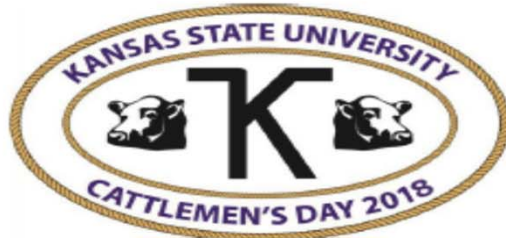


CATTLEMEN'S DAY 2018

105th ANNUAL

Kansas State University
Agricultural Experiment Station
Cooperative Extension Service



Animal Sciences and Industry
Weber Hall
Manhattan, Kansas

Friday, March 2, 2018

Beef Industry Outlook & International Trade's Role

Glynn Tonsor
Dept. of Agricultural Economics,
Kansas State University

Overarching Beef Industry Economic Outlook

- Supplies
 - Beef Production Up
 - +6.4% in 2016, +3.8% in 2017, +4.7% in 2018, +1.8% in 2019
- Demand
 - Key to surprising prices in 2017
 - Q4: Production +2%; Fed Prices +9% & Calf Prices +23%
 - Exports continue to be key
 - >\$250/hd value since 2014 (USMEF)

How Does Domestic Demand Impact Me?

- 1% increase in domestic demand =
 - +2.30% live cattle
 - +3.50% feeder cattle prices (McKendree et al., 2018)
- Q4.2017 Domestic Demand Index +2% (vs. Q4.2016)
 - Realized Prices:
 - \$118 (live) & \$157 (feeder)
 - Without domestic demand increase, would have been:
 - \$112.57 (live) & \$146.02 (feeder)
 - \$5.43/cwt & \$10.98/cwt price impacts

Assessing Beef Demand Determinants (Jan. 18, 2018)

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

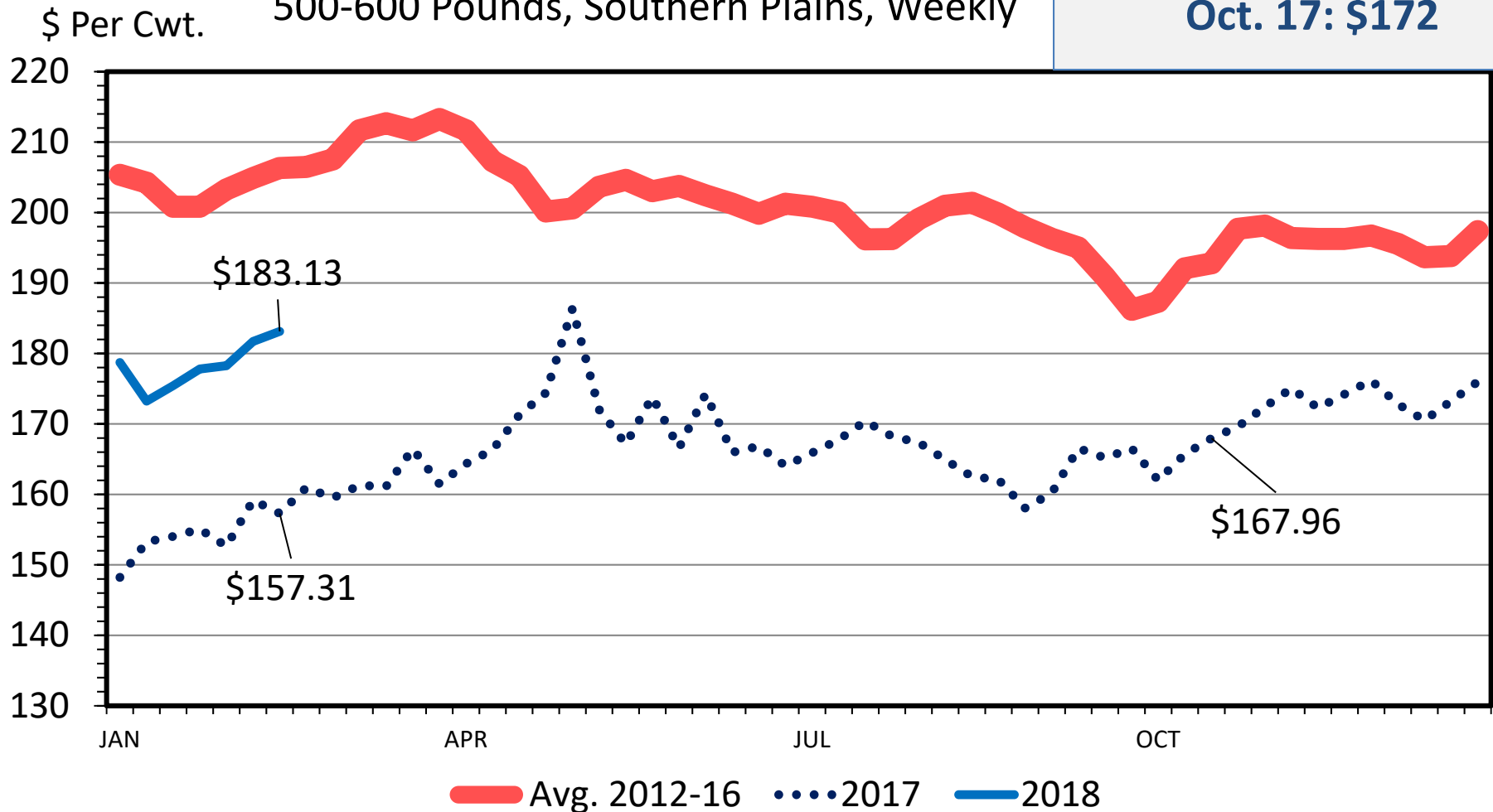
Cattlemen's Beef Board



[https://www.beefboard.org/news/files/FY2018/
Assessing%20Beef%20Demand%20Determinants FullReport.pdf](https://www.beefboard.org/news/files/FY2018/Assessing%20Beef%20Demand%20Determinants%20FullReport.pdf)

**Beef Basis, Salina, KS
2018 Projections
(as of 3/1/18):
Oct. 17: \$172**

MED. & LRG. #1 STEER CALF PRICES
500-600 Pounds, Southern Plains, Weekly



Data Source: USDA-AMS

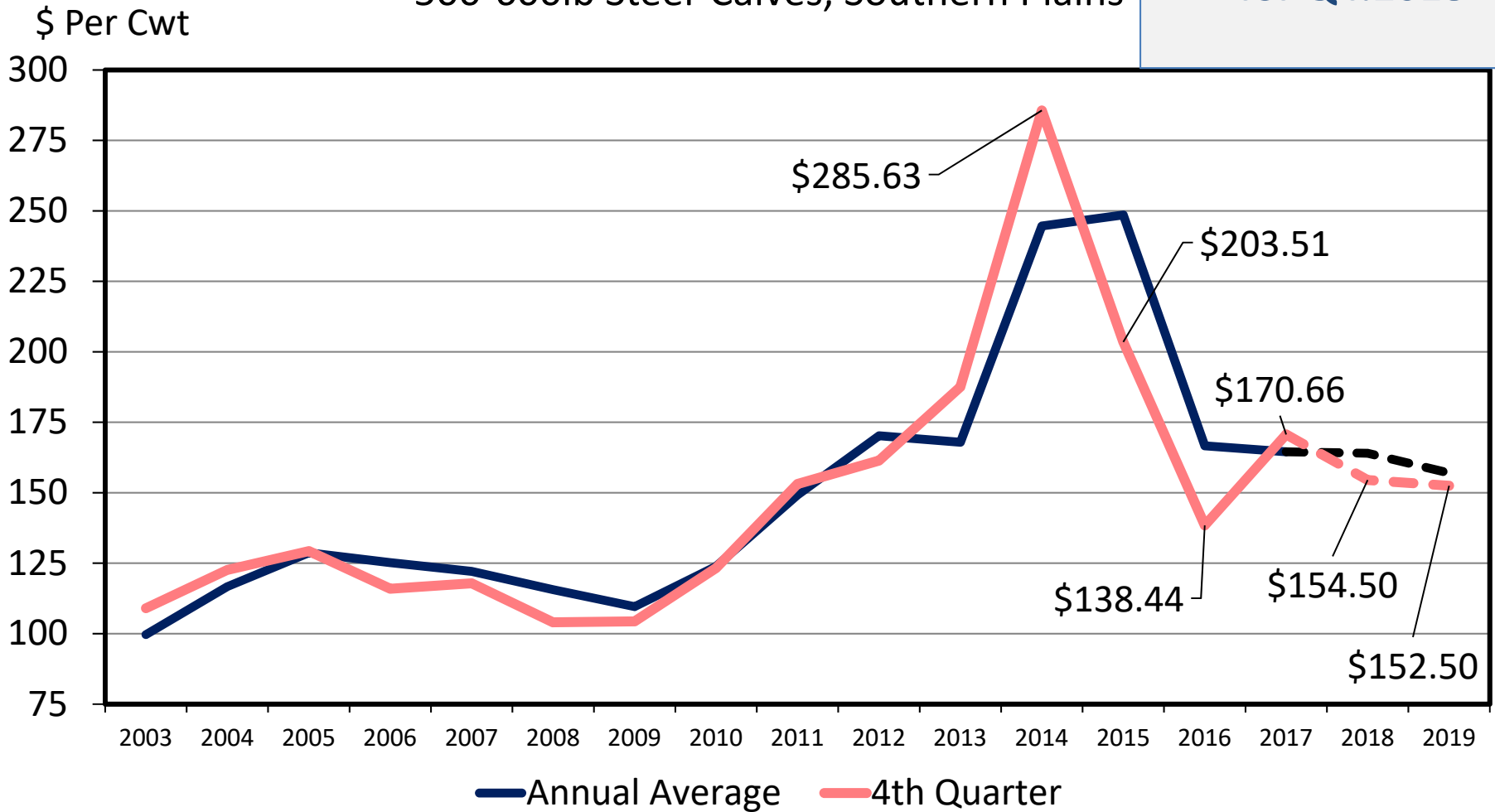
Livestock Marketing Information Center

C-P-54
02/22/18

AVERAGE CALF PRICES

500-600lb Steer Calves, Southern Plains

LMIC Projections
\$15-\$20/cwt lower
for Q4.2018

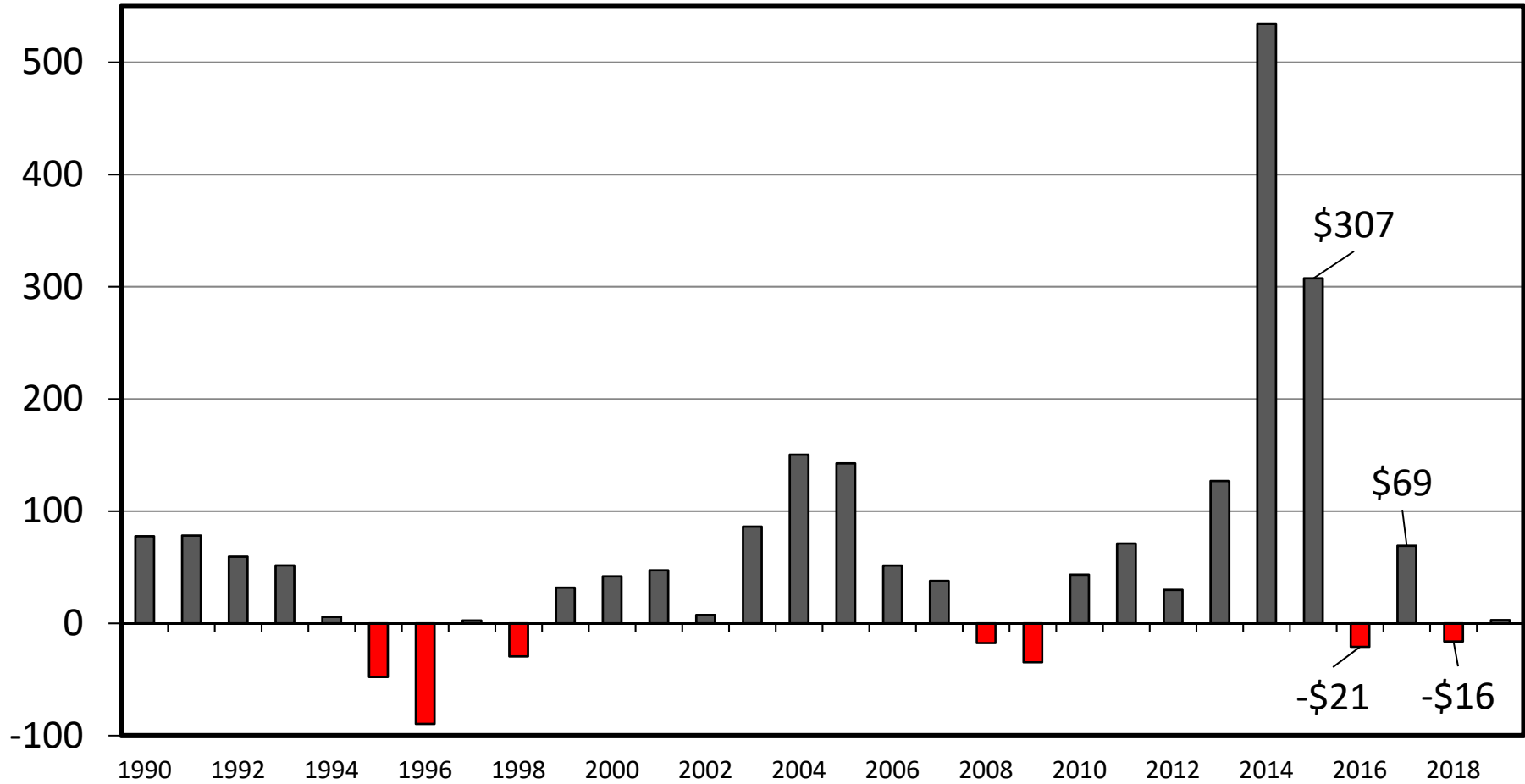


Data Source: USDA-AMS, Compiled and Forecasts by LMIC
 Livestock Marketing Information Center

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual

\$ Per Cow



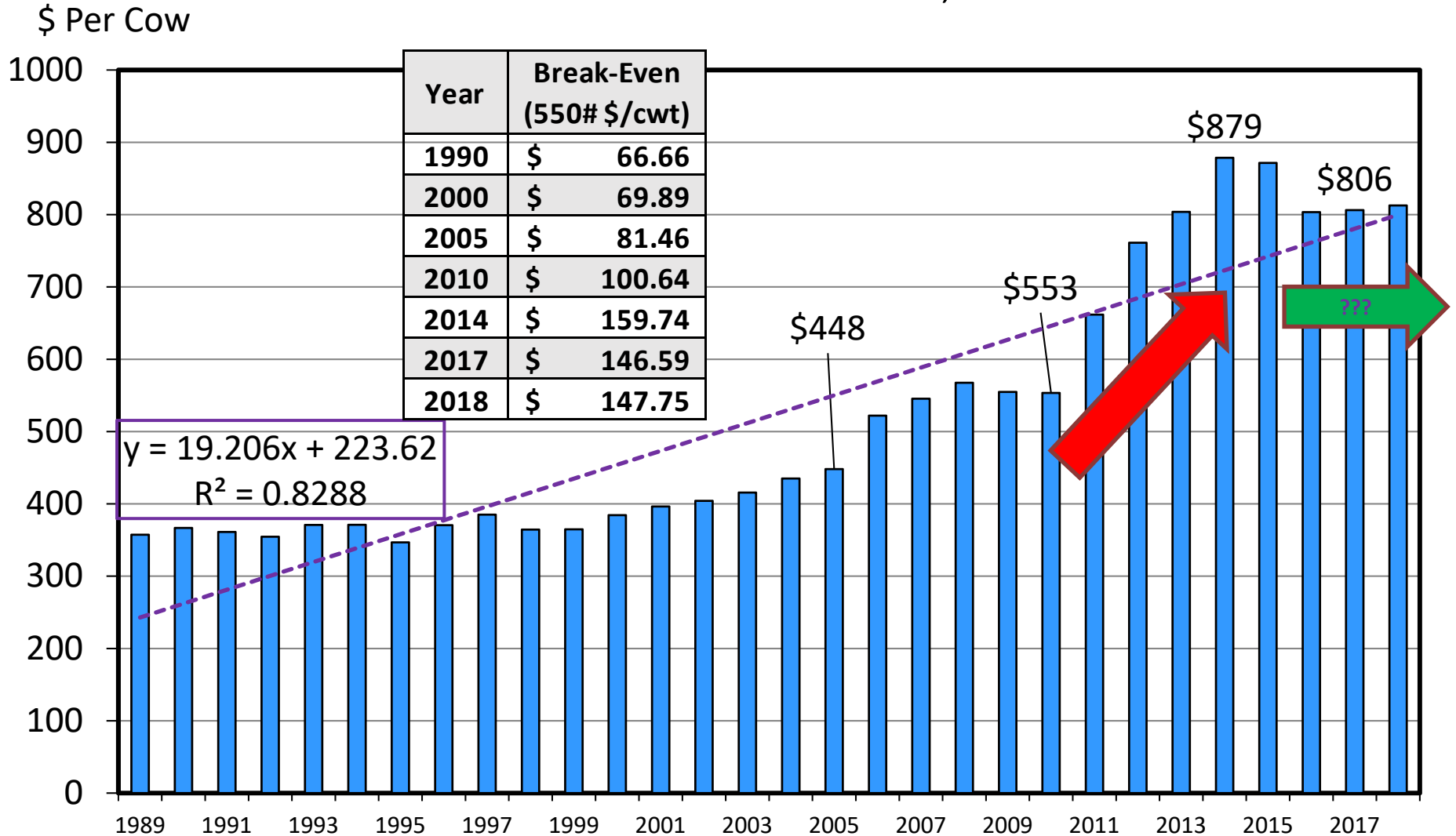
Data Source: USDA & LMIC, Compiled by LMIC

Livestock Marketing Information Center

C-P-66
02/19/18

ESTIMATED AVERAGE COW CALF COSTS

Total Cash Cost Plus Pasture Rent, Annual



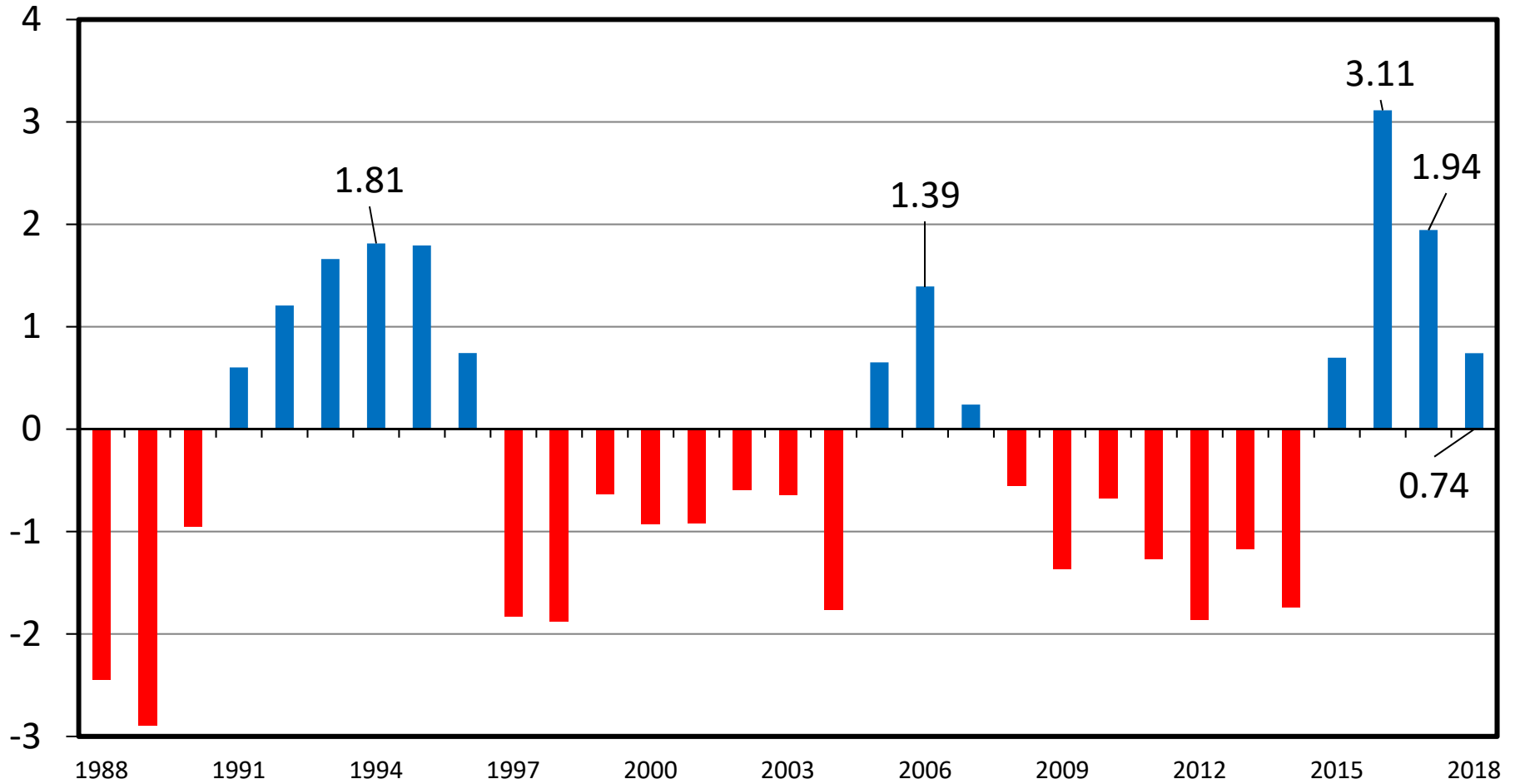
Data Source: USDA & LMIC, Compiled by LMIC

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02/08/18

PERCENT CHANGE IN CATTLE INVENTORY

U.S., January 1



Data Source: USDA-NASS, Analysis by LMIC

Livestock Marketing Information Center

C-N-48
02/16/18

Economic Outlook Overview: Post Weaning *Forward-Looking Margin Perspective*

<http://www.beefbasis.com/VOG.aspx>

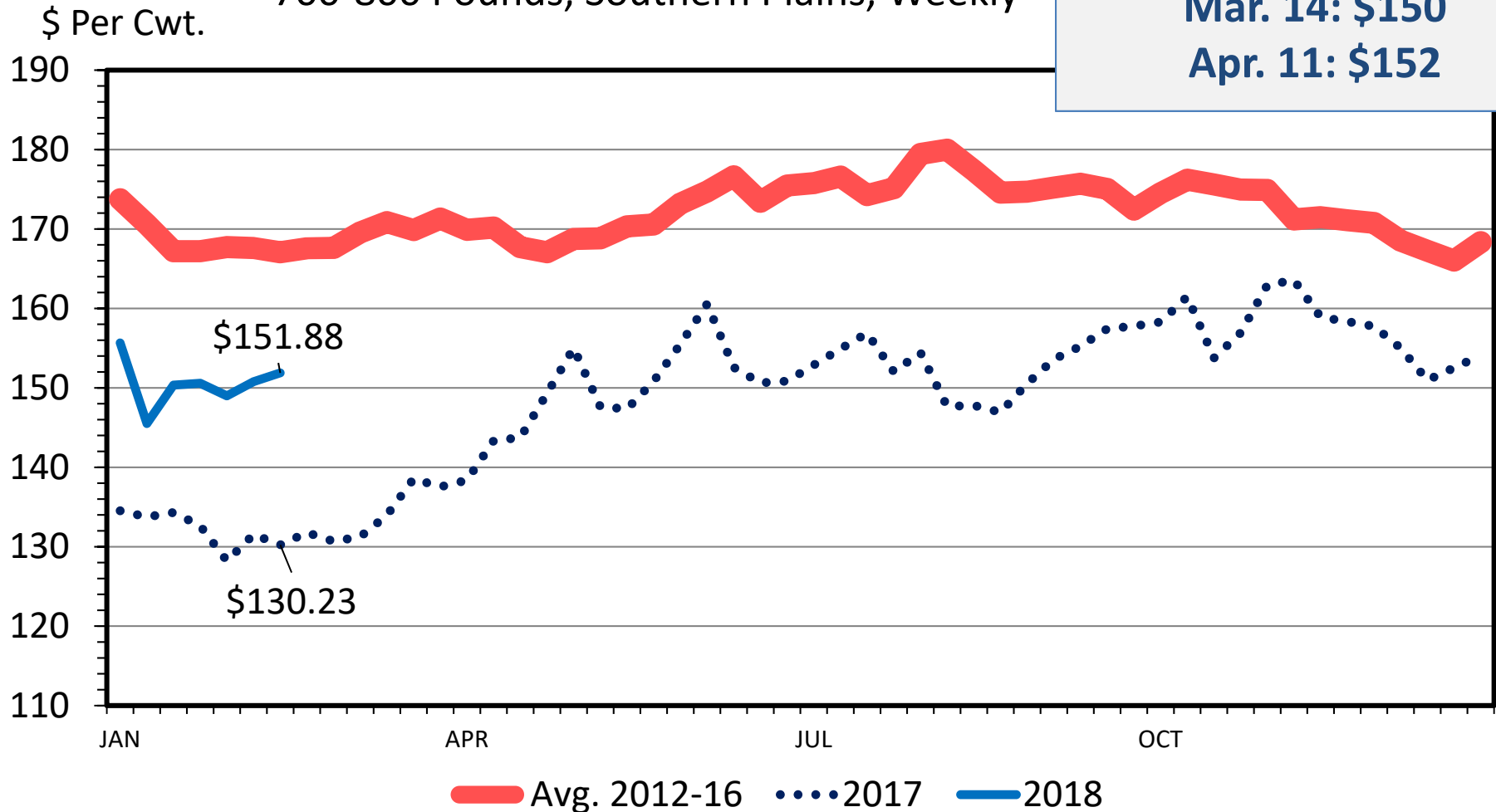
- Salina, KS 3/1/18 situation:

SUMMER GRASS

- Buy 700 lb steer on 04/04/18 (\$158)
- Sell 950 lb steer on 9/05/18 (\$145) {1.6 ADG}
- VOG: \$108/cwt
 - *Drought Monitor will have large say in COG...*

MED. & LRG. #1 FEEDER STEER PRICES
 700-800 Pounds, Southern Plains, Weekly

Beef Basis, Salina KS
2018 Projections
 (as of 3/1/18):
Mar. 14: \$150
Apr. 11: \$152



Data Source: USDA-AMS

Livestock Marketing Information Center

C-P-49
 02/22/18

Economic Outlook Overview: Feedlots

- 2017 MUCH better than anticipated
- 2018 projections reflect higher placement costs

Historical and Projected Kansas Feedlot Net Returns (as of 2/12/18')

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

Dec. 17': -\$11/steer

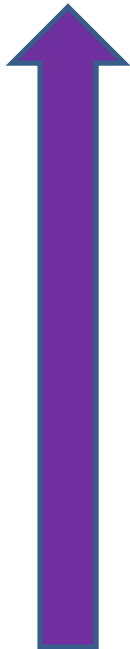
Table 1. Projected Values for Finishing Steers in Kansas Feedyards*

Closeout Mo-Yr	Net Return	FCOG**	Fed Price	Fed Futures	Fed Basis	Feeder Price	Breakeven FCOG**	Breakeven Fed Price	Breakeven Feeder Price
Jan-18	10.93	81.48	123.68	121.53	2.15	151.27	83.29	122.89	152.66
Feb-18	56.92	81.24	126.42	125.00	1.42	150.93	90.64	122.31	158.25
Mar-18	82.00	80.18	128.68	125.00	3.68	153.78	93.48	122.72	164.58
Apr-18	-94.84	81.67	119.45	116.73	2.72	158.28	65.41	126.58	145.57
May-18	-70.12	86.62	124.45	116.73	7.72	159.15	74.60	129.70	149.82
Jun-18	-90.78	85.18	117.08	113.80	3.28	150.40	69.27	123.98	138.19
Jul-18	-68.47	84.52	116.10	113.80	2.30	147.42	73.19	121.16	138.26
Aug-18	-45.08	83.67	116.78	115.48	1.31	148.45	76.54	120.10	142.27
Sep-18	-88.69	85.10	115.91	115.48	0.43	150.26	71.07	122.32	138.44
Oct-18	-137.33	85.94	118.23	117.53	0.70	153.88	61.67	128.08	137.30

Representative Barometer for Trends in Profitability

Quarterly Forecasts (LMIC: 2/18/18)

Year	Comm'l	% Chg.	Average	% Chg.	Comm'l	% Chg.
Quarter	Slaughter	from	Dressed	from	Beef	from
		Year Ago	Weight	Year Ago	Production	Year Ago
2017						
I	7,711	7.3	817.0	-1.1	6,300	6.1
II	8,074	5.8	793.2	-2.2	6,404	3.5
III	8,249	5.2	815.9	-1.1	6,731	4.0
IV	8,141	2.8	827.7	-1.1	6,738	1.7
Year	32,175	5.2	813.5	-1.4	26,173	3.8
2018						
I	7,947	3.1	821.3	0.5	6,527	3.6
II	8,427	4.4	807.9	1.9	6,808	6.3
III	8,571	3.9	824.4	1.0	7,066	5.0
IV	8,366	2.8	835.1	0.9	6,987	3.7
Year	33,311	3.5	822.2	1.1	27,388	4.6
2019						
I	7,920	-0.3	826.6	0.6	6,546	0.3
II	8,510	1.0	813.6	0.7	6,924	1.7
III	8,782	2.5	830.4	0.7	7,293	3.2
IV	8,429	0.8	840.2	0.6	7,082	1.4
Year	33,641	1.0	827.7	0.7	27,845	1.7



Quarterly Forecasts (LMIC: 2/18/18)

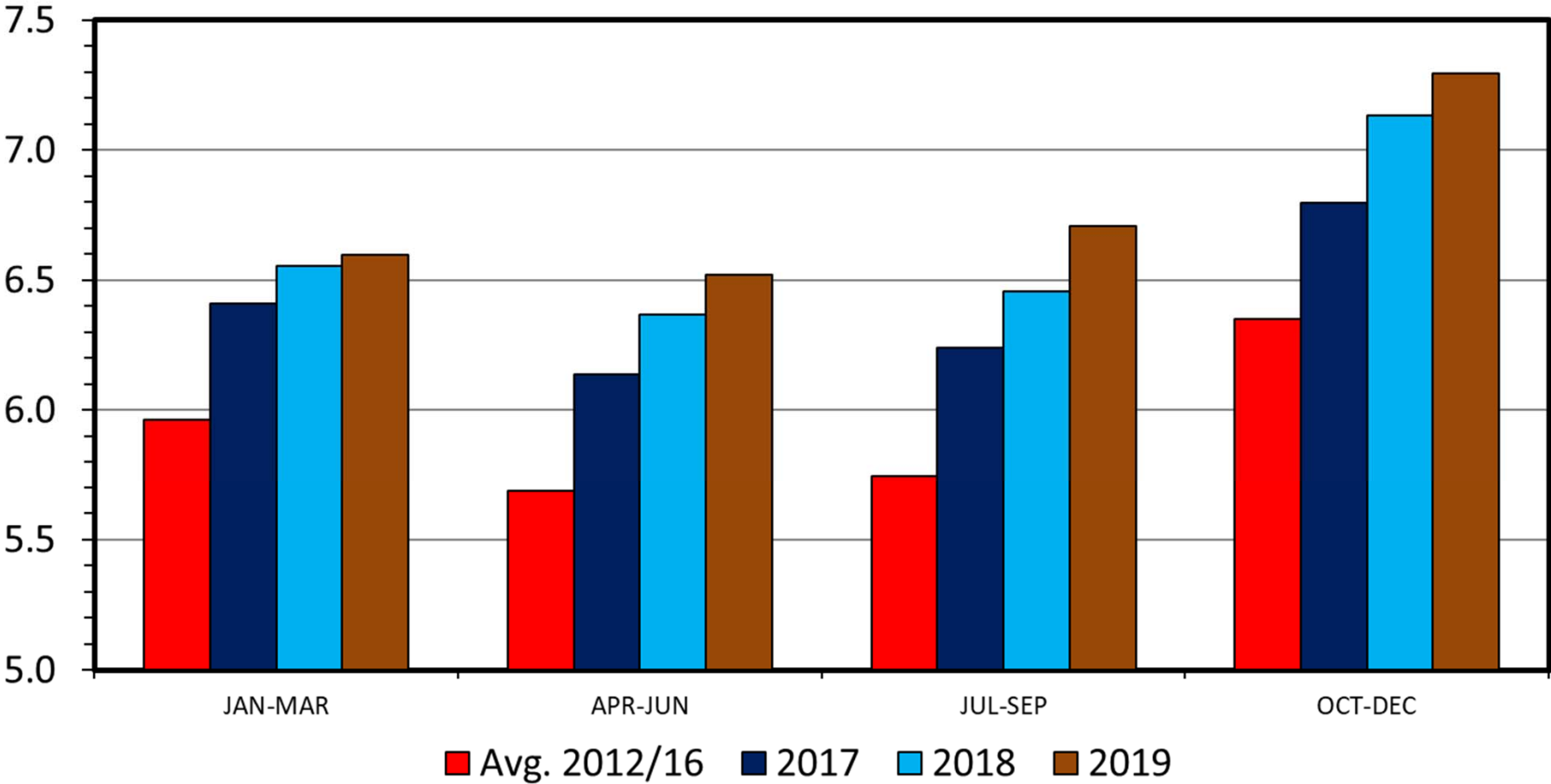
	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2017				
I	122.96	-8.8	132.88	157.38
II	132.76	4.0	149.30	170.49
III	112	-0.6	153	165
IV	118	9.1	157	171
Year	122	0.5	148	166
2018				
I	125-126	2.1	149-150	176-177
II	121-124	-7.7	146-149	171-175
III	106-110	-4.0	141-145	161-166
IV	111-116	-3.7	139-144	153-159
Year	116-119	-3.3	143-148	164-170
2019				
I	119-125	-2.8	140-145	158-165
II	117-124	-1.6	138-145	160-168
III	107-115	2.8	134-142	155-164
IV	108-117	-0.9	131-140	150-160
Year	114-119	-0.9	136-143	156-164

Meat Supplies & Trade

COMMERCIAL PORK PRODUCTION

US, Quarterly

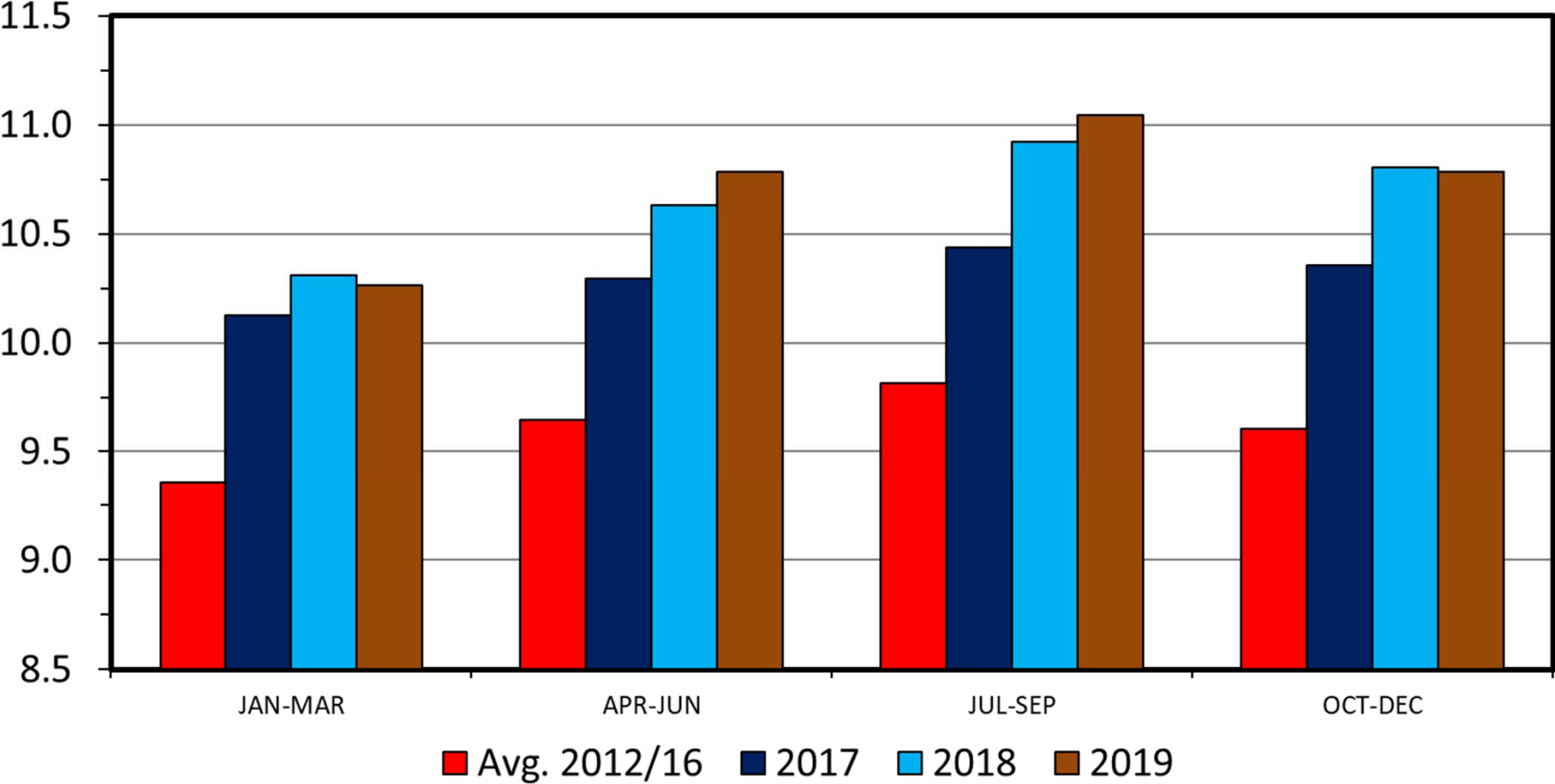
Bil. Pounds



RTC BROILER PRODUCTION

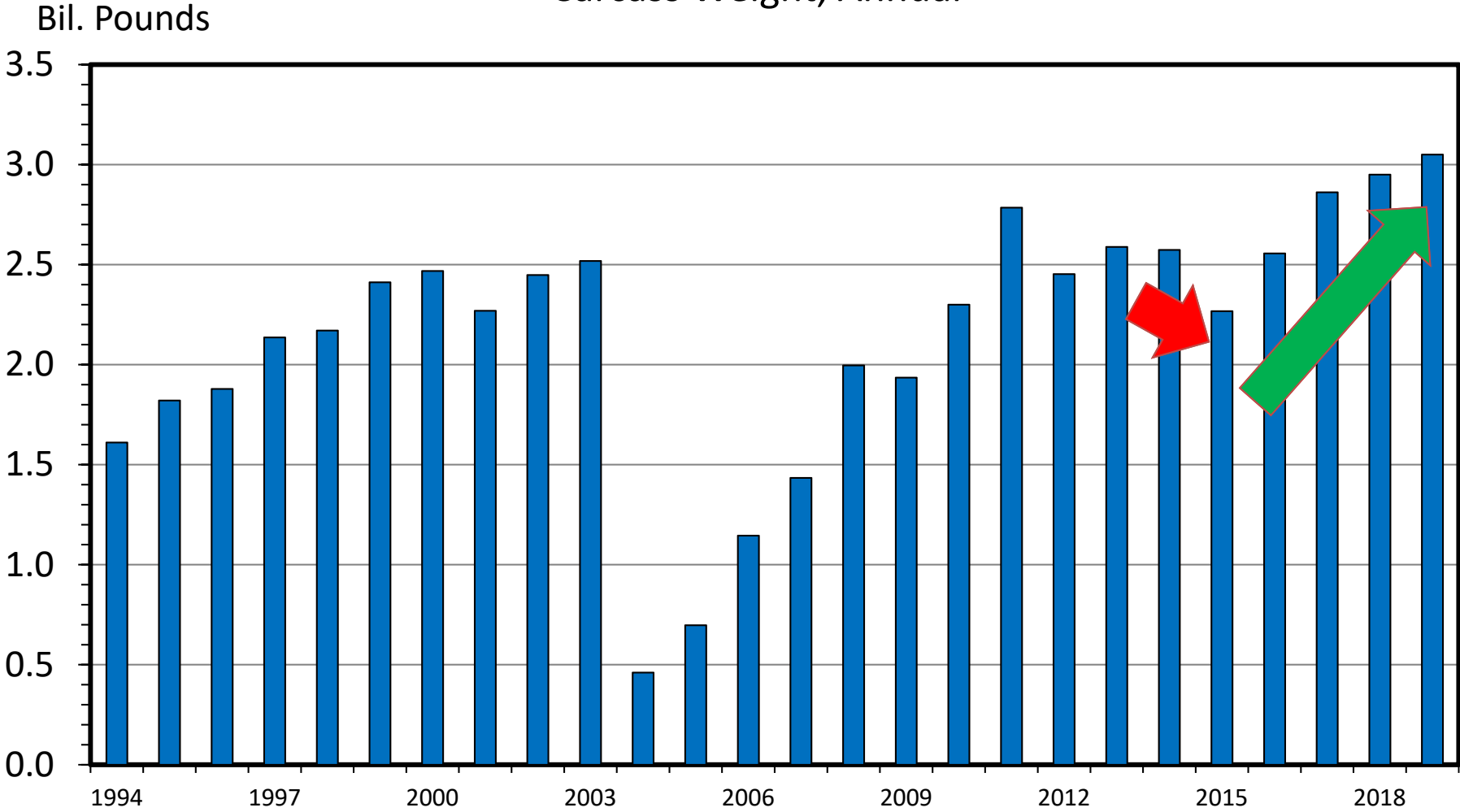
US, Quarterly

Bil. Pounds



US BEEF AND VEAL EXPORTS

Carcass Weight, Annual



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

Livestock Marketing Information Center

I-N-06
02/07/18

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.							

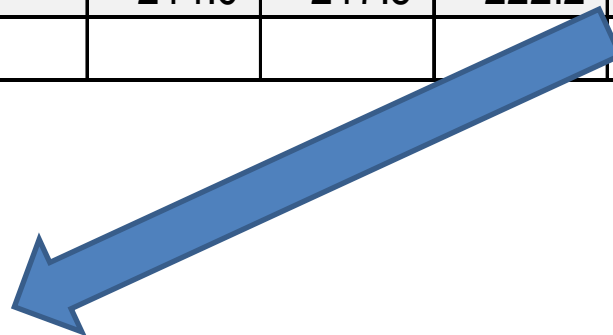
USDA Long-Term projections

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

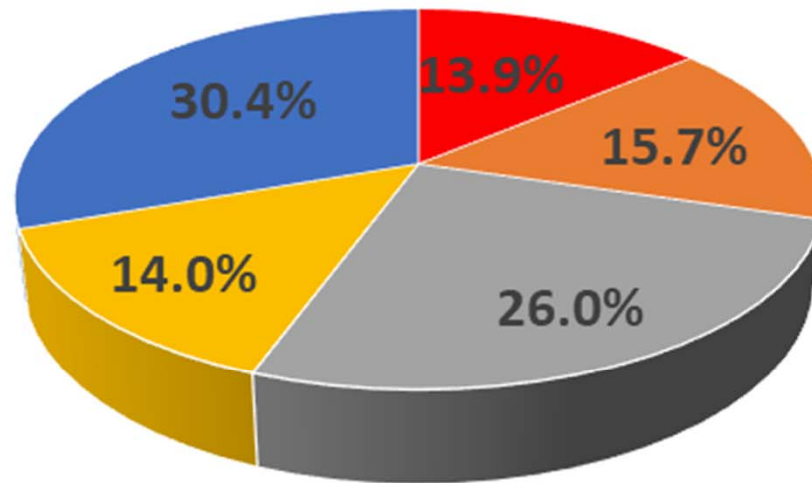
Feb. 2018 report (<http://www.usda.gov/oce/commodity/projections/>)

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	
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.							

Projections INCLUDE trade dependency...

U.S. Beef Export Portfolio (by vol.)

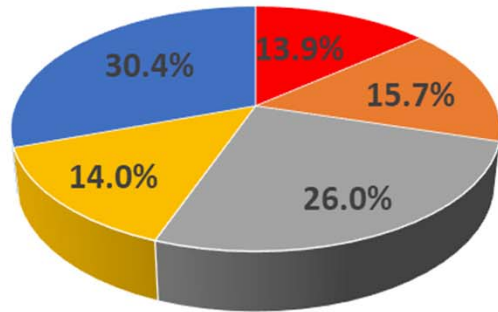
U.S. Beef Export Portfolio, Average Annual Shares: 2013-2017



■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

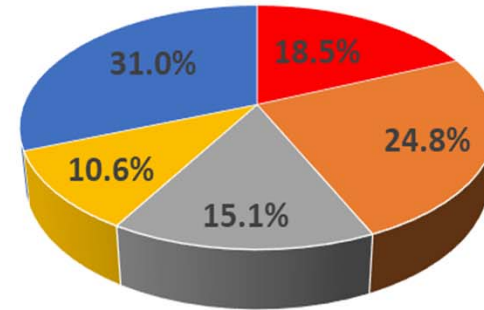
U.S. Beef Export Portfolio (by vol.)

U.S. Beef Export Portfolio, Average Annual Shares: 2013-2017



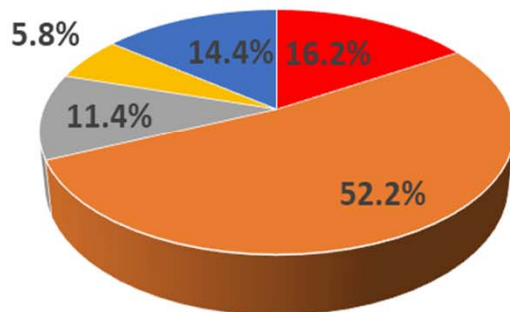
■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

U.S. Beef Export Portfolio, Average Annual Shares: 2008-2012



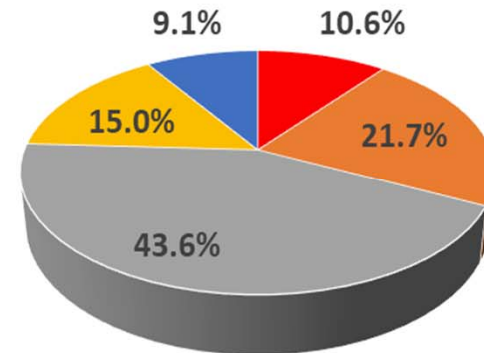
■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

U.S. Beef Export Portfolio, Average Annual Shares: 2003-2007



■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

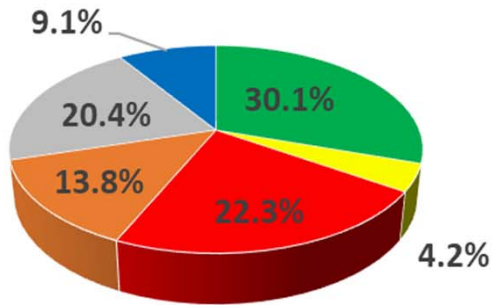
U.S. Beef Export Portfolio, Average Annual Shares: 1998-2002



■ Canada ■ Mexico ■ Japan ■ South Korea ■ Other

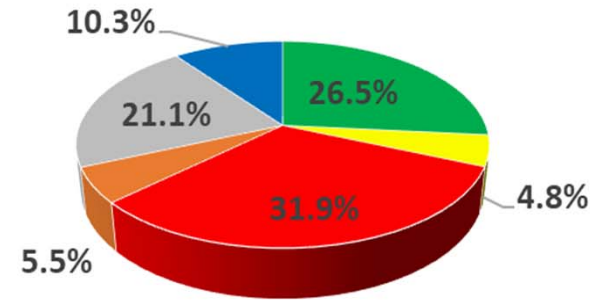
U.S. Beef Import Portfolio (by vol.)

U.S. Beef Import Portfolio, Average Annual Shares: 2013-2017



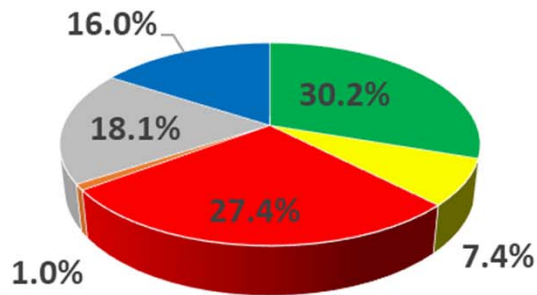
■ Australia ■ Brazil ■ Canada
■ Mexico ■ New Zealand ■ Other

U.S. Beef Import Portfolio, Average Annual Shares: 2008-2012



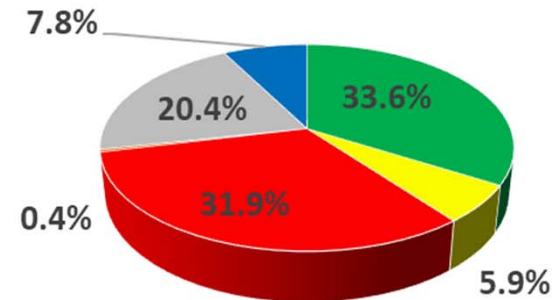
■ Australia ■ Brazil ■ Canada
■ Mexico ■ New Zealand ■ Other

U.S. Beef Import Portfolio, Average Annual Shares: 2003-2007



■ Australia ■ Brazil ■ Canada
■ Mexico ■ New Zealand ■ Other

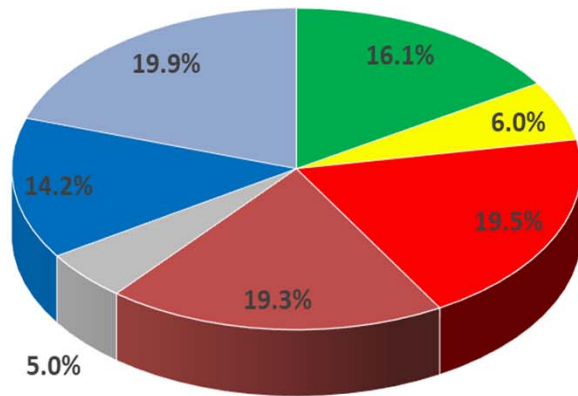
U.S. Beef Import Portfolio, Average Annual Shares: 1998-2002



■ Australia ■ Brazil ■ Canada
■ Mexico ■ New Zealand ■ Other

Global Beef Export Portfolio (by vol.)

Global Beef Export Portfolio (2018)



■ Australia ■ New Zealand ■ India ■ Brazil ■ Canada ■ U.S. ■ Other

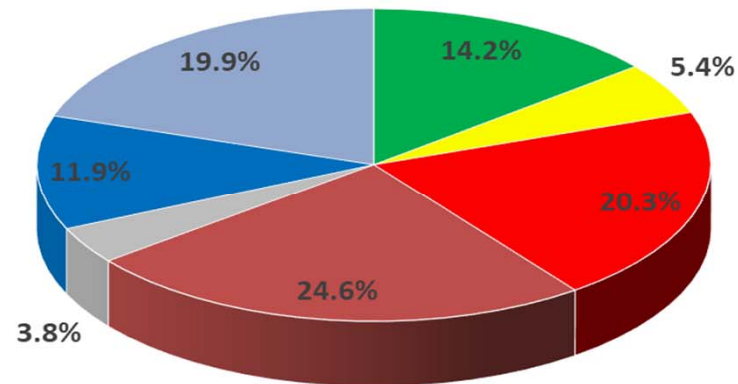
USDA Long-Term

projections

Feb. 2018 report

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

Global Beef Export Portfolio (2027)

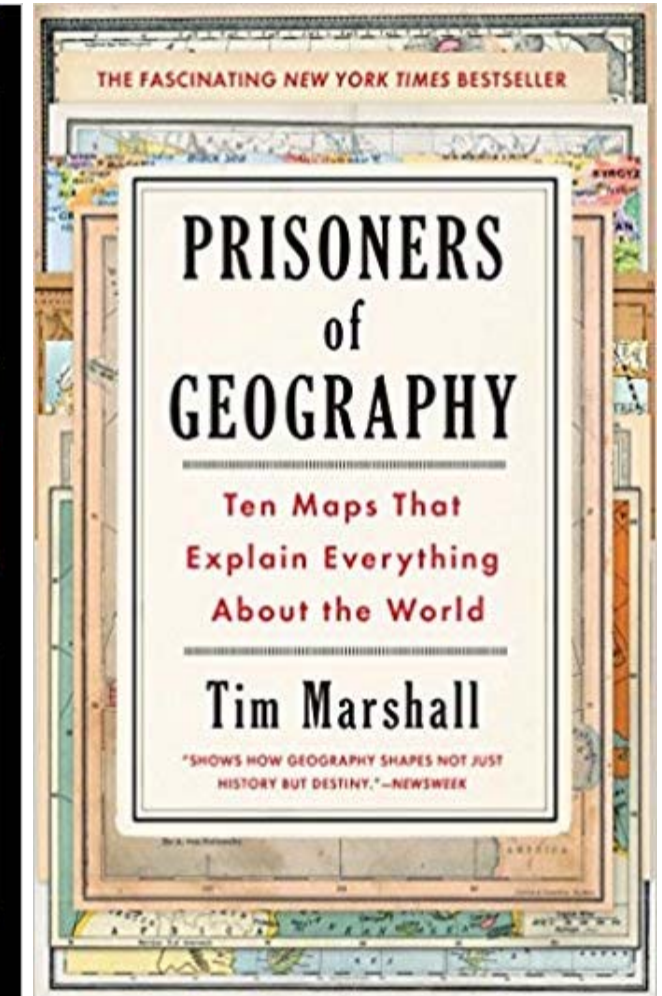
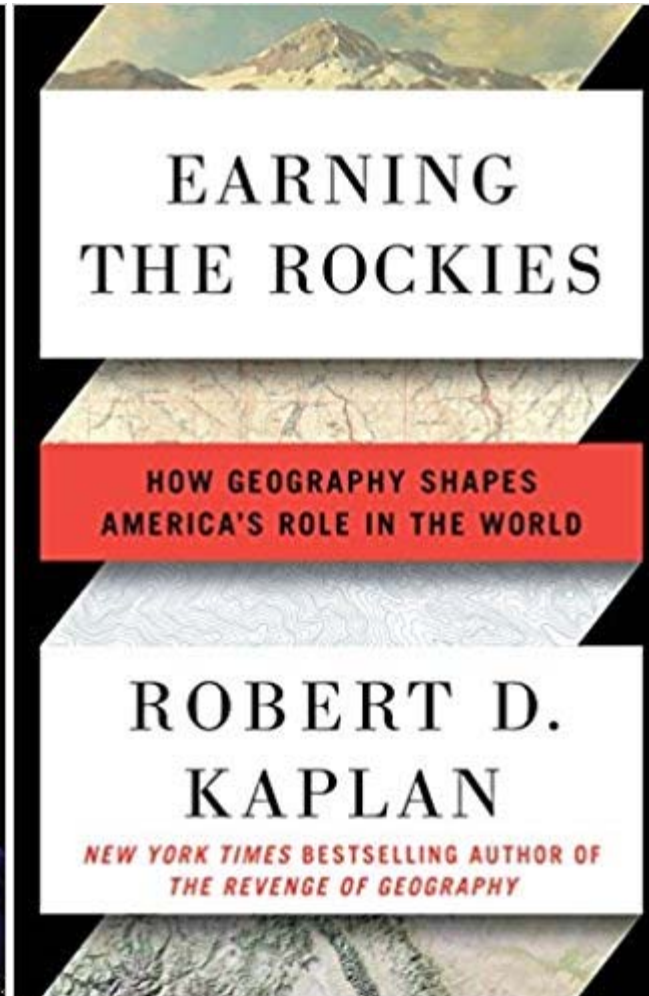
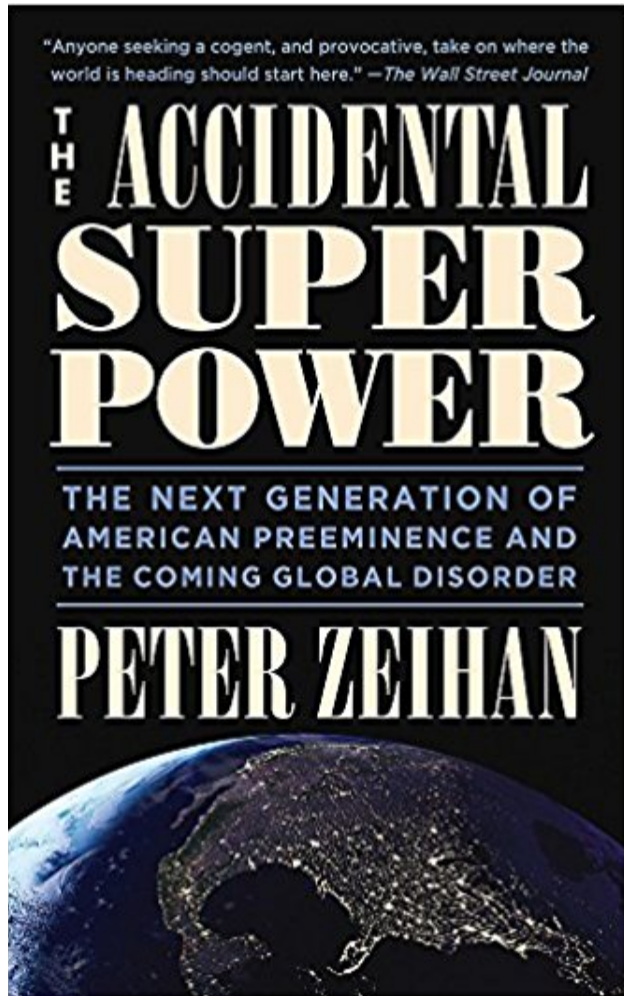


■ Australia ■ New Zealand ■ India ■ Brazil ■ Canada ■ U.S. ■ Other

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
 - Public-private mix is changing...
- Property rights encourage investment

Comparative Advantages: Geography Matters!



Comparative **DIS**advantages

- Not lowest \$/lb producer
 - Public research funding declining
- Partially effective communication, coordination, and signaling across industry sectors
- Fragmented support of increased traceability systems (or information sharing more generally)

Broad Situation Summary

- Immense opportunity exists;

BUT

- Internal industry coordination must improve
 - International trade deals (sustain, expand, & initiate)
 - National animal ID & traceability

Heed insights shared at Cattlemen's Day

(<https://www.asi.k-state.edu/events/cattlemens-day/video.html>)

- Context on the value of exports:
 - “we eat everything except the moo”
 - Paul Clayton (USMEF), 2014
- New technology follows investment
 - Public investment down, private investment up
 - “where do private firms get their scientists? – the public sector” ... U.S. comparative advantage is at stake
 - Ted Schroeder (KSU), 2010

Wrap-Up

- Broad 2018-2019 Profitability Outlook
 - Cow-calf:
 - Converging toward Long-Term Levels
 - 2017 Better than Expected, Hope Demand's Role is Recognized!
 - Stocker:
 - Margins vary widely across situations
 - Drought/feasibility impact likely substantial
 - Feedlot:
 - 2017 offered notable equity recovery
 - 2018 has improved given demand strength
 - Challenges may grow during 2018-2019 (weights, demand, & trade...)

Food for Thought...

- ❖ Why do we BOTH import & export large volumes of beef?
 - Will this always be the case?

- ❖ What are pros & cons of becoming more export reliant?

- ❖ Should U.S. further invest in development of export markets?
 - Should a loss-leader approach be adopted to form grain-finished preferences?

- ❖ How does increasing exports help me as a producer?

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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