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Latest Developments of Beef Production in North America (focusing primarily on U.S.)

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agri benchmark | NSW Industry & Investment | HAMBURG SÜD | mla MEAT & LIVESTOCK AUSTRALIA

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Public Forum in Brisbane

Fri, June 25

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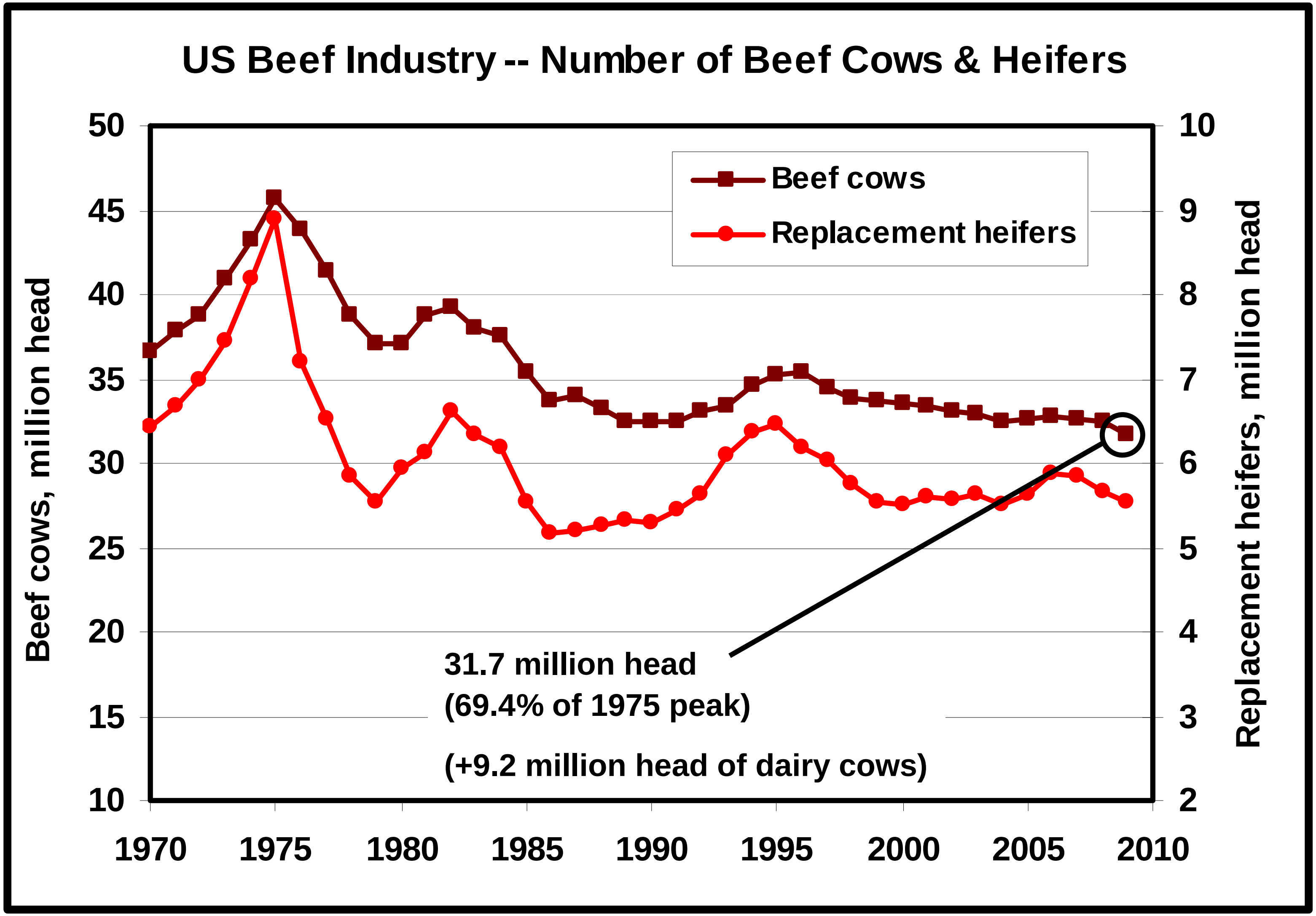
Outline of Presentation

- General U.S. Industry Trends
  - Number and size of beef operations
  - Beef production
- Cattle Price Trends
- Input Prices and Returns
  - Interest rates, corn prices, and feeding cost of gain
  - Beef cow and cattle finishing returns
- Trade and Other Issues

General Industry Trends

U.S. beef cow numbers are at lowest level in over 30 years…



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Location of cows

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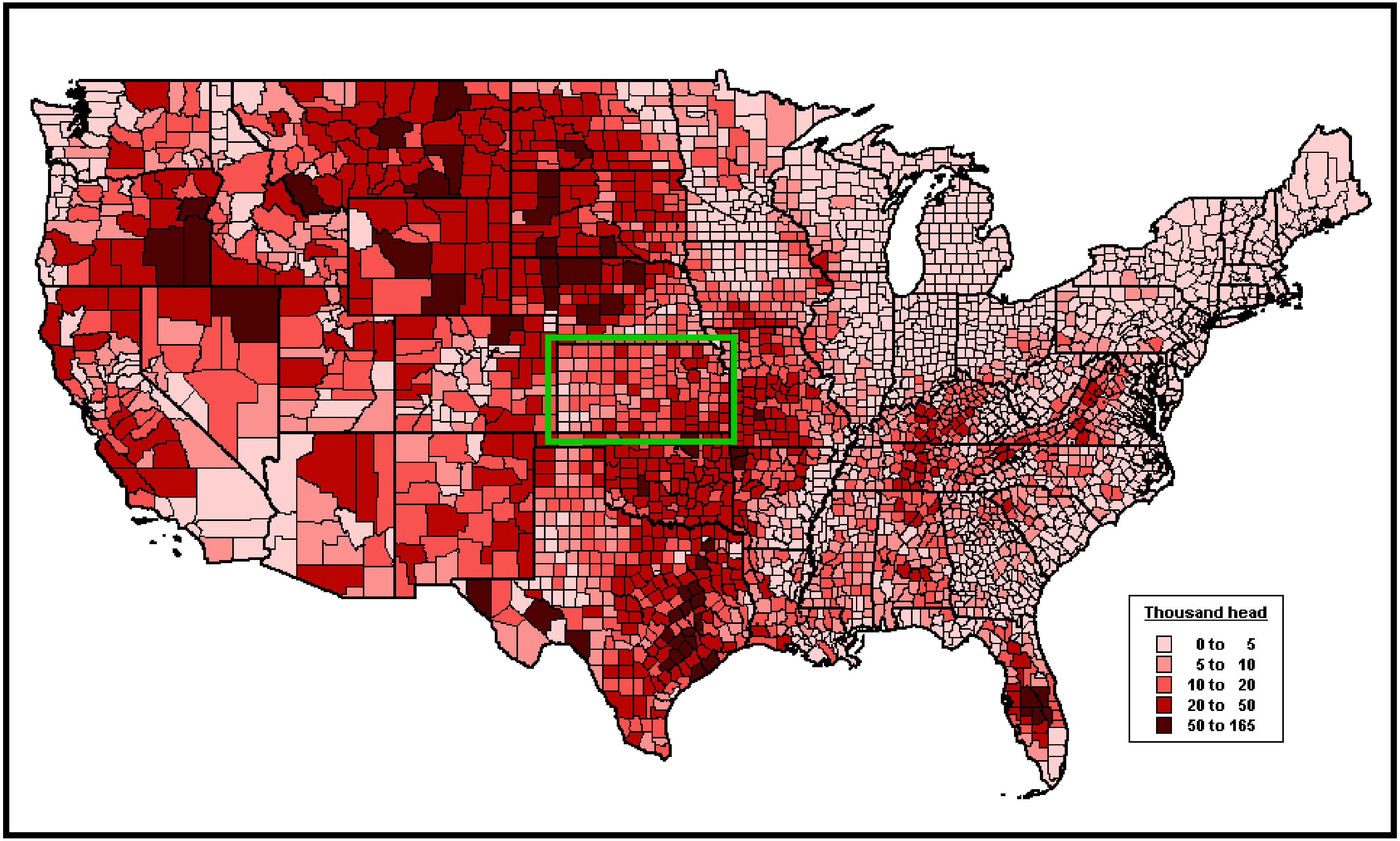
Average beef cow inventory (33.25 million), 2000-2004 Source: USDA NASS, 2002 Ag Census, Kansas State University



Average herd size and distribution

Average beef cow herd size increased from 37.3 in 1993 to 42.1 in 2009, but averages can be somewhat deceiving...

Farm size	Percent of operations		Percent of inventory	
(cows/farm)	1993	2009	1993	2009
1-49	80.7	79.4	31.7	28.3
50-99	11.3	10.9	19.8	17.1
100-499	7.4	8.9	33.9	38.0
500+	0.6	0.8	14.6	16.6

Roughly 10% of the operations control over 50% of the cows (diverse cow-calf sector)

Concentration of U.S. animal agriculture in 2009
(production from approximately 10% of operations)

	Size of operation (hd)	Percent of operations	% of I, M, or P*
Beef cows	100+	9.7%	54.6% (I)
1000+ head Feedlots**	24,000+	8.5%	61.6% (M)
Dairy	200+	11.1%	72.0% (P)
Swine	2,000+	11.5%	86.0% (I)

* I = Inventory, M = Marketings, P = Production

** Feedlots with 1000+ hd represent 2.6% of all feedlots and account for 84.7% of marketings

Source: USDA NASS and K-State

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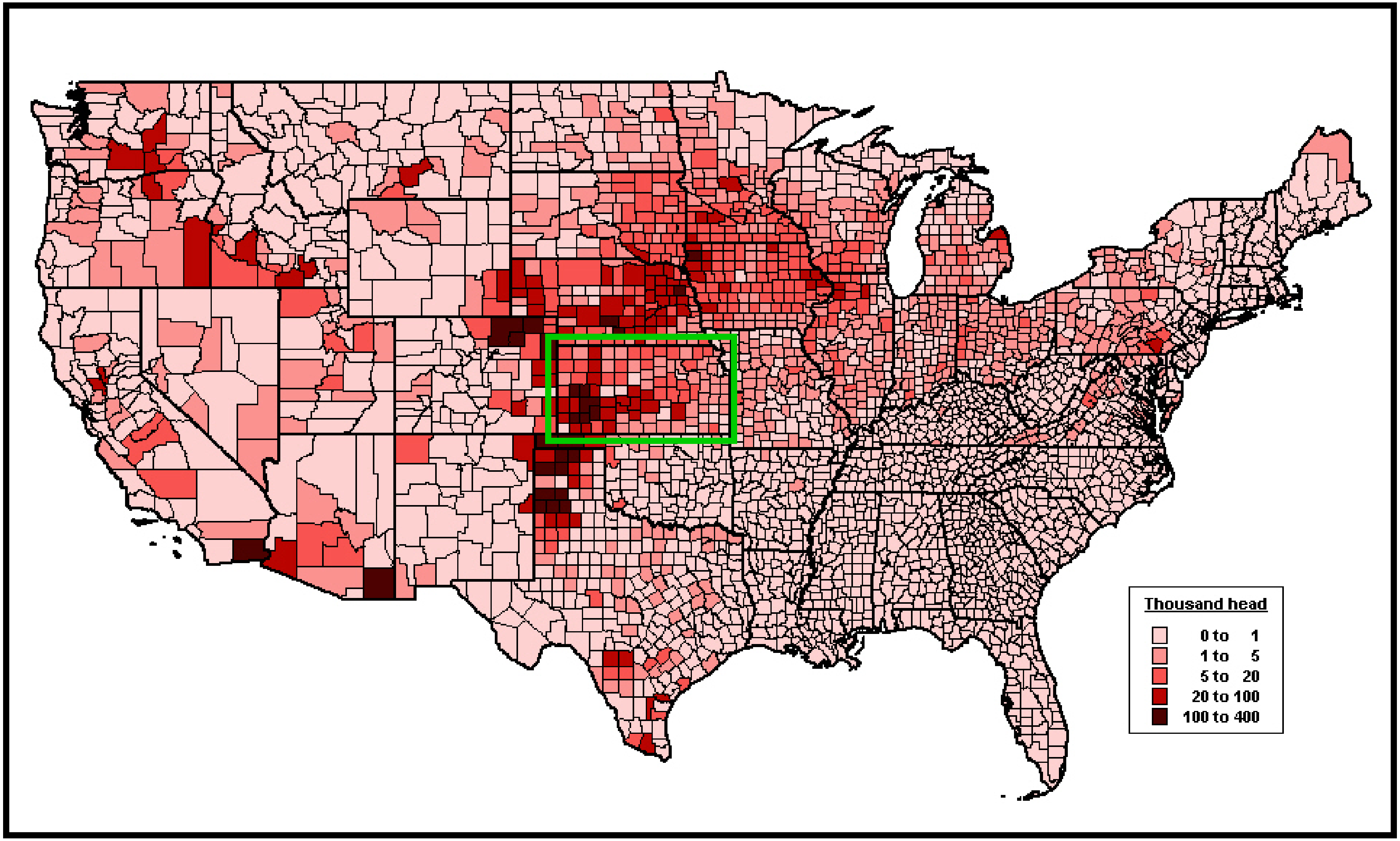
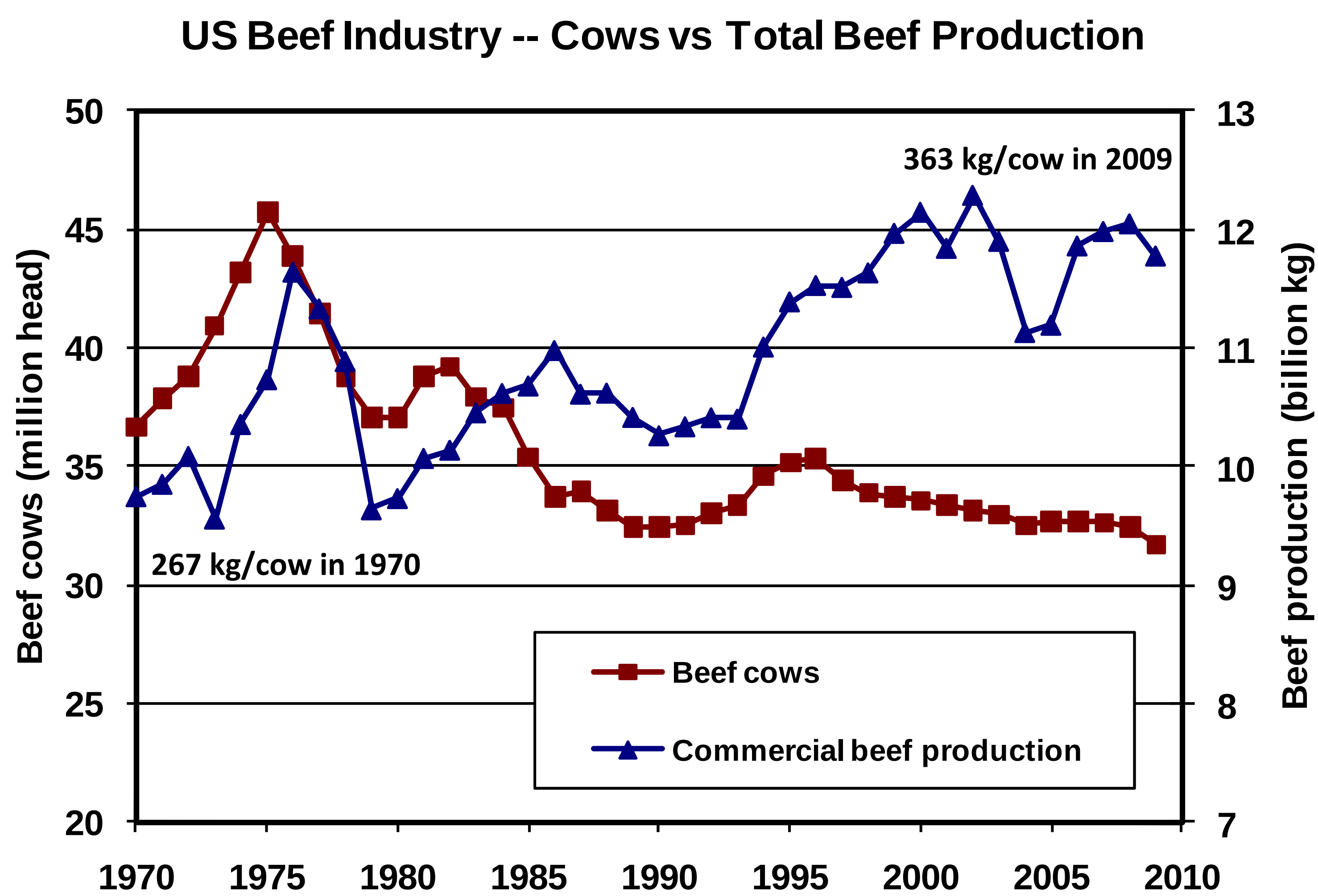
Average cattle on feed (13.3 million), 2000-2004

Source: USDA NASS, 2002 Ag Census, Kansas State University

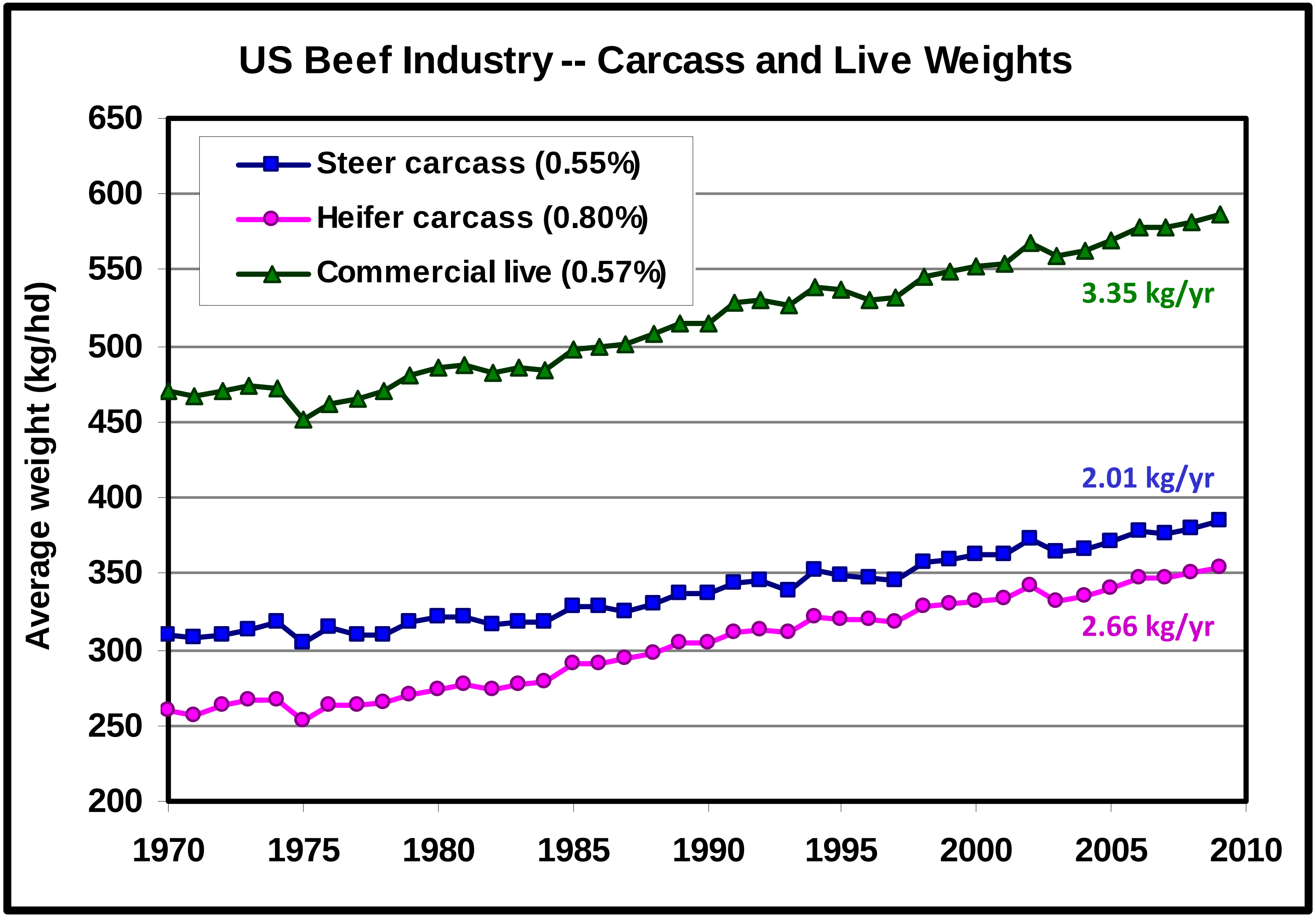


Beef production has been trending up over last 30 years…

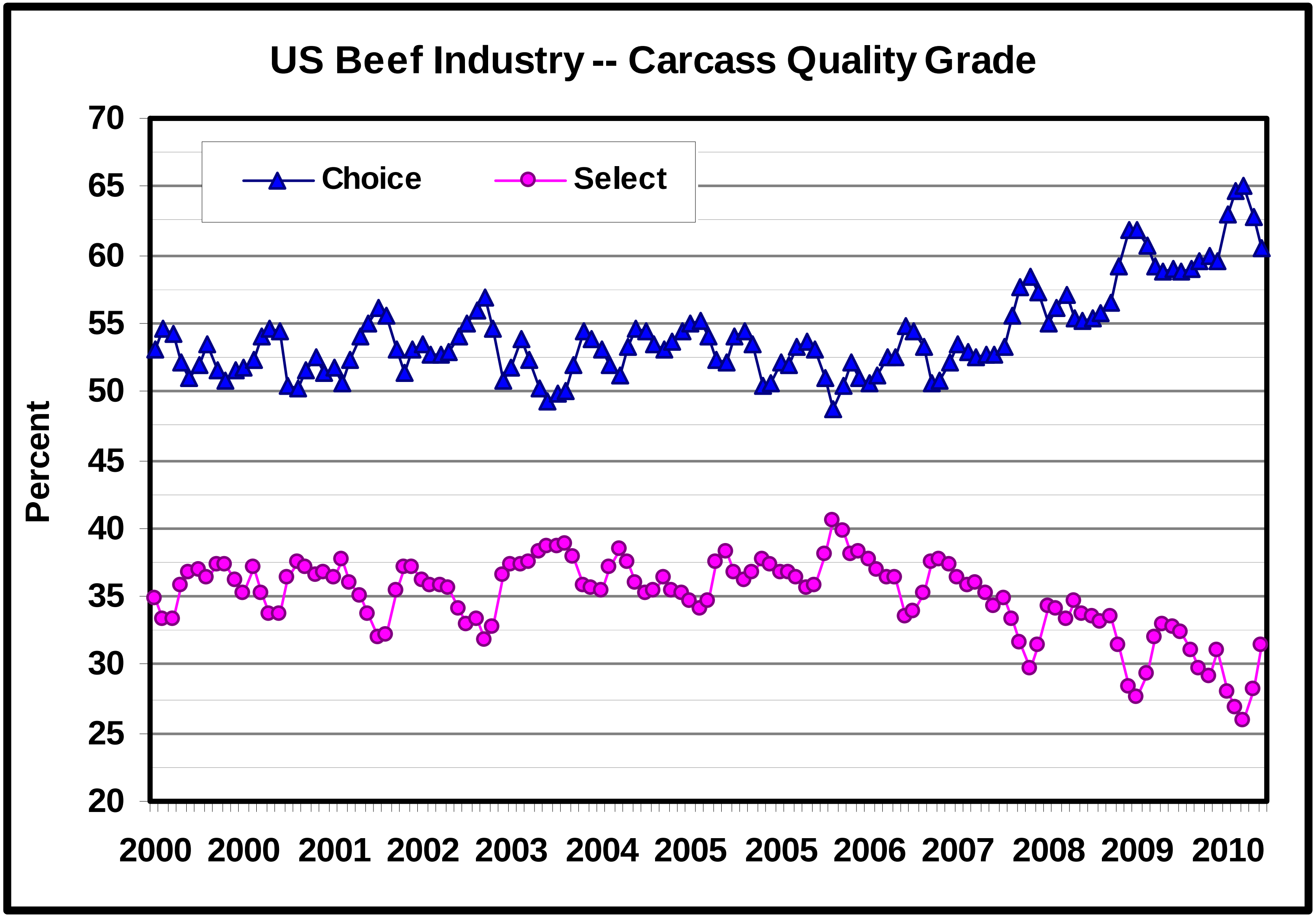


Source: USDA NASS and K-State

Cattle are being finished at heavier weights…



Quality of carcasses has been improving…



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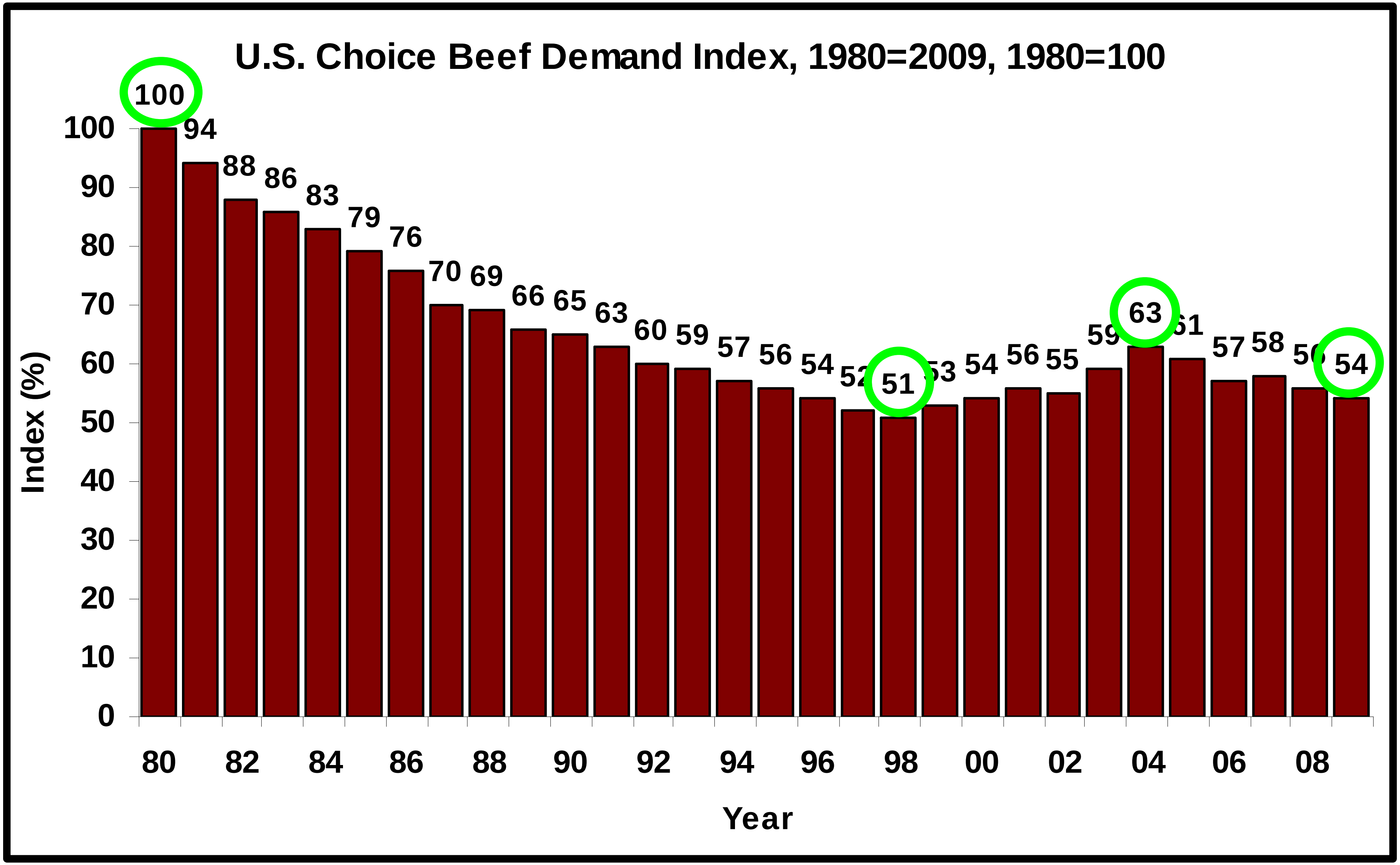
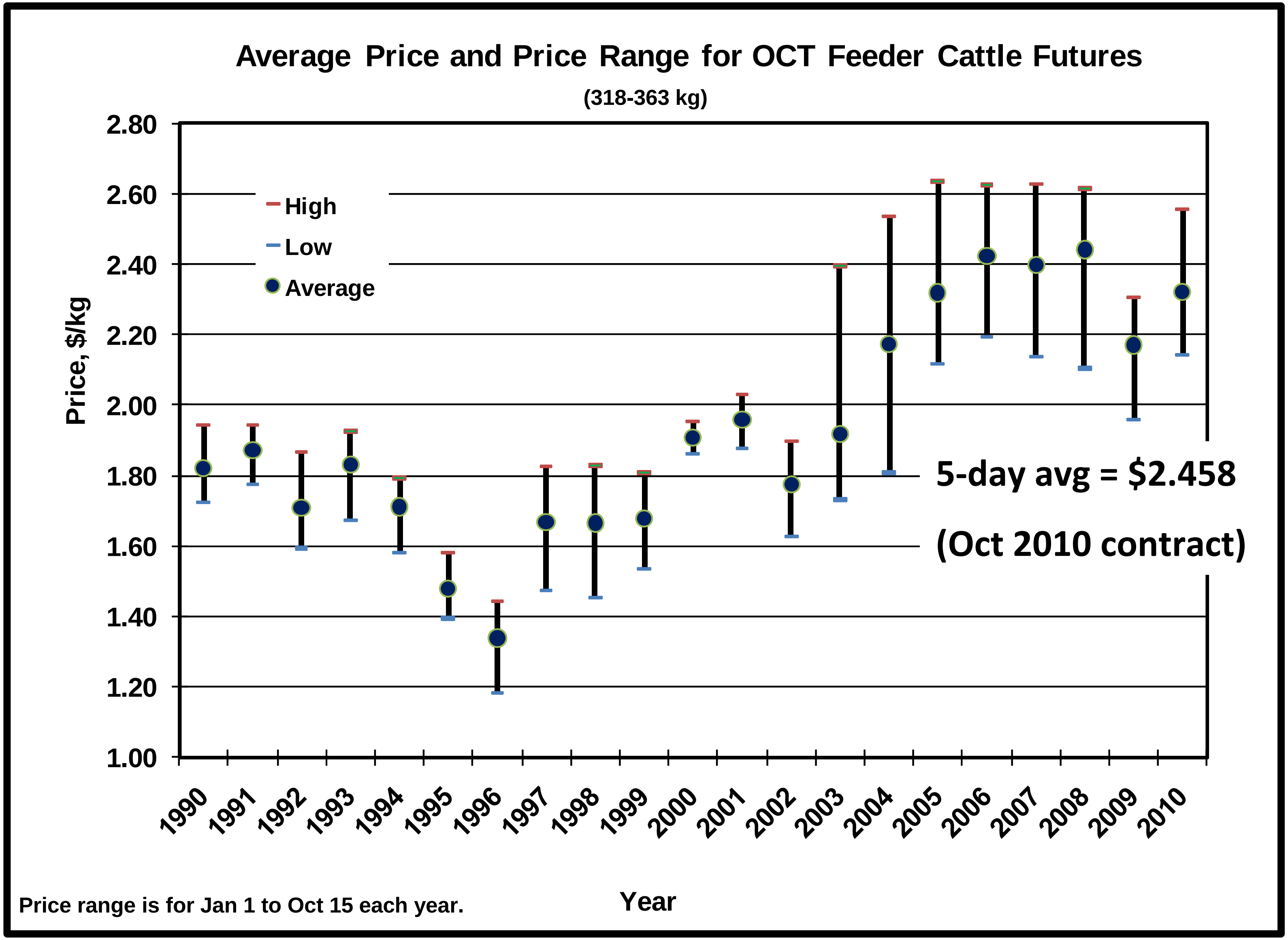
US Beef Demand, 1980-2009



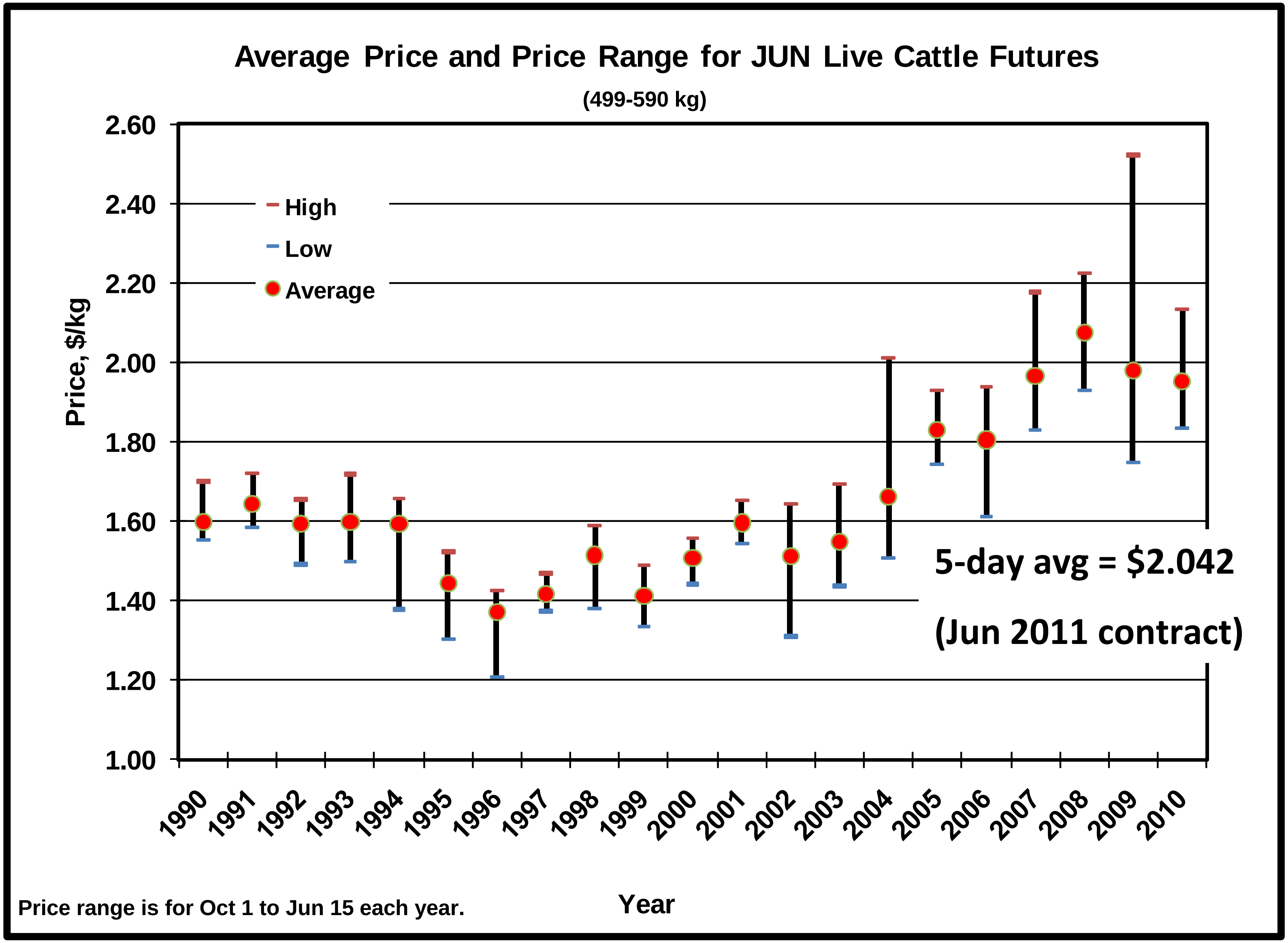
Source: T. Schroeder, Kansas State University (http://naiber.org/beefdemandindex.html)

Cattle Price Trends

Feeder Cattle Futures Price



Live Cattle Futures Price



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Feeder and Fed Cattle Cash Prices

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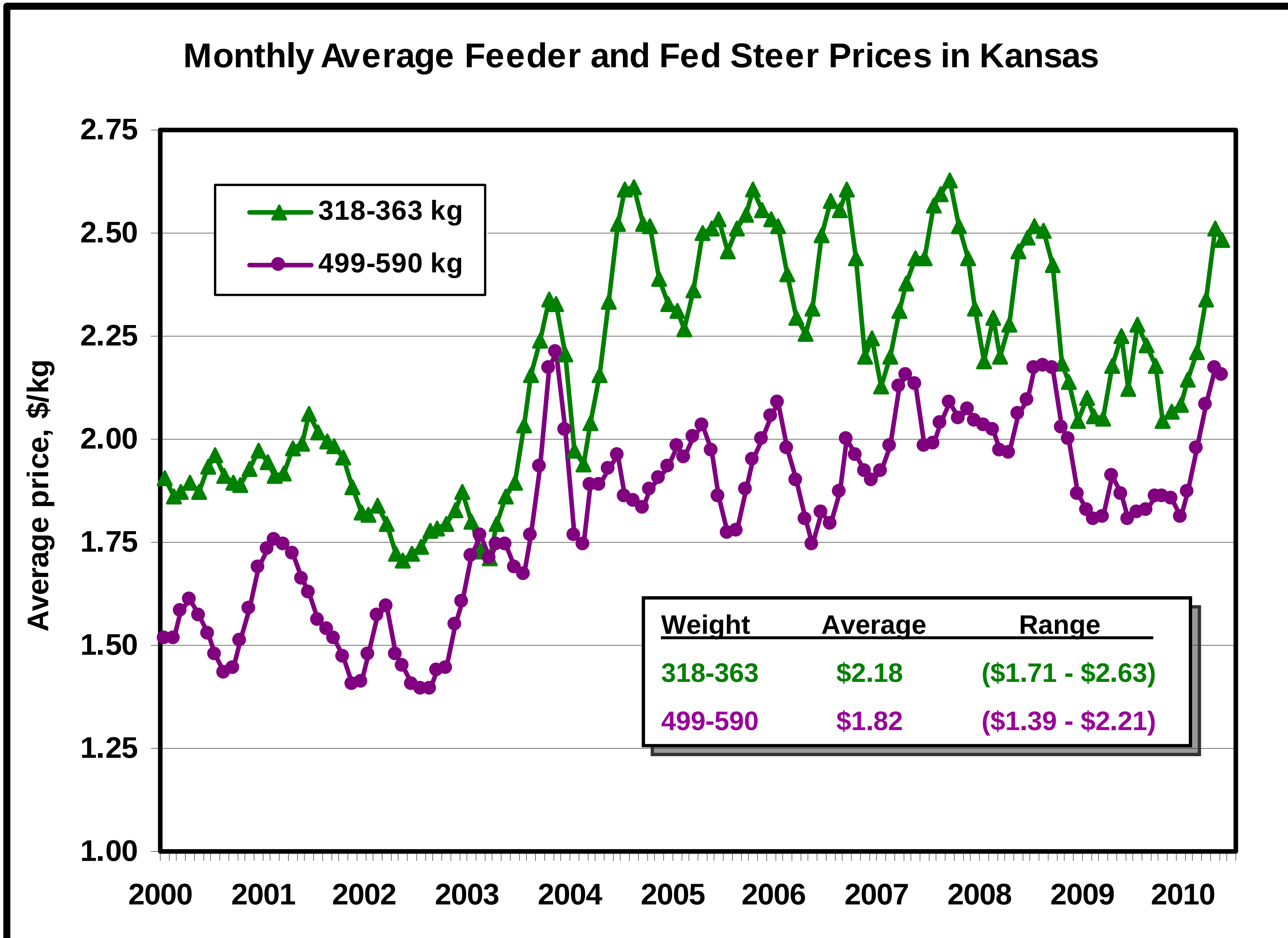

Input Prices and Returns

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Prime Interest Rate

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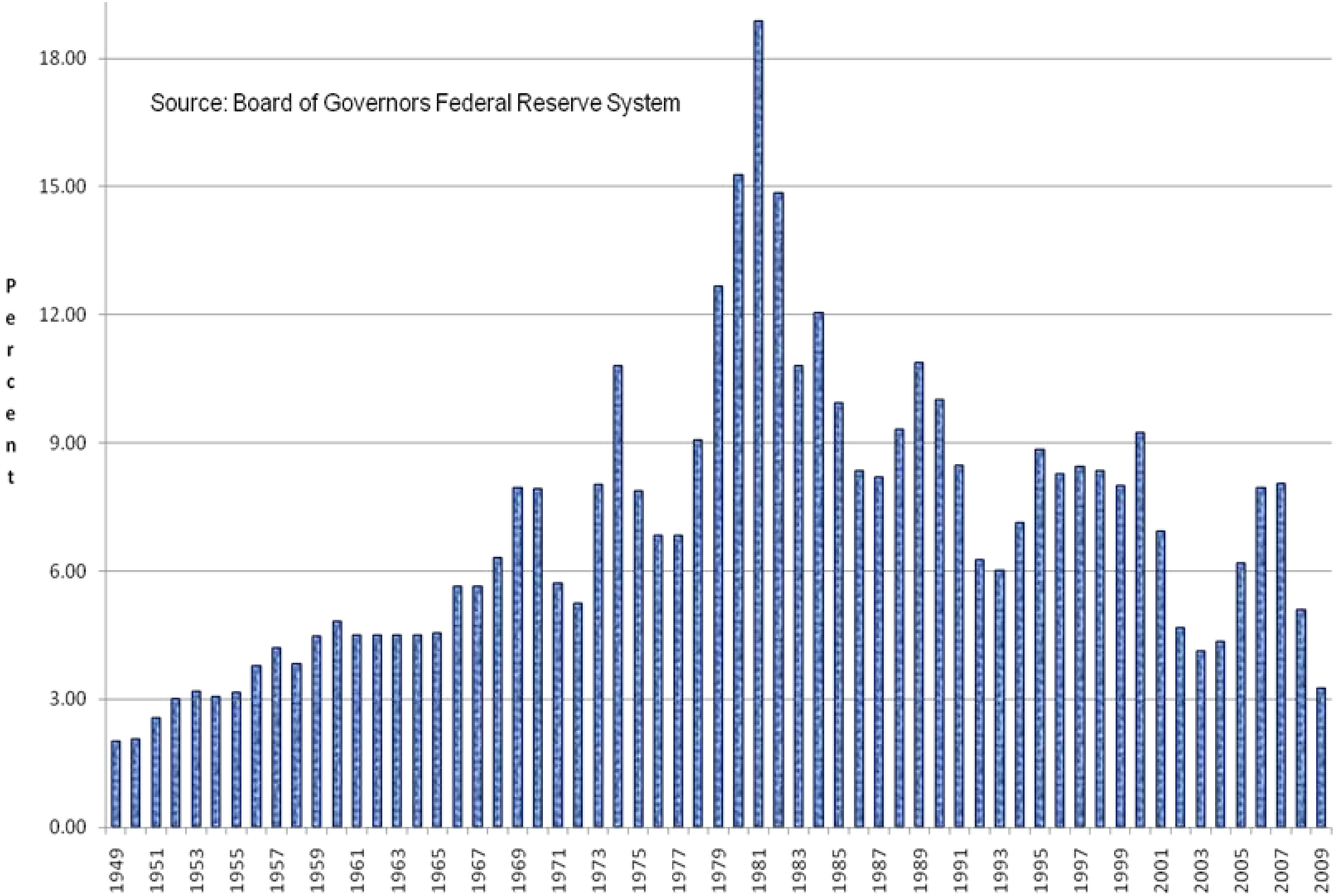
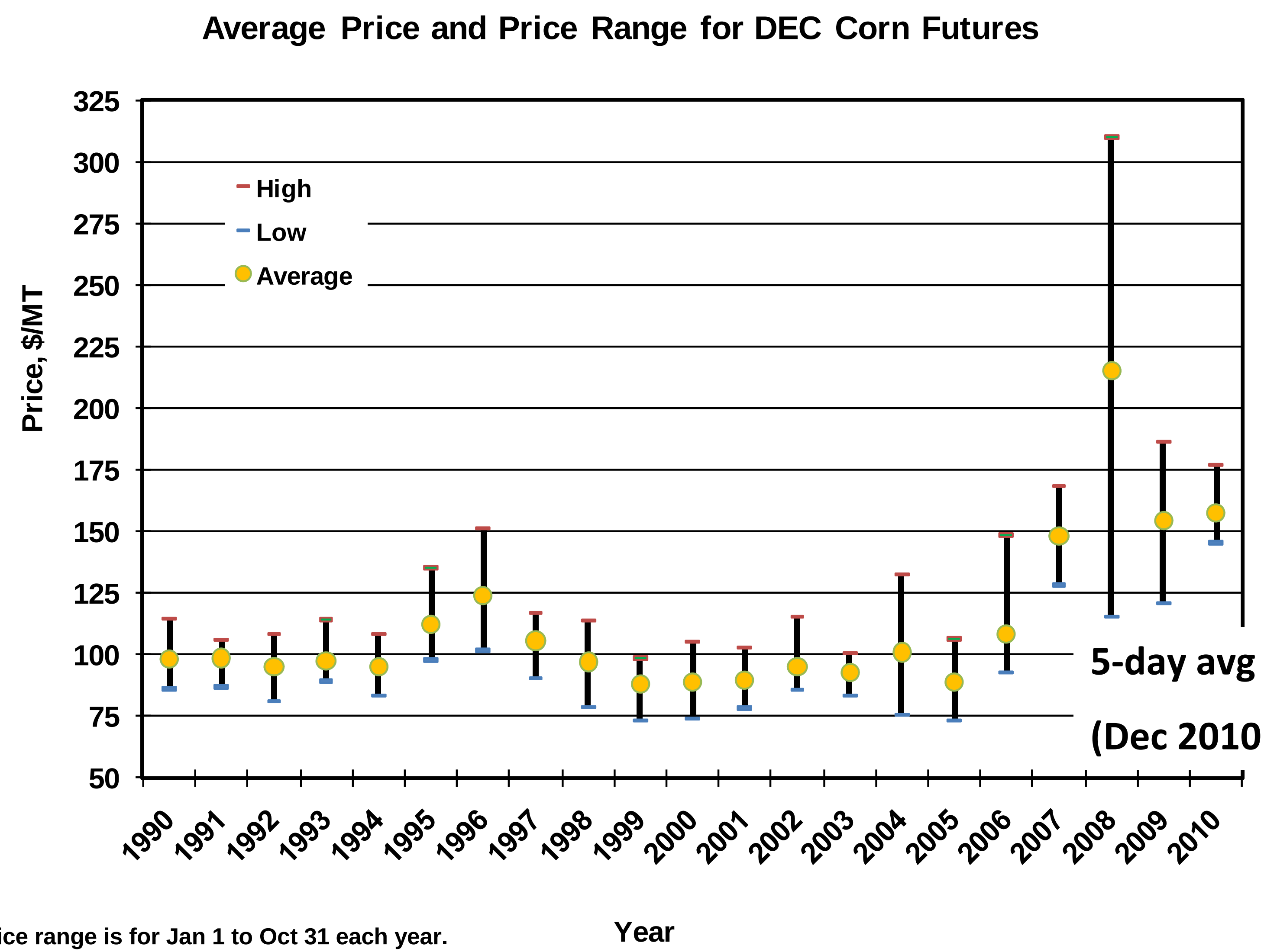


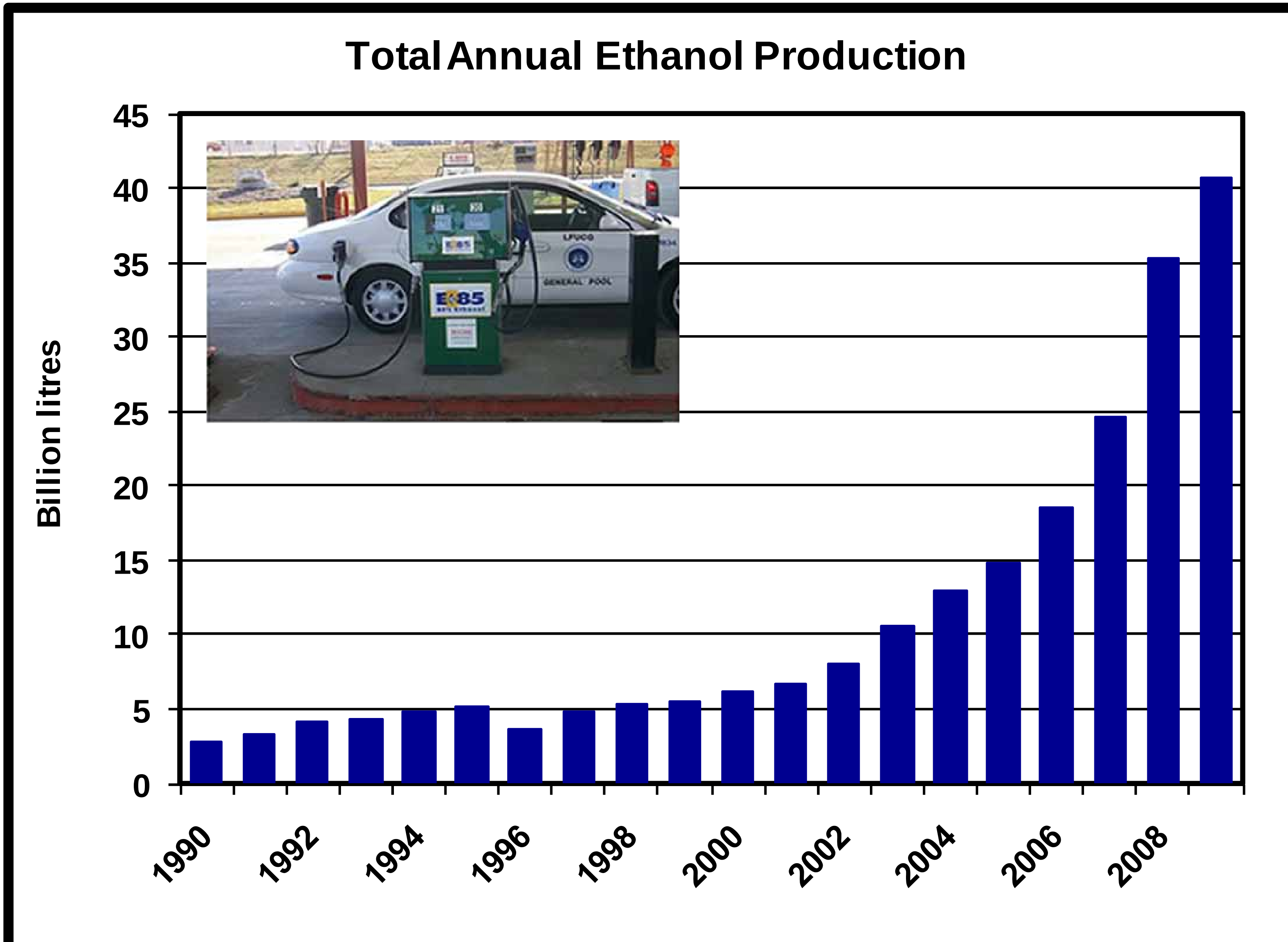
Corn Futures Price



Price range is for Jan 1 to Oct 31 each year.

5-day avg = $146.3

(Dec 2010 contract)


Total Annual Ethanol Production
Billion litres
45
40
35
30
25
20
15
10
5
0
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
E85

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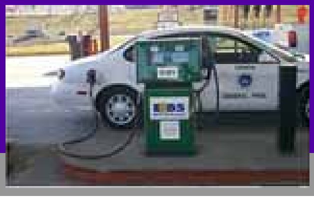

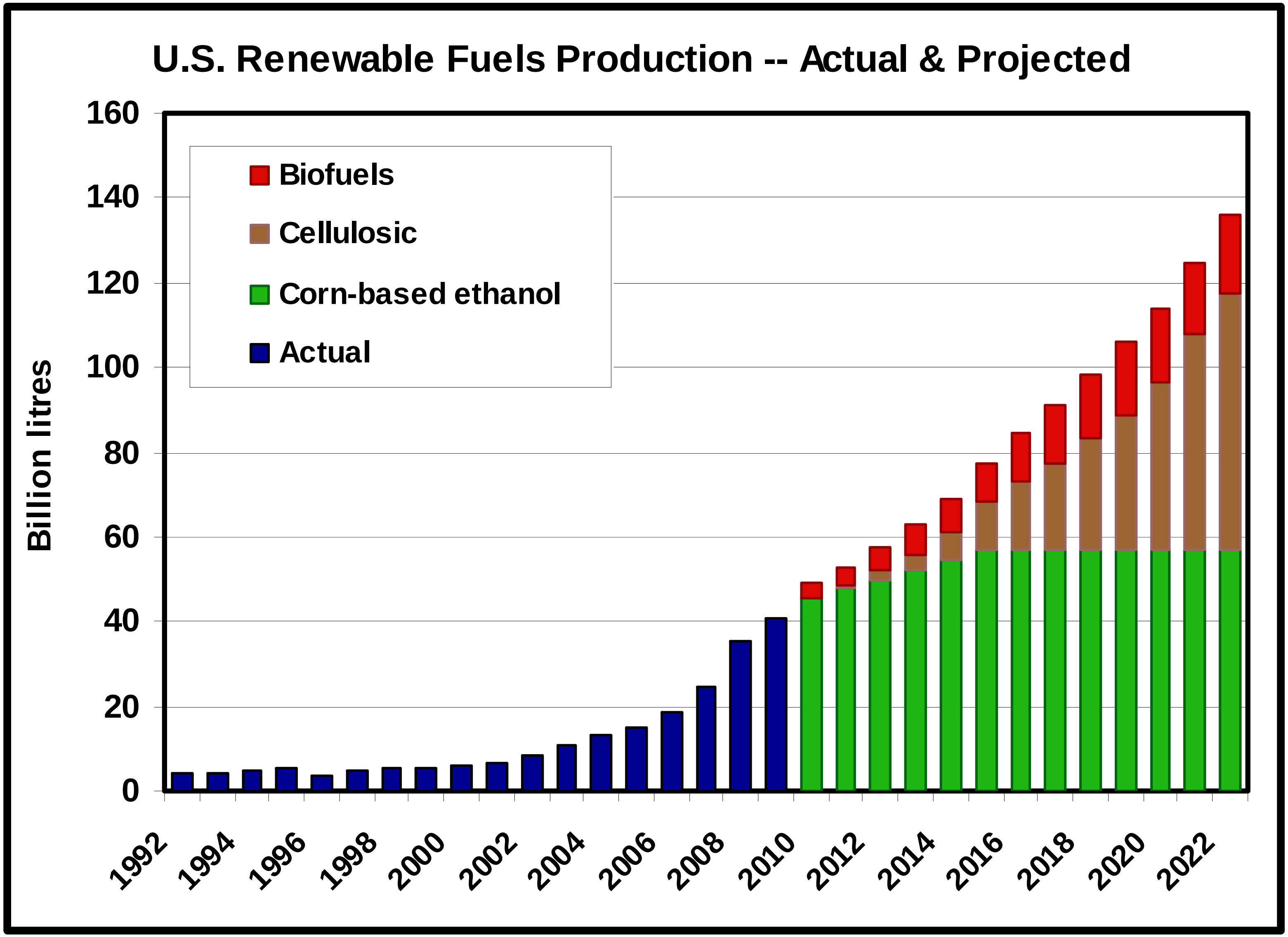

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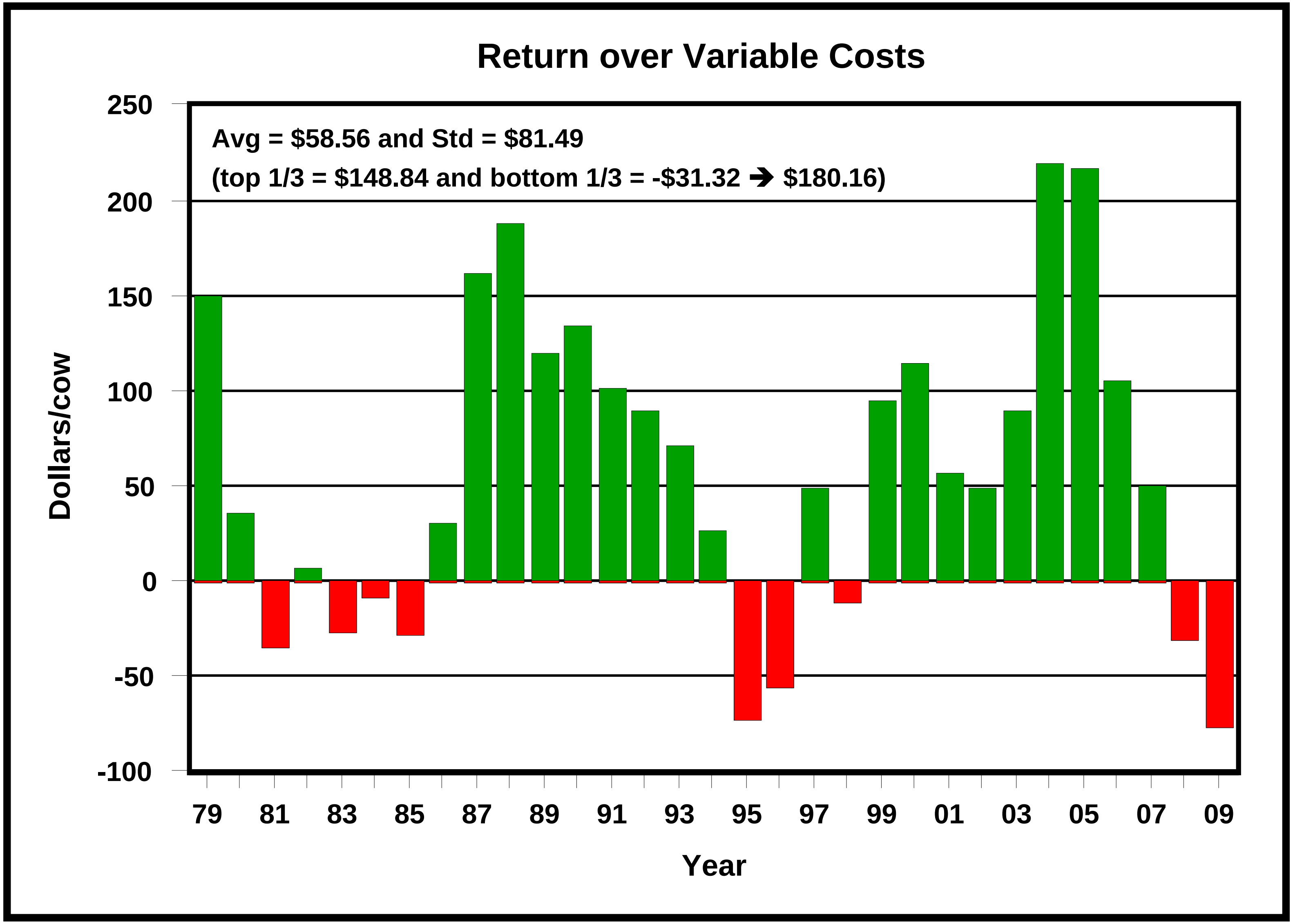
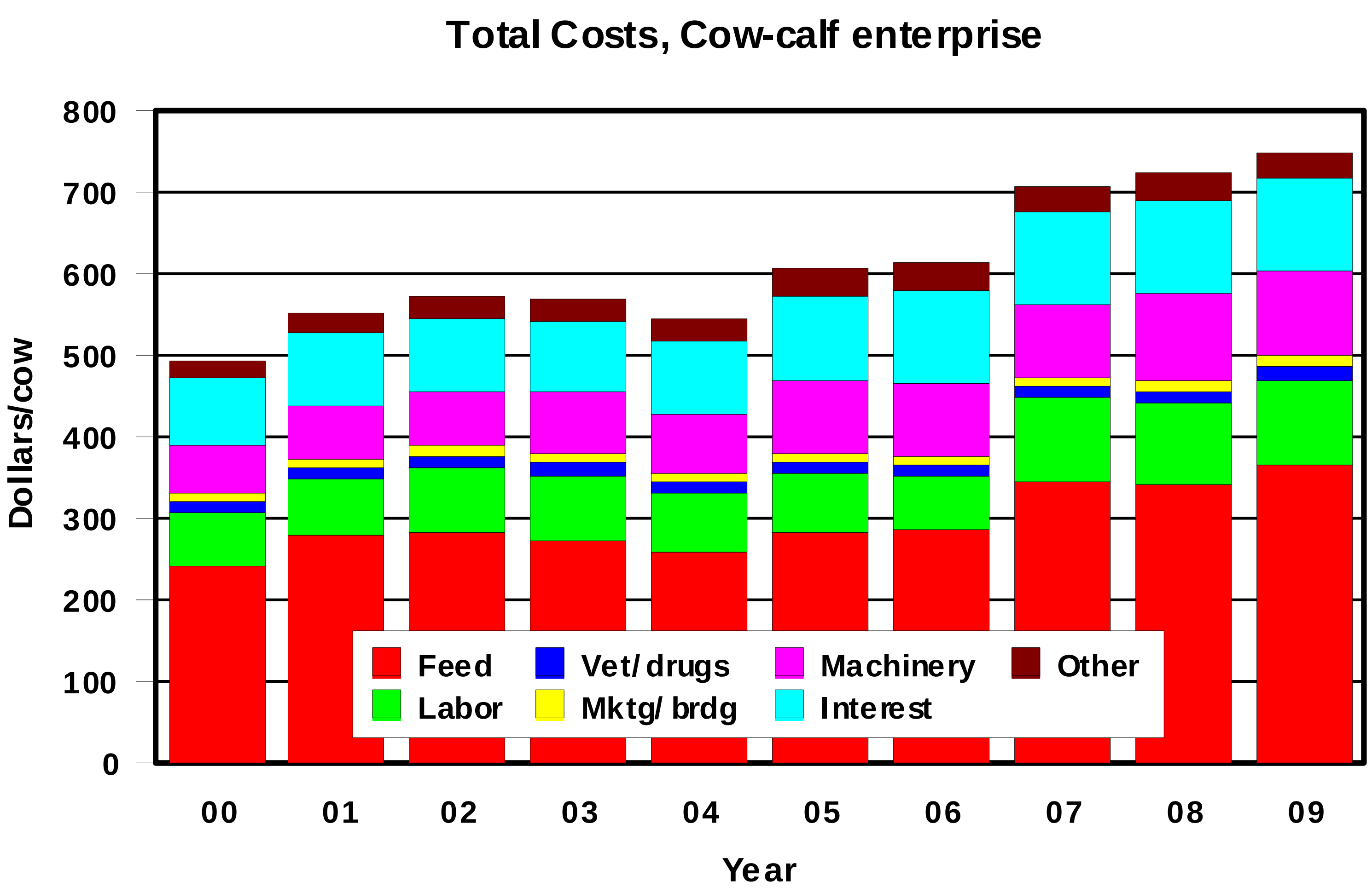
Cow-Calf Returns

Average returns are highly variable over time…



Costs increased significantly in last three years…



Source: Kansas Farm Management Enterprise Analysis Report

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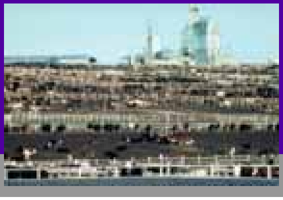
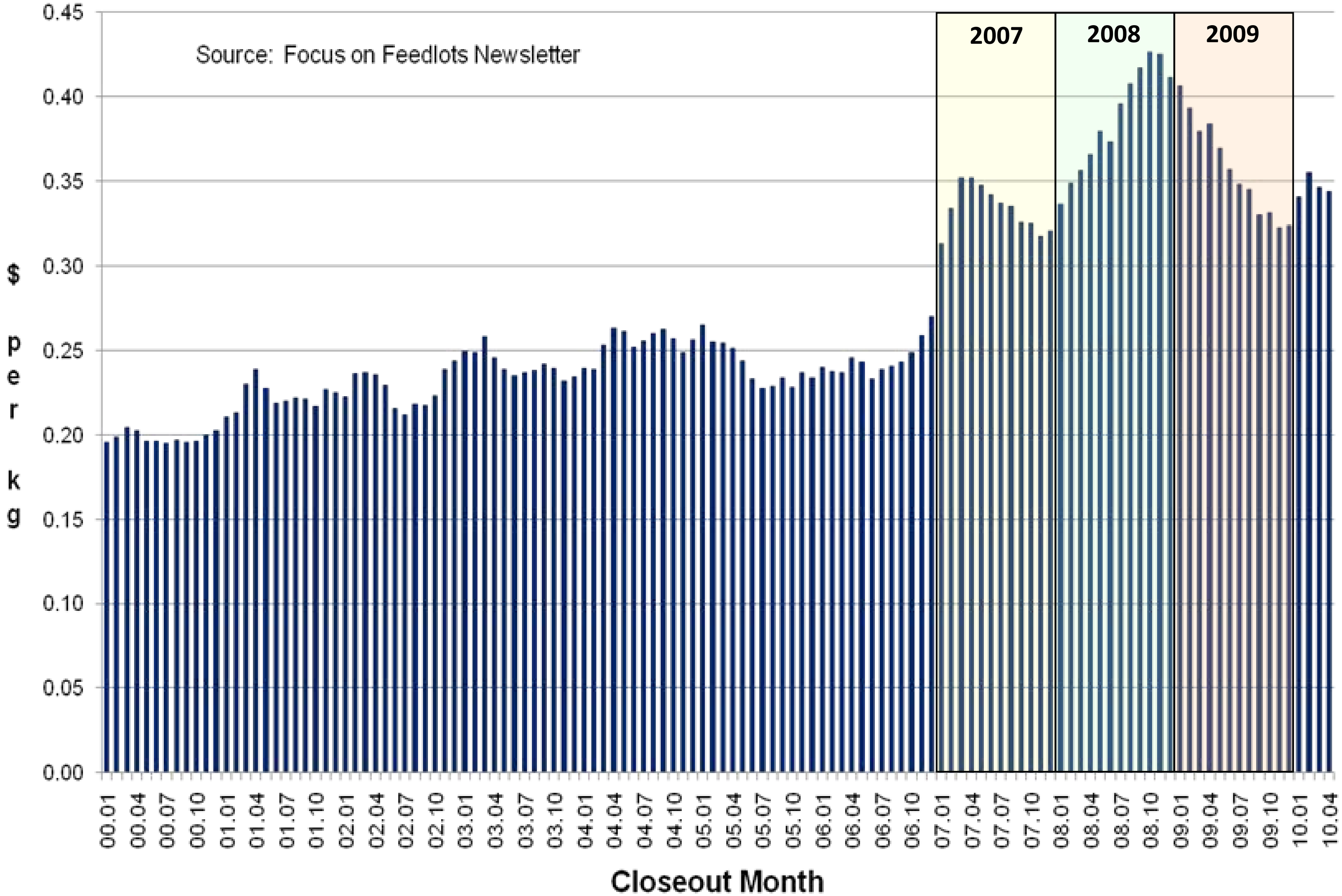
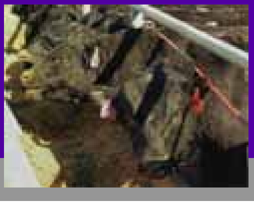
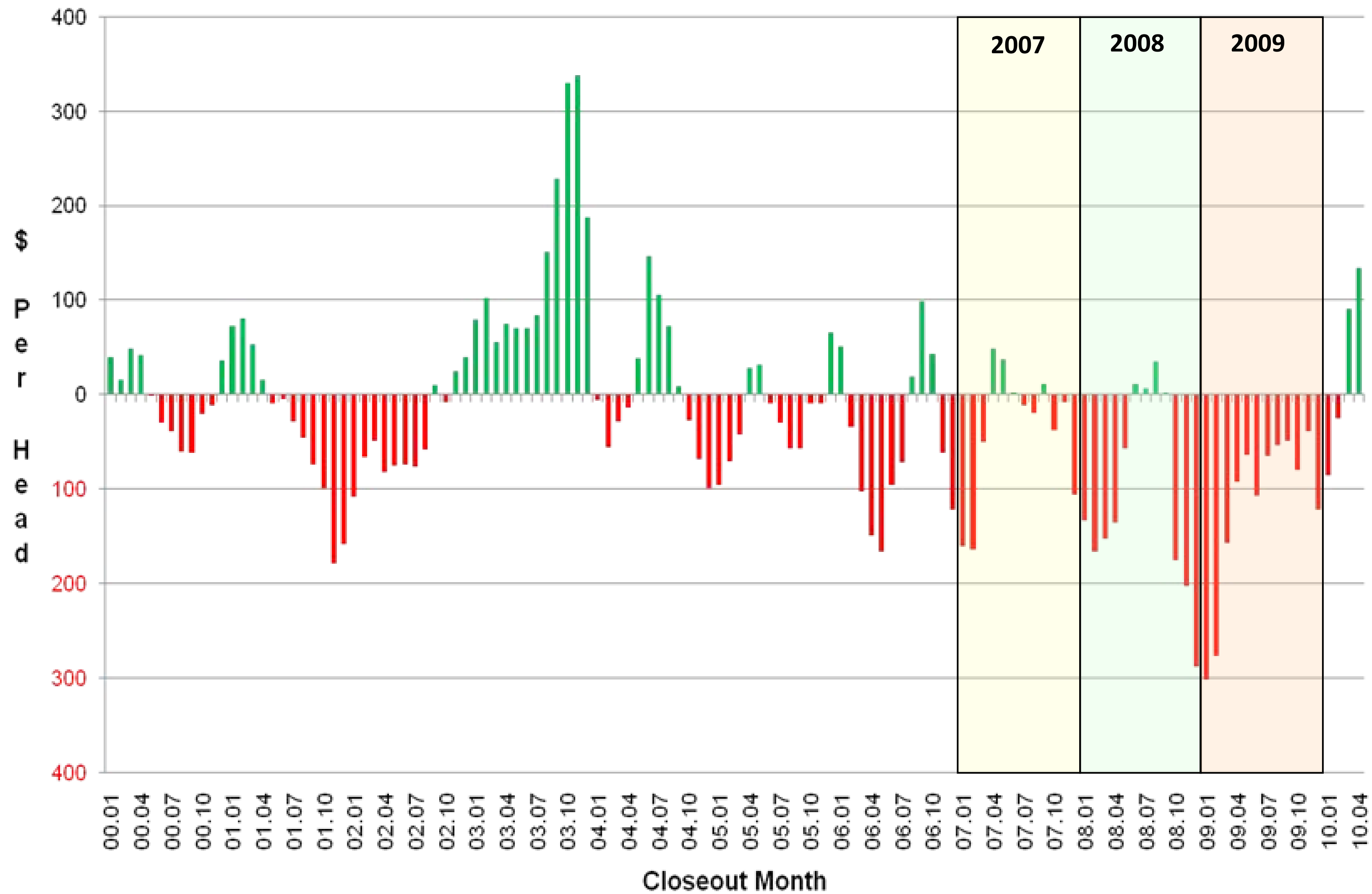
Feeding Cost of Gain for Steers





Returns to Finishing Steers

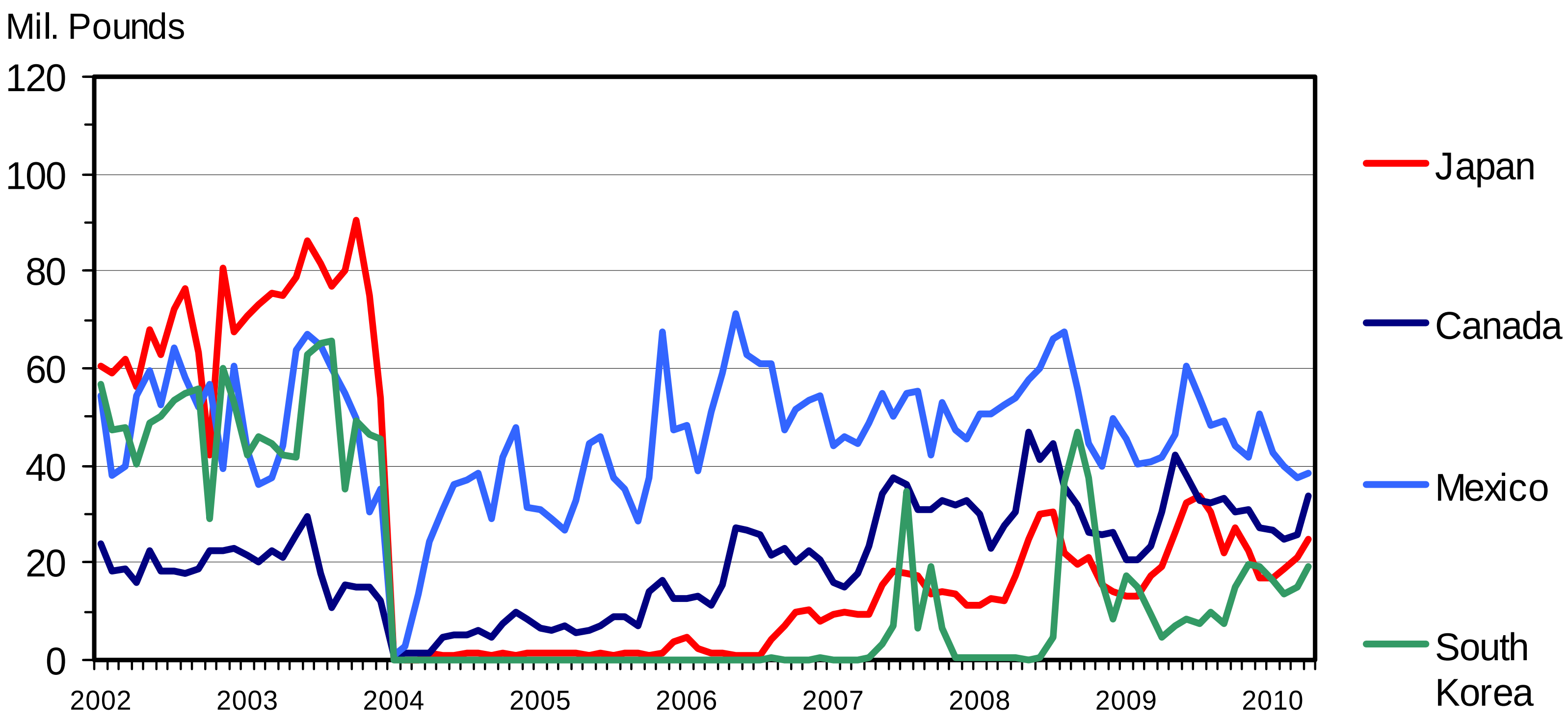




Trade and Other Issues

U.S. BEEF EXPORTS TO MAJOR MARKETS

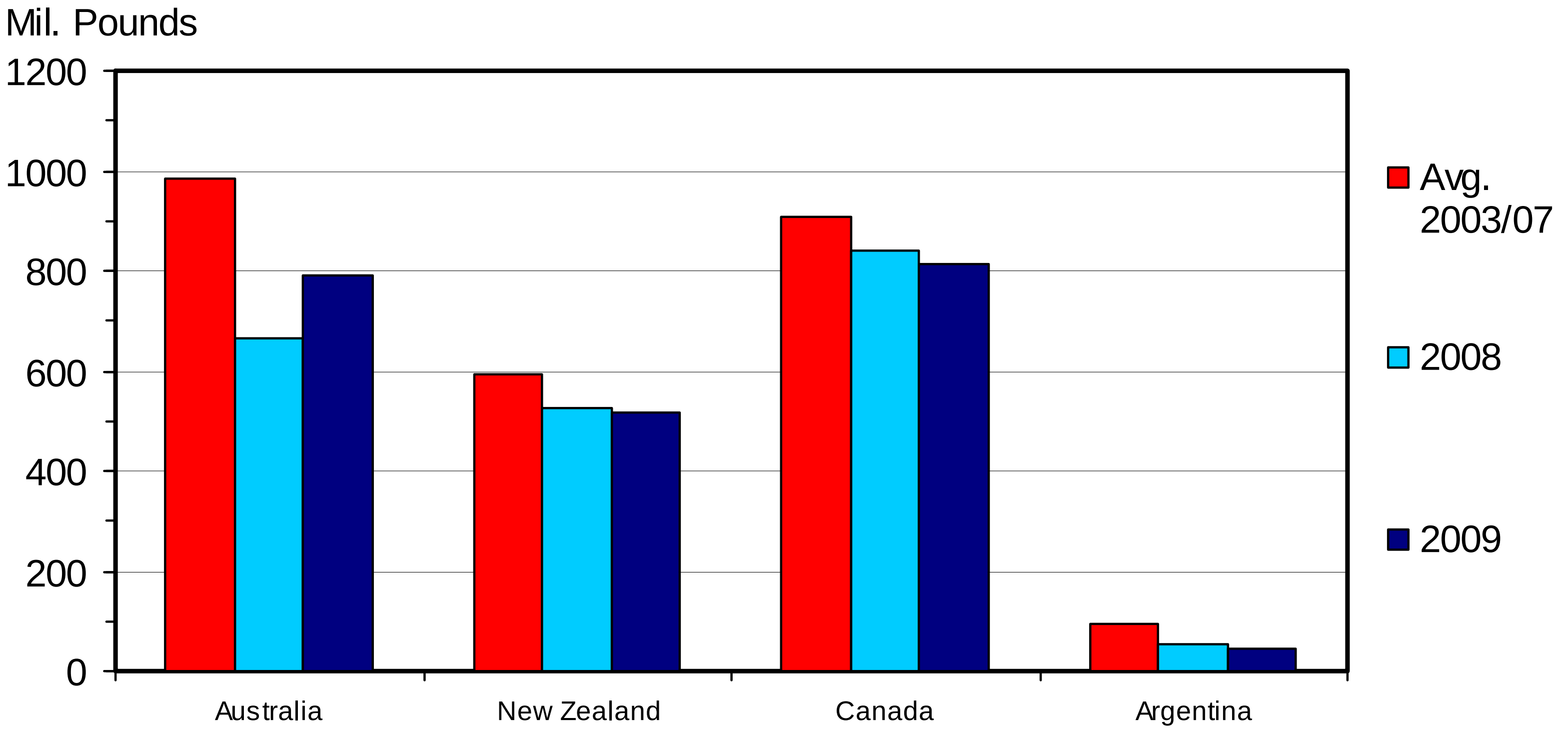
Carcass Weight, Monthly



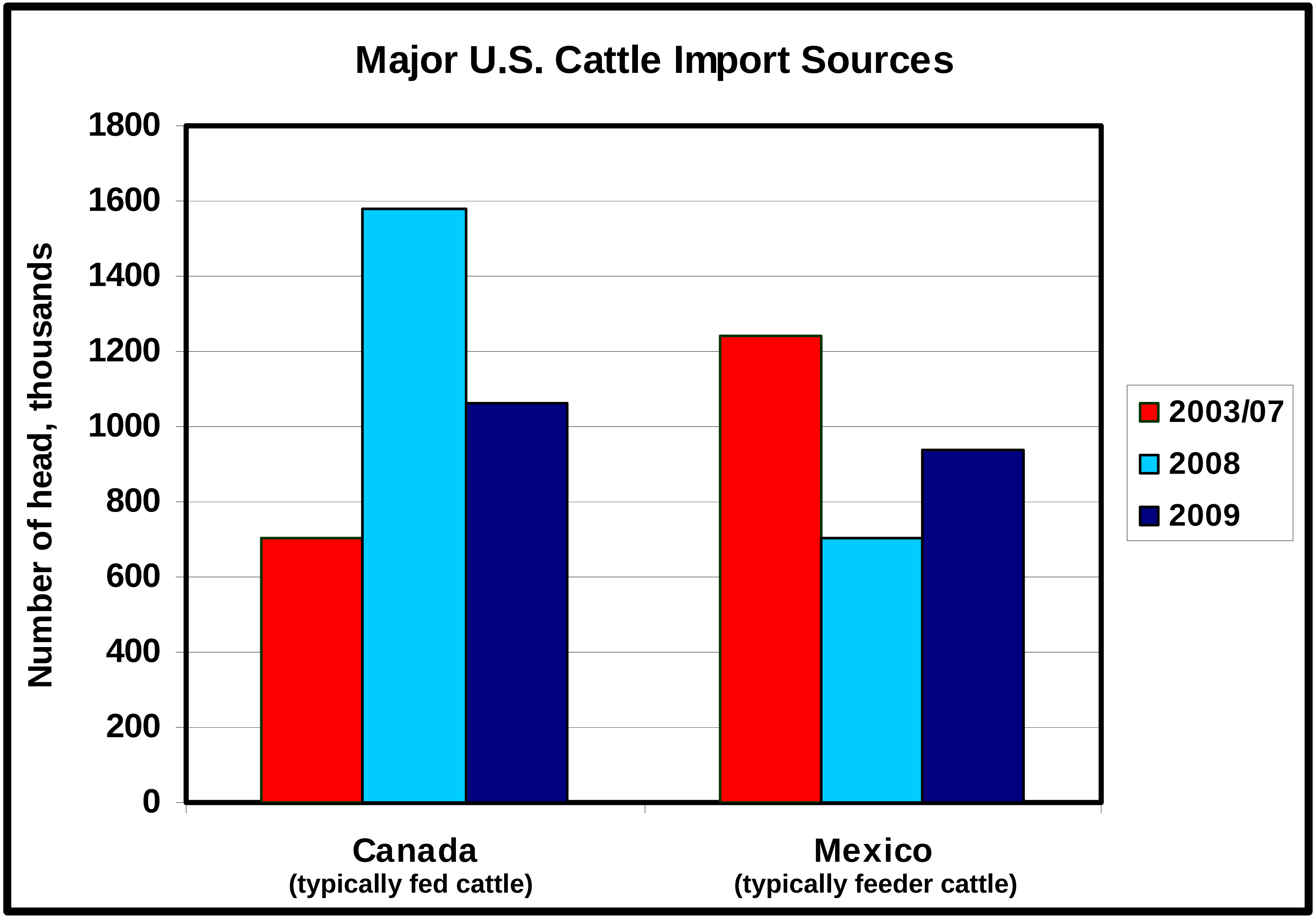
Data Source: USDA-ERS & USDA-FAS, Compiled by LMIC

MAJOR U.S. BEEF IMPORT SOURCES

Carcass Weight, Annual



Data Source: USDA-ERS & FAS; Compiled by LMIC



Data Source: USDA-ERS & FAS

MCOOL Impacts: Possible Responses/Retaliations

- **Dec. 2008 – Canada & Mexico initiated WTO dispute settlement process**
  - **Cannot end MCOOL, but can allow imposition of "sanctions of equal measure against the U.S."**
- **Canada & Mexico are 1st and 3rd largest current export markets**
  - **In 2002, Canada was leading export market for 30 U.S. states**

Comparison of Cattle Population and Identification and Traceability Systems.

Country	Cattle Population (1,000 hd) [1]	Premises ID[2]	Individual Cattle ID[2]	Group / Lot Cattle ID[2]	Electronic Cattle ID[2]	Record Animal Movement[2]	Retire Animal Number[2]
Australia	28,560	M	M	V	M	M	M
Botswana	3,100	V	M	NA	M	M	V
Brazil	207,157	M	V	M	V	M	V
Canada	14,830	V	M	NA	M	V	M
European Union	90,355	M	M	V	V	M	M
Japan	4,391	M	M	V	V	M	M
Mexico	28,648	V	V	V	V	V	V
Namibia	2,384	M	M	V	V	M	M
New Zealand*	9,652	V	V	V	V	V	V
South Korea*	2,484	M	M	V	V	M	M
Uruguay	11,956	M	M	V	M	M	M
United States*	96,702	V	V	V	V	V	V
World	1,383,157						

[1]All numbers are for cattle populations in 2006 as reported by the Food and Agriculture Organization of the United Nations (FAOSTAT, 2008).

[2] M = Mandatory, V = Voluntary, NA = Not Allowed

* Indicates a voluntary program. The requirements listed are for those who choose to participate

Source: Bowling et al. (2008). Reproduced with permission from Editor-in-Chief, *Professional Animal Scientist.*

Competing export countries

Major importing countries

Source: NAIS Benefit-Cost Analysis Study Results

Summary

- Industry continues to consolidate at all levels
  - Cow-calf at a slower rate than other livestock sectors
  - Cow-calf sector likely will remain extremely diverse due to resource variability (also quite polarized regarding policy)
- Cattle markets
  - Relatively strong last 5 years, but increased volatility and higher prices have not necessarily resulted in higher returns
- Continuing weakening of beef demand is a concern
  - More efforts at differentiating product and trying to capture what consumer wants
- Energy / environment policy is a concern
  (i.e., unintended consequences that impact beef industry)

Looking forward…

The two generic strategies of producers are production differentiation and cost leadership.

- **U.S. (and world) economy?**
- **Consumer response to**
  - **Food safety (traceability, animal ID)?**
  - **Nutritional information and convenience?**
  - **Social issues – e.g., sustainability, carbon footprint, animal welfare, local foods, etc?**
- **Energy policy?**
  - **Impact on corn, hay, and forage prices**
- **Export markets?**

Questions?