Beef Cattle Situation and Outlook

Emmit L. Rawls
Professor
Agricultural Economics
Slaughter Steer Prices

Now in the mid $90s
Boxed Beef Cutout Value

Choice 600-900 Lbs. Carcass, Weekly

$ Per Cwt.

- Wholesale values higher on reduced supplies
Steer Hide and Offal Value

Live Animal Basis, Weekly

- 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

$ Per Cwt.

2005-2009 Avg  2009  2010
Slau
ghter Cow Prices
Southern Plains, 85-90% Lean, Weekly

$ Per Cwt.

Southern Plains, 85-90% Lean, Weekly

$ Per Cwt.

Avg.

2004-08

2009

2010

JAN APR JUN JUL AUG SEP OCT
Omaha Corn Prices

- On a new plateau
Kansas Feedlot Closeouts

Feeding Costs per Cwt, Steers

$/cwt

- **Avg. 2004/08**
- **2009**
- **2010**

<table>
<thead>
<tr>
<th>Month</th>
<th>2004/08</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>95</td>
<td>75</td>
<td>65</td>
</tr>
<tr>
<td>Feb</td>
<td>90</td>
<td>70</td>
<td>67</td>
</tr>
<tr>
<td>Mar</td>
<td>85</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Apr</td>
<td>80</td>
<td>60</td>
<td>65</td>
</tr>
<tr>
<td>May</td>
<td>90</td>
<td>60</td>
<td>65</td>
</tr>
<tr>
<td>Jun</td>
<td>85</td>
<td>55</td>
<td>65</td>
</tr>
<tr>
<td>Jul</td>
<td>80</td>
<td>50</td>
<td>65</td>
</tr>
<tr>
<td>Aug</td>
<td>75</td>
<td>45</td>
<td>65</td>
</tr>
<tr>
<td>Sep</td>
<td>70</td>
<td>40</td>
<td>65</td>
</tr>
<tr>
<td>Oct</td>
<td>65</td>
<td>35</td>
<td>65</td>
</tr>
<tr>
<td>Nov</td>
<td>60</td>
<td>30</td>
<td>65</td>
</tr>
<tr>
<td>Dec</td>
<td>55</td>
<td>25</td>
<td>65</td>
</tr>
</tbody>
</table>
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

2010 = 100.8 Million Head
-1.2 Percent
Beef Cows That Have Calved
January 1, 2010 (1,000 head)

US Total: 31,376
Change in Beef Cow Numbers
Jan. 1, 2009 to Jan 1., 2010 (1000 head)

• Due to drought and pasture moving to crops
Change in Beef Cow Numbers
Jan. 1, 2001 to Jan 1., 2010 (1000 head)

- US Total: -2202
- Impact of drought in western states and Southeast
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

Mil. Head

Residual, Outside Feedlots, U.S.

- Down 2.6% from July ‘09
Beef Demand:
Choice Minus Select Beef Prices

Carcass Cutout Value 600-900 Lbs., Weekly

- 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

Chart showing the percentage of U.S. beef exports to Japan from 1991 to 2009.
Beef Demand

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

Source: Kansas State University – Mintert, Tonsor & Schroeder
Beef Demand

- 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

Source: Kansas State University – Mintert, Tonsor & Schroeder
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

- 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

- 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

Latest Data: July 2010

Steer Price
Breakeven
Projected Breakeven
### Fed Cattle Price Forecasts

<table>
<thead>
<tr>
<th></th>
<th>USDA-ERS*</th>
<th>UT</th>
<th>Futures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul – Sept</td>
<td>94-96</td>
<td>90-92</td>
<td>Aug 94.32</td>
</tr>
<tr>
<td>Oct – Dec</td>
<td>92-98</td>
<td>91-94</td>
<td>Oct 95.07</td>
</tr>
<tr>
<td>Jan – Mar</td>
<td>93-101</td>
<td>89-94</td>
<td>Dec 97.32</td>
</tr>
<tr>
<td>Apr – Jun</td>
<td>96-104</td>
<td>94-99</td>
<td>Feb 98.85</td>
</tr>
</tbody>
</table>

* August 13, 2010

*August 13, 2010*
What Can A Feedlot Pay For 700 lbs. Steers To Be Sold At 1200 lbs.?

<table>
<thead>
<tr>
<th>Description</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Sale Price ($/cwt)</td>
<td>$95</td>
</tr>
<tr>
<td>Sale wt (lbs)</td>
<td>x 1200</td>
</tr>
<tr>
<td>Gross Sale Value ($/hd)</td>
<td>$1140</td>
</tr>
<tr>
<td>Cost of Gain @ $0.75/lb – 500 lbs gain</td>
<td>-375</td>
</tr>
<tr>
<td>Max Dollars for Feeder ($/hd)</td>
<td>$765</td>
</tr>
<tr>
<td>Return to Risk &amp; Management ($/hd)</td>
<td>-25</td>
</tr>
<tr>
<td>Max Dollars for Feeder ($/hd)</td>
<td>$740</td>
</tr>
<tr>
<td>Max Price for Delivered 700 lbs Steer ($/cwt)</td>
<td>$105.71</td>
</tr>
<tr>
<td>Less Trucking ($/cwt)</td>
<td>-6.00</td>
</tr>
<tr>
<td>TN Price ($/cwt)</td>
<td>$99.71</td>
</tr>
</tbody>
</table>
What Can A Feedlot Pay For 700 lbs. Steers To Be Sold At 1200 lbs.?

<table>
<thead>
<tr>
<th>Expected Sale Price ($/cwt)</th>
<th>$ 100</th>
<th>$ 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale wt (lbs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>x 1200</td>
<td>x 1200</td>
</tr>
<tr>
<td>Gross Sale Value ($/hd)</td>
<td>$ 1200</td>
<td>$ 1200</td>
</tr>
<tr>
<td>Cost of Gain @ $0.75/lb ($0.85/lb) – 500 lbs gain</td>
<td>-375</td>
<td>-425</td>
</tr>
<tr>
<td>Max Dollars for Feeder ($/hd)</td>
<td>$ 825</td>
<td>$ 775</td>
</tr>
<tr>
<td>Return to Risk &amp; Management ($/hd)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Max Dollars for Feeder ($/hd)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Max Price for Delivered 700 lbs Steer ($/cwt)

Less Trucking ($/cwt)

TN Price ($/cwt)
<table>
<thead>
<tr>
<th>Period</th>
<th>700-800 lbs*</th>
<th>500-600 lbs**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul-Sep</td>
<td>105-110</td>
<td>110-115</td>
</tr>
<tr>
<td>Oct-Dec</td>
<td>100-105</td>
<td>105-110</td>
</tr>
<tr>
<td>Jan-Mar</td>
<td>98-105</td>
<td>110-115</td>
</tr>
<tr>
<td>Apr-Jun</td>
<td>105-110</td>
<td>115-120</td>
</tr>
</tbody>
</table>

* Load Lots
** Auction Cattle
## Futures Based Forecasts Feeder Cattle - 650-800 lbs M-1 Steers

<table>
<thead>
<tr>
<th>Month</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug</td>
<td>111.70</td>
</tr>
<tr>
<td>Sept</td>
<td>111.30</td>
</tr>
<tr>
<td>Oct</td>
<td>111.42</td>
</tr>
<tr>
<td>Nov</td>
<td>111.82</td>
</tr>
<tr>
<td>Jan</td>
<td>111.70</td>
</tr>
<tr>
<td>Feb</td>
<td>111.45</td>
</tr>
</tbody>
</table>

Not Adjusted For Basis
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
Corn Gluten Feed Pellets Cash Seasonal Price Index, 2001-2006

Memphis

Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec

110%  +6%  +5%  +2%  -3%  -4%  -4%  -4%  -1%  +2%  +4%  +5%
Soybean Hulls Cash Seasonal Price Index, 2001-2006

Memphis

Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec

+11%  +8%  +2%  -4%  -12%  -15%  -10%  +1%  +6%  +7%  +9%
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?

Buy’em cheap
Keep’em alive
Feed’em cheap
Sell’em high
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
Take Home Message

- 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

- 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
The End

elrawls@utk.edu

www.TNBeefCattleInitiative.org