

Cattle Outlook

James Mintert

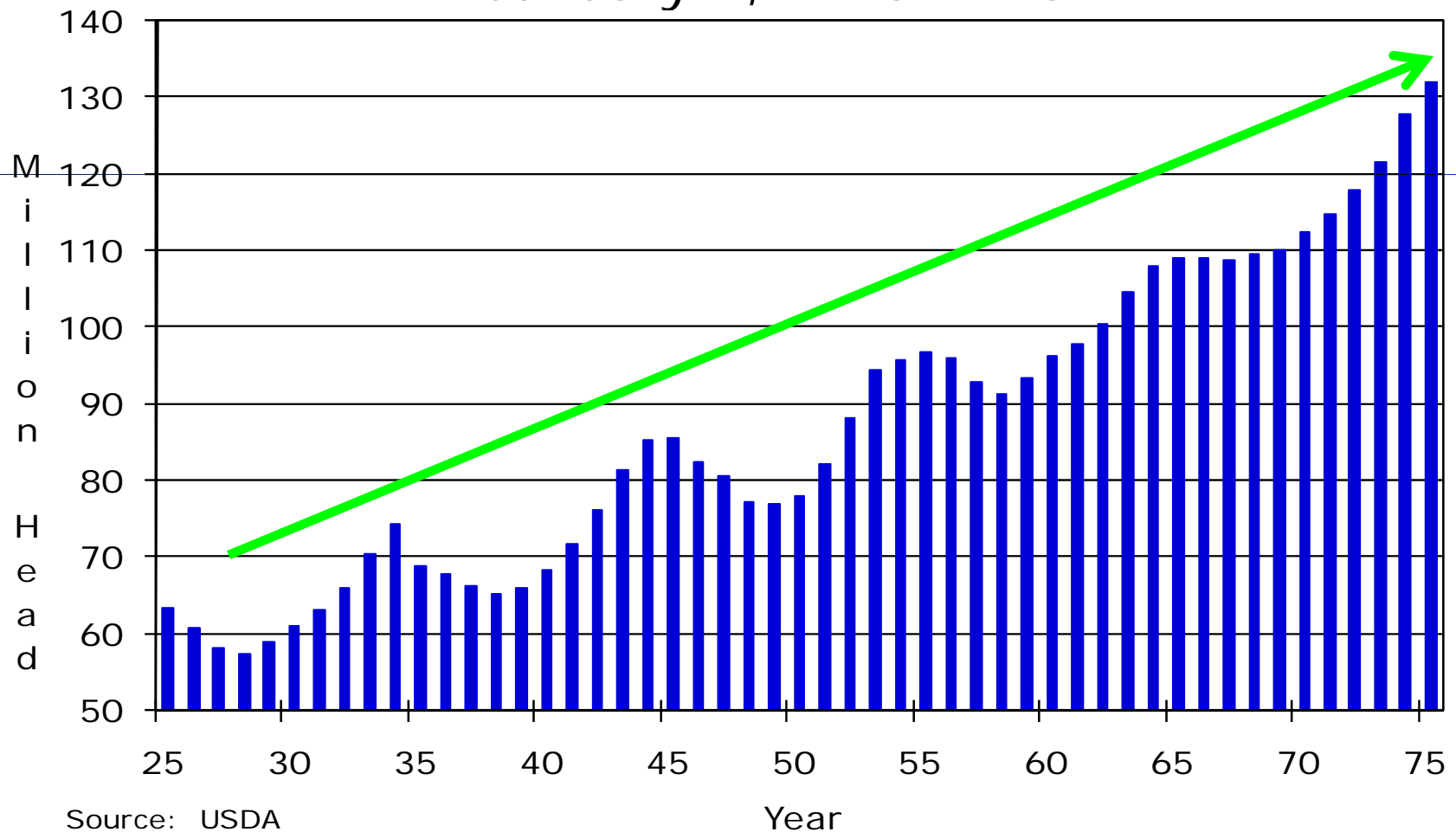
Assistant Director of Extension

Agriculture & Natural Resources

Purdue University

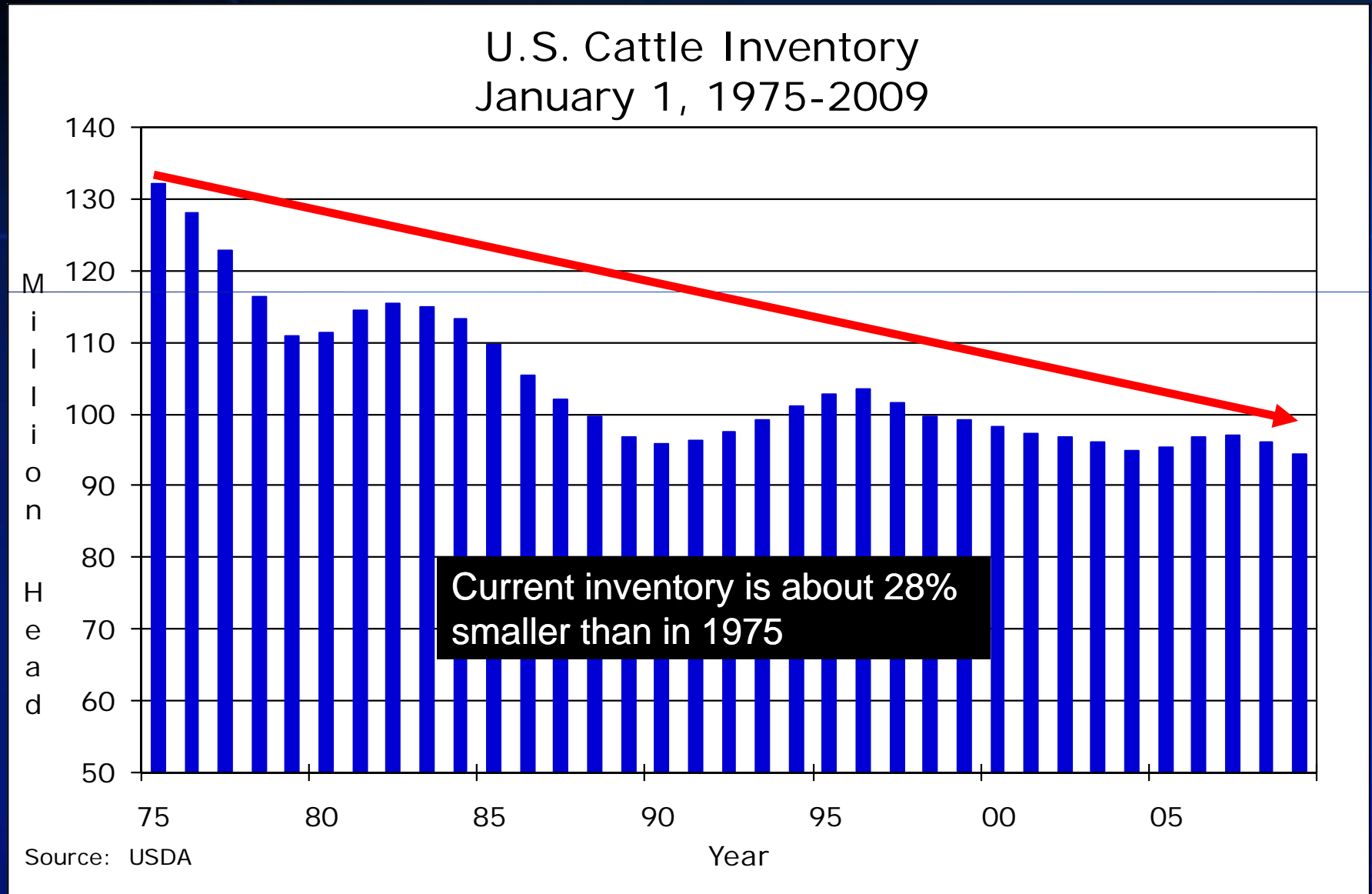
A Picture of A Healthy Industry

U.S. Cattle Inventory
January 1, 1925-1975



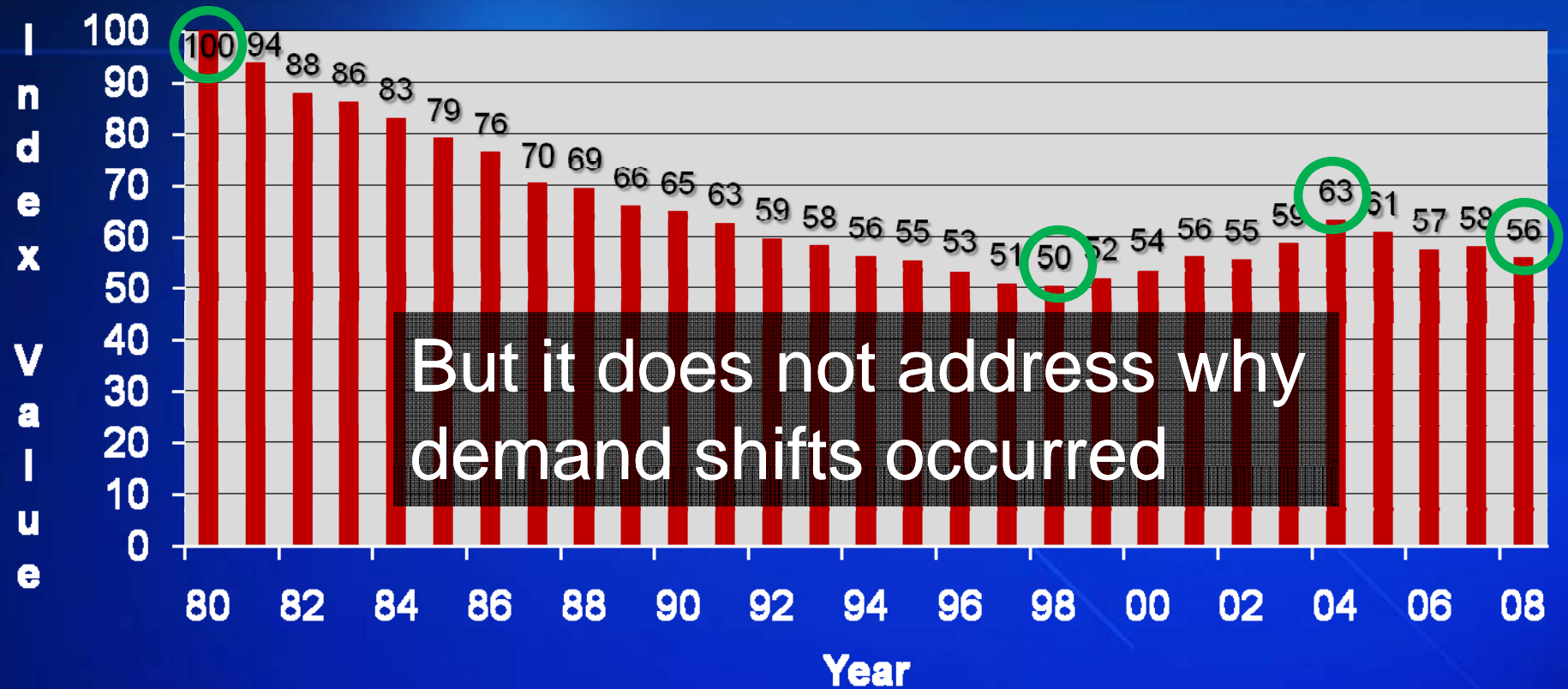
Source: USDA

A Shrinking Industry Responding to a Long-Run Lack of Profitability



Index Tracks Demand Changes

**Retail Choice Domestic Beef Demand Index
Annual, 1980-2008**



Source: USDA, Dept. of Commerce & James Mintert, K-State Dept. of Ag. Economics
Price Deflated By CPI, 1980 =100 for Choice Domestic Beef Demand Index

Beef Demand Study

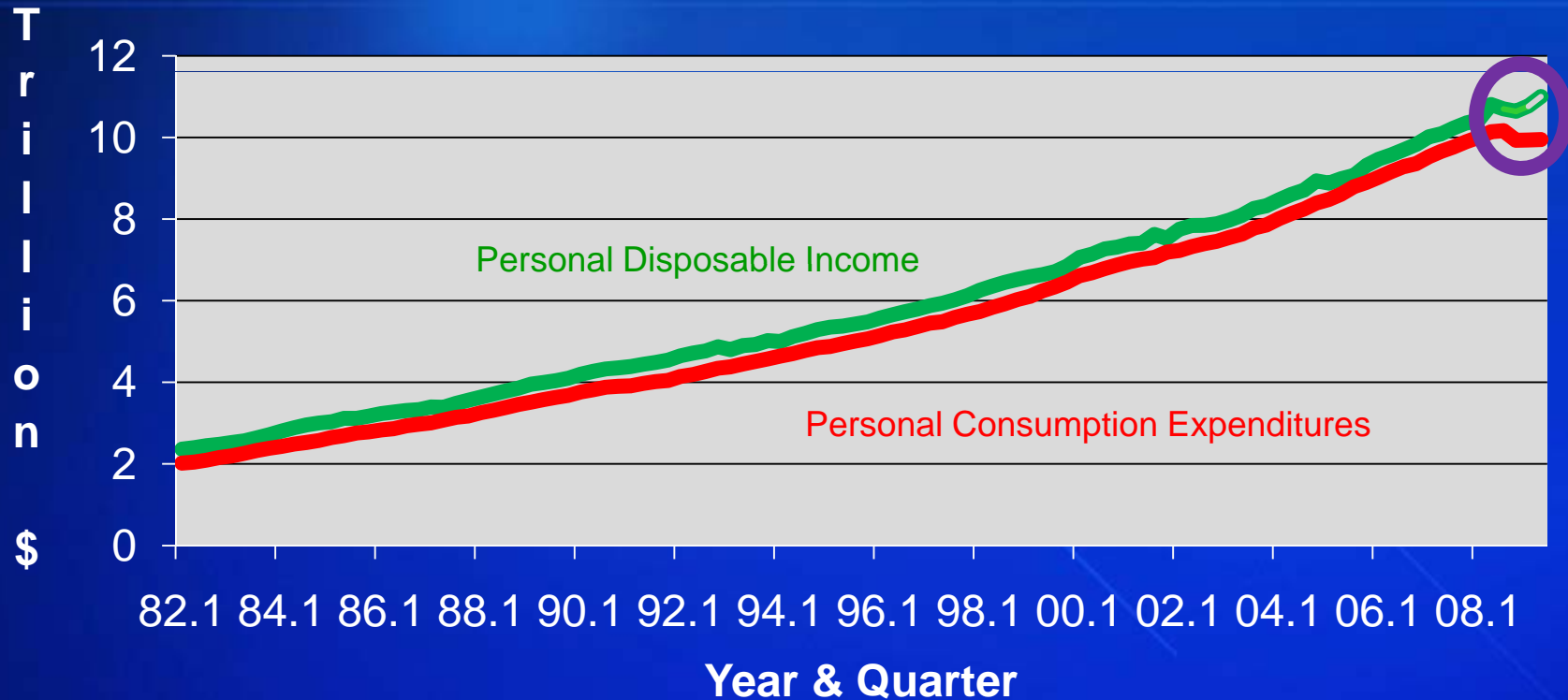
“Beef Demand Drivers & Enhancement Opportunities”

by

Glynn Tonsor, James Mintert & Ted Schroeder

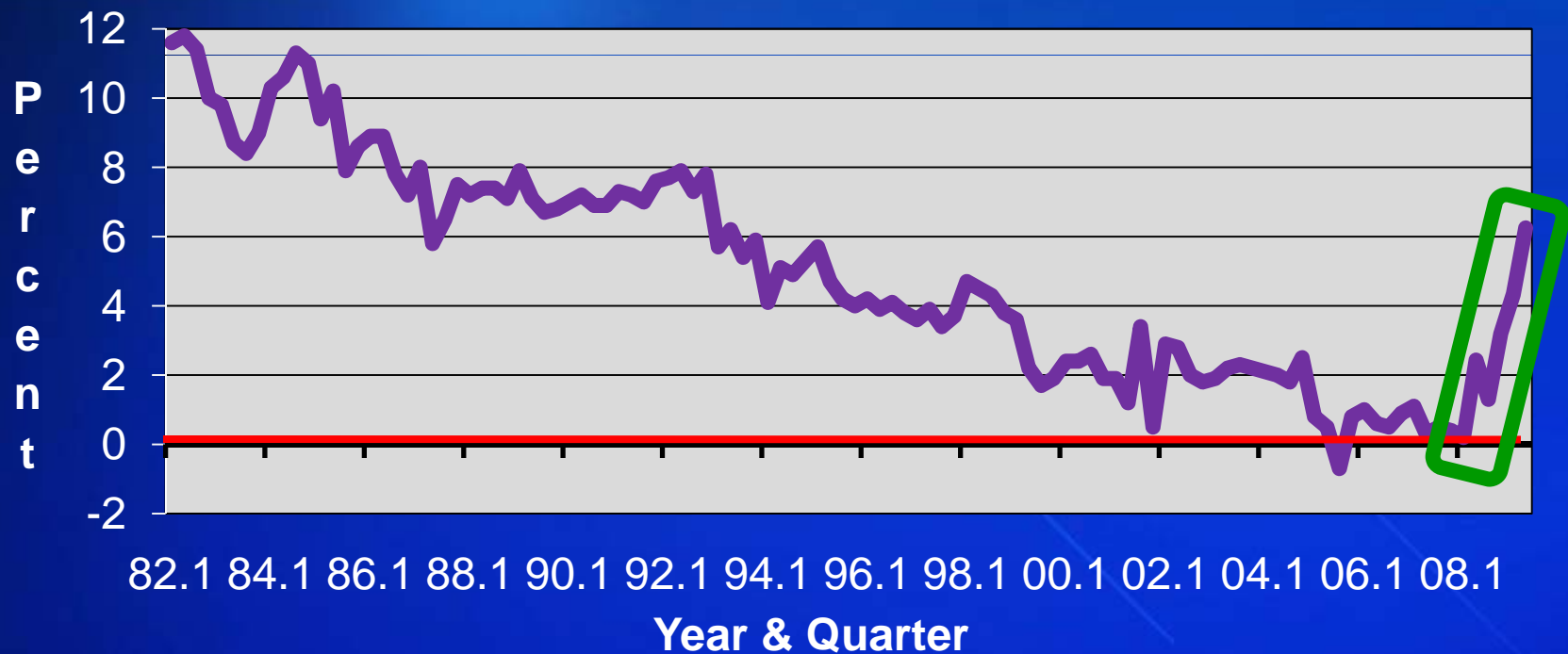
Consumer Incomes Improving But Expenditures Remain Weak

Personal Disposable Income vs.
Personal Consumption Expenditures
Quarterly at Annual Rate, Seasonally Adjusted, 1982-2009



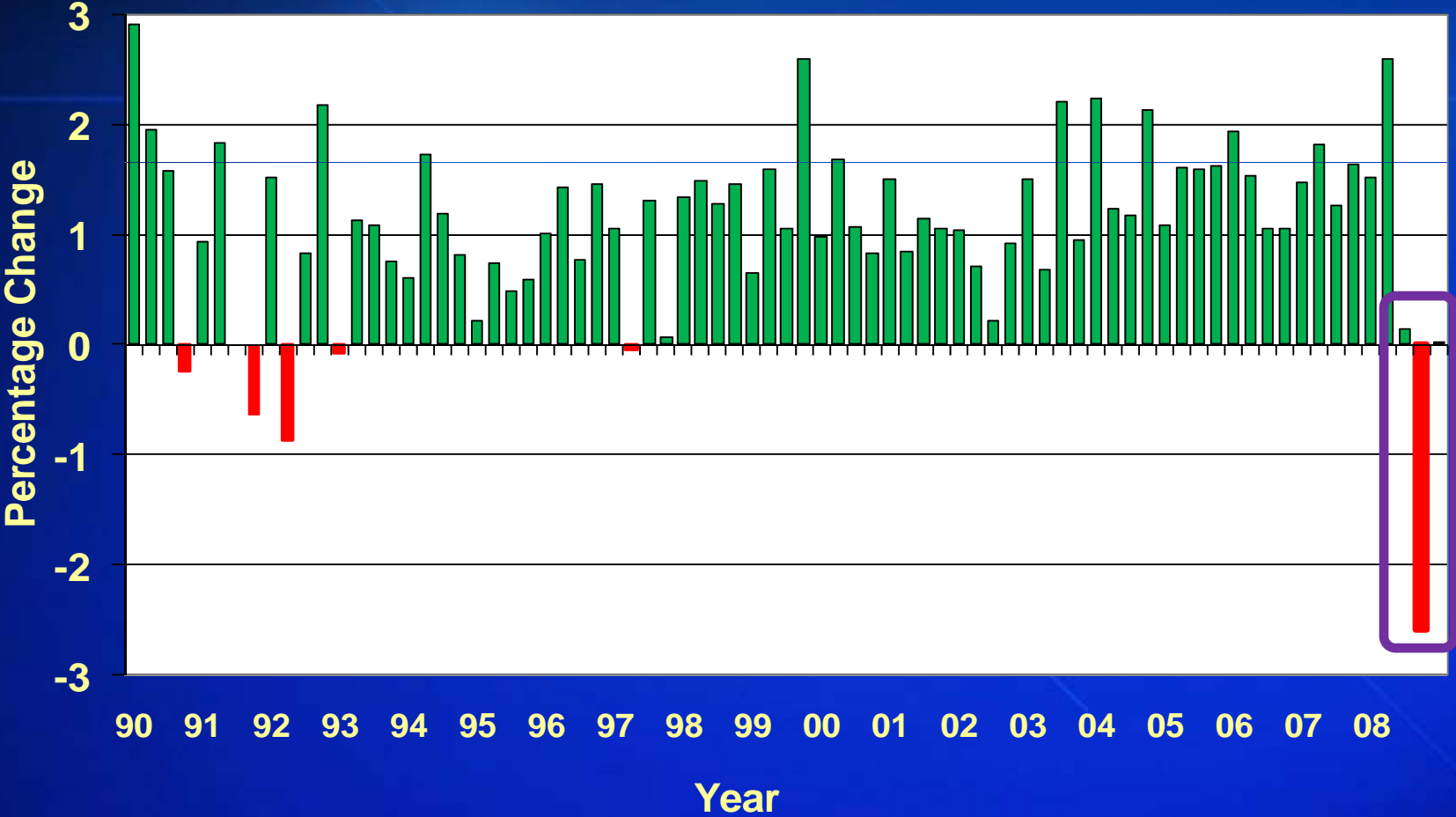
Consumers Pushing Savings Rate Up Which Is Holding Down Beef Demand

Personal Savings
% of Disposable Personal Income
Quarterly, 1982-2009



Consumers Pulling Back on Food Purchases

Percentage Change in Personal Consumption Expenditures for Food, Annualized Rate, Seasonally Adjusted, 1990-2009



Beef demand & the U.S. Economy

Historically, beef demand benefited from

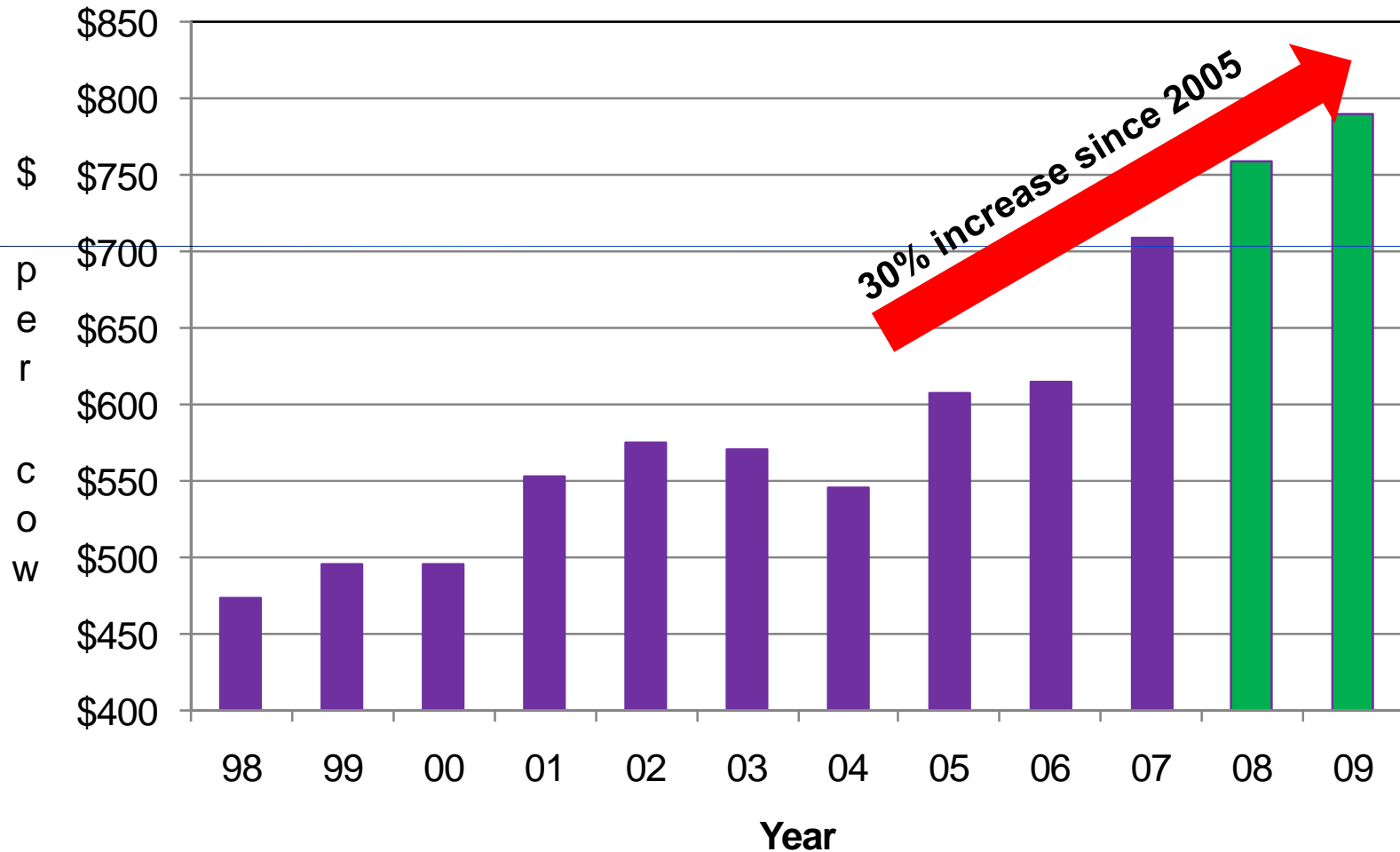
- Growth in U.S. economy & low savings rate
- But in '09 & '10 problem areas are
 - Weak incomes
 - Rising savings rate, which will reduce expenditures

Near-term, weak consumer expenditures expected to hold back beef demand

IMPACT OF SHIFTING COST STRUCTURE

Cow-Calf Production Costs Rising Rapidly

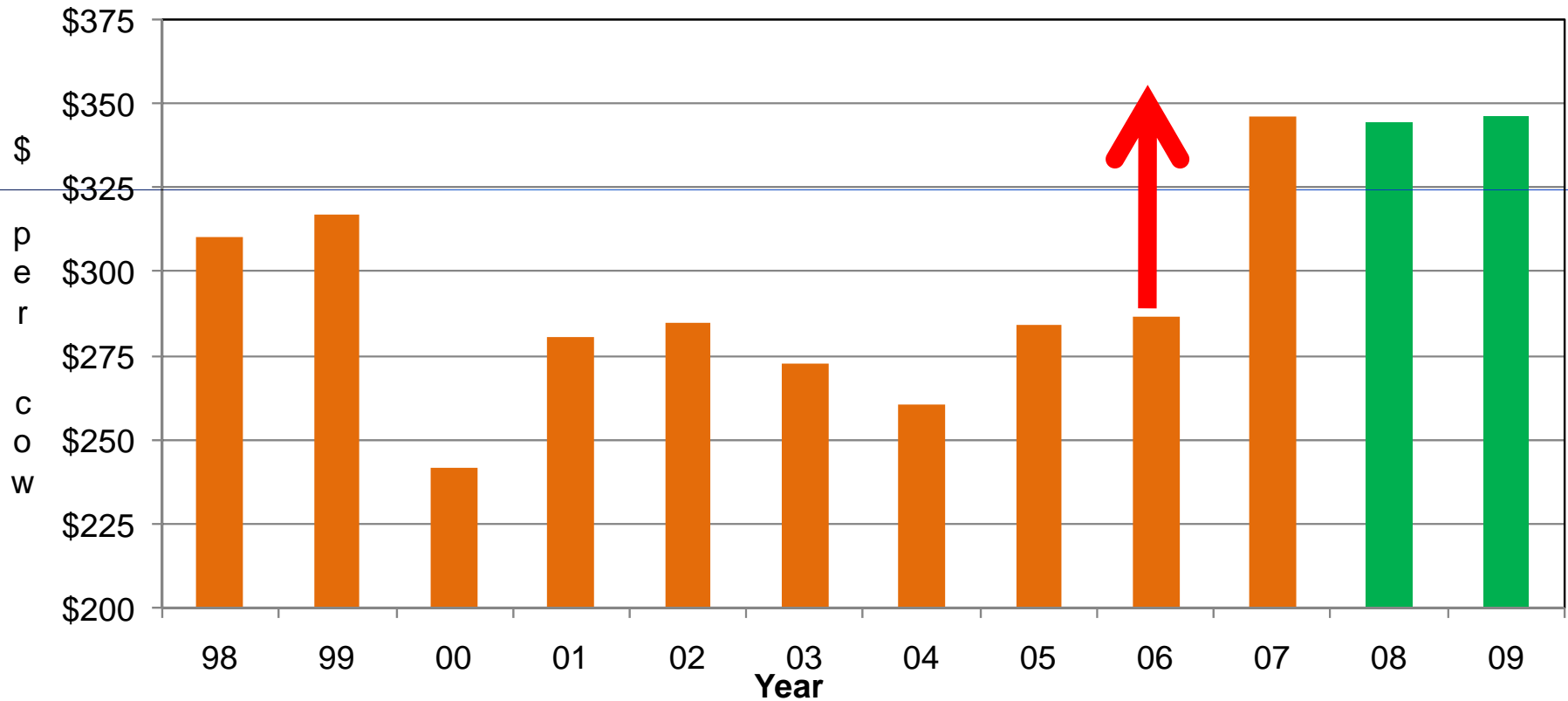
Cow-Calf Total Production Costs in Kansas



Source: Kansas State Farm Management Association & K-State Farm Management Guides

Feed Helped Drive Production Costs Up

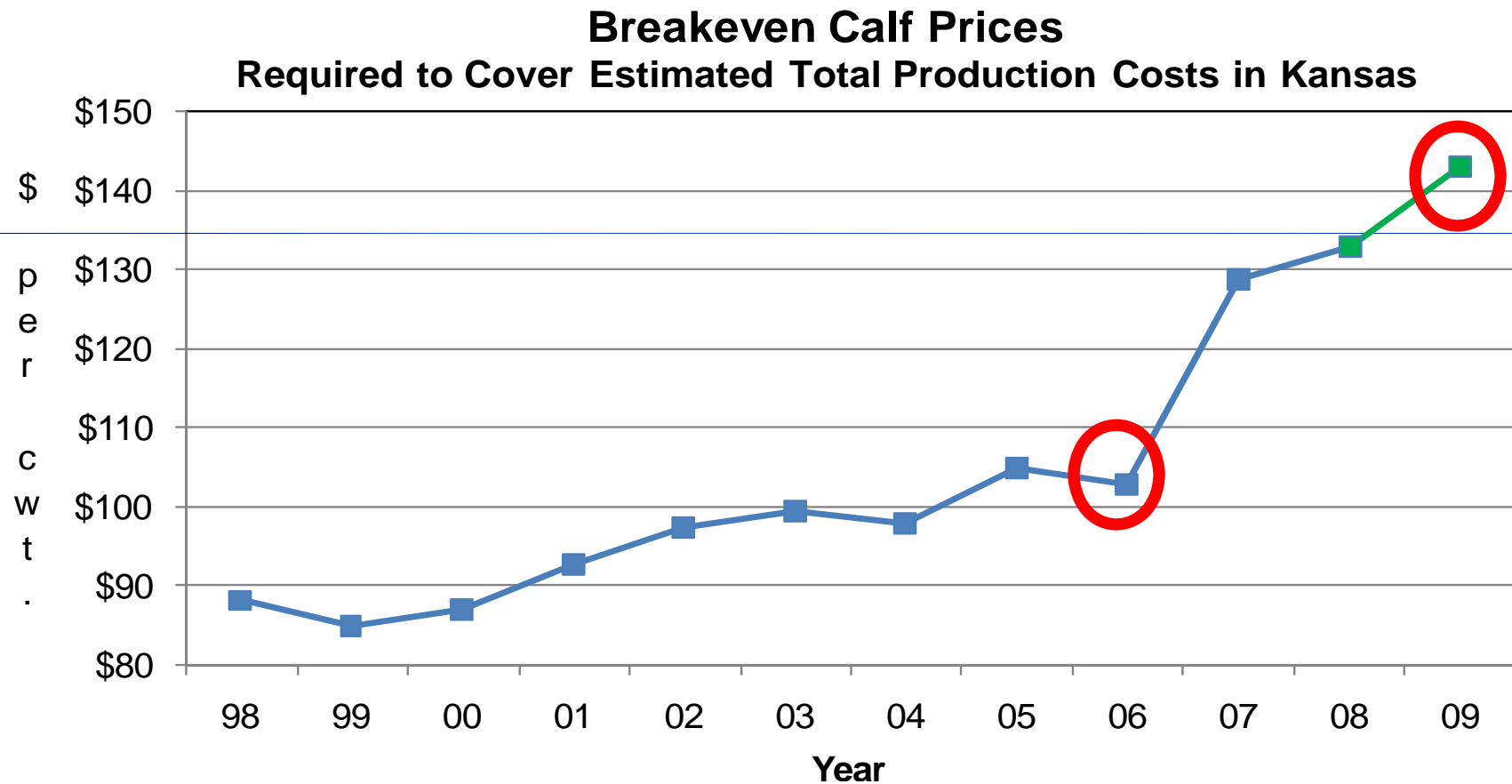
Cow-Calf Feed Costs Per Cow in Kansas



Source: Kansas State Farm Management Association & K-State Farm Management Guides

Rising Breakevens Putting Pressure On Cow-Calf Sector

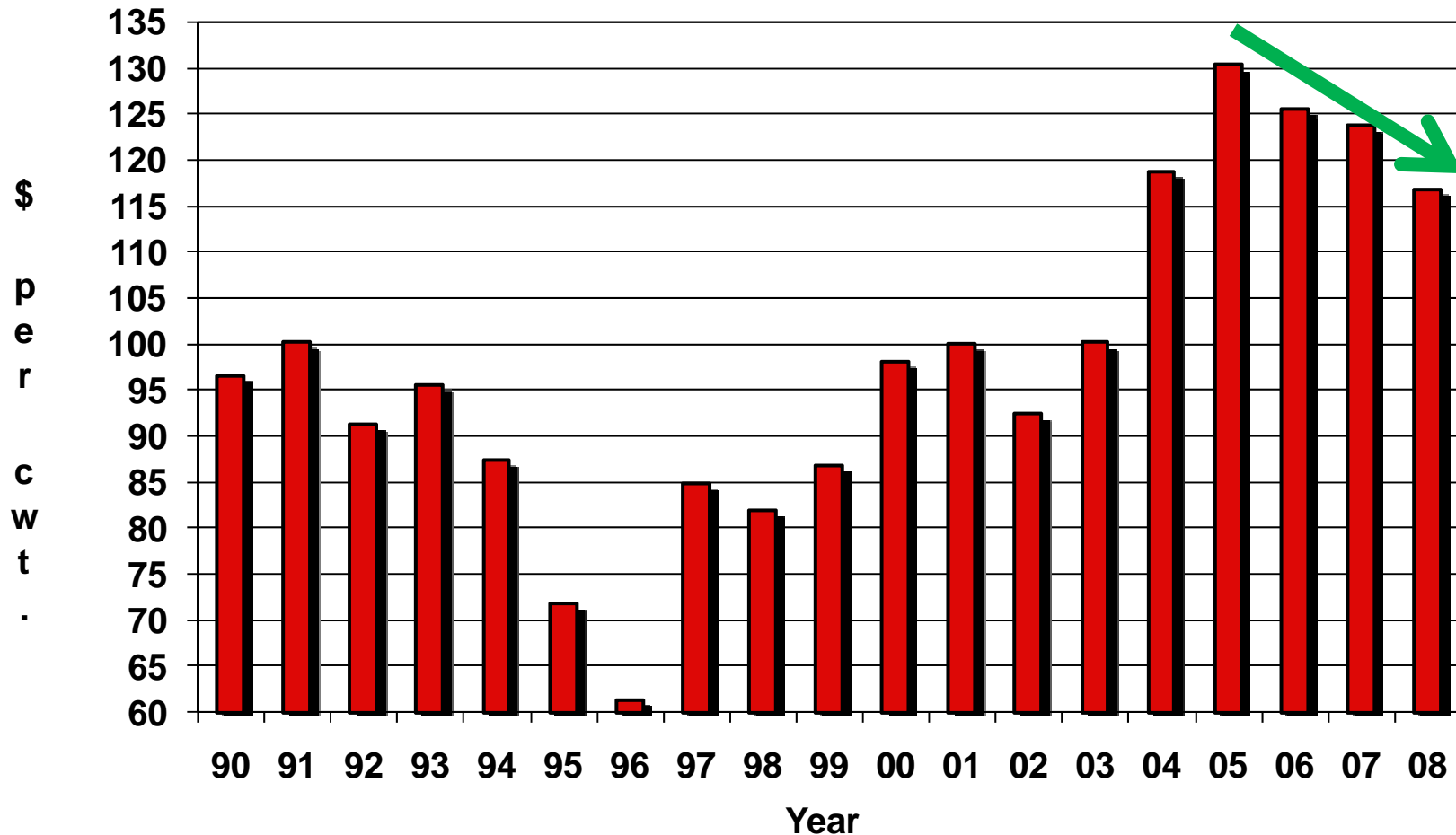
Estimated '09 Breakevens Up 39% Compared to '06



Source: Kansas State Farm Management Association & K-State Farm Management Guides

But Calf Prices Were Falling As Costs Rose

Dodge City, KS 500-600 Lb. Steer Prices



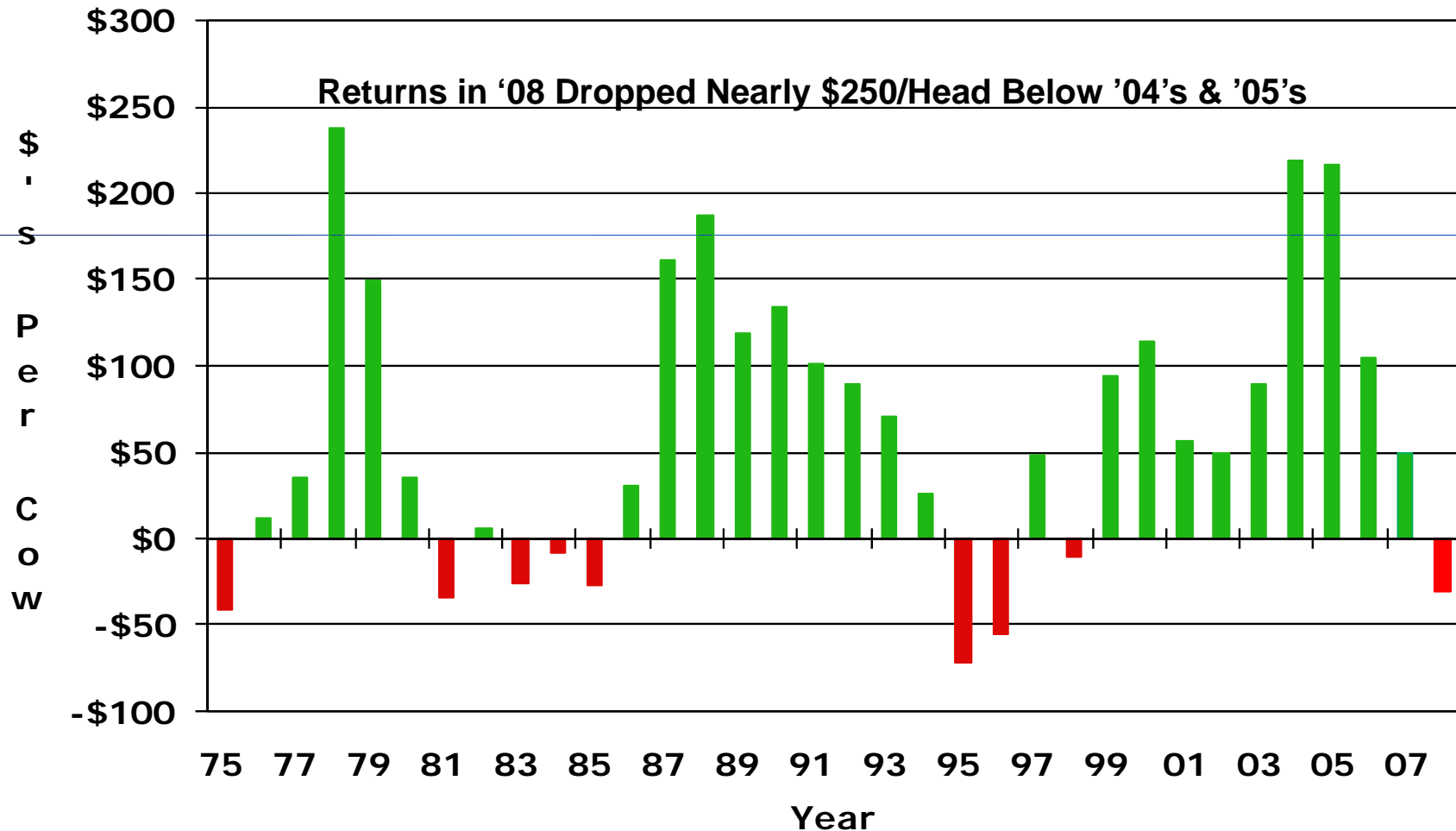
Source: AMS-USDA, Dodge City, KS

KSU Dept. of Ag. Econ.
www.agmanager.info

Returns Declined Rapidly

Returns Dipped Into The Red During '08 & Will Be Negative in '09

Cow-Calf Returns Above Variable Costs in Kansas

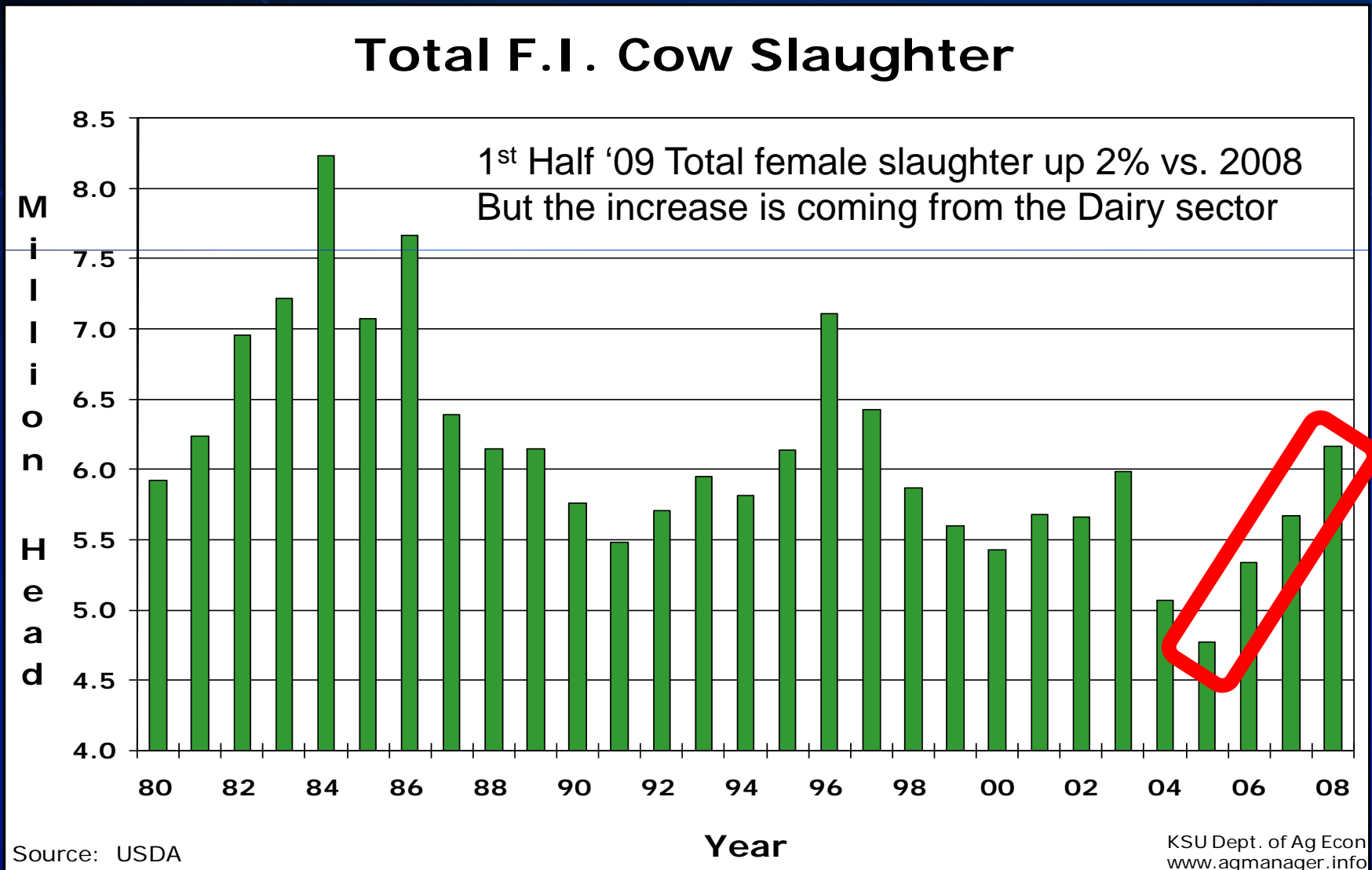


Source: Kansas Farm Management Association
Returns Above Variable Costs

KSU Dept. of Ag Econ
www.agmanager.info

Total Cow Slaughter Up 3 Straight Years

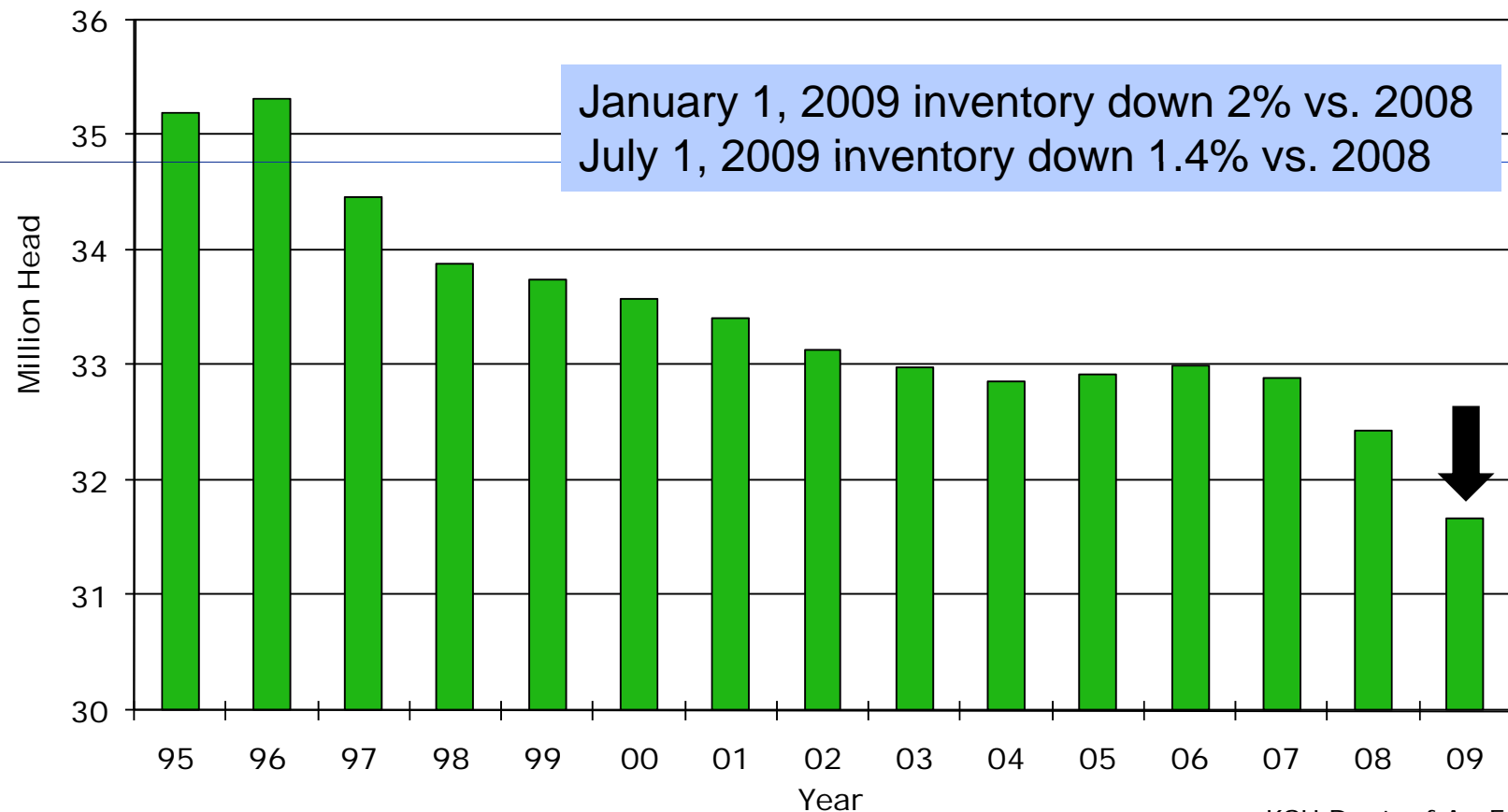
Cow slaughter increased 12% in '06, 6% in '07 & 9% in '08



Beef Cow Inventory Declining

U.S. Beef Cow Inventory

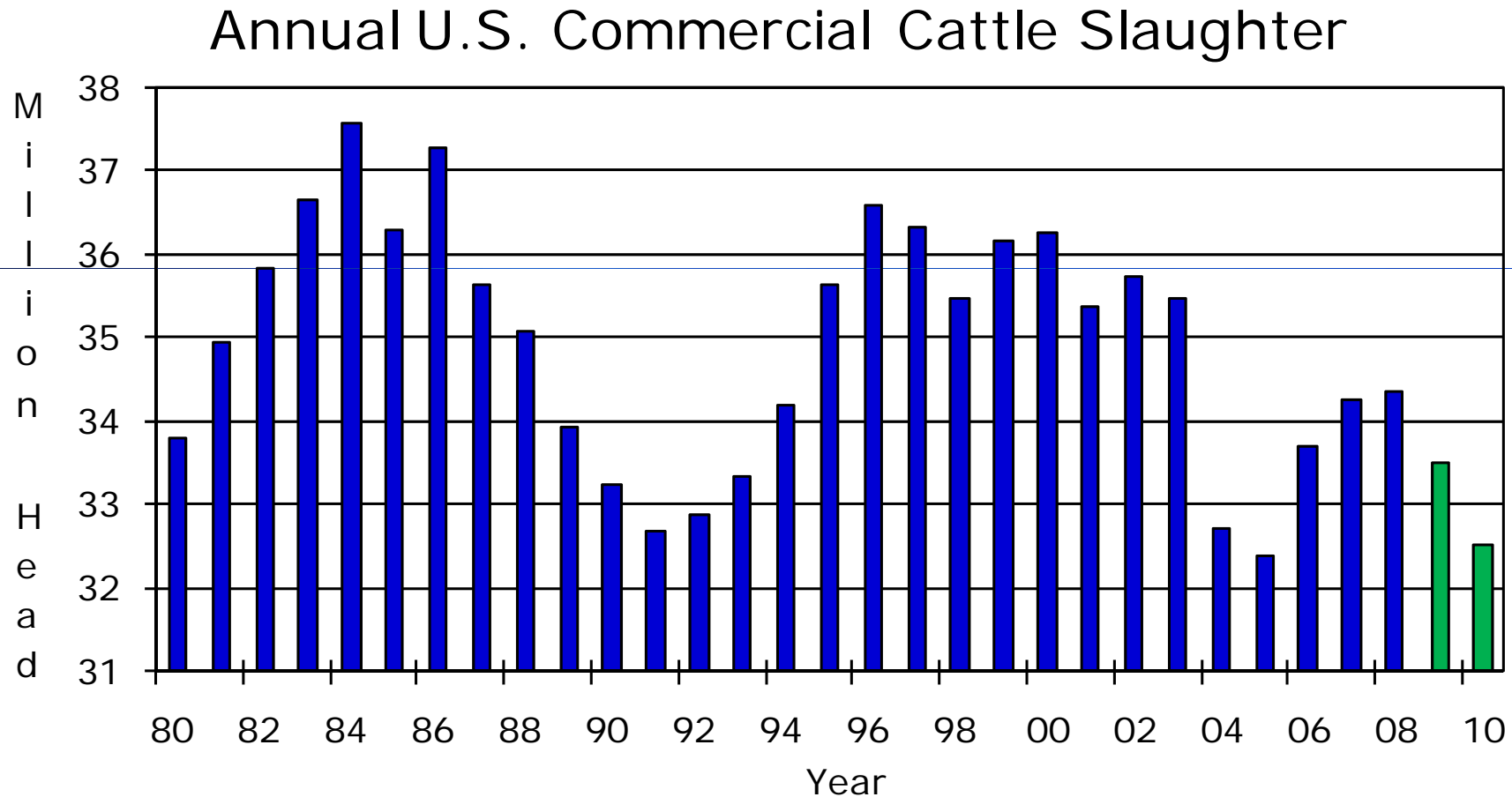
1995-2009



Source: USDA & James Mintert, K-State Ag. Economics

KSU Dept. of Ag Econ
www.agmanager.info

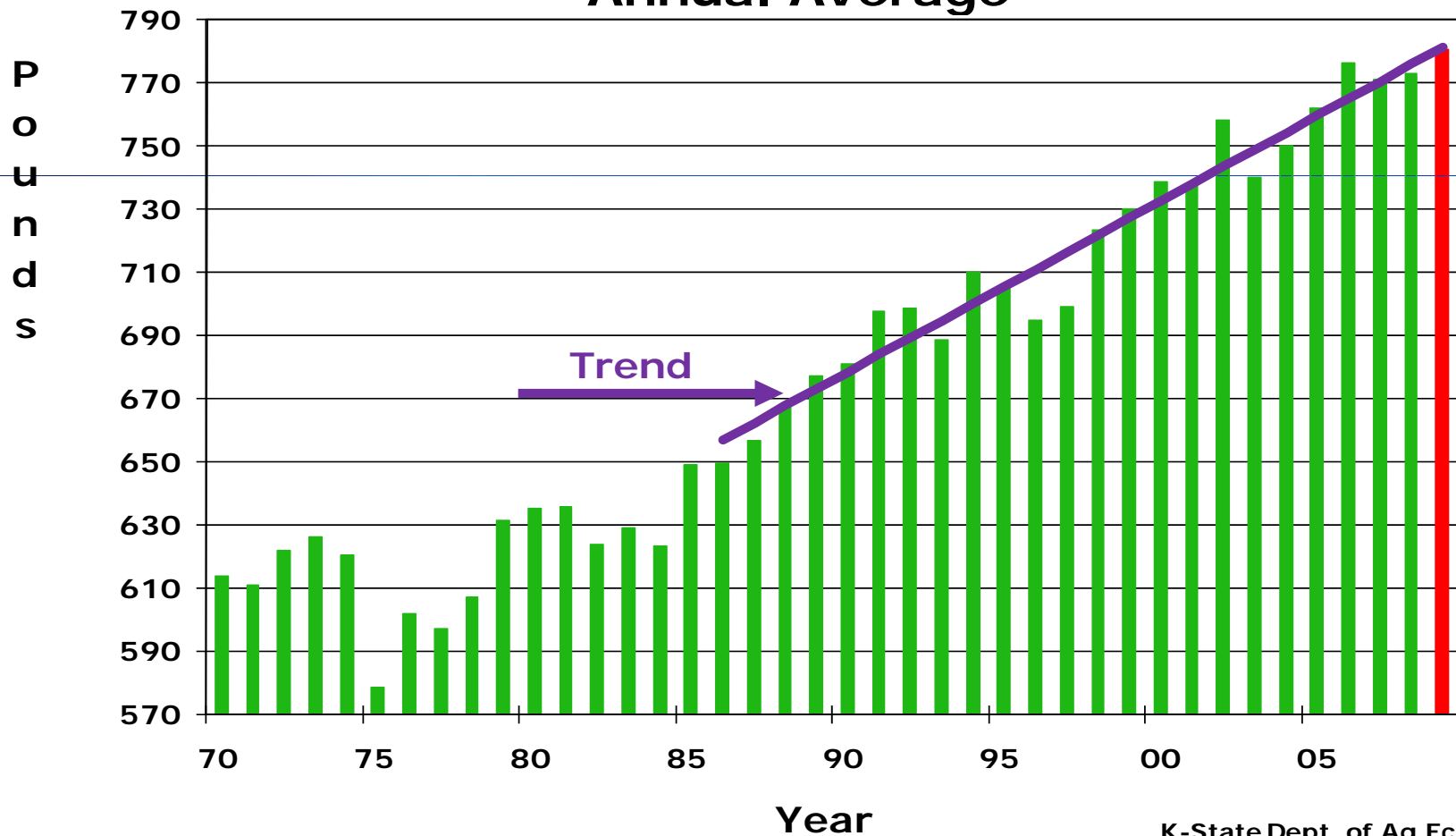
Slaughter Declines Expected in '09 & '10



Source: USDA, LMIC Forecasts for 2009 & 2010

But Cattle Are Coming Out At Heavier Weights

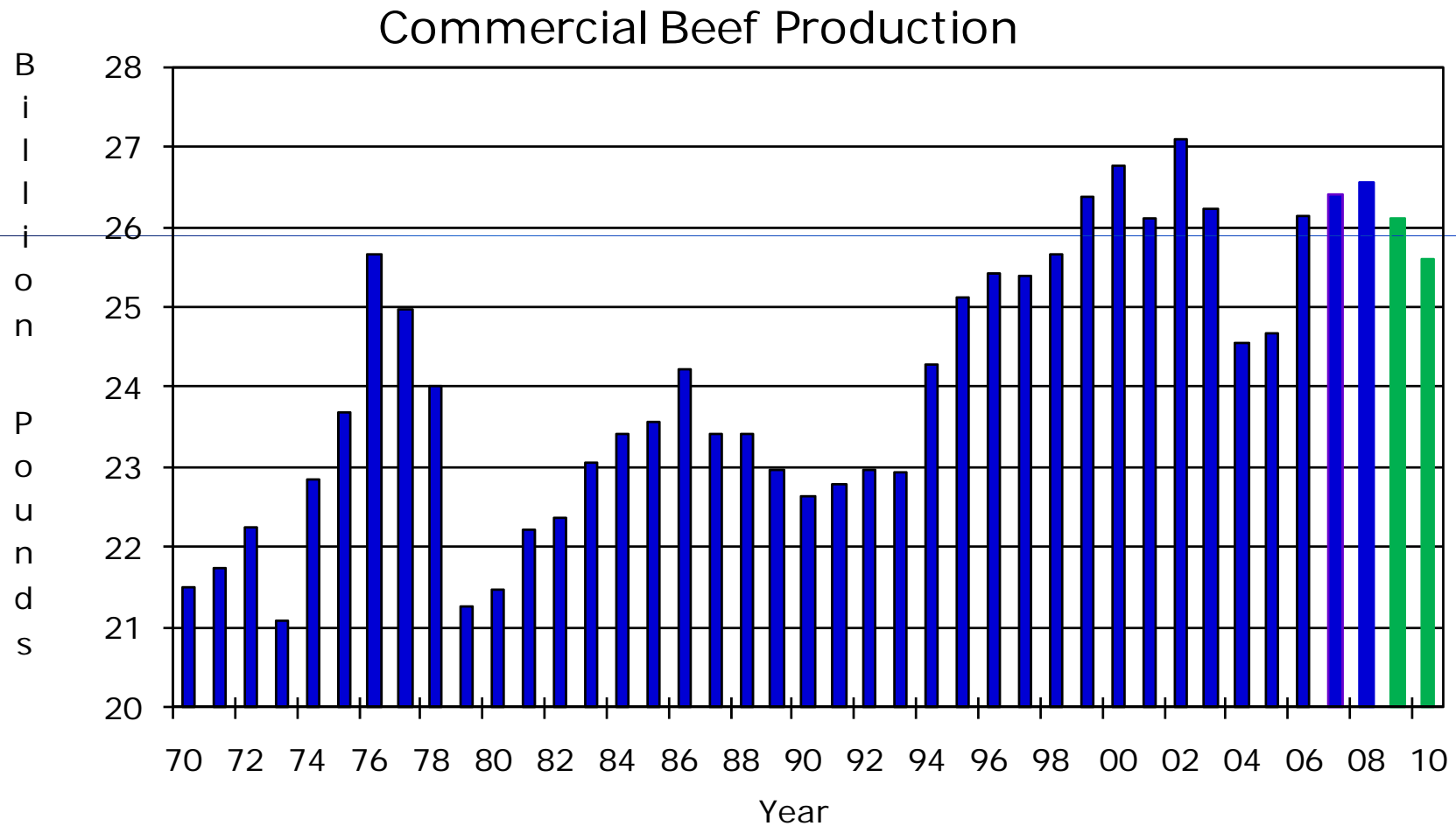
Commercial Cattle Carcass Weights Annual Average



Source: USDA & James Mintert, K-State Ag. Economics, 2009 Forecast

K-State Dept. of Ag Econ
www.agmanager.info

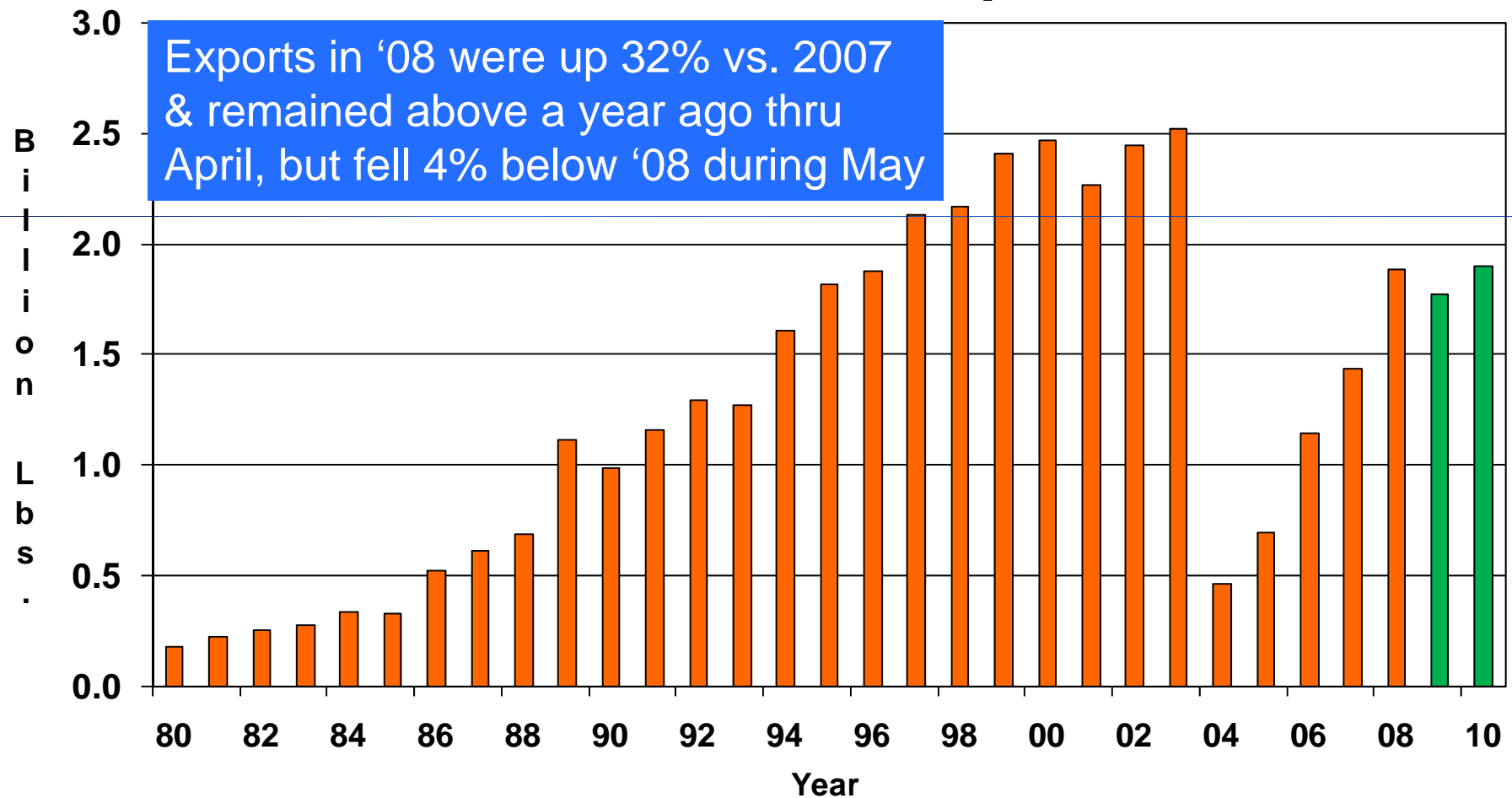
Beef Production Still Expected to Decline Even With Heavier Weights



Source: USDA, LMIC Forecasts for 2009 & 2010

Beef Exports Were Still Growing in Early '09 But Are Expected to Weaken During '09's 2nd Half

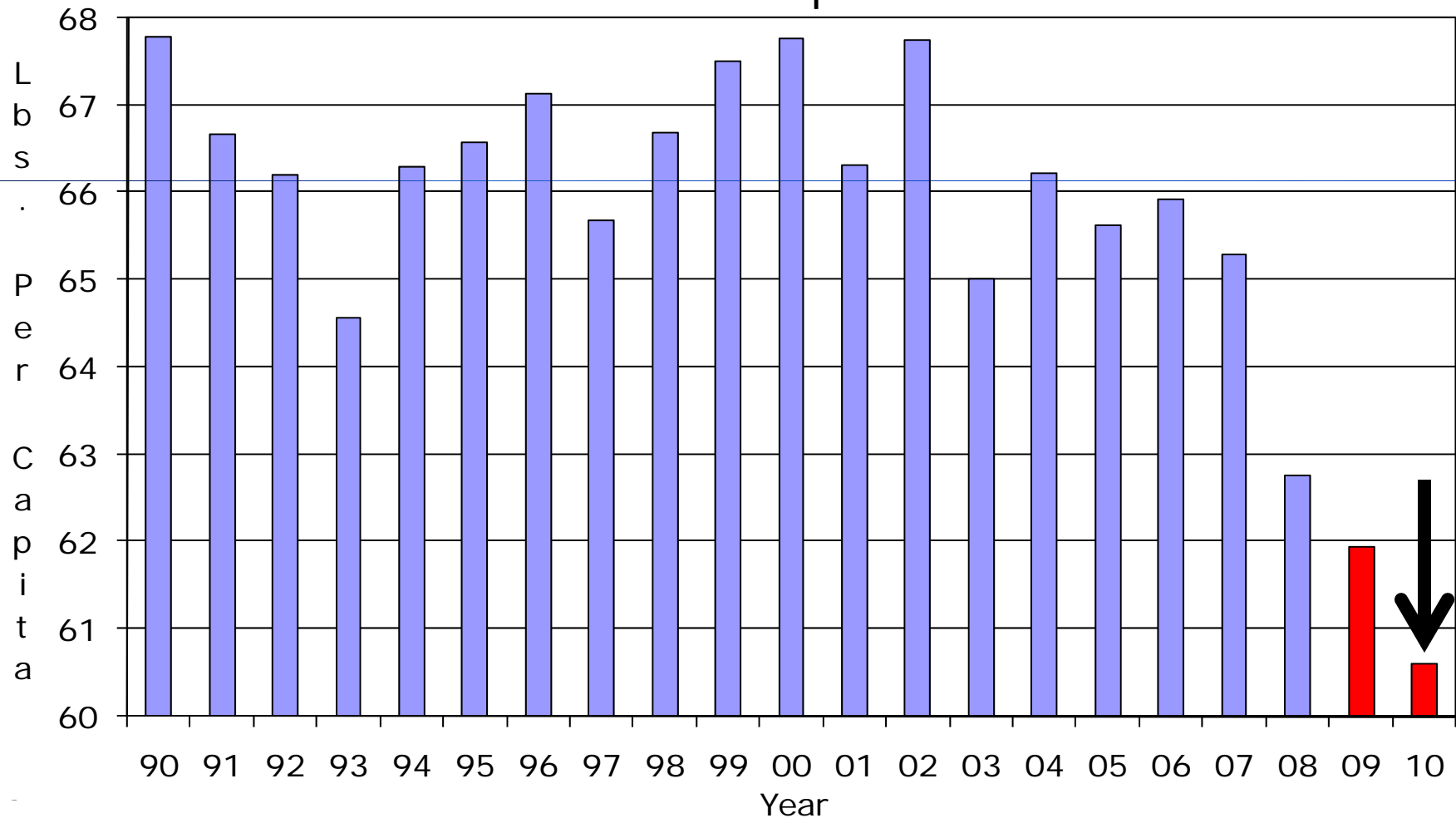
Annual U.S. Beef Exports



Source: USDA, 2009 & 2010 LMIC Forecasts

Smaller Domestic Beef Supplies Lie Ahead Especially in 2010 & Beyond

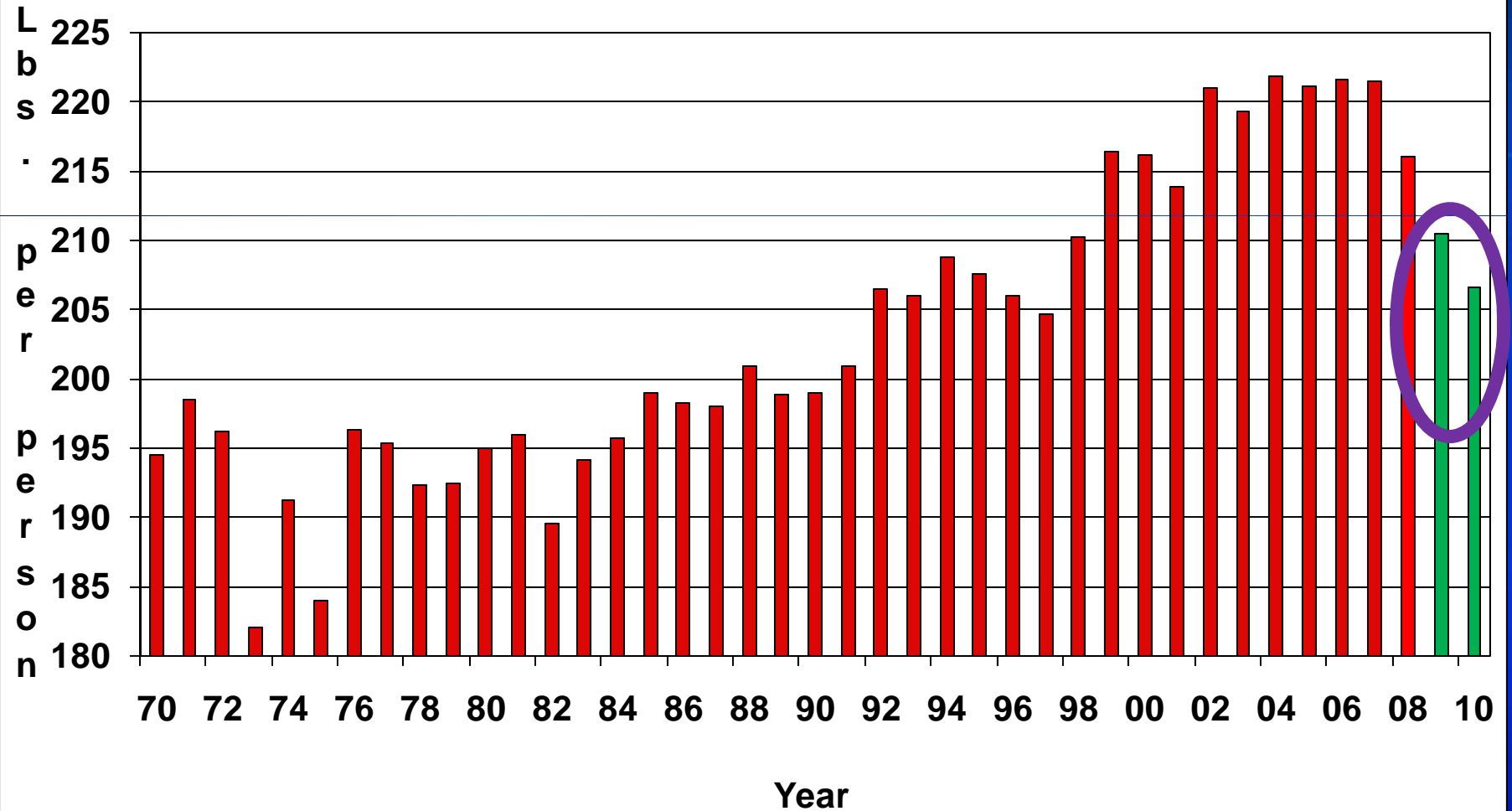
Annual U.S. Retail Beef Consumption Per Capita



Source: LMIC, Forecasts for 2009 & 2010

Total Meat Supplies Will Be Very Tight By 2010

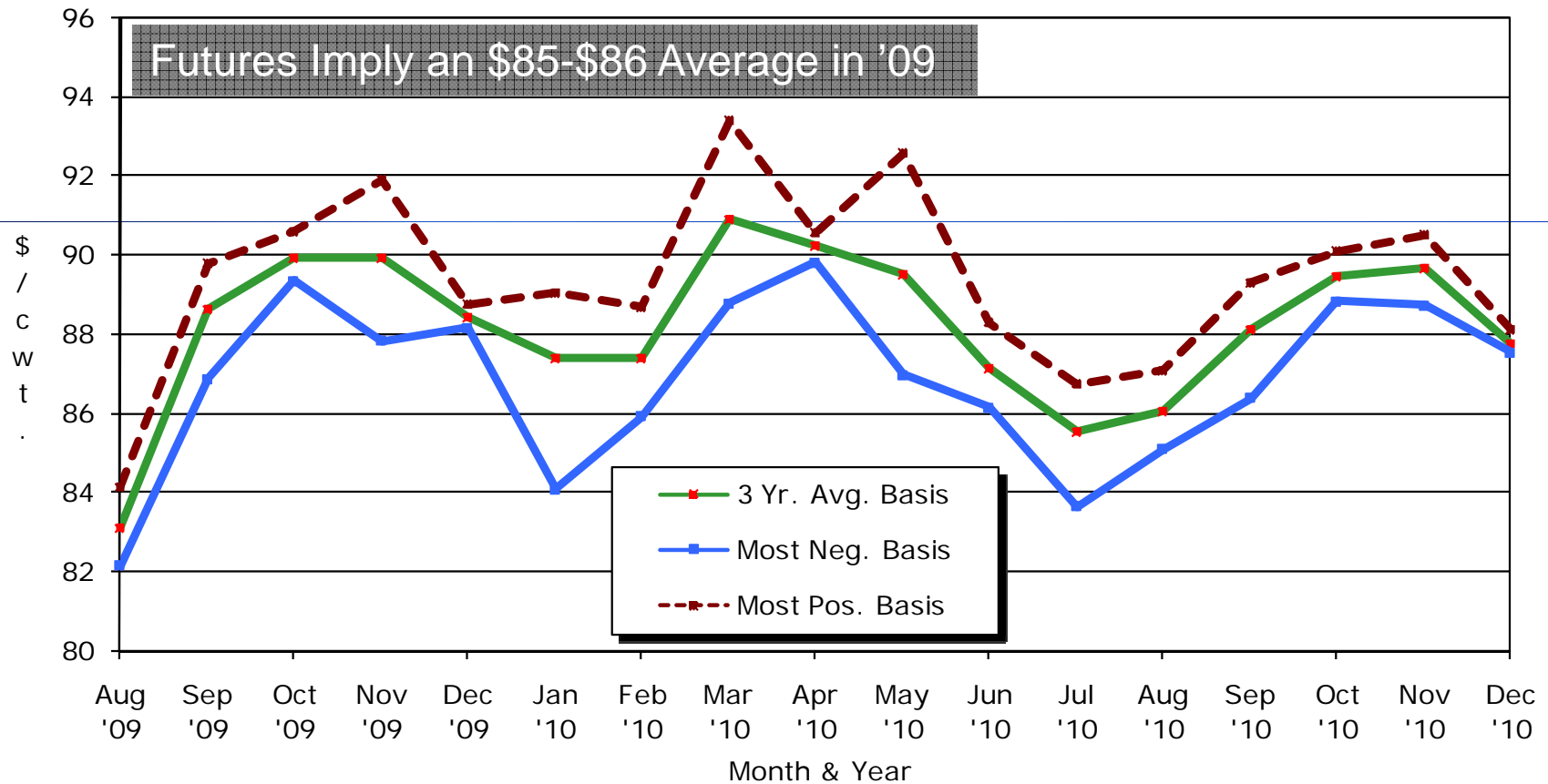
Annual U.S. Red Meat & Poultry Consumption Per Capita



Source: LMIC, forecasts for 2009 & 2010

Futures Expect A Fall Recovery

Kansas Slaughter Steer Price Forecasts
Mid-Month Futures Based Price Forecasts

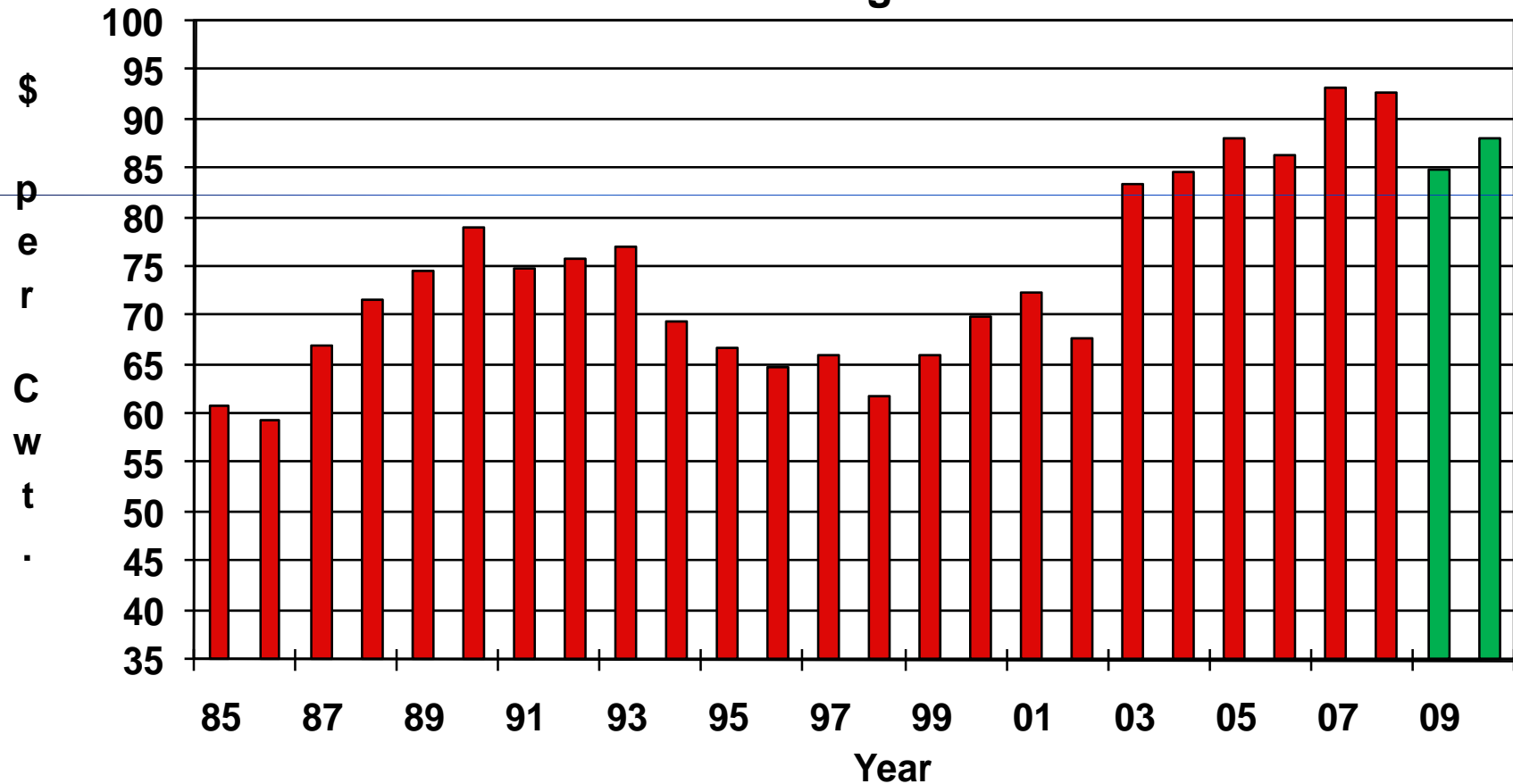


Source: USDA-AMS & CME
Based on 07.27.09 CME Live Cattle settlement prices

Weak Demand Is Still a Problem in '09

When Demand Recovers, Tight Supplies Will Push Prices Up

Kansas Slaughter Steers Annual Average Prices

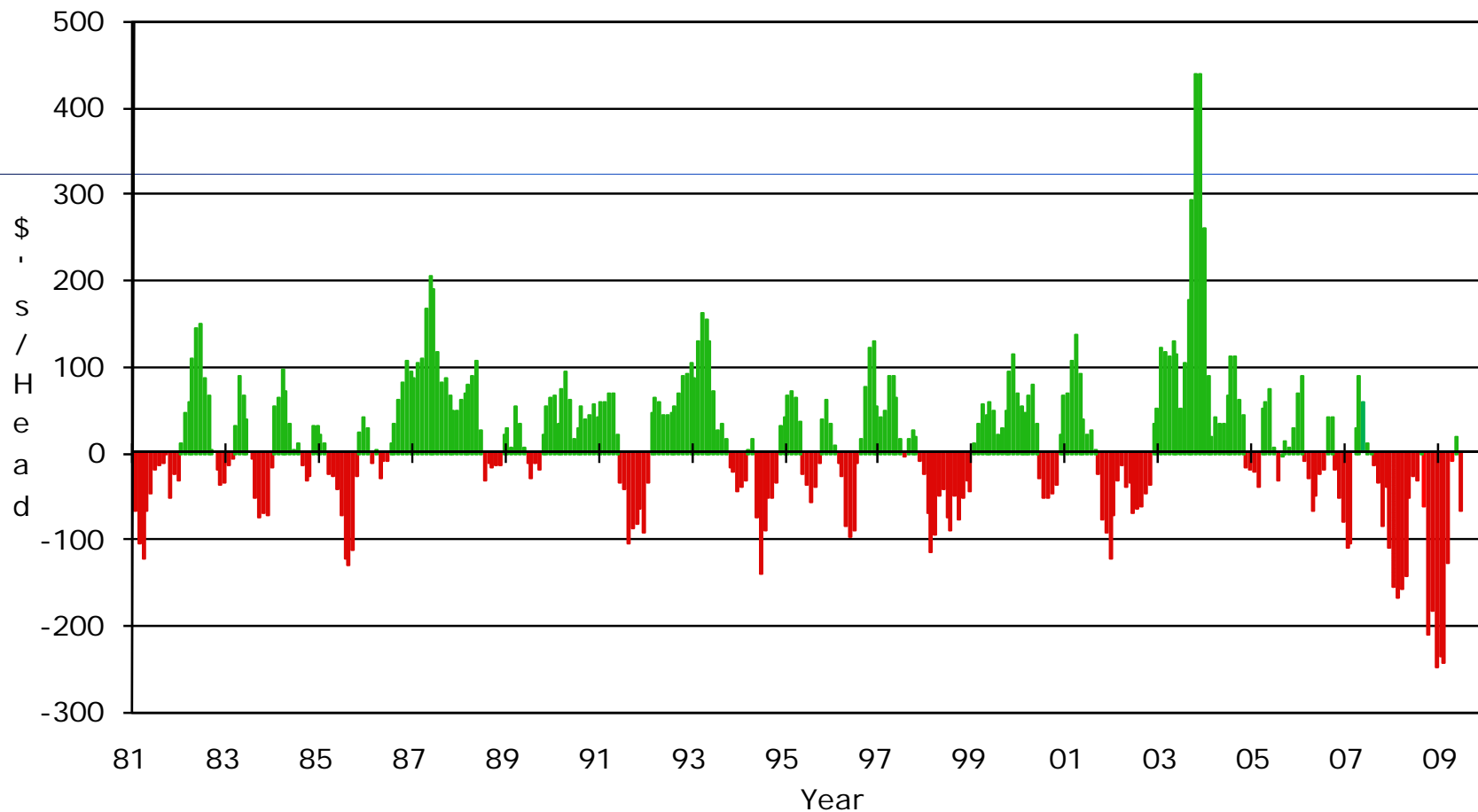


Source: USDA-AMS, 2009 & 2010 Forecast

Record Losses for Cattle Feeders

Losses Averaged \$120/Hd in '08 & \$110/hd. In '09

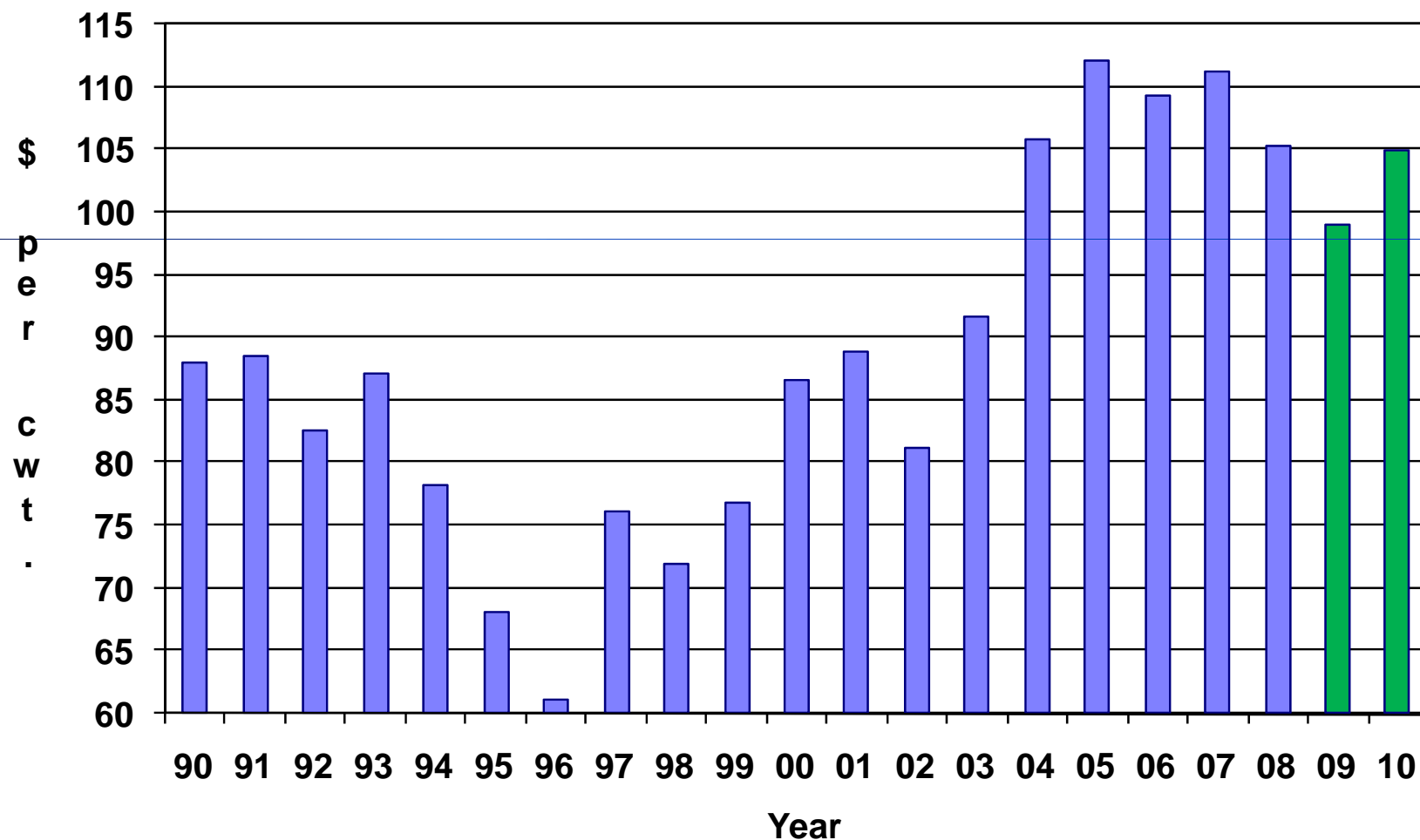
Monthly Iowa Yearling Finishing Steer Returns
\$'s Per Head



Source: Iowa State University

Lower Fed Cattle Prices Will Hold Down Feeder Prices But Look For Modest Recovery in 2010

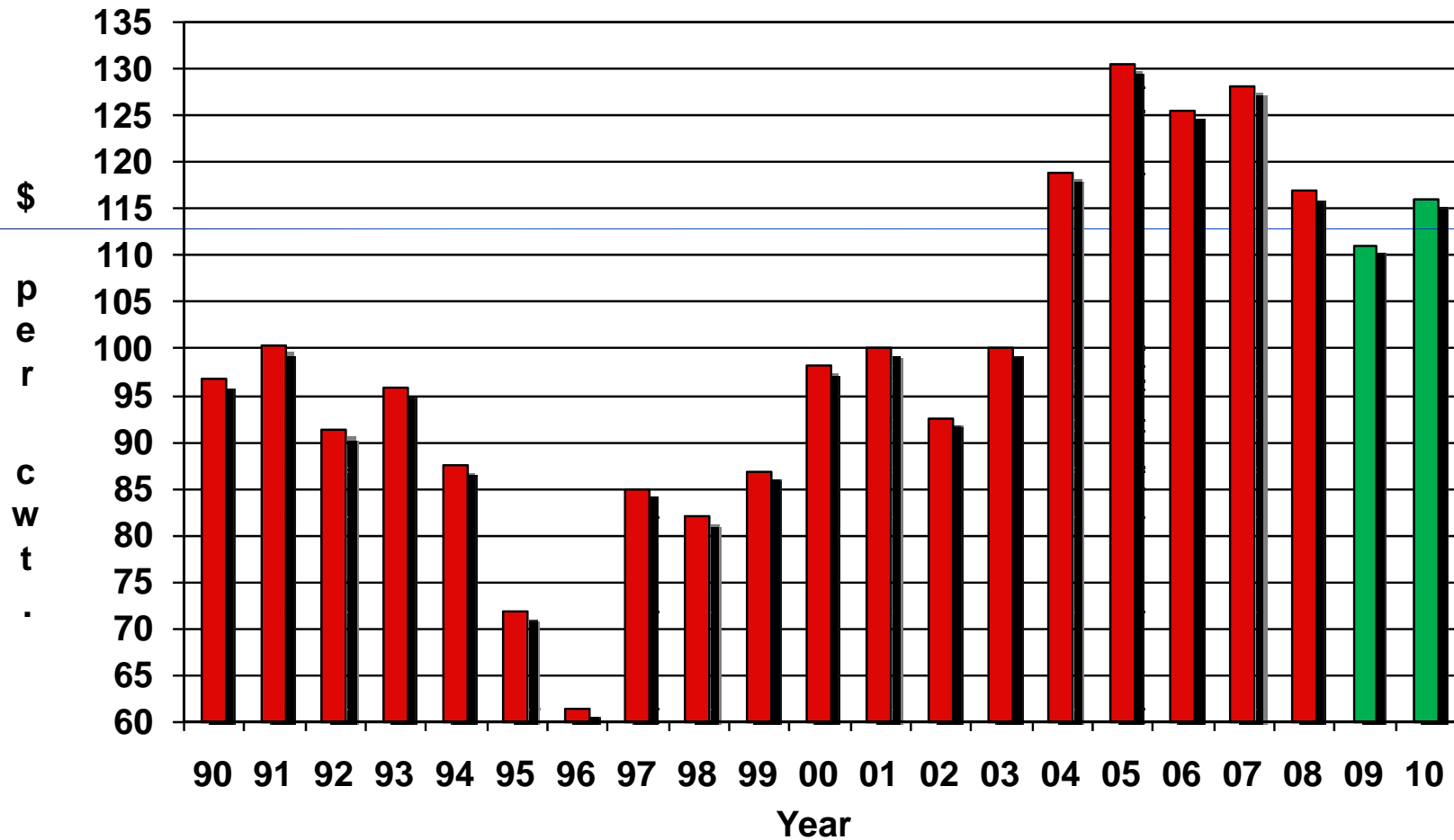
Dodge City, KS 700-800 Lb. Steer Prices



Source: AMS-USDA, Dodge City, KS, 2009 & 2010 Forecast

Look for Calf Price Recovery to Begin in 2010 But Prices Will Still Be Below Breakevens

Dodge City, KS 500-600 Lb. Steer Prices



Source: AMS-USDA, Dodge City, KS, 2009 & 2010 Forecast

Looking Forward

- ✓ Weak U.S. economy will hold back beef demand
 - ✓ Rising savings rates will have a long lasting impact
- ✓ Tight supplies could set the stage for very strong price rebound, once demand improves
- ✓ Domestic beef demand still suffering from long-term decline...late '90's through '04 starting to look it was just a "blip" in the long-term decline

NEW RISK MANAGEMENT AID

BEEFBASIS.COM

Decision Support for America's Beef Producers



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BeefBasis.Com - Decision Support for America's Beef Producers

The Cattle Basis Risk Analysis Tools at BeefBasis.com give producers the information and analytics they need to improve marketing decisions influenced by cattle basis risk. This site is completely free of charge to producers.

Basis, defined simply as the difference between the local cash markets and futures contract prices, can be complex and can vary dramatically between weight classes and market locations from year to year. Understanding the risk related to basis uncertainty, or "basis risk," is essential to making effective use of price risk management tools such as Chicago Mercantile Exchange (CME) futures and options and forward contracts.

The BeefBasis website was developed by Custom Ag Solutions, Inc. (CAS) and Kansas State University (K-State) in partnership with the USDA's Risk Management Agency (RMA).

BeefBasis gives you relevant information and analytics you need to evaluate marketing decisions and manage your price risk.

BeefBasis In the News!

- BeefBasis is featured in the December issue of BEEF magazine [Read](#)

Market Data Updated

We have completed a major update to our Market Data page. The database now includes data through November 2007.

Events

We have scheduled (or are working to schedule) training sessions in the following states:

- Alabama TBD
- Arkansas TBD
- Florida TBD
- Iowa 2/22 - 2/23/08
- Kansas 11/30/06
- Kentucky 1/11/07
- Missouri 12/6 - 12/7/07

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Feeder Cattle Basis Forecast

[Hedge Analysis](#)

State: Florida

Location: Ocala

Expected Sale Date: 8/17/2009

Sex: Steer

Frame: Lg & Med/Lg

Grade: 1-2

Weight:

410 lbs/head

Head:

1

August 2009						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
26	27	28	29	30	31	1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31	1	2	3	4	5

Feeder Cattle Futures Price:

96.27 \$/cwt

Live Cattle Futures Price:

89.35 \$/cwt

Corn Futures Price:

3.84 \$/bu

Reference Contract: Aug 2009
Transaction Date: Mar 09, 2009

Reference Contract: Feb 2010
Transaction Date: Mar 09, 2009

Reference Contract: Sep 2009
Transaction Date: Mar 09, 2009

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Feeder Cattle Basis Forecast

[Hedge Analysis](#)

Expected Sale Date: 8/17/2009

State:

Location:

Sex:

Frame:

Grade:

Weight:
 lbs/head

Head:

Feeder Cattle Futures Price:
 \$/cwt

Live Cattle Futures Price:
 \$/cwt

Corn Futures Price:
 \$/bu

Reference Contract: Aug 2009
Transaction Date: Mar 09, 2009

Reference Contract: Feb 2010
Transaction Date: Mar 09, 2009

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23	24	25	26	27	28	29
30	31	1	2	3	4	5

Display Horizontal

Display Vertical

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Model-estimated feeder cattle basis values¹

Model-estimated feeder cattle basis, \$/cwt²

Confidence interval for basis, \$/cwt³

Expected cash price, \$/cwt

Confidence interval for expected cash price, \$/cwt³

Optimal hedge ratio⁴

Number of calves hedged per contract⁵

Results

9.49

3.29 to 15.68

105.76

99.56 to 111.95

0.8199

149