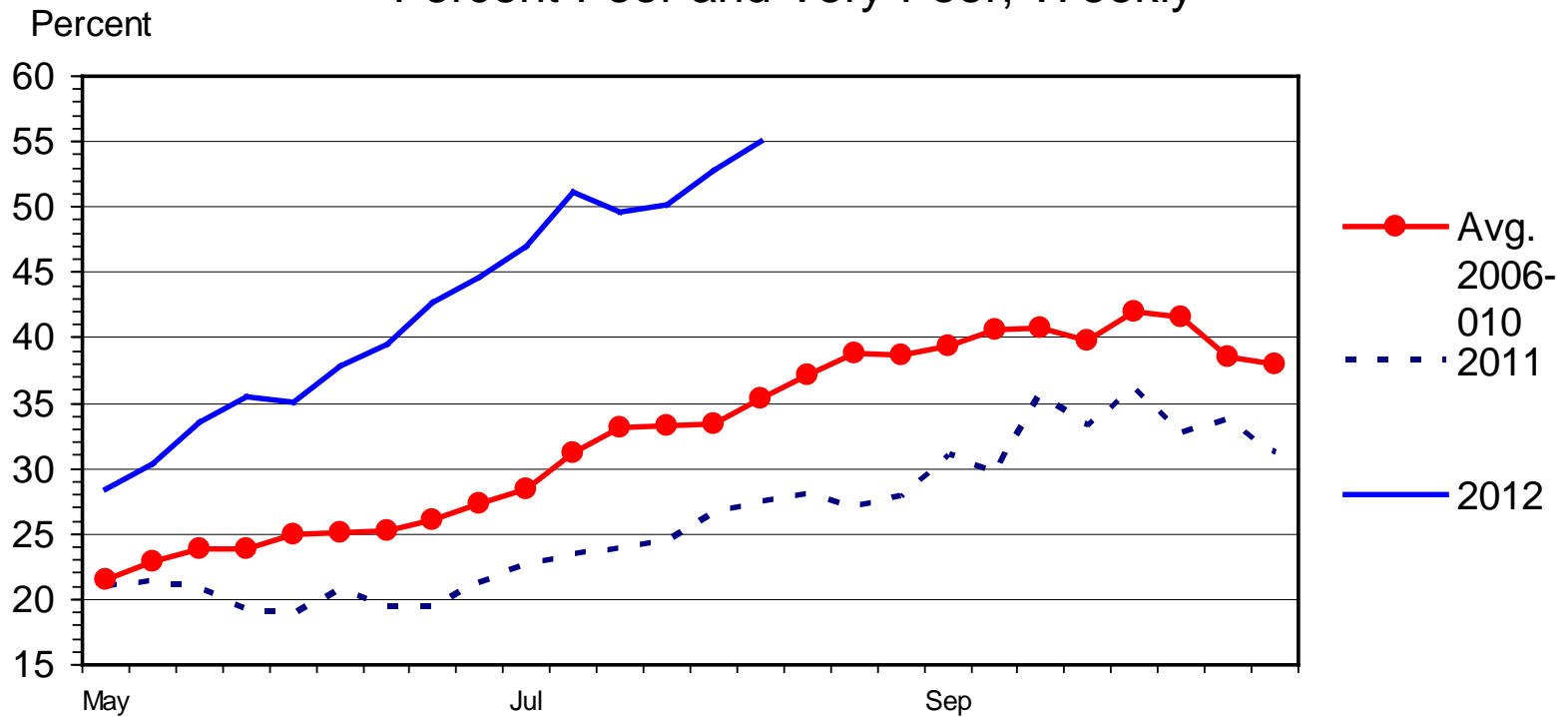




AZ, CA, ID, NV, NM,  
OR, UT, & WA  
10.2% of Cows  
(2012)

## WESTERN REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-31  
08/13/12

Livestock Marketing Information Center

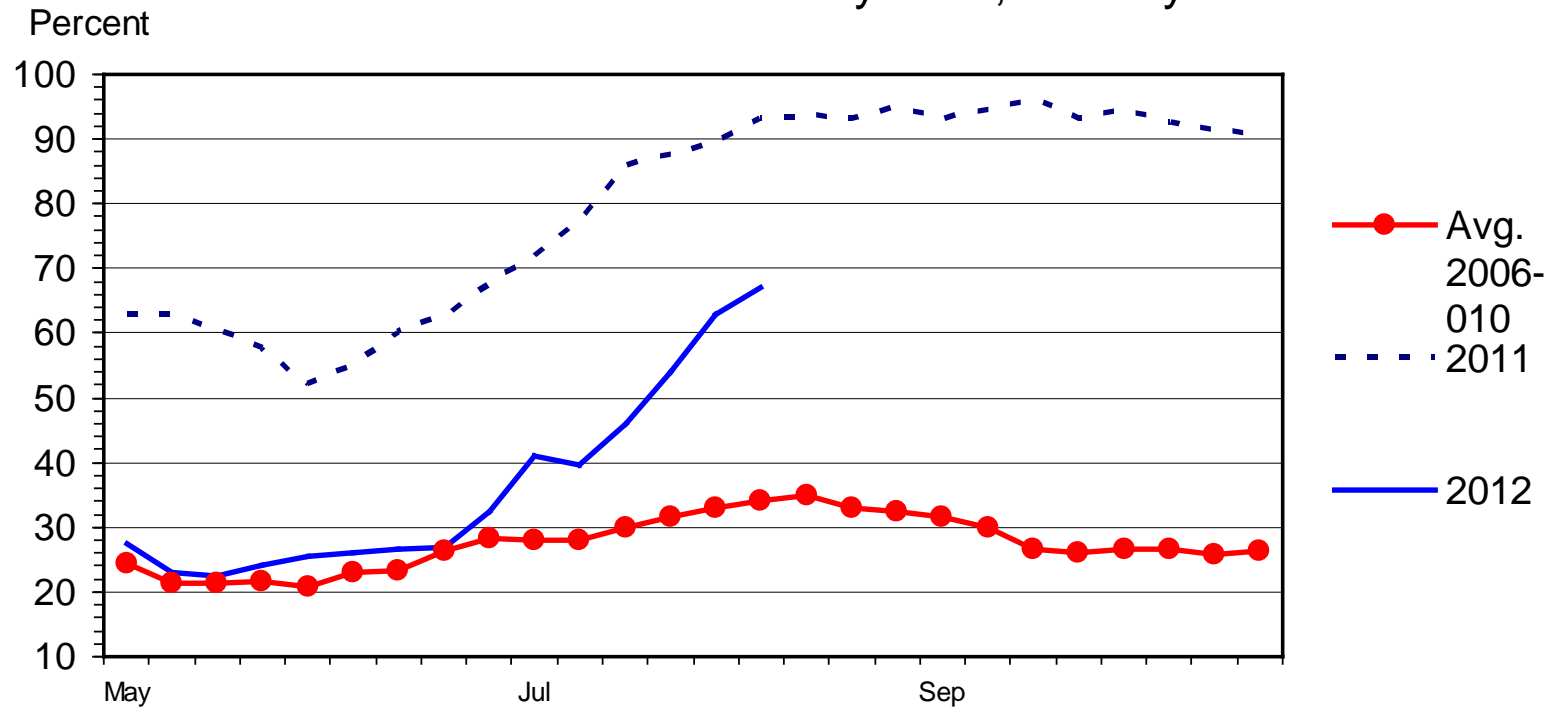
Data Source: USDA-NASS, Compiled & Analysis by LMIC



OK & TX  
20.4% of Cows  
(2012)

## SOUTHERN PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-33  
08/13/12

Livestock Marketing Information Center

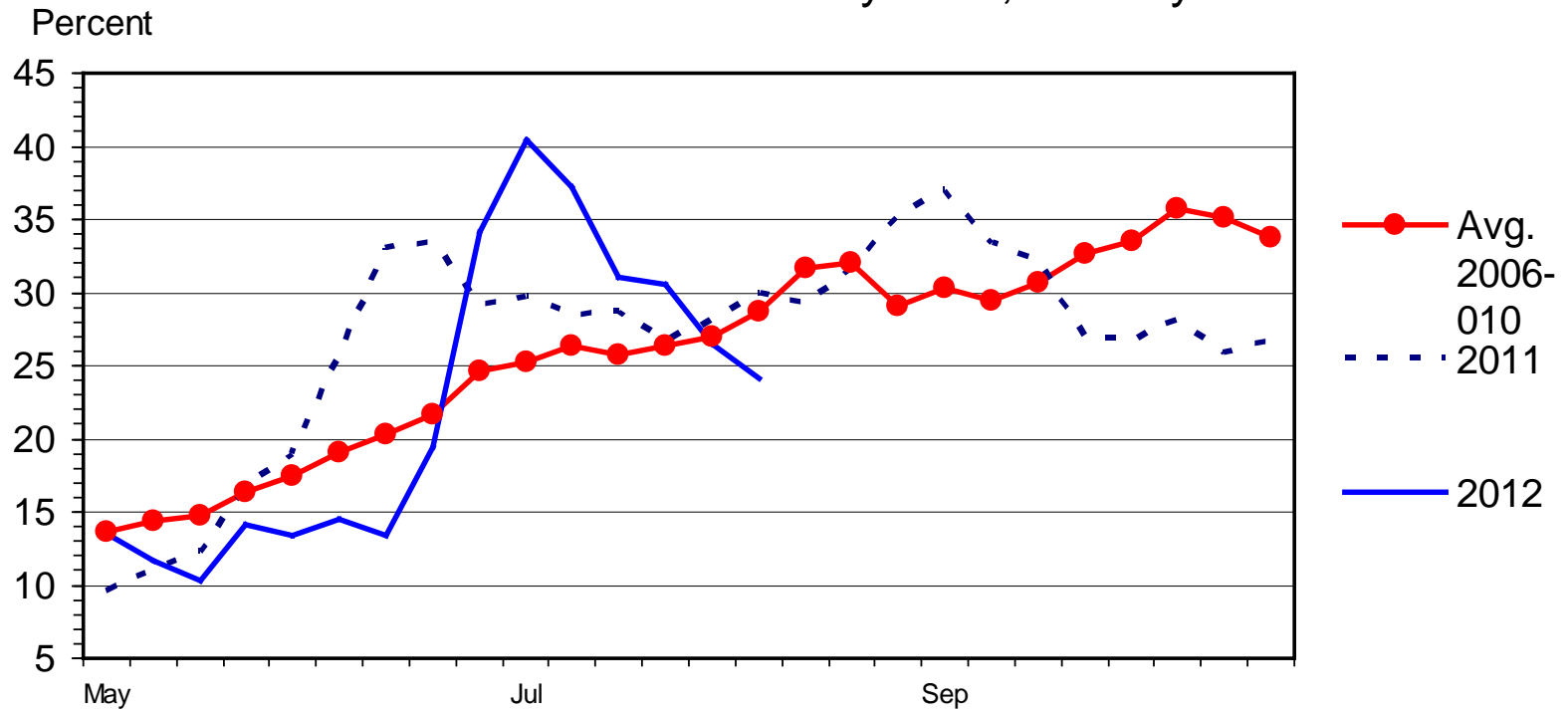
Data Source: USDA-NASS, Compiled & Analysis by LMIC



AL, AR, FL, GA, KY,  
 LA, MS, NC, SC, TN,  
 VA, & WV  
 24.5% of Cows (2012)

## SOUTHEAST REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



G-NP-36  
 08/13/12

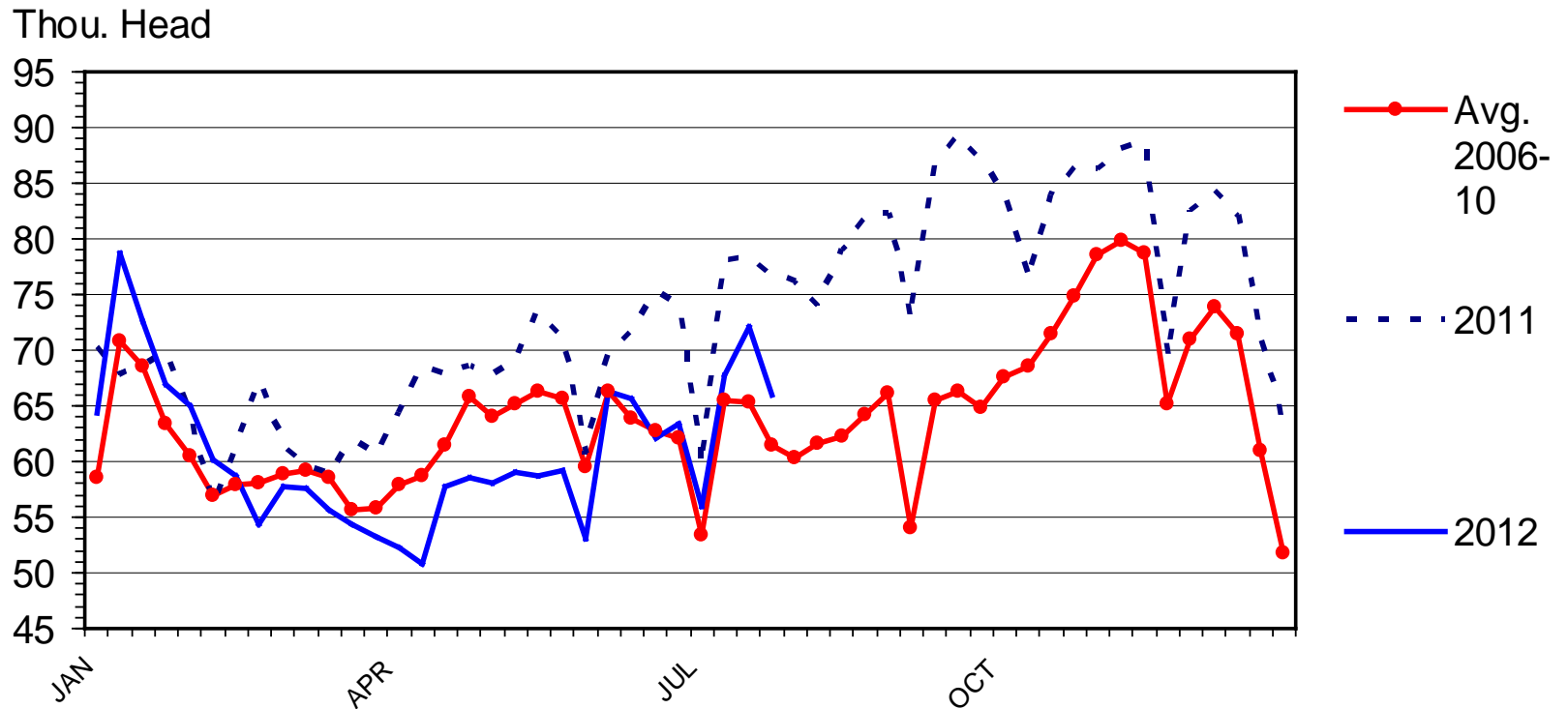
Livestock Marketing Information Center

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



# BEEF COW SLAUGHTER

## Federally Inspected, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS

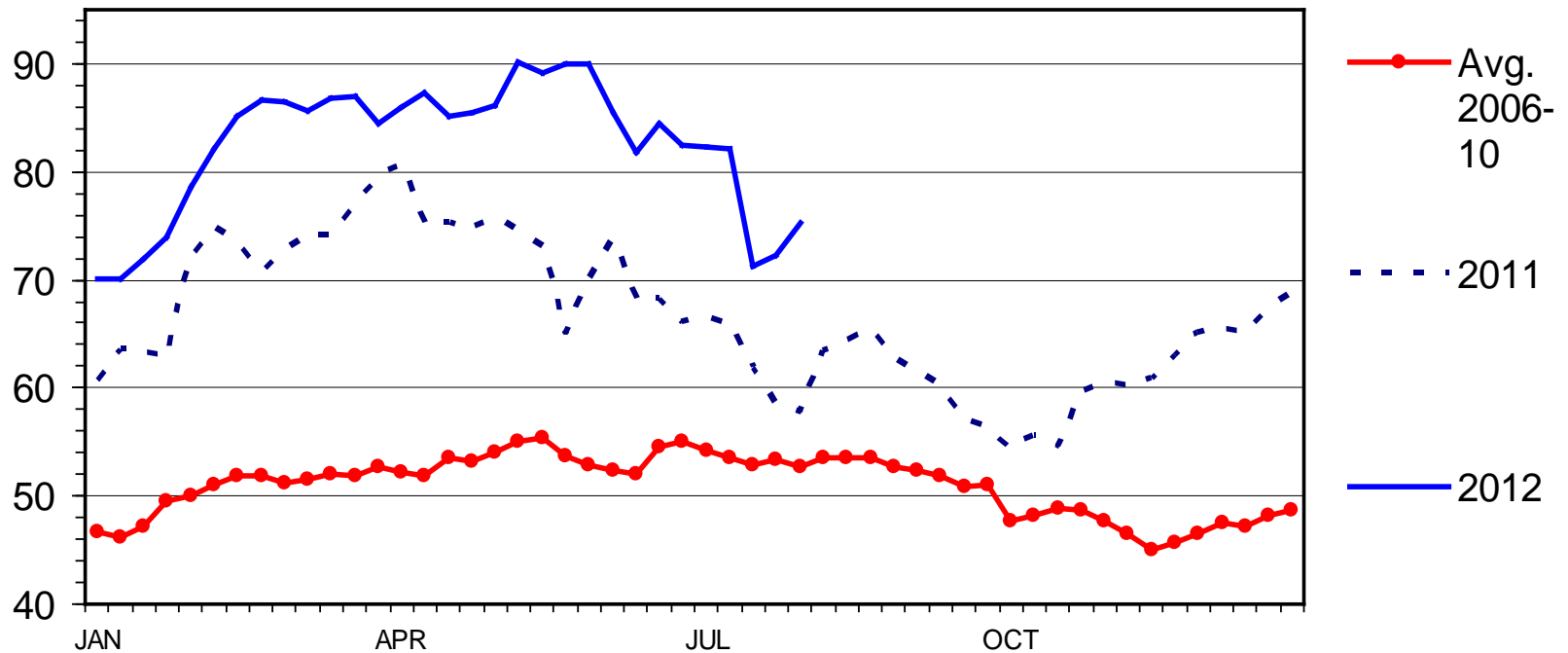
C-S-34  
08/10/12



# SLAUGHTER COW PRICES

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

\$ Per Cwt.



Livestock Marketing Information Center

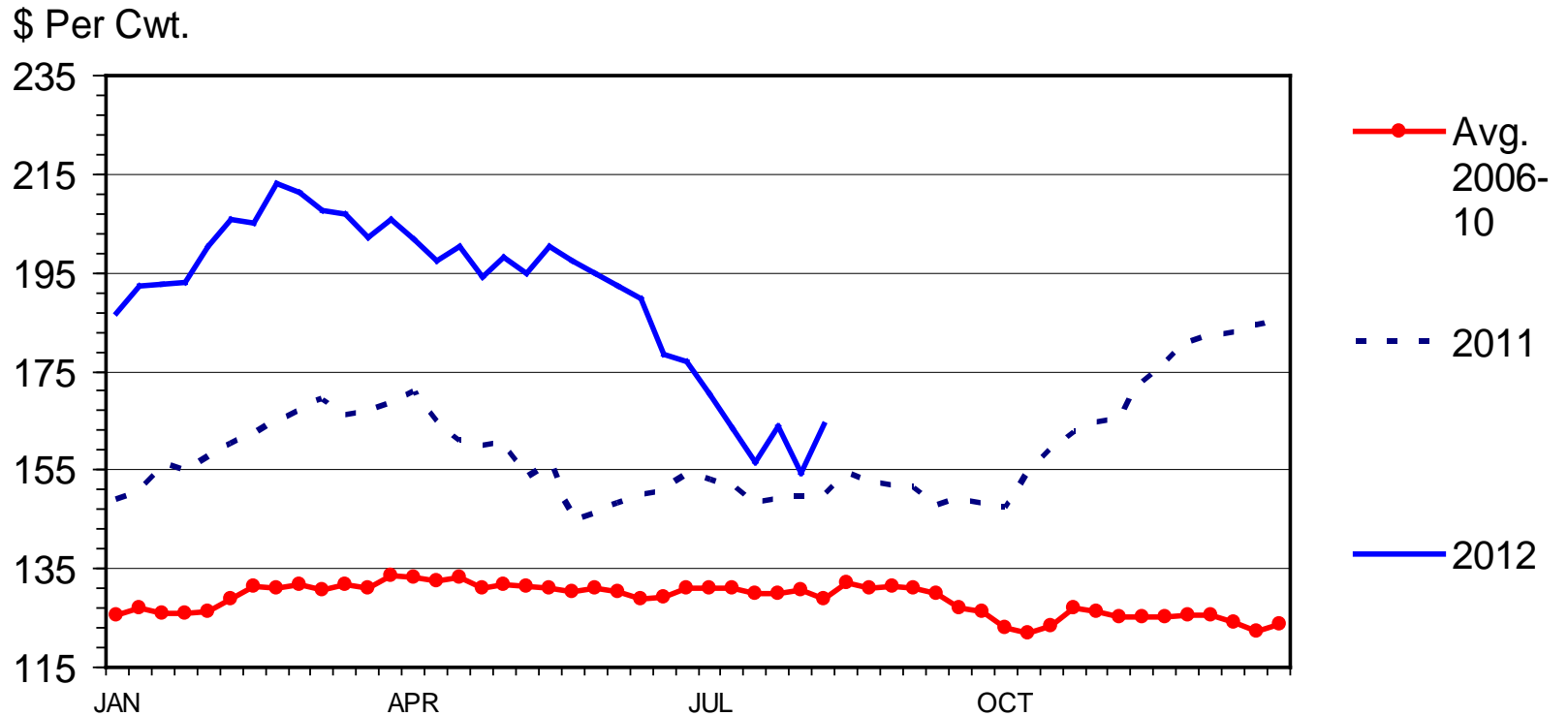
Data Source: USDA-AMS

C-P-35  
08/13/12



# 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  
08/13/12



# July 1 Cattle Inventory Report

- Report was eliminated and then reinstated for 2012; future is unknown ...
- Downsizing of herd continues (yr-on-yr changes)
  - Beef cows: -3% (900,000 hd)
  - Beef heifer replacements: 0% (was +1.4% in Jan.)
  - 2012 calf crop estimate: -2.3% (800,000 hd)
  - Feeder supplies outside feedlots: -3.2% (1.18 mil. Hd)



# Economic Outlook Overview :

## Stockers

- Margins have improved by fall in calf prices
  - Drought = weak basis = improved projected margins...
  - Recent increase in calf prices squeezing margins...
- Of course, not everyone has the necessary feedstuffs to successfully engage this fall/winter
  - Increased VOG = increased rewards for management
  - Pockets of “excess silage” resources = opportunity...





# “Buy-Sell” spreadsheet tool

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

- 8/16/12' Salina, KS Situation:
- BeefBasis.com forecasted price of 750 lb steer December 4, 2012 is \$146.71/cwt
- What is break-even purchase price of a 550 lb steer purchased on Sept. 4, 2012?
  - forecasted price is \$155.35/cwt
    - Up \$5 since last week...



# “Buy-Sell” spreadsheet tool

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

Purchase Weight <sup>1</sup>	Selling Price						
	\$140.71	\$142.71	\$144.71	\$146.71	\$148.71	\$150.71	\$152.71
	Breakeven Purchase Price <sup>2</sup>						
<b>450</b>	165.01	168.18	171.36	174.53	177.71	180.88	184.06
500	158.22	161.09	163.96	166.83	169.70	172.58	175.45
550	152.71	155.33	157.96	160.58	163.20	165.82	168.45
600	148.16	150.58	152.99	155.41	157.83	160.24	162.66
650	144.35	146.59	148.83	151.07	153.32	155.56	157.80
700	141.13	143.22	145.31	147.40	149.49	151.58	153.67
750	N/A	N/A	N/A	N/A	N/A	N/A	N/A

<sup>1</sup> Enter the minimum purchase weight you are willing to consider.

<sup>2</sup> Based on a feeding cost of gain of \$90/cwt.

Expected Return: +\$10.46/head [2.0 \* (\$160.58 - \$155.35)]

Feeding COG \$80 = +\$17.12/head Expected Return

Feeding COG \$100 = +\$3.80/head Expected Return

**COG of \$105 = +/- Breakeven (550 lbs to 750 lbs)**

**+ Exp. Returns with only 100 lb gains (550 lbs to 650 lbs) if COG < \$100**



# Economic Outlook Overview :

## Feedlots

- Excess capacity concerns remain...
  - Drought improves this initially, makes it worse over coming years...
  - Mexican feeder supplies may be drying up also...
- Forecasted losses persist...
  - Current closeouts are at historically high losses...
  - Elevated cost of gain

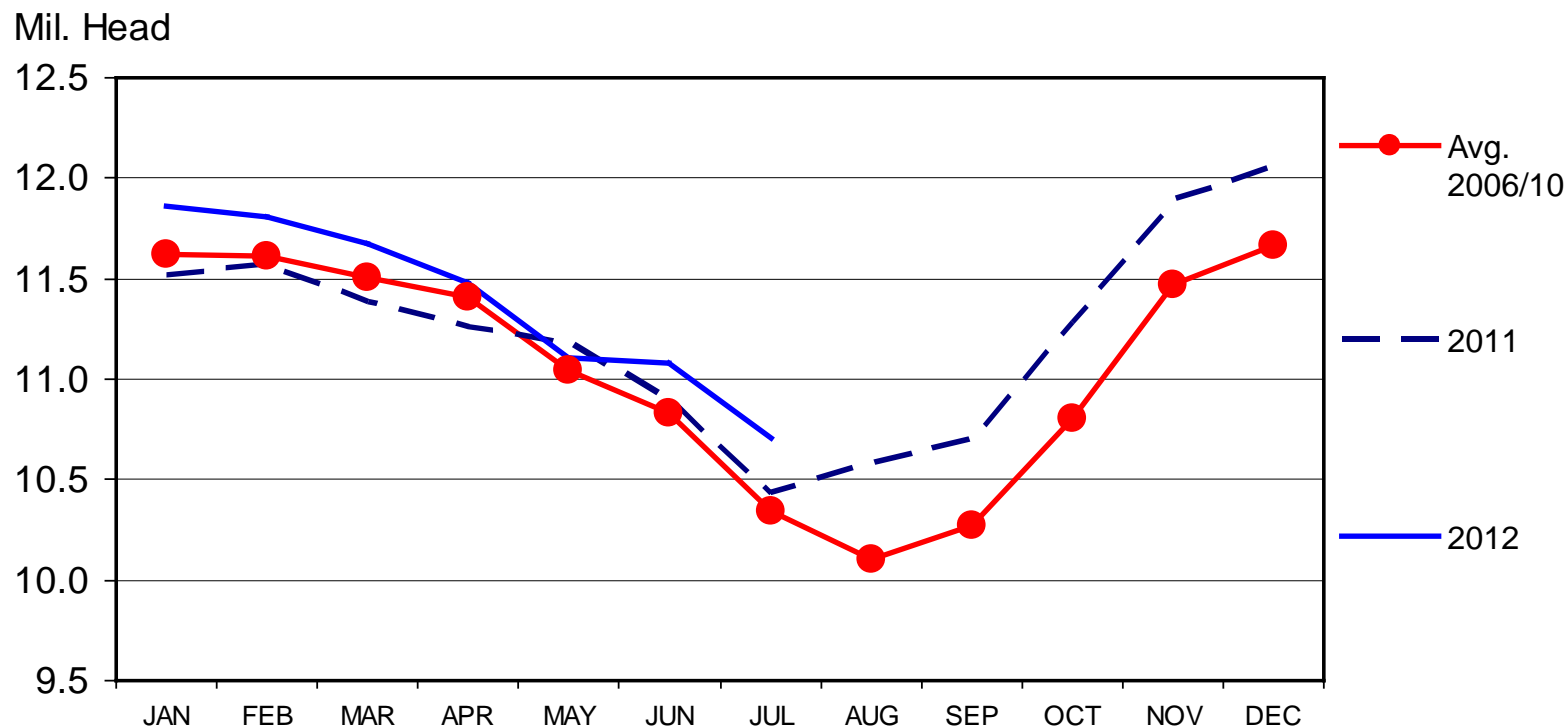


# Pre- 8/17 COF Report Estimates:

On Feed Aug 1 (up 0.7%) {-0.4% to +1.5%}

## CATTLE ON FEED

US Total, Monthly



Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-10  
07/20/12

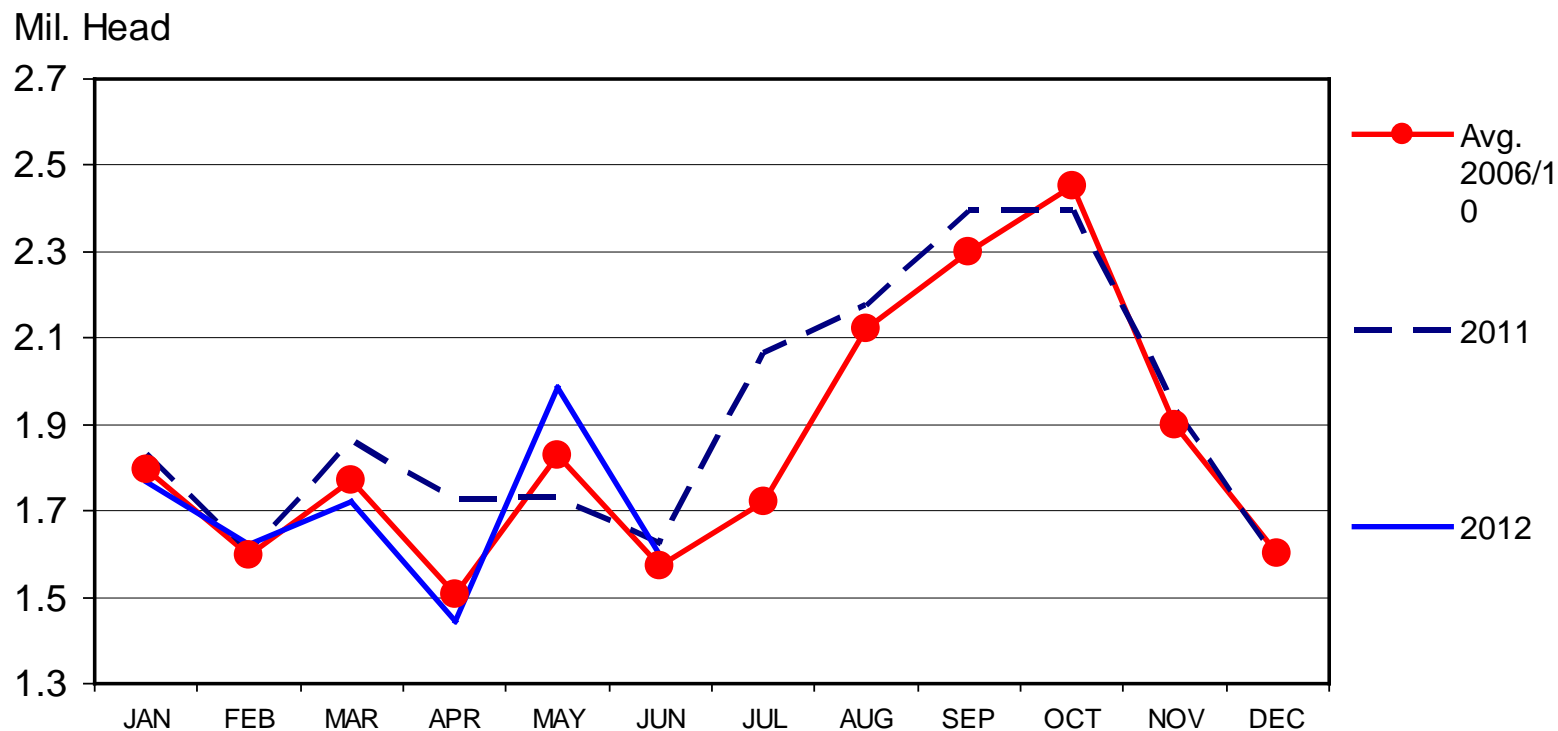


# Pre- 8/17 COF Report Estimates:

Placed in July (down 8.6%) {-13.3% to -1.0%}

## NET FEEDLOT PLACEMENTS

US Total, Monthly



Livestock Marketing Information Center

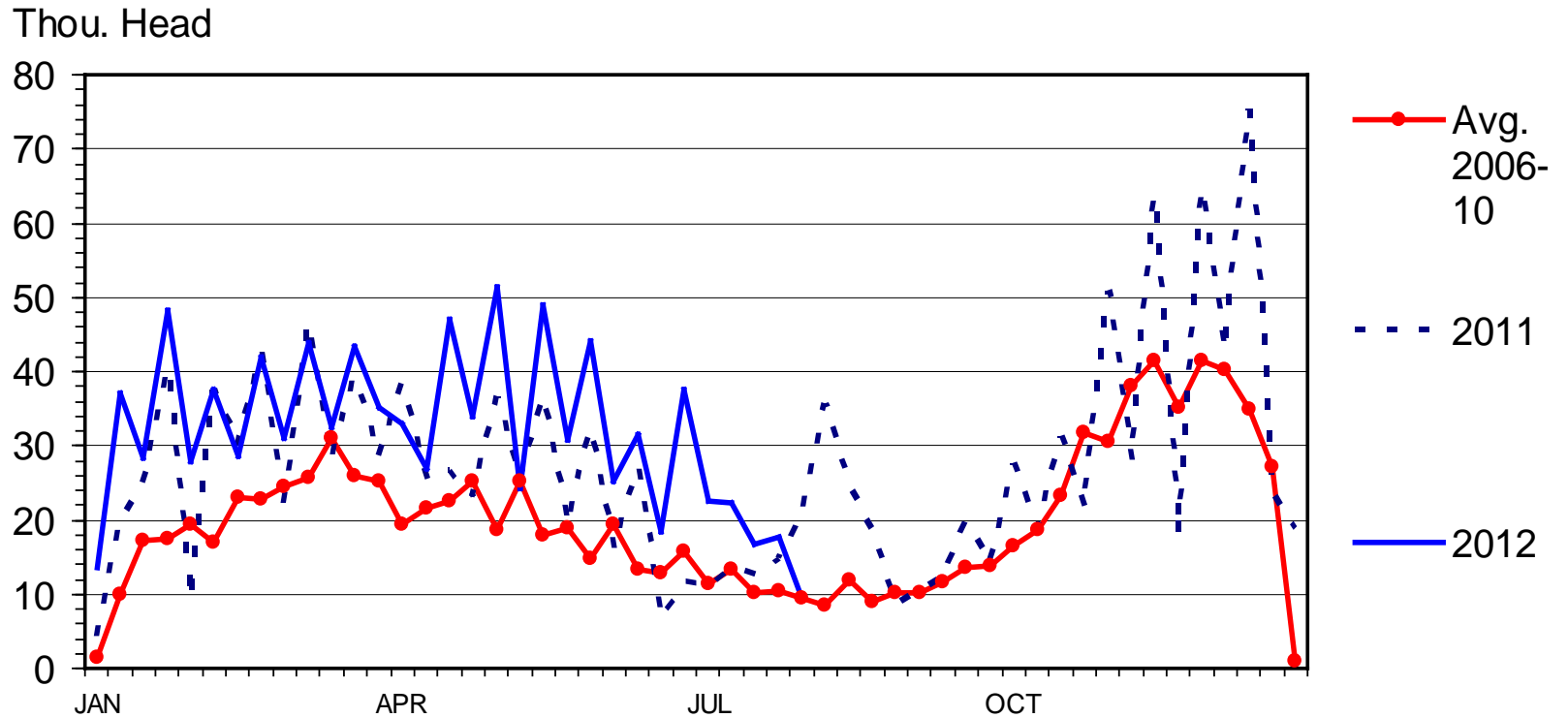
Data Source: USDA-NASS, Compiled & Analysis by LMIC

C-N-09  
07/20/12



# FEEDER CATTLE IMPORTS FROM MEXICO

## Weekly



Data Source: USDA-AMS & APHIS



# Historical and Projected Kansas Feedlot Net Returns (as of 8/6/12')

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

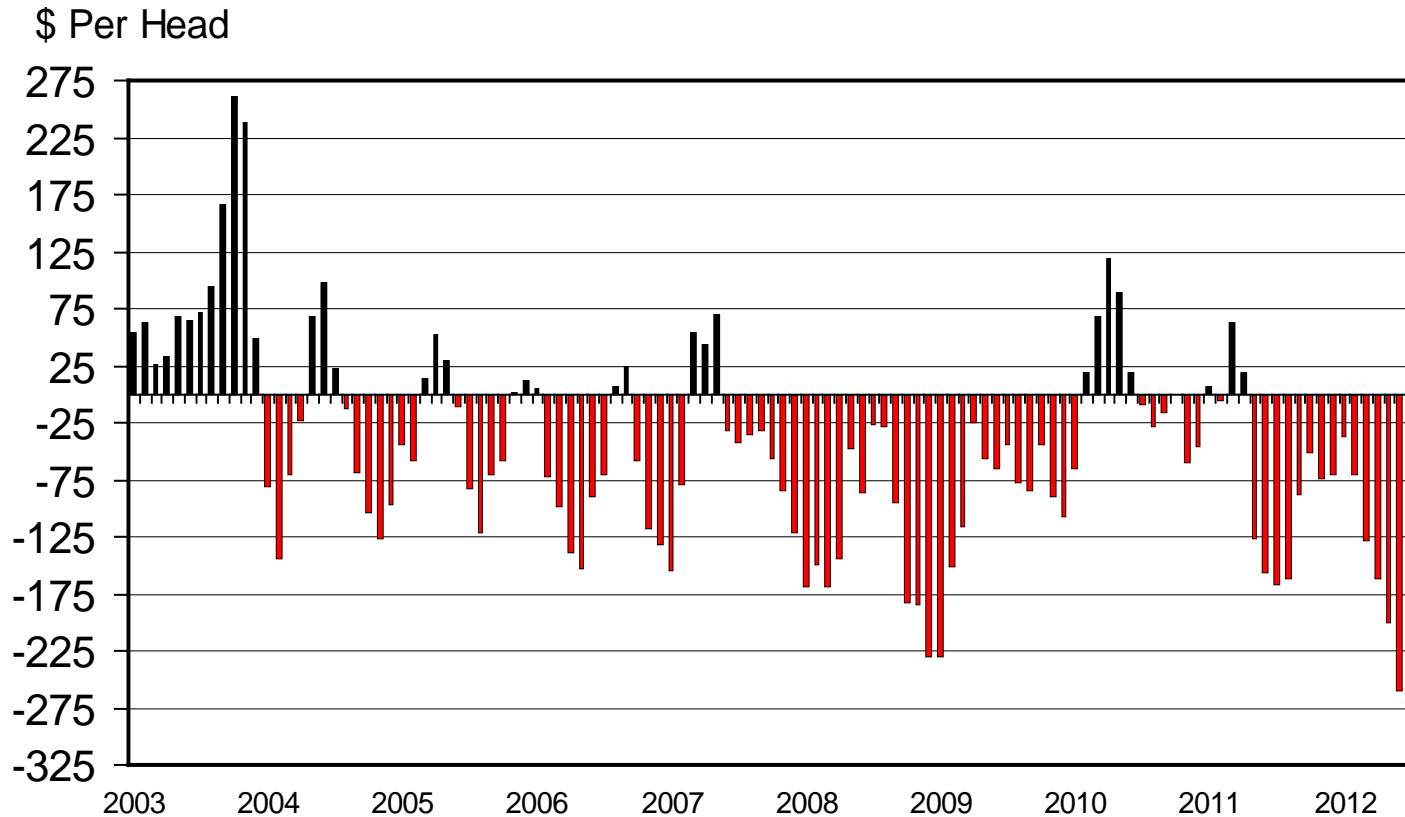
**Table 1. Projected Values for Finishing Steers in Kansas Feedyards\***

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Jul-12	-290.98	105.26	114.04	152.33	52.18	135.25	117.00
Aug-12	-200.17	106.71	123.32	155.03	70.08	137.78	131.14
Sep-12	-209.61	110.00	123.14	153.01	70.52	138.33	128.33
Oct-12	-150.02	110.37	127.29	153.27	83.01	138.12	135.35
Nov-12	-85.95	111.48	128.02	147.11	96.49	134.16	136.72
Dec-12	14.34	113.23	130.43	138.62	115.74	129.36	140.48



# AVERAGE RETURNS TO CATTLE FEEDERS

## Feeding 725 Lb. Steers, S. Plains, Monthly



Livestock Marketing Information Center

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

C-P-22  
08/01/12





# QUARTERLY FORECASTS (LMIC: 8/10/12)

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>2011</b>						
I	8,314	1.8	770.9	0.7%	6,410	2.6
II	8,640	-0.5	759.2	0.7%	6,559	0.2
III	8,738	-0.2	770.9	-0.3%	6,736	-0.5
IV	8,395	-3.0	773.1	-0.8%	6,490	-3.7
<b>Year</b>	<b>34,087</b>	<b>-0.5</b>	<b>768.5</b>	<b>0.1%</b>	<b>26,195</b>	<b>-0.4</b>
<b>2012</b>						
I	8,027	-3.5	782.7	1.5%	6,283	-2.0
II	8,311	-3.8	779.1	2.6%	6,475	-1.3
III	8,344	-4.5	787.2	2.1%	6,568	-2.5
IV	8,292	-1.2	784.0	1.4%	6,501	0.2
<b>Year</b>	<b>32,974</b>	<b>-3.3</b>	<b>783.2</b>	<b>1.9%</b>	<b>25,826</b>	<b>-1.4</b>
<b>2013</b>						
I	7,747	-3.5	783.7	0.1%	6,071	-3.4
II	7,985	-3.9	778.8	0.0%	6,219	-4.0
III	8,130	-2.6	792.9	0.7%	6,446	-1.9
IV	7,801	-5.9	793.1	1.2%	6,187	-4.8
<b>Year</b>	<b>31,663</b>	<b>-4.0</b>	<b>787.1</b>	<b>0.5%</b>	<b>24,923</b>	<b>-3.5</b>
<b>2014</b>						
I	7,321	-5.5	792.5	1.1%	5,802	-4.4
II	7,570	-5.2	785.6	0.9%	5,947	-4.4
III	7,709	-5.2	802.0	1.2%	6,183	-4.1
IV	7,321	-6.2	802.2	1.1%	5,873	-5.1
<b>Year</b>	<b>29,921</b>	<b>-5.5</b>	<b>795.6</b>	<b>1.1%</b>	<b>23,805</b>	<b>-4.5</b>



# QUARTERLY FORECASTS (LMIC: 8/10/12)

Year Quarter	Live Sltr. Steer Price	% Chg. from	Feeder Steer Price Southern Plains	
	5-Mkt Avg	Year Ago	7-800#	5-600#
<b>2011</b>				
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
<b>Year</b>	<b>114.74</b>	<b>20.3</b>	<b>135.04</b>	<b>148.37</b>
<b>2012</b>				
I	125.29	13.8	154.25	182.41
II	120.91	7.2	152.65	178.65
III	118-119	3.9	138-141	141-144
IV	122-124	0.8	137-140	140-145
<b>Year</b>	<b>121-123</b>	<b>6.3</b>	<b>144-148</b>	<b>159-164</b>
<b>2013</b>				
I	125-128	1.0	137-141	147-152
II	126-130	5.9	141-147	154-160
III	124-129	6.8	145-152	158-165
IV	126-132	4.9	146-153	158-166
<b>Year</b>	<b>126-129</b>	<b>4.5</b>	<b>143-147</b>	<b>155-160</b>
<b>2014</b>				
I	130-137	5.5	152-160	172-181
II	132-140	6.3	155-165	175-187
III	130-139	6.3	156-167	171-184
IV	132-142	6.2	154-166	168-183
<b>Year</b>	<b>132-138</b>	<b>5.9</b>	<b>156-163</b>	<b>174-181</b>



# 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...

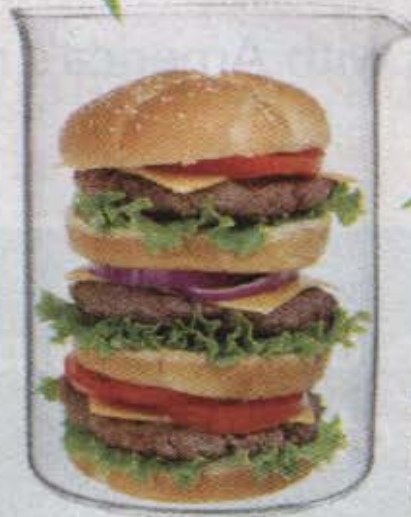


Yuck...

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.



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

## SOCIAL MEDIA

# Man-Made Meat

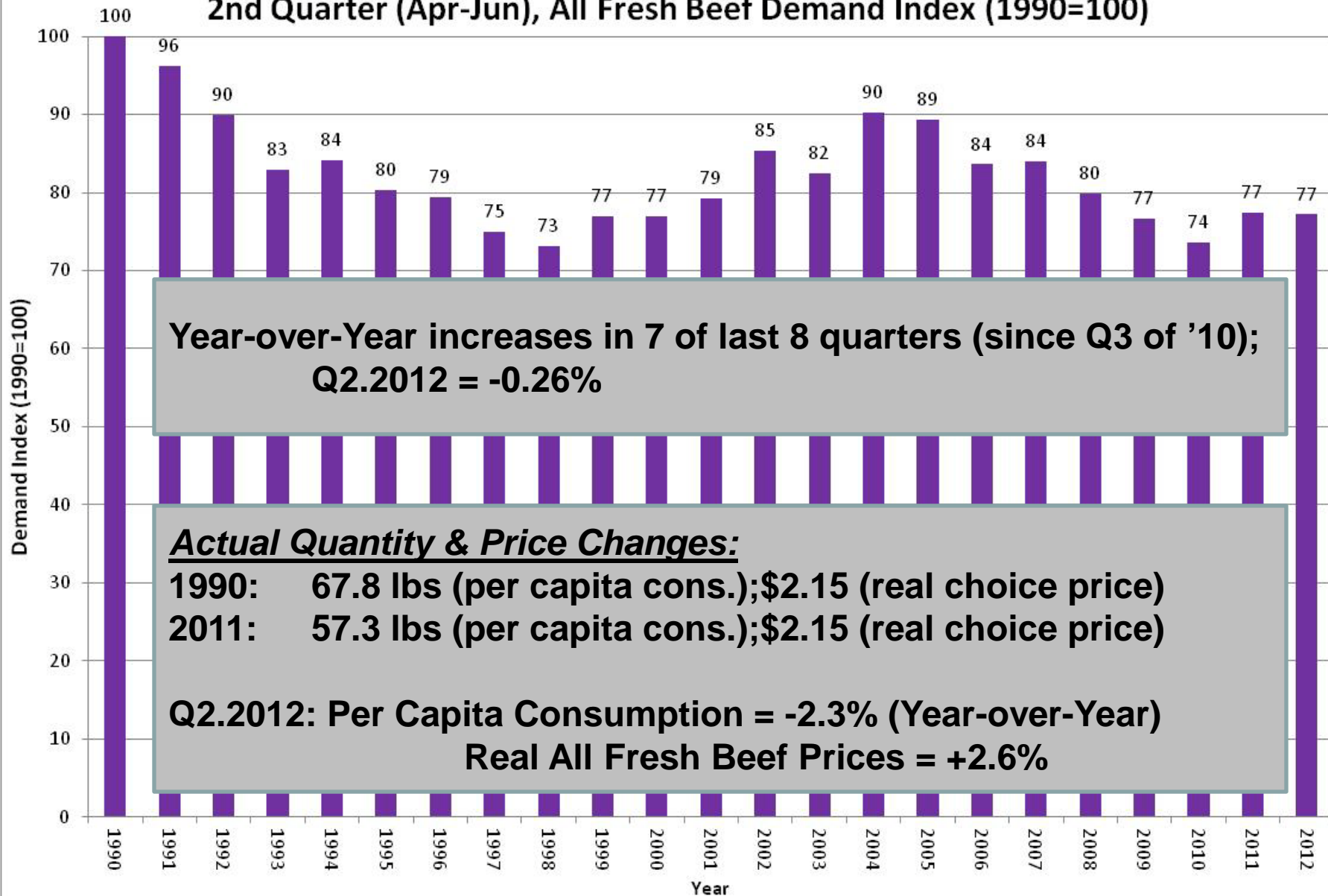
A TIME.com piece on the world's first lab-grown burger, to be served in 2012, got our Google+ followers so riled up that they maxed out the site's 500-comment limit, with many answering our question, Would you eat test-tube meat?

Source: March 12, 2012 TIME magazine





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



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



# Big Picture Points of Consideration

- 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

## – How would a current survey look?

- *What expected profit is needed to trigger cow-calf expansion?*
  - *Is recent profit or expected profit more influential in decision?*
- *When, where, how will excess capacity begin to be resolved?*



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

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

- “Developing World” Changes
  - Increasing global \$, pop., & per capita meat cons.
  - Africa & Middle East (4.4% GDP/yr)
    - Arguably the least understood growth market...
  - Latin America (4.2% GDP/yr)
    - Growing producer & consumer...
  - China (8.0% GDP/yr)
    - Canada has access but US does not ...
  - South Korea (3.7% GDP/yr – but 10x per capita inc. of China)
    - US has access but Canada does not...



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

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

- “Developed World” Changes
  - Declining global economic prevalence, populations, & per capita meat consumption
  - US/Canada (2.5% GDP/yr)
    - Different dependence on domestic consumption...
  - Japan (1.0% GDP/yr):
    - Major meat importer currently but will exporters care less going forward?
  - Europe (1.9% GDP/yr):
    - Will influential role as “food thought leader” persist?





# Wrap-up Thoughts

- Critical questions:
  - Do you have a comparative advantage?
    - Cost min vs. differentiation perspectives...
  - Can you embrace “the new normal” ?
    - Industry is down-sizing and changing rapidly...
- I encourage you to:
  - Recognize this “isn’t your father’s world” anymore and manage accordingly...
  - “Think globally, manage locally, and stay informed”



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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# K-State Decision Aides: Cattle Price Oriented

(<http://www.agmanager.info/Tools/default.asp>)

- Expectations on Future Cash Prices
  - <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

(<http://www.agmanager.info/Tools/default.asp>)

- NPV of Beef Replacements
  - *“KSU-Beef Replacements”*
- Beef Cow Lease Agreements
  - *“KSU-CowLease”*
- Determining Flint Hills Pasture Rents
  - *“KSU-Graze.xls”*





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WEBINAR

**Beef-Cattle Economics**

## Beef-Cattle Economics webinar series

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

**2012 schedule (all webinars begin at 1:30 CST)**

**February 7**

**May 1**

**August 7**

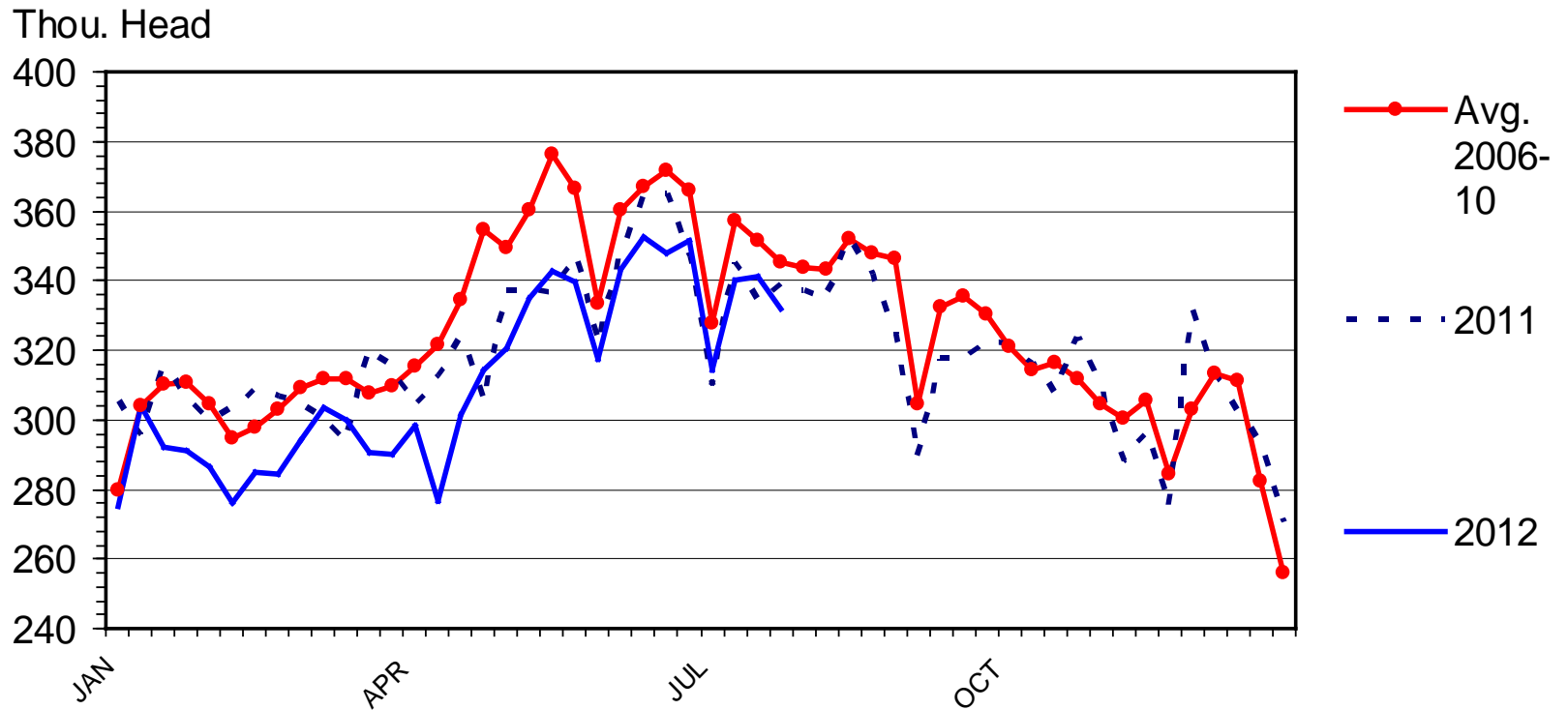
**November 6**

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



# STEER SLAUGHTER

## Federally Inspected, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS

C-S-17  
08/10/12

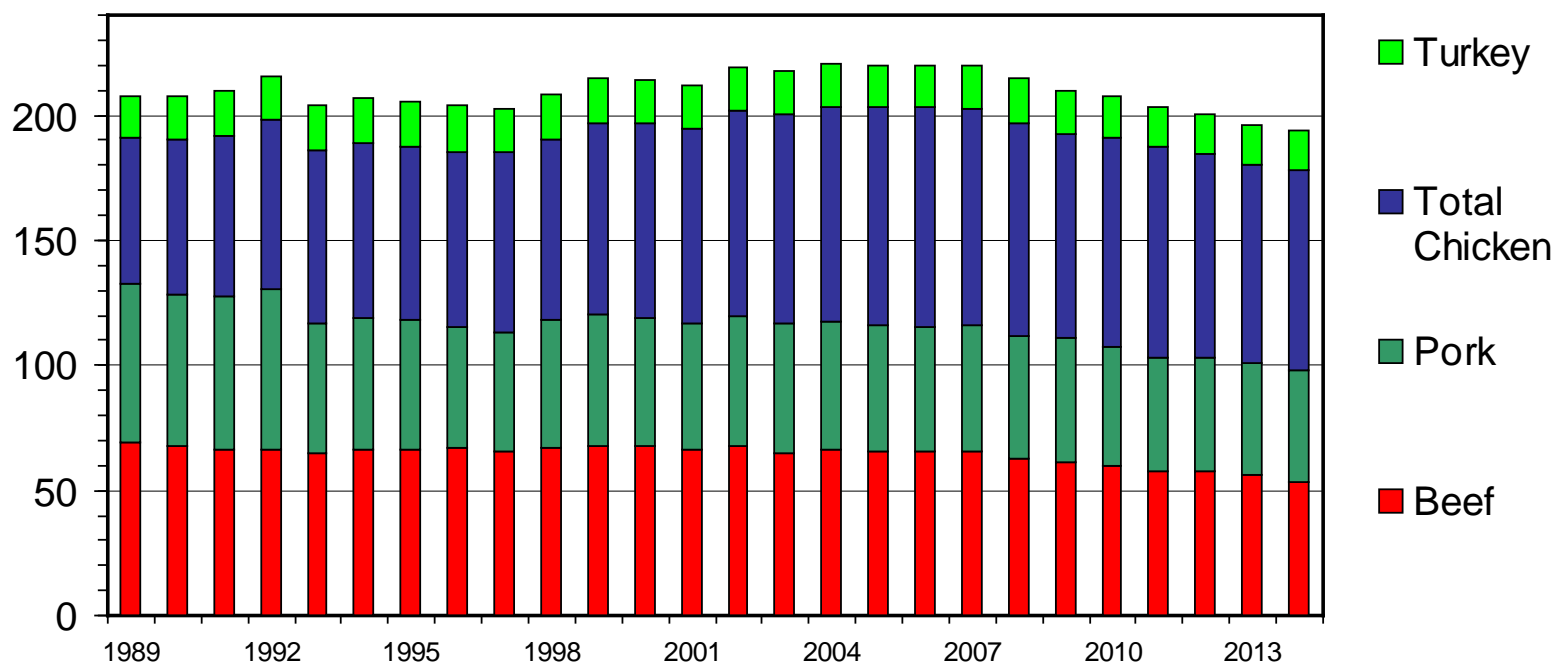




# U S RED MEAT & POULTRY CONSUMPTION

## Per Capita, Retail Weight, Annual

Pounds

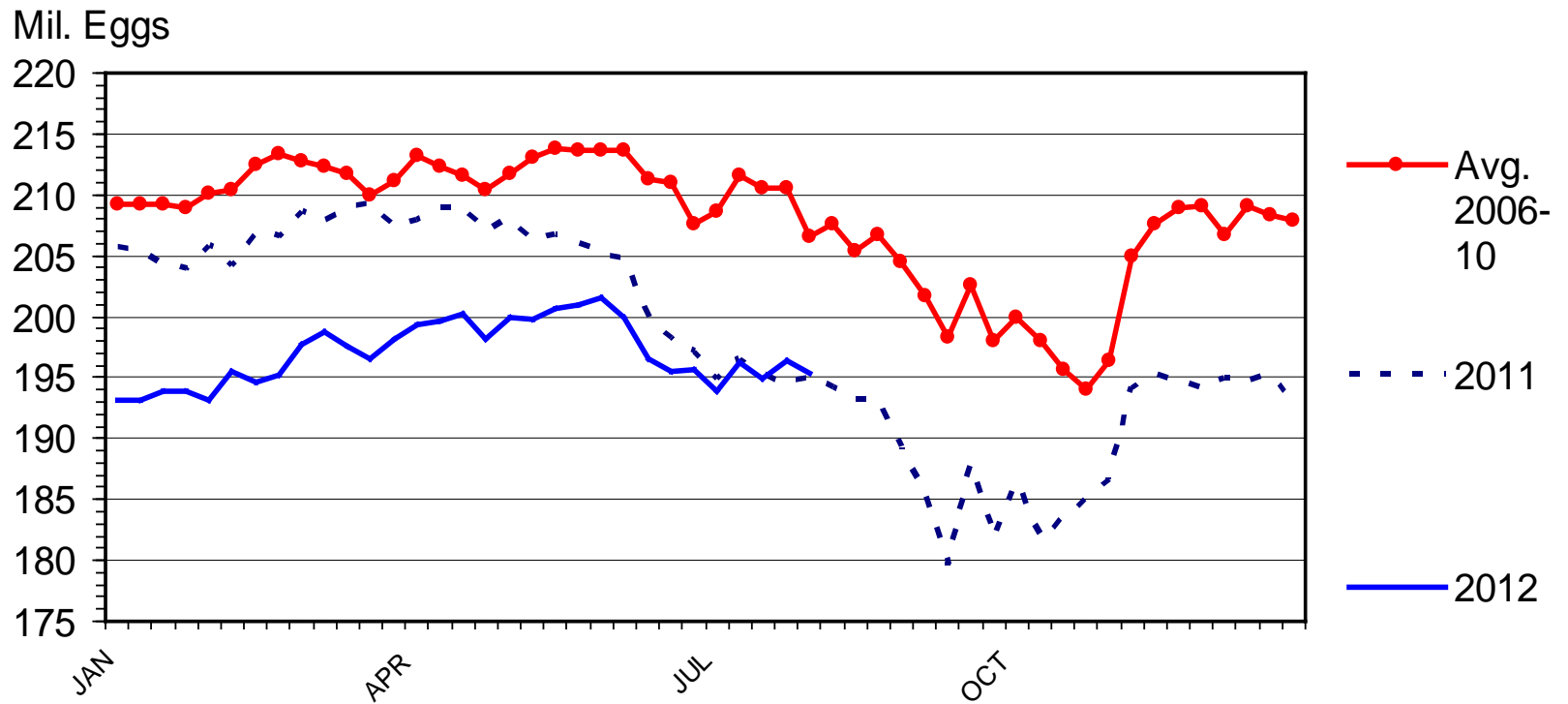


Data Source: USDA-NASS and ERS, Forecasts by LMIC



# BROILER EGGS SET

## Weekly

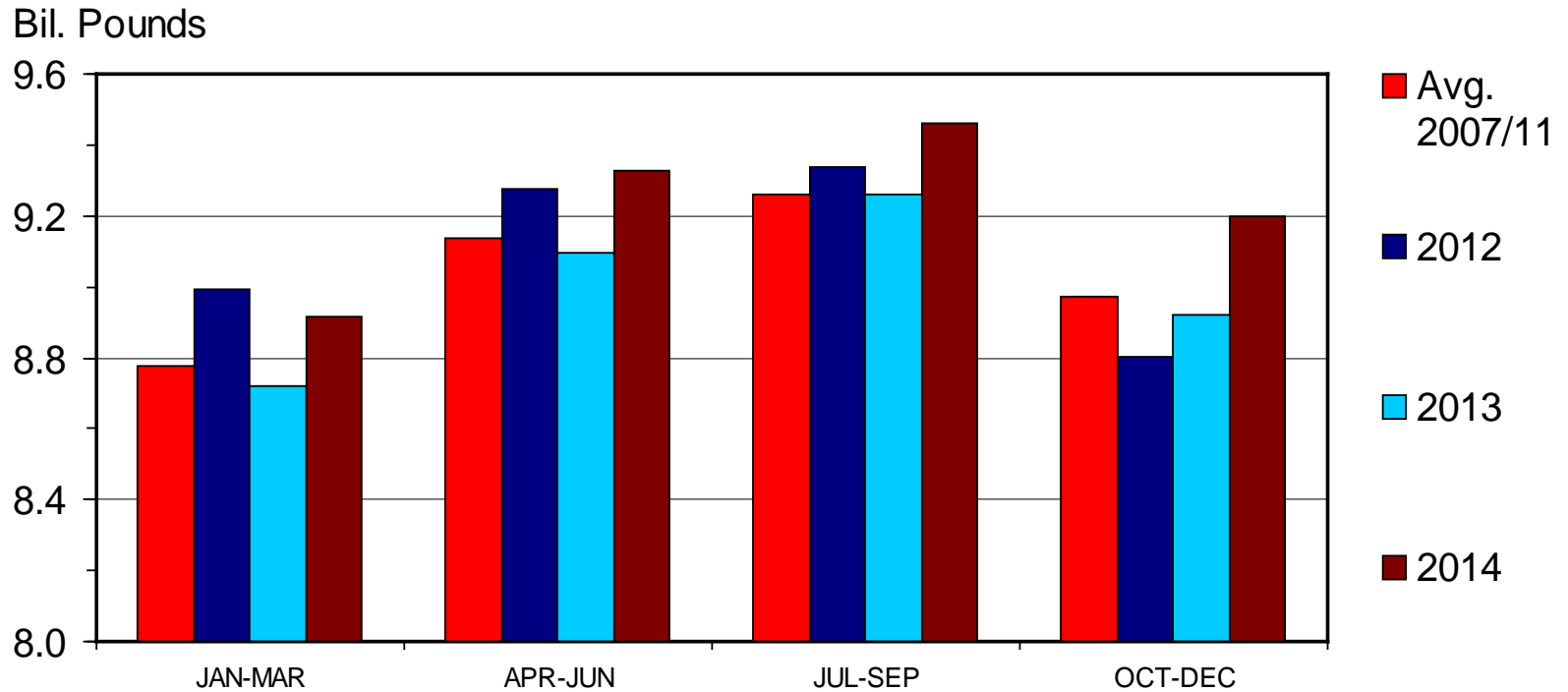


Data Source: USDA-NASS



# RTC BROILER PRODUCTION

## Quarterly

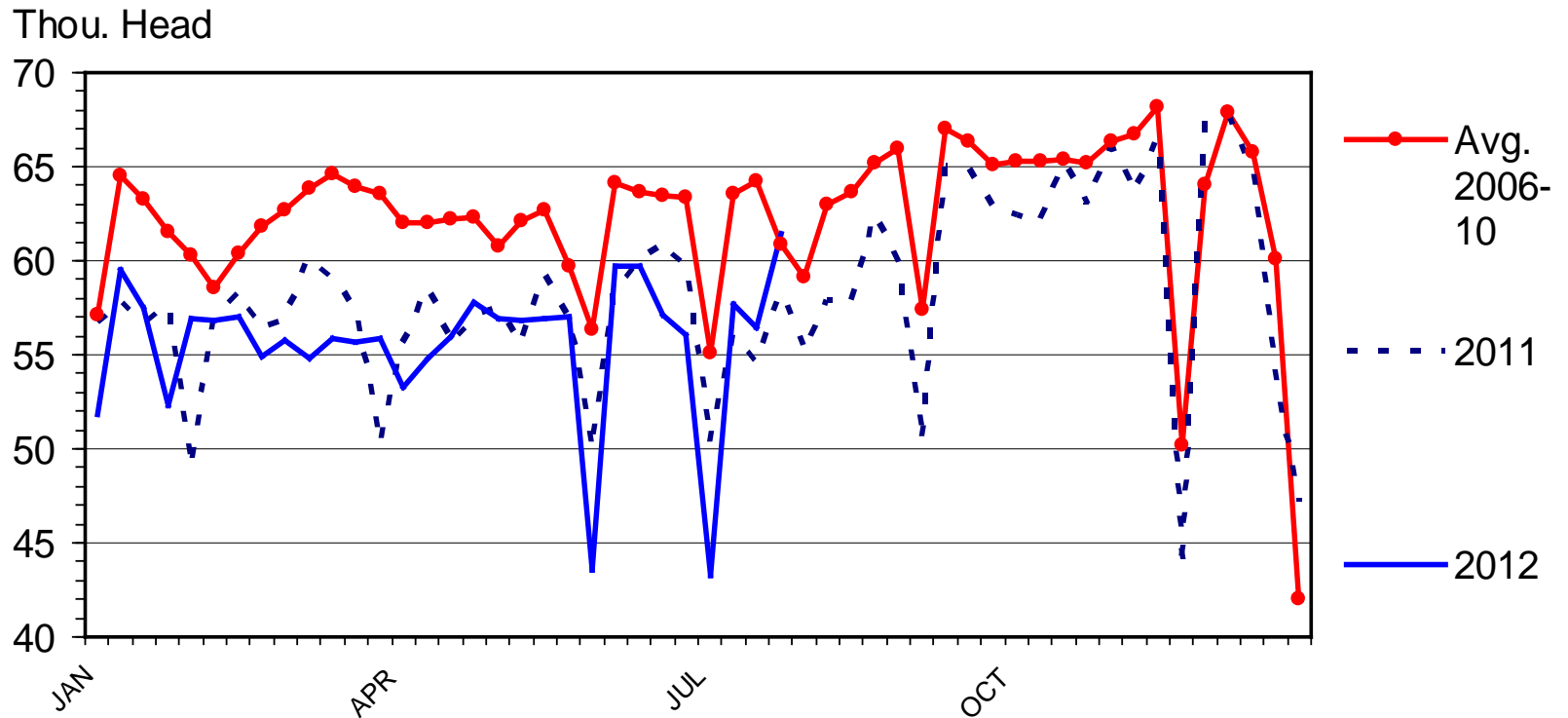


Data Source: USDA-NASS, Forecasts by LMIC



# SOW SLAUGHTER

## Federally Inspected, Weekly

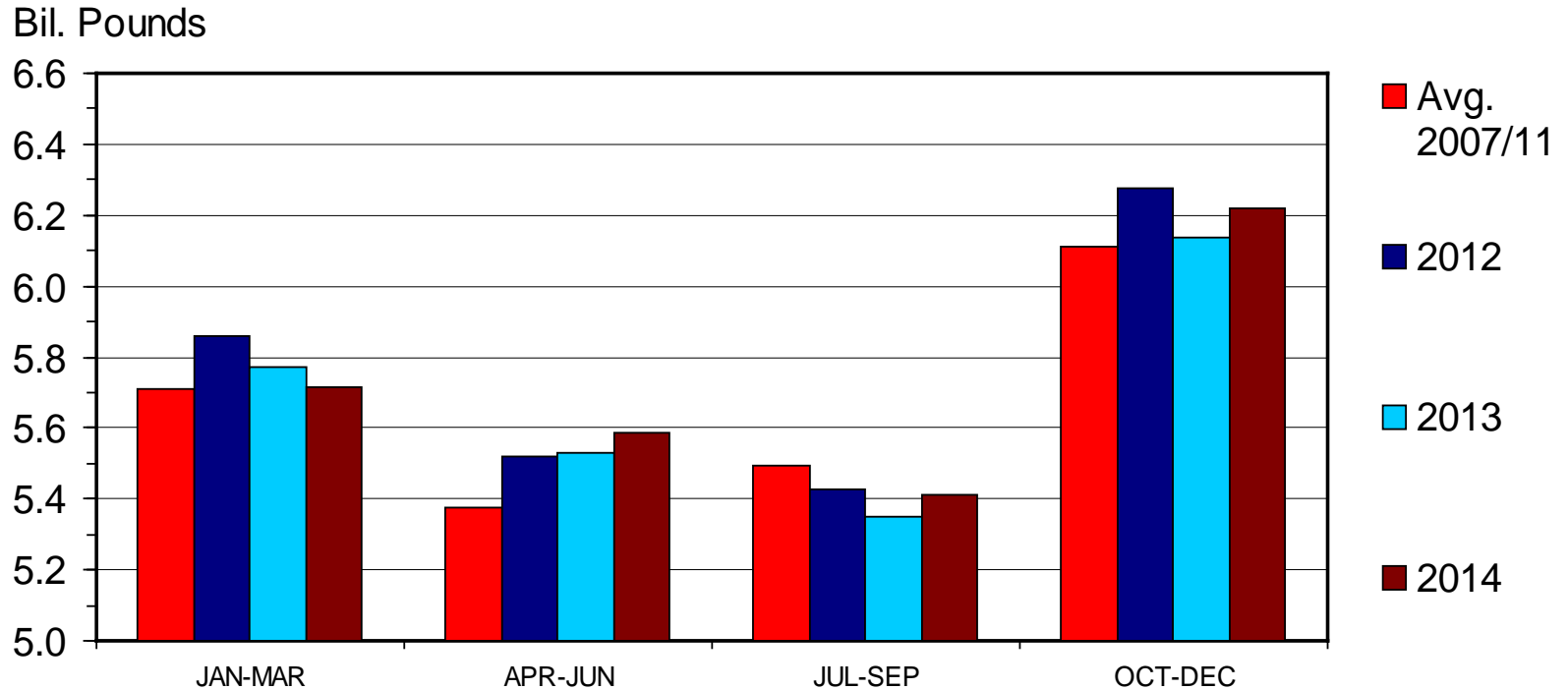


Data Source: USDA-NASS



# COMMERCIAL PORK PRODUCTION

## Quarterly



Data Source: USDA-NASS, Forecasts by LMIC



# QUARTERLY FORECASTS (LMIC: 8/10/12)

Year	Comm'l	% Chg.	Average	% Chg.	Comm'l	% Chg.
Quarter	Slaughter	from	Carcass	from	Pork	from
		Year Ago	Weight	Year Ago	Production	Year Ago
<b>2011</b>						
I	27,483	-0.5	208	2.3	5,719	2.0
II	26,110	0.1	206	1.0	5,370	1.3
III	27,379	1.7	201	-0.2	5,484	1.5
IV	29,888	0.9	207	0.0	6,186	1.0
<b>Year</b>	<b>110,860</b>	<b>0.5</b>	<b>206</b>	<b>0.8</b>	<b>22,758</b>	<b>1.4</b>
<b>2012</b>						
I	28,104	2.3	209	0.2	5,858	2.4
II	26,659	2.1	207	0.6	5,519	2.8
III	27,172	-0.8	200	-0.4	5,429	-1.0
IV	30,603	2.4	205	-1.0	6,279	1.5
<b>Year</b>	<b>112,538</b>	<b>1.5</b>	<b>205</b>	<b>-0.2</b>	<b>23,084</b>	<b>1.4</b>
<b>2013</b>						
I	27,974	-0.5	206	-1.1	5,770	-1.5
II	26,801	0.5	205	-1.1	5,495	-0.4
III	26,738	-1.6	198	-0.9	5,294	-2.5
IV	29,771	-2.7	206	0.2	6,120	-2.5
<b>Year</b>	<b>111,284</b>	<b>-1.1</b>	<b>204</b>	<b>-0.7</b>	<b>22,679</b>	<b>-1.8</b>
<b>2014</b>						
I	27,666	-1.1	207	0.2	5,717	-0.9
II	27,021	0.8	205	0.2	5,552	1.0
III	26,892	0.6	198	0.2	5,336	0.8
IV	30,097	1.1	206	0.4	6,210	1.5
<b>Year</b>	<b>111,676</b>	<b>0.4</b>	<b>204</b>	<b>0.2</b>	<b>22,814</b>	<b>0.6</b>



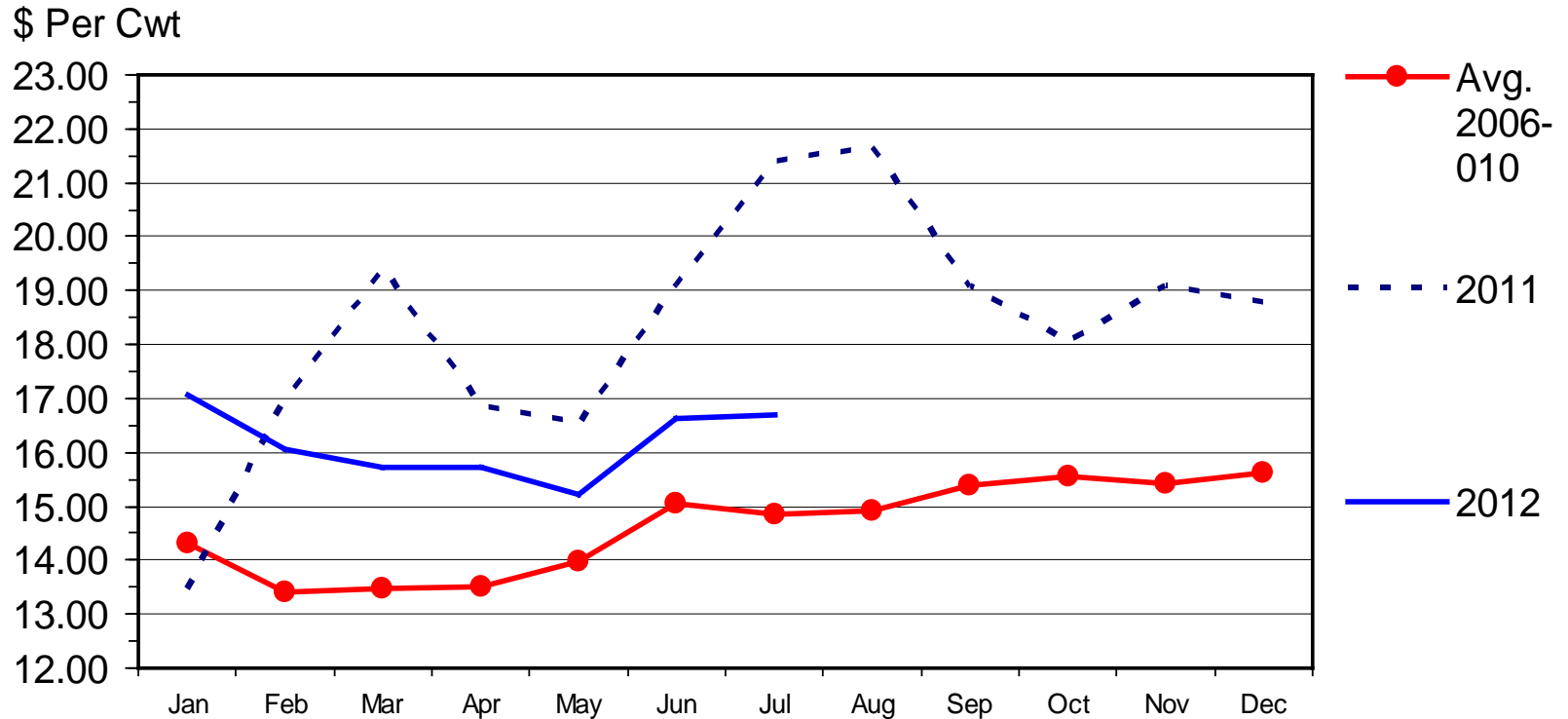
# QUARTERLY FORECASTS (LMIC: 8/10/12)

Year	Per Capita	% Chg.	Prices	% Chg.
Quarter	Consumption	from	National Wtd	from
		Year Ago	Avg Base	Year Ago
2011				
I	10.72680593	-3.587238437	78.38280297	18.9281628
II	10.40752424	-2.60745431	89.4931746	16.1658363
III	10.32113306	-6.362109999	92.71182022	18.5489147
IV	11.50869566	-4.508911808	85.02873016	26.3389646
<b>Year</b>	<b>42.96415889</b>	<b>-4.282851573</b>	<b>86.40413199</b>	<b>19.8166763</b>
2012				
I	10.44139129	-2.660760707	84.1147619	7.31277617
II	10.28524702	-1.17489244	85.30696248	-4.67768871
III	10.36711432	0.4455058989-94		-1.30708276
IV	11.93163497	3.67495431482-87		-0.6218253
<b>Year</b>	<b>43.0253876</b>	<b>0.14251113585-88</b>		<b>0.58139535</b>
2013				
I	10.47372655	0.30968345582-88		1.05241705
II	10.13089214	-1.50074066886-92		4.32911618
III	9.822844647	-5.24996305291-96		2.18579235
IV	11.52404905	-3.41601065380-86		-1.77514793
<b>Year</b>	<b>41.95151239</b>	<b>-2.49591061585-91</b>		<b>1.73410405</b>
2014				
I	10.22860287	-2.34036737682-91		1.76470588
II	10.15749493	0.2625907986-96		2.24719101
III	9.872831338	0.50888202889-97		-0.53475936
IV	11.58901334	0.56372801777-88		-0.60240964
<b>Year</b>	<b>41.84794248</b>	<b>-0.24688002884-93</b>		<b>0.56818182</b>



# CLASS III MILK PRICES

## FMMO, Monthly



Data Source: USDA-AMS

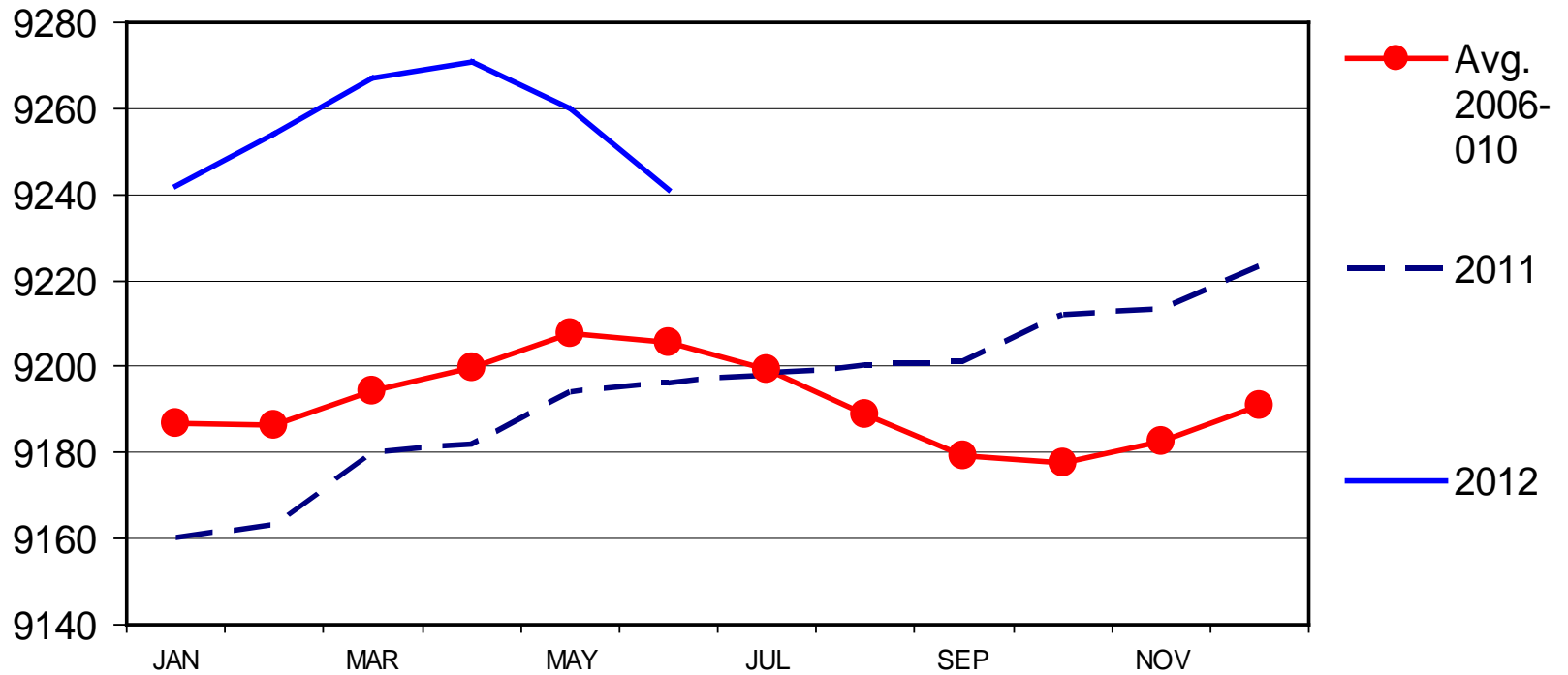




# DAIRY COW INVENTORY

## US Total, Monthly

Thou Head

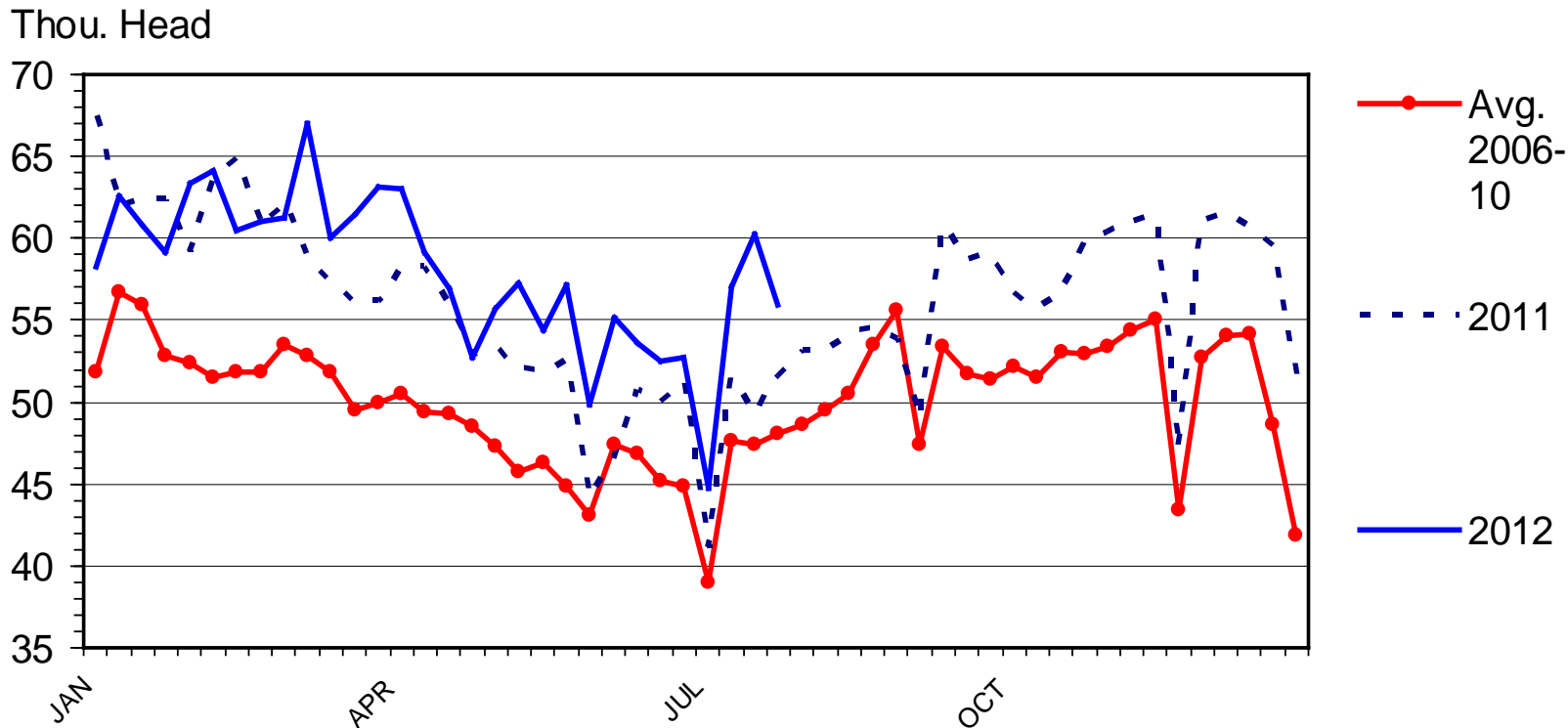


Data Source: USDA-NASS



# DAIRY COW SLAUGHTER

## Federally Inspected, Weekly

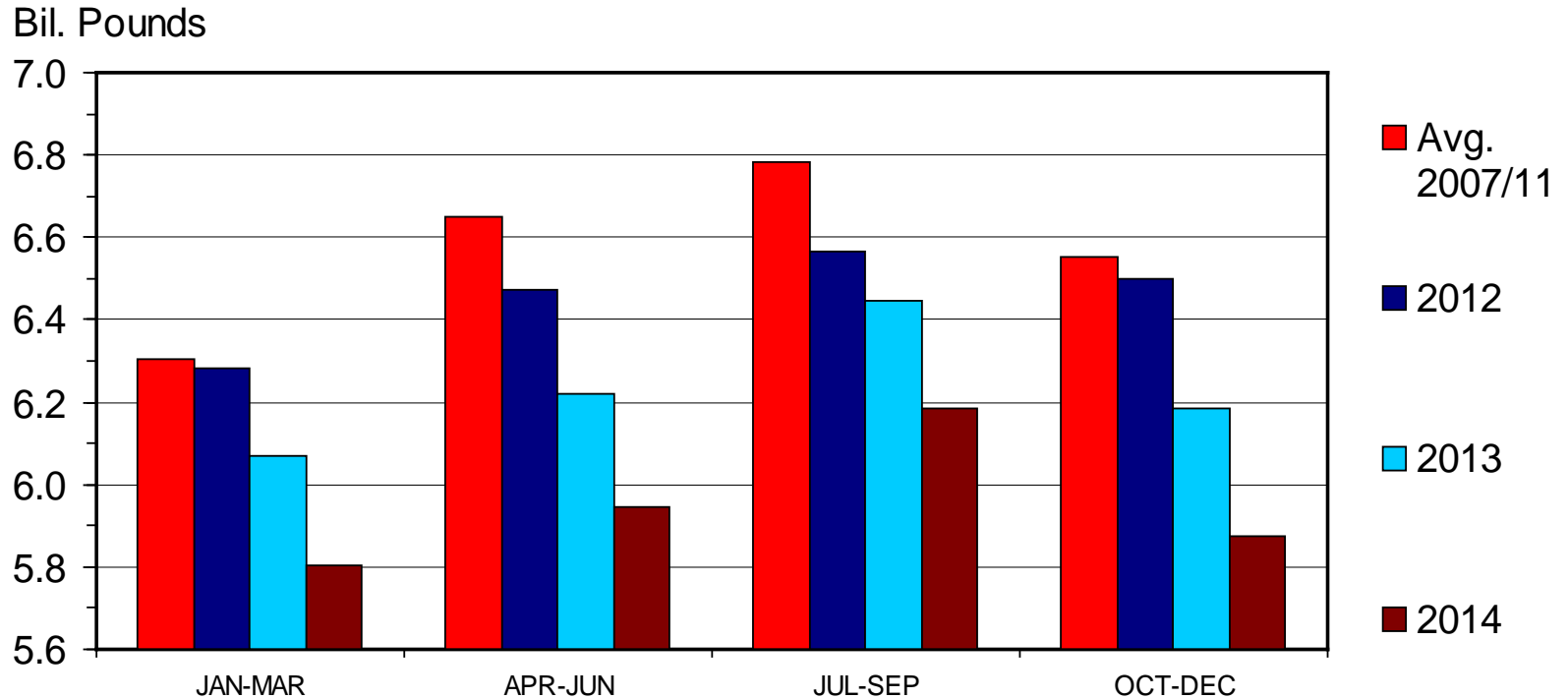


Data Source: USDA-NASS



# COMMERCIAL BEEF PRODUCTION

## Quarterly

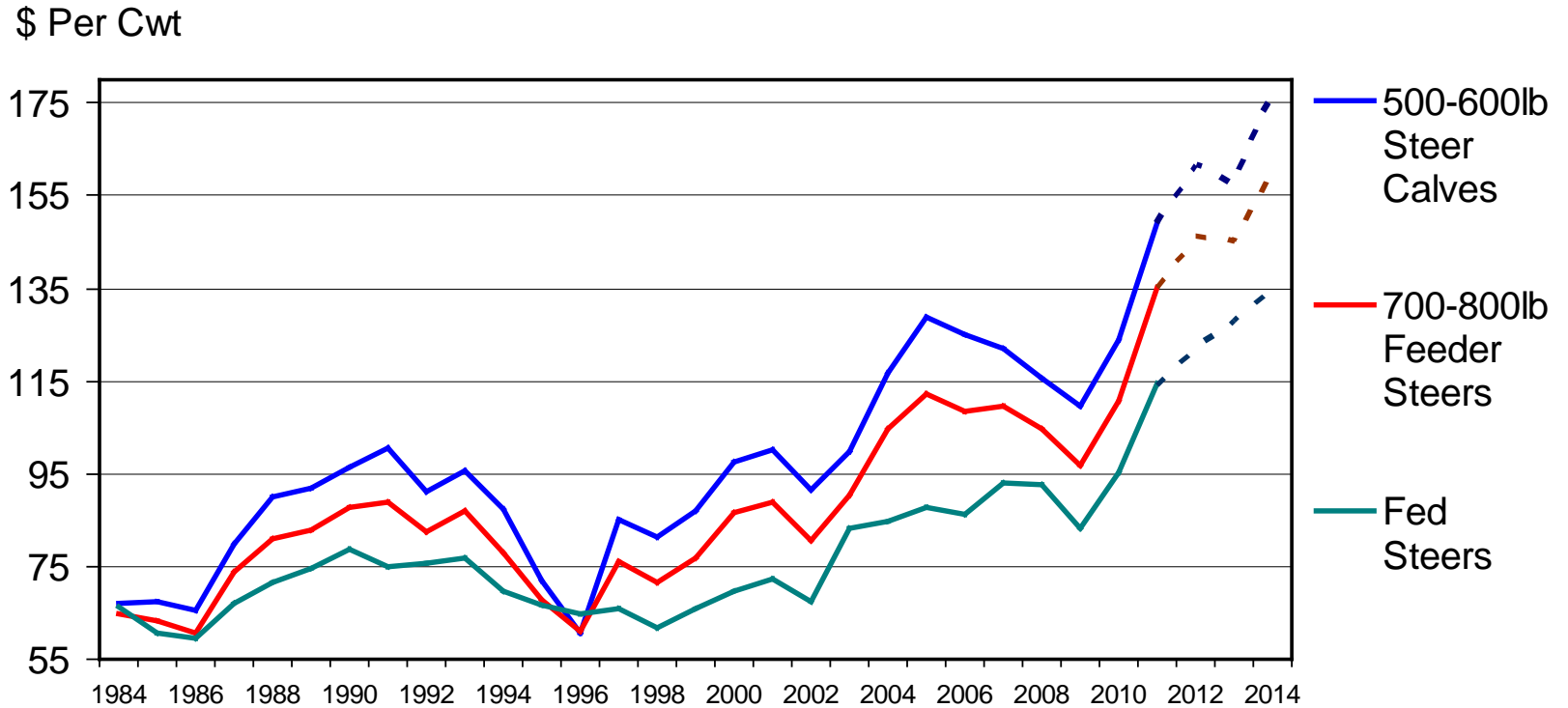


Data Source: USDA-NASS, Forecasts by LMIC



# ANNUAL AVERAGE CATTLE PRICES

## Southern Plains



Data Source: USDA-AMS, Forecasts by LMIC

