Current Economic Climate of the Cattle Business: What it Means for You

17th Annual
School for Successful Ranching
TSCRA
San Antonio, Texas

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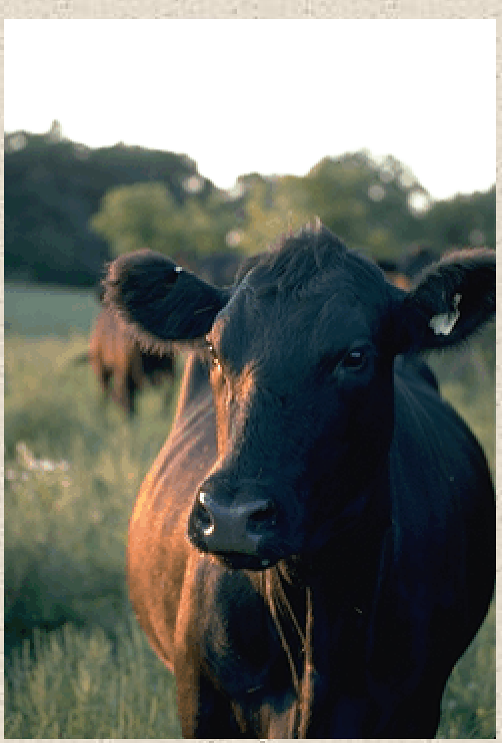
Oklahoma State University

Current Economic Climate

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

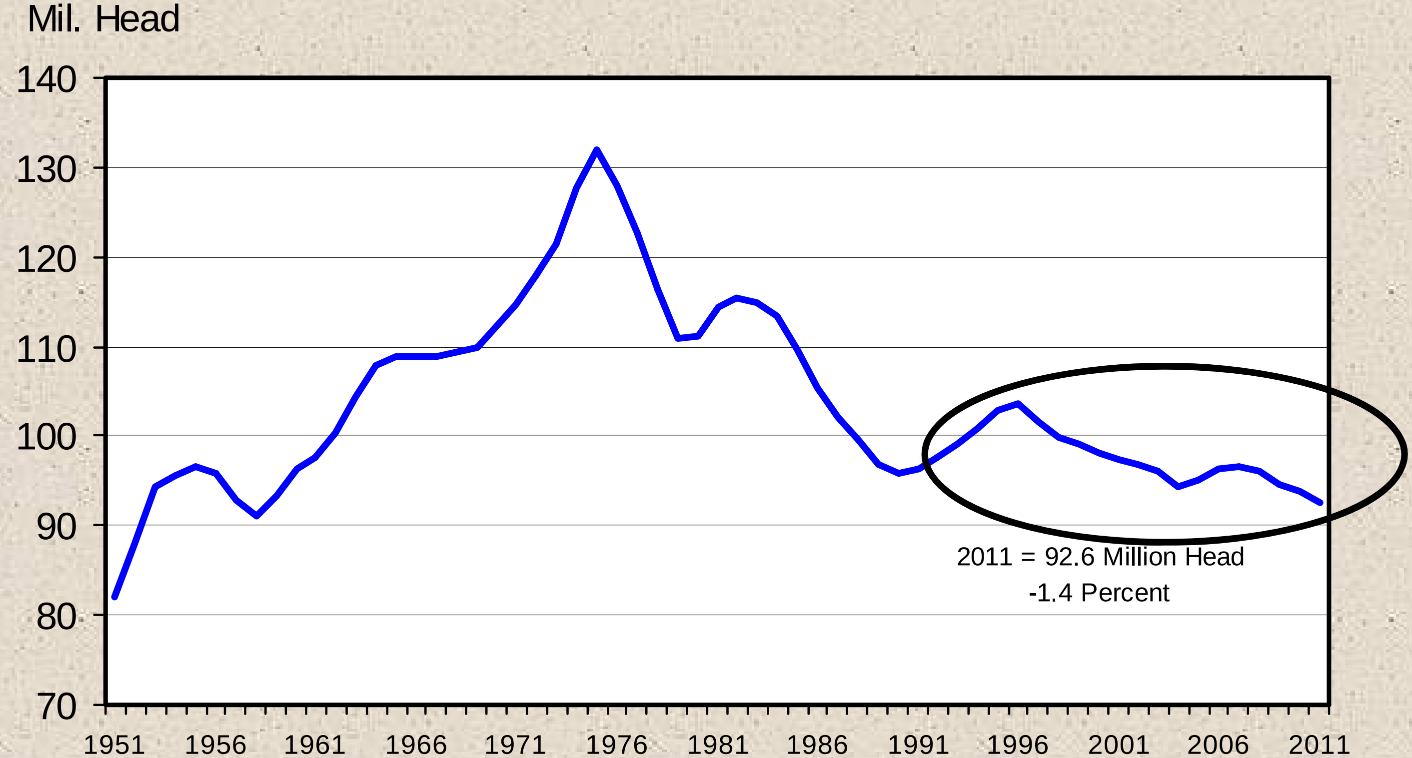
How We Got Here

- Industry has been Mostly on the Defensive for the Last Decade
  - BSE
  - Drought in 2000s
  - Ethanol and Corn Markets
  - U.S. and Global Recession
- An Atmosphere of Hesitancy
- May be Time to Go On Offense



JANUARY 1 TOTAL CATTLE INVENTORY

U.S., Annual



C-N-01
01/28/11

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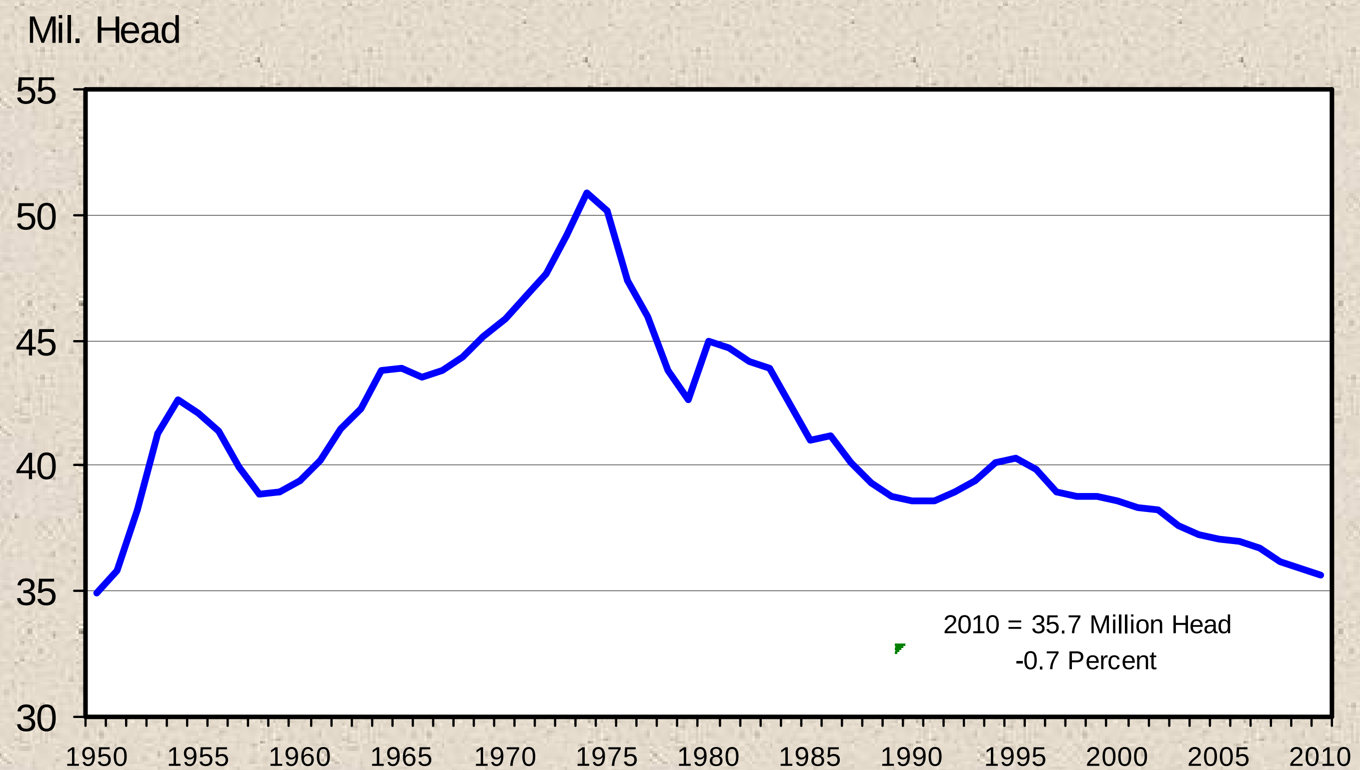
Data Source: USDA-NASS

CALF CROP

U.S., Annual



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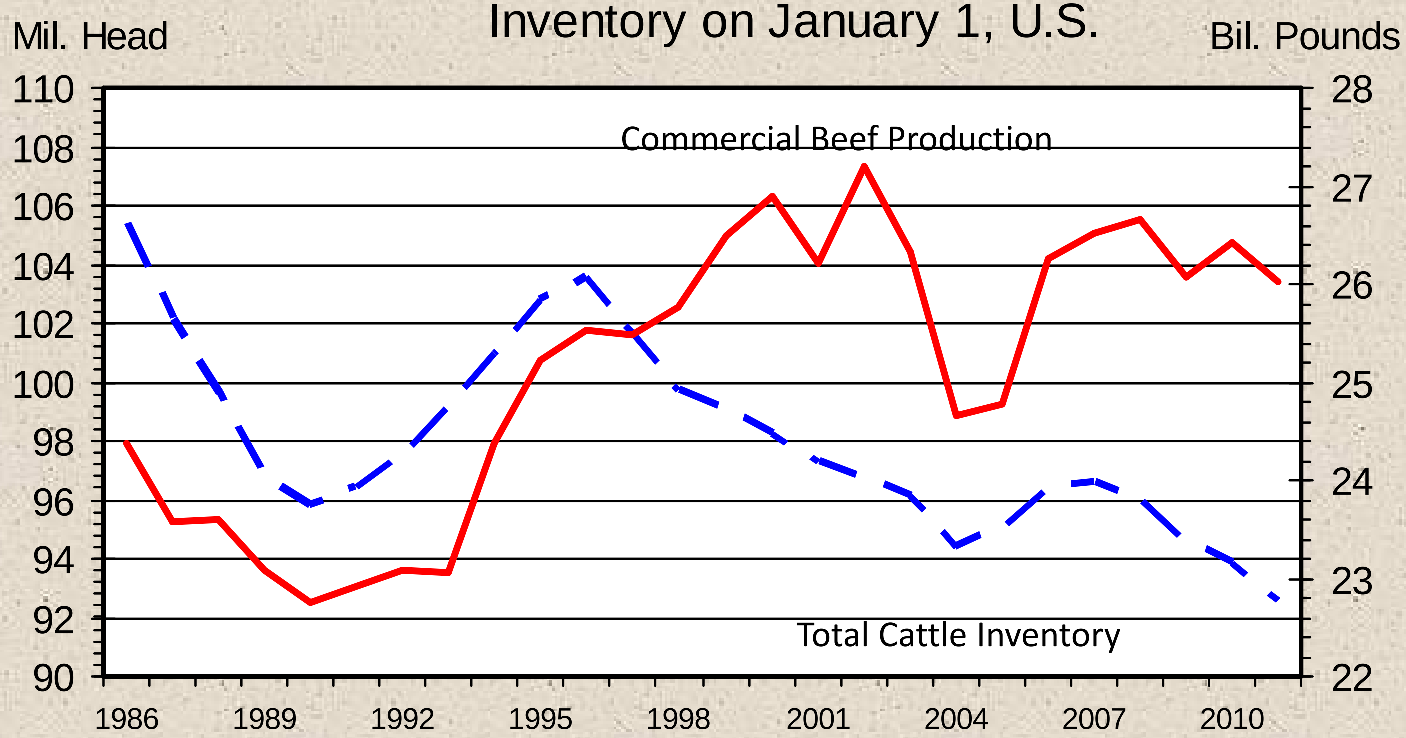
Data Source: USDA-NASS

BEEF PRODUCTION vs. CATTLE INVENTORY

Inventory on January 1, U.S.



M-S-23
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Data Source: USDA-AMS, Compiled & Analysis by LMIC

Current Market Situation

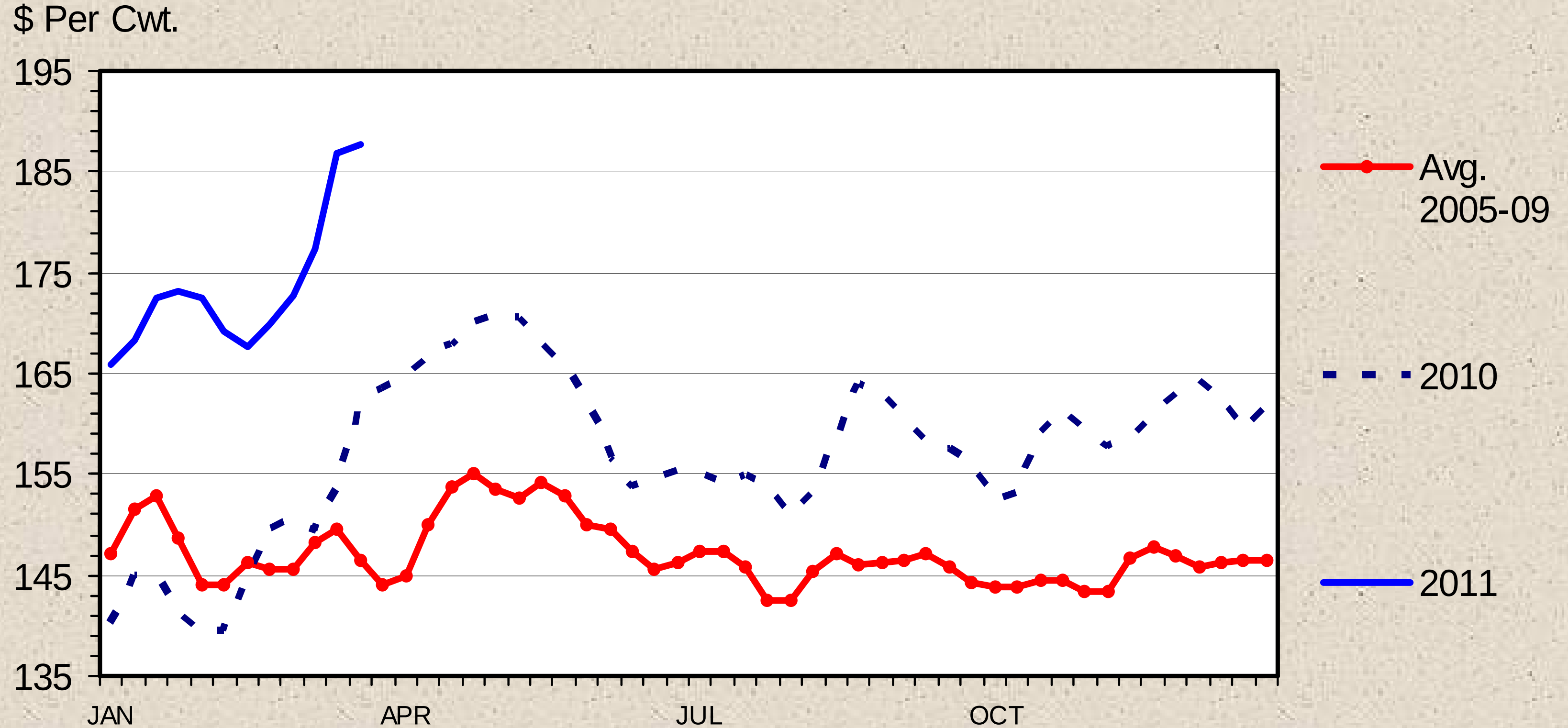
- Global
- U.S. Economy
- Agriculture
- Cattle Industry

Cattle Markets Today

- Significant Price Recovery in 2010
- Record Cattle and Boxed Beef Prices!
- Supply is Driving the Market and Will Continue to Do So
- Other Factors will Emerge and Fade

BOXED BEEF CUTOUT VALUE

Choice 600-900 Lbs. Carcass, Weekly



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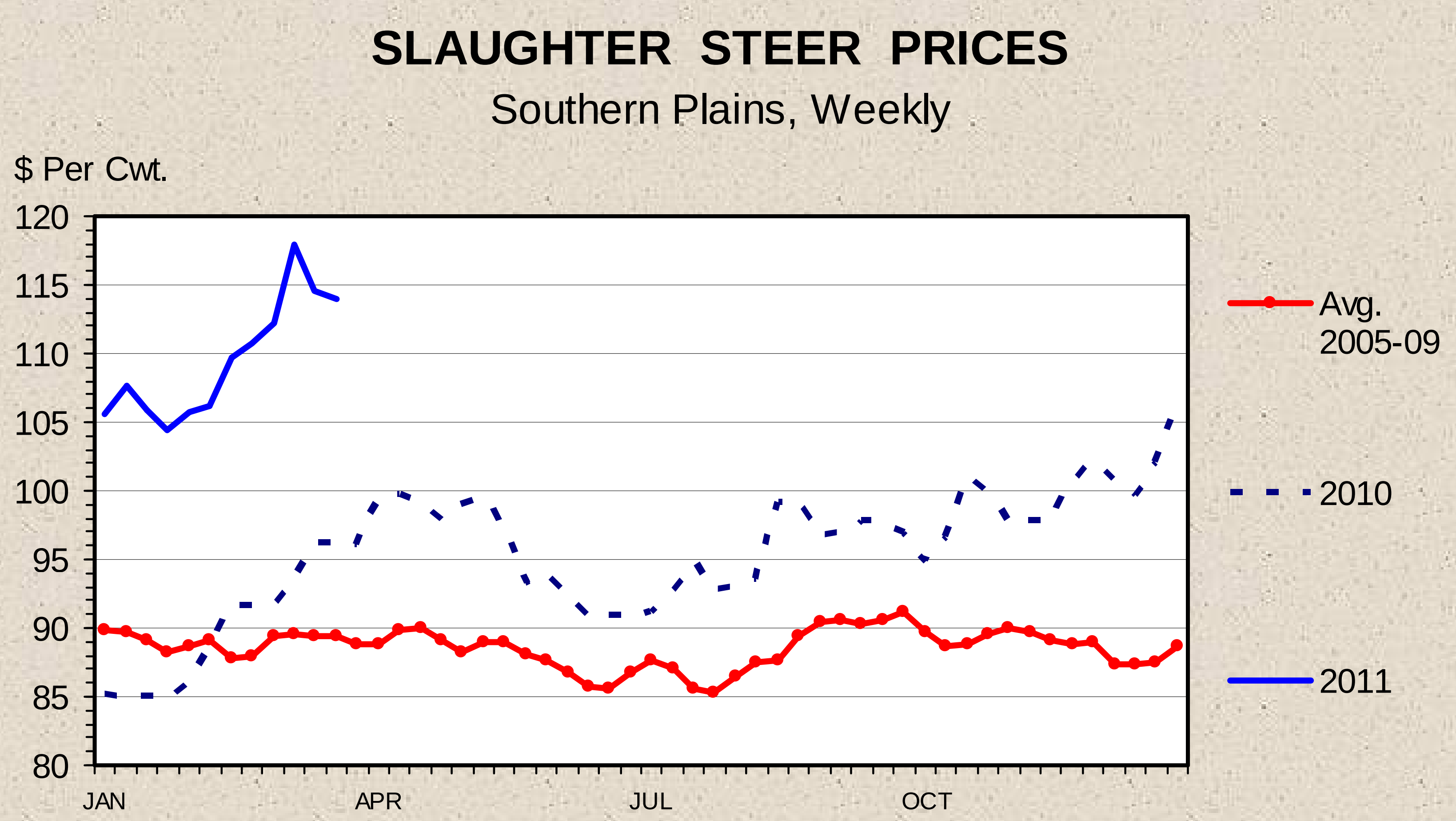
Data Source: USDA-AMS



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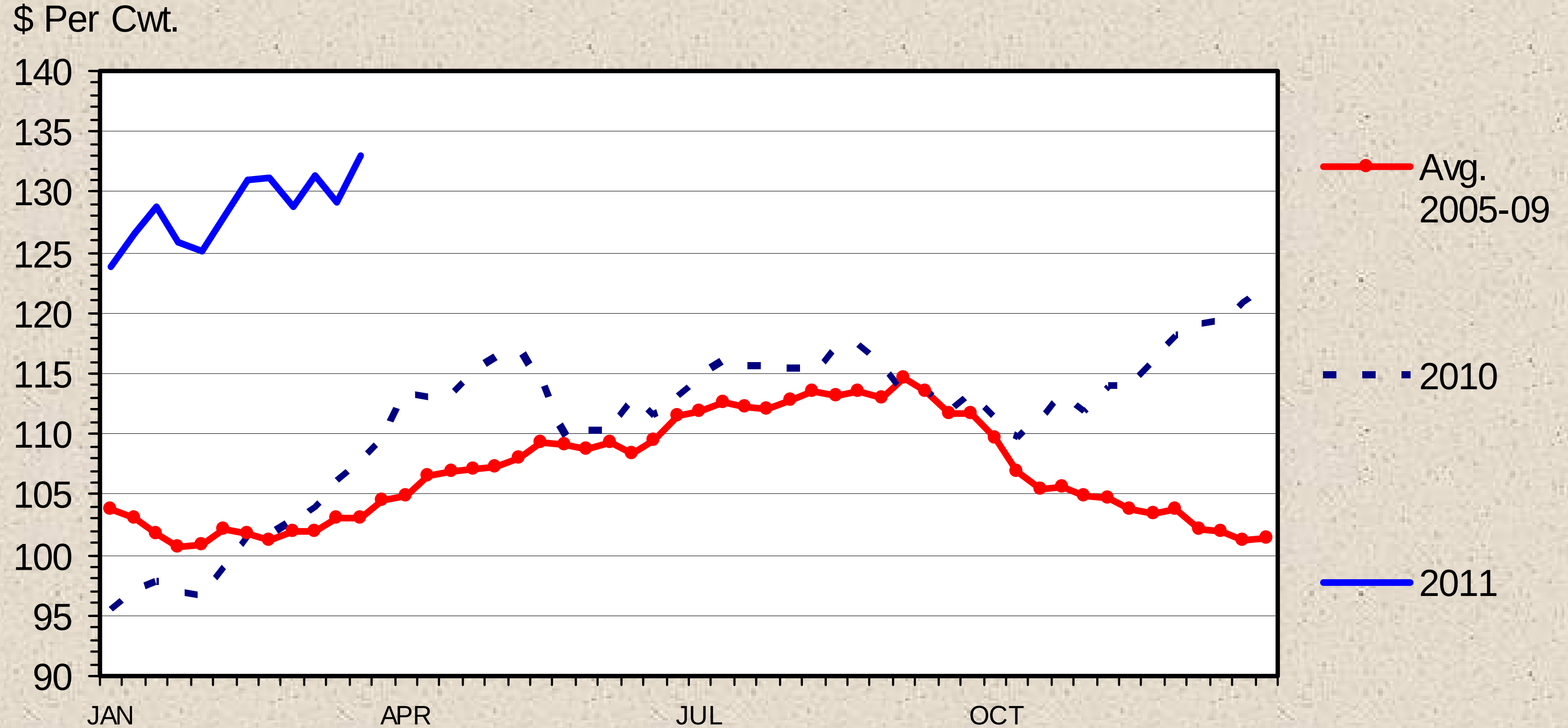
Data Source: USDA-AMS

MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly



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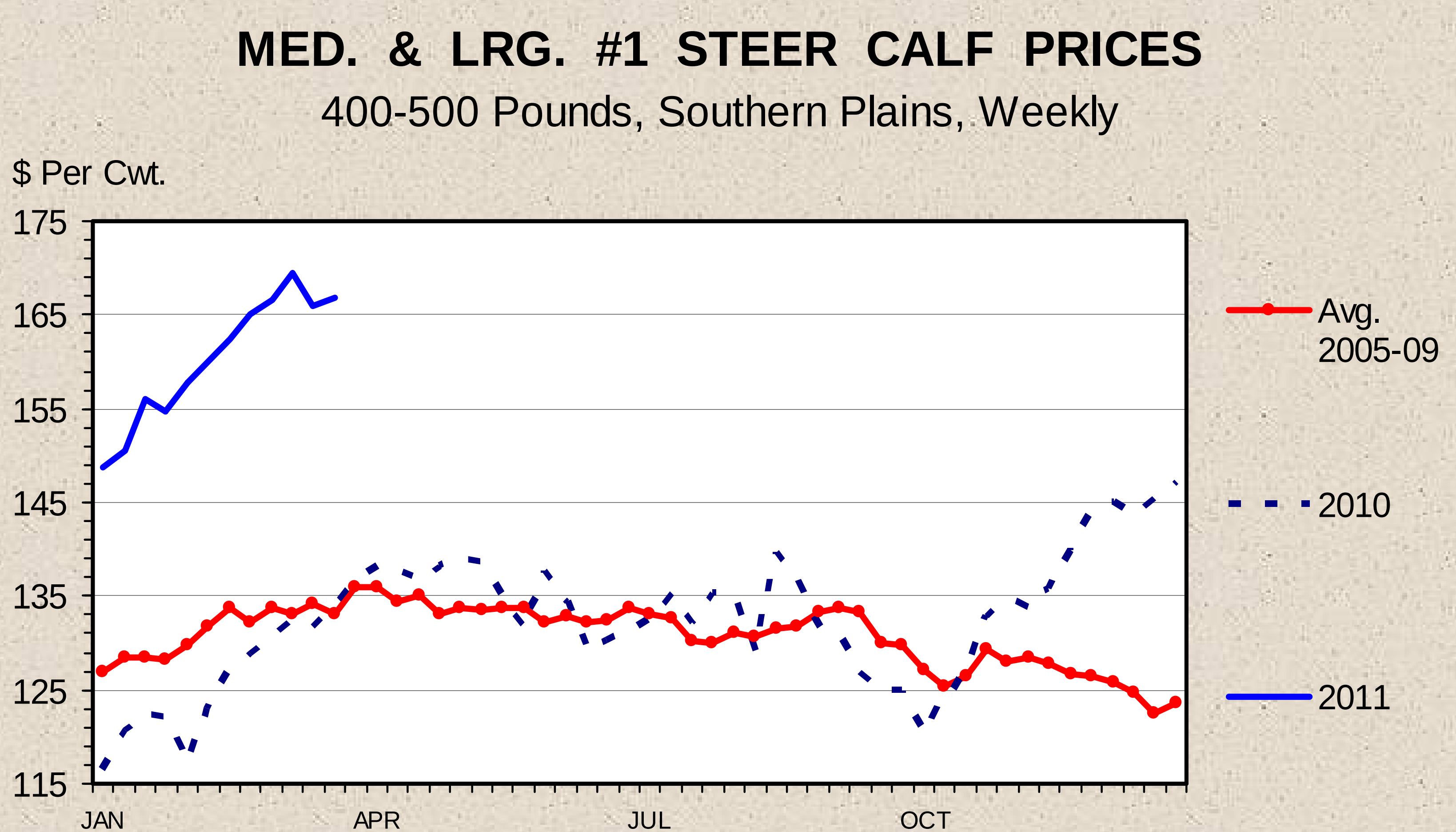
Data Source: USDA-AMS, Compiled & Analysis by LMIC



C-P-49A
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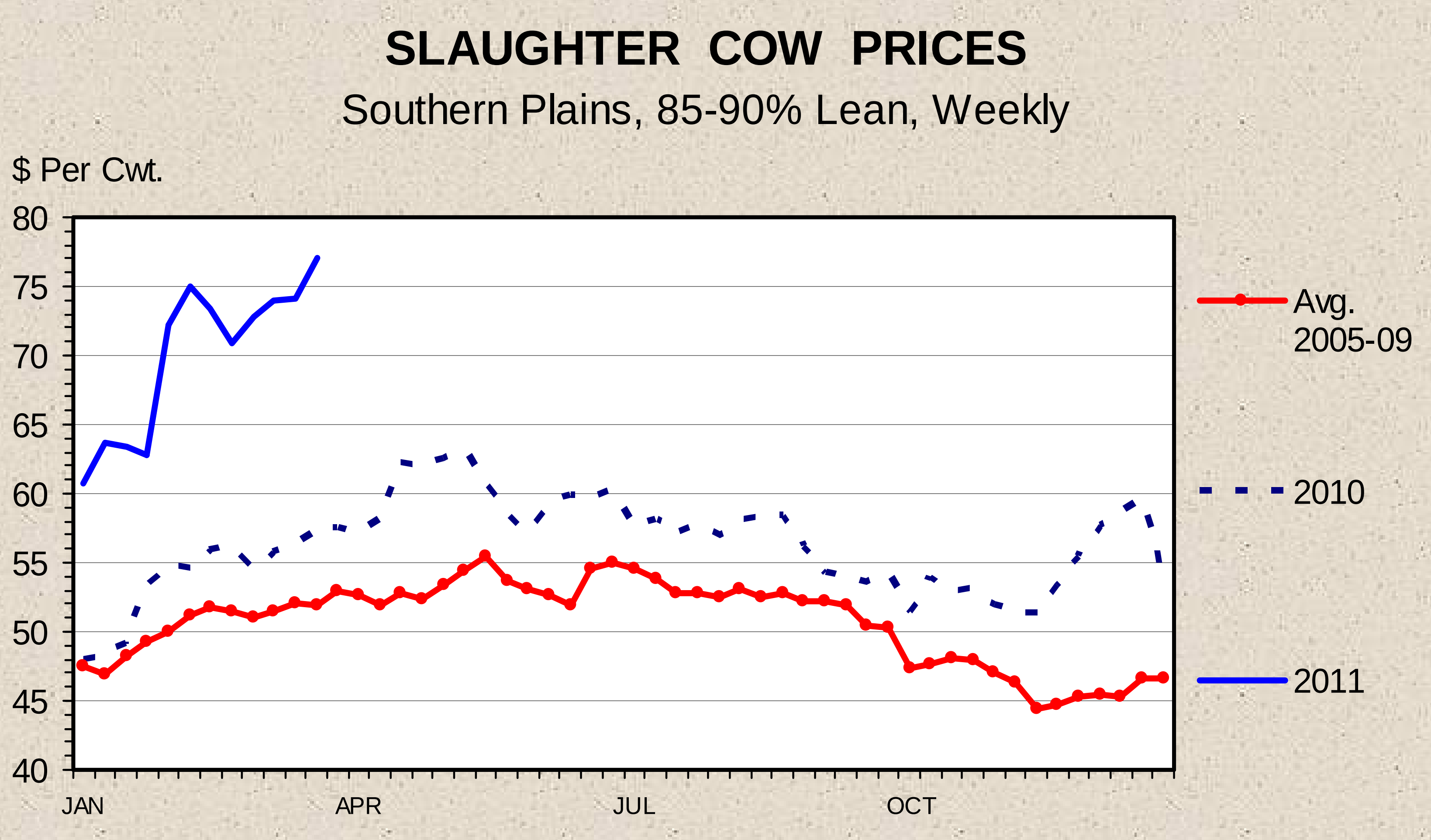
Data Source: USDA-AMS, Compiled & Analysis by LMIC



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Data Source: USDA-AMS

Major Market Factors

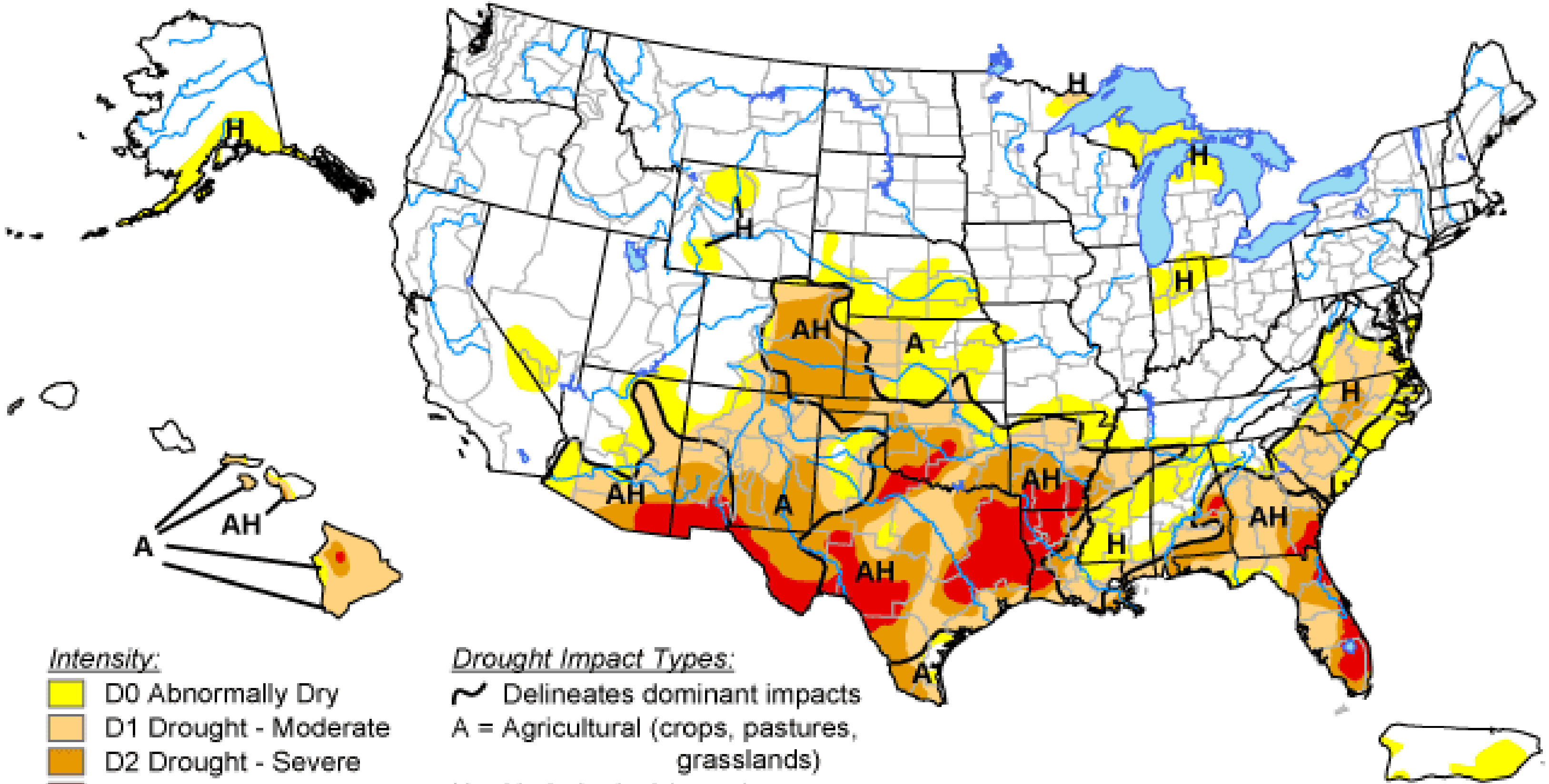
- Cattle Inventory and Beef Production
- Beef Demand
- International Trade
- Feed and Input Markets
- Forage Conditions

Timelines: Coming Weeks/Months

- Current Events
  - Middle East/Africa Unrest
  - Japan disaster
- Emerging Drought

U.S. Drought Monitor

March 22, 2011
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

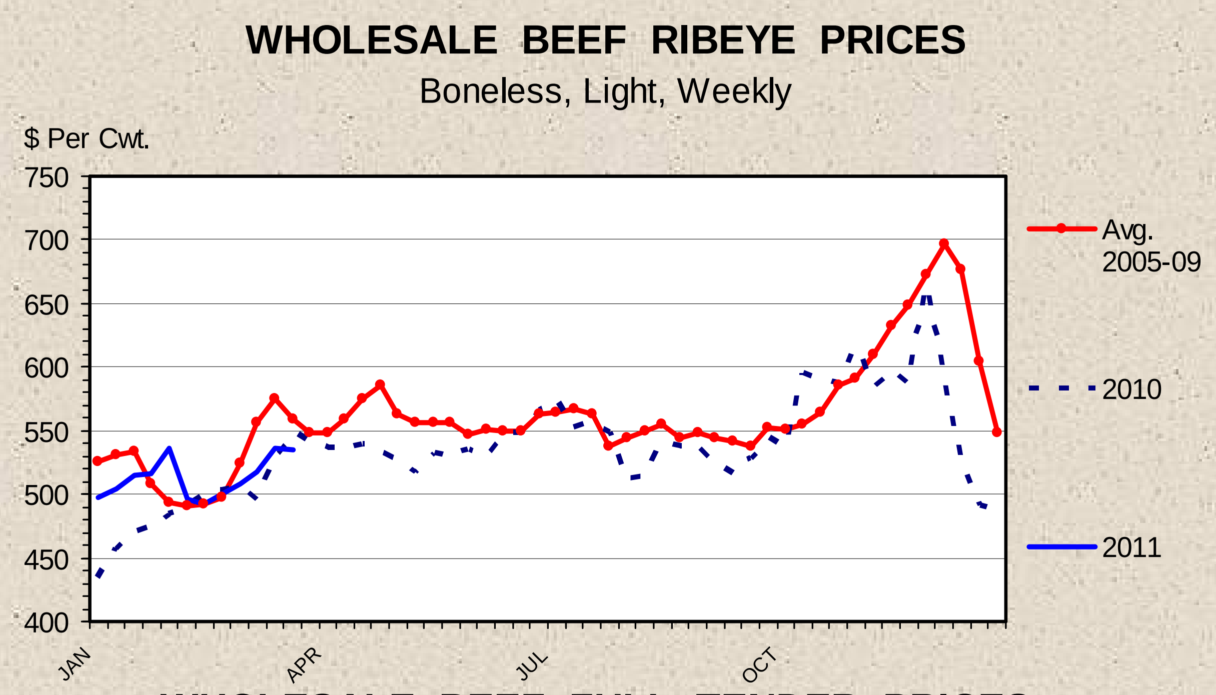
Released Thursday, March 24, 2011

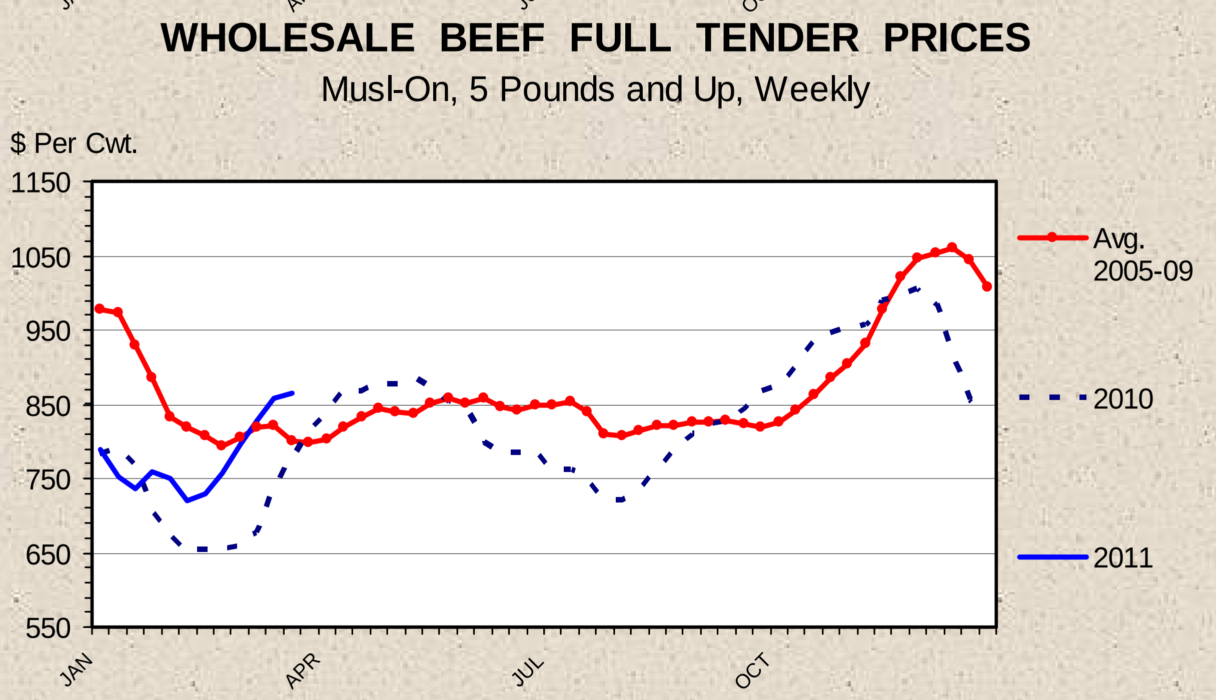
Author: Eric Luebehusen, U.S. Department of Agriculture

Timelines: Next 12-30 Months

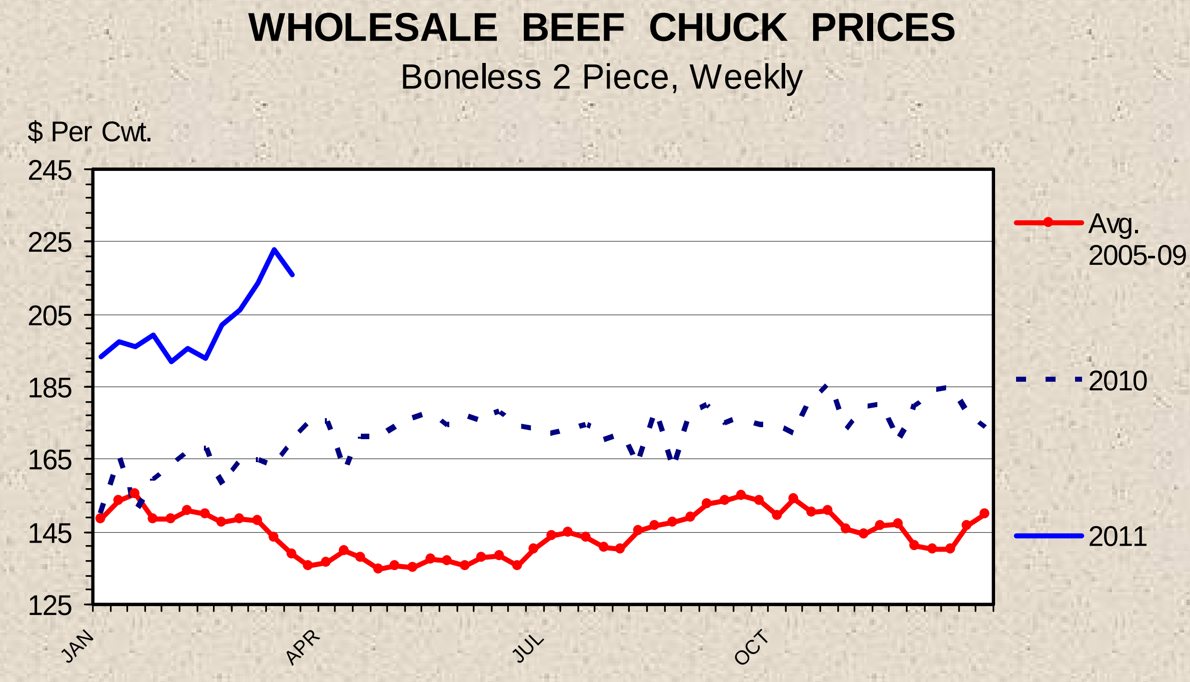
- Domestic Beef Demand
  - Continued improvement…slowly
  - Decreased beef production expected beginning in Q3 this year
  - More upward pressure on wholesale and retail prices

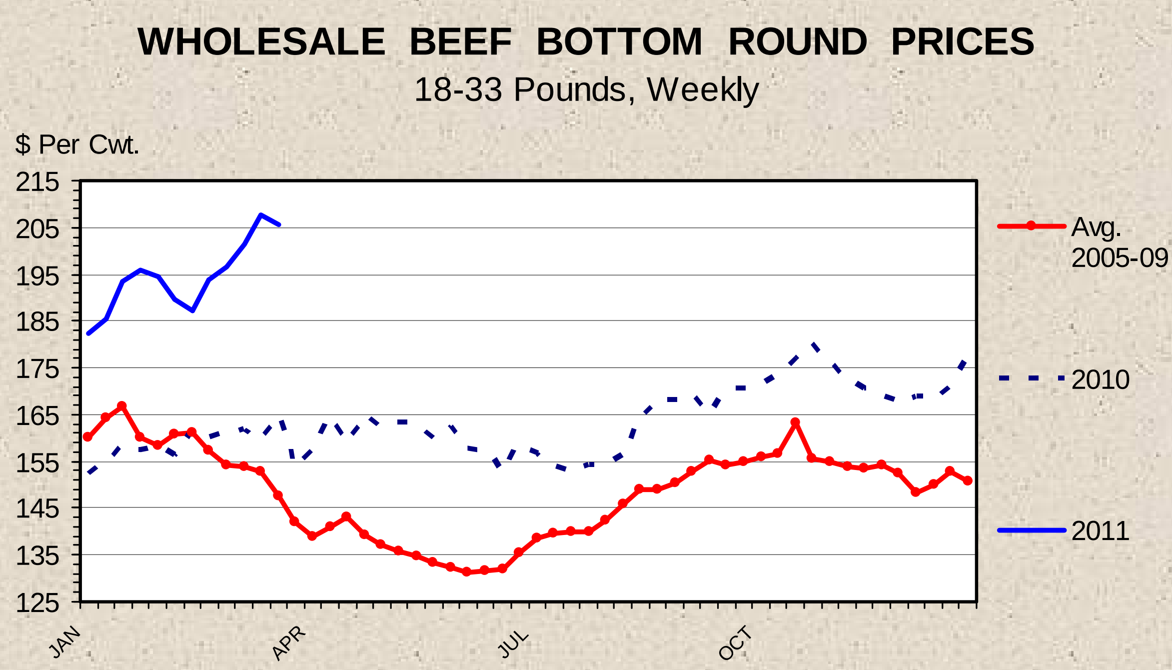
Middle Meat Demand Struggles Continue!





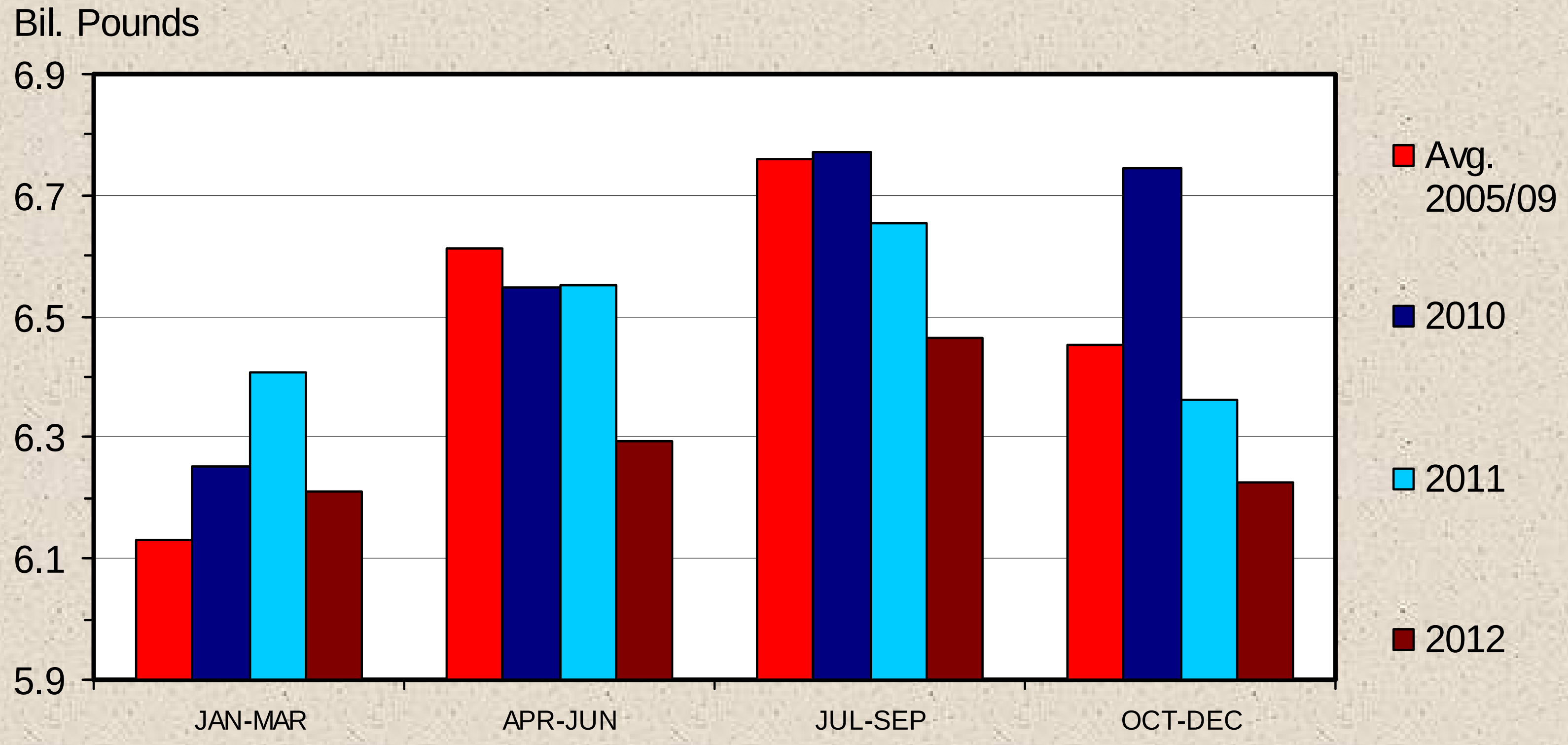
End Meat Demand Strength Continues!





COMMERCIAL BEEF PRODUCTION

Quarterly



M-S-01
03/25/11

Livestock Marketing Information Center

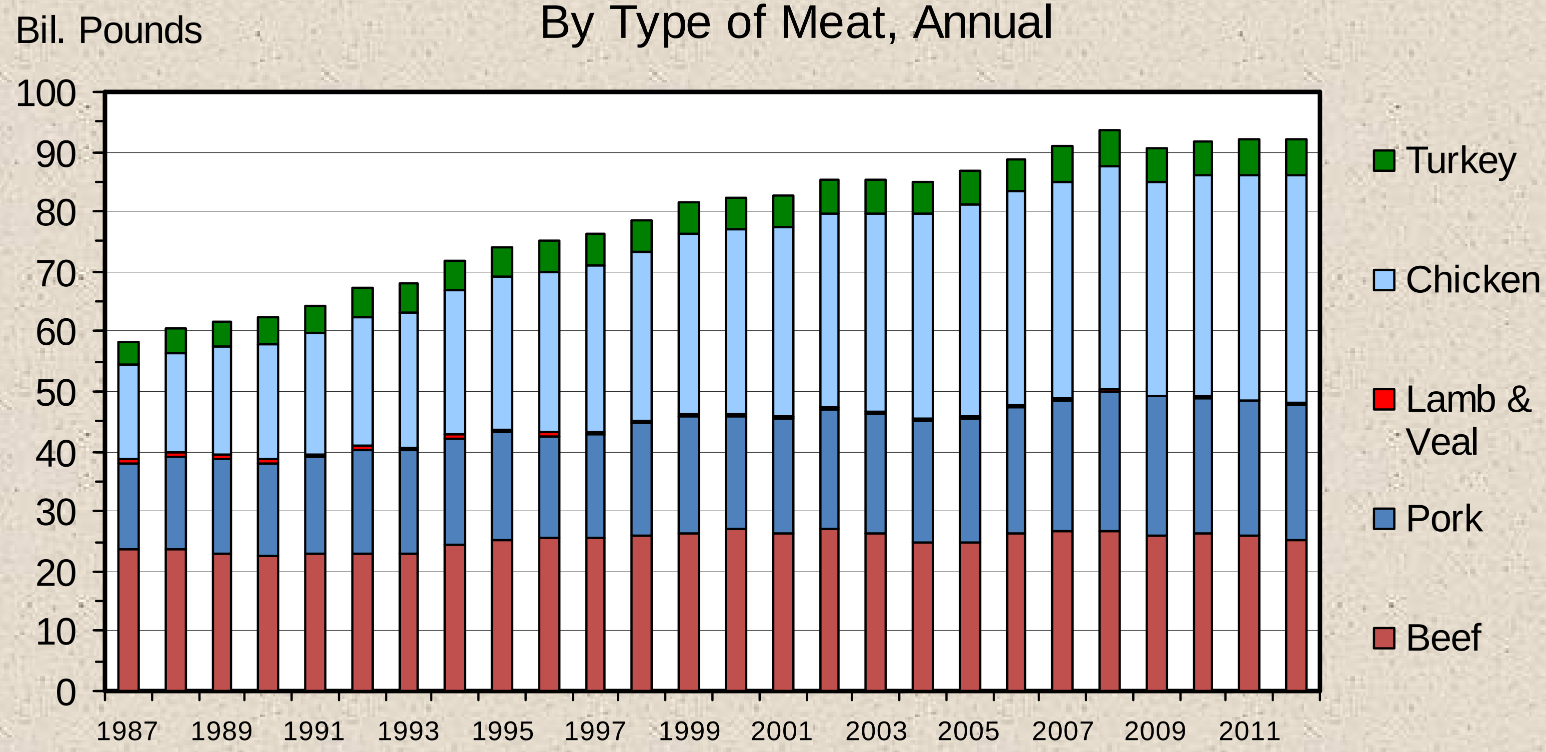
Data Source: USDA-NASS, Compiled & Analysis by LMIC

Total Meat Supplies Slightly Larger

• Beef	- 1.5%
• Pork	+0.5%
• Broilers	+1.5%
• Total Meat	+0.5%

COMMERCIAL MEAT & POULTRY PRODUCTION

By Type of Meat, Annual



M-S-03A
02/15/11

Livestock Marketing Information Center

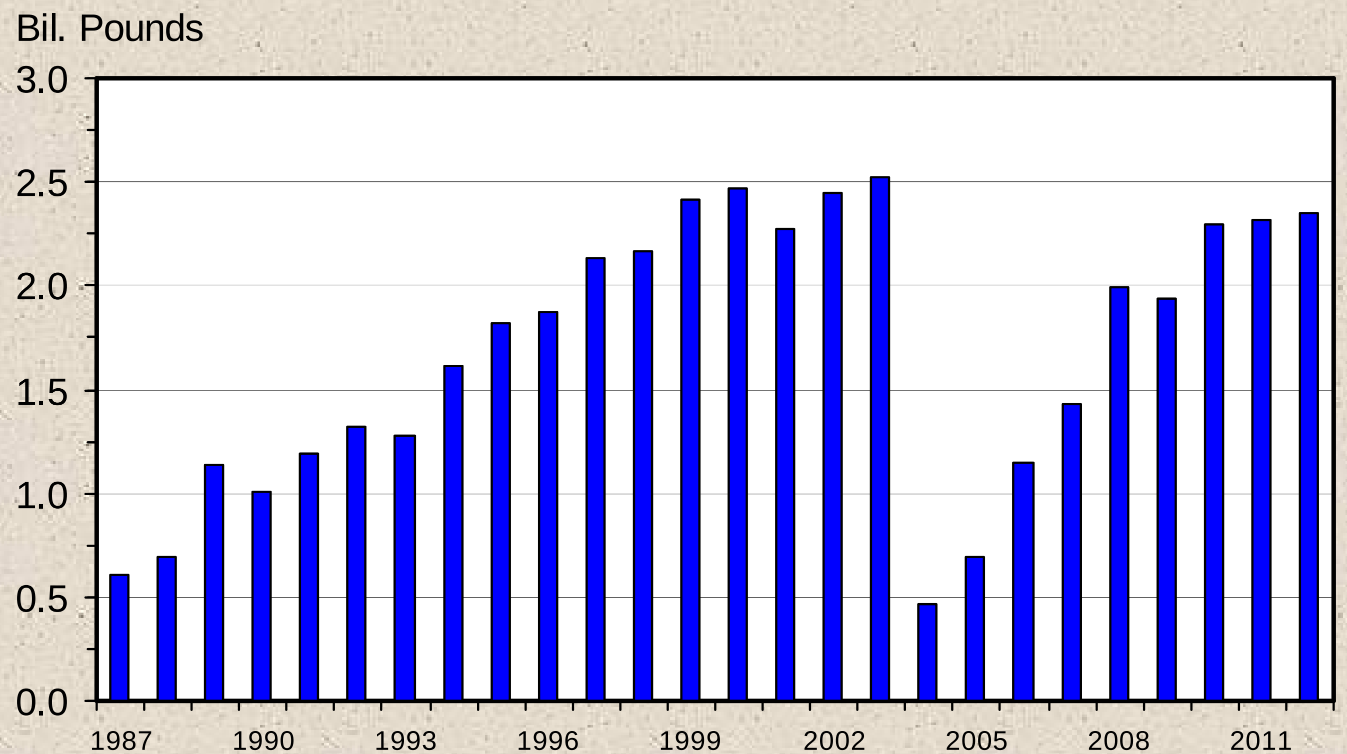
Data Source: USDA-NASS, Compiled & Analysis by LMIC

Timelines: Next 12-30 Months

- Domestic Beef Demand
  - Continued improvement…slowly
  - Decreased beef production expected beginning in Q3 this year
  - More upward pressure on wholesale and retail prices
- Beef Trade Support Continues
  - Trade has supported much of the price recovery so far

U S BEEF AND VEAL EXPORTS

Carcass Weight, Annual



I-N-06
02/14/11

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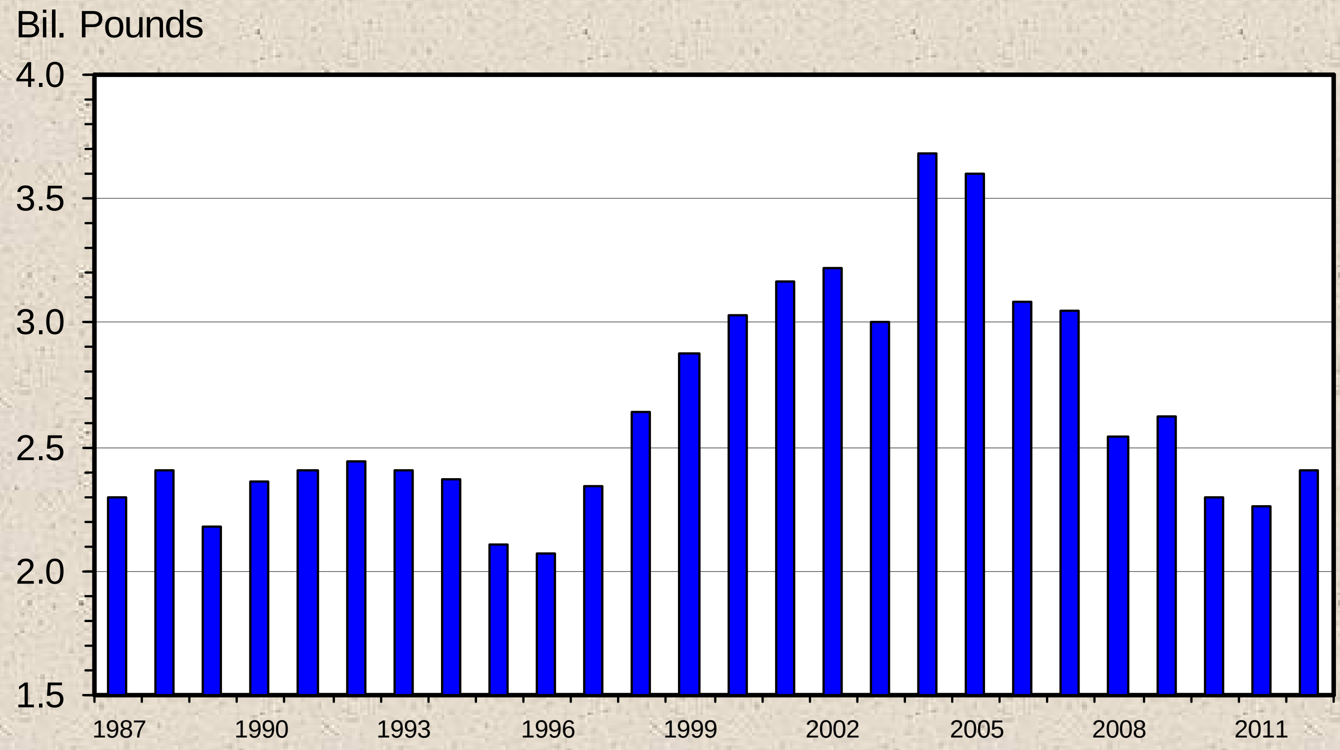
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

U S BEEF AND VEAL IMPORTS

Carcass Weight, Annual



I-N-12
02/14/11

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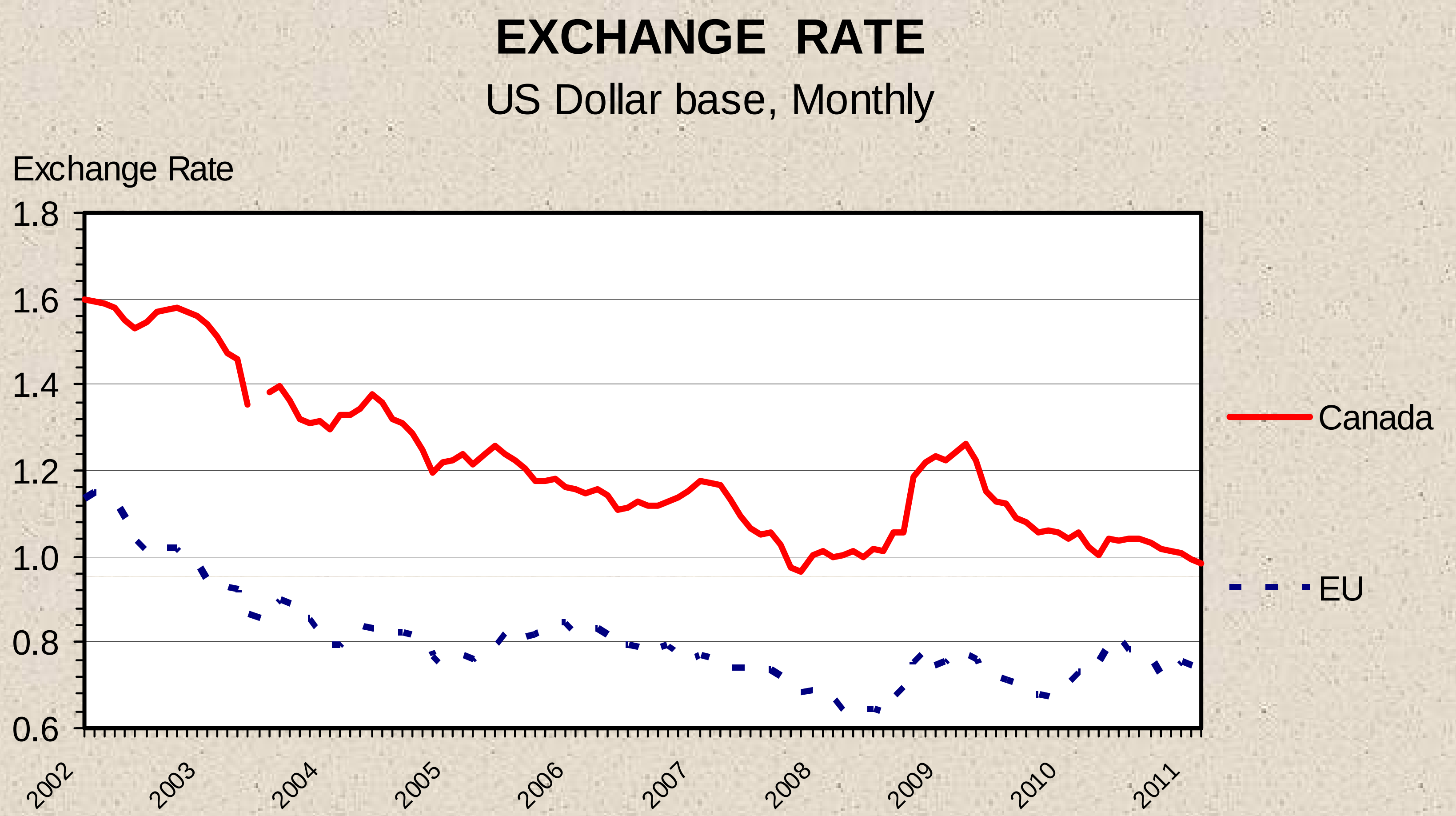
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC



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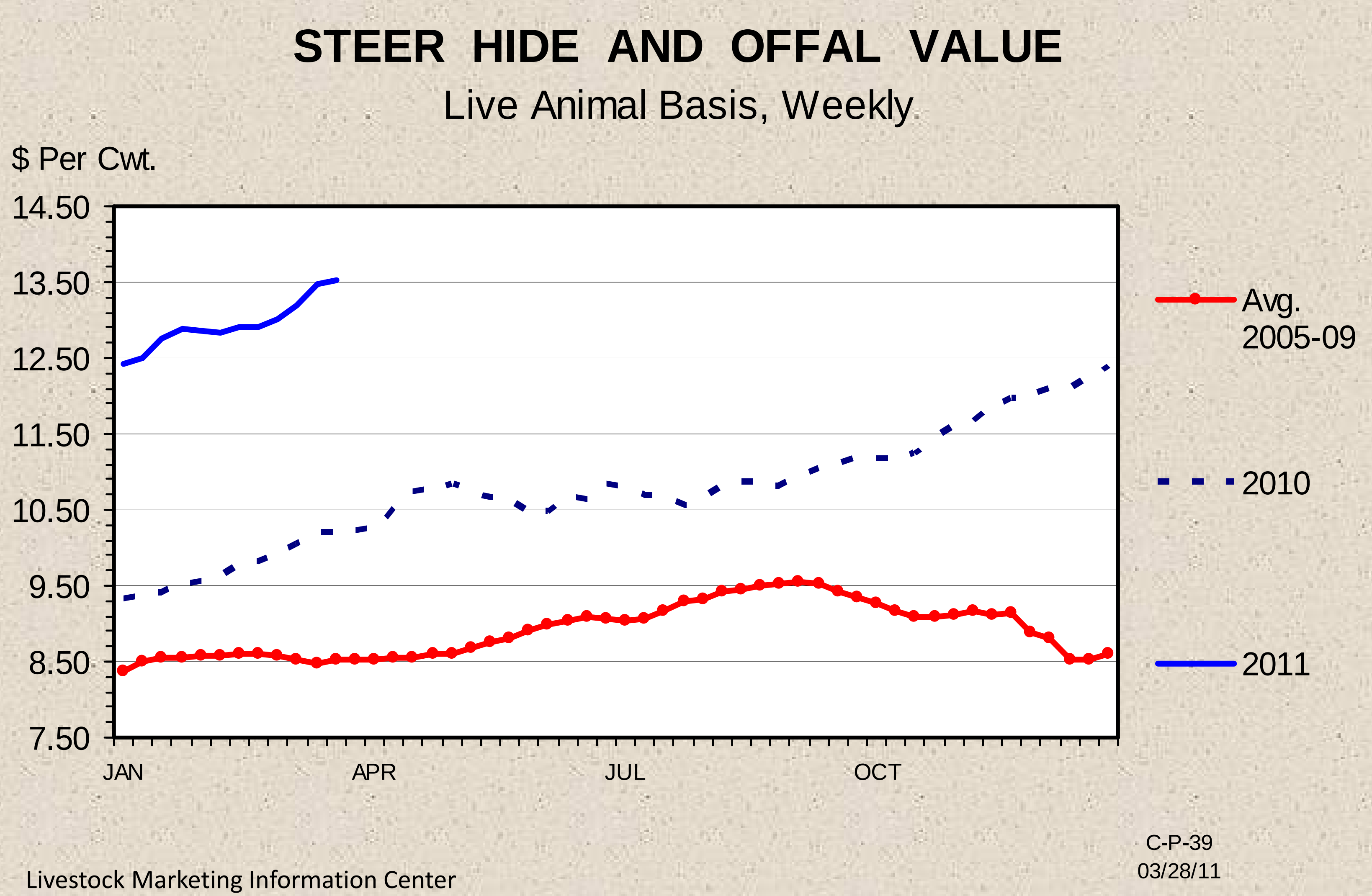
03/11/11

Data Source: Pacific Exchange Rate Service, Univ. of B.C., Compiled & Analysis by LMIC



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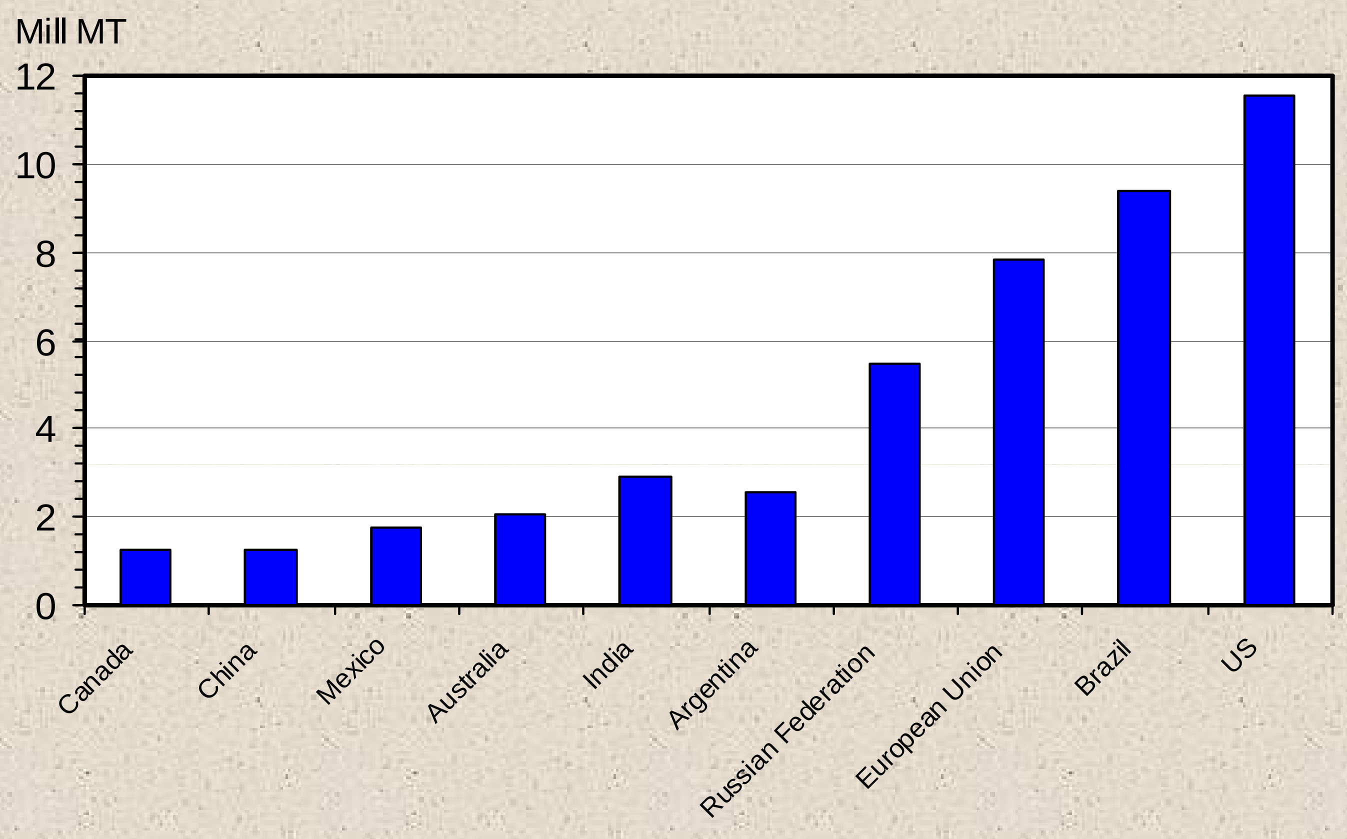
Data Source: USDA-AMS

2011 BEEF AND VEAL PRODUCTION

Carcass Weight



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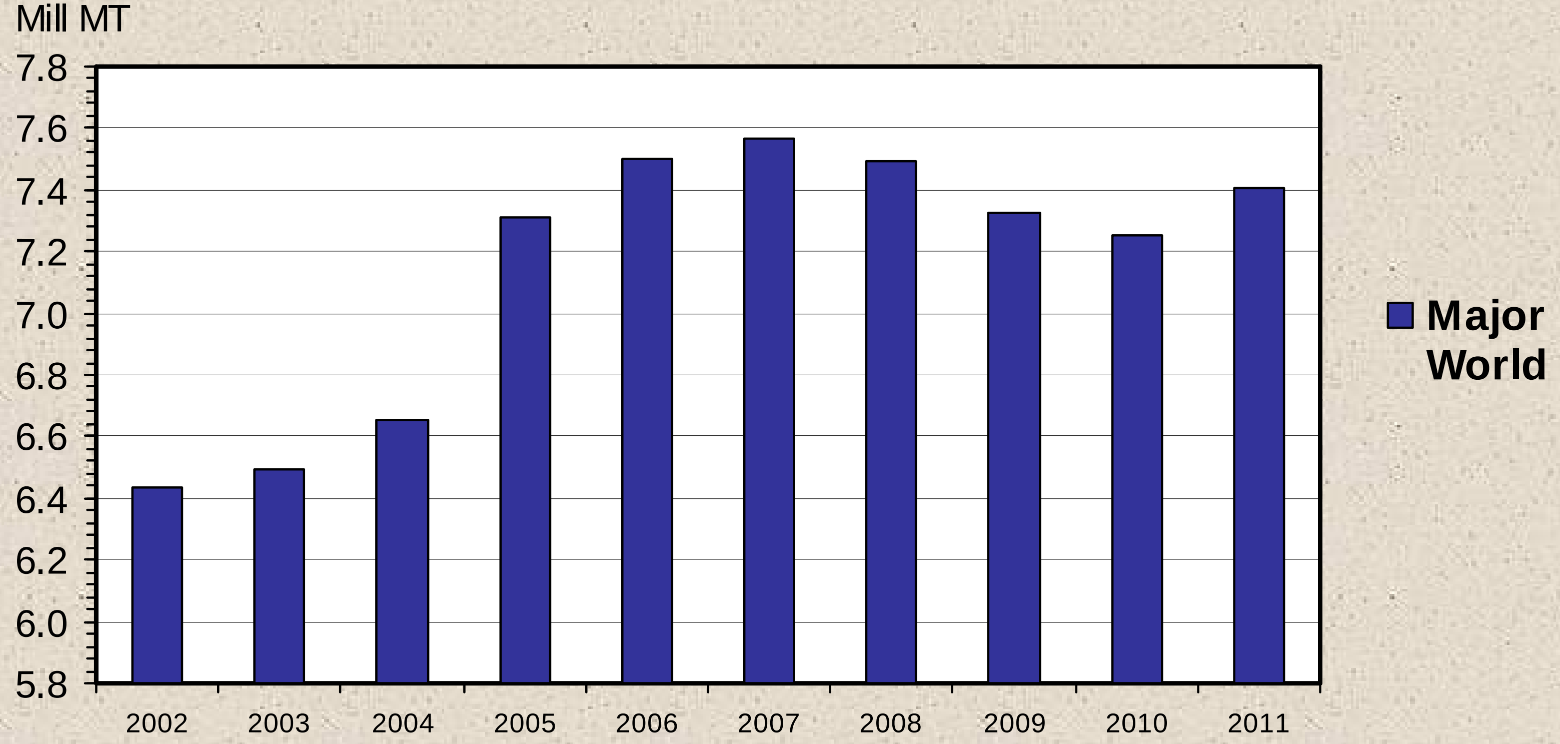
Data Source: USDA-FAS

BEEF EXPORTS: MAJOR WORLD

Carcass Weight, Annual



Livestock Marketing Information Center

Data Source: USDA-FAS

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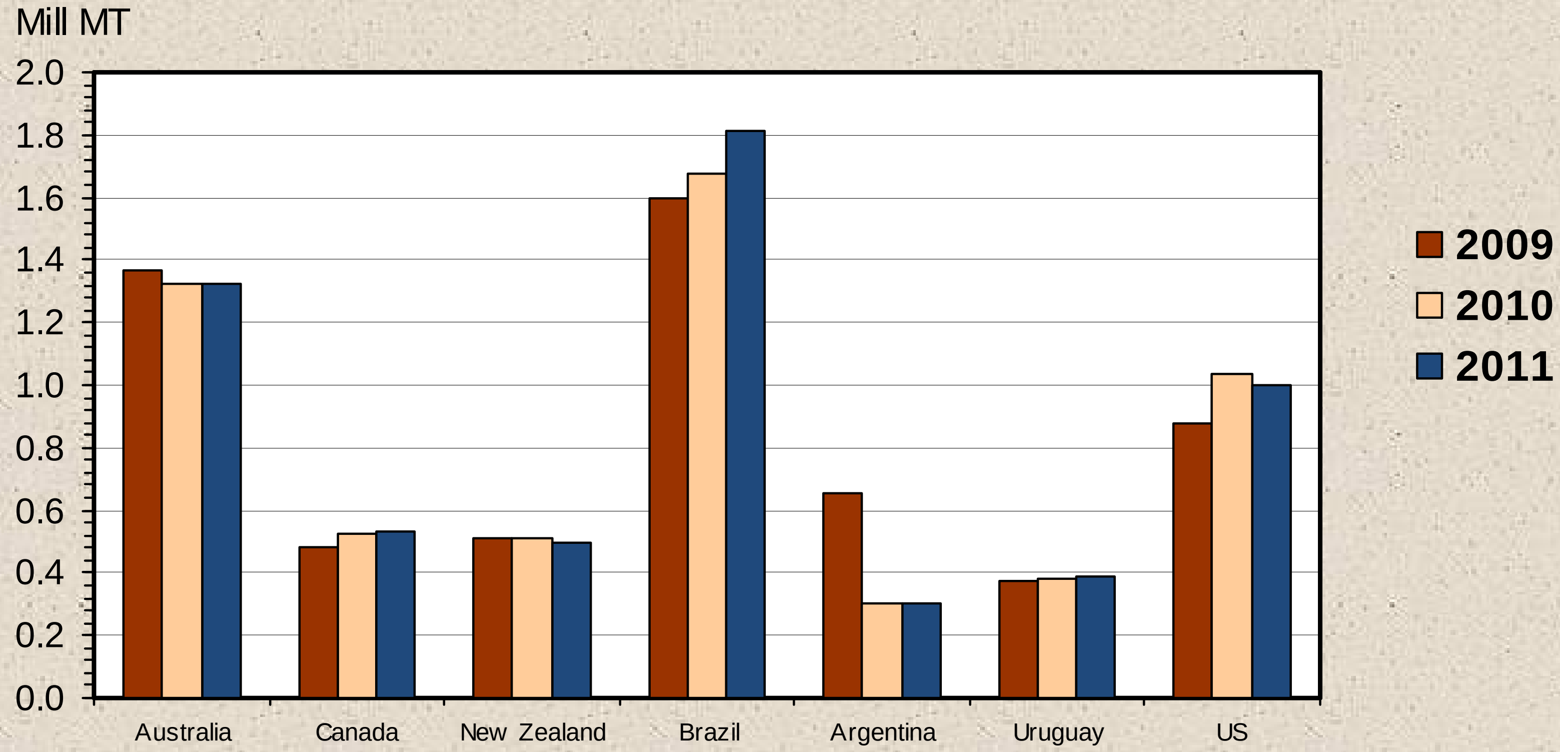
BEEF AND VEAL EXPORTS

Carcass Weight, Annual



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Data Source: USDA-FAS

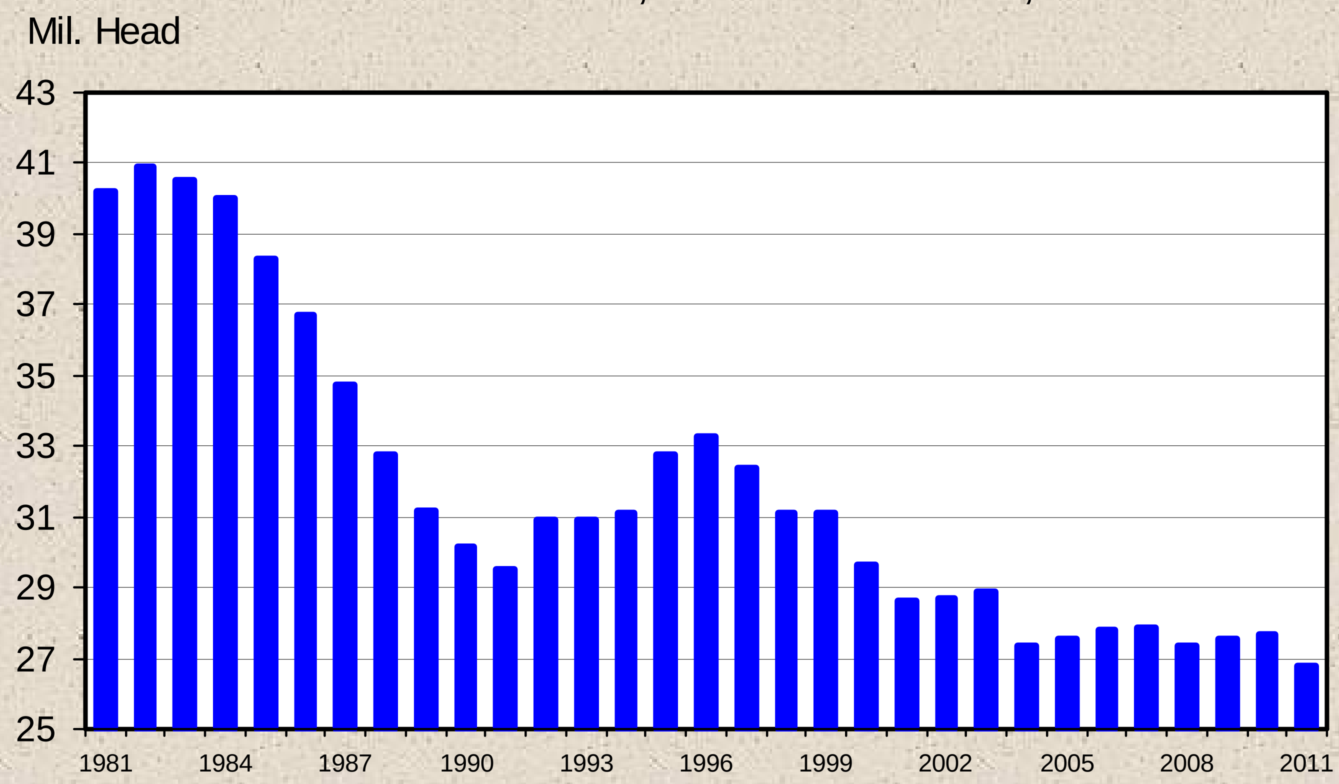
03/02/11

Timelines: Next 3-6 Years

- Supply Issues Dominate
- Already Have Critically Low Feeder Supplies
- Herd Expansion: How Much and How Fast?
  - Likely to be a slow process
- Heifer Retention will Further Squeeze Feeder Supplies

JANUARY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.



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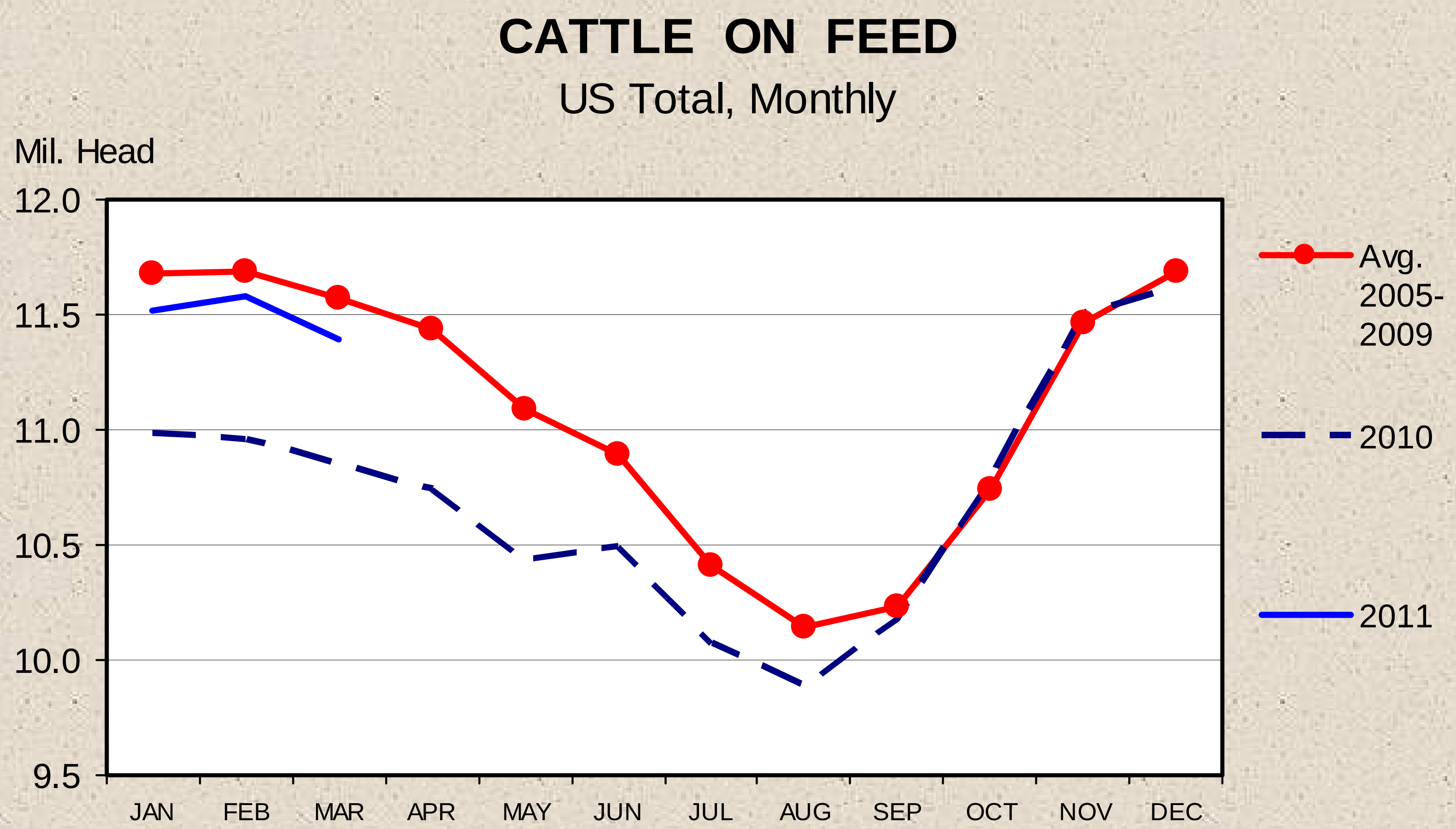
Data Source: USDA-NASS



C-N-10
03/18/11

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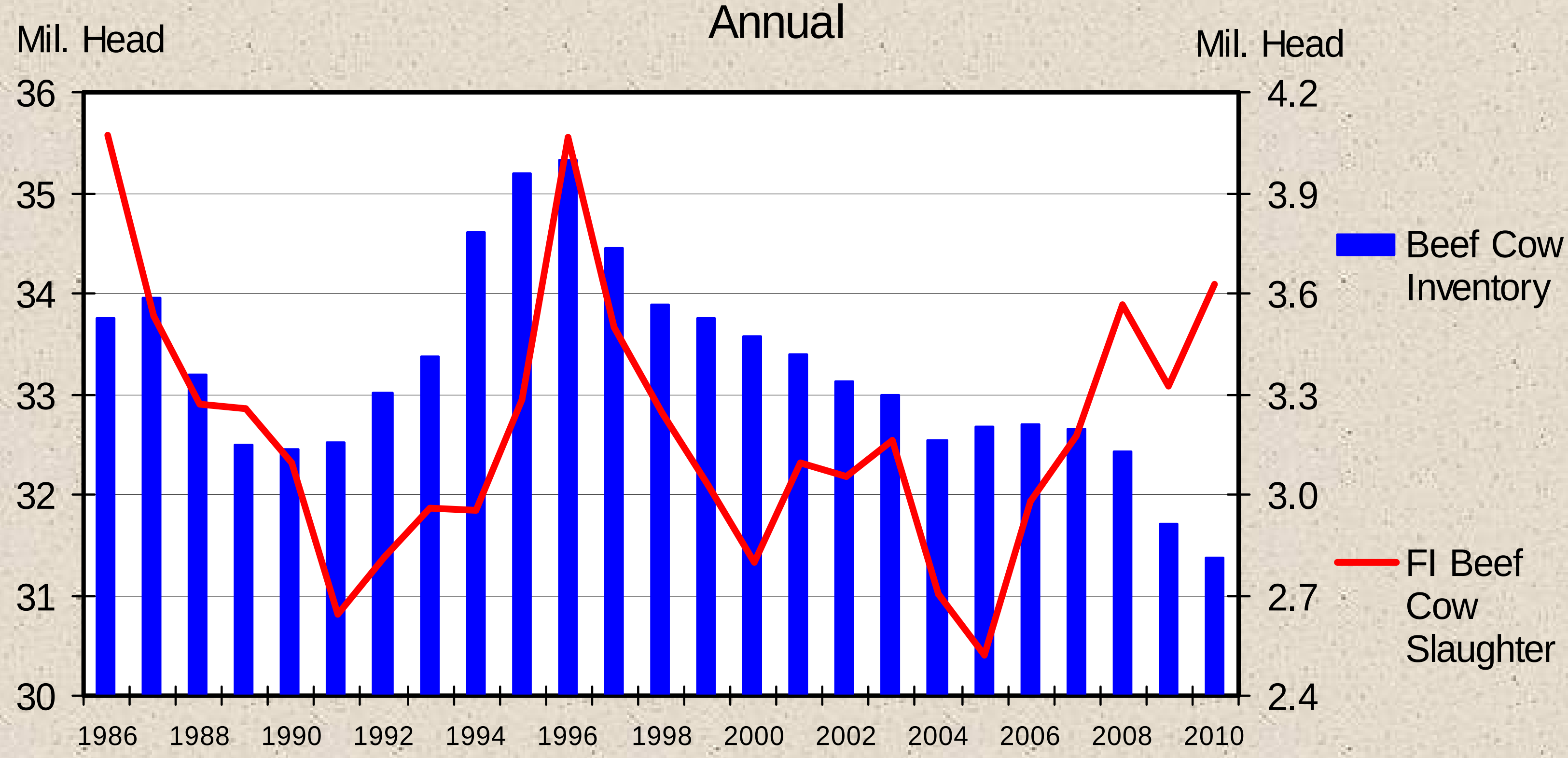
Data Source: USDA-NASS

U S BEEF COW INVENTORY vs FI BEEF COW SLAUGHTER

Annual



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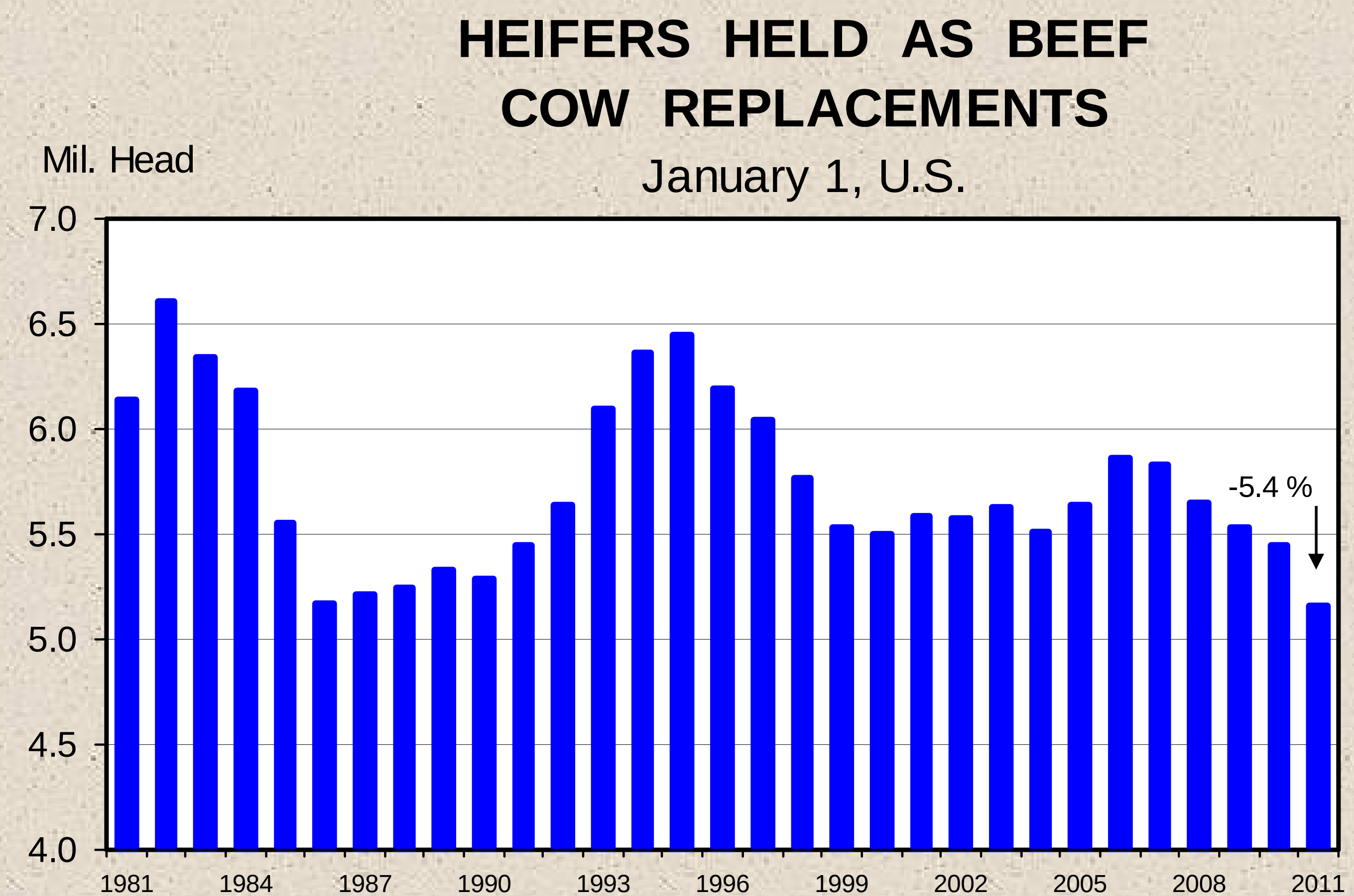
Data Source: USDA-NASS



C-N-38
01/28/11

Livestock Marketing Information Center

Data Source: USDA-NASS

Timelines: Next 10-20 Years

- Agriculture is Being Asked to Do More of Everything
- Long Term Structural Change
  - The industry we know today was built on cheap energy and cheap feed
  - We are unlikely to enjoy either of those in the future
- Change the Beef Industry from Grain Intensive to Forage Intensive

Resource Pressures in Agriculture

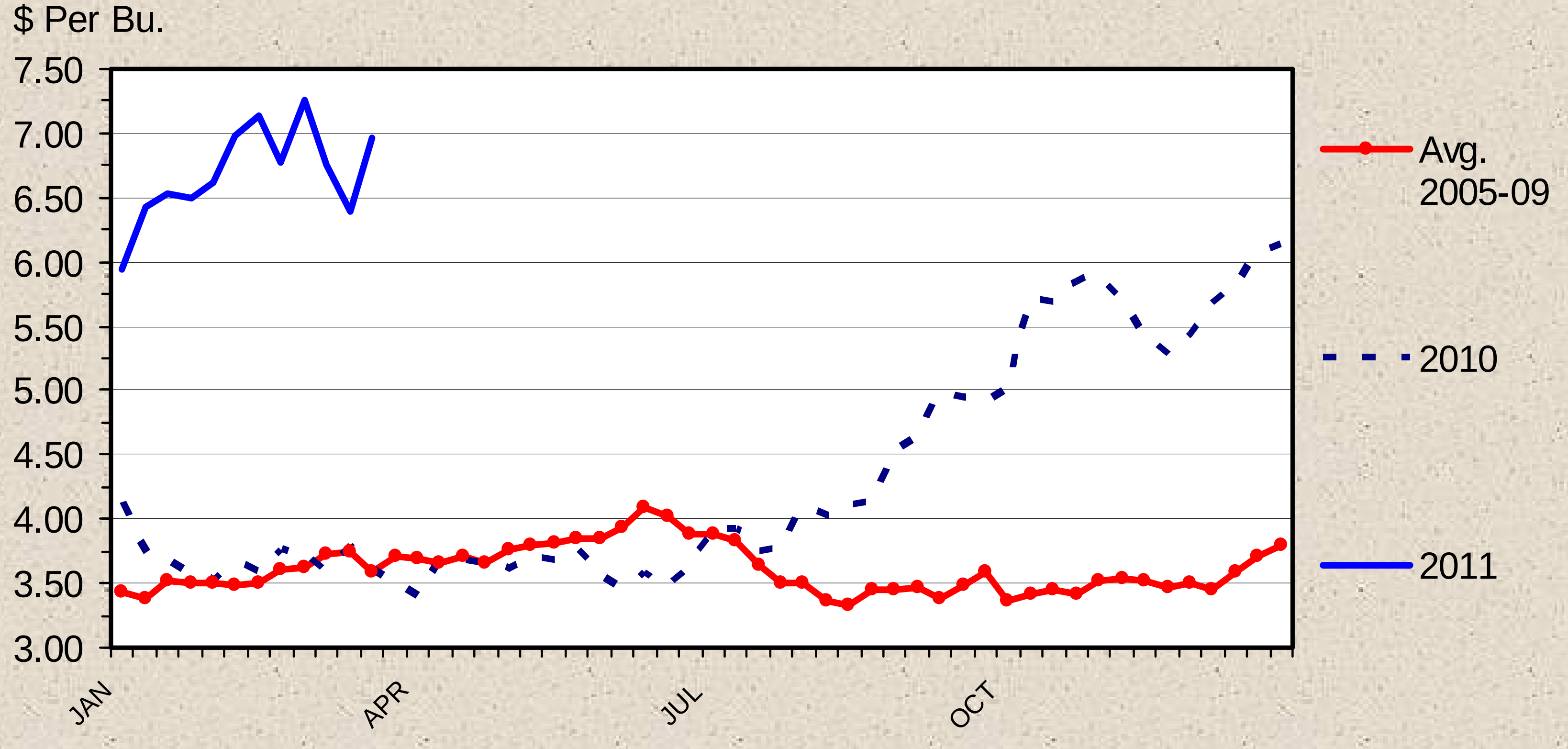
- More Competition Among Crops for Acres
- More Competition From Crops for Forage and Hay Production
- Regional Implications

U.S. Principal Crop Planted Acres

	--*Million Acres*--	
• **2001**	**324.6**	**- 4.1**
• **2002**	**327.3**	**+ 2.7**
• **2003**	**325.7**	**- 1.6**
• **2004**	**322.3**	**- 3.4**
• **2005**	**317.6**	**- 4.7**
• **2006**	**315.6**	**- 2.0**
• **2007**	**320.4**	**+ 4.8**
• **2008**	**325.0**	**+ 4.6**
• **2009**	**319.3**	**- 5.7**
• **2010**	**316.7**	**- 2.6**
• **2011**	**323.8**	**+7.1**

SOUTHERN PLAINS CORN PRICES

Weekly



G-P-04
03/24/11

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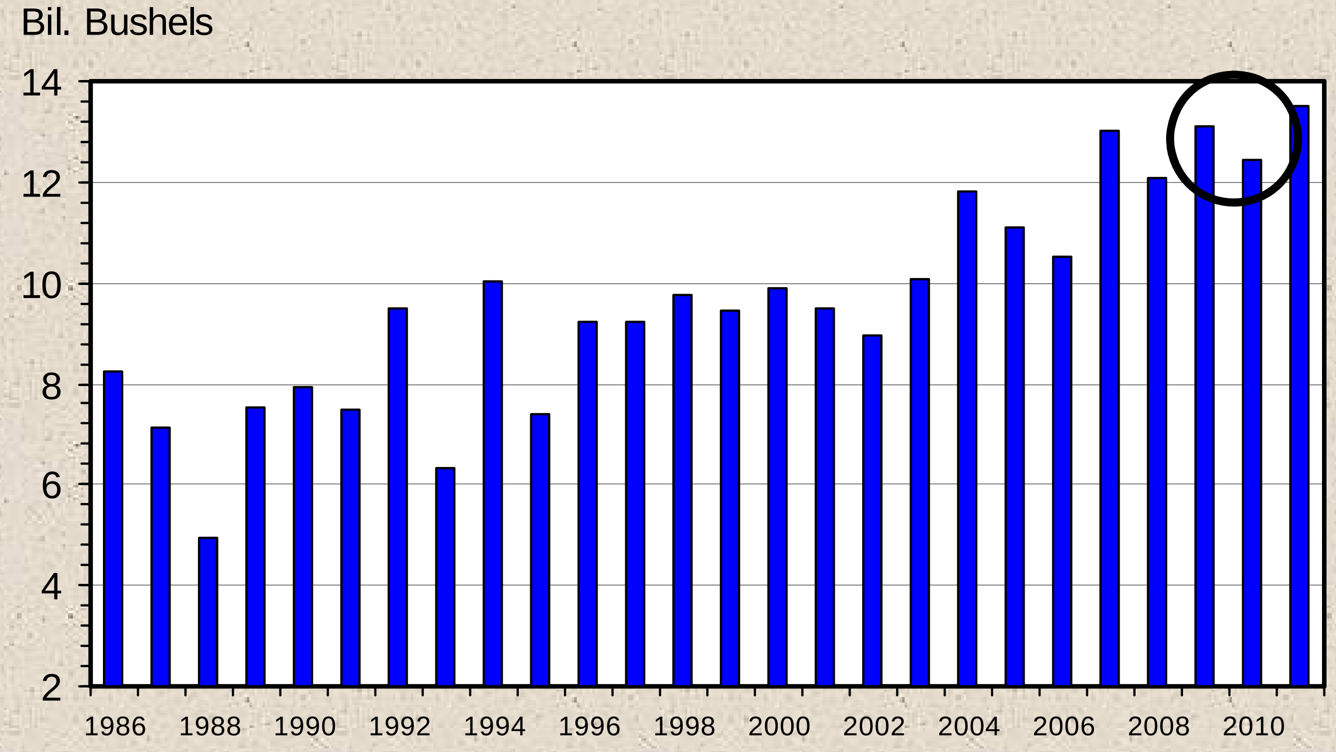
Data Source: USDA-AMS

U S ANNUAL CORN PRODUCTION

Crop Year



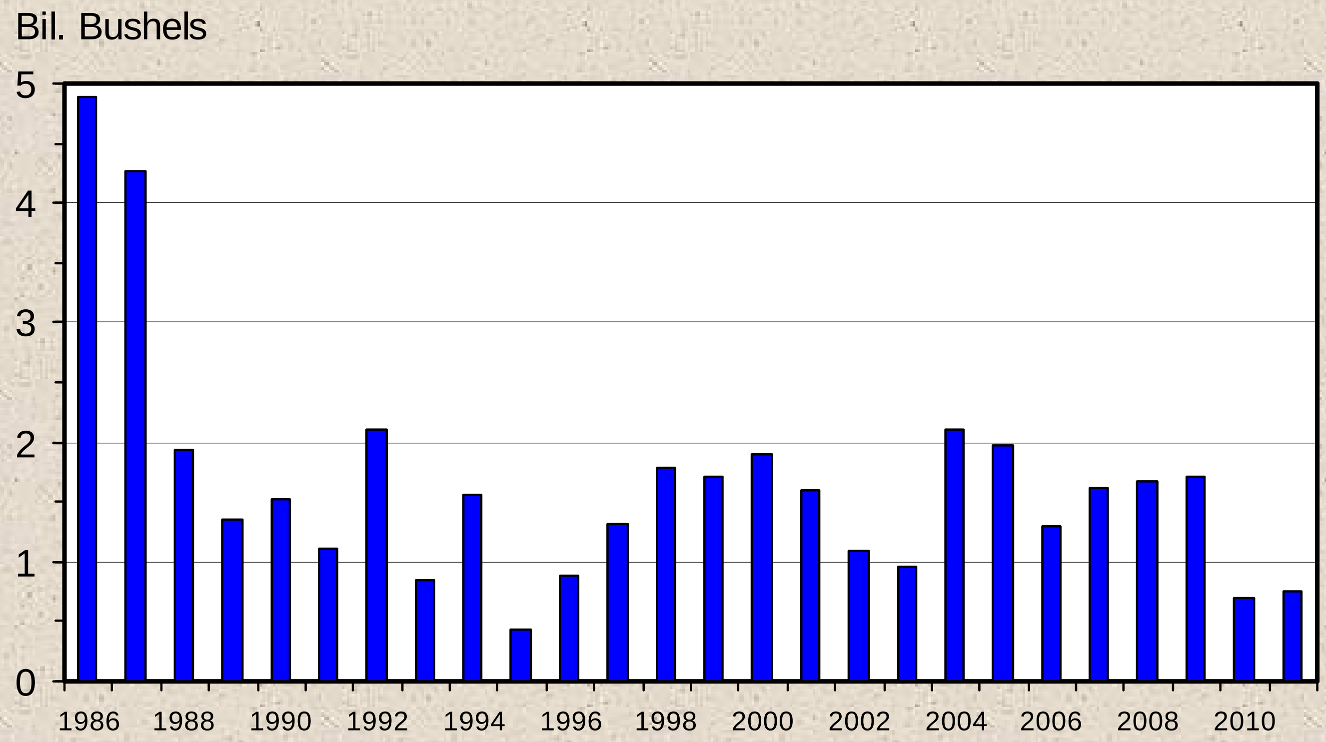
G-NP-07
02/10/11

Livestock Marketing Information Center

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

U S ANNUAL CORN ENDING STOCKS

Crop Year



G-NP-09
02/10/11

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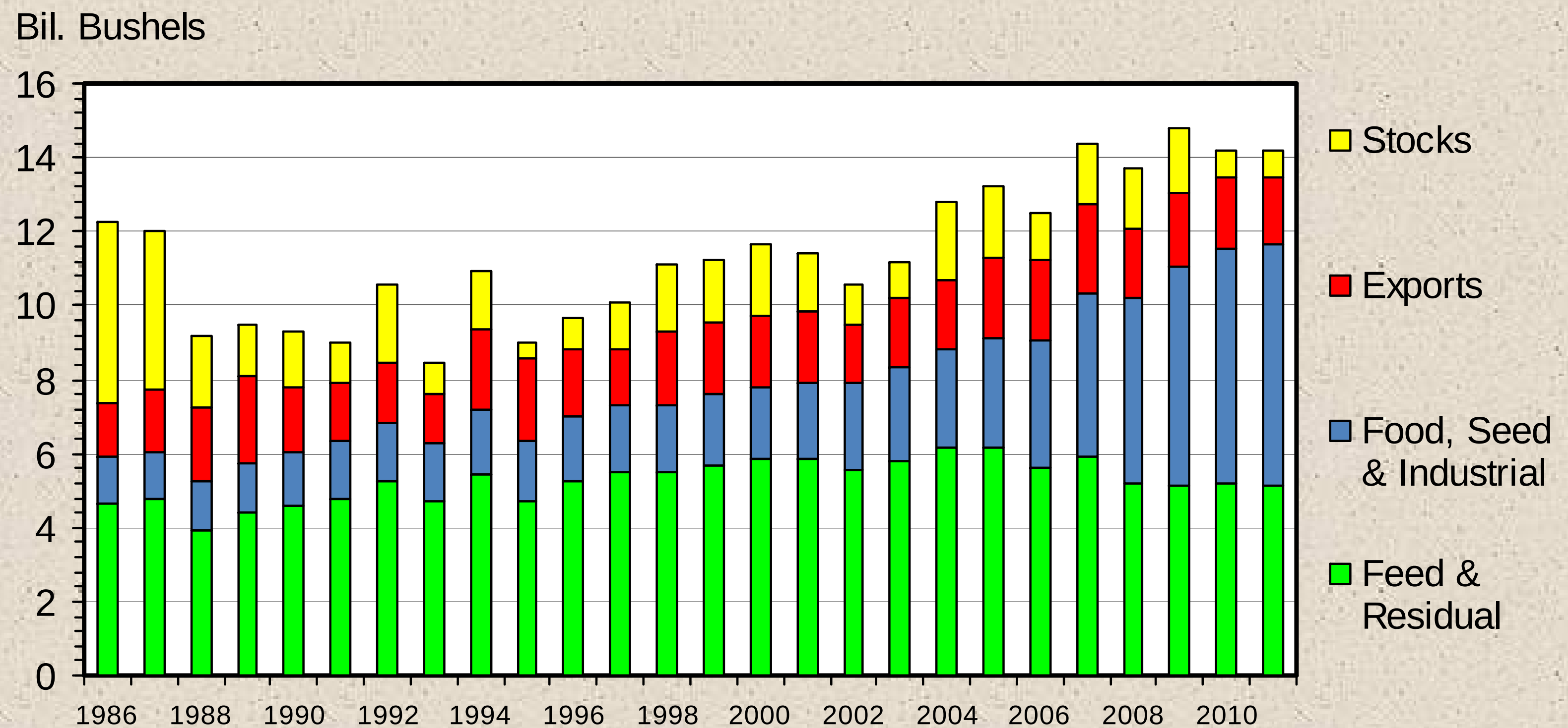
Data Source: USDA-NASS, Compiled & Analysis by LMIC

U.S. CORN DISAPPEARANCE AND STOCKS

Crop Year



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02/10/11

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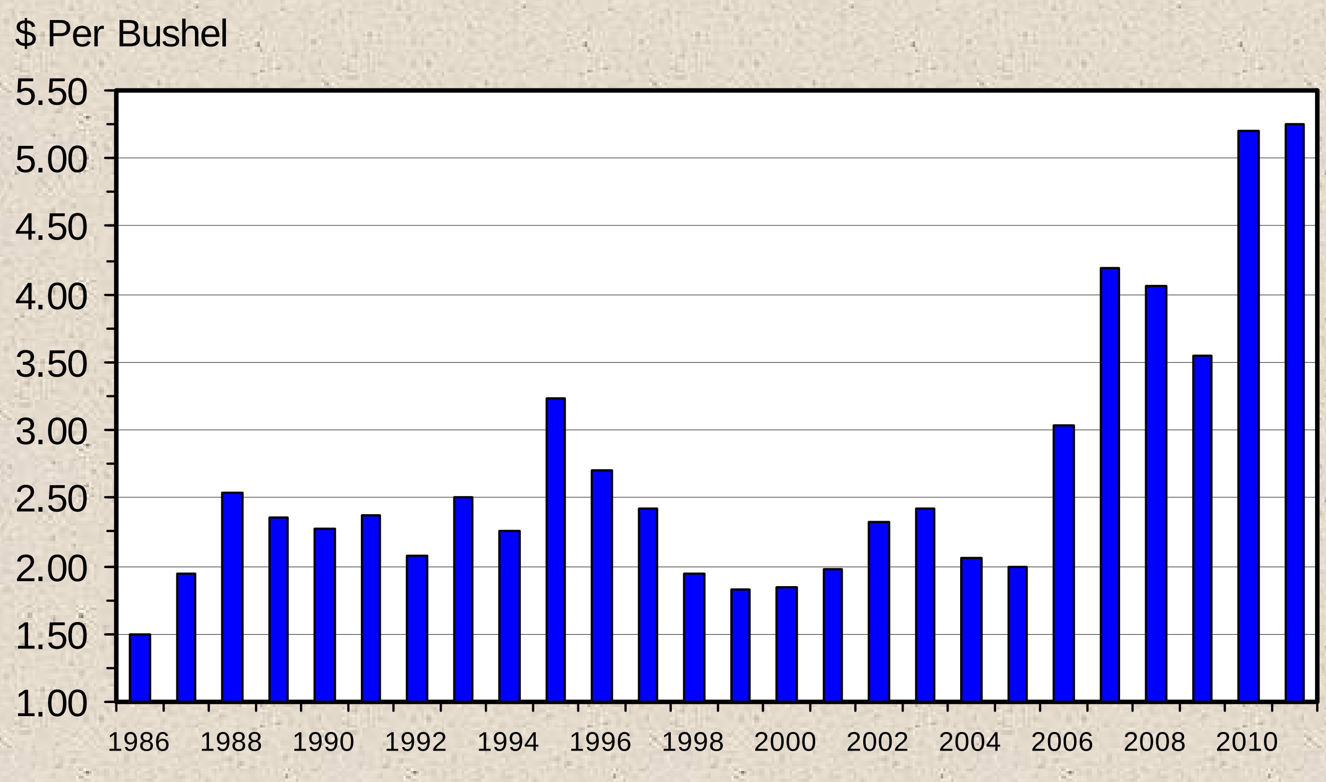
Data Source: USDA-NASS, Compiled & Analysis by LMIC

NATIONAL AVERAGE CORN PRICE

Crop Year, Received by Farmers



G-NP-03
02/10/11

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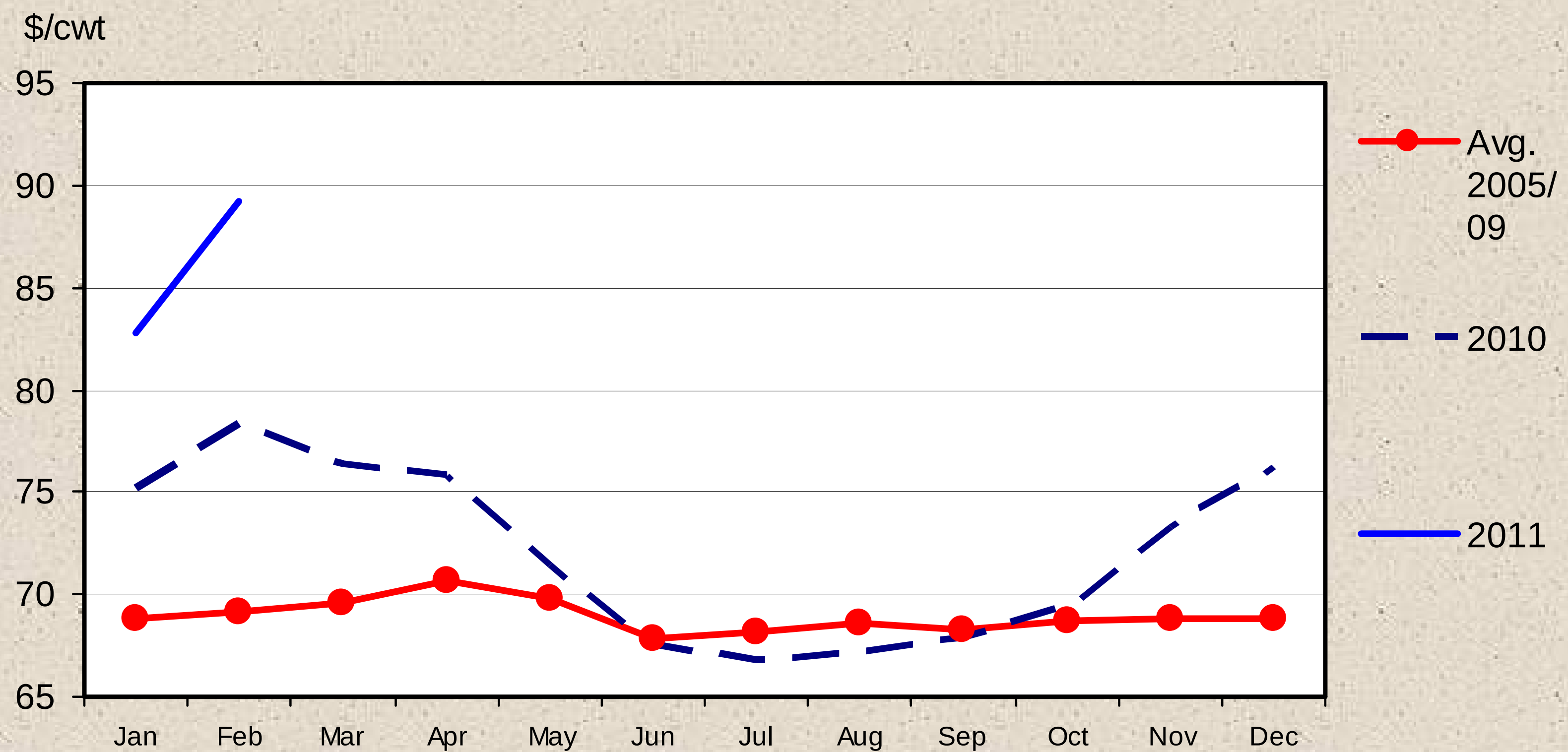
Data Source: USDA-NASS, Compiled & Analysis by LMIC

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



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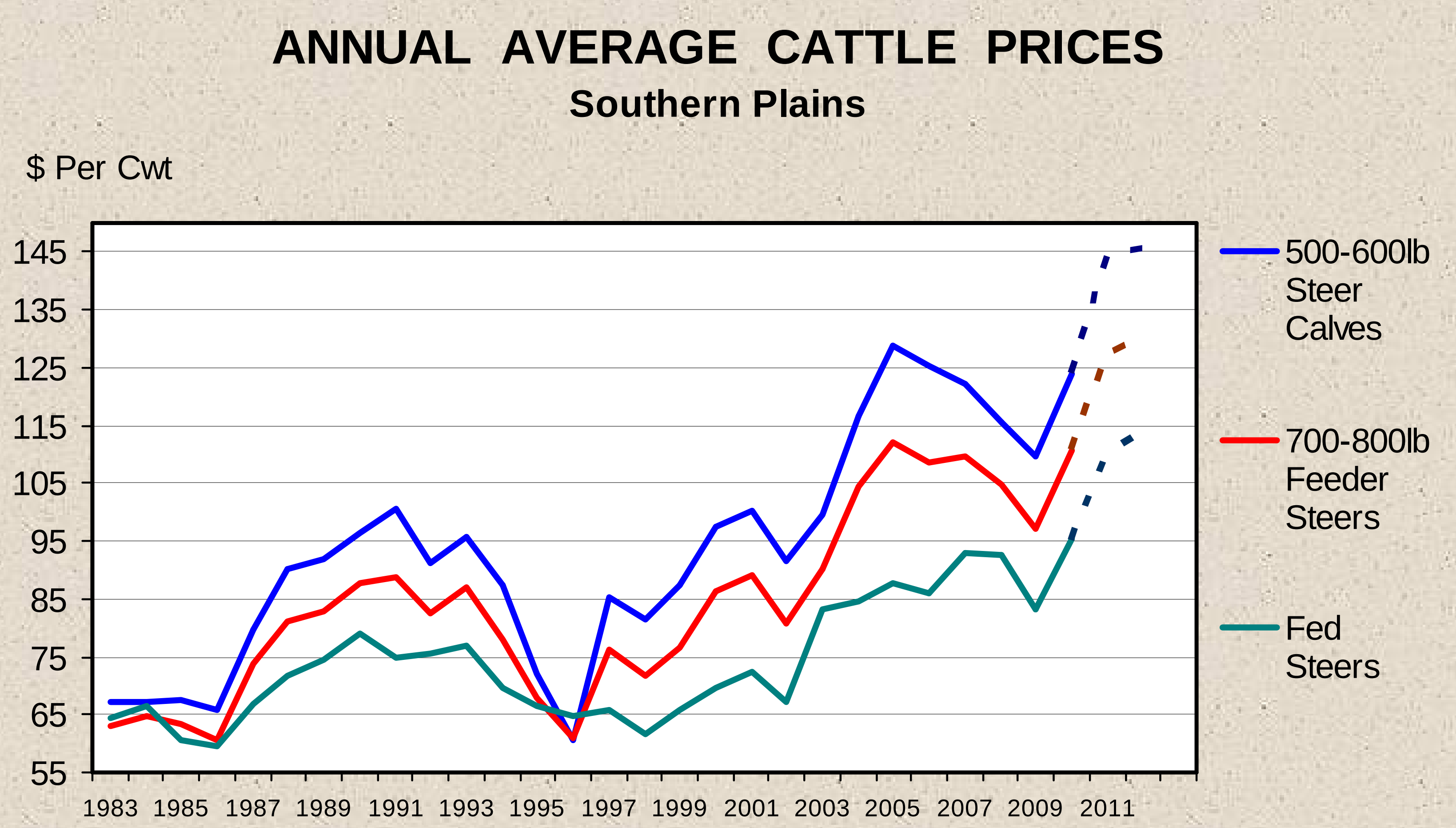
Data Source: KSU Focus on Feedlots, Compiled by LMIC

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



C-P-06
03/04/11

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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!

Oklahoma State University Agriculture

Cow-Calf Corner

The Weekly Email Newsletter

From OSU Animal Science and Agricultural Economics

Send Email to

derrell.peel@okstate.edu