Kansas State UNIVERSITY

Department of Agricultural Economics

Perspectives of the US beef industry

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agri benchmark

National Agricultural Marketing Council

UFS·UV

NWKV NWGA

Schedule Beef & Sheep Conference, June 14-21, 2012
Bakubung, Pretoria, South Africa

Public Forum in Pretoria

Roodevallei Country Lodge

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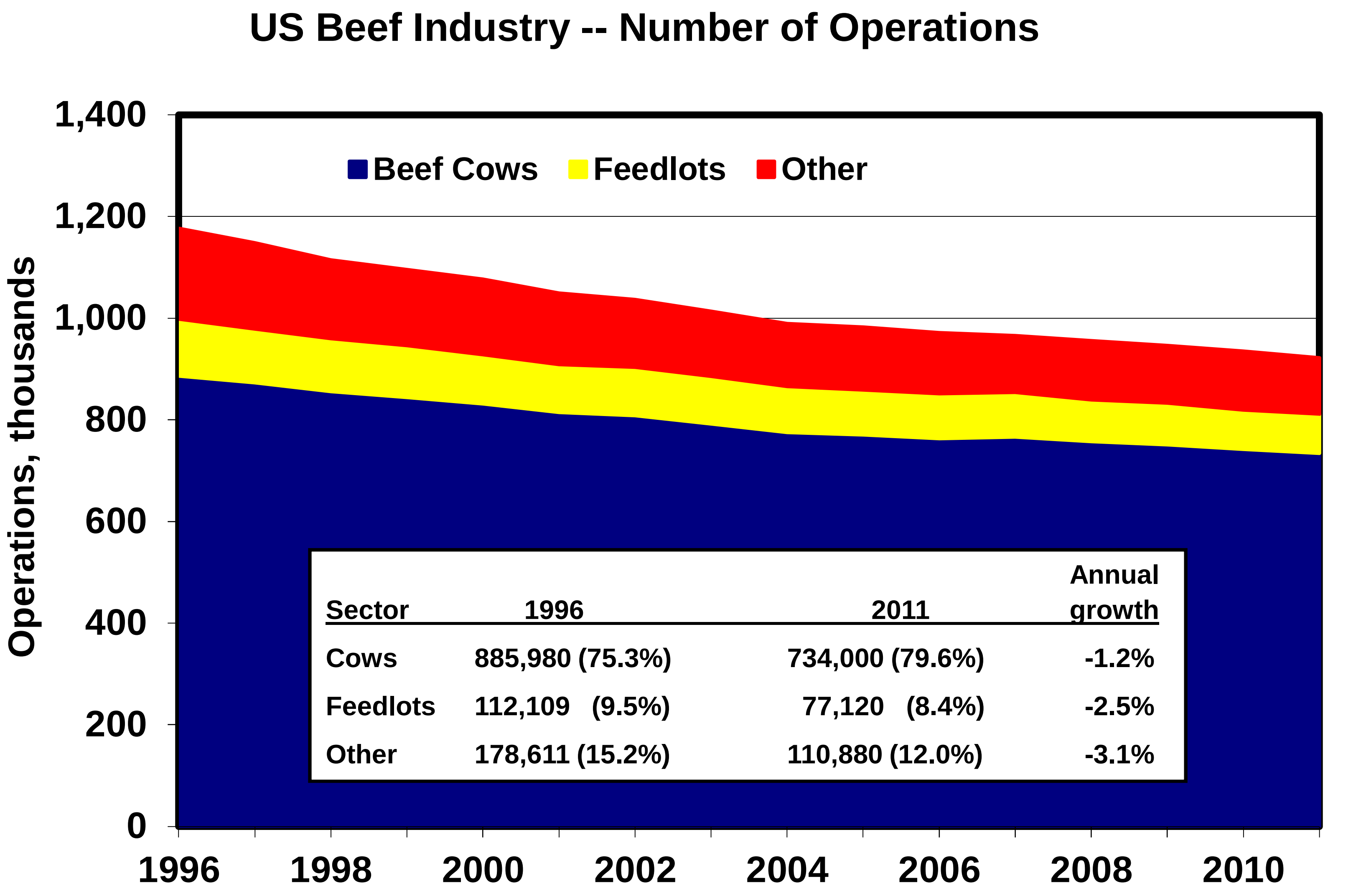
Outline of Presentation

- **Beef industry structure and general trends**
- **Prices and economic returns**
- **Demand, trade, and other issues**

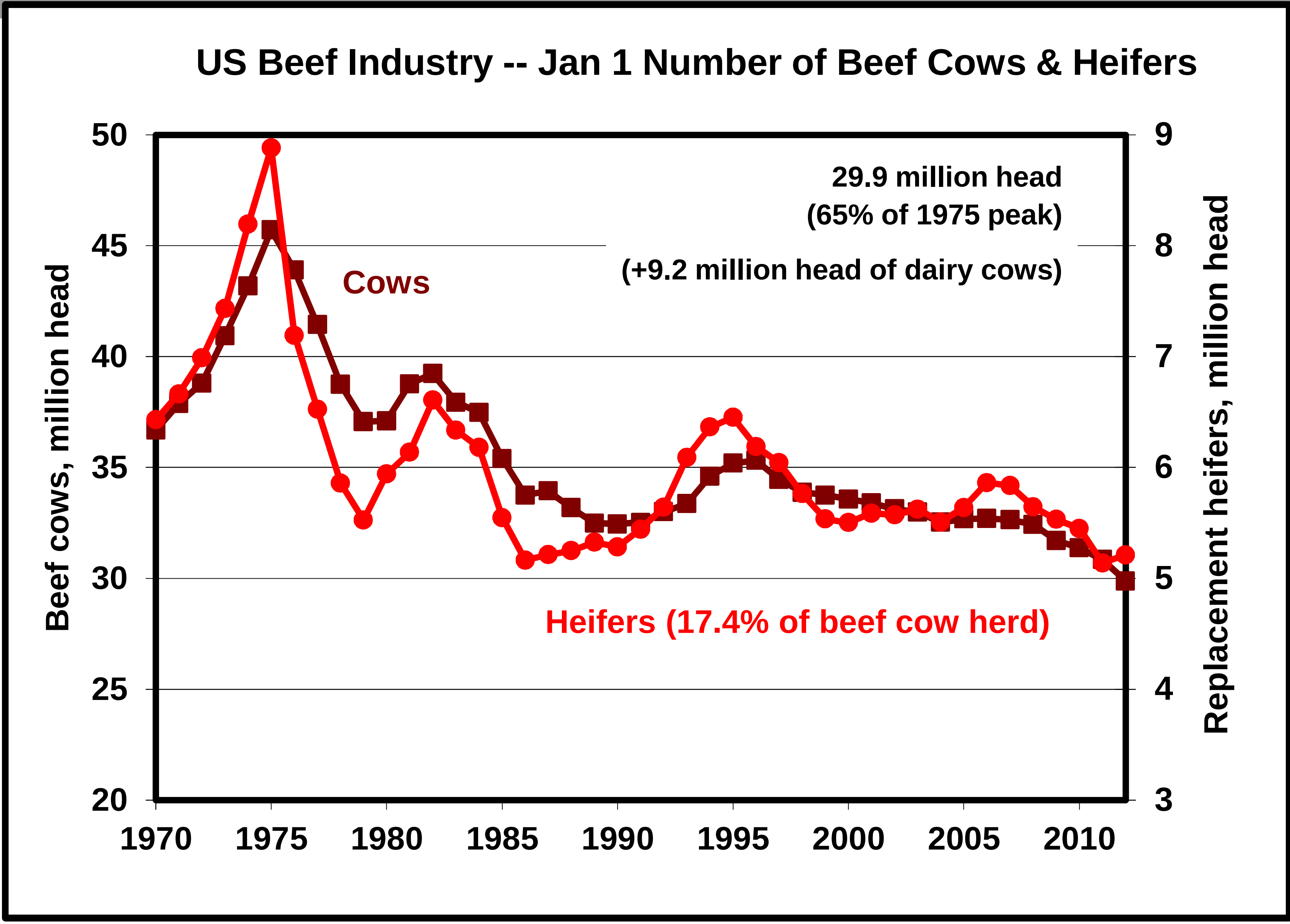
Industry Structure and General Trends

Fewer operations in all sectors of the beef industry…



Sector	1996	2011	Annual growth
Cows	885,980 (75.3%)	734,000 (79.6%)	-1.2%
Feedlots	112,109 (9.5%)	77,120 (8.4%)	-2.5%
Other	178,611 (15.2%)	110,880 (12.0%)	-3.1%

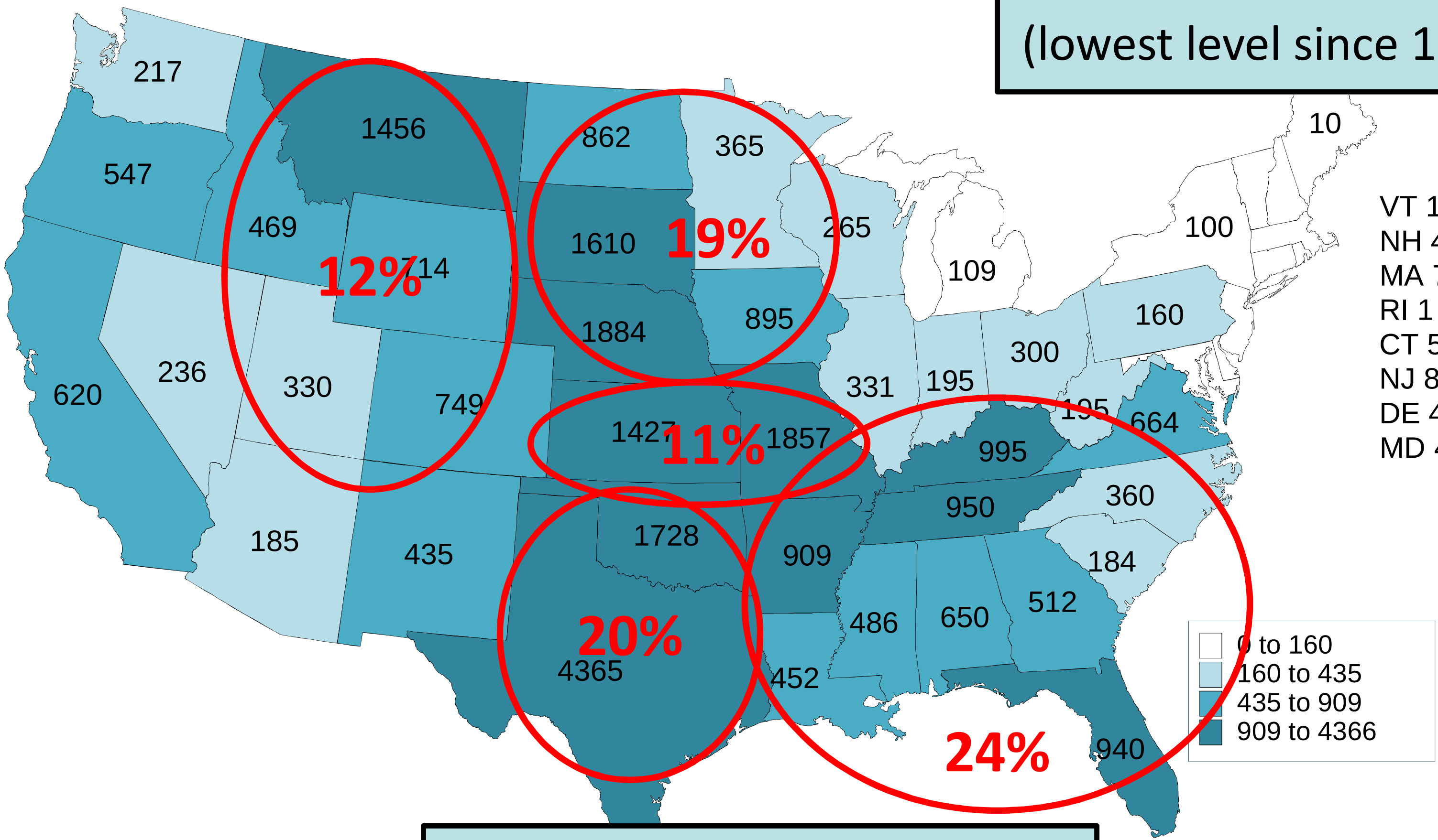
U.S. beef cow inventory is at lowest level in 40+ years



Beef cows are generally located throughout the country…

BEEF COWS THAT CALVED JANUARY 1, 2012
(1000 Head) – U.S. Total = 29,883

National Cow Herd:
-3.1% vs. 2011
(lowest level since 1962)



TX/OK: 98.1% of decline
(smallest % since 1972)

Livestock Marketing Information Center
Data Source: USDA-NASS

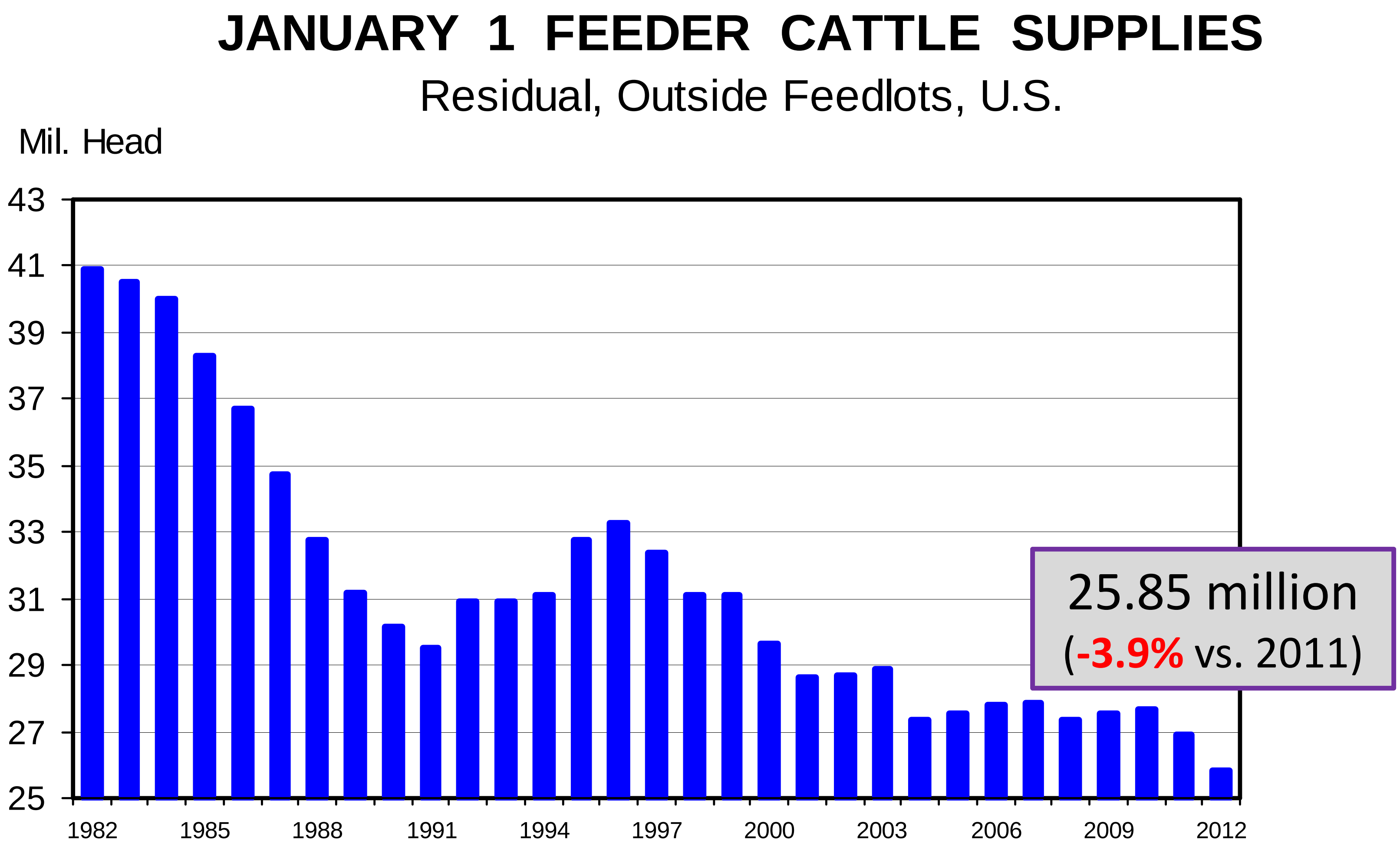
Average herd size and distribution

Average beef cow herd size increased from 40.4 in 2000 to 42.0 in 2011, but averages can be somewhat deceiving...

Farm size	Percent of operations		Percent of inventory	
(cows/farm)	2000	2011	2000	2011
1-49	78.8	79.4	29.5	27.7
50-99	12.0	11.0	19.1	17.4
100-499	8.5	8.7	36.7	38.2
500+	0.7	0.8	14.7	16.7

Roughly 10% of the operations control over 55% of the cows (diverse cow-calf sector)

Fewer cows means fewer calves for feedlots…



Livestock Marketing Information Center
Data Source: USDA-NASS

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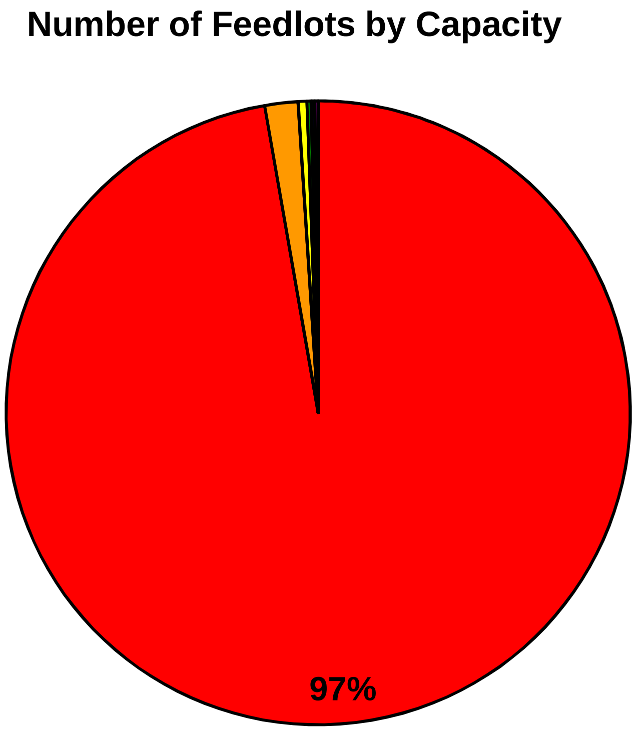
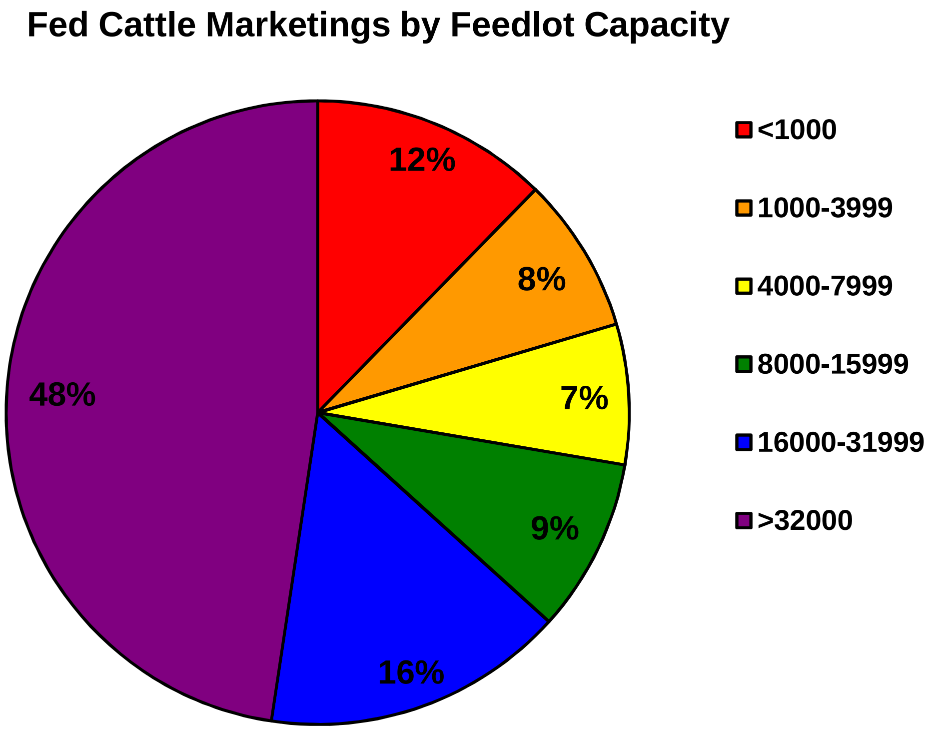
Feedlot sector – considerable diversity in size…

Majority of feedlots are small (farmer-feeders), but they account for a relatively small share of total marketings.



Total (2011) = 77,120 feedlots



Total (2011) = 25,747,000 head

Share of marketings from small feedlots down in 2011

Feedlots: Less than 1,000 Head Capacity

	Operations	Marketings (mil. hd)	Annual Change in Marketings	% of Total Marketings
2006	86,000	3.64		13.94%
2007	85,000	3.70	1.6%	14.14%
2008	80,000	4.05	9.5%	15.31%
2009	80,000	3.91	-3.5%	15.27%
2010	75,000	4.03	3.1%	15.43%
2011	75,000	3.17	-21.3%	12.31%

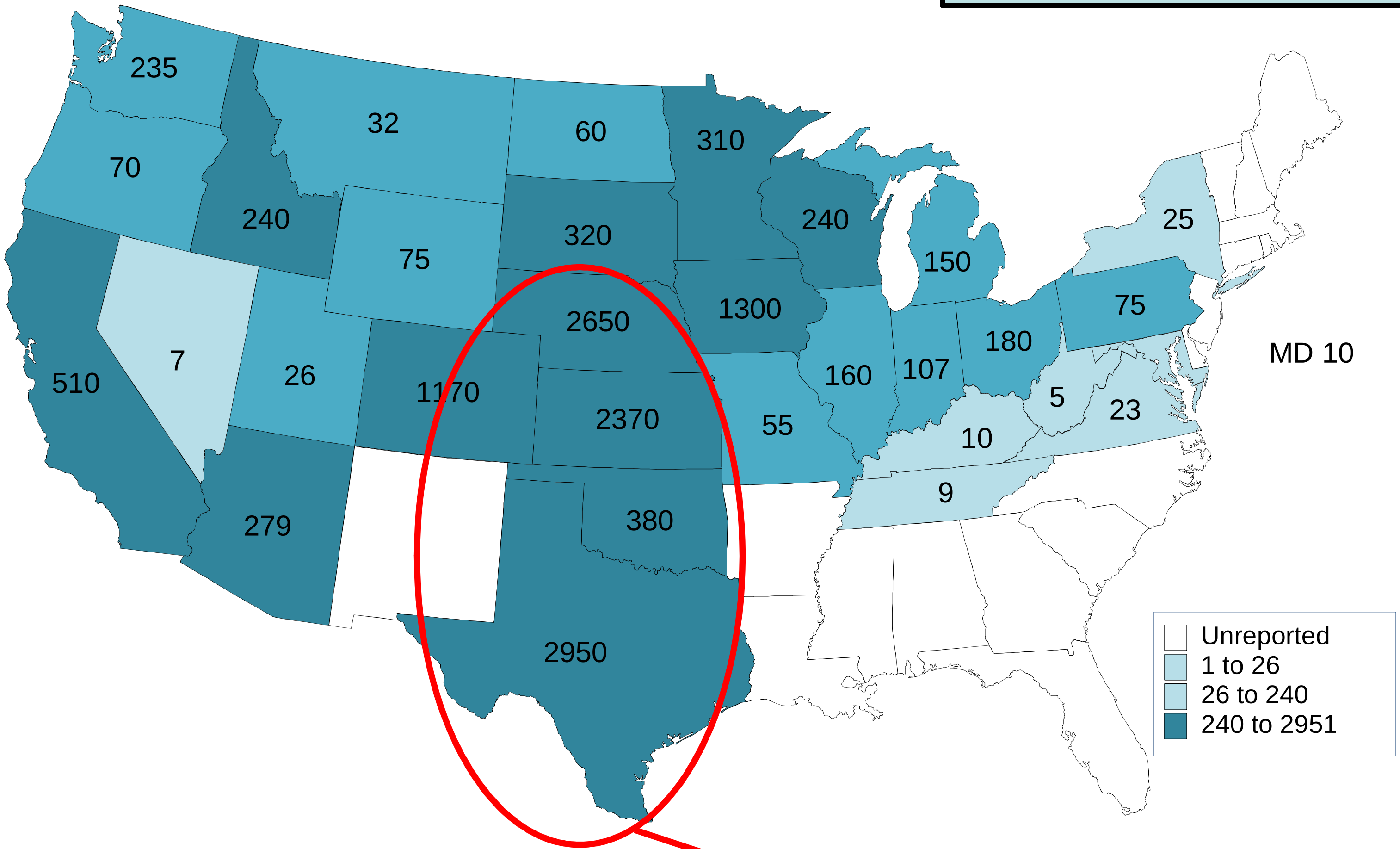
Feedlots: Over 1,000 Head Capacity

	# Operations	Marketings (mil. Hd)	Annual Change in Marketings	% of Total Marketings
2006	2,165	22.48		86.06%
2007	2,160	22.46	-0.1%	85.86%
2008	2,170	22.40	-0.3%	84.69%
2009	2,170	21.69	-3.2%	84.73%
2010	2,140	22.08	1.8%	84.57%
2011	2,120	22.58	2.3%	87.69%

Cattle feeding occurs in the High Plains (not Corn Belt)…

CATTLE ON FEED JANUARY 1, 2012
(1000 Head) – U.S. Total = 14,121

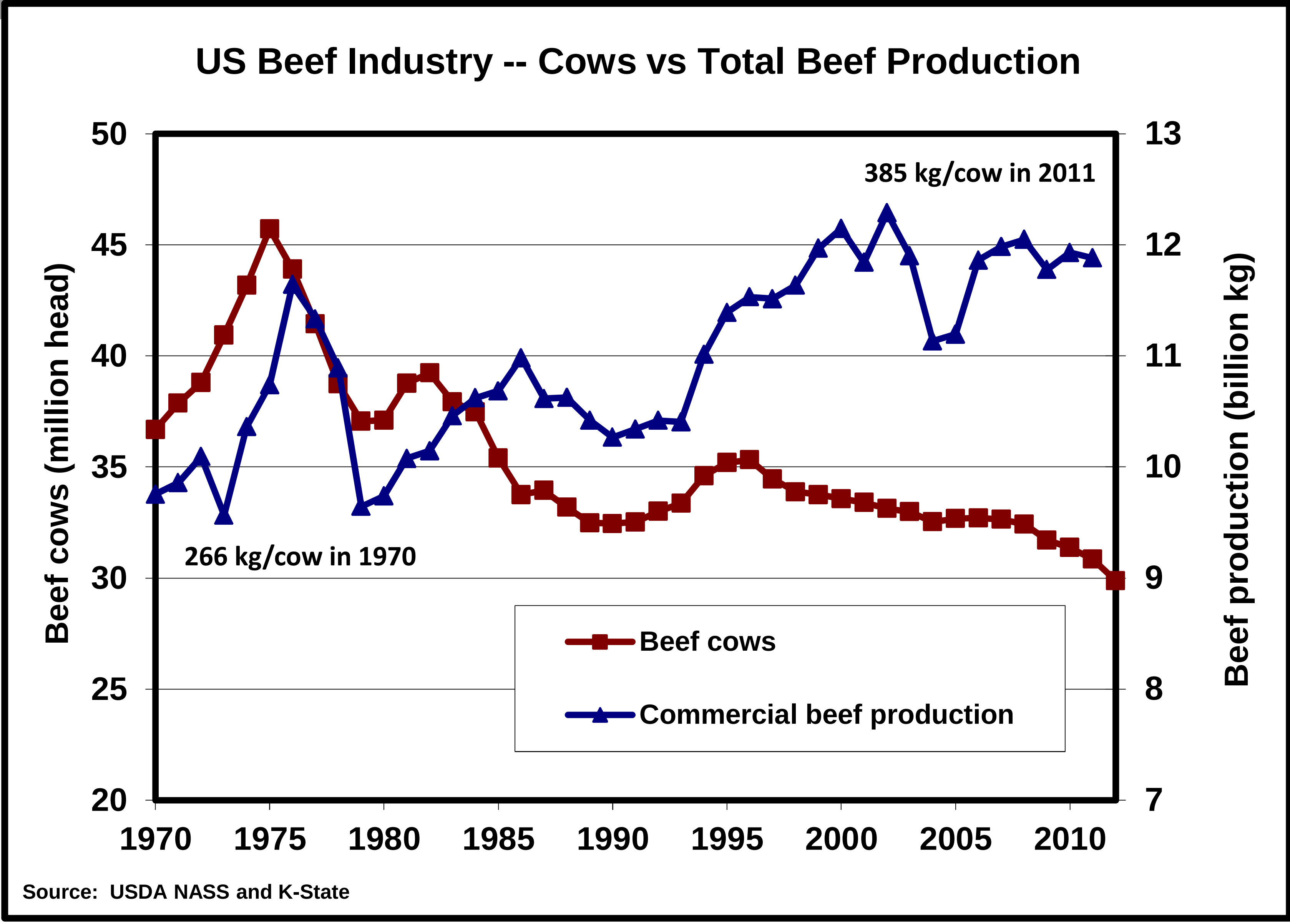
Cattle on Feed:
+0.8% vs. 2011



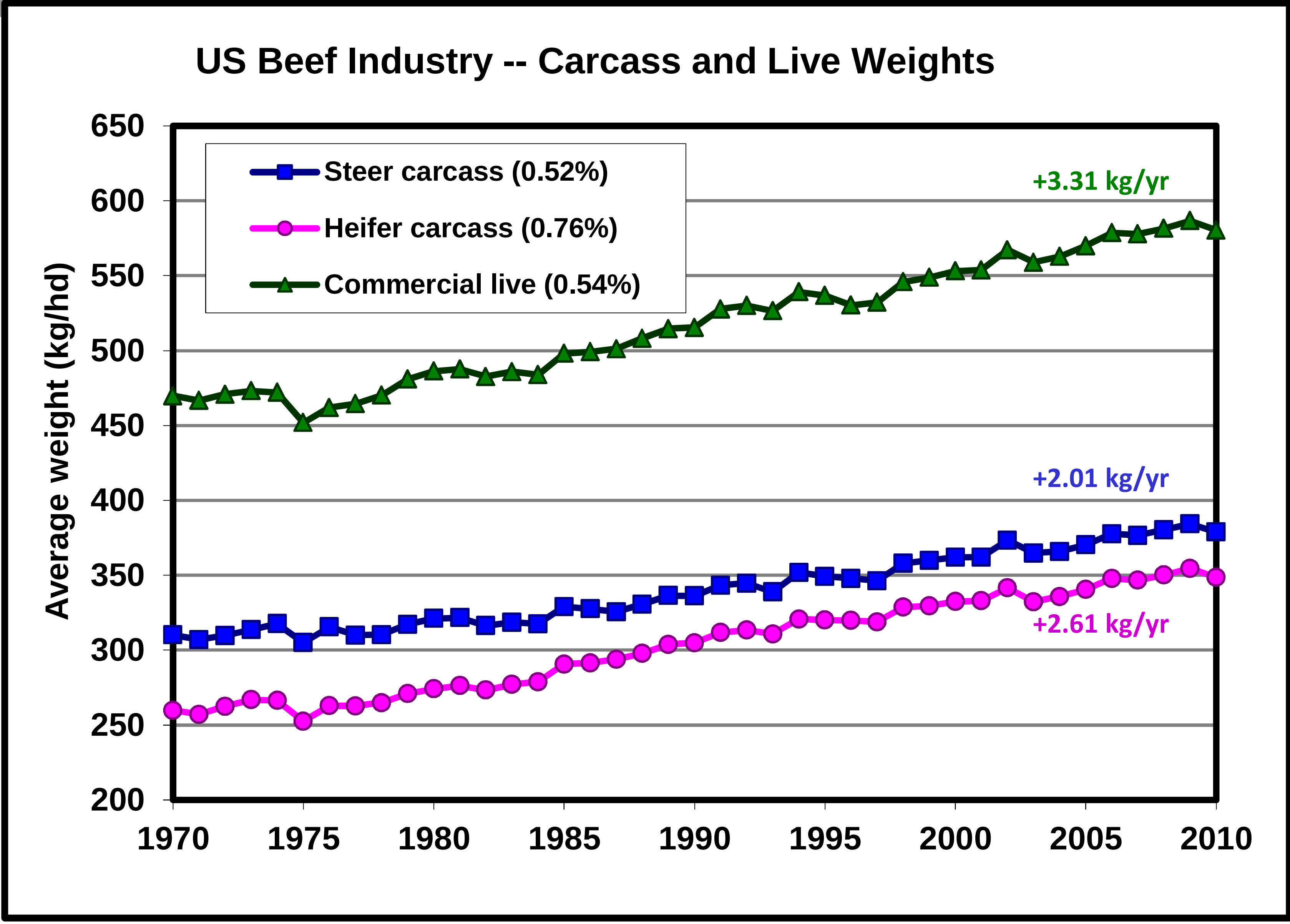
~56% of the nation's cattle on feed are in NE, KS, and TX.

Livestock Marketing Information Center
Data Source: USDA-NASS

Fewer cows, but not less beef produced over last 30 years



Carcass weights have been increasingly steadily…

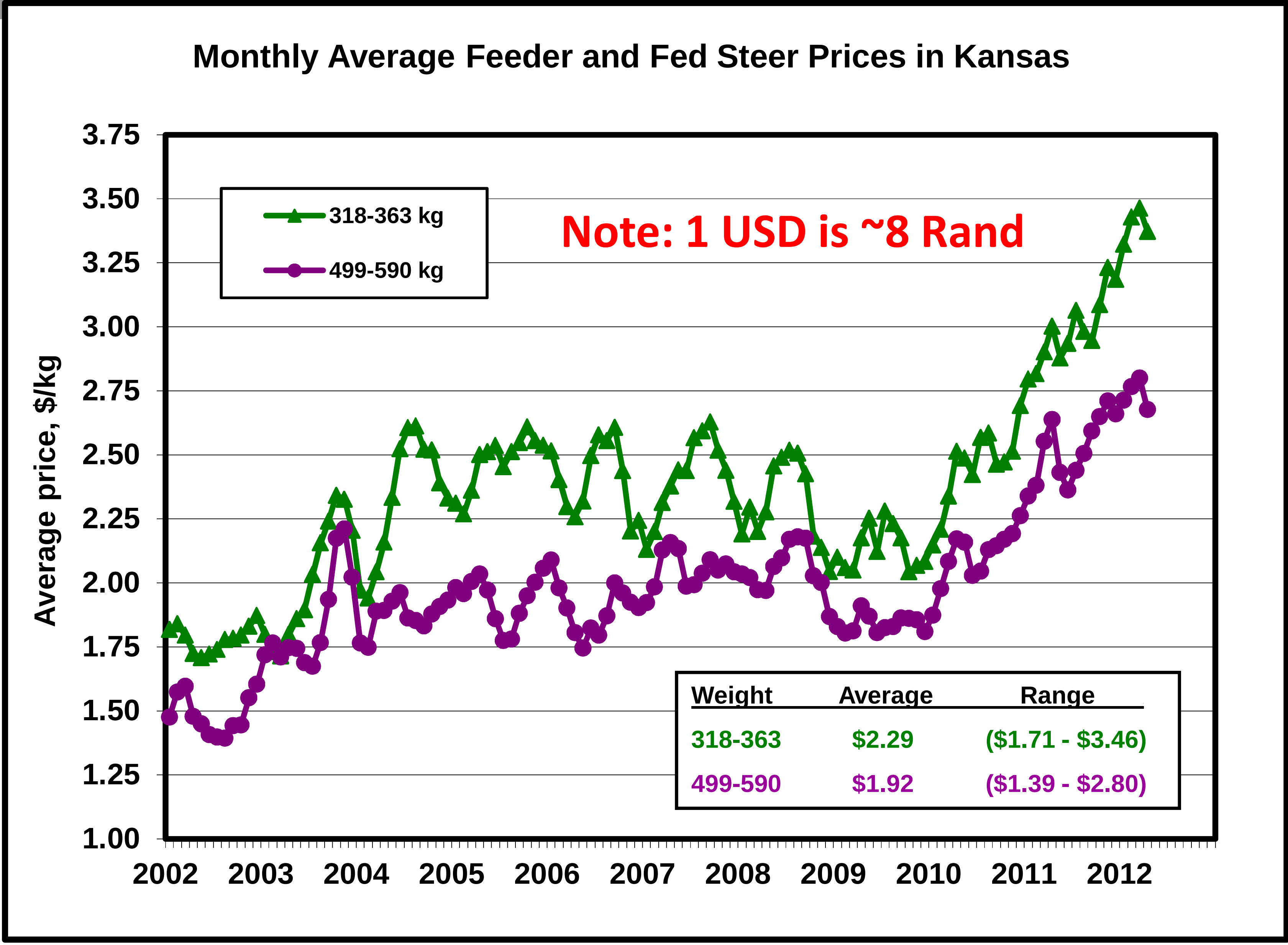


Cattle feeding sector (feedlots)

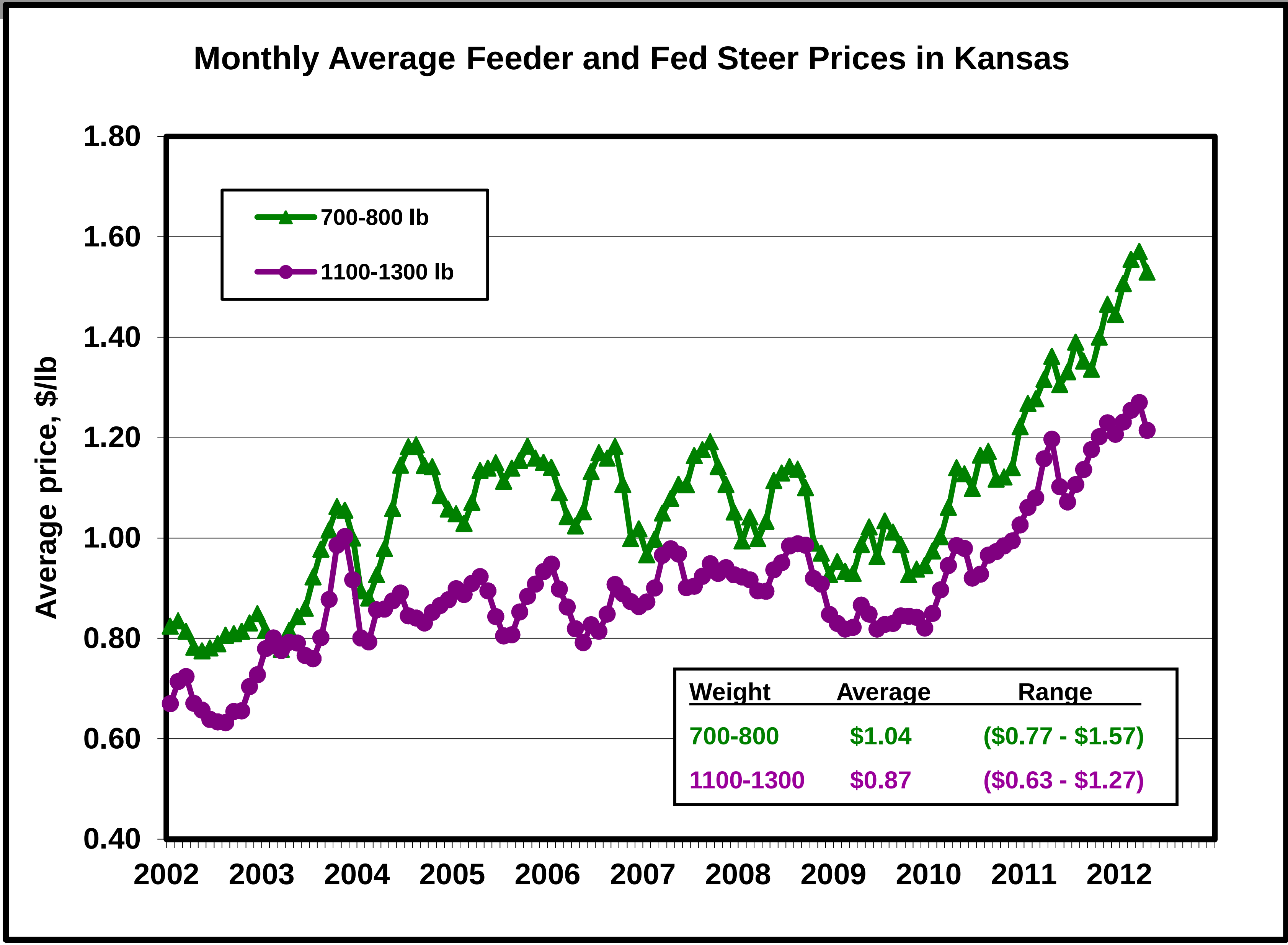
- **As the industry increases the production of beef per cow, fewer cows are needed to produce the same amount of beef → excess feedlot capacity (unless the market grows).**

Prices and Economic Returns

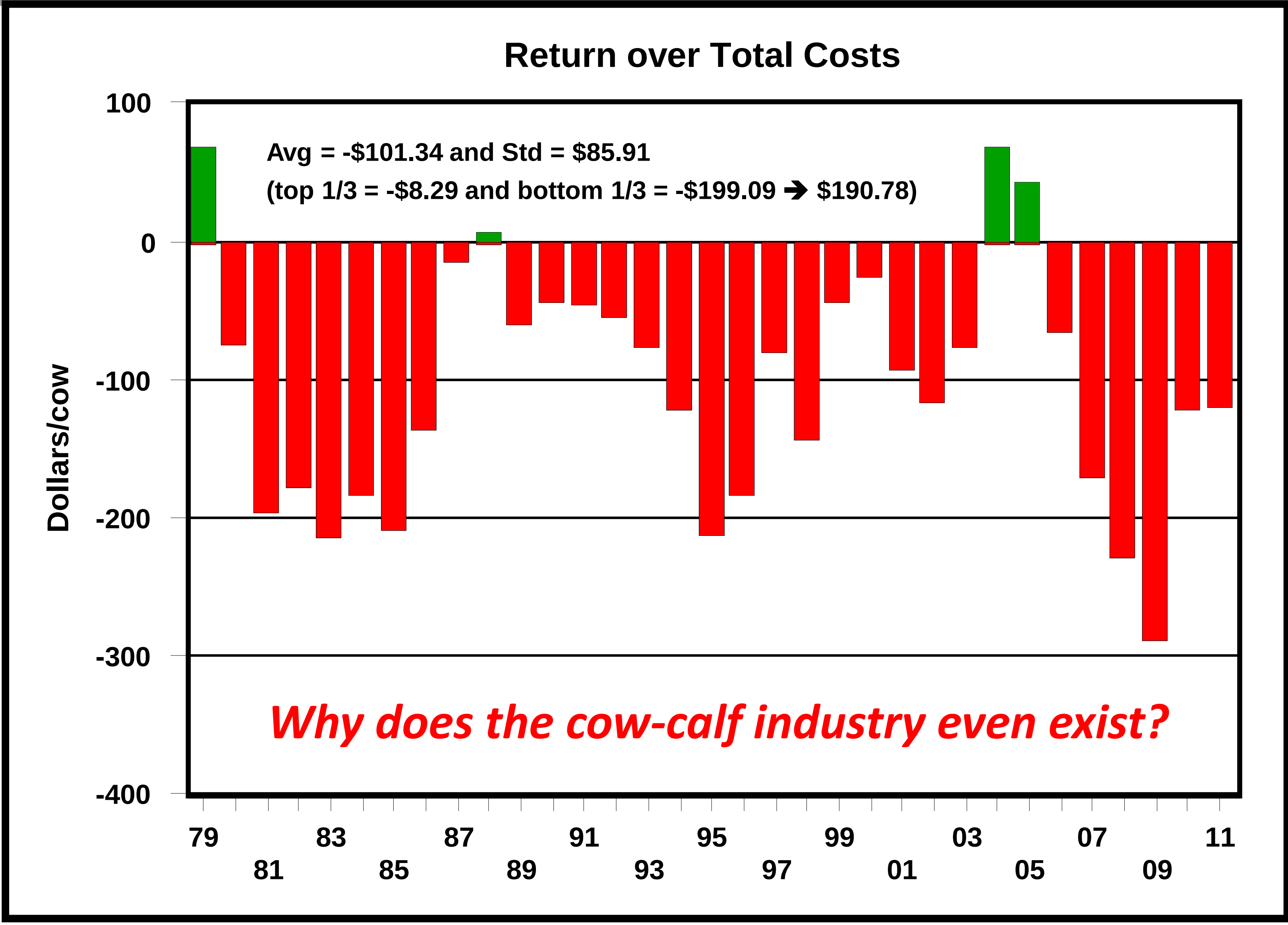
Feeder and fed cattle cash prices at all time highs…



Feeder and fed cattle cash prices at all time highs…

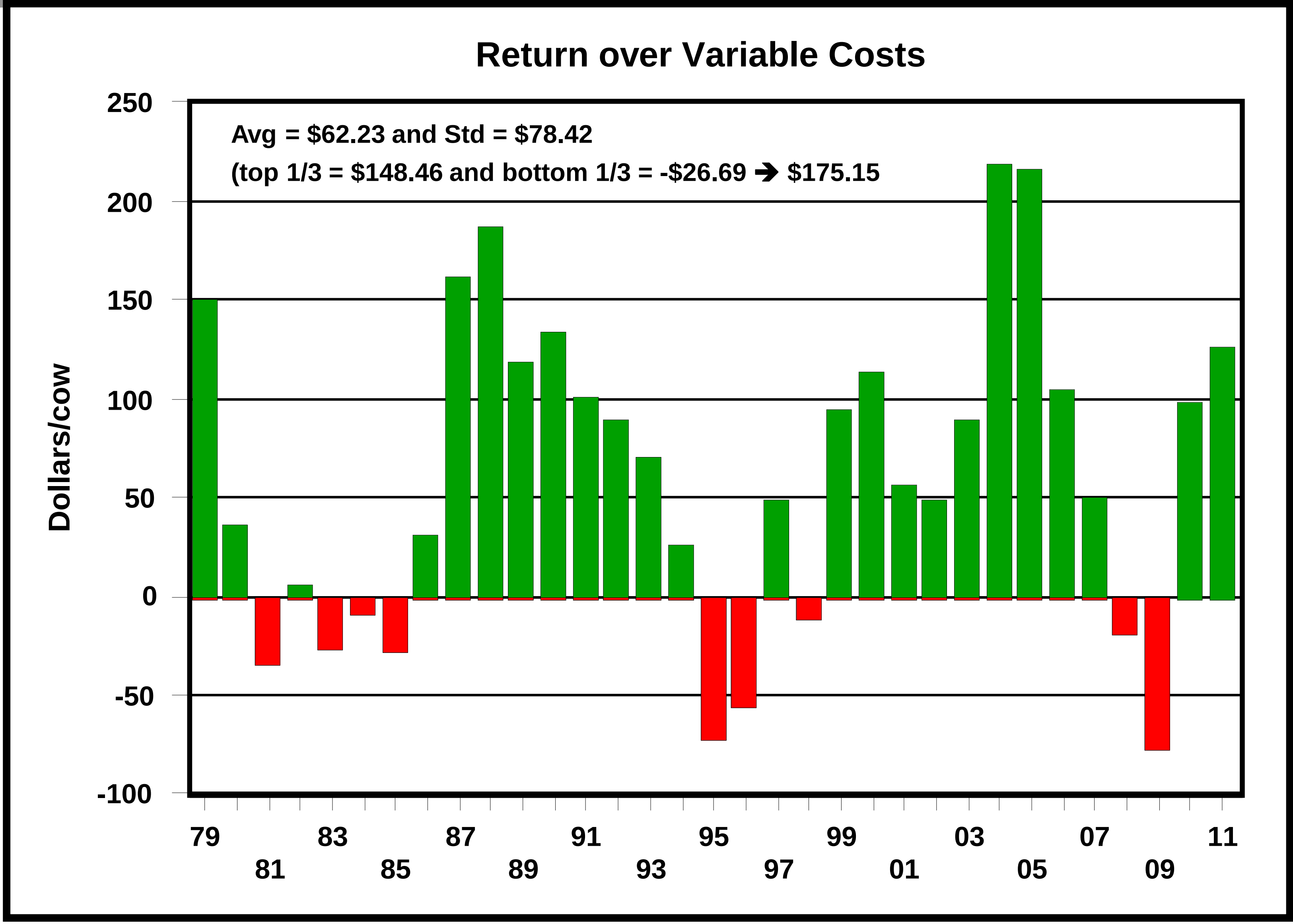


Average returns are highly variable over time…



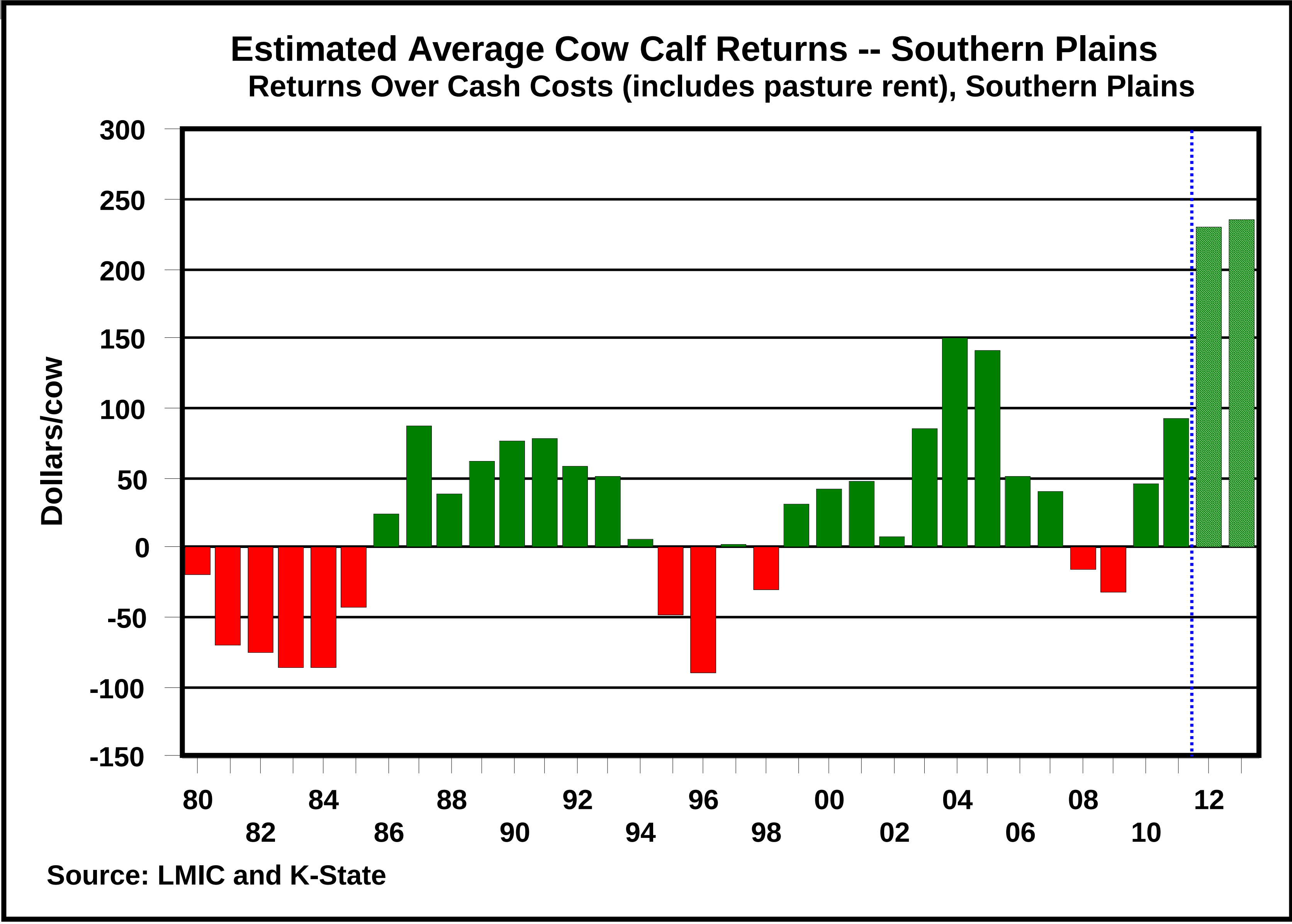
Source: Kansas Farm Management Association (KFMA) Annual Enterprise Analysis Reports

Similar variability with returns over VC…

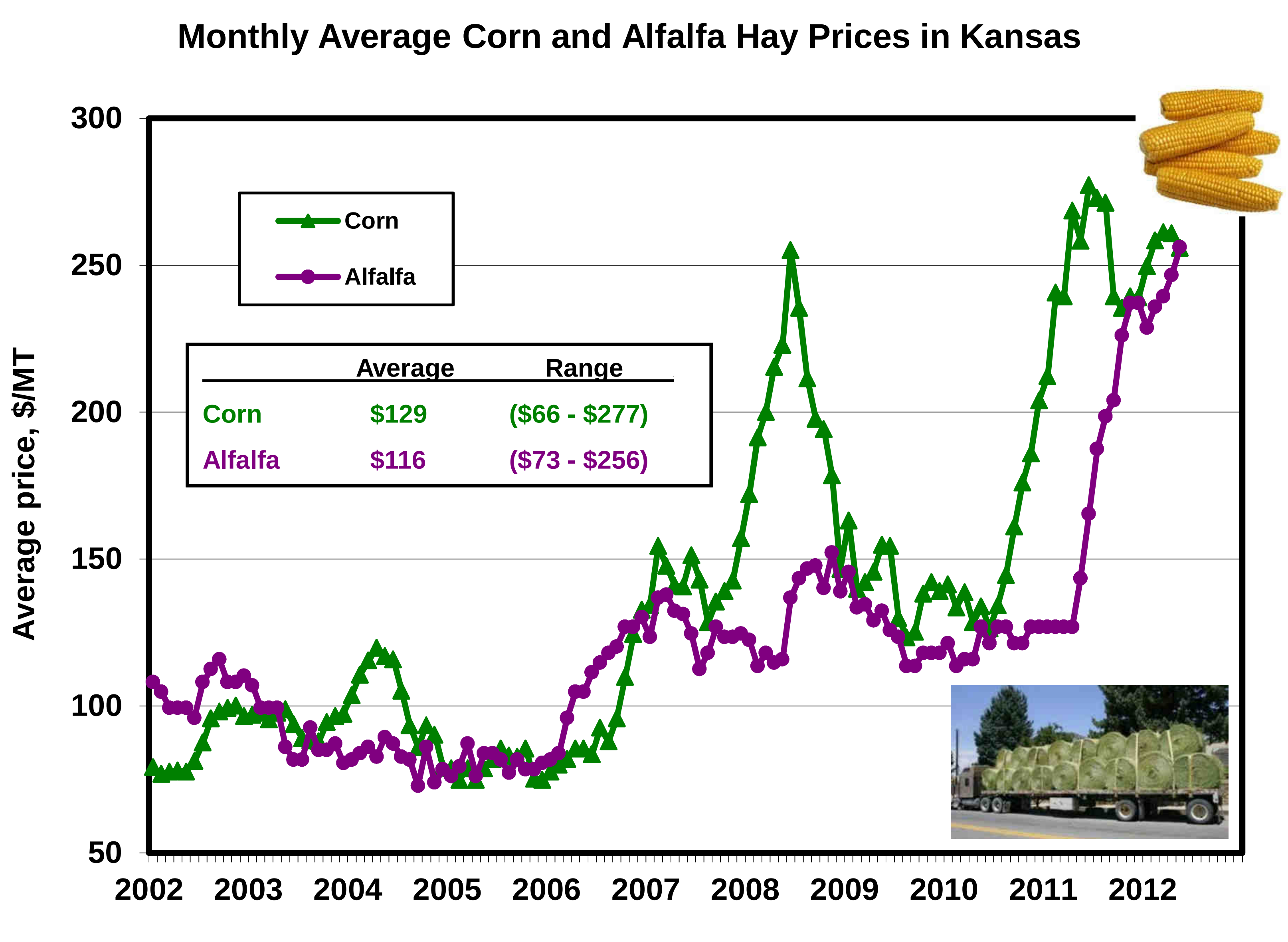


Source: Kansas Farm Management Association (KFMA) Annual Enterprise Analysis Reports

Several good years ahead for cow-calf producers?

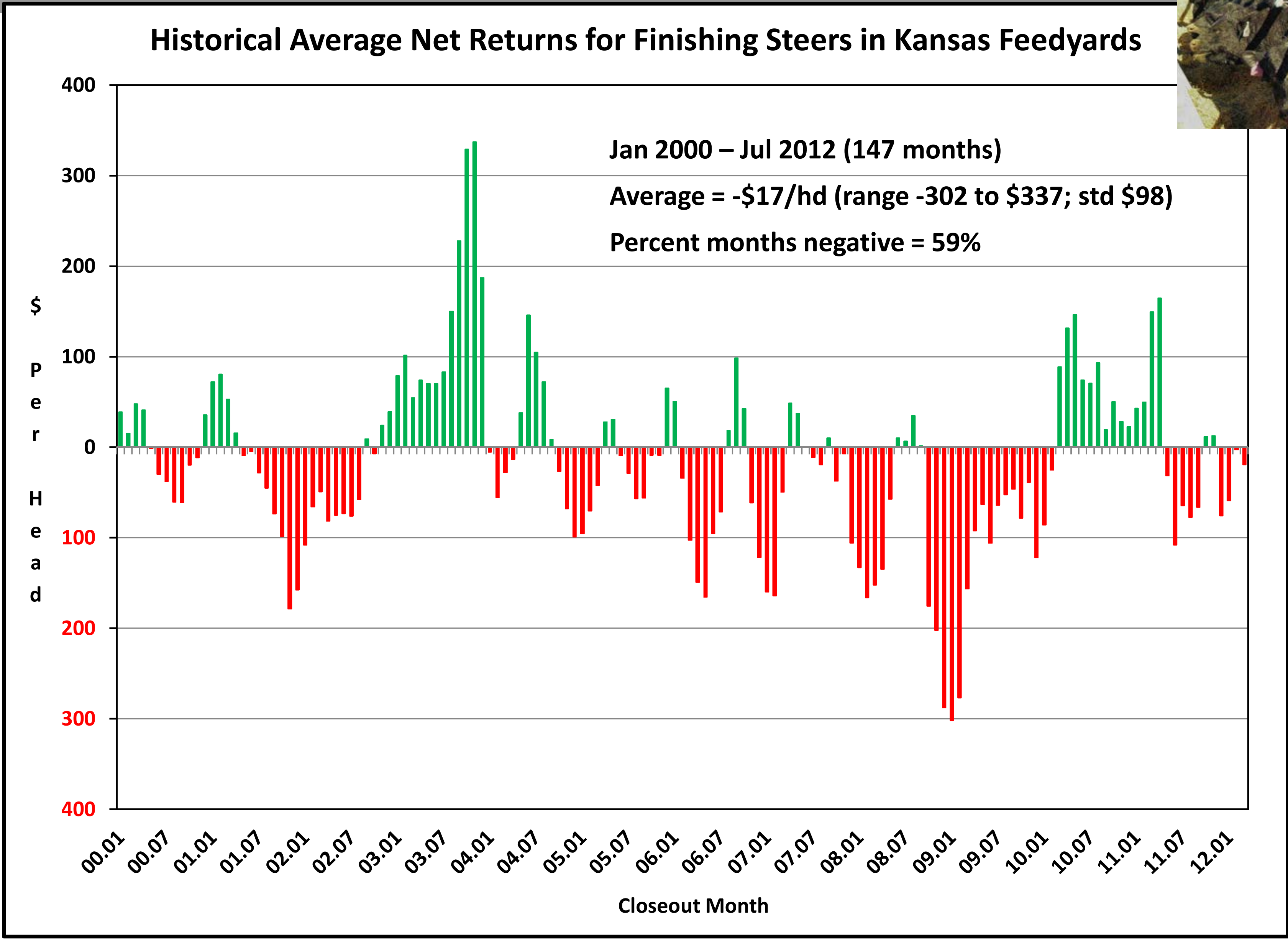


Feed prices (corn and alfalfa) – variable and high…

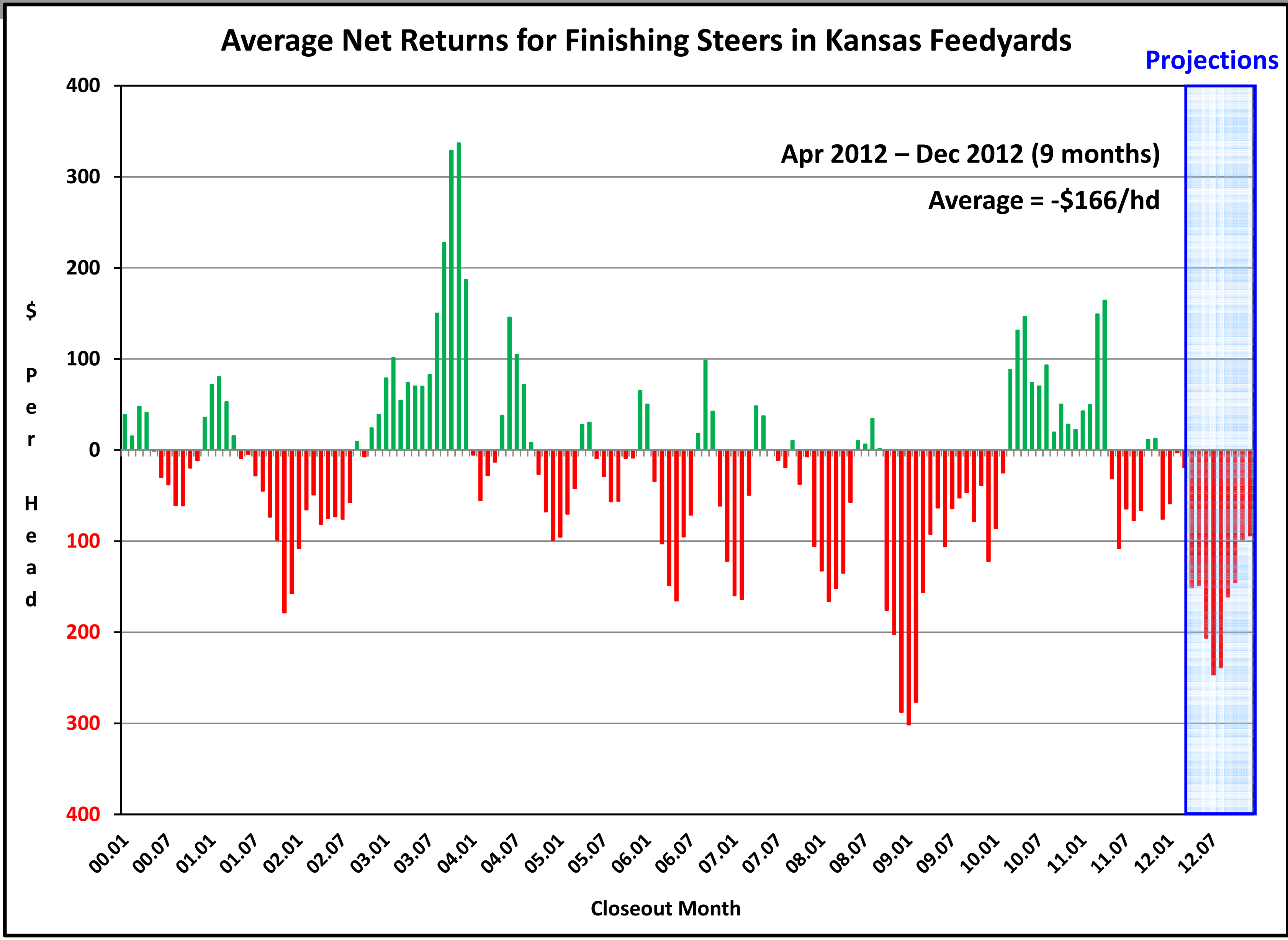


	Average	Range
Corn	$129	($66 - $277)
Alfalfa	$116	($73 - $256)

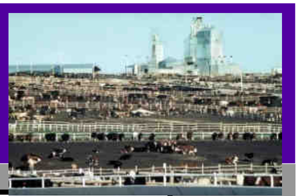
Economic returns – a sign of over capacity in industry?

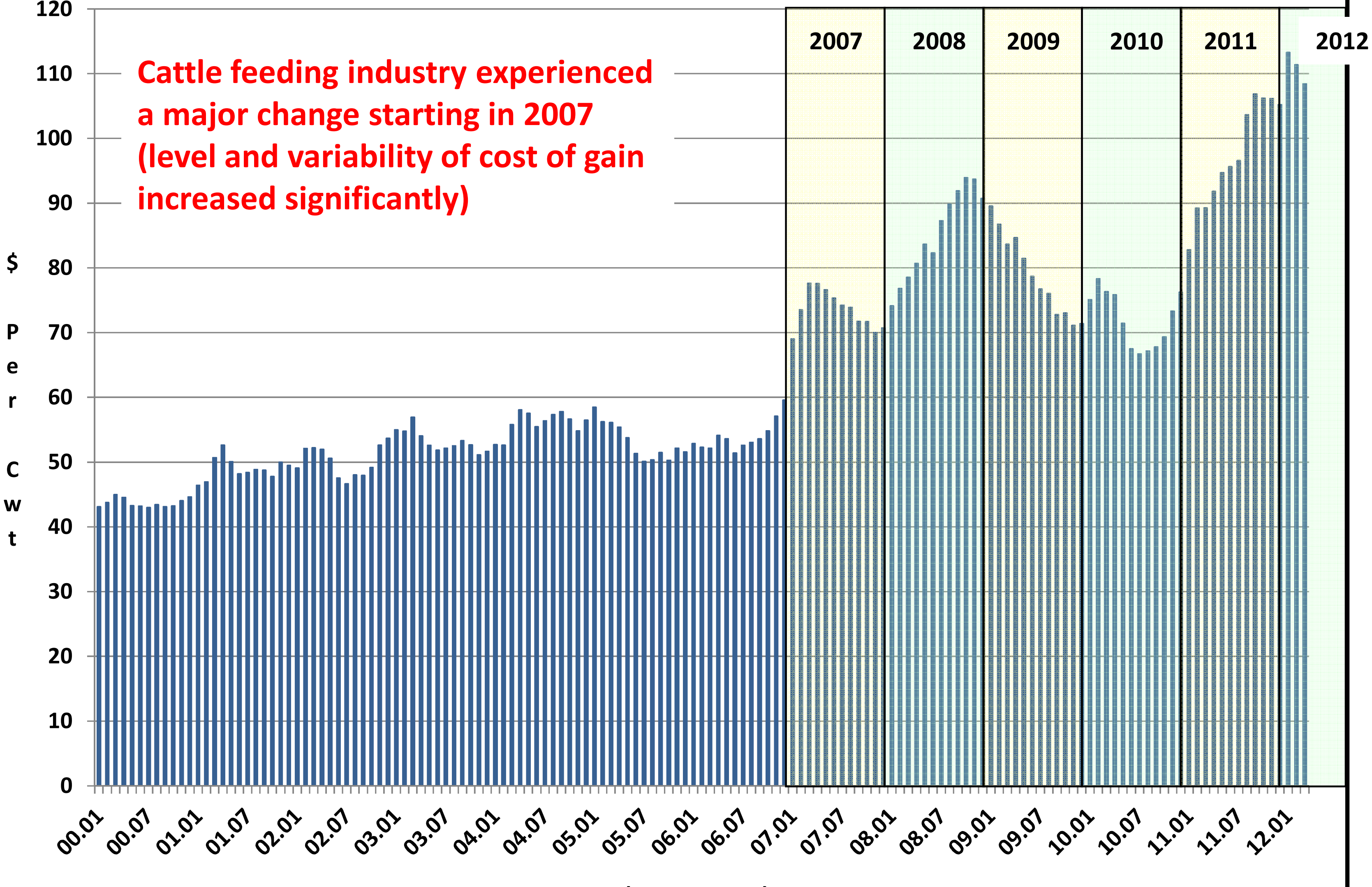


Going forward, the short run doesn't look very positive…



Feeding cost of gain for steers





Source: Focus on Feedlot newsletter

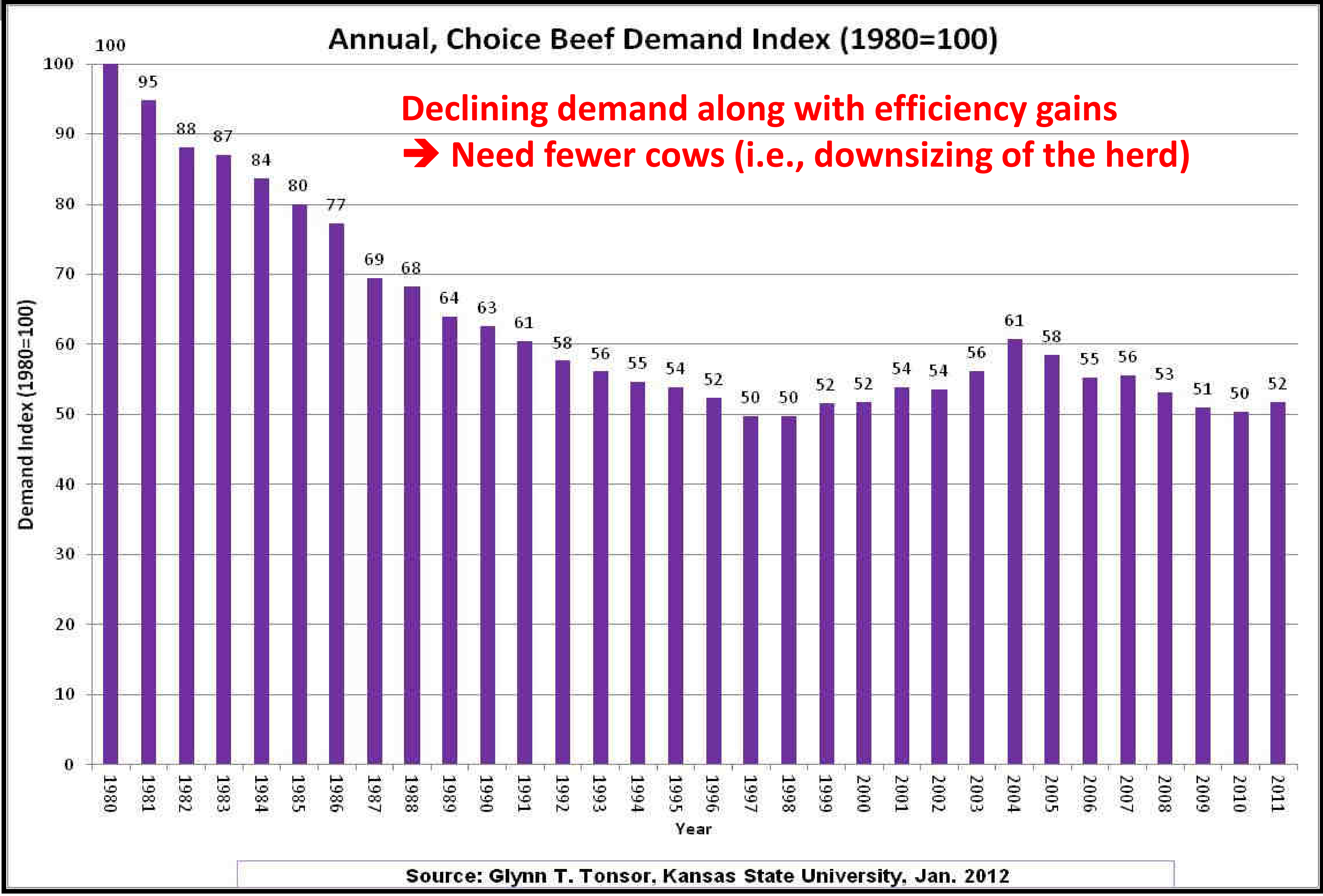
Factors impacting feeding cost of gain

	Change Analyzed	Per Cwt Impact
Feed Conversion (Index)	+0.10	$0.96
Corn Price ($/bu)	+0.10	$1.12
Alfalfa Price ($/ton)	+5.00	$0.32

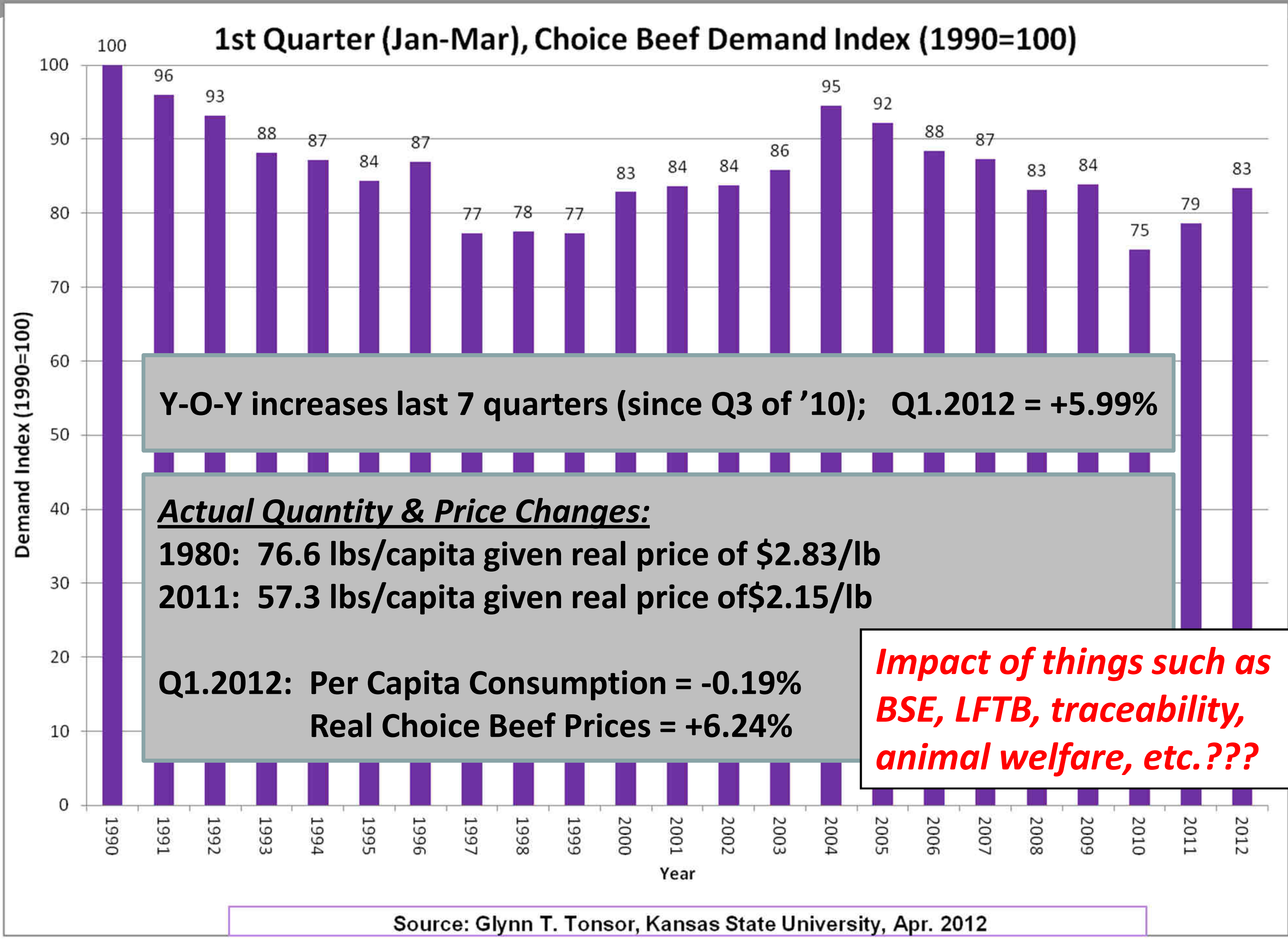
Source: Net Return Series, Kansas State University

Demand, Trade, and Other Issues

Long-term downward trend in beef demand…



Are things possibly turning around?



Y-O-Y increases last 7 quarters (since Q3 of '10); Q1.2012 = +5.99%

Actual Quantity & Price Changes:

1980: 76.6 lbs/capita given real price of $2.83/lb

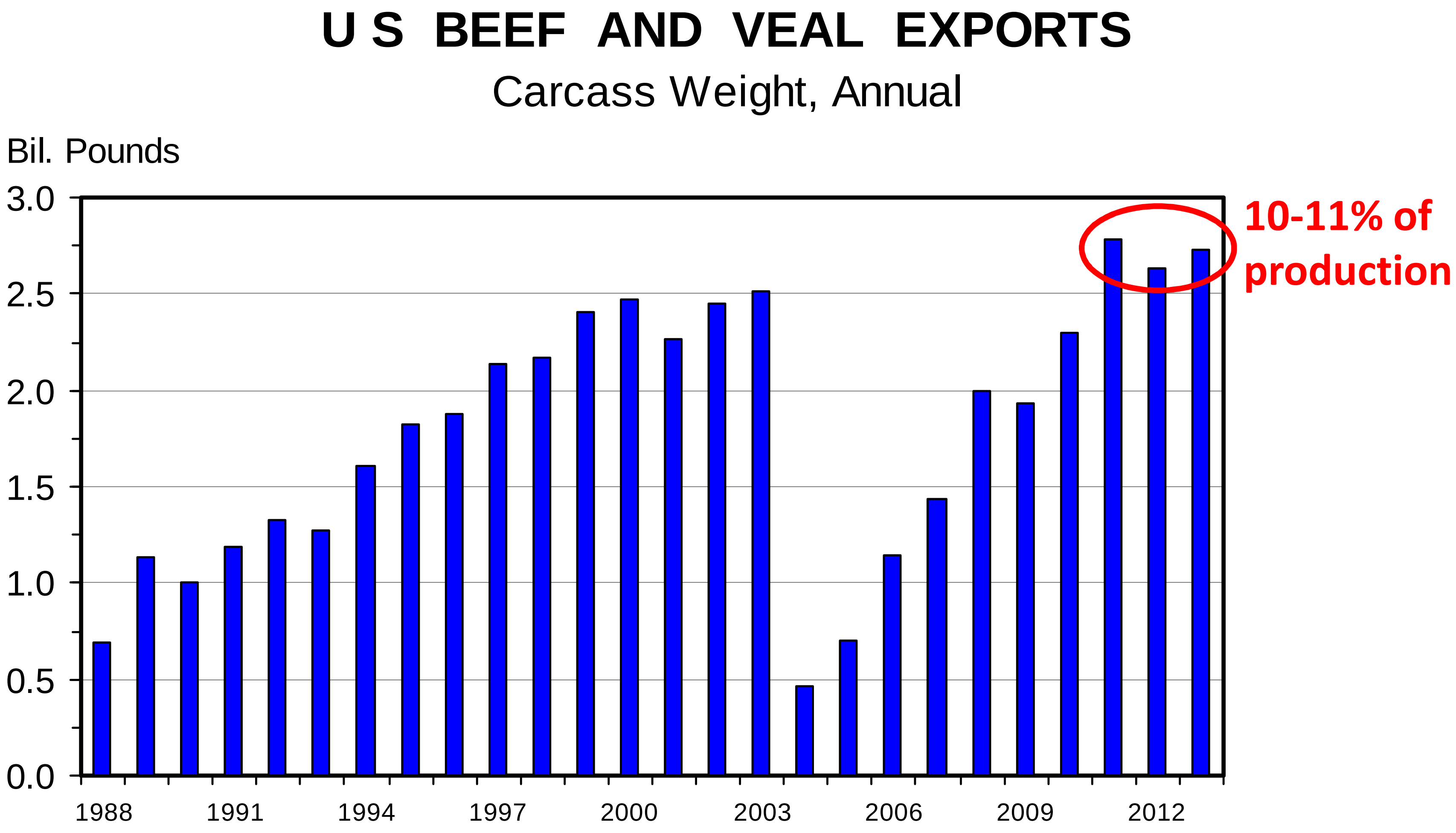
2011: 57.3 lbs/capita given real price of$2.15/lb

Q1.2012: Per Capita Consumption = -0.19%

Real Choice Beef Prices = +6.24%

Impact of things such as BSE, LFTB, traceability, animal welfare, etc.???

Exports have built back to pre-BSE levels recently…



Livestock Marketing Information Center

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

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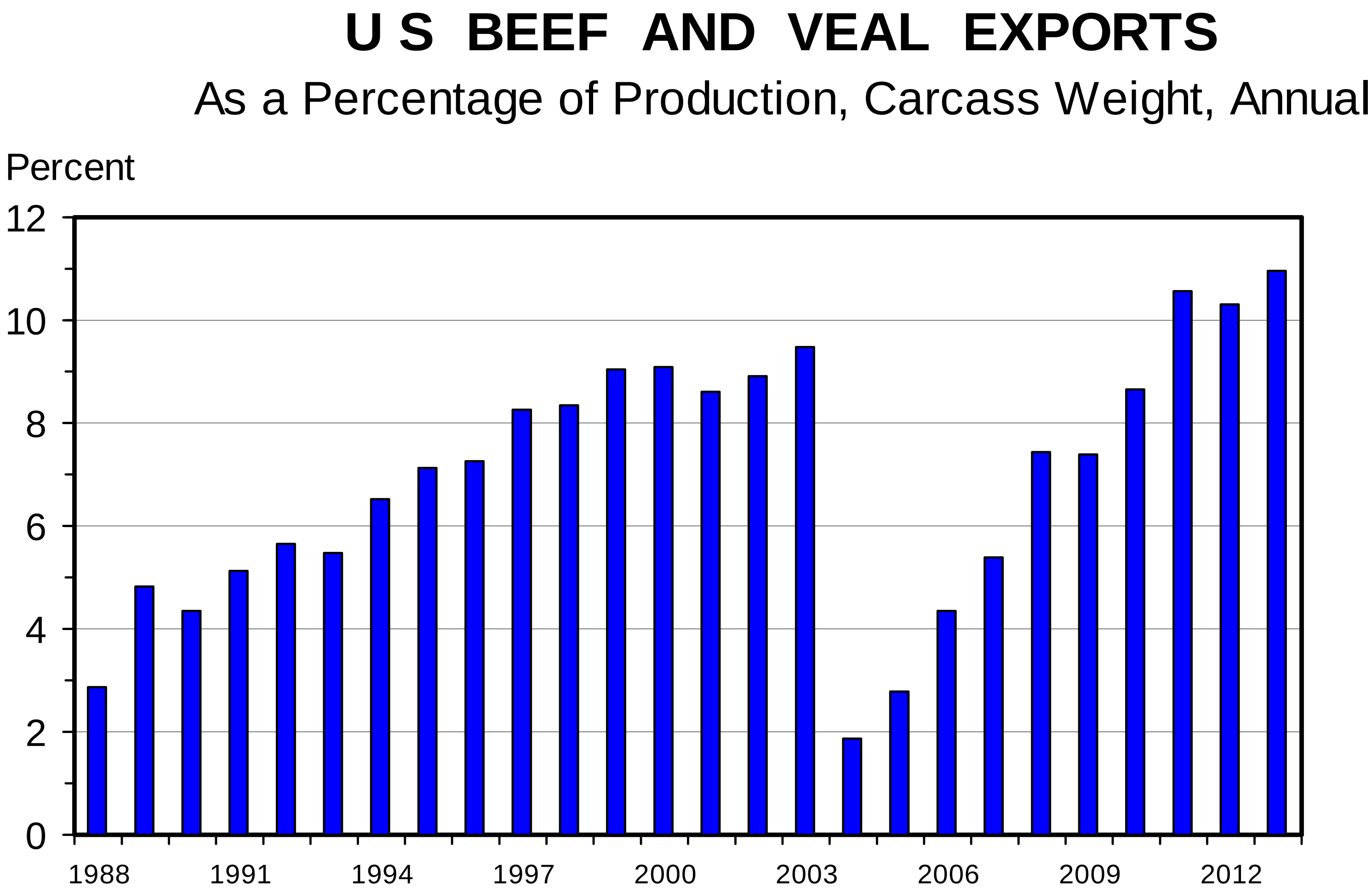
Percent is important, but also products exported is…



Livestock Marketing Information Center

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

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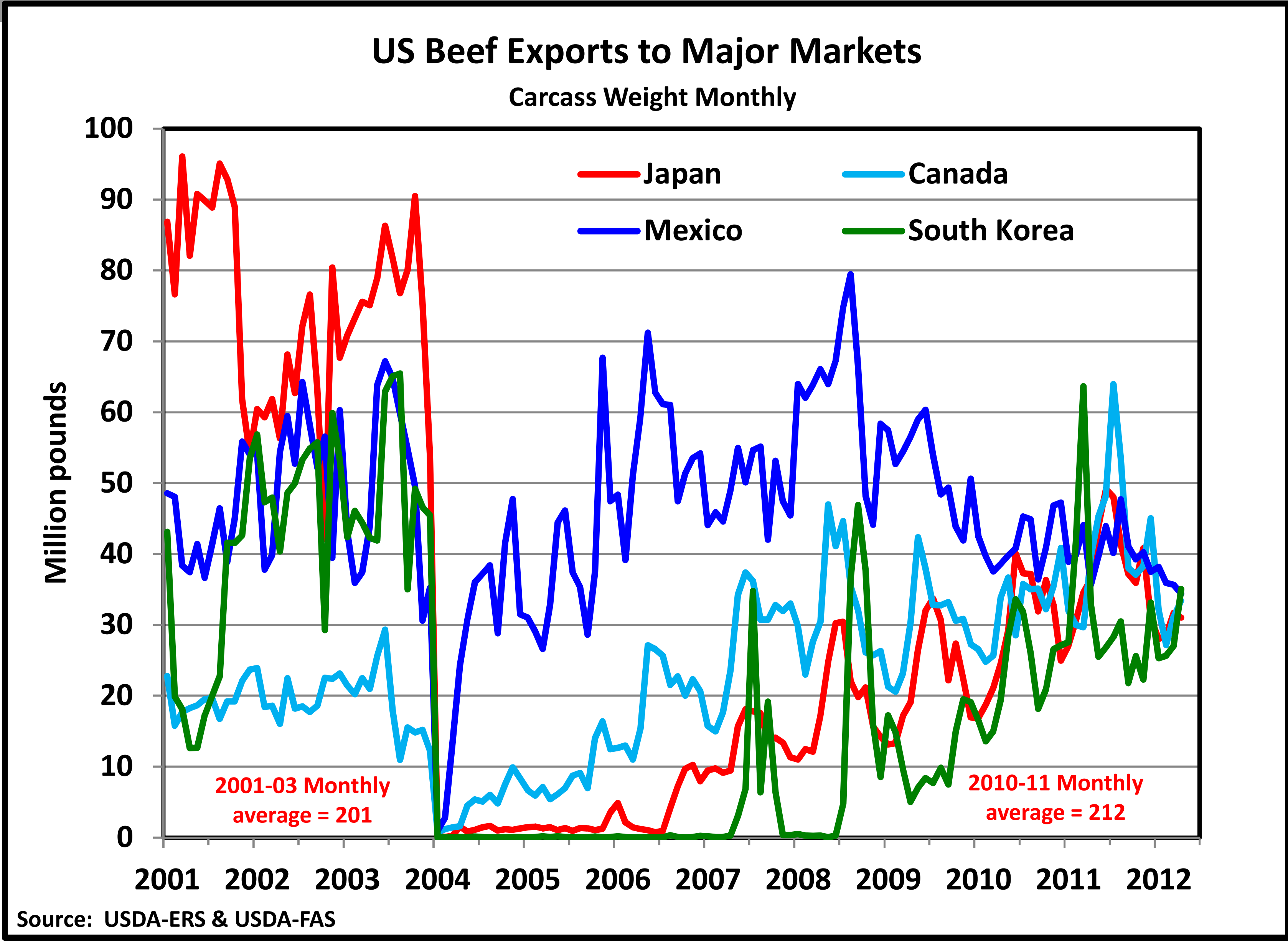
Exports: +/- 65% to 4 main countries….

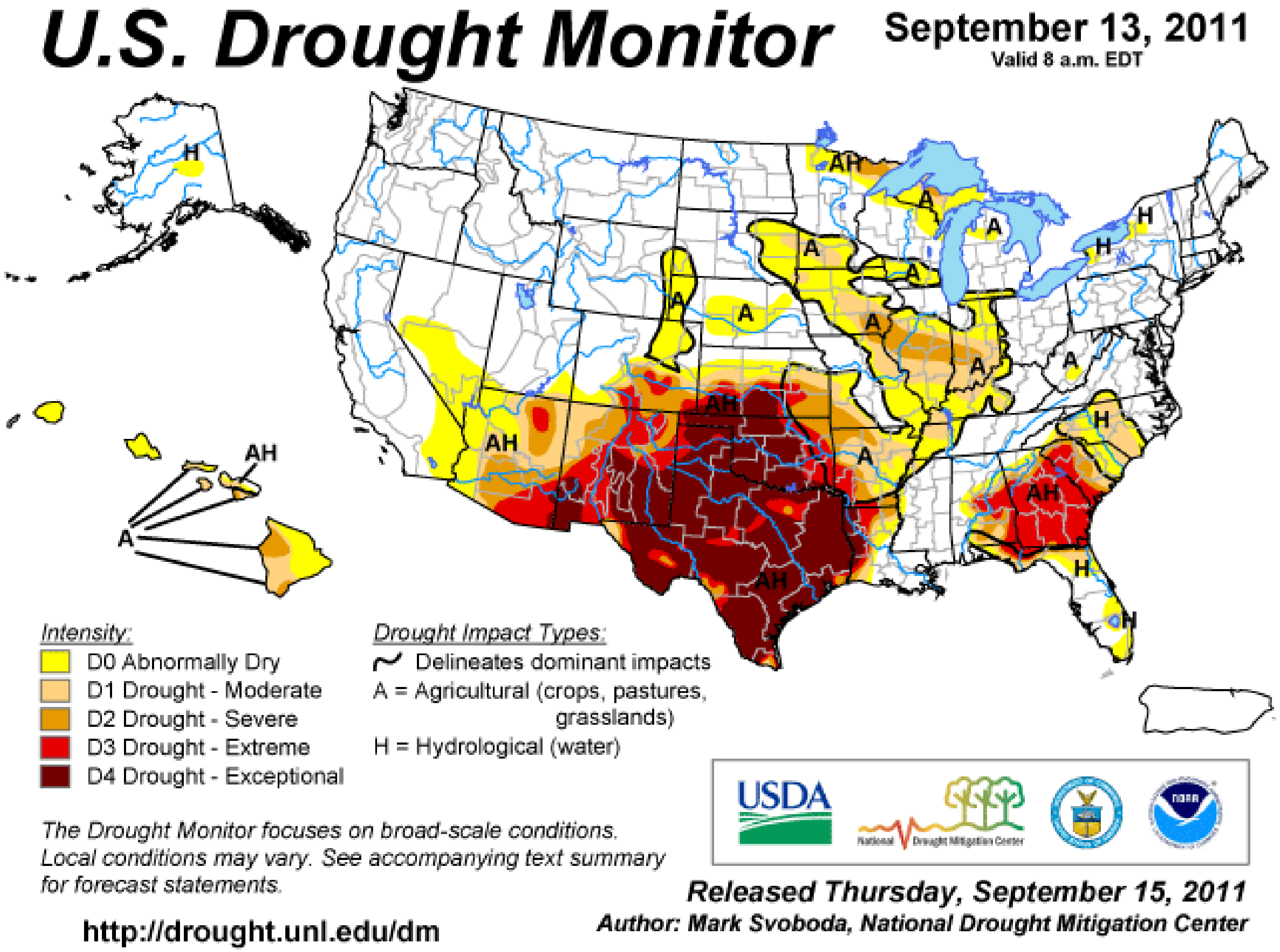
Industry's portfolio is expanding and becoming more diversified…



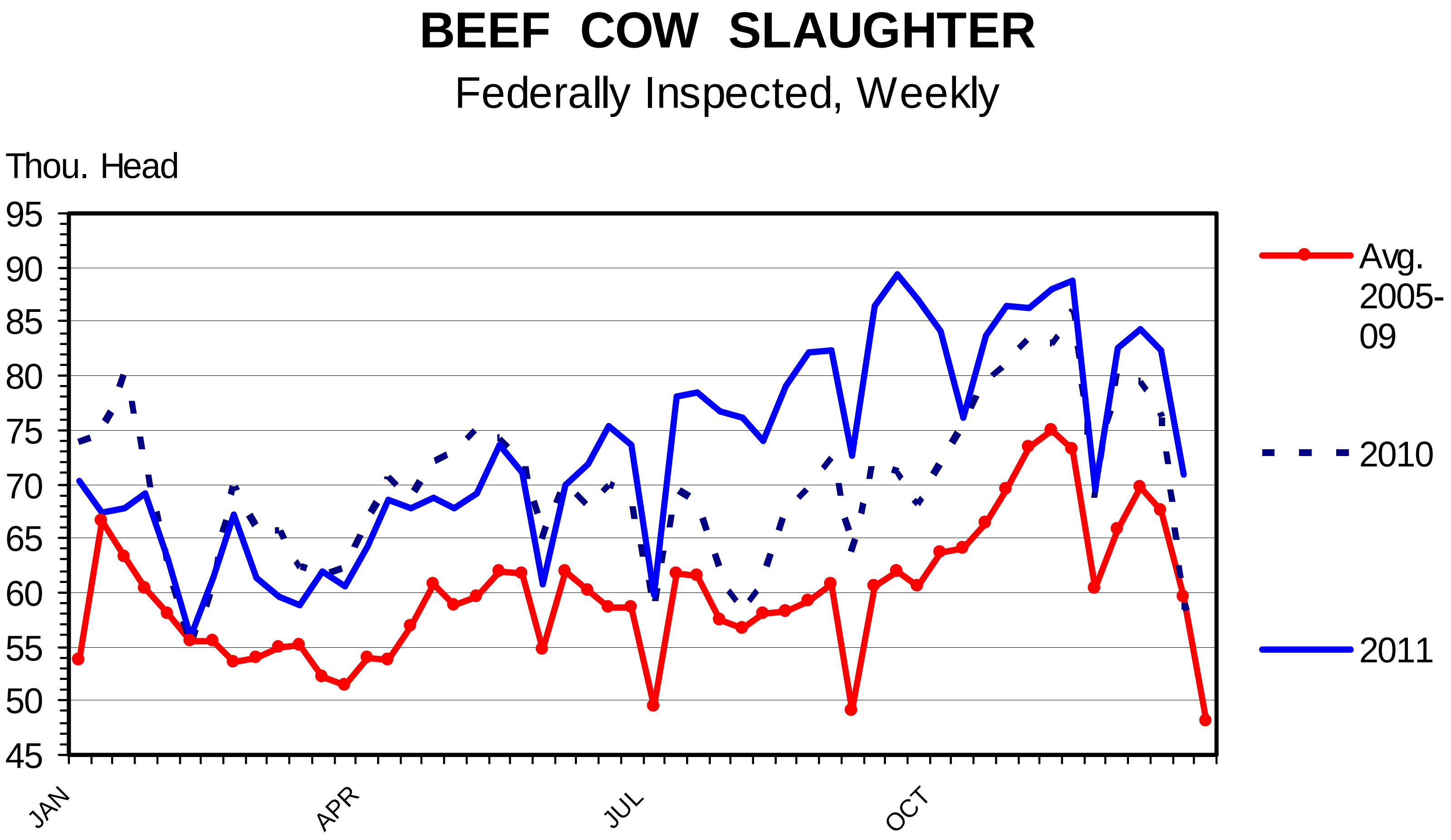
“Developing” trade discussions/events are new normal…

- **Japan <u>may</u> start accepting older cattle…**
- **FTA = reduction of South Korea tariffs**
- **USMEF – ID/Traceability study == U.S. falling behind**
  - **Industry fragmentation over this issue (and others…)**
- **WTO MCOOL ruling**
  - **U.S. response (Mar. 23, 2012) unknown…**

July '11: 40% of Beef Cows in States with > 40% Poor to Very Poor Pasture Conditions (<u>was 4% in 2010</u>)…



We culled a lot of cows last summer due to drought…



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Data Source: USDA-AMS & USDA-NASS

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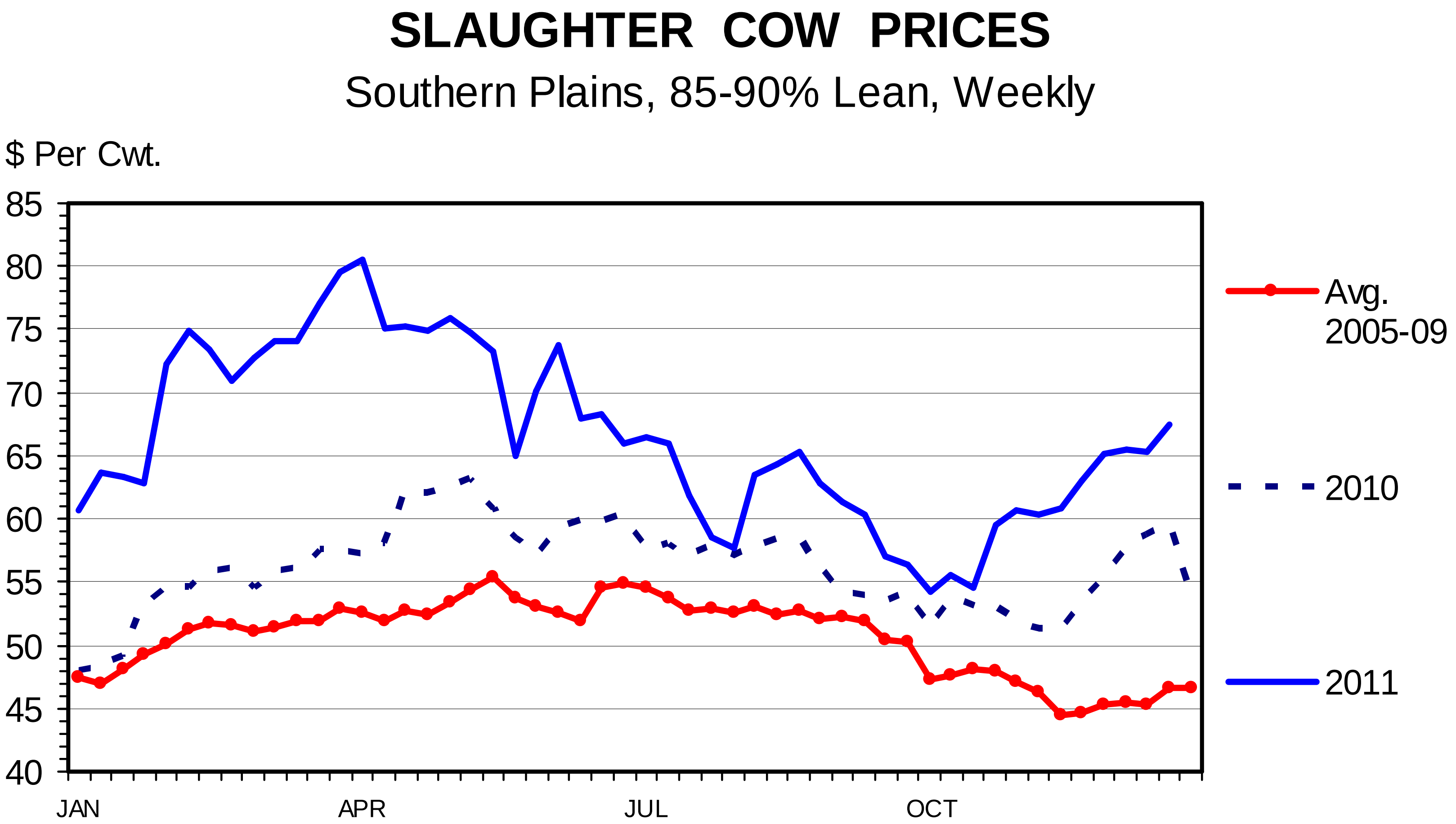
But, prices held up quite well…



Livestock Marketing Information Center

Data Source: USDA-AMS

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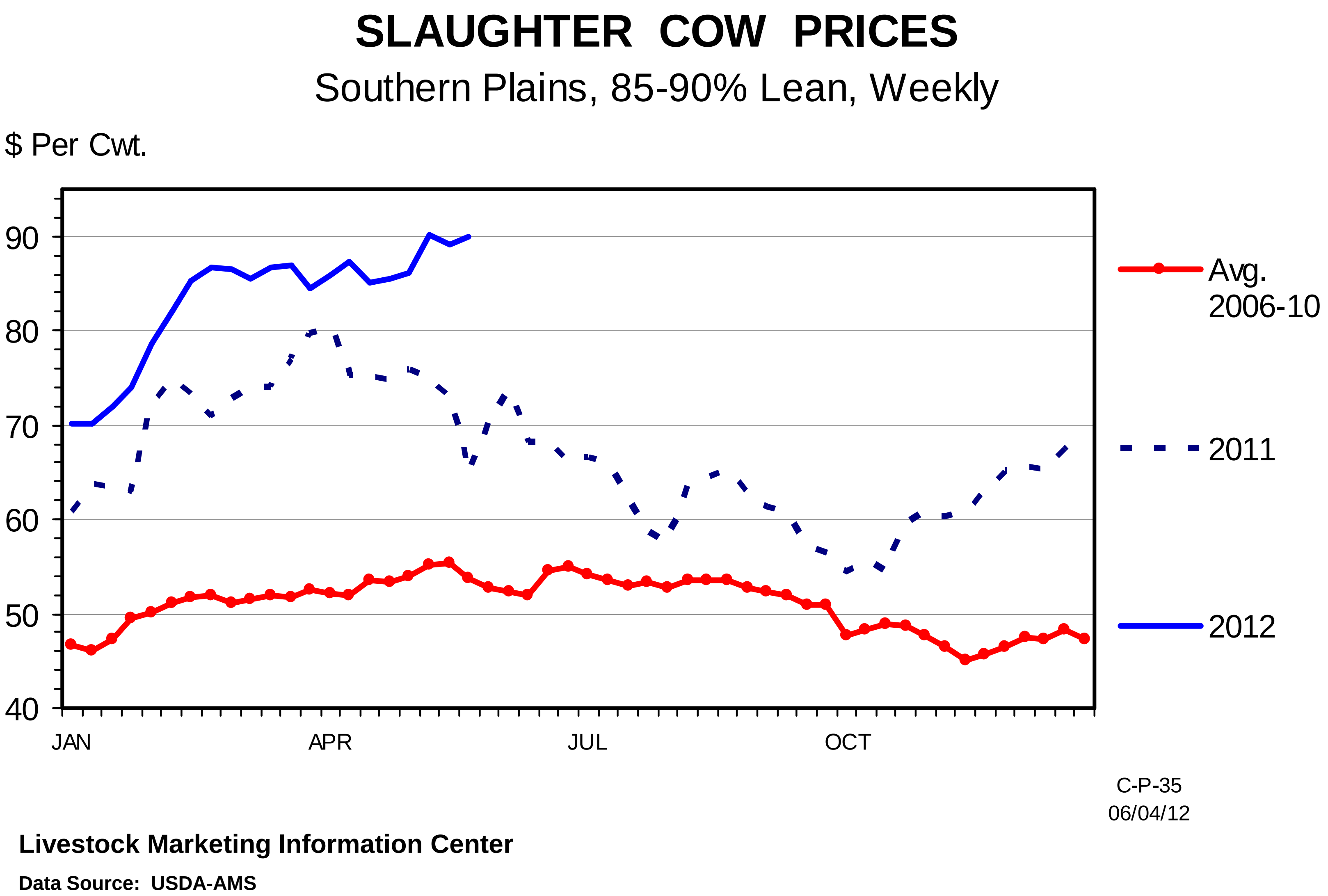
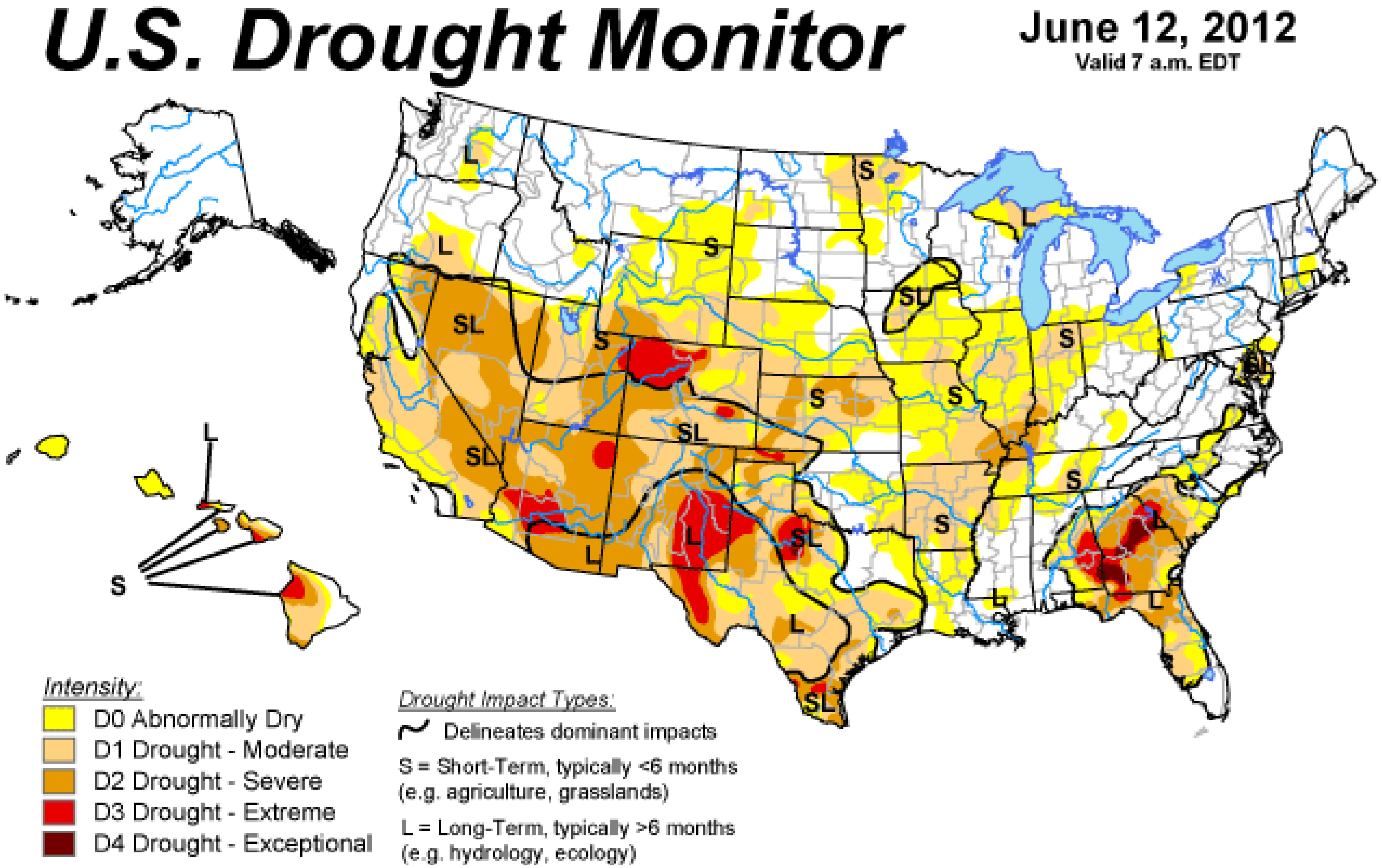
Prices to continue to hold very strong on cull cows…



Industry push for to increase national cow herd…

Potential for rebuilding the herd might be a while yet?

June 2012: 13% of Beef Cows in States with > 40% Poor to Very Poor Pasture Conditions (<u>was 28% in 2011</u>)



Summary

- **US beef industry has been downsizing in number of producers ➔ consolidation will likely continue**
- **Price variability has increased significantly leading to more emphasis on risk management and alliances**
- **High corn prices ➔ add weight prior to the feedlot (i.e., shift to more grazing and backgrounding programs)**
- **2011 drought (and current conditions) will likely have long-lasting impacts on the beef industry**
- **Vertical coordination becoming more important to respond to market signals (local and global markets)**

For more information and decision tools related to farm management, marketing, and risk management go to www.AgManager.info

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