

Beef Cattle Situation and Outlook



Emmit L. Rawls
Professor
Agricultural Economics
University of Tennessee Extension

elrawls@utk.edu

www.TNBeefCattleInitiative.org

 **Extension**

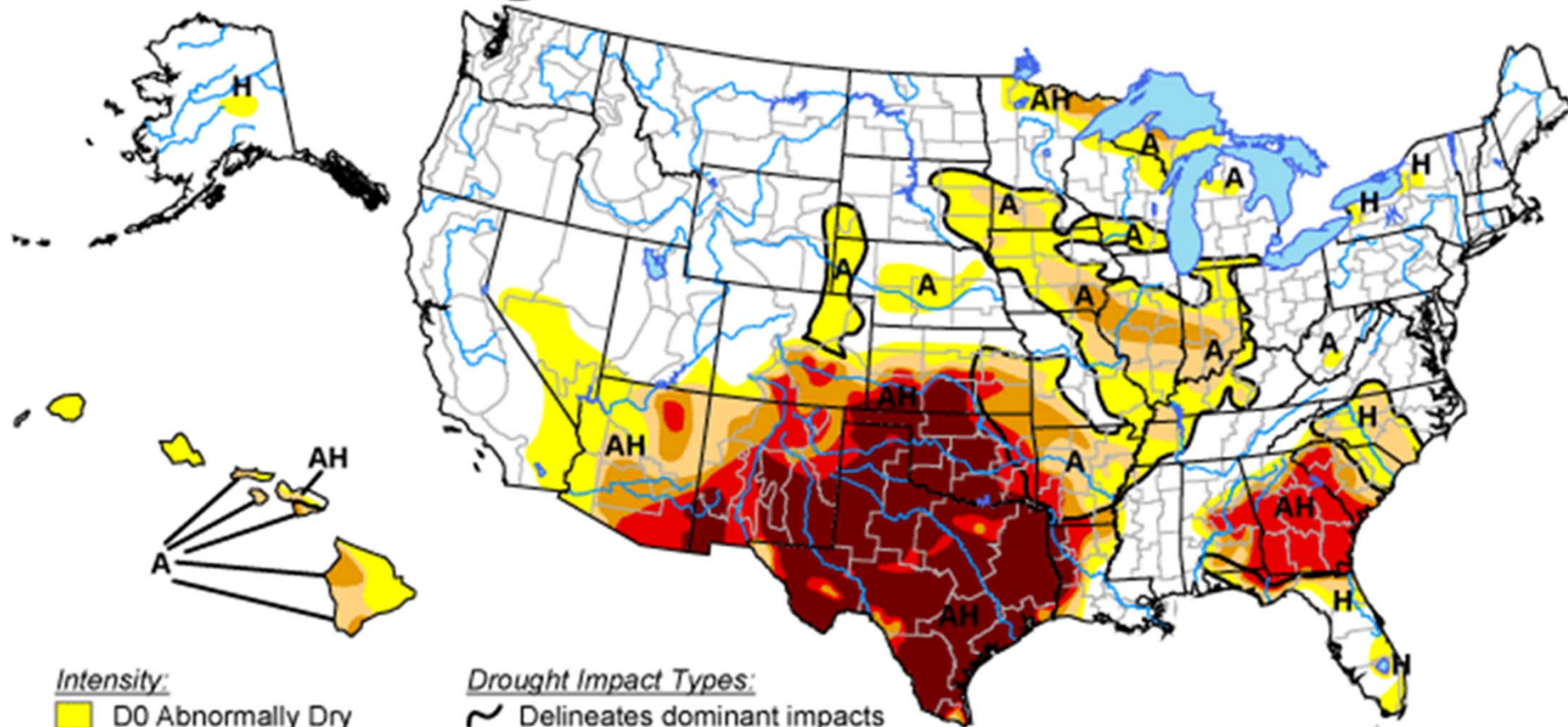


Four Majors Factors in the Market

- Drought -/+
- Feed cost -/+
- The economy → demand -/+
- Exports +/-

U.S. Drought Monitor


September 13, 2011
Valid 8 a.m. EDT



Intensity:

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

Drought Impact Types:

-  Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)

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

<http://drought.unl.edu/dm>

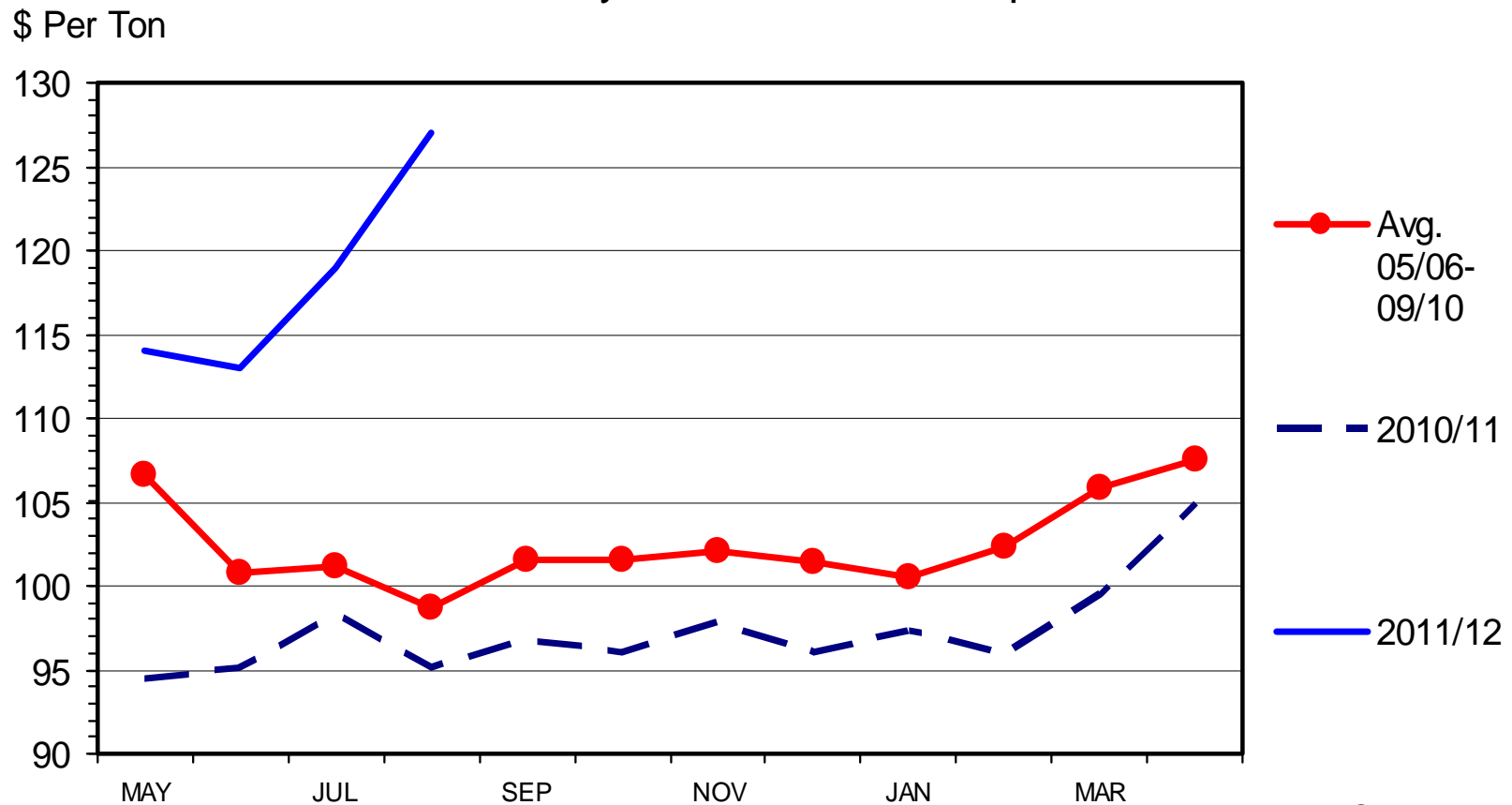


Released Thursday, September 15, 2011

Author: Mark Svoboda, National Drought Mitigation Center

Other Hay

Received by Farmers, U.S., Crop Year



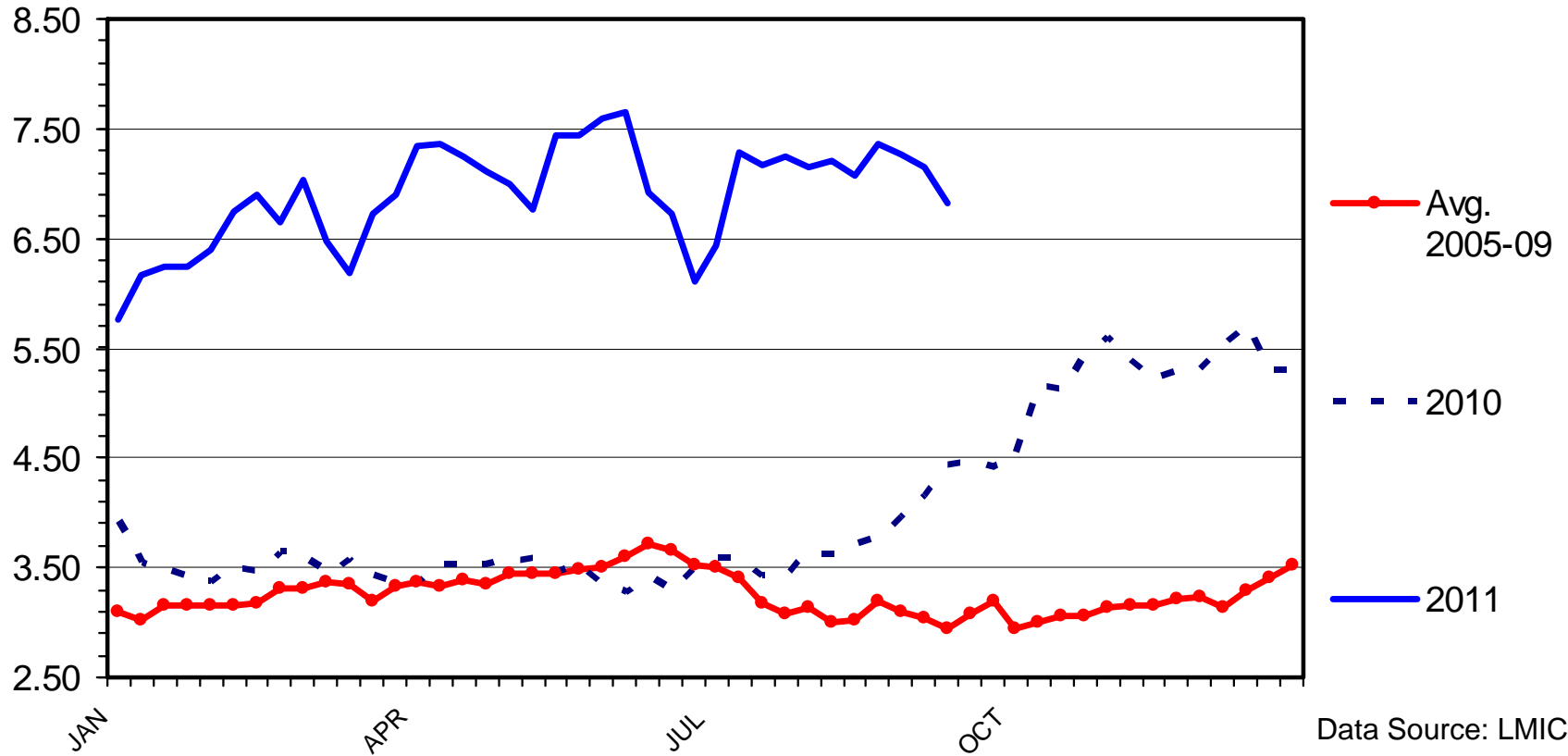
Data Source: LMIC

- Correlation between corn & hay prices is +0.82

Omaha Corn Prices

\$ Per Bu.

Weekly



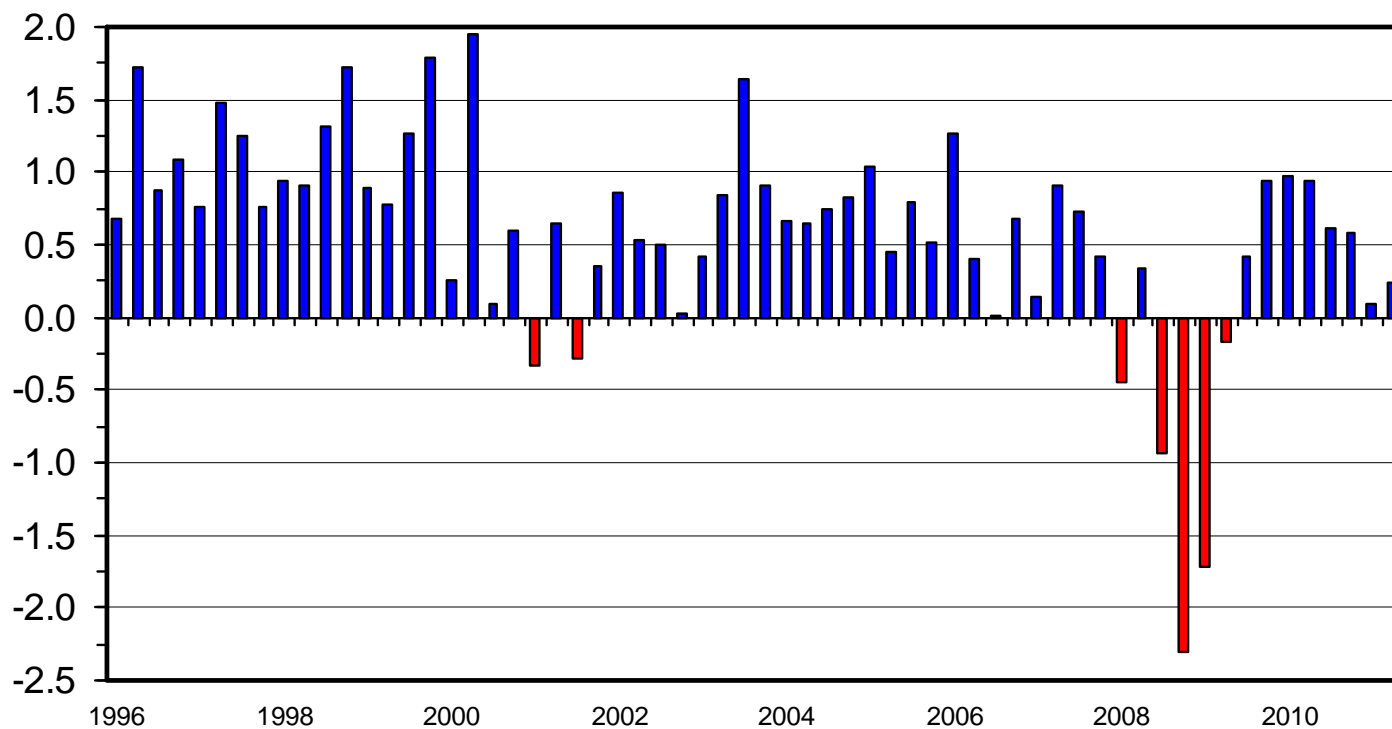
Data Source: LMIC

- On a new plateau

Quarterly Gross Domestic Product (GDP)

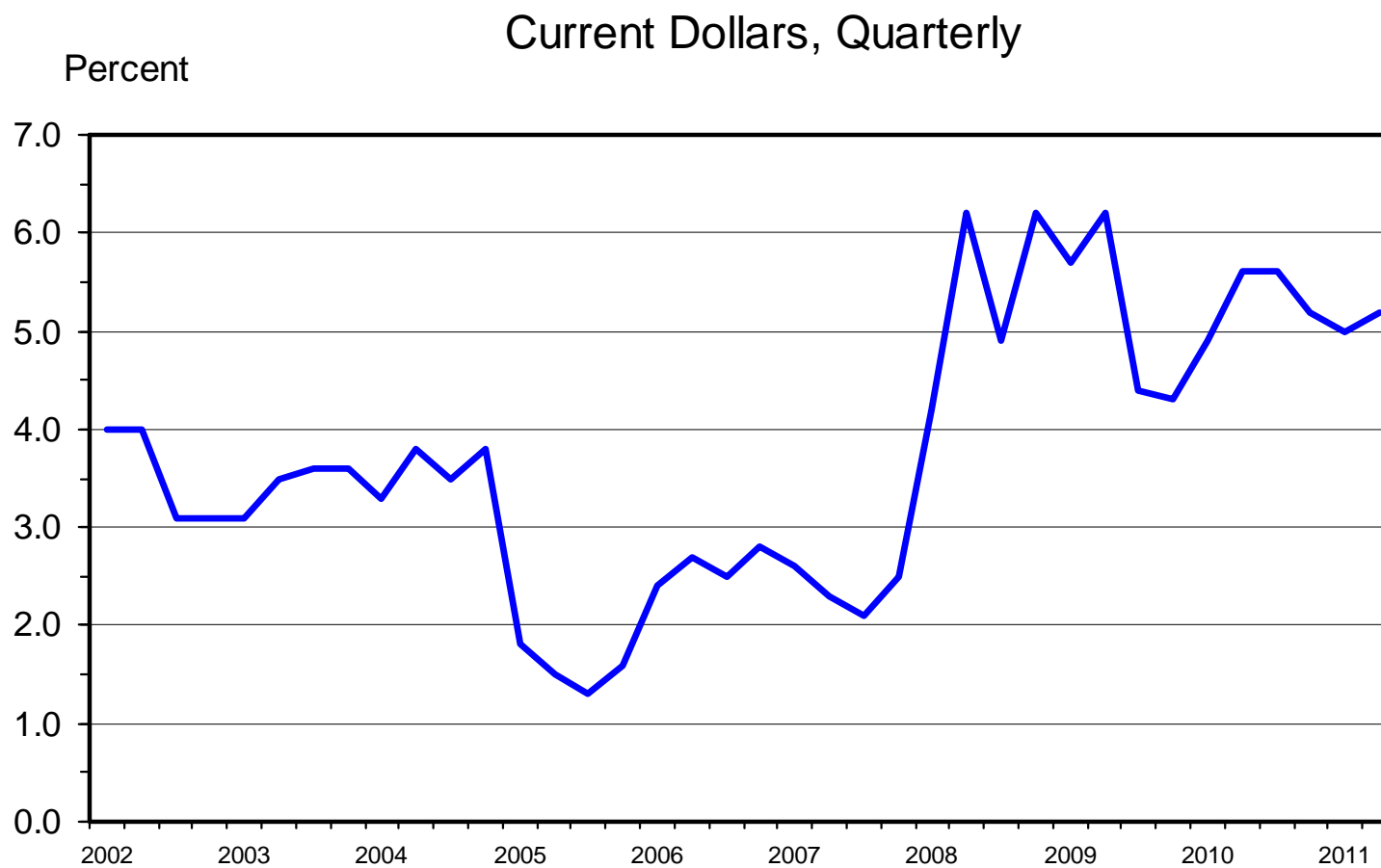
Real Dollar (2005) Change from Previous Quarter

Percent Change



Data Source: Dept Commerce-BEA

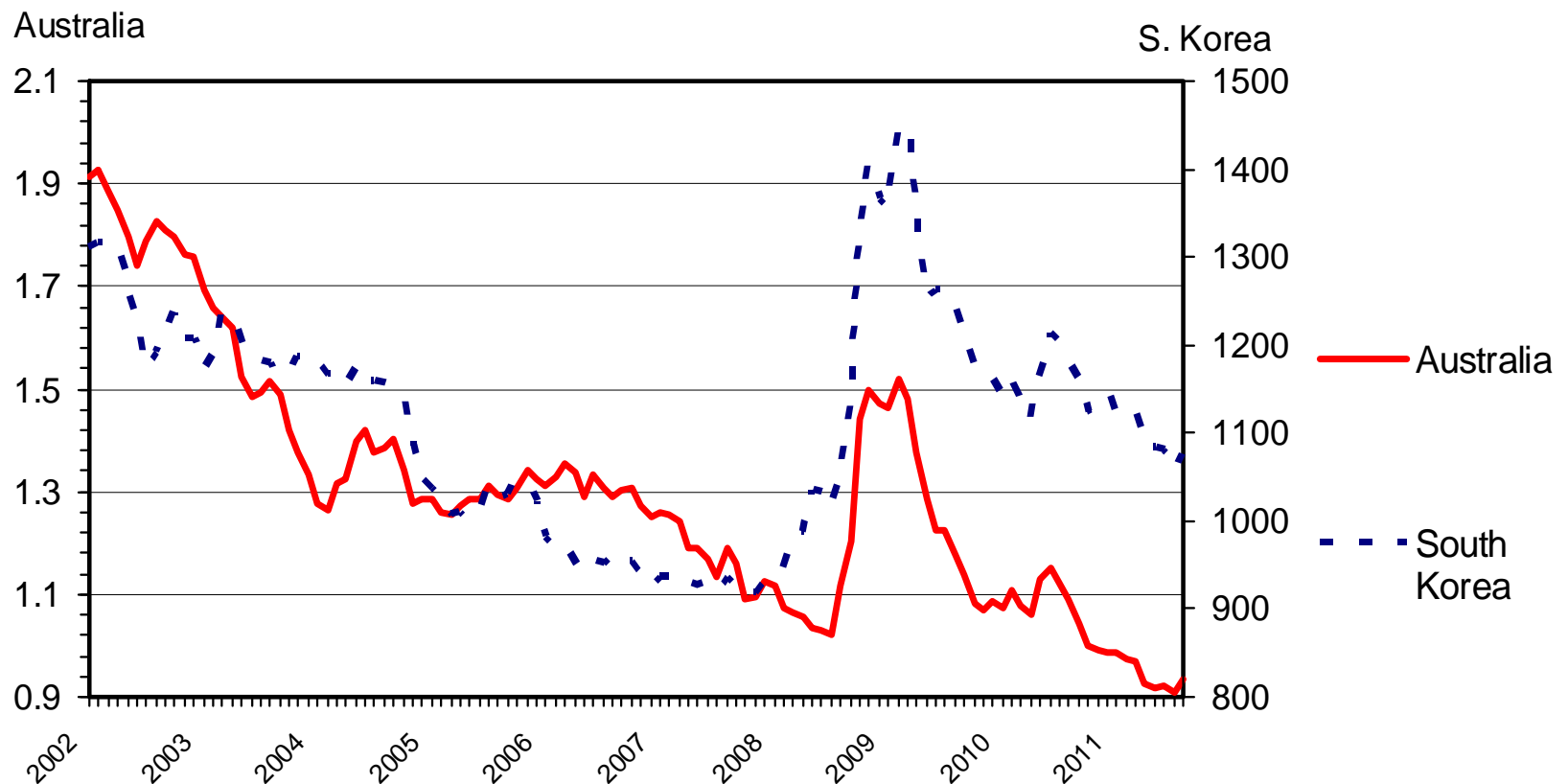
Personal Savings as a Percent of Disposable Personal Income



Data Source: Dept Commerce-BEA

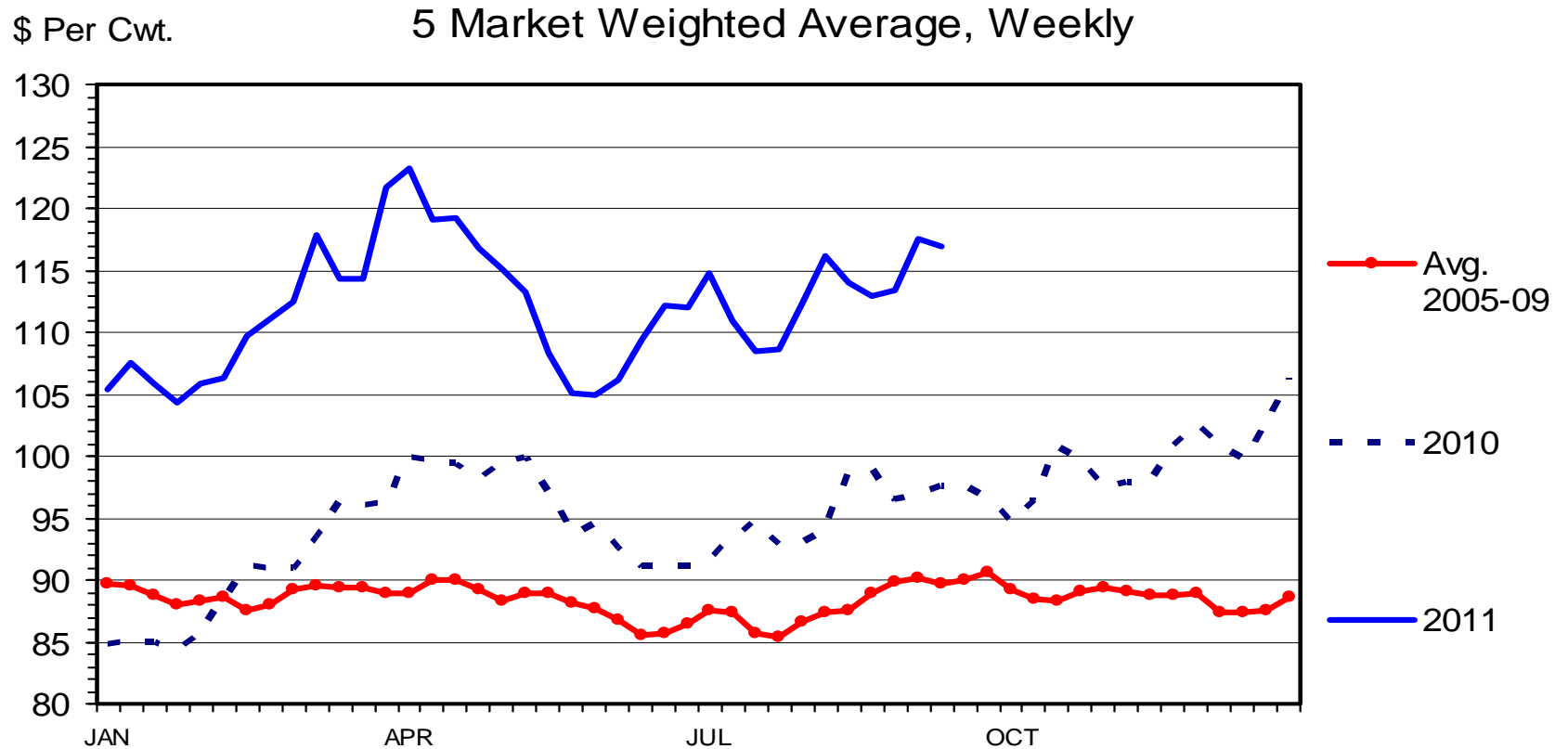
Exchange Rate

US Dollar base, Monthly



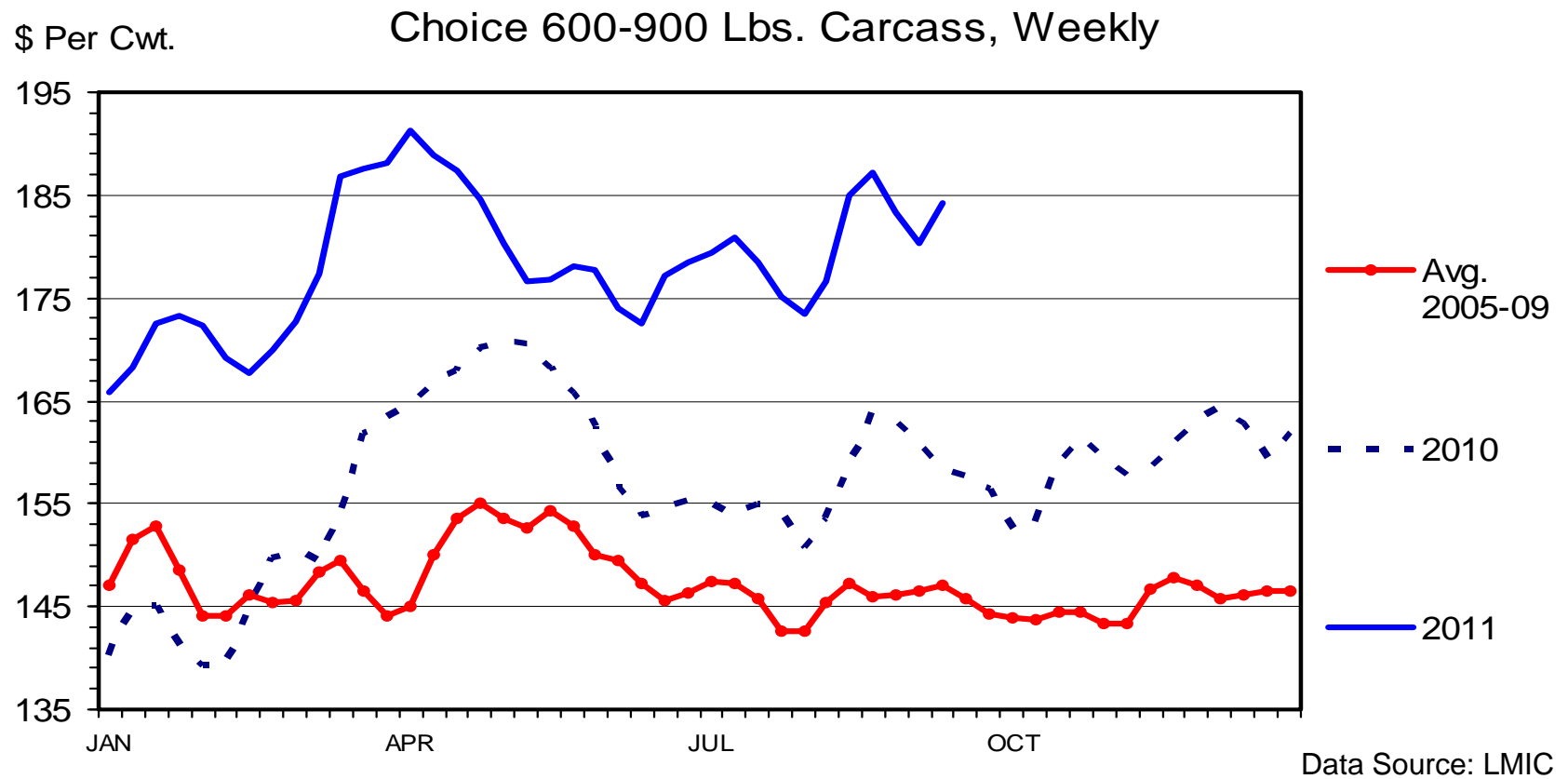
Data Source: Pacific Center, University of BC

Slaughter Steer Prices



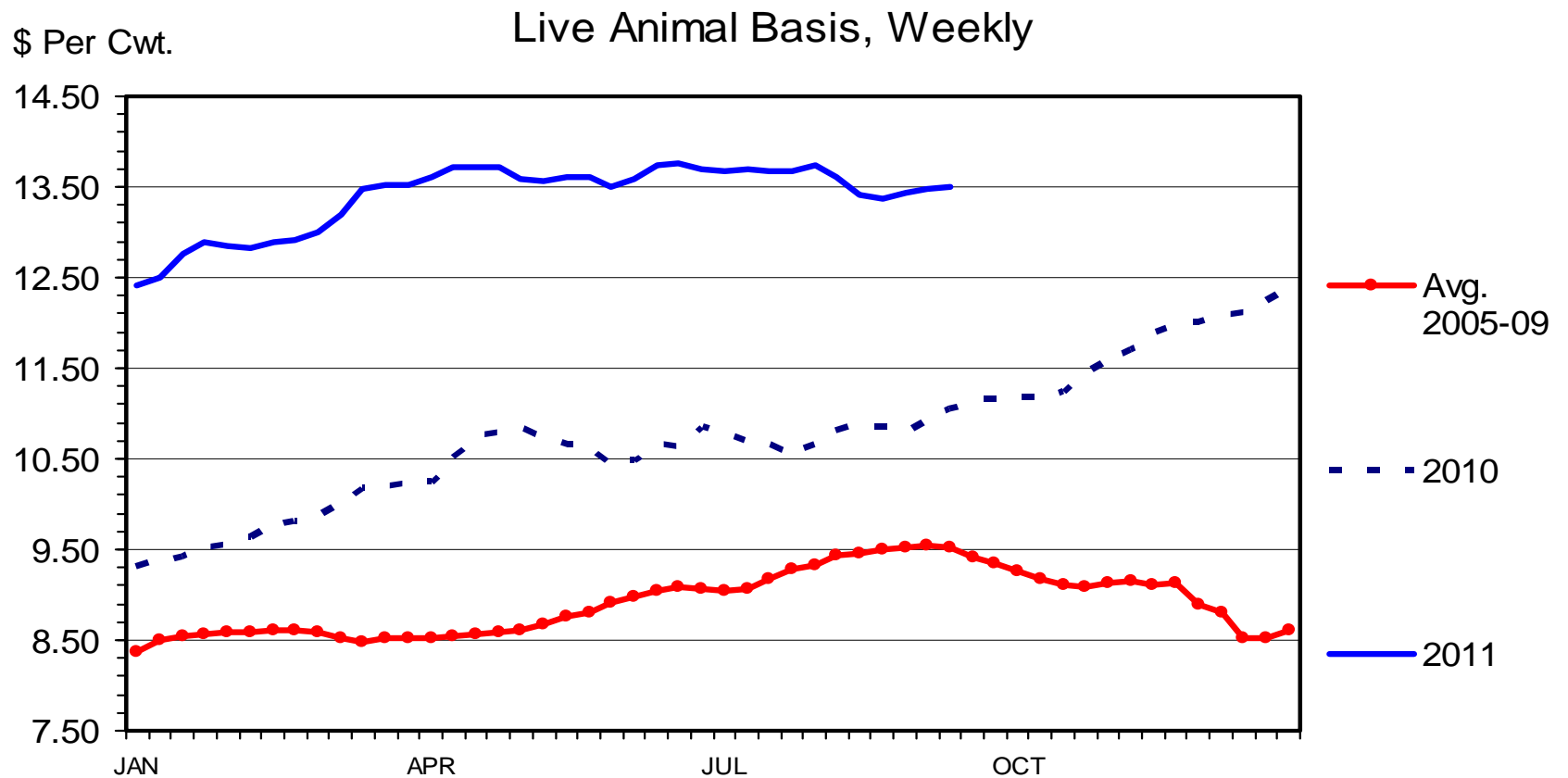
Data Source: LMIC

Boxed Beef Cutout Value



- Wholesale values higher on reduced supplies and improved demand

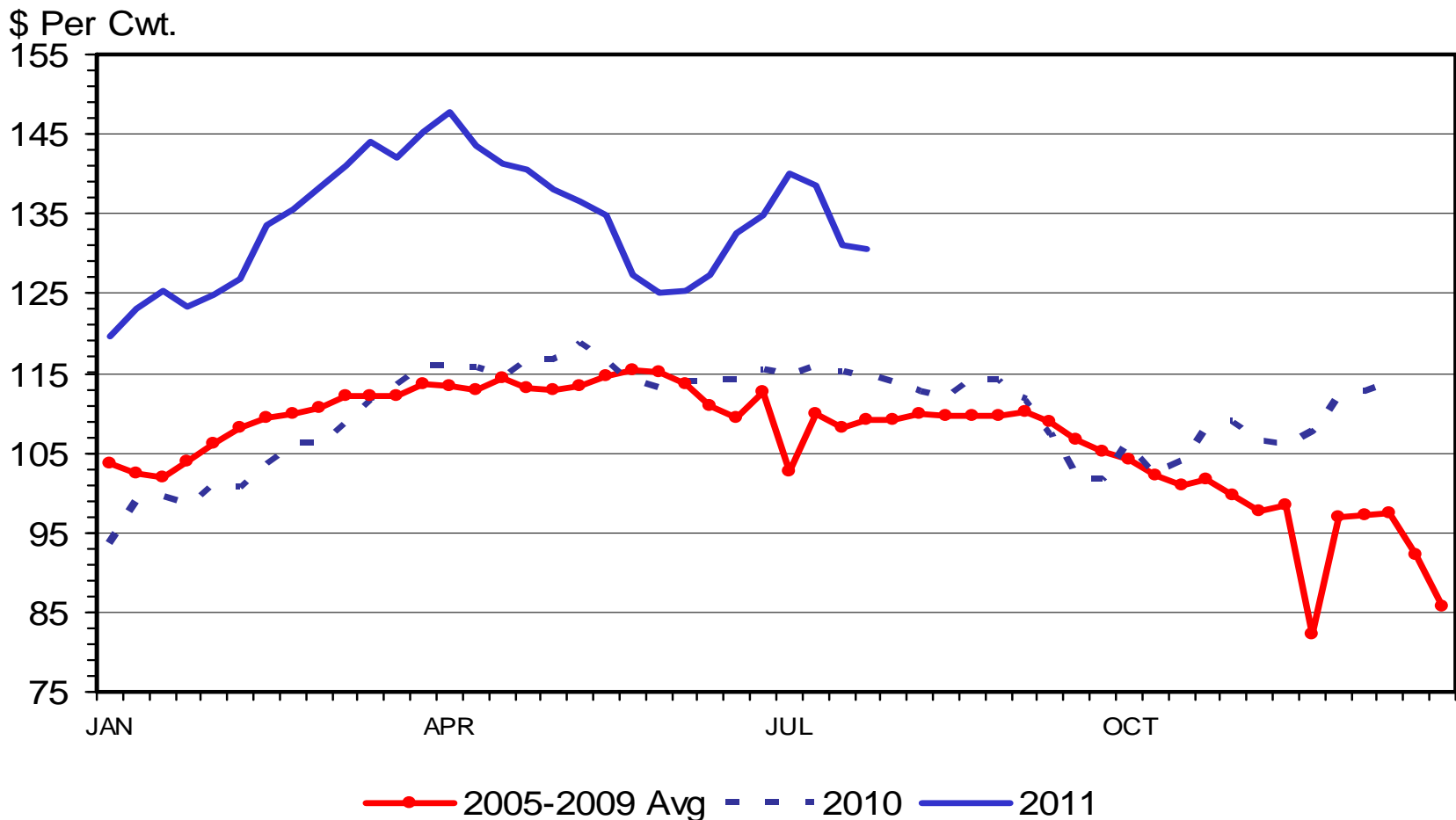
Steer Hide and Offal Value



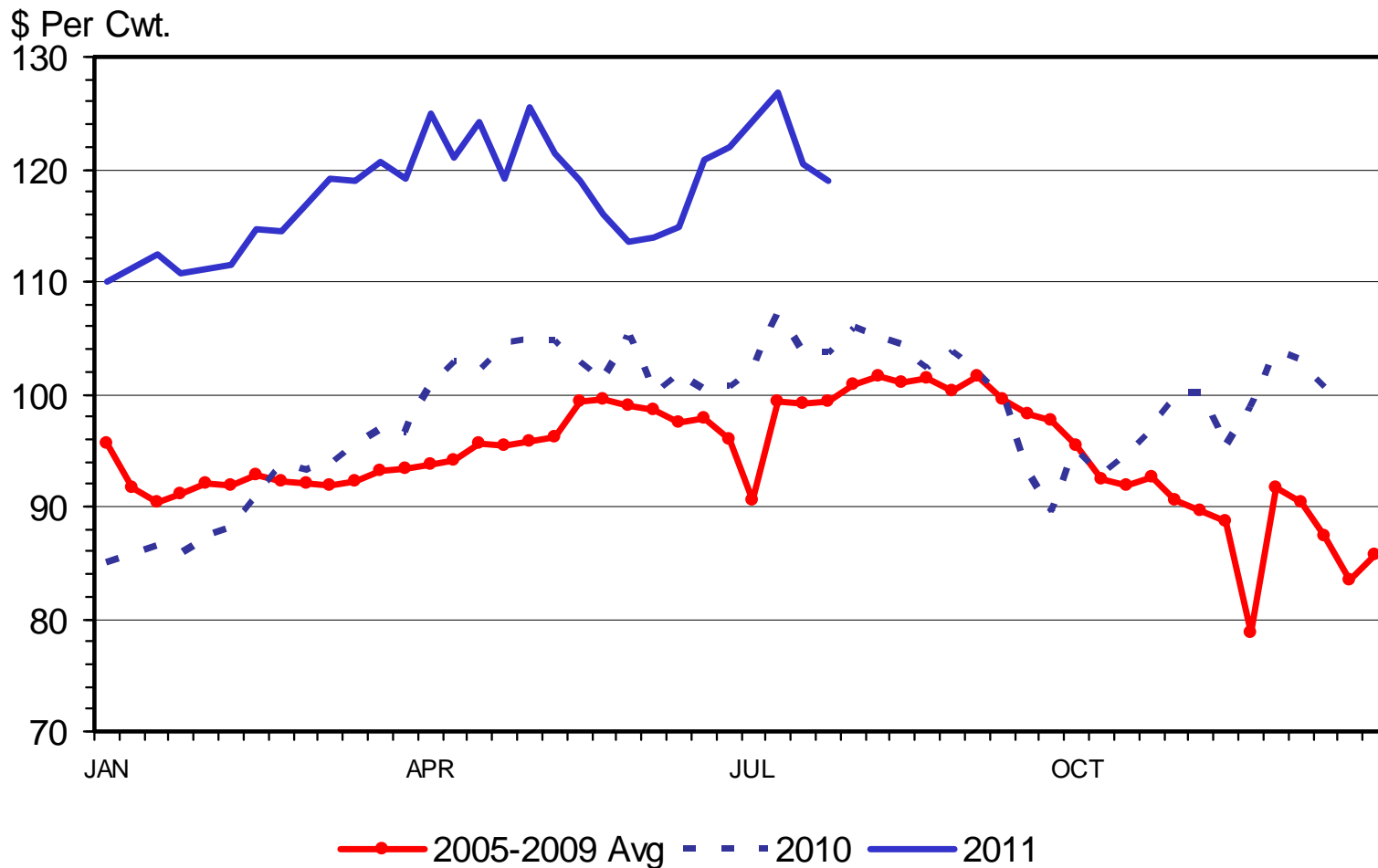
Data Source: LMIC

- Weaker dollar support and recovering world economy

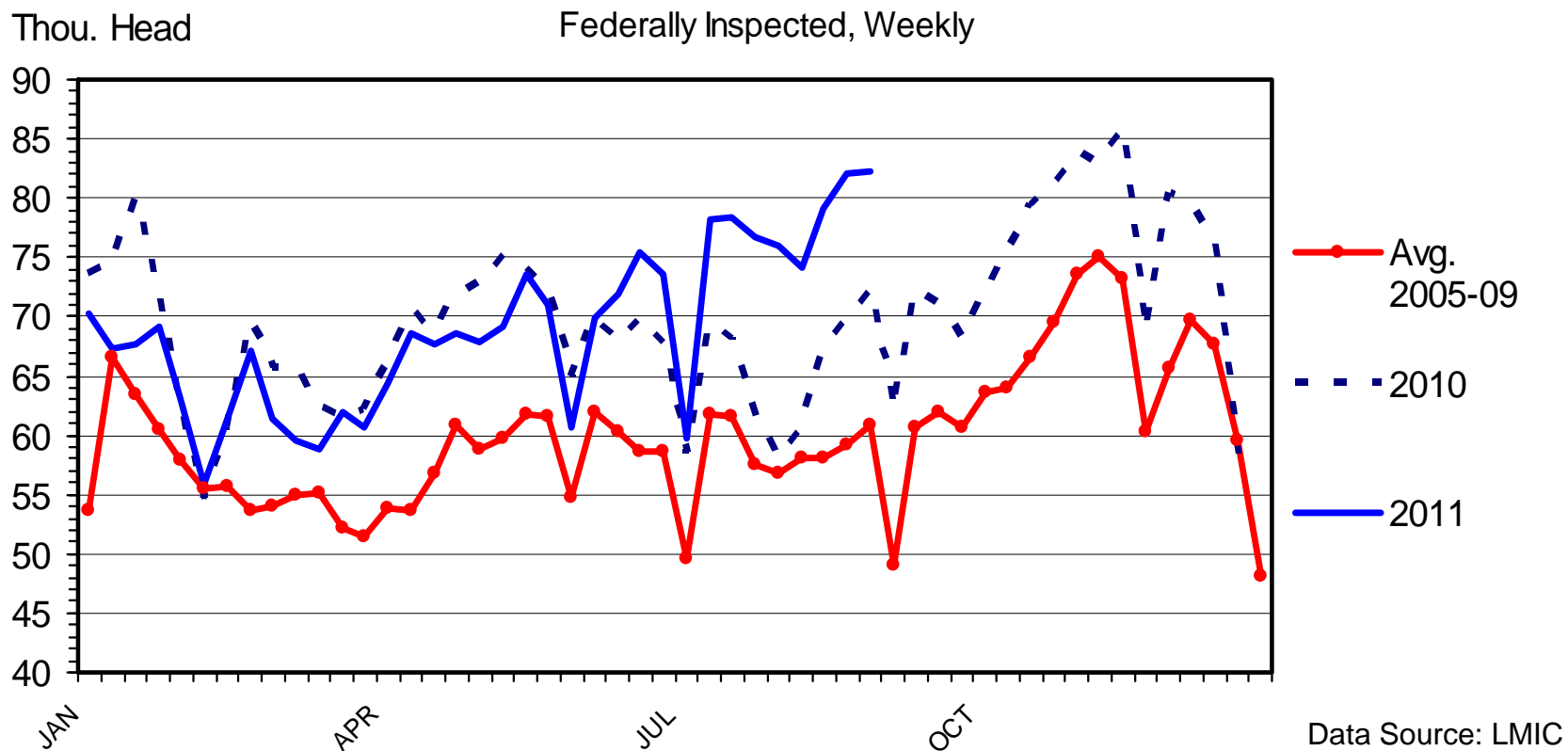
Tennessee 500-600 lbs Steer Prices 2010, 2011 and 5-yr average, weekly



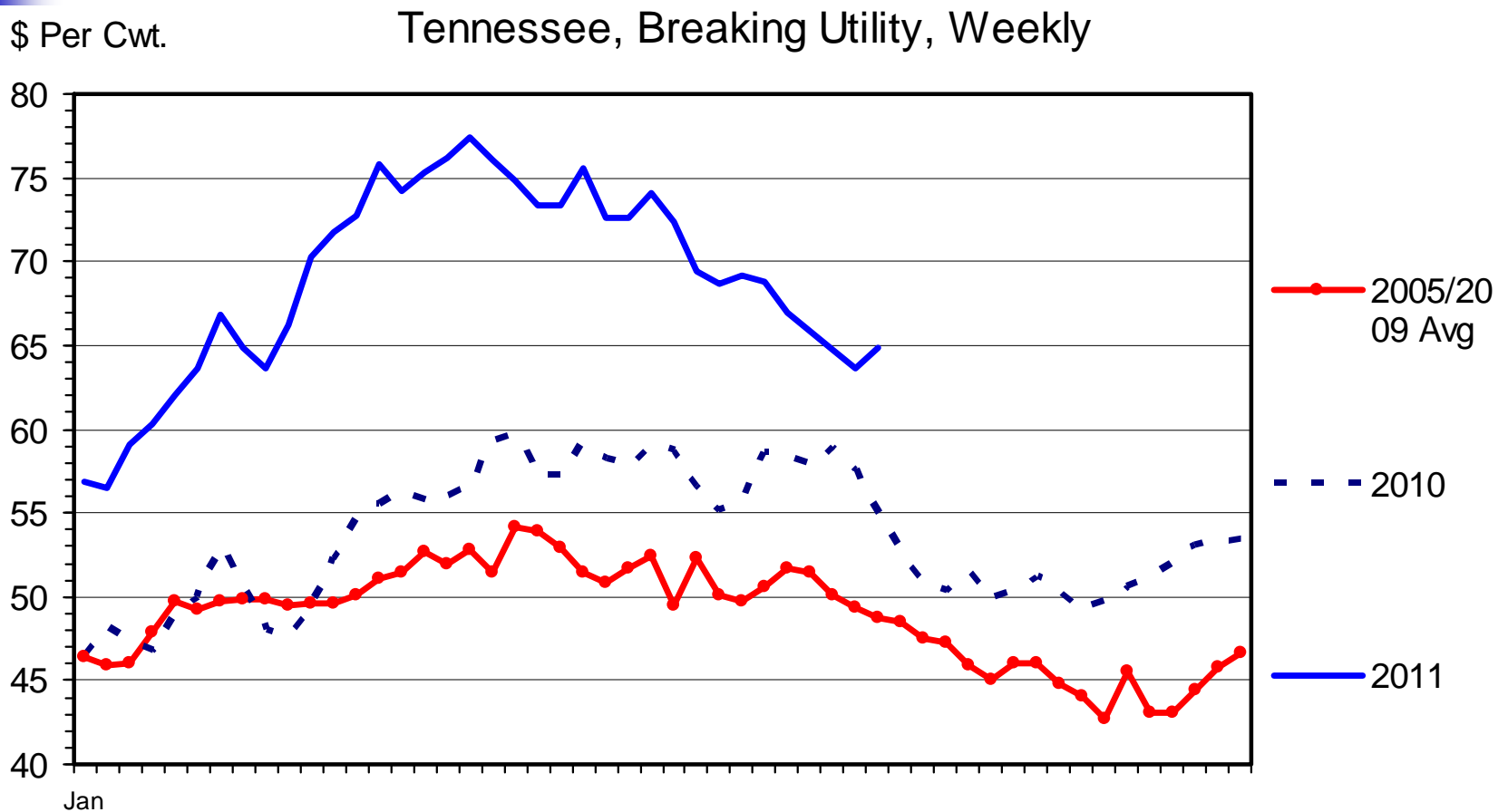
Tennessee 700-800 lbs Steer Prices 2010, 2011 and 5-yr average, weekly



Beef Cow Slaughter

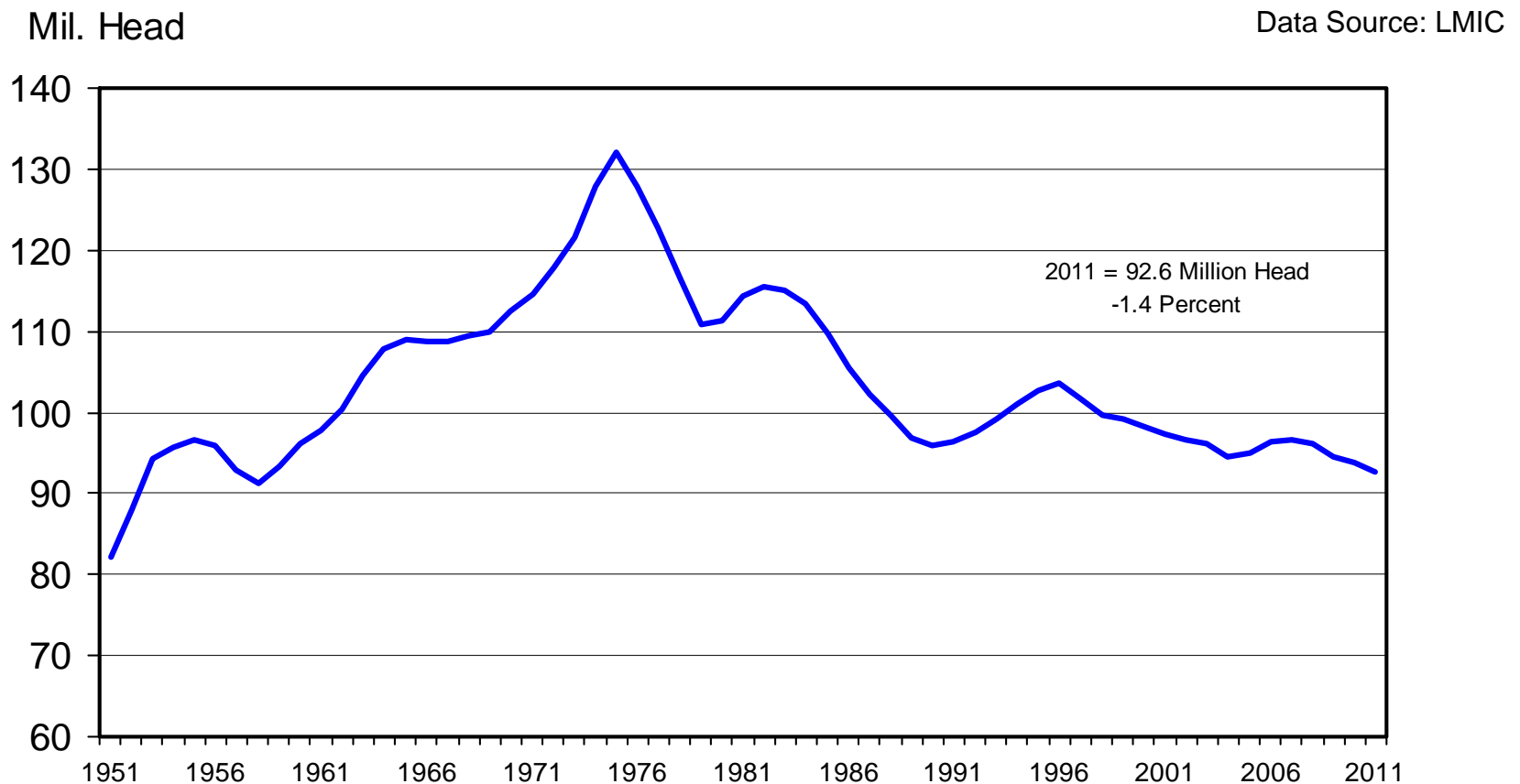


Slaughter Cow Prices



- Price reflects needs for ground beef

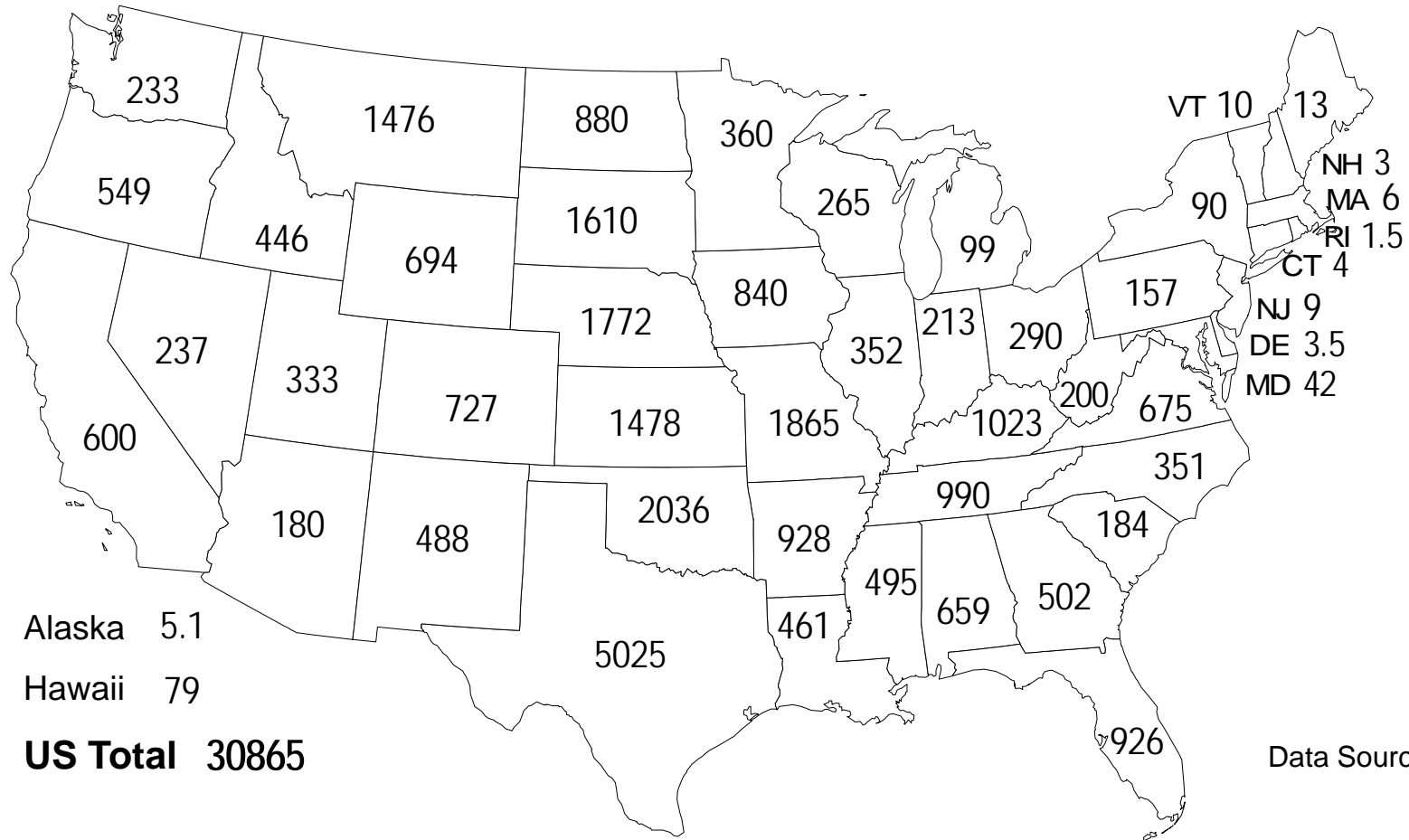
Cattle Inventory – January 1



- Cycle began in '90, peaked in '96 with cycle lows in early '04
- After 2 years of increase, no change in '07, decrease in '08, '09, '10 & '11

Beef Cows that Have Calved

Jan. 1, 2011 (1000 head)

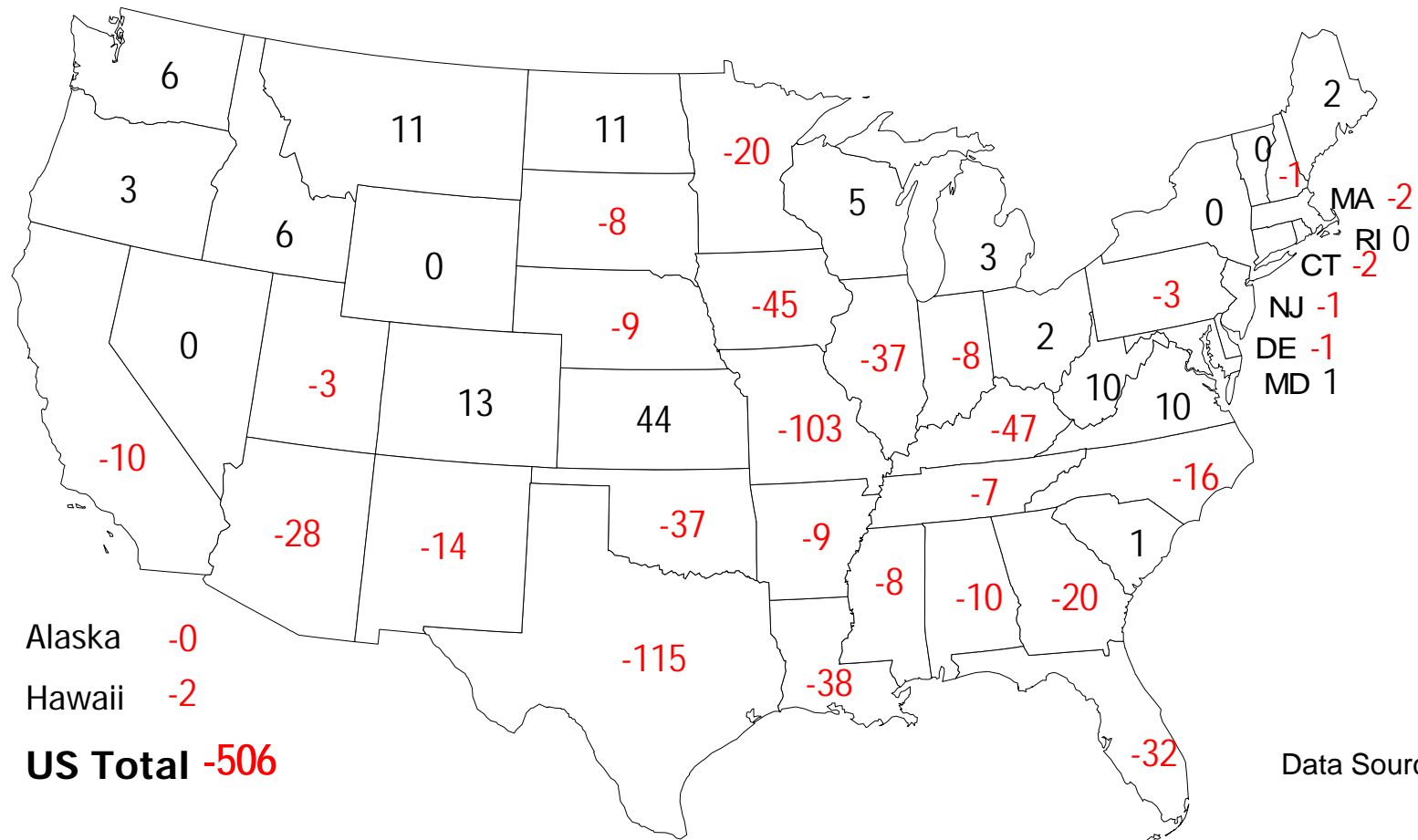


Data Source: LMIC

- Due to drought and pasture moving to crops

Change in Beef Cow Numbers

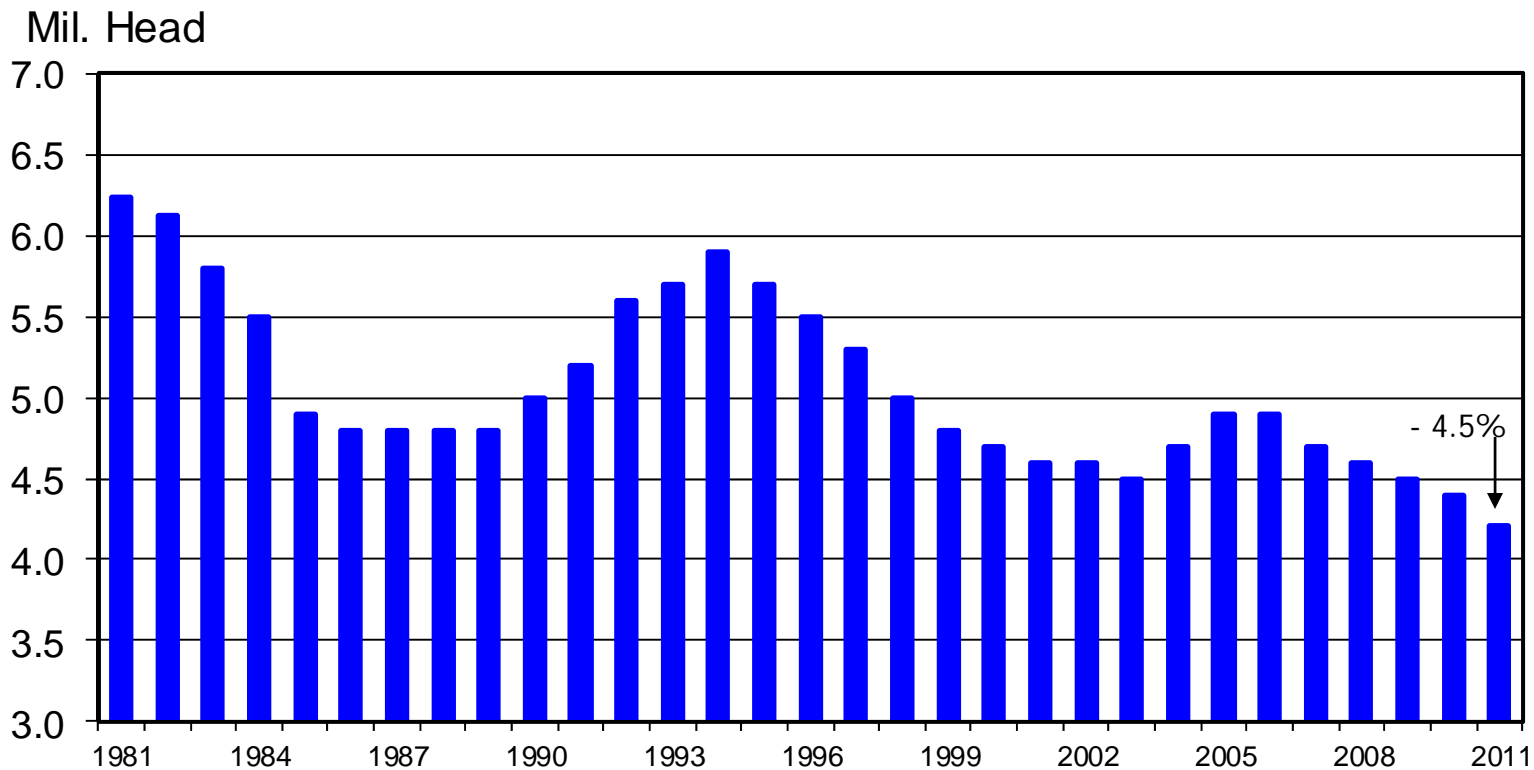
Jan. 1, 2010 to Jan 1., 2011 (1000 head)



Data Source: LMIC

- Impact of drought and pasture/hay moving to row crops

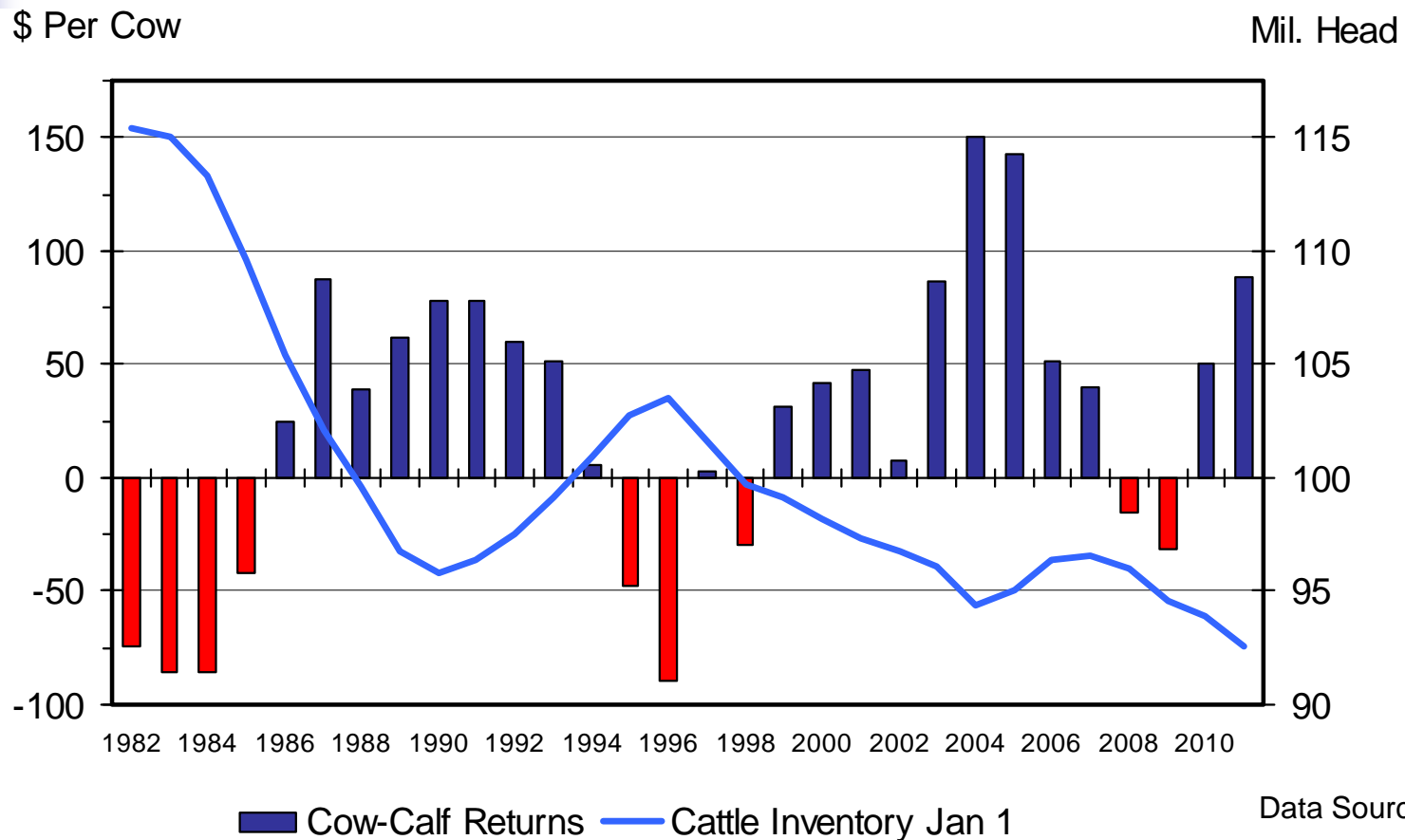
Heifers Held As Beef Cow Replacements – January 1



Data Source: LMIC

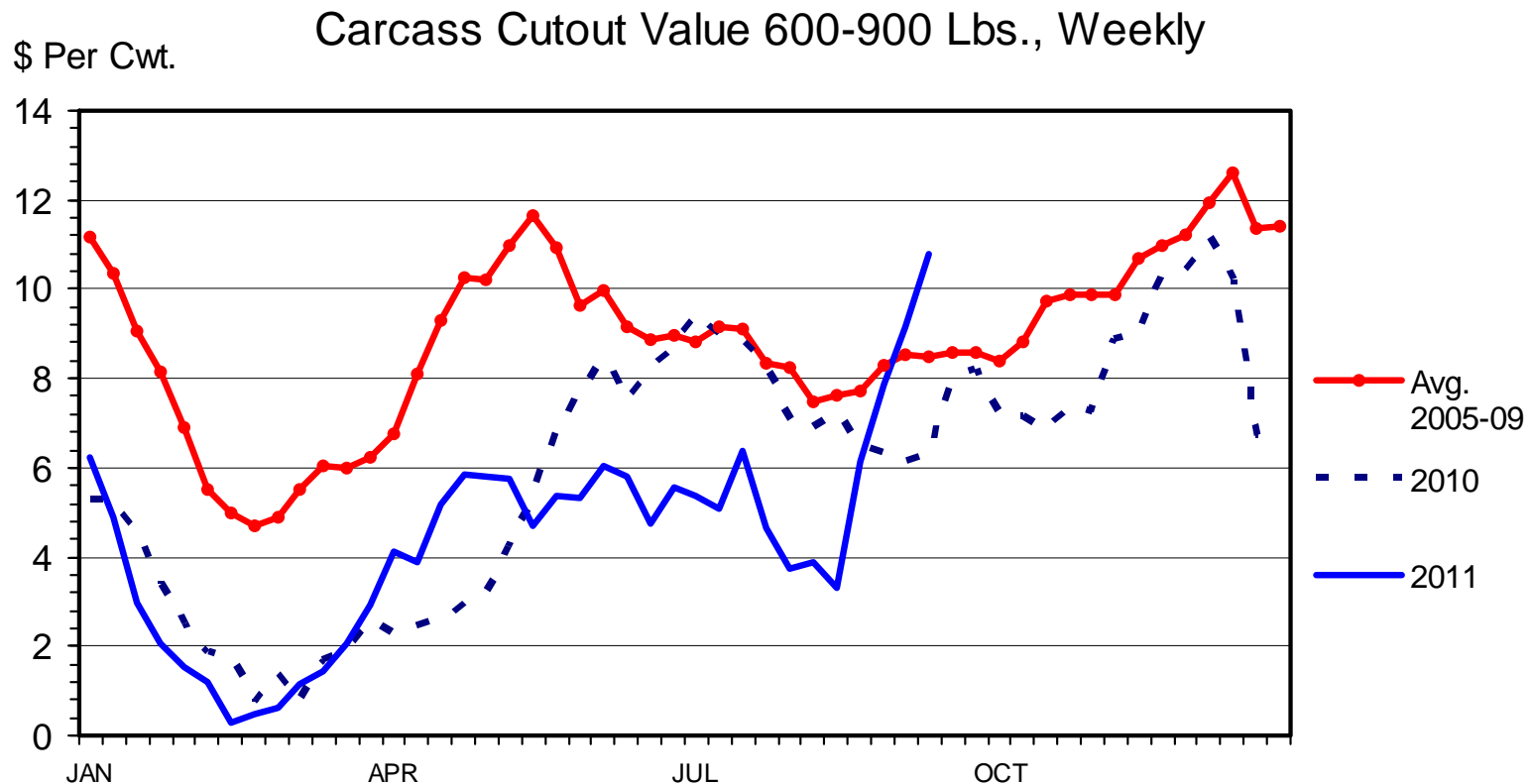
- Smaller cow herd ahead

Cow-Calf Returns and Cattle Inventory



- Low returns caused herd to decline, change ahead?

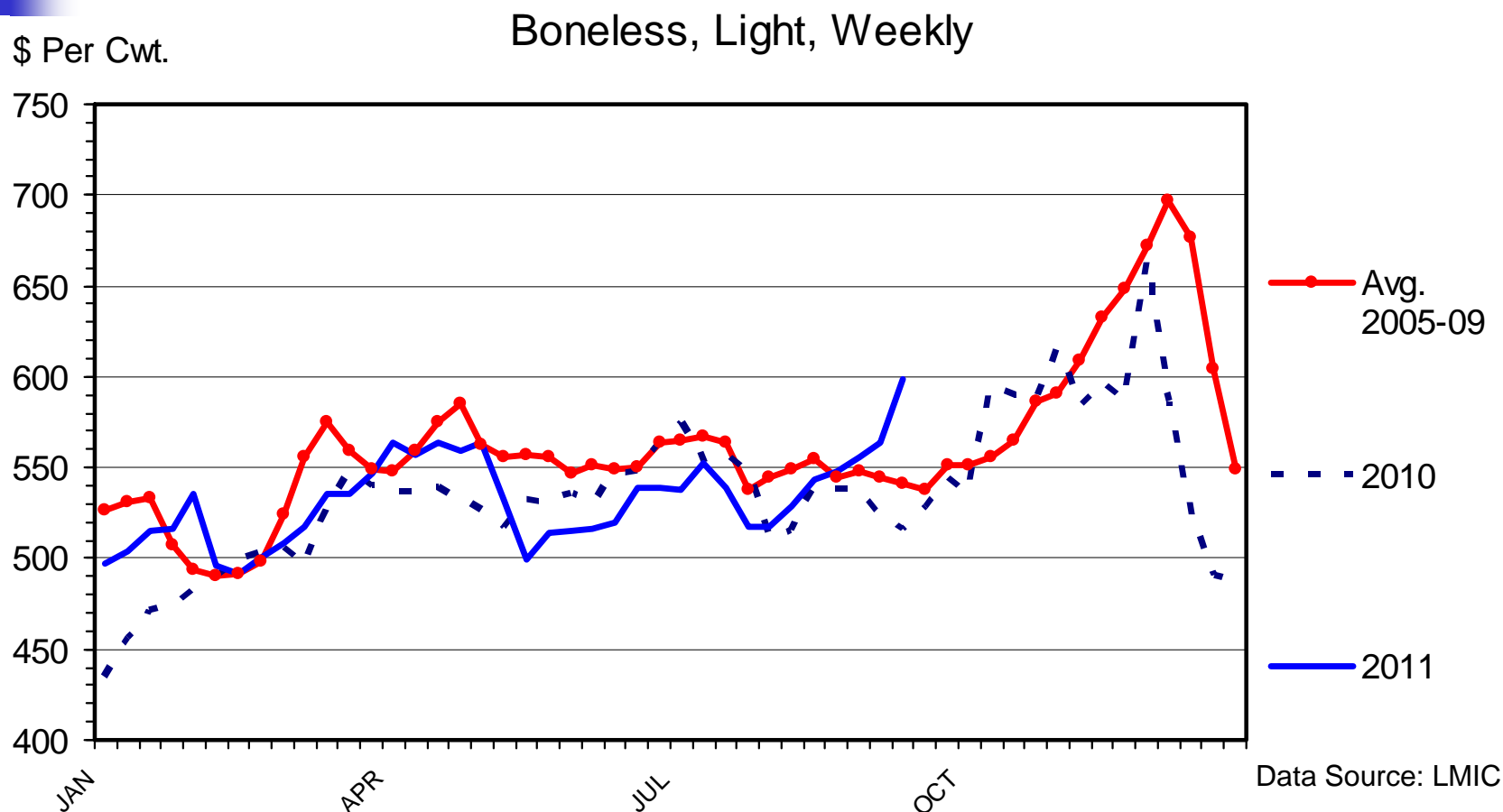
Beef Demand: Choice Minus Select Beef Prices



Data Source: LMIC

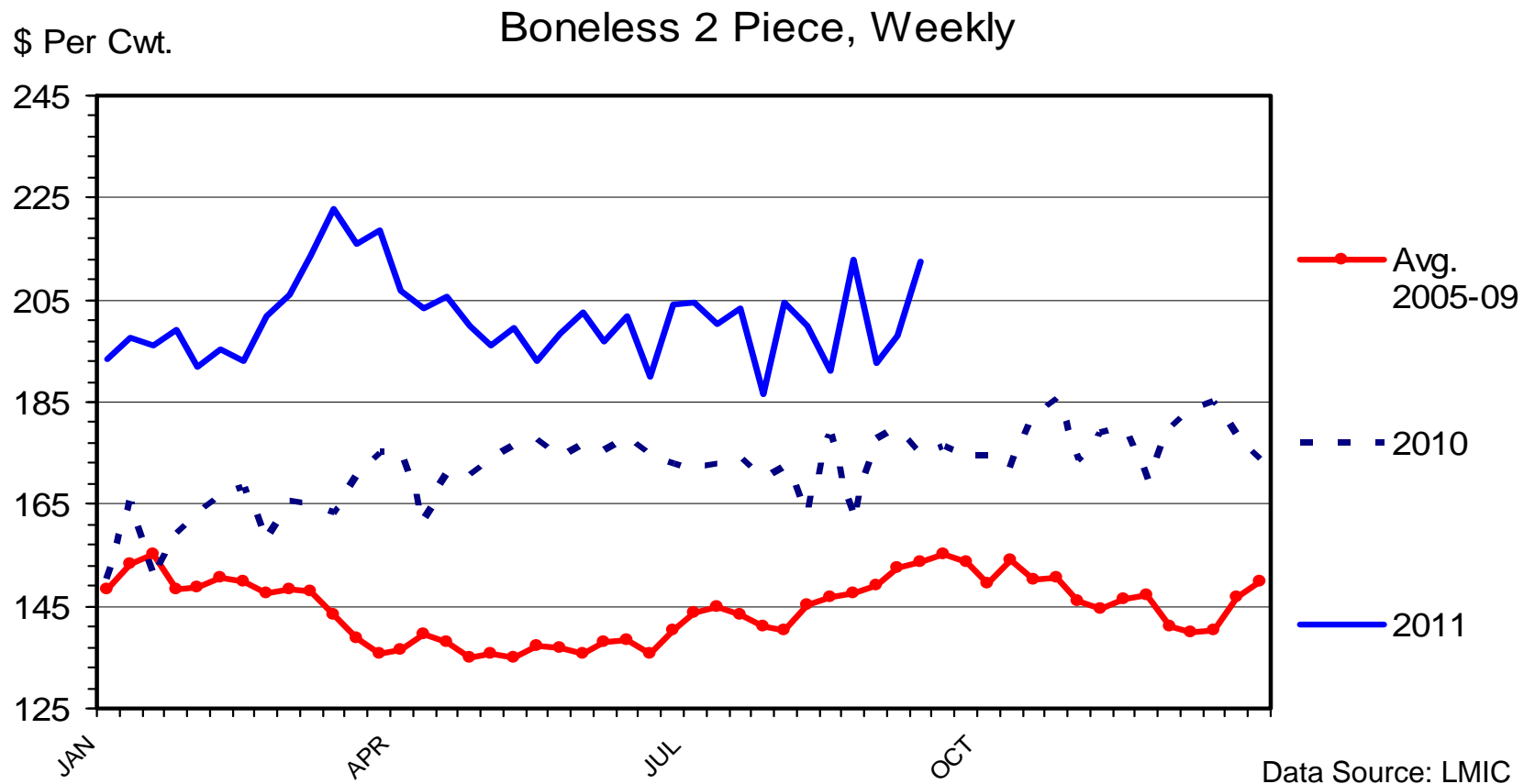
- Consumers shifting to lower prices cuts/grades due to economy,
- Recent reduction in % Choice and exports to Canada

Beef Demand: Wholesale Beef Ribeye Prices



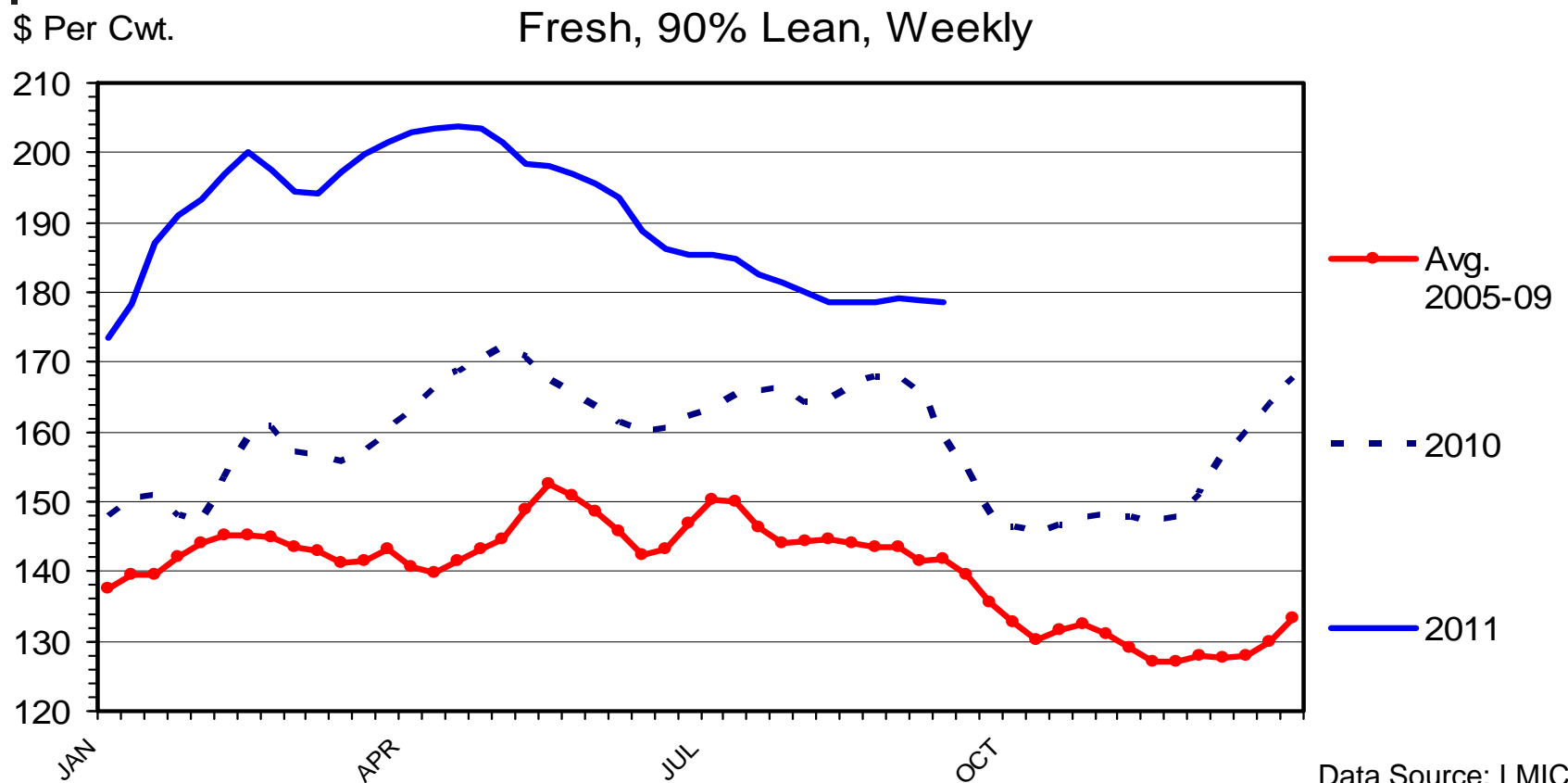
- Currently \$598

Beef Demand: Wholesale Beef Chuck Prices



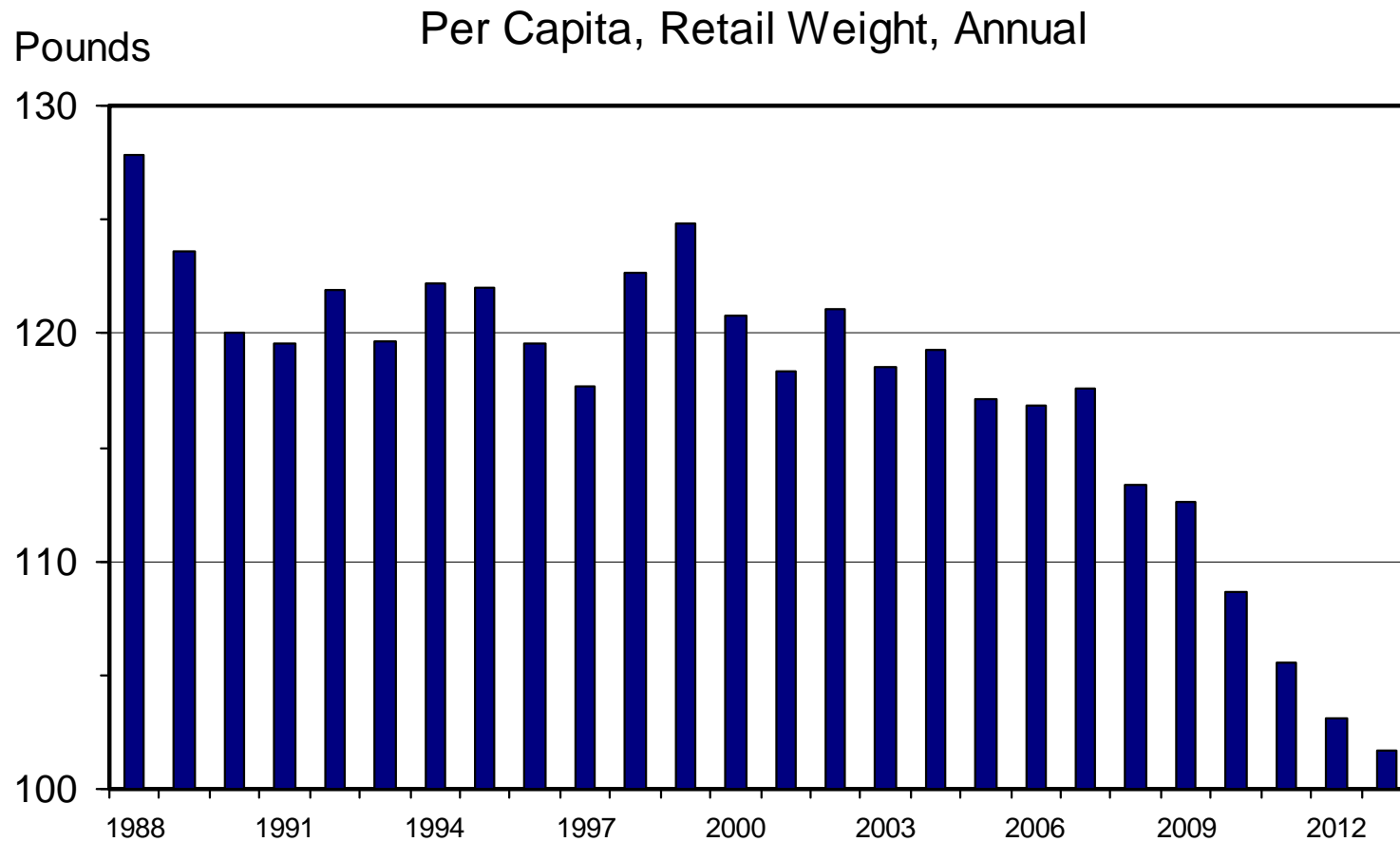
- Stronger prices, but cheaper cuts, **currently \$213**

Beef Demand: Wholesale Boneless Beef Prices



- Strong hamburger prices contribute to higher cow prices, currently \$179

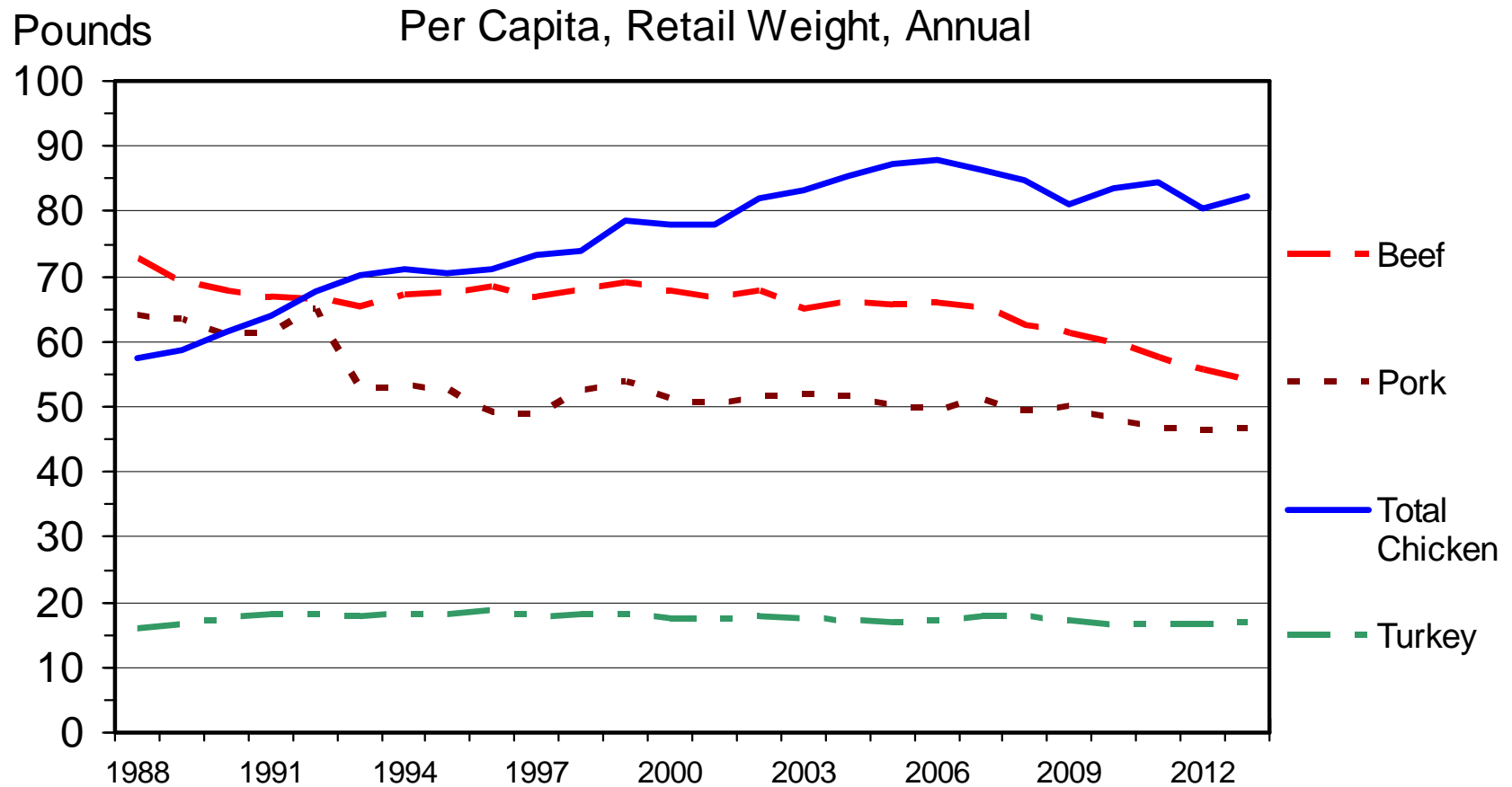
Total Red Meat Consumption



- Less production, increased exports & reduced imports

Data Source: LMIC

Red Meat & Poultry Consumption



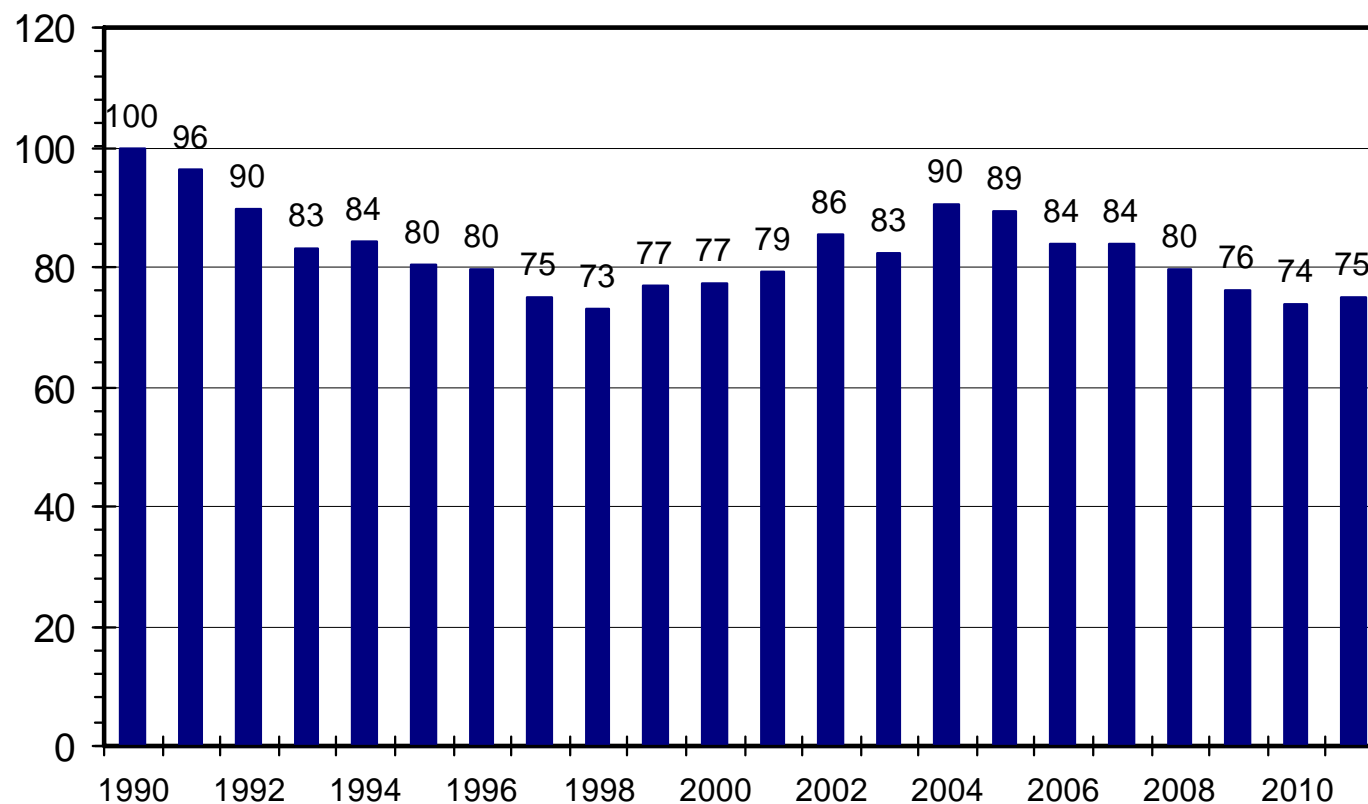
- Poultry production currently decreasing

Data Source: LMIC

Retail All Fresh Beef Demand Index

Second Quarter, Using CPI 1990=100

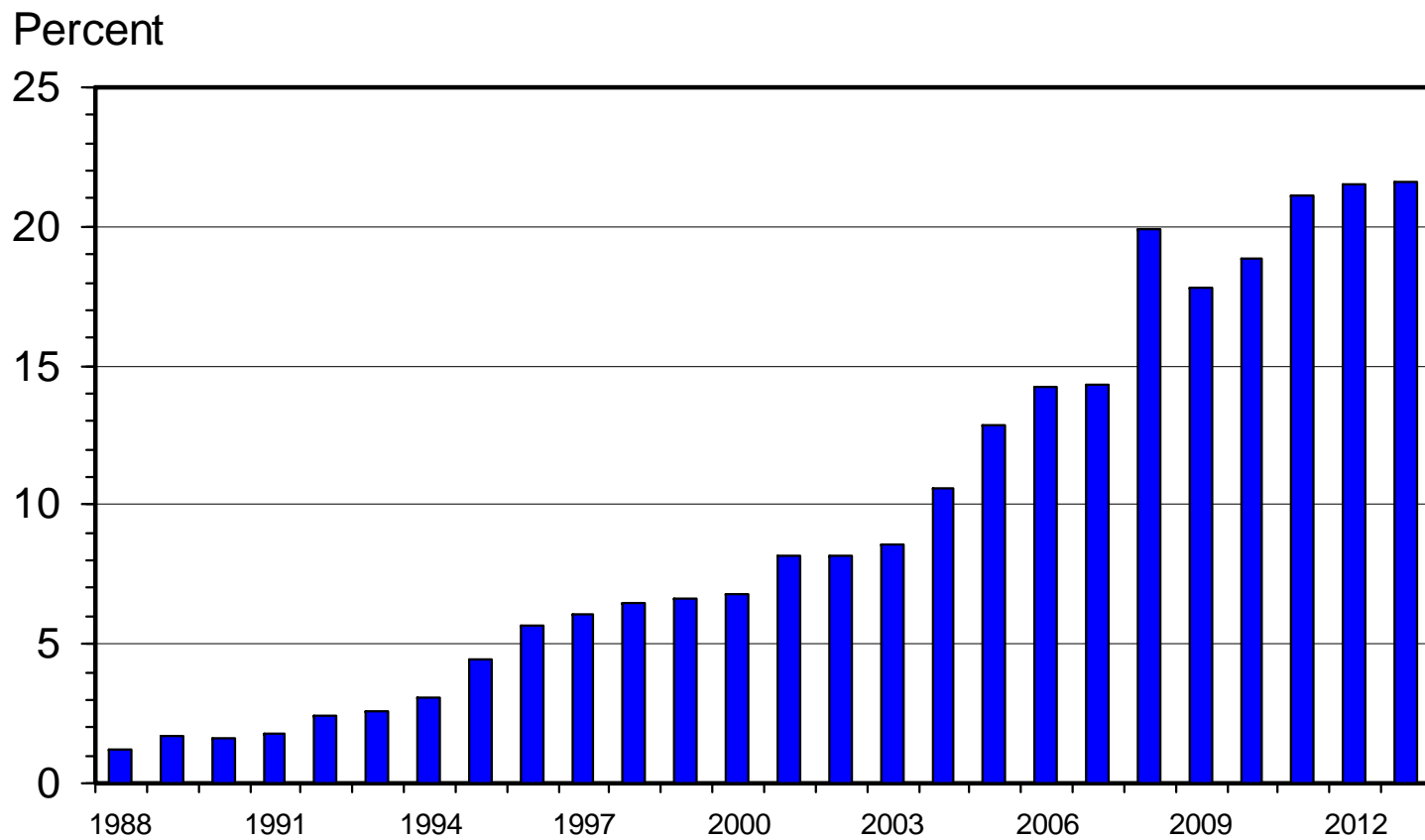
Index Value



Data Source: LMIC

U.S. Pork Exports

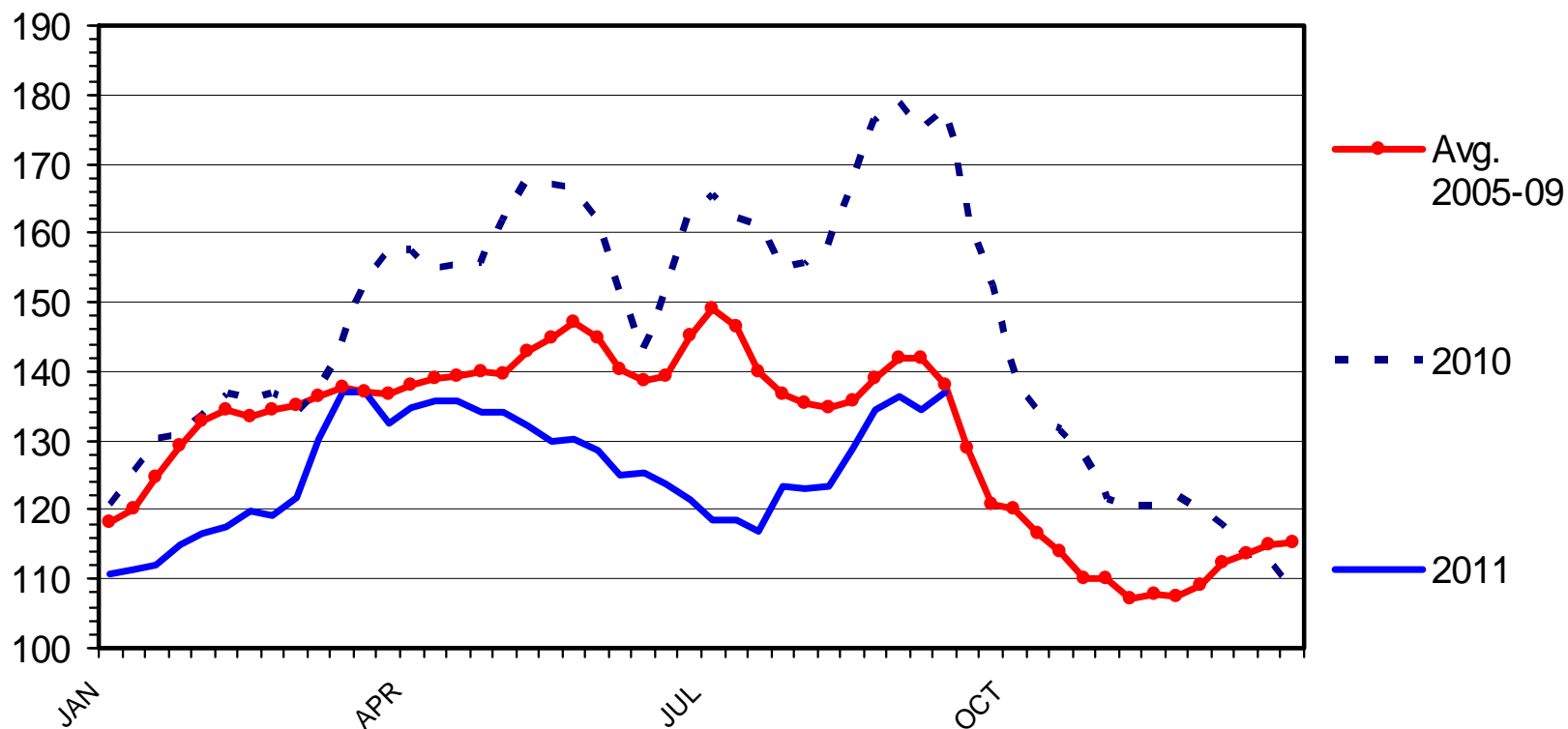
As a Percentage of Production, Carcass Weight, Annual



Wholesale Chicken Breast Prices

Skinless/Boneless, Northeast, Truckload, Weekly

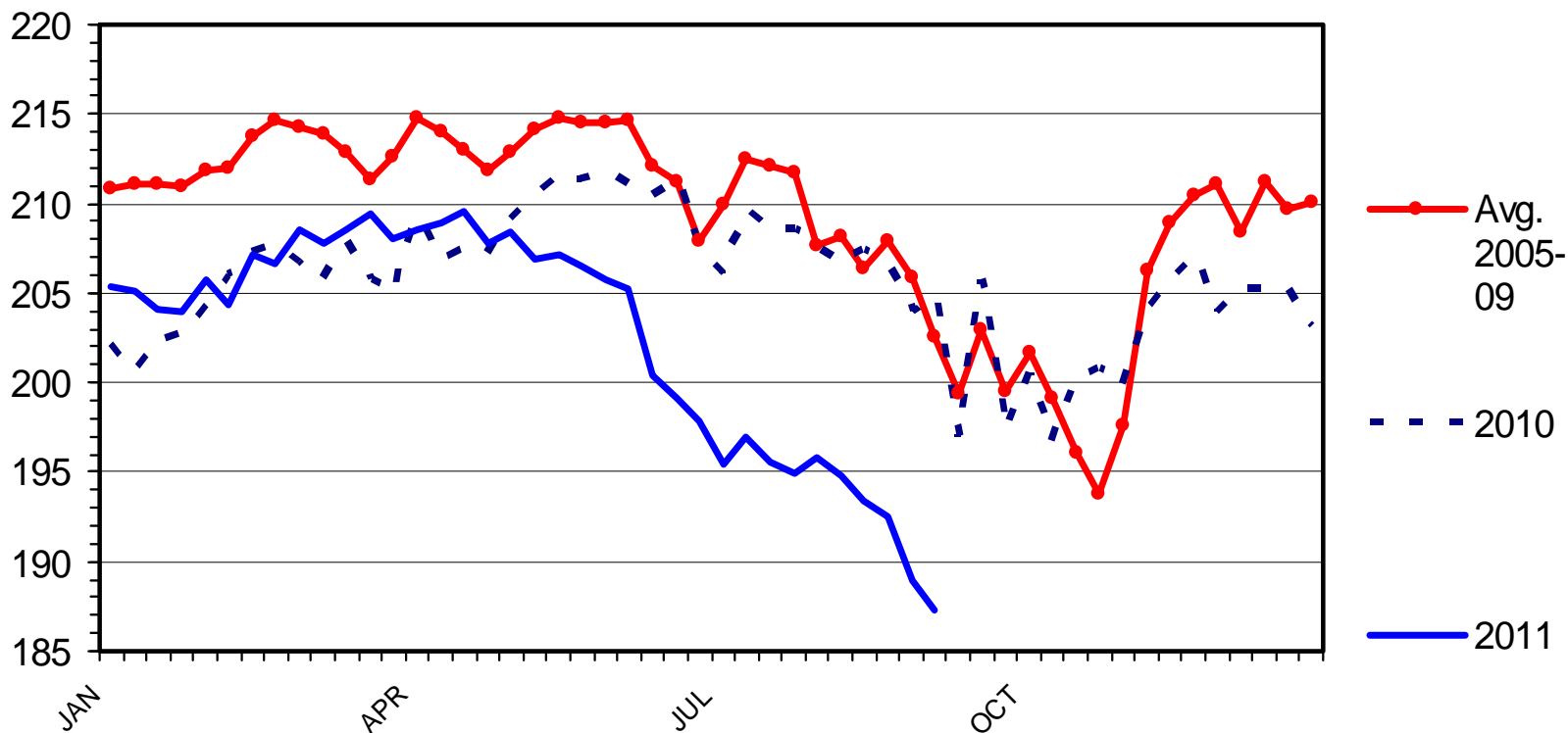
Cents Per Pound



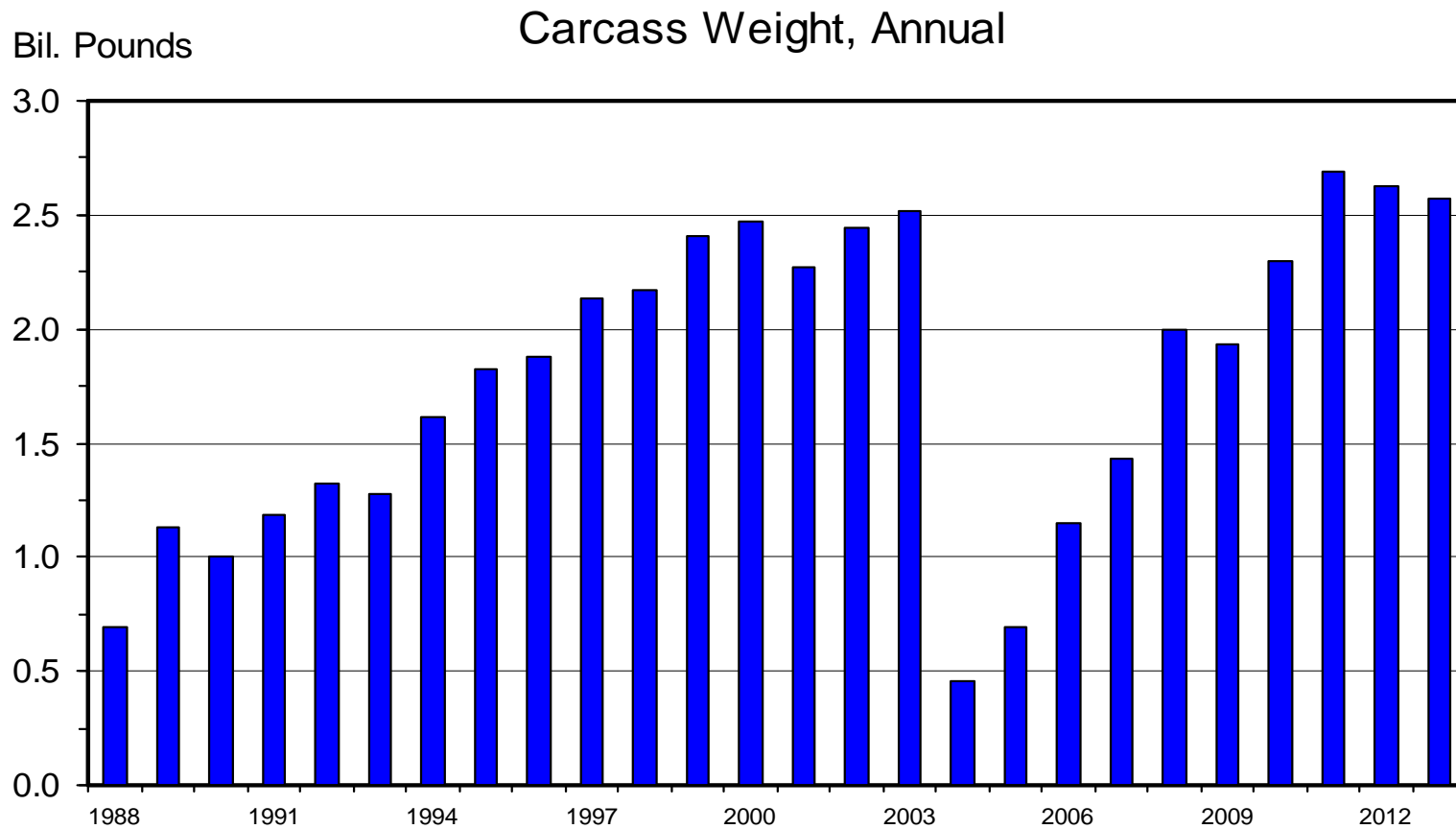
Broiler Eggs Set

Weekly

Mil. Eggs

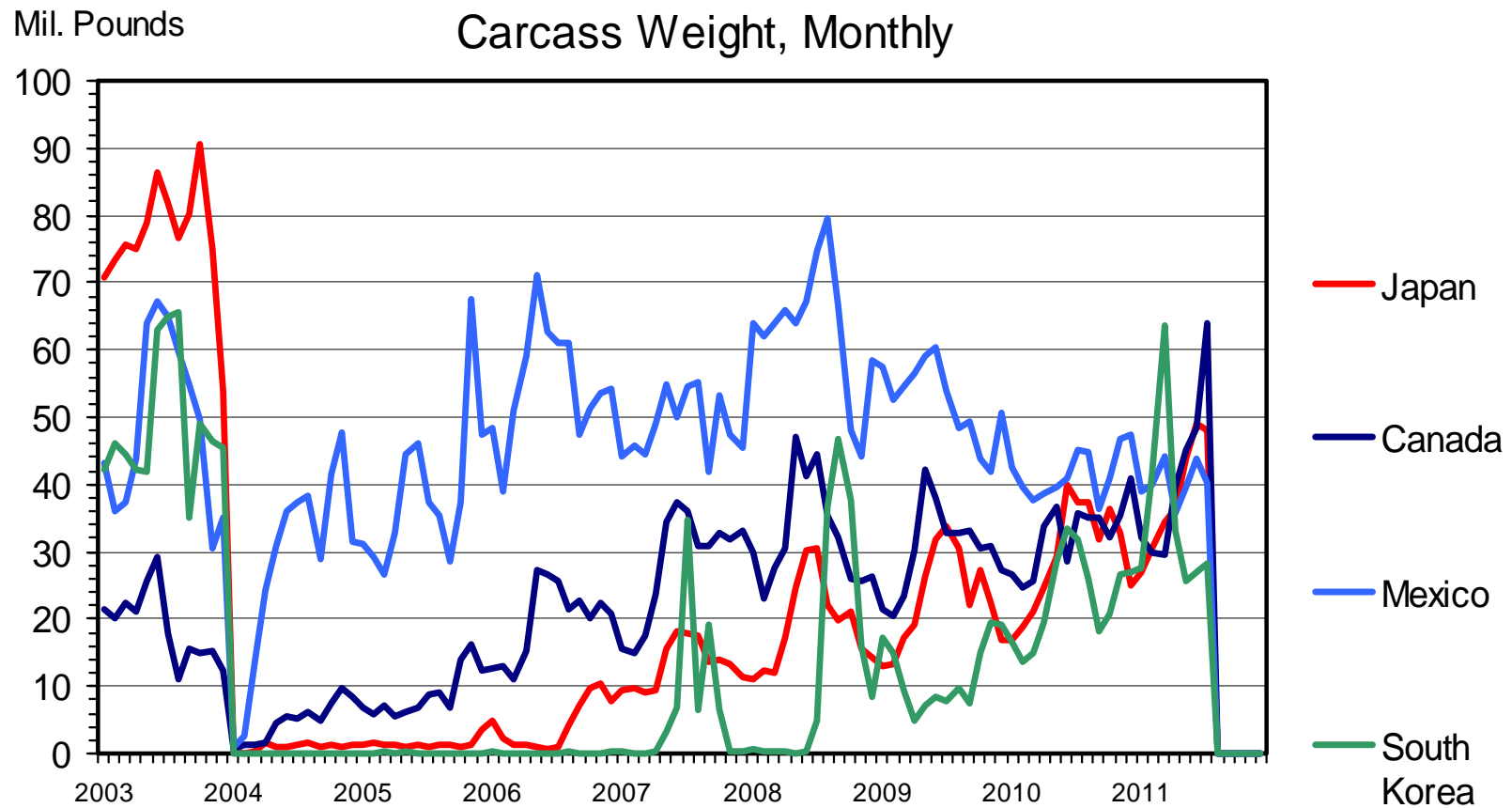


U.S. Beef and Veal Exports



Data Source: LMIC

Beef Exports to Major Markets



Data Source: LMIC



Major Beef Export Markets and Import Countries

Export Markets

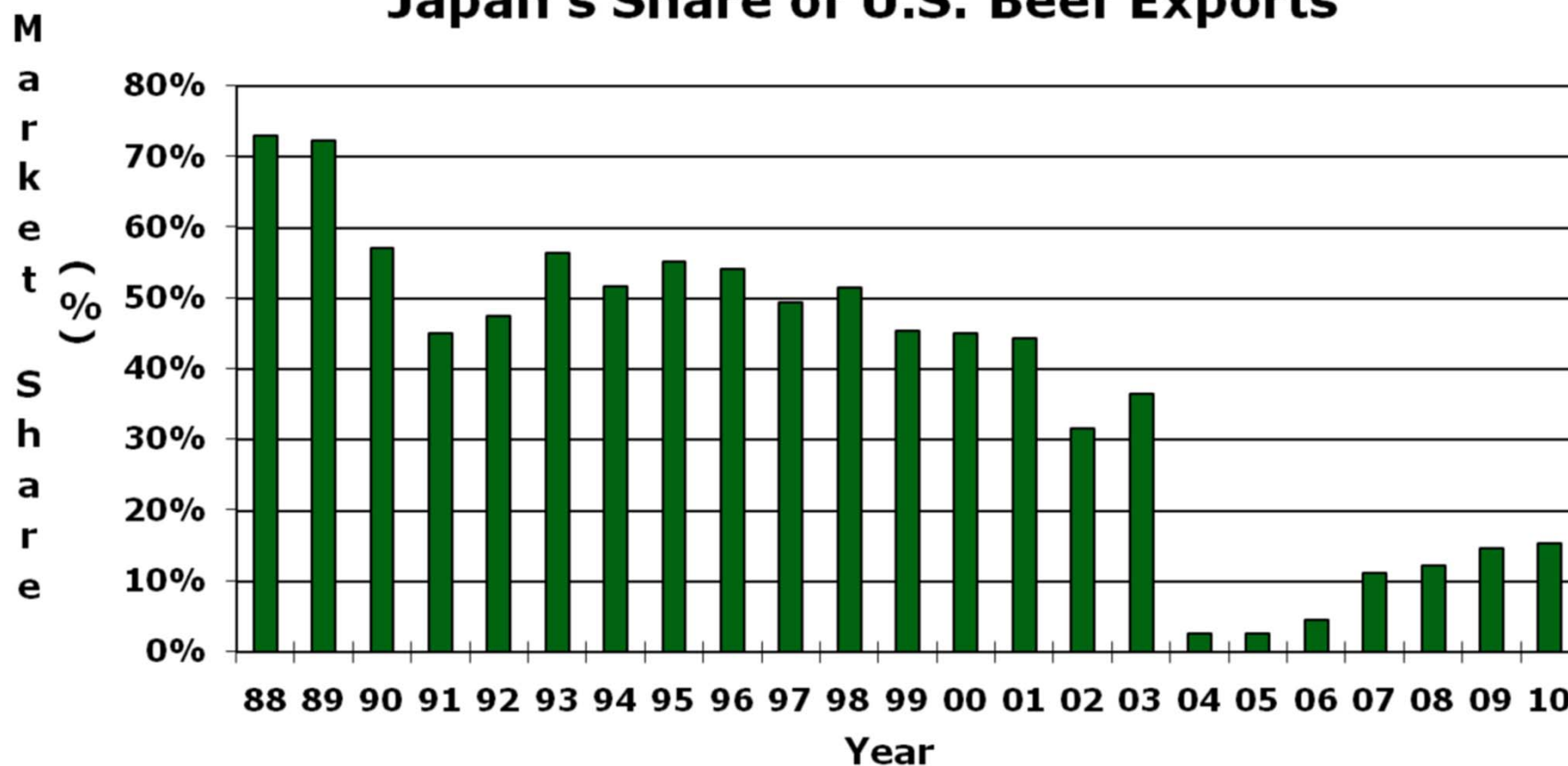
- Mexico
- Canada
- Japan
- South Korea

Import Countries

- Australia
- New Zealand
- Uruguay

Japan's Share of U.S. Beef Exports

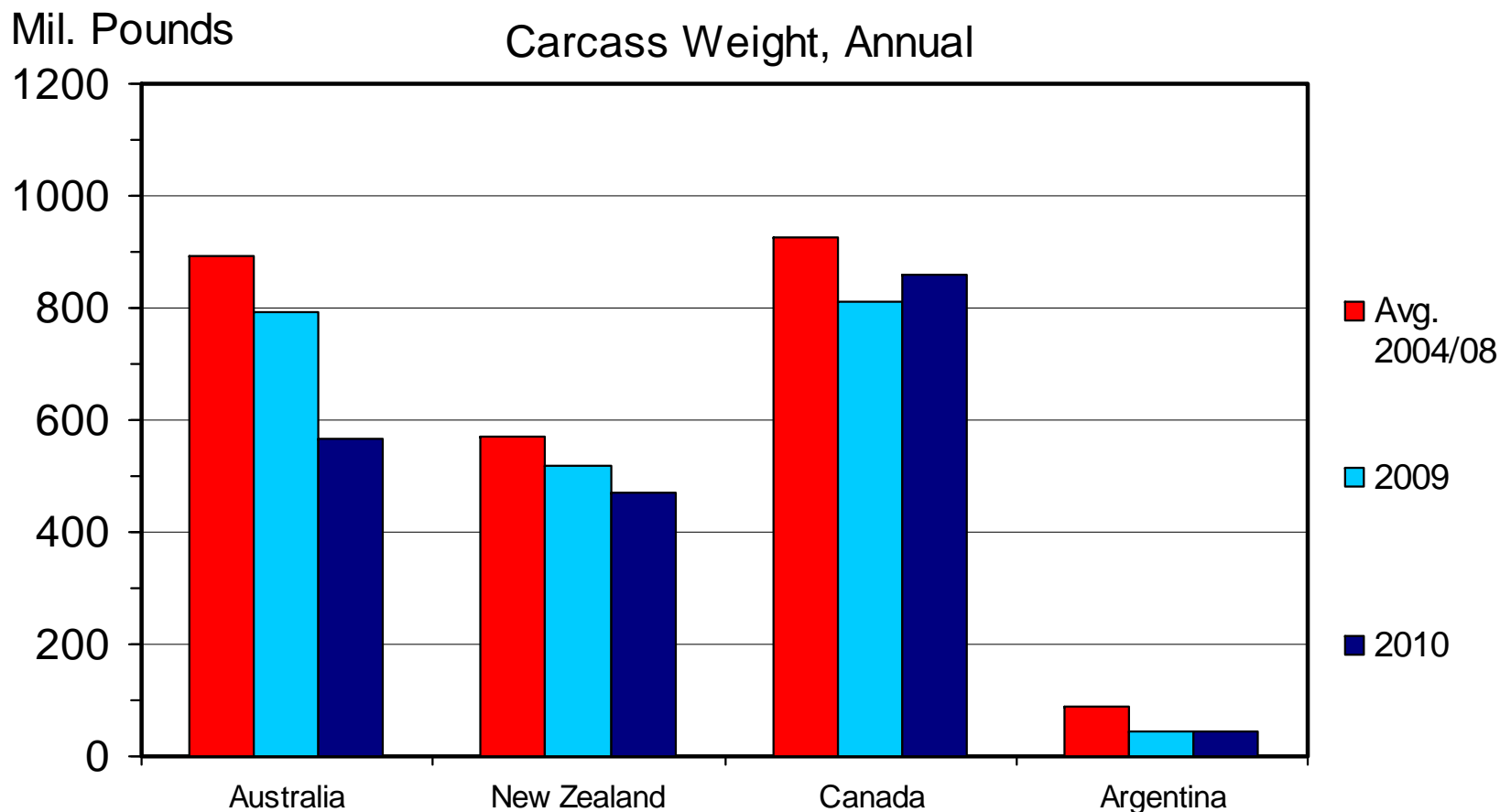
Japan's Share of U.S. Beef Exports



Source: USDA & K-State Ag. Economics,
Measured On A Carcass Weight Basis

KSU Dept. of Ag Econ
www.agmanager.info

Major U.S. Beef Import Sources



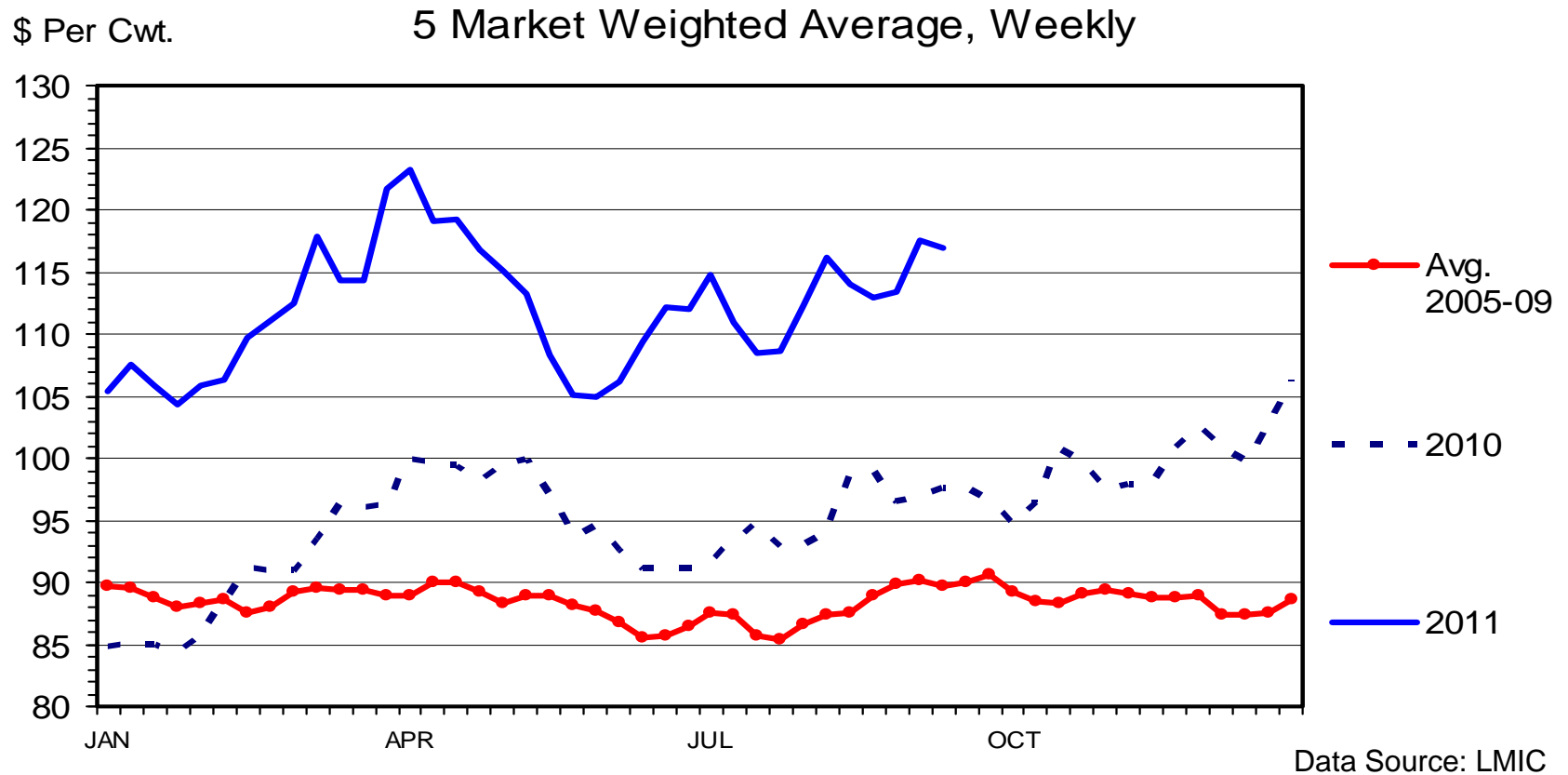
Data Source: LMIC



Factors Driving Feeder Cattle Prices

- Expected fed cattle price
- Current fed cattle price
- Distant futures
- Expected cost of gain
 - Currently \$1.05 - \$1.15
- Returns to cattle feeders
- Forage availability
- Weather

Slaughter Steer Prices



- Now in the mid-teens



Impact of Corn Price on Cost of Feedlot Gain

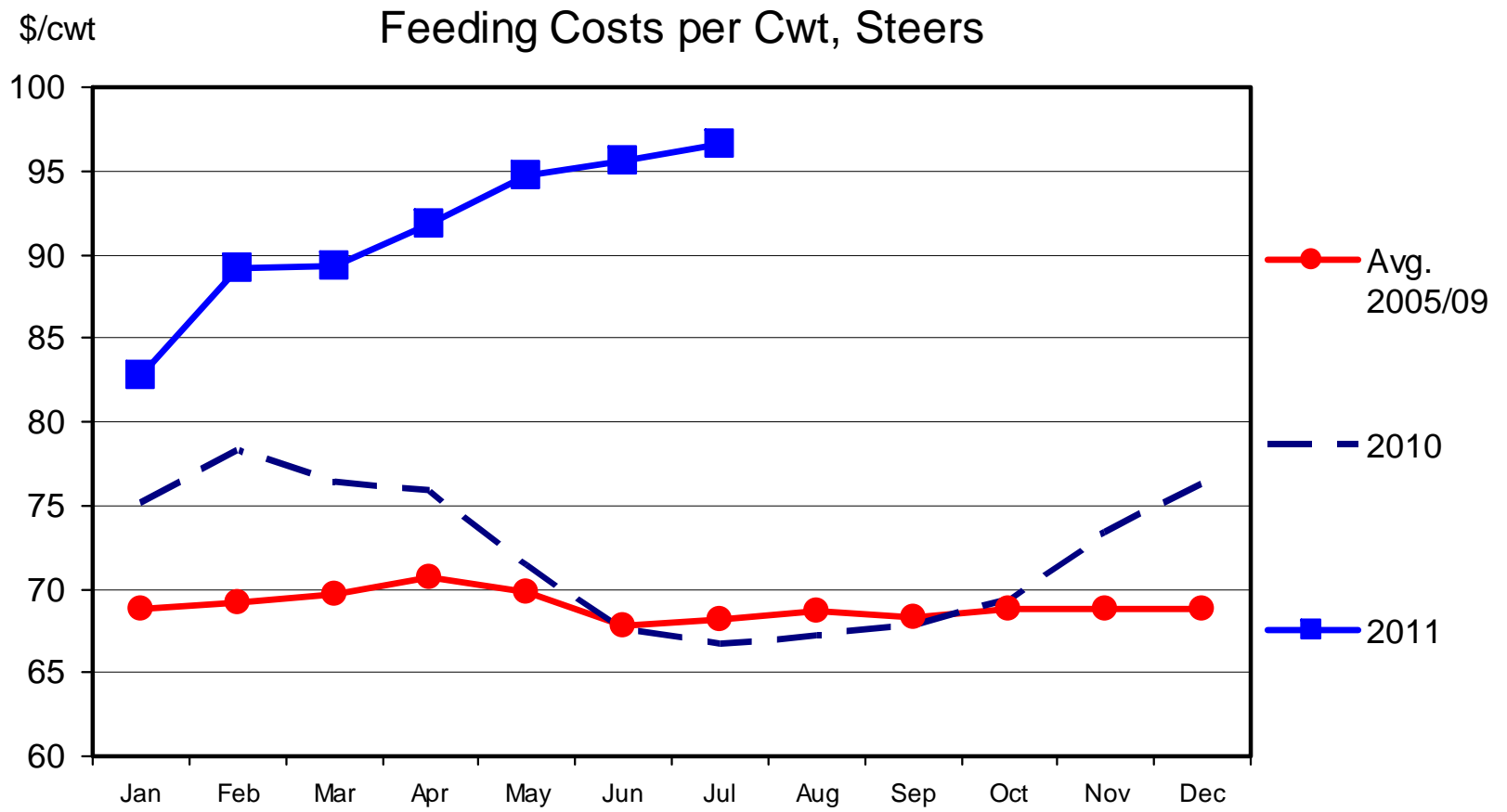
- Cost of gain (COG) in feedlots
- \$3 corn = \$70 COG
- \$4 corn = \$80 COG
- \$5 corn = \$90 COG
- \$6 corn = \$100 COG
- \$7 corn = \$110 COG
- \$8 corn = \$120 COG
- Source: Harlan Hughes



Impact of Feed Costs

- Availability of By-products Still Help Reduce COG in Corn Belt
- Southern Plains Prices Higher than Corn Belt

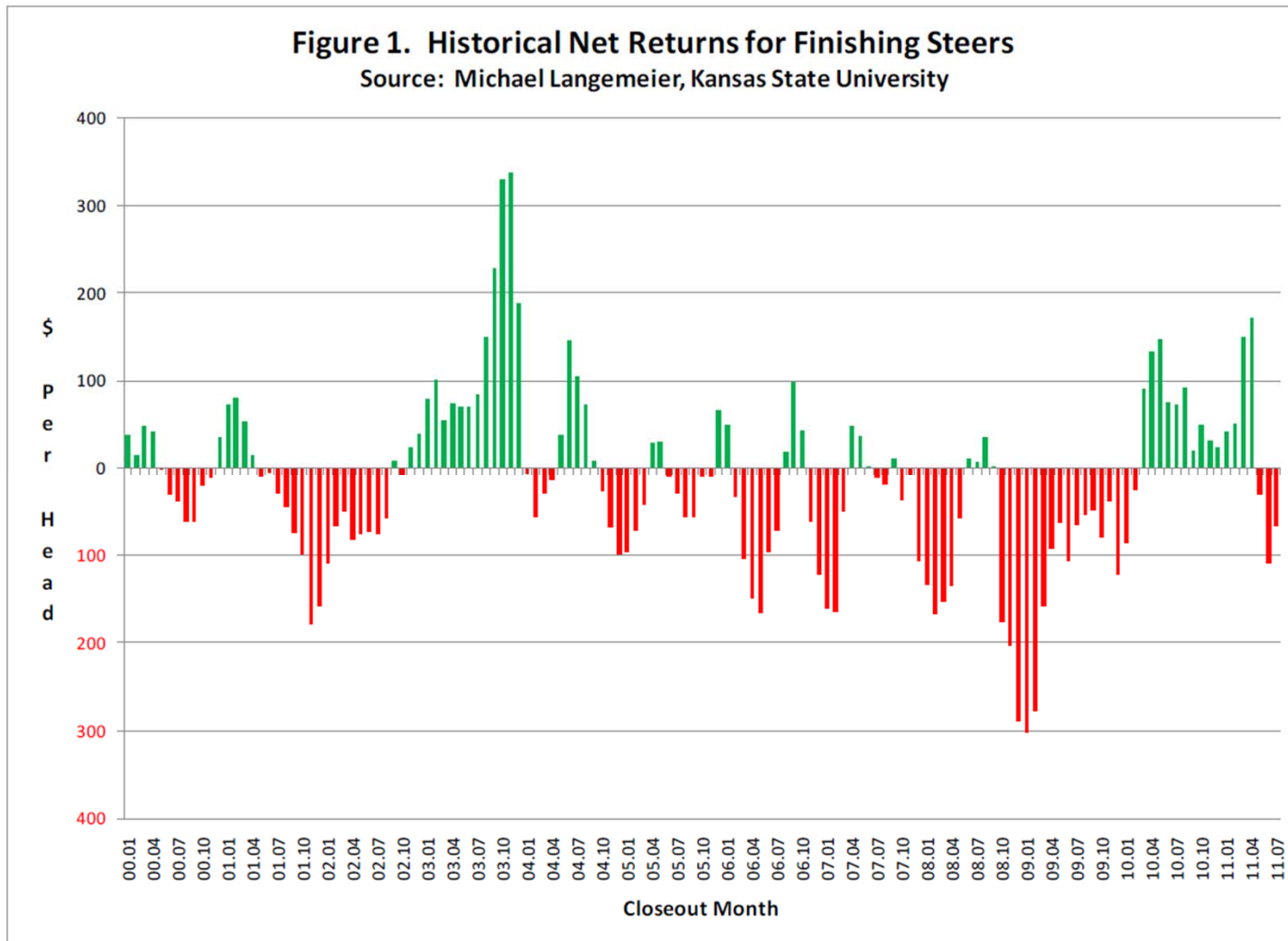
Kansas Feedlot Closeouts



Data Source: LMIC

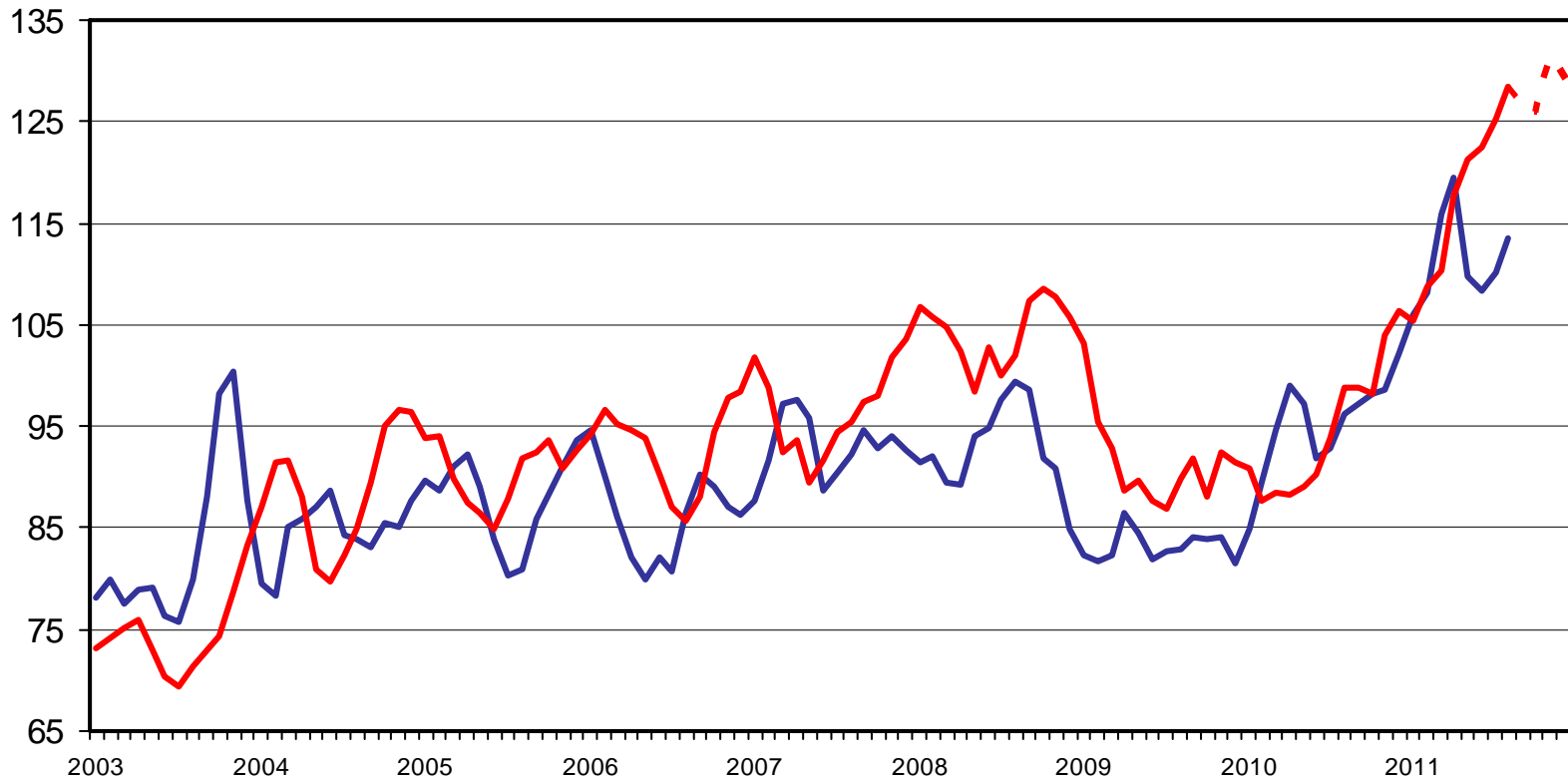
Returns from Finishing Yearling Steers

Figure 1. Historical Net Returns for Finishing Steers
Source: Michael Langemeier, Kansas State University



Choice Steer Price vs Breakeven

\$ Per Cwt



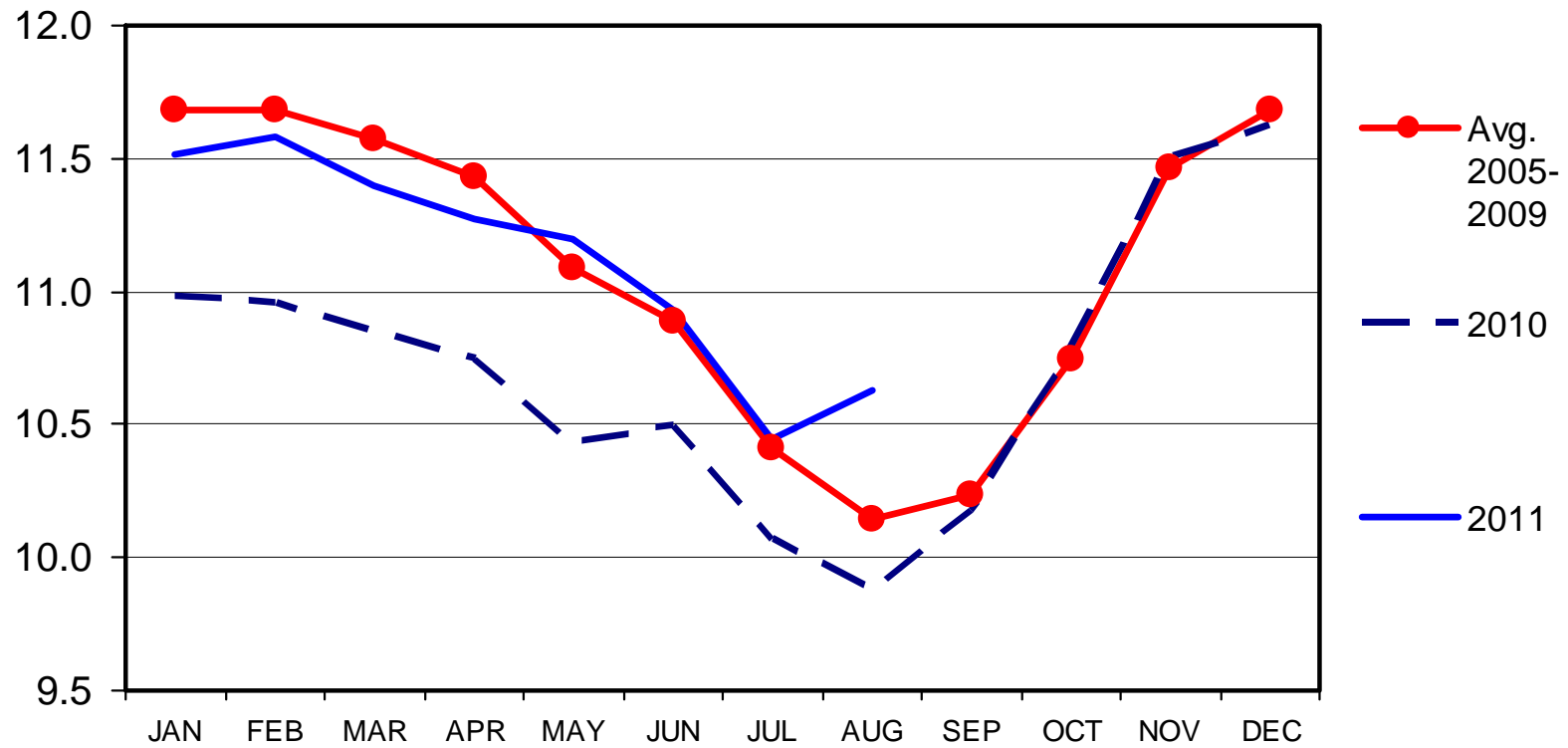
— Steer Price — Breakeven - - - Projected Breakeven

Data Source: LMIC

Cattle on Feed

US Total, Monthly

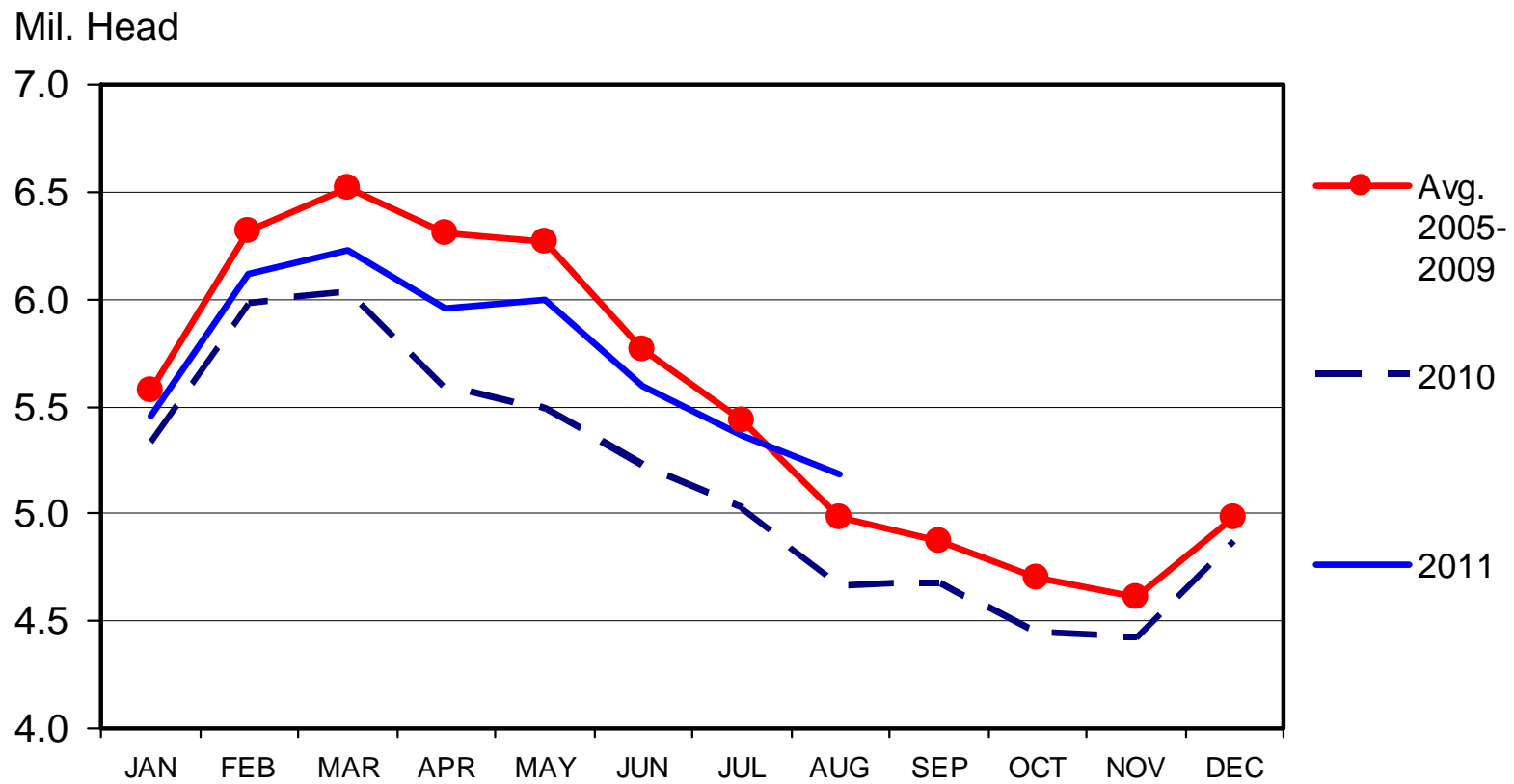
Mil. Head



Data Source: LMIC

Cattle on Feed Over 90 days

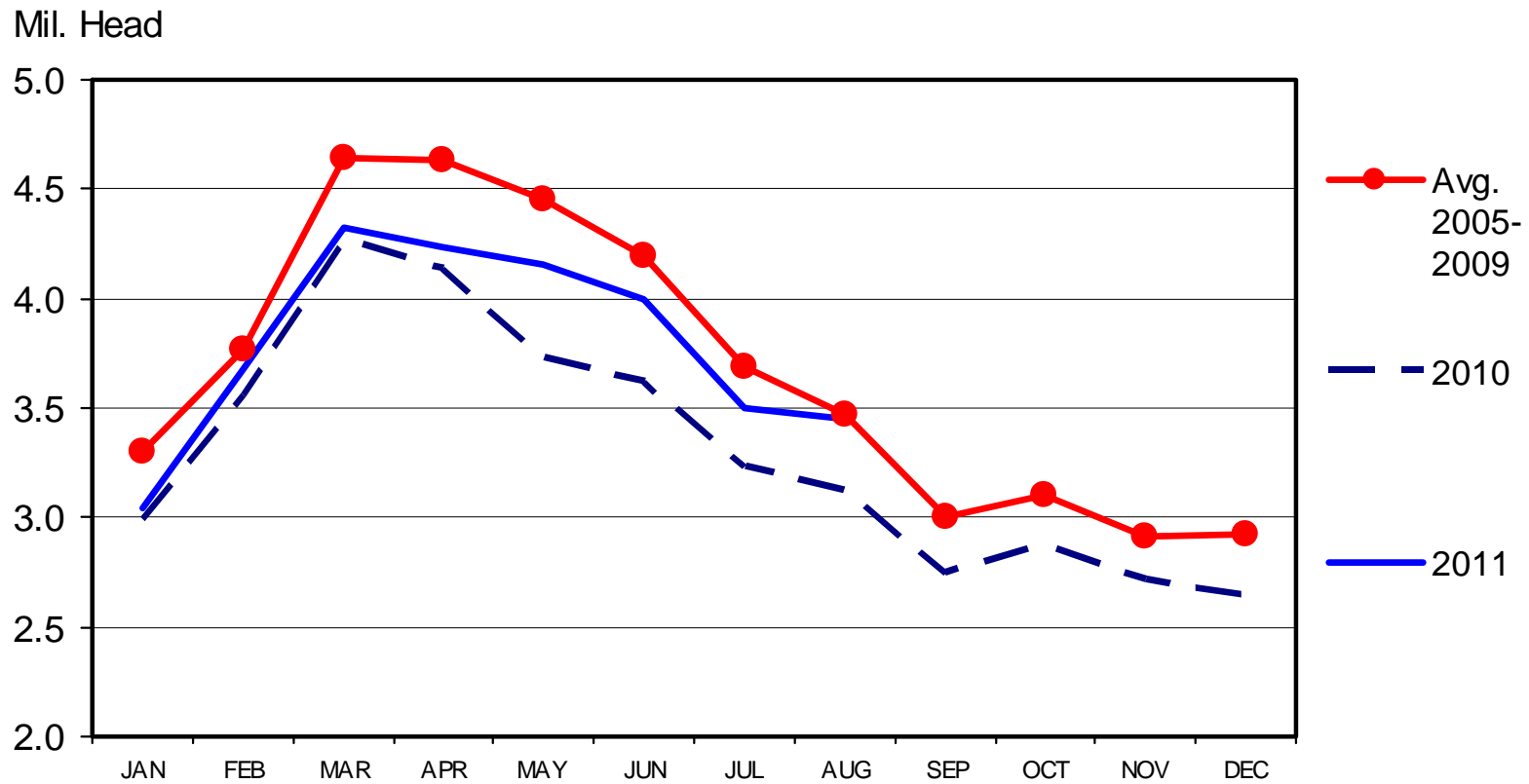
US Total, Monthly



Data Source: LMIC

Cattle on Feed Over 120 days

US Total, Monthly

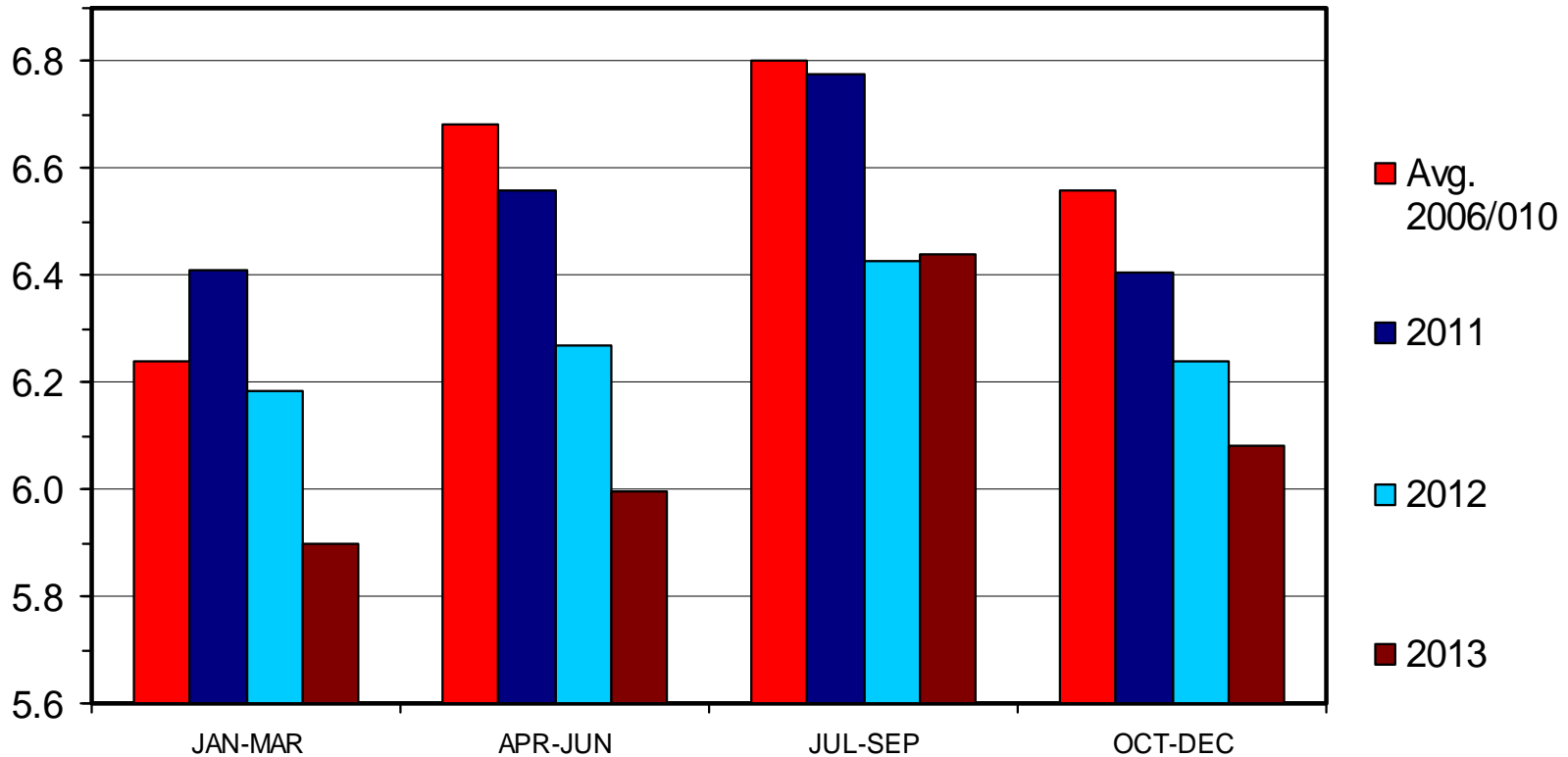


Data Source: LMIC

Commercial Beef Production

Bil. Pounds

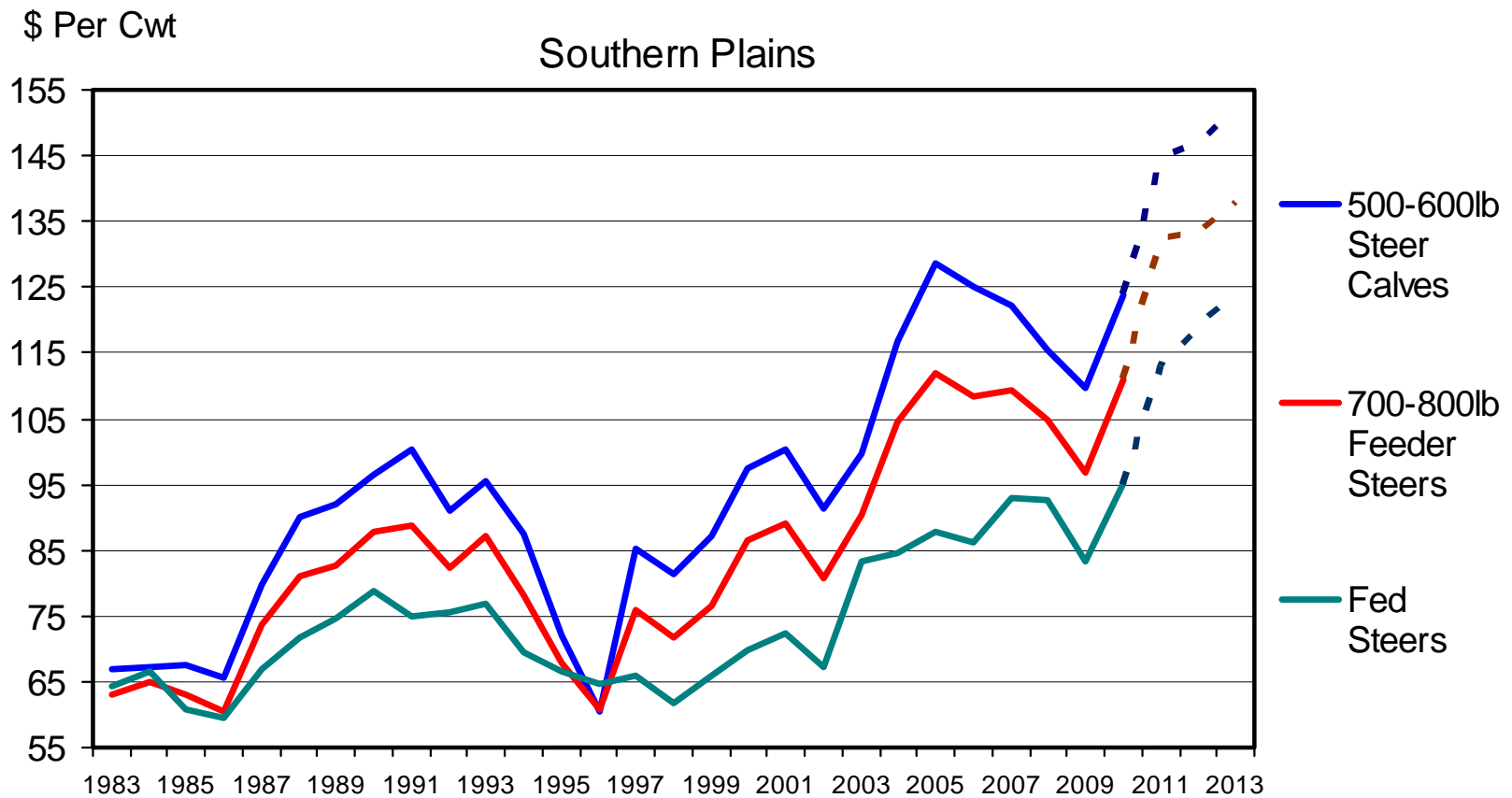
Quarterly



Data Source: LMIC

- Smaller herd, reduced production

Annual Average Cattle Prices



Data Source: LMIC



Fed Cattle Price Forecasts

	USDA-ERS*	LMIC	Futures SEPT 20
	----- \$/cwt -----		
Jul - Sept	113-114	112-113	Oct – 118.70
Oct - Dec	109-115	115-118	Dec – 119.20
Jan - Mar	108-116	116-120	Feb – 121.77
Apr - Jun	110-120	118-123	Apr – 126.02 Jun – 124.32

* September 2011



Feeder Cattle Forecasts – Steers M-1

	<u>700-800 lbs*</u>	<u>500-600 lbs**</u>
Oct - Dec	118-122	125-130
Jan - Mar	125-130	130-140
Apr –Jun	125-135	135-145

* Load Lots

** Auction Cattle



Futures Based Forecasts Feeder Cattle - 650-800 lbs M-1 Steers

Sept 20

Sept 134.35

Oct 137.52

Nov 139.77

Jan 141.47

Mar 142.42

Not Adjusted For Basis



Records on '07 Beef Cow/Calf Farms

2003-2007 Kansas State Farm Management Association

- Cost Difference between upper 1/3 and lower 1/3 profit explained much of the difference
- Correlation between depreciation on machinery and interest cost and profit greater than feed cost and profit
- Larger cow/calf operations tend to have lower cost and be more profitable but, smaller operations must be competitive



Should One Be Expanding or Reducing the Cow Herd?

- An individual decision
- Iowa State research by J. Lawrence indicates a constant investment in replacement heifers in a 100 cow herd increased average annual profit by 40% and net worth over 25 years by \$100,000
- Probably a good time to add heifers or cows that will calve soon

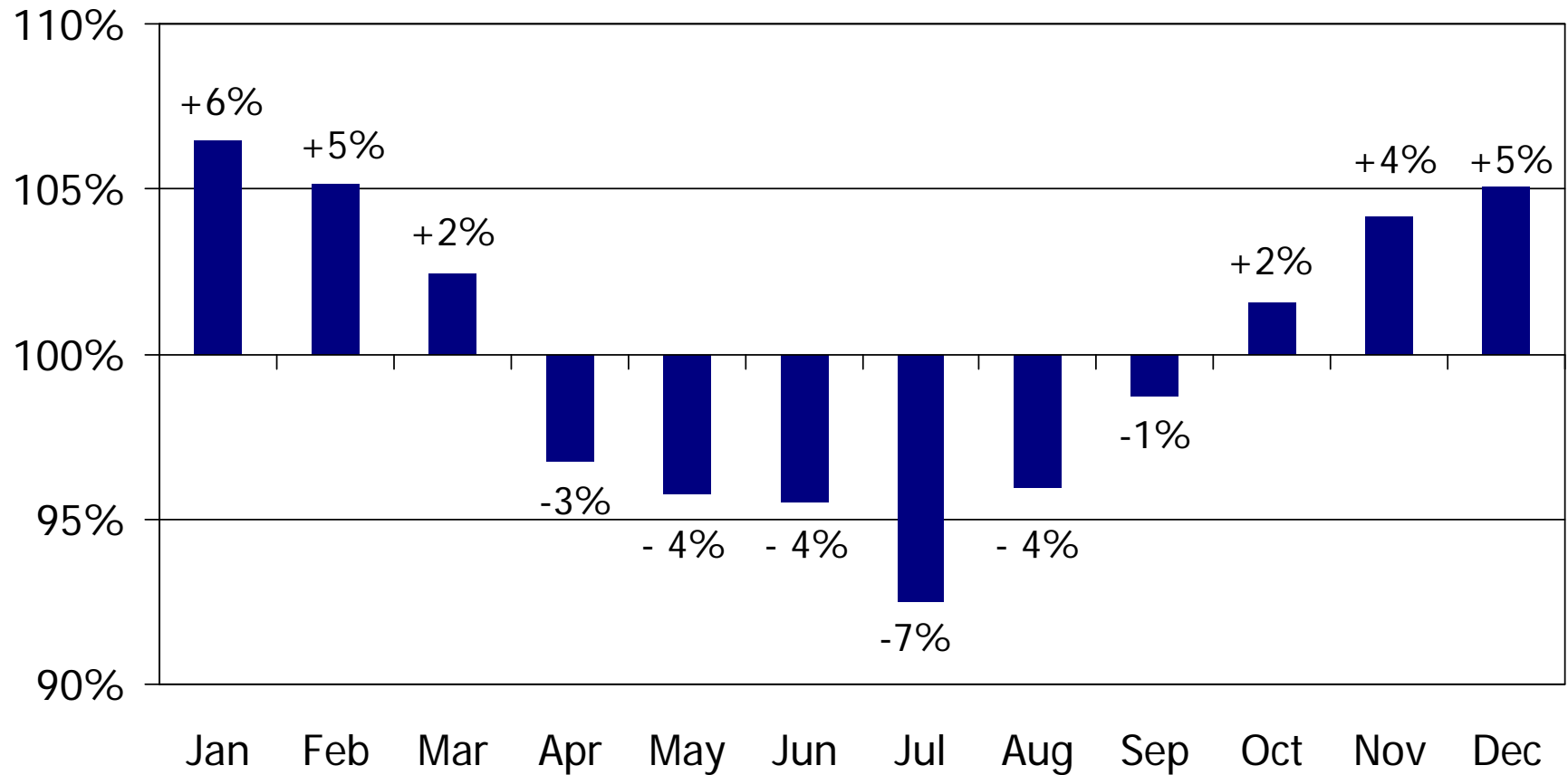


What About Stockers?

- Strategies
 - Intensive grazing
 - Reduce hay/feed waste
 - Take advantage of seasonal feed prices
 - Buy in bulk, shop around
 - Manage price risk on feed and cattle
 - Consider retained ownership
 - Market as load in on-farm, video or thru a pool/graded sale

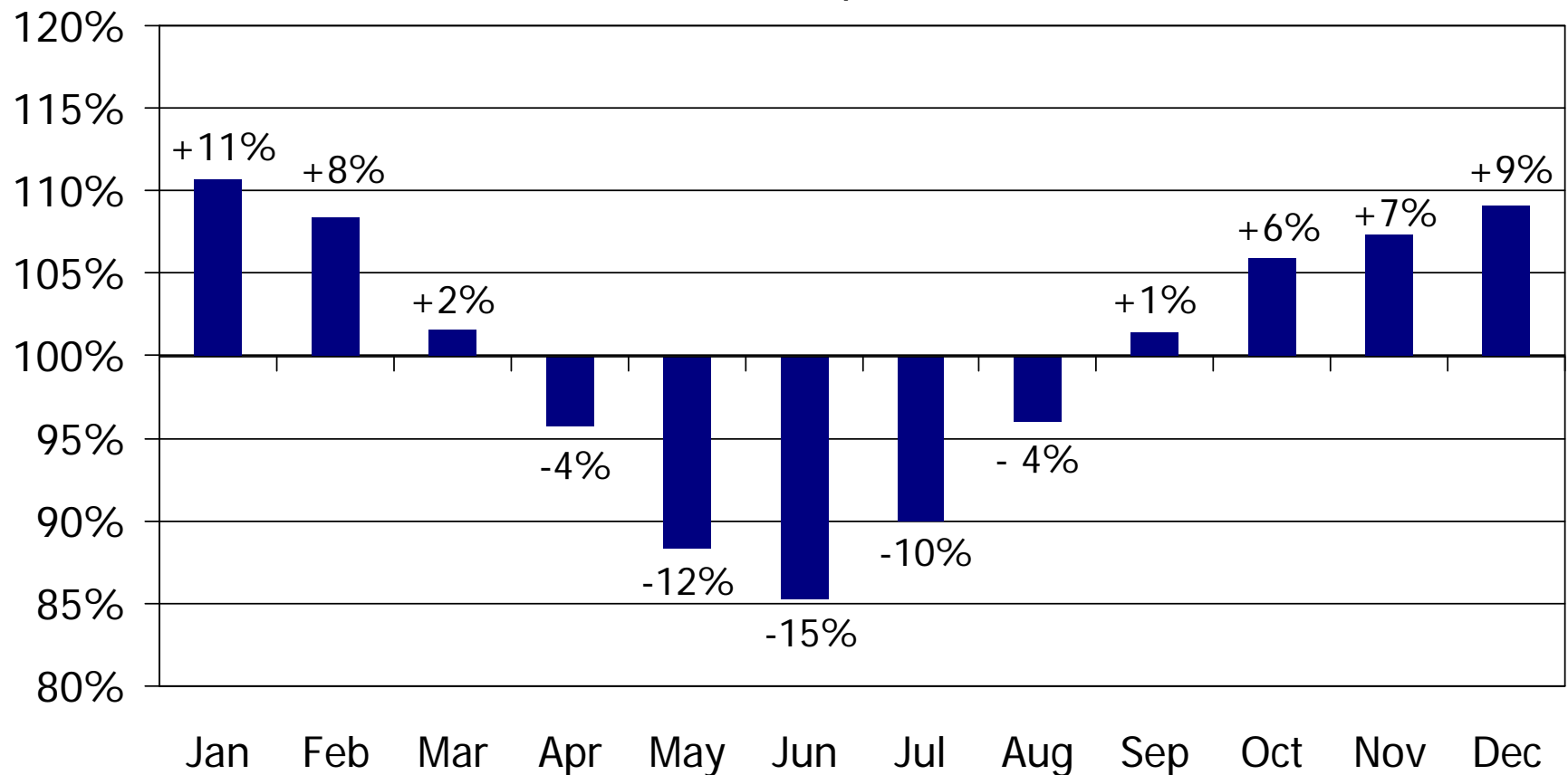
Corn Gluten Feed Pellets Cash Seasonal Price Index, 2001-2006

Memphis



Soybean Hulls Cash Seasonal Price Index, 2001-2006

Memphis





Retained Ownership

- Freight to feedlot – pay anyway
- Added risk both production and price
- Opportunity to capture full value due to grade, gain, age & source
- Again price risk management for feed and cattle important
- Cow/calf producers gain age verification premium of ?



Take Home Message

- Cattle cycle stalled
- Cow calf returns will be higher in '11
- Beef production down 4% in '11
- Beef demand could struggle until unemployment declines
- Higher feed cost than '10
- Contraction in beef & poultry
- Pork stable



Take Home Message

- Tight credit an issue
- Beef exports a big plus
- Exports – value of dollar/politics
- Hedge funds may continue to create market volatility
- Excess capacity in feedlot & packing business will force contraction/consolidation

The End



elrawls@utk.edu

www.TNBeefCattleInitiative.org