Current Cattle Market: Making Sense of It All

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Presentation Outline

- The General Economy
- Cattle Macro Issues
- Cattle Micro Issues
  - Cow-calf
  - Stockers
  - Feds
- Demand
The General Economy

The Economic Situation: When Will It Improve?
Dow Jones Industrial Average

Dow Jones Industrial Average (DJIA) Graph:
- Y-axis: 6,000 to 15,000
- X-axis: 2003 to 2010

Dow Jones Industrial Average (DJIA) as of 10/6/2010: 11,341
Quarterly Gross Domestic Product
Change from Previous Quarter

US Dollar Index
Weak $ is Good for Agriculture, Right?
Cattle Macro Issues
Cattle Supply
Corn’ Impact
Beef Supply

A Shrinking Industry, But Why?
U.S. Cattle Inventory
January 1, 1975-2010

Current Inventory is 29.0%
smaller than in 1975
All Cow Liquidation Continues

All U.S. Cow Slaughter
Monthly

U.S. Beef Cow Inventory
January 1 Inventory
U.S. Calf Crop
July 1 Inventory Report

BEEF COWS THAT HAVE CALVED
JANUARY 1, 1971
(1000 Head)

Alaska  2.6
Hawaii  89.0
U.S. Total  37,877
BEEF COWS THAT HAVE CALVED
JANUARY 1, 2010
(1000 Head)

Alaska 5.4
Hawaii 81.2
U.S. Total 31,376

What States are Losing Beef Cows?
Beef Cow Inventories Change From 1971

Alaska +3K
Hawaii -8K
U.S. Decreased 6.5 M
**Omaha Corn Price**

Monthly Price per Bushel

![Omaha Corn Price Chart]

**US Corn Supply and Demand**

![US Corn Supply and Demand Chart]

**Estimated 2010 Total Use = 13.44 BB**
U.S. ANNUAL CORN Disappearance and Production

Estimated 2010 Ending Stocks = 1.12 BB

U.S. CORN PRICE VS. S/U RATIO
Renewable Fuels Standards

- 2008 – 9.0 billion gallons
- 2009 – 11.1 billion gallons
- 2010 – 12.95 billion gallons
- 2011 – 13.95 billion gallons
- 2022 – 36 billion gallons

Carcass Weights Have Dropped

[Graph showing monthly carcass weights from 2005 to 2010]
U.S. Commercial Beef Production
Billion Pounds

Cattle Micro Situation
Cow-calf Operations

Why aren’t we expanding?

Costs per Female
SW SPA Database - 1991 to 2009

The SW SPA Database currently has data from 580 herds and 384,837 breeding females from 1991 to 2009. Each year, approximately 20-30 herds are added.
Texas SPA Results

- 2005 to 2009
- 73 herds
- 31 to 5,000 plus
- 34,477 females

Herds by Size:
- 50 – 99: 12
- 100 – 199: 16
- 200 – 299: 21
- 300 – 499: 13
- 500 – 999: 5
- => 1,000: 6

Texas SPA Regions

All Regions
73 herds

Region 1
11 herds

Region 2
18 herds

Region 3
4 herds

Region 4
5 herds

Region 5
35 herds
Weaned Calf Percentage

![Graph showing the relationship between the size of the herd and the percentage of weaned calves.](image)

83.4% of the herds have a weaned calf percentage below 85.0.

91.8% of the herds have a weaned calf percentage below 90.0.

75.0% of the herds have a weaned calf percentage below 75.0.
Average Weaning Weights

- Pounds
- Size of Herd
- 603 lbs.
- 534 lbs.
- 461 lbs.

Average Price Received (or Assigned)

- Dollars per Cwt.
- Average Weaning Weights
Texas SPA Results
Expense Breakdown per Female
Average Total Cost per Female = $570.08

- Labor/Man, 97, 17.0%
- Fuel, 25, 5.0%
- Interest, 26, 4.6%
- Vet, 23, 4.0%
- Custom Hire, 18, 3.2%
- Depreciation, 79, 13.8%
- Feed Purchased, 88, 15.5%
- Rep/Maint, 37, 6.5%
- Supplies, 17, 3.0%
- Other, 69.89, 12.2%
- Fertilizer, 48, 8.4%
- Rents, 39, 6.9%
- Prop Tax, 15, 2.7%
- Insurance, 14, 2.5%
- Utilities, 14, 2.4%
- Chemicals, 8, 1.4%
- Misc, 7, 1.2%
- Prof Fees, 6, 1.1%
- Seed, 3, 0.6%
- Freight, 2, 0.4%
- Other, 69.89, 12.2%

Average of 73 herds, 2005-2009

Total Investment
Cost Value = $3,215
Market Value = $5,590

- Current Assets
- Livestock M&E
- Real Estate
- Other Assets
- Current Liabilities
- Non Current Liabilities
Texas SPA All Regions
2005 - 2009

- **Average Gross Revenue** = $548.78
- **Average Total Costs** = $570.59
- **Average Net Income** = -$21.81
- **Average ROA at Market** = 1.25%

- $786.18 per weaned calf

- *Why isn’t expansion happening?*

Cow-calf Summary

- Lower numbers of females will be beneficial to those of us who still have cows.
- Liquidation continues
- Input costs have fallen some, but the uptrend started long ago
  - Look at total costs
  - 5 major expenses?
- Some analysts' just don’t get it.
Stocker Operations

Winter Stocker Cattle Value of Price Margin
April (750 lb) minus October (450)

5 Year Average = $215/hd.
10 Year Average = $195/hd.
Long Term Average = $181/hd.
Stocker Cattle Summary

- Stocker cattle prices have adjusted for higher corn prices
- Typical profit factors haven’t changed
  - Price Rollback
  - Gain (cost of)
  - Managing Death Loss
- Sale price is still dependent on profitability in the feedlot.
Feedlot Situation

Cattle on Feed

[Graph showing the number of cattle on feed over time with different years and months]
Fed Steer Prices

Dollars per Cwt.

U.S. Commercial Beef Production
Billion Pounds
Feedlot Summary

- Still adjusting to fewer numbers of cattle
  - Over-capacity in feedlots
- Still partially adjusting to higher plane of grain prices
  - Partial adjustment response was heavier slaughter weights
- Lower demand was “thrown in” in late 2008.

Beef Demand
Weaker Domestic Demand Is Key
Weak U.S. Economy Means Weaker Domestic Demand in 2009

Annual Retail All Fresh Beef Domestic Demand Index
1990-2009

Beef Exports Still Recovering, Slowly Growing
Demand Summary

- We have come full circle
- US economy is fragile
  - Affects US Beef Demand
- World economy is picking up?
  - Exports
- Restaurants are slowly recovering
- American consumers savings rates increasing

Expectations

- At some point, this financial situation will turn around
- Then, we return to fundamentals
  - Cattle numbers are (and will be) low
  - Input cost have come down some, but is it enough?
  - Where will demand be?
  - RFS Standards are still there
Questions/Comments

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