Current Economic Climate of the Cattle Business

Derrell S. Peel
Breedlove Professor of Agribusiness and Extension Livestock Marketing Specialist
Oklahoma State University

Current Economic Climate

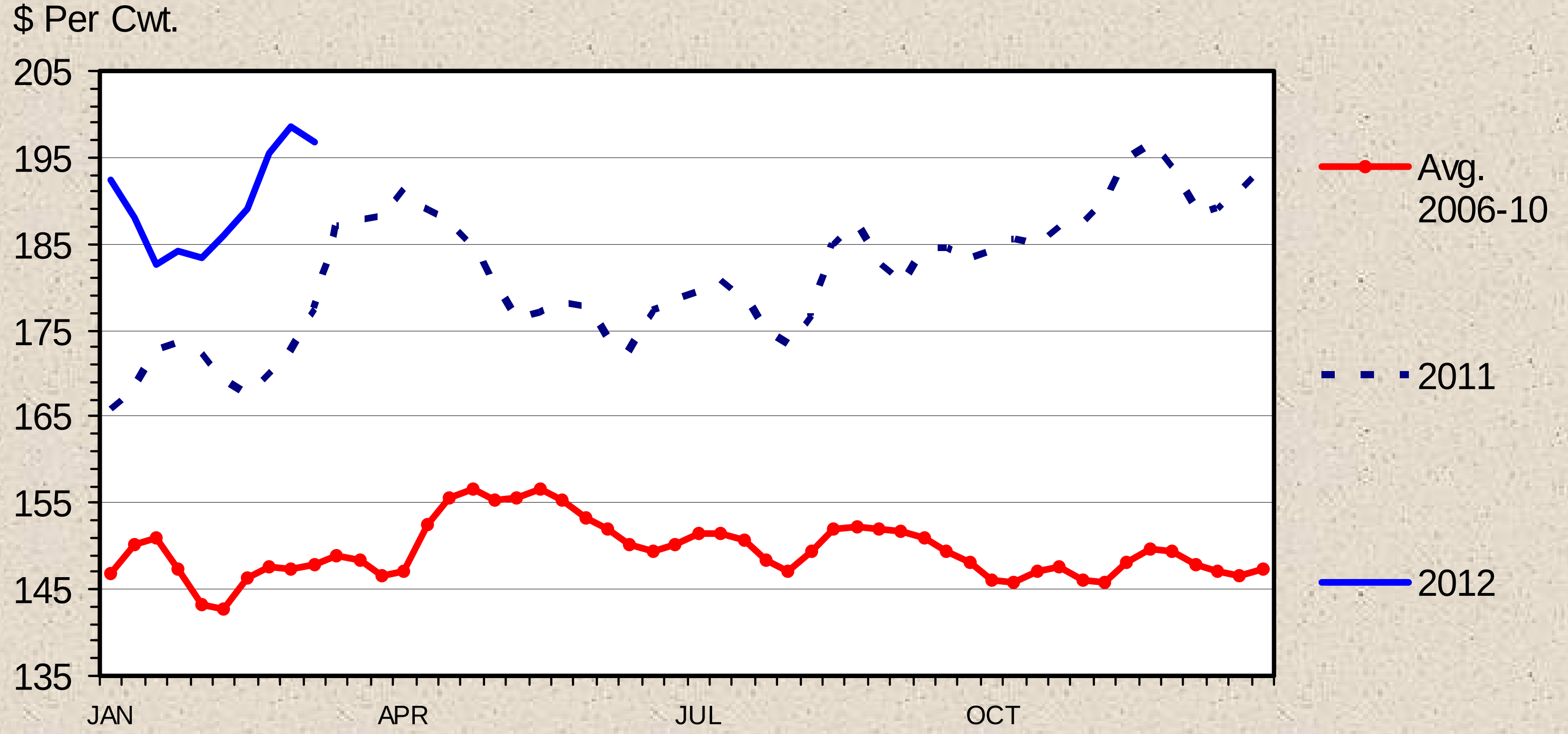
- Short and Medium Term
  - Current market situation
  - Industry and external factors
- Long Term
  - Industry structural change

Current Market Situation

- Global
- U.S. Economy
- Agriculture
- Cattle Industry

BOXED BEEF CUTOUT VALUE

Choice 600-900 Lbs. Carcass, Weekly



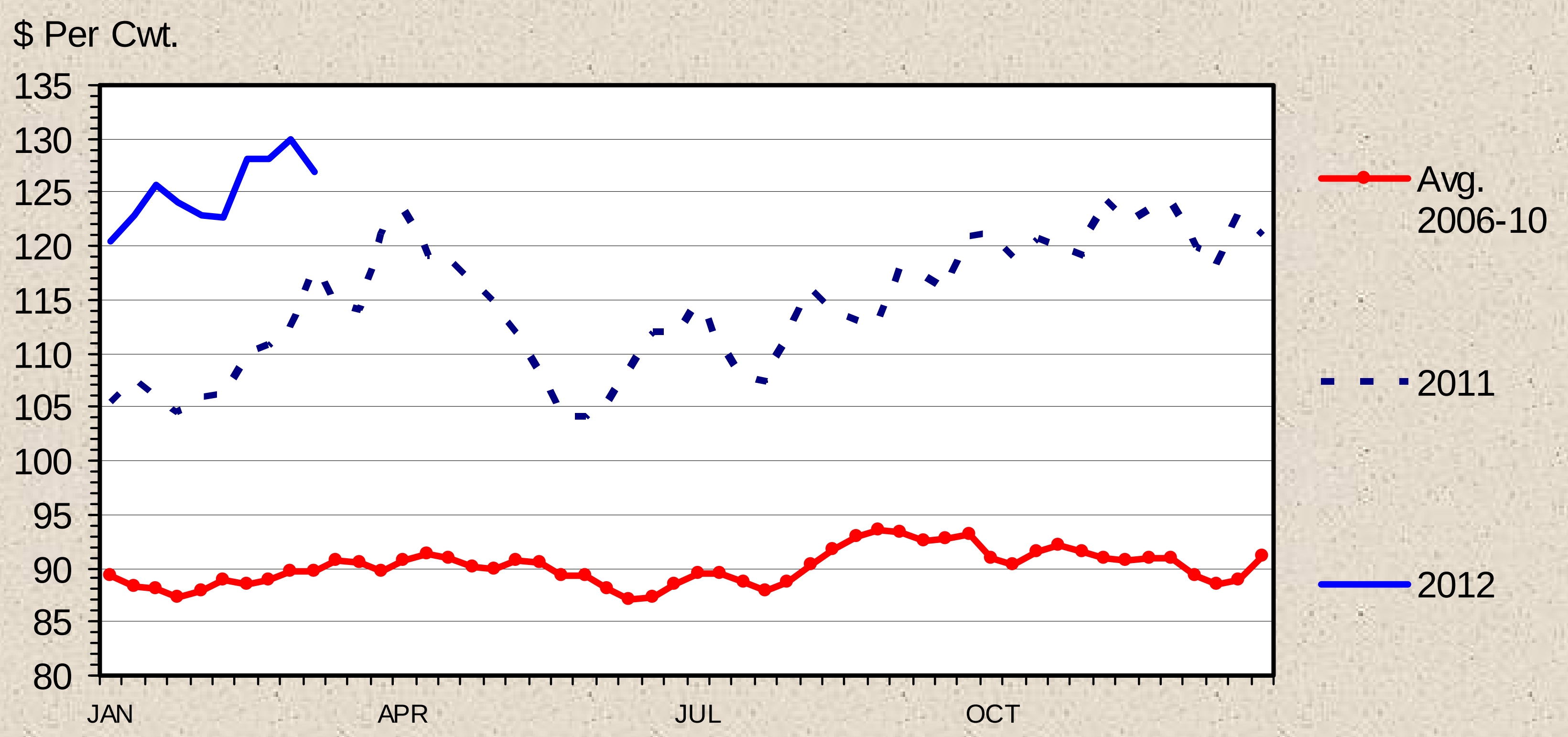
C-P-62
03/12/12

Livestock Marketing Information Center

Data Source: USDA-AMS

SLAUGHTER STEER PRICES

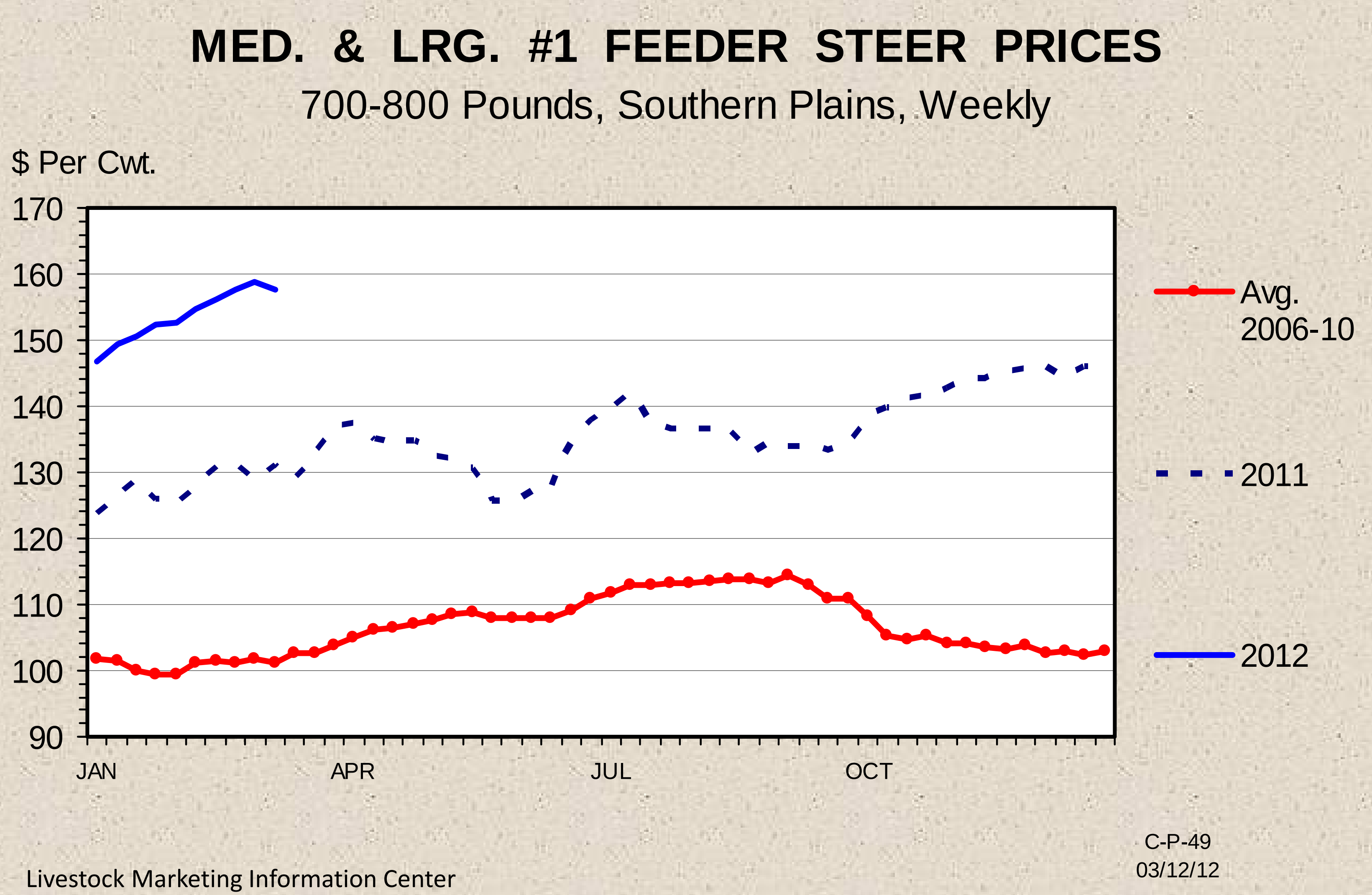
Southern Plains, Weekly



C-P-52
03/12/12

Livestock Marketing Information Center

Data Source: USDA-AMS

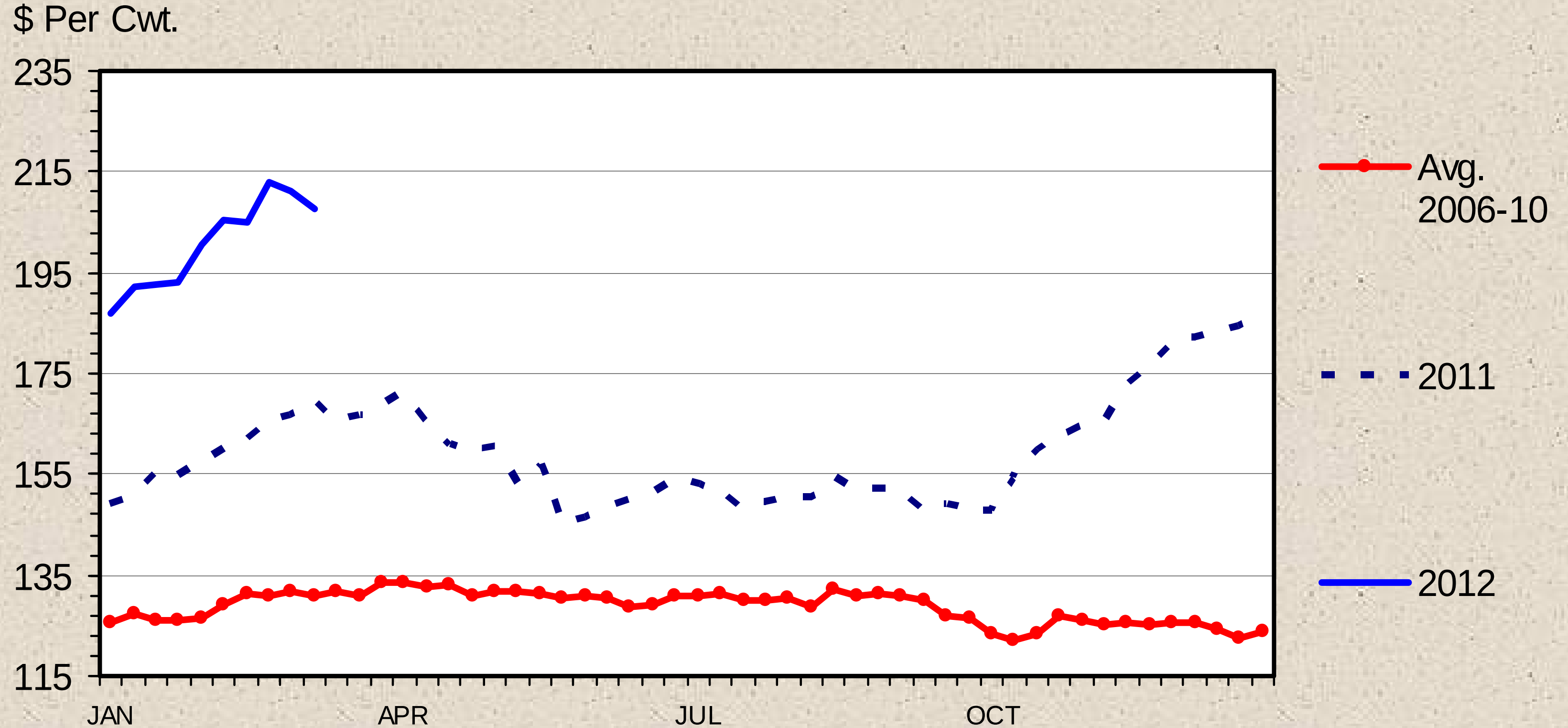


Livestock Marketing Information Center

Data Source: USDA-AMS, Compiled & Analysis by LMIC

MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



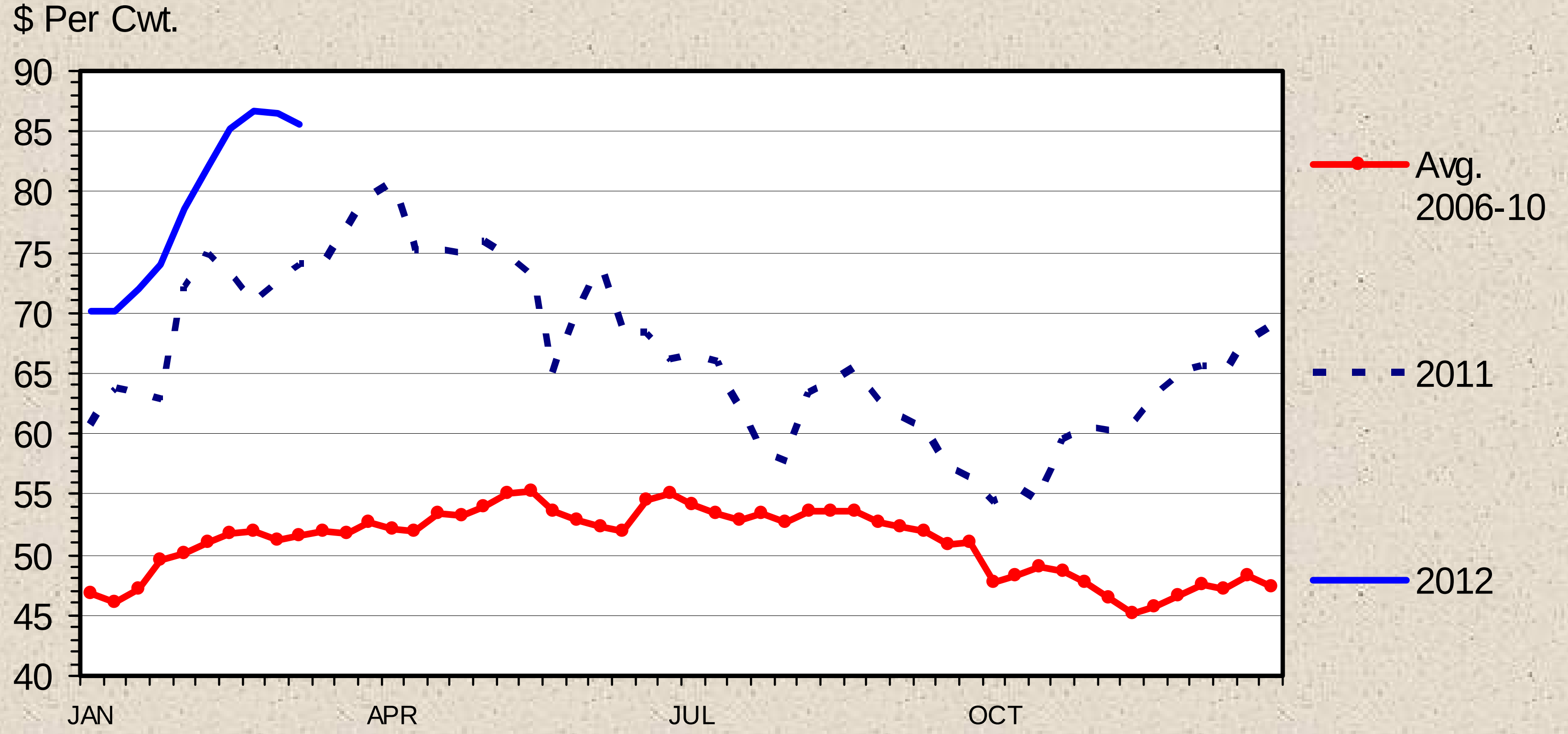
C-P-49A
03/12/12

Livestock Marketing Information Center

Data Source: USDA-AMS, Compiled & Analysis by LMIC

SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



C-P-35
03/12/12

Livestock Marketing Information Center

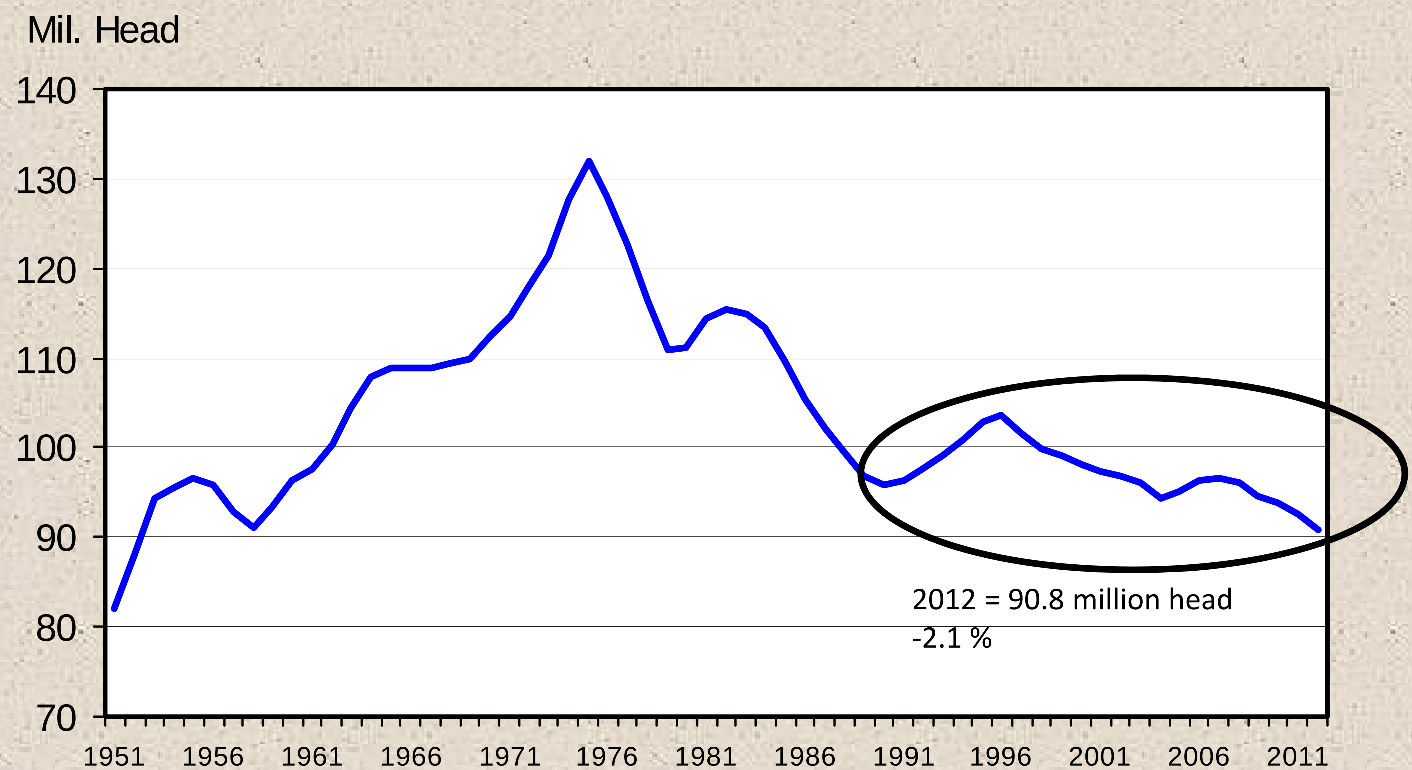
Data Source: USDA-AMS

Major Market Factors

- Cattle Inventory and Beef Production
- Beef Demand
- International Trade
- Feed and Input Markets
- Forage Conditions

JANUARY 1 TOTAL CATTLE INVENTORY

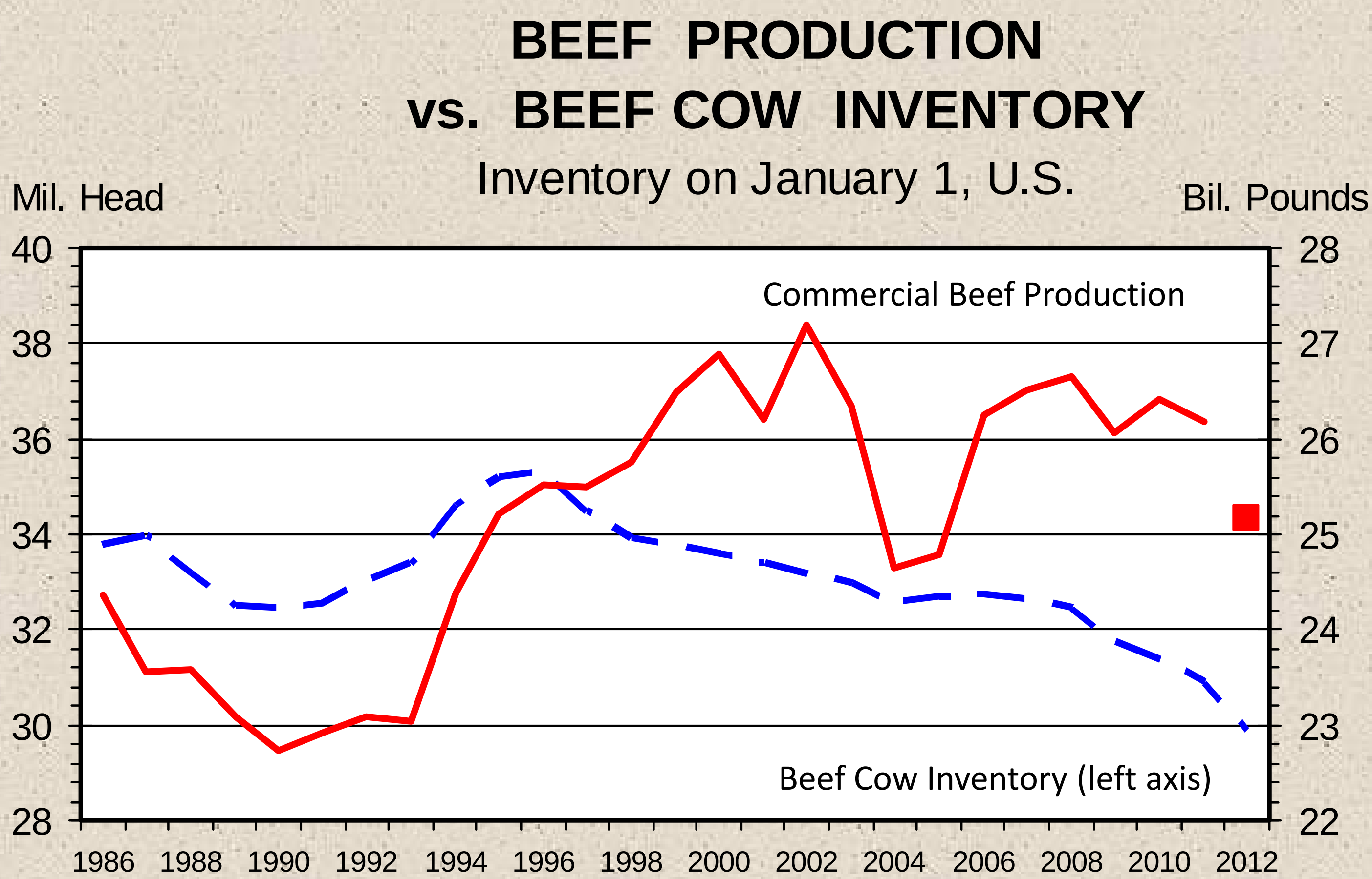
U.S., Annual



C-N-01
01/28/11

Livestock Marketing Information Center

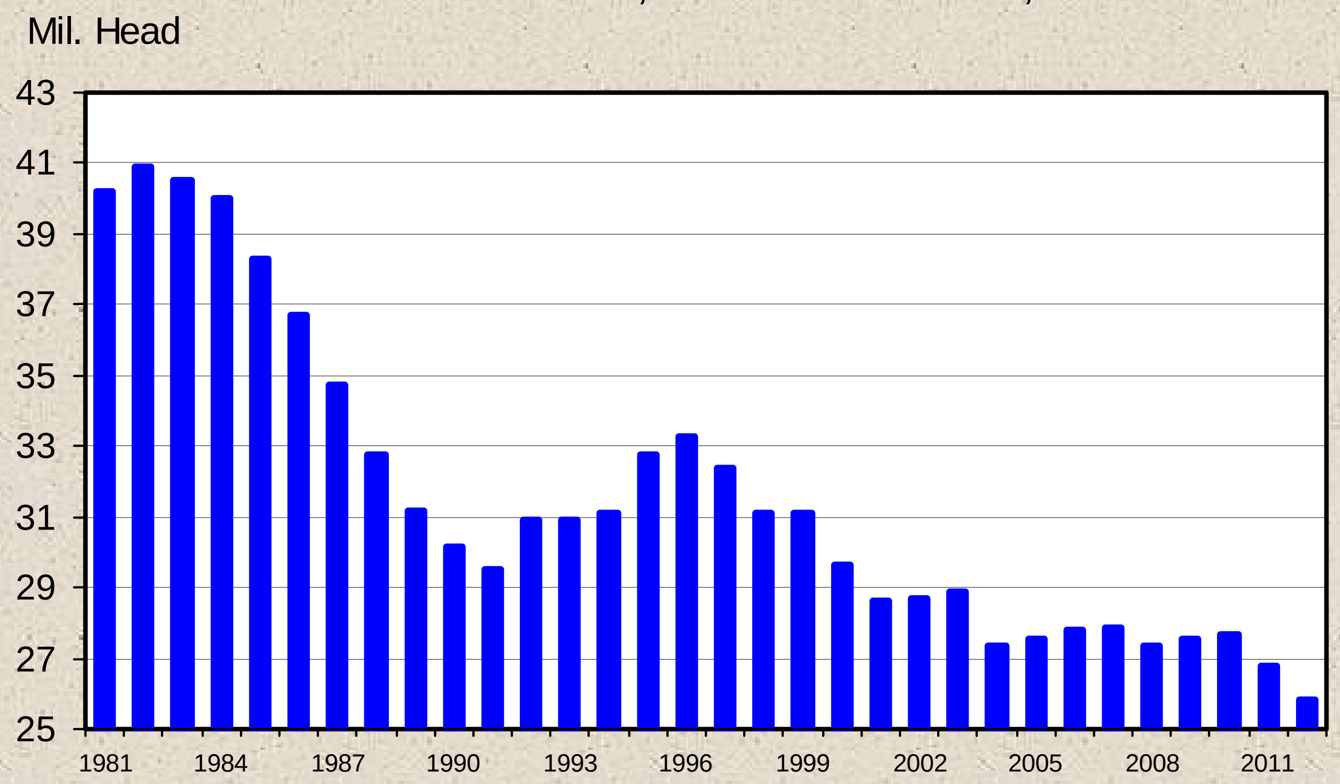
Data Source: USDA-NASS



2012 Projected. Compiled from USDA data with analysis by the Livestock Marketing Information Center and Derrell Peel

JANUARY 1 FEEDER CATTLE SUPPLIES

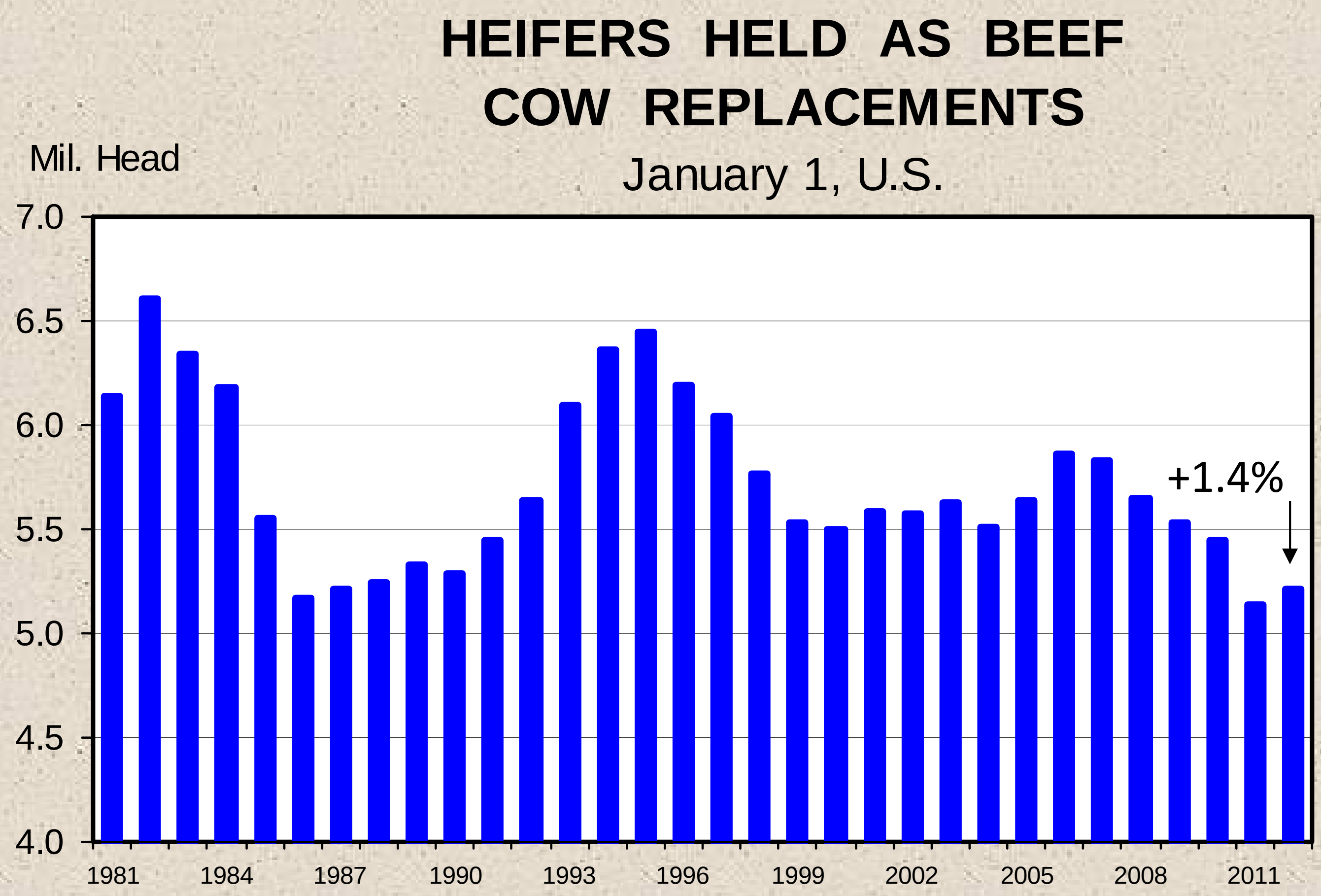
Residual, Outside Feedlots, U.S.



C-N-30
01/28/11

Livestock Marketing Information Center

Data Source: USDA-NASS



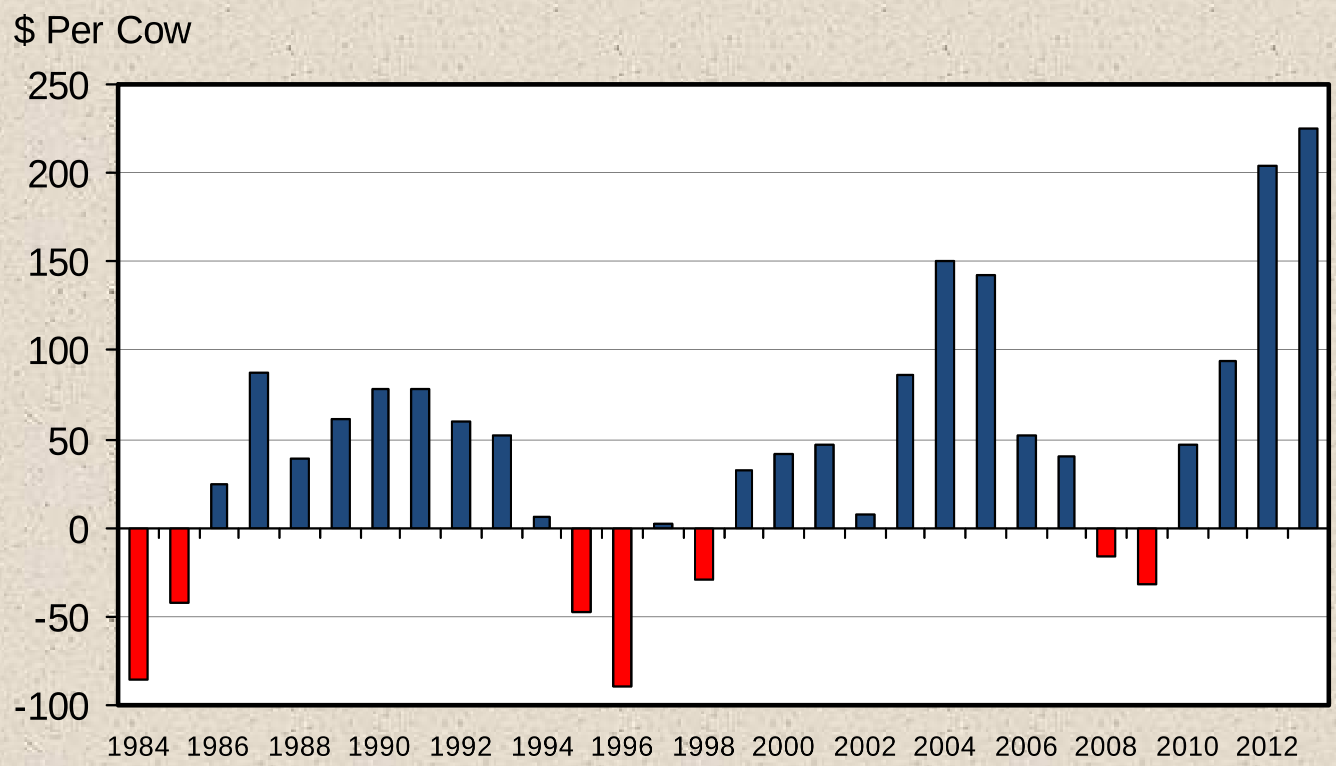
C-N-38
01/28/11

Livestock Marketing Information Center

Data Source: USDA-NASS

ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



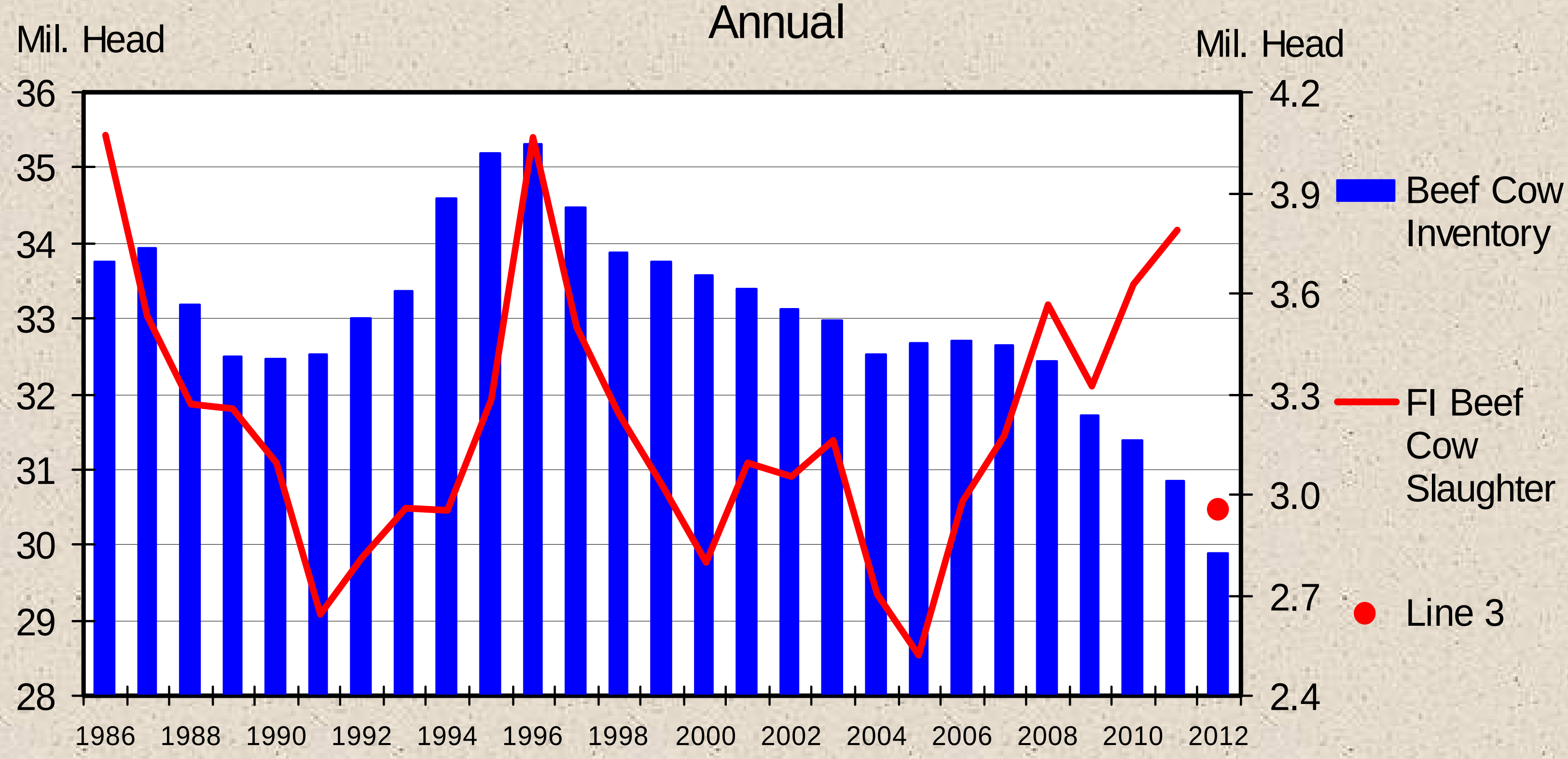
C-P-66
02/17/12

Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

U S BEEF COW INVENTORY vs FI BEEF COW SLAUGHTER

Annual



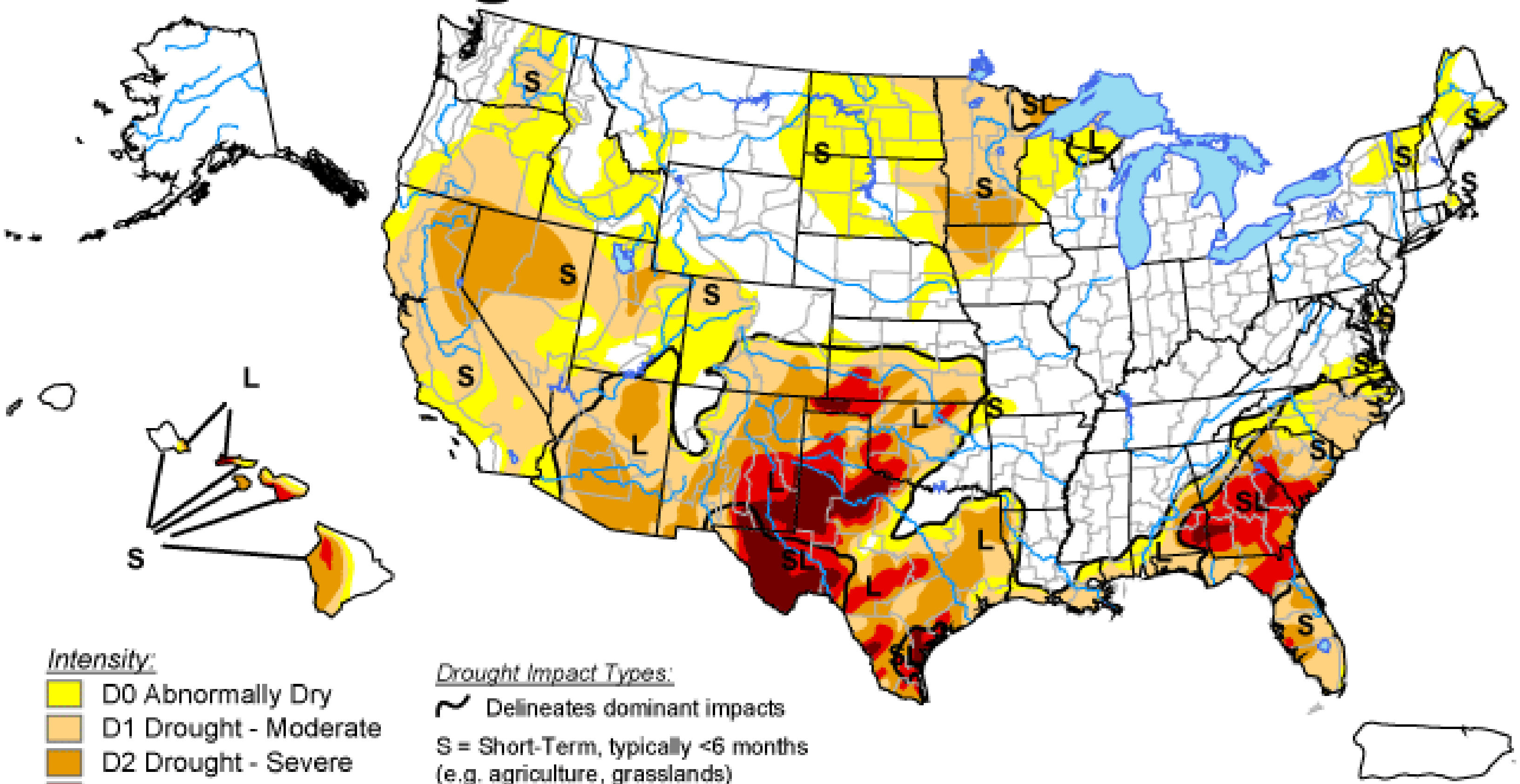
C-S-28
01/28/11

Livestock Marketing Information Center

Data Source: USDA-NASS

U.S. Drought Monitor

March 6, 2012
Valid 7 a.m. EST



Intensity:

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

Drought Impact Types:

Delineates dominant impacts

S = Short-Term, typically <6 months
(e.g. agriculture, grasslands)

L = Long-Term, typically >6 months
(e.g. hydrology, ecology)

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

http://droughtmonitor.unl.edu/

Released Thursday, March 8, 2012

Author: Michael Brewer/L. Love-Brotak, NOAA/NESDIS/NCDC

North American Drought Monitor

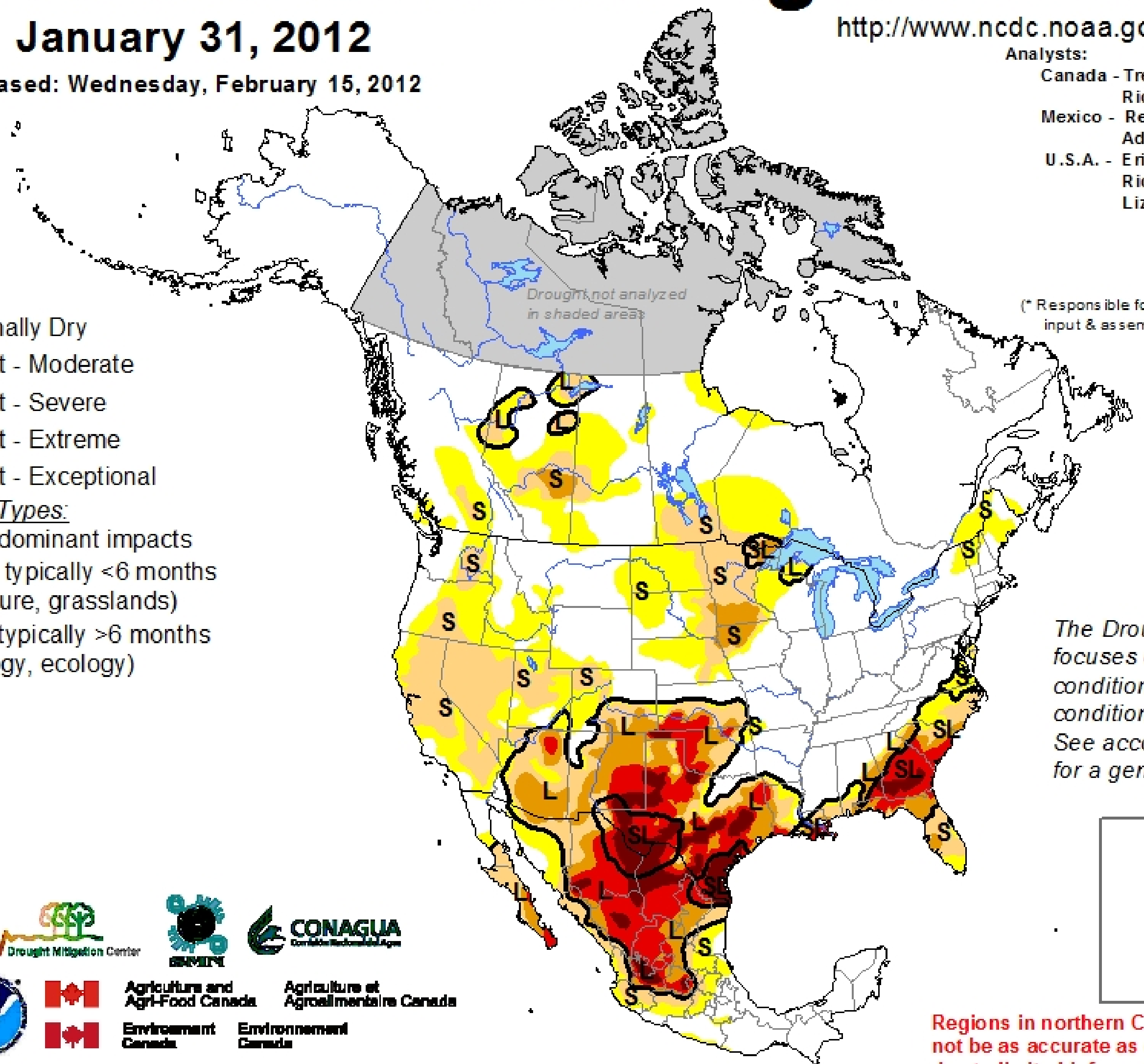
January 31, 2012

Released: Wednesday, February 15, 2012

http://www.ncdc.noaa.gov/nadm.html

Analysts:
Canada - Trevor Hadwen
Richard Rieger
Mexico - Reynaldo Pascual
Adelina Albanil
U.S.A. - Eric Luebehusen
Richard Heim*
Liz Love-Brotak

(* Responsible for collecting analysts' input & assembling the NA-DM map)



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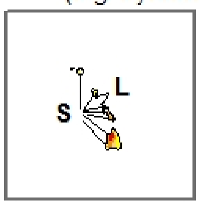
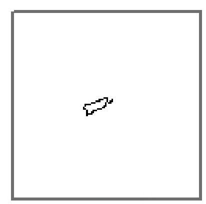


The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text for a general summary.



Regions in northern Canada may not be as accurate as other regions due to limited information.

USDA
National Drought Mitigation Center
SMN
CONAGUA
Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada
Environment Canada
Environnement Canada

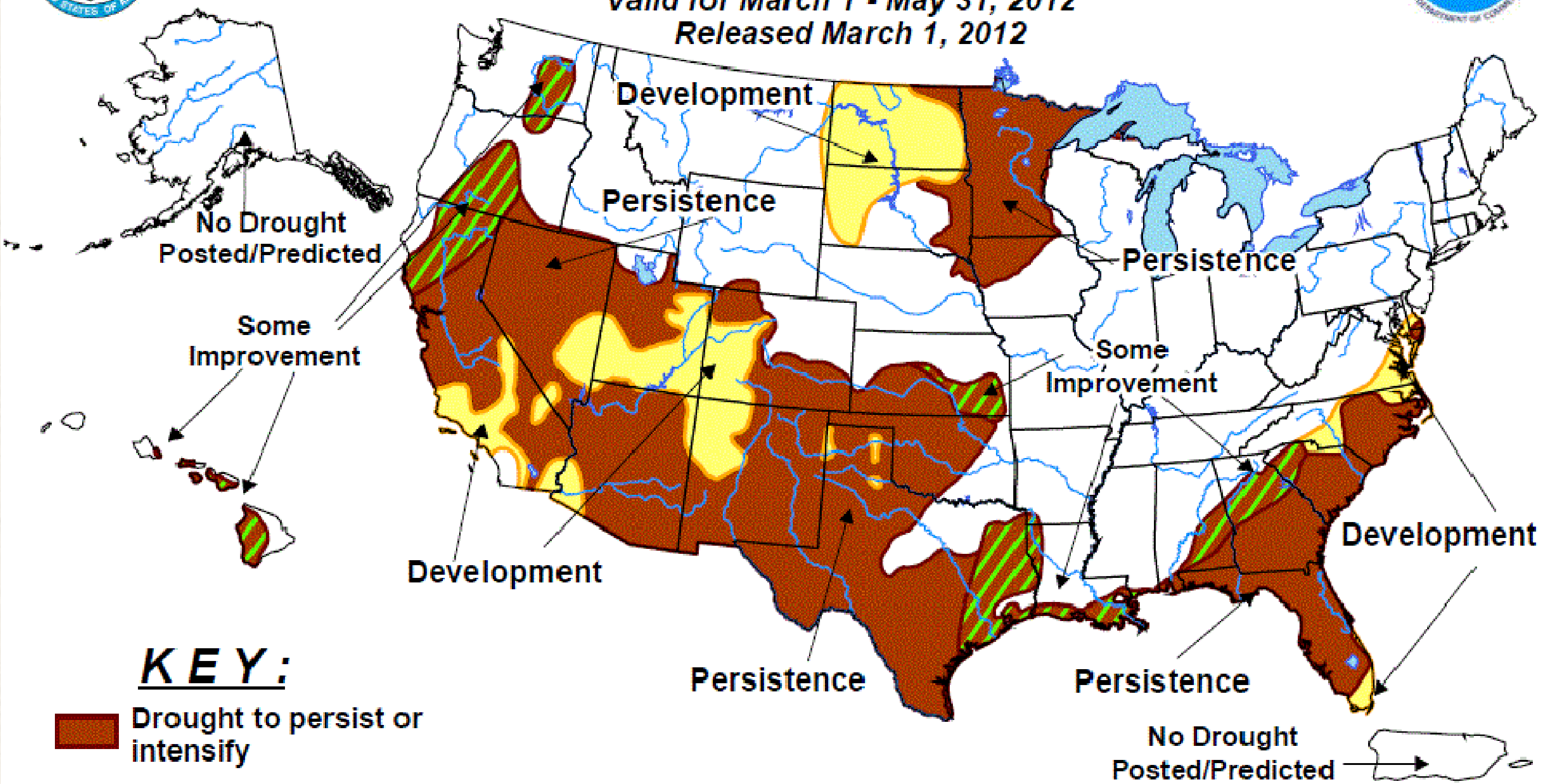
Chihuahua, Mexico March 11, 2012

U.S. Seasonal Drought Outlook

Drought Tendency During the Valid Period

Valid for March 1 - May 31, 2012

Released March 1, 2012



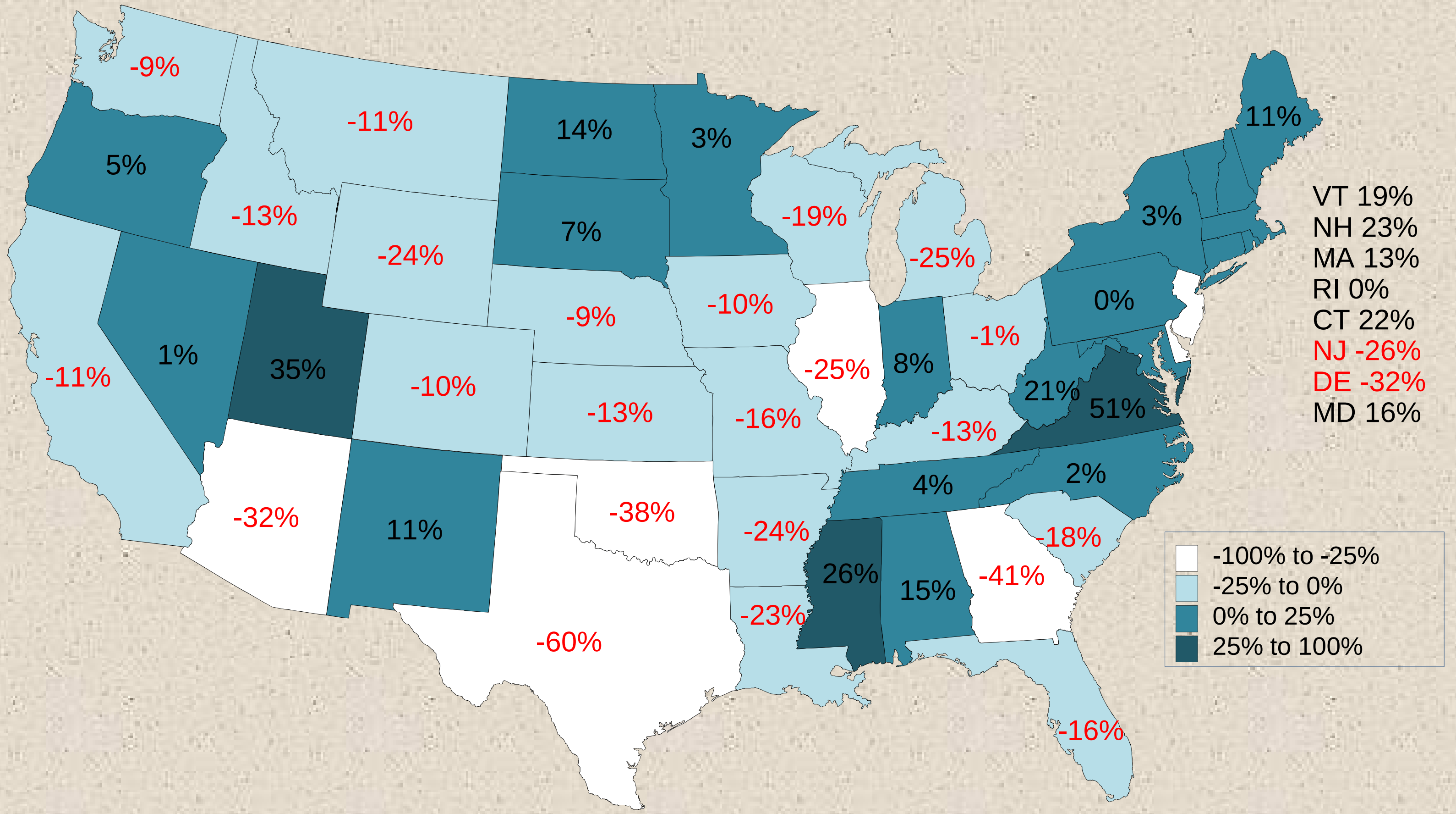
KEY:

- Drought to persist or intensify
- Drought ongoing, some improvement
- Drought likely to improve, impacts ease
- Drought development likely

Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Short-term events -- such as individual storms -- cannot be accurately forecast more than a few days in advance. Use caution for applications -- such as crops -- that can be affected by such events. "Ongoing" drought areas are approximated from the Drought Monitor (D1 to D4 intensity). For weekly drought updates, see the latest U.S. Drought Monitor. NOTE: the green improvement areas imply at least a 1-category improvement in the Drought Monitor intensity levels, but do not necessarily imply drought elimination.

PERCENT CHANGE DECEMBER 1 HAY STOCKS

(2011-2010)



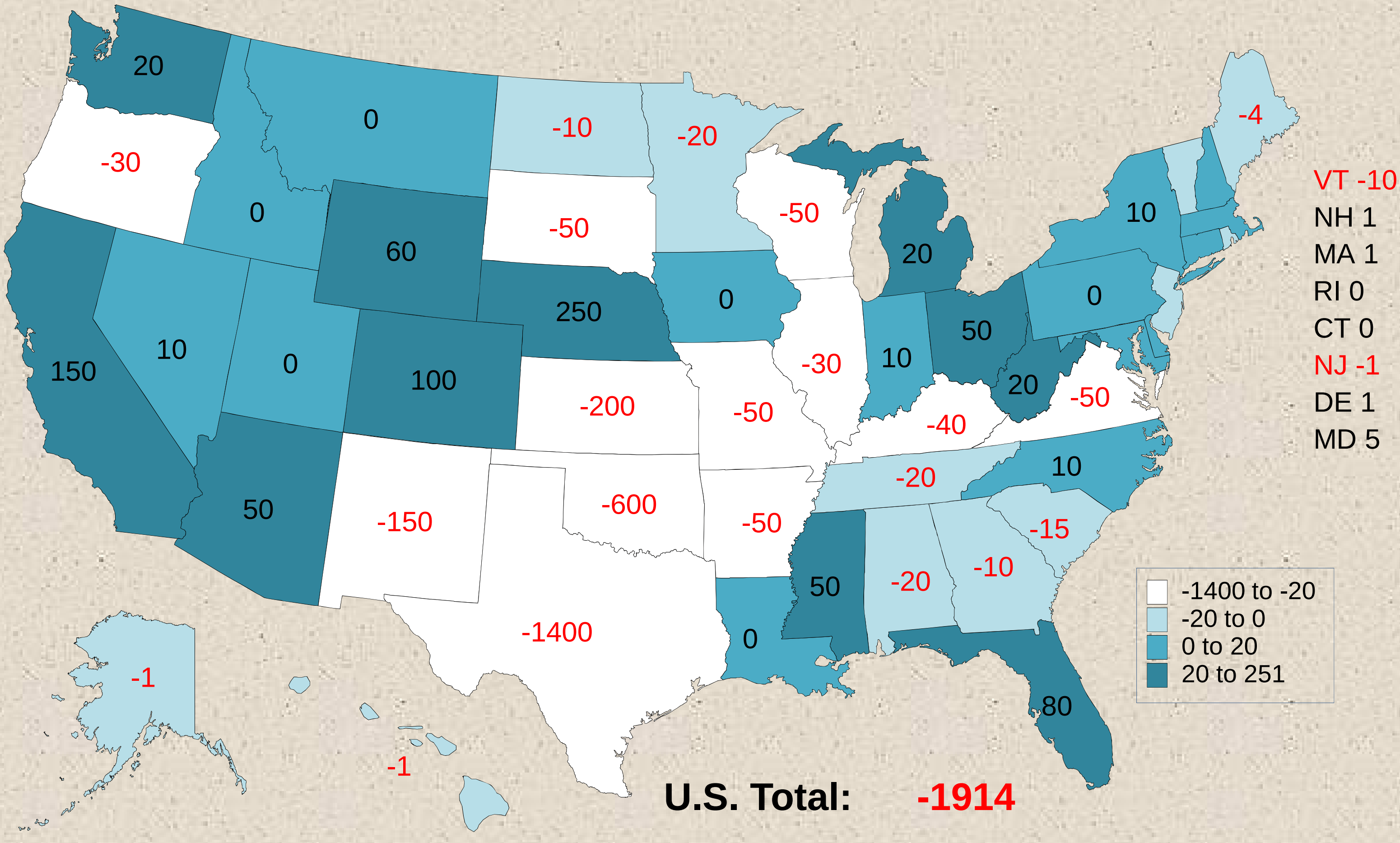
Livestock Marketing Information Center

Data Source: USDA-NASS

1/17/2012

CHANGE IN TOTAL CATTLE NUMBERS 2011 - 2012

(1000 Head)

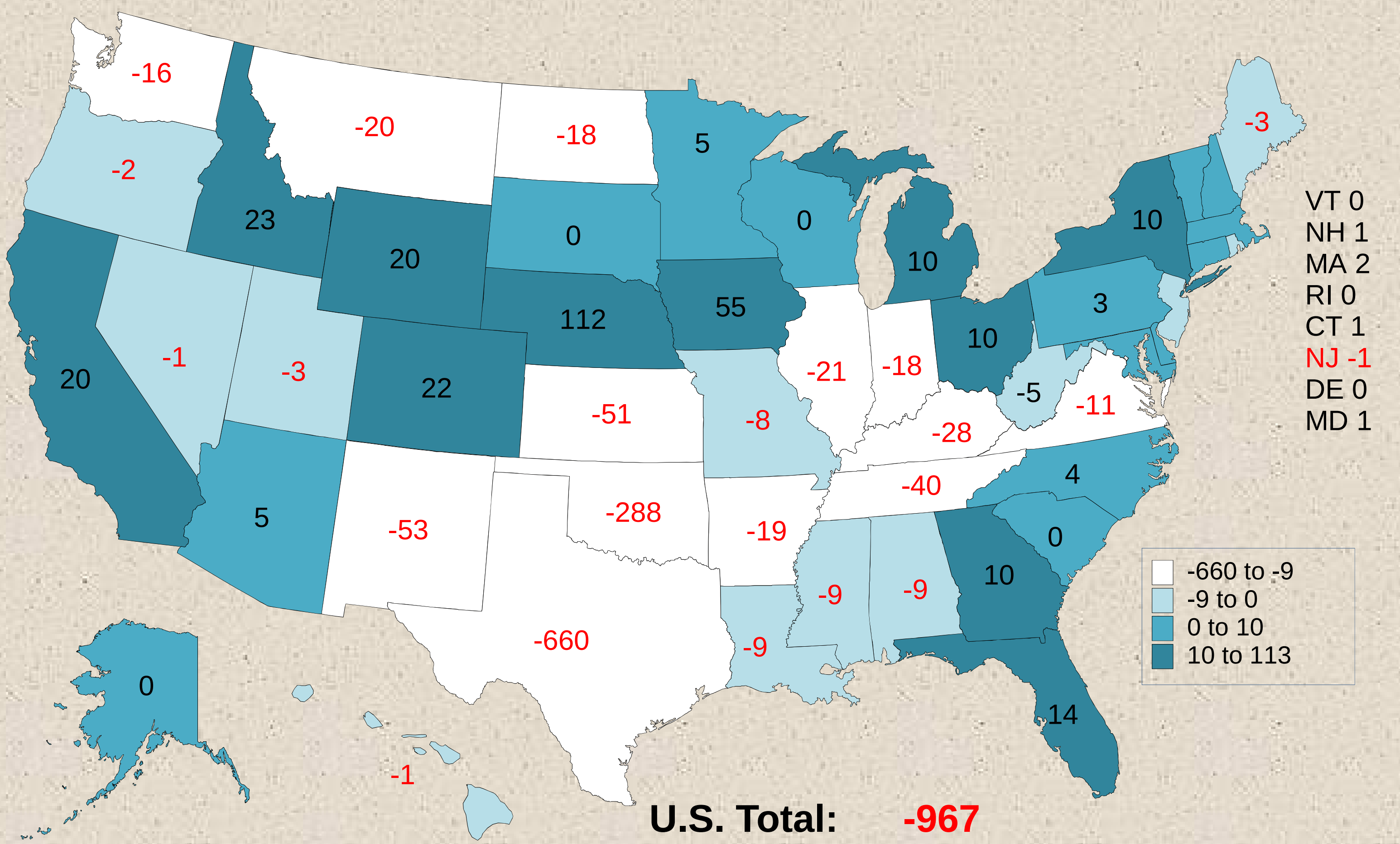


01/27/12

Livestock Marketing Information Center

Data Source: USDA-NASS

CHANGE IN BEEF COWS NUMBERS
JANUARY 1, 2011 TO JANUARY 2012
(1000 Head)

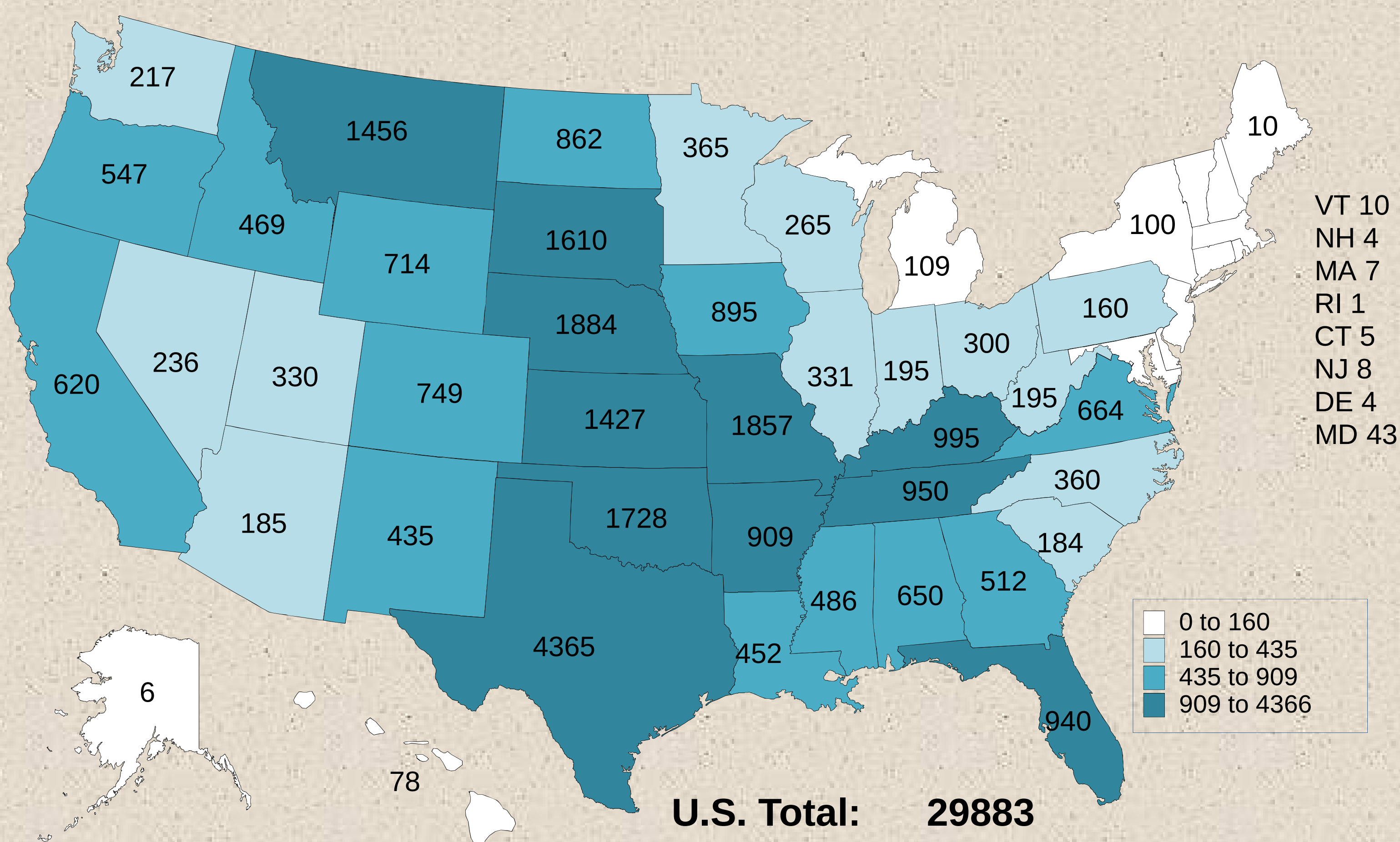


U.S. Total: -967

Livestock Marketing Information Center
Data Source: USDA-NASS

01/27/12

BEEF COWS THAT CALVED
JANUARY 1, 2012
(1000 Head)

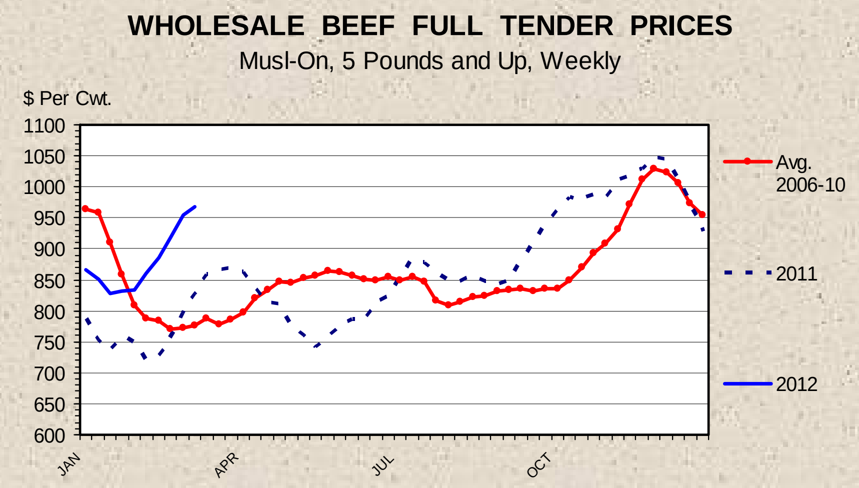


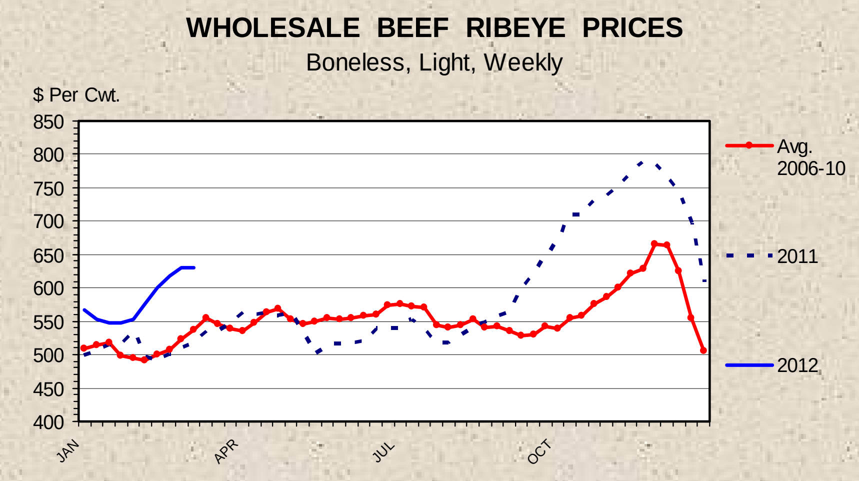
U.S. Total: 29883

01/27/12

Livestock Marketing Information Center
Data Source: USDA-NASS

Middle meat demand is growing…but slowly.

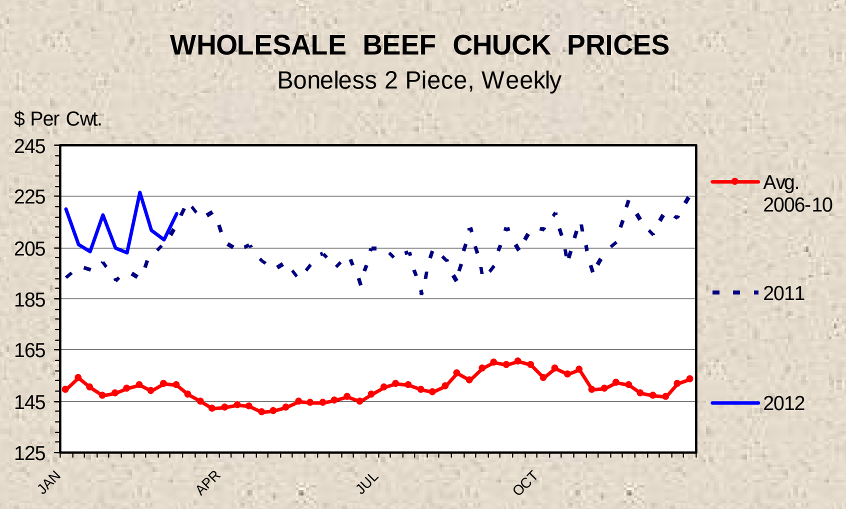


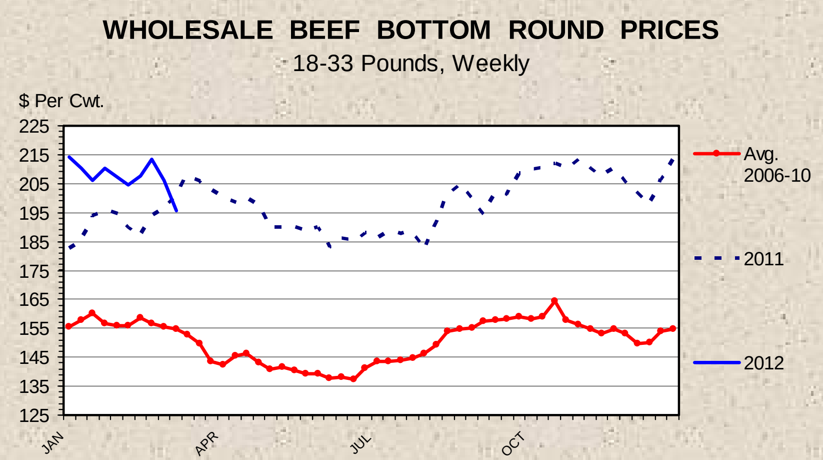


Livestock Marketing Information Center

Data Source: USDA-AMS

End meat demand remains strong.





Livestock Marketing Information Center

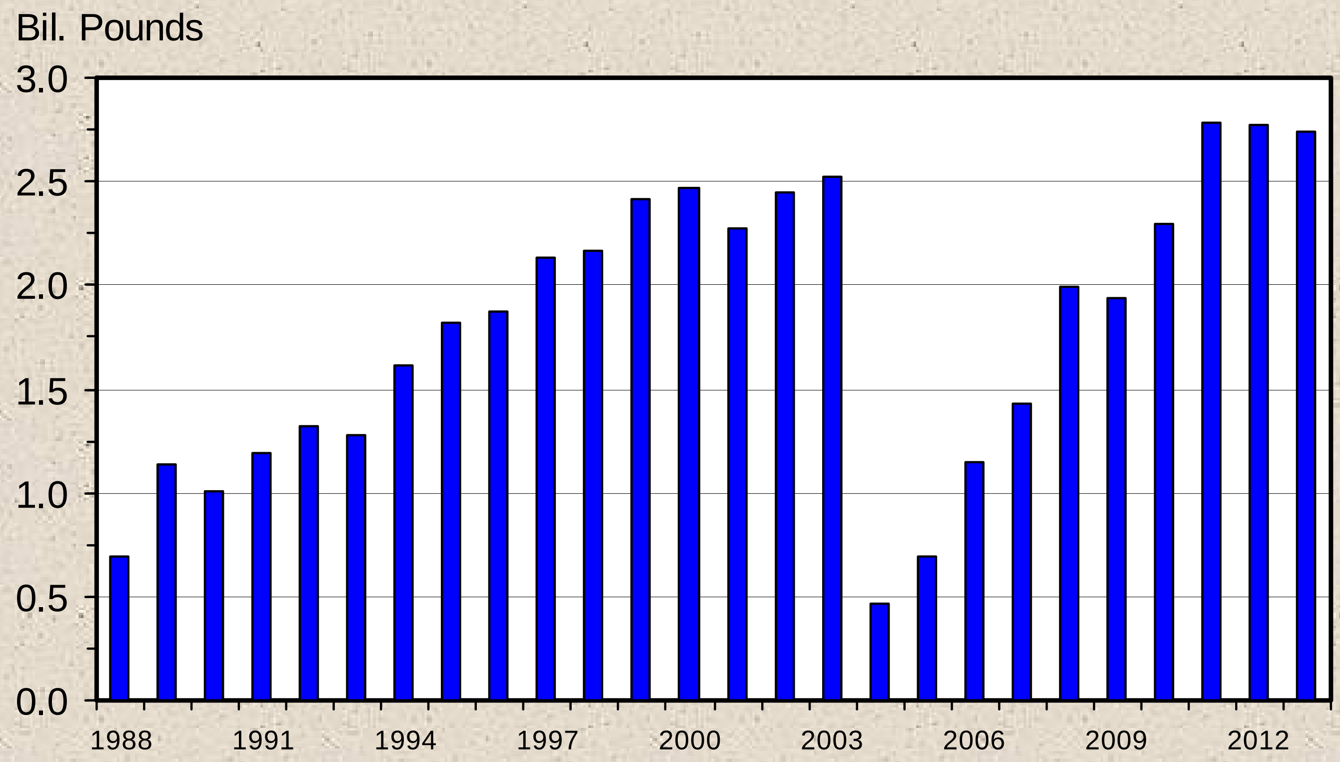
Data Source: USDA-AMS

Total Meat Supplies Down in 2012

	2011	2012
• Beef	↓0.4%	↓3.8%
• Pork	↑1.5%	↑1.6%
• Broilers	↑1.1%	↓3.5%
• Total Meat	↑0.9%	↓2.0%

U S BEEF AND VEAL EXPORTS

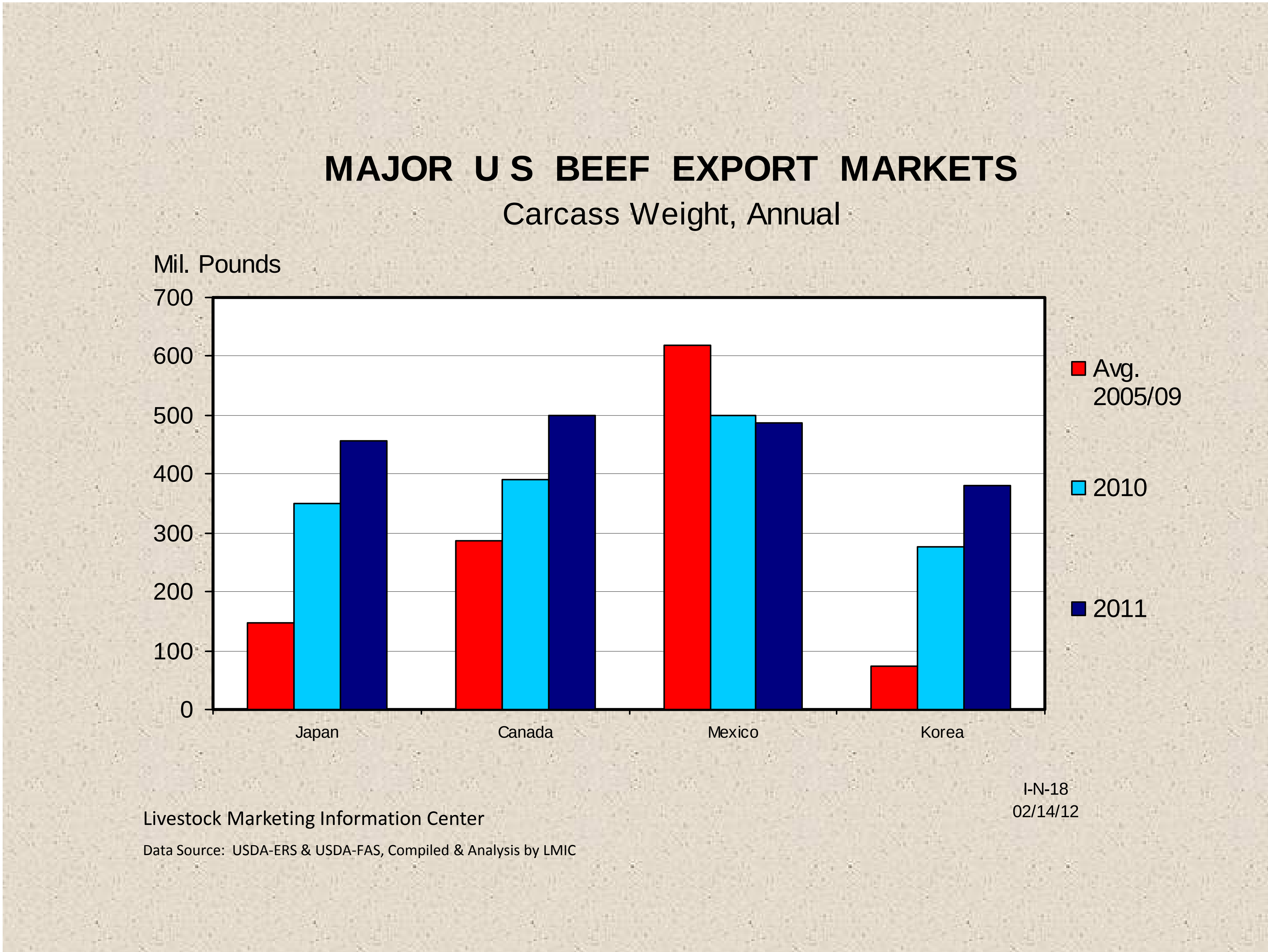
Carcass Weight, Annual



I-N-06
02/14/12

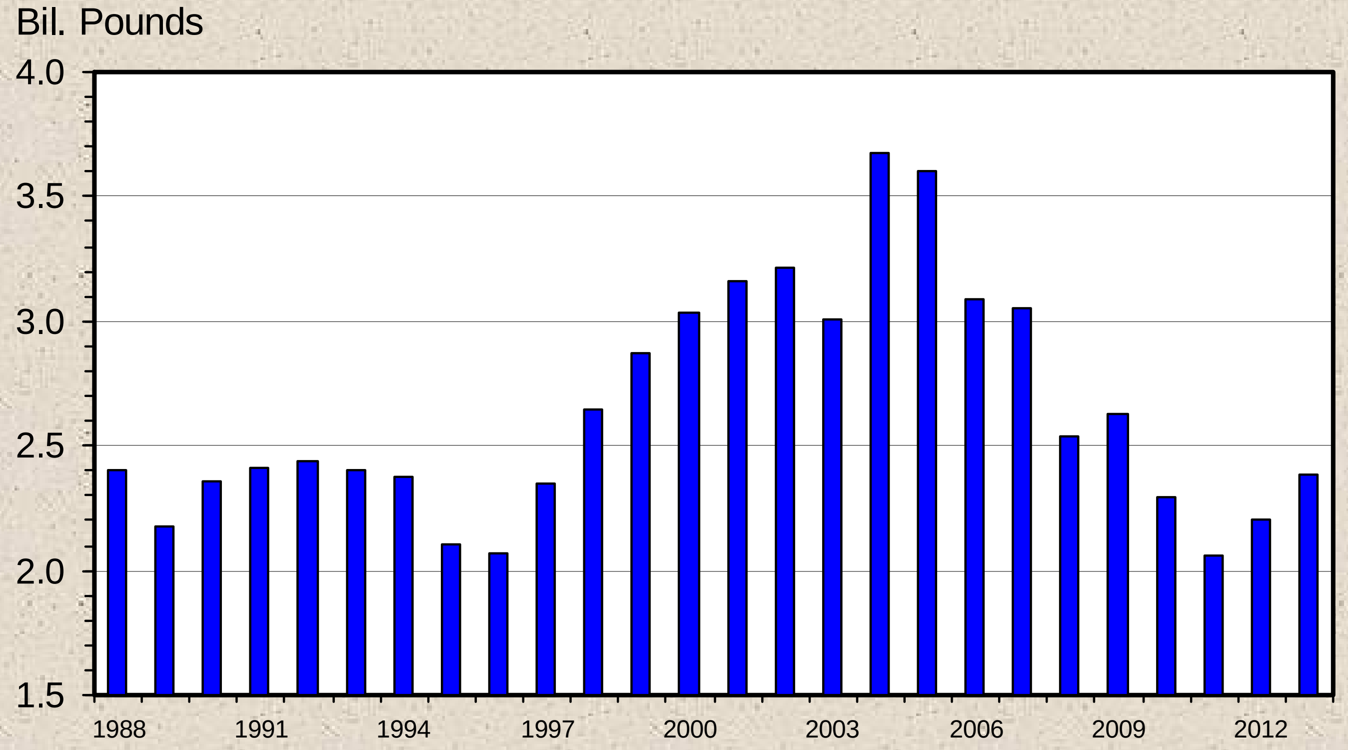
Livestock Marketing Information Center

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


MAJOR U S BEEF EXPORT MARKETS
Carcass Weight, Annual
Mil. Pounds
700
600
500
400
300
200
100
0
Japan
Canada
Mexico
Korea
Avg. 2005/09
2010
2011
I-N-18
02/14/12
Livestock Marketing Information Center
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

U S BEEF AND VEAL IMPORTS

Carcass Weight, Annual



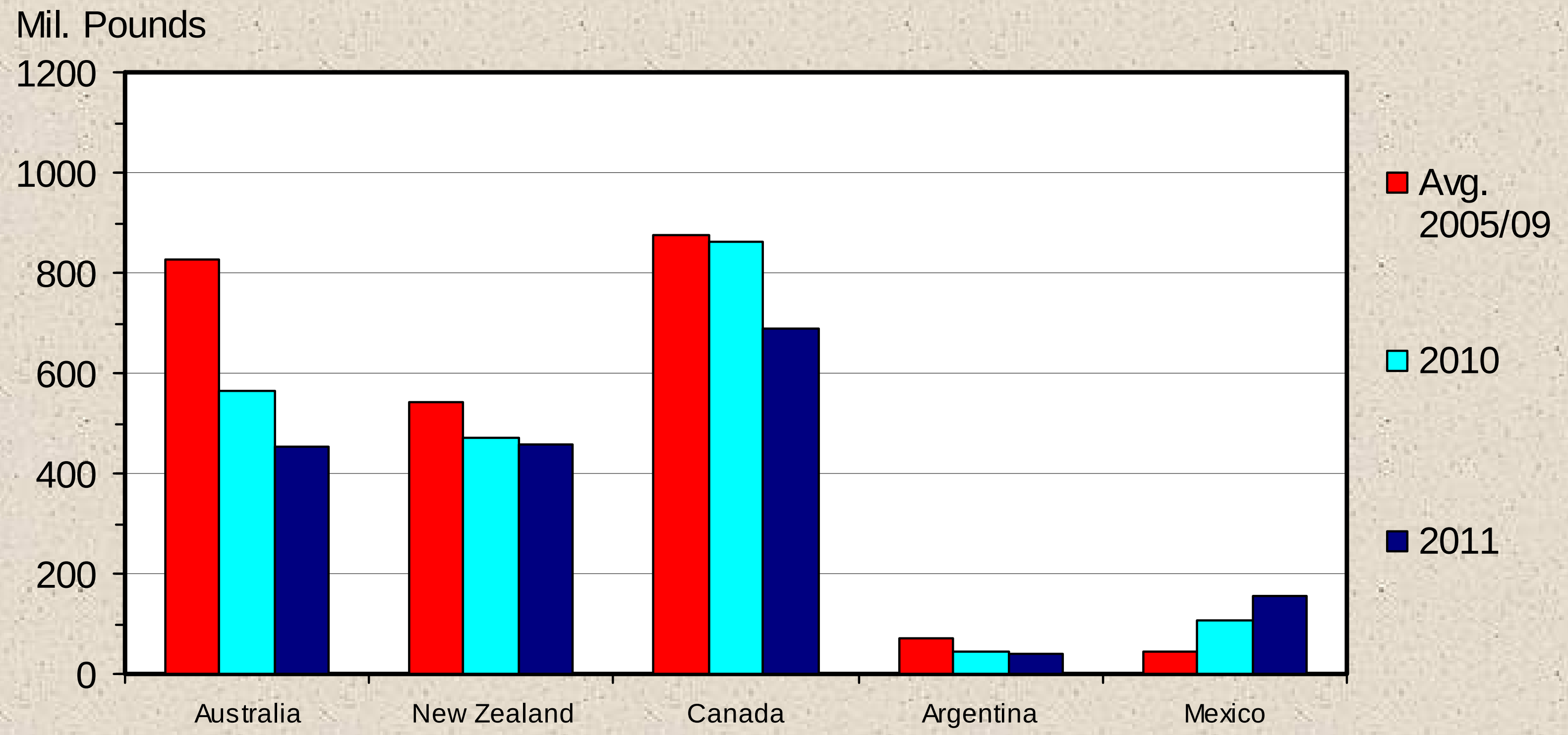
I-N-12
02/14/12

Livestock Marketing Information Center

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

MAJOR U S BEEF IMPORT SOURCES

Carcass Weight, Annual

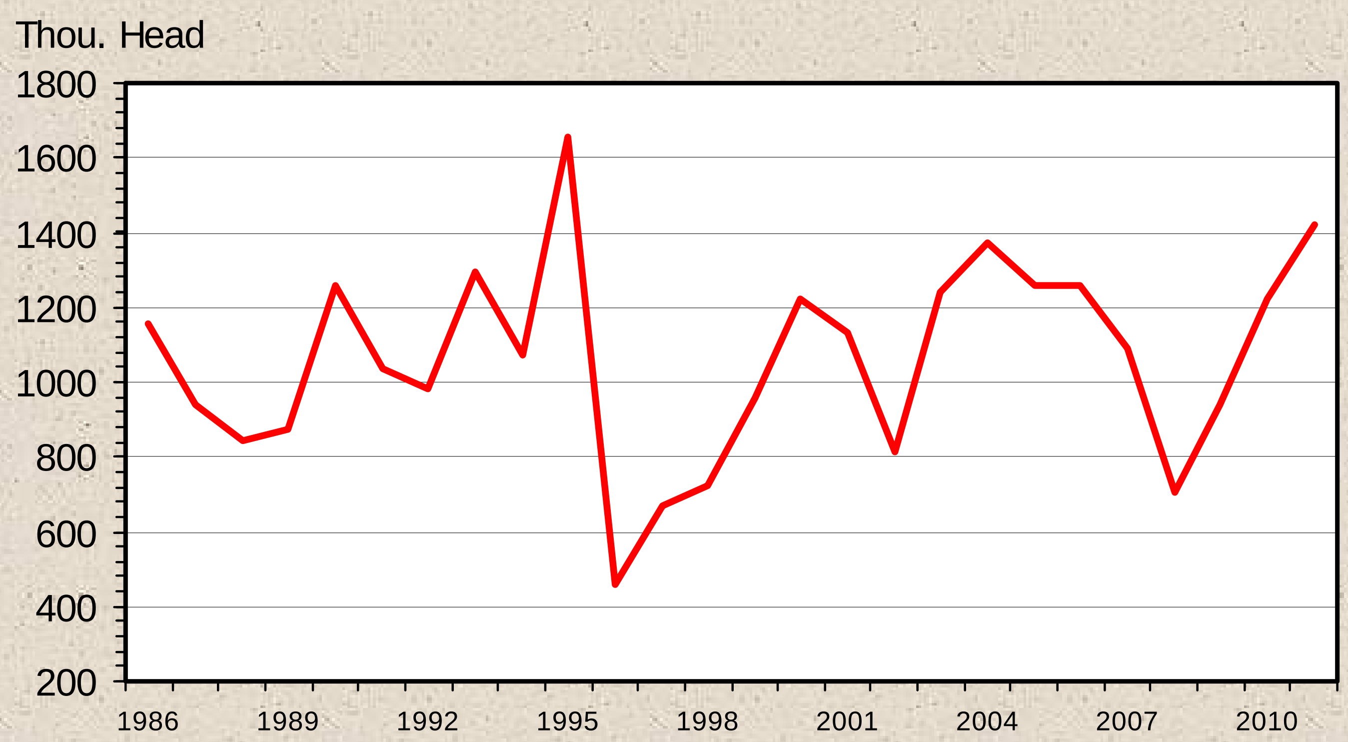


Livestock Marketing Information Center

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

CATTLE IMPORTS FROM MEXICO

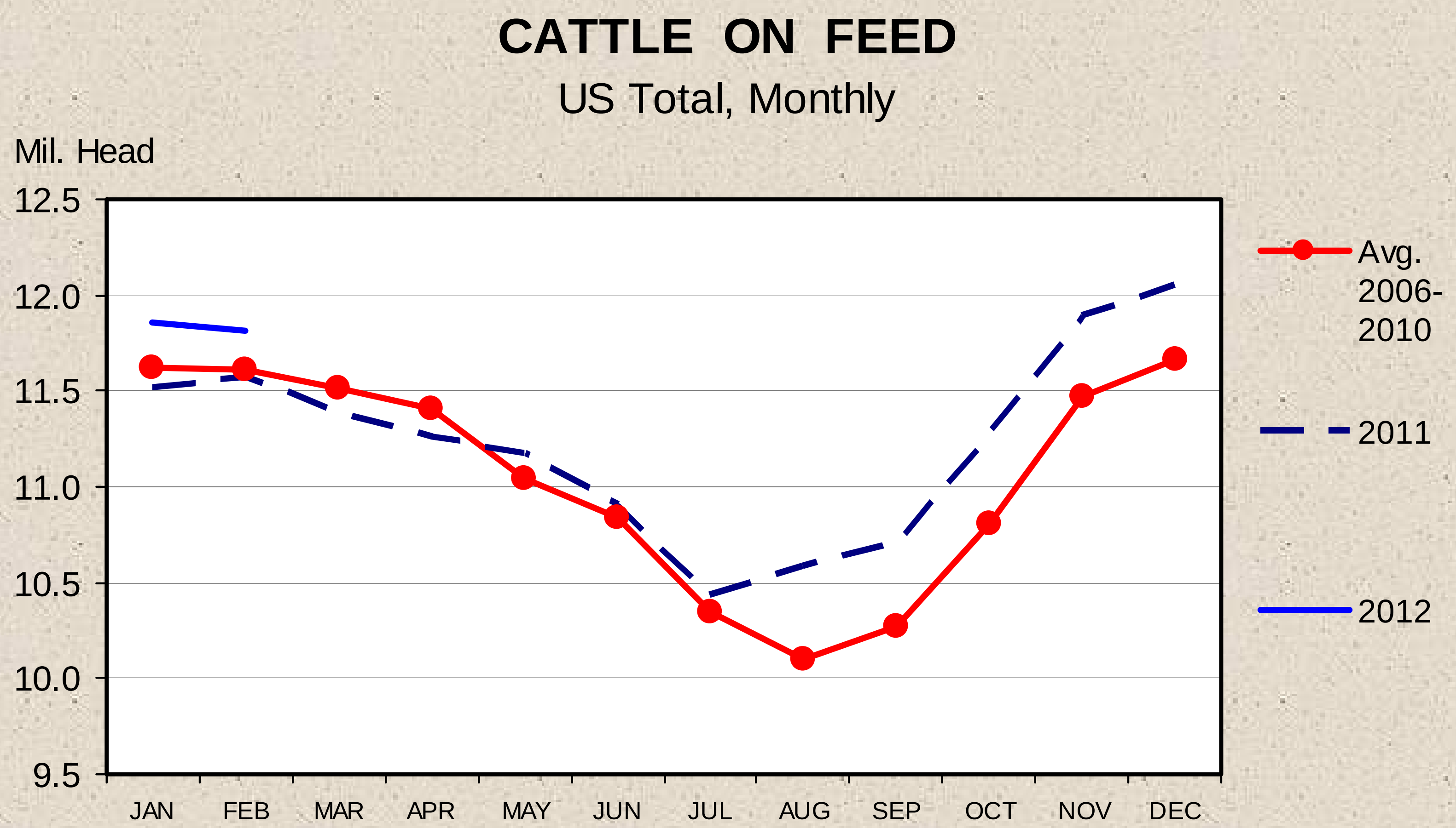
Annual



I-N-17
02/14/12

Livestock Marketing Information Center

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



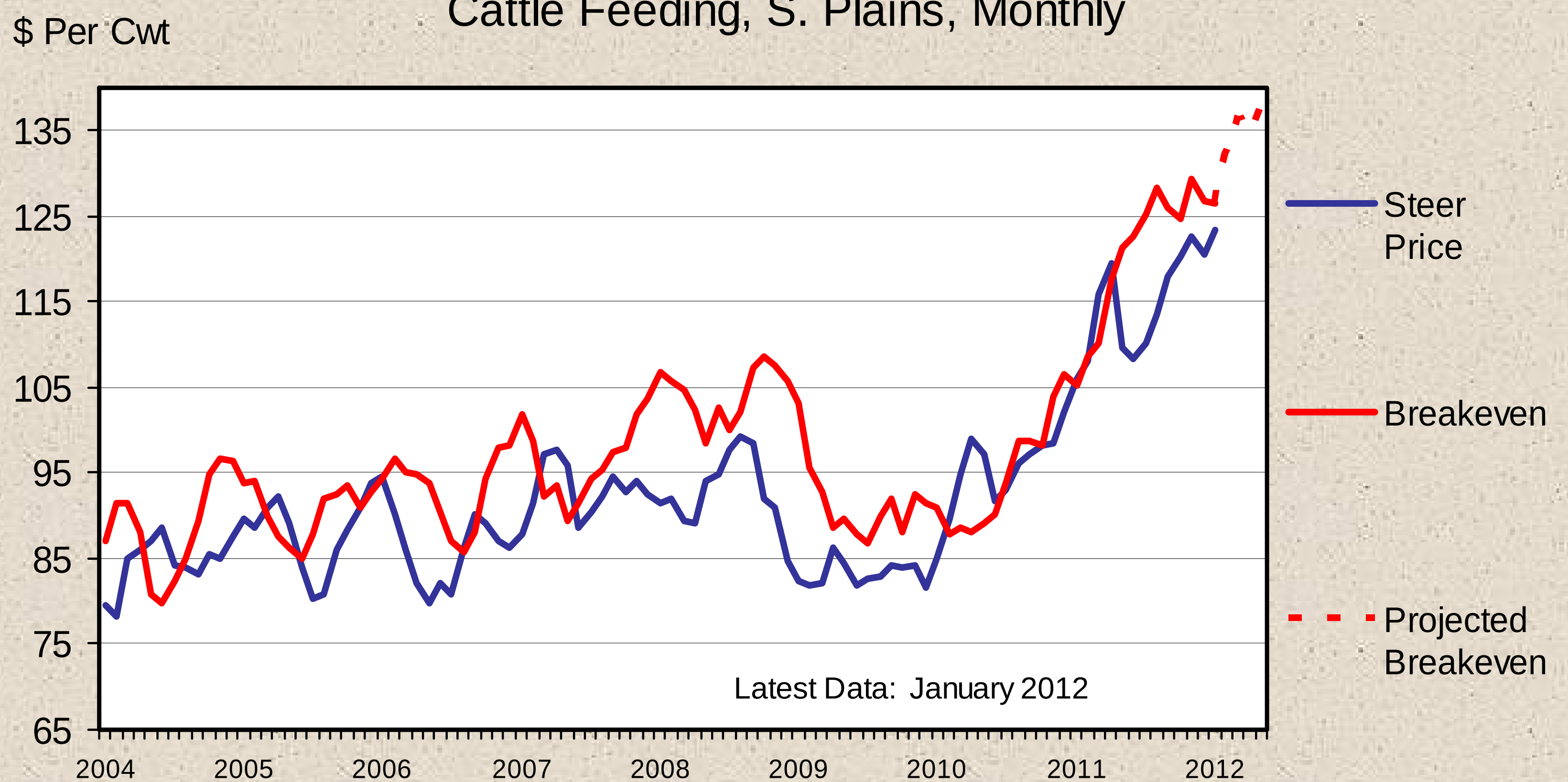
C-N-10
02/24/12

Livestock Marketing Information Center

Data Source: USDA-NASS

CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly



C-P-21
02/17/12

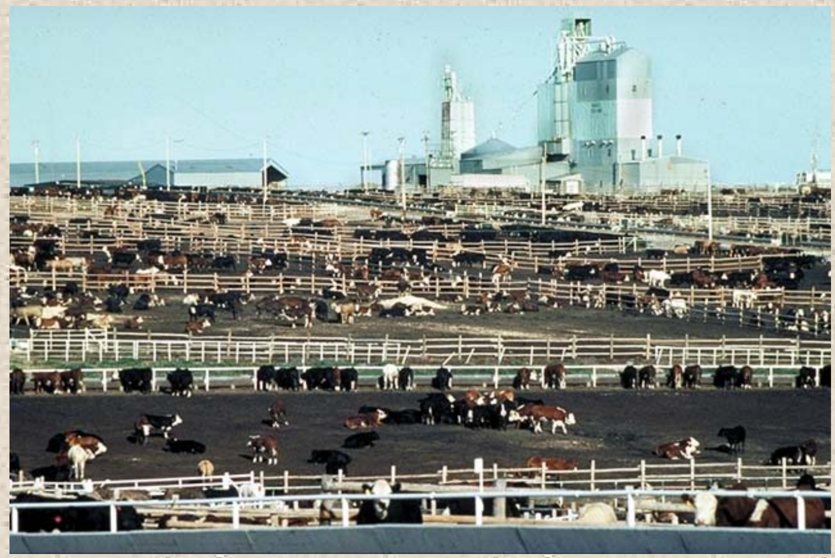
Livestock Marketing Information Center

Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

It is often said:

"The Beef Industry Can Survive High Corn Prices Better Than the Pork and Poultry Industries"

- True statement?
- What are the implications for the beef industry?

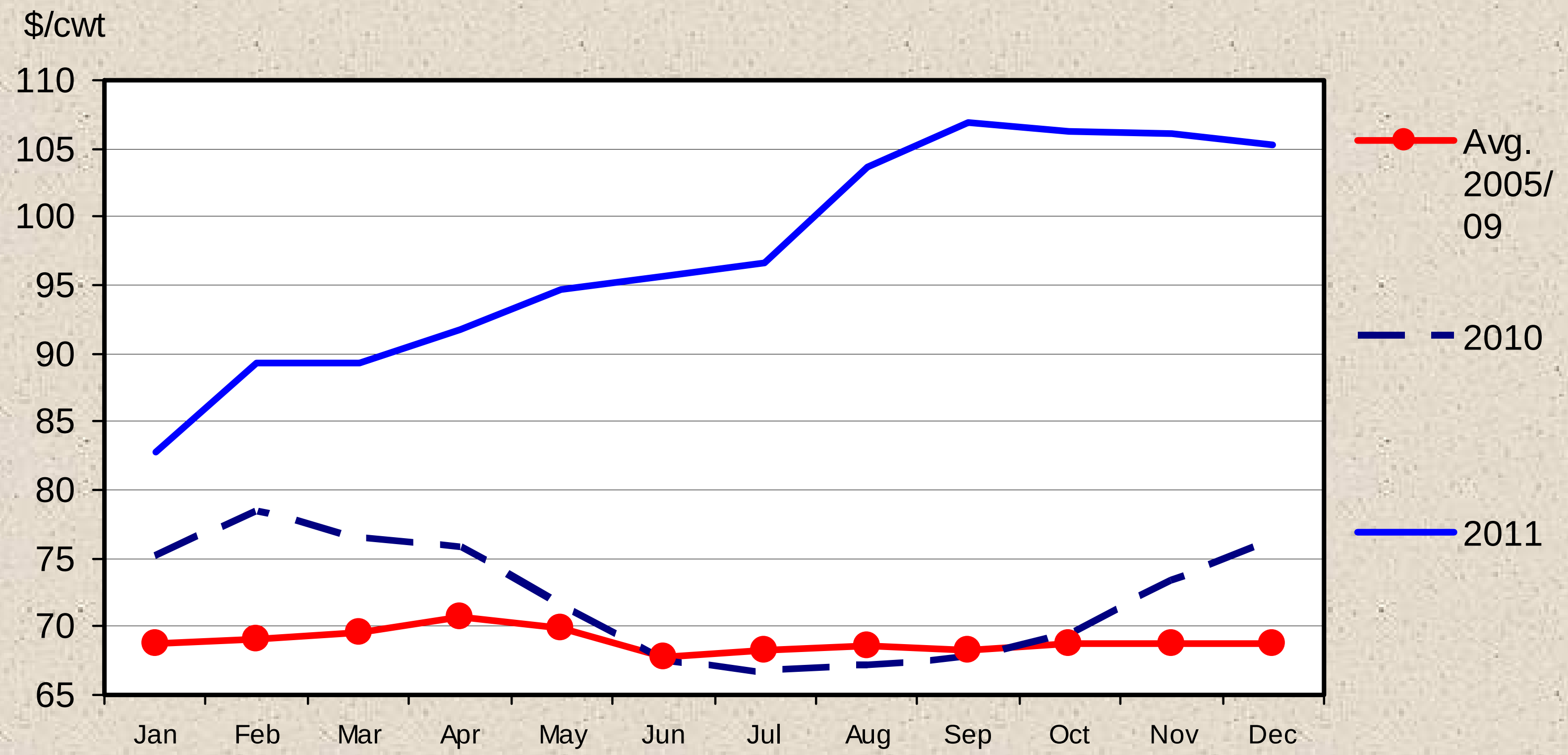


Permanently Higher Grain Prices is a Game Changer for the Beef Industry

- More emphasis on forage to maintain competitiveness
  - More value for stocker production
- Must return to our ruminant roots

KANSAS FEEDLOT CLOSEOUTS

Feeding Costs per Cwt, Steers

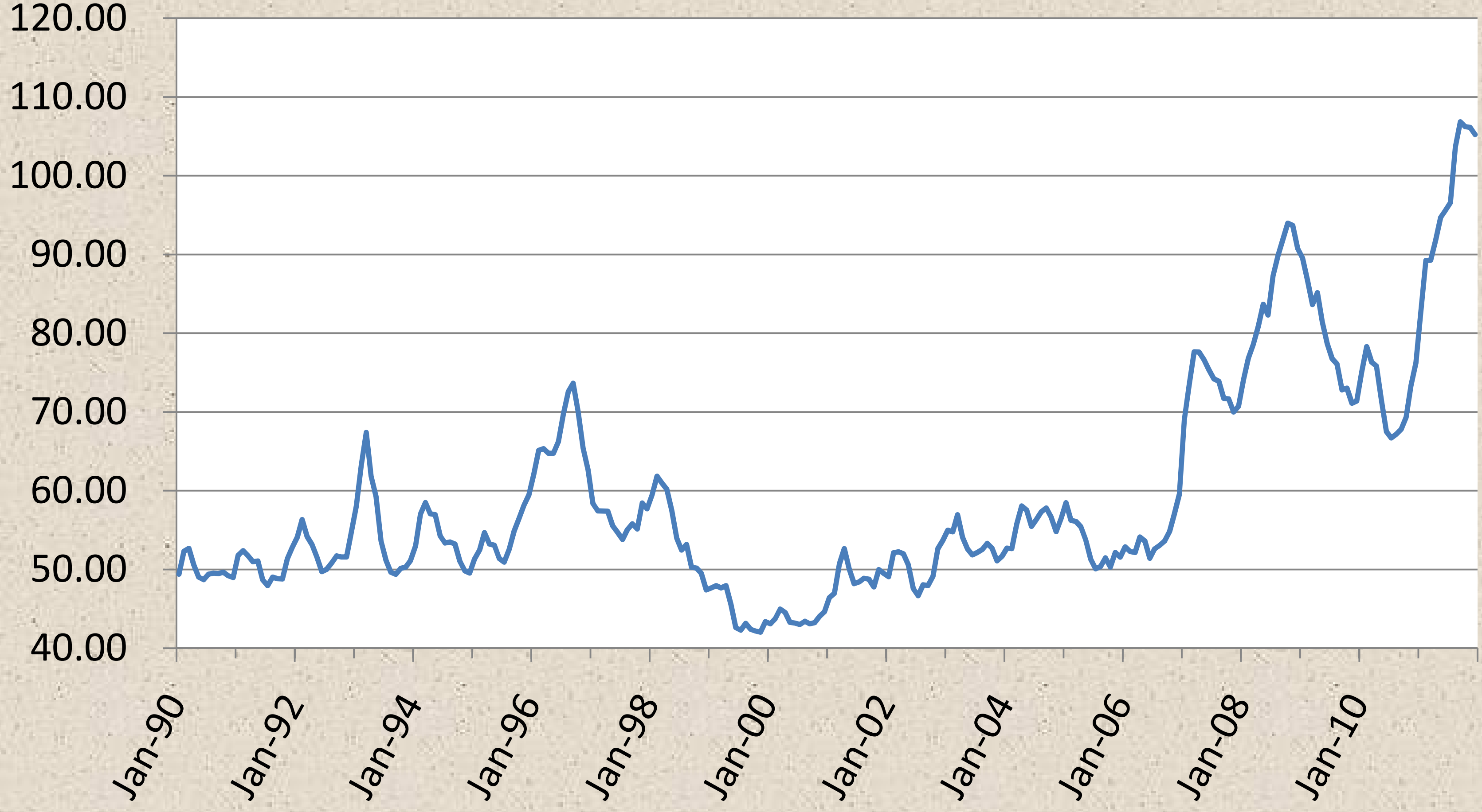


01/30/12

Data Source: KSU Focus on Feedlots, Compiled by LMIC

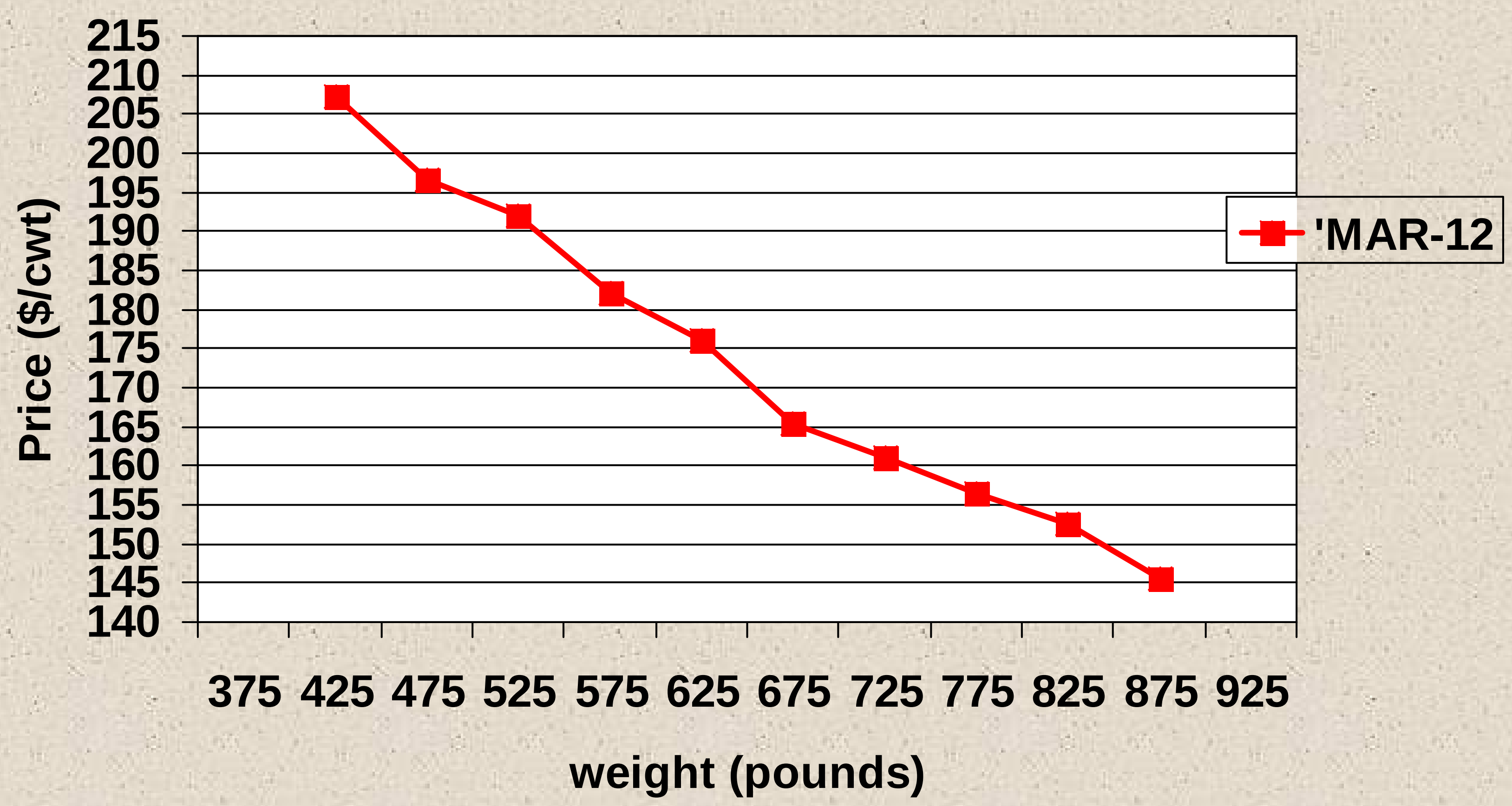
Feedlot Cost of Gain

Kansas, $/cwt.



Price-Weight Relationship

Medium/Large No. 1 Steers



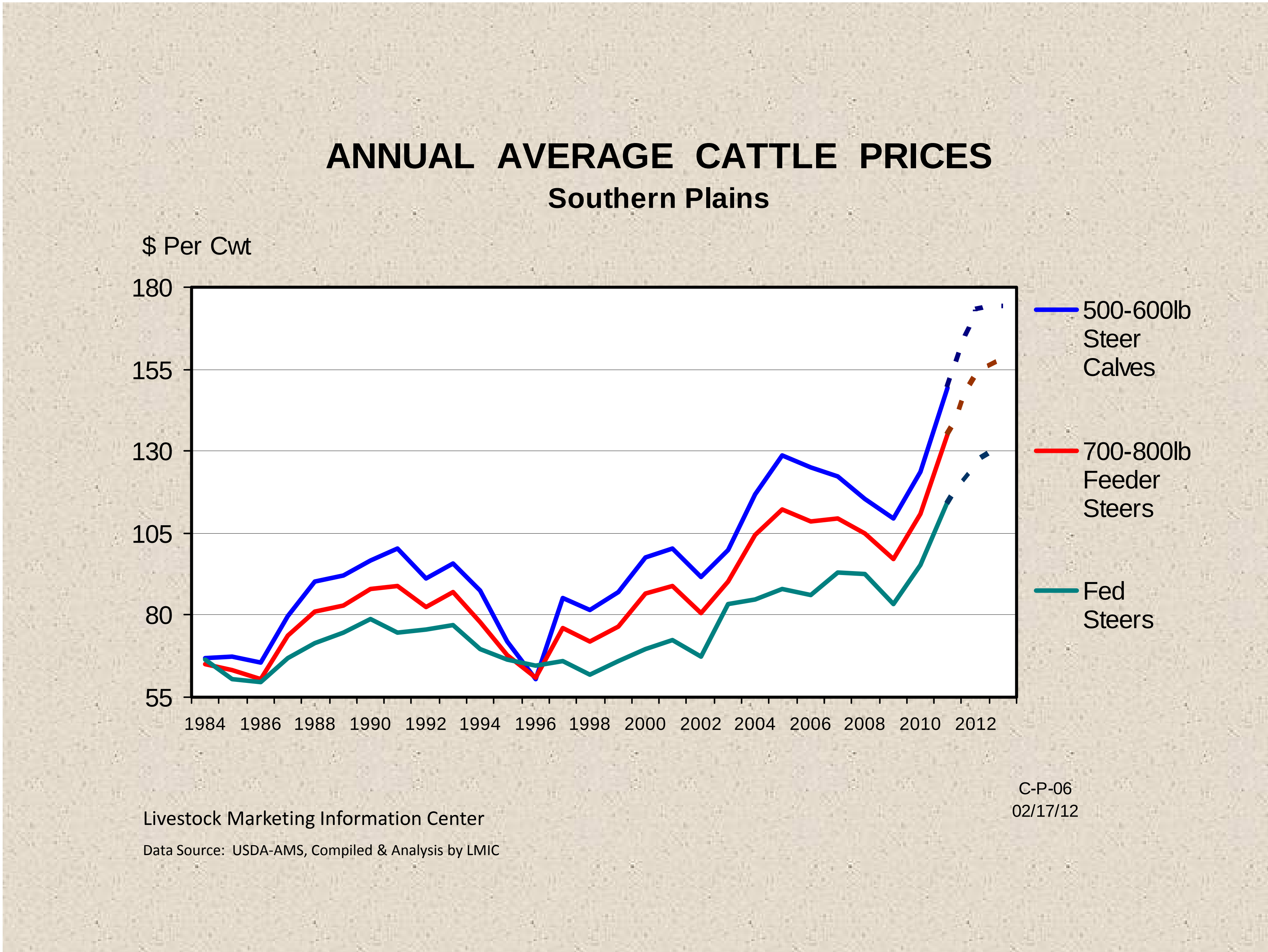
Steer Price, Total Value and Value of Gain
Mar 2012, Oklahoma 7-Market Ave.

Weight (lbs)	Average Price ($/cwt.)	Total Value ($/head)	Value of Gain 425 lb. Beg. Weight ($/lb.)	Value of Gain 525 lb. Beg. Weight ($/lb.)	Value of Gain 625 lb. Beg. Weight ($/lb.)
425	207.15	880.39			
475	196.56	933.66			
525	192.05	1008.26			
575	182.20	1047.65	1.12		
625	176.04	1100.25	1.10		
675	165.30	1115.78	0.94	0.72	
725	161.06	1167.69	0.96	0.80	
775	156.46	1212.57	0.95	0.82	0.75
825	152.62	1259.12	0.95	0.84	0.79
875	145.71	1274.96			0.70

Value of forage is high for cow-calf and a wide range of stocker production

Cattle Markets are Providing Twin Signals to Producers

- Increase Calf Production
  - Herd Expansion
- More Stocker Production
  - Keep feeder cattle on forage longer
- Both Signals Imply Increased Demand for Forage
- Different From History When Cow-Calf and Stocker Production was a Tradeoff


ANNUAL AVERAGE CATTLE PRICES
Southern Plains
$ Per Cwt
180
155
130
105
80
55
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
500-600lb Steer Calves
700-800lb Feeder Steers
Fed Steers
C-P-06
02/17/12
Livestock Marketing Information Center
Data Source: USDA-AMS, Compiled & Analysis by LMIC

Implications for Cattle Producers

- Strategic Position for Several Years
- Risk Considerations
  - Cattle markets have little downside risk
  - Input markets have considerable upside risk
  - All markets subject to short run volatility
- Manage Production
  - Control costs
  - Use forage efficiently
- Marketing is Relatively Easier

Final Thoughts

- Cattle Markets Have Much Opportunity
  - Supply support
  - Growing Domestic and International demand
- But There are Still Challenges
  - Competition for Resources
  - Increased forage focus changes values and ways of doing business

THANK YOU!