



Beef Cattle Outlook & Role of Producer Expectations in Buying Decisions

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Overarching Beef Industry Economic Outlook

➤ Supplies

– Commercial Beef Prod.
Up, Increases
Moderating

- +6.4% in 2016
- +3.8% in 2017
- +3.3% in 2018 (?)
- +1.7% in 2019 (?)
- +0.8% in 2020 (?)



Overarching Beef Industry Economic Outlook

➤ Supplies

- Commercial Beef Production Up, Increases Moderating

➤ Demand

- **Key to surprising prices in 2018**

Overarching Beef Industry Economic Outlook

- Demand Illustration: Q3.2018
 - Production +2%
 - Yearling Prices +1%
 - Calf Prices +2%
 - ❖ *Exports are key & yet ongoing arena of uncertainty*

All-Fresh Beef Retail Demand Index

(Quarterly, Price-Index Approach, 1990=100)

Q2.2018: +0.4%

vs. Q2.2017

<http://agmanager.info/livestock-meat/meat-demand>

Assessing Beef Demand Determinants

Glynn T. Tonsor, Jayson L. Lusk, and Ted C. Schroeder

Checkoff Program Update
February 1, 2018

Presentation at 2018 Cattle Industry Convention
Phoenix, AZ

Full Project Report

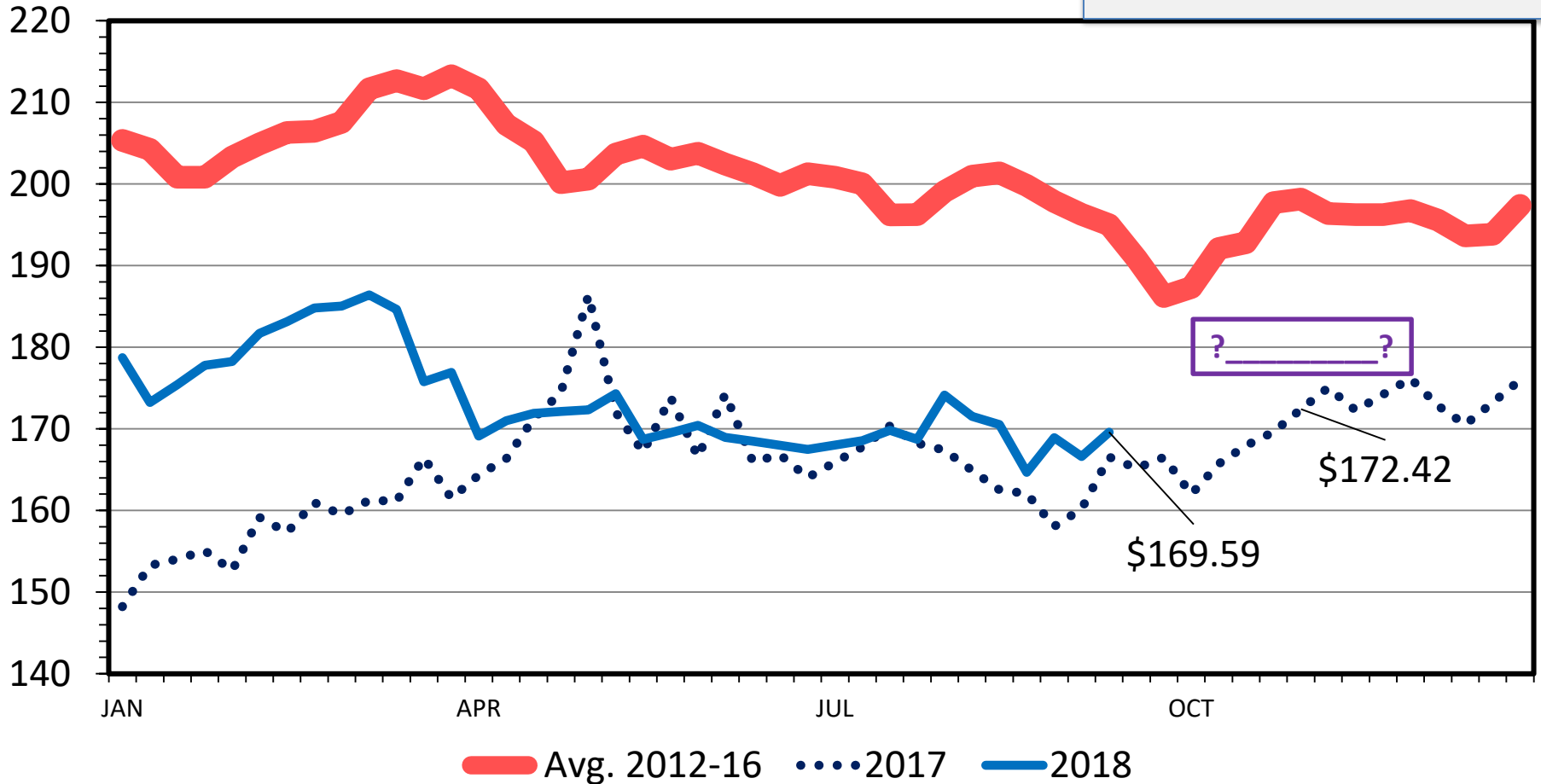
<https://www.beefboard.org/news/180131Tonsor-beef-demand-print.asp>

**BeefBasis.com, Salina,
KS 2018 Projections
(as of 9/18/18):
Oct. 17: \$181**

MED. & LRG. #1 STEER CALF PRICES

500-600 Pounds, Southern Plains, Weekly

\$ Per Cwt.



Data Source: USDA-AMS

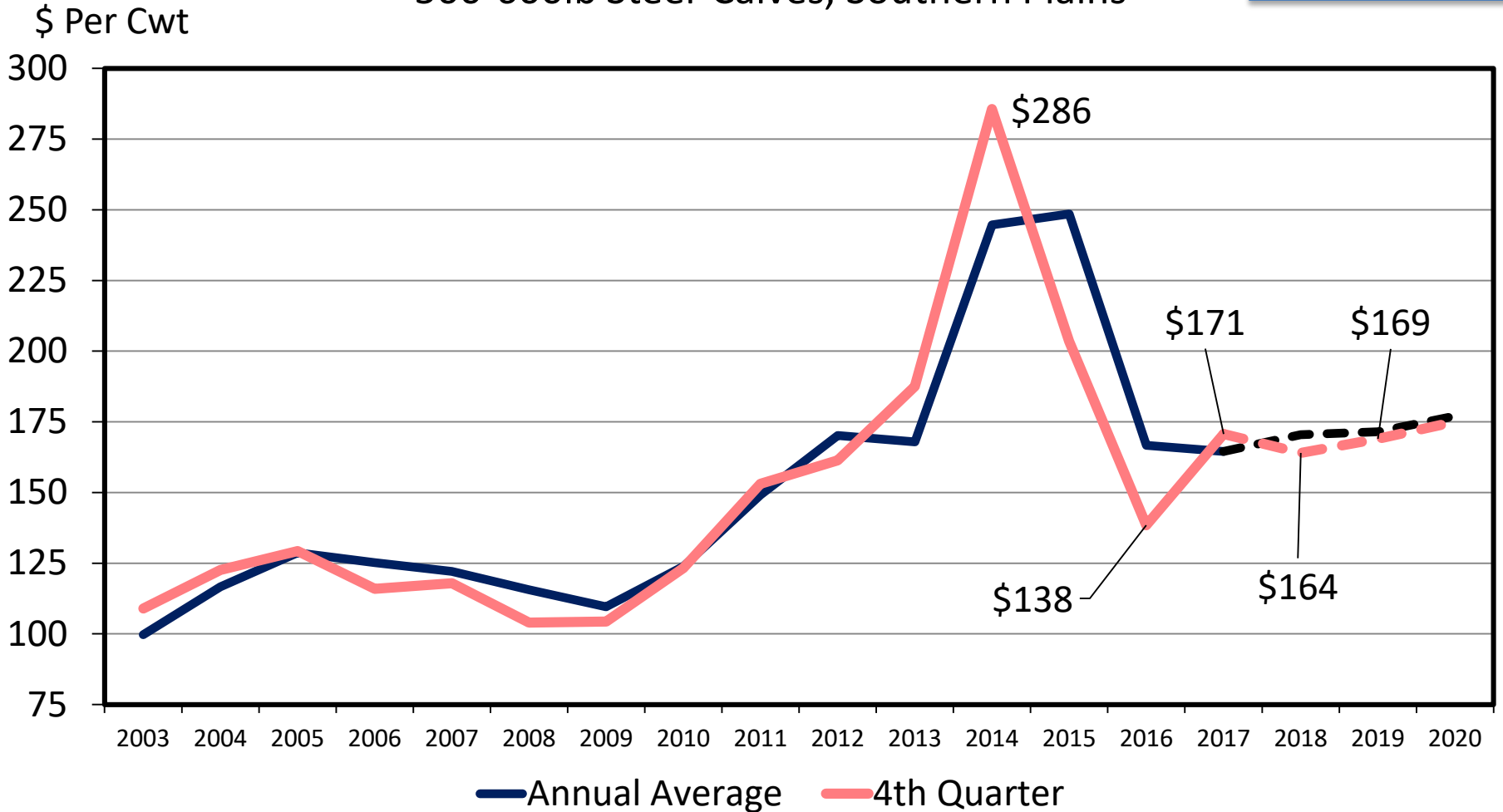
Livestock Marketing Information Center

C-P-54
09/17/18

Oct CME FC
+\$8 since
8/18/18

AVERAGE CALF PRICES

500-600lb Steer Calves, Southern Plains



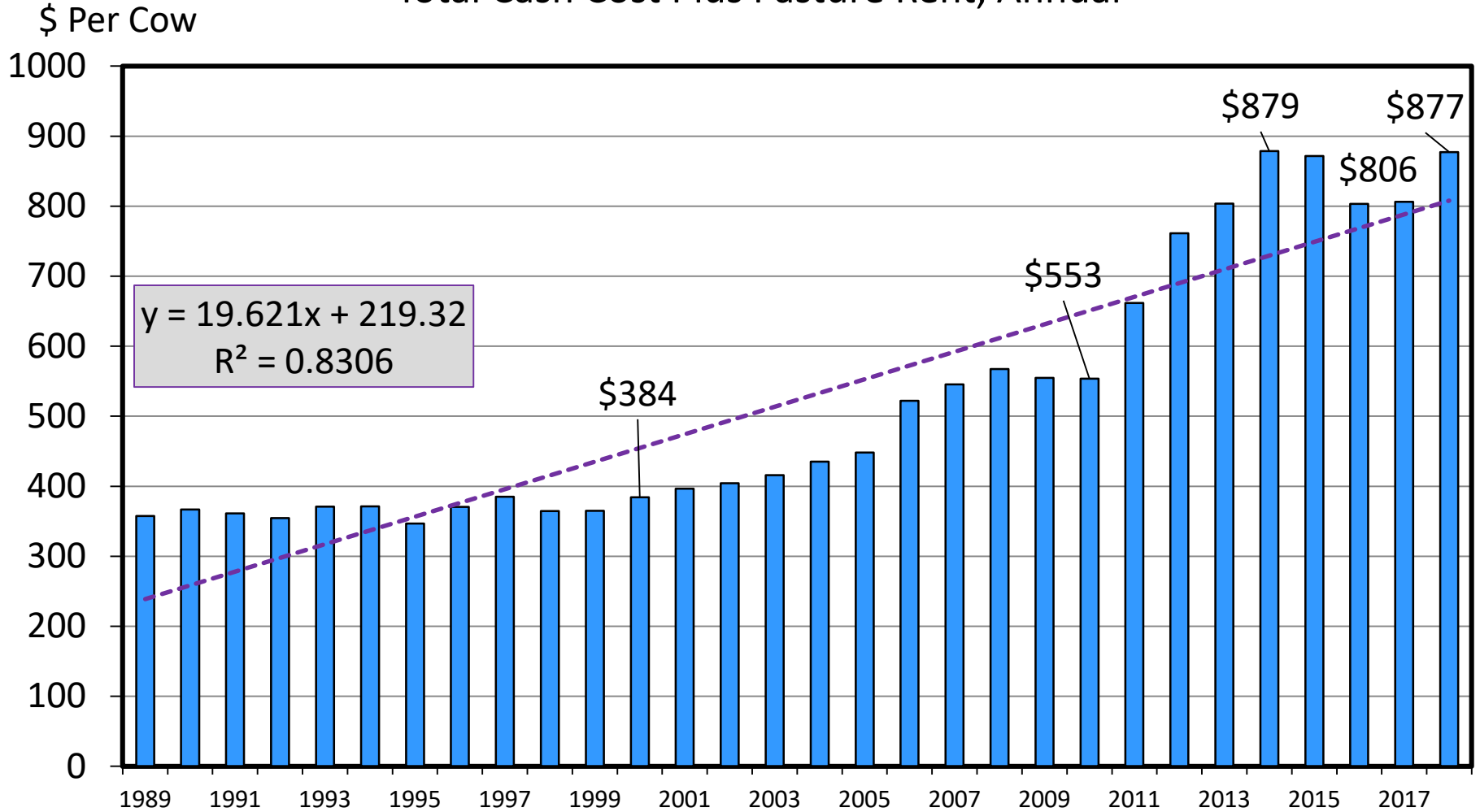
Data Source: USDA-AMS, Compiled and Forecasts by LMIC

Livestock Marketing Information Center

as of 8/18/18

ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



Data Source: USDA & LMIC, Compiled by LMIC

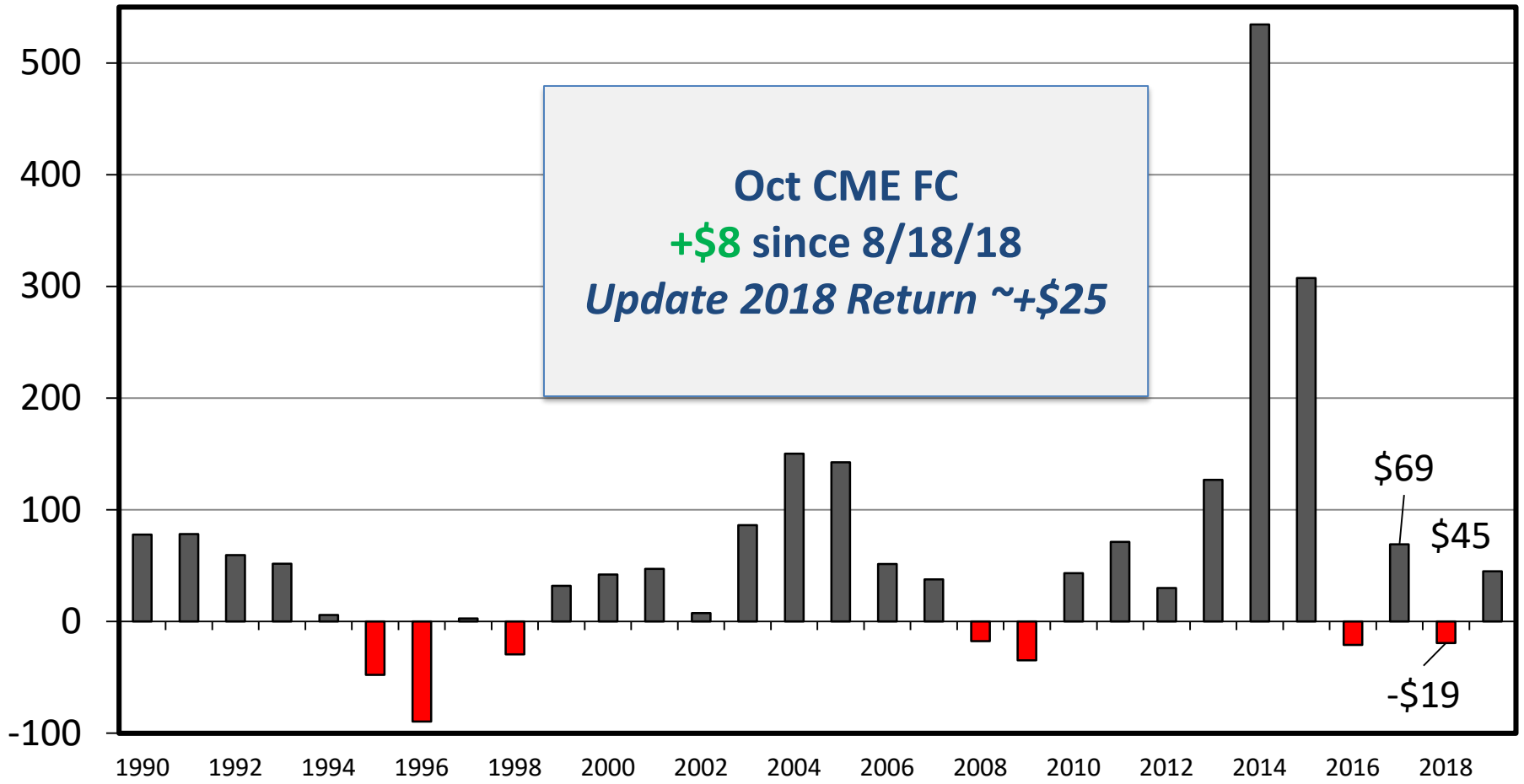
Livestock Marketing Information Center

08/18/18

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



Data Source: USDA & LMIC, Compiled by LMIC

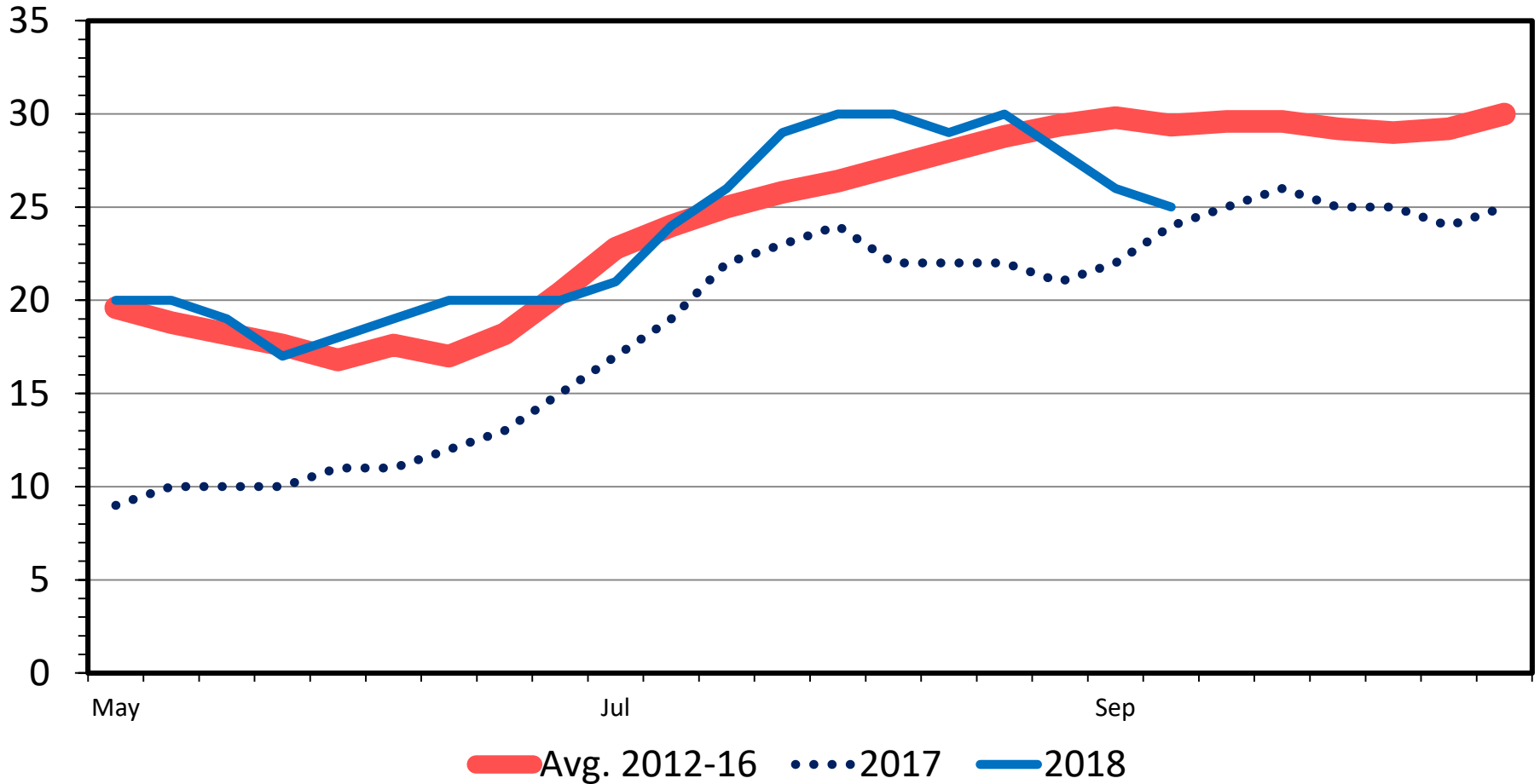
Livestock Marketing Information Center

C-P-66
08/18/18

US RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly

Percent



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

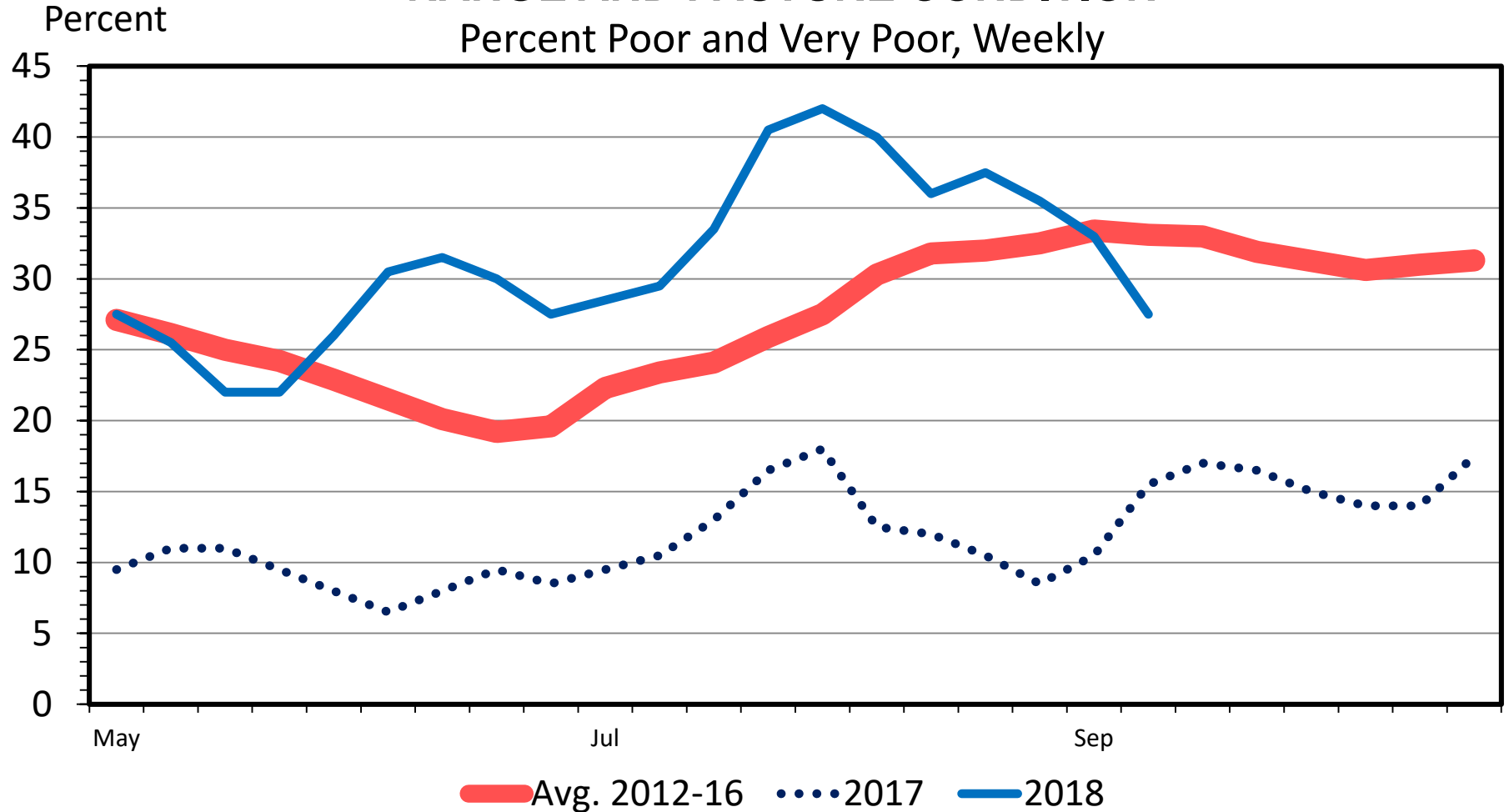
Livestock Marketing Information Center

G-NP-30

09/18/18

SOUTHERN PLAINS REGION RANGE AND PASTURE CONDITION

Percent Poor and Very Poor, Weekly



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

Livestock Marketing Information Center

G-NP-33
09/18/18

U.S. Drought Monitor

Kansas

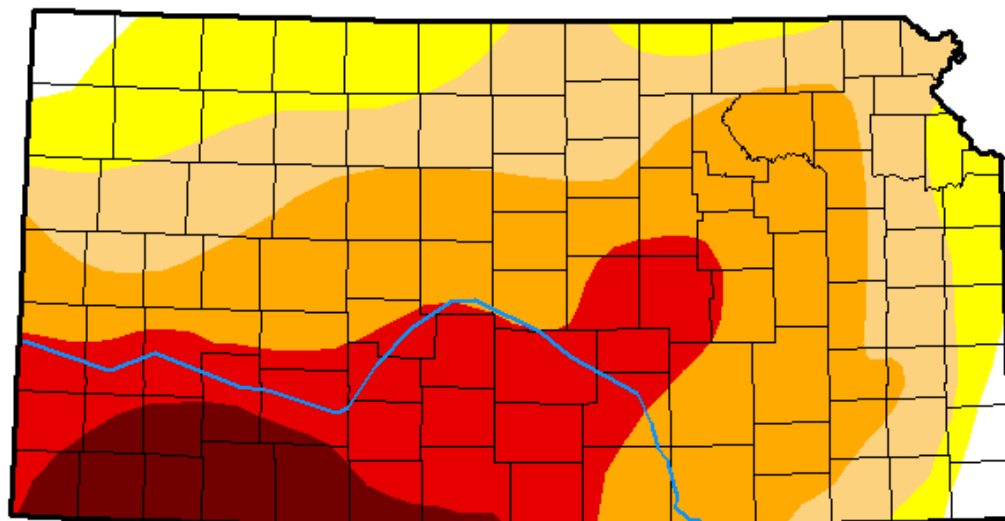
April 10, 2018

(Released Thursday, Apr. 12, 2018)

Valid 8 a.m. EDT

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	2.64	97.36	83.37	59.47	27.06	7.09
Last Week <i>04-03-2018</i>	2.64	97.36	81.66	56.19	25.59	4.32
3 Months Ago <i>01-09-2018</i>	0.00	100.00	52.43	17.23	1.50	0.00
Start of Calendar Year <i>01-02-2018</i>	0.00	100.00	32.70	8.75	0.00	0.00
Start of Water Year <i>09-26-2017</i>	59.89	40.11	10.08	1.35	0.00	0.00
One Year Ago <i>04-11-2017</i>	49.35	50.65	8.55	0.00	0.00	0.00



Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:

David Miskus
NOAA/NWS/NCEP/CPC



<http://droughtmonitor.unl.edu/>

U.S. Drought Monitor

Kansas

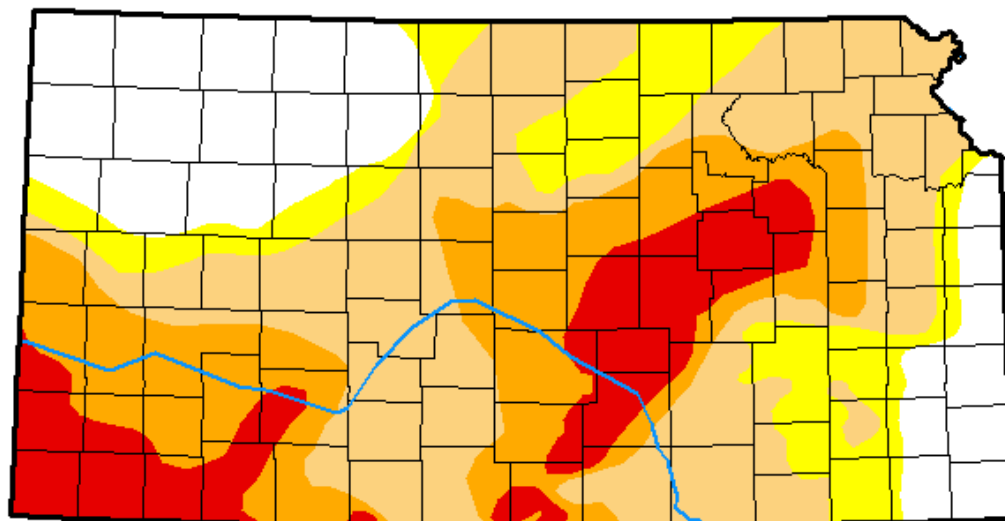
June 12, 2018

(Released Thursday, Jun. 14, 2018)

Valid 8 a.m. EDT

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	20.40	79.60	66.48	33.63	12.65	0.00
Last Week <i>06-05-2018</i>	15.19	84.81	69.40	45.96	15.86	1.42
3 Months Ago <i>03-13-2018</i>	1.22	98.78	81.77	56.19	19.33	0.30
Start of Calendar Year <i>01-02-2018</i>	0.00	100.00	32.70	8.75	0.00	0.00
Start of Water Year <i>09-26-2017</i>	59.89	40.11	10.08	1.35	0.00	0.00
One Year Ago <i>06-13-2017</i>	91.68	8.32	0.00	0.00	0.00	0.00



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- D3 Extreme Drought
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Author:

Brian Fuchs
National Drought Mitigation Center



<http://droughtmonitor.unl.edu/>

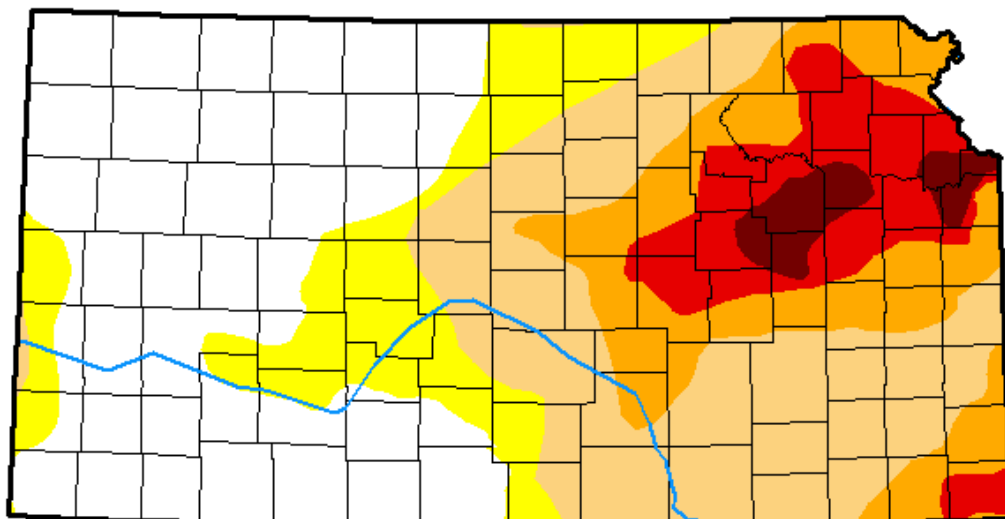
U.S. Drought Monitor

Kansas

August 14, 2018
(Released Thursday, Aug. 16, 2018)
 Valid 8 a.m. EDT

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	37.68	62.32	48.99	24.40	11.32	2.53
Last Week <i>08-07-2018</i>	36.00	64.00	52.83	26.31	8.88	1.21
3 Months Ago <i>05-15-2018</i>	3.02	96.98	80.15	50.32	21.75	4.60
Start of Calendar Year <i>01-02-2018</i>	0.00	100.00	32.70	8.75	0.00	0.00
Start of Water Year <i>09-26-2017</i>	59.89	40.11	10.08	1.35	0.00	0.00
One Year Ago <i>08-15-2017</i>	63.16	36.84	13.87	0.00	0.00	0.00



Intensity:

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- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

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Author:

Richard Heim
 NCEI/NOAA



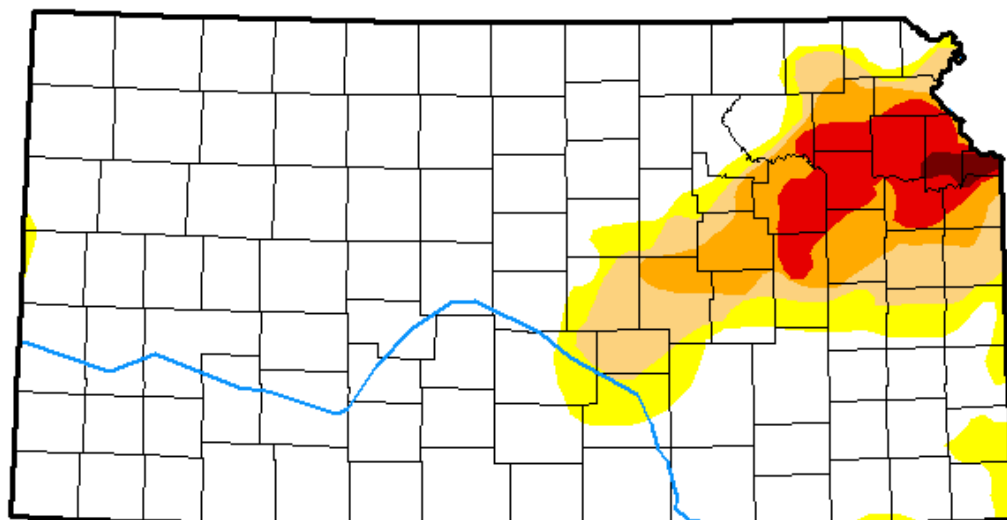
U.S. Drought Monitor

Kansas

September 11, 2018
 (Released Thursday, Sep. 13, 2018)
 Valid 8 a.m. EDT

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	79.28	20.72	14.31	8.70	4.07	0.38
Last Week <i>09-04-2018</i>	65.29	34.71	18.52	11.78	4.92	0.60
3 Months Ago <i>06-12-2018</i>	20.40	79.60	66.48	33.63	12.65	0.00
Start of Calendar Year <i>01-02-2018</i>	0.00	100.00	32.70	8.75	0.00	0.00
Start of Water Year <i>09-26-2017</i>	59.89	40.11	10.08	1.35	0.00	0.00
One Year Ago <i>09-12-2017</i>	46.12	53.88	17.20	0.65	0.00	0.00



Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

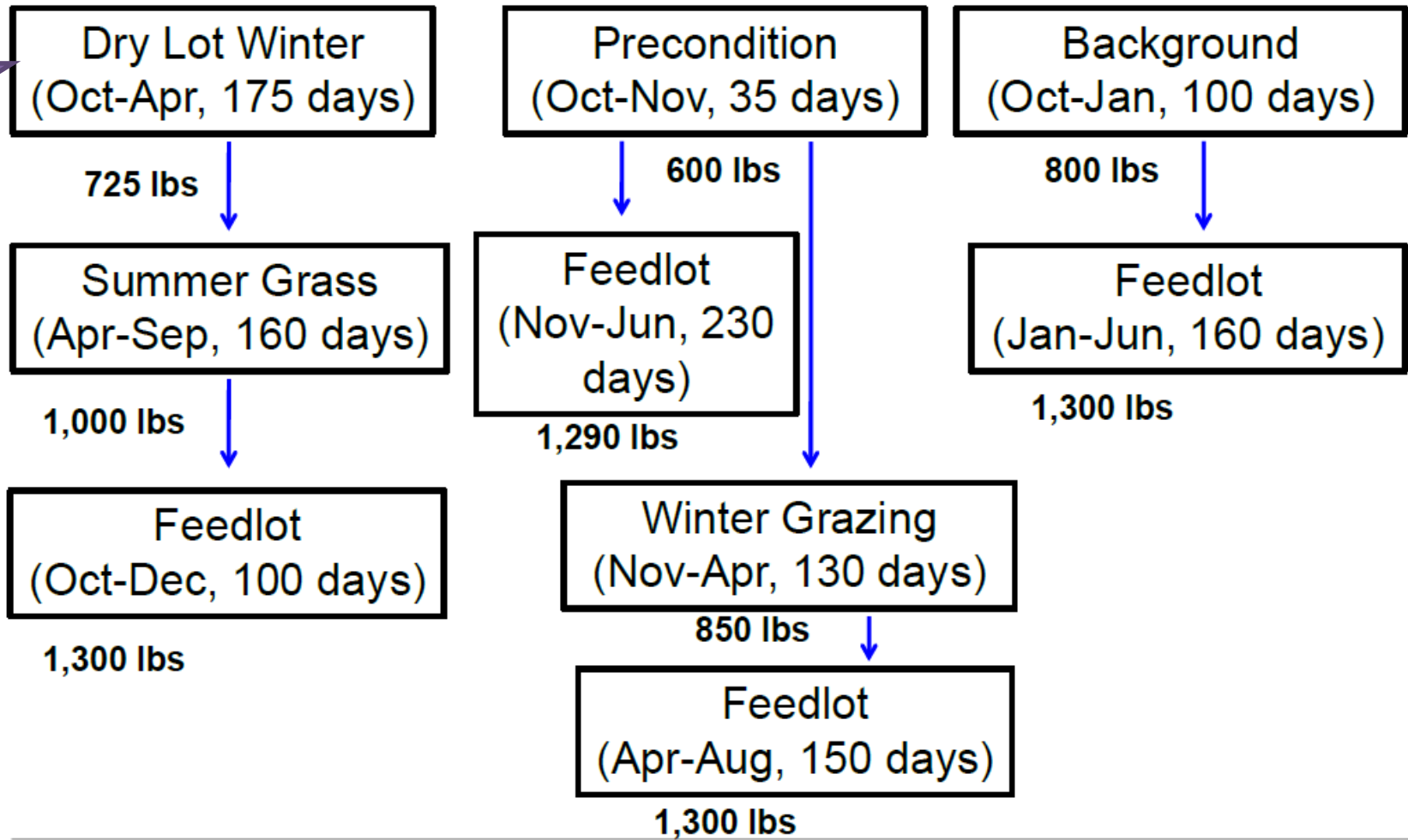
Author:

David Miskus
 NOAA/NWS/NCEP/CPC



Salina, KS 550 lb Steer on 10/17/18 (as of 9/18): \$181

Fall Weaned 550# Calf



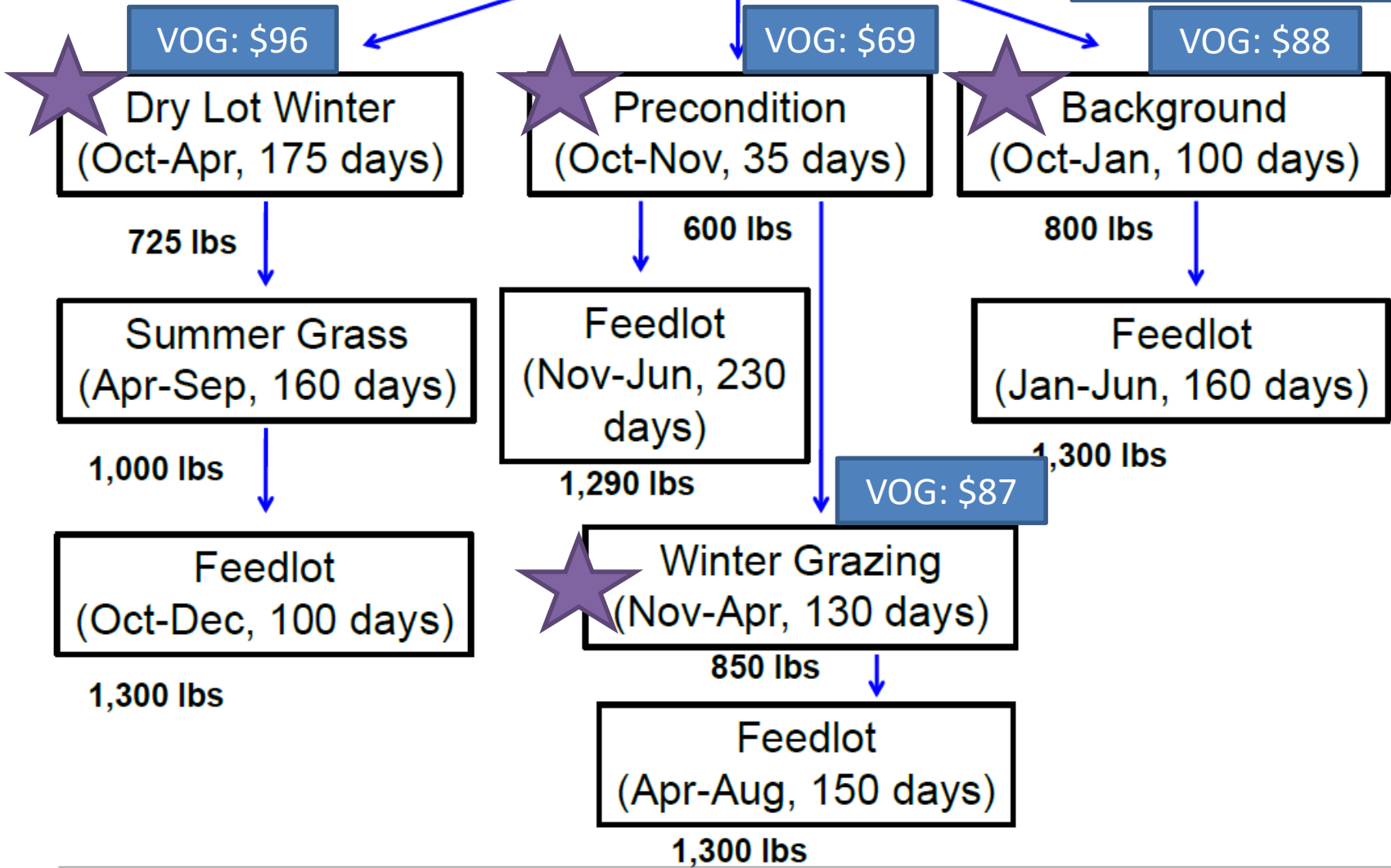
Economic Outlook Overview: Stockers

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

- Salina, KS 9/18/18 Dry Lot Winter, 175 DOF Case:
 - Buy 550 lb steer on 10/17/18 (\$181)
 - Sell 725 lb steer on 04/10/19 (\$161) {ADG 1.0}
 - VOG: \$96/cwt

Fall Weaned 550# Calf

Salina, KS 550 lb Steer on 10/17/18 (as of 9/18): \$181



Economic Outlook Overview: Feedlots

- 2017 was better than anticipated
- 2018 has been rougher
 - Q4 return prospects have improved

Historical and Projected Kansas Feedlot Net Returns (as of 9/11/18')

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

July 18': -\$84/steer

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

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Fed Futures	Fed Basis	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Aug-18	-104.20	81.98	110.81	108.63	2.18	147.01	65.79	118.33	132.98
Sep-18	-108.96	83.04	109.79	109.35	0.44	143.54	66.15	117.50	129.35
Oct-18	-31.30	83.32	114.75	114.05	0.70	137.33	77.90	116.94	133.66
Nov-18	-9.72	82.54	114.96	114.05	0.91	141.02	81.08	115.63	139.78
Dec-18	14.87	83.11	120.01	118.35	1.66	146.93	85.35	118.97	148.86
Jan-19	-38.29	83.43	120.16	118.35	1.81	152.32	77.48	122.85	147.40
Feb-19	-51.85	84.36	121.12	119.93	1.20	156.16	76.33	124.83	149.28
Mar-19	18.75	83.02	123.64	119.93	3.71	154.22	85.88	122.28	156.80
Apr-19	-63.24	83.64	116.16	112.95	3.21	150.04	73.77	120.77	141.39
May-19	-20.08	82.96	121.59	112.95	8.64	150.14	79.61	123.02	147.63

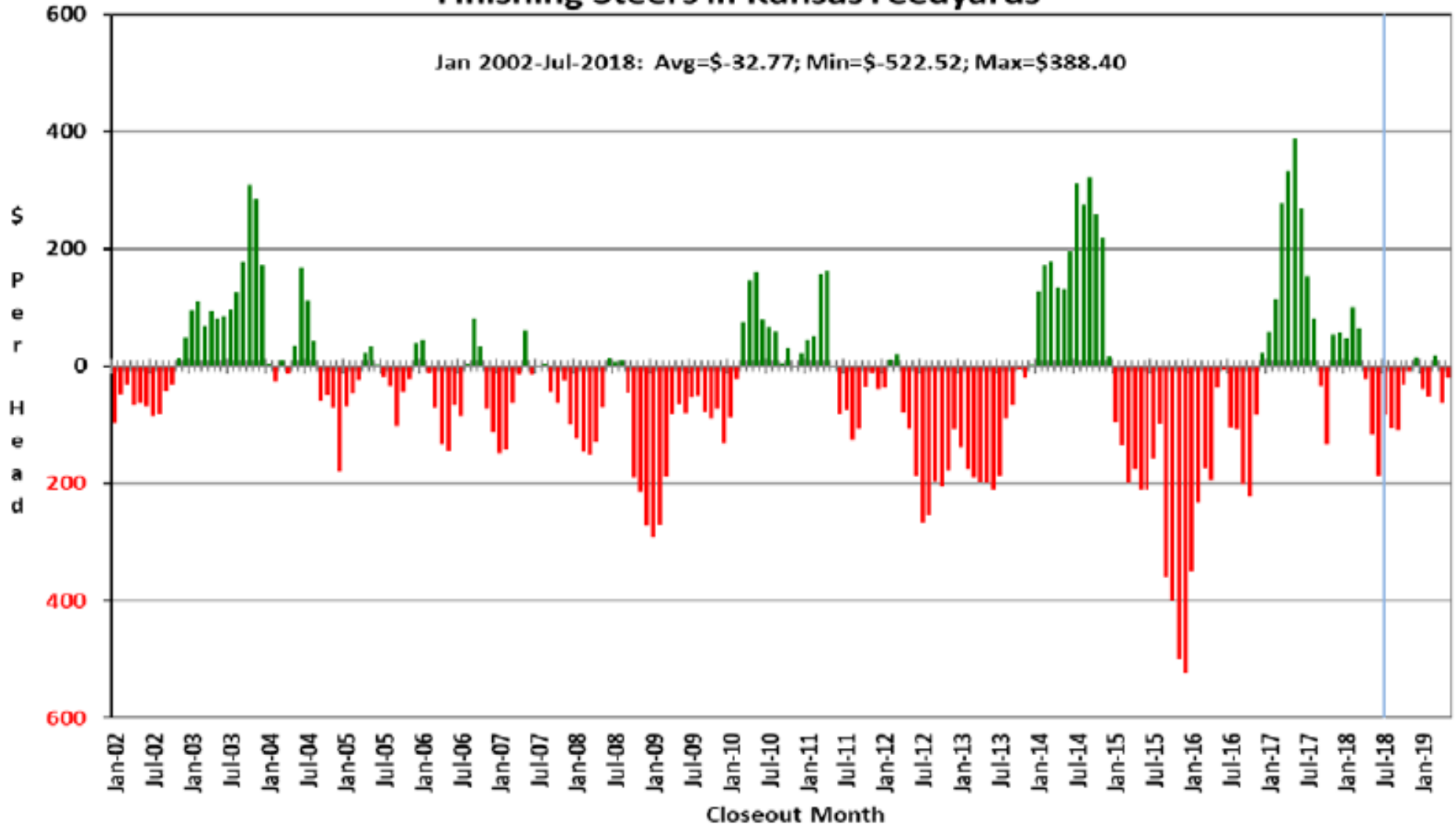
Representative Barometer for Trends in Profitability

CME LC
+\$5 since 9/11/18

Historical and Projected Kansas Feedlot Net Returns (as of 9/11/18')

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

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



Quarterly Forecasts (LMIC: 9/17/18)

Year	Comm'l	% Chg.	Average	% Chg.	Comm'l	% Chg.
Quarter	Slaughter	from	Dressed	from	Beef	from
		Year Ago	Weight	Year Ago	Production	Year Ago
2018						
I	7,877	2.1	820.8	0.5	6,465	2.6
II	8,424	4.3	798.2	0.6	6,724	4.9
III	8,395	1.7	816.8	0.1	6,857	1.8
IV	8,428	3.5	832.6	0.6	7,017	4.1
Year	33,124	2.9	817.0	0.4	27,063	3.3
2019						
I	7,892	0.2	825.7	0.6	6,517	0.8
II	8,503	0.9	807.7	1.2	6,868	2.1
III	8,540	1.7	826.6	1.2	7,059	2.9
IV	8,474	0.5	837.0	0.5	7,092	1.1
Year	33,409	0.9	824.2	0.9	27,536	1.7
2020						
I	8,059	2.1	829.6	0.5	6,686	2.6
II	8,513	0.1	812.2	0.6	6,914	0.7
III	8,489	-0.6	831.4	0.6	7,058	0.0
IV	8,447	-0.3	841.2	0.5	7,106	0.2
Year	33,508	0.3	828.6	0.5	27,763	0.8

Quarterly Forecasts (LMIC: 9/17/18)

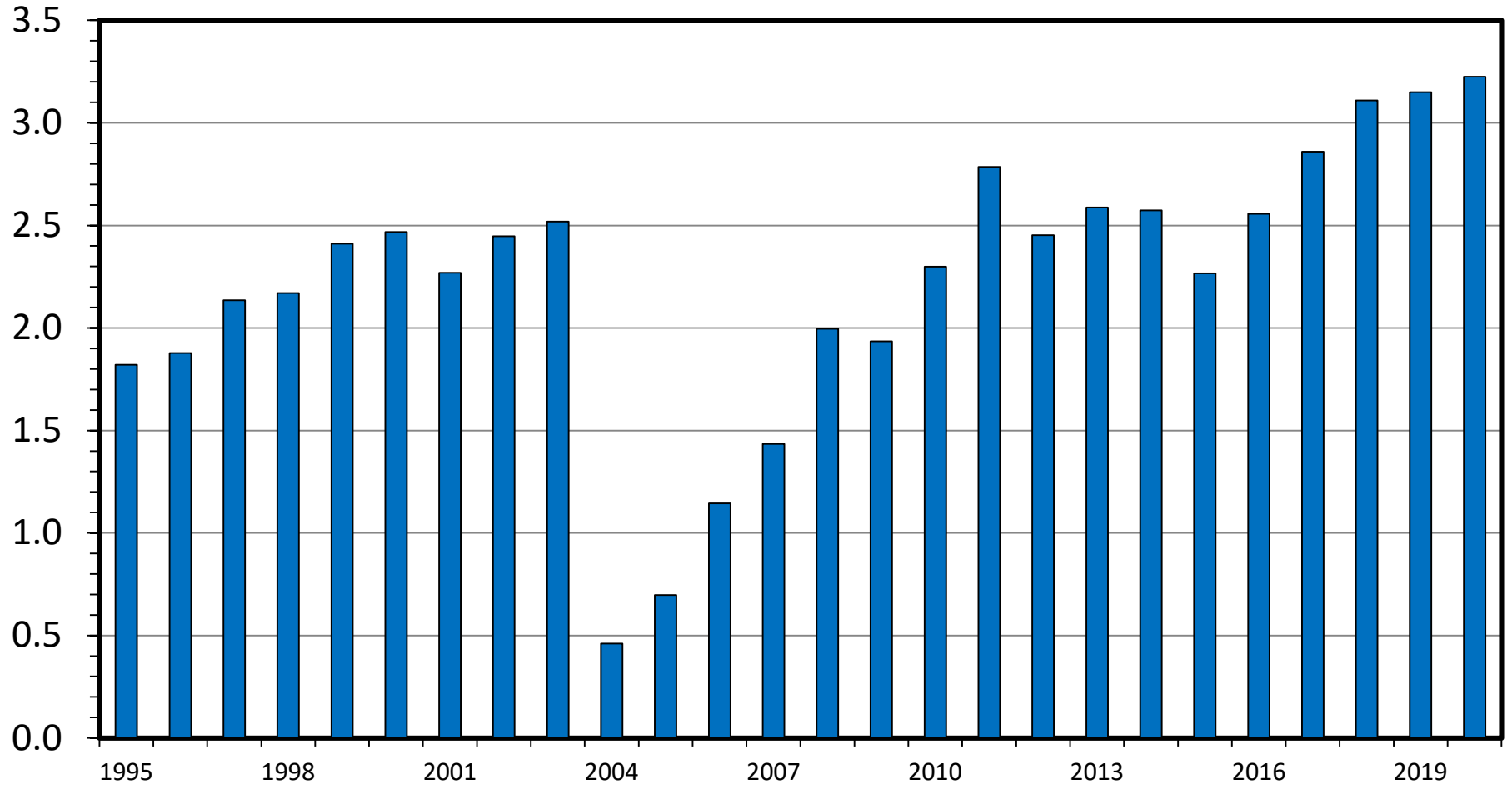
	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2018				
I	125.60	2.1	148.73	180.01
II	116.72	-12.1	144.52	170.11
III	111-112	-0.9	154-155	168-169
IV	115-117	-1.6	148-151	162-166
Year	117-118	-3.3	149-150	170-172
2019				
I	119-122	-4.1	147-151	168-173
II	116-120	1.1	148-153	172-178
III	108-113	-0.9	145-151	169-174
IV	113-119	0.0	145-154	165-173
Year	114-118	-1.3	147-151	169-174
2020				
I	118-125	0.8	145-155	171-180
II	116-124	1.7	147-158	174-184
III	110-119	3.6	147-159	173-185
IV	114-124	2.6	146-159	169-181
Year	117-121	2.6	149-155	173-181

Trade Context Update

US BEEF AND VEAL EXPORTS

Carcass Weight, Annual

Bil. Pounds



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

Livestock Marketing Information Center

I-N-06
08/17/18

USDA Long-Term projections

Feb. 2018 report (<http://www.usda.gov/oce/commodity/projections/>)

Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
Pork	50.1	50.4	52.1	52.2	51.9	52.0	
Total red meat	107.0	109.0	112.6	114.4	114.1	112.2	
Broilers	89.8	91.0	91.8	91.6	92.4	92.2	
Total poultry	107.6	108.8	109.6	109.2	109.9	109.3	
Red meat & poultry	214.6	217.8	222.2	223.6	224.0	221.5	
Note: Totals may not add due to rounding.							

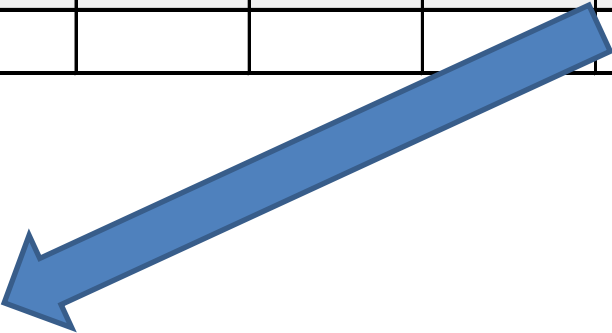
USDA Long-Term projections

Feb. 2018 report (<http://www.usda.gov/oce/commodity/projections/>)

2019 would be highest for beef since 2009

Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
Pork	50.1	50.4	52.1	52.2	51.9	52.0	
Total red meat	107.0	109.0	112.6	114.4	114.1	112.2	
Broilers	89.8	91.0	91.8	91.6	92.4	92.2	
Total poultry	107.6	108.8	109.6	109.2	109.9	109.3	
Red meat & poultry	214.6	217.8	222.2	223.6	224.0	221.5	

Note: Totals may not add due to rounding.



Year	Total Red Meat & Poultry
1995	205.4
2000	214.4
2005	219.7
2010	207.5
2014	200.1

USDA Long-Term projections

Feb. 2018 report (<http://www.usda.gov/oce/commodity/projections/>)

Per capita meat consumption, retail weight							
Item	2016	2017	2018	2019	2020	2027	
Beef	55.6	57.3	59.2	60.9	60.9	59.0	
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Red meat & poultry	214.6	217.8	222.2	223.6	224.0	221.5	
Note: Totals may not add due to rounding.							

Projections INCLUDE trade dependency,
PRESUME no China pork tariffs, etc.

Wrap-Up

- Broad Profitability Outlook
 - Supply side factors are “well established”
 - Demand factors are key and uncertain
 - What will be beef (and meat broadly) export situation?
 - When will next U.S. recession occur?

BEEF Stocker Research of Note:

Producer Expectations in Cattle Buying

- *Suppose in OCT a producer could buy 1 of 3 lots of calves with a planned FEB sale:*

Probability	ADG 1	ADG 2	ADG 3
20%	<1.5	<1.7	<1.9
60%	1.5-2.3	1.7-2.5	1.9-2.7
20%	>2.3	>2.5	>2.7

Stocker Research of Note: Producer Expectations in Cattle Buying

- *Mean Willingness to Pay (Fall 2014):*
 - *\$42/cwt more for ADG2 than ADG1*
 - *\$1.77/lb for each of the additional 24 lbs*
 - *\$26/cwt more for ADG3 than ADG2*
 - *\$1.08/lb for each of the additional 24 lbs*
 - *Loss aversion exist:*
 - *Producers value “avoiding a bad situation” more than “improving upon a good situation.”*

Stocker Research of Note:

Producer Expectations in Cattle Buying

- Average experiences buying OCT calves & sell in FEB
 - Avg ADG across all lots/group over past 10 years: 1.9
 - Worst ADG across all lots/group over past 10 years: 1.2
 - Best ADG across all lots/group over past 10 years: 2.5
- *How do past experiences influence buying decisions of individual stocker operators?*

Stocker Research of Note: Producer Expectations in Cattle Buying

- If potential buyers view available cattle superior to their best personal experience:
 - Producers will NOT pay premium for higher-ADG cattle
 - *Producers have to “see it to believe it” before they will pay-up for high-quality cattle*

Stocker Research of Note: Producer Expectations in Cattle Buying

- Implications
 - Helps explain “similar cattle” having differing prices in different markets
 - Sellers of high-performing cattle need to find markets comprised of buyers with corresponding experience

Stocker Research of Note: Producer Expectations in Cattle Buying

- Implications
 - Which came first, the chicken or the egg???
 - University trials/field days may provide this “experience” indirectly
 - Information on past performance (genetics etc.) has value in reducing risk to possible buyers & perhaps can substitute

More information available at:



This presentation will be available in PDF format at:
<http://www.agmanager.info/contributors/tonsor>

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