2021 Agricultural Outlook Forum

Building on Innovation: A Pathway to Resilience

BEEF-CATTLE
INDUSTRY & MARKET SITUATION

FEBRUARY 18, 2021 (RECORDED JAN 26TH)

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https://www.usda.gov/oce/ag-outlook-forum/aof-program
Outline (Days Needed vs ~18 Minutes!)

1. 2020 Market & Events Cliff-Notes Summary

2. 2021 Outlook

3. Key Challenges – Introductory Listing
Once in a lifetime “bottleneck” experience...

Chart compliments of Justin Bina (ongoing ERS collaboration)
Animal-to-Meat Bottleneck in April-May 2020
Society-Wide Calls: Where’s my Meat?

TIME

COVID-19 Meat Shortages Could Last for Months. Here's What to Know Before Your Next Grocery Shopping Trip

https://time.com/5830178/meat-shortages-coronavirus/

BREAKING NEWS
Meat shortages as virus forces plants to close

The effects of the coronavirus pandemic continue to ripple through the food industry. Dean Reynolds reports.

MED. & LRG. #1 STEER CALF PRICES
500-600 Pounds, Southern Plains, Weekly

Data Source: USDA-AMS
Livestock Marketing Information Center
C-P-54
01/11/21

Nearby CME Corn: +$0.40/bu in Oct = Calf Price Pressure

Processing bottleneck = cattle price pressure
ESTIMATED AVERAGE COW CALF RETURNS
Returns Over Cash Cost (Includes Pasture Rent), Annual

2019: -$51
2020: -$53 (w/o CFAP $)
2021: +$57

Data Source: USDA & LMIC, Compiled by LMIC
Livestock Marketing Information Center
SLAUGHTER STEER PRICES
5 Market Weighted Average, Weekly

$ Per Cwt.

Processing bottleneck = cattle price pressure

Data Source: USDA-AMS
Livestock Marketing Information Center

AgManager.info
Agricultural Economics
Agricultural Economics

Historical and Projected Kansas Feedlot Net Returns (as of 1/10/21’)
(http://www.agmanager.info/livestock/marketing/outlook/newsletters/FinishingReturns/default.asp)

Estimated Margins (Ignoring Risk Mngt & Federal Aide)

- Apr 20’ -$226/steer
- Avg loss of $180 over Apr-Aug 20’ period
- Q4.2020: ~Breakeven
2021 Outlook
Quarterly Forecasts (LMIC: 1/7/21)

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<th>Average Weight</th>
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Data Source: Livestock Marketing Information Center
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Data Source: Livestock Marketing Information Center
Want Feeder Cattle Price, Basis, & VOG Projections? Use BeefBasis.com

Salina Market, as of 1/24

10/13/2021 Sell @ Weaning @ 600 lbs

- Expected Cash Price: $169/cwt
KEY CHALLENGES & HOT TOPICS
Packing Sector COVID Challenges: Dynamic, Politicized, Research Ongoing

RESEARCH ARTICLE

Livestock plants and COVID-19 transmission

Charles A. Taylor, Christopher Boulos, and Douglas Almond
PNAS December 15, 2020 117 (50) 31706-31715; first published November 19, 2020; https://doi.org/10.1073/pnas.2010115117

“…Moreover, we document how margin measurements are critically sensitive to the selection of data and information utilized. Finally, we conclude with some discussion around policy proposals that would pit industry concentration against industry coordination and economies of scale.”

Beef and Pork Marketing Margins and Price Spreads during COVID-19

Jayson L. Lusk, Glynn T. Tonsor, Lee L. Schulz
First published: 02 October 2020
https://doi.org/10.1002/aep.13101

“…We also illustrate potential contributions of plant size, industrial concentration, plant shutdowns, and policy actions to this phenomenon. These results motivate investigation into supply chains, operating procedures, and labor relations within the meatpacking industry.”

Impacts of COVID-19 and Price Transmission in U.S. Meat Markets

A. Fred Ramsey
Assistant Professor
Agricultural and Applied Economics
Virginia Tech

Barry K. Goodwin
William Neal Reynolds Professor
Agricultural and Resource Economics
North Carolina State University

William F. Hahn
Economic Research Service
United States Department of Agriculture

Matthew T. Holt
Professor and Head
Agricultural and Applied Economics
Virginia Tech

“…Moreover, we document how margin measurements are critically sensitive to the selection of data and information utilized. Finally, we conclude with some discussion around policy proposals that would pit industry concentration against industry coordination and economies of scale.”

“…Early COVID-19 related shocks appear to be transitory with prices returning to expected levels at a pace consistent with the speed of transmission prior to the pandemic. This well-function market process suggests a degree of resilience in U.S. meat supply chains.”
“The massive and unprecedented shocks that have buffeted the cattle and beef industry since August 2019 have resulted in understandable anger and frustration among cattle producers. It also has revived many long-standing concerns about price discovery, competition and potential impacts of market concentration. Specifically, there is much industry interest surrounding the volume of negotiated fed cattle trade. The industry is currently considering proposals that will dramatically alter the future of the industry. Some proposals would take the industry away from the free-market philosophy that has guided the industry throughout its history to this point.”
Negotiated Fed Cattle Trade: Dynamic, Politicized, Research Ongoing

Percentage of Weekly Live Cattle Marketed by Transaction Types in Five Major Reporting Regions

- Cash Negotiated
- Formula
- Forward Contract
- Negotiated Grid

Data Source: USDA AMS Livestock Manadatory Reporting Data Mart
Numbers are all live and dressed head reported in a given week for each transaction type.
Negotiated Grid was not tracked prior to mid-2008.

Share of the Negotiated Cash Market of the Five Major Reporting Regions

- Colorado
- Iowa
- Kansas
- Nebraska
- Texas

Data Source: USDA AMS Livestock Mandatory Reporting Data Mart
Numbers are all live and dressed head reported in a given week for each transaction type.
Negotiated Grid was not tracked prior to mid-2008.
Negotiated Fed Cattle Trade: Dynamic, Politicized, Research Ongoing

“...We show that live cattle futures market prices could be used as a base in formulas and would be less restrictive in meeting specific cattle procurement percentages.”

Adding Weight to a Thinning Live Cattle Market

BY
Gary W. Brester
Kole Swanser
Brett Crosby
Staff Paper 2020-1

https://ageconsearch.umn.edu/record/305569/?ln=en
2. USDA AMS implemented LMR on April 2, 2001
3. LMR Act must be reauthorized every 5 years (was slated to expire Sept. 30, 2020)...

Feasibility Assessment of Reporting Negotiated Slaughter Cattle

Purchases in Separate Delivery Window Categories

Ted C. Schroeder
Lee L. Schulz
and
Glynn T. Tonsor

Other Important Items – Insufficient Time Today

1. Role of International Trade

**2020 Per Capita Beef Consumption: +0.6%!**

- Q1: +5.5%
- Q2: -8.3%
- Q3: +6.8%
- Q4: -1.4%

*Trade continues smoothing role: (compare Domestic Production & Domestic PC Cons by quarter)*

https://www.agmanager.info/livestock-meat/marketing-extension-bulletins/trade-and-demand/overview-us-beef-production-export
Other Important Items – Insufficient Time Today

1. Role of International Trade

2. Impact of Plant-Based, Alternative Proteins

Meat Demand Monitor Insights


Other Important Items – Insufficient Time Today

1. Role of International Trade
2. Impact of Plant-Based, Alternative Proteins
3. “K-Shaped” Economy & Meat Demand

Take-Home Summary Points

Traditional Factors

- Supply: Herd likely has plateaued, GT expects small beef cow # decline

- Demand:
  - Domestic Retail: Been stronger than GT projected (that’s great!)
  - Domestic Food Service: Been hammered & continues to evolve

- Export importance must be appreciated
Take-Home Summary Points

LOTS of “Non-Traditional” Factors

➢ Nearly all of us underestimated COVID-19 impacts

➢ Calls for “change” are prevalent & GT hopes for data-driven assessment

➢ GT long been concerned about society-wide populism & inner-industry fighting

✓ GT desire: focus on growing the pie over gaining share of today’s pie
Agricultural Economics

Building on Innovation: A Pathway to Resilience

**International**

**Stress**

What makes us stronger

New research shows that even severe stress can have an upside

---

A deadly disease disrupts

The new coronavirus could have a lasting impact on global supply chains

Multinationals have failed to take seriously the risk of disruption
More information available at:

This presentation will be available in PDF format at:

http://www.agmanager.info/about/contributors/individual/tonsor.asp

Host of additional industry resources are cross-linked as well