Challenges Facing the Livestock Industry

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Presentation at
American Farm Bureau’s Annual Meeting
Honolulu, Hawaii
January 9, 2012
Livestock Industry Challenges

1) Feed costs

2) Recouping higher production costs

3) Economic growth…or lack thereof
Ethanol Dramatically Increased Corn Demand

Corn Used for Ethanol

Source: USDA WASDE Report: 11.09.11
Ethanol Was A Small Part of Corn Demand

Corn Used for Ethanol Production & Feed Consumption
% of U.S. Corn Production

Source: USDA, World Agricultural Supply and Demand Estimates & James Mintert, Purdue University
But Ethanol Now Rivals Feed Usage

Corn Used for Ethanol Production & Feed Consumption
% of U.S. Corn Production

Source: USDA, World Agricultural Supply and Demand Estimates & James Mintert, Purdue University
Farmers Responded By Increasing Acreage

U.S. Corn Planted Acreage

“New” acreage range

“Old” acreage range

Source: USDA WASDE Report: 11.09.11
And Corn Production Increased Dramatically

Source: USDA WASDE Report: 11.09.11
But We Still Have Tight Feed Grain Stocks

U.S. Corn Ending Stocks

Source: USDA WASDE Report: 11.09.11
Stocks Are Even Tighter Compared To Usage

Corn Ending Stocks
Ending Stocks as % of Total Usage

Source: USDA WASDE Report: 11.09.11
The Result: Dramatic Corn Price Increase

U.S. Average Corn Price

USDA’S 2011/2012 forecast

Historic Corn Price Range
1974-2005 Avg. = $2.35

Source: USDA WASDE Report 11.09.11
Feed Helped Drive Production Costs Up

Cow-Calf Feed Costs Per Cow in Kansas

Source: Kansas State Farm Management Association & Kansas State Farm Management Guides, 2011 Forecast
Cow-Calf Production Costs Rising Rapidly

![Cow-Calf Total Production Costs in Kansas](image)

Source: Kansas State Farm Management Association & K-State Farm Management Guides
Rising Breakevens Putting Pressure On Cow-Calf Sector

Estimated 2011 Breakevens Up 66% Compared to 2006

Breakeven Calf Prices
Required to Cover Estimated Total Production Costs in Kansas

Source: Kansas State Farm Management Association & Kansas State Farm Management Guides, 2011 Forecast.
Rising Corn Prices Pushed Hog Breakevens Higher

Monthly Iowa Farrow-to-Finish Breakeven Prices
Carcass Weight

2011 breakevens 60% higher than in 2002

Source: Iowa State University
Record Large Meat Consumption in Mid-Decade

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

Source: USDA
Putting Fewer Pounds on Consumers’ Plates

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

Consumers Will Have To Pay Higher Prices for Meat

Source: USDA, LMIC Forecasts for 2012
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

U.S. Cattle Inventory
January 1, 1975-2011

Source: USDA
Index Tracks Demand Changes

Retail Choice Beef Domestic Demand Index
Annual, 1980-2010

Index Tracks Demand Changes

But the Demand Index does not address why demand shifts occurred

Source: USDA, Dept. of Commerce & James Mintert, Purdue University
Price Deflated By CPI, 1980 = 100 for Choice Beef Demand Index
Beef Demand Project Results

The Big Picture

- Consumers Value Convenience
  - Beef falling behind
  - More new product development needed

- Consumers are receptive to information about health and nutrition

- Food safety significant to consumers

- Income is very important demand driver

Source: Mintert, Tonsor & Schroeder, January, 2009
Rising Costs Helped Push Returns Down

Returns Were In The Red From 2007 to 2010

Estimated Kansas Cow-Calf Returns

Source: Kansas Farm Management Association

Returns Above Variable Costs
As Drought Intensified Cow Slaughter Increased

U.S. Beef Cow Slaughter
Weekly, Federally Inspected

Week Ending

Source: USDA & James Mintert, Purdue University
Weak Returns & Drought in Southern Plains Driving Cow Slaughter

Annual F.I. Cow Slaughter
1980-2011

Cow slaughter in 2011 was up over 4% compared to 2010

Source: USDA & James Mintert, Purdue University
Beef Cow Inventory Declining

U.S. Beef Cow Inventory
January 1, 1995-2011

January 1, 2011 inventory down 1.6% vs. 2010
2012 inventory expected to fall another 1 to 2%

Source: USDA
And Smaller Inventory Pushing Slaughter Down

Annual U.S. Commercial Cattle Slaughter

Source: USDA, LMIC Forecast for 2012
Beef Production Expected to Decline

Source: USDA, 2012 LMIC Forecast
And Beef Exports Expected To Break Pre-BSE Record

Annual U.S. Beef Exports

Source: USDA & LMIC, 2012 Forecast
Look at the “Net” Trade Impacts

Annual U.S. Net Beef Imports

The Year After BSE Struck the U.S.

Source: USDA & LMIC
The Change Has Been Dramatic

Annual U.S. Net Beef Imports

Source: USDA & LMIC, 2012 Forecast
Declining Production & Rising Exports Will Push U.S. Retail Supplies Down

Annual U.S. Retail Beef Consumption Per Capita

Source: LMIC, 2012 Forecast
Record High Prices Ahead

Kansas Slaughter Steers
Annual Average Prices

2012 Prices Up 47%
Compared to 2009

Source: USDA-AMS, LMIC Forecast for 2012
Fed Cattle Prices Will Support Yearling Prices

Dodge City, KS 700-800 Lb. Steer Prices

Source: AMS-USDA, Dodge City, KS, LMIC Forecast 2012
And Calf Prices

Dodge City, KS 500-600 Lb. Steer Prices

Source: AMS-USDA, Dodge City, KS, LMIC Forecast for 2012
North American Pork Industry

U.S. & Canadian Hog Slaughter
Annual, 1981-2011

30% increase over 20 years

Source: USDA, Agriculture and Agri-Food Canada & LMIC
Export Growth Was a Big Help

Annual U.S. Pork Exports

2011 U.S. Exports Up 15% compared to 2010
2011 Exports Up 54% compared to 2007’s

Source: USDA, LMIC Forecasts 2012
Exports Have Become Important For All Meats
But Pork’s Had the Most Success

Source: USDA

23% of U.S. pork prod.
exported in 2011
While Exports Were Increasing
Pork Production Declined

U.S. Commercial Pork Production
Annual

Year
Billion Pounds

Source: USDA & LMIC, 2011 & 2012 forecast
Result: Fewer Lbs. of Pork for Consumers

Annual U.S. Retail Pork Consumption Per Capita

Per capita supply down 7% since 2009

Source: USDA & Livestock Marketing Information Center
Forecasts for 2011 & 2012
Smaller Supplies Led to Skyrocketing Retail Prices Starting in mid-2010

U.S. Retail Pork Price

Prices increased 13% from 1st quarter to 4th quarter

Source: USDA
Pork Price Rally Continued in 2011

Monthly Retail Pork Prices

Record high retail prices
Prices in 2011 up 11%
compared to 2010

Source: USDA
What’s Ahead in 2012?

Annual U.S. Commercial Hog Slaughter

Hog slaughter in 2012 will increase about 1%

Source: USDA, LMIC forecast for 2012
What About the Economy?

% Change in U.S. Real Disposable Income
Annual, Per Capita, 1930-2011

Source: U.S. Department of Commerce
Unusually Severe Recession
Recovery Will Be Slow

% Change in U.S. Real Disposable Income
Annual, Per Capita, 1960-2011

Source: U.S. Department of Commerce
Savings vs. Expenditures Will Be Important

U.S. Savings Rate
Annual, 1980-2011

Source: U.S. Department of Commerce, 2011 estimated
All Meats Will Benefit From Smaller Supplies of Competing Meats

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

Meat consumption in 2012 will be down over 10% compared to 2007

Source: USDA, LMIC Forecast for 2012
How Much Strength Can We Expect in the Japanese Market?

Annual U.S. Pork Exports To Japan

Japan’s share of U.S. pork exports was 29% in 2011

Source: USDA & James Mintert, Purdue University
Leading Pork Producers in 2010

Share of World Production

1. China 49%
2. EU 22%
3. US 10%
4. Brazil 3%
5. Russia 2%
6. Canada 2%
7. Japan 1%

Source: USDA-FAS
Leading Pork Importing Nations in 2010
Share of World Trade

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Share</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>Japan</td>
<td>20%</td>
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<tr>
<td>2.</td>
<td>Russia</td>
<td>15%</td>
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<tr>
<td>3.</td>
<td>Mexico</td>
<td>12%</td>
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<tr>
<td>4.</td>
<td>US</td>
<td>7%</td>
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<tr>
<td>5.</td>
<td>Hong Kong</td>
<td>7%</td>
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<tr>
<td>6.</td>
<td>Canada</td>
<td>4%</td>
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Consumers’ Rating Pork “Very Safe”, by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Rating</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>43%</td>
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<tr>
<td>Canada</td>
<td>44%</td>
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<tr>
<td>Mexico</td>
<td>12%</td>
</tr>
<tr>
<td>Japan</td>
<td>12%</td>
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Source: Schroeder, Tonsor, Mintert & Pennings, 2006
% of Consumers That Listed Safety Assurance as a Top 5 Beef Purchase Determinant, by Country?

<table>
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<tr>
<th>Country</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>26%</td>
</tr>
<tr>
<td>Canada</td>
<td>32%</td>
</tr>
<tr>
<td>Mexico</td>
<td>36%</td>
</tr>
<tr>
<td>Japan</td>
<td>57%</td>
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*Source: Schroeder, Tonsor, Mintert & Pennings, 2006*
How Will Japanese Consumers’ React to Ongoing Food Safety Concerns?

• Japanese consumers
  – More concerned about food safety than U.S. or Canadian consumers
  – Food safety concerns have sometimes held back demand for food imports in Japan

• Will the reverse be true as result of concerns about radiation contamination in Japanese food supply?
Profitability Returned in ‘10 & ’11
But Feed Costs & Exports Will Be Key in 2012

Iowa Farrow-Finish Returns
Annual Average

Year
81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11

Profit margins will be improve moderately in 2012

Source: Iowa State University, 2011 through October
Thank You

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