

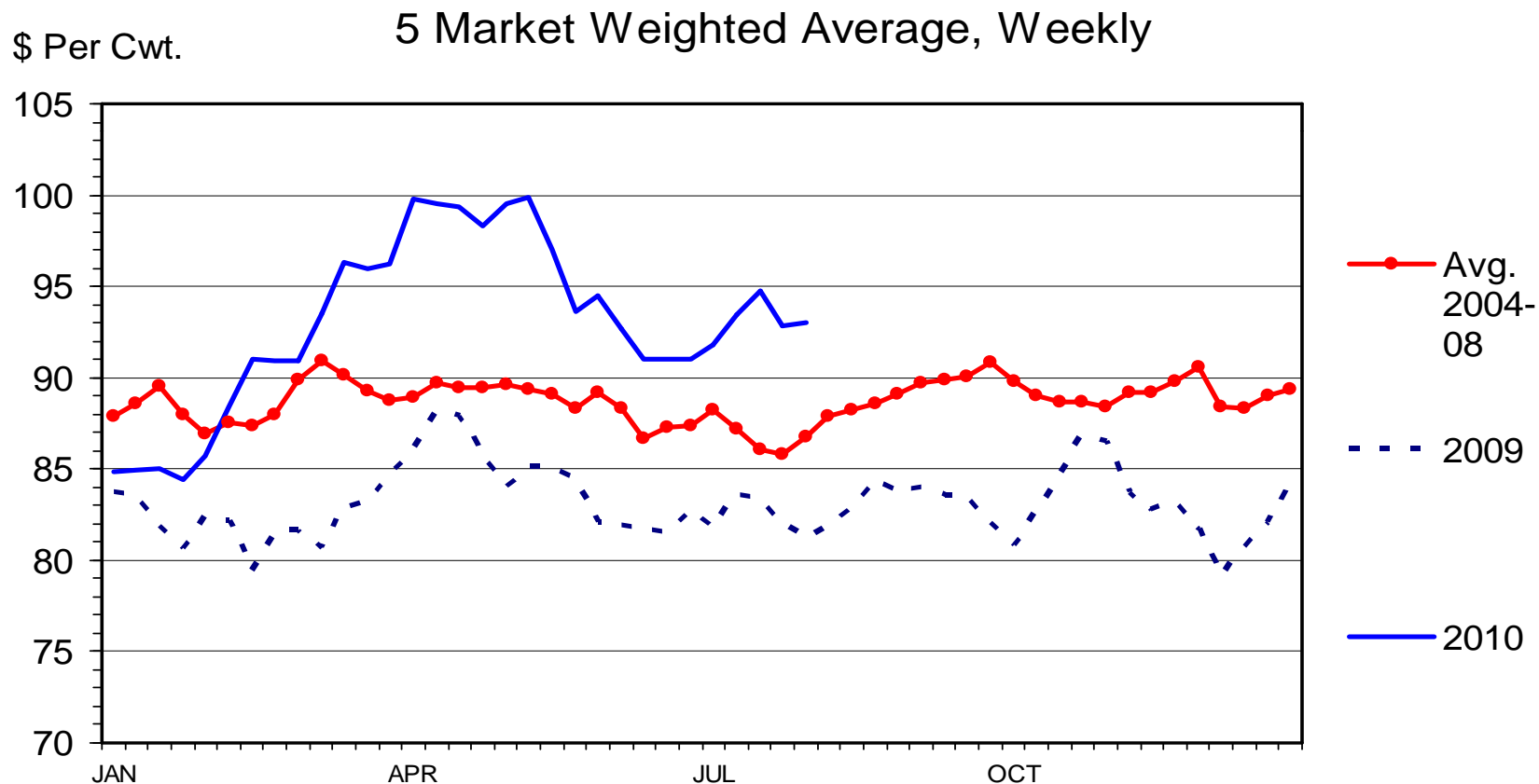
# Beef Cattle Situation and Outlook



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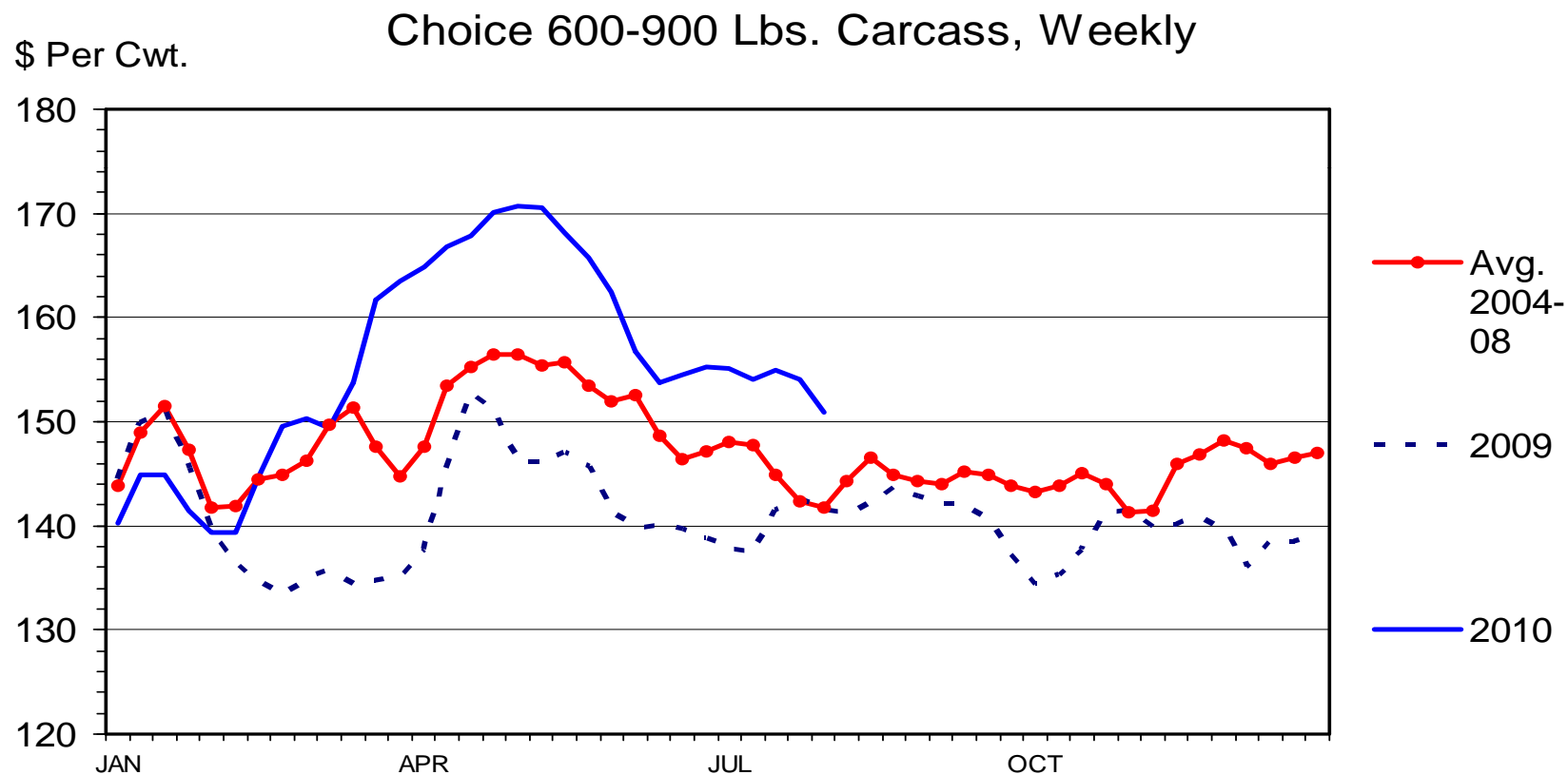
Emmit L. Rawls  
Professor  
Agricultural Economics

# Slaughter Steer Prices



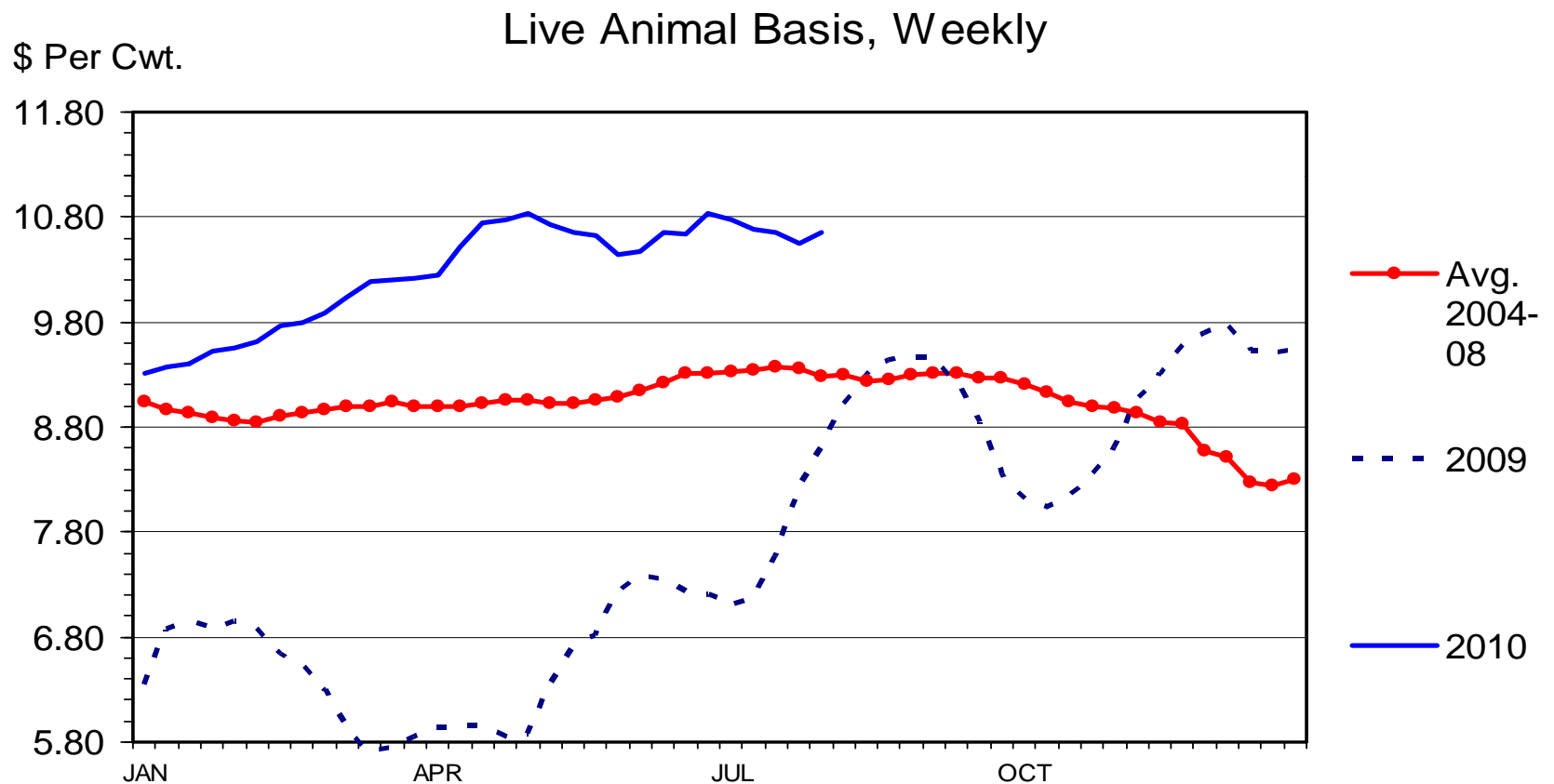
- Now in the mid \$90s

# Boxed Beef Cutout Value



- Wholesale values higher on reduced supplies

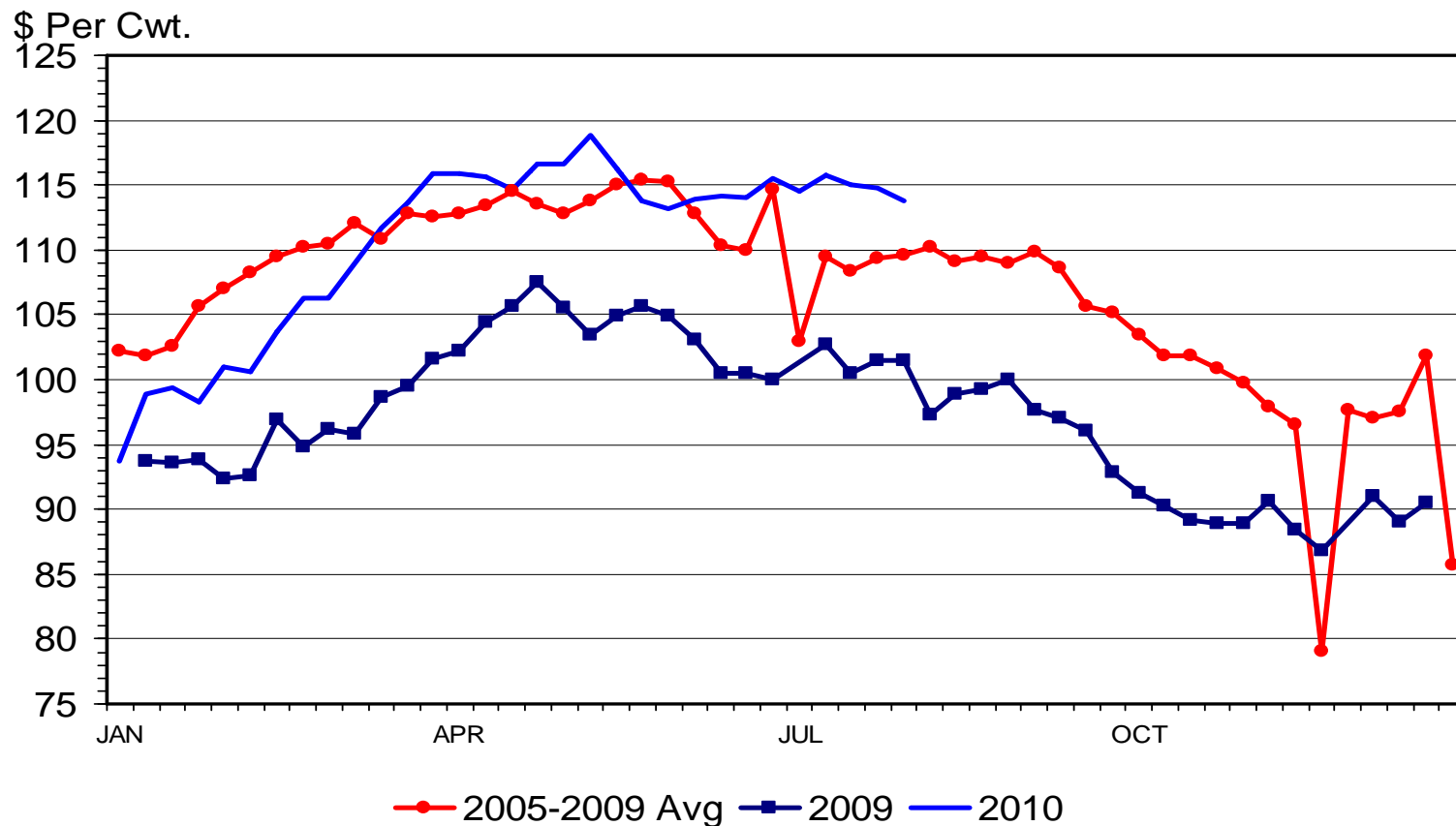
# Steer Hide and Offal Value



- Support from weaker dollar and recovering world economy

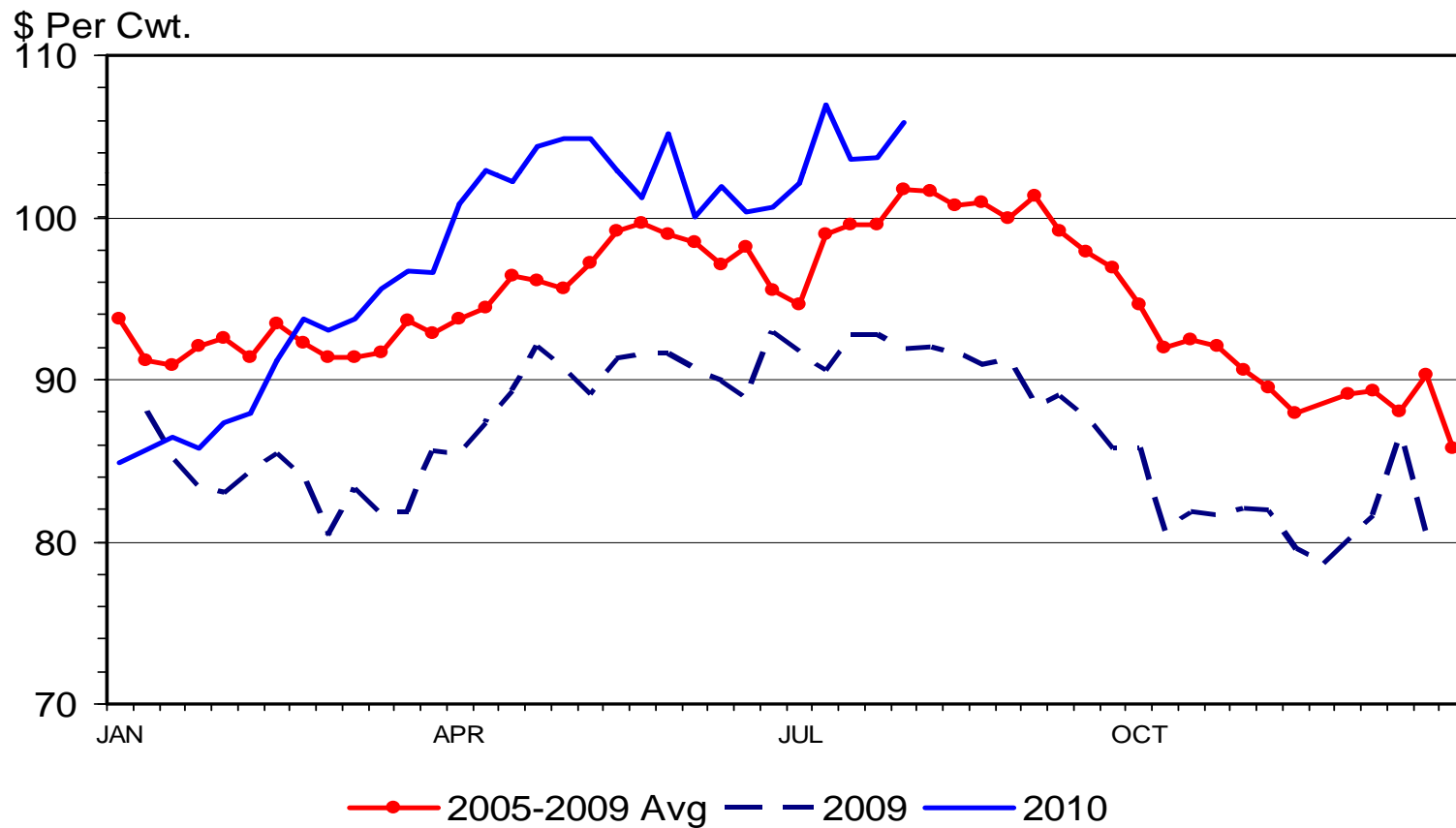
# Tennessee 500-600 lbs Steer Prices

## 2009, 2010 and 5-yr average, weekly

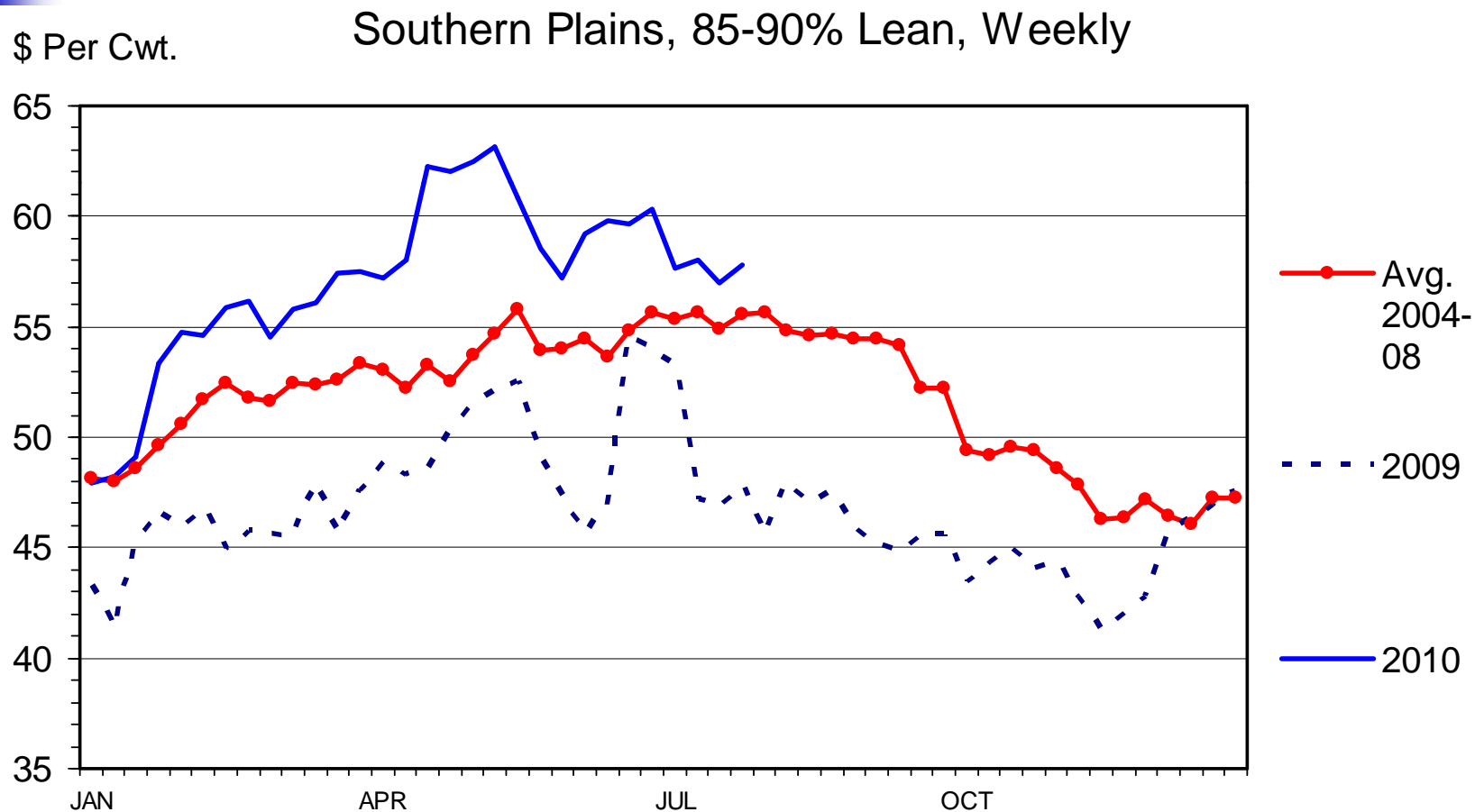


# Tennessee 700-800 lbs Steer Prices

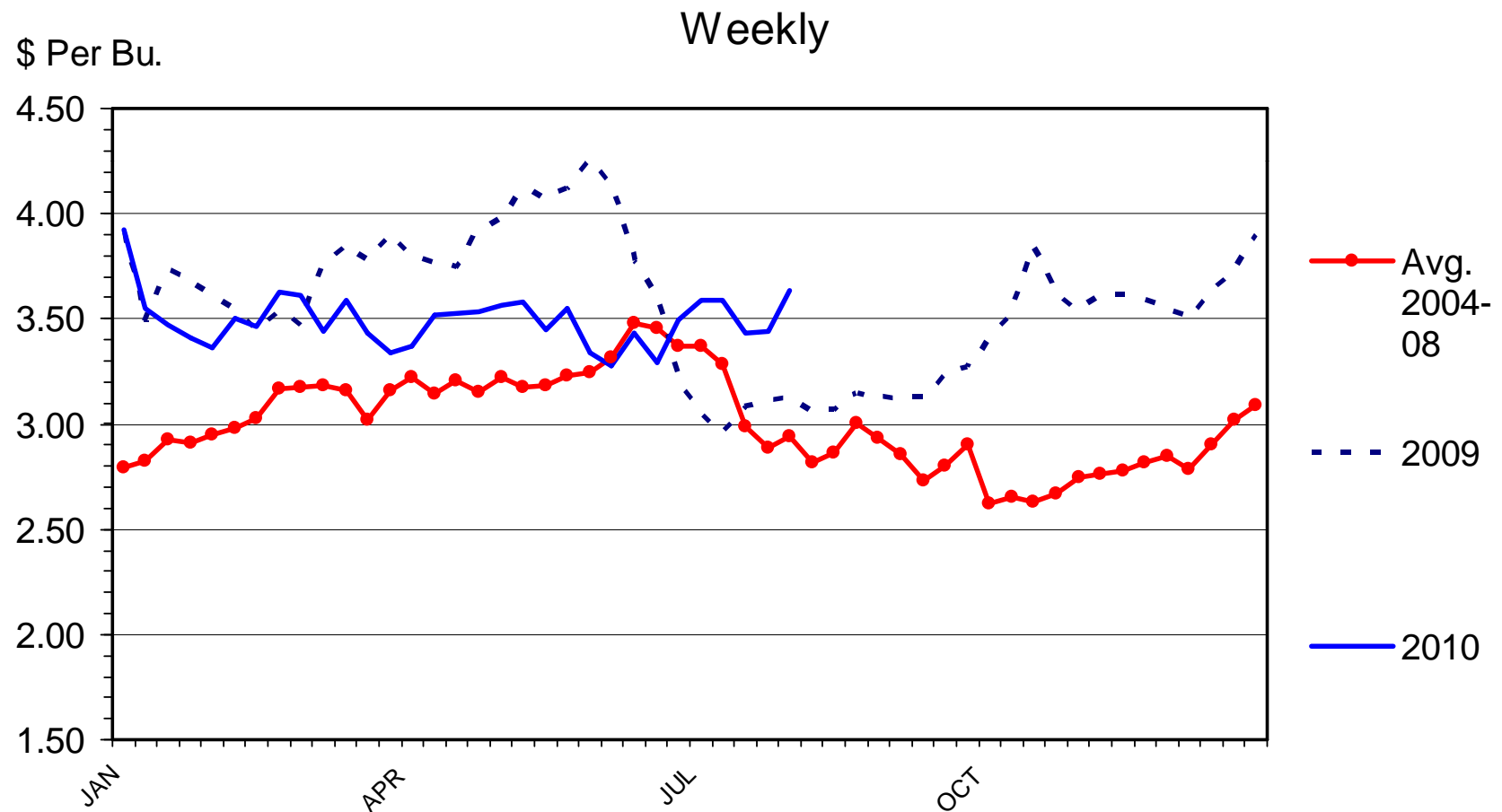
## 2009, 2010 and 5-yr average, weekly



# Slaughter Cow Prices



# Omaha Corn Prices



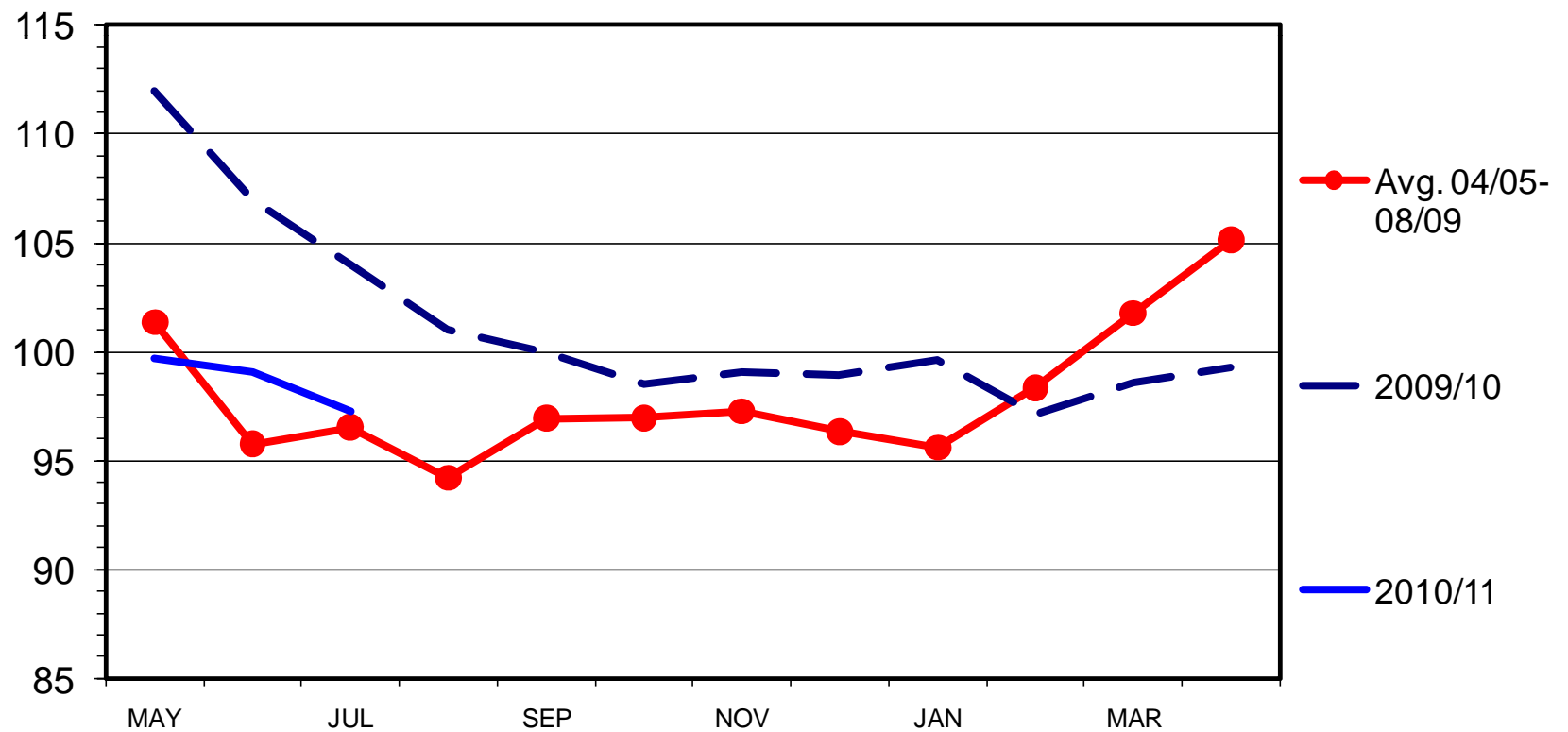
- On a new plateau



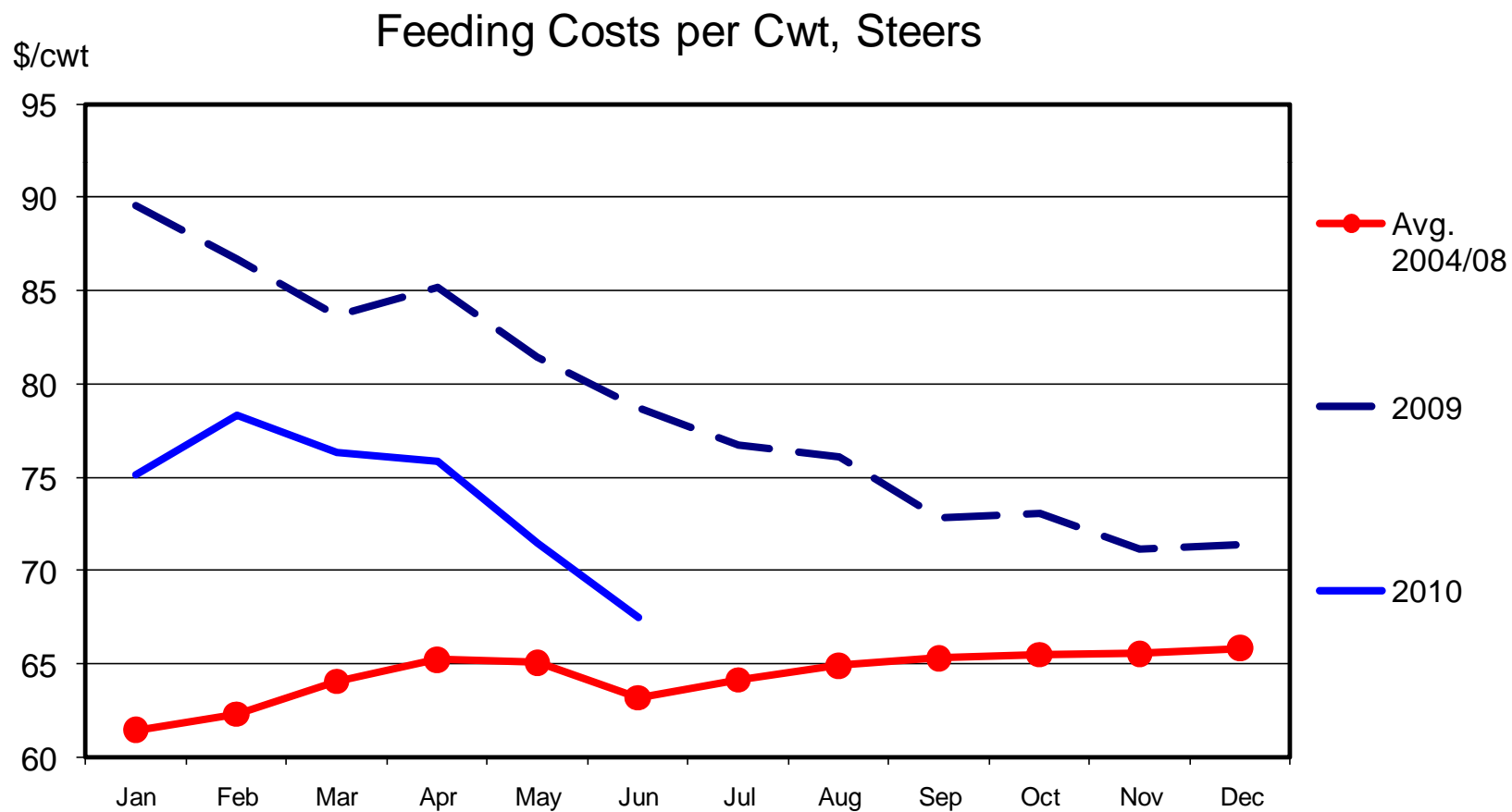
# Other Hay

Received by Farmers, U.S., Crop Year

\$ Per Ton



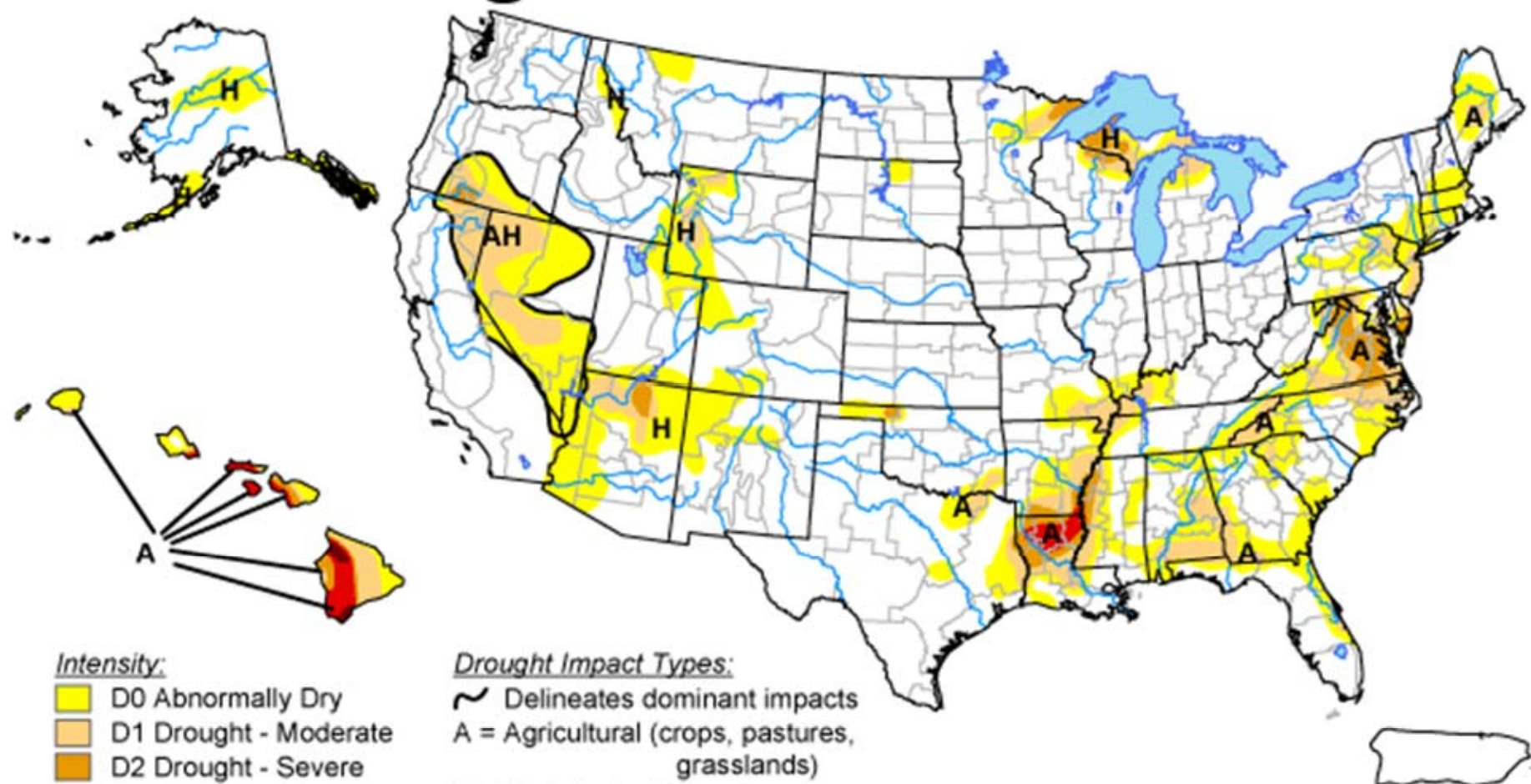
# Kansas Feedlot Closeouts



# U.S. Drought Monitor

August 10, 2010

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.

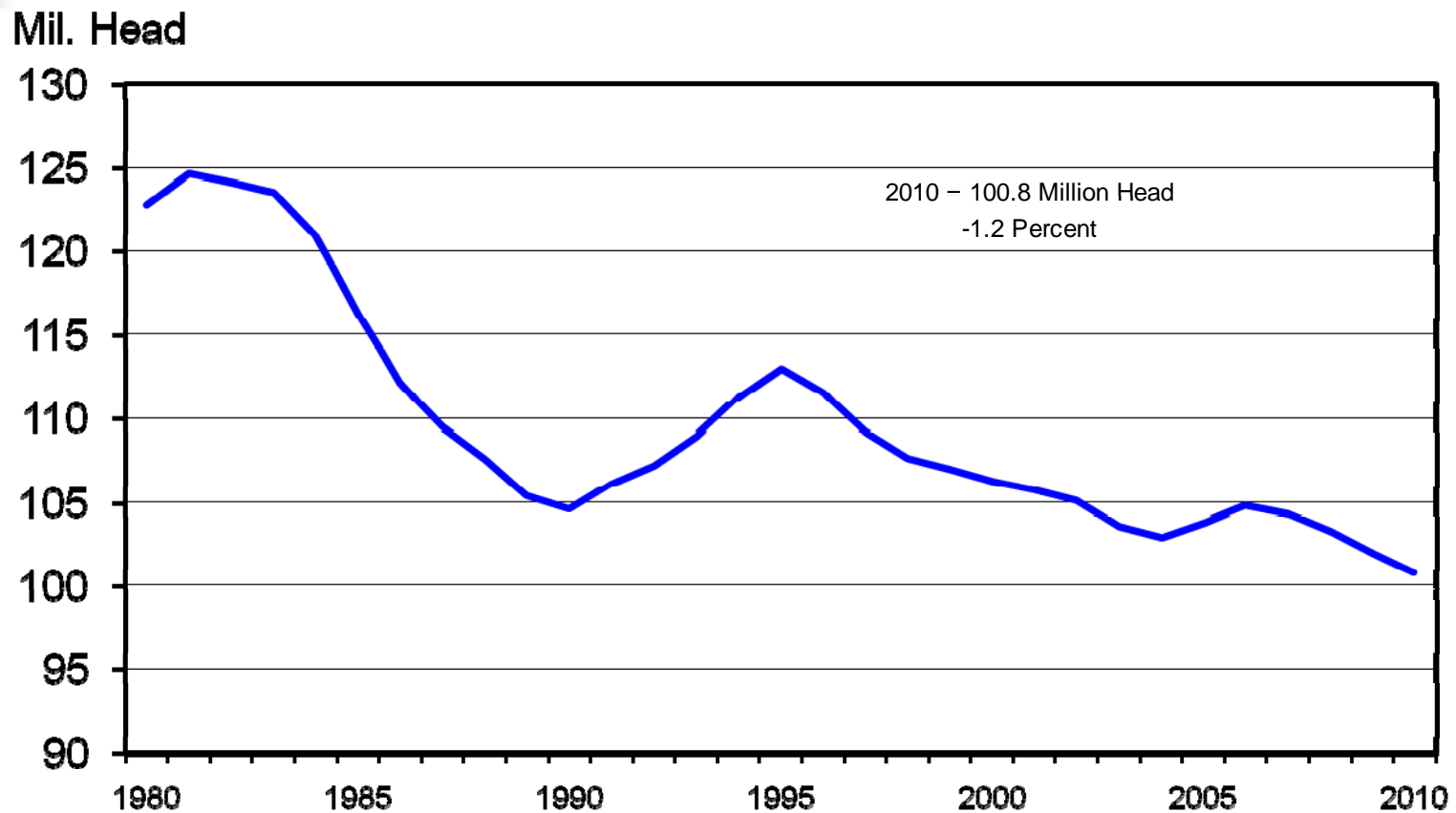
<http://drought.unl.edu/dm>



Released Thursday, August 12, 2010

Author: Brian Fuchs, National Drought Mitigation Center

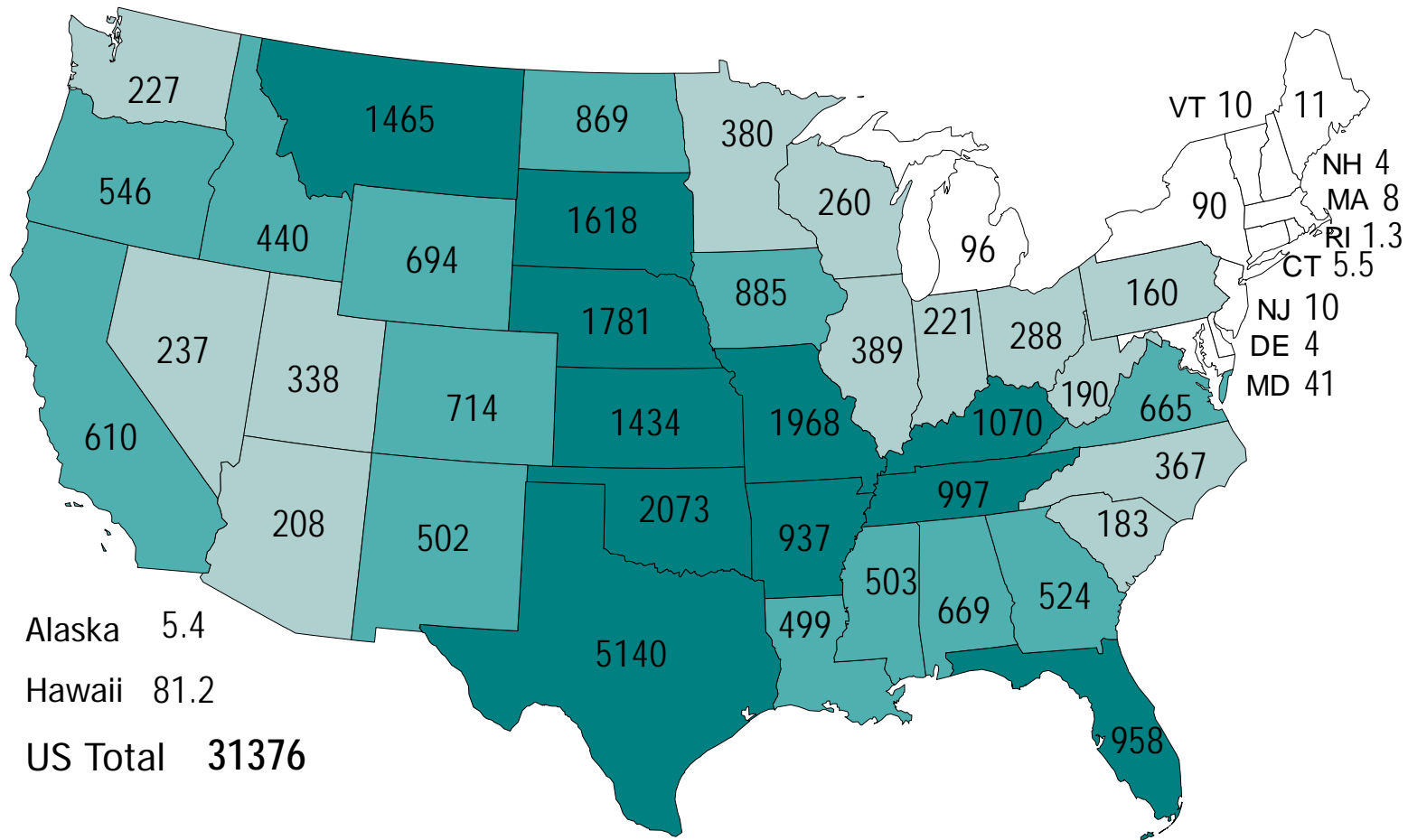
# Cattle Inventory – July 1



- 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

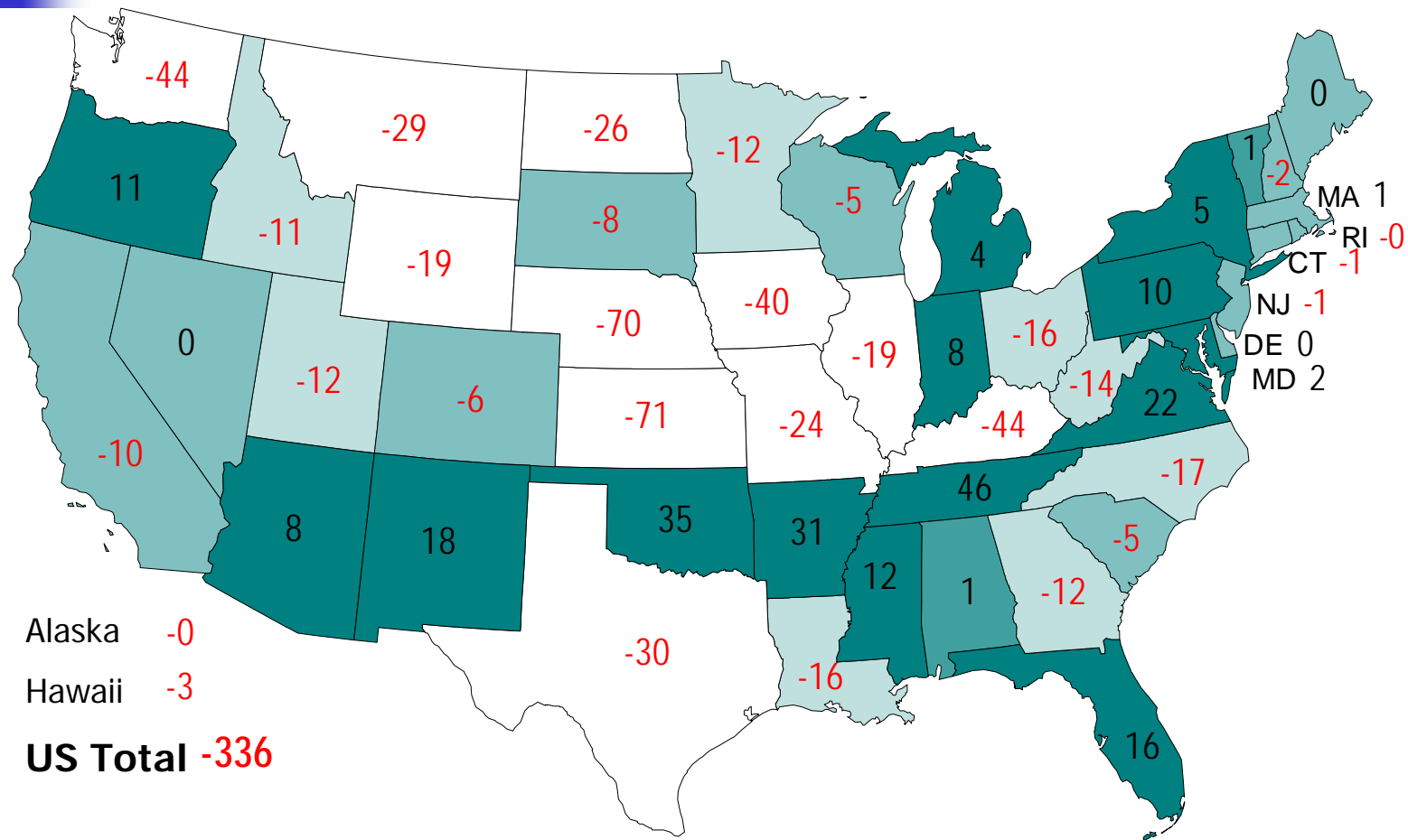
# Beef Cows That Have Calved

## January 1, 2010 (1,000 head)



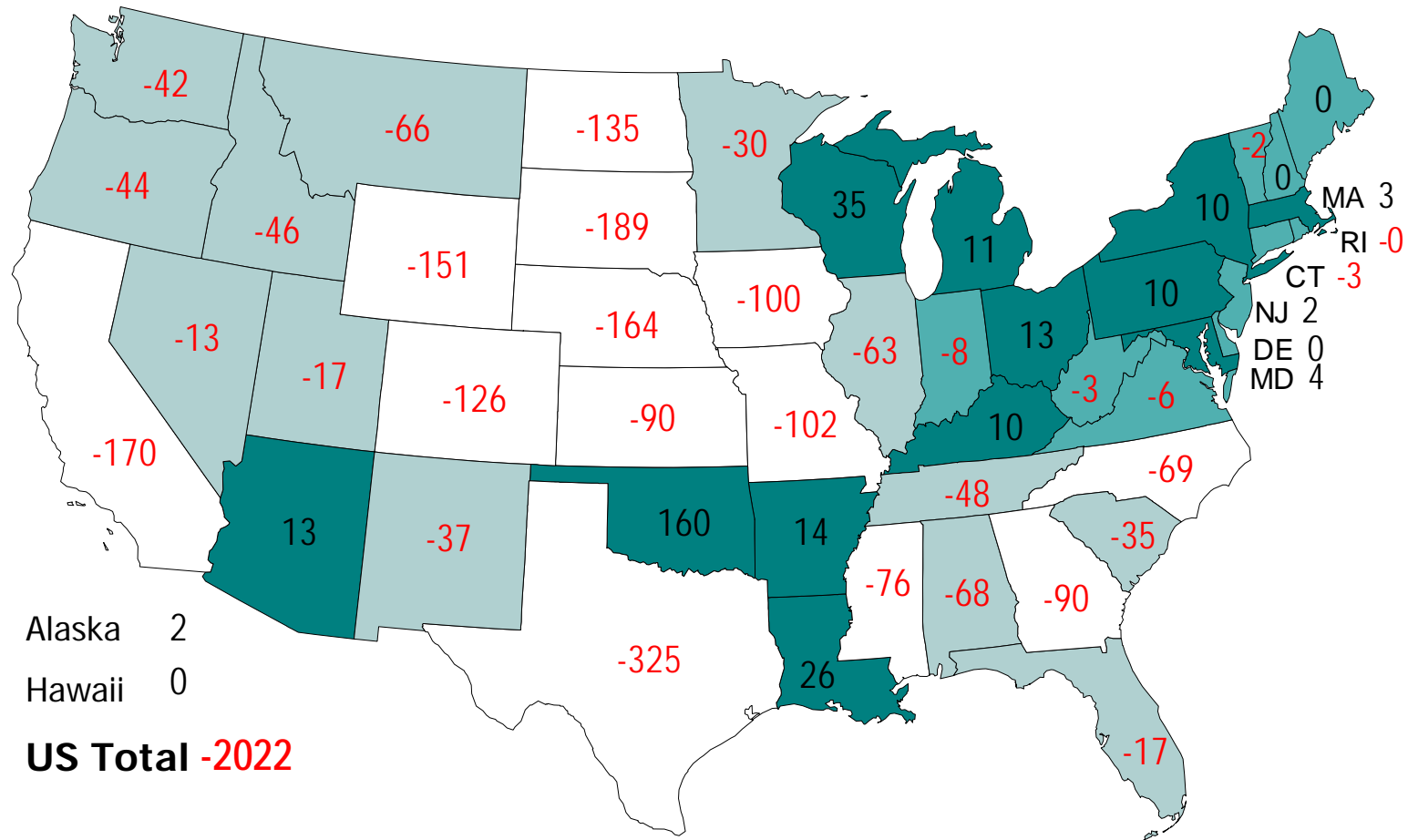
# Change in Beef Cow Numbers

## Jan. 1, 2009 to Jan 1., 2010 (1000 head)



- Due to drought and pasture moving to crops

Jan. 1, 2001 to Jan 1., 2010 (1000 head)



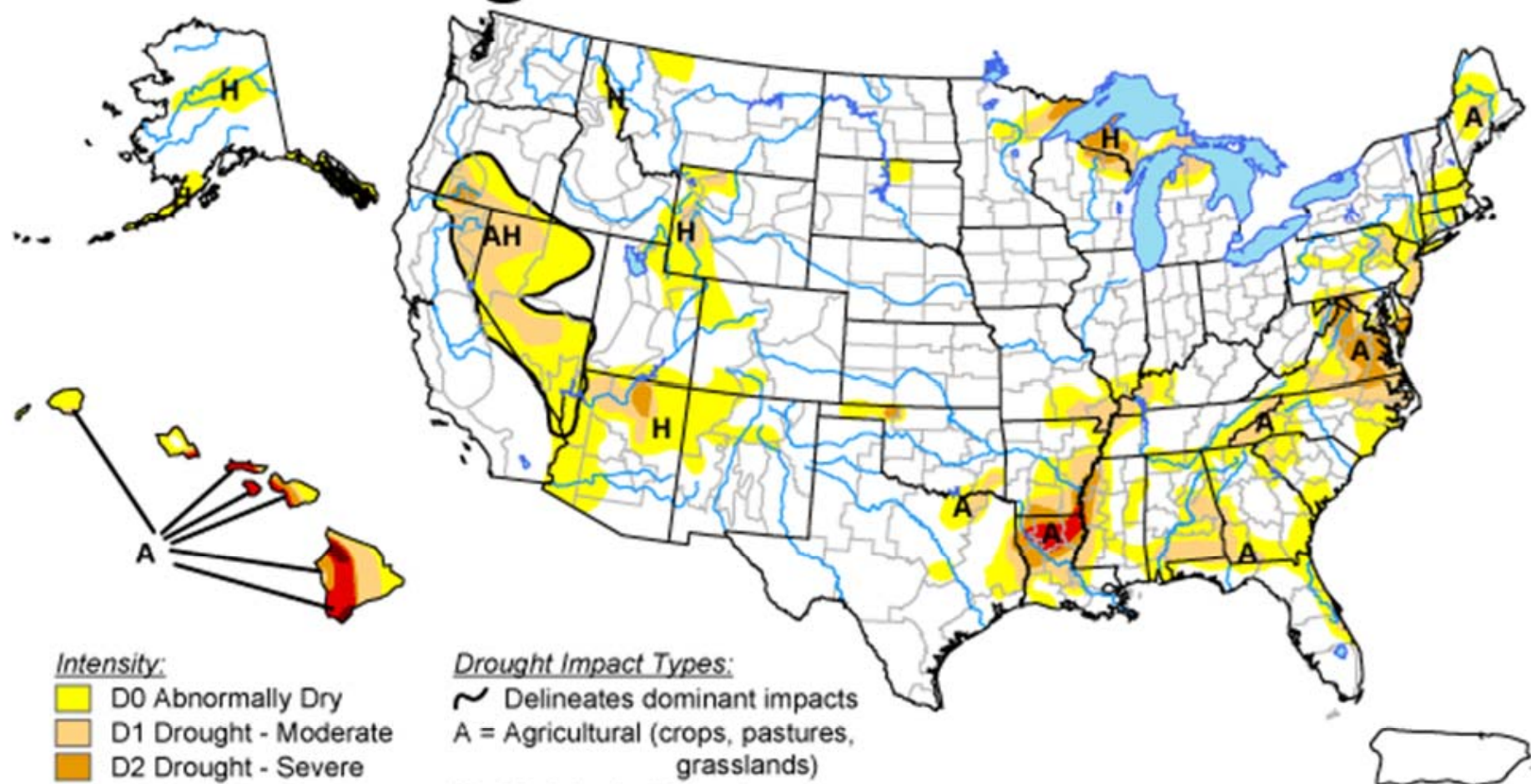
- Impact of drought in western states and Southeast



# U.S. Drought Monitor

August 10, 2010

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

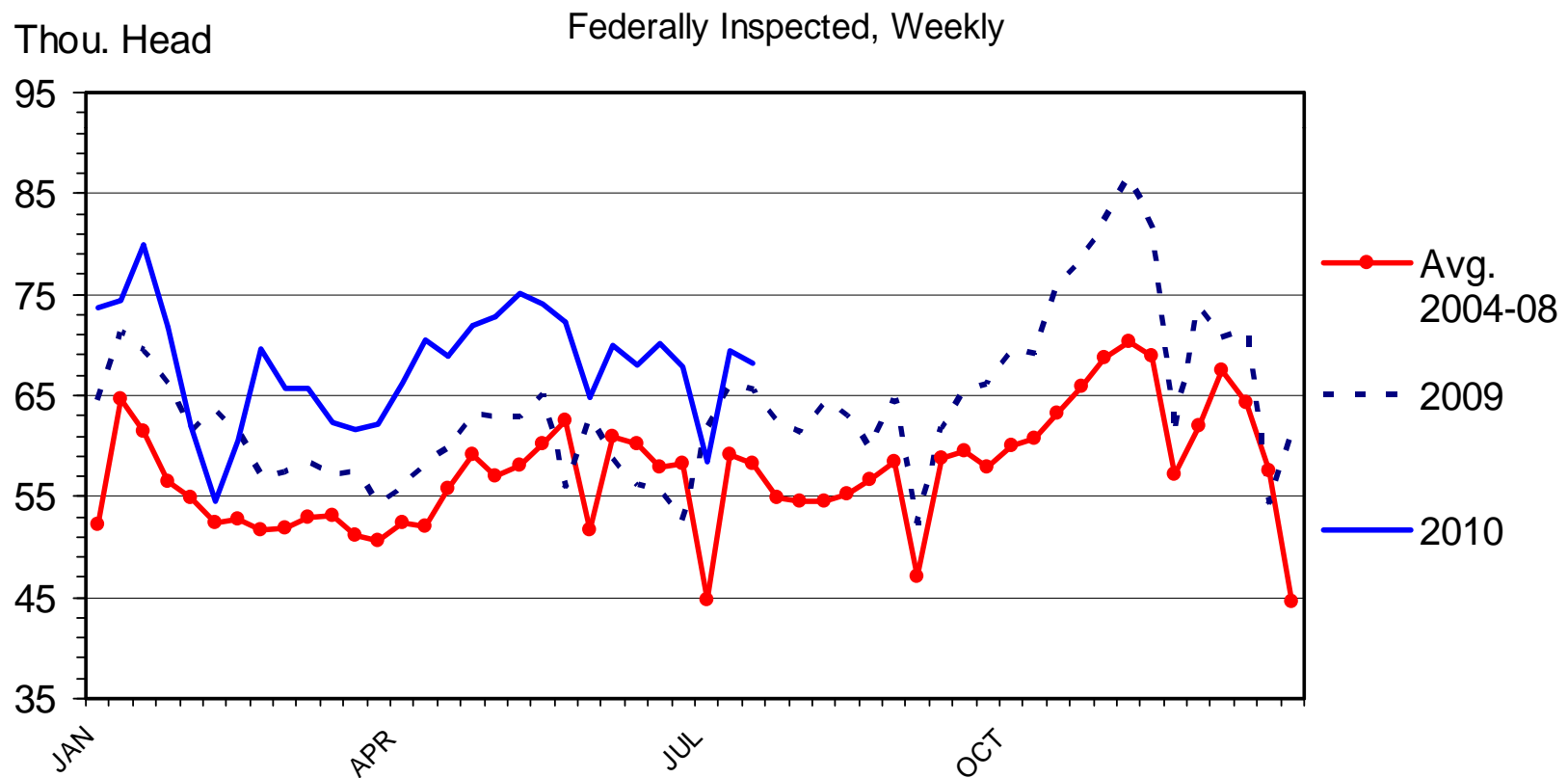


Released Thursday, August 12, 2010

Author: Brian Fuchs, National Drought Mitigation Center

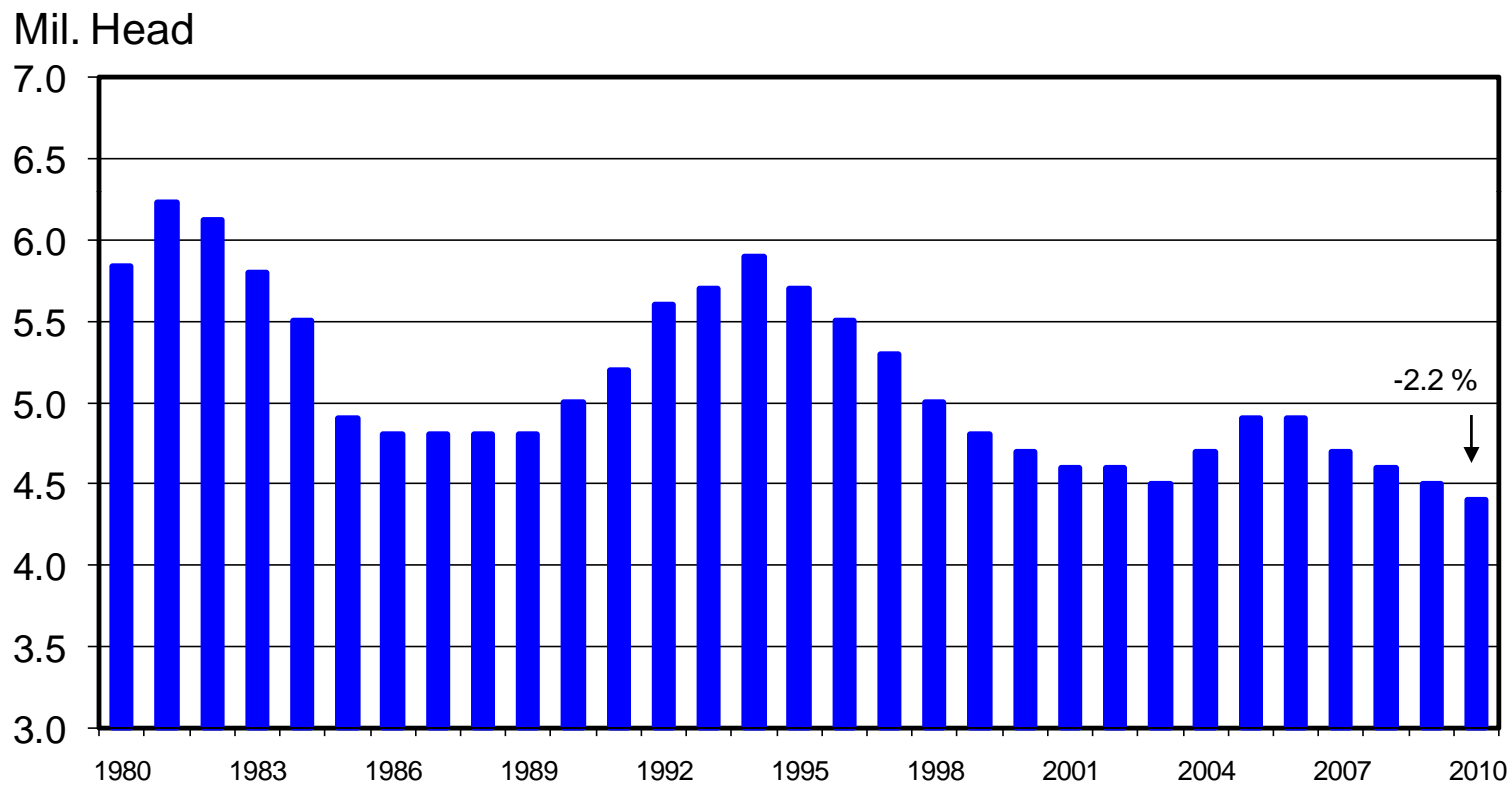


# Beef Cow Slaughter



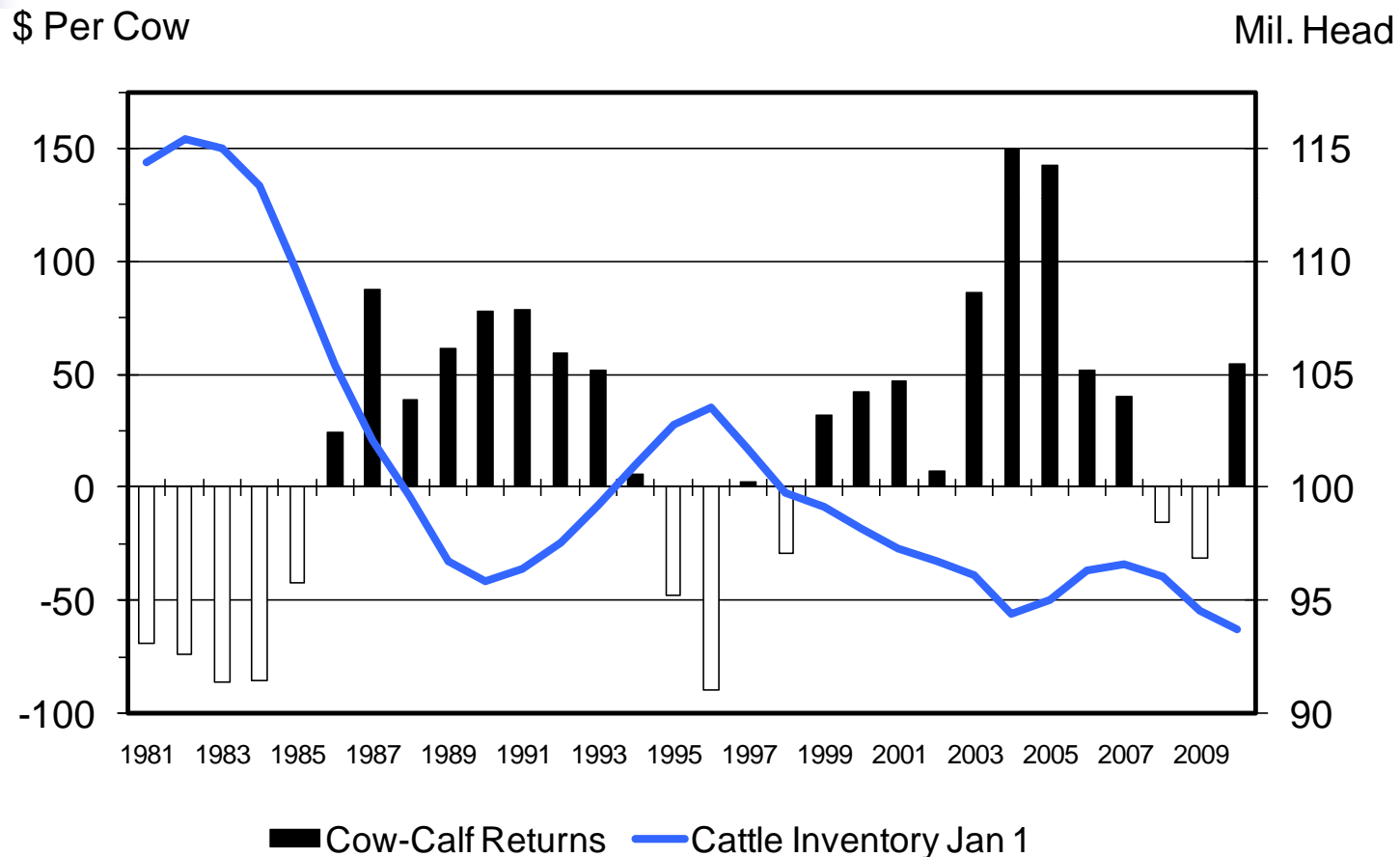
- Why: High cow prices, cash flow needs

# Heifers Held As Beef Cow Replacements – July 1



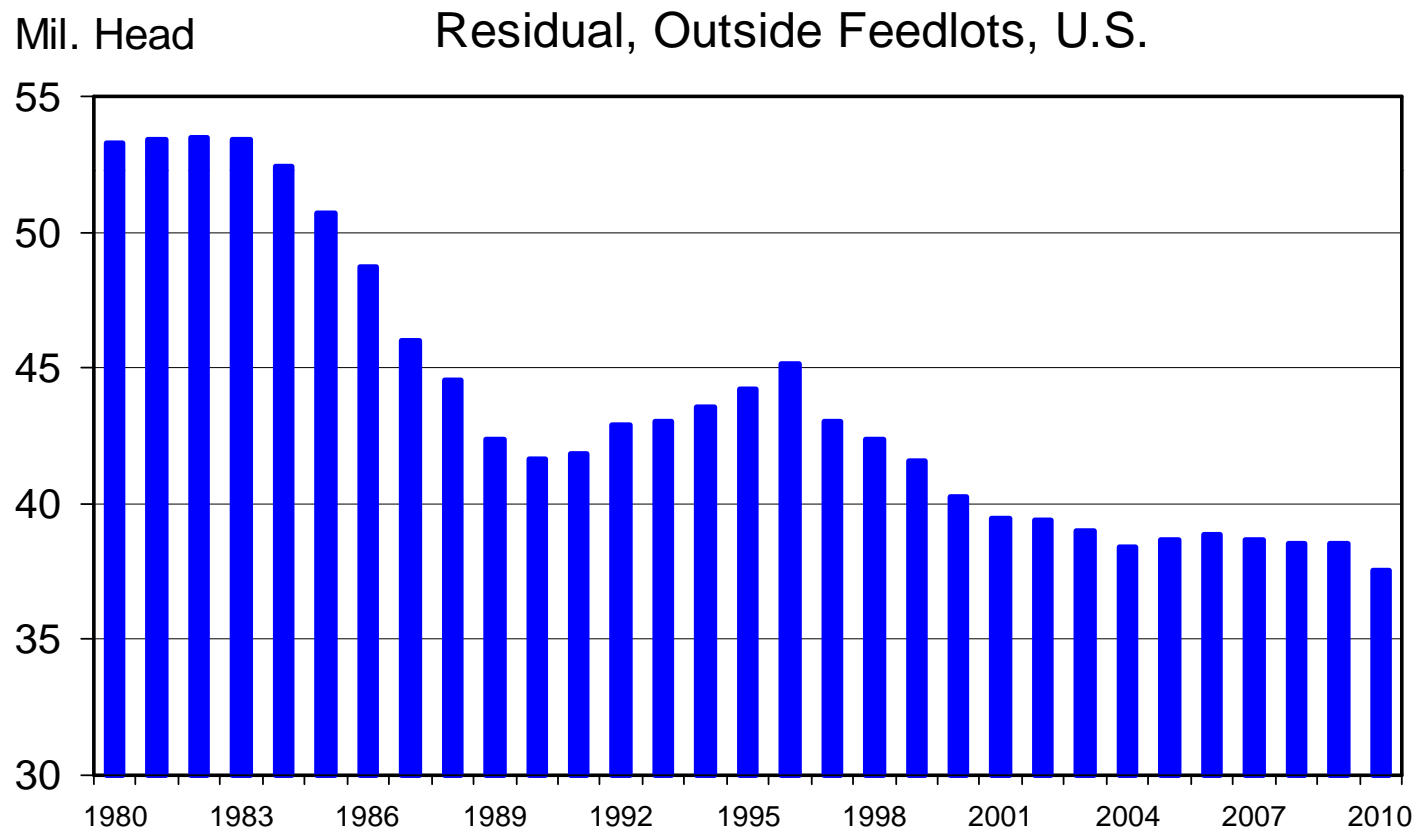
- Smaller cow herd ahead

# Cow-Calf Returns and Cattle Inventory



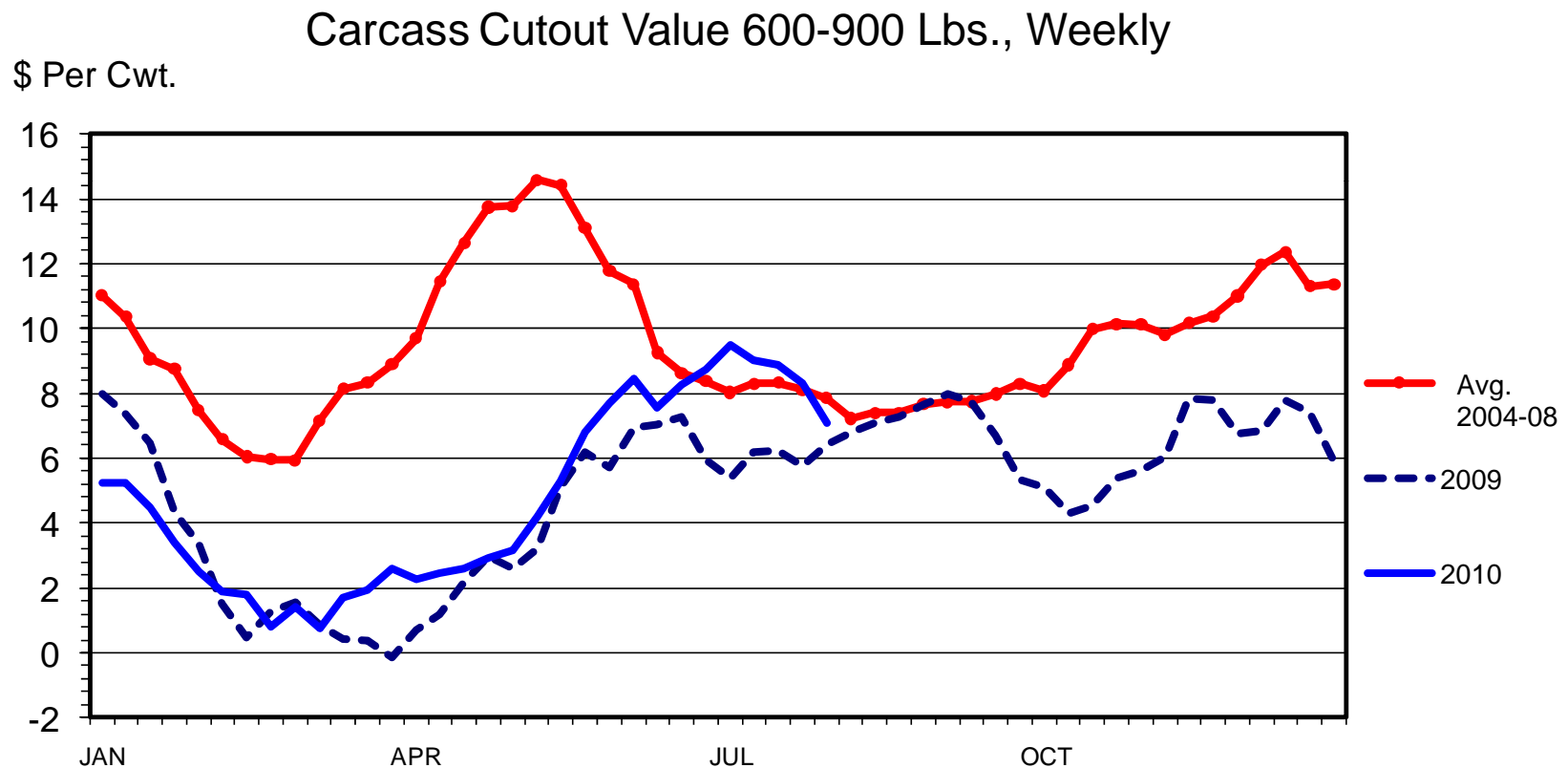
- Low returns and droughts caused herd to decline

# Feeder Cattle Supplies – July 1



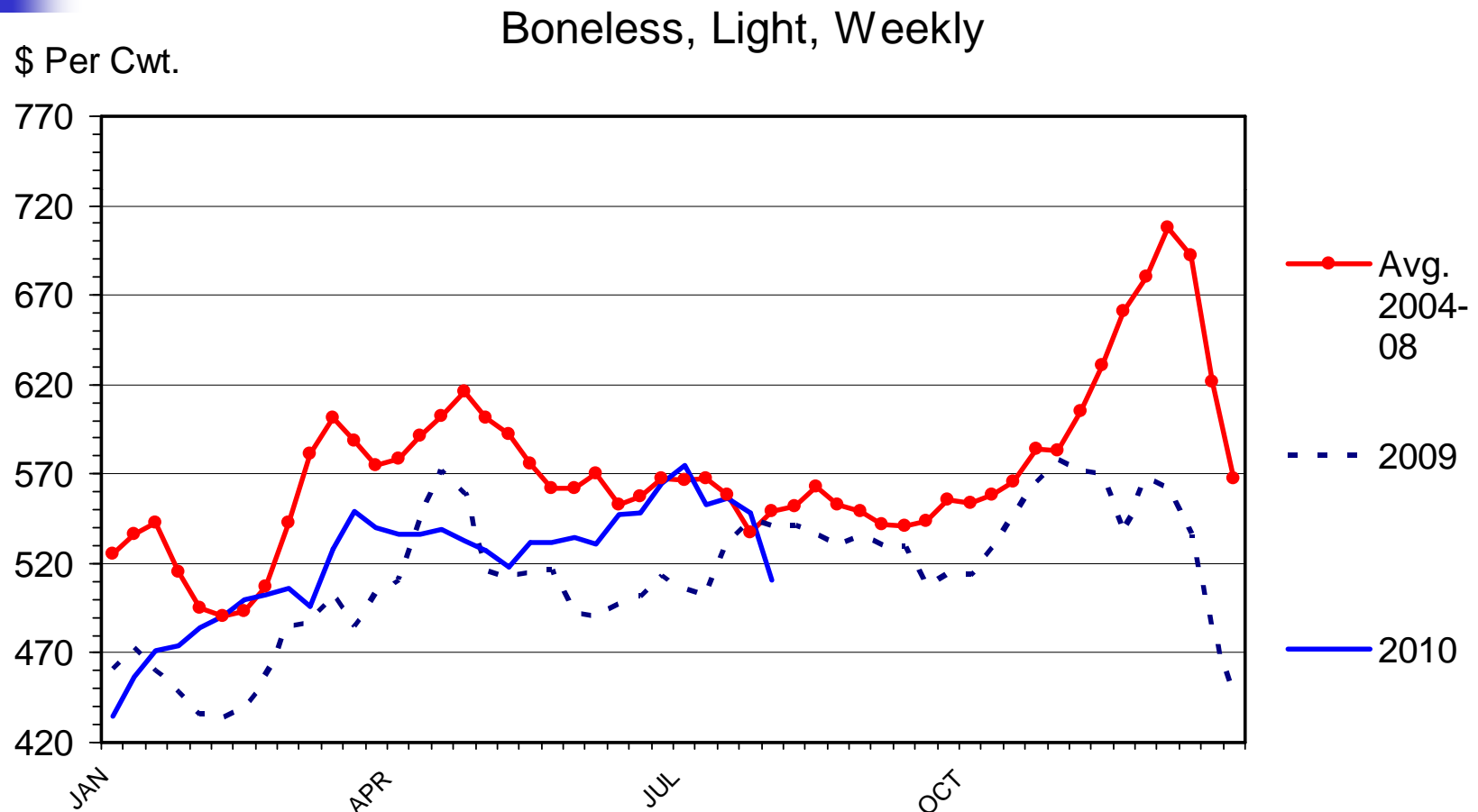
- Down 2.6% from July '09

# Beef Demand: Choice Minus Select Beef Prices



- Consumers shifting to lower priced cuts/grades due to economy
- Higher % Choice cattle

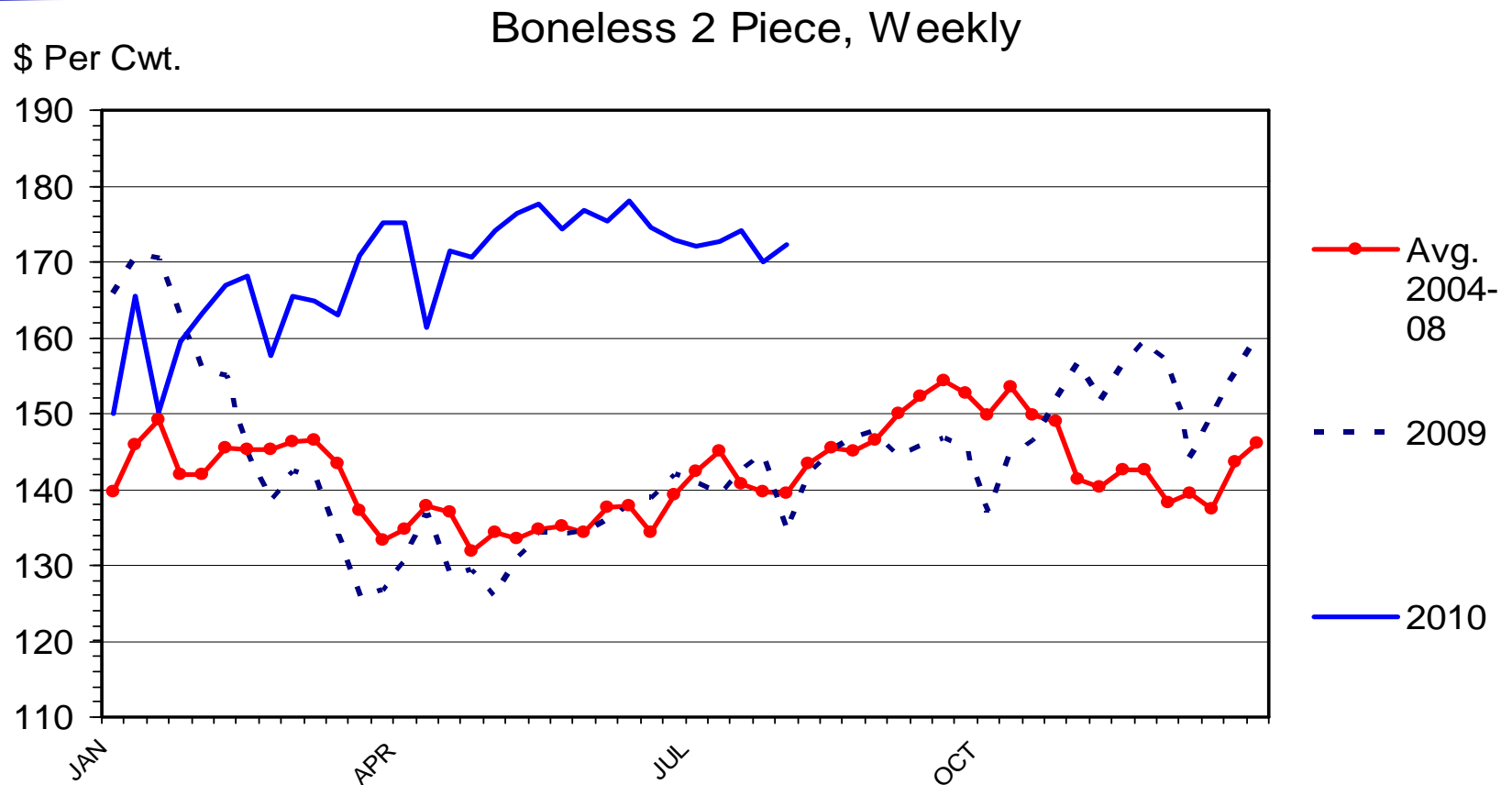
# Beef Demand: Wholesale Beef Ribeye Prices



- Again prices lower than average – shift in purchases, currently \$511

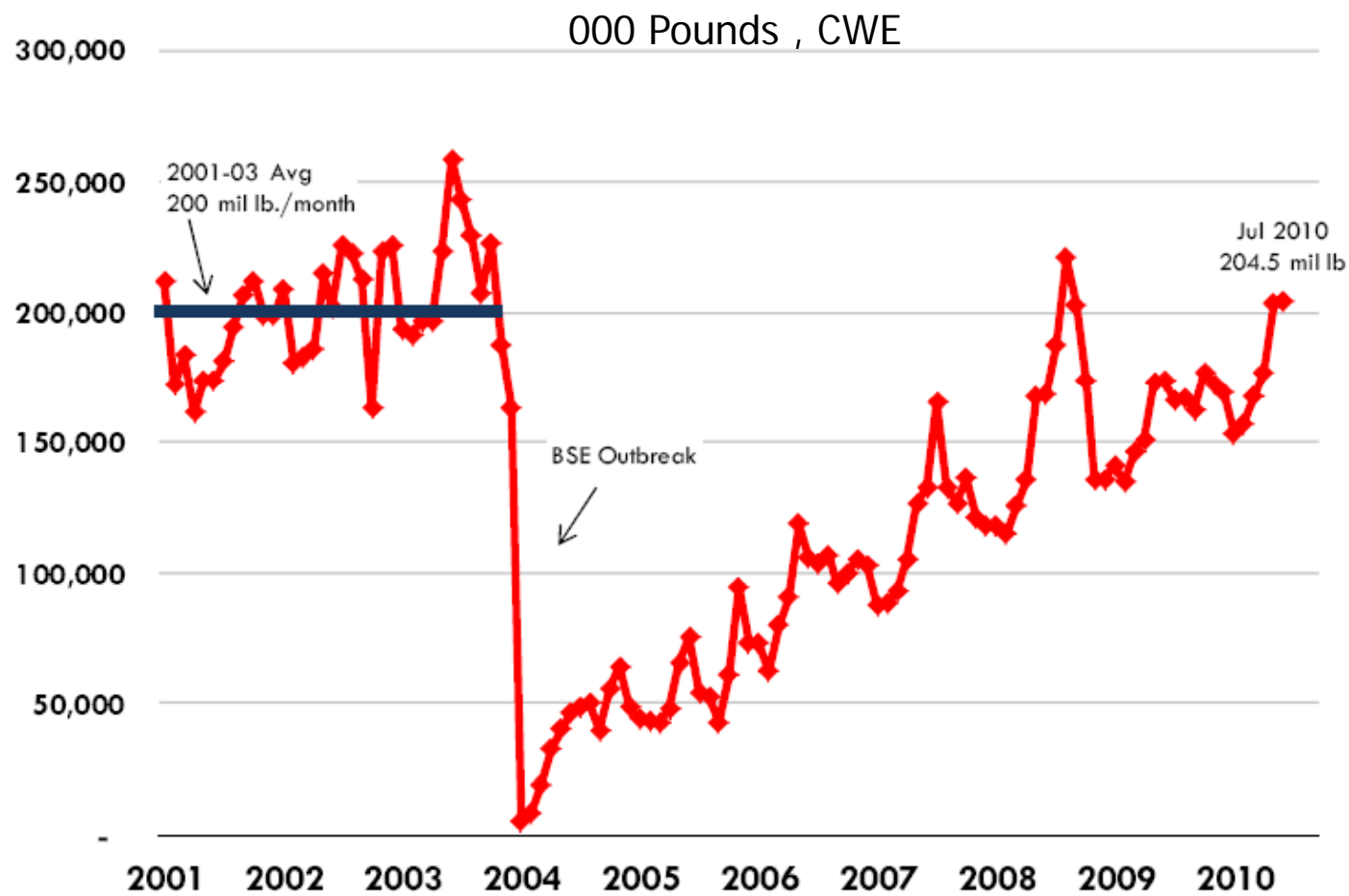
# Beef Demand:

## Wholesale Beef Chuck Prices



- Stronger prices, but cheaper cuts, **currently \$172**

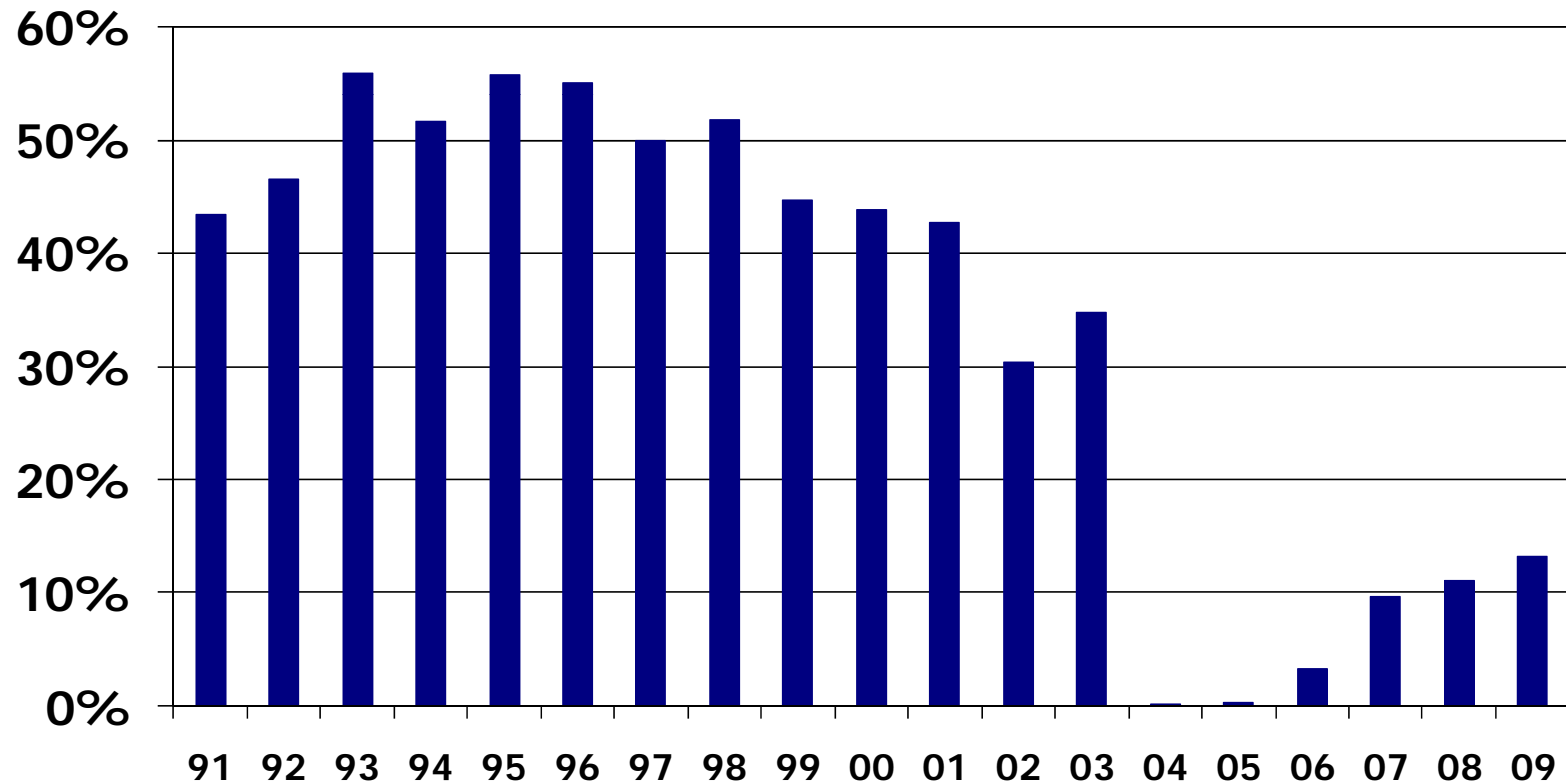
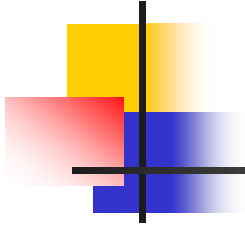
# Monthly US Beef Exports



Source: Daily Livestock Report



# Japan's Share of U.S. Beef Exports

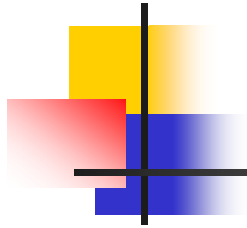




# Beef Demand

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- Impacted by...
  - Food safety recalls
  - Concerns about heart disease
  - Nutrition information
  - Female employment outside the home
  - Convenience

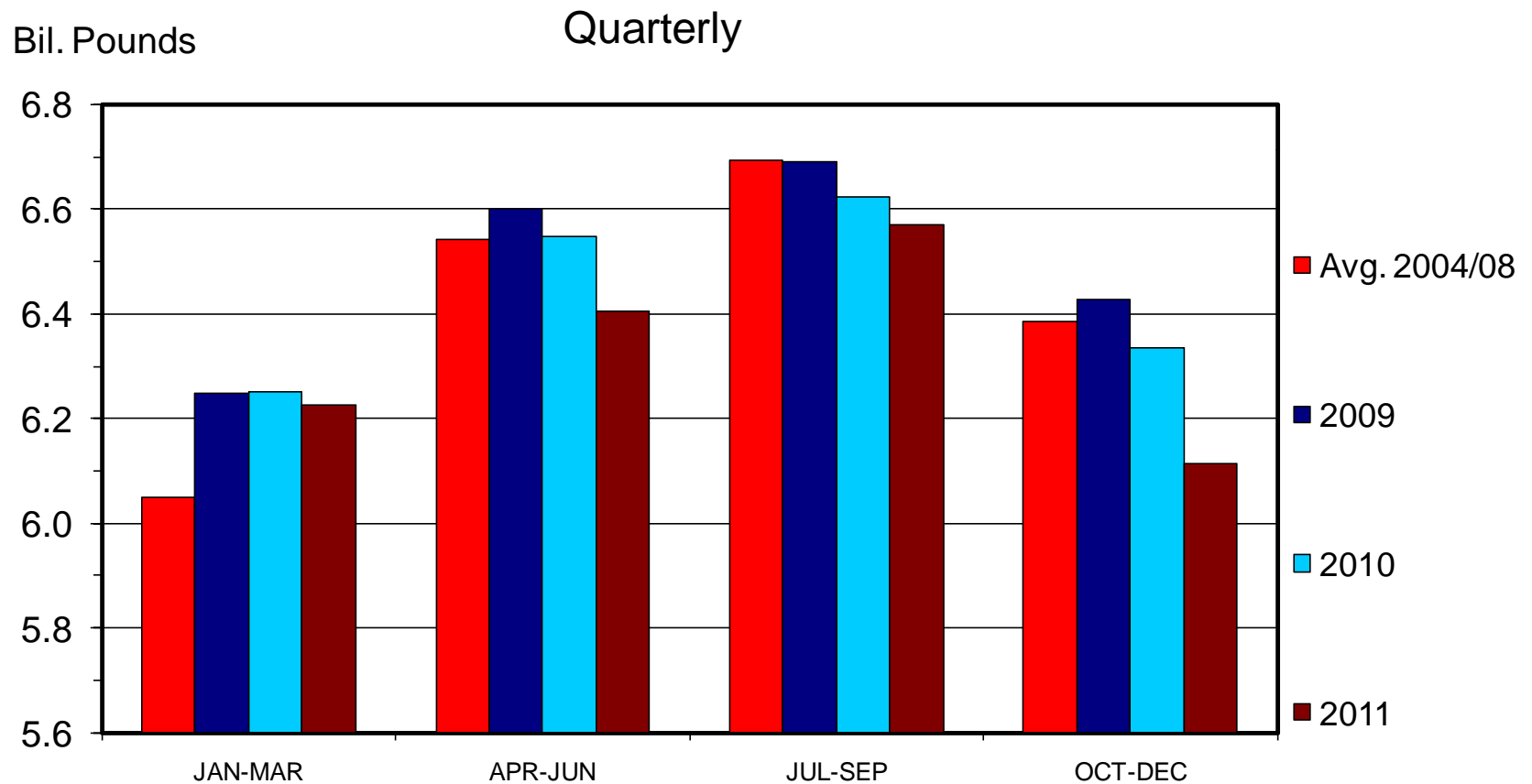


# Beef Demand

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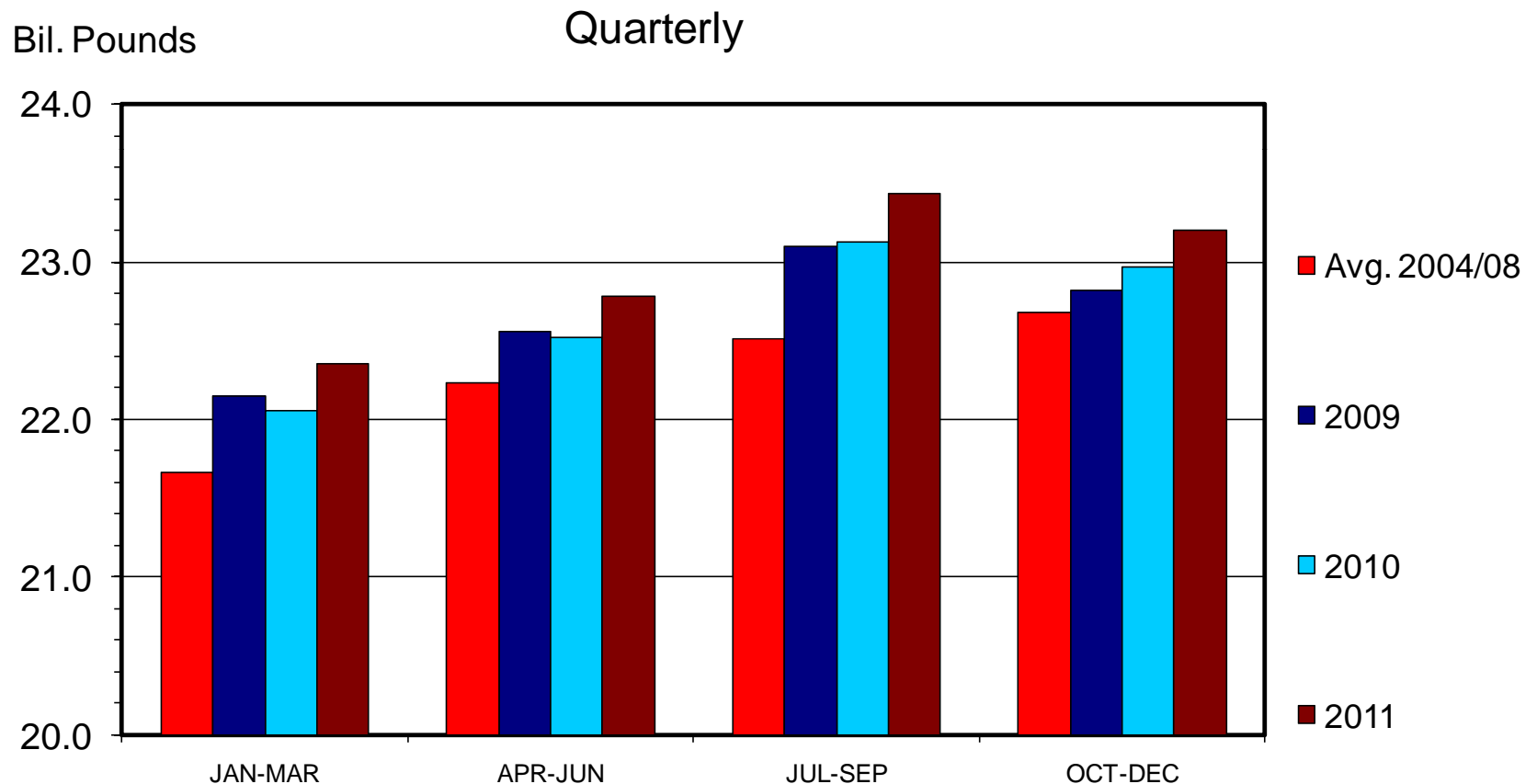
- Consumers value convenience
- Consumers respond to new products that meet their needs
- Consumers are receptive to information about health and nutrition
- Consumers expect beef to be safe

# Commercial Beef Production



- Smaller herd, reduced production

# Total Red Meat & Poultry Production



- Expansion in poultry is offsetting reduction in beef and pork



# Factors Driving Feeder Cattle Prices

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- Expected fed cattle price
- Current fed cattle price
- Distant futures
- Expected cost of gain
  - Currently \$0.70 – 0.80
- Returns to cattle feeders
- Forage availability
- Weather



# Impact of Corn Price on Price of Feeder Cattle

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- 25¢ change in corn price changes price of 550 lbs feeder \$2.50/cwt
- 25¢ change in corn price changes price of 700 lb feeder \$1.00/cwt
- Assumes constant fed cattle price



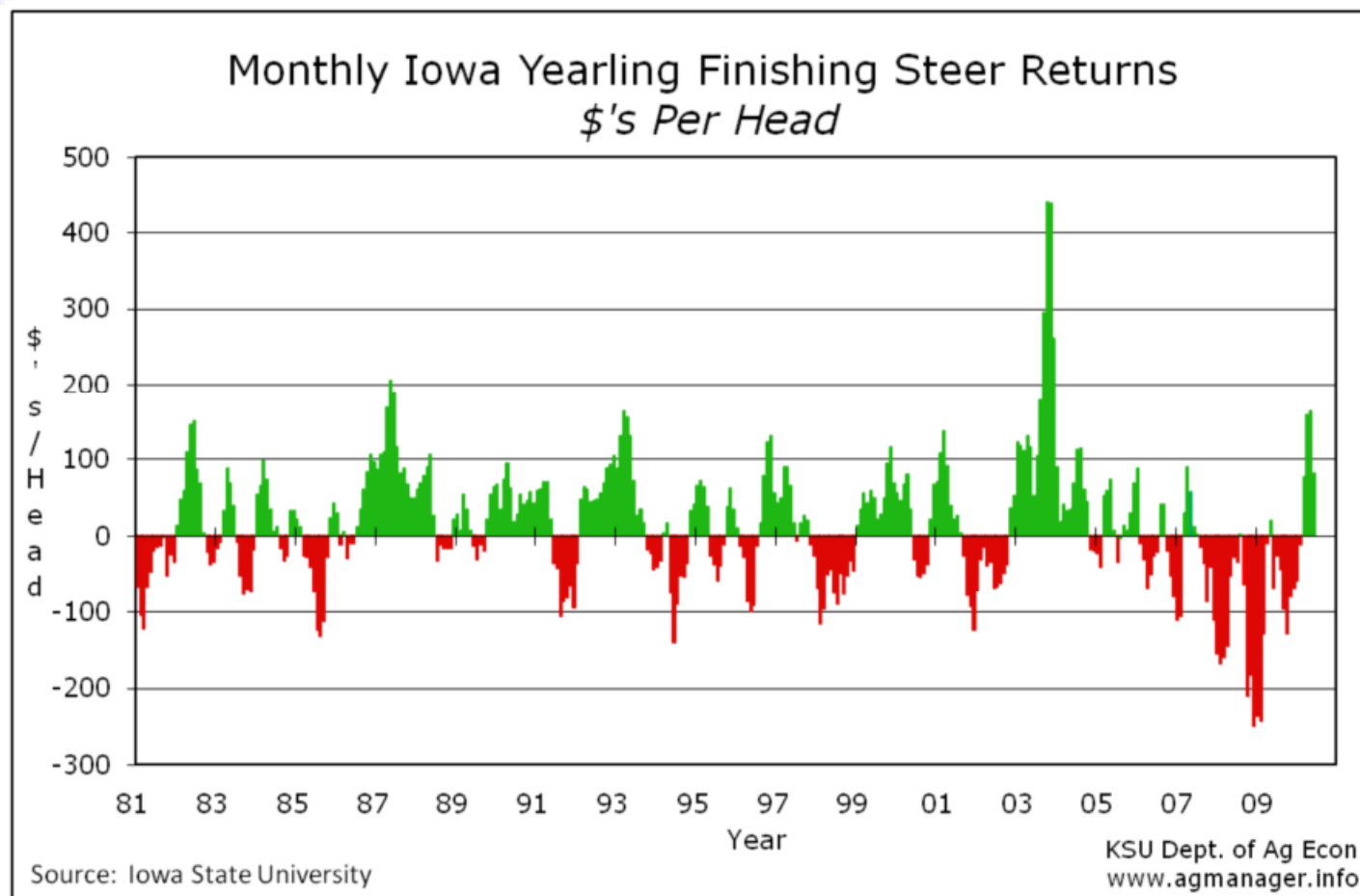
# Impact of Corn Price on Cost of Feedlot Gain

---

- 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
- Source: Harlan Hughes



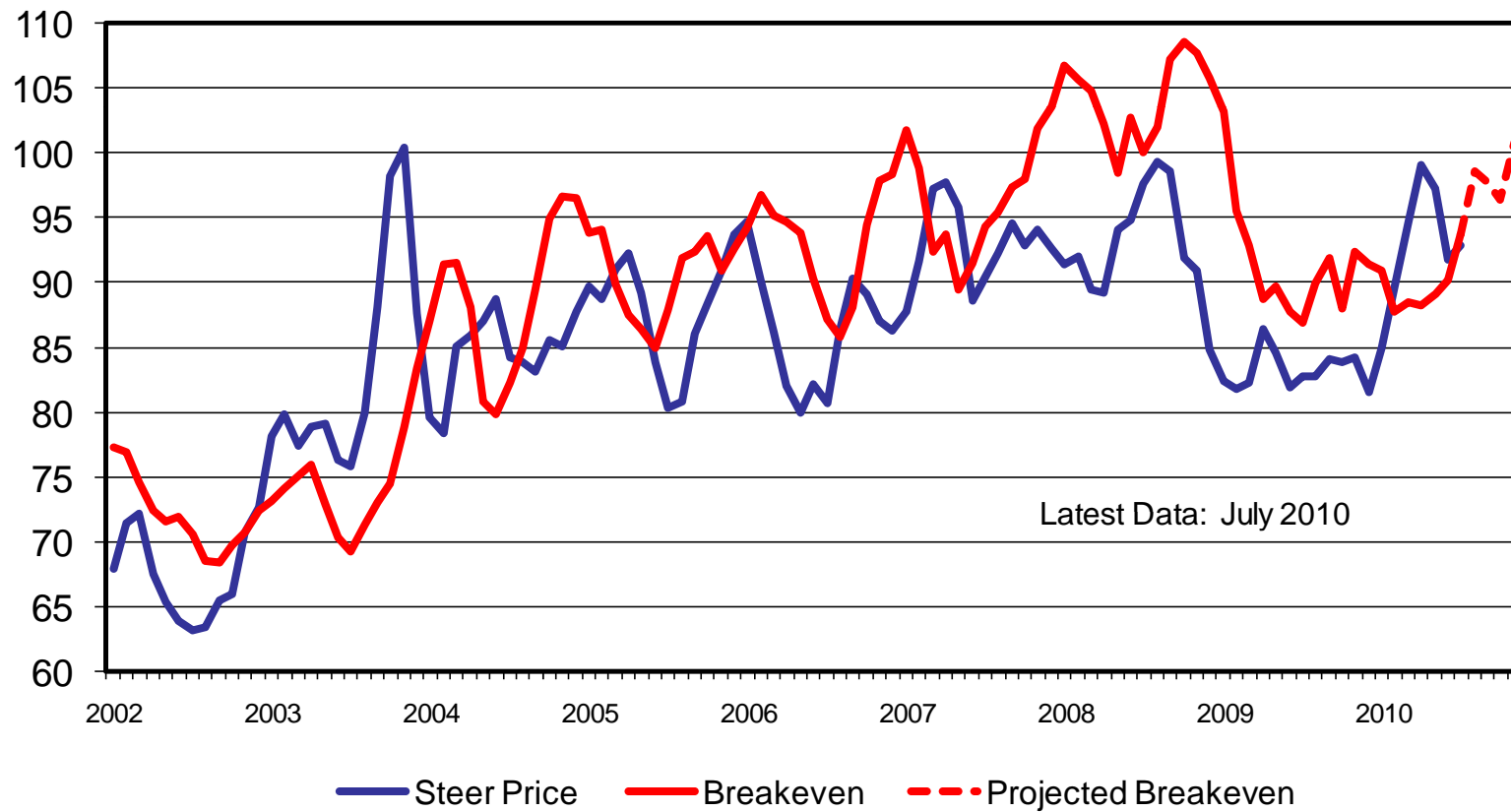
# Returns from Finishing Yearling Steers



# Choice Steer Price vs Breakeven

Cattle Feeding, S. Plains, Monthly

\$ Per Cwt





# Fed Cattle Price Forecasts

	USDA-ERS*	UT	Futures August 13
	----- \$/cwt -----		
Jul – Sept	94-96	90-92	Aug 94.32
Oct – Dec	92-98	91-94	Oct 95.07
Jan – Mar	93-101	89-94	Dec 97.32
Apr – Jun	96-104	94-99	Feb 98.85
			Apr 100.10

\* August 13, 2010



## What Can A Feedlot Pay For 700 lbs. Steers To Be Sold At 1200 lbs.?

Expected Sale Price (\$/cwt)	\$ 95
Sale wt (lbs)	x 1200
Gross Sale Value (\$/hd)	<u>\$ 1140</u>
Cost of Gain @ \$0.75/lb – 500 lbs gain	<u>-375</u>
Max Dollars for Feeder (\$/hd)	\$ 765
Return to Risk & Management (\$/hd)	<u>- 25</u>
Max Dollars for Feeder (\$/hd)	\$ 740
Max Price for Delivered 700 lbs Steer (\$/cwt)	\$ 105.71
Less Trucking (\$/cwt)	<u>- 6.00</u>
TN Price (\$/cwt)	\$ 99.71



## What Can A Feedlot Pay For 700 lbs. Steers To Be Sold At 1200 lbs.?

Expected Sale Price (\$/cwt)	\$ 100	\$ 100
Sale wt (lbs)	x 1200	x 1200
Gross Sale Value (\$/hd)	\$ 1200	\$ 1200
Cost of Gain @ \$0.75/lb (\$0.85/lb)— 500 lbs gain	-375	-425
Max Dollars for Feeder (\$/hd)	\$ 825	\$ 775
Return to Risk & Management (\$/hd)		
Max Dollars for Feeder (\$/hd)		
Max Price for Delivered 700 lbs Steer (\$/cwt)		
Less Trucking (\$/cwt)		
TN Price (\$/cwt)		



# Feeder Cattle Forecasts – Steers M-1

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	<u>700-800 lbs*</u>	<u>500-600 lbs**</u>
Jul-Sep	105-110	110-115
Oct-Dec	100-105	105-110
Jan-Mar	98-105	110-115
Apr-Jun	105-110	115-120

\* Load Lots

\*\* Auction Cattle



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

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August 13

Aug	111.70
Sept	111.30
Oct	111.42
Nov	111.82
Jan	111.70
Feb	111.45

Not Adjusted For Basis



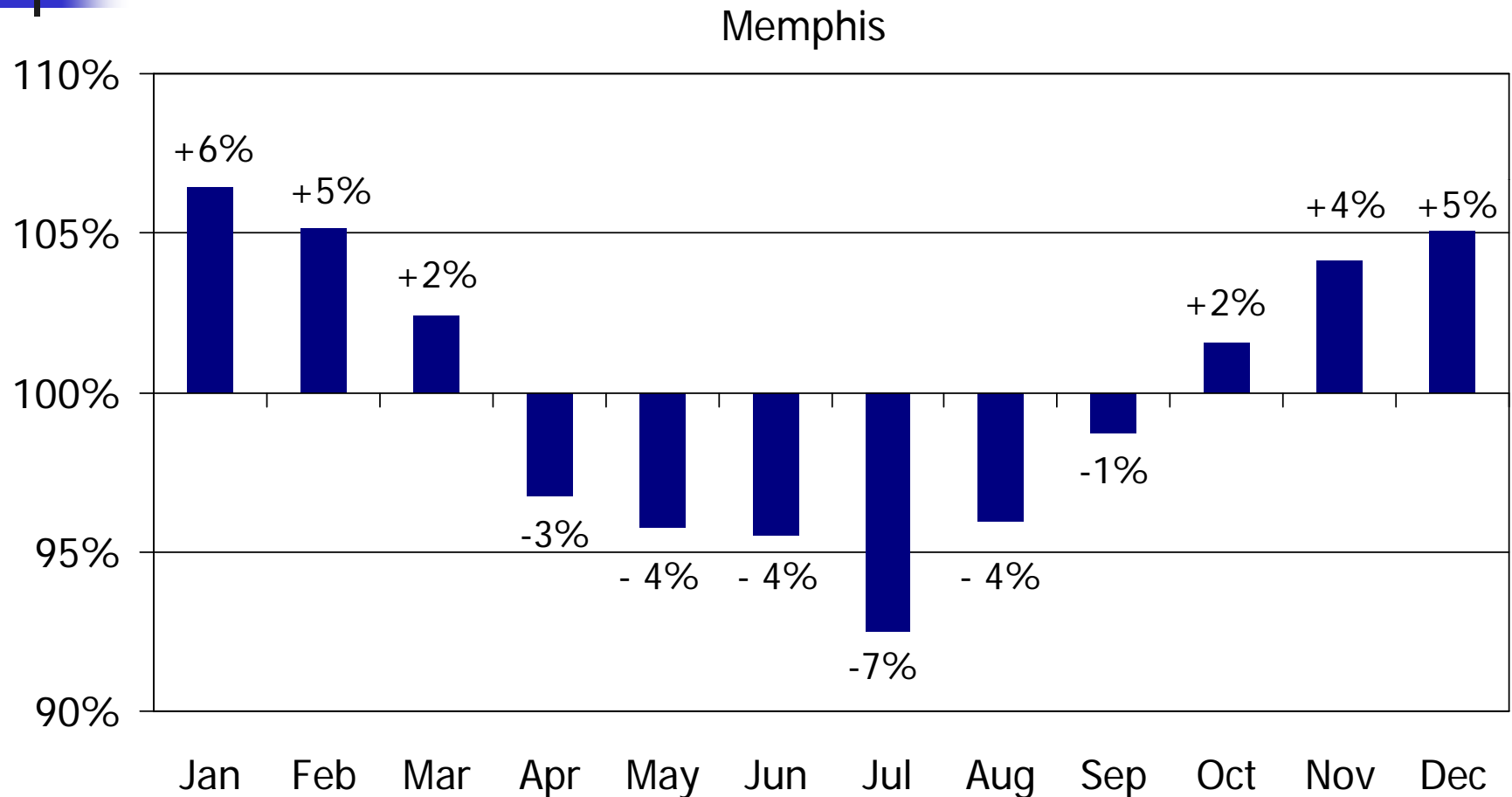
# What About Stockers?

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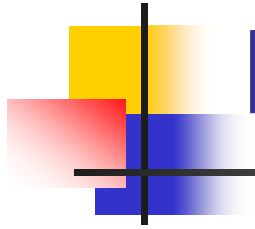
- Strategies
  - Intensive grazing
  - Reduce hay/feed waste
  - Take advantage of seasonal feed prices
  - Buy in bulk, shop around
  - Manage price risk on feed and cattle



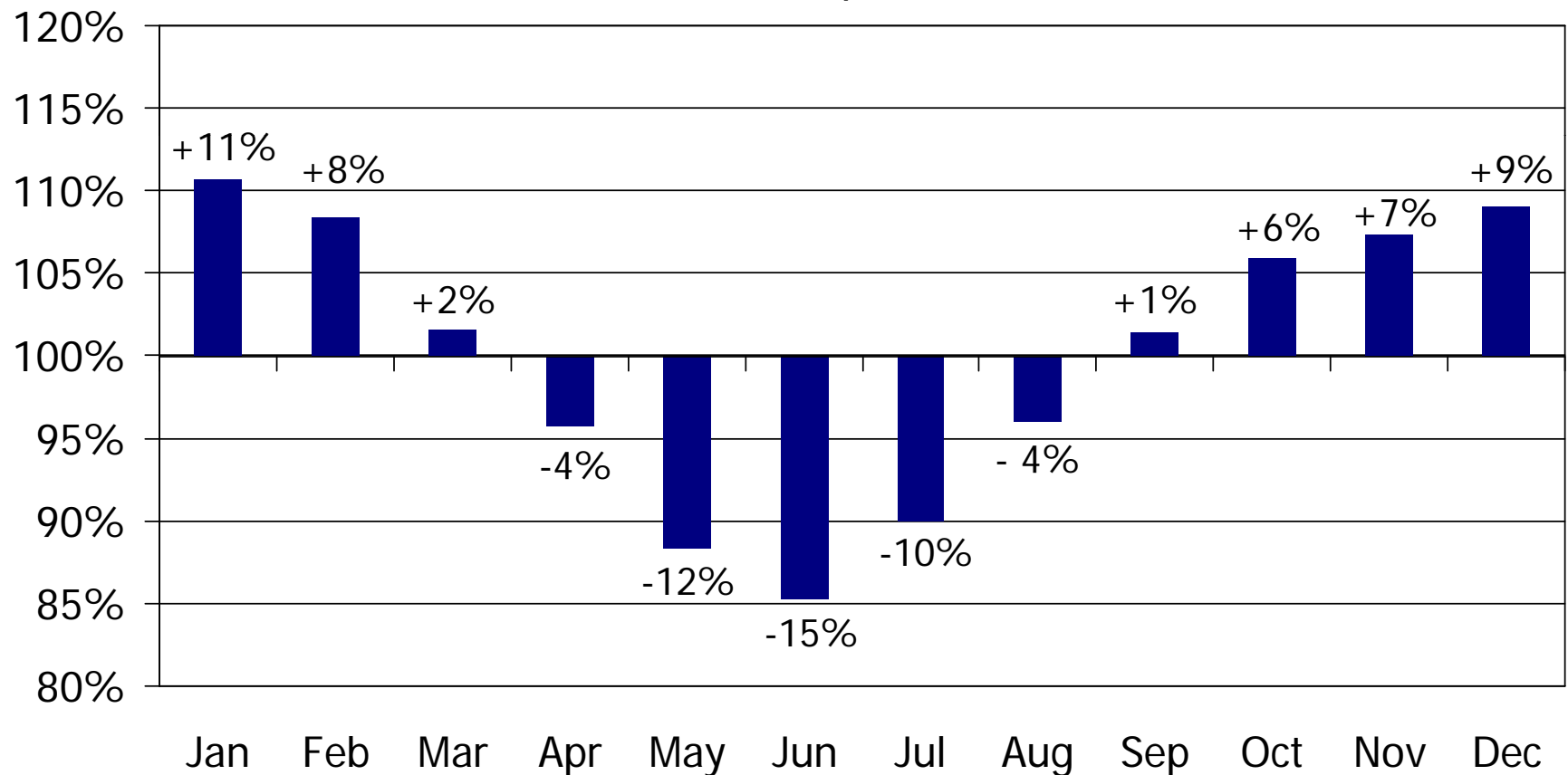
# Corn Gluten Feed Pellets Cash Seasonal Price Index, 2001-2006



# Soybean Hulls Cash Seasonal Price Index, 2001-2006



Memphis





# 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 graded sale



# What About Stockers?

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Buy'em cheap  
Keep'em alive  
Feed'em cheap  
Sell'em high



# Retained Ownership

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- 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



# Take Home Message

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- Cattle cycle stalled
- Cow calf returns will be higher in '11
- Beef production up 1.6% in '11
- Beef demand could struggle until unemployment declines
- Higher feed cost than '10
- Contraction in beef & pork
- Poultry expansion



# Take Home Message

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- 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



# Take Home Message

---

- Some shift in feeding to mid-west
- Check out the new Livestock Risk Protection Insurance



A photograph of a herd of cattle in a field. Two people are visible, one on the left and one on the right, both wearing hats and light-colored shirts, herding the cattle. The cattle are dark-colored and are standing in a line. In the background, there is a wooden fence and a line of trees under a bright sky.

# The End

[elrawls@utk.edu](mailto:elrawls@utk.edu)

[www.TNBeefCattleInitiative.org](http://www.TNBeefCattleInitiative.org)