



2017 Cow Calf Conference

U.S. Beef Industry in 20 Years

January 13, 2017

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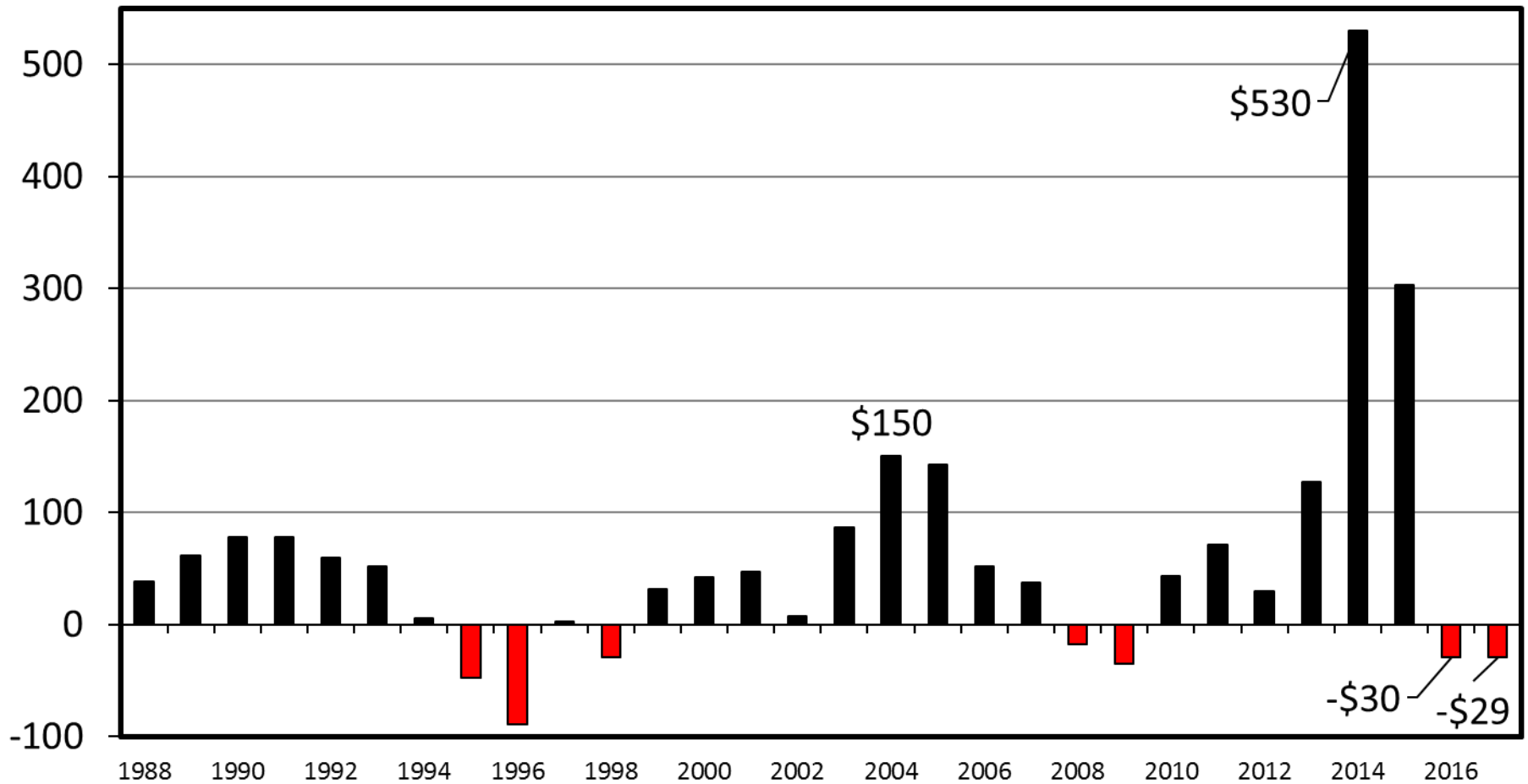
Situational Summary



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

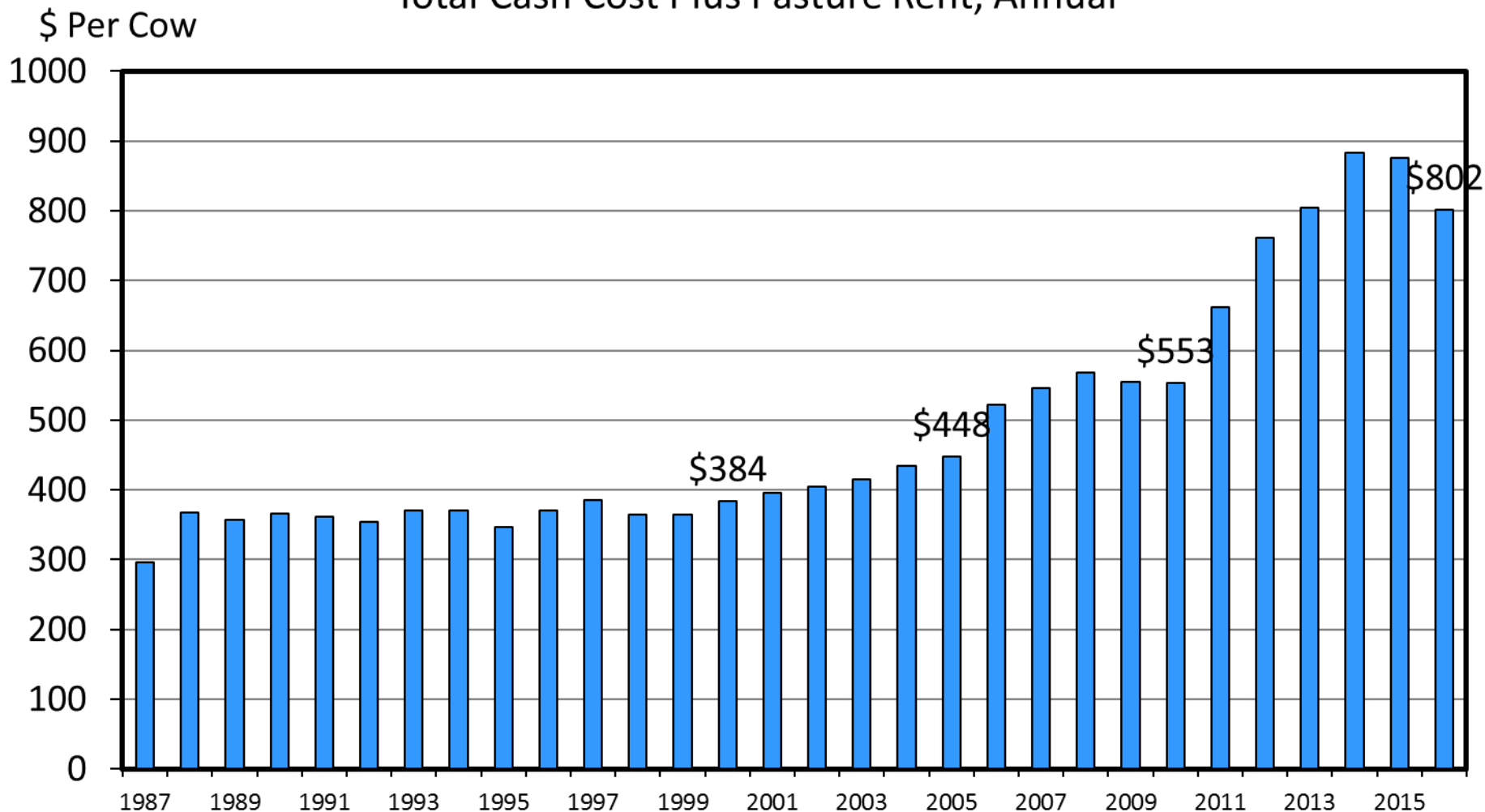
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Total Cash Cost Plus Pasture Rent, Annual



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12/29/16

Differences Between High-, Medium-, and Low-Profit Cow-Calf Producers:

An Analysis of 2011-2015 Kansas Farm Management Association Cow-Calf Enterprise

Dustin L. Pendell (dpendell@ksu.edu) and Kevin L. Herbel (kherbel@ksu.edu)

Kansas State University Department of Agricultural Economics – November 2016

http://www.agmanager.info/sites/default/files/pdf/DifferencesBetweenHighMediumLowProfitCow-CalfProducers_2011-2015.pdf



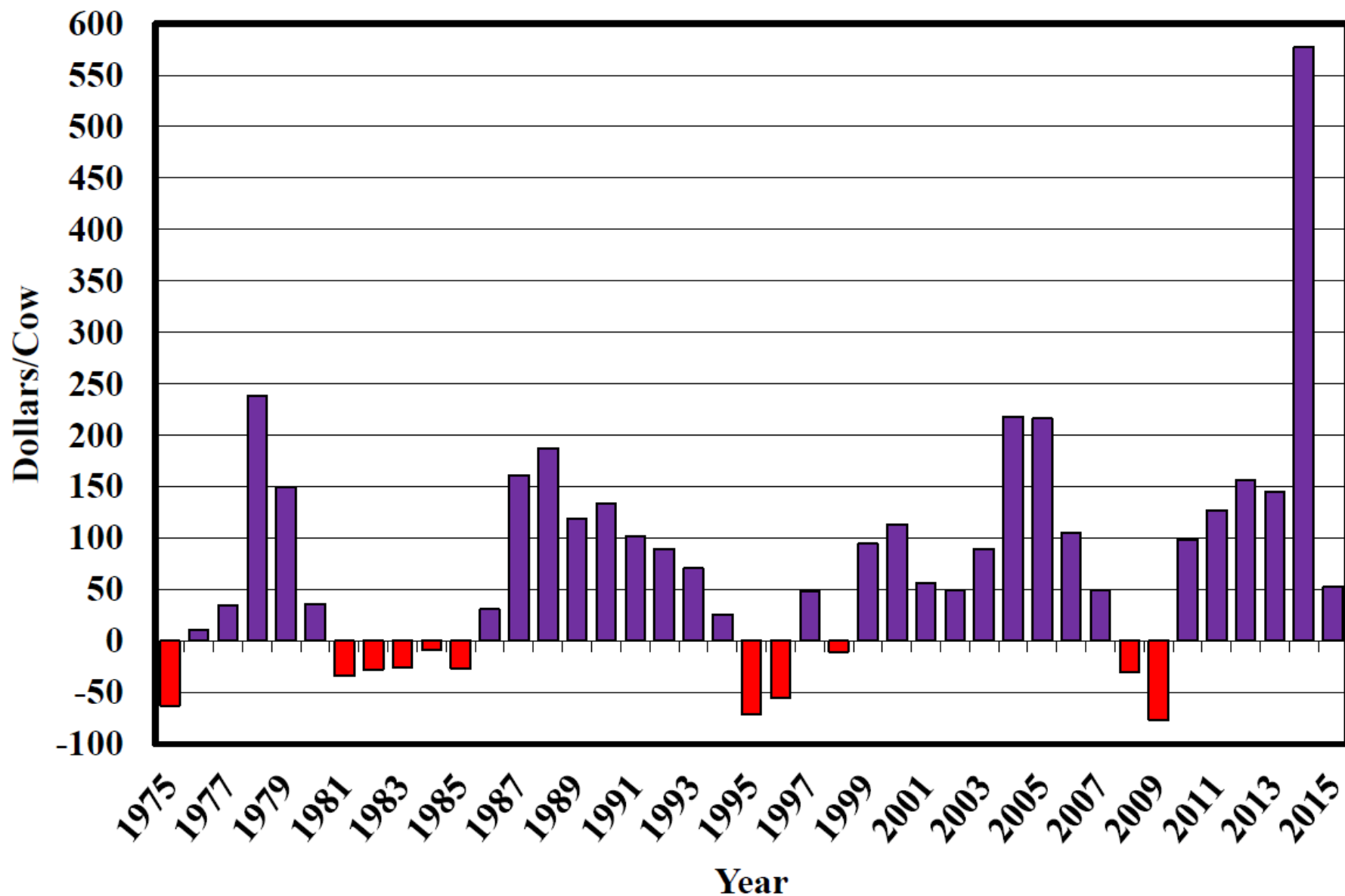


Figure 1. Returns over **Variable Cost** for Cow-Calf Enterprise, 1975-2015



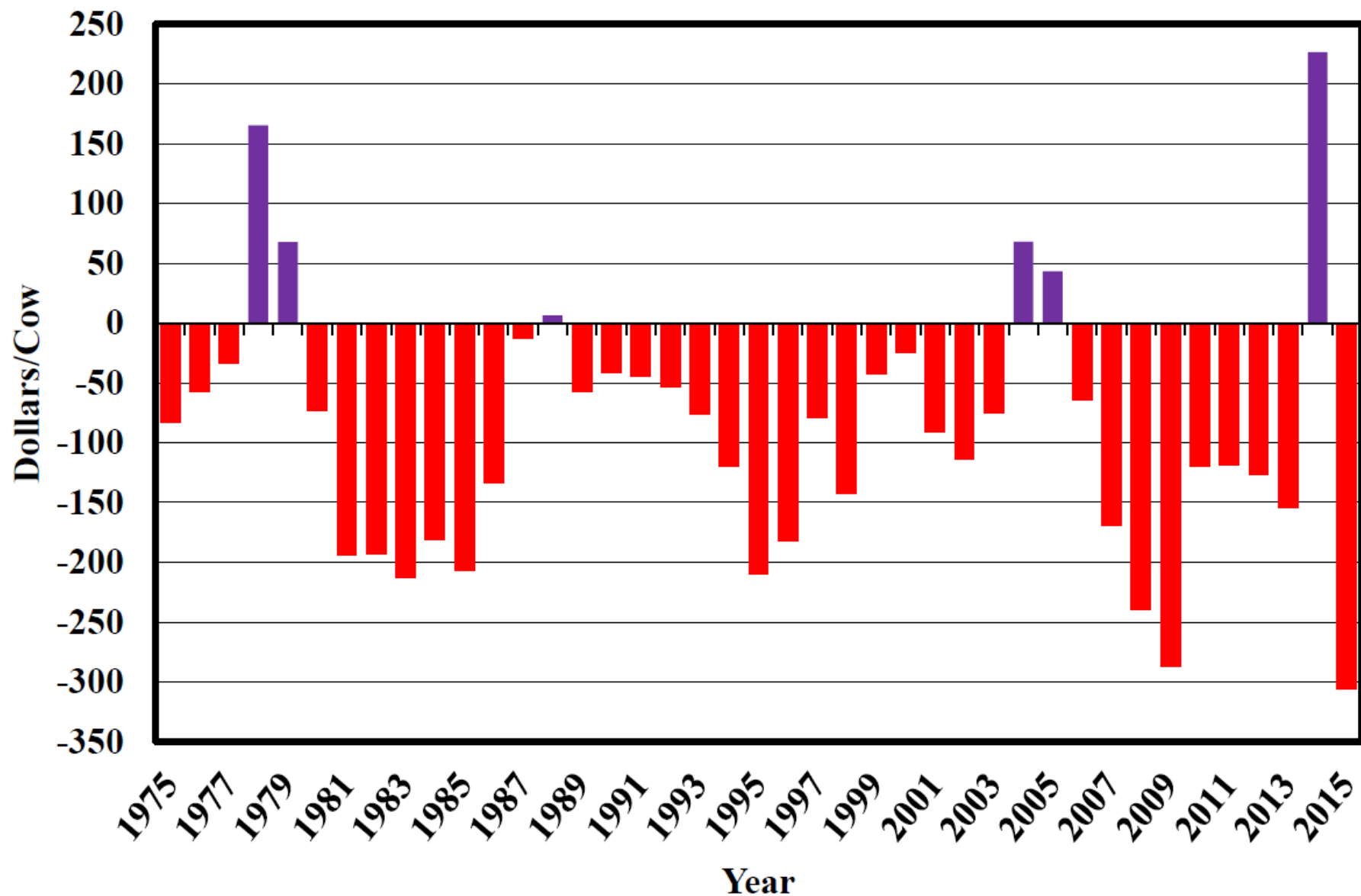


Figure 2. Returns over **Total Cost for** Cow-Calf Enterprise, 1975-2015



Variability of Cow-Calf Returns

- Variability over 41 Years
 - Avg Returns Over Total Cost: -\$91/cow
 - Low of -\$306 & High of +\$226
- Greater Variability ACROSS PRODUCERS



Variability of Cow-Calf Returns

Table 1. Beef Cow-Calf Enterprise Returns over Total Costs, 2011-2015 (minimum of 3 years)*

	All Farms	Profit Category			Difference between	
		High 1/3	Mid 1/3	Low 1/3	High 1/3 and Low 1/3	
		Head / \$	Head / \$	Head / \$	Absolute	%
Number of Farms	72	24	24	24		
Labor allocated to livestock, %	33.7	39.9	29.7	31.5	8	27%
Number of Cows in Herd	140	200	120	101	99	98%
Number of Calves Sold	128	184	111	91	93	103%
Calves Sold per Cow in Herd	0.916	0.919	0.926	0.897	0.02	2%
Weight of Calves Sold, lbs.	618	642	619	594	48	8%
Calf Sales Price / Cwt	\$167.22	\$166.39	\$164.51	\$170.75	-\$4.36	-3%
Gross Income	\$1,005.67	\$1,049.70	\$1,008.67	\$958.64	\$91.06	9%
Feed	\$369.31	\$279.89	\$378.70	\$449.33	-\$169.44	-38%
Pasture	\$164.33	\$170.88	\$164.82	\$157.28	\$13.60	9%
Interest	\$149.09	\$142.96	\$151.16	\$153.16	-\$10.21	-7%
Vet Medicine / Drugs	\$28.40	\$23.63	\$29.61	\$31.97	-\$8.34	-26%
Livestock Marketing / Breeding	\$19.15	\$10.52	\$23.41	\$23.53	-\$13.02	-55%
Depreciation	\$57.89	\$44.25	\$56.54	\$72.88	-\$28.63	-39%
Machinery	\$96.39	\$86.38	\$93.75	\$109.05	-\$22.66	-21%
Labor	\$172.28	\$152.55	\$161.36	\$202.93	-\$50.38	-25%
Other	\$48.65	\$43.15	\$41.30	\$61.50	-\$18.34	-30%
Total Cost	\$1,105.49	\$954.20	\$1,100.65	\$1,261.63	-\$307.43	-24%
Net Return to Management	-\$99.83	\$95.50	-\$91.98	-\$302.99	\$398.49	

*Sorted by Net Returns over Total Costs per Cow

Variability of Cow-Calf Returns

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“Interesting Times” in the Beef Industry

***TRADE w/
BRAZIL***

***Mandatory Price Reporting &
GIPSA Rule Discussions***

***TPP/TTIP &
US Election***

***CATTLE
MARKETS
“BROKEN”***

***NEW FED
CATTLE
EXCHANGE***

*In China Beef Trade, U.S. Gain May
Mean Australia Pain*

***Re-emergence of
MCOOL?***

Veterinary Feed Directive



Broader View on Economic Forces & Role of the Public

- The Center For Food Integrity (@foodintegrity) tweeted on Wed, Sep 04, 2013:

“Science tells us if we can do something. (supply)

Society tells us if we should do it.” (demand)

- Think about VFD, beta-agonists, feeding GM corn, gestation stalls, laying hen cages, handling techniques, euthanasia practices, ...



Economic Realities Going Forward

- Outcomes will only partially align with “best science”
 - Public will give license to utilize only a subset of available production options that ‘technically work’ (CFI quote...)
 - Economic &/or political optimality will trump
 - Vote-buy disconnect will persist
 - Short-term “unfunded mandates” will continue...



Effectiveness & Feasibility



- Why create something with limited odds of industry adoption?
 - *How would investors react?*

Effectiveness & Feasibility

- Just because something “works” doesn’t mean it will be 100% implemented
 - Feasibility, effectiveness, & net econ. value (reflects acceptance) are key
 - *E.coli vaccines for fed cattle are prime example*



Comparative Advantages

- World trust & places premium on U.S. beef



Comparative Advantages

- World trust & places premium on U.S. beef
- Grain-finished production
- Sound & effective infrastructure
 - Feed grain base, processing, safety, transportation
 - Genetics & meat quality expertise
 - Research discovery & outreach education
- Property rights encourage investment



Comparative **DIS**advantages

- Not lowest \$/lb producer



Comparative **DIS**advantages

- Not lowest \$/lb producer
 - Public research funding declining
 - Will public trust “new discoveries” going forward???



Comparative **DIS**advantages

- Not lowest \$/lb producer
- Partially effective communication, coordination, and signaling
- Fragmented support of increased
 - traceability systems
 - focus on current and future beef demand



Key Opportunities & Challenges

- Refining domestic consumer efforts
- Expanding foreign consumer focus



Domestic Consumers

- Continue to leverage size, wealth, and historic reliance on domestic consumers
- Key questions
 - Cultural mix and diverse food preferences
 - Ongoing shift from FAH to FAFH
 - Preparation time and cooking knowledge
 - Ground beef's share of total beef volume
 - Are “really big steaks” good or bad???



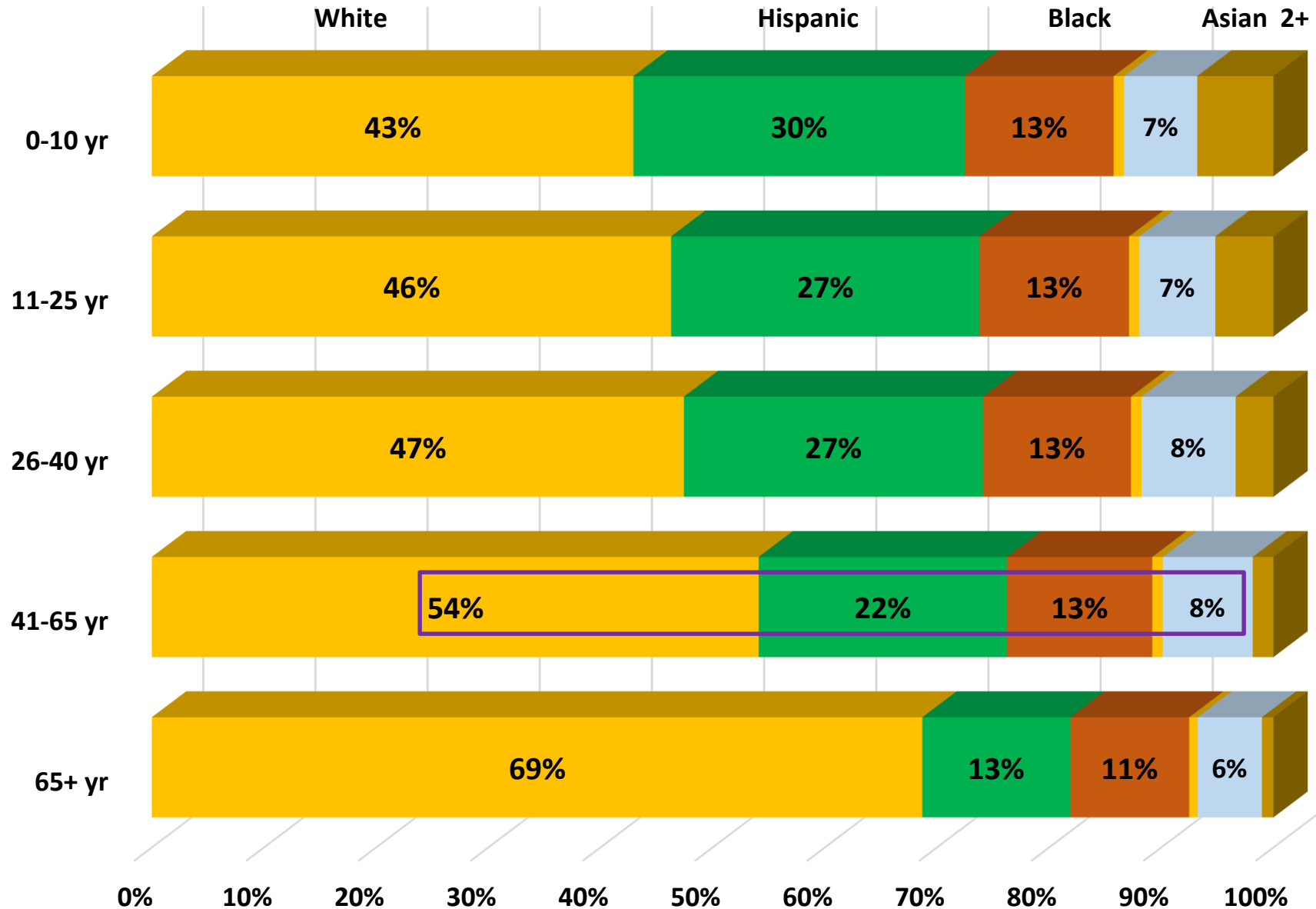
US Population by Age and Race, 2016

Source: US Census Bureau



US Population by Age and Race, 2036

Source: US Census Bureau



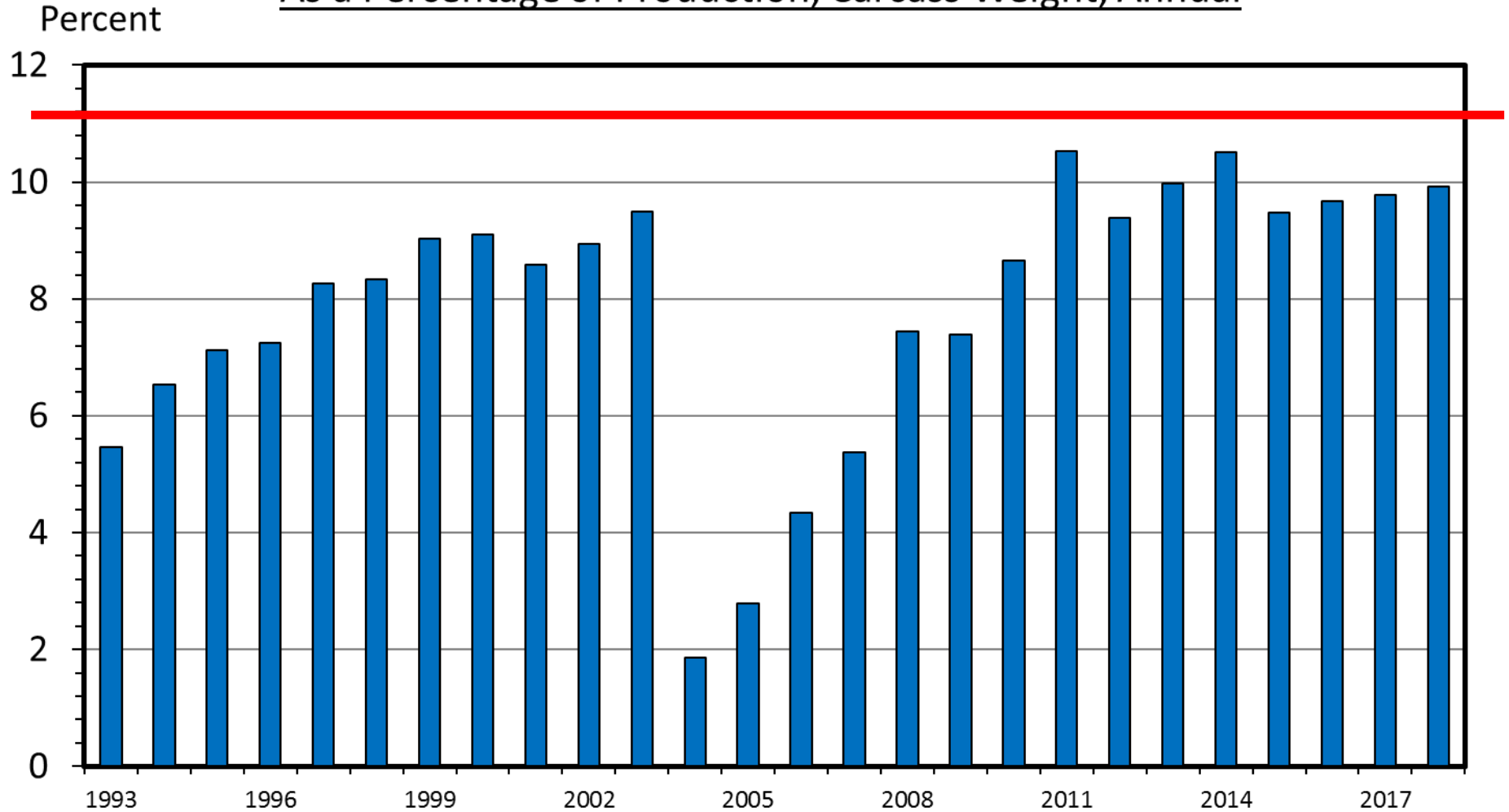
Exports

- Arena of expected population and income growth = meat demand growth
- Key questions/issues
 - Identify “wealthiest top 10%” as target markets
 - TPP & TTIP trade deals
 - Support to increase exports AND imports?
 - Global competitor adjustments
 - Mexico’s expanding infrastructure, Brazil’s move into grain-finishing, Ongoing India (buffalo meat) expansion



US BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



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

LMIC

Livestock Marketing Information Center

I-N-07

12/28/16

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View on Trade & Technology

- Key is **Diverse** Products from Each Carcass



View on Trade & Technology

- Key is Diverse Products from Each Carcass
- Brazil-US: Top Sirloin Cap (Picanha) vs. Ground Beef



View on Trade & Technology

- Key is Diverse Products from Each Carcass
- Brazil-US: Picanha vs. Ground Beef



- Domestically:
 - “Large Steaks” vs. Cheaper Ground Beef

View on Trade & Technology

- *What is a sure-fire way to increase domestic per capita beef consumption in KS immediately ???*



Situation Synthesis

- Immense opportunity exists



Situation Synthesis

- Immense opportunity exists;

BUT

- Internal industry coordination must improve
 - National animal ID & traceability
 - Generic advertising
 - International trade deals
 - MCOOL comeback?



REALLY GRAY CRYSTAL BALL

Forecast for 2036

- Less animals & operations, yet more beef



Forecast for 2036

- Less animals & operations, yet more beef
 - Growing challenges with “new large” operations, “acceptance of science,” and public/private funding



Forecast for 2036

- Less animals & operations, yet more beef
- Exports as share of production >11%



Forecast for 2036

- Less animals & operations, yet more beef
- Exports as share of production >11%
- Improved coordination & information flows
 - Technology enhancement alone may drive this...



Forecast for 2036

- Meat quality signals will expand & diversify
 - Quality
 - Prime, **Choice**, Select, Standard
 - CAB, Dairy, Dark Cutter...
 - Yield Grade
 - <.1" fat thickness, ..., **<.6" (3 score)**,..., >1.2"
 - Weight
 - 4-500 lbs, ... , **6-900 lbs**, ... > 1,050 lbs

Current
Signals



Forecast for 2036

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- Weight

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Current
Signals

- Future Signals?

- Tenderness, Technology/Production Practice
Claims, Source Verification...



Key Questions for 2036

1. What is balance of collaboration & competition?



Key Questions for 2036

1. What is balance of collaboration & competition?
2. What support is there to prioritize export demand focus?



Key Points for Vets in 2036

1) Fewer customers, but larger volume



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- 3) Less “pure public” info and expertise



Key Points for Vets in 2036

- 1) Fewer customers, but larger volume
- 2) Comfort with “partial use of science”
- 3) Less “pure public” info and expertise
- 4) “Income inequality” will grow



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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